gasnetworks.ie

Gas Networks Ireland

Directors' Report and Financial Statements 2019

Contents

Directors and Other Information

Directors	Cathal Marley (Chairman) (appointed 5 April 2019) Brendan Murphy Edwina Nyhan (appointed 20 September 2019) Denis O'Sullivan Michael O'Sullivan Liam O'Sullivan Mike Quinn (resigned 5 April 2019)	
Secretary	Liam O'Riordan	
Registered Office	Gasworks Road Cork	
Solicitors	McCann Fitzgerald Riverside One Sir John Rogerson's Quay Dublin 2	
Bankers	Danske Bank International House 3 Harbourmaster Place IFSC Dublin 1	AIB South Mall PO Box 71 66 South Mall Cork
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 for the year ended 31 December 2019.

Directors' Report (continued)

Principal Activities, Company Overview and Business Model

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 a world-class transmission and distribution gas network of 14,520 kilometres of pipelines including two sub-sea interconnectors and pipelines in Scotland, Northern Ireland and the Isle of Man. 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.

Natural gas is of key strategic importance to the Irish economy, representing approximately 31% of Ireland's primary energy mix and generating approximately 51% 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 22 counties in Ireland, with over 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 €470 million (2018: €487 million) and profit after tax was €109 million (2018: €123 million).

Following approval by the Directors, a dividend in the amount of €54.4 million (2018: €49.1 million) was paid to Ervia during the financial 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 further under the 'Gas Advocacy' heading.

Review of the Business and Future Developments

Gas Networks Ireland is committed to the highest possible safety standards and during 2019 continued to manage all aspects of operations in a safe and environmentally responsible manner.

In 2019, the total amount of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was approximately 76.5 TWh, an increase of 2.8% on 2018. Of this, 77% was delivered for use in the Republic of Ireland with the remaining 23% transported to end-users in the Isle of Man and Northern Ireland.

During the financial year, 43% of all gas requirements for the Republic of Ireland were supplied by the Corrib gas field, 53% 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.

Directors' Report (continued)

Regulations and Tariffs

At an EU level, full implementation of the EU Network Codes is nearing completion, with the remaining compliance matter, the inclusion of shrinkage gas costs in the transmission tariff, to be delivered in October 2020. The focus will now move to the next EU gas legislative package, which is expected to be delivered in 2020/21. In that regard, the Company is continuing to actively participate in various EU gas association working groups, which are focused on influencing the gas package and inputting into associated technical and regulatory studies. The gas package will be impacted by the 'Green Deal' which was announced by the European Commission in December 2019.

A consultation on the EU Tariff Network Code regarding the harmonised transmission tariff structures for gas (2017/460) concluded in May 2019, with a number of CRU decisions coming into effect from October 2019. The primary output from the process was the decision to continue with the current tariff setting methodology, first established in 2015. The Company welcomed this decision by the CRU which endorses the current tariff regime. As part of this consultation, the CRU decided that from 1 October 2020, shrinkage gas costs will be recovered as part of the transmission tariff, rather than billed directly to Shippers, as is the current approach. The Company has put in place a project team to implement this change which will involve reconfiguration of the billing functionality within the Gas Transportation Management System and subsequent charging of shippers for shrinkage through their standard transportation invoices. In addition, there were a number of ancillary decisions which support the agreed methodology, such as the development of a transmission biomethane entry tariff and a virtual reverse flow (VRF) tariff, both of which were applicable from October 2019 and have been implemented. An interim distribution biomethane entry tariff was developed and further work to establish an enduring distribution system biomethane tariff will take place, with the Company liaising with the CRU and wider gas industry on this matter. The requirements for publication of tariff and revenue information have been met with the creation of an EU approved transparency portal on the Company's website. The 2019/20 Tariffs were calculated using the methodology approved following the above tariff consultation.

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). In April 2019, following consultation with gas market participants and the CRU, the Company introduced changes to the cashout regime and removed/amended certain tolerances. In June 2019, the Company delivered full systemisation of the Gormanston Interconnection Point. As a result of these actions, full compliance with the Balancing Network Code has been achieved.

Directors' Report (continued)

Regulations and Tariffs (continued)

The Company is progressing implementation of a Green Gas Certification scheme in Ireland which will ensure renewable gas can be certified and contribute towards Ireland's climate change targets.

The Company is continuing to liaise with the CRU and the Department of Communications, Climate Action and Environment ('DCCAE') regarding the Security of Gas Supply Regulations, which came into force in November 2017.

Funding

The Group's funding position remained strong in 2019. In December, the Group raised a 5 year €300 million bond on the Eurobond market at a coupon rate of 0.125% (yield 0.164%). There was strong demand from high calibre national and international investors, reflecting positively on the business performance and the market view of the regulated utility. The proceeds from the bond will help fund continued investment, maintenance and upgrading of the gas network. At 31 December 2019, the Group had €1,585.9 million in committed facilities (2018: €1,622.2 million). Borrowings at 31 December 2019, external to the Ervia Group were €1,186.6 million (2018: €1,191.8 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 access funding at competitive rates.

Gas Advocacy

In 2019 the Company published its strategy for the development of the gas network, Vision 2050. The strategy plots a roadmap to a carbon neutral gas network, supporting emission reductions across every sector of the Irish economy at the lowest cost possible. Realising Vision 2050 will allow Ireland to maintain the vital balance between sustainability, security and affordability. By 2050 half of the demand for gas can be met by renewable gas and hydrogen and the balance by natural gas which has had the carbon removed using Carbon Capture and Storage technology.

During 2019 locally produced renewable gas was successfully injected into the gas network for the first time at Ireland's only purpose-built injection facility in Cush, Co. Kildare, representing the first step in Gas Network Ireland's plan to roll out a network of renewable gas injection facilities.

A fast fill Compressed Natural Gas ('CNG') station was constructed in Cashel Circle K Service station as part of the developing national CNG network aimed at providing clean fuel to the Heavy Goods Vehicle sector during 2019. The Company is currently developing a national network of CNG re-fueling stations for public and private transport operators. By 2030 Gas Networks Ireland forecast that there will be a network of 172 CNG stations (42 public stations) with capacity to service 4,484 HGVs and 1,435 buses. This would represent 26% of the 10 tonne HGV segment of 17,000 vehicles and 14% of the bus market (10,000 buses).

Directors' Report (continued)

Gas Advocacy (continued)

Capital expenditure of €109.6 million (2018: €143 million) covered ongoing programmes to improve the safety and reliability of the network in 2019. In addition, we delivered over 38,500 planned maintenance work orders across transmission and distribution networks. Key projects completed in 2019 included the construction of a new pressure reduction station at Laughanstown and improvements to the security of supply in Waterford through the extension of an above ground installation together with 6km of reinforcement to the distribution pipe network.

Gas Networks Ireland is committed to delivering for customers first. In 2019, the Company delivered high quality services to over 700,000 domestic and commercial customers. During this period 81,242 customer appointments were made and a 99% compliance rate was achieved in meeting those appointments. Over 1.8 million meters were read during the year and our Contact Centre handled over 537,000 customer contacts. 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 16.8% of the total residential meter population. The Company exchanged in excess of 24,665 meters in 2019 under its domestic meter replacement programme.

Directors' Report (continued)

Key Performance Indicators

The Directors monitor performance using a suite of financial and non-financial key performance indicators outlined below.

Key Performance Indicator	FY 2019	FY 2018
Total Lost Time Incident Frequency Rate – Employees (>1 day #/100k hours*	0	0.36
Emergency Response	27 mins	32 mins
Customer Service- First Contact Resolution	84%	88.5%
New Connections (volume contracted GWh)	**769**	**790**
Credit Rating Moody's	A3 Stable	A3 Stable
Credit Rating S&P	A Stable	A Stable
EBITDA	€284m	€301m
Non-Financial Key Performance Indicators		
Environment		
% Waste recycling	99%	94%
Water Consumption M3 Pa	9,240	6,149
Public Sector Energy Monitoring and Reporting Target of 33% exceeded	45%	42%
Employee		
Training Days	1,198	1,649
Social		
Volunteer Hours	1,460	1,265

* 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

Directors' Report (continued)

Principal Risks and Uncertainties

The regulated and operational complexity of our business exposes the Company to a number of risks. Understanding these risks and potential opportunities will enable the Company to make informed and optimal decisions and ultimately creates 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:

- ensures safety is a priority risk and that all personnel are proactive in identifying and mitigating safety risks in their respective area;
- provides transparency and visibility of risk and the management of risk across the organisation to support the Company in the discharge of its responsibilities;
- 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 and to identify opportunities;
- 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;
- 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.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

A large scale employee illness due to an epidemic or pandemic (current Covid-19 threat) that affects Ireland's population could potentially impact on employee health, operations, service delivery and supply chain. Crisis Management teams are in place and there is continued engagement with key stakeholders. Business continuity and contingency arrangements are in place and are implemented and tested as the situation evolves.

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 fuel usage, 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 CCS 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.

Gas Networks Ireland believes that both policy support and financial incentives are needed to develop Ireland's renewable gas industry. There is a risk that a renewable gas industry will not develop should these incentives and supports not materialise. The Company has submitted a paper to DCCAE on biomethane targets and funding models. DCCAE are developing least cost pathways on greenhouse gas emissions reduction to 2050 to inform Ireland's Long-Term Strategy.

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.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

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.

Brexit: The outcome of Brexit is now more positive as a deal was agreed between the UK and the EU at the end of January 2020. As a result, there will be no changes to existing gas transportation arrangements for the duration of the transition period, which will run to 31 December 2020. The transition period will allow for the future relationship between the UK and EU to be agreed, although concerns remain as to whether all elements of the future relationship can be agreed in this short timeframe.

In respect of gas flows, Gas Networks Ireland is confident that there will be no adverse impact on flows into Ireland from the UK as a result of Brexit. This is based on extensive engagement with key external stakeholders (including Energy Departments, Regulators and adjacent Transmission System Operators) and is further supported by the deal agreed in January 2020 and the transition period now in place.

In respect of customs returns, in late Q4, 2019, Gas Networks Ireland advised all stakeholders (Irish Revenue, shippers, CRU and DCCAE) that gas shippers importing gas into ROI will be responsible for declaring their own customs returns. At the invitation of Gas Networks Ireland, Irish Revenue attended the Code Modifications forum in December 2019 to discuss the arrangements to be put in place with shippers and this now alleviates the initial concern that Gas Networks Ireland would assume this role on behalf of shippers. Engagement will be maintained with Irish Revenue and HMRC to ensure that both Gas Networks Ireland and Irish Shippers are set-up to make customs declarations on gas flows post the transition period. The company will continue to ensure that all potential risks associated with Brexit are minimised to the extent possible and will continue ongoing discussions with all relevant stakeholders (e.g. DCCAE, CRU, BEIS, Ofgem and National Grid).

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 commissioning of 50km on-shore pipeline in South West Scotland. A project to split the common headers at Beattock and Brighouse Bay is also underway, enabling Gas Networks Ireland to operate both interconnectors independently allowing greater network flexibility and security of supply. The Ballough Bypass, which is due for construction in 2020, will separate the entry of the two interconnectors into Ireland and will facilitate up-rating of gas to the western region and will provide reinforcement to the southern region of the island of Ireland.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

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.

Third Party Service Delivery: Gas Networks Ireland relies on a number of key contractors and suppliers to deliver its annual maintenance and capital expenditure 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.

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.

Gas Networks Ireland manages risks relating to human rights, social and employee matters and anti-bribery and anti-corruption in its policy position, strategy, performance and decision making. We do not consider them to be the principal, key risks facing the organisation at this point in time.

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.

Directors' Report (continued)

EU Non-Financial Reporting Directive (continued)

As guardians of Ireland's natural gas infrastructure, Gas Networks Ireland aims to deliver services in a sustainable manner that contributes to the protection of the environment whilst focusing on the areas where we can make the biggest difference.

Gas Networks Ireland is committed to sustainability by ensuring that environmental, ethical and social principles are at the core of our business decisions and key to our strategy.

We are ever conscious of our impact on the environment and the community and make every effort to act with responsibility, respect and in the best interests of sustainability, ensuring that sustainable practices are part of our ways of working.

The Company published its first Sustainability Report in alignment with the United Nations Sustainability Development Goals in 2019, highlighting the sustainability work carried out across our business.

Development of a robust sustainability framework to ensure we respond effectively to the challenges faced is ongoing. Carrying out our planning, design, construction and maintenance obligations in a manner that is both environmentally and socially responsible and within this framework is an essential part of this process and will continue to play a key role in driving sustainable change in our business.

Materiality is used to identify and prioritise the non-financial and sustainability issues that matter most to our business and stakeholders. The Company's key sustainability priorities are identified through our materiality assessment process, including conducting sustainability stakeholder engagement activities via surveys, focus groups and interviews. Our most recent materiality assessment was carried out in 2019.

Risks relating to sustainability including those relating to climate change are outlined in the Principal Risks and Uncertainties section above.

The work carried out across our business to promote sustainability, along with the policies pursued in the areas of environmental, social and workplace, human rights and anti-bribery and anti-corruption are outlined below.

Environmental Matters

Gas Networks Ireland has adopted an iterative multi-year approach to reducing the environmental impact of its business activities. Significant milestones on this journey have been the implementation of an Environmental Management System (certified to ISO14001) in 2012, achieving the Energy Management System certification (ISO50001) in 2014 and being one of the first companies in the country to achieve the Asset Management System Standard ISO55001 in 2015. Investment in leading edge asset management systems and processes will contribute to enhanced network asset performance and energy efficiency.

Directors' Report (continued)

Environmental Matters (continued)

To reduce our impact on the environment we have developed objectives in a number of areas including air/carbon emissions, energy use, waste generation and efficient use of resources all of which are verifiable within our certified Environmental Management System ISO14001 and Energy Management System ISO50001. The Company's environmental energy working group promotes an integrated and strategic approach to environmental and energy management across the business and our asset base. Bespoke in-house design toolkits and environmental guidance assist our designers, planners and operations personnel to apply a standardised approach to environmental management. In 2019 we focused on the areas of biodiversity, waste reduction and climate change.

Biodiversity

The Company's multifaceted Biodiversity Enhancement Programme is in place since 2017 and was shortlisted for a Chambers Ireland CSR award in 2019. The programme aims to increase biodiversity knowledge and awareness among staff and stakeholders. Biodiversity awareness initiatives undertaken during the year include sponsorship of National Biodiversity week, installation of a large 'bug hotel' at a city centre playground in conjunction with Cork City Council, promotion of the growth of red clover, presenting biodiversity awareness workshops and talks in-house, to other businesses and in primary schools and the installation of two beehives at one of our gas stations in Cork.

The Company is a business supporter of the All Ireland Pollinator Plan. With assets all over the island of Ireland, the Company recognised the potential to create a network of pollinator friendly habitats across the country and to share our knowledge with other businesses. Measures currently implemented at 11 of our sites include reduced grass cuttings and pesticide use; installation of bird boxes; biodiversity awareness signage and planting of wildflowers.

In February 2019 at Ireland's first National Biodiversity Conference, Gas Networks Ireland was announced as one of 14 founding members of the Irish Business and Biodiversity Platform and received the 'Working together for Biodiversity' award.

Waste Reduction

Gas Networks Ireland is committed to reducing our waste to landfill. Monthly KPI's are recorded and reported; the current target is to recycle 70% of all waste. The Company's long term target is zero waste to landfill by 2025, as set out in its Zero Waste plan. In 2019 the overall recycling figure in our offices was 99% up from 94% in 2017. All of our waste suppliers are audited to assess operational practice and to ensue adherence to Gas Networks Ireland's standards.

Directors' Report (continued)

Environmental Matters (continued)

Climate Change

Natural gas and gas infrastructure can contribute significantly to achieving EU energy and climate goals in the most cost efficient way. Gas has a key role in decarbonising the energy sector across the areas of transportation, power, heating, industry and in the operation of social communities. As set out in Vision 2050, our vision is for Ireland's Gas Network to be Net Zero Carbon by 2050.

Compressed Natural Gas (CNG)

Using CNG to power trucks and buses offers a real solution to reducing emissions diesel fuelled heavy goods vehicles which account for 20% of all energy related CO2 emission in the road transport sector. A CNG vehicle emits 22% less carbon dioxide and 97% less carbon monoxide, 60% less nitrogen oxide and 75% less non methane hydrocarbon than diesel fuel while emitting virtually no particulate matter. This will provide significant air quality and health benefits for Irish citizens. See 'Gas Advocacy' above for further detail.

Renewable Gas

Gas Networks Ireland has a strategic plan to achieve 20% renewable gas on the network by 2030 which is equal to circa 11.6TWh of renewable gas.

Biogas, a form of renewable gas, can be produced through the digestion of wet organic biomass, purified to biomethane and injected directly into the gas network. This can be done without modification to the existing natural gas network or end user equipment. The production of renewable gas can provide benefits to the agriculture, heat and transport sectors while contributing significantly to meeting Ireland's current and future climate change targets. Biogas is a clean, sustainable and net zero carbon fuel. Renewable gas can be produced through a variety of techniques, including the most widely used process "anaerobic digestion", where microorganisms break down the waste and biomass sources in the absence of air, producing gas.

The Company is focusing on supporting anaerobic digestion within the agriculture sector and the commercial waste industry sector by facilitating the resultant renewable gas grid injection into the gas network. Green House Gas emissions from agriculture represent over 35% of national emissions and are expected to increase further due to a projected increase in dairy cow numbers and proposals to increase food production and exports as set out in Food Harvest 2020.

Gas Networks Ireland worked with Green Generation as part of an Innovation fund supported project to complete the first Renewable Gas grid injection project for Ireland in Cush, Co. Kildare during 2019. The planning application for second gas injection facility in Mitchelstown, Co Cork has been submitted to Cork County Council.

Directors' Report (continued)

Environmental Matters (continued)

Our Carbon Performance

Gas Networks Ireland is an active participant in the Government's Public Sector Monitoring and Reporting (PSMR) initiative. While the PSMR aims to achieve 33% energy saving for the public sector by 2020. Total energy usage for 2019 was (GWH) 615. Gas Networks Ireland is on track to exceed this ambition with 42% energy savings already achieved to date.

Measures to achieve energy savings include metering and energy efficiency drives that are taking place at all office locations along with the replacement of inefficient lighting and heating solutions. Older inefficient vehicle fleet have been replaced with efficient vehicles which are subject to enhanced inspection procedures and programmes to increase employee awareness of fuel consumption. Future renovations to company buildings will encompass sustainability considerations, energy efficiency and resource management will be central to any upgrade designs.

Sustainability and decarbonisation principles are at the core of business and strategic decisions. The Company is a signatory to the Low Carbon Pledge, a Business in the Community Initiative for Irish business to invest time and resources into creating a more sustainable operation, by increasing energy efficiency and reducing carbon usage. The Low Carbon Pledge focuses on recording and reducing Scope 1 and Scope 2 emissions sources however Gas Networks Ireland is actively focusing on emissions sources beyond this.

The Company's travel policy focuses on reducing the carbon footprint associated with employee work related travel. The Company is also driving enhanced sustainability practices through the entire supply chain. Environmental and sustainability requirements are embedded in the procurement processes right through to delivery stage of the contract. Larger contractors are required to provide Gas Networks Ireland with monthly reports on their performance against a range of environmental KPIs in relation to waste management and energy use. Contracts are designed so as to incentivise best environmental practice throughout project delivery.

The Company has established a Climate Action Working Group that is currently assessing 32 carbon reduction initiatives on the basis of the potential achievable emissions reduction and the associated mitigation/abatement cost.

Directors' Report (continued)

Social and Workplace

All corporate responsibility activities are focused on the communities we serve, our workplace and marketplace and the environment we work hard to protect. Gas Networks Ireland is 1 of only 34 companies in Ireland who hold the Business Working Responsibly Mark, in line with ISO26000, from Business in the Community Ireland (BITCI). The mark is the only independently audited standard for Corporate Social Responsibility ('CSR') and Sustainability practices in Ireland, providing validation of the organisation's efforts to embed CSR in our business practices. As holders of the Mark Gas Networks Ireland is a member of the Leaders Group on Sustainability and co-chair of the Low Carbon Economy Group. The Company was nominated for a number of CSR awards in 2019 including the Excellence in Community, the Excellence in Workplace and the Excellence in Environment awards from Chambers Ireland as well as the 'Best use of Digital Marketing for the greater good (CSR)' award at the Cork Chamber of Commerce Digital Awards.

	2019	2018
Volunteering Hours	1,460	1,265 hours
Cash Donations	€146,350	€151,450
Employee Fundraising	€33,194	€25,545
In Kind Donations	€104,486	€138,944
Volunteering on a programme	1 in 4 employees	1 in 4 employees

Community

Building strong relationships in the communities where we operate is fundamental to carrying out our business effectively. Being responsible in the community means investing in people, in their needs, in their interests and in their futures. Our programmes focus on the core areas of education, employability and accessibility.

Education: In 2019 the Company completed the first year of our new Science, Technology, Engineering and Maths (STEM) education programme, Energize, in partnership with Junior Achievement Ireland in primary schools across the country. The programme was shortlisted for Community Initiative of the Year at the 2019 Utility Week Awards. The business also supported other STEM initiatives including Science Week and Engineers Week. More than 1,460 volunteering hours were delivered by Gas Networks Ireland employees in 2019 with over 434 of those in BITCI's Time to Read literacy programme for primary school children.

Employability: Gas Networks Ireland supported the skills at work programme which promotes education for secondary school students. In 2019 the programme was delivered in conjunction with BITCI and our partner schools.

Directors' Report (continued)

Social and Workplace (continued)

Accessibility: In 2019 Gas Networks Ireland partnered with Age Action's Care & Repair Programme which included providing transport for volunteers, volunteering in the community and donating to the programme. The Company continued to support the Youth Leadership programme in Cork and Dublin which encourages the personal development of participants through sport, communication and participation in the community.

Stakeholder Engagement

Gas Networks Ireland understands and values the critical role stakeholders play in its business. The Company has a comprehensive stakeholder engagement plan and takes a holistic, pragmatic approach to stakeholder engagement based on the internationally recognised Stakeholder Engagement Standard (AA1000SES). The importance of holding stakeholder sessions and supporting community in towns where the gas network is expanding is recognised. The Company works with communities to ensure that construction projects in the locality cause minimum disruption providing regular updates in local newspapers and on local radio.

Employee

The Gas Networks Ireland employees are central to the success of its business. Investing in the workplace enables the Company to attract and retain the best people.

Work Safe Home Safe

In 2019, a comprehensive suite of safety, health and well-being initiatives were delivered across Gas Networks Ireland and the wider Ervia organisation through the 'Work Safe, Home Safe' programme. Key initiatives included the completion of a safety culture survey, a focus on increasing physical activity and improving well-being.

Learning and Development

Online learning platforms, inspire mentoring and professional development and leadership programmes for Engineers Ireland are available to staff as part of the company's learning and development programme.

Delivering a learning and development programme ensures that the Company has a skilled workforce to meet the challenges of an ever changing work environment and that employees are provided with the opportunity to upskill. Total training days in 2019 were 1,198.

Employee Engagement

Gas Networks Ireland recognises the importance of an engaged workforce. Encouraging open and honest dialogue across the organisation supports an engaged and motivated workforce. Employees are informed of developments within the organisation as well as external matters though internal communications, executive open door sessions and employee forum meetings allowing staff to provide feedback and input.

Directors’ Report (continued)

Diversity and Inclusion Programme

In 2019 Ervia introduced the iBelong diversity and inclusion programme, a new organisation wide programme focusing on diversity and inclusion in the workplace.

Respect for Human Rights

As part of the Ervia Group, Gas Networks Ireland conducts its business in a manner that respects the human rights and dignity of all people, endeavouring to comply with all applicable laws and regulations. Employees of Gas Networks Ireland are expected to value their fellow employees and to treat others with fairness, equality, dignity and respect. They are also expected to be alert to any evidence of human rights infringements in our direct operations or in the operations of our business partners and to report any situation in which a human rights infringement is suspected.

Gas Networks Ireland has a zero tolerance approach to modern slavery (as defined in the UK Modern Slavery Act 2015). We are committed to acting ethically and with integrity in all our business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in our own business or our supply chains.

The UK Modern Slavery Act 2015 imposes obligations on organisations of a certain size which carry on business in the United Kingdom. The Republic of Ireland has similar legislation, primarily the Criminal Law (Human Trafficking) Act 2008, as amended by the Criminal Law (Human Trafficking) (Amendment) Act 2013.

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.

Gas Networks Ireland is committed to ensuring that there is transparency in its own business and in its approach to tackling modern slavery throughout its supply chains and expects the same high standards from all its contractors, suppliers and other business partners.

The principles of the UK Modern Slavery Act have been enshrined in our Code of Business Conduct and anti-slavery and human trafficking requirements have been developed for incorporation into procurement processes and contractual arrangements.

The Gas Networks Ireland Statement on Slavery and Human Trafficking is available to view on our website www.gasnetworks.ie.

Directors’ Report (continued)

Anti-Bribery and Anti-Corruption

Across the Ervia Group, fraud, bribery and corruption are not tolerated and it is each employee’s responsibility to report any suspected acts of fraud, bribery or corruption or suspicious behaviour they encounter.

During 2019 an initiative was launched across the Ervia Group including Gas Networks Ireland to promote the integrity value and to emphasise the importance of ethical behaviour. As part of the initiative, the Anti-Fraud Framework was reviewed to identify opportunities to increase awareness across the organisation and the suite of ethics related corporate policies were updated and approved by the Ervia Board, including the Anti-Bribery and Anti-Corruption policy. The initiative will continue in 2020 and will include the provision of guidance booklets to employees on key policies, updated training materials and a group wide awareness campaign.

Directors' Report (continued)

Policies

	Environmental matters	Social and employee matters	Respect for human rights	Bribery and corruption
Policies Pursued	• Environmental Policy • Energy Policy	• Corporate Responsibility Policy • GDPR Policy • Safety Policy • Dignity at work policy	• Code of Conduct • Statement of Modern Slavery	• Anti-Corruption and Anti-Bribery Policy • Anti-Fraud Policy
Description of the outcome of those policies	*The application of the Environmental and Energy Policies* ensures that all persons working on behalf of Gas Networks Ireland are responsible for adhering to environmental and energy requirements and achieving high environmental standards. *The application of the Environmental Policy* addresses the key areas of climate change, biodiversity, waste, resource use and procurement. *The application of the Energy Policy* specifically addresses issues of energy performance and energy efficiency.	*The application of the Corporate Responsibility Policy* ensures implementation of Gas Networks Ireland's Corporate Responsibility strategy. This has resulted in the recertification of the Business Working Responsibility Mark, in line with ISO26000 from Business in the Community Ireland. *The application of the GDPR Policy* ensures that Gas Networks Ireland meets and exceeds its data protection obligations. All staff and contractors have undertaken online GDPR training. *The application of the Safety Policy* ensures that a comprehensive programme of health and well-being initiatives are delivered across the business. *The application of the Dignity at Work Policy* ensures that Gas Networks Ireland will not tolerate any form of bullying, harassment or sexual harassment in or affecting the workplace. The policy implementation prevents and deters such behaviours and where it occurs to have the effective procedures in place to address the matter.	*The application of the Code of Conduct* ensures that all persons working for or on behalf of Gas Networks Ireland conduct their business in a manner that respects human rights and dignity of all people.	*The application of the Anti – Corruption and Anti- Bribery Policy* is core to the integrity of Gas Networks Ireland, its reputation and long term success. Any instances of bribery perpetrated will result in disciplinary action, up to and including dismissal. Compliance with this policy forms part of the terms of employment and of the terms of doing business with our contractors or agents.

Directors' Report (continued)

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 and managed by both the Gas Networks Ireland Board and the Ervia Board.

In light of Gas Networks Ireland's status as a public interest entity, the Ervia Group Audit and Risk Committee discharges its obligations under section 115(12 (a) and (b) Statutory Audits Regulations (SI 312 of 2016) (to inform Directors of Gas Networks Ireland of the outcome of the Statutory Audit and to submit recommendations (if required) on financial reporting processes) by directing the statutory auditors, Deloitte Ireland LLP, to address the report required under Article 11 (1) of Regulation (EU) No. 537/2014 to the Board of Directors of Gas Networks Ireland as well as to the Ervia Group Audit and Risk Committee. For further information on the Ervia Group Audit and Risk Committee see the Ervia Annual Report at www.ervia.ie.

For the financial year ending 31 December 2019, the Board of Ervia was assisted in the discharging of its obligations through the delegation of certain roles and responsibilities to the Ervia Audit and Risk Committee, the Ervia Investment/Infrastructure Committee and the Ervia 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 12 times during the year and the Investment/Infrastructure Committee met 11 times during the year.

Directors' Report (continued)

Corporate Governance (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.

Directors and Secretary and their Interests

The Directors of the Company are Cathal Marley, Denis O'Sullivan, Edwina Nyhan, Brendan Murphy, Michael O'Sullivan and Liam O'Sullivan.

The Chairman of the Company's Board is Cathal Marley. Mr. Marley was appointed to the Board with effect from 5 April 2019. Mike Quinn resigned from the Board on 5 April 2019. Edwina Nyhan was appointed to the Board with effect from 20 September 2019.

The Secretary of the Company is Liam O'Riordan. Interests of the Directors and Secretary are disclosed in note 26 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 24 of the financial statements, represents 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)
Cathal Marley (Chairman) (appointed 5 April 2019)	4/5
Brendan Murphy	9/12
Edwina Nyhan (appointed 20 September 2019)	3/3
Denis O'Sullivan	12/13
Liam O' Sullivan	9/13
Michael O'Sullivan	11/13
Mike Quinn (resigned 5 April 2019)	5/6

Directors' Report (continued)

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 themselves, 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 Directors' Compliance Policy Statement, approval of the financial statements and interim un-audited financial statements and matters of safety.

Directors' Responsibility Statement for Directors' 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.

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.

Directors' Report (continued)

Directors Responsibility Statement for Director's Report and Financial Statements (continued)

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:

	2019 No. of employees	2018 No.of employees
€50,000-€75,000	205	219
€75,001-€100,000	134	120
€100,001-€125,000	65	64
€125,001-€150,000	20	18
€150,001-€175,000	11	8
€175,001 and above	8	5

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 Gas Networks Ireland, its related cost is included below.

	2019 €'000	2018 €'000
Legal advice	142	240
Financial advice	120	618
Business improvement/development	1,795	1,062
Other	249	655
Total consultancy costs	**2,306**	**2,575**
Capitalised	8	229
Income Statement	2,299	2,346
Total consultancy costs	**2,306**	**2,575**

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.

	2019 €'000	2018 €'000
Legal fees and costs	633	372
Conciliation	-	-
Settlements	618	603
Total	**1,251**	**975**
Number of legal cases	3	5

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.

Directors' Report (continued)

D. Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2019 €'000	2018 €'000
Domestic		
Board	-	-
Employee	1,519	1,549
International		
Board	-	-
Employees	182	191
Total	**1,701**	**1,740**

Travel and subsistence expenditure by Gas Networks Ireland Directors in 2019 was €nil (2018: €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:

	2019 €'000	2018 €'000
Staff hospitality	123	104
Client hospitality	37	62
Total	**160**	**166**

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.

Directors' Report (continued)

Protected Disclosures and Raising Concerns

The mechanism whereby Gas Networks Ireland employees and management may raise concerns, or make disclosures in the public interest, in accordance with the Protected Disclosures Act 2014, is outlined in the Ervia Group Protected Disclosures Policy. Further guidance on raising concerns for management and employees is outlined in the Ervia Group Code of Business Conduct, the Ervia Group Anti-Fraud Policy and the Ervia Group Anti-Bribery and Anti-Corruption policy. Section 22 of the Protected Disclosures Act 2014 requires Gas Networks Ireland to publish an Annual Report relating to protected disclosures made under the Act. In accordance with this requirement, Gas Networks Ireland confirms that in the year ending December 31st 2019, there were no protected disclosures to report. The protected disclosures made in 2018 were fully investigated in 2019 in accordance with Ervia's Protected Disclosures Policy and all matters were fully addressed.

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 2019.

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 2012–2016. Controls include setting clearly defined roles and responsibilities, monthly reporting and a review of payment practices. Procedures have been put in place to identify the dates upon which invoices fall due for payment and for payments to be made on or before such dates. These procedures provide reasonable assurance against material non-compliance with the Regulations. No interest in respect of late payments was paid in 2019.

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.

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.

Purpose of the System of Internal Control

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

Directors' Report (continued)

Purpose of the System of Internal Control (continued)

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 2019 and up to the date of approval of the financial statements.

Management of Risk

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 (Interim) is the accountable executive with ultimate responsibility. The Ervia Group CEO (Interim) delegates clear roles and responsibilities for effective risk management and for ensuring the systems of internal control are operating effectively to his Executive Team and their reports.

Risk and Control Environment

The Directors have overall responsibility for ensuring the Company has appropriate systems of internal control and risk management in place.

A number of key structures are in place to provide effective systems of internal control and risk management, outlined below.

Audit and Risk Committee

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 4 non-executive Board members who have the necessary expertise for the role. The ARC informs the Gas Networks Ireland Board on an exceptions only basis of matters which arise during its review of the financial statements of Gas Networks Ireland which are material to the approval of the Financial Statements. From a governance perspective, Gas Networks Ireland matters are overseen by both the Gas Networks Ireland Board and the Ervia Board.

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

Directors' Report (continued)

Risk and Control Environment (continued)

Integrated Assurance Forum

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 (Interim). A revised integrated assurance process was rolled out across the Ervia Group in 2017 and continued to evolve in 2019.

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.

The Integrated Assurance Forum framework, further consolidates and co-ordinates in a structured manner all assurance activities in the organisation across the "Three Lines of Defence" model. This ensures that Gas Networks Ireland maximises risk and governance oversight and control to build organisational resilience. The ARC is appraised of the results of the IAF on a quarterly basis.

Internal Audit

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

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

In particular the Internal Audit function:

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

Directors' Report (continued)

Risk and Control Environment (continued)

Risk Management Function

Ervia 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 (Interim) and attends all ARC meetings.

In particular, the Risk Management function:

- Ensures that adequate and consistent processes and oversight are in place for identifying, measuring, managing, monitoring and reporting 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.
- Embeds an appropriate risk management culture.

Elements of Control Environment

In addition to the key structures referred to above, the Directors confirm that a control environment, containing the following elements, is in place in Gas Networks Ireland.

- Responsibility by management at all levels within Gas Networks Ireland and Ervia for internal control and risk management over respective business functions;
- Established processes to identify and evaluate business risks by identifying the nature, extent and financial implication of risks facing Gas Networks Ireland including the extent and categories which it regards as acceptable. Other processes to identify and evaluate business risks include assessing the likelihood of identified risks occurring and assessing the Company's ability to manage and mitigate the risks that do occur through associated mitigation plans and strategies;
- Clearly defined organisational structure, with defined authorisation limits and reporting mechanisms to higher levels of management and to the Gas Networks Ireland Board as well as Ervia management and the Ervia Board;
- A comprehensive budgeting system with an annual budget which is reviewed and agreed by the Gas Networks Ireland Board;
- A comprehensive system of financial reporting;
- A 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)

Risk and Control Environment (continued)

- Appropriate segregation of duties and documentation of processes and controls that are focused on preventing and detecting fraud;
- A comprehensive set of management information and performance indicators is produced quarterly, enabling progress against longer-term objectives and annual budgets to be monitored, trends evaluated and variances acted upon;
- A risk management process enabling identification and assessment of risks that could impact achievement of agreed business objectives and ensuring appropriate mitigating measures and controls are put in place;
- A Group Risk Management Committee chaired by the Chief Executive Officer (Interim) which reports to the Ervia Audit and Risk Committee;
- A Code of Conduct requiring all employees to maintain the highest ethical standards;
- A comprehensive anti-fraud programme including anti-fraud policy, training and communication and a fraud response plan. During 2019 an initiative was launched across the Group, including Gas Networks Ireland, to promote the integrity value and to emphasise the importance of ethical behaviour. As part of the initiative, the Anti-Fraud Framework was reviewed to identify opportunities to increase awareness across the organisation. A number of ethics related policies including the Code of Business Conduct, the Anti-Fraud Policy and Anti-Bribery and Anti-Corruption Policy were updated and approved by the Ervia Board. The initiative will continue in 2020;
- A Corporate Governance Framework, including financial control and risk assessment. This is monitored by Ervia and Gas Networks Ireland management and by the Ervia Internal Audit and Risk functions;
- Systematic reviews of internal financial and operational controls by Ervia Internal Audit and Risk Management. In these reviews, emphasis is focused on areas of greater risk as identified by risk assessment; and
- An internal control framework assessment that involves undertaking an extensive risk assessment, reviewing the operation and effectiveness of key control policies and processes, internal control self-assessment reporting, monthly performance reporting, supported by assurance activities of Risk, Internal and External Audit.

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

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

Directors' Report (continued)

Ongoing Monitoring and Review

Formal procedures have been established for monitoring control processes. Control deficiencies are communicated to those responsible for taking corrective action and to management and the Board 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.
- 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.
- 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 and Review (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.
- Review of reports from the external auditor, which contain details of any material financial control issues.

Procurement

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

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

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

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

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

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

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

Directors' Report (continued)

Procurement (continued)

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

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

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

General Data Protection Regulation (GDPR)

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

Review of Effectiveness

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 2019 and will ensure a similar review is performed in 2020. 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 2019 that have not been or are not in the process of being addressed and that have not been brought to the attention of the Ervia Audit & Risk Committee.

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 2019 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.

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 €410 million in undrawn bank facilities available together with strong profitability forecasts for 2020, 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.

Directors' Report (continued)

Independent Auditor

The Company meets the definition of Public Interest Entity 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 completion of a tender process, Ministerial consent was received on March 25th 2019 to appoint Deloitte Ireland LLP as external auditors to the Ervia Group including Gas Networks Ireland for the years 2019, 2020 and 2021.

Political Donations

There were no political donations made during the financial year (2018: nil).

Post Balance Sheet Events

The Directors are closely monitoring the developing situation relating to Coronavirus (COVID 19). This is a non-adjusting event in accordance with IFRS requirements and therefore the 2019 financial results and the 2019 year-end financial position does not reflect any resulting financial effects of COVID 19.

For and on behalf of Gas Networks Ireland:

		30th March 2020
Cathal Marley	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 2019 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 28, 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 22.

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").

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 €10,000,000 and €9,500,000 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 €469.9m (2018: €487.2m), 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 the Commission for Regulation of 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" nor with Group policies as outlined in note 1. 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.

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 reviewed the calculations of deferred revenues associated with unregulated revenues. We also reviewed the disclosures in the financial statements.
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 of €2,572.6m (2018: €2,596.3m) represent the majority of the Group's asset base and a significant proportion of the Group's annual expenditure. The total capitalised spend in 2019 amounted to €109.6m (2018: €142.9m). 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. We determined this to be a key audit matter due to the risk that expenditure is inaccurately capitalised.
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 application 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/or underlying invoices, to ensure that the costs were accurately recorded and the classification between capital and operating expenditure was appropriate. We assessed the appropriateness of the rates of depreciation and amortisation applied to the assets. We also reviewed the disclosures in the financial statements.
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 €10,000,000 which is approximately 1% of the net asset value and materiality for the Company of €9,500,000 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; and the fact there is a strong control environment in place. In addition to Group 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 €10,000,000 to €2,300,000.

We agreed with the Board, that we would report to them any audit differences in excess of €500,000, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

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

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.

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.

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

- 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.

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.

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 2019. We have nothing to report in this regard.

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)

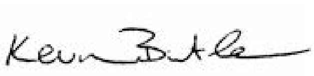
Under the Code of Practice for the Governance of State Bodies (August 2016) (the "Code of Practice"), we are required to report to you if the statement regarding the system of internal control required under the Code of Practice as included in the Corporate Governance Statement in the Directors Report 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 Board, Deloitte Ireland LLP were reappointed by Gas Networks Ireland on 25 March 2019 to audit the financial statements for the financial year end 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 December 2015 to 31 December 2019.

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 Board 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 Lapp's Quay
Cork

31st March 2020

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

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

Group Income Statement
for the financial year ended 31 December 2019

	Notes	2019 €'000	2018 €'000
Continuing operations			
Revenue	3	469,863	487,183
Operating costs (excluding depreciation and amortisation)	4	(185,510)	(186,311)
Operating profit before depreciation and amortisation (EBITDA)		**284,353**	**300,872**
Depreciation and amortisation	6	(138,862)	(136,506)
Operating profit		**145,491**	**164,366**
Finance income[1]	7	1,883	1,497
Finance costs[1]	7	(20,511)	(21,396)
Net finance costs	7	(18,628)	(19,899)
Profit before income tax		**126,863**	**144,467**
Income tax expense	8	(17,959)	(21,658)
Profit for the financial year		**108,904**	**122,809**

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

Group Statement of Other Comprehensive Income
for the year ended 31 December 2019

	Notes	2019 €'000	2018 €'000
Profit for the financial year		108,904	122,809
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Translation differences on consolidation of foreign subsidiaries		2,448	(418)
Fair value gains on cash flow hedges		1,003	917
Deferred tax on cash flow hedge movement	8	(125)	(115)
Total items that may be reclassified subsequently to profit or loss		**3,326**	**384**
Total other comprehensive income for the year, net of income tax		3,326	384
Total comprehensive income for the year		**112,230**	**123,193**
Total comprehensive income attributable to:			
Owners of the Company		112,230	123,193
Total comprehensive income for the year		**112,230**	**123,193**

Group Balance Sheet
as at 31 December 2019

	Notes	31-Dec-19 €'000	31-Dec-18 €'000
Assets			
Non-current assets			
Property, plant and equipment	9	2,549,595	2,574,718
Intangible assets	11	22,974	21,612
Derivative financial instruments	23	16,263	13,242
Total non-current assets		**2,588,832**	**2,609,572**
Current assets			
Trade and other receivables	13	60,983	65,784
Cash and cash equivalents	14	101,274	116,590
Restricted deposits	15	17,717	26,700
Derivative financial instruments	23	764	12,172
Inventories	12	2,578	1,675
Total current assets		**183,316**	**222,921**
Total assets		**2,772,148**	**2,832,493**
Equity and liabilities			
Equity			
Share capital and share premium		(318,353)	(318,353)
Capital contribution		(363,083)	(363,083)
Retained earnings		(379,900)	(325,400)
Cash flow hedge reserve		503	1,381
Translation reserve		(3,121)	(673)
Total equity attributable to equity holders of the Company		**(1,063,954)**	**(1,006,128)**
Liabilities			
Non-current liabilities			
Borrowings and other debt	17	(1,148,408)	(745,127)
Deferred revenue	19	(8,723)	(9,716)
Government grants	20	(76,660)	(81,554)
Provisions	21	(6,245)	(7,201)
Trade and other payables	22	(13,603)	(42,508)
Derivative financial instruments	23	(447)	(3,957)
Deferred tax liabilities	8	(206,499)	(209,470)
Total non-current liabilities		**(1,460,585)**	**(1,099,533)**
Current liabilities			
Borrowings and other debt	17	(41,789)	(446,699)
Deferred revenue	19	(10,069)	(8,391)
Government grants	20	(6,546)	(6,458)
Provisions	21	(4,776)	(5,758)
Derivative financial instruments	23	(2,447)	(20)
Trade and other payables	22	(178,461)	(257,108)
Current tax liabilities	8	(3,521)	(2,398)
Total current liabilities		**(247,609)**	**(726,832)**
Total liabilities		**(1,708,194)**	**(1,826,365)**
Total equity and liabilities		**(2,772,148)**	**(2,832,493)**

Cathal Marley	Denis O'Sullivan	30th March 2020
Cathal Marley Chairman	**Denis O'Sullivan** Director	**Date of Approval**

Group Statement of Changes in Equity
for the year ended 31 December 2019

	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 2018	(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 26)	-	-	-	-	54,189	54,189
Balance at 31 December 2018	**(318,353)**	**(363,083)**	**1,381**	**(673)**	**(325,400)**	**(1,006,128)**
Profit for the year	-	-	-	-	(108,904)	(108,904)
Other comprehensive income for the year, net of income tax	-	-	(878)	(2,448)	-	(3,326)
Total comprehensive income for the year	**-**	**-**	**(878)**	**(2,448)**	**(108,904)**	**(112,230)**
Dividends (note 26)	-	-	-	-	54,404	54,404
Balance at 31 December 2019	**(318,353)**	**(363,083)**	**503**	**(3,121)**	**(379,900)**	**(1,063,954)**

All attributable to equity holders of the Company.

Group Statement of Cash Flows
for the year ended 31 December 2019

	Notes	2019	2018
		€'000	€'000
Net cash from operating activities	16	245,917	306,415
Cash flows from investing activities			
Payments for property, plant and equipment		(110,215)	(121,370)
Payments for intangible assets		(10,105)	(5,494)
Grants received	20	631	9,256
Net cash used in investing activities		**(119,689)**	**(117,608)**
Cash flows from financing activities			
Proceeds from borrowings		652,823	99,662
Repayment of borrowings		(655,125)	(102,249)
Repayment of lease liabilities	10	(236)	-
Repayment of loan to ultimate parent undertaking		(85,000)	(72,000)
Dividends paid	26	(54,404)	(49,089)
Net cash used in financing activities		**(141,942)**	**(123,676)**
Net (decrease)/increase in cash and cash equivalents	**14**	**(15,714)**	**65,131**
Cash and cash equivalents at the beginning of the year	14	116,590	51,448
Effect of exchange rate fluctuations on cash held	14	398	11
Cash and cash equivalents at 31 December	**14**	**101,274**	**116,590**

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 Company registration number is 555744. The Group financial statements consolidate the financial statements of the Company and its subsidiaries (note 25), (together referred to as 'the Group'), up to 31 December each year. The Company and its subsidiaries are ultimately controlled by Ervia. The Company has availed of the exemption in section 304(2) of the Companies Act 2014 not to present its individual income statement, statement of comprehensive income and related notes that form part of the approved Company financial statements.

The Group and Company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU (EU IFRS), as applied in accordance with the Companies Act 2014. The financial statements of the Group and the Company have been prepared in accordance with EU IFRS standards and IFRIC (International Financial Reporting Interpretation Committee) interpretations issued and effective for accounting periods on or before 31 December 2019. These financial statements are prepared on a historical cost basis, except for certain derivative financial instruments which are measured at fair value.

The Group's significant accounting policies are set out below. These policies have been consistently applied to all years presented in these financial statements with the exception of adoption of new standards as set out in note 1(c). In the process of applying these accounting policies, judgements and estimates are necessarily used which affect the amounts recognised in the financial statements. Refer to section 1(g) of this note for details of the most significant accounting judgements and estimates applied.

The Directors considered it appropriate to prepare the financial statements on a going concern basis, following due consideration of relevant factors, including available financial resources and cash flow forecasts. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. The Directors, while noting the Group's net current liability position of €64.3 million at 31 December 2019, are satisfied that the Group remains in a very strong funding and liquidity position as set out in note 23 (ii).

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

Previously, the Group presented unrealised fair value movements ("certain remeasurements") on derivative and other financial instruments in a separate "Exceptional" column in the Group Income Statement. The Group has elected to discontinue this policy for the 2019 Financial Statements, having regard to materiality (€0.5m gain in 2019 and €1.4m gain in 2018). The 2018 disclosures have been represented to be consistent with 2019 disclosures. Refer to note 7 for further details on certain remeasurements.

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

(e) Impact of adoption of IFRS 16 Leases

(i) Impact of the new definition of a lease

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

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

(ii) Impact on Lessee Accounting

Former operating leases

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

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

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

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

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

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

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

In addition to the practical expedient not to reassess whether a contract contains a lease on transition to IFRS 16, the Group employs the following practical expedients:

a) The option to exclude initial direct costs from the measurement of the right of use asset at the date of initial application.

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(iii) Impact on Lessor Accounting

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

(iv) Financial impact of initial application of IFRS 16

Group as Lessee

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position is 3.0%.

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

Lease liability recognised under IFRS 16 at 1 January 2019

	€'000
Operating lease commitment at 31 December 2018 under IAS 17	4,494
Effect of discounting the above amounts	(976)
Present value of lease payments covered by extension options not previously included in operating lease commitments	237
Lease liability recognised under IFRS 16 at 1 January 2019	**3,755**

The Group recognised €5.158m of right of use assets under IFRS 16 at 1 January 2019, analysed as follows:

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

	€'000
Lease liability recognised under IFRS 16 at 1 January 2019	3,755
Lease prepayment at 31 December 2018 under IAS 17	1,403
Right of Use Assets recognised under IFRS 16 at 1 January 2019	**5,158**

The difference to be recognised in retained earnings between the right of use asset recognised of €5.158m, the lease liability recognised of €3.755m and the lease prepayment de-recognised of €1.403m is €nil.

(f) 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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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 the income statement.

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 the income statement.

(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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

ii. Foreign operations

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

(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.

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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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 iv of accounting policy (iii) above.

(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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

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

The Group as Lessee

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

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

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

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable,
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date,
- The amount expected to be payable by the lessee under residual value guarantees,

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options, and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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

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

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

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

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

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

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

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

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

The Group applies IAS 36 to determine whether a right of use asset is impaired and accounts for any identified impairment loss as described in section (v).Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right of use asset. The related payments would be recognised as an expense in the period in which the event or condition that triggers those payments occurs and would be included in the appropriate line in operating expenses in the income statement.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

The Group as Lessor

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

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

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

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

Policies applicable prior to 1 January 2019

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

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

Accounting for arrangements that contain a lease

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and inflation-linked interest rate swaps. Further details of derivative financial instruments are disclosed in note 23.

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

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

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

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

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

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

(a) Cash flow hedges

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

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

(b) Fair value hedges

Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the derivative are recognised in profit or loss. The hedged item is also 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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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.

Amounts due from subsidiary companies (Company)

Amounts due from subsidiary company undertakings are non-derivative financial assets or liabilities which are not quoted in an active market. They are included in current assets or current liabilities on the balance sheet, except for those with maturities greater than twelve months after the balance sheet date, which are included in non-current assets or non-current liabilities. Amounts due from subsidiary companies are included within trade and other receivables or trade and other payables in the Company balance sheet and are initially recorded at fair value and thereafter at amortised cost.

Impairment is assessed using the expected credit loss model. In determining the impairment loss, amounts dues from subsidiaries are classified as amounts repayable on demand, low credit risk receivables and amounts for which there has been a substantial increase in credit risk since initial recognition. In determining an expected credit loss, regard is given to historic performance as well as forward looking information for the relevant subsidiary including detailed discounted cash flow forecasts, where appropriate.

Cash and cash equivalents

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

Trade and other payables

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(ix) Provisions and Contingent Liabilities

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

Contingent liabilities may arise in respect of contractual agreements to which an entity of the Group is a party. These are estimated (if possible) based on information available of the potential cost associated with the outturn of any such events which exist at the reporting date. These are liabilities, over and above those provided for in the financial statements, which could arise as a result of the occurrence or non-occurrence of one or more uncertain future events but given the nature of the contingencies they cannot be provided for in the financial statements (in accordance with IAS 37).

(x) Grants

A grant is recognised as a liability initially on the balance sheet when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same 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 IFRS 16 (see accounting policy (vi)).

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 industry regulators, the Commission for Regulation of Utilities (CRU) and the Northern Ireland Authority for Utility Regulator (NIAUR). Certain circumstances may result in the regulatory "allowed" revenue being over or under recovered in the financial year. Any over or under recovery may be included, within certain parameters, in the calculation of the subsequent years' regulatory revenue. No adjustment is made for over or under recoveries in the year that they arise.

(xii) Operating Profit

Operating profit is stated before net finance costs and income tax expense.

(xiii) Net Finance Costs

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

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

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

(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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

Deferred tax assets and liabilities are offset where there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(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 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 and other debt 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.

(g) Critical Accounting Judgements and Estimates

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

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

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(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 2019, the aggregate of the Group's property, plant and equipment (PP&E) and intangible assets was €2,572.6 million, which accounted for the majority of the Group's assets. Therefore the estimates and assumptions made in determining the carrying value are critical to the financial statements because the recoverability of the amounts, or lack thereof, could significantly affect the Group's future financial performance and position.

Depreciation and useful lives

The Group recognises depreciation and amortisation charges annually (2019: €138.9 million) which is primarily calculated to write down the cost of PP&E and intangible assets over their expected useful economic lives. The determination of estimated useful lives of assets are based on experience, expectations about the future and other factors. The estimated useful lives for major asset classifications are set out in these accounting policies (section 1(f)). The Group reviews the useful lives of assets annually and any required changes are adjusted prospectively. Due to the significance of asset investment by the Group, variations between actual and estimated useful economic lives could have a material impact on future results, either positively or negatively. Historically, no changes in useful lives have been identified by the Group that have had a material impact on operating results.

(b) 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.

(a) Revenue

	2019	2018
External revenue split by geographic location is as follows:	€'000	€'000
Ireland	432,132	450,693
UK (including Northern Ireland and Isle of Man)	37,731	36,490
Total	**469,863**	**487,183**

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

(b) Non-current assets by geographic location

	2019	2018
	€'000	€'000
Ireland	2,160,819	2,169,450
UK (including Northern Ireland and Isle of Man)	411,750	426,880
Total	**2,572,569**	**2,596,330**

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

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

4. Operating Costs (excluding depreciation and amortisation)

		2019 €'000	2018 €'000
Employee benefit expense	5	(41,550)	(42,148)
Hired and contracted services		(8,162)	(8,763)
Materials, maintenance and sub-contractor costs		(45,093)	(44,938)
Rent, rates and facilities		(30,426)	(29,483)
Central transactional and support service costs	26	(27,074)	(22,726)
Other operating expenses		(33,205)	(38,253)
Total		**(185,510)**	**(186,311)**

Notes to the Group financial statements (continued)

4. Operating Costs (excluding depreciation and amortisation) (continued)

Operating costs are stated after charging:

	2019	2018
	€'000	€'000
(a) Auditor's remuneration		
- statutory audit services	(144)	(134)
- other audit related assurance services	(27)	(26)
- other non-audit services	(60)	-
- tax advisory services	-	-
Total	**(231)**	**(160)**
(b) Directors' remuneration		
Directors' fees	-	-
Directors - emoluments*	(459)	(420)
Directors - defined benefit pension contributions*	(61)	(47)
Directors - defined contribution pension contributions*	(4)	(13)
Total	**(524)**	**(480)**

*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 and GNI, based on services provided to the Group. The number of directors to whom retirement benefits accrued amounted to 7 (2018: 6).

(c) Managing Director salary & benefits

	2019	2018
(c) (i) Current Managing Director	€'000	€'000
Managing Director's basic salary	(195)	(140)
Other short-term employee benefits	(49)	(35)
Post-employment benefits - pension contributions	(34)	(21)
Total	**(278)**	**(196)**
(c) (ii) Former Managing Director		
Managing Director's basic salary	-	(48)
Other short-term employee benefits	-	(15)
Post-employment benefits - pension contributions	-	(8)
Total	**-**	**(71)**

Notes to the Group financial statements (continued)

5. Employee Benefits

(a) Aggregate employee benefits

	2019	2018
	€'000	€'000
Staff short-term benefits	(41,299)	(41,178)
Post-employment benefits - pension contributions	(5,357)	(5,525)
Social insurance costs	(4,497)	(4,465)
	(51,153)	(51,168)
Capitalised payroll	9,603	9,020
Employee benefit expense charged to profit or loss	**(41,550)**	**(42,148)**

(b) Staff short-term benefits

	2019	2018
	€'000	€'000
Wages and salaries	(38,644)	(38,394)
Overtime	(1,058)	(1,132)
Allowances	(742)	(698)
Other	(855)	(954)
Total	**(41,299)**	**(41,178)**

The average number of employees employed by the Group and the Company for the year was 532 (2018: 554).

The Group recognised employee termination expenses of €nil in the reporting period. Refer to note 21 for details of termination benefits charged against the restructuring provision.

Notes to the Group financial statements (continued)

6. Depreciation and Amortisation

		2019 €'000	2018 €'000
Depreciation of Property, Plant and Equipment	9	(139,052)	(136,792)
Depreciation of Right of Use Assets	10	(362)	-
Amortisation of intangible assets	11	(5,964)	(5,424)
Grant amortisation	20	6,516	5,710
Total		**(138,862)**	**(136,506)**

7. Net Finance Costs

		2019 €'000	2018 €'000
Before remeasurements			
Finance costs			
Interest and other charges on borrowings		(19,285)	(22,372)
Interest capitalised		218	1,122
Financing charge		-	(67)
Lease liability finance charge	10	(104)	-
Total finance costs		**(19,171)**	**(21,317)**
Remeasurements			
Net changes in fair value of financing undesignated derivatives	(i)	1,883	1,497
Net changes in fair value of financial instruments designated in a fair value hedging relationship	(i)	(1,340)	(79)
Total remeasurement items		**543**	**1,418**
Total			
Finance income		1,883	1,497
Finance costs		(20,511)	(21,396)
Net finance costs		**(18,628)**	**(19,899)**

(i) Remeasurements relate to unrealised fair value movements on derivative and other financial instruments which are accounted for as if held for trading or as fair value hedges in accordance with the Group's accounting policy. Further details on derivative instruments falling within the scope of IFRS 9 are set out in accounting policy 1(f).

Notes to the Group financial statements (continued)

8. Tax

Income tax expense

	31-Dec-19 €'000	31-Dec-18 €'000
Current tax expense		
Current tax	(21,610)	(24,358)
Adjustments in respect of previous years	47	(321)
	(21,563)	**(24,679)**
Deferred tax credit		
Origination and reversal of temporary differences	3,254	3,053
Adjustments in respect of previous years	350	(32)
	3,604	**3,021**
Total income tax expense	**(17,959)**	**(21,658)**

Reconciliation of effective tax rate

	31-Dec-19 €'000	31-Dec-18 €'000
Profit before income tax	126,863	144,467
Taxed at 12.5% (2018: 12.5%)	(15,858)	(18,058)
Expenses not deductible for tax purposes	(1,480)	(1,841)
Income not taxable	492	490
Profits taxed at higher rates	(1,445)	(1,553)
Effect of tax rate change	(132)	(376)
Exchange adjustments	67	33
Adjustments in respect of previous years	397	(353)
	(17,959)	**(21,658)**

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

Notes to the Group financial statements (continued)

8. Tax (continued)

Current tax assets and liabilities

	31-Dec-19 €'000	31-Dec-18 €'000
Current tax liabilities	**(3,521)**	**(2,398)**

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 2018	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)**
Recognised in income statement	-	4,322	(558)	(160)	3,604
Recognised in equity	(125)	-	-	-	(125)
Exchange adjustments	-	(926)	418	-	(508)
At 31 December 2019	**72**	**(213,897)**	**7,486**	**(160)**	**(206,499)**

9. Property, Plant and Equipment

		31-Dec-19 €'000	31-Dec-18 €'000
Property, Plant and Equipment - owned assets		2,544,762	2,574,718
Right of use assets - leases	10	4,833	-
Property, Plant and Equipment - as presented on the balance sheet		**2,549,595**	**2,574,718**

Notes to the Group financial statements (continued)

9. Property, Plant and Equipment (continued)

Property, Plant and Equipment-owned assets

	Land and buildings	Plant, pipeline and machinery	Assets under construction	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2018	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**
Additions	-	7,830	94,541	102,371
Disposals	-	(5,467)	-	(5,467)
Transfers in year	(3)	77,643	(77,640)	-
Effect of movement in exchange rates	-	13,849	184	14,034
At 31 December 2019	**67,992**	**4,395,061**	**48,844**	**4,511,898**
Accumulated depreciation and impairment losses				
At 1 January 2018	(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)**
Depreciation for the year	(1,498)	(137,553)	-	(139,052)
Disposals	-	5,467	-	5,467
Effect of movement in exchange rates	-	(7,309)	-	(7,309)
At 31 December 2019	**(25,656)**	**(1,941,480)**	**-**	**(1,967,136)**
Carrying amounts				
At 31 December 2018[1]	43,837	2,499,122	31,759	2,574,718
At 31 December 2019[1]	**42,336**	**2,453,582**	**48,844**	**2,544,762**

[1]The carrying value of Property, Plant and Equipment includes assets that are subject to operating lease arrangements as described in note 10. The carrying value of these assets at 31 December 2019 was €95.2 million (31 December 2018: €108.0 million) and is included in Plant, pipeline and machinery.

Notes to the Group financial statements (continued)

9. Property, Plant and Equipment (continued)

During the year, the Group capitalised €0.2 million (2018: €1.1 million) in borrowing costs. The capitalisation rate was 1.69% (2018: 2.0%). The Group also capitalised €9.3 million in payroll costs during the year (2018: €8.7 million).

Gas Networks Ireland (IOM) DAC, a subsidiary of the Group, entered into a project financing arrangement in 2003. The balance outstanding of €2.7 million at 31 December 2019 (2018: €5.2 million) on this limited recourse loan facility is secured over the assets of Gas Networks Ireland (IOM) DAC (note 17).

Capital commitments

	2019	2018
	€'million	€'million
Capital expenditure that has been contracted for but has not been provided for	**35**	36

10. Leases

The Group as Lessee

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

(a) Amounts recognised on the Balance Sheet

	Land and buildings	Plant, pipeline and machinery	Total
	€'000	€'000	€'000
Right of use assets			
Balance as at 1 January 2019 - note 1e	529	4,629	5,158
Additions	37	-	37
Depreciation	(97)	(265)	(362)
Balance as at 31 December 2019	**469**	**4,364**	**4,833**
Lease liabilities			
Balance as at 1 January 2019 - note 1e	(513)	(3,242)	(3,755)
Additions	(37)	-	(37)
Interest expense	(6)	(98)	(104)
Lease payments	100	240	340
Balance as at 31 December 2019	**(456)**	**(3,100)**	**(3,556)**
Analysed as follows:			
Non current			(3,221)
Current			(335)
Total			**(3,556)**

Notes to the Group financial statements (continued)

10. Leases (continued)

A maturity analysis of lease liabilities is presented in note 17. The Group does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the relevant business functions.

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

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

The Group as Lessor

The Group enters operating lease arrangements to allow third parties the use of parts of the Gas Network Transportation system. In accordance with the Group's accounting policy all receipts from these arrangements are deemed to be earned as part of the Group's core operations and accordingly the lease income is recognised as revenue in the income statement. Below is a profile of undiscounted non-cancellable future operating lease income to be recognised as revenue in future years. The unexpired lease terms range from 4 to 12 years.

Maturity analysis

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

Notes to the Group financial statements (continued)

11. Intangible Assets

	Software and other €'000	Software under development €'000	Total €'000
Cost			
At 1 January 2018	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**
Additions (incl internally developed)	-	7,274	7,274
Transfers in year	6,023	(6,023)	-
Effect of movement in exchange rates	111	4	115
At 31 December 2019	**147,110**	**8,405**	**155,515**
Accumulated amortisation and impairment losses			
At 1 January 2018	(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)**
Amortisation for the year	(5,964)	-	(5,964)
Effect of movement in exchange rates	(63)	-	(63)
At 31 December 2019	**(132,541)**	**-**	**(132,541)**
Carrying amounts			
At 31 December 2018	14,462	7,150	21,612
At 31 December 2019	**14,569**	**8,405**	**22,974**

The Group capitalised €0.3 million in payroll costs during the year (2018: €0.4 million).

Notes to the Group financial statements (continued)

12. Inventory

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

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

13. Trade and Other Receivables

		31-Dec-19	31-Dec-18
		€'000	€'000
Use of system receivable - billed		3,448	7,702
Use of system receivable - unbilled		36,100	38,171
Other trade receivables - billed		2,659	1,784
Other trade receivables - unbilled		2,461	2,686
Other receivables		3,522	3,990
Amounts due from non-controlled undertakings	26	845	592
Sub-total		**49,035**	**54,925**
Grant receivable		7,099	7,099
Prepayments		4,849	3,760
Total		**60,983**	**65,784**
Analysed as follows:			
Non-current		-	-
Current		60,983	65,784
Total		**60,983**	**65,784**

Notes to the Group financial statements (continued)

13. Trade and Other Receivables (continued)

Trade receivables mainly represent use of system receivables for the Group's gas pipeline networks in the Republic of Ireland and Northern Ireland. Other trade receivables mainly represent unregulated customer contract receivables and ancillary regulated customer contract receivables.

Expected Credit Loss Allowance

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

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

The maximum exposure of trade receivables and other receivables to credit risk at the reporting date is €49.0 million (2018: €54.9 million). Prepayments of €4.9 million (2018: €3.8 million) are excluded as no credit exposure arises. Grant receivable of €7.1 million at the reporting date, was received prior to the approval of these financial statements, and is also excluded from the maximum credit risk exposure.

The Group writes off a trade receivable where there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off are subject to enforcement activities.

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

Provision for impairment of receivables

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

The following table shows the ageing of trade and other receivables net of lifetime ECL measured in accordance with the simplified approach as set out in IFRS 9.

Notes to the Group financial statements (continued)

13. Trade and Other Receivables (continued)

Trade receivables - days past due

	Net receivable 2019	Net receivable 2018
	€'000	€'000
Not past due	47,014	54,196
0 – 30 days overdue	1,470	166
31 – 120 days overdue	157	375
> 120 days overdue	394	188
Total	**49,035**	**54,925**

Expected Credit Losses Reconciliation

	2019	2018
	€'000	€'000
Simplified approach	49,035	54,925
General approach	-	-
Prepayments & Grant receivable	11,948	10,859
Total	**60,983**	**65,784**

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

Trade receivables - by geographical region

	2019	2018
	€'000	€'000
Ireland	41,671	47,606
UK (including Northern Ireland and Isle of Man)	7,364	7,319
Total	**49,035**	**54,925**

Use of System Receivables:

Republic of Ireland: Use of system revenue in Ireland comprises Distribution Use of System (DUoS) revenue and Transmission Use of System (TUoS) revenue. The credit terms for both DUoS and TUoS are ten business days and there were twenty eight external shippers at year end. TUoS and DUoS revenue is billed and collected by the Group. The allowed revenue is invoiced to the shippers on a monthly basis twelve business days after month end with payment due ten business days from date of invoice. Under the Gas network code of operations, Shippers may be required to provide Financial Security in order to protect the Group against non-payment of Gas transportation invoices. Related funds received are held on deposit and are included within the restricted deposits balance. Refer to note 15. The Group has not recognised any impairment loss in the current or prior reporting period.

Notes to the Group financial statements (continued)

13. Trade and Other Receivables (continued)

Northern Ireland: Use of system revenue in Northern Ireland comprises Transmission Use of System (TUoS) revenue. Invoices are issued by the administrator and non-payment of invoices attracts a daily interest charge. Shippers may be required to provide Financial Security in order to protect the group against non-payment of Gas transportation invoices. Related funds received are held on deposit and are included within the restricted deposits balance. Refer to note 15. The Group has not recognised any impairment loss in the current or prior reporting period.

Other Receivables:

Other trade receivables include unregulated customer contract receivables, third party damages receivables, Aurora Telecom receivables and regulated customer contract receivables that are ancillary to the use of the DUos and TUos systems. Payments in relation to new connections or alterations are paid for in advance of the work being carried out. Credit risk on all other receivables is managed through proactive monitoring and management of balances and credit vetting (where applicable).

14. Cash and Cash Equivalents

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

	31-Dec-19	31-Dec-18
	€'000	€'000
Cash and cash equivalents	101,274	116,590
Total	**101,274**	**116,590**

	2019	2018
	€'000	€'000
At 1 January	116,590	51,448
(Decrease)/increase in cash and cash equivalents in the statement of cash flows	(15,714)	65,131
Effect of exchange rate fluctuations on cash held	398	11
At 31 December	**101,274**	**116,590**

15. Restricted Deposits

Restricted deposits include amounts held in respect of gas network related security deposits - refer to note 13.

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

Notes to the Group financial statements (continued)

16. Cash Generated from Operations

Cash flows from operating activities

	Notes	2019	2018
		€'000	€'000
Profit for the year		108,904	122,809
Adjustments for:			
Depreciation and amortisation	6	138,862	136,506
Net finance costs	7	18,628	19,899
Income tax expense	8	17,959	21,658
		284,353	300,872
Working capital changes:			
Change in inventories		(903)	(616)
Change in trade and other receivables		1,957	40,234
Change in trade and other payables		(2,113)	16,889
Change in deferred revenue		685	(2,645)
Change in provisions		(1,938)	100
Cash from operating activities		**282,041**	**354,834**
Interest paid		(15,476)	(21,883)
Income tax paid		(20,648)	(26,536)
Net cash from operating activities		**245,917**	**306,415**

Notes to the Group financial statements (continued)

17. 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)

	31-Dec-19	31-Dec-18
	€'000	€'000
Bonds	(918,297)	(619,560)
Loans from financial institutions[1]	(268,344)	(572,266)
Lease liabilities	(3,556)	-
Total	**(1,190,197)**	**(1,191,826)**

Borrowings and other debt analysed as follows:

	31-Dec-19	31-Dec-18
	€'000	€'000
Between one and five years	(424,847)	(124,139)
More than five years	(723,561)	(620,988)
Non-current	**(1,148,408)**	**(745,127)**
Less than one year	(41,789)	(446,699)
Current	**(41,789)**	**(446,699)**
Total	**(1,190,197)**	**(1,191,826)**

[1] including private placement notes.

Total borrowings include €139.5 million (2018: €453.1 million) of floating rate debt, €2.7 million (2018: €5.2 million) of inflation linked debt and €1,044.5 million (2018: €733.5 million) of fixed rate debt which have been drawn down from various lenders. The inflation linked debt is secured over the assets of Gas Networks Ireland (IOM) DAC, which primarily comprises of a gas transmission pipeline to the Isle of Man. The revenues from this pipeline are indexed to the U.K. Retail Price Index (UK RPI). Accordingly, to mitigate the risk of low inflation, this debt is also linked to the UK RPI using an index-linked hedge.

Certain borrowings are held with related parties, refer to note 26 for full details of related party disclosures.

Notes to the Group financial statements (continued)

17. Borrowings and Other Debt (continued)

Net debt

		31-Dec-19	31-Dec-18
		€'000	€'000
Total borrowings and other debt		(1,190,197)	(1,191,826)
Less fair value hedges recognised within borrowings	23	15,318	24,167
Less cash and cash equivalents	14	101,274	116,590
Net debt		**(1,073,605)**	**(1,051,069)**

Changes in borrowings and other debt

	Bonds	Loans from financial institutions	Lease liabilities	Total	Bonds	Loans from financial institutions	Lease liabilities	Total
	2019	2019	2019	2019	2018	2018	2018	2018
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
As at 1 January	(619,560)	(572,266)	-	(1,191,826)	(618,984)	(566,517)	-	(1,185,501)
Lease liability - IFRS 16 transition (note 1e)	-	-	(3,755)	(3,755)	-	-	-	-
Proceeds from borrowings	(298,128)	(354,695)	-	(652,823)	-	(99,662)	-	(99,662)
Repayment of borrowings and lease liabilities	-	655,125	236	655,361	-	102,249	-	102,249
Change in fair value of financial liabilities	-	8,849	-	8,849	-	(8,589)	-	(8,589)
Exchange movement	-	(4,362)	-	(4,362)	-	1,188	-	1,188
Other non-cash movements	(609)	(995)	(37)	(1,641)	(576)	(935)	-	(1,511)
As at 31 December	**(918,297)**	**(268,344)**	**(3,556)**	**(1,190,197)**	**(619,560)**	**(572,266)**	**-**	**(1,191,826)**

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.

Notes to the Group financial statements (continued)

18. Retirement Benefit Obligations (continued)

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 2019, the contributions paid to Ervia in respect of the Gas Networks Ireland's employees was €4.4 million (2018: €4.6 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 26.

Defined contribution scheme

During the year ended 31 December 2019, the Gas Networks Ireland Group contributed €1.0 million in respect of the Ervia Defined Contribution Scheme (2018: €0.9 million), on behalf of its employees, which was charged to the income statement.

19. Deferred Revenue

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

Analysed as follows:

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

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

Notes to the Group financial statements (continued)

20. Government Grants

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

Analysed as follows:

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

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

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

21. Provisions

	Restructuring €'000	Environmental €'000	Self-insured claims €'000	Total €'000
At 1 January 2019	(318)	(5,801)	(6,840)	(12,959)
Provisions made in the year	-	-	(1,943)	(1,943)
Provisions used in the year	153	2,833	895	3,881
At 31 December 2019	**(165)**	**(2,968)**	**(7,888)**	**(11,021)**

Notes to the Group financial statements (continued)

21. Provisions (continued)

Analysed as follows:

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

Restructuring

During 2013, the Ervia Group announced a voluntary severance and early retirement programme for employees that satisfied certain qualifying criteria. The Group made termination payments and related pension payments of €0.153 million in aggregate during 2019 in respect of four employees who exited under the terms of the programme. These liabilities are expected to be substantially discharged by 2023.

Environmental

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

Self-insured claims

The Group is self-insured in respect of certain injury and damage claims. The year-end provision is for the estimated costs of incidents that have occurred up to 31 December 2019. Payments are made as the cases are settled. The charge is included in the income statement under operating costs. The nature of these claims is such that a settlement date is uncertain but the Group expects the claims to be substantially settled by 2023.

Contingencies

Contingent liabilities with respect to government grants are disclosed in note 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 2019, €1.4 million (2018: €1.4 million) was provided by the Group by way of guarantees by financial institutions to third parties. The fair value of guarantees was €nil at 31 December 2019 (2018: €nil). The maximum exposure to credit risk under these obligations is €1.4 million.

Notes to the Group financial statements (continued)

22. Trade and Other Payables

	31-Dec-19 €'000	31-Dec-18 €'000
Trade payables	(9,674)	(10,124)
Accrued expenses	(65,051)	(81,030)
Amounts owed to ultimate parent undertaking	(76,385)	(159,946)
Other payables	(25,359)	(32,815)
Taxation and social insurance creditors[1]	(15,595)	(15,701)
Total	**(192,064)**	**(299,616)**
Analysed as follows:		
Non-current	(13,603)	(42,508)
Current	(178,461)	(257,108)
Total	**(192,064)**	**(299,616)**
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	(896)	(551)
VAT	(14,699)	(15,150)
Total	**(15,595)**	**(15,701)**

23. Financial Risk Management and Financial Instruments

Fair value by class of derivative financial instrument

Cross currency interest rate swaps

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

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

Interest rate swaps

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

Inflation linked interest rate swaps

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

Foreign exchange contracts and currency swaps

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

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

Accounting classifications and fair values

The following table combines information about:

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

Refer to note 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)

	Fair value hierarchy	FVTPL - undesignated	FVTPL designated	FVTOCI	Amortised cost	Total
		€'000	€'000	€'000	€'000	€'000
At 31 December 2019						
Financial assets						
Cross currency interest rate swaps	Level 2	-	16,733	(576)	-	16,157
Foreign exchange rate contracts	Level 2	870	-	-	-	870
Trade and other receivables[3]		-	-	-	49,035	49,035
Cash and cash equivalents		-	-	-	101,274	101,274
Restricted deposits		-	-	-	17,717	17,717
Total financial assets		**870**	**16,733**	**(576)**	**168,026**	**185,053**
Financial liabilities						
Borrowings and other debt[1]	Level 2	-	(15,318)	-	(1,174,879)	(1,190,197)
Interest rate/inflation linked derivatives	Level 2	(2,245)	-	-	-	(2,245)
Foreign exchange rate contracts	Level 2	(649)	-	-	-	(649)
Trade and other payables[2]		-	-	-	(111,418)	(111,418)
Total financial liabilities		**(2,894)**	**(15,318)**	**-**	**(1,286,297)**	**(1,304,509)**
Net financial (liabilities)/assets		**(2,024)**	**1,415**	**(576)**	**(1,118,271)**	**(1,119,456)**
At 31 December 2018						
Financial assets						
Cross currency interest rate swaps	Level 2	-	26,922	(1,577)	-	25,345
Foreign exchange rate contracts	Level 2	69	-	-	-	69
Trade and other receivables[3]		-	-	-	54,925	54,925
Cash and cash equivalents		-	-	-	116,590	116,590
Restricted deposits		-	-	-	26,700	26,700
Total financial assets		**69**	**26,922**	**(1,577)**	**198,215**	**223,629**
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[2]		-	-	-	(202,885)	(202,885)
Total financial liabilities		**(3,977)**	**(24,167)**	**-**	**(1,370,544)**	**(1,398,688)**
Net financial (liabilities)/assets		**(3,908)**	**2,755**	**(1,577)**	**(1,172,329)**	**(1,175,059)**

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

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

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

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 in classifying derivatives as hedges. Only derivative instruments external to the Group qualify for consideration for hedge accounting.

Hedge effectiveness

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

The Group uses the following categories for hedges:

(i) Fair value hedges (FVTPL - designated)

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

(ii) Cash flow hedges (FVTOCI)

The fair value of hedging derivatives in a cash flow hedge in the balance sheet as at 31 December 2019 was €0.6 million liability (2018: €1.6 million liability). These instruments hedge highly probable future transactions where the variability in cash flows generated by the hedged transaction is offset by changes in the value of the hedging instrument. The amount reclassified from equity to profit or loss due to ineffectiveness on cash flow hedges during 2019 was €nil (2018: €nil).

Maturity profile of cash flow hedges

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

	< 1 year	1-2 years	2-5 years	> 5 years	Total
	€'000	€'000	€'000	€'000	€'000
At 31 December 2019					
Cross currency interest rate swaps	-	(576)	-	-	(576)
Cash flow hedging derivatives	**-**	**(576)**	**-**	**-**	**(576)**
At 31 December 2018					
Cross currency interest rate swaps	(1,210)	-	(367)	-	(1,577)
Cash flow hedging derivatives	**(1,210)**	**-**	**(367)**	**-**	**(1,577)**

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

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

	2019	2018
Effects of hedge accounting on the financial position and performance	**CCIRS**	**CCIRS**
The effects of the hedging instruments on the Group's financial position and performance are as follows:	**€'000**	**€'000**
Carrying amount - asset as at 31 December 19	16,157	25,345
Notional Amount	140,000	290,000
Notional Unit	USD	USD
Maturity date - earliest	31-Mar-21	31-Mar-19
Maturity date - latest	31-Mar-21	31-Mar-21
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 01 January	(9,188)	9,428
Change in fair value of outstanding hedged item used to determine hedge effectiveness	8,848	(8,589)
Weighted average hedged rate / price	6.84/1.259	6.74-6.84/1.259
Unit of rate / price	Interest rate% / FX rate	

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

Financial risk management

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

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

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

(i) Credit risk

The Group is exposed to credit risk with counterparties the Group has entered into transactions with. It includes assets held with banks and financial institutions, transactions in relation to derivative financial instruments and credit exposures arising from trading relationships with customers. The objective of the Group's credit risk management is to manage and control credit risk exposures within acceptable parameters. Management does not expect any significant counterparty to fail to meet its obligations.

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

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

	31-Dec-19	31-Dec-18
	€'000	€'000
Trade and other receivables (excluding prepayments and grants receivable)	49,035	54,925
Cash and cash equivalents	101,274	116,590
Restricted deposits	17,717	26,700
Derivative financial instruments	17,027	25,414
Total	**185,053**	**223,629**

(i) (a) Treasury related credit risk

The Group operates a centralised treasury function, which undertakes all treasury activities of the Group. Group Treasury manages treasury related credit risk (relating to cash and derivative instruments) through the use of counterparty credit limits which take account of, among other relevant factors, published credit ratings. It is the Group's policy that cash and derivative transactions are placed with institutions who maintain an investment grade credit rating i.e. not less than Standard & Poor's BBB- or equivalent. All derivative trades are transacted in compliance with the Specification and the Requirements of the Minister of Finance, issued in accordance with provisions of the Financial Transaction of Certain Companies and Other Bodies Act 1992, most recently issued in December 2017. This outlines the criteria that must satisfied regarding each derivative counterparty with which the Group transacts. Group Treasury regularly evaluates and measures its treasury counterparty exposures. Where the exposure on derivative instruments has the potential to be material to the Group's net worth, the Group will consider entering into credit support arrangements.

(i) (b) Trade related credit risk

Refer to note 13 for an analysis of the Group's exposure to trade related credit risk.

(ii) Funding and liquidity risk

The Group's approach to managing funding and liquidity risk is to ensure, as far as possible, that it has adequate resources to meet its liabilities when due, under both normal and stressed conditions. Group Treasury is responsible for ensuring the Group has access to sufficient liquidity to ensure that the Group is able to settle obligations arising through its day-to-day operations, maturing debt obligations and capital investment outlays. Group Treasury develops and maintains relationships with financial institutions in order to develop their understanding of the business and to build their long-term commitment to the Group. All banking and treasury services are sourced at competitive prices.

(ii)(a) Funding

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

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

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

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. Cash surpluses may be invested in, but not limited to; Deposit Accounts and Money Market Funds. The Group will invest surplus cash in euro or in the currency of overseas operations.

(ii)(c) Exposure to liquidity risk

The following are the contractual maturities of financial liabilities (and assets of a similar nature), including the undiscounted interest payment associated with borrowings and the undiscounted net cash flows attributable to financial instruments. The disclosure includes cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward foreign exchange rate contracts.

Notes to the Group financial statements (continued)

23. 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 2019						
Borrowings and other debt	(1,190,197)	(1,309,684)	(61,899)	(139,636)	(331,991)	(776,158)
Trade and other payables	(111,418)	(111,418)	(106,271)	-	(5,147)	-
Non-derivative financial liabilities	**(1,301,615)**	**(1,421,102)**	**(168,170)**	**(139,636)**	**(337,138)**	**(776,158)**
Interest rate/inflation linked derivatives	(2,245)	(2,348)	(2,200)	(148)	-	-
Cross currency interest rate swaps	16,157	20,353	4,488	15,865	-	-
Foreign exchange rate contracts	221	221	221	-	-	-
Net derivative financial assets	**14,133**	**18,226**	**2,509**	**15,717**	**-**	**-**
Net financial liabilities	**(1,287,482)**	**(1,402,876)**	**(165,661)**	**(123,919)**	**(337,138)**	**(776,158)**
At 31 December 2018						
Borrowings and other debt	(1,191,826)	(1,329,278)	(470,851)	(20,742)	(155,497)	(682,188)
Trade and other payables	(202,885)	(202,885)	(160,377)	-	(42,508)	-
Non-derivative financial liabilities	**(1,394,711)**	**(1,532,163)**	**(631,228)**	**(20,742)**	**(198,005)**	**(682,188)**
Interest rate/inflation linked 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	**(1,373,274)**	**(1,500,108)**	**(614,516)**	**(18,514)**	**(184,890)**	**(682,188)**

(iii) Market risk

Market risk is the possibility that changes in market factors will adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

(iii) (a) Exchange rate risk

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

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

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

  Intra-group funding to foreign currency subsidiaries is translated into euro using the exchange rates at the reporting date. The profit/loss arising on the translation of the intra-group funding to foreign subsidiaries is taken to the income statement. The profit/loss arising on the translation of foreign currency liabilities, to the extent that they are used to finance or to provide a hedge against the intragroup funding in foreign subsidiaries, is also taken to the income statement.
- **Transaction exposure**
  From time to time the Group makes purchases in foreign currencies. The Group's policy is to manage these transaction exposures by seeking to net purchases and sales denominated in foreign currencies as far as possible. Where this is not possible, exposures will be hedged using derivatives permitted under the Treasury Policy.

  Under Treasury Policy, all expected transactions in excess of €300,000 equivalent in foreign currencies will be evaluated with respect to the business risks and, where appropriate, currency risks will be hedged to minimise the potential for adverse variances arising from currency movements.
- **Debt in a foreign currency**
  The Group has US dollar denominated Private Placements that have been converted to euro using cross currency interest rate swaps.

Exchange rate sensitivity analysis

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

	Profit before taxation gain/(loss)	Other comprehensive income	Profit before taxation gain/(loss)	Other comprehensive income
	31-Dec-19	31-Dec-19	31-Dec-18	31-Dec-18
	€'000	€'000	€'000	€'000
5% Strengthening	(259)	(1,862)	(330)	(1,669)
5% Weakening	259	1,862	330	1,669

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

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

(iii) (b) Interest rate risk

Interest rate risk derives from changes in interest rates which affect the market value of financial assets and liabilities of the Group and impact on net income through impact on finance charges.

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

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

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

The Group monitors exposure to interest rate risk on an ongoing basis with a view to taking advantage of low interest rate environments to fix the Group's interest rate obligations and increase certainty as to the Group's interest rate expense profile. The Group's policy is to maintain fixed interest rates with a minimum of 60% of net debt fixed on a one year and 50% on a 3 year basis. The Group uses a number of methods, including entering into fixed rate debt and interest rate derivatives to manage the interest rate risk on its debt portfolio.

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

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

	2019	2019	2018	2018
	€'000	%	€'000	%
At fixed rates[1]	(1,044,495)	88.0%	(733,478)	61.6%
At floating rates	(139,455)	11.8%	(453,126)	38.0%
Inflation linked debt	(2,691)	0.2%	(5,222)	0.4%
Total	**(1,186,641)**	**100.0%**	**(1,191,826)**	**100.0%**

[1] including swaps.

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

On 31 December 2019, the Group had US$140 million (2018: US$290 million) fixed rate debt outstanding (€111.2 million equivalent (2018: €230.3 million)) in a US dollar Private Placement transaction which was completed on 31 March 2009. In order to hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating euro, the Group has a cross currency interest rate swap which matches the maturity profile of the debt. At 31 December 2019, the Group had outstanding interest rate swaps with a notional principal of €111.2 million, which commenced in H2 2017 and were swapped for four years effectively fixing the Private Placement debt instrument until its maturity in March 2021.

At 31 December 2019, the weighted average interest rate of the fixed debt portfolio was 1.33% (2018: 1.82%), which comprised three bonds totalling €921.9 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 previously, 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 in other comprehensive income would be as shown below:

	Profit before taxation gain/(loss)		Other comprehensive income	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
	€'000	€'000	€'000	€'000
50 bp increase	(30)	(1,141)	-	-
50 bp decrease	15	675	-	-

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

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.

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. There were no transfers in 2019.

(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.

Notes to the Group financial statements (continued)

24. Fair Value Measurement (continued)

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

Notes to the Group financial statements (continued)

25. Subsidiaries

At 31 December 2019, 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 2019, the registered office addresses of the subsidiaries were;

The registered office of 1 is:	8th Floor, 20 Farringdon Street, London, United Kingdom EC4A 4AB
The registered office of 2 and 3 is:	Gasworks Road, Cork, Ireland.

26. Related Parties

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

		2019	2018
		€'000	€'000
Ervia	(i)		
Transactional and support service agreement costs	(i) (a) (b)	(27,074)	(22,726)
Dividends	(i) (c)	(54,404)	(54,189)
		(81,478)	**(76,915)**

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

		31-Dec-19	31-Dec-18
		€'000	€'000
Ervia	(i)	(76,385)	(159,946)
Irish Water	(iv)	845	592
		(75,540)	**(159,354)**

(i) Ultimate parent undertaking

Ervia is a corporate body established under the Gas Act 1976. Ervia is 100% beneficially owned by the Irish State and thus Gas Networks Ireland is is a related party of the Government of Ireland.

(i) (a) Central transactional & support services

The Ervia Parent entity provides strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water and Gas Networks Ireland, through the Group Centre, Major Projects area and Business Services.

Notes to the Group financial statements (continued)

26. Related Parties (continued)

Transactional and Support Servies Provided by Ervia Parent

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

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

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

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

Basis for the apportionment of Ervia Parent Operating Costs

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

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

Notes to the Group financial statements (continued)

26. Related Parties (continued)

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

(4) Operating costs directly attributable to Gas Networks Ireland are either charged directly to Gas Networks Ireland, or are recharged in full to Gas Networks Ireland

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

(i) (c) Dividends

The Company declared and paid an annual dividend of €54.4 million to Ervia during 2019. In 2018, the Company declared an annual dividend of €54.2 million and paid €49.1 million with the remaining €5.1 million payable in 2023.

(i) (d) 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 €5.4 million (2018: €5.5 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 2019.

(iv) Irish Water

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

(iv) (a) Joint projects

The Group transacts with Irish Water 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 Group at any time during the year or at 31 December 2019.

Notes to the Group financial statements (continued)

26. Related Parties (continued)

(vi) Subsidiaries

The Group financial statements consolidate the results of the Company and its subsidiaries. A listing of the subsidiaries is provided in note 25. 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

	2019	2018
	€'000	€'000
Short-term employee benefits	(712)	(681)
Post-employment benefits	(85)	(84)
Total	**(797)**	**(765)**

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

27. Subsequent Events

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

28. Approval of Financial Statements

The Directors approved the financial statements on 30th March 2020.

Company Balance Sheet
as at 31 December 2019

	Notes	31-Dec-19 €'000	31-Dec-18 €'000
Assets			
Non-current assets			
Property, plant and equipment	4	2,138,632	2,148,817
Intangible assets	6	22,187	20,632
Investment in subsidiary undertakings	7	515	515
Trade and other receivables	8	158,536	187,692
Derivative financial instruments	20	16,210	13,240
Total non-current assets		**2,336,080**	**2,370,896**
Current assets			
Inventories	9	2,488	1,619
Trade and other receivables	8	44,746	80,733
Cash and cash equivalents	10	64,032	80,725
Restricted deposits	11	13,392	22,635
Derivative financial instruments	20	541	12,152
Current tax assets	13	-	218
Total current assets		**125,199**	**198,082**
Total assets		**2,461,279**	**2,568,978**
Equity and liabilities			
Equity			
Share capital and share premium		(318,353)	(318,353)
Capital contribution		(363,083)	(363,083)
Cash flow hedge reserve		503	1,381
Retained earnings		(200,391)	(169,571)
Total equity attributable to equity holders of the Company		**(881,324)**	**(849,626)**
Liabilities			
Non-current liabilities			
Borrowings and other debt	15	(1,148,409)	(742,435)
Government grants	16	(26,916)	(30,296)
Deferred revenue	17	(8,723)	(9,716)
Provisions	18	(6,245)	(7,201)
Trade and other payables	19	(8,202)	(5,100)
Derivative financial instruments	20	(447)	(392)
Deferred tax liabilities	13	(196,956)	(198,595)
Total non-current liabilities		**(1,395,898)**	**(993,735)**
Current liabilities			
Borrowings and other debt	15	(39,112)	(444,169)
Government grants	16	(3,906)	(3,922)
Deferred revenue	17	(9,553)	(7,923)
Provisions	18	(4,776)	(5,758)
Trade and other payables	19	(125,310)	(263,825)
Derivative financial instruments	20	(595)	(20)
Current tax liabilities	13	(805)	-
Total current liabilities		**(184,057)**	**(725,617)**
Total liabilities		**(1,579,955)**	**(1,719,352)**
Total equity and liabilities		**(2,461,279)**	**(2,568,978)**

30th March 2020

Cathal Marley
Chairman

Denis O'Sullivan
Director

Date of Approval

Company Statement of Changes in Equity
for the year ended 31 December 2019

	Share capital and share premium	Capital contribution	Cash flow hedge reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2018	(318,353)	(363,083)	2,183	(124,355)	(803,608)
Profit for the year	-	-	-	(99,405)	(99,405)
Other comprehensive income for the year, net of income tax	-	-	(802)	-	(802)
Total comprehensive income for the year			**(802)**	**(99,405)**	**(100,207)**
Dividends (note 21)	-	-	-	54,189	54,189
Balance at 31 December 2018	**(318,353)**	**(363,083)**	**1,381**	**(169,571)**	**(849,626)**
Profit for the year	-	-	-	(85,224)	(85,224)
Other comprehensive income for the year, net of income tax	-	-	(878)	-	(878)
Total comprehensive income for the year	**-**	**-**	**(878)**	**(85,224)**	**(86,102)**
Dividends (note 21)	-	-	-	54,404	54,404
Balance at 31 December 2019	**(318,353)**	**(363,083)**	**503**	**(200,391)**	**(881,324)**

All attributable to owners of the Company.

Company Statement of Cash Flows
for the year ended 31 December 2019

	Notes	2019	2018
		€'000	€'000
Net cash from operating activities	12	166,964	259,642
Cash flows from investing activities			
Payments for property, plant and equipment		(100,263)	(82,664)
Payments for intangible assets		(7,302)	(5,463)
Grants received	16	631	245
Net cash used in investing activities		**(106,934)**	**(87,882)**
Cash flows from financing activities			
Proceeds from borrowings		652,823	99,662
Repayment of borrowings		(652,592)	(99,719)
Repayment of lease liabilities	5	(236)	-
Repayment of loan to ultimate parent undertaking		(85,000)	(72,000)
Repayment of loan from subsidiary undertaking		60,131	-
Interest received		2,555	13,461
Dividends paid	21	(54,404)	(49,089)
Net cash used in financing activities		**(76,723)**	**(107,685)**
Net (decrease)/increase in cash and cash equivalents	**10**	**(16,693)**	**64,075**
Cash and cash equivalents at 1 January	10	80,725	16,650
Cash and cash equivalents at 31 December	**10**	**64,032**	**80,725**

Notes to the Company financial statements

Notes to the Company financial statements (continued)

1. Accounting Policies

The Company applies consistent accounting policies to those applied by the Group. Refer to note 1 of the Group Financial Statements.

2. Profit Attributable to the Company

The profit attributable to the Company for the financial year ended 31 December 2019 was €85.2 million (2018: €99.4 million).

3. Directors' Remuneration and Employee Benefits

Refer to note 4 of the Group's Financial Statements for the Company's Directors' remuneration disclosures. Refer to note 5 of the Group's Financial Statements for the Group and Company employee benefits disclosures - the Companies Act payroll disclosures for the Company includes certain employees that have been redeployed from the Company to Ervia as set out and as further described in note 22 (b).

4. Property, Plant and Equipment

		31-Dec-19	31-Dec-18
		€'000	€'000
Property, Plant and Equipment - owned assets		2,133,799	2,148,817
Right of use assets - leases	5	4,833	-
Property, Plant and Equipment - as presented on the balance sheet		**2,138,632**	**2,148,817**

Property, Plant and Equipment-owned assets

	Land and buildings	Plant, pipeline and machinery	Assets under construction	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2018	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**
Additions	-	5,448	89,462	94,910
Transfers in year	(3)	72,715	(72,712)	-
Disposals	-	(5,467)	-	(5,467)

Notes to the Company financial statements (continued)

4. Property, Plant and Equipment (continued)

	Land and buildings	Plant, pipeline and machinery	Assets under construction	Total
	€'000	€'000	€'000	€'000
At 31 December 2019	**59,641**	**3,632,096**	**41,650**	**3,733,387**
Accumulated depreciation and impairment losses				
At 1 January 2018	(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)**
Depreciation for the year	(1,217)	(108,711)	-	(109,928)
Disposals	-	5,467	-	5,467
At 31 December 2019	**(20,670)**	**(1,578,918)**	**-**	**(1,599,588)**
Carrying amounts				
At 31 December 2018[1]	40,191	2,083,726	24,900	2,148,817
At 31 December 2019[1]	**38,971**	**2,053,178**	**41,650**	**2,133,799**

[1] The carrying value of Property, Plant and Equipment includes assets that are subject to operating lease arrangements as described in note 5. The carrying value of these assets at 31 December 2019 was €84.7 million (31 December 2018: €94.5 million) and is included in Plant, pipeline and machinery.

During the year, the Company capitalised €0.2 million (2018: €0.1 million) in borrowing costs. The capitalisation rate was 1.69% (2018: 2.0%). The Company also capitalised €9.3 million in payroll costs during the year (2018: €8.7 million).

Capital commitments

	2019	2018
	€'million	€'million
Capital expenditure that has been contracted for but has not been provided for	31	31

Notes to the Company financial statements (continued)

5. Leases

The Company as Lessee

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

(a) Amounts recognised on the Balance Sheet

	Land and buildings	Plant, pipeline and machinery	Total
	€'000	€'000	€'000
Right of use assets			
Balance as at 1 January 2019			
- note 1(e) of the Group Financial Statements	529	4,629	5,158
Additions	37	-	37
Depreciation	(97)	(265)	(362)
Balance as at 31 December 2019	**469**	**4,364**	**4,833**
Lease liabilities			
Balance as at 1 January 2019			
- note 1(e) of the Group Financial Statements	(513)	(3,242)	(3,755)
Additions	(37)	-	(37)
Interest expense	(6)	(98)	(104)
Lease payments	100	240	340
Balance as at 31 December 2019	**(456)**	**(3,100)**	**(3,556)**
Analysed as follows:			
Non current			(3,221)
Current			(335)
Total			**(3,556)**

A maturity analysis of lease liabilities is presented in note 15. The Company does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the relevant business functions.

Notes to the Company financial statements (continued)

5. Leases (continued)

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

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

The Company as Lessor

The Company enters operating lease arrangements to allow third parties the use of parts of the Gas Network Transportation system. In accordance with the Group's accounting policy all receipts from these arrangements are deemed to be earned as part of the Company's core operations and accordingly the lease income is recognised as revenue in the income statement. Below is a profile of undiscounted non-cancellable future operating lease income to be recognised as revenue in future years. The unexpired lease terms range from 4 to 12 years.

Maturity analysis

	31-Dec-19	31-Dec-18
	€'000	€'000
Year 1	13,789	15,227
Year 2	12,711	13,747
Year 3	11,360	12,686
Year 4	9,554	11,368
Year 5	8,296	9,554
Year 6 onwards	98,175	106,574
Total	**153,884**	**169,156**

Notes to the Company financial statements (continued)

6. Intangible Assets

	Software and other	Software under development	Total
	€'000	€'000	€'000
Cost			
At 1 January 2018	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**
Additions (incl internally developed)	-	7,253	7,253
Transfers in year	6,023	(6,023)	-
At 31 December 2019	**145,165**	**8,329**	**153,494**
Accumulated amortisation and impairment losses			
At 1 January 2018	(120,512)	-	(120,512)
Amortisation for the year	(5,097)	-	(5,097)
At 31 December 2018	**(125,609)**	**-**	**(125,609)**
Amortisation for the year	(5,698)	-	(5,698)
At 31 December 2019	**(131,307)**	**-**	**(131,307)**
Carrying amount			
At 31 December 2018	13,533	7,099	20,632
At 31 December 2019	**13,858**	**8,329**	**22,187**

The Company capitalised €0.3 million in payroll costs during the year (2018: €0.4 million).

Notes to the Company financial statements (continued)

7. Investment in Subsidiaries

	€'000
Cost	
At 1 January 2019	515
At 31 December 2019	**515**
Impairment	
At 1 January 2019	-
At 31 December 2019	**-**
Carrying amount	
At 31 December 2018	515
At 31 December 2019	**515**

Refer to Group Financial Statements note 25 for details of the particulars of the Company's subsidiaries.

8. Trade and Other Receivables

		31-Dec-19	31-Dec-18
		€'000	€'000
Use of system receivable - billed		1,047	5,671
Use of system receivable - unbilled		34,309	35,785
Other trade receivables - billed		1,529	1,377
Other trade receivables - unbilled		447	427
Other receivables		3,495	3,753
Amounts due from subsidiaries	21	158,646	218,578
Amounts due from non-controlled undertakings	21	845	592
Sub-total		**200,318**	**266,183**
Prepayments		2,964	2,242
Total		**203,282**	**268,425**
Analysed as follows:			
Non-current		158,536	187,692
Current		44,746	80,733
Total		**203,282**	**268,425**

Notes to the Company financial statements (continued)

8. Trade and Other Receivables (continued)

Trade and other receivables can be divided into use of system receivables, other trade receivables and amounts due from subsidiaries - refer to note 13 for further details relating to the Company's receivables.

Expected Credit Loss Allowance

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

The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables with the exception of certain amounts due from subsidiaries which are measured using the general approach.

Under the general approach, an entity must determine whether the financial asset is in one of three stages in order to determine the amount of ECL to recognise;

Stage 1 is where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, entities are required to recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

Stage 2 is where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2 entities are required to recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

Stage 3 is where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, entities will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. This means that interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

The general approach applies to receivables not eligible for application of the simplified approach, which for the Company are certain amounts due from subsidiaries. Assessment of the probability of default for these receivables is included below.

The maximum exposure of trade receivables and other receivables to credit risk at the reporting date is €200.3 million (2018: €266.2 million). Prepayments of €3.0 million (2018: €2.2 million) are excluded as no credit exposure arises.

Simplified approach - Expected Credit Losses

With the exception of certain amounts due from subsidiaries, the Company measures the loss allowance for trade and other receivables at an amount equal to lifetime ECL. A provision matrix is not used by the Company as an assessment of expected losses on individual debtors is performed. In general, the Company has recognised a loss allowance of 100 per cent against all receivables over 120 days past due based on historical experience that these receivables are generally not recoverable, unless there is objective evidence to the contrary.

The Company writes off a trade receivable where there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off are subject to enforcement activities.

Notes to the Company financial statements (continued)

8. Trade and Other Receivables (continued)

The following table shows the movement in lifetime ECL for trade receivables, measured in accordance with the simplified approach as set out in IFRS 9.

Provision for impairment of receivables

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

The following table shows the ageing of trade and other receivables net of lifetime ECL, measured in accordance with the simplified approach as set out in IFRS 9.

Trade receivables - days past due

	Net receivable	Net receivable
	2019	2018
	€'000	€'000
Not past due	40,364	46,880
0 – 30 days overdue	1,048	166
31 – 120 days overdue	125	375
> 120 days overdue	135	184
Total	**41,672**	**47,605**

The following table shows the ageing of trade and other receivables net of ECL, measured in accordance with the general approach as set out in IFRS 9.

General approach - Expected Credit Losses

	Net receivable	Net receivable
	2019	2018
	€'000	€'000
Stage 1 - 12 Month ECL (not credit impaired)	158,646	218,578
Stage 2 - Lifetime ECL (not credit impaired)	-	-
Stage 3 - Lifetime ECL (not credit impaired)	-	-
Total	**158,646**	**218,578**

Notes to the Company financial statements (continued)

8. Trade and Other Receivables (continued)

Expected Credit Losses Reconciliation

	2019	2018
	€'000	€'000
Simplified approach	41,672	47,605
General approach	158,646	218,578
Prepayments	2,964	2,242
Total	**203,282**	**268,425**

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

Trade receivables - by geographical region

	2019	2018
	€'000	€'000
Ireland	41,672	47,605
UK (including Northern Ireland and Isle of Man)	158,646	218,578
Total	**200,318**	**266,183**

Amounts due from subsidiaries

At 31 December 2019, the Company had amounts due from subsidiaries of €158.7 million (2018: €218.6 million). Total provision in respect of these amounts is €nil million (2018: €nil million).

The impairment loss recognised of €nil million in respect of amounts due from subsidiaries has been calculated using expected credit loss model as required by IFRS 9. In determining the impairment loss, amounts due from subsidiaries were classified as low credit risk receivables. There were no amounts classified as payable on demand or for which there has been a substantial increase in credit risk since initial recognition. In determining the expected credit loss (including probability of default and loss given default), regard was given to the historic performance of the relevant loan as well as forward looking information for the relevant subsidiary including detailed discounted cash flow forecasts.

9. Inventory

	31-Dec-19	31-Dec-18
	€'000	€'000
Gas stock and engineering materials	**2,488**	**1,619**

There were no write-downs of inventories to net realisable value in 2019 (2018: €nil).

Notes to the Company financial statements (continued)

10. Cash and Cash Equivalents

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

	31-Dec-19	31-Dec-18
	€'000	€'000
Cash and cash equivalents	64,032	80,725
Total	**64,032**	**80,725**

	2019	2018
	€'000	€'000
At 1 January	80,725	16,650
(Decrease)/increase in cash and cash equivalents in the statement of cash flows	(16,693)	64,075
At 31 December	**64,032**	**80,725**

11. Restricted Deposits

Restricted deposits include amounts held in respect of gas network related security deposits - refer to note 8.

	31-Dec-19	31-Dec-18
	€'000	€'000
Current	13,392	22,635
Total	**13,392**	**22,635**

Notes to the Company financial statements (continued)

12. Cash Generated from Operations

	2019 €'000	2018 €'000
Cash flows from operating activities		
Profit for the year	85,224	99,405
Adjustments for:		
Depreciation and amortisation	112,049	111,194
Net finance costs	15,725	17,632
Income tax expense	13,422	15,915
	226,420	**244,146**
Working capital changes:		
Change in inventories	(869)	(608)
Change in trade and other receivables	(676)	39,192
Change in trade and other payables	(28,599)	21,221
Change in deferred revenue	637	(3,113)
Change in provisions	(1,938)	100
Cash from operating activities	**194,975**	**300,938**
Interest paid	(13,847)	(20,148)
Income tax paid	(14,164)	(21,148)
Net cash from operating activities	**166,964**	**259,642**

Notes to the Company financial statements (continued)

13. Tax

Current tax assets and liabilities

	31-Dec-19	31-Dec-18
	€'000	€'000
Current tax assets	-	218
Current tax liabilities	(805)	-
	(805)	**218**

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 2018	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)**
Recognised in income statement	-	2,092	(167)	(160)	1,765
Recognised in equity	(126)	-	-	-	(126)
At 31 December 2019	**71**	**(197,216)**	**349**	**(160)**	**(196,956)**

14. Issued Share Capital

	2019	2018
	€'000	€'000
Authorised:		
1,000,000 ordinary shares of €1.00 each	1,000	1,000
Allotted, called-up and fully paid:		
1 ordinary share of €1.00 each	-	-

Notes to the Company financial statements (continued)

15. Borrowings and Other Debt

This note provides information about the contractual terms of the Group's interest-bearing borrowings. Refer to note 20 for more information about the Group's exposure to interest rate, exchange rate and liquidity risk.

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

	31-Dec-19	31-Dec-18
	€'000	€'000
Bonds	(918,297)	(619,560)
Loans from financial institutions[1]	(265,668)	(567,044)
Lease liabilities	(3,556)	-
Total	**(1,187,521)**	**(1,186,604)**

Borrowings and other debt analysed as follows:

	31-Dec-19	31-Dec-18
	€'000	€'000
Between one and five years	(424,847)	(121,447)
More than five years	(723,562)	(620,988)
Non-current	**(1,148,409)**	**(742,435)**
Less than one year	(39,112)	(444,169)
Current	**(39,112)**	**(444,169)**
Total	**(1,187,521)**	**(1,186,604)**

1 including private placement notes.

Total borrowings include €139.5 million (2018: €453.1 million) of floating rate debt and €1,044.5 million (2018: €733.5 million) of fixed rate debt which have been drawn down from various lenders.

Notes to the Company financial statements (continued)

15. Borrowings and Other Debt (continued)

Certain borrowings are held with related parties (refer to note 21 for further details).

Net debt

		31-Dec-19	31-Dec-18
		€'000	€'000
Total borrowings and other debt		(1,187,521)	(1,186,604)
Less fair value hedges recognised within borrowings	20	15,318	24,167
Less cash and cash equivalents	10	64,032	80,725
Net debt		**(1,108,171)**	**(1,081,712)**

Changes in external borrowings and other debt

	Bonds	Loans from financial institutions	Lease liabilities	Total	Bonds	Loans from financial institutions	Lease liabilities	Total
	2019	2019	2019	2019	2018	2018	2018	2018
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
As at 1 January	(619,560)	(567,044)	-	(1,186,604)	(618,984)	(558,765)	-	(1,177,749)
Lease liability - IFRS 16 transition (note 1e)	-	-	(3,755)	(3,755)	-	-	-	-
Proceeds from borrowings	(298,128)	(354,695)	-	(652,823)	-	(99,662)	-	(99,662)
Repayment of borrowings and lease liabilities	-	652,592	236	652,828	-	99,719	-	99,719
Change in fair value of financial liabilities	-	8,849	-	8,849	-	(8,589)	-	(8,589)
Exchange movement	-	(4,362)	-	(4,362)	-	1,188	-	1,188
Other non-cash movements	(609)	(1,008)	(37)	(1,654)	(576)	(935)	-	(1,511)
As at 31 December	**(918,297)**	**(265,668)**	**(3,556)**	**(1,187,521)**	**(619,560)**	**(567,044)**	**-**	**(1,186,604)**

Notes to the Company financial statements (continued)

16. Government Grants

	2019	2018
	€'000	€'000
At 1 January	(34,218)	(38,271)
Received in year	(631)	(245)
Credited to operating costs	88	376
Amortised in year	3,939	3,922
At 31 December	**(30,822)**	**(34,218)**

Analysed as follows:

	31-Dec-19	31-Dec-18
	€'000	€'000
Non-current	(26,916)	(30,296)
Current	(3,906)	(3,922)
Total	**(30,822)**	**(34,218)**

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

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

17. Deferred Revenue

	2019	2018
	€'000	€'000
At 1 January	(17,639)	(20,752)
Received in the year	(6,420)	(3,126)
Credited to the income statement	5,783	6,239
At 31 December	**(18,276)**	**(17,639)**

Analysed as follows:

	31-Dec-19	31-Dec-18
	€'000	€'000
Non-current	(8,723)	(9,716)
Current	(9,553)	(7,923)
Total	**(18,276)**	**(17,639)**

Notes to the Company financial statements (continued)

18. 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 16.

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

19. Trade and Other Payables

	31-Dec-19	31-Dec-18
	€'000	€'000
Trade payables	(7,583)	(9,449)
Accruals	(51,174)	(60,940)
Other payables	(22,972)	(30,476)
Amounts owed to ultimate parent undertaking	(36,765)	(122,626)
Amounts owed to subsidiaries	-	(30,245)
Taxation and social insurance creditors[1]	(15,018)	(15,189)
Total	**(133,512)**	**(268,925)**
Analysed as follows:		
Non-current	(8,202)	(5,100)
Current	(125,310)	(263,825)
Total	**(133,512)**	**(268,925)**
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	(883)	(554)
VAT	(14,135)	(14,635)
Total	**(15,018)**	**(15,189)**

Notes to the Company financial statements (continued)

20. Financial Risk Management and Financial Instruments

Fair value by class of derivative financial instrument

Cross currency interest rate swaps

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

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

Interest rate swaps

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

Foreign exchange contracts and currency swaps

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

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

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 of the Group financial statements for IFRS 13 disclosures in respect of fair value measurement.

Notes to the Company financial statements (continued)

20. Financial Risk Management and Financial Instruments (continued)

	Fair value hierarchy	FVTPL undesignated	FVTPL designated	FVTOCI	"Total held at amortised cost"	Total
		€'000	€'000	€'000	€'000	€'000
At 31 December 2018						
Financial assets						
Cross currency interest rate swaps	Level 2	-	26,922	(1,577)	-	25,345
Foreign exchange rate contracts	Level 2	47	-	-	-	47
Trade and other receivables[3]		-	-	-	266,183	266,183
Cash and cash equivalents		-	-	-	80,725	80,725
Restricted deposits		-	-	-	22,635	22,635
Total financial assets		**47**	**26,922**	**(1,577)**	**369,543**	**394,935**
Financial liabilities						
Borrowings and other debt[1]	Level 2	-	(24,167)	-	(1,162,437)	(1,186,604)
Interest rate/inflation linked derivatives	Level 2	(381)	-	-	-	(381)
Foreign exchange rate contracts	Level 2	(31)	-	-	-	(31)
Trade and other payables[2]		-	-	-	(192,796)	(192,796)
Total financial liabilities		**(412)**	**(24,167)**	**-**	**(1,355,233)**	**(1,379,812)**
Net financial (liabilities)/assets		**(365)**	**2,755**	**(1,577)**	**(985,690)**	**(984,877)**

[1] The fair value of borrowings and other debt (excluding lease liabilities) as at 31 December 2019 was €1,234.8 million (2018: €1,206.0 million).

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

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

Derivative assets and liabilities designated as hedges

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

Hedge effectiveness

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

The Company uses the following categories for hedges:

Notes to the Company financial statements (continued)

20. Financial Risk Management and Financial Instruments (continued)

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

(ii) Cash flow hedges (FVTOCI)

The fair value of hedging derivatives in a cash flow hedge in the balance sheet as at 31 December 2019 was €0.6 million liability (2018: €1.6 million liability). These instruments hedge highly probable future transactions where the variability in cash flows generated by the hedged transaction is offset by changes in the value of the hedging instrument. The amount reclassified from equity to profit or loss due to ineffectiveness on cash flow hedges during 2019 was €nil (2018: €nil).

Maturity profile of cash flow hedges

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

	< 1 year	1-2 years	2-5 years	> 5 years	Total
	€'000	€'000	€'000	€'000	€'000
At 31 December 2019					
Cross currency interest rate swaps	-	(576)	-	-	(576)
Cash flow hedging derivatives	**-**	**(576)**	**-**	**-**	**(576)**
At 31 December 2018					
Cross currency interest rate swaps	(1,210)	-	(367)	-	(1,577)
Cash flow hedging derivatives	**(1,210)**	**-**	**(367)**	**-**	**(1,577)**

The movement on the Company's hedging reserves is as follows:

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

Notes to the Company financial statements (continued)

20. Financial Risk Management and Financial Instruments (continued)

Effects of hedge accounting on the financial position and performance	**2019**	**2018**
The effects of the hedging instruments on the Company's financial position and performance are as follows:	**CCIRS €'000**	**CCIRS €'000**
Carrying amount - asset as at 31 December 19	16,157	25,345
Notional Amount	140,000	290,000
Notional Unit	USD	USD
Maturity date - earliest	31-Mar-21	31-Mar-19
Maturity date - latest	31-Mar-21	31-Mar-21
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 01 January	(9,188)	9,428
Change in fair value of outstanding hedged item used to determine hedge effectiveness	8,848	(8,589)
Weighted average hedged rate / price	6.84/1.259	6.74-6.84/1.259
Unit of rate / price	Interest rate% / FX rate	

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

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 wreporting date was:

	31-Dec-19	**31-Dec-18**
	€'000	**€'000**
Trade and other receivables (excluding prepayments)	200,318	266,183
Cash and cash equivalents	64,032	80,725
Restricted deposits	13,392	22,635
Derivative financial instruments	16,751	25,392
Total	**294,493**	**394,935**

(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.

Notes to the Company financial statements (continued)

20. Financial Risk Management and Financial Instruments (continued)

(i) (b) Trade related credit risk

Refer to note 8 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 2019. In December 2019, the Group raised a 5 year €300 million bond on the Eurobond market at a coupon rate of 0.125% with a 0.164% yield. There was strong demand in the issuance from high calibre national and international investors with a final orderbook c.3x oversubscribed. Proceeds from the bond will fund the continuing investment in maintaining and upgrading the gas network infrastructure.

The Company seeks to ensure that it has committed facilities in place to cover 120% of core projected needs over a one-year horizon and that facilities are arranged with appropriate financial and operating covenants to ensure that management has the necessary flexibility in the operation of its business. At 31 December 2019, the Company had €1,583.2 million in committed facilities (2018: €1,617.0 million). Borrowings at 31 December 2019 were €1,184.0 million (2018: €1,186.6 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)

20. 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 2019						
Borrowings and other debt	(1,187,521)	(1,306,131)	(59,111)	(139,546)	(331,751)	(775,723)
Trade and other payables	(67,320)	(67,320)	(62,173)	-	(5,147)	-
Non-derivative financial liabilities	**(1,254,841)**	**(1,373,451)**	**(121,284)**	**(139,546)**	**(336,898)**	**(775,723)**
Interest rate/inflation linked derivatives	(395)	(501)	(353)	(148)	-	-
Cross currency interest rate swaps	16,157	20,353	4,488	15,865	-	-
Foreign exchange rate contracts	(53)	(53)	(53)	-	-	-
Net derivative financial assets	**15,709**	**19,799**	**4,082**	**15,717**	**-**	**-**
Net financial liabilities	**(1,239,132)**	**(1,353,652)**	**(117,202)**	**(123,829)**	**(336,898)**	**(775,723)**
At 31 December 2018						
Borrowings and other debt	(1,186,604)	(1,324,042)	(468,307)	(18,050)	(155,497)	(682,188)
Trade and other payables	(192,796)	(192,796)	(187,696)	-	(5,100)	-
Non-derivative financial liabilities	**(1,379,400)**	**(1,516,838)**	**(656,003)**	**(18,050)**	**(160,597)**	**(682,188)**
Interest rate/inflation linked 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	**(1,354,420)**	**(1,484,796)**	**(639,304)**	**(15,822)**	**(147,482)**	**(682,188)**

(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 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.

Notes to the Company financial statements (continued)

20. Financial Risk Management and Financial Instruments (continued)

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

- Transaction exposure

From time to time the Company makes purchases in foreign currencies. The Company's policy is to manage these transaction exposures by seeking to net purchases and sales denominated in foreign currencies as far as possible. Where this is not possible, exposures will be hedged using derivatives permitted under the Treasury Policy.

Under Treasury Policy, all expected transactions in excess of €300,000 equivalent in foreign currencies will be evaluated with respect to the business risks and, where appropriate, currency risks will be hedged to minimise the potential for adverse variances arising from currency movements.

- Debt in a foreign currency

The Company has US dollar denominated Private Placements that have been converted to euro using cross currency interest rate swaps.

Exchange rate sensitivity analysis

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

	Profit before taxation gain/ (loss)	Other comprehensive income	Profit before taxation gain/ (loss)	Other comprehensive income
	31-Dec-19	31-Dec-19	31-Dec-18	31-Dec-18
	€'000	€'000	€'000	€'000
5% Strengthening	(259)	-	(330)	-
5% Weakening	259	-	330	-

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

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

(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.

Notes to the Company financial statements (continued)

20. Financial Risk Management and Financial Instruments (continued)

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

	2019	2019	2018	2018
	€'000	%	€'000	%
At fixed rates[1]	(1,044,495)	88.2%	(733,478)	61.8%
At floating rates	(139,470)	11.8%	(453,126)	38.2%
Total	**(1,183,965)**	**100.0%**	**(1,186,604)**	**100.0%**

[1] including swaps.

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

On 31 December 2019, the Company had US$140 million (2018: US$290 million) fixed rate debt outstanding (€111.2 million equivalent (2018: €230.3 million)) in a US dollar Private Placement transaction which was completed on 31 March 2009. In order to hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating euro, the Company has a cross currency interest rate swap which matches the maturity profile of the debt. At 31 December 2019, the Company had outstanding interest rate swaps with a notional principal of €111.2 million, which commenced in H2 2017 and were swapped for four years effectively fixing the Private Placement debt instrument until its maturity in March 2021.

At 31 December 2019, the weighted average interest rate of the fixed debt portfolio was 1.33% (2018: 1.82%) which comprised of three bonds of €921.9 million and the US Private Placement with a Euro equivalent of €111.2 million.

Interest costs on variable rate loans 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-19	31-Dec-18	31-Dec-19	31-Dec-18
	€'000	€'000	€'000	€'000
50 bp increase	(28)	(1,151)	-	-
50 bp decrease	20	719	-	-

Notes to the Company financial statements (continued)

20. Financial Risk Management and Financial Instruments (continued)

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.

21. Related Parties

The related party (expense)/income transaction values for 2019 and 2018 are detailed below:

		2019	2018
		€'000	€'000
Ervia	(i)		
Transactional and support service agreement costs	(i) (a)	(27,074)	(22,725)
Dividends	(i) (b)	(54,404)	(54,189)
		(81,478)	**(76,914)**
Subsidiaries	(vi)		
Transactional and support service agreement costs	(vi) (a)	3,432	3,077
Interest income	(vi) (b)	3,238	3,394
Transportation supply services	(vi) (c)	(42,886)	(39,889)
		(36,216)	**(33,418)**

Notes to the Company financial statements (continued)

21. Related Parties (continued)

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

		31-Dec-19	31-Dec-18
		€'000	€'000
Ervia	(i)	(36,765)	(122,626)
Irish Water	(iv)	845	592
Subsidiaries	(vi)	158,646	188,333
		122,726	**66,299**

(i) Ultimate parent undertaking

Ervia is a corporate body established under the Gas Act 1976. Ervia is 100% beneficially owned by the Irish State and thus Gas Networks Ireland is is a related party of the Government of Ireland.

(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, Insurance, Project Management, HR and IT.

(i) (b) Dividends

The Company declared and paid an annual dividend of €54.4 million to Ervia during 2019. In 2018, the Company declared an annual dividend of €54.2 million and paid €49.1 million with the remaining €5.1 million payable in 2023.

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 €5.4 million (2018: €5.5 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)

21. 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 2019.

(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 2019.

(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 €42.9 million (2018: €39.9 million) from a subsidiary. This expenditure primarily related to transportation services.

Notes to the Company financial statements (continued)

22. Companies Act Disclosures

(a) GNI Company Auditor's remuneration

	2019	2018
	€'000	€'000
Auditor's remuneration		
- statutory audit services	(108)	(97)
- other audit related assurance services	(27)	(26)
- other non-audit services	(60)	-
- tax advisory services	-	-
Total	**(195)**	**(123)**

(b) Companies Act Payroll Disclosures

During 2019, certain Gas Networks Ireland employees were redeployed to Ervia Business Services (a business unit within the Ervia statutory entity). Ervia Business Services provides centralised support services, principally to Gas Networks Ireland and Irish Water.

In accordance with IAS 19 Employee Benefits, the related payroll and other employee benefit costs of these individuals are reported and disclosed in the Ervia Parent & Group financial statements and are not reported in the standalone Gas Networks Ireland Income Statement.

However, in accordance with the requirements of Section 317 of the Companies Act 2014, the related employee numbers and payroll costs incurred by the Ervia Business Services, but where the contracts of employment remain with Gas Networks Ireland are included in the disclosure below. The number of employees redeployed is 31 and the associated payroll costs recorded in the Ervia Income Statement, but disclosed below are €3.4 million.

(i) Aggregate employee benefits

	2019	2018
	€'000	€'000
Staff short-term benefits	(44,012)	(41,178)
Post-employment benefits	(5,727)	(5,525)
Social insurance costs	(4,794)	(4,465)
	(54,533)	**(51,168)**
Capitalised payroll	9,933	9,020
Employee benefit expense - net	**(44,600)**	**(42,148)**

Notes to the Company financial statements (continued)

22. Companies Act Disclosures (continued)

(ii) Staff short-term benefits

	2019	2018
	€'000	€'000
Wages and salaries	(41,274)	(38,394)
Overtime	(1,058)	(1,132)
Allowances	(753)	(698)
Other[1]	(927)	(954)
Total	**(44,012)**	**(41,178)**

The payroll costs of €3.4 million included in the disclosure above are included within the employee benefit expense of the Ervia Parent of €51.9 million as set out in note 26 of the Group financial statements. These costs are recharged to Gas Networks Ireland and Irish Water as appropriate in accordance with the basis for the apportionment of Ervia Parent operating costs as set out in further detail in note 26 of the Group financial statements.

The average number of employees with a contract of employment with Gas Networks Ireland for the year was 563 (2018: 554).

[1] Other short term employee benefits primarily include permanent health and life insurance benefits and taxable allowances.

Gas Networks Ireland