Directors' Report and Financial Statements **2020**

Gas Networks Ireland

gasnetworks.ie

Contents

Directors And Other Information

Directors	Cathal Marley (Chairman) Brendan Murphy Edwina Nyhan Denis O'Sullivan Michael O'Sullivan Liam O'Sullivan
Secretary	Liam O'Riordan
Registered Office	Gasworks Road Cork Ireland
Solicitors	McCann Fitzgerald Riverside One Sir John Rogerson's Quay Dublin 2
Auditor	Deloitte Ireland LLP Chartered Accountants & Statutory Audit Firm 6 Lapp's Quay Cork
Bankers	AIB PO Box 71 South Mall 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 2020.

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 Network Services Transition DAC (formerly 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 14,617 kilometres of pipelines including two sub-sea interconnectors and pipelines in Scotland, Northern Ireland and the Isle of Man.

Natural gas is of key strategic importance to the Irish economy, representing approximately 31% of Ireland's primary energy mix and generating approximately 51.9% 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. The gas network also provides essential back-up and flexibility for the electricity grid when wind levels drop, an increasingly important feature as intermittent renewable electricity generation continues to grow. Currently available in 22 counties in Ireland, with over 706,000 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 €447 million (2019: €470 million) and profit after tax was €94 million (2019: €109 million). The Group had total assets of €2.7 billion (2019: €2.8 billion) and liabilities of €1.6 billion (2019: €1.7 billion) at year end.

Despite the various challenges faced due to COVID-19, it did not have a material impact on financial performance for the year. Following approval by the Directors, a dividend in the amount of €47.28 million (2019: €54.4 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 and to support a cleaner energy future. These include projects in the areas of Compressed Natural Gas ('CNG') 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 2020 continued to manage all aspects of operations in a safe and environmentally responsible manner.

In 2020, the total amount of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was approximately 76.3 TWh. Despite the impact of COVID-19, gas demand in 2020 was broadly in line with that of 2019.

During the financial year, 34.4% of all gas requirements for the Republic of Ireland were supplied by the Corrib gas field, 63.9% were met from UK imports with the remaining gas supplied from the storage at Kinsale Head gas field which ceased production in July 2020.

Commentary on the impact of Brexit is outlined below under 'Principal Risks and Uncertainties'.

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. Preparations are now underway for the new price control period as PC4 expires in September 2022.

Directors’ Report (continued)

Regulations and Tariffs

At an EU level, full implementation of the current EU Network Codes is now complete. Consequently, the focus moves to the upcoming review of the EU gas legislative framework by the European Commission, expected to be delivered in 2021 and the new Network Codes that emerge in turn. In this regard, the Company is continuing to actively participate in various EU gas association working groups, which are focused on influencing the gas legislative review and inputting into associated technical and regulatory studies. The gas legislative review will be impacted by the ‘Green Deal’ which was announced by the European Commission in December 2019 and is likely to focus on renewable gases.

The gas tariffs for the 2020/21 year were calculated based on the complete set of decisions borne from the EU Tariff Network Code (EU 2017/460) (‘TAR NC’). This included the decision to recover the shrinkage gas costs within the regulated revenue for the first time. The transmission tariffs for 20/21 reflect a c.8% increase on the previous year, which is primarily driven by the inclusion of these shrinkage costs and subsequent increase in revenue for this period. The distribution tariffs for 20/21 reflect a c.5% increase on the previous year. The Company engaged actively with the CRU to rationalise these tariff increases in a period of economic uncertainty caused by the COVID-19 pandemic. Ultimately, this engagement allowed the gas tariffs for this period to be ratified and agreed with the CRU. The Company welcomed this decision as the most appropriate approach to recovering this revenue, in line with previous years.

The TAR NC Article 28 consultation, which is an annual review to consult on the current level of multipliers and seasonal factors for non-annual capacity products, and the level of discounts on products (e.g. Virtual Reverse Flow) is ongoing. Any changes to how these areas are currently addressed could have impacts on revenue recovery and the setting of gas tariffs for the relevant period(s). The Company is actively liaising with CRU and other stakeholders to ensure understanding of potential changes in these areas, and their impact on revenue recovery/tariff setting etc. for future periods. The CRU published its consultation on Article 28 in early February 2021 and the consultation will close in March 2021. The CRU will consider the outcome of the consultation process with any decisions made being incorporated into the process of tariff setting for 2021/2022. The updated Gas Transmission Network Tariffs, incorporating the outcome of the CRU decision will be published in June 2021.

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 has implemented a certificate registry for grid injected renewable gas in Ireland. The registry is a tool that records quantities of renewable gas injected, exchanged and sold; and thus, traces each renewable gas molecule produced. It will ensure renewable gas can be certified and contribute towards Ireland's climate change targets. In 2020, Gas Networks Ireland proposed legislation to the Department of the Environment, Climate and Communications ('DECC') to be implemented in the Republic of Ireland ('ROI') to designate Gas Networks Ireland as the Issuing Body to issue renewable gas Guarantees of Origin for ROI, according to Article 19 of the revised Renewable Energy Directive 2018/2001/EU (RED II). DECC is currently considering this proposal.

The Company is continuing to liaise with the CRU and DECC regarding the Security of Gas Supply Regulations (EU 2017/1938), which came into force in November 2017. Work is ongoing between DECC and the UK Department of Business, Energy and Industrial Strategy ('BEIS'), with the involvement of National Grid and Gas Networks Ireland, to agree arrangements for the solidarity and compensation mechanism of this Regulation.

Funding

The Group's funding position remained strong in 2020. In January, the Group executed a €12m facility agreement with Danske Bank A/S to provide funding towards the Green Connect Project. At 31 December 2020, the Group had €1,595.6 million in committed facilities (2019: €1,585.9 million). Borrowings at 31 December 2020, external to the Ervia Group were €1,134.4 million (2019: €1,186.6 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

The Company's Vision 2050, launched in 2019, provides a strategy for the development of a carbon neutral gas network. It will deliver clean and flexible energy which will support emissions reductions across every sector of the Irish economy at the lowest cost possible. Renewable gas is a key pillar in the Company's vision to fully decarbonise the gas network by 2050, along with hydrogen. Substituting renewable gas for natural gas is seamless and it's one of the ways Gas Networks Ireland can reduce Ireland's total CO_2 emissions across key sectors including electricity, industry, heat and transport.

In 2020, two publicly accessible fast-fill CNG stations were constructed at Clonshaugh in Dublin and Ballysimon Road in Limerick. The country's second publicly accessible fast-fill CNG station opened at Circle K's forecourt in Cashel as part of the developing national network aimed at providing clean fuel to the Heavy Goods Vehicle sector.

Directors' Report (continued)

Gas Advocacy (continued)

In May 2020, Ireland's only purpose-built injection facility in Cush, Co. Kildare was declared an entry point and joined Corrib as one of the two indigenous gas sources on Ireland's gas network (following the closure of the Kinsale gas field in July 2020). Locally produced renewable gas entered the gas network with Tesco and Diageo purchasing renewable gas made from their own food and drink waste to power their operations.

The Company continues to participate in a number of Irish and European gas fora and research initiatives, which are assessing how hydrogen could be transported using existing gas networks. In 2020 the Company built an independent distribution network in Brownsbarn to allow us to test how blends of natural gas and hydrogen perform in the network and also with downstream appliances.

Capital expenditure of €112 million (2019: €110 million) covered ongoing programmes to improve the safety and reliability of the network in 2020. In addition the Company delivered over 39,700 planned maintenance work orders across transmission and distribution networks. While the national approach and restrictions to contain the spread of COVID-19 impacted delivery of capital works in Q2 2020, a substantial proportion of this was recovered when construction activities recommenced in June 2020.

Gas Networks Ireland is committed to delivering for customers first. In 2020, the Company delivered high quality services to over 706,000 domestic and commercial customers. Despite challenges faced due to COVID-19, our customers continued to score us strongly on service and in living our brand values of Safety, Integrity, Performance, Collaboration, and Customer Service.

The Retail Gas Management Incident Management Plan ('RGMIM') was invoked in March 2020, the same day that the World Health Organization declared that COVID-19 had been categorized as a global pandemic. Under the RGMIM a working group comprising Gas Networks Ireland, the CRU and retail gas suppliers was convened. The first action of the group was to increase emergency credit for Pay As You Go customers. This was implemented in March to assist self-isolating customers keep their gas on. A changing siteworks process for ensuring that essential works were prioritised was also implemented. However fieldwork was restricted, in line with the public health guidance. Working with gas suppliers, Gas Networks Ireland designed and implemented a new market process which allowed gas customers in the SME sector to apply for a waiver of capacity charges where they had been forced to cease operations as a result of COVID-19. The scheme, known as the 'Supply Suspension Scheme' operated for 3 months from May to July, with 2,263 applications successfully processed via a largely manual system, and resulted in savings of €1.4 million for business customers.

Directors' Report (continued)

Gas Advocacy (continued)

Gas Networks Ireland facilitates the process of gas customers switching from one gas supplier to another. In 2020, there were 9 competing retail suppliers active in the Irish market. During the period from January 2020 to December 2020, over 113,000 gas customers changed supplier. Since the gas market opened to competition in 2004, over 1.25 million changes of supplier have been processed.

Key Performance Indicators

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

Key Performance Indicator	FY 2020	FY 2019
Total Lost Time Incident Frequency Rate – Employees (>1 day #/100k hours*	0.11	0
Emergency Response	29 mins	27 mins
Customer Service - First Contact Resolution	91%	84%
New Connections (volume contracted GWh)	635	769
Credit Rating Moody's	A3 Positive	A3 Stable
Credit Rating S&P	A Stable	A Stable
EBITDA	€265m	€284m
Environment		
% Waste Recycling	99%	99%
Water Consumption M3 Pa	20,121	9,240
Public Sector Energy Monitoring and Reporting Target of 33% exceeded	47%	45%
Employee		
Training Days	599	1,198
Social		
Volunteer Hours	586	1,460

* 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 Group and the Company to a number of risks. Understanding these risks and potential opportunities will enable the Group and the Company to make informed and optimal decisions and ultimately creates value for our stakeholders.

From a risk perspective, 2020 has been a challenging year for most businesses, Gas Network Ireland included. However, the company has met this challenge head on, in respect to COVID-19 activating its Business Continuity Plans and Crisis Management structures in March. The COVID-19 pandemic has significantly influenced our risk profile and has been a key consideration for managing the risks outlined below. In addition, the company has effectively planned for risks associated with other external factors/drivers such as Brexit and climate change. Gas Networks Ireland have invested in sustainability initiatives and long-term strategies including CNG, renewable gas and hydrogen.

The Group 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 and enhance risk awareness and management across the organisation.

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 Gas Networks Ireland Board and Audit and Risk Committee of the Ervia Board.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

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 risks outlined below are the principal risk factors that could materially and adversely affect the Company's future operating profits or financial position.

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, however, we do not consider them to be the principal, key risks facing the organisation at this point in time.

Ervia and its subsidiaries (Irish Water and Gas Networks Ireland) will separate as two stand-alone subsidiaries operationally in 2022 and legally in 2023, there is a robust programme of work underway and strong project governance in place and it is not considered a principal risk for Gas Networks Ireland at this time.

Health and Safety: 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 responsible manner. The Company operates a comprehensive safety management system certified to ISO45001 that ensures it designs, constructs, operates and maintains the network using technically competent personnel to provide the highest levels of safety performance. The Company actively promotes enterprise wide safety initiatives.

COVID-19: A large scale employee illness due to an epidemic or pandemic (COVID-19 threat) that affects Ireland's population, potentially impacting employee health and wellbeing, operations, service delivery and supply chain. Crisis Management teams ('CMTs') are in place and there is continued engagement with key stakeholders (HSE, HAS, CRU and Government Departments). Business continuity and contingency arrangement are in place and are implemented and tested as the situation evolves. The majority of employees are working from home with essential workers identified for office/field/site work with supporting COVID-19 controls in place as per response plans. There is a coordinated employee messaging process from the CMTs through the enterprise-wide Work Safe Home Safe programme. Gas Networks Ireland has a COVID-19 Response Plan and a Living with COVID-19 Plan which is continuously reviewed and updated in line with Government guidelines. Comprehensive COVID-19 risk assessments are carried out across all our offices / sites for essential office/site visits. The Capital Investment Programme has continued for essential works and the Company is working closely with our contractors to manage any claims arising from COVID-19 restrictions.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

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 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.

Gas Networks Ireland is committed to becoming a leader in compliant, sustainable infrastructure development and service provision in Ireland by ensuring that the role of a decarbonised gas network (in partnership with renewable electricity) in Ireland's future energy system is recognised, understood and appreciated by key stakeholders. The Company is investing in sustainability initiatives and long-term strategies including CNG, renewable gas and to ensure the gas network is ready to move and store hydrogen.

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 renewable gas injection facilities on its network. Gas Networks Ireland and Ervia are currently exploring the feasibility of hydrogen 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.

European support for Hydrogen is encouraging and interest in Hydrogen as a future energy sector is growing. DECC has included a biomethane grid injection target (1.6 TWh by 2030) in the National Energy and Climate Plan which was submitted to the European Commission mid 2020. DECC are currently working on a business case for a biomethane support scheme and Gas Networks Ireland has been providing input to it.

Sustainability and decarbonisation principles are at the core of business and strategic decisions. Our Sustainability framework is underpinned by the three pillars – economic, social and environment and by championing six of the United Nations Sustainable Development Goals ('UNSDGs').

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

Gas Networks Ireland is a signatory to the Low Carbon Pledge, a Business in the Community Initiative for Irish businesses 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. In 2020 Gas Networks Ireland made a submission to the Carbon Disclosure Project ('CDP') for the first time. CDP is a world leading accreditation for companies and cities to disclose the environmental impact of their operations. It aims to make environmental reporting and risk management the business norm, driving disclosure, insights and action towards a sustainable world. In 2020 the Company were awarded a CDP rating of B- which is a significant achievement for a first-time participant. The Company also published its second Sustainability Report "Sustainability in Action" in 2020.

Further initiatives are considered under 'Sustainability' below.

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. The Company monitors and proactively undertakes an impact assessment for any macro-economic events that could impact the business e.g. Brexit and COVID-19 to ensure there is no adverse impact on the achievement of the Company's business objectives.

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

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

Brexit: An EU-UK Trade and Cooperation Agreement was concluded between the European Union and the United Kingdom on 24 December 2020. The agreement covers not just trade in goods and services, but also a broad range of other areas. The agreement provides for a continuation of the existing arrangements for gas trading and interconnectivity, which was facilitated by the UK incorporating relevant EU Energy legislation into UK law during 2020.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

As a result of the above, Gas Networks Ireland remains satisfied that there will be no adverse impact on natural gas flows due to the formal departure of the United Kingdom from the EU on 31 December 2020. This follows extensive engagement over a sustained period with relevant stakeholders including other natural gas pipeline operators and energy regulators in the UK and Ireland, as well as EU stakeholders.

While there will be no import or export tariffs on natural gas, from January 2021 there is an administrative requirement for GNI (UK) to submit export declarations to HMRC, and for both importing shippers and Gas Networks Ireland to submit customs declarations on natural gas imports from Great Britain. Throughout 2020, Gas Networks Ireland has engaged closely with both HMRC and Irish Revenue to ensure the Company's preparedness to meet these obligations.

Gas Networks Ireland has also put in place measures and contingencies to ensure all requirements in respect to its Supply Chain operations, Data Protection requirements and any other key exposures are mitigated in relation to Brexit.

Gas Networks Ireland is committed to continuing our strong relationships with key stakeholders in this areas to ensure that all potential risks following the UK's EU departure are minimised, and we will continue our engagement with these stakeholders (e.g. DECC, CRU, BEIS, Ofgem and National Grid) in this regard.

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. Following investment and delivery of projects like the twinning of South West Scotland Onshore pipeline, Ireland's ability to meet gas demand in the event of failure of the largest infrastructure increased from 28% (2016) to 85% (2018) (based on the latest available data).

The Ballough Bypass has commenced construction to separate the entry of the two interconnectors into Ireland. This will facilitate the up-rating of gas to the western region and will provide reinforcement to the southern region of the island of Ireland.

In 2021, the DECC will undertake a review of Energy Security of Supply and Gas Networks Ireland will provide input and feedback in our role as owner and operator of the gas network.

The current Network Development Plan forecasts growth in all scenarios and Gas Networks Ireland continue to ensure that a resilient, robust and safe gas network is maintained to guarantee security of supply to customers through appropriate and efficient investment.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

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.

Cyber Attack: Dedicated resources manage our critical IT infrastructure, with a strong focus on cyber-security. Managing our critical IT and Operational Technology ('OT') 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. Our IT systems have also enabled the majority of our staff to work remotely successfully during COVID-19 restrictions. In line with the external environment, the Company continues to enhance its security around IT infrastructure and are currently implementing a managed and scalable Security Operations Centre. There is a constant focus on increasing security awareness and implementing appropriate IT security controls through the increased level of communications through staff internal communications and through Cyber Security Training and awareness programmes, and by implementing appropriate IT and OT security controls across the organisation and specifically during 2020 and ongoing in response to working arrangements during COVID -19.

The Company has been liaising with the National Cyber Security Centre ('NCSC') on a regular basis to provide updates on the IT and OT cyber security controls that we have in place, particularly since Gas Networks Ireland has been designated as an 'Operator of Essential Services' ('OES') and have certain obligations under the EU NIS Directive for which the NCSC in Ireland is the National Competency Authority responsible for governance, oversight and the compliance of all OES to the EU NIS Directive. Ervia and Gas Networks Ireland have also increased aggregate financial cover under the existing cyber insurance policy and continue to monitor developments in cyber insurance premiums to ensure adequate coverage against a cyber breach.

Data Breach: Gas Networks Ireland prioritises managing the risk of unauthorised data leakage of commercially sensitive or personal data from IT/OT services, computers, databases, websites, printed materials and any other digital systems/platforms that stores information/data assets resulting in the unlawful destruction, manipulation or publication of sensitive, classified data to unauthorised individuals or groups. GDPR updated regulations came into effect with key requirements in May 2018. The company has controls and programmes of work in place to mitigate this risk. There is an appointed Data Protection Officer and team in place, with a clear Data Governance programme of work to support the business in meeting compliance with GDPR and data management requirements . There are a number of initiatives and workstreams including mandatory GDPR training, awareness and communication plans, workstreams and projects such as those in relation to Data Retention, Data Loss prevention and open data and overall GDPR programme of work and compliance programme.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

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 ongoing review and testing of its detailed contingency arrangements. Gas Networks Ireland is proactively managing a procurement process for a new Networks Service Works Contract. The term for the current contract will come to an end in July 2021. There will be a smooth transition of services between contracts. The current contractor has developed a de-mobilisation plan to close out existing works, which incorporates arrangements to carry out snagging/mop up works post contract. Maintenance works will be prioritised with more critical short term works to be carried out to the end of the existing contract. Longer term planned maintenance will be held in reserve for delivery under the new contract.

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.

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. Risks relating to these matters are outlined in the Principal Risks and Uncertainties section above with the relevant non financial KPIs displayed in the Key Performance Indicators 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.

Directors' Report (continued)

EU Non-Financial Reporting Directive (continued)

Reporting Requirement	Location of Information	Pages	Relevant Policies	Description of the outcome of those policies
Environmental Matters	*Sustainability*	20	• Environmental Policy • Energy Policy	• 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.
Social and Employee Matters	*Sustainability*	22	• Corporate Responsibility Policy • Data Protection Policy • Safety Policy • Dignity at work Policy	• 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.

Directors' Report (continued)

EU Non-Financial Reporting Directive (continued)

Reporting Requirement	Location of Information	Pages	Relevant Policies	Description of the outcome of those policies
Human Rights	*Respect for Human Rights*	25	• Code of Conduct • Modern Slavery Statement	• 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 Statement of Modern Slavery ensures that there is transparency in GNI's 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.
Anti-Bribery and Anti-Corruption	*Anti-Bribery and Anti-Corruption*	26	• Anti-Bribery and Anti-Corruption Policy	• The application of the Anti-Bribery and Anti-Corruption 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. • The application of the Anti-fraud policy ensures all persons to which the policy applies understand what constitutes fraud and the Company's approach towards it, and what is expected of them in relation to the prevention and reporting of fraud.

				Description
Other Reporting Requirements	*Business Model*	4		• Principal activities, company overview and business model
	Non Financial KPIs	9		• Key Performance Indicators
	Principal Risks & Policy due diligence	10		• Principal risks and uncertainties

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.

Directors' Report (continued)

Sustainability

During 2020 Gas Networks Ireland continued to embed sustainability in its strategy and purpose. The Company's Sustainability Framework is underpinned by the three pillars – economic, social and environment and by championing the United Nations Sustainable Development Goals ('UNSDGs'). Initiatives under each of these pillars are considered below.

Gas Networks Ireland has adopted six of the UNSDGs to champion. The sustainability strategy is focussed on six of these goals, three primary and three supporting. The Company is committed to ensuring these areas are at the core of our business decisions strategy.

Gas Networks Ireland is conscious of its impact on the environment and in the communities where it operates. The Company is proud of the fact that it is one of only 40 companies in Ireland to hold the Business Working Responsibly mark which is aligned to the ISO26000 for Social Responsibility. As a leading utility company, sustainability is defined by our role in delivering an affordable and clean energy future for the people of Ireland through the decarbonisation of the gas network and the reduction of emissions across all sectors of Irish society.

Notable achievements in 2020 include;

- publication of our second sustainability report. "Sustainability in Action" highlighting progress in implementing the principles of the UNSDGs.
- participation in the Carbon Disclosure Platform for the first time. Gas Networks Ireland received a B- CDP rating which is a significant achievement for a first-time participant.
- re-certification to the 5 ISO Management Systems, ISO14001 Environmental Management System, ISO50001 Energy Management, ISO45001 Occupational Health and Safety, ISO9001 Quality Management System and ISO55001 Asset Management.
- exceeding the Public Sector Energy Efficiency target (33% by 2020) and achieving a 47% energy efficiency improvement.
- awarded the 'Health and Safety Initiative of the Year' award for the Company's 'HazCon' app at the Networks Awards 2020. The Health and Safety Initiative of the Year award recognises exceptional commitment to all-round health and safety.
- winning both the Sustainable Energy Achievement Award and the Green Large Organisation of the Year Award at the 2020 Green Awards.
- among one of six organisations shortlisted for the green business of the year award.

Directors' Report (continued)

Sustainability (continued)

This was the first time Gas Networks Ireland has ever won these awards, at what is seen by many as Ireland's leading environmental event for businesses. The Green Large Organisation of the Year Award goes to the large business that can demonstrate a bottom-up best environmental practice in all aspects of running a large business. Judges examined all aspects of the business including waste management, biodiversity, use of green suppliers or materials, transport, energy and water efficiencies, staff engagement and community involvement.

Environmental impact

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. In 2020, Gas Networks Ireland was successfully recertified to ISO14001 and ISO5001 along with ISO systems, ISO45001, ISO55001 and ISO9001.

To reduce our impact on the environment Gas Networks Ireland has 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. Our Green House Gas inventory was independently verified according to ISO14064-3:2019 specifications with guidance for the Validation and Verification of Greenhouse Gas Statements.

The 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 colleagues to apply a standardised approach to environmental management.

In 2020, Gas Networks Ireland joined leading companies around the world to call for ambitious and collective action on nature by signing up to the Business for Nature Call to Action. The Company has made nature a priority through biodiversity commitments and aims to achieve a net positive impact on biodiversity across our operations by 2025.

As noted above the Company participated in the Carbon Disclosure Platform for the first time in 2020 and has publicly disclosed the carbon emissions data and climate change management information.

Directors' Report (continued)

Biodiversity

Gas Networks Ireland's multifaceted award winning Biodiversity Enhancement Programme, which has been in place since 2017, was shortlisted for a Chambers Ireland CSR award in 2020. The Company has continued its work as a member of the Irish Business and Biodiversity Platform and joined leading companies around the world to call for ambitious and collective action on nature by signing up to the Business for Nature Call to Action. In 2020 Gas Networks Ireland developed a Biodiversity Action Plan to support the company's Biodiversity Enhancement Programme. The programme aims to increase biodiversity knowledge and awareness among staff and stakeholders.

Biodiversity awareness initiatives undertaken during the year included:

- conducting biodiversity webinars with staff and their families.
- sponsoring a biodiversity booklet for gardeners which was made available via the Irish Examiner as part of National Biodiversity week.
- supporting 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. We conducted ecology surveys, planted wildflower meadows (including the planting of red clover) and erected bird boxes.

Waste Reduction

The Company is committed to reducing our waste to landfill and we track our progress monthly. The long term target is zero waste to landfill by 2025. This year the overall recycling figure in our offices was 99%. Furthermore, all of our waste suppliers are audited to assess operational practice and to ensue adherence to our standards.

Energy

Gas Networks Ireland is an active participant in the Government's Public Sector Monitoring and Reporting initiative ('PSMR'). While the PSMR aims to achieve 33% energy savings for the public sector by 2020, Gas Networks Ireland is on track to exceed this ambition, having already achieved energy savings of 47%.

Measures to achieve energy savings include:

- metering and energy efficiency drives that are taking place at all office locations.
- upgrading inefficient lighting and heating solutions.
- replacing older inefficient vehicle fleet with efficient vehicles which are subject to enhanced inspection procedures.
- delivering programmes to increase employee awareness of fuel consumption.

Directors' Report (continued)

Future renovations to company buildings will encompass sustainability considerations while energy efficiency and resource management will be central to any upgrade designs.

GHG Emissions and Carbon Performance

Sustainability and decarbonisation principles are at the core of our business and strategic decisions. As noted above under 'Principal Risks and Uncertainties' Gas Networks Ireland 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.

In 2020 Gas Networks Ireland's GHG inventory was independently verified according to the ISO 14064-3:2019 Specifications with Guidance for the Validation and Verification of Greenhouse Gas Statements.

Sustainable Procurement

Gas Networks Ireland is driving enhanced sustainability practices through its 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 monthly reports on their performance against a range of environmental KPIs in relation to waste management and energy use. In addition our contracts incentivise best environmental practise throughout project delivery.

Social impact

In 2020, Gas Networks Ireland continued to be one of only 40 companies in Ireland to hold the Business Working Responsibly Mark standard, in line with ISO26000, from Business in the Community Ireland (BITCI). The Mark is the only independently audited standard for Corporate Responsibility and Sustainability practices in Ireland. As holders of the Mark, we are a member of the Leaders Group on Sustainability and co-chair of the Low Carbon Economy Group.

The Company was nominated for a number of Chambers Ireland Sustainable Business Impact Awards in 2020 including Excellence in Community, Best Charity Partnership, Excellence in Workplace and Excellence in Environment.

	2020 €'000	2019 €'000
Social Key Performance Indicators		
Volunteering Hours	586	1,460 hours
Volunteering on a programme	1 in 6 employees	1 in 4 employees

Directors' Report (continued)

Our Colleagues

Our overarching ambition is that the people who work across our company feel like Gas Networks Ireland is a great place to work and that their experience of coming to work every day is enriching and rewarding. As an organisation we are committed to listening to our people in a number of ways. This includes engagement surveys, through our employee forums and a program of two-way leadership communications. By continuing to listen and address areas that are important for our people we can take really positive steps to shape our culture, improve how we do things and how we support our people. We aim to create an environment where all of our people find their role both personally and professionally rewarding.

2020 was a challenging year as we adjusted to living with COVID-19 and dealt with the impact it has had on our lives as well as on our business. By listening closely to our employees we adapted effectively to the pandemic to ensure we continued to deliver essential services and to support our employees and to ensure their safety while working on site, in the office or at home.

In December the Company completed its third annual engagement survey and during the year we also delivered two pulse surveys. These surveys allow us to fully understand what is important to employees so that we can deliver the right initiatives to support them. They also help to ensure that local teams can continue to make progress in areas of engagement that are important to them.

Together we made great progress in 2020 and continued to deliver essential services. Over the course of 2020, teams across the business implemented local action plans to address areas of engagement that were of most relevance and importance to them. These plans were adjusted during the year as a result of COVID-19 with renewed focus on communication, teamwork, collaboration and safety.

Across the organisation we have also delivered national programmes such as health screening; we progressed our Ibelong diversity and inclusion agenda with the introduction of three new employee groups and we delivered wellbeing activities including mindfulness sessions, wellness podcast series and our back care programme. We also supported collaboration with technology supports such as video and confrence call facilities and instant messaging. Communicating with our people across the pandemic continues to be a priority – making sure our people have clear, relevant, timely information.

In 2020, we also held our second People Awards, our annual recognition awards ceremony. This event was held virtually, with close to 800 employees taking part. Staff had the opportunity to nominate people from across the organisation for one of the awards which included 'unsung hero' and 'exceptional citizen awards'.

Directors' Report (continued)

Community

Building strong relationships in the communities where we operate is fundamental to carrying out our business effectively. This means investing in people, in their needs, in their interests and in their futures. Our social inclusion programme focuses on the core areas of education, employability and accessibility.

Education

In 2020 we continued with our Science, Technology, Engineering and Maths ('STEM') education programme, Energize, in partnership with Junior Achievement Ireland in primary schools across the country. The Energize programme was relaunched virtually in October to facilitate business volunteers to deliver the programme remotely to schools nationwide. 2020 marked the 10th year of our partnership with Junior Achievement Ireland with over 350 Gas Networks Ireland staff volunteering on Junior Achievement programmes to date, working with over 25,000 students nationwide.

We also supported other STEM initiatives including Science Week and Engineers Week with 586 volunteering hours delivered by Gas Networks Ireland employees in 2020. The Gas Networks Ireland team was featured in Business Plus magazine's Corporate Social Responsibility special which detailed the continued support for education and social inclusion throughout COVID-19. This included supporting partners by providing eight laptops to students, donating €20,000 to food banks and providing free downloadable resources and videos.

Employability

Gas Networks Ireland supported the skills at work programme which promotes education for secondary school students, working with Nagle College Cork on the skills at work programme since 2006. In 2020 the company celebrated its ten-year anniversary partnering with Beneavin College in Finglas.

During 2020, through our partnership with Inner City Enterprise, we continued our support for the Grow Dome Project, an award-winning social enterprise which transforms unused land into a community resource through the installation of grow domes.

Accessibility

During 2020 we accelerated our partnership with Age Action by supporting their COVID-19 response and hardship fund, which provided once off grants to help with unexpected expenses. Separately our colleagues volunteered to tutor older people in the use of smartphone and video calling technology, helping them to keep in touch with their families whilst cocooning. We continued with our annual donation of €50,000 worth of carbon monoxide alarms to Age Action, which were installed in the homes of their service users. We also donated proceeds from our customer surveys and our colleagues raised funds throughout the year.

Directors' Report (continued)

Stakeholder Engagement

Gas Networks Ireland understands and values the critical role stakeholders play in its business. The Company has a comprehensive stakeholder engagement plan that 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 the 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.

Economic impact

Natural gas is of key strategic importance to the Irish economy, representing 31% of Ireland's primary energy mix and generating 51.9% of Ireland's electricity.

Gas Networks Ireland's aim is to deliver an excellent, efficient and cost-effective service that benefits all customers. Ireland's gas network is a valuable national asset which will play a major role in achieving a clean energy future in a least cost, safe and secure manner.

Natural gas is the ideal partner for renewable energy sources such as wind and solar. Renewable gas in particular can ensure that Ireland has a robust, renewable and sustainable indigenous energy source as part of its energy mix into the future.

Investment in Our Future

Gas Networks Ireland serves over 706,000 gas customers in Ireland, including over 27,000 businesses. Ireland's national gas network infrastructure, which is valued at €2.7 billion, is 14,617km long and connects towns and villages in multiple counties across the country. In 2020 we connected 8,091 new commercial and residential customers to the gas network and contracted 635GWh of new natural gas demand.

In 2020 we delivered a strong financial performance. With safety as a priority for our assets and operations, we invested €112m in our gas and telecoms network infrastructure with a strong focus on driving growth and increasing new connections to the network, developing CNG as a transportation fuel and delivering programmes to improve the safety and reliability of the network.

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.

Directors' Report (continued)

Respect for Human Rights (continued)

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.

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.

The Ervia group wide integrity based initiative, 'Doing the Right Thing' promotes the integrity value and emphasises the importance of ethical behaviour. As part of the initiative, guidance booklets are issued to employees on key ethics related policies with annual training updates and quarterly team integrity conversations.

A company-wide review was undertaken during 2020 to ensure that the changes to ways of working due to COVID-19 had not impacted on the effectiveness of the controls in place to manage the risk of fraud, bribery or corruption.

Directors' Report (continued)

Anti-Bribery and Anti-Corruption (continued)

An awareness programme was also rolled out by the business, which included the key messages from relevant policies, details of speaking up channels and links to supporting material to help inform the right course of action to follow, to achieve company objectives in an ethical manner.

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 pubic interest entity as it has debt listed on a regulated market. Section 1551(1) of the Companies Act 2014 requires the directors of a public interest entity to establish an Audit Committee. Gas Networks Ireland avails of the exemption under Section 1551(11)(a) as a subsidiary undertaking. 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 1551(14) of the Companies Act 2014 (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.

Directors' Report (continued)

Corporate Governance (continued)

For the financial year ending 31 December 2020, 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, the Ervia Remuneration Committee and the Project 23 Committee. The Project 23 Committee was established to oversee the separation and establishment of Irish Water and Gas Networks Ireland as two standalone entities further to the Government decision that Irish Water would become a standalone publically owned, regulated utility separated form the Ervia Group during 2023.

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 7 times during the year, the Investment/Infrastructure Committee met 11 times during the year and the Project 23 Committee (the Committee charged with overseeing the separation of Irish Water and Gas Networks Ireland) met 6 times during the year.

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. The Secretary of the Company is Liam O'Riordan. Interests of the Directors and Secretary are disclosed in note 4 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 4 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.

Directors' Report (continued)

Directors and Secretary and their Interests (continued)

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

Director	Meetings (Attended/Eligible)
Cathal Marley (Chairman)	12/13
Brendan Murphy	12/13
Edwina Nyhan	12/13
Denis O'Sullivan	13/13
Liam O' Sullivan	13/13
Michael O'Sullivan	12/13

Roles and Responsibilities of the Directors

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

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

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

Directors' Responsibilities 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. The Directors are responsible for the maintenance and integrity of certain corporate and financial information included on the Group's website www.gasnetworks.ie. Legislation in Ireland concerning the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

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

Directors' Report (continued)

Directors' Responsibilities Statement for Directors' Report and Financial Statements (continued)

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

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

The Directors are responsible for ensuring that the Group and Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Group and Company, enable at any time the assets, liabilities, financial position and profit or loss of the Group and Company 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 Company 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:

	2020 No. of employees	2019 No. of employees
€50,000-€75,000	210	205
€75,001-€100,000	143	134
€100,001-€125,000	70	65
€125,001-€150,000	25	20
€150,001-€175,000	8	11
€175,001 and above	4	8

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.

	2020 €'000	2019 €'000
Legal advice	122	142
Financial advice	388	120
Business improvement/change	1,917	1,795
Other	150	249
Total consultancy costs	**2,577**	**2,306**
Capitalised	-	8
Income Statement	2,577	2,299
Total consultancy costs	**2,577**	**2,306**

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.

	2020 €'000	2019 €'000
Legal fees and costs	1,837	633
Settlements	365	618
Total	**2,202**	**1,251**
Number of legal cases	9	3

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.

Note 3: The 2020 legal costs above include an amount of €80,946 in relation to a legal matter involving Coillte.

Directors' Report (continued)

D. Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2020 €'000	2019 €'000
Domestic		
Board	-	-
Employees	869	1,519
International		
Board	-	-
Employees	49	182
Total	**918**	**1,701**

Travel and subsistence expenditure by Gas Networks Ireland Directors in 2020 was €nil (2019: €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:

	2020 €'000	2019 €'000
Staff hospitality	24	123
Client hospitality	17	37
Total	**41**	**160**

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 of 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 31 December 2020, there were no protected disclosures to report.

Gender Balance, Diversity and Inclusion

Throughout 2020, Ervia's ibelong Diversity and Inclusion Programme continued to focus on creating a dynamic, diverse and inclusive working community where employees feel a sense of belonging, and embedding a diversity and inclusion strategy within the organisation. The programme was originally launched in 2019 with the purpose of enshrining diversity and inclusion in the workplace through the creation of a Diversity and Inclusion strategy, implementation of the ibelong strategic plan from 2019-2023, and the introduction of a series of metrics and measurements to track progress in this space.

The ibelong Diversity and Inclusion programme of work is overseen by the Diversity and Inclusion Council, which includes employee representatives from all levels of the organisation and executive sponsorship. In 2019 and 2020, initial priority was given to gender diversity at Ervia, supported by the launch of the ibelong Women's Network, Ervia's first employee resource group. The Diversity and Inclusion Index was introduced to the Balanced Scorecard in 2020 and further metrics were proposed in the rollout of Unconscious Bias training and the elimination of single sex candidate shortlists in the recruitment and selection process. Further highlights of 2020 included two further employee groups, the ibelong Rainbow Network, and the ibelong Family Network. A review of female talent at all levels of the organisation resulted in the creation and launch of a Female Talent Development Programme. Furthermore, a review of the Ervia HR policies was also undertaken with a view to improving and enhancing our policies from a Diversity and Inclusion perspective in 2021 and 2022. The ibelong programme received a 2020 Global Gartner Communications Award for Excellence in Employee Engagement.

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 2020.

Directors' Report (continued)

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.

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.

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 31 December 2020 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 is the accountable executive with ultimate responsibility. The Ervia Group CEO delegates clear roles and responsibilities for effective risk management and for ensuring the systems of internal control are operating effectively to his Executive Team and their reports.

Risk and Control Environment

The Directors ensure that the Company has appropriate systems of internal control and risk management in place through the use of the following structures and systems:

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.

Directors' Report (continued)

Risk and Control Environment (continued)

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 Risk Profile prepared by management, which includes risks relating to Gas Networks Ireland, ensuring oversight of the key and emerging 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.

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.

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" risk management 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 Ervia Group Chief Financial Officer.

Directors' Report (continued)

Risk and Control Environment (continued)

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.

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 Management 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 directly to the ARC and to the Ervia Group Chief Financial Officer and attends all ARC meetings. In addition, the Group Risk Management Committee, chaired by the Group Chief Executive Officer, meets quarterly.

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.

Directors' Report (continued)

Risk and Control Environment (continued)

- Responsibility by management at all levels within Gas Networks Ireland and Ervia for internal control and risk management over respective business functions;
- 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;
- 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 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;
- 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;
- Appropriate segregation of duties and documentation of processes and controls that are focused on preventing and detecting fraud;
- 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 management information and performance indicators is produced quarterly, enabling progress against longer-term objectives and annual budgets to be monitored;
- Internal policies requiring all employees to act with integrity and maintain the highest ethical standards. These polices include the Code of Business Conduct, Anti- Fraud policy, Anti-Bribery and Anti-Corruption Policy, Regulation of Lobbying Policy and Protected Disclosures Policy;
- A comprehensive anti-fraud programme including anti-fraud policy, training and communication and a fraud response plan;
- 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 2020.

Directors' Report (continued)

Ongoing Monitoring and Review

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.

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. 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.

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 a report 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.

Directors' Report (continued)

Ongoing Monitoring and Review (continued)

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 report from the Managing Director of Gas Networks Ireland on the effectiveness of the operation of the systems of internal control, both financial and operational.

Ongoing monitoring by the Gas Networks Ireland Board includes;

- Review and consideration of the report 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.

Capital and Operational Expenditure

Robust and effective systems are in place to ensure compliance, as appropriate, with the relevant principles, requirements and guidelines of the Public Spending Code. Transitioning activity related to the updated Public Spending Code (2019) during 2020 means full compliance with the additional requirements of the updated Public Spending Code (2019) is expected to be achieved in the coming year.

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 Expenditure and Contract Approval Policy (PD03) sets out the financial expenditure and contract governance framework including the authorisation process and authority levels for capital and operational expenditure in each of Ervia and its subsidiaries. All expenditure and contract approvals must comply with the requirements of the Ervia Governance Framework and PD03.

Directors' Report (continued)

Capital and Operational Expenditure (continued)

During 2020, a review of the financial expenditure and contract governance framework including the authorisation process was undertaken. Subsequently the governance framework was enhanced to align with the value for money criteria in the updated Public Spending Code, as published by the Department of Public Expenditure and Reform in December 2019. This included the demarcation of responsibilities and the introduction of revised Approval Gate structures and standardised reporting requirements. The revised PD03 policy was approved by the Board in December 2020.

The framework established by this policy applies from the date of approval by the Board of Ervia. It is acknowledged however that there will be a transition period during which it will be necessary to develop and implement new processes and procedures. In addition internal staff training on the implementation of the revised policy will be provided across the Group in 2021.

All capital expenditure must have regard to national and EU procurement requirements in addition 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.

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.

Capital investments including contracts with a value in excess of €3.5m are presented to the (executive) Expenditure Approval Committee for detailed review and approval. All capital expenditure greater than €10m requires the approval of the Ervia Board and the Gas Networks Ireland Board.

Separate Ministerial consents are requested by Gas Networks Ireland in advance of committing to any individual capital project or new capital programme costing €20m or greater for regulated expenditure and €10m for unregulated expenditure. Ministerial consents are submitted to the parent Department 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 DHLGH, prior to the granting of Ministerial consent.

Directors' Report (continued)

Capital and Operational Expenditure (continued)

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 is then applied to existing and future projects across the organisation.

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 2020 and will ensure a similar review is performed in 2021. 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 2020 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.

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' Report (continued)

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 2020 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 these financial statements are prepared on a going concern basis. The Group has €462 million in undrawn bank facilities (2019: €410 million) available together with strong profitability forecasts for 2021, to meet liabilities as they fall due. Accordingly the Directors continue to adopt the going concern basis in preparing these financial statements. Further details of this going concern assessment and the Group's liquidity position are provided in notes 1(a) and 23(ii), respectively, of these financial statements.

Directors' Report (continued)

Independent Auditor

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 for public interest entities.

Following receipt of Ministerial consent, Deloitte Ireland LLP were originally appointed as auditors to the Ervia Group including Gas Networks Ireland in August 2014. 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, following completion of a tender process.

Political Donations

There were no political donations made during the financial year (2019: nil).

Post Balance Sheet Events

There are no significant events affecting the Group which have taken place since the end of the financial year, other than as described in note 27 of the financial statements.

For and on behalf of Gas Networks Ireland:

Cathal Marley	Denis O'Sullivan	29th March 2021 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 Company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2020 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 29A to 29V, including a summary of significant accounting policies as set out in note 29A and note 1.

The relevant financial reporting framework that has been applied in the preparation of the Group and 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 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, 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, valuation, and allocation of assets capitalised within property, plant and equipment and intangible assets.
Materiality	The materiality that was determined in the current year for the Group was €10 million on the basis of approximately 1% of net assets and €9.5 million for the Company, proportionate to the Company's share of the Group's net assets.
Scoping	Our assessment of the risks of material misstatement, our evaluation of materiality and our application 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 relevant 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 significant 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- We considered the appropriateness of the method used by the directors in performing the going concern assessment in the context of the applicable financial reporting framework. We evaluated the relevance and reviewed the reliability of the underlying data the directors used to make the assessment.
- We evaluated the assumptions on which the directors' assessment is based by determining whether there was adequate support for the assumptions underlying it including the various price control mechanisms in place.
- We completed an assessment of the historical accuracy of forecasts prepared by management by reviewing the budgeting process in place for the Group and Company.
- We completed a review and challenged the forward looking forecasts through evaluating both the "Budget 2021" and "Business Plan 2020 – 2024" prepared by Gas Networks Ireland.
- We performed a detailed review of the Group and Company's financing facilities including; a review of the Group and Company cash position at the financial year end date, the financial resources available to the Group and Company with a focus on the repayment profile of debt.
- We evaluated the adequacy of the relevant disclosures made in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

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

Accuracy of Revenue Recognition	
Key audit matter description	The Group and Company's revenues of €447.3 million are principally derived from gas transportation services in both regulated and unregulated markets. Details are set out in note 3 to the financial statements with the accounting policy set out in Note 1 (d) (xi). The regulated revenue is derived from a price control process imposed by the relevant regulator, primarily the Commission for Regulation of Utilities ("CRU"), whereby the regulator carries out a review of the revenues that the Group is allowed to recover through gas tariffs for the ongoing operation and maintenance of the gas network. The regulated revenue is largely system generated. The Group revenue balance includes a portion of unbilled revenue however there is limited judgement related to this given the price control process in place. The calculation of the unbilled revenue is system generated. Additionally the Group and Company have unregulated revenues some of which involve accounting for deferred revenue. Details are set out in Note 19 to the financial statements with the accounting policy set out in Note 1 (d) (xi). There is a risk that deferred revenues are not accurately recorded at year end. We have determined the accuracy of revenue recognition to be a key audit matter.
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 and Company. We evaluated the design, determined the implementation and tested the operating effectiveness of the relevant internal controls over the Group and Company's significant revenue streams. For the system generated revenue recognised in respect of gas transportation and distribution services, we obtained an understanding of the relevant internal controls and billing systems (including interfaces with the general ledger) in place over those revenue streams. We also tested the operating effectiveness of relevant IT controls with the assistance of Risk Advisory specialists. For regulated revenue, we traced the revenue recognised to amounts invoiced to customers and the subsequent receipt of payment from those customers. We 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, on a sample basis, we agreed the amounts to transportation/ distribution records, post year end invoices and receipts for payments. We used analytical procedures to assess the accuracy of transmission and distribution revenue with focus on manual adjustments to these revenue streams. We reviewed the calculations of deferred revenues associated with unregulated revenues by performing recalculations of the deferred revenue, on a sample basis. We evaluated the completeness and accuracy of the disclosures made in the financial statements with reference to the requirements of IFRS 15.
Key observations	We have no observations in respect of the amounts and disclosures related to the accuracy of revenue.

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

Accuracy, valuation and allocation of assets capitalised within property, plant and equipment and intangible assets

Key audit matter description	A key focus for the Group and Company is network investment. Property, plant and equipment and intangible assets of €2,529.9 million represent the majority of the Group's asset base and a significant proportion of the Group and Company's annual expenditure. The total capitalised spend in 2020 amounted to €112.1 million across the Property, Plant and Equipment and Intangible Asset balances. Details are set out in note 9 and 11 to the Group financial statements (note 29D and 29F to the Company financial statements) with the accounting policy set out in note 1 (d) (iii) and (iv). 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 involves significant judgement, and meets the capitalisation criteria in line with the accounting policy. We determined this to be a key audit matter due to the risk that expenditure is inaccurately capitalised and not in line requirements of IAS 16 and IAS 38.
How the scope of our audit responded to the key audit matter	We assessed whether the Group and Company's accounting policies in relation to the capitalisation of expenditure complied with IFRS. We evaluated the design, determined the implementation and tested the operating effectiveness of the relevant internal controls over the Group and Company's capitalisation process. We evaluated the design, determined the implementation and tested the operating effectiveness of relevant internal controls over the Group and Company's project management of assets capitalised (including a budget versus actual deep dive). We also tested relevant IT controls, with the assistance of Risk Advisory specialists, including interfaces between primary and subsidiary ledgers in order to assess that items capitalised are transferred to the fixed asset register on a timely basis. We inspected contracts and/or underlying invoices, on a sample basis, to ensure that the costs were accurately recorded and the classification between capital and operating expenditure was appropriate including verification that the project/asset was appropriately commissioned if capital. We obtained evidence, on a sample basis, of appropriate allocation of purchase requisitions to approved capital projects. We examined and obtained evidence for any significant reconciling items between the fixed asset register and the general ledger. We reviewed minutes of meetings of the Group's Investment Approval Committee as evidence that all items in our additions sample received the appropriate approval. We evaluated the completeness and accuracy of the disclosures made in the financial statements with reference to the requirements of IAS 16 and IAS 38.

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

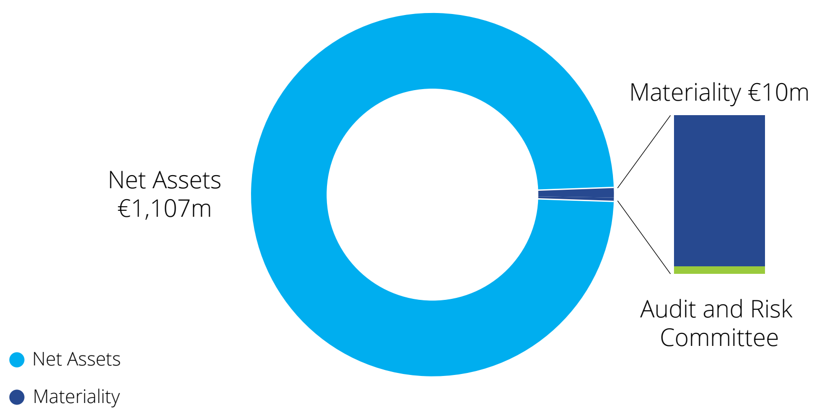
Accuracy, valuation and allocation of assets capitalised within property, plant and equipment and intangible assets	
Key observations	We have no observations in respect of the amounts and disclosures related to the capitalisation of property, plant and equipment and intangible assets.

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.

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 million which is approximately 1% of net assets. We have considered the net assets 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 such as our understanding of Gas Networks Ireland and its environment, history of mistatetements and the control environment in place. In addition, we have concluded that net assets is also the relevant benchmark for the Company based on the rationale above. Proportionate to the Company's share of the Group's net assets, we determined materiality for the Company to be €9.5 million.



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

We agreed with the Audit and Risk Committee 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 Audit and Risk Committee 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 other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement for Directors' Report and Financial Statements, 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.

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

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.
- 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.

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

- 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 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.

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 the directors' report has been prepared in accordance with the Companies Act 2014.

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

Corporate Governance Statement required by the Companies Act 2014

We report, in relation to information given in the Corporate Governance Statement included within the Directors' 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 subsections 2(c) of section 1373 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 as specified for our review.

The Companies Act 2014 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 2020. 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.

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.

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

Other matters which we are required to address

Following the recommendation of the Audit and Risk Committee, we were re-appointed by Gas Networks Ireland on 25 March 2019 to audit the financial statements commencing for the financial year ended 31 December 2019 up to and including the financial year ended 31 December 2021 with possibility to extend to the financial year ended 31 December 2023. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2015 to 31 December 2020.

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 Audit and Risk Committee we are required to provide in accordance with ISA (Ireland) 260.

Use of our report

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.

Honor Moore

Honor Moore

For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
6 Lapp's Quay
Cork

30 March 2021

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 2020

	Notes	2020 €'000	2019 €'000
Continuing operations			
Revenue	3	447,277	469,863
Operating costs net (excluding depreciation and amortisation)	4	(181,923)	(185,510)
Operating profit before depreciation and amortisation (EBITDA)		**265,354**	**284,353**
Depreciation and amortisation	6	(137,787)	(138,862)
Operating profit		**127,567**	**145,491**
Finance income	7	2,020	1,883
Finance costs	7	(19,011)	(20,511)
Net finance costs	7	(16,991)	(18,628)
Profit before income tax		**110,576**	**126,863**
Income tax expense	8	(17,011)	(17,959)
Profit for the financial year		**93,565**	**108,904**

Group Statement of Other Comprehensive Income
for the financial year ended 31 December 2020

	Notes	2020 €'000	2019 €'000
Profit for the financial year		**93,565**	**108,904**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Translation differences on consolidation of foreign subsidiaries		(2,464)	2,448
Fair value (losses)/gains on cash flow hedges		(795)	1,003
Deferred tax on cash flow hedge movement	8	99	(125)
Total items that may be reclassified subsequently to profit or loss		**(3,160)**	**3,326**
Total other comprehensive income for the year, net of income tax		**(3,160)**	**3,326**
Total comprehensive income for the financial year		**90,405**	**112,230**
Total comprehensive income attributable to:			
Owners of the Company		90,405	112,230
Total comprehensive income for the financial year		**90,405**	**112,230**

Group Balance Sheet
as at 31 December 2020

	Notes	31-Dec-20 €'000	31-Dec-19 €'000
Assets			
Non-current assets			
Property, plant and equipment	9	2,506,937	2,549,595
Intangible assets	11	27,403	22,974
Derivative financial instruments	23	-	16,263
Total non-current assets		**2,534,340**	**2,588,832**
Current assets			
Trade and other receivables	13	54,524	60,983
Cash and cash equivalents	14	96,905	101,274
Restricted deposits	15	17,603	17,717
Derivative financial instruments	23	4,449	764
Inventories	12	3,016	2,578
Total current assets		**176,497**	**183,316**
Total assets		**2,710,837**	**2,772,148**
Equity and liabilities			
Equity			
Share capital and share premium		(318,353)	(318,353)
Capital contribution		(363,083)	(363,083)
Retained earnings		(426,182)	(379,900)
Cash flow hedge reserve		1,199	503
Translation reserve		(657)	(3,121)
Total equity attributable to equity holders of the Company		**(1,107,076)**	**(1,063,954)**
Liabilities			
Non-current liabilities			
Borrowings and other debt	17	(1,022,854)	(1,148,408)
Deferred revenue	19	(16,927)	(8,723)
Government grants	20	(69,647)	(76,660)
Provisions	21	(3,391)	(6,245)
Trade and other payables	22	(15,287)	(13,603)
Derivative financial instruments	23	-	(447)
Deferred tax liabilities	8	(205,125)	(206,499)
Total non-current liabilities		**(1,333,231)**	**(1,460,585)**
Current liabilities			
Borrowings and other debt	17	(114,860)	(41,789)
Deferred revenue	19	(8,682)	(10,069)
Government grants	20	(6,613)	(6,546)
Provisions	21	(4,758)	(4,776)
Derivative financial instruments	23	(277)	(2,447)
Trade and other payables	22	(135,331)	(178,461)
Current tax liabilities	8	(9)	(3,521)
Total current liabilities		**(270,530)**	**(247,609)**
Total liabilities		**(1,603,761)**	**(1,708,194)**
Total equity and liabilities		**(2,710,837)**	**(2,772,148)**

For and on behalf of the Board:

Cathal Marley	Denis O'Sullivan	29th March 2021
		Date of Approval

Group Statement of Changes in Equity
for the financial year ended 31 December 2020

	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 2019	**(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 financial 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)**
Profit for the year	-	-	-	-	(93,565)	(93,565)
Other comprehensive income for the financial year, net of income tax	-	-	696	2,464	-	3,160
Total comprehensive income for the year	**-**	**-**	**696**	**2,464**	**(93,565)**	**(90,405)**
Dividends (note 26)	-	-	-	-	47,283	47,283
Balance at 31 December 2020	**(318,353)**	**(363,083)**	**1,199**	**(657)**	**(426,182)**	**(1,107,076)**

All attributable to the owners of the Company.

Group Statement of Cash Flows
for the financial year ended 31 December 2020

	Notes	2020	2019
		€'000	€'000
Net cash from operating activities	16	**216,983**	**245,917**
Cash flows from investing activities			
Payments for property, plant and equipment		(105,246)	(110,215)
Payments for intangible assets		(10,468)	(10,105)
Grants received	20	7,998	631
Net cash used in investing activities		**(107,716)**	**(119,689)**
Cash flows from financing activities			
Proceeds from borrowings		-	652,823
Repayment of borrowings		(42,692)	(655,125)
Repayment of lease liabilities	10	(241)	(236)
Repayment of loan to ultimate parent undertaking		(23,000)	(85,000)
Dividends paid	26	(47,283)	(54,404)
Net cash used in financing activities		**(113,216)**	**(141,942)**
Net decrease in cash and cash equivalents	14	**(3,949)**	**(15,714)**
Cash and cash equivalents at the beginning of the year	14	101,274	116,590
Effect of exchange rate fluctuations on cash held	14	(420)	398
Cash and cash equivalents at 31 December	14	**96,905**	**101,274**

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) and IFRS Interpretations Committee (IFRIC) agenda decisions, as endorsed by the EU, and effective for accounting periods beginning on or after 1 January 2020. These financial statements are prepared on a historical cost basis, except for certain derivative financial instruments which are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Going concern

The financial statements are prepared on the going concern basis of accounting.

The Group and Company have considerable financial resources and the Directors believe that the Group is well placed to manage its risks successfully. The Group had €97 million of cash and cash equivalents at 31 December 2020, committed undrawn bank facilities of €462 million providing standby liquidity and has solid profitability and operating cash-flow forecasts for 2021 and beyond. The Group therefore has significant available resources to meet the Group's net current liability position of €94 million at 31 December 2020 (2019: €64 million), including the repayment of short term debt facilities that will mature in 2021. Further details of the Group's liquidity position are provided in note 23 (ii) of these financial statements.

The Directors have a reasonable expectation that the Group has sufficient resources to continue in operation for at least twelve months from the date of approval of the financial statements. In making this assessment the Directors have considered the continuing and potential impact of the Covid-19 pandemic on the Group's business over the period of assessment, including consideration of updated financial projections.

(b) New IFRS accounting standards effective for the year ended 31 December 2020

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

- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to References to the Conceptual Framework in IFRS standards

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(c) 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 for this accounting period or have not yet been endorsed by the EU:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current
- Amendments to IFRS 16: Covid-19 Related Rent Concessions
- Amendments to IAS 16: Property, Plant and Equipment- Proceeds before intended use
- Annual Improvements to IFRS Standards 2018- 2020 Cycle
- Amendments to IAS 37: Onerous Contracts- Costs of Fulfilling a Contract
- Amendments to IFRS 3 Business Combinations: References to the Conceptual Framework
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates.
- IFRS 17 Insurance Contracts

It is anticipated that application of the remaining IFRS amendments and annual improvements, in issue at 31 December 2020, but not yet effective, will not have a significant impact on the Group's financial statements.

(d) 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).

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 positive this is recognised as goodwill. When the excess is negative, a bargain purchase gain is recognised immediately 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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. 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.

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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

ii. 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.

iii. 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:

Distribution pipelines	60 years
Transmission pipelines	25 - 40 years
Compressor stations	20 years
Turbines	30,000 - 48,000 hours
Meters	15 years
Buildings	40 years

Depreciation is not charged on land or assets under construction.

Depreciation method, useful lives (including production hours) and residual values are reviewed at each reporting date and adjusted if appropriate.

iv. Borrowing costs

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

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

(iv) Intangible Assets

i. Software and software under development

Software costs include both internally developed and externally purchased assets.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

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

ii. 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 between three and seven years.

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

iii. 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, and goodwill are tested annually for impairment.

ii. Assets that are subject to depreciation/amortisation

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

iii. Recognition of an impairment loss

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

iv. Reversal of an impairment loss

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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. Using the asset's revised carrying amount, depreciation/amortisation is provided on a straight-line basis over the estimated remaining useful life.

(vi) Leases

The Group as Lessee

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

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

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

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

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

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

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

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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 (iv) above.

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

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

The Group as Lessor

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

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

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

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

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 the lower of cost and net realisable value.

(viii) Financial Assets and Liabilities

i. Derivative financial instruments

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:

- 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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

- 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. 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 where appropriate.

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 (same line item as the derivative) with an adjustment to the carrying amount of the hedged item. The ineffective portion is recognised in the income statement immediately. 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 where appropriate.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

ii. Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings that are not in a fair value hedging relationship are stated at amortised cost using the effective interest rate method. Borrowings designated in a fair value relationship are measured at fair value for hedged risks, with any gains or losses arising on changes in fair value recognised in profit or loss, unless these changes are attributable to the Group's own credit risk, in which case these are recognised within other comprehensive income.

iii. Non-derivative financial assets and liabilities

Trade and other receivables

Trade and other receivables are initially recognised at the transaction price receivable and are subsequently carried at this value as there is no significant financing component less an appropriate allowance for expected credit losses. Impairment losses are provided for using a lifetime expected credit loss model, with the expected impairment being recognised as an expense in operating costs. The expected credit loss amount is calculated by applying expected loss rates, based on actual historical cash collection performance, to the aged debt profile with future macro-economic factors and factors specific to the debtors taken into consideration.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Where the conditions and intention for offset exists, debit balances are combined with credit balances and this combined balance is presented on the balance sheet.

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.

Loans and balances with Group companies (Company)

Loans and balances with Group companies are non-derivative financial assets or liabilities which are not quoted in an active market. They are included in current trade and other receivables or current trade and other payables in the Parent balance sheet, except for those with an expectation of collection greater than twelve months after the balance sheet date, which are included in non-current trade and other receivables or non-current trade and other payables. These are initially recorded at fair value and subsequently accounted for at amortised cost less expected credit loss.

(ix) Provisions and Contingent Liabilities

The Group evaluates its exposures to contingent liabilities relating to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or Government regulation. A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made after careful analysis of the individual matter. Analysis includes assessing the likelihood that a pending claim will succeed, or a liability will arise, and the point of recognition for the associated liability.

Matters that either are possible obligations or do not meet the recognition criteria for a provision are recognised as contingent liabilities, unless the possibility of transferring economic benefits is remote.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

Provisions determined may change in the future due to new developments and as additional information becomes available. Reflecting the inherent uncertainty in this evaluation process actual costs may be different from the estimated provision. Details of provisions are disclosed in note 21.

(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) above).

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

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

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

(xii) Operating Profit

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(xiii) Net Finance Costs

Finance costs comprise interest payable on borrowings, financing charge on provisions (recognised following assessment if material), 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.

(xiv) Income Tax

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

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

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

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

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.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(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 2011: Employee Benefits) 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.

(e) 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 are assessed in the preparation of these financial statements, and due consideration has been given to relevant macro-economic factors, (including the Covid-19 pandemic and Brexit).

These estimates, assumptions and judgements affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these estimates could have a material effect on the financial statements.

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

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

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

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(ii) Estimation uncertainty

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

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

As of 31 December 2020, the aggregate of the Group's property, plant and equipment (PP&E) and intangible assets was €2,534.3 million (2019: €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 (2020: €137.8 million) which are primarily calculated to write down the cost of PP&E and intangible assets over their expected useful economic lives. In the case of PP&E in particular, the determination of estimated useful lives of assets requires significant judgement, that 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 (d)). 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. See note 9 for a sensitivity analysis of the impact were shorter useful economic lives presumed for the Group's property, plant and equipment.

(b) Provisions and other liabilities

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. Given the nature of these provisions and the estimation uncertainty involved, further sensitivity analysis on these amounts is not deemed practicable. Refer to note 21 for further detail.

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. Therefore the segment profit and segment assets and liabilities as reported to the chief operating decision maker are as set out in the Group Income Statement and Group Balance Sheet respectively and therefore no further segmental information is provided in this note.

(a) Revenue

	2020	2019
	€'000	€'000
External revenue split by geographic location is as follows:		
Ireland	410,972	432,132
UK (including Northern Ireland and Isle of Man)	36,305	37,731
Total	**447,277**	**469,863**

Included in the Group's revenue of €447.3 million for 2020 (2019: €469.9 million) are revenues of €121.3 million (2019: €125 million), €70.5 million (2019: €65.1 million) and €48.3 million (2019: €50.9 million) which arose from sales to the Group's three largest customers.

(b) Non-current assets by geographic location

	2020	2019
	€'000	€'000
Ireland	2,153,107	2,160,819
UK (including Northern Ireland and Isle of Man)	381,233	411,750
Total	**2,534,340**	**2,572,569**

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

Notes to the Group financial statements (continued)

3. Revenue

	2020 €'000	2019 €'000
Regulated[1]	400,235	414,916
Unregulated - transportation contracts	25,908	27,603
Unregulated - new connections contracts	4,442	5,464
Unregulated - other[2]	16,692	21,880
Total	**447,277**	**469,863**

[1] Regulated revenue is commodity and capacity revenue earned and regulated by the Commission for Regulation of Utilities ("CRU") and the Northern Ireland Authority for Utility Regulaton ("NIAUR").

[2] Unregulated other primarily relates to revenue from the Aurora telecommunications business and sales for operational services that are ancillary to the use of the gas transportation system.

4. Operating Costs Net (excluding depreciation and amortisation)

		2020 €'000	2019 €'000
Employee benefit expense	5	(44,921)	(41,550)
Hired and contracted services		(7,819)	(8,162)
Materials, maintenance and sub-contractor costs		(45,691)	(45,093)
Rates and facilities		(32,269)	(30,426)
Central transactional and support service costs	26	(25,993)	(27,074)
Other operating expenses		(26,830)	(33,205)
Other operating income		1,600	-
Total		**(181,923)**	**(185,510)**

Notes to the Group financial statements (continued)

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

Operating costs are stated after charging:

	2020	2019
	€'000	€'000
(a) Auditor's remuneration		
- audit of the Group financial statements[1]	(145)	(144)
- other assurance services	(27)	(27)
- tax advisory services	-	-
- other non-audit services	-	(60)
Total	**(172)**	**(231)**

[1] The audit of the Group financial statements includes the audit of subsidiary companies.

	2020	2019
	€'000	€'000
(b) Directors' remuneration*		
Directors - fees	-	-
Directors - emoluments	(491)	(459)
Directors - defined benefit pension contributions	(69)	(61)
Directors - defined contribution pension contributions	-	(4)
Total	**(560)**	**(524)**

*In accordance with the Articles of Association of the Group, the Directors are not entitled to receive fees. Remuneration of the Directors as disclosed above represents an apportionment of total remuneration earned in their capacity as salaried employees of Ervia, based on services provided to the Group. The number of directors to whom defined benefit pension contributions accrued was 6 (2019:6) and the number of directors to whom defined contribution pension contributions accrued was nil (2019:1).

	2020	2019
	€'000	€'000
(c) Managing Director salary and benefits		
Managing Director's basic salary	(200)	(195)
Other short-term employee benefits	(51)	(49)
Post-employment benefits - pension contributions	(35)	(34)
Total	**(286)**	**(278)**

Notes to the Group financial statements (continued)

5. Employee Benefits

(a) (i) Aggregate employee benefits

	2020 €'000	2019 €'000
Staff short-term benefits	(43,928)	(41,299)
Post-employment benefits - pension contributions	(5,617)	(5,357)
Social insurance costs	(4,752)	(4,497)
	(54,297)	(51,153)
Capitalised payroll	9,376	9,603
Employee benefit expense charged to profit or loss	**(44,921)**	**(41,550)**

(ii) Staff short-term benefits

	2020 €'000	2019 €'000
Wages and salaries	(41,211)	(38,644)
Overtime	(1,125)	(1,058)
Allowances	(682)	(742)
Other[1]	(910)	(855)
Total	**(43,928)**	**(41,299)**

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

The average monthly number of employees providing services to the Group and the Company for the year was 546 (2019: 532).

The Group recognised employee termination expenses of €nil in the reporting period (2019: €nil). Refer to note 21 for details of termination benefits charged against the restructuring provision.

6. Depreciation and Amortisation

		2020 €'000	2019 €'000
Depreciation of property, plant and equipment	9	(137,939)	(139,052)
Depreciation of right-of-use assets	10	(362)	(362)
Amortisation of intangible assets	11	(5,986)	(5,964)
Grant amortisation	20	6,500	6,516
Total		**(137,787)**	**(138,862)**

Notes to the Group financial statements (continued)

7. Net Finance Costs

		2020 €'000	2019 €'000
Before remeasurements			
Finance costs			
Interest and other charges on borrowings		(19,181)	(19,285)
Interest capitalised		270	218
Lease liability finance charge	10	(100)	(104)
Total finance costs		**(19,011)**	**(19,171)**
Remeasurements			
Net changes in fair value of financing undesignated derivatives		1,948	1,883
Net changes in fair value of financial instruments designated in a fair value hedging relationship		72	(1,340)
Total remeasurement items		**2,020**	**543**
Total			
Finance income		2,020	1,883
Finance costs		(19,011)	(20,511)
Net finance costs		**(16,991)**	**(18,628)**

Notes to the Group financial statements (continued)

8. Tax

Income tax expense

	31-Dec-20 €'000	31-Dec-19 €'000
Current tax expense		
Current tax	(17,847)	(21,610)
Adjustments in respect of previous years	(27)	47
	(17,874)	(21,563)
Deferred tax credit		
Origination and reversal of temporary differences	1,423	3,254
Adjustments in respect of previous years	(560)	350
	863	3,604
Total income tax expense	**(17,011)**	**(17,959)**

Reconciliation of effective tax rate

	31-Dec-20 €'000	31-Dec-19 €'000
Profit before income tax	110,576	126,863
Taxed at 12.5% (2019: 12.5%)	(13,822)	(15,858)
Expenses not deductible for tax purposes[1]	(1,785)	(1,480)
Income not taxable	493	492
Profits taxed at higher rates[2]	(1,285)	(1,445)
Effect of tax rate change	-	(132)
Exchange adjustments	(25)	67
Adjustments in respect of previous years[3]	(587)	397
	(17,011)	**(17,959)**

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

[1] Primarily relates to depreciation on capital expenditure that is not allowable for tax purposes.

[2] UK subsidiary profits subject to taxation at 19%, compared to Irish tax rate of 12.5%.

[3] Adjustments in respect of previous years is primarily due to agreement of prior period tax returns.

Notes to the Group financial statements (continued)

8. Tax (continued)

Current tax assets and liabilities

	31-Dec-20	31-Dec-19
	€'000	€'000
Current tax liabilities	**(9)**	**(3,521)**

Deferred tax assets and liabilities

	Derivative financial instruments	Accelerated tax depreciation[1]	Interest[2]	Other	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2019	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)**
Recognised in income statement		2,058	(1,210)	15	863
Recognised in equity	99	-	-	-	99
Exchange adjustments	-	849	(437)		412
At 31 December 2020	**171**	**(210,990)**	**5,839**	**(145)**	**(205,125)**

[1] The deferred tax liability arises primarily due to temporary timing differences arising from the Group's assets being subject to capital allowances under tax legislation (tax depreciation) over a shorter period than that applied to accounting depreciation (based on the useful economic lives of the assets).

[2] The deferred tax asset arises primarily due to temporary timing differences between when certain interest charges are incurred by the Group and when the associated corporation tax deduction is received, on a paid basis.

Deferred tax has not been provided for in relation to unremitted reserves of the Group's overseas subsidiary which were €156.5 million as at 31 December 2020 (2019 €145.6 million).

9. Property, Plant and Equipment

		31-Dec-20	31-Dec-19
		€'000	€'000
Property, plant and equipment - owned assets		2,502,466	2,544,762
Property, plant and equipment - leased assets	10	4,471	4,833
Property, plant and equipment - as presented on the balance sheet		**2,506,937**	**2,549,595**

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 2019	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	-	13,850	184	14,034
At 31 December 2019	**67,992**	**4,395,062**	**48,844**	**4,511,898**
Additions	-	11,848	89,841	101,689
Disposals	-	(4,017)	-	(4,017)
Transfers in year	-	68,564	(68,564)	-
Effect of movement in exchange rates	-	(13,189)	(102)	(13,291)
At 31 December 2020	**67,992**	**4,458,268**	**70,019**	**4,596,279**
Accumulated depreciation and impairment losses				
At 1 January 2019	(24,158)	(1,802,084)	-	(1,826,242)
Depreciation for the year	(1,498)	(137,554)	-	(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)**
Depreciation for the year	(1,436)	(136,503)	-	(137,939)
Disposals	-	4,017	-	4,017
Effect of movement in exchange rates	-	7,245	-	7,245
At 31 December 2020	**(27,092)**	**(2,066,721)**	**-**	**(2,093,813)**
Carrying amounts				
At 31 December 2019[1]	42,336	2,453,582	48,844	2,544,762
At 31 December 2020[1]	**40,900**	**2,391,547**	**70,019**	**2,502,466**

[1] The carrying value of property, plant and equipment includes assets that are subject to operating lease arrangements as described in note 10 'The Group as Lessor'. The carrying value of these assets at 31 December 2020 was €82 million (31 December 2019: €95.2 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 €0.3 million (2019: €0.2 million) in borrowing costs. The capitalisation rate was 1.47% (2019: 1.69%). The Group also capitalised €9.1 million in payroll costs during the year (2019: €9.3 million).

Capital commitments

	2020 €'million	2019 €'million
Capital expenditure that has been contracted for but has not been provided for	53	35

Depreciation sensitivity

Given it is an area of estimation uncertainty, as described in note 1 (e), below we provide a sensitivity on the depreciation charge were a shorter useful economic life (UEL) presumed:

	Increase in depreciation expense €'000
UEL limited to 2050	11,284
UEL limited to 2060	2,892
UEL limited to 2070	448

10. Lease Assets and Liabilities

The Group as Lessee

The Group has entered into 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.

Notes to the Group financial statements (continued)

10. Lease Assets and Liabilities (continued)

Amounts recognised on the balance sheet

Right-of-use assets

	Land and buildings €'000	Plant, pipeline and machinery €'000	Total €'000
Cost			
At 1 January 2019	529	4,629	5,158
Additions	37	-	37
At 31 December 2019	**566**	**4,629**	**5,195**
Additions	-	-	-
At 31 December 2020	**566**	**4,629**	**5,195**
Accumulated depreciation and impairment losses			
At 1 January 2019	-	-	-
Charge for the year	(97)	(265)	(362)
At 31 December 2019	**(97)**	**(265)**	**(362)**
Charge for the year	(97)	(265)	(362)
At 31 December 2020	**(194)**	**(530)**	**(724)**
Carrying amounts			
At 31 December 2019	469	4,364	4,833
At 31 December 2020	**372**	**4,099**	**4,471**
Lease liabilities			
At 1 January 2019	(513)	(3,242)	(3,755)
Additions	(37)	-	(37)
Interest expense	(6)	(98)	(104)
Lease payments	100	240	340
At 31 December 2019	**(456)**	**(3,100)**	**(3,556)**
Additions	-	-	-
Interest expense	(5)	(95)	(100)
Lease payments	100	241	341
At 31 December 2020	**(361)**	**(2,954)**	**(3,315)**

Notes to the Group financial statements (continued)

10. Lease Assets and Liabilities (continued)

Analysed as follows:

	2020 €'000	2019 €'000
Non-current	(3,068)	(3,221)
Current	(247)	(335)
Total	**(3,315)**	**(3,556)**

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.

The Group as Lessor

The Group enters into 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 3 to 11 years.

Maturity analysis

	31-Dec-20 €'000	31-Dec-19 €'000
Year 1	22,185	22,948
Year 2	20,889	21,984
Year 3	16,708	20,748
Year 4	8,296	16,682
Year 5	10,671	8,296
Year 6 onwards	87,418	98,175
Total	**166,167**	**188,833**

Notes to the Group financial statements (continued)

11. Intangible Assets

	Software and other	Software under development	Total
	€'000	€'000	€'000
Cost			
At 1 January 2019	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**
Additions (incl internally developed)	-	10,430	10,430
Transfers in year	10,328	(10,328)	-
Effect of movement in exchange rates	(68)	(4)	(72)
At 31 December 2020	**157,370**	**8,503**	**165,873**
Accumulated amortisation and impairment losses			
At 1 January 2019	(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)**
Amortisation for the year	(5,986)	-	(5,986)
Effect of movement in exchange rates	57	-	57
At 31 December 2020	**(138,470)**	**-**	**(138,470)**
Carrying amounts			
At 31 December 2019	14,569	8,405	22,974
At 31 December 2020	**18,900**	**8,503**	**27,403**

The Group capitalised €0.3 million in payroll costs during the year (2019: €0.3 million).

Notes to the Group financial statements (continued)

12. Inventory

	31-Dec-20 €'000	31-Dec-19 €'000
Gas stock and engineering materials	**3,016**	**2,578**

No inventory was pledged as security.

13. Trade and Other Receivables

	31-Dec-20 €'000	31-Dec-19 €'000
Use of system receivable - billed	2,888	3,448
Use of system receivable - unbilled	39,977	36,100
Other trade receivables - billed	2,453	2,659
Other trade receivables - unbilled	2,556	2,461
Other receivables	1,390	3,522
Amounts due from non-controlled undertakings	19	845
Sub-total	**49,283**	**49,035**
Grant receivable	-	7,099
Prepayments	5,241	4,849
Total	**54,524**	**60,983**
Analysed as follows:		
Non-current	-	-
Current	54,524	60,983
Total	**54,524**	**60,983**

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.

There are no material expected credit loss allowances recognised by the Group and the Group does not expect any significant losses of receivables that have not been provided.

Notes to the Group financial statements (continued)

13. Trade and Other Receivables (continued)

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.

UK (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).

The Group's maximum exposure of trade receivables and other receivables to credit risk at the reporting date is €49.3 million (2019: €49.0 million). Prepayments of €4.7 million (2019: €4.9 million) are excluded as no credit exposure arises.

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

	2020	2019
	€'000	€'000
Republic of Ireland	42,793	41,671
UK (including Northern Ireland and Isle of Man)	6,490	7,364
Total	**49,283**	**49,035**

Notes to the Group financial statements (continued)

13. Trade and Other Receivables (continued)

The majority of the Group's trade and other receivables are collected within 30 days of the invoice date. Customer payment behaviour has remained unchanged throughout the Covid-19 pandemic. Given the credit worthiness of the Group's trade and other receivables, a provision matrix is not used by the Group and an adjustment in respect of macro-economic factors is assessed as not required as it would not have a material impact on the expected credit losses (ECL) recognised. Instead an assessment of ECL is performed on individual debtors. As noted above, there are no material expected credit loss allowances recognised by the Group and the Group does not expect any significant losses of receivables that have not been provided. The Group writes off trade and other receivables 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 into 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 expected credit loss allowance that has been recognised for trade and other receivables in accordance with the simplified approach as set out in IFRS 9.

Individually assessed

	2020	2019
	€'000	€'000
At 1 January	(507)	(464)
Impairment losses on financial assets	(110)	(65)
Allowance utilised	21	22
At 31 December	**(596)**	**(507)**

The ageing of trade and other receivables, net of expected credit losses, is as follows:

	Net receivable	Net receivable
	2020	2019
	€'000	€'000
Not past due	47,529	47,014
0 – 30 days overdue	1,621	1,470
31 – 120 days overdue	119	157
> 120 days overdue	14	394
Total	**49,283**	**49,035**

Notes to the Group financial statements (continued)

14. Cash and Cash Equivalents

Cash and cash equivalents are held for the purposes of meeting short-term cash commitments.

	31-Dec-20	31-Dec-19
	€'000	€'000
Short-term deposits	59,500	62,000
Cash at bank and in hand	37,405	39,274
Total	**96,905**	**101,274**

Cash and cash equivalents primarily comprise cash balances and short-term bank deposits with an original maturity of less than three months. The carrying amount of these assets approximates their fair value. The credit risk on liquid funds is limited because the counterparties are banks with investment credit ratings assigned by international credit rating agencies. The Group's Treasury Policy is to seek to deal with counterparties with credit ratings of at a minimum A- (S&P or equivalent).

	2020	2019
	€'000	€'000
At 1 January	101,274	116,590
Decrease in cash and cash equivalents in the statement of cash flows	(3,949)	(15,714)
Effect of exchange rate fluctuations on cash held	(420)	398
At 31 December	**96,905**	**101,274**

15. Restricted Deposits

	31-Dec-20	31-Dec-19
	€'000	€'000
Current	17,603	17,717
Total	**17,603**	**17,717**

Restricted deposits include amounts held in respect of gas network shipper security deposits (note 13) and certain connection agreements (note 19). The level of shipper security in place is assessed on a regular basis, and further deposits or refunds are made if required, in accordance with the Gas Networks Ireland Code of Operations. Connection agreement security deposits are held to underwrite the capital cost of large connection projects (returned to the customers on a phased basis over 2-3 years) and to underwrite capacity payments (returned to the customer over a period of up to 7 years).

Notes to the Group financial statements (continued)

16. Cash Generated from Operations

	Notes	2020	2019
		€'000	€'000
Cash flows from operating activities			
Profit for the year		93,565	108,904
Adjustments for:			
Depreciation and amortisation	6	137,787	138,862
Net finance costs	7	16,991	18,628
Income tax expense	8	17,011	17,959
		265,354	284,353
Working capital changes:			
Change in inventories		(438)	(903)
Change in trade and other receivables		(2,256)	1,957
Change in trade and other payables		(485)	(2,113)
Change in deferred revenue		6,817	685
Change in provisions		(2,872)	(1,938)
Cash from operating activities		**266,120**	**282,041**
Interest paid[1]		(27,853)	(15,476)
Income tax paid		(21,284)	(20,648)
Net cash from operating activities		**216,983**	**245,917**

[1] Interest paid in 2020 includes €11.0 million of interest paid to the ultimate parent undertaking.

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-20 €'000	31-Dec-19 €'000
Bonds	(919,270)	(918,297)
Loans from financial institutions[1]	(215,129)	(268,344)
Lease liabilities	(3,315)	(3,556)
Total	**(1,137,714)**	**(1,190,197)**

Borrowings and other debt analysed as follows:

	31-Dec-20 €'000	31-Dec-19 €'000
Between one and five years	(298,487)	(424,847)
More than five years	(724,367)	(723,561)
Non-current	**(1,022,854)**	**(1,148,408)**
Less than one year	(114,860)	(41,789)
Current	**(114,860)**	**(41,789)**
Total	**(1,137,714)**	**(1,190,197)**

[1] including private placement notes.

Total borrowings include €99.8 million (2019: €139.5 million) of floating rate debt, €1,034.5 million (2019: €1,044.5 million) of fixed rate debt which have been drawn down from various lenders.

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

Net debt

		31-Dec-20 €'000	31-Dec-19 €'000
Total borrowings and other debt		(1,137,714)	(1,190,197)
Less fair value hedges recognised within borrowings	23	4,131	15,318
Less cash and cash equivalents	14	96,905	101,274
Net debt		**(1,036,678)**	**(1,073,605)**

Notes to the Group financial statements (continued)

17. Borrowings and Other Debt (continued)

Changes in liabilities arising from financing activities

	As at 1 January	Proceeds	Repayment	Leases (note 10)	Change in fair value of financial liabilities	Exchange movement	Other non-cash	As at 31 December
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
2019								
Bonds	(619,560)	(298,128)	-	-	-	-	(609)	(918,297)
Loans from financial institutions	(572,266)	(354,695)	655,125	-	8,849	(4,362)	(995)	(268,344)
Lease liabilities	(3,755)	-	-	199	-	-	-	(3,556)
Sub-total external borrowings and other debt	**(1,195,581)**	**(652,823)**	**655,125**	**199**	**8,849**	**(4,362)**	**(1,604)**	**(1,190,197)**
Ultimate parent undertaking[1]	(113,100)	-	85,000	-	-	-	-	(28,100)
Total liabilities from financing activities	**(1,308,681)**	**(652,823)**	**740,125**	**199**	**8,849**	**(4,362)**	**(1,604)**	**(1,218,297)**
2020								
Bonds	(918,297)	-	-	-	-	-	(973)	(919,270)
Loans from financial institutions	(268,344)	-	42,692	-	11,187	-	(664)	(215,129)
Lease liabilities	(3,556)	-	-	241	-	-	-	(3,315)
Sub-total external borrowings and other debt	**(1,190,197)**	**-**	**42,692**	**241**	**11,187**	**-**	**(1,637)**	**(1,137,714)**
Ultimate parent undertaking[1]	(28,100)	-	23,000	-	-	-	-	(5,100)
Total liabilities from financing activities	**(1,218,297)**	**-**	**65,692**	**241**	**11,187**	**-**	**(1,637)**	**(1,142,814)**

[1] Liabilities from financing activities with the ultimate parent undertaking is included within the amounts owed to the ultimate parent undertaking as disclosed in note 22. Refer to note 26 (i) (b) for details on the nature of the liability as at 31 December 2020.

Notes to the Group financial statements (continued)

18. Retirement Benefit Obligations

Defined benefit pension scheme accounted for as a Group Plan

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

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

During 2020, the contributions paid to Ervia in respect of the Gas Networks Ireland's employees was €4.4 million (2019: €4.4 million). These costs are included in the Gas Networks Ireland Group employee benefit expense (note 5) and are identified as a related party transaction in note 26.

Defined contribution scheme

During the year ended 31 December 2020, the Gas Networks Ireland Group contributed €1.2 million in respect of the Ervia defined contribution scheme (2019: €1.0 million), on behalf of its employees. These costs are included in the Gas Networks Ireland Group employee benefit expense (note 5).

19. Deferred Revenue

	2020	2019
	€'000	€'000
At 1 January	(18,792)	(18,107)
Received in year	(12,291)	(6,468)
Credited to the income statement	5,474	5,783
At 31 December	**(25,609)**	**(18,792)**

Analysed as follows:

	31-Dec-20	31-Dec-19
	€'000	€'000
Non-current	(16,927)	(8,723)
Current	(8,682)	(10,069)
Total	**(25,609)**	**(18,792)**

Customer new connection contributions, which are received in advance, are recorded initially as deferred revenue. These 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

	2020 €'000	2019 €'000
At 1 January	(83,206)	(88,012)
Receivable in the year	(899)	(631)
Amortised in year	6,500	6,516
Credited to operating costs	291	88
Effect of movement in exchange rates	1,054	(1,167)
At 31 December	**(76,260)**	**(83,206)**

Analysed as follows:

	31-Dec-20 €'000	31-Dec-19 €'000
Non-current	(69,647)	(76,660)
Current	(6,613)	(6,546)
Total	**(76,260)**	**(83,206)**

There are no un-fullfilled conditions attached to grants recognised in the income statement. In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to. The Group does not expect such circumstances to arise and there were no repayments of grants in the current or prior financial year.

Grants receivable for 2020 of €0.9 million (2019: €0.6 million) related to the grant funding from the Innovation and Networks Executive Agency (INEA) for the Causeway project, the Green Connect infrastructure projects, the Development of Policies, Procedures and Training for Gas Networks Ireland's Operational Technology and the REALISE project. A number of conditions relating to these grant fundings remain in progress at year end. An additional €7.1 million was received in 2020 relating to grant funding from INEA for the Cluden Twinning project. This amount was included in receivables in the 2018 financial statements as all requirements of the grant were fulfilled.

Notes to the Group financial statements (continued)

21. Provisions

Provisions

	Restructuring	Environmental	Self-insured claims	Total
	€'000	€'000	€'000	€'000
At 1 January 2020	(165)	(2,968)	(7,888)	(11,021)
Provisions made in the year	-	(1,400)	(949)	(2,349)
Provisions used in the year	83	4,368	770	5,221
At 31 December 2020	**(82)**	**-**	**(8,067)**	**(8,149)**

Analysed as follows:

	31-Dec-20	31-Dec-19
	€'000	€'000
Non-current	(3,391)	(6,245)
Current	(4,758)	(4,776)
Total	**(8,149)**	**(11,021)**

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 €0.083 million in aggregate during 2020 in respect of four employees who exited under the terms of the programme. These liabilities are expected to be substantially discharged by 2023.

Environmental

All liabilities in respect of environmental provisions have been discharged at year-end.

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 2020. 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 2020, €1.4 million (2019: €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 2020 (2019: €nil).

Notes to the Group financial statements (continued)

21. Provisions (continued)

The Group is subject to various litigation, claims and contract disputes in the ordinary course of operations. While any such proceedings have an element of uncertainty, we do not expect the ultimate resolution of these proceedings to have a material adverse effect on the Group's results from operations, operating cash flows or net asset financial position.

22. Trade and Other Payables

	31-Dec-20	31-Dec-19
	€'000	€'000
Trade payables	(7,077)	(9,674)
Accrued expenses	(64,647)	(65,051)
Amounts owed to ultimate parent undertaking	(39,173)	(76,385)
Other payables	(24,404)	(25,359)
Taxation and social insurance creditors[1]	(15,317)	(15,595)
Total	**(150,618)**	**(192,064)**
Analysed as follows:		
Non-current	(15,287)	(13,603)
Current	(135,331)	(178,461)
Total	**(150,618)**	**(192,064)**
[1]Taxation and social insurance creditors		
PAYE/social insurance	(1,639)	(896)
VAT	(13,678)	(14,699)
Total	**(15,317)**	**(15,595)**

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments

Fair value by class of derivative financial instrument

Cross currency interest rate swaps (CCIRS)

The Group entered into a number of CCIRS matching the maturity profile of the tranches of the debt to convert fixed USD debt on the 2009 USD Private Placement to floating EUR commitments by hedging the currency risk and the interest rate risk arising from movements in US interest rates, being the conversion of the associated US Dollar exchange rate exposures to euro and to convert the underlying interest rates to floating, with regard to the fixed rate debt.

The CCIRS 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).

The Group is exposed to the following interest rate benchmark within its hedge accounting relationships, which are subject to interest rate benchmark reform. The Group has considered the update to IFRS 9 and has completed an assessment of the Interest Rate Benchmark reform. The Group assessed there to be no material impact given the short-term to maturity (the instrument is due to mature on 31 March 2021).

Interest rate swaps

The Group has entered into interest rate swaps to fix the effective interest rate on €111 million 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.

The Group's project finance debt secured over the assets of Gas Networks Ireland (IOM) DAC, was fully repaid in 2020, along with the associated inflation linked interest rate swaps.

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 2020 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	Total at amortised cost	Total
		€'000	€'000	€'000	€'000	€'000
At 31 December 2020						
Financial assets						
Cross currency interest rate swaps	Level 2	-	5,618	(1,371)	-	4,247
Foreign exchange rate contracts	Level 2	202	-	-	-	202
Trade and other receivables²		-	-	-	49,283	49,283
Cash and cash equivalents³		-	-	-	96,905	96,905
Restricted deposits		-	-	-	17,603	17,603
Total financial assets		**202**	**5,618**	**(1,371)**	**163,791**	**168,240**
Financial liabilities						
Borrowings and other debt	Level 2	-	(4,131)	-	(1,133,583)	(1,137,714)
Interest rate swaps	Level 2	(132)	-	-	-	(132)
Foreign exchange rate contracts	Level 2	(145)	-	-	-	(145)
Trade and other payables¹		-	-	-	(70,654)	(70,654)
Total financial liabilities		**(277)**	**(4,131)**	**-**	**(1,204,237)**	**(1,208,645)**
Net financial (liabilities)/assets		**(75)**	**1,487**	**(1,371)**	**(1,040,446)**	**(1,040,405)**
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 receivables²		-	-	-	49,035	49,035
Cash and cash equivalents³		-	-	-	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 debt⁴	Level 2	-	(15,318)	-	(1,174,879)	(1,190,197)
Interest rate swaps (incl inflation linked)	Level 2	(2,245)	-	-	-	(2,245)
Foreign exchange rate contracts	Level 2	(649)	-	-	-	(649)
Trade and other payables¹		-	-	-	(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)**

1 Accrued expenses and taxation liabilities have been excluded as these are not classified as financial liabilities.

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

3 Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. As at 31 December 2020, €64.8 million of cash (2019: €53.5 million) is offset against €27.4 million of bank overdrafts (2019: €14.2 million), and a net position of €37.4 million is presented as "cash in bank and in hand " in note 14 (2019: €39.3 million). As at 31 December 2020, the Group had entered no master netting arrangements and other similar agreements.

4 The fair value of borrowings and other debt as at 31 December 2020 was €1,214.3 million (2019: €1,238.4 million).

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

The fair values of financial instruments, grouped by class of instrument, are as follows:

	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Total
	€'000	€'000	€'000	€'000	€'000
Fair value of financial instruments					
Interest rate swaps	-	-	(394)	-	(394)
Inflation linked interest rate swaps	-	-	-	(1,851)	(1,851)
Cross currency interest rate swaps	16,157	-	-	-	16,157
Foreign exchange contracts	106	764	(53)	(596)	221
At 31 December 2019	**16,263**	**764**	**(447)**	**(2,447)**	**14,133**
Fair value of financial instruments					
Interest rate swaps	-	-	-	(132)	(132)
Cross currency interest rate swaps	-	4,247	-	-	4,247
Foreign exchange contracts	-	202	-	(145)	57
At 31 December 2020	**-**	**4,449**	**-**	**(277)**	**4,172**

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, or a firm commitment to purchase or sell an asset. The ineffective portion of fair value hedges was €nil for 2020 (2019: €0.03 million). The fair value of hedging derivatives in a fair value hedge in the balance sheet as at 31 December 2020 was €5.6 million asset (2019: €16.7 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 2020 was €1.4 million liability (2019: €0.6 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 recognised in profit or loss due to ineffectiveness on cash flow hedges during 2020 was €nil (2019: €nil).

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

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 2020					
Cross currency interest rate swaps	(1,371)	-	-	-	(1,371)
Cash flow hedging derivatives	**(1,371)**	**-**	**-**	**-**	**(1,371)**
At 31 December 2019					
Cross currency interest rate swaps	-	(576)	-	-	(576)
Cash flow hedging derivatives	**-**	**(576)**	**-**	**-**	**(576)**

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

	CCIRS	Total
	€'000	€'000
At 1 January 2020	(576)	(576)
Net change in fair values	(795)	(795)
At 31 December 2020	**(1,371)**	**(1,371)**

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

Effects of hedge accounting on the financial position and performance

	CCIRS 2020 €'000	CCIRS 2019 €'000
Carrying amount - asset as at 31 December	4,247	16,157
Notional amount	140,000	140,000
Notional unit	USD	USD
Maturity date - earliest	31-Mar-21	31-Mar-21
Maturity date - latest	31-Mar-21	31-Mar-21
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 January	(11,911)	(9,188)
Change in fair value of outstanding hedged item used to determine hedge effectiveness	11,187	8,848
Weighted average hedged rate / price	6.84/1.259	6.84/1.259
Unit of rate / price	Interest rate% / FX rate	

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

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 Financial Transactions of Certain Companies and Other Bodies Act 1992 and any requirements and conditions as may be specified by the Minister for Finance thereunder 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-20	31-Dec-19
	€'000	€'000
Trade and other receivables (excluding prepayments and grants receivable)	49,283	49,035
Cash and cash equivalents	96,905	101,274
Restricted deposits	17,603	17,717
Derivative financial instruments	4,449	17,027
Total	**168,240**	**185,053**

(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 cash equivalents 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 Treasury Policy to seek that cash and derivative transactions are placed with institutions who have a credit rating of at a minimum A- (S&P equivalent). All derivative trades are transacted in compliance with the Requirements and Conditions of the Minister of Finance, issued in accordance with provisions of the Financial Transaction of Certain Companies and Other Bodies Act 1992. This outlines the criteria that must be satisfied regarding each derivative counterparty with which the Group transacts. Group Treasury regularly evaluates and measures its treasury counterparty exposures. Where the exposure on derivative instruments has the potential to be material to the Group's net worth, the Group will consider entering into credit support arrangements.

(i) (b) Trade related credit risk

Refer to note 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.

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

(ii)(a) Funding

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 2020, the Group had €1,595.6 million in committed facilities (2019: €1,585.9 million). Borrowings (exclusive of leases) at 31 December 2020 were €1,134.4 million (2019: €1,186.6 million).

The Group's Private Placement debt will mature on 31 March 2021. This redemption will be funded through existing cash resources and future operating cashflows.

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 funding at competitive cost.

(ii)(b) Cash surpluses

Cash surpluses are used primarily to reduce the level of debt. Cash surpluses are primarily placed on deposit with counterparty banks. 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 2020						
Borrowings and other debt	(1,137,714)	(1,237,179)	(128,745)	(10,314)	(330,663)	(767,457)
Trade and other payables	(70,654)	(70,654)	(65,466)	(5,188)	-	-
Non-derivative financial liabilities	**(1,208,368)**	**(1,307,833)**	**(194,211)**	**(15,502)**	**(330,663)**	**(767,457)**
Interest rate swaps	(132)	(266)	(266)	-	-	-
Cross currency interest rate swaps	4,247	5,628	5,628	-	-	-
Foreign exchange rate contracts	57	57	57	-	-	-
Net derivative financial assets	**4,172**	**5,419**	**5,419**	**-**	**-**	**-**
Net financial liabilities	**(1,204,196)**	**(1,302,414)**	**(188,792)**	**(15,502)**	**(330,663)**	**(767,457)**
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 swaps (incl inflation linked)	(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)**

(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 Financial Transactions of Certain Companies and Other Bodies Act 1992 and any requirements and conditions as may be specified by the Minister for Finance thereunder. Group Treasury seeks to apply hedge accounting in order to manage volatility in profit or loss where material in the 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 average GBP foreign exchange rate in 2020 was 1.125 (2019: 1.141) and the year end rate was 1.117 (2019: 1.181).

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. Debt in foreign currency have been hedged 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-20	31-Dec-20	31-Dec-19	31-Dec-19
	€'000	€'000	€'000	€'000
5% Strengthening	(241)	(1,991)	(259)	(1,862)
5% Weakening	241	1,991	259	1,862

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.

The fixed rate debt had an average duration of 5.94 years (2019: 6.95 years).

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

	2020	2020	2019	2019
	€'000	%	€'000	%
At fixed rates[1]	(1,034,553)	91.2%	(1,044,495)	88.0%
At floating rates	(99,846)	8.8%	(139,455)	11.8%
Inflation linked debt	-	0.0%	(2,691)	0.2%
Total	**(1,134,399)**	**100.0%**	**(1,186,641)**	**100.0%**

[1] including swaps.

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

The Group had €922.4 million of fixed rate debt (excluding interest rate swaps) at 31 December 2020 (2019: €921.9 million).

On 31 December 2020, the Group had US$140 million (2019: US$140 million) fixed rate debt outstanding (€111.2 million equivalent (2019: €111.2 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 2020, 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 2020, the weighted average interest rate of the fixed debt portfolio was 1.33% (2019: 1.33%), which comprised three bonds totalling €922.4 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-20	31-Dec-19	31-Dec-20	31-Dec-19
	€'000	€'000	€'000	€'000
50 bp increase	(499)	(30)	-	-
50 bp decrease	499	15	-	-

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.

Notes to the Group financial statements (continued)

24. Fair Value Measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities. In estimating the fair value of an asset or a liability, the Group uses market observable data to the extent that it is available.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows;

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred. There were no transfers in 2020.

(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. 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 2020, the Group and the Company had the following subsidiaries:

	Company	Nature of Business	% Holding of Ordinary Share Capital
1	GNI (UK) Limited	Gas Transmission	100%
2	Gas Networks Ireland (IOM) DAC	Gas Transmission	100%
3	Network Services Transition DAC (formerly Gaslink Independent System Operator DAC)	Non Trading	100%

At 31 December 2020, 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

Ervia is the ultimate parent of Gas Networks Ireland and 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 a related party of the Government of Ireland.

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. The Group also 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 2020.

Board members had no beneficial interest in the Group at any time during the year.

The related party expense transaction values for 2020 and 2019 are detailed below:

		2020	2019
		€'000	€'000
Ervia	(i)		
Transactional and support service agreement costs	(i) (a)	(25,993)	(27,074)
Dividends	(i) (b)	(47,283)	(54,404)
		(73,276)	**(81,478)**

Notes to the Group financial statements (continued)

26. Related Parties (continued)

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

		31-Dec-20	31-Dec-19
		€'000	€'000
Ervia	(i)	(39,173)	(76,385)
Irish Water	(ii)	19	845
		(39,154)	**(75,540)**

(i) Ultimate parent undertaking

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.

Transactional and Support Servies Provided by Ervia Parent		
Business Services	**Group**	**Other**
Finance 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	
Insurance services	Stakeholder relationships	
Project support services		
Facilities services		
Management and administration		

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

	2020	2019
	€'000	€'000
Employee benefit expense	(56,311)	(51,947)
Hired and contracted services	(3,366)	(6,990)
Materials, maintenance and sub-contractor costs	(11,738)	(11,950)
Rates and facilities	(695)	(1,186)
Other operating expenses	(13,686)	(14,265)
Sub-total before recharges	**(85,796)**	**(86,338)**
Recharges to non-controlled undertakings - Irish Water	52,403	55,979
Recharges to subsidiary undertakings - Gas Networks Ireland	25,993	27,074
Total after recharges[1]	**(7,400)**	**(3,285)**

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

Notes to the Group financial statements (continued)

26. Related Parties (continued)

Basis for the apportionment of Ervia Parent Operating Costs

- 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.
- 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 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.
- 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.
- 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
- 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) (b) Dividends

The Company declared and paid an annual dividend of €47.3 million to Ervia during 2020 (2019: €54.4 million). 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 (with appropriate interest). In March 2021, the Company approved the declaration and payment of an annual dividend of €15.4 million to Ervia for the financial year ended 31 December 2020, subject to the Government's noting of the 2020 Financial Statements of Ervia.

(i) (c) Capital expenditure costs incurred by Ervia Group and recharged to Gas Networks Ireland

The Company transacts with the Ervia Group in respect of joint utility, centrally delivered and business delivered projects including the payroll costs incurred by the Major Projects area. The directly attributable Gas Networks Ireland costs are re-charged on a monthly basis with no overhead or margin applied by the Ervia Group. Capital expenditure costs recharged to Gas Networks Ireland in 2020 were €7.4 million. (2019: €6.7 million). Balances in relation to these tranactions are included in the table above.

(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 €5.6 million (2019: €5.4 million). These costs are included in the Group's employee benefit expense, set out in note 5.

Notes to the Group financial statements (continued)

26. Related Parties (continued)

(ii) Irish Water

Irish Water is deemed to be a related party of the Group. At 31 December 2019, the ultimate parent, Ervia Group held a single voting share in Irish Water, with no economic rights attributable to that share. The Minister for Finance and Minister for Housing, Planning and Local Government each held 325 (2018: 325) Water Economic Rights ('WER') shares which carried no voting rights but carried all the economic rights to obtain benefit from the activities of Irish Water.

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

(iii) Key management compensation

	2020	2019
	€'000	€'000
Short-term employee benefits	(709)	(712)
Post-employment benefits	(73)	(85)
Total	**(782)**	**(797)**

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

27. Subsequent Events

There have been no events between the reporting date and the date on which the financial statements were approved by the Directors, which would require adjustment to these financial statements or any additional disclosures.

Details of dividend declared since the year end are set out in note 26.

28. Approval of Financial Statements

The Directors approved the financial statements on 29th March 2021.

Company Balance Sheet
as at 31 December 2020

	Notes	31-Dec-20 €'000	31-Dec-19 €'000
Assets			
Non-current assets			
Property, plant and equipment	29D	2,126,205	2,138,632
Intangible assets	29F	26,891	22,187
Investment in subsidiary undertakings	29G	515	515
Trade and other receivables	29H	128,868	158,536
Derivative financial instruments	29T	-	16,210
Total non-current assets		**2,282,479**	**2,336,080**
Current assets			
Trade and other receivables	29H	45,760	44,746
Cash and cash equivalents	29J	62,206	64,032
Restricted deposits	29K	13,511	13,392
Derivative financial instruments	29T	4,402	541
Inventories	29I	2,942	2,488
Total current assets		**128,821**	**125,199**
Total assets		**2,411,300**	**2,461,279**
Equity and liabilities			
Equity			
Share capital and share premium		(318,353)	(318,353)
Capital contribution		(363,083)	(363,083)
Retained earnings		(227,232)	(200,391)
Cash flow hedge reserve		1,199	503
Total equity attributable to equity holders of the Company		**(907,469)**	**(881,324)**
Liabilities			
Non-current liabilities			
Borrowings and other debt	29O	(1,022,854)	(1,148,409)
Deferred revenue	29Q	(16,927)	(8,723)
Government grants	29P	(23,413)	(26,916)
Provisions	29R	(3,391)	(6,245)
Trade and other payables	29S	(9,733)	(8,202)
Derivative financial instruments	29T	-	(447)
Deferred tax liabilities	29M	(195,124)	(196,956)
Total non-current liabilities		**(1,271,442)**	**(1,395,898)**
Current liabilities			
Borrowings and other debt	29O	(114,860)	(39,112)
Deferred revenue	29Q	(8,682)	(9,553)
Government grants	29P	(4,072)	(3,906)
Provisions	29R	(4,758)	(4,776)
Derivative financial instruments	29T	(263)	(595)
Trade and other payables	29S	(98,364)	(125,310)
Current tax liabilities	29M	(1,390)	(805)
Total current liabilities		**(232,389)**	**(184,057)**
Total liabilities		**(1,503,831)**	**(1,579,955)**
Total equity and liabilities		**(2,411,300)**	**(2,461,279)**

The profit attributable to the Company for the financial year ended 31 December 2020 was €74.1 million (2019: €85.2 million).

For and on behalf of the Board:

		29th March 2021
Cathal Marley	Denis O'Sullivan	Date of Approval

Company Statement of Changes in Equity

for the financial year ended 31 December 2020

	Share capital and share premium	Capital contribution	Cash flow hedge reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2019	(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 other comprehensive income for the year, net of income tax			(878)	(85,224)	(86,102)
Dividends (note 29U)	-	-	-	54,404	54,404
Balance at 31 December 2019	**(318,353)**	**(363,083)**	**503**	**(200,391)**	**(881,324)**
Profit for the year	-	-	-	(74,124)	(74,124)
Other comprehensive expense for the year, net of income tax	-	-	696	-	696
Total other comprehensive income for the year, net of income tax	-	-	696	(74,124)	(73,428)
Dividends (note 29U)	-	-	-	47,283	47,283
Balance at 31 December 2020	**(318,353)**	**(363,083)**	**1,199**	**(227,232)**	**(907,469)**

All attributable to owners of the Company.

Company Statement of Cash Flows
for the financial year ended 31 December 2020

	Notes	2020	2019
		€'000	€'000
Net cash from operating activities	29L	208,234	166,964
Cash flows from investing activities			
Payments for property, plant and equipment		(99,658)	(100,263)
Payments for intangible assets		(10,065)	(7,302)
Grants received	29P	899	631
Interest received		2,189	2,555
Repayment of loan from subsidiary undertaking		7,099	60,131
Net cash used in investing activities		**(99,536)**	**(44,248)**
Cash flows from financing activities			
Proceeds from borrowings		-	652,823
Repayment of borrowings		(40,000)	(652,592)
Repayment of lease liabilities	29E	(241)	(236)
Repayment of loan to ultimate parent undertaking		(23,000)	(85,000)
Dividends paid	29U	(47,283)	(54,404)
Net cash used in financing activities		**(110,524)**	**(139,409)**
Net decrease in cash and cash equivalents	29J	(1,826)	(16,693)
Cash and cash equivalents at 1 January	29J	64,032	80,725
Cash and cash equivalents at 31 December	29J	**62,206**	**64,032**

Note: 2019 disclosures have been represented to show comparatives consistent with 2020 disclosures - refer to note 29A.

Notes to the Company financial statements

Notes to the Company financial statements (continued)

29A. Accounting Policies

The Company applies consistent accounting policies to those applied by the Group. Refer to note 1. 2019 disclosures in respect of the classification of cashflows from subsidiaries have been represented to show comparatives consistent with 2020 disclosures.

29B. Profit Attributable to the Company

The profit attributable to the Company for the financial year ended 31 December 2020 was €74.1 million (2019: €85.2 million).

29C. Directors' Remuneration and Employee Benefits

Refer to note 4 for the Company's Directors' remuneration disclosures. Refer to note 5 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 29V (b).

29D. Property, Plant and Equipment

		31-Dec-20	31-Dec-19
		€'000	€'000
Property, plant and equipment - owned assets		2,121,734	2,133,799
Property, plant and equipment - leased assets	29E	4,471	4,833
Property, plant and equipment - as presented on the balance sheet		**2,126,205**	**2,138,632**

Notes to the Company financial statements (continued)

29D. 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 2019	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)
At 31 December 2019	**59,641**	**3,632,096**	**41,650**	**3,733,387**
Additions	-	11,158	87,044	98,202
Transfers in year	-	65,506	(65,506)	-
Disposals	-	(4,017)	-	(4,017)
At 31 December 2020	**59,641**	**3,704,743**	**63,188**	**3,827,572**
Accumulated depreciation and impairment losses				
At 1 January 2019	(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)**
Depreciation for the year	(1,217)	(109,050)	-	(110,267)
Disposals	-	4,017	-	4,017
At 31 December 2020	**(21,887)**	**(1,683,951)**	**-**	**(1,705,838)**
Carrying amounts				
At 31 December 2019[1]	38,971	2,053,178	41,650	2,133,799
At 31 December 2020[1]	**37,754**	**2,020,792**	**63,188**	**2,121,734**

[1] The carrying value of property, plant and equipment includes assets that are subject to operating lease arrangements as described in note 29E 'The Company as Lessor'. The carrying value of these assets at 31 December 2020 was €74.5 million (31 December 2019: €84.7 million) and is included in plant, pipeline and machinery.

Notes to the Company financial statements (continued)

29D. Property, Plant and Equipment (continued)

During the year, the Company capitalised €0.2 million (2019: €0.2 million) in borrowing costs. The capitalisation rate was 1.47% (2019: 1.69%). The Company also capitalised €9.1 million in payroll costs during the year (2019: €9.3 million).

Capital commitments

	2020	2019
	€'million	€'million
Capital expenditure that has been contracted for but has not been provided for	48	31

29E. Lease Assets and Liabilities

The Company as Lessee

The Company has entered into 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.

Notes to the Company financial statements (continued)

29E. Lease Assets and Liabilities (continued)

Amounts recognised on the balance sheet

Right-of-use assets

	Land and buildings	Plant, pipeline and machinery	Total
	€'000	€'000	€'000
Cost			
At 1 January 2019	529	4,629	5,158
Additions	37	-	37
At 31 December 2019	566	4,629	5,195
Additions	-	-	-
At 31 December 2020	**566**	**4,629**	**5,195**
Accumulated depreciation and impairment losses			
At 1 January 2019	-	-	-
Charge for the year	(97)	(265)	(362)
At 31 December 2019	(97)	(265)	(362)
Charge for the year	(97)	(265)	(362)
At 31 December 2020	**(194)**	**(530)**	**(724)**
Carrying amounts			
At 31 December 2019	469	4,364	4,833
At 31 December 2020	**372**	**4,099**	**4,471**
Lease liabilities			
At 1 January 2019	(513)	(3,242)	(3,755)
Additions	(37)	-	(37)
Interest expense	(6)	(98)	(104)
Lease payments	100	240	340
At 31 December 2019	**(456)**	**(3,100)**	**(3,556)**
Additions	-	-	-
Interest expense	(5)	(94)	(99)
Lease payments	100	240	340
At 31 December 2020	**(361)**	**(2,954)**	**(3,315)**

Notes to the Company financial statements (continued)

29E. Lease Assets and Liabilities (continued)

Analysed as follows:

	2020 €'000	2019 €'000
Non-current	(3,068)	(3,221)
Current	(247)	(335)
Total	**(3,315)**	**(3,556)**

A maturity analysis of lease liabilities is presented in note 29O. The Company does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the relevant business functions.

The Company as Lessor

The Company enters into 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 3 to 11 years.

Maturity analysis

	31-Dec-20 €'000	31-Dec-19 €'000
Year 1	12,711	13,789
Year 2	11,360	12,711
Year 3	9,554	11,360
Year 4	8,296	9,554
Year 5	10,671	8,296
Year 6 onwards	87,418	98,175
Total	**140,010**	**153,885**

Notes to the Company financial statements (continued)

29F. Intangible Assets

	Software and other	Software under development	Total
	€'000	€'000	€'000
Cost			
At 1 January 2019	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**
Additions (incl internally developed)	-	10,427	10,427
Transfers in year	10,328	(10,328)	-
At 31 December 2020	**155,493**	**8,428**	**163,921**
Accumulated amortisation and impairment losses			
At 1 January 2019	(125,609)	-	(125,609)
Amortisation for the year	(5,698)	-	(5,698)
At 31 December 2019	**(131,307)**	**-**	**(131,307)**
Amortisation for the year	(5,723)	-	(5,723)
At 31 December 2020	**(137,030)**	**-**	**(137,030)**
Carrying amount			
At 31 December 2019	13,858	8,329	22,187
At 31 December 2020	**18,463**	**8,428**	**26,891**

The Company capitalised €0.3 million in payroll costs during the year (2019: €0.3 million).

Notes to the Company financial statements (continued)

29G. Investment in Subsidiaries

	31-Dec-20	31-Dec-19
	€'000	€'000
Cost		
At 1 January	515	515
At 31 December	**515**	**515**
Impairment		
At 1 January	-	-
At 31 December	**-**	**-**
Carrying amount		
At 31 December	515	515
At 31 December	**515**	**515**

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

Notes to the Company financial statements (continued)

29H. Trade and Other Receivables

		31-Dec-20	31-Dec-19
		€'000	€'000
Use of system receivable - billed		1,029	1,047
Use of system receivable - unbilled		37,740	34,309
Other trade receivables - billed		2,043	1,529
Other trade receivables - unbilled		504	447
Other receivables		1,459	3,495
Amounts due from subsidiaries	29U	129,088	158,646
Amounts due from non-controlled undertakings	29U	19	845
Sub-total		**171,882**	**200,318**
Prepayments		2,746	2,964
Total		**174,628**	**203,282**
Analysed as follows:			
Non-current		128,868	158,536
Current		45,760	44,746
Total		**174,628**	**203,282**

Trade and other receivables include use of system receivables, other trade receivables and amounts due from subsidiaries - refer to notes 13 and 29U for further details on each of these.

There are no material expected credit losses recognised by the Company and the Company does not expect any significant losses of receivables that have not been provided.

The Company applies the IFRS 9 simplified approach (which uses a lifetime ECL) to measure ECL for all trade and other receivables, with the exception of certain amounts due from subsidiaries, which are measured using the IFRS 9 general approach. The following table analyses total trade and other receivables by the ECL measurement approach applied by the Company.

	2020	2019
	€'000	€'000
Simplified approach	42,794	41,672
General approach	129,088	158,646
Prepayments	2,746	2,964
Total	**174,628**	**203,282**

Notes to the Company financial statements (continued)

29H. Trade and Other Receivables (continued)

Simplified approach - Expected Credit Losses

Refer to note 13 for further detail of the application of the ECL simplified approach within the Group and Company.

The following table shows the movement in expected credit loss allowance that has been recognised for trade and other receivables in accordance with the simplified approach as set out in IFRS 9.

	Individually assessed	
	2020	2019
	€'000	€'000
At 1 January	(507)	(464)
Impairment losses on financial assets	(110)	(65)
Allowance utilised	21	22
At 31 December	**(596)**	**(507)**

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

	Net receivable	Net receivable
	2020	2019
	€'000	€'000
Not past due	41,150	40,364
0 – 30 days overdue	1,533	1,048
31 – 120 days overdue	97	125
> 120 days overdue	14	135
Total	**42,794**	**41,672**

General approach - Expected Credit Losses

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 set out below.

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

Notes to the Company financial statements (continued)

29H. Trade and Other Receivables (continued)

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.

At 31 December 2020, the Company had amounts due from subsidiaries of €129.1 million (2019: €158.7 million). In determining ECL (including probability of default and loss given default), 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 an expected credit loss, regard is 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 and macro-economic factors. Further to this assessment, no ECL allowance is recognised in respect of these amounts at 31 December 2020 (2019: €nil) and no ECL was recognised during the year in respect of these amounts (2019: €nil) due to ECL being assessed as immaterial.

The following table shows the receivables by stage, net of ECL, that are measured in accordance with the general approach as set out in IFRS 9.

	Net receivable	Net receivable
	2020	2019
	€'000	€'000
Stage 1 - 12 Month ECL (not credit impaired)	129,088	158,646
Stage 2 - Lifetime ECL (not credit impaired)	-	-
Stage 3 - Lifetime ECL (credit impaired)	-	-
Total	**129,088**	**158,646**

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

	2020	2019
	€'000	€'000
Ireland	42,794	41,672
UK (including Northern Ireland and Isle of Man)	129,088	158,646
Total	**171,882**	**200,318**

Notes to the Company financial statements (continued)

29I. Inventory

	31-Dec-20	31-Dec-19
	€'000	€'000
Gas stock and engineering materials	**2,942**	**2,488**

There were no write-downs of inventories to net realisable value in 2020 (2019: €nil).

29J. Cash and Cash Equivalents

Cash and cash equivalents are held for the purposes of meeting short term cash commitments.

	31-Dec-20	31-Dec-19
	€'000	€'000
Short-term treasury deposits	59,500	62,000
Cash in bank and cash in hand	2,706	2,032
Total	**62,206**	**64,032**

	2020	2019
	€'000	€'000
At 1 January	64,032	80,725
Decrease in cash and cash equivalents in the statement of cash flows	(1,826)	(16,693)
At 31 December	**62,206**	**64,032**

29K. Restricted Deposits

	31-Dec-20	31-Dec-19
	€'000	€'000
Current	13,511	13,392
Total	**13,511**	**13,392**

Restricted deposits include amounts held in respect of gas network shipper security deposits (note 29H) and certain connection agreements (note 29Q). The level of shipper security in place is assessed on a regular basis, and further deposits or refunds are made if required, in accordance with the Gas Networks Ireland Code of Operations. Connection agreement security deposits are held to underwrite the capital cost of large connection projects (returned to the customers on a phased basis over 2-3 years) and to underwite capacity payments (returned to the customer over a period of up to 7 years).

Notes to the Company financial statements (continued)

29L. Cash Generated from Operations

	2020	2019
	€'000	€'000
Cash flows from operating activities		
Profit for the year	74,124	85,224
Adjustments for:		
Depreciation and amortisation	112,407	112,049
Net finance costs	14,799	15,725
Income tax expense	12,235	13,422
	213,565	226,420
Working capital changes:		
Change in inventories	(454)	(869)
Change in trade and other receivables	(2,181)	(676)
Change in trade and other payables	30,008	(28,599)
Change in deferred revenue	7,333	637
Change in provisions	(2,872)	(1,938)
Cash from operating activities	**245,399**	**194,975**
Interest paid	(23,783)	(13,847)
Income tax paid	(13,382)	(14,164)
Net cash from operating activities	**208,234**	**166,964**

Notes to the Company financial statements (continued)

29M. Tax

Current tax assets and liabilities

	31-Dec-20	31-Dec-19
	€'000	€'000
Current tax liabilities	(1,390)	(805)

Deferred tax assets and liabilities

	Derivative financial instruments	Accelerated tax depreciation[1]	Interest[2]	Other	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2019	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)**
Recognised in income statement	-	1,625	93	15	1,733
Recognised in equity	99	-	-	-	99
At 31 December 2020	**170**	**(195,591)**	**442**	**(145)**	**(195,124)**

[1] The deferred tax liability arises primarily due to temporary timing differences arising from the Company's assets being subject to capital allowances under tax legislation (tax depreciation) over a shorter period than that applied to accounting depreciation (based on the useful economic lives of the assets).

[2] The deferred tax asset arises primarily due to temporary timing differences between when certain interest charges are incurred by the Company and when the associated corporation tax deduction is received, on a paid basis.

29N. Issued Share Capital

	2020	2019
	€'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)

29O. Borrowings and Other Debt

This note provides information about the contractual terms of the Group's interest-bearing borrowings. Refer to note 29T 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-20	31-Dec-19
	€'000	€'000
Bonds	(919,270)	(918,297)
Loans from financial institutions[1]	(215,129)	(265,668)
Lease liabilities	(3,315)	(3,556)
Total	**(1,137,714)**	**(1,187,521)**

Borrowings and other debt analysed as follows:

	31-Dec-20	31-Dec-19
	€'000	€'000
Between one and five years	(298,487)	(424,847)
More than five years	(724,367)	(723,562)
Non-current	**(1,022,854)**	**(1,148,409)**
Less than one year	(114,860)	(39,112)
Current	**(114,860)**	**(39,112)**
Total	**(1,137,714)**	**(1,187,521)**

[1] including private placement notes.

Total borrowings include €99.8 million (2019: €139.5 million) of floating rate debt and €1,034.5 million (2019: €1,044.5 million) of fixed rate debt which have been drawn down from various lenders.

Certain borrowings are held with related parties (refer to note 29U for further details).

Net debt

		31-Dec-20	31-Dec-19
		€'000	€'000
Total borrowings and other debt		(1,137,714)	(1,187,521)
Less fair value hedges recognised within borrowings	29T	4,131	15,318
Less cash and cash equivalents	29J	62,206	64,032
Net debt		**(1,071,377)**	**(1,108,171)**

Notes to the Company financial statements (continued)

29O. Borrowings and Other Debt (continued)

Changes in liabilities arising from financing activities

	As at 1 January	Proceeds	Repayment	Leases (note 29E)	Change in fair value of financial liabilities	Exchange movement	Other non-cash	As at 31 December
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
2019								
Bonds	(619,560)	(298,128)	-	-	-	-	(609)	(918,297)
Loans from financial institutions	(567,044)	(354,695)	652,592	-	8,849	(4,362)	(1,008)	(265,668)
Lease liabilities	(3,755)	-	-	199	-	-	-	(3,556)
Sub-total external borrowings and other debt	**(1,190,359)**	**(652,823)**	**652,592**	**199**	**8,849**	**(4,362)**	**(1,617)**	**(1,187,521)**
Ultimate parent undertaking[1]	(113,100)	-	85,000	-	-	-	-	(28,100)
Total liabilities from financing activities	**(1,303,459)**	**(652,823)**	**737,592**	**199**	**8,849**	**(4,362)**	**(1,617)**	**(1,215,621)**
2020								
Bonds	(918,297)	-	-	-	-	-	(973)	(919,270)
Loans from financial institutions	(265,668)	-	40,000	-	11,187	-	(648)	(215,129)
Lease liabilities	(3,556)	-	-	241	-	-	-	(3,315)
Sub-total external borrowings and other debt	**(1,187,521)**	**-**	**40,000**	**241**	**11,187**	**-**	**(1,621)**	**(1,137,714)**
Ultimate parent undertaking[1]	(28,100)	-	23,000	-	-	-	-	(5,100)
Total liabilities from financing activities	**(1,215,621)**	**-**	**63,000**	**241**	**11,187**	**-**	**(1,621)**	**(1,142,814)**

[1] Liabilities from financing activities with the ultimate parent undertaking is included within the amounts owed to the ultimate parent undertaking as disclosed in note 29S. Refer to note 29U (i) (b) for details on the nature of the liability as at 31 December 2020.

Notes to the Company financial statements (continued)

29P. Government Grants

	2020 €'000	2019 €'000
At 1 January	(30,822)	(34,218)
Received in year	(899)	(631)
Credited to operating costs	291	88
Amortised in year	3,945	3,939
At 31 December	**(27,485)**	**(30,822)**

Analysed as follows:

	31-Dec-20 €'000	31-Dec-19 €'000
Non-current	(23,413)	(26,916)
Current	(4,072)	(3,906)
Total	**(27,485)**	**(30,822)**

In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to. The Company does not expect such circumstances to arise and there were no repayments of grants in the current or prior financial year.

Grants receivable for 2020 of €0.9 million (2019: €0.6 million) related to the grant funding from the Innovation and Networks Executive Agency (INEA) for the Causeway and the Green Connect infrastructure projects and the Development of Policies, Procedures and Training for Gas Networks Ireland's Operational Technology. A number of conditions relating to these grant fundings remain in progress at year end.

Notes to the Company financial statements (continued)

29Q. Deferred Revenue

	2020	2019
	€'000	€'000
At 1 January	(18,276)	(17,639)
Received in the year	(12,291)	(6,420)
Credited to the income statement	4,958	5,783
At 31 December	**(25,609)**	**(18,276)**

Analysed as follows:

	31-Dec-20	31-Dec-19
	€'000	€'000
Non-current	(16,927)	(8,723)
Current	(8,682)	(9,553)
Total	**(25,609)**	**(18,276)**

29R. Provisions

Provisions

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

Contingencies

Contingent liabilities with respect to government grants are disclosed in note 29P.

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 2020, €1.4 million (2019: €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 2020 (2019: €nil).

The Company is subject to various litigation, claims and contract disputes in the ordinary course of operations. While any such proceedings have an element of uncertainty, we do not expect the ultimate resolution of these proceedings to have a material adverse effect on the Company's results from operations, operating cash flows or net asset financial position.

Notes to the Company financial statements (continued)

29S. Trade and Other Payables

	31-Dec-20 €'000	31-Dec-19 €'000
Trade payables	(6,137)	(7,583)
Accruals	(51,533)	(51,174)
Other payables	(22,144)	(22,972)
Amounts owed to ultimate parent undertaking	(12,782)	(36,765)
Taxation and social insurance creditors[1]	(15,501)	(15,018)
Total	**(108,097)**	**(133,512)**
Analysed as follows:		
Non-current	(9,733)	(8,202)
Current	(98,364)	(125,310)
Total	**(108,097)**	**(133,512)**
[1]Taxation and social insurance creditors		
PAYE/ social insurance	(1,632)	(883)
VAT	(13,869)	(14,135)
Total	**(15,501)**	**(15,018)**

29T. Financial Risk Management and Financial Instruments

Fair value by class of derivative financial instrument

Cross currency interest rate swaps (CCIRS)

The Company entered into a number of CCIRS matching the maturity profile of the tranches of the debt to convert fixed USD debt on the 2009 USD Private Placement to floating EUR commitments by hedging the currency risk and the interest rate risk arising from movements in US interest rates, being the conversion of the associated US Dollar exchange rate exposures to euro and to convert the underlying interest rates to floating, with regard to the fixed rate debt.

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).

Notes to the Company financial statements (continued)

29T. Financial Risk Management and Financial Instruments (continued)

The Company is exposed to the following interest rate benchmark within its hedge accounting relationships, which are subject to interest rate benchmark reform. The Group has considered the update to IFRS 9 and has completed an assessment of the Interest Rate Benchmark reform. As the instrument is due to mature on 31 March 2021 and given the short term to maturity, it was deemed that no additional disclosures are required.

Interest rate swaps

The Company has entered into interest rate swaps to fix the effective interest rate on €111 million 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 2020 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 for IFRS 13 disclosures in respect of fair value measurement.

Notes to the Company financial statements (continued)

29T. Financial Risk Management and Financial Instruments (continued)

	Fair value hierarchy	FVTPL undesignated	FVTPL designated	FVTOCI	Total at amortised cost	Total
		€'000	€'000	€'000	€'000	€'000
At 31 December 2020						
Financial assets						
Cross currency interest rate swaps	Level 2	-	5,618	(1,371)	-	4,247
Foreign exchange rate contracts	Level 2	155	-	-	-	155
Trade and other receivables[2]		-	-	-	171,882	171,882
Cash and cash equivalents[3]		-	-	-	62,206	62,206
Restricted deposits		-	-	-	13,511	13,511
Total financial assets/(liabilities)		**155**	**5,618**	**(1,371)**	**247,599**	**252,001**
Financial liabilities						
Borrowings and other debt[4]	Level 2	-	(4,131)	-	(1,133,583)	(1,137,714)
Interest rate swaps	Level 2	(132)	-	-	-	(132)
Foreign exchange rate contracts	Level 2	(131)	-	-	-	(131)
Trade and other payables[1]		-	-	-	(41,063)	(41,063)
Total financial liabilities		**(263)**	**(4,131)**	**-**	**(1,174,646)**	**(1,179,040)**
Net financial (liabilities)/assets		**(108)**	**1,487**	**(1,371)**	**(927,047)**	**(927,039)**
At 31 December 2019						
Financial assets						
Cross currency interest rate swaps	Level 2	-	16,733	(576)	-	16,157
Foreign exchange rate contracts	Level 2	594	-	-	-	594
Trade and other receivables[2]		-	-	-	200,318	200,318
Cash and cash equivalents[3]		-	-	-	64,032	64,032
Restricted deposits		-	-	-	13,392	13,392
Total financial assets		**594**	**16,733**	**(576)**	**277,742**	**294,493**
Financial liabilities						
Borrowings and other debt[4]	Level 2	-	(15,318)	-	(1,172,203)	(1,187,521)
Interest rate swaps	Level 2	(395)	-	-	-	(395)
Foreign exchange rate contracts	Level 2	(647)	-	-	-	(647)
Trade and other payables[1]		-	-	-	(67,320)	(67,320)
Total financial liabilities		(1,042)	(15,318)	-	(1,239,523)	(1,255,883)
Net financial (liabilities)/assets		**(448)**	**1,415**	**(576)**	**(961,781)**	**(961,390)**

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

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

[3] Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. As at 31 December 2020, €30.1 million of cash (2019: €16.3 million) is offset against €27.4 million of bank overdrafts (2019: €14.2 million), and a net position of €2.7 million is presented as "cash in bank and in hand" in note 29J (2019: €2.1 million). As at 31 December 2020, the Group had entered no master netting arrangements and other similar agreements.

[4] The fair value of borrowings and other debt as at 31 December 2020 was €1,214.3 million (2019: €1,238.4 million).

Notes to the Company financial statements (continued)

29T. Financial Risk Management and Financial Instruments (continued)

The fair values of financial instruments, grouped by class of instrument, are as follows:

	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Total
	€'000	€'000	€'000	€'000	€'000
Fair value of financial instruments					
Interest rate swaps	-	-	-	(132)	(132)
Cross currency swaps	-	4,247	-	-	4,247
Foreign exchange contracts	-	155	-	(131)	24
At 31 December 2020	**-**	**4,402**	**-**	**(263)**	**4,139**
Fair value of financial instruments					
Interest rate swaps	-	-	(395)	-	(395)
Cross currency swaps	16,157	-	-	-	16,157
Foreign exchange contracts	53	541	(52)	(595)	(53)
At 31 December 2019	**16,210**	**541**	**(447)**	**(595)**	**15,709**

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 Company 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:

(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 €nil for 2020 (2019: €0.03 million). The fair value of hedging derivatives in a fair value hedge in the balance sheet as at 31 December 2020 was €5.6 million asset (2019: €16.7 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 2020 was €1.4 million liability (2019: €0.6 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 recognised in profit or loss due to ineffectiveness on cash flow hedges during 2020 was €nil (2019: €nil).

Notes to the Company financial statements (continued)

29T. Financial Risk Management and Financial Instruments (continued)

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 2020					
Cross currency interest rate swaps	(1,371)	-	-	-	(1,371)
Cash flow hedging derivatives	**(1,371)**	**-**	**-**	**-**	**(1,371)**
At 31 December 2019					
Cross currency interest rate swaps	-	(576)	-	-	(576)
Cash flow hedging derivatives	**-**	**(576)**	**-**	**-**	**(576)**

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

	CCIRS	Total
	€'000	€'000
At 1 January 2020	(576)	(576)
Net change in fair values	(795)	(795)
At 31 December 2020	**(1,371)**	**(1,371)**

Notes to the Company financial statements (continued)

29T. Financial Risk Management and Financial Instruments (continued)

Effects of hedge accounting on the financial position and performance

	CCIRS 2020 €'000	CCIRS 2019 €'000
Carrying amount - asset as at 31 December	4,247	16,157
Notional amount	140,000	140,000
Notional unit	USD	USD
Maturity date - earliest	31-Mar-21	31-Mar-21
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	(11,911)	(9,188)
Change in fair value of outstanding hedged item used to determine hedge effectiveness	11,187	8,848
Weighted average hedged rate / price	6.84/1.259	6.84/1.259
Unit of rate / price	Interest rate% / FX rate	

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

Financial risk management

Refer to note 23 for details of the Group's financial risk management policies. These objectives, policies and processes are also adopted by the Company.

(i) Credit risk

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

	31-Dec-20 €'000	31-Dec-19 €'000
Trade and other receivables (excluding prepayments)	171,882	200,318
Cash and cash equivalents	62,206	64,032
Restricted deposits	13,511	13,392
Derivative financial instruments	4,402	16,751
Total	**252,001**	**294,493**

Notes to the Company financial statements (continued)

29T. Financial Risk Management and Financial Instruments (continued)

(i) (a) Treasury related credit risk

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

(i) (b) Trade related credit risk

Refer to note 29H for an analysis of the Company's exposure to trade related credit risk.

(ii) Funding and liquidity risk

Refer to note 23 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 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 2020, the Company had €1,595.6 million in committed facilities (2019: €1,583.2 million). Borrowings (excluding leases) at 31 December 2020 were €1,134.4 million (2019: €1,184.0 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)

29T. 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 2020						
Borrowings and other debt	(1,137,714)	(1,237,179)	(128,745)	(10,314)	(330,663)	(767,457)
Trade and other payables	(41,063)	(41,063)	(35,875)	(5,188)	-	-
Non-derivative financial liabilities	**(1,178,777)**	**(1,278,242)**	**(164,620)**	**(15,502)**	**(330,663)**	**(767,457)**
Interest rate swaps	(132)	(266)	(266)	-	-	-
Cross currency interest rate swaps	4,247	5,628	5,628	-	-	-
Foreign exchange rate contracts	24	24	24	-	-	-
Net derivative financial assets	**4,139**	**5,386**	**5,386**	**-**	**-**	**-**
Net financial liabilities	**(1,174,638)**	**(1,272,856)**	**(159,234)**	**(15,502)**	**(330,663)**	**(767,457)**
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 swaps	(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)**

(iii) Market risk

Refer to note 23 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)

29T. Financial Risk Management and Financial Instruments (continued)

The potential exposure to exchange rate risk relates to the transaction exposure and debt in a foreign currency as disclosed in the Group financial statements (note 23).

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-20	31-Dec-20	31-Dec-19	31-Dec-19
	€'000	€'000	€'000	€'000
5% Strengthening	(199)	-	(259)	-
5% Weakening	199	-	259	-

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

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

	2020	2020	2019	2019
	€'000	%	€'000	%
At fixed rates[1]	(1,034,553)	91.2%	(1,044,495)	88.2%
At floating rates	(99,846)	8.8%	(139,470)	11.8%
Total	**(1,134,399)**	**100.0%**	**(1,183,965)**	**100.0%**

[1] including swaps.

The Company had €922.4 million of fixed rate debt (excluding interest rate swaps) at 31 December 2020 (2019: €921.9 million).

Notes to the Company financial statements (continued)

29T. Financial Risk Management and Financial Instruments (continued)

On 31 December 2020, the Company had US$140 million (2019: US$140 million) fixed rate debt outstanding (€111.2 million equivalent (2019: €111.2 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 2020, 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 2020, the weighted average interest rate of the fixed debt portfolio was 1.33% (2019: 1.33%) which comprised of three bonds of €922.4 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	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
	€'000	€'000	€'000	€'000
50 bp increase	(499)	(28)	-	-
50 bp decrease	499	20	-	-

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 the income statement, of a 50bp increase/decrease, is opposite but is not equal in amount because the rate changes in the sensitivity analysis also impacts the discount curves used on the relevant cash flows for interest rate derivatives.

Notes to the Company financial statements (continued)

29U. Related Parties

Ervia is the ultimate parent of Gas Networks Ireland and 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.

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. The Company also 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 2020.

The Board members had no beneficial interests in the Company at any time during the year or at 31 December 2020.

The related party income/(expense) transaction values for 2020 and 2019 are detailed below:

		2020	2019
		€'000	€'000
Ervia	(i)		
Transactional and support service agreement costs	(i) (a)	(25,993)	(27,074)
Dividends	(i) (b)	(47,283)	(54,404)
		(73,276)	**(81,478)**
Subsidiaries	(iii)		
Transactional and support service agreement costs	(iii) (a)	3,318	3,432
Interest income	(iii) (b)	1,845	3,238
Transportation supply services	(iii) (c)	(41,364)	(42,886)
		(36,201)	**(36,216)**

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

		31-Dec-20	31-Dec-19
		€'000	€'000
Ervia	(i)	(12,782)	(36,765)
Irish Water	(ii)	19	845
Subsidiaries	(iii)	129,088	158,646
		116,325	**122,726**

Notes to the Company financial statements (continued)

29U. Related Parties (continued)

(i) Ultimate parent undertaking

(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.

(b) Dividends

The Company declared and paid an annual dividend of €47.3 million to Ervia during 2020 (2019: €54.4 million). 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 (with appropriate interest). In March 2021, the Company approved the declaration and payment of an annual dividend of €15.4 million to Ervia for the financial year ended 31 December 2020, subject to the Government's noting of the 2020 Financial Statements of Ervia.

(c) 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 €5.6 million (2019: €5.4 million). These costs are included in the Company's employee benefit expense, set out in note 5.

(d) Capital expenditure costs incurred by Ervia Group and recharged to Gas Networks Ireland

The Company transacts with the Ervia Group in respect of joint utility, centrally delivered and business delivered projects including the payroll costs incurred by the Major Projects area. The directly attributable Gas Networks Ireland costs are re-charged on a monthly basis with no overhead or margin applied by the Ervia Group. Capital expenditure costs recharged to Gas Networks Ireland in 2020 were €7.4 million (2019: €6.7 million).

(ii) Irish Water

Irish Water is deemed to be a related party of the Company (as described in note 26).

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. All transactions are capital in nature. Balances outstanding in respect of these transactions are included in the table above.

Notes to the Company financial statements (continued)

29U. Related Parties (continued)

(iii) Subsidiaries

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

(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.

(b) Interest income

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

(c) Transportation services

During the year the Company purchased services and supplies of €41.4 million (2019: €42.9 million) from a subsidiary. This expenditure primarily related to transportation services.

29V. Companies Act Disclosures

(a) GNI Company Auditor's remuneration

	2020 €'000	2019 €'000
Auditor's remuneration		
- audit of the Company financial statements	(109)	(108)
- other assurance services	(27)	(27)
- tax advisory services	-	-
- other non-audit services	-	(60)
Total	**(136)**	**(195)**

(b) Companies Act Payroll Disclosures

In 2020 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, the related payroll and other employee benefit costs of these individuals are reported and disclosed in the Ervia Parent and 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 during 2020 is 31 (2019: 31) and the associated payroll costs recorded in the Ervia income statement, but disclosed below are €3.8 million (2019: €3.4 million).

29V. Companies Act Disclosures

(i) Aggregate employee benefits

	2020 €'000	2019 €'000
Staff short-term benefits	(46,970)	(44,012)

	2020 €'000	2019 €'000
Post-employment benefits	(6,035)	(5,727)
Social insurance costs	(5,089)	(4,794)
	(58,094)	**(54,533)**
Capitalised payroll	9,479	9,933
Employee benefit expense charged to profit or loss	**(48,615)**	**(44,600)**

(ii) Staff short-term benefits

	2020 €'000	2019 €'000
Wages and salaries	(44,163)	(41,274)
Overtime	(1,125)	(1,058)
Allowances	(698)	(753)
Other[1]	(984)	(927)
Total	**(46,970)**	**(44,012)**

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

The payroll costs of €3.8 million (2019: €3.4 million) included in the disclosure above are included within the employee benefit expense of the Ervia Parent of €56.3 million (2019: €51.9 million) as set out in note 26. 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.

The average number of employees with a contract of employment with Gas Networks Ireland for the year was 577 (2019: 563).

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