Annual Report and Financial Statements

2017

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1. Business Overview

Introduction

We are Ervia. We are guardians of Ireland's national gas, water and wastewater assets.

We are a commercial semi-state company that provides strategic national gas and water infrastructure and services that underpin the growth of the Irish economy. Through our regulated business, *Gas Networks Ireland*, we build and operate one of the most modern and safe gas networks in the world. We are responsible for the operation and maintenance of Ireland's water and wastewater assets through our other regulated business, *Irish Water*. We also provide dark fibre broadband infrastructure through our business, *Aurora Telecom*.

Performance Highlights 2017

Financial Highlights

	Irish Water	Gas Networks Ireland	Central Services	Total Ervia
Revenue	€1,013m	€473m	-	€1,486m
Profit Before Income Tax and Exceptional Items	€209m	€150m	(€8m)	€351m
Capital Expenditure	€526m	€147m	-	€673m
Employee Numbers	759	539	404	1,702

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

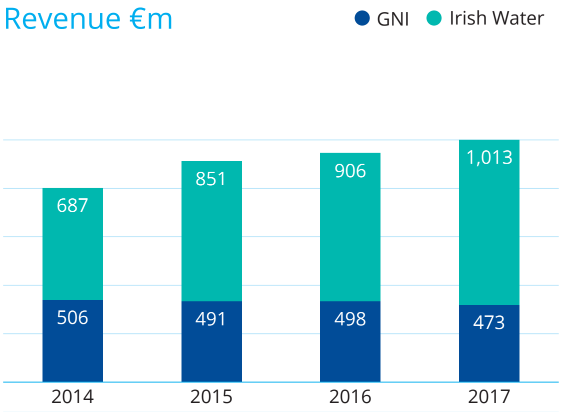
Reporting Approach
Irish Water is a subsidiary of Ervia under the Companies Act 2014. However, due to its share ownership structure (refer to note F7 on page 120), Irish Water does not currently meet the definition of a subsidiary for accounting purposes under IFRS and therefore cannot be consolidated with the audited Financial Statements as included from page 75 of this Annual Report.

However, from a governance perspective, the Ervia Board and Executive Team are responsible for the performance of Irish Water and therefore the combined financial results are presented above. Ervia's summarised financial information (including Irish Water) is presented in the Financial Review on page 31.

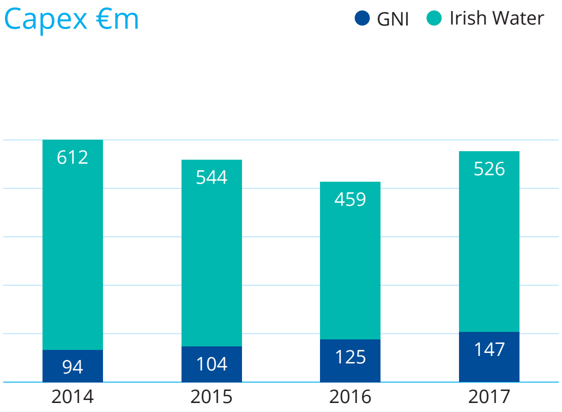
Performance Highlights

Financial Highlights (continued)

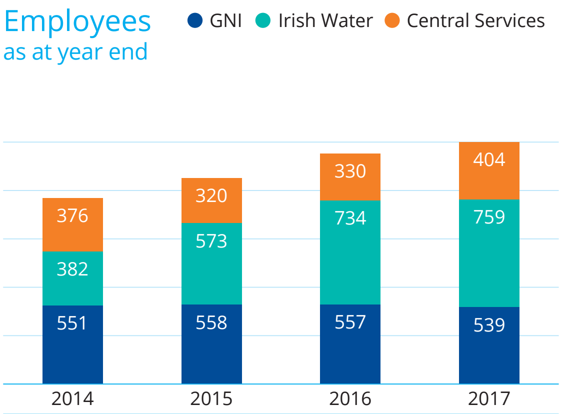
Revenue €m



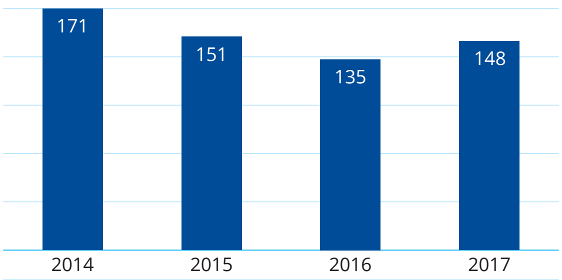
Capex €m



Employees
as at year end



Dividends €m



Operational Highlights

Ervia serves 1.7 million customers 24/7 365 days a year.

GNI progressed the 50km twinning gas pipeline in Scotland.

28 minutes was the average response time to reported potential gas leaks.

74,000 GWh of gas was transported in 2017.

Irish Water has upgraded or started construction on over 49 water treatment plants since January 2014.

23,000 people have been removed from long term Boil Water Notices since January 2014.

115 million litres of drinking water saved every day through first fix and find and fix programmes in 2017.

1,100km of old leaking water mains have been replaced since January 2014.

Chairman's Statement

Profit before taxation and exceptional items increased by €148 million year on year to €351 million, reflecting a strong revenue performance combined with year on year reductions in operating costs of €56 million.

Tony Keohane
Chairman

...bringing total dividends paid to €1.5 billion since the establishment of Bord Gáis Éireann.

Our Financial Performance

I am pleased to present Ervia's Annual Report and Financial Statements for 2017. Ervia delivered a solid financial performance in 2017, with an increased revenue performance of €82 million to €1.5 billion.

We also continued to be a strong contributor to the Irish economy through payroll, dividends, taxes and purchases from Irish suppliers. In 2017 Ervia paid a dividend of €148 million to the Exchequer, funded by Gas Networks Ireland, bringing total dividends paid to €1.5 billion since the establishment of Bord Gáis Éireann.

Our Strategy

Ervia has undergone profound and rapid change since its evolution from Bord Gáis Éireann in 2014. Despite the pace of its transformation and the changing nature of the external environment in which we operate, our strategy has remained focused. We are committed to:

- Building an efficient and effective organisation with the capabilities to maintain and evolve our critical networks;
- Transforming water services by developing Irish Water into a single high-performing public utility;
- Positioning Gas Networks Ireland for the future and building awareness for Aurora Telecom;
- Delivering consistent shareholder returns by driving efficiencies and synergies across the business.

Progress against our Objectives

Our solid financial performance paired with our operating performance puts Ervia in a unique position to provide strategic national gas and water infrastructure that underpins the growth of the Irish economy.

In 2017 Gas Networks Ireland invested €147 million in critical infrastructure on the gas network and continued to grow new connections and actively advocate for natural gas, highlighting its role in Ireland's current and future energy policy. The business constructed the first publicly accessible Compressed Natural Gas fuelling station in Ireland at Dublin Port and completed 29km of the required 50km twinning pipeline project in Scotland to reinforce security of supply to Ireland.

Aurora Telecom, our dark fibre broadband business, finalised construction plans for a return path for its Dublin to Cork network, to reinforce its position as a major telecoms infrastructure provider in the Irish Market.

Domestic water charges were discontinued at the beginning of 2017 and replaced with Exchequer funding to finance Irish Water's extensive capital investment programme. During the year Irish Water invested €526 million to improve drinking water quality and the safe disposal of wastewater. The business focused on a number of priorities to ensure continuity of service and cater for growth; key achievements included removing 33 public water supplies from the EPA's Remedial Action List, and the launch of the Leakage Reduction Programme.

Throughout 2017 Irish Water continued to work with its Local Authority partners to deliver water services and to advance the Water Industry Operating Framework (WIOF). A complex transformation project, WIOF aims to provide an effective and efficient single public utility model incorporating new responsibilities, processes and staffing to meet the country's changing needs. We recognise that integrating water services staff from 31 Local Authorities into the Single Public Utility organisation during 2019-2021 is an ambitious but necessary step to achieve the Business Plan targets in full.

Chairman’s Statement (continued)

“In 2018 we will focus on delivering further operational efficiencies – analysing our supply chain, streamlining shared functions and continuously improving our processes.

Our Operations

We believe that using our combined experience and expertise across our operating companies allows us to deliver real synergies and sustain and grow our business on behalf of the people of Ireland. In 2018 we will focus on delivering further operational efficiencies – analysing our supply chain, streamlining shared functions and continuously improving our processes.

Throughout 2017 the Board remained focused on corporate governance in line with best practice, emerging regulation and trends. As Chairman, I am satisfied that the appropriate internal controls exist and are managed effectively to meet our governance requirements and mitigate risks across the business.

Finally the Board is committed to ensuring that the strategic objectives and operations of Ervia and its businesses are both sustainable and socially responsible. In 2018 we will continue to innovate to support these commitments through both Gas Networks Ireland and Irish Water.

Acknowledgements

I would like to thank the Ministers and Department officials in the Department of Housing, Planning and Local Government and the Department of Communications, Climate Action and Environment for their support throughout the year.

I would also like to welcome our new CEO Mike Quinn, who joined the organisation, and the Board, in October 2017. I extend my sincere thanks to his predecessor Michael McNicholas who stepped down in June 2017, for his leadership during Ervia’s formative years. I would like to express my gratitude to Joe O’Flynn who stepped down from the Board in January 2018 for his 9 years of service. Finally, I thank the Board and Executive Team for their ongoing commitment and effective governance of the business in 2017.

As Chairman I am inspired by Ervia’s vision to be a recognised leader in providing infrastructure to deliver clean and secure gas, water and wastewater services to our customers, a good corporate citizen and an organisation where people are proud to work. This is only made possible by the continued effort and dedication of the the staff of Ervia, and our partners. Proof of our progress in these key areas can be found throughout the report.

Tony Keohane
Chairman

Group CEO's Review

It is with great pleasure that I present the 2017 Annual Report and Financial Statements, my first with Ervia. Throughout the year we continued to invest in infrastructure, drive improvements and deliver efficiencies. Reflecting on our progress, an incredible amount was achieved in 2017.

Mike Quinn
Group Chief Executive Officer

Group CEO's Review (continued)

> "During 2017 we invested €673 million in critical gas, water and wastewater infrastructure projects.

How did Ervia perform in 2017?

Ervia delivered a strong financial performance for 2017, matched by robust operational results. Revenue was €1,486 million for the year, an increase of €82 million from the previous year, reflecting the continuing development of Irish Water and higher regulated revenues to fund significant capex investments.

During 2017 we invested €673 million in critical gas, water and wastewater infrastructure projects across Ireland which was funded from surplus operating cash flows, Government cash equity subscription and available debt facilities.

Irish Water contributed €209 million of Ervia's profit before taxation and exceptional items of €351 million, with any cash surpluses arising being reinvested in the delivery of water and wastewater services and infrastructure.

Gas Networks Ireland's profit before taxation and exceptional items for 2017 was €150 million and the business maintained its high investment grade ratings of A with Standard & Poor's and A3 with Moody's Investor Services in 2017, indicating the continued strong investor sentiment towards our gas utility.

Ervia's net debt remained relatively stable at €1.9 billion at the end of year with Irish Water's net debt comprising €0.8 billion of the total.

What were the key achievements across the business in 2017?

In 2017 Ervia continued to strengthen its position as a trusted leader in infrastructure and service delivery – enhancing the health and quality of life of the people of Ireland, protecting our environment and enabling economic development. Over the twelve month period, we delivered services to over 1.7 million customers, responded to service requests and invested €673 million in capital projects. Key highlights included:

- Continuing to deliver Irish Water's ambitious investment strategy including 400 capital projects;
- Removing 33 public water supplies from the EPA's Remedial Action List;
- Successfully refunding domestic water charges to over 94% of customers in line with the Water Services Act 2017;
- Commissioning a new wastewater treatment plant in Cork Lower Harbour and advancing plans for an additional 7 strategic infrastructure projects;
- Delivering year on year Opex savings within Irish Water of €40m in 2017. This brings our total annual saving to €116m to the end of 2017. These efficiencies were realised in line with our commitment to deliver value for the people of Ireland;
- Completing a multi-utility project in Nenagh, Co. Tipperary and commencing similar projects in Wexford town and Listowel Co. Kerry; installing gas pipelines and upgrading water infrastructure at the same time; minimising disruption to customers, businesses and the general public;
- Commissioning a CNG facility in Shannon, Co. Clare and finishing the construction of a second facility in Dublin Port, thereby furthering our gas as a transport fuel agenda;
- Completing 29km of the required 50km twinning pipeline in Scotland to improve security of gas supply to Ireland;
- Finalising plans for Aurora Telecom's return route to Dublin, thus strengthening our position as a major telecoms provider in the Irish Market.

> *In 2018 Ervia and Irish Water will also continue to work with our Local Authority partners to deliver a single efficient public water utility.*

How is safety prioritised in Ervia?

Safety is at the heart of what we do. As an infrastructure company, we manage complex construction and maintenance projects and invest heavily to protect the safety, health and well-being of our staff, contractors and the general public. There was a total of 4 employee Lost Time Injuries in 2017. The incidents were of low severity and for an employee base of 1,702 this represents excellent safety performance, however, we continue to strive for zero injury.

Throughout the year we also continued to test and refine our extensive incident-management plans. Irish Water played a key role in executing National Emergency Response Plans in partnership with the ESB and Local Authorities during Storm Ophelia. Separately, Gas Networks Ireland successfully minimised the impact of an injection of unodourised gas into the network in September by immediately isolating, testing and removing the gas from the pipeline to ensure the safety of customers in Galway and Mayo.

In January 2017, one of our contractor's employees sustained serious injuries as a result of a trench collapse on a wastewater project in the West of Ireland. The incident had the potential to be fatal and serves to remind us of the hazards and risks we manage on a daily basis. Safety will remain a key area of focus for Ervia in 2018 and beyond as we continue to improve our safety performance.

How will the business support Ireland's future energy policy?

Decarbonisation of energy is one of Ireland's biggest challenges. Ervia will play a central role in reforming Ireland's energy policy and achieving the EU's reduction targets as Ireland transitions to a low-carbon economy. In 2018 we will continue to advocate for natural gas and highlight the critical role it can play in Ireland's future energy policy. Gas Networks Ireland will likewise explore innovative ways to contribute by targeting initiatives such as compressed natural gas for transport, renewable gas and carbon capture and storage. Irish Water, as one of the largest electricity users in Ireland, through its water and wastewater treatment plants, will also have a role to play in achieving significant energy efficiencies on this journey.

What priorities will Ervia focus on in 2018 and beyond?

In 2018 Irish Water will continue to improve the reliability and integrity of our national water infrastructure, improving drinking water quality and building capacity in the network. In parallel we will roll out our Leakage Reduction Programme, replacing 261km of the highest risk water mains. We will also upgrade critical wastewater infrastructure, reducing the number of assets currently overloaded and at risk of failure, in order to ensure that we return treated wastewater safely back into the environment.

Irish Water's plans include developing a new water supply source for the Eastern and Midlands region to meet the domestic, commercial and industrial needs of the 40% of Ireland's population who live in the Dublin region. The Greater Dublin Drainage Project will in parallel develop a new wastewater treatment facility in order to protect public health and safeguard the environment by meeting the 50% projected increase in wastewater generation in Dublin, Kildare and Meath by 2050.

In 2018 Ervia and Irish Water will also continue to work with our Local Authority partners to deliver a single efficient public water utility. Together we will transform the delivery of water services in Ireland and put in place a plan that will lay the groundwork for our economic growth and our social development. We are committed to improving our technology and ways of

Group CEO's Review (continued)

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...I would like to thank the staff for their hard work, passion and devotion to what we do and the Board and Executive Team for their leadership over the course of the year.

working, and combining our experiences to create a system that serves our country, our health, our quality of life and our environment far into the future. We recognise that the Business Plan targets to 2021 are conditional on achieving the Single Public Utility during the lifetime of the Plan, with the first phase commencing early in 2019.

Growth in new domestic and commercial connections to the network will continue to be a priority for Gas Networks Ireland and also offer economic and environmental benefits for the country by reducing fuel costs, saving fuel and lowering emissions. Natural gas is also the ideal partner for renewable energy sources such as wind and solar. Biogas in particular can ensure that Ireland has a robust, renewable and sustainable indigenous energy source as part of its energy mix into the future.

These advances will impact staff across Ervia. We will use this opportunity to review and streamline our structures and processes and leverage our shared capabilities in a new Business Services function. This new approach will ensure that our business is scalable and fit-for-purpose and can meet future challenges while delivering operational efficiencies and best in class services for our customers.

We will continue to put the communities we serve at the core of our business. Throughout 2018 we will continue to work hard to earn the trust and support of our customers and stakeholders by providing best-in-class infrastructure and services to meet and exceed the economic and social needs of our country.

Any final insights?

On a personal note I have been inspired by both the performance and people I have experienced during my short time with Ervia. Our achievements in 2017 would not be possible without a collective and collaborative effort. I would like to thank the staff for their hard work, passion and devotion to what we do and the Board and Executive Team for their leadership over the course of the year.

We have much to look forward to in 2018 and our ambitious targets will continue to drive and inspire our operational and strategic goals. I believe that by continuing to work together we will deliver on our promises to our customers and communities around Ireland, while growing our business and building trust and confidence in who we are, what we do and why we do it.

Mike Quinn
Chief Executive Officer

2. Strategy and Risk Report

Our Vision and Purpose

We have a clear vision to be Ireland's trusted leader in service and infrastructure delivery.

Working together we are building a trusted Irish company that is a recognised leader in providing infrastructure and services to customers, a good corporate citizen and an organisation where staff are proud to work.

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

Each day we deliver vital infrastructure and services to 1.7 million water and gas customers across Ireland: we provide safe energy to warm homes and power businesses; we supply treated water for cooking, cleaning and drinking; and we remove wastewater to keep our environment safe for everyone.

Together we are building the backbone of Ireland.

Working Together

Who we are, what we do and most importantly, why we do it, drives our culture, shapes our identity and guides us on our exciting and ambitious journey to become Ireland's trusted leader in service and infrastructure delivery.

Our customer-facing businesses, Gas Networks Ireland and Irish Water, are supported by three functions: Major Projects, Shared Services and Group Centre. These functions provide specific expertise, support and transactional services across Ervia.

Working together and using our combined experience and expertise allows us to sustain and grow our business and deliver on behalf of the people of Ireland.

Our Values

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

Ervia directly employs 1,702 people who are committed experts and dedicated professionals in their fields. We are scientists, engineers and specialists and custodians of Ireland's most valuable resources.

We provide and service the strong foundations on which the Irish economy is built and ensure that our people and our nation can thrive and prosper, now and in the future.

Collaboration

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

Customer Service

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

Performance

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

Safety

We put safety at the heart of what we do.

Integrity

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

Our Strategy

Our strategy is our long-term plan to deliver essential gas, water and wastewater infrastructure and services efficiently and safely. This will be achieved by:

1.

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

2.

Transforming water and wastewater services by developing Irish Water into a high-performing utility.

3.

Positioning Gas Networks Ireland for the future and continuing to deliver safe and sustainable gas network services efficiently and building awareness for Aurora Telecom.

4.

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

Strategic Pillars

We are investing in Ireland's gas, water and wastewater infrastructure and driving improvements and efficiencies on behalf of the people of Ireland. We have seven core strategic pillars that provide a clear road map to deliver on our vision successfully. We are focused on these crucial areas to sustain and grow our business and provide a high quality service for our customers, our people and our country. By delivering on our vision we will create a more robust future for our gas networks and develop a modern public water utility that delivers tangible benefits for all our stakeholders.

Safety

Safety is at the heart of everything we do. We invest heavily to ensure no harm comes to anyone and we are focused on protecting people's health and safety.

Customers and Communities

Through our Customer First programme we are committed to putting our customers at the centre of everything we do by delivering consistent best in class services that meet and exceed our customers' expectations.

People and Leadership

Our people are critical to our success. We have a unified team of committed, capable and talented people across Ervia who we aspire to support fully with strong leadership.

Infrastructure

We deliver quality, sustainable and reliable water, gas and telecoms infrastructure, and we manage our assets to best practice in order to support and develop our economy.

Trust and Respect

We strive to be open, accountable and transparent to the public. We treat our customers, our assets and the natural resources we rely on with respect.

Successful Enduring Business Model

We are commercially successful with a proven track record and a robust and enduring business model, with a high level of commercial competence.

Smart and Efficient

We operate as a fully integrated, smart and efficient organisation.

Ervia's Business Model

How we create value

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

Inputs

Financial

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

	Total Assets
Irish Water	**€2.3bn**
GNI	**€2.7bn**
Aurora	**€8m**

Networks

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

	km of networks
Irish Water	**88,000 km**
GNI	**14,172 km**
Aurora	**870 km**

People & Partners

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

1,702 employees in **20** locations

Stakeholders

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

€270m equity injection

€752m government subvention

Natural Resources

We protect our atmosphere, rivers, lakes, and seashores

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

transport **74** TWh of Natural Gas

Business Activities

Develop and Fund the Future Plans

- Business Plan
- Investment priorities
- Growth and Innovation

Continuously **Improve** our Offering

- CNG
- CCS
- Support Strategic Development Zones

Serve our Customers Well

- Easy to work with
- New Connections
- Growth

Outputs

Benefit

Invest €673m New Assets in 2017

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

Maintain €5bn Asset Base

- Water Saved
- Keep the system safe
- Asset Strategy

Operate the Systems

- Continuous Quality Supply
- Safety
- Water Treatment
- Waste Water Treatment
- Grid Control
- Respond to reports of gas leaks
- Keep the system connected

Efficient, cost effective customer centric services

Robust and Resilient Infrastructure

Customers

- Total number of customers served **1.7m**
- Continuous, safe, high quality supplies
- Increasingly efficient services

Employees

- Payroll **€156m**

Communities

- Environmental Protection
- Local community support and education

Stakeholder

- Interest Paid **€40m**
- Improving performance vs regulatory standards

Shareholder

- Dividend **€148m**
- Making progress towards achieving compliance with EU Directives

Economy

- Enabling economic development
- Supporting industry
- Investment in the business **€673m**

Delivering on our Strategy... in 2017

Irish Water

759 IW professional, technical and support staff together with 3,408 LA staff in 31 LAs and our Customer Contact Centre and Service Delivery Partners...

...Serve our 1.7m customers, and operate 2,000 water and wastewater plants to supply 1.7bn litres of treated drinking water each day and treat the wastewater produced.

Fixing Leaks

115 million of litres per day of water saved to date on First Fix and Find and Fix programmes

Over 26,000 Customer leaks repaired

Maintained over 4,400 District Meter Areas

Gas Networks Ireland

539 GNI professional, technical and support staff together with our Customer Contact Centre and Service Delivery Partners...

...Serve our 688,000 customers, transporting 74 TWh of gas each year through 14,172km of gas pipelines including 2 sub-sea interconnectors and operating the most modern fibre network in Ireland.

Operating Safely

Best in class emergency service

Responded to 16,249 publicly-reported escapes of gas

With an average response time of 28 minutes

And 99.91% compliance within one hour

Improving Water Quality

14 customers on Boil Water Notices at the end of 2017

Removed and replaced 1,234 lead service connections, 1,553 lead services treated

>168,000 individual tests on drinking water supplies

Increasing Supply of Water

Upgraded or newly built 5 water treatment plants

203km new or renewed mains laid during the year

Enhancing Security of Supply

Completed multi-utility project in Nenagh and first phase in Wexford town

Completed 29km of security of supply project in Scotland

38,000 planned maintenance work orders

Expanded Aurora network from Cork to Dublin via Waterford and Carlow

Securing the Future

10,436 new connections

951GWh of new demand contracted

First publicly accessible CNG fuelling station

Planning granted for renewable gas injection point

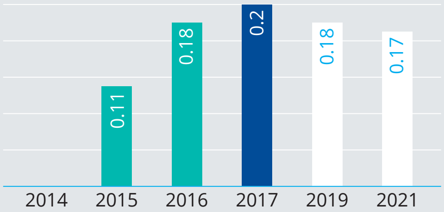
Enhancing the health and quality of life of the people of Ireland, protecting our environment and enabling economic development.

Delivering on our Strategy (continued)

IW Operating Performance

Safety

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

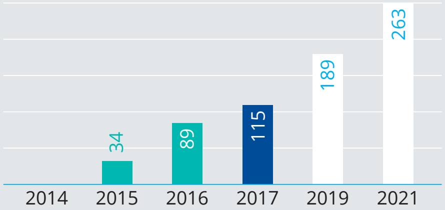


We use the Lost Time Incident Frequency Rate (LTIFR) to track the # of employee accidents per 100,000 hours worked that result in a staff member needing to take >1 day off work
(Data not available for 2014 and 2021 target will be reviewed as SPU established)

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

Water Saved

Water Saved by Fixing Leaks
Cumulative Millions of Litres per day

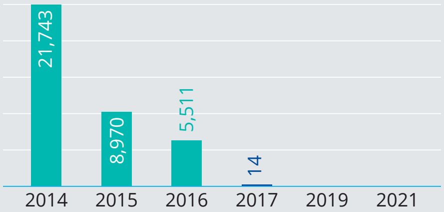


This is a measure of the water saved as a result of our efforts in rehabilitating mains and pro-actively finding and fixing leaks

In 2017 45% of all water treated is lost between the treatment plant and the tap, we aim to increase the effectiveness and resilience of our network by reducing the quantity of water lost in the system.

Boil Water Notices

of customers remaining on Boil Water Notices since IW started operations

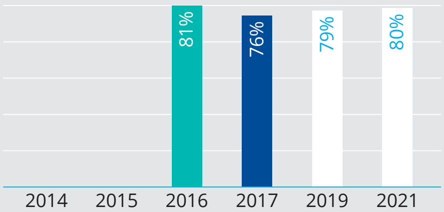


The number of customers remaining on Boil Water Notices since we first took over the operation of the Drinking Water Network

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

Customer Service

First Contact Resolution – Operations %

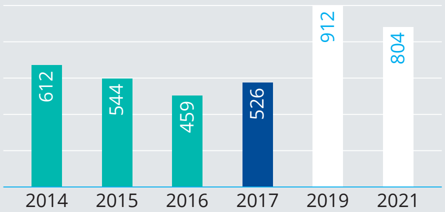


We review a sample of our customer contacts each month across a range of different call types. A selection of calls are surveyed independently to validate the scores. *(Data not available for 2014/15)*

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

Capital Expenditure

Capex
€m

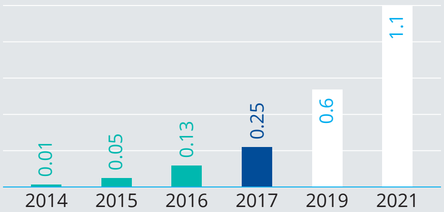


We include infrastructure spend on plant, property, and equipment, financial and intangible assets

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

Operating Efficiencies

Cumulative Opex Efficiencies
€bn



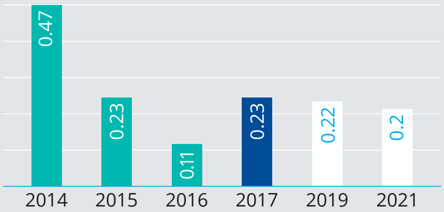
We drive efficiencies in how we deliver our services on an ongoing basis. The establishment of the Single Public Utility will enable us to realise these targeted efficiencies.

This metric shows the cumulative savings of €1.1bn over the period 2014-2021. €116m in annual savings have been achieved since 2014 and we are on track to deliver the targeted savings of €272m (per annum) by 2021 and is subject to the transformation time frame set by the Board

GNI Operating Performance

Safety

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



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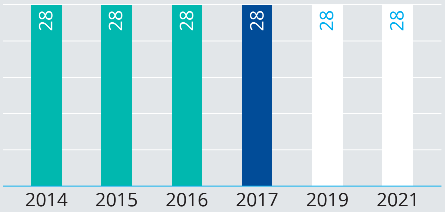
Safety is a core value at Ervia. The Work Safe Home Safe safety culture programme has been in place since 2015 and we continue to work to improve our safety performance

Safety

Average # mins to respond to Public Reports of Escapes

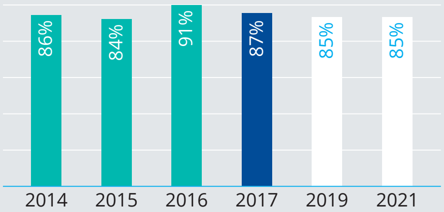


This measure tracks how quickly we respond, on average, to reports of gas escapes as reported by the public.

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

Customer Service

First Contact
Resolution



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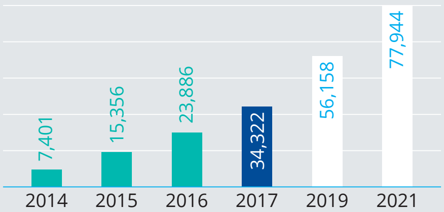
Growth

New Connections Cumulative
2014-2021

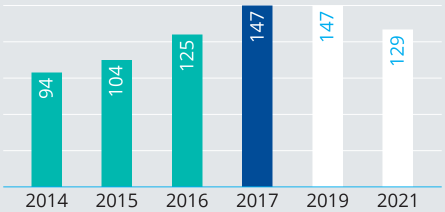


We measure the increase in network utilisation as a result of new connections

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

Capital Expenditure

Capex
€m

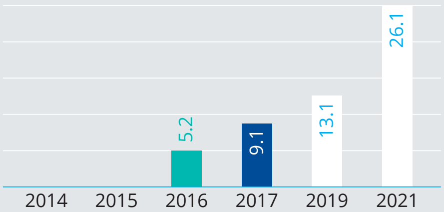


We include infrastructure spend on plant, property, and equipment, financial and intangible assets

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

Operating Efficiencies

Opex Efficiencies
€m



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

This metric shows savings of €26.1m over the period 2016-2021

The External Environment

We operate in an ever-changing environment where customer expectations, climate, economic, regulatory, and environmental drivers have a significant impact on our business operations. Our agility in identifying, reviewing and responding to these challenges and opportunities remains vital to the success of our two critical national utilities.

Customer Expectations in a Digital Age

Globally, customer expectations are evolving and changing in line with, the pace of digital transformation. Transactions are increasingly online or mobile and customers, suppliers, staff and assets are all evolving towards real-time connectivity. Research shows that, largely influenced by the digital age, customers generally want timely and accurate information, quick response and action, with minimal customer effort. In parallel, the threat of data and IT security breaches is deepening and companies must now invest significant resources to build robust defenses against cybercrime.

In the short to medium-term, both Gas Networks Ireland and Irish Water will continue to invest in systems to protect against cyber-attack and to enhance capability. Improving our digital capabilities will also enable enhanced productivity across Irish Water operations in particular.

At Ervia, having a customer centric culture is key to meeting the expectations of our gas, water and telecoms customers. Our employees are crucial to this and therefore aligning employee engagement and driving change to improve customer experience is a strategic focus across our organisation. The 'Customer First' programme at Ervia, launched in 2016, works to embed a 'customer first' ethos in all that we do and build internal understanding of how this ethos and culture is key to realising our vision which is to be Irelands' trusted leader in service and infrastructure delivery. This will stimulate greater customer and stakeholder engagement, more timely customer notifications, improved service response times and the provision of other value-add services.

Innovation and decarbonisation

The decarbonisation of energy remains one of Ireland's biggest challenges. The European Union's long-term target is for member countries to achieve reductions of 80-95 percent in greenhouse gas emissions by 2050. To achieve this, emissions from the use of natural gas will have to drop from circa 9 million tonnes in 2015 to less than 2 million tonnes in 2050.

GNI can contribute significantly as Ireland transitions to a low-carbon economy. Natural and renewable gas are relatively low carbon fuels which can replace higher emitting fossil fuels, such as oil, coal, peat and diesel. There is also potential for renewable gas to be generated from wastewater sludge, agricultural and marine wastes and feedstocks. Irish Water, meanwhile, is engaged in an aggressive programme to reduce energy consumption by 33 percent by 2020, in line with government policy for state bodies.

In the longer-term, the gas network has the potential to deliver significant carbon reductions across the electricity, and transport sectors. This can be achieved through the large-scale use of renewable gas, potential gas grid re-purposing, and by developing transformational technologies such as Carbon Capture and Storage. We can achieve this while continuing to provide Ireland with affordable, secure energy and with access to gas supplies for energy-intensive industry and power generation. On a smaller scale, Irish Water has the potential to produce more of its own electricity through renewable sources such as on-site wind turbines and solar panels.

> *Irish Water will continue work to meet national and international regulations through its programmes to reduce water leakage, improve water quality and upgrade wastewater treatment facilities and services that meet national and EU requirements.*

Regulation

Operational Compliance
Businesses worldwide are increasingly expected to operate in a manner that meets sustainability and service requirements while also complying with more stringent legal and regulatory obligations.

Ervia's utilities are both subject to multiple legislative provisions and regulations and operate within strict policy and regulatory frameworks. Both of our businesses are also subject to Freedom of Information legislation. Similarly, major infrastructure developments in water, wastewater and gas are subject to significant public planning and consultation processes. Gas Networks Ireland and Irish Water are subject to independent economic oversight from the Commission for Regulation of Utilities (CRU). In addition, Irish Water must meet the requirements of its environmental regulator, the Environmental Protection Agency (EPA).

These requirements generate cost and capability challenges which we must meet while balancing growth and efficiency demands. In particular, Irish Water faces unique compliance challenges due to a legacy of underinvestment in water and wastewater assets.

Gas Networks Ireland will continue to meet all operational and safety requirements and will also introduce new, more flexible operational codes and policies to facilitate the injection of renewable gas into the gas grid. Irish Water will continue work to meet national and international regulations through its programmes to reduce water leakage, improve water quality and upgrade wastewater treatment facilities and services that meet national and EU requirements.

Corporate Transparency
Ervia is committed to meeting the need for greater transparency in the provision of public services. Customers and stakeholders have growing expectations of businesses in terms of how they communicate their plans and how they consult with communities they serve to address concerns.

We will continue to operate in accordance with our statutory requirements including planning and public consultations, regulated price controls and published business plans. We will also continue to engage in proactive two-way communications with all relevant stakeholders regarding developments and day-to-day operations. Our businesses will continue to engage with stakeholder entities, such as the Public Water Forum and the Renewable Gas Forum, to enable improved dialogue and openness with customers and other parties.

Risk Management at Ervia

Understanding our risks allows us to make informed and better decisions, in pursuit of our strategic and operational objectives, creating added value for our stakeholders.

Enterprise Risk Management

The Board has overall responsibility for ensuring the organisation has an appropriate risk management system in place. The Ervia Audit and Risk Committee has delegated authority to support the Board with these obligations. To address this, there is an annually reviewed Enterprise Risk Management (ERM) Policy which acts as a key safeguard.

Our Risk Management Framework

Ervia's Enterprise Risk Management Framework applies to all employees across Ervia, ensuring a consistent and integrated approach to risk management.

The regulated and operational complexity of our businesses exposes Ervia to a number of risks and our framework ensures that an appropriate governance structure, risk responsibilities and risk management processes are in place to ensure risks are appropriately identified and evaluated. This allows an overall determination of the nature and extent of risks we are willing to accept in pursuit of our strategic and operational objectives.

Across the organisation all managers are responsible for identifying risks within their areas of responsibility and managing these risks through associated mitigation plans or strategies. Key risks, emerging and trending risks and those risks that have a high severity of impact yet low probability of occurrence are discussed and reviewed within a quarterly risk governance structure.

Ervia is committed to ensuring we have a robust risk management culture which recognises risk management as a core capability and integral part of all our activities.

Risk Management in Practice

Irish Water – Ensuring a Sustainable Water Supply for Future Generations

A New Source of Water Supply for the Eastern and Midlands Region
The recent water restrictions in Dublin following Storm Emma showed the vulnerability of the water network and the potential for devastating impact on homes, businesses and the economy of the country. A new source and scheme is required to meet the needs of the Eastern and Midlands Region of Ireland because the existing sources and infrastructure neither have the capacity, resilience or connectivity to meet the Region's growing domestic and business requirements. If this situation is not addressed then regular water outages are likely to become a feature of everyday life for the region in the future compromising both current but also future social and economic development.

Naturally, a project of this size and complexity brings with it considerable risks that must be identified, managed and controlled to ensure a sustainable resilient water supply into the future.

Gas Networks Ireland – Reducing our Carbon Footprint

Limerick Gasworks Remediation Project
Managing our environmental impact is a key priority for Gas Networks Ireland and the wider Ervia group. This includes addressing legacy environmental issues in ways that are innovative and environmentally friendly and reduce our carbon footprint.

Our Major Projects function, in conjunction with our gas business, is ensuring that these key priorities are being successfully achieved by delivering the award-winning Limerick Gasworks Remediation Project.

The gasworks site, which played an important role in Limerick's industrial past, is now being remediated, removing the coal tar from the site in order to facilitate future development, benefiting both the local environment and the wider Limerick community.

The Limerick Gasworks Remediation Project was the recipient of the Public Sector Project of the Year Award at the inaugural Ireland Chapter of National Project Awards.

Risk Management at Ervia (continued)

Principal Risks

Risk Category	Principal Risk Description	Key Mitigating Controls & Actions
Health & Safety	Employee, contractor or public safety incidents which could result in injury or loss of life, prosecutions, financial loss and reputational damage	▸ Enterprise wide Work Safe, Home Safe programme ▸ Quarterly Central Safety Committee reporting to the Ervia Board and a Water industry Health & Safety Committee ▸ Comprehensive Safety Management Systems
	An environmental issue for Gas Networks Ireland or Irish Water could also result in contamination, public safety or limitations in supply	▸ Resilience & Crisis management response plans ▸ Risk Assessment, Maintenance and Inspection processes
Security of Supply	A major incident or event impacting on the gas or water network or a failure to deliver major projects, such as the New Source of Water Supply for the Eastern and Midlands region (see case study on page 27) resulting in a critical security of supply issue for our customers	▸ Short and long term investment strategy and Capital Investment Plans in place ▸ Ongoing investment in strategic infrastructure to deliver security of supply (e.g. Vartry Water Supply Scheme) ▸ Delivering the new supply of water required for the Eastern and Midlands regions
Reputation & Stakeholder	Failure to gain trust and support from our customers and stakeholders	▸ Customer service focus through our Customer First Programme ▸ Comprehensive Stakeholder Engagement Strategy ▸ Collaborative public engagement on key projects ▸ Brand Strategies in place
Transformation & Growth	Not delivering the transformation of Irish Water's service delivery model to a Single Public Utility due to potential delays in reaching full stakeholder agreement would impact on our financial and non-financial business plan objectives	▸ Programme team in place that includes dedicated experts from Irish Water and Local Authorities ▸ Ongoing engagement with all key stakeholders ▸ Implementation programme developed
	Failure to promote the role that natural gas can play in the transition to a low carbon economy to meet Ireland's decarbonisation targets will negatively impact on gas demand and the long term growth strategy for GNI	▸ Clear strategic plan to ensure that gas and the gas network play a leading role in the long-term decarbonisation targets ▸ Actively developing or investigating key initiatives i.e. the use of CNG, CCS for the electricity market/industry and renewable gas injection into the gas network
Resources	Failure to have an appropriate resource plan, recruitment, retention and people development strategy in place will result in a failure to achieve our objectives	▸ Talent acquisition and development strategies ▸ Resource planning linked to talent management and career planning ▸ Mentoring and coaching programmes ▸ Graduate programmes
Investment Plan Delivery	Not aligning our Irish Water Capital Investment Plan to realise the greatest benefits in addressing the biggest asset and customer service risks or delivering the plan on time or within budget	▸ Dedicated Asset Delivery function in operation ▸ Integrated delivery plan for 2017-2021 developed ▸ Approval and oversight governance fora in place ▸ Controls in place to manage Capital Investment Plan spend against budget
Cyber Threats	Failing to protect Ervia from external IT security threats and to manage our critical IT infrastructure, negatively impacts our resilience to cybercrime or a data breach	▸ Comprehensive IT and Cyber Security Strategies in place ▸ Detailed security protocols in place ▸ Ongoing risk assessments and external independent assurance reviews
Financial	Ervia's activities expose it to a number of financial risks – credit risk, liquidity risk, currency and interest rate risks and IW's high reliance on state funding	▸ Defined risk limits, delegations of authority and exposure monitoring in place ▸ Ongoing dialogue and strong relationships with Government, funders and potential investors ▸ Established financial risk policies in place ▸ Maintenance of a strong investment grade for Gas Networks Ireland ▸ Brexit Steering and Working Groups
	Failure to deliver the IW operating and capital efficiency cost savings	▸ Delivering the transformation of the service delivery model to a Single Public Utility ▸ Key efficiency programmes (e.g. leakage reduction) and targets in place and monitored
Regulatory	The impact of adverse regulatory changes or a failure to adhere to a broad range of energy and water regulations and legislation could have a financial, reputational and operational impact on our business activities	▸ Proactive engagement with key stakeholders including the regulatory authorities in Northern Ireland, the UK and EU ▸ Regulatory Price Control process in place for both Gas Networks Ireland and Irish Water ▸ Operational investment plans in place to meet water and wastewater directive requirements ▸ Capital investment approval process in place to address regulatory risks

3. Operating and Financial Review

The Executive Team

Mike Quinn

Chief Executive Officer

Cathal Marley

Group Chief Financial Officer

Liam O'Sullivan

Chief Operating Officer and Managing Director, Gas Networks Ireland

Jerry Grant

Managing Director of Irish Water

Orlaith Blaney

Chief Communications and Marketing Officer

Michael G O'Sullivan

Director of Business Services

Dawn O'Driscoll

Group Strategic HR Director

Brendan Murphy

Group Commercial and Regulatory Director

Rory Williams

Group Chief Legal Officer

Liam O'Riordan

Company Secretary

Financial Review

Ervia delivered a strong financial performance during 2017 with improvements to key financial metrics, thereby enabling the delivery of capital investments of €673 million in critical water and gas infrastructure.

Gas Networks Ireland funded a dividend payment of €148 million to the Exchequer during 2017, including a special dividend of €100 million relating to the sale of the Bord Gáis Energy business.

Cathal Marley
Group Chief Financial Officer

Key Highlights 2017

- Revenue €1,486 million
- EBITDA €590 million
- Profit before Income Tax and Exceptional Items €351 million
- Capex €673 million
- Dividends Paid €148 million
- Stable net debt position at year end of €1,903 million.

Although the results of Irish Water are not consolidated within the audited financial statements as included on pages 75 to 152, the overall Ervia Group results (representing all Ervia entities, including Irish Water) are included here for information purposes.

Transactions between Irish Water and other Ervia entities are not eliminated for the purposes of this information (refer to financial statements note F4 for further information).

Irish Water surplus reinvested to fund critical infrastructure projects

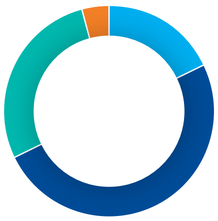
Financial Review (continued)

Summary Income Statement (before exceptional items)

	2017				2016			
	Irish Water	Gas Networks Ireland[1]	Central Services[1]	Total Ervia	Irish Water	Gas Networks Ireland[1]	Central Services[1]	Total Ervia
	€m's	€m's	€m's	€m's	€m's	€m's	€m's	€m's
Revenue	**1,013**	**473**	**-**	**1,486**	906	498	-	1,404
Commercial revenue	**261**	**473**	**-**	**734**	254	498	-	752
Government subvention	**752**	**-**	**-**	**752**	652	-	-	652
Operating costs	**(723)**	**(168)**	**(5)**	**(896)**	(777)	(171)	(4)	(952)
EBITDA	**290**	**305**	**(5)**	**590**	129	327	(4)	452
Depreciation and amortisation	**(69)**	**(133)**	**-**	**(203)**	(60)	(127)	-	(188)
Finance costs	**(12)**	**(23)**	**(3)**	**(37)**	(15)	(45)	(2)	(62)
Profit before income tax	**209**	**150**	**(8)**	**351**	54	155	(6)	203
Dividend paid to Exchequer	**-**	**-**	**148**	**148**	-	-	135	135

[1] Refer to Financial Statements note F2 - Divisional Information for further detail on Gas Networks Ireland and Central Services (Ervia Parent).

Revenue 2017



IW – Commercial (Regulated)	18%
IW – Government Subvention (Regulated)	50%
GNI – Regulated	28%
GNI – Unregulated	4%

Revenue

Revenue was €1,486 million for the year to 31 December 2017, increasing by €82 million compared to the prior year, and primarily reflects the continuing development of Irish Water, with higher regulated revenues being generated to fund the significant capex investments to date in critical water and waste-water infrastructure.

Following the Report from the Joint Oireachtas Committee on the Future Funding of Water Services in April 2017, the suspension of domestic water billing during 2016 was confirmed and revenue shortfalls were met by increased Government subvention income. Total Government subvention income for 2017 was €752 million, compared to €652 million for 2016.

Gas Networks Ireland revenues of €473 million for 2017 were €25 million lower than 2016 primarily due to lower regulated gas tariffs.

EBITDA

EBITDA of €590 million for 2017 has increased by €138 million compared to the prior year of €452 million due to the increased revenue of €82 million and lower operating costs of €56 million.

Irish Water operating costs of €723 million were €54 million lower than the prior year and reflect the reduced collection provisions in the current year, due to additional charges recognised in 2016 following the suspension of domestic charges, combined with the delivery of operating cost efficiencies. Gas Networks Ireland operating costs of €168 million during 2017 were relatively stable compared to operating costs of €171 million in 2016.

Profit before Income Tax and Exceptional Items

Profit before tax increased by €148 million to €351 million for 2017 due to;

- increased EBITDA performance of €138 million,
- lower finance costs of €25 million primarily due to a reduction in Gas Networks Ireland's cost of borrowing, following the €625 million bond issuance in December 2016,
- partly offset by higher depreciation charges of €15 million arising from the increased investment in infrastructure.

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

Exceptional Items

During 2017, Gas Networks Ireland/ Central Services recognised a €7 million net exceptional pre-tax gain in respect of re-measurement gains on certain financing instruments and assets. Further details are set out in note C4. In addition, Irish Water recognised an exceptional expense of €178 million in connection with the refund of cash previously collected from domestic customers in the period 2015 to 2016. The corresponding funding received from Government to meet the costs of the refund programme was classified as exceptional grant income. Therefore the net impact of the refund programme on the Irish Water Income Statement was nil.

Profit before Income Tax & Exceptional Items

Irish Water

€209m

Gas Networks Ireland

€150m

Capital Investment

Irish Water

€526m

Gas Networks Ireland

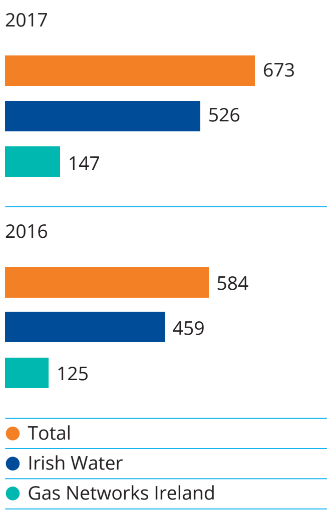
€147m

Summary Balance Sheet

	2017				2016			
	Irish Water	Gas Networks Ireland	Central Services	Total Ervia	Irish Water	Gas Networks Ireland	Central Services	Total Ervia
	€m's	€m's	€m's	€m's	€m's	€m's	€m's	€m's
Infrastructure assets	**2,181**	**2,525**	**8**	**4,714**	1,725	2,521	9	4,255
Other assets	**153**	**203**	**72**	**428**	195	233	76	504
Total assets	**2,335**	**2,727**	**80**	**5,142**	1,920	2,754	84	4,758
Borrowings	**(825)**	**(1,186)**	**-**	**(2,010)**	(974)	(1,172)	-	(2,146)
Pension liability (IAS 19)	**(29)**	**-**	**(128)**	**(157)**	(26)	-	(129)	(156)
Other liabilities	**(523)**	**(665)**	**199**	**(989)**	(426)	(784)	290	(921)
Total liabilities	**(1,376)**	**(1,851)**	**71**	**(3,156)**	(1,427)	(1,956)	160	(3,222)
Net assets	**958**	**877**	**151**	**1,986**	493	798	245	1,536
Net debt	**(809)**	**(1,118)**	**25**	**(1,903)**	(917)	(1,055)	27	(1,945)

Financial Review (continued)

Capital Investments (€'m)



How cash was used in 2017 (€'m)

Infrastructure Assets and Capital Expenditure

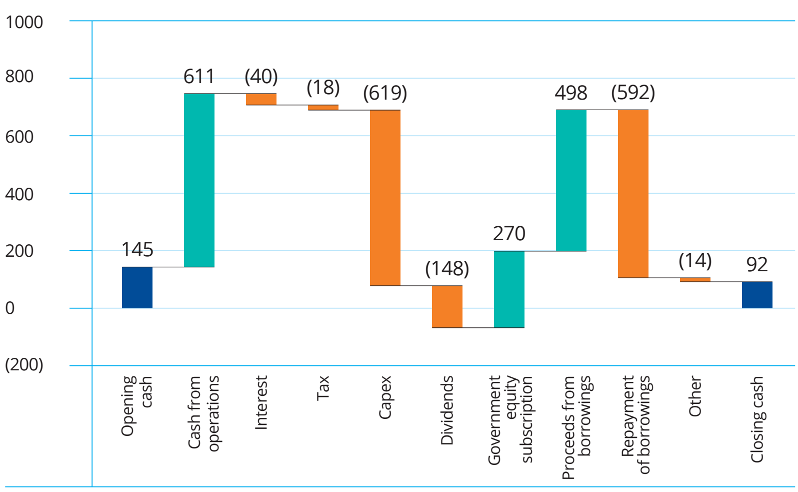
During 2017, Ervia continued the delivery of scheduled capital investments with a total investments of €673 million between water, wastewater, gas and telecoms infrastructure.

Net Debt and Cash Flows

During the year, net debt remained relatively stable at €1,903 million at 31 December 2017 compared to €1,945 million in the prior year:

- Operating cash flows of €611 million were used primarily to fund critical capex investments in water, waste-water and gas infrastructure.
- Capital expenditure in cash outlay terms was €619 million
- Gas Networks Ireland funded a dividend payment to the Exchequer of €148 million, including a €100 million special dividend relating to the sale of the Bord Gáis Energy Business.
- Irish Water received a shareholder equity subscription of €270 million from the Government.

How cash was used in 2017 (€'m)



Net Pension Deficit

Ervia Group has an accounting pension deficit ("IAS 19") of €157 million as of 31 December 2017, which is materially unchanged from prior year. In accordance with IAS 19 requirements, corporate bond yields are used as the basis to determine an appropriate discount rate to calculate the present value of long-term pension scheme liabilities irrespective of the nature of the scheme's assets or their expected returns. The discount rates used to value pension liabilities have decreased by 0.05% during the year, thereby increasing the value of pension scheme liabilities. This has been offset by a good investment performance by the scheme's assets.

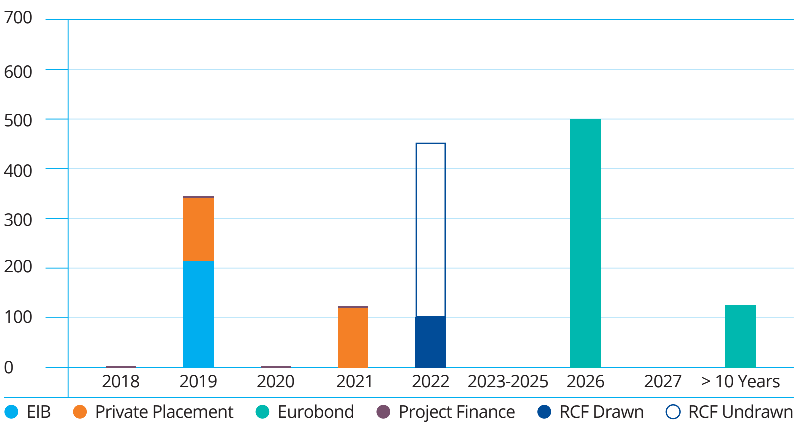
Capital Resources and Treasury Governance

Capital Resources – Gas Networks Ireland

At 31 December 2017, Gas Networks Ireland's total borrowings were €1,186 million after certain re-measurements arising from the application of IAS 39 and including capitalised loan fees. As at 31 December 2017, the Company had undrawn facilities of €357 million and €51 million of cash and cash equivalents. Gas Networks Ireland has a statutory borrowing limit of €3,000 million, which sets the upper limit for drawn facilities.

In 2017, the Company extended the maturity on its key liquidity facility, a €450 million Revolving Credit Facility by one year to 2022. As part of its debt management strategy, the Company fixed a portion of its debt out to March 2021, with the entry into €111 million of interest rate swaps with relationship banks. At the 31 December 2017, 62% of Gas Networks Ireland's debt was at fixed rates (63%: 31 December 2016). The weighted average interest rate on Gas Networks Ireland's portfolio of outstanding borrowings excluding limited recourse borrowings was 1.57% (1.80%: 31 December 2016) and the

Gas Networks Ireland Debt Maturity Profile (€'m)



> *In 2017, Gas Networks Ireland maintained its long term credit rating of A with Standard & Poor's and A3 with Moody's Investors Services.*

average maturity of its debt was 6.95 years (7.96 years: 31 December 2016).

In 2017, Gas Networks Ireland maintained its long term credit rating of A with Standard & Poor's and A3 with Moody's Investors Services.

Capital Resources – Irish Water

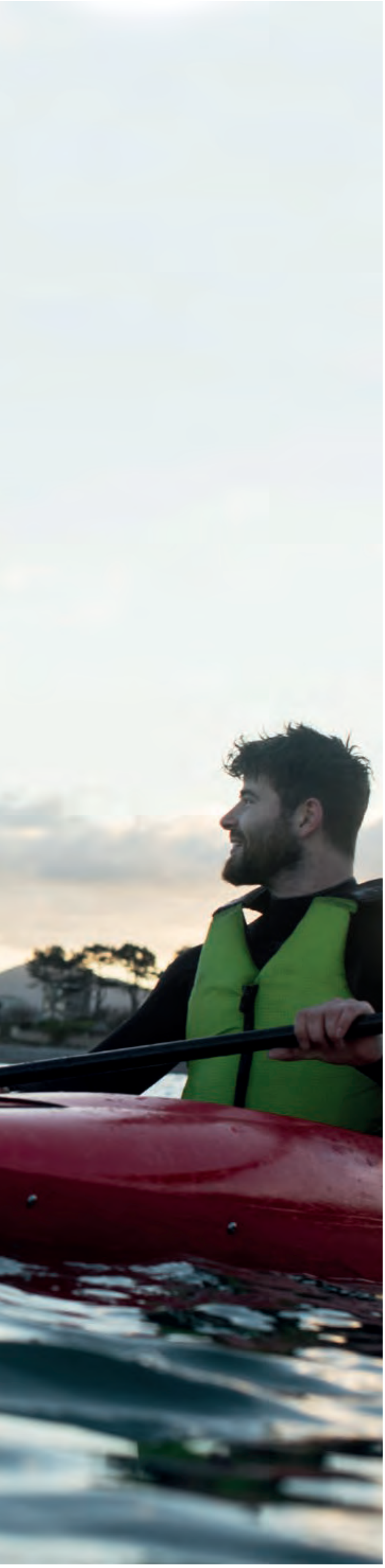
At 31 December 2017, Irish Water's total borrowings were €825 million (including capitalised loan fees). At 31 December 2017, the Company had undrawn facilities of €435 million and €16 million of cash and cash equivalents. The Company has a statutory borrowing limit of €2,000 million, which sets the upper limit for drawn facilities.

Key activities in relation to debt management undertaken during 2017 include; the rollover of €800 million of bilateral funding facilities with a number of commercial banks and the refinancing of the existing €450 million of funding facilities from the Ireland Strategic Investment Fund. The Company has continued to roll its debt financing for periods of one year, pending implementation by the Government of the recommendations of the Joint Oireachtas Committee on the Future Funding of Domestic Water Services (JOC) and a Department of Housing, Planning and Local Government led Working Group on the Future Funding Model for Irish Water. The revised funding model provides funding certainty to Irish Water on a multi-annual basis within the constraints of government budgetary planning. At 31 December 2017, the weighted average interest rate on the Company's portfolio of outstanding borrowings was 1.32% (1.30%: 31 December 2016) and the average maturity of its debt was 0.55 years (0.51 years: 31 December 2016). During 2017, Irish Water issued 540 'B' shares for a subscription price of €270 million and allotted such shares in equal amounts to the Minister for Finance and the Minister for Housing, Planning and Local Government.

Treasury Governance

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

Ervia complies with the requirements of the Minister for Finance under the Financial Transactions of Certain Companies and Other Bodies Act, 1992 and the Specification of the Minister for Finance. Ervia's Treasury function is not operated as a profit centre and treasury positions are managed in a risk averse manner. All treasury transactions have a valid underlying business reason and speculative positions are strictly prohibited. Further details of Ervia's treasury governance financial risk management policies are set out in the financial statements note C5.



Irish Water – Operating Review

In 2017 we continued to deliver on key financial and performance metrics set out in our Business Plan (2015-2021). Focusing on these metrics has allowed us to improve our data and provided us with a better understanding of our assets and the scale of the challenges facing Ireland's water and wastewater infrastructure. We remain focused on repairing and upgrading these services and we will continue to prioritise our investment decisions to ensure that we use available funding effectively, making investments that deliver the biggest benefit to communities and businesses, while safeguarding our environment.

Jerry Grant, *Managing Director*
Irish Water

Irish Water is responsible for delivering safe clean drinking water and environmentally safe wastewater services to households and businesses across Ireland. These vital services underpin social and economic progress for present and future generations. Through their delivery we leverage Ervia's capabilities to complete one of the largest ever transformation programmes in the Irish public service transitioning from 31 Local Authorities towards a single national utility.

We deliver water services to approximately 83 percent of the Irish population which amounts to supplying 1.7 billion litres of treated drinking water to 1.5 million households and almost 200,000 businesses every day. We also treat the wastewater produced from these homes and businesses before returning it safely into our environment. This is achieved by operating and maintaining over 2,000 water and wastewater treatment plants, over 5,000 other assets, including pumping stations and reservoirs, and 88,000km of pipe networks.

As a national utility, Irish Water has one national strategic plan and a single budget to fulfil specific key objectives. These include drinking water quality, wastewater quality, service continuity and catering for growth. One of our key objectives is to provide the same standard of service for water and wastewater to every customer in the country.

Progress Against Strategic Objectives in 2017

During 2017, Irish Water remained fully committed to delivering our ambitious capital and infrastructure investment strategy to deliver modern, efficient and reliable water and wastewater services across Ireland.

Infrastructure Delivery

Key 2017 achievements included:

- We progressed over 400 infrastructure projects; completed 21 key infrastructure projects including completion of 5 new and upgraded water treatment plants and 16 new and upgraded wastewater treatment plants;
- We removed and replaced 1,234 lead service connections under the Lead in Drinking Water Mitigation Plan and treated a further 1,553;
- 42 national work programmes are ongoing which will include the delivery of reservoir cleaning and refurbishment, telemetry monitoring of critical operating parameters, filter refurbishment and safety programmes;
- 300 assessments have been completed as part of the Reservoir Programme with the cleaning and disinfection of reservoirs starting towards the end of 2017;
- We installed flow-monitoring on 97 wastewater sites to meet EPA requirements, with a further 114 in progress;
- We replaced 203km of the most at risk water mains during this period;
- We laid or rehabilitated 18km of Wastewater network;
- We removed a total of 33 public water supplies from the EPA's Remedial Action List;
- 25 dam inspections were completed in 2017;
- We progressed a Regional Bio Solids Storage Facility for the Greater Dublin Area, following a series of public consultations as part of our National Urban Wastewater Sludge Plan;

Reducing Leakage

Almost half of the water that Irish Water produces is lost through leakage from our water mains and within customer properties. This is due to the historical factors of negligible mains replacement and reactive leak repairs and the limited life of pipe and fittings types.

In 2017, we launched a Leakage Reduction Programme. As a result of the recommended leakage reduction activities the volume of drinking water lost has been reduced by approximately 115 million litres per day from these programmes.

Through our public-side First Fix Scheme, to date, over 26,000 customers have had leaks repaired. Over 1,100km of new or renewed water mains have also been laid since January 2014, and over 4,400 District Meter Areas (DMAs) have been maintained.

In 2018, Irish Water will continue to improve the reliability and integrity of our national water infrastructure and ensure all assets remain within EPA compliance. This will be achieved by rolling-out all elements of the Leakage Reduction Programme nationwide and replacing 261km of the highest risk water mains. We will also continue to support and contribute to the national River Basin Management Plans, and prioritise wastewater treatment upgrades and a catchment management approach to protect raw water sources for drinking water. Finally, we will continue to develop and implement water and wastewater Sludge Management Plans on an ongoing basis.

In 2017 Irish Water undertook extensive consultation on planning applications to replace the water treatment facilities at Vartry and deliver a new link pipeline transferring water from Vartry to Callowhill.

Investing in Strategic Infrastructure

Ervia's Major Projects function delivers strategic infrastructure projects that bring large-scale benefits to communities across Ireland. In 2017 the function advanced a number of projects across our gas and water portfolios, key highlights are detailed in this section.

Vartry Water Supply Scheme
This Scheme provides drinking water for a supply area stretching from Wicklow to Dublin and serves around 15% of the Greater Dublin Area. Some of the assets are over 150 years old and require upgrading. In 2017 Irish Water undertook extensive consultation on planning applications to replace the water treatment facilities at Vartry and deliver a new link pipeline transferring water from Vartry to Callowhill. Planning permission was approved in January 2018 and construction on the pipeline commenced at the beginning of the year.

New Water Supply for the Eastern and Midlands Region
Irish Water's remit includes the delivery of a sustainable and resilient water supply to customers and finding a new source of water supply for the Eastern and Midlands region. This supply project will help meet the domestic, commercial and industrial needs of the Dublin region and over 40% of Ireland's population and will represent the first comprehensive upgrade of new source infrastructure in over 60 years. In 2017 the business completed a 14 week public consultation period on the preferred scheme and feedback from this process, alongside further technical and environmental studies, will inform the selection of the final scheme and will accompany Irish Water's planning application to An Bord Pleanála.

Stillorgan Reservoir
The existing Stillorgan site contains three open water reservoirs which store treated drinking water prior to its distribution to customers. Such exposure to the environment presented an unacceptable contamination risk and in 2016 plans to construct a new covered reservoir in order to safeguard the quality of the drinking water for 200,000 customers served by the reservoir were lodged. In December 2017 planning permission was granted by An Bord Pleanála for the upgrade and construction will commence in 2018.

Cork Lower Harbour
The Cork Lower Harbour Main Drainage Project is significantly enhancing the water quality in Cork Harbour and will end the current practice of the discharge of raw sewage into the lower harbour area. The commissioning of the new 65,000 population equivalent wastewater treatment plant at Shanbally in 2017 has halved the volume of untreated sewage being discharged into the harbour.

Construction works on the southern networks of the project commenced in January 2017 and work in the towns in the northern network and the associated estuary crossing is on programme for 2018. These upgrades will support social and economic development in Cork while ensuring that Ireland achieves compliance with the European Union's Urban Waste Water Treatment Directive.

Greater Dublin Drainage
The Greater Dublin Drainage (GDD) Project will develop a new regional wastewater treatment facility and associated infrastructure to serve the population of the Dublin and surrounding counties of Kildare and Meath. The new infrastructure will protect public health and safeguard the environment by meeting the 50% projected increase in wastewater generation by 2050.

The project will have the capacity to provide wastewater treatment for the equivalent of half a million people and will deliver a new underground sewer network from Blanchardstown to Clonshaugh, a new wastewater treatment plant on 30 hectares and an outfall pipe discharging to the Irish Sea.

Investing in Strategic Infrastructure (continued)

Irish Water continued to progress studies to support the planning application for the project in 2017.

Ringsend Wastewater Treatment Plant
Irish Water is extending the Ringsend Wastewater Treatment Plant to meet growing population demands and ensure that treated water being discharged to the lower Liffey estuary meets the required standards.

In 2017 Irish Water continued to progress its planning application and Environmental Impact Assessment Report for permission to implement advanced nutrient reduction treatment technology known as Aerobic Granular Sludge (AGS) at the plant. Irish Water is also progressing work on a capacity upgrade for the plant and construction will commence in early 2018.

Part of the planning applications for the Ringsend and GDD projects will include a Regional Biosolids Storage Facility. Following extensive public consultation, a preferred site for this facility has been identified in Kilshane, Dublin 11. This facility will serve the greater Dublin area and its population for the next 25 years and will protect our environment and facilitate development in this growing region.

Achieving Cost Reduction and Efficiency Improvements

As we transform the water and wastewater industry, Irish Water is committed to delivering €1.1 billion of opex savings and €500 million of capital savings by 2021. This is contingent on the planned Single Public Utility transformation programme, working with the key stakeholders.

In 2017, we delivered operational expenditure savings of €40 million. This brings our total annual saving to €116m to the end of 2017, through efficiencies in contractor management, payroll, overheads, goods and services, and energy efficiencies. Capital expenditure savings of €290 million have also been identified and we are on target to deliver a further €210 million by 2021.

Irish Water launched the first deliverable of our Environmental Information Management System (EIMS) Project in 2017. EIMS will be a vital tool for managing environmental information for our business, including drinking water and wastewater regulatory compliance. In its first phase, the system replaces multiple manual processes and collates data into a central system. This creates a single information source that we can use to support future business and investment decisions.

We also migrated all non-domestic accounts from the 31 Local Authorities, bringing all aspects of water services management for these customers' billing and revenues under Irish Water.

Key priorities for 2018 include achieving cost reduction targets, as set by the Commission for Regulation of Utilities (CRU), and supporting the CRU public consultations on both the Non-Domestic Tariff Framework Review, and national harmonised Connection Charges. We will also focus on delivering other cost efficiencies through:

- Procurement and supply chain management to drive cost savings and economies of scale, and standardising procurement and third-party supplier contracts;
- Contractor management to deliver better ways of working at site level and nationally, as well as better plant investment to reduce the need for ongoing contractor maintenance;
- Energy management which will see the replacement of plant and machinery with energy efficient alternatives, and the reduction in energy usage through real time monitoring and transition of locations onto lower cost tariffs;
- The introduction of a national telemetry system to enable regional monitoring and support of water and wastewater treatment assets remotely.

Irish Water employs 759 professional, technical and support staff, and we work with 3,408 staff in the 31 Local Authorities.

Improving Water Quality

For Irish Water, providing safe, clean drinking water is a top priority. Water quality in some of Ireland's public water schemes does not meet mandatory European and Irish drinking water standards, and many of our water treatment plants are considered to be at risk of failure in terms of quality parameters. In 2017, we implemented measures to improve these standards.

The number of water supply zones on the EPA's Remedial Action List (RAL), which required investment and/or significant improvement to reduce the risk of failure to accepted levels, was reduced to 46 from 121 in 2015. Many of these schemes also require additional treatment to address trihalomethane (THM) compliance. Ireland currently fails to meet the requirements of the European Drinking Water Regulations for THMs, and the European Commission has announced its intention to bring infringement proceedings against Ireland in 2018. To address this, we have produced a national THM strategy and allocated funding as part of our priority programmes to 2022.

In January 2014, 23,000 customers were on long-term Boil Water Notices (BWNs) in Ireland. By prioritising investment in these schemes, Irish Water reduced this number to 26 customers by January 2017. There are currently only 5 of these customers on a BWNs at the end of 2017.

Throughout 2017, we continued to monitor and report on all public drinking water supplies nationwide, taking over 8,500 regulatory samples which amounted to over 168,000 individual tests. 68 water treatment plants were upgraded under the National Disinfection Programme and 1,234 lead service connections were removed or replaced under the Lead in Drinking Water Mitigation Plan. The Drinking Water Quality section of the Irish Water website was also expanded, allowing visitors to search for information on their public water supply and see all sample results for that scheme against 48 drinking water parameters.

In November 2017 we launched our first consultation on the National Water Resources Management Plan. This plan sets out how Irish Water will maintain the supply and demand for drinking water over the short, medium and long-term, while minimising environmental impacts. We are also developing Water Safety Plans to provide a 'catchment based' approach to protecting drinking water sources. This is the first step in ensuring protection of public health through the provision of safe drinking water.

In 2018 Irish Water will continue to prioritise investment to ensure public water supplies are no longer at risk and can be removed from the EPA's RAL. We will continue to monitor our drinking water supplies for compliance with all statutory requirements and to provide public information on these through our website and other appropriate means.

Delivering through our People

Irish Water employs 759 professional, technical and support staff, and we work with 3,408 staff in the 31 Local Authorities. We are made up of five core functions: Asset Operations, Asset Management, Customer, Asset Delivery and Support Services. These are supported by our Customer Contact Centre and Service Delivery Partners. We are also supported by Ervia's Group Centre, Shared Services and Major Projects functions to ensure that efficiencies and economies of scale are realised across the organisation.

Implementing a single public utility model will require continued transformation in the way we work, our organisation and standard procedures as we look at incorporating new responsibilities, processes and staffing. When complete, we will comprise over 3,200 staff in national and regional offices. As we move through this

Delivering through our People (continued)

transformation we will continue to work closely with our Local Authority partners. Such a transformation is a complex undertaking, which will take place over a number of phases to ensure service continuity while managing environmental, operational, and health and safety risks.

Procurement
Our mission is to seek to source the most cost-effective solutions for all Irish Water sourcing activities in order to maximise the benefits for the company. We achieve this by developing competitive sourcing processes and building up effective relationships with our key suppliers.

> *Our mission is to seek to source the most cost-effective solutions for all Irish Water sourcing activities in order to maximise the benefits for the company.*

Responding to the Needs of Communities and Enterprise

In 2017, Irish Water worked with regional and local planning authorities, as well as other agencies, to plan for the future of water services and infrastructure to meet social and economic growth. Future development of water services must be in line with agreed national and regional development plans, and additional demand must be met without risk to existing customer service standards.

We are playing an active role in the preparation of Ireland's National Planning Framework 2040, and we will continue to support our national and regional spatial planning policies as they evolve. We take full account of the increased demand to support housing and economic development. We are therefore committed to reviewing our investment plans in order to support government policies for planning and housing provision. We aim to understand and plan for future development ensuring it is consistent with national, regional and local planning policy.

Incident Management
Throughout 2017, Irish Water dealt with an estimated 800 supply outages every month, highlighting that critical assets are prone to failure. While we dealt with many outages in the same day, the uncertain nature of these outages and the condition and age of the assets can have prolonged and severe consequences. These include significant economic loss, social disruption and customer inconvenience. We will continue to use operational and asset data to classify our assets by risk rating (probability and impact) and, where possible, by prioritising them for rehabilitation to prevent future incidents.

Contingency planning is another of our increasingly important functions. This builds on the extensive incident management plans embedded across our business while also providing additional planning around potential large scale or protracted events. In 2017, this included drought planning and preparation for severe weather events, such as storms, floods, and cold weather such as ex-hurricane Ophelia. Irish Water is also a member of the National Emergency Co-ordination Group and we operate a Memorandum of Understanding with Local Authorities, under the National Emergency Response Plans.

Safety
In January one of our contractors sustained serious injuries as a result of a trench collapse on a wastewater project in the West of Ireland. The incident had the potential to be fatal and serves to remind us of the hazards and risks we manage on a daily basis. Safety will remain a key area of focus for Ervia in 2018 and beyond as we continue to improve our safety performance and strive for zero injury.

> *In 2017, 390,000 customer calls were answered, over 71,000 work orders issued and 27,978 outbound calls made to customers on Irish Water's vulnerable customer register.*

Improving Customer Engagement

We are committed to a best-practice approach to customer service and operations, and we are focused on improving our engagement with customers. In 2017, 390,000 customer calls were answered, over 71,000 work orders issued and 27,978 outbound calls made to customers on Irish Water's vulnerable customer register. We redesigned our website to give customers easier access to information and services, and our channels of engagement expanded to include Twitter, LinkedIn, Boards.ie and SMS texts.

We continued to work with a wide range of external stakeholders in order to improve service delivery. These included elected representatives obtaining water service updates on behalf of their constituents and the distribution of up-to-date information to community groups and local media.

Connections and Developer Services
In 2017 Irish Water became the direct point of contact for all connections, developer services and enquiries (previously managed through the 31 Local Authorities), and we developed a national process for establishing connection agreements. To that end, we facilitated early engagement at the pre-planning stage, through our Pre-Connection Enquiry process which advises on the feasibility of a proposed connection. This process provides us with information as to where connection demand is likely to be highest in the short-term, while also providing an efficient and effective centralised service. Irish Water is also establishing a quality assurance programme for all new housing development infrastructure to ensure a uniform standard of water and wastewater infrastructure.

Transforming our Industry

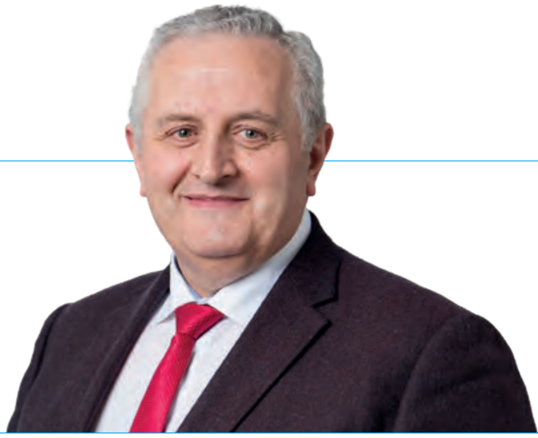
Irish Water is working together with our Local Authority partners to streamline the water services sector and its transformation into an effective and efficient single public utility model. By doing so we can employ this model to deliver more services regionally, with shared cross-boundary working, centres of excellence and increased specialisation. This will help us to achieve significant efficiencies, improved asset operations, better customer service standards and economies of scale.

Funding Domestic Water Services
In the first quarter of 2017, a report by the Joint Oireachtas Committee (JOC) on the Future Funding of Domestic Water Services confirmed that direct charging for normal domestic water usage would be discontinued and replaced by Exchequer funding from taxation and secure multi-annual funding. Changes were also recommended to the capital funding of Irish Water, with the JOC recommending that all existing debt funding be re-financed by government sources.

Throughout 2017, Irish Water worked with its stakeholders to implement fully the recommendations of the JOC report, and this will continue into 2018. Our focus is to ensure that Irish Water's programme of investment and transformational change, outlined in our Business Plan, is supported by a robust, stable funding model. This model takes a minimum six year view of operating costs and a ten year view of capital expenditure needs. In addition, we will ensure that the necessary reporting is in place to meet all governance requirements, reflecting our performance against regulatory targets.

The Water Services Act 2017 paved the way for the refund of domestic water charges to households. Irish Water began to issue refund cheques in late November 2017, and over 94 percent of refunds were delivered by the end of 2017. The remainder will be resolved as quickly as possible in 2018.

Gas Networks Ireland – Operating Review



Gas Networks Ireland delivered a strong financial performance in 2017, meeting all financial metrics and maintaining our high investment grade ratings: A with Standard & Poor's and A3 with Moody's Investor Services. We carried out €147 million of critical investment infrastructure on the gas network and our focus remained on increasing new connections to the network and looking at innovative ways to deliver Ireland's low carbon energy future. Specifically, we targeted initiatives such as compressed natural gas for transport, renewable gas and carbon capture and storage. Safety remained our top priority for our assets and operations throughout 2017.

Liam O'Sullivan,
Managing Director, Gas Networks Ireland
Chief Operating Officer, Ervia

Overview

Gas Networks Ireland owns, operates and maintains a world-class gas network comprising 14,172km of gas pipelines including two sub-sea interconnectors. Our core business is the safe and reliable transportation of natural gas through our networks and, in 2017, we continued our investment to extend and upgrade the network.

Natural gas is of key strategic importance to the Irish economy, representing approximately 29 percent of Ireland's primary energy mix and generating 52 percent of Ireland's electricity. Our aim is to deliver an excellent, efficient and cost-effective service that benefits all customers. Currently, natural gas is available in 20 counties, with over 688,000 business and domestic 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, over the short, medium and long-term.

Operating Environment

In 2017, the total volume of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was approximately 74,000GWh (supplied through the Moffat Interconnector and the Corrib and Inch gas fields), an increase of 1.8 percent on

2016. Of this, 76 percent of the gas was delivered to the Republic of Ireland, with the remaining 24 percent transported to the Isle of Man and to Northern Ireland.

During the year, approximately 61 percent of all gas requirements in the Republic of Ireland were supplied by the Corrib gas field, 33 percent were met through UK imports, and the remainder was supplied from indigenous reserves from the Kinsale gas fields, off County Cork. In 2017 the operator of the Kinsale gas fields ceased its storage operation.

Price Control

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

Regulations and Tariffs

The EU continued to develop a single internal energy market in 2017, with further developments expected next year. New Security of Gas Supply Regulations, part of the Clean Energy Package, came into force on 1 November 2017. A key part of the new Security of Supply arrangements is the introduction of a solidarity principle. In the event of a severe gas crisis, neighbouring member states will help out in order to maintain the gas supply to households and essential social services. The development of the incremental capacity and tariff network codes were also completed in the first quarter of 2017, and came into force on 6 April 2017. The new code provides a standard approach in relation to assessing the need for additional capacity at interconnection points and how that capacity is released to the market.

Brexit

With Brexit scheduled for 2019, Gas Networks Ireland continued our close liaison with all relevant stakeholders in Ireland, the UK, and Brussels. In June, we outlined our Brexit position at a Seanad Special Select Committee. We have completed long and medium term scenario planning and risk analysis on potential outcomes. Clarity on the UK's participation in or interaction with the single energy market is required to fully understand the implications. We will continue to engage with stakeholders and monitor developments in 2018.

Gas Advocacy

Throughout the year, we continued to advocate actively for natural gas and to highlight the critical role natural gas plays in Ireland's current and future energy policy. Gas Networks Ireland is developing a new, 70-station national network of Compressed Natural Gas (CNG) re-fuelling stations for public and private transport operators. A proven technology, CNG is used as a transport fuel in Natural Gas Vehicles. Under the EU co-funded Causeway Project, 14 stations will be developed by the end of 2020. Gas Networks Ireland also developed market arrangements for the first injection of renewable gas (scheduled for 2018). This will play a significant role in delivering a carbon-neutral gas, produced by a process known as anaerobic digestion, to Irish customers as a sustainable, indigenous energy source.

GNI (UK) Ltd

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

It also owns and operates two pipelines in Northern Ireland, the South North pipeline running from Gormanston, Co. Meath to Co. Antrim and the North West pipeline running from Carrickfergus to the Coolkeeragh power station. GNI (UK) is regulated by the Commission for Regulation of Utilities in relation to the Republic of Ireland network and the Utility Regulator in Northern Ireland and Ofgem, in the UK.

Key 2017 developments included:

- The launch of a new 'single system operator' model, in October 2017. This model involves GNI (UK) Ltd collaborating with three other gas transmission operators in Northern Ireland – Premier Transmissions Limited, Belfast Gas Transmission Limited and West Transmission Limited – to deliver a new centralised gas market operator which will provide long-term benefits to gas shippers in Northern Ireland.
- Completion of a new five year price control review (October 2017 to September 2022) by the Utility Regulator, in relation to the operation of GNI (UK) Ltd's gas transmissions assets in Northern Ireland. The Utility Regulator determined that GNI (UK) Ltd would be allowed to recover c. £85 million over the five year price control period (c. £17 million per annum).

Gas Networks Ireland – Operating Review (continued)

Aurora Telecom

Aurora Telecom, a division of Gas Networks Ireland, owns and operates the most modern, carrier grade, backhaul dark fibre network in Ireland.

Continued investment in our fibre network drove strong growth during 2017. We expanded our national network from Cork to Dublin, via Waterford and Carlow, and works have now commenced to complete the Dublin Cork loop. Aurora's national network links Dublin to Cork (via Galway, Ennis, Shannon and Limerick) while our Dublin network links the capital's commercial centre, business parks and data centres, and provides interconnection with all national and global carriers.

The completion of the Cork to Dublin network will strengthen Aurora's position as a major telecoms infrastructure provider in the Irish market. It will also deliver real benefits for the Irish economy and help protect the country's position as a centre for foreign investment.

State-of-the-art fibre networks with world-class international connectivity are a key factor in multinational investment decision-making, and our growth supporting data centres, alongside new subsea fibre cable interconnections, continued unabated in 2017. This growth and innovation ensures that we continue to provide the optimum connectivity solutions to customers requiring carrier-grade, high-capacity backhaul networks with best-in-class security, resilience, latency and performance.

Progress against Strategic Objectives in 2017

A number of key strategic objectives determined our business focus for 2017.

Delivering Operational Excellence

Safety
Gas Networks Ireland is committed to the highest possible safety standards and during 2017 we continued to manage all aspects of operations in a safe and environmentally responsible manner.

Our comprehensive Safety, Environmental, Quality, Energy and Asset Management Systems, independently certified to OHSAS 18001, ISO 14001, ISO 9001, ISO 50001 and ISO 55001 ensure our activities are managed in accordance with international best practice.

We provide a best-in-class emergency response service and, in 2017, we responded to 16,249 publicly-reported escapes of gas with an average response time of 28 minutes, and 99.91 percent compliance within one hour.

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

Operations
Our capital expenditure of €147 million covered ongoing programmes to improve the safety and reliability of the network in 2017. Capital and maintenance activities were completed on time, to scope and in line with cost targets and budget projections.

Key 2017 projects delivered:

- We completed a multi-utility project in Nenagh, Co. Tipperary, where new gas infrastructure was installed in parallel with water and wastewater infrastructure;
- Phase 1 of a multi-utility project was completed in Wexford Town, to supply gas and water infrastructure upgrades;
- We commenced work on a 40km feeder main to Listowel, Co. Kerry, introducing natural gas to the county. Switching to natural gas is key to helping Kerry Ingredients reduce emissions and achieve energy efficiency targets;
- We completed 29km of the required 50km twinning pipeline project in Scotland. This will increase security of gas supply to Ireland, Northern Ireland and the Isle of Man;
- We commissioned a CNG facility at Clean Ireland in Shannon, Co. Clare, and completed the construction of a second facility in Dublin Port.

In addition, we delivered approximately 38,000 planned maintenance work orders across transmission and distribution networks.

Putting our Customers First

Gas Networks Ireland is committed to putting our customers first. In 2017, we delivered high quality services to over 688,000 domestic and commercial customers. During this period over 86,438 customer appointments were made and a 98.3 percent compliance rate was achieved in meeting those appointments.

Over 2.4 million meter reads were conducted during the year and our Contact Centre handled over 450,000 customer contacts. We met our customer satisfaction score targets across all activities surveyed and won a number of awards within the industry. Consultation with stakeholders and customer journey mapping was also carried out to enhance our customers' experience further.

We continue to help customers manage their energy costs by enabling supplier switching and the installation of prepayment meters. These meters now constitute 16 percent of the total residential meter population. We have exchanged in excess of 25,000 meters to date under our domestic meter replacement programme.

Delivering Financial Performance

Gas Networks Ireland's profit before tax and exceptional items for 2017 was €150 million. Capital expenditure, at €147 million, was up on 2016 by €22 million.

The regulated transmission tariff for 2017/18 decreased by 3.8 percent, year on year, with the distribution tariff increasing by 2.3 percent. In 2017, Gas Networks Ireland extended the maturity date on our €450 million revolving credit facility by an additional year, to 2022, ensuring that we have access to significant liquidity over the term of PC4. We maintained our high investment grade ratings with a long-term credit rating of A with Standard & Poor's and A3 with Moody's Investor Services.

Securing the Future

Growth in new connections to the gas network continued in 2017 with 11,611 new commercial and residential customers contracted. This represents a 15 percent increase on 2016, which will add 951GWh of new demand on the network. Two data centre connections and the continued roll-out of the gas network in Nenagh and Wexford underpin this growth.

In 2017, Gas Networks Ireland completed the construction of the first publicly accessible CNG fuelling station in Ireland. The station, located in Dublin Port, will be operated by Topaz and have a capacity to fuel up to 70 vehicles per day. We also executed contracts for a second station located at the M7 Cashel service station, while an additional six stations are at an advanced stage of development.

Our development of renewable gas achieved a significant milestone in 2017, when planning was granted for a renewable gas injection point at Cush, Co. Kildare. The site, when operational, will have the capacity to inject up to 200GWh per annum of renewable gas into the grid. The first renewable gas will be produced at the nearby Green Generation site which will be commissioned in Q2 2018. It will have a capacity of 90GWh. Over the next five years, we plan to construct six injection points with a total combined annual capacity of 1,450GWh.

Plans to connect Center Parcs, in Ballymahon, Co. Longford, to the gas network were announced in 2017, and this €10 million project will be completed in late 2018. Other priorities for 2018 include the completion of the 50km twinning pipeline project in Scotland, as well as the conclusion of Phase 2 to deliver gas to Listowel. The multi-utility project in Wexford Town will also be finished next year. Phase 2 of the Limerick Gasworks Remediation project will begin in early 2018.

Our growth strategy is supported by specific marketing activities which include national media partnerships such as TV3's The Restaurant and radio sponsorships. This strategy is also enhanced by offering a quality digital experience for customers wishing to connect to natural gas.

Investing in strategic infrastructure

Gas Twinning Project, Scotland
The second gas interconnector from Scotland to Ireland is a European Project of Common Interest, and is an important project for the Irish economy. It will reinforce security of energy supply across Ireland, facilitating the transport of additional gas supplies from Beattock, in south west Scotland, to Gormanston, Co. Meath. Phase 1 of this project was constructed in 2002 and GNI (UK) is now undertaking Phase 2, which consists of constructing the remaining gas pipeline from Brighouse Bay to Cluden, in Scotland.

Construction commenced in 2017 and utilises the latest and least intrusive engineering methods. To date, 29km of pipeline has been installed and the project is on target for completion by the end of 2018. The pipeline will be built, operated and maintained to the highest national and international safety standards.

See page 27 for information on how Ervia is approaching Risk Management in Practice through the Limerick Gasworks Remediation project.

Corporate Responsibility

Corporate Responsibility (CR) is an important part of how Ervia delivers its business. Our CR activities underpin our commitment to enhancing the health and quality of life of the people of Ireland, protecting our environment and enabling economic and social development.

We centre our CR activities around the communities we serve, our workplace and marketplace and the environment we work hard to protect.

With extensive CR experience Gas Networks Ireland is one of 29 companies in Ireland to hold the Business Working Responsibly Mark which certifies responsible and sustainable business practices and is recognised worldwide. Irish Water is in the early stages of its CR journey, partnering with environmental education programmes to improve awareness of the role we play in delivering safe and reliable water services.

In 2017/18, Ervia is partnering with Youth Work Ireland to develop and deliver a pilot programme focusing on employability skills for young people who are not in employment, education or training. The pilot, which will be supported by volunteers from across Ervia, aims to develop the resilience and self-confidence of Ireland's young people.

In the Community

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Over 1,500 volunteering hours were delivered by Gas Networks Ireland employees in 2017.

Gas Networks Ireland supports a number of educational initiatives across Ireland, promoting Science, Technology, Engineering and Maths (STEM), literacy, employability and developing life skills. In 2017 we delivered the national primary school STEM education programme, *Our Universe*, to over 5,200 students in 168 schools. The business also supported other STEM initiatives including Science Week, Engineers' Week and exhibited at the iWish conference which promotes careers in STEM to young women.

The business also supported the *Skills at Work* programme which inspires students to value education and encourages them to stay in school. In 2017 the programme was delivered in conjunction with Business in the Community (BITC) and our partner schools Beneavin Secondary School in Finglas, Dublin and Nagle Community College in Cork.

In 2017 Gas Networks Ireland was delighted to expand its relationship with Co-operation Ireland with the launch of the Dublin Youth Leadership Project for young people who live close to our Dublin office in Finglas. The programme will provide the group with the opportunity to develop their leadership skills through workshops and a residential experience with cross-border peers. We continued to support the Cork Youth Leadership Project for the third year, with 30 young people graduating last year.

Over 1,500 volunteering hours were delivered by Gas Networks Ireland employees in 2017 with 600 of those through BITC's *Time to Read* literacy programme for primary school children.

Throughout 2017 Irish Water continued to invest in partnerships and community programmes in order to heighten awareness of water-related issues and to promote better use of water and wastewater assets in homes and businesses.

> *... a 30% reduction in water usage by participating schools was recorded, the equivalent to water savings of 460 million litres.*

The business partnered with the international Green Schools environmental education and awards programme to promote sustainability. The Water Theme of the programme increases awareness of water conservation, supply, protection and pollution issues in schools. It encourages schools to examine how they use water, and provides practical ideas, actions and solutions to reduce consumption levels and increase sustainability.

In the academic year 2016/17, 97,573 students in 448 schools participated he Water Theme of the programme and 178 schools were awarded Green Flags. A 30% reduction in water usage by participating schools was recorded, which is equivalent to water savings of 460 million litres.

Irish Water also supported An Taisce's Clean Coasts initiative delivering Think Before You Flush and Think Before You Pour campaigns to raise public awareness of the impact that sanitary and other products have on our wastewater system and marine environment.

Finally, Irish Water sponsors the annual Value Water Award in the national Tidy Towns competition. The award is given to those communities taking positive steps towards saving water through a combination of awareness raising activities, knowing where their water comes from and how it is used by the community to reduce the community footprint.

Corporate Responsibility (continued)

In the Marketplace

Ervia is committed to putting our customers first. We work hard to provide them with quality services, we listen to their needs and strive to exceed their expectations. We do this through our Ervia-wide *Customer First* programme which leverages customer service expertise and experience from across the business to provide best in class services to our internal and external customers. We also provide Special and Priority Service Registers for our vulnerable customers to ensure we can accommodate and meet their needs.

In 2017 Gas Networks Ireland sought to better understand key external stakeholders needs and to understand how the business could best work with our partners including Local Authorities, Registered Installers of Ireland and Gas Suppliers and Shippers as part of the *Customer Experience Monitoring* Programme. The business also developed a set of Guiding Principles to show employees how to support our Customer First approach and the guide will be rolled out across the company in 2018.

Irish Water is also working hard on a number of efficiency and effectiveness programmes to deliver best-in-class services for our customers. The business is focused on continually improving the quality of supply, our responsiveness and the experience customers have when they engage with us. Together we are committed to collaborating closely with our partners and stakeholders on our journey to become Ireland's leader in infrastructure and service delivery.

In the Workplace

The health and well-being of our employees is paramount. Our approach to occupational and personal health and well-being addresses the mind, body and emotional well-being of our staff.

Our *Work Safe, Home Safe* programme continues to grow in scope and ambition and in 2017 a comprehensive programme of health and well-being initiatives were delivered across Ervia. Key initiatives focused on increasing physical activity, improving mental wellbeing and supporting our employees to make better personal choices through the provision of a comprehensive medical screening and health promotion programme.

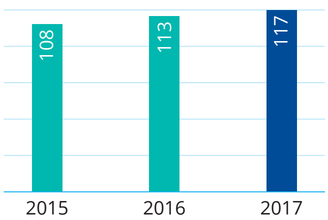
Empowering employees to deliver Ervia's strategic priorities through clear and timely communications is also a key priority. During 2017 we accelerated our focus on employee communication, establishing fit-for purpose channels and amplifying leadership presence to boost engagement.

Safety

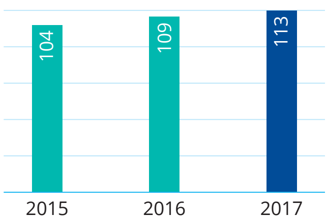
There was a total of 4 employee Lost Time Injuries (LTIs) in 2017. The incidents were of low severity and for an employee base of 1,702 this represents an excellent safety performance, however, we continue to strive for zero injury. The employee Total Lost Time Injury Rate* (>1 day) was 0.17 for the entire Ervia organisation. The reportable Lost Time Injury Rate (>3 day) was 0.04, which is the lowest the business has ever achieved. As part of our 2017 Work Safe, Home Safe programme there was a particular focus on enhancing our safety culture and further developing our safety leadership throughout the organisation with over 300 key influencers completed our new Behavioural Safety Programme.

There was a total of 113 Contractor LTIs in 2017 which was a slight increase on 2016 figures. Over the course of 2017 Ervia held a number of safety workshops with our key partners to outline our expectations, understand their views and to agree actions to continuously improve our safety performance and strive for zero injury. This will remain a key area of focus for Ervia in 2018 and beyond.

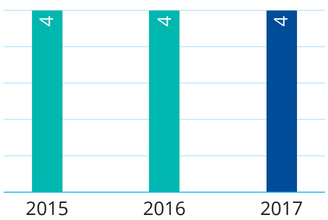
Total LTIs



Contractors LTIs



Employee LTIs



* Number of incidents per 100,000 hours worked

In the Environment

...the latest data on Irish Water's energy performance shows energy savings of 9.7%.

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

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

Irish Water Energy Usage

Irish Water, as one of Ireland's largest public sector energy consumers, has a responsibility to play a leading role in energy efficiency. The European Union (Energy Efficiency) Regulations (S.I. No.426 of 2014) requires Irish Water to publish an annual statement describing the actions it is taking, or has taken, to improve its energy efficiency and an assessment of the energy savings arising from those actions.

Irish Water's energy performance as reported in the SEAI's Annual Report 2017 on Public Sector Energy Efficiency Performance shows energy savings of 9.7% in the period 2009-2016. This is calculated on the basis of the water services assets' performance over that eight year period. These assets were owned and operated by local authorities up to the end of 2013. The savings figure may be revised in future years as we continue to work together with our partners in the local authorities, and SEAI to improve the quality and quantity of energy data, including historical data.

Investing in Ireland's water and wastewater infrastructure is a key priority for Irish Water. We are upgrading and replacing inefficient systems whilst ensuring the best whole life sustainable options are selected for new capital investments to help meet our energy efficiency obligations. Energy Efficiency Design (EED) is integrated into our investment process to ensure sustainable energy in design, building and operation of our assets.

Measures taken in 2017 to achieve long-term sustainable energy efficiencies include:

- Approximately 200 distinct energy efficiency projects identified and progressed across our operations including pumping, aeration, lighting, heating, and electrical management;
- Energy efficiency requirements included inapplicable equipment specifications to ensure sustainable energy equipment is selected when equipment being replaced;
- Sustainable Energy Strategy drafted and agreed across the business which sets outs our sustainable energy aims across a number of strands, including energy projects, new projects, Innovation and renewable energy;
- Energy Efficiency Design (EED) embedded into business activities to ensure new and upgraded plant, equipment, buildings, systems and directly associated activities are designed, equipped, maintained and operated in such a manner to ensure a high level of energy performance and that energy is used efficiently;
- Energy KPI's identified and improved for our largest sites to monitor, track and improve energy performance

Our Sustainable Energy Strategy sets out how we aim to achieve a 33% improvement in our energy efficiency by 2020 against a 2009 base year.

Key objectives planned for 2018 include:

- Publication of our Sustainable Energy Strategy
- Generation and utilisation of on site renewable energy
- Energy efficiency upgrades
- Integrating and embedding of EED into business activities

Corporate Responsibility

In the Environment (continued)

(continued)

“

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

Gas Networks Ireland Energy Usage

Gas Networks Ireland is equally conscious of its impact on the environment and the communities it serves. In 2017, Gas Networks Ireland maintained certification to the Environmental Management System ISO14001:2004 and the Energy Management System ISO50001:2011.

In partnership with the Sustainable Energy Authority of Ireland, Gas Networks Ireland actively participates in the National Energy Efficiency Action Plan, aimed at delivering 33% energy efficiency savings in the Public Sector by 2020. The business is committed to improving its energy performance of 33% by 2020 from a 2006 baseline and to date, has already achieved over 41% energy efficiency improvements.

Energy use across Gas Network Irelands' assets is summarised below;

Energy Use – Direct Consumption*	2016 GWh TFC	2017 GWh TFC
Electricity	7.07	6.56
Natural Gas	1.45	1.86
Diesel	2.16	2.13
Petrol	0.01	0.01

* ROI Assets only

Measures taken in 2017 to achieve long-term efficiencies include:

- Setting up an environmental and energy working group to support an integrated and strategic approach across Gas Networks Ireland;
- Completing a feasibility study for the HVAC upgrade of our Gasworks Rd Office in Cork;
- Continuing the fleet renewal programme and optimising energy efficiency, through driver training and energy efficient procurement;
- Continuing the deployment and national rollout of Compressed Natural Gas (CNG) vehicles and infrastructure.

Actions Planned for the calendar year 2018

Gas Networks Ireland intends to further improve environmental and energy performance by undertaking the following initiatives:

- Maintain certification to Energy Management Systems standard ISO 50001:2011 and successfully transition to the Environmental Management System ISO14001:2015
- Continue to drive and further embed the environmental and energy working group
- Continue to support the All Ireland Pollinator Plan and continue to roll out Biodiversity initiatives
- Continue the deployment and national rollout of Compressed Natural Gas (CNG) vehicles and infrastructure.
- Promote and encourage behavioural change amongst employees with respect to energy efficiency and environmental performance.
- Continue the deployment of Ireland's first renewable gas injection facility.

4. Governance Report

The Board in 2017

Tony Keohane

(Chairman)

Appointed: 5 July 2016

Term: 5 years

Board Committees: Remuneration

Career: Ex-Chairman of ECR Ireland and Tesco Ireland, CEO of Tesco Ireland from February 2006 until July 2013

External Appointments: Chairman of Repak and the Malone Group, Board of Sam McCauley Chemists and An Bord Bia.

Mike Quinn

(Group Chief Executive Officer)

Appointed: 31 October 2017

Term: 5 years

Board Committees: Investment/ Infrastructure

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

Chris Banks

Appointed: 5 July 2016

Term: 5 years

Board Committees: Investment/ Infrastructure, Water Industry Operating Framework

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

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

Fred Barry

Appointed: 5 July 2016

Term: 4 years

Board Committees: Investment/ Infrastructure, Water Industry Operating Framework

Career: Director of the National Development Finance Agency, Chairman of the National Roads Authority, and various companies within Jacobs Engineering Group Inc.

External Appointments: Chairman of the National Transport Authority and Non-Executive Director of the PM Group

Peter Cross

Appointed: 20 January 2015

Term: 5 years

Board Committees: Audit & Risk

Career: Chief Financial Officer of Eircom July 2007 -December 2010, Chief Financial Officer of BT Openreach, Group Director of Corporate Finance and Trustee of the BT Pension Scheme, Chairman of the HSE's Audit Committee and Director of Cubic Telecom, corporate finance positions in London with Morgan Stanley and Barings

External Appointments: Managing Director of Trasna Corporate Finance

Celine Fitzgerald

Appointed: 20 January 2015

Term: 5 years

Board Committees: Water Industry Operating Framework

Career: CEO of Rigney Dolphin between 2007 – 2012, Customer Relationship Management in Vodafone and Eircell

External Appointments: Own consulting business (Integro consulting), Non-Executive Director of VHI, General Manager of GOAL

Keith Harris

Appointed: 5 July 2016

Term: 3 years

Board Committees: Audit &Risk, Remuneration

Career: Senior Executive and Board positions at Wessex Water, Global Head of Regulation at ENRON/AZURIX

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

Sean Hogan

Appointed: 20 January 2015

Term: 5 years

Board Committees: Audit & Risk, Water Industry Operating Framework

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

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

Mari Hurley

Appointed: 11 June 2013

Term: 5 years

Board Committees: Audit & Risk, Remuneration

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

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

Finbarr Kennelly

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

Term: 5 years

Board Committees: Audit & Risk, Remuneration

Career: Senior positions with the Gardiner Group, Financial Controller of Alcatel Business Systems Ireland, former Board Member of The Housing Finance Agency plc, Mentor with Plato Ireland

External Appointments: Finance and Operations Director of Golf Vacations Ireland

Report of the Board

Governance Statement

This report describes Ervia's governance principles and practices. Ervia is a statutory body existing under the laws of Ireland and established pursuant to the Gas Act 1976 (as amended).

The Ervia Board ("the Board") is accountable to the Minister for Housing, Planning and Local Government ("the Minister"). The Board is responsible for the overall performance of the Group and for ensuring good governance and performs this task by setting strategic decisions on all key business matters. The regular day-to-day management, control and direction of Ervia is the responsibility of the Chief Executive Officer (CEO), Mike Quinn, and the Executive Team. The CEO and the Executive Team are required to implement the strategic direction set by the Board and must ensure the Board has a clear understanding of the key activities and decisions related to Ervia and of any significant risks likely to arise. The CEO acts as a direct liaison between the Ervia Board and management.

The Code of Practice for the Governance of State Bodies ("the Code") provides a framework for the application of best practice in corporate governance in State Bodies, who are required to observe the principles of the Code. Ervia recognises that good corporate governance is pivotal to its success and to this end we continuously review and update our policies and procedures to comply with best practice. This report outlines how Ervia and its subsidiary companies have applied the principles and complied with the provisions set out in the Code. As part of last year's annual reporting process, Ervia was subject to the 2009 Code of Practice for the Governance of State Bodies. As agreed with our parent department, the Department of Housing, Planning and Local Government, Ervia is reporting on compliance with the applicable provisions of the 2016 Code for the year ended 31 December 2017. The Board is satisfied that Ervia has complied with the applicable requirements of the Code.

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

Roles and Responsibilities of the Board

The Board is responsible for leading and directing Ervia's activities which are implemented within a framework of prudent and effective controls that enable risk to be assessed and managed. The Board satisfies itself, with reasonable assurance that such controls are adequate to secure compliance with statutory and governance obligations. The Board takes all significant strategic decisions, retaining full and effective control, while delegating day-to-day responsibility for management and operational and financial control, within defined authority limits, to the CEO and his Executive Team.

The Board has put in place a corporate governance structure which delegates authority to its Committees to carry out certain tasks on its behalf so that it can give the right level of attention and consideration to those matters which require consideration at Board level. Ervia's Board Committees are outlined in further detail on page 64.

The business of the Board and its Committees is planned annually to ensure that there is effective supervision and control. The work and responsibilities of the Board are set out in the Ervia Governance Framework which also contains the matters specifically reserved for Board decision.

Formal Schedule of Matters Reserved for the Ervia Board

- Safety policy in Ervia, Gas Networks Ireland and Irish Water
- Approval of Annual Budgets
- Approval/Review of Corporate Plan/Subsidiary Business Plans
- Approval of Contracts/ Expenditure with a value in excess of €10m
- Approval of Unbudgeted Expenditure
- Approval of Annual Report and Financial Statements
- Acquisition of Interests in Non-Ervia Companies
- Issue of Securities in Ervia and its Subsidiaries
- Appointment/Removal of Auditors
- Treasury Matters
- Significant Amendments to Ervia Pension Schemes
- Establishing Subsidiaries and Joint Ventures
- Terms of Employment of Senior Management
- Material Changes to the Code of Business Conduct
- Approval of Enterprise Risk Management policy

Matters considered by the Board in 2017

Strategy	▸ Strategic direction of Ervia ▸ Ongoing dialogue with Ervia's shareholder on strategic issues
Finance	▸ Annual published results ▸ Performance versus budget and forecast plus trading results ▸ Annual budget ▸ Dividends ▸ Funding ▸ Irish Water Domestic Refunds Project
Operations	▸ Chief Executive Officer's Operations Report including key performance indicators ▸ Capital investment evaluations ▸ Customer performance
Corporate Governance	▸ Board evaluation ▸ Amendments to Board Committee memberships ▸ Committee Terms of Reference ▸ Implementation of the Code ▸ Data Protection ▸ Appointment of new CEO
Safety	▸ Health and Safety metrics for the organisation ▸ Bi-annual safety updates

Board Responsibilities Statement for the Annual Report and Financial Statements

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

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

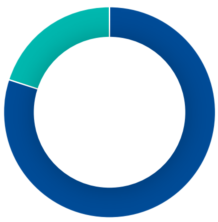
In preparing the financial statements, the Board is satisfied that:

- Suitable accounting policies have been selected and applied consistently;
- Judgements and estimates used are reasonable and prudent;
- Preparation of the financial statements on a going concern basis is appropriate;
- The financial statements give a true and fair view of the financial position of Ervia at 31 December 2017 and for the year then ended.

Report of the Board (continued)

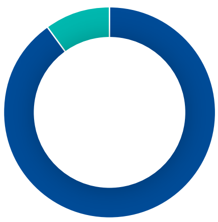
The Board in 2017

Board Gender



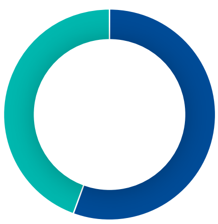
Men	8
Women	2

Executive and non-executive Board Members



Non-executive	9
Executive	1

Non-executive Board Member tenure



3+ years	5
0-3 years	4

Board members are outlined on pages 58-59.

The former CEO, Michael McNicholas stepped down from his role in June 2017. Following a competitive recruitment process undertaken by the Board, Mike Quinn commenced as CEO in October 2017. Sean Casey, former Chief Operations Officer, acted as CEO in the intervening period.

Finbarr Kennelly was re-appointed to the Board for a second term in December 2017.

Joe O'Flynn's term of appointment expired in January 2018.

Board Composition

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

Appointment and Re-election of Board Members

Board appointments are a matter for Government. The Chairman engages with Government in advance of Board appointments to highlight the specific skills and experience that are required on the Board. Board appointments conform to the Guidelines on Appointments to State Boards as published by the Department of Public Expenditure and Reform in November 2014.

Where a Board member has served one term of office and demonstrates that their performance, effectiveness and contribution warrants their re-appointment, the Chairman can propose with Ministerial agreement, that this member is re-appointed. The Board member can be re-appointed in compliance with the guidelines subject to the Minister obtaining Cabinet approval.

Induction and Development of New Board Members

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

Board Members have access to training programmes and the ongoing development needs of Board Members are kept under review by the Chairman and Company Secretary. Board members are encouraged to undertake appropriate training on relevant matters to ensure that their knowledge and experience matches the needs of Ervia.

Independence

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

Board Members' Remuneration, Expenses and Attendance

The Minister determines the fees payable to Board members. A schedule of attendance at the Board and Committee meetings for 2017 is set out below, including the fees and expenses received by each member.

Board Member	Remuneration (€)	Expenses (€)	Board (attended/ eligible)	Audit and Risk (attended/ eligible) Note 5	Remuneration (attended/ eligible)	Water Industry Operating Framework (attended/ eligible)	Investment/ Infrastructure (attended/ eligible)
Mike Quinn (CEO) (appointed 31 October 2017)	*Note 1*	Nil	2/2	-	-	-	2/2
Michael McNicholas (former CEO) (retired 01 June 2017)	*Note 1*	Nil	5/6	-	-	-	5/5
Tony Keohane (Board & Remuneration Committee Chairman)	31,500	527	11/12	-	11/11	-	-
Joe O'Flynn (Investment/Infrastructure Chairman until November 2017)	*Note 2,4*	Nil	9/12	-	-	-	9/9
Sean Hogan (WIOF Chairman)	15,750	5,422	11/12	4/5	-	4/4	-
Peter Cross (Audit & Risk Chairman since June 2017)	15,750	Nil	12/12	6/6	-	-	-
Celine Fitzgerald	15,750	Nil	11/12	-	-	4/4	-
Mari Hurley (Audit & Risk Chairman until June 2017)	15,750	Nil	10/12	5/6	11/11	-	-
Finbarr Kennelly	15,689 *Note 3*	Nil	11/11	5/6	10/10	-	-
Keith Harris	15,750	1,749	12/12	6/6	1/1	-	-
Chris Banks	15,750	739	10/12	-	-	4/4	8/9
Fred Barry (Investment/ Infrastructure Chairman since November 2017)	15,750	Nil	11/12	-	-	3/4	9/9

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

Note 2 – Board fee waived on a discretionary basis

Note 3 – Term of office expired on 10 December 2017, re-appointed on 12 December 2017

Note 4 – Term of office expired on 19 January 2018

Note 5 – Figures for Audit and Risk Committee include one meeting of the former Audit Committee held in February 2017.

Board and Committee Effectiveness and Evaluation

The Board conducts an annual evaluation of its own performance and that of its Committees. This evaluation is undertaken in order to comply with the Code. The evaluation considers the balance of skills, experience, independence and knowledge of the Board, its diversity, including gender, how the Board works together as a unit and other factors relevant to its effectiveness.

Evaluation methodologies applied by the Board to determine its effectiveness:

Internal Evaluation	For 2017 the performance evaluation process for the Board and Board Committees was internally conducted, given that there had been an external review at the end of 2015. The next external review is scheduled for 2018. The various phases of the internal performance evaluation process which commenced in January 2018 are set out below: ▸ The Board Self-Assessment questionnaire as provided in the Code was circulated to the Board; ▸ Completed questionnaires, including views on performance and recommendations for improvement, were returned directly to the Chairman; ▸ The Board formally concluded on its own performance, on the performance of committees and on the performance of individual Board Members, including the Chairman. A number of actions were agreed which will be implemented by the Chairman during the current year. All action items arising from the 2016 evaluation were completed during the year ended 31 December 2017.
Non-executive Board Member evaluation	In January 2018, Non-Executive Board Members carried out a performance evaluation of the Chairman taking into account the views of the CEO. Non-Executive Board members also carried out a performance evaluation of the CEO in January 2018.

Board Committee Composition

The Board has an effective Committee structure in place to assist in discharging its responsibilities, with specific purpose Committees being formed to deal with matters requiring particular attention from the Board. Three Committees of the Board assist in the discharge of its responsibilities and are delegated specific responsibilities by the Board as set out in their Terms of Reference. In addition, the Water Industry Operating Framework Committee is a specific purpose Committee established to provide oversight of the specific project.

Audit and Risk Committee

On 28 February 2017, the Board elected to consolidate the existing Audit and Risk Committees to form a single Audit and Risk Committee to ensure that adequate Board oversight is maintained over enterprise wide audit related issues and controls over financial and other risks. The Audit Committee held one meeting in February 2017 prior to the consolidation of the Audit and Risk Committees. The Audit and Risk Committee met five times during 2017. Activities undertaken by the Audit and Risk Committee in 2017 are outlined in the Audit and Risk Committee Report on page 72-74.

Investment/Infrastructure Committee

Fred Barry
Chair of the Committee

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

The Investment/Infrastructure Committee held 9 meetings during the year.

Key activities undertaken by the Investment/Infrastructure Committee in 2017:

Duty	Activity
Investment Proposals	▸ Reviewed capital project evaluation and investment planning approach ▸ Reviewed all Major Projects (with capital value in excess of €10m) ▸ Reviewed large connection agreements ▸ Reviewed Irish Water Capital Investment Plan ▸ Reviewed Major Projects costs estimates

Remuneration Committee

Tony Keohane
Chair of the Committee

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

The Remuneration Committee held 11 meetings during the year.

Key activities undertaken by the Remuneration Committee in 2017 include:

Duty	Activity
Chief Executive	▸ Recruitment of new CEO ▸ Reviewed Performance for 2016 ▸ Set Targets for 2017
Succession Planning	▸ Reviewed and considered the CEO / Executive Team succession plan
Remuneration	▸ Pay and Ervia pay model review

Water Industry Operating Framework Committee

Sean Hogan
Chair of the Committee

The Water Industry Operating Framework (WIOF) Committee responsibilities are set out in its Terms of Reference available at www.ervia.ie

The WIOF Committee held 4 meetings during 2017.

Key activities undertaken by the Water Industry Operating Framework Committee in 2017:

Duty	Activity
Review of proposals for WIOF	▸ Review of Single Public Utility model ▸ Stakeholder Management ▸ Business plan for WIOF

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

The Board is responsible for ensuring that Ervia has complied with the requirements and disclosures of the Code. The following financial disclosures are required by the Code to be outlined in the Annual Report. These disclosures relate to Ervia, Gas Networks Ireland and Irish Water.

Analysis of Employee Benefits

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

	2017	2016
€50,000-€75,000	**635**	594
€75,001-€100,000	**351**	245
€100,001-€125,000	**147**	79
€125,001-€150,000	**63**	41
€150,001-€175,000	**24**	20
€175,001 and above	**29**	17

Note: All short-term employee benefits in relation to services rendered during the reporting period are included in the disclosure above. Refer to note E3 of the Financial Statements for further analysis of the various benefits included.

Consultancy Costs

Consultancy costs include the cost of external advice to management and exclude outsourced 'business-as-usual' functions. Consultancy costs 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 in a contracting authority for a limited time period to carry out a specific finite task.

	2017 €'000	2016 €'000
Legal advice	**1,766**	4,165
Financial/actuarial advice	**1,880**	3,778
Human resources	**1,479**	533
Business improvement	**10,854**	5,111
Other	**6,714**	8,466
Total consultancy costs	**22,693**	22,053
Consultancy costs capitalised	**6,971**	5,856
Income statement	**15,722**	16,197
Total	**22,693**	22,053

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 and conciliation and arbitration proceedings relating to contracts with third parties. This does not include expenditure incurred in relation to general legal advice received by Ervia which is included in consultancy costs above.

	2017 €'000	2016 €'000
Legal fees – legal proceedings	**2,525**	1,275
Conciliation	**337**	226
Settlements	**854**	3,935
Total	**3,716**	5,436
Number of legal cases	**29**	29

Note: Included in these legal costs is an amount of €153,000 in relation to an on-going matter involving Coillte and an amount of €47,650 in relation to ongoing matters involving I.N.P.C. (2016: €38,108). This disclosure note is net of payments made by our insurance company. The number of cases relate to cases initiated by the State body itself or legal proceedings taken against it excluding insurance proceedings and wayleave conciliations.

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2017 €'000	2016 €'000
Domestic		
Board*	**21**	13
Employee	**5,445**	4,883
International		
Board	**-**	-
Employees	**184**	134
Total	**5,650**	5,030

* includes travel and subsistence of €8,437 paid directly to Board members in 2017 (2016: €6,855). The balance of €12,797 (2016: €6,168) relates to expenditure paid by Ervia on behalf of the Board members.

Hospitality

The income statement includes the following hospitality expenditure:

	2017 €'000	2016 €'000
Staff hospitality	**202**	145
Client hospitality	**105**	66
Total	**307**	211

Transparency

Ervia, as a commercial state body, is an open organisation which strives to be accountable and transparent to the public. Ervia has developed a Transparency Policy to enhance our accountability and in recognition of our duties as a responsible corporate citizen.

Ervia is committed to improving the public's understanding of how the organisation operates and our role in delivering important national infrastructure and services to support the social and economic development of Ireland.

Protected Disclosures and Raising Concerns	The mechanism whereby Ervia's employees and management may raise concerns, or make disclosures in the public interest, in accordance with the Protected Disclosures Act 2014, is outlined in the Ervia Protected Disclosures Policy. Further guidance on raising concerns for management and employees is outlined in the Code of Business Conduct. Section 22 of the Protected Disclosures Act 2014 requires Ervia to publish an Annual Report relating to protected disclosures made under the Act. In accordance with this requirement, Ervia confirms that in the year ending 31 December 2017, there were no protected disclosures to report. The protected disclosure made to Ervia in the year ended 31 December 2016 is now closed.
Regulation of Lobbying	In accordance with the requirements of the Regulation of Lobbying Act 2015, Ervia and its subsidiaries (Gas Networks Ireland and Irish Water) are registered on the lobbying register maintained by the Standards in Public Office Commission and have made the required submissions for the return periods in 2017.
Prompt Payments	The Board acknowledges its responsibility for ensuring compliance with the provisions of EU Directive 2011/7/EC as transposed by the European Communities (Late Payment in Commercial Transactions) Regulations 2012 (the Regulations), the provisions of which include the entitlement of suppliers to interest on late payments. Ervia operates a policy of paying all undisputed supplier invoices within the agreed terms of payment to comply with the requirements of the Regulations. Appropriate internal financial controls are in place within Ervia, including clearly defined roles and responsibilities and monthly reporting and review of payment practices. Procedures have been put in place to identify the dates upon which invoices fall due for payment and for payments to be made on or before such dates. These procedures provide reasonable assurance against material non-compliance with the Regulations. No interest in respect of late payments was paid in 2017. In 2015 the Government launched the Prompt Payment Code of Conduct, which can be found at www.promptpayment.ie. Ervia is a signatory to the Prompt Payment Code and pursuant to its provisions, undertakes to pay suppliers on time, to give clear guidance to suppliers on payment procedures and to encourage the adoption of the code by suppliers within their own supply chains.

Modern Slavery

Ervia prides itself on conducting its business in an ethical and responsible way. The UK Modern Slavery Act 2015 imposes obligations on organisations of a certain size which carry on business in the United Kingdom. Ervia is currently implementing appropriate arrangements to ensure that modern slavery is not taking place in its business.

Statement on the System of Internal Controls

Model Publication Schemes

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

Publication Schemes for each of Irish Water and Gas Networks Ireland are published on their websites. For access to each of these schemes, refer to www.water.ie and www.gasnetworks.ie. Although Ervia is not itself subject to Freedom of Information legislation, it strives to apply the principle of transparency to all it does and therefore adheres to the model publication scheme by publishing relevant information on its website www.ervia.ie.

Scope of Responsibility

The Board acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated. This responsibility takes account of the requirements of the Code of Practice for the Governance of State Bodies (2016).

Purpose of the System of Internal Control

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

The system of internal control, which accords with guidance issued by the Department of Public Expenditure and Reform, has been in place in Ervia for the year ended 31 December 2017 and up to the date of approval of the financial statements.

Management of Risk

Ervia has an Audit and Risk Committee (the "ARC") comprising 5 non-executive Board members who have the necessary expertise required for the role. As previously noted, the Audit and Risk committees merged in February 2017 to form the Audit and Risk Committee. The combined Audit and Risk Committee met 5 times during the year. The former Audit Committee met once in February 2017.

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

In addition Ervia has an established Risk Function which is responsible for the design and implementation of an Enterprise Risk Framework and ensures that sufficient risk management experience and skills are available throughout the organisation. In particular, the Risk Function:

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

Ervia observes its responsibility under the Code for ensuring an effective system of internal control is maintained and operated across the business units through the Integrated Assurance Forum. The Integrated Assurance Forum collates evidence from the various control activities performed across the organisation to build a comprehensive picture of internal control and risk management. It contributes to a greater understanding of the assurance activities in place which mitigate risk and maximise governance oversight to identify and remediate assurance gaps.

Risk and Control Framework

The Board has overall responsibility for ensuring the organisation has an appropriate risk management system in place.

The Board has established processes to identify and evaluate business risks by:

- identifying the nature, extent and financial implication of risks facing Ervia including the extent and categories which it regards as acceptable;

- assessing the likelihood of identified risks occurring;
- assessing Ervia's ability to manage and mitigate the risks that do occur through associated mitigation plans and strategies;
- establishing an anti-fraud training programme for all staff; and
- oversight by the ARC on behalf of the Board.

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

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

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

There were no material issues highlighted in our internal control environment through 2017.

Ongoing Monitoring and Review

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

The Board confirms that the following ongoing monitoring systems are in place:

- Review and consideration of the programme of Internal Audit and consideration of its reports and findings;
- Review of regular reporting from Internal Audit on the status of the internal control environment, and the status of issues raised previously from their own reports;
- Review by the ARC of the quarterly Risk Management Reports from the Group Risk Management Committee on risks, controls and implementation status of action plans;

- Review and consideration of the report by the Chief Executive Officer on the effectiveness of the operation of the systems of internal control, both financial and operational;
- Review of reports from the external auditors, which contain details of any material internal financial control issues; and
- Review of Integrated Assurance Forum reports on Business Unit assurance over the system of internal control.

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

Procurement

The Board is satisfied that there are procedures in place to ensure compliance with current procurement rules and guidelines and that procurement policies and procedures have been developed and published for all staff. Matters arising regarding controls over procurement are highlighted under 'Internal Control Reporting' below.

Ervia complies with the relevant provisions of the Public Spending Code.

Review of Effectiveness

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

The Board confirms that it has reviewed the effectiveness of the system of internal control up to the date of approval of the Financial Statements, covering financial, operational and compliance controls and risk management systems for 2017 and will ensure a similar review is performed in 2018. A detailed review was performed by the ARC, which reported on its findings to the Board.

Internal Control Reporting

During 2017, expenditure was incurred in 3 instances where required procurement procedures were not fully complied with in Gas Networks Ireland. The details of these are outlined below. In all instances, steps have been taken to ensure that corrective actions are put in place and that procurement rules and guidelines will be complied with going forward.

Category	Activity Detail	Corrective Action to be taken by Business	Estimated Annual Value
Meter & Pressure Reduction Spares	Regulatory and Pressure Reduction Materials spares, out of contract	New contract to be placed 2018	€1,300,000
Regulator Spares	Pressure Reduction Materials spares, out of contract.	New contract to be placed 2018	€1,000,000
Gas Transmission Management System (GTMS)	GTMS system support required beyond contract duration, proprietary system.	Corrective action is to publish an OJEC VEAT	€1,500,000

In 2017 Irish Water continued to manage a large number of assets with an aging infrastructure that requires significant investment. It faces ongoing challenges on its journey to deliver the business plan objectives. The key control procedures, including the operation of the Local Authority protocols under the Service Level Agreements which manage the interaction processes between Irish Water and Local Authorities, continued to evolve and develop in 2017. Irish Water has continued to implement the required systems, processes and procedures necessary to ensure robust internal financial controls through applying Ervia's policies and internal control framework. As part of its control framework in 2017, it should be noted that Irish Water continues to rely on certain controls operated by Local Authorities on its behalf.

No material weaknesses in the internal control environment were identified during the course of conducting the internal audits completed in 2017 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.

External Auditor Review

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

Conclusion

Risk Management

The Board carried out a robust assessment of the principal risks facing the organisation throughout 2017. These risks and mitigating controls or actions are set out on page 28.

Shareholder Relationship

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

Compliance Statement

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

Board Members' Interests

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

The Board is satisfied that its members are free from any business or other relationships that could materially affect, or could appear to affect, the exercise of their independent judgement. Board members may hold directorships, executive positions or have interests in third party companies, including banks and financial institutions, some of which (or their affiliates) may, in the normal course of business, undertake transactions on an arm's length basis with Ervia. All Board members disclose any interest and recuse themselves from Board discussions and decisions where they are conflicted or have a direct or indirect interest as required by the Code. In such cases, a separate record (to which the Board Member does not have access) is maintained. Disclosure is provided, as required, in note F4 Related Parties to the financial statements of related party transactions where the Board member holds a material interest in the relevant entity.

Performance Evaluation

The Board approves an annual budget that supports the Corporate Plans and actual performance versus plan and budget is evaluated annually. Detailed consideration is provided in the Operating Reviews on pages 37-50.

Accounting Records

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

External Auditor

The external auditor, Deloitte, has expressed its willingness to continue in office for 2018. Refer to the Chairman of the Audit and Risk Committee's report on pages 72-74 for more details.

Going Concern

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

For and on behalf of the Board:

Tony Keohane
Chairman

Peter Cross
Member of the Board

27th March 2018

Audit and Risk Committee Report

Peter Cross
Chair of the Committee

As Chairman of the Ervia Audit and Risk Committee, I am pleased to present the Audit and Risk Committee Report for the year ended 31 December 2017.

In accordance with the unitary board structure in place in Ervia, the Audit and Risk Committee is established at the Ervia Group level and acts in respect of Ervia and its subsidiaries, Gas Networks Ireland and Irish Water.

As noted in last year's Annual Report, the Board elected to consolidate the existing Audit and Risk Committees to form a single Audit and Risk Committee ("the Committee") to ensure the maintenance of appropriate Board oversight of enterprise-wide audit-related issues, financial and other controls and risk management. The purpose of this report is to provide an insight into the workings of the Committee over the last twelve months and to detail how the Committee has met its responsibilities under its Terms of Reference and under the 2016 Code of Practice for the Governance of State Bodies ("the Code").

During the year the Committee has devoted significant time to fulfilling its key oversight responsibilities. It has engaged regularly with senior management, Internal Audit, Risk Management and the statutory auditors, Deloitte, to ensure the information the Committee receives is timely, accurate and appropriate, thereby enabling the Committee to discharge its duties effectively.

Role and responsibilities of the Audit and Risk Committee

The Committee's role and responsibilities are set out in its Terms of Reference document (which is available on Ervia's website www.ervia.ie) under the following headings:

- Internal Controls;
- Financial Statements;
- External Audit;
- Internal Audit;
- Risk Management;
- Other activities including Protected Disclosures and Anti- Fraud.

The terms of reference of the Committee are reviewed annually and amended when appropriate.

Membership

The Committee currently consists of five independent Non-Executive Board Members. Members of the Committee are appointed by the Ervia Board in consultation with the Chairperson of the Committee. For details of membership and attendance at meetings see the Report of the Board on page 63.

Financial Reporting

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

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

Risk Management

The Committee is responsible for monitoring the Group's risk management activities, developments in key risks and progress in delivery of the target risk profile, enabling the Board to confirm annually that it has carried out an assessment of the Group's principal risks. During the year the Committee reviewed the Group's risk profile, its Risk Management policies, its high impact/low probability exposures and its risk appetite and target profile, in conjunction with senior management, for approval by the Board.

Internal Audit

The Committee on behalf of the Board, is responsible for monitoring and reviewing the effectiveness and scope of the internal audit programme. It aims to ensure that the internal audit function is adequately resourced and has sufficient access to people and information allowing it to review the Group's controls over significant risks within the organisation.

During 2017 the Committee reviewed the plans and work undertaken throughout the year by the Group's Internal Audit function and the consequential actions to be taken by management. The Committee was apprised regularly by the Head of Internal Audit of the findings of internal audit reviews. The Committee also considered management's progress in addressing relevant issues, including the nature, extent and timeliness of its responses. The Committee reviewed and agreed a risk-based internal audit annual plan for 2018, including the resources required, and considered the alignment of internal audit focus and key risk areas for the Group. The Committee also performed its annual evaluation of the performance of internal audit during the year.

Integrated Assurance Forum and Internal Controls

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

During the year the Committee reviewed management's monitoring of the internal control processes through the Integrated Assurance Forum. Ervia has a responsibility under the Code for ensuring that an effective system of internal control is maintained and operated. Ervia manages this responsibility across its business units through the Integrated Assurance Forum which collates evidence from the various control activities performed across the Group to build a comprehensive picture of internal control and risk. It has provided a greater understanding of the assurance activities in place which mitigate risk and maximise governance oversight to identify and remediate assurance gaps.

External Audit

The Committee is responsible for overseeing the initiation of audit tenders and the selection process for the external auditor, reviewing and monitoring the independence and remuneration of the external auditor and monitoring the external audit process.

During 2017 the Committee reviewed the external audit plan for the year and the findings of the external auditor from its audit of the annual financial statements. The Committee took appropriate steps to ensure that an objective and professional relationship was maintained with the external auditor. The Committee carried out an assessment of auditor independence and objectivity which included reviewing:

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

Audit and Risk Committee Report (continued)

Audit and non-audit service fees are set out in Note E1 of the Financial Statements. There were no instances during the year where the external auditor was engaged to provide services which were deemed to give rise to a conflict of interest. The Committee also monitored the external auditor's compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, as well as assessing annually its independence, qualifications, expertise, resources and the effectiveness of the audit process. The Committee is satisfied that Deloitte is both independent and objective.

The Committee considers the periodic reappointment of the external auditor and this process is subject to public tender. The last tender process was completed in 2014 and a three year contract was awarded to Deloitte with an option to extend for a further two years, subject to a review after the three year period. The option to extend was exercised on 28 February, 2017, following the completion of the review of effectiveness of the external auditor.

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

In order to ensure the independence and objectivity of the statutory auditors, the Committee reviews the procurement of non-audit services by the external auditor. Ervia's subsidiary, Gas Networks Ireland, is a Public Interest Entity (PIE) as it has debt listed on a regulated market. As a result, only those non-audit services which are permissible for PIEs in line with EU Directive (2006/43/EC as amended by Directive 2014/56 EU). The Committee adheres strictly to the 70% non-audit services fee cap prescribed in Article 4 of Regulation (EU) No 537/2014. The fees payable for non-audit services in any financial year do not exceed audit fees for that year.

The Committee acknowledges the additional requirements specific to the role and responsibilities of audit Committees of EU PIEs. The Committee will continue to monitor the type and value of services provided to avoid any perceived or actual impact on the external auditor's independence.

Audit and Risk Committee Effectiveness

The Committee completes an annual review of its own effectiveness. For 2017, the review was conducted internally through the completion of self-evaluation questionnaires and the overall review was satisfactory.

On behalf of the Audit and Risk Committee:

Peter Cross

Peter Cross
Chairman, Audit and Risk Committee

27th March 2018

5. Financial Statements

Independent auditor's report to the members of Ervia

Report on the audit of the financial statements

Opinion on the financial statements of Ervia

In our opinion the Group and Parent financial statements:

- give a true and fair view in accordance with IFRSs as adopted by the European Union, of the state of the Group and Parent affairs as at 31 December 2017 and of the profit of the Group and Parent for the financial year then ended; and
- have been properly prepared in accordance with the requirements of the Gas Acts, 1976 to 2009.

The financial statements we have audited comprise:

- the Group financial statements:
  - the Group Income Statement;
  - the Group Statement of Other Comprehensive Income;
  - the Group Balance Sheet;
  - the Group Statement of Changes in Equity;
  - the Group Statement of Cash Flows; and
  - the related notes A1 to F9, including a summary of significant accounting policies as set out in note F8.
- the Parent financial statements:
  - the Parent Income Statement;
  - the Parent Statement of Other Comprehensive Income;
  - the Parent Balance Sheet;
  - the Parent Statement of Changes in Equity;
  - the Parent Statement of Cash Flows; and
  - the related notes G1 to K3, including a summary of significant accounting policies as set out in note F8.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Board

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Matters on which we are required to report
Based solely on the work undertaken in the course of the audit, we report that:

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

Matters on which we are required to report by exception
Under the Code of Practice for the Governance of State Bodies (August 2016) (the "Code of Practice"), we are required to report to you if the statement regarding the system of internal control required under the Code of Practice as included in the Corporate Governance Statement in the Report of the Board does not reflect the Group's compliance with paragraph 1.9(iv) of the Code of Practice or if it 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.

Deloitte

Chartered Accountants and Statutory Audit Firm

28th March 2018

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 Board but no control procedures can provide absolute assurance in this area.

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

Group Income Statement

for the year ended 31 December 2017

	Notes	Before exceptional items 2017 €'000	Exceptional items 2017 €'000	After exceptional items 2017 €'000	Before exceptional items 2016 €'000	Exceptional items 2016 €'000	After exceptional items 2016 €'000
Continuing operations							
Revenue	D1	**473,175**	**-**	**473,175**	497,718	-	497,718
Operating costs (excluding depreciation and amortisation)	E1	**(173,309)**	**-**	**(173,309)**	(174,711)	-	(174,711)
Operating profit before depreciation and amortisation (EBITDA)		**299,866**	**-**	**299,866**	323,007	-	323,007
Depreciation and amortisation	B4	**(133,249)**	**-**	**(133,249)**	(127,579)	-	(127,579)
Operating profit		**166,617**	**-**	**166,617**	195,428	-	195,428
Finance income	C4	**-**	**7,330**	**7,330**	-	1,175	1,175
Finance costs	C4	**(25,297)**	**-**	**(25,297)**	(46,902)	(28,865)	(75,767)
Net finance (costs)/income	C4	**(25,297)**	**7,330**	**(17,967)**	(46,902)	(27,690)	(74,592)
Profit/(loss) before income tax		**141,320**	**7,330**	**148,650**	148,526	(27,690)	120,836
Income tax (expense)/credit	F3	**(20,900)**	**(385)**	**(21,285)**	(19,819)	1,649	(18,170)
Profit/(loss) for the year		**120,420**	**6,945**	**127,365**	128,707	(26,041)	102,666
Profit attributable to:							
Owners of the Parent		**120,420**	**6,945**	**127,365**	128,707	(26,041)	102,666
Profit/(loss) for the year		**120,420**	**6,945**	**127,365**	128,707	(26,041)	102,666

For and on behalf of the Board:

27th March 2018

Tony Keohane Chairman	Peter Cross Member of the Board	Date of Approval

Note: As described in note F7 the financial statements of Irish Water are not consolidated with the results of the Group. See note A1 for definitions of exceptional items.

Group Statement of Other Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 €'000	2016 €'000
Profit for the year		**127,365**	102,666
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains/(losses)	E5	**10,023**	(71,686)
Deferred tax (expense)/credit relating to defined benefit obligations	F3	**(1,253)**	8,961
Total items that will not be reclassified to profit or loss		**8,770**	(62,725)
Items that may be reclassified subsequently to profit or loss:			
Translation differences on consolidation of foreign subsidiaries		**(1,070)**	(2,553)
Net change in fair value of cash flow hedges		**(1,909)**	2,001
Deferred tax on cash flow hedge movement	F3	**239**	(250)
Total items that may be reclassified subsequently to profit or loss		**(2,740)**	(802)
Total other comprehensive income/(expense) for the year, net of income tax		**6,030**	(63,527)
Total comprehensive income for the year		**133,395**	39,139
Total comprehensive income attributable to:			
Owners of the Parent		**133,395**	39,139
Total comprehensive income for the year		**133,395**	39,139

For and on behalf of the Board:

27th March 2018

Tony Keohane Chairman	Peter Cross Member of the Board	Date of Approval

Note: As described in note F7 the financial statements of Irish Water are not consolidated with the results of the Group.

Group Balance Sheet

as at 31 December 2017

	Notes	31-Dec-17 €'000	31-Dec-16 €'000
Assets			
Non-current assets			
Property, plant and equipment	B1	**2,514,229**	2,501,880
Intangible assets	B3	**18,836**	28,030
Trade and other receivables	D2	**-**	16,300
Derivative financial instruments	C5	**16,058**	58,026
Total non-current assets		**2,549,123**	2,604,236
Current assets			
Trade and other receivables	D2	**148,309**	99,804
Cash and cash equivalents	C3	**76,226**	87,915
Restricted deposits	E9	**32,594**	43,866
Derivative financial instruments	C5	**134**	400
Inventories	F6	**1,059**	2,406
Total current assets		**258,322**	234,391
Total assets		**2,807,445**	2,838,627
Equity and liabilities			
Equity			
Retained earnings		**(1,029,071)**	(1,041,376)
Translation reserve		**(1,091)**	(2,161)
Cash flow hedge reserve		**2,183**	513
Total equity attributable to equity holders of the Parent		**(1,027,979)**	(1,043,024)
Liabilities			
Non-current liabilities			
Borrowings and other debt	C2	**(1,084,213)**	(1,130,380)
Retirement benefit obligations	E5	**(127,828)**	(129,285)
Deferred revenue	D4	**(12,801)**	(12,180)
Government grants	B2	**(72,073)**	(65,693)
Provisions	E7	**(7,116)**	(12,608)
Trade and other payables	E6	**(5,354)**	(13,987)
Derivative financial instruments	C5	**(5,292)**	(6,846)
Deferred tax liabilities	F3	**(194,669)**	(194,548)
Total non-current liabilities		**(1,509,346)**	(1,565,527)
Current liabilities			
Borrowings and other debt	C2	**(101,288)**	(41,350)
Deferred revenue	D4	**(7,951)**	(6,130)
Government grants	B2	**(5,632)**	(5,701)
Provisions	E7	**(5,676)**	(4,486)
Derivative financial instruments	C5	**(294)**	(1,901)
Trade and other payables	E6	**(145,088)**	(169,797)
Current tax liabilities	F3	**(4,191)**	(711)
Total current liabilities		**(270,120)**	(230,076)
Total liabilities		**(1,779,466)**	(1,795,603)
Total equity and liabilities		**(2,807,445)**	(2,838,627)

For and on behalf of the Board:

27th March 2018

Tony Keohane Chairman	Peter Cross Member of the Board	Date of Approval

Note: As described in note F7 the financial statements of Irish Water are not consolidated with the results of the Group.

Group Statement of Changes in Equity

for the year ended 31 December 2017

	Retained earnings €'000	Translation reserve €'000	Cash flow hedge reserve €'000	Total €'000
Balance at 1 January 2016	(1,136,094)	(4,714)	2,264	(1,138,544)
Profit for the year	(102,666)	-	-	(102,666)
Other comprehensive expense/(income) for the year, net of income tax	62,725	2,553	(1,751)	63,527
Total comprehensive (income)/expense for the year	(39,941)	2,553	(1,751)	(39,139)
Dividends declared (note F5)	134,659	-	-	134,659
Balance at 31 December 2016	(1,041,376)	(2,161)	513	(1,043,024)
Profit for the year	**(127,365)**	**-**	**-**	**(127,365)**
Other comprehensive (income)/expense for the year, net of income tax	**(8,770)**	**1,070**	**1,670**	**(6,030)**
Total comprehensive (income)/expense for the year	**(136,135)**	**1,070**	**1,670**	**(133,395)**
Dividends declared (note F5)	**148,440**	**-**	**-**	**148,440**
Balance at 31 December 2017	**(1,029,071)**	**(1,091)**	**2,183**	**(1,027,979)**

All attributable to equity holders of the Parent.

Note: As described in note F7 the financial statements of Irish Water are not consolidated with the results of the Group.

Group Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 €'000	2016 €'000
Net cash from operating activities	F1	**224,273**	277,602
Cash flows from investing activities			
(Payment)/receipt relating to the sale of Energy division		**(1,614)**	1,195
Payments for property, plant and equipment		**(141,147)**	(124,743)
Payments for intangible assets		**(2,378)**	(10,415)
Grants received	B2	**13,274**	4,781
Net cash used in investing activities		**(131,865)**	(129,182)
Cash flows from financing activities			
Payments on promissory notes (note F7)		**(9,001)**	(11,119)
Proceeds from borrowings		**99,350**	687,000
Repayment of borrowings		**(42,249)**	(681,353)
Bond redemption payment	C4	**-**	(21,065)
Credit support arrangements		**(3,630)**	3,630
Dividends paid	F5	**(148,440)**	(134,659)
Net cash used in financing activities		**(103,970)**	(157,566)
Net decrease in cash and cash equivalents	C3	**(11,562)**	(9,146)
Cash and cash equivalents at 1 January	C3	**87,915**	97,434
Effect of exchange rate fluctuations on cash held	C3	**(127)**	(373)
Cash and cash equivalents at 31 December	C3	**76,226**	87,915

Note: As described in note F7 the financial statements of Irish Water are not consolidated with the results of the Group.

Notes to the Group Financial Statements

A Significant disclosures

A1 Basis of Preparation

Group and Parent

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

The Group financial statements consolidate the financial statements of the Parent and its subsidiaries, (together referred to as 'the Group'), up to 31 December each year. In accordance with IFRS, non-controlled undertakings, as set out in note F7, are not consolidated.

The Group and Parent financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, as endorsed by the EU, and effective for accounting periods ending 31 December 2017.

The Group's significant accounting policies are set out in note F8. These policies have been consistently applied to all years presented in these financial statements, and have been applied consistently throughout the Group. In the process of applying these accounting policies, critical accounting judgements and estimates are necessarily used which affect the amounts recognised in the financial statements. Refer to note A2 for further details of critical accounting judgements and estimates applied.

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

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

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

Certain remeasurements are remeasurements arising on financial instruments which are accounted for as if held for trading or as fair value hedges in accordance with the Group's accounting policy. The Group does not use derivatives for speculative purposes. Further details of derivative financial instruments falling within the scope of IAS 39 are set out in accounting policy 11.

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

A2 Critical Accounting Judgements and Estimates

Group and Parent

In the process of applying its accounting policies set out in note F8, the Group is required to make certain estimates, assumptions and judgements that it believes are reasonable based on the information available. These estimates, assumptions and judgements affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these estimates could have a material effect on the financial statements.

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

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

The following are the critical judgements apart from those involving estimates (which are dealt with separately below) that the Group has made in the process of applying the accounting policies as set out in F8 and that have the most significant effect on the amounts recognised in the financial statements.

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

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

(ii) Estimation uncertainty

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

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

As of 31 December 2017, the aggregate of the Group's property, plant and equipment (PP&E) and intangible assets was €2,533.1 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 & useful lives

The Group recognises depreciation and amortisation charges annually (2017: €133.2 million) which is primarily calculated to write down the cost of PP&E and intangible assets over their expected useful economic lives. The determination of estimated useful lives of assets are based on experience, expectations about the future and other factors. The estimated useful lives for major asset classifications are set out in note F8. The Group reviews the useful lives of assets annually and any required changes are adjusted prospectively. Due to the significance of asset investment by the Group, variations between actual and estimated useful economic lives could have a material impact on future results, either positively or negatively. Historically, no changes in useful lives have been identified by the Group that have had a material impact on operating results.

(b) Retirement benefit obligations

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

A2 Critical Accounting Judgements and Estimates (continued)

(c) Provision for other liabilities and charges
The assessments of the financial outcome of uncertain commercial and legal positions involves estimation uncertainty and requires the use of judgement, estimation and assumptions. The amounts recognised as a provision are the Group's best estimate of the expenditure required to settle present obligations at the reporting date. In assessing the likely outcome, the Group bases its assessment on available facts, historical experience, advice from legal advisors and other experts and additional relevant factors that are believed to be reasonable in the circumstances. A revised estimate is established at each reporting date to ensure that the amounts accrued correspond to the best estimate of the costs eventually to be borne by the Group. The required provision may change in the future due to new developments and as additional information becomes available. Refer to note E7 for further detail.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised. The Group estimates the most probable amount of future taxable profits, using assumptions consistent with those employed in preparing the financial statements, and taking into account applicable tax legislation in the relevant jurisdiction. These calculations require the use of estimates. Refer to note F3.

A3 Subsequent Events

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

B Our infrastructure and the assets we use in our business

B1 Property, Plant and Equipment

	Land and buildings €'000	Plant, pipeline and machinery €'000	Assets under construction €'000	Total €'000
Cost				
At 1 January 2016	88,671	3,954,237	60,855	4,103,763
Additions	-	3,680	112,719	116,399
Transfers in year	198	109,875	(110,073)	-
Disposals	-	(2,876)	-	(2,876)
Effect of movement in exchange rates	-	(35,518)	(324)	(35,842)
At 31 December 2016	88,869	4,029,398	63,177	4,181,444
Additions	**-**	**8,701**	**134,981**	**143,682**
Transfers in year	**442**	**86,328**	**(86,770)**	**-**
Disposals	**-**	**(5,004)**	**-**	**(5,004)**
Effect of movement in exchange rates	**-**	**(8,960)**	**(50)**	**(9,010)**
At 31 December 2017	**89,311**	**4,110,463**	**111,338**	**4,311,112**
Accumulated depreciation and impairment losses				
At 1 January 2016	(32,208)	(1,543,213)	-	(1,575,421)
Depreciation for the year	(1,816)	(119,926)	-	(121,742)
Disposals	-	2,818	-	2,818
Effect of movement in exchange rates	-	14,781	-	14,781
At 31 December 2016	(34,024)	(1,645,540)	-	(1,679,564)
Depreciation for the year	**(1,831)**	**(124,445)**	**-**	**(126,276)**
Disposals	**-**	**4,959**	**-**	**4,959**
Effect of movement in exchange rates	**-**	**3,998**	**-**	**3,998**
At 31 December 2017	**(35,855)**	**(1,761,028)**	**-**	**(1,796,883)**
Carrying amounts				
At 31 December 2016	54,845	2,383,858	63,177	2,501,880
At 31 December 2017	**53,456**	**2,349,435**	**111,338**	**2,514,229**

During the year, the Group capitalised €0.7 million (2016: €0.4 million) in interest. The capitalisation rate was 2.2% (2016: 4.4%). The Group also capitalised €12.3 million in payroll costs during the year (2016: €11.1 million).

Gas Networks Ireland (IOM) DAC a subsidiary within the Group, entered into a project financing arrangement in 2003. The balance outstanding of €7.8 million at 31 December 2017 (2016: €10.3 million) on this limited recourse loan facility is secured over the assets of Gas Networks Ireland (IOM) DAC (note C2).

Capital commitments

	2017 €'million	2016 €'million
Contracted for	**44**	76

B2 Government Grants

	2017 €'000	2016 €'000
At 1 January	**(71,394)**	(76,554)
Received in year	**(13,274)**	(4,781)
Amortised in year	**5,659**	5,831
Credited to the income statement	**373**	-
Effect of movement in exchange rates	**931**	4,110
At 31 December	**(77,705)**	(71,394)

Analysed as follows:	31-Dec-17 €'000	31-Dec-16 €'000
Non-current	**(72,073)**	(65,693)
Current	**(5,632)**	(5,701)
Total	**(77,705)**	(71,394)

In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to. There are no unfulfilled conditions attaching to government grants received prior to 2017.

During 2015 and 2016, the Group secured approval for EU grant aid of €40.1 million from the Innovation and Networks Executive Agency (INEA) for the twinning infrastructure project and the compressed natural gas project. €13.3 million was received during the year (2016: €4.8 million) from the INEA in aggregate for these projects in progress.

B3 Intangible Assets

	Software and other €'000	Software under development €'000	Total €'000
Cost			
At 1 January 2016	126,797	1,486	128,283
Additions (incl internally developed)	114	8,362	8,476
Transfers in year	1,813	(1,813)	-
Effect of movement in exchange rates	(97)	-	(97)
At 31 December 2016	128,627	8,035	136,662
Additions (incl internally developed)	**-**	**3,478**	**3,478**
Transfers in year	**5,450**	**(5,450)**	**-**
Effect of movement in exchange rates	**(25)**	**(37)**	**(62)**
At 31 December 2017	**134,052**	**6,026**	**140,078**
Amortisation and impairment losses			
At 1 January 2016	(97,051)	-	(97,051)
Amortisation for the year	(11,668)	-	(11,668)
Effect of movement in exchange rates	87	-	87
At 31 December 2016	(108,632)	-	(108,632)
Amortisation for the year	**(12,632)**	**-**	**(12,632)**
Effect of movement in exchange rates	**22**	**-**	**22**
At 31 December 2017	**(121,242)**	**-**	**(121,242)**
Carrying amounts			
At 31 December 2016	19,995	8,035	28,030
At 31 December 2017	**12,810**	**6,026**	**18,836**

During the year, the Group capitalised the sum of €1.9 million in payroll costs during the year (2016: €1.8 million).

B4 Depreciation and Amortisation

	2017 €'000	2016 €'000
Depreciation	**(126,276)**	(121,742)
Amortisation of intangible assets	**(12,632)**	(11,668)
Grant amortisation	**5,659**	5,831
Total	**(133,249)**	(127,579)

C How we finance our business

C1 Analysis of Net Debt

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

		31-Dec-17 €'000	31-Dec-16 €'000
Total borrowings	C2	**(1,185,501)**	(1,171,730)
Less fair value hedges recognised within borrowings	C5	**15,578**	55,818
Less cash and cash equivalents	C3	**76,226**	87,915
Net debt		**(1,093,697)**	(1,027,997)

		2017 €'000	2016 €'000
Net debt reconciliation			
At 1 January		**(1,027,997)**	(1,021,574)
Cash from operations	F1	**267,721**	326,755
Interest paid	F1	**(25,249)**	(42,608)
Tax paid	F1	**(18,199)**	(6,545)
Net capital expenditure		**(130,251)**	(130,377)
Dividends paid	F5	**(148,440)**	(134,659)
Bond redemption payment	C4	**-**	(21,065)
Other cash items		**(14,245)**	(6,294)
Non cash items		**2,963**	8,370
At 31 December		**(1,093,697)**	(1,027,997)

C2 Borrowings and Other Debt

This note provides information about the contractual terms of the Group's interest-bearing borrowings. Refer to note C5 for more information about the Group's exposure to interest rate, exchange rate and liquidity risk.

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

	Bonds 31-Dec-17 €'000	Loans from financial institutions[1] 31-Dec-17 €'000	Total 31-Dec-17 €'000	Bonds 31-Dec-16 €'000	Loans from financial institutions[1] 31-Dec-16 €'000	Total 31-Dec-16 €'000
Less than one year	**-**	**(101,288)**	**(101,288)**	-	(41,350)	(41,350)
Current	**-**	**(101,288)**	**(101,288)**	-	(41,350)	(41,350)
Between one and five years	**-**	**(463,747)**	**(463,747)**	-	(510,463)	(510,463)
More than five years	**(620,466)**	**-**	**(620,466)**	(619,917)	-	(619,917)
Non-current	**(620,466)**	**(463,747)**	**(1,084,213)**	(619,917)	(510,463)	(1,130,380)
Total	**(620,466)**	**(565,035)**	**(1,185,501)**	(619,917)	(551,813)	(1,171,730)

1 including private placement notes.

Total borrowings include €444.5 million (2016: €426.4 million) of floating rate debt, €7.8 million (2016: €10.3 million) of inflation linked debt and €733.2 million (2016: €735.0 million) of fixed rate debt which have been drawn down from various lenders. The inflation linked debt is secured over the assets of Gas Networks Ireland (IOM) DAC which primarily comprises a gas transmission pipeline to the Isle of Man. The revenues from this pipeline are indexed to the U.K. Retail Price Index (UK RPI). Accordingly, to mitigate the risk of low inflation, this debt is also linked to the UK RPI using an index linked hedge or inflation linked hedge.

Included in borrowings are sterling denominated bank loans, which have been used as a hedge of the Group's investment in a sterling denominated subsidiary in the United Kingdom. The carrying amount of the loans at 31 December 2017 was €112.5 million (2016: €117.0 million).

Certain borrowings are held with related parties, refer to note F4 for full details of related party disclosures.

C3 Cash and Cash Equivalents

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

	31-Dec-17 €'000	31-Dec-16 €'000
Cash and cash equivalents	**76,226**	87,915
Total	**76,226**	87,915

	2017 €'000	2016 €'000
At 1 January	**87,915**	97,434
Decrease in cash and cash equivalents in the statement of cash flows	**(11,562)**	(9,146)
Effect of exchange rate fluctuations on cash held	**(127)**	(373)
At 31 December	**76,226**	87,915

C4 Net Finance Costs

		2017 €'000	2016 €'000
Before exceptional items			
Finance costs			
Interest		**(20,394)**	(31,753)
Interest capitalised		**749**	448
Financing charge		**(93)**	(169)
Net interest on the net defined benefit liability	E5	**(2,204)**	(1,247)
Other finance costs		**(3,355)**	(14,181)
Total finance costs		**(25,297)**	(46,902)
Exceptional items			
Net changes in fair value of financing derivatives	(i)	**3,077**	1,175
Bond redemption payment	(ii)	**-**	(21,065)
Change in estimate of cash flow on contingent consideration	(iii)	**4,253**	(7,800)
Total exceptional items		**7,330**	(27,690)
Total			
Finance income		**7,330**	1,175
Finance costs		**(25,297)**	(75,767)
Net finance costs		**(17,967)**	(74,592)

(i) These are remeasurements arising on financial instruments of a financing nature which are accounted for as if held for trading or as fair value hedges in accordance with the Group's accounting policy. The impact of these remeasurements on net finance costs for 2017 was a €3.1 million gain (2016: €1.2 million gain). Further details on derivative financial instruments falling within the scope of IAS 39 are set out in accounting policy 11 (note F8).

(ii) On 5 December 2016, Gas Networks Ireland issued €625.0 million of bonds split over two maturities with a weighted average yield of 1.60%. Gas Networks Ireland subsequently redeemed the €500.0 million 3.625% bond that was due to mature in December 2017. The amount payable to redeem the bond in excess of its par value was €21.1 million was reported as an exceptional item in the Group's income statement for the year ended 31 December 2016.

(iii) The Group recognised a non cash remeasurement gain of €4.3 million (2016: €7.8 million loss) during 2017 due to changes in the expected future cash flows relating to contingent consideration previously recognised. Refer to note C6 for further details.

C5 Financial Risk Management and Financial Instruments

Accounting classifications and fair values

The following table sets out the carrying amount of financial assets and liabilities of the Group (measured at either fair value or amortised cost), including their level in the fair value hierarchy. Refer to note C6 for IFRS 13 disclosures in respect of fair value measurement. This table does not include the fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value.

C5 Financial Risk Management and Financial Instruments (continued)

	Fair value hierarchy Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000	Total held at amortised cost €'000	Total €'000	Total in a hedging relationship €'000
At 31 December 2017							
Financial assets							
Cross currency interest rate swaps	**-**	**15,917**	**-**	**15,917**	**-**	**15,917**	**15,917**
Foreign exchange rate contracts	**-**	**134**	**-**	**134**	**-**	**134**	**-**
Trade and other receivables (excluding prepayments)	**-**	**-**	**-**	**-**	**141,672**	**141,672**	**-**
Interest rate/inflation linked derivatives	**-**	**141**	**-**	**141**	**-**	**141**	**-**
Cash and cash equivalents	**-**	**-**	**-**	**-**	**76,226**	**76,226**	**-**
Restricted deposits	**-**	**-**	**-**	**-**	**32,594**	**32,594**	**-**
Total financial assets	**-**	**16,192**	**-**	**16,192**	**250,492**	**266,684**	**15,917**
Financial liabilities							
Borrowings and other debt[1]	**-**	**(15,578)**	**-**	**(15,578)**	**(1,169,923)**	**(1,185,501)**	**(15,578)**
Interest rate/Inflation linked derivatives	**-**	**(5,292)**	**-**	**(5,292)**	**-**	**(5,292)**	**-**
Foreign exchange rate contracts	**-**	**(294)**	**-**	**(294)**	**-**	**(294)**	**-**
Trade and other payables	**-**	**-**	**-**	**-**	**(150,442)**	**(150,442)**	**-**
Total financial liabilities	**-**	**(21,164)**	**-**	**(21,164)**	**(1,320,365)**	**(1,341,529)**	**(15,578)**
Net financial liabilities	**-**	**(4,972)**	**-**	**(4,972)**	**(1,069,873)**	**(1,074,845)**	**339**
At 31 December 2016							
Financial assets							
Cross currency interest rate swaps	-	58,003	-	58,003	-	58,003	58,003
Foreign exchange rate contracts	-	423	-	423	-	423	-
Trade and other receivables (excluding prepayments)	-	-	-	-	108,993	108,993	-
Cash and cash equivalents	-	-	-	-	87,915	87,915	-
Restricted deposits	-	-	-	-	43,866	43,866	-
Total financial assets	-	58,426	-	58,426	240,774	299,200	58,003
Financial liabilities							
Borrowings and other debt[1]	-	(55,818)	-	(55,818)	(1,115,912)	(1,171,730)	(55,818)
Interest rate/Inflation linked derivatives	-	(8,262)	-	(8,262)	-	(8,262)	(1,462)
Foreign exchange rate contracts	-	(485)	-	(485)	-	(485)	-
Trade and other payables	-	-	-	-	(183,784)	(183,784)	-
Total financial liabilities	-	(64,565)	-	(64,565)	(1,299,696)	(1,364,261)	(57,280)
Net financial (liabilities)/assets	-	(6,139)	-	(6,139)	(1,058,922)	(1,065,061)	723

1 The fair value of borrowings and other debt as at 31 December 2017 was €1,206.1 million (2016: €1,180.0 million).

C5 Financial Risk Management and Financial Instruments (continued)

Derivative assets and liabilities designated as hedges
The Group applies the criteria defined by IAS 39 in classifying derivatives as hedges. Only derivative instruments external to the Group qualify for consideration for hedge accounting. The Group uses the following categories for hedges:

(i) Fair value hedges
These instruments hedge the exposure of changes in the fair value of an asset or liability recorded in the balance sheet, or a firm commitment to purchase or sell an asset. The ineffective portion of fair value hedges was €0.1 million for 2017 (2016: €nil). The fair value of hedging derivatives in a fair value hedge in the balance sheet as at 31 December 2017 was €15.7 million asset (2016: €55.7 million asset).

(ii) Cash flow hedges
These instruments hedge highly probable future transactions where the variability in cash flows generated by the hedged transaction is offset by changes in the value of the hedging instrument. The amount reclassified from equity to profit or loss due to ineffectiveness on cash flow hedges during 2017 was €nil (2016: €0.3 million loss). Ineffectiveness arising from cash flow hedges recognised in the profit or loss in 2017 was €0.1 million gain (2016: €0.1 million gain).

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

	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000	Total €'000
At 31 December 2017					
Cross currency interest rate swaps	**-**	**(1,087)**	**(1,408)**	**-**	**(2,495)**
Cash flow hedging derivatives	**-**	**(1,087)**	**(1,408)**	**-**	**(2,495)**
At 31 December 2016					
Interest rate swaps	(1,344)	-	-	-	(1,344)
Cross currency interest rate swaps	-	-	759	-	759
Cash flow hedging derivatives	(1,344)	-	759	-	(585)

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

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

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

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

C5 Financial Risk Management and Financial Instruments (continued)

Under the Gas network code of operations, Shippers may be required to provide Financial Security to Gas Networks Ireland in order to protect the Group against non-payment of Gas transportation invoices. Related funds received are held on deposit and are included within the restricted deposits balance. Refer to note E9.

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

	31-Dec-17 €'000	31-Dec-16 €'000
Trade and other receivables (excluding prepayments and amounts due from non-controlled undertakings)	**114,898**	79,934
Cash and cash equivalents	**76,226**	87,915
Restricted deposits	**32,594**	43,866
Derivative financial instruments	**16,192**	58,426
Total	**239,910**	270,141

(i) (a) Treasury related credit risk

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

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

(i) (b) Trade related credit risk

Refer to note D2 for an analysis of the Group's exposure to trade related credit risk.

(ii) Funding and liquidity risk

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

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

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

(ii) (a) Funding

The Group's funding position remained strong in 2017. In June 2017, the Group extended its revolving credit facility with a group of eight domestic and international banks, providing the Group with a strong level of liquidity out to 2022.

It is the Group's policy to seek to ensure it has a mix of funding sources at acceptable terms and conditions to finance the development of the business and to meet financial obligations as they fall due. The Group continues to maintain a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk. At 31 December 2017, the Group had €1,525.6 million in committed facilities (2016: €1,532.4 million). Borrowings at 31 December 2017 were €1,185.5 million (2016: €1,171.7 million).

C5 Financial Risk Management and Financial Instruments (continued)

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

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

(ii) (b) Cash surpluses

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

(ii) (c) Exposure to liquidity risk

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

	Carrying amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
At 31 December 2017						
Borrowings	**(1,185,501)**	**(1,272,361)**	**(129,103)**	**(364,973)**	**(140,785)**	**(637,500)**
Trade and other payables	**(150,442)**	**(150,442)**	**(145,088)**	**-**	**(5,354)**	**-**
Non-derivative financial liabilities	**(1,335,943)**	**(1,422,803)**	**(274,191)**	**(364,973)**	**(146,139)**	**(637,500)**
Interest rate derivatives	**(5,151)**	**(5,232)**	**(1,938)**	**(1,907)**	**(1,387)**	**-**
Cross currency interest rate swaps	**15,917**	**30,395**	**-**	**8,328**	**22,067**	**-**
Foreign exchange rate contracts	**(160)**	**(160)**	**(160)**	**-**	**-**	**-**
Net derivative financial assets/(liabilities)	**10,606**	**25,003**	**(2,098)**	**6,421**	**20,680**	**-**
Net financial liabilities	**(1,325,337)**	**(1,397,800)**	**(276,289)**	**(358,552)**	**(125,459)**	**(637,500)**
At 31 December 2016						
Borrowings	(1,171,730)	(1,288,035)	(71,535)	(31,526)	(547,474)	(637,500)
Trade and other payables	(183,784)	(183,913)	(169,797)	(8,630)	(5,279)	(207)
Non-derivative financial liabilities	(1,355,514)	(1,471,948)	(241,332)	(40,156)	(552,753)	(637,707)
Interest rate derivatives	(8,262)	(8,649)	(3,377)	(1,646)	(3,626)	-
Cross currency interest rate swaps	58,003	83,125	11,252	11,430	60,443	-
Foreign exchange rate contracts	(62)	(62)	(62)	-	-	-
Net derivative financial assets	49,679	74,414	7,813	9,784	56,817	-
Net financial liabilities	(1,305,835)	(1,397,534)	(233,519)	(30,372)	(495,936)	(637,707)

C5 Financial Risk Management and Financial Instruments (continued)

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

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

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

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

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

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

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

- **Transaction exposure**

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

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

- **Debt in a foreign currency**

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

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

C5 Financial Risk Management and Financial Instruments (continued)

(iii) (b) Interest rate risk

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

The Group's exposure to interest rate fluctuations covers two types of risk:
(i) a risk of change in the cash flows related to floating rate financial assets and liabilities; and
(ii) a risk of change in the value of fixed rate financial assets and liabilities.

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

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

	2017 €'000	2017 %	2016 €'000	2016 %
At fixed rates[1]	**(733,196)**	**61.8%**	(734,995)	62.7%
At floating rates	**(444,553)**	**37.5%**	(426,454)	36.4%
Inflation linked debt	**(7,752)**	**0.7%**	(10,281)	0.9%
Total	**(1,185,501)**	**100.0%**	(1,171,730)	100.0%

1 including swaps.

The Group had €622.0 million of fixed rate debt (excluding interest rate swaps) at 31 December 2017 (2016: €621.7 million).

On 31 December 2017, the Group had US$290.0 million (2016: US$290.0 million) fixed rate debt outstanding (€230.3 million equivalent (2016: €230.3 million)) in a US dollar Private Placement transaction which was completed on 31 March 2009. In order to fully hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating euro, the Group has a number of cross currency interest rate swaps which match the maturity profile of the debt.

In 2017, a portion of this debt was subsequently hedged to convert the floating euro interest rates to fixed interest rates by entering into new interest rate swaps with relationship banks for the notional principal amount of €111.2 million which mature in March 2021.

At 31 December 2017, the weighted average interest rate of the fixed debt portfolio was 1.32% (2016: 1.58%), which comprised two bonds totalling €621.9 million and a further €111.2m of US Private Placement Debt fixed through interest rate swaps maturing in March 2021.

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

C5 Financial Risk Management and Financial Instruments (continued)

Cash flow sensitivity analysis for floating rate debt

The Group's policies and processes for the management and control of interest rate risk, as set out above, aims to reduce the impact of short term interest rate fluctuations on the Group's earnings. Nevertheless, long-term changes in interest rates will have an impact on the Group's earnings.

It is estimated that a movement of 50 basis points in interest rates at 31 December would impact profit before taxation by the amounts shown below, and the fair value change on cash flow hedges and their impact on other comprehensive income would be as shown below:

	Profit before taxation 31-Dec-17 €'000	Profit before taxation 31-Dec-16 €'000	Other comprehensive income 31-Dec-17 €'000	Other comprehensive income 31-Dec-16 €'000
50 bp increase	**(2,153)**	(1,994)	**-**	-
50 bp decrease	**2,142**	1,982	**-**	-

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

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

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

C6 Fair Value Measurement

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

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

C6 Fair Value Measurement (continued)

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

Type	Valuation technique	Significant unobservable inputs
Forward exchange contracts *(Refer to note C5)*	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 C5)*	The fair value of interest rate swaps and cross currency interest rate swaps takes into account the fixed, floating and market rates prevailing at the year end. The fair value of inflation linked swaps is determined using a valuation technique which includes market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the relevant Group entity and counterparty when appropriate. Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.
Private Placement *(fair value hedge portion)* *(Refer to note C5)*	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.
Trade and other receivables *(Refer to note D2)*	The sale of the Energy business provides for an element of contingent purchase consideration. The fair value of this contingent consideration has been determined by discounting the expected future cash flows to net present values. The expected future cash flows are determined by considering the possible scenarios of forecast earnings targets and wind farm build out, the future cashflows under each scenario and the probability of each scenario. Fair value hierarchy: level 3	Forecast earnings targets and wind farm build out.

D Where we generate our revenues

D1 Revenue

	2017 €'000	2016 €'000
Regulated	**415,591**	435,340
Unregulated	**57,584**	62,378
Total	**473,175**	497,718

The Group's revenues are principally derived from gas transportation services, in both regulated and unregulated markets. The Group develops, operates and maintains the natural gas transmission and distribution networks in Ireland and provides gas transportation services to suppliers and shippers. The Group also operates and owns the two interconnector gas pipelines between Scotland and Ireland and has network infrastructure assets in Northern Ireland and the Isle of Man. The Group's revenue also includes operating lease income, which is recognised in accordance with IFRIC 4 (see note D3).

D2 Trade and Other Receivables

	31-Dec-17 €'000	31-Dec-16 €'000
Trade receivables	**45,332**	4,086
Trade receivables - unbilled	**43,555**	55,375
Prepayments	**6,637**	7,111
Amounts due from non-controlled undertakings	**26,774**	29,059
Other receivables	**26,011**	20,473
Total	**148,309**	116,104
Analysed as follows:		
Non-current	**-**	16,300
Current	**148,309**	99,804
Total	**148,309**	116,104

Trade receivables are stated net of allowances for impairment. Trade receivables mainly represent receivables in respect of use of system revenue in Ireland and charges for use of the Northwest transmission pipeline and the South north pipeline in Northern Ireland. Refer to note F4 for further detail in respect of balances with related parties.

Credit risk

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

D2 Trade and Other Receivables (continued)

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

	31-Dec-17 €'000	31-Dec-16 €'000
Trade receivables	**45,332**	4,086
Trade receivables - unbilled	**43,555**	55,375
Other receivables	**26,011**	20,473
Total	**114,898**	79,934

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

	31-Dec-17 €'000	31-Dec-16 €'000
Ireland	**106,624**	70,964
UK (including Northern Ireland and Isle of Man)	**8,274**	8,970
Total	**114,898**	79,934

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

	Net receivable 31-Dec-17 €'000	Net receivable 31-Dec-16 €'000
Not past due	**113,034**	77,765
0 – 30 days	**1,263**	516
31 – 120 days	**479**	1,348
> 120 days	**122**	305
Total	**114,898**	79,934

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

	2017 €'000	2016 €'000
At 1 January	**(315)**	(326)
Impairment loss recognised	**(188)**	(60)
Provision utilised	**42**	71
At 31 December	**(461)**	(315)

D3 Future Operating Lease Income

	31-Dec-17 €'000	31-Dec-16 €'000
Less than one year	**27,319**	28,109
Between one and five years	**93,058**	96,608
More than five years	**125,359**	146,037
Total	**245,736**	270,754

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

D4 Deferred Revenue

	2017 €'000	2016 €'000
At 1 January	**(18,310)**	(17,524)
Received in year	**(6,610)**	(4,391)
Credited to the income statement	**4,168**	3,605
At 31 December	**(20,752)**	(18,310)

Analysed as follows:	31-Dec-17 €'000	31-Dec-16 €'000
Non-current	**(12,801)**	(12,180)
Current	**(7,951)**	(6,130)
Total	**(20,752)**	(18,310)

Customer contributions which are received in advance of services provided are recorded as deferred revenue, then upon completion of the services rendered, the contributions are recognised in full in the income statement as revenue.

E What we spend on operations and our people

E1 Operating Costs (excluding depreciation and amortisation)

	2017 €'000	2016 €'000
Employee benefit expense	**(78,546)**	(71,521)
Hired and contracted services	**(31,731)**	(33,217)
Infrastructure materials and maintenance	**(45,725)**	(42,851)
Rent, rates and facilities	**(28,616)**	(29,101)
Other operating expenses	**(31,764)**	(33,564)
Recharges to non-controlled undertakings (note F4)	**43,073**	35,543
Total	**(173,309)**	(174,711)

Operating costs are stated after charging:

	2017 €'000	2016 €'000
Auditor's remuneration		
– statutory audit services	**(154)**	(154)
– other audit related assurance services	**(62)**	(127)
– tax advisory services	**(6)**	(38)
– other non audit services	**-**	(30)
Total	**(222)**	(349)
Board members' emoluments		
– fees	**(157)**	(117)
– remuneration of the Group Chief Executive Officer*	**(219)**	(335)
Total	**(376)**	(452)

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

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

	2017 €'000	2016 €'000
Current Group Chief Executive Officer		
Group Chief Executive Officer's annual basic salary	**(38)**	-
Other short term employee benefits	**(5)**	-
Post employment benefits - pension contributions	**(9)**	-
Total	**(52)**	-
Former Group Chief Executive Officer		
Group Chief Executive Officer's annual basic salary	**(125)**	(250)
Other short term employee benefits	**(11)**	(22)
Post employment benefits - pension contributions	**(31)**	(63)
Total	**(167)**	(335)

E2 Exceptional Items

Refer to note C4 for detail in respect of exceptional costs incurred in 2017 and 2016.

E3 Employee Benefits

(a) Aggregate employee benefits

	2017 €'000	2016 €'000
Staff short-term benefits	**(69,591)**	(65,554)
Post employment benefits - pension contributions	**(15,628)**	(11,901)
Employer's contribution to social welfare	**(7,538)**	(7,022)
	(92,757)	(84,477)
Capitalised payroll and other payroll transfers	**14,211**	12,956
Employee benefit expense charged to profit or loss	**(78,546)**	(71,521)

(b) Staff short-term benefits

	2017 €'000	2016 €'000
Wages and salaries	**(65,779)**	(61,656)
Overtime	**(1,170)**	(1,278)
Allowances	**(899)**	(773)
Other	**(1,743)**	(1,847)
Total	**(69,591)**	(65,554)

The average number of employees employed by the Group was 927 for 2017 (2016: 904).

The Group recognised employee termination expenses of €nil in the current and prior reporting period. Refer to note E7 for details of termination benefits charged against the restructuring provision.

E4 Key Management Compensation

	2017 €'000	2016 €'000
Short-term employee benefits	**(1,397)**	(1,403)
Post employment benefits	**(361)**	(172)
Total	**(1,758)**	(1,575)

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

E5 Retirement Benefit Obligations

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

Defined benefit scheme

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

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

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

Asset volatility risk

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

Changes in bond yields risk

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

Salary risk

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

Inflation risk

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

Life expectancy risk

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

E5 Retirement Benefit Obligations (continued)

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

	2017		2016	
	€'000	%	€'000	%
Investments quoted in active markets:				
Equities	**194,248**	**45.3%**	178,708	44.3%
– developed markets	**174,570**		160,733	
– emerging markets	**19,678**		17,975	
Bonds	**198,608**	**46.2%**	191,214	47.4%
– Government debt	**181,148**		174,699	
– Non-government debt	**17,460**		16,515	
Investment funds	**26,303**	**6.1%**	25,661	6.4%
Cash	**3,549**	**0.8%**	-	0.0%
Unquoted investments:				
Property/forestry	**3,883**	**0.9%**	4,727	1.2%
Private equity/venture capital	**2,980**	**0.7%**	3,033	0.8%
Total fair value of plan assets at 31 December	**429,571**	**100.0%**	403,343	100.0%
Defined benefit obligation	**(557,399)**		(532,628)	
Net pension liability at 31 December	**(127,828)**		(129,285)	

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

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

	2017 €'000	2016 €'000
Current service cost	**(13,060)**	(11,112)
Net interest on the net defined benefit liability	**(2,204)**	(1,247)
Past service cost	**(590)**	-
Administrative expenses	**-**	(272)
Total pension cost recognised in the income statement	**(15,854)**	(12,631)

Analysis of amount charged to provisions

	2017 €'000	2016 €'000
Current service cost	**(581)**	(660)
Past service cost	**(800)**	-
Amount charged to provisions	**(1,381)**	(660)

E5 Retirement Benefit Obligations (continued)

Recharges to non-controlled undertaking

	2017 €'000	2016 €'000
Current service cost	**(1,148)**	(836)
Past service cost	**(473)**	-
Total recharges to non-controlled undertaking	**(1,621)**	(836)

Remeasurements recognised in other comprehensive income

	2017 €'000	2016 €'000
Return on plan assets excluding interest income	**18,043**	25,387
Experience gains on liabilities	**4,152**	7,936
Effect of changes in financial assumptions	**(12,172)**	(105,009)
Total pension gain/(loss) recognised in other comprehensive income	**10,023**	(71,686)

Movement in the fair value of plan assets

	2017 €'000	2016 €'000
Opening fair value of plan assets	**403,343**	369,148
Interest income on plan assets	**7,268**	9,952
Return on plan assets (excluding interest income)	**18,043**	25,387
Contributions by employers	**10,290**	7,871
Contributions by members	**3,488**	2,680
Administration expenses	**-**	(272)
Benefits paid	**(12,861)**	(11,423)
Closing fair value of plan assets	**429,571**	403,343

Movement in the present value of the defined benefit obligation

	2017 €'000	2016 €'000
Opening defined benefit obligation	**(532,628)**	(420,491)
Current service cost	**(14,789)**	(12,608)
Past service cost	**(1,863)**	-
Interest cost	**(9,472)**	(11,199)
Contributions by members	**(3,488)**	(2,680)
Benefits paid	**12,861**	11,423
Actuarial loss	**(8,020)**	(97,073)
Closing defined benefit obligation	**(557,399)**	(532,628)

The weighted average duration of the defined benefit obligation at 31 December 2017 was approximately 21 years (2016: 22 years). The Group expects to contribute €8.7 million to its pension plan in 2018.

E5 Retirement Benefit Obligations (continued)

The principal actuarial assumptions used were as follows:

	2017	2016
Discount rate	**1.75%**	1.80%
Inflation assumption	**1.70%**	1.65%
Rate of increase in salaries	**2.20%**	2.15%
Rate of increase in pensions payment	**1.70%**	1.65%

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

	2017	2016
Retiring today		
Males	**22.2**	22.0
Females	**24.7**	24.6
Retiring in 25 years		
Males	**25.2**	25.1
Females	**27.3**	27.2

Sensitivity analysis for principal assumptions used to measure scheme liabilities

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Decrease by 5.3%/increase by 5.8%
Price inflation	Increase/decrease by 0.25%	Increase by 5.8%/decrease by 5.3%
Salary	Increase/decrease by 0.25%	Increase by 2.3%/decrease by 2.2%
Mortality	Increase/decrease by one year	Increase by 2.9%/decrease by 2.9%

Defined contribution scheme

During 2016, the Ervia Defined Contribution Scheme was established, commencing in December 2016. Prior to this, the Group operated Personal Retirement Savings Accounts (PRSAs) for all qualifying employees. These were accounted for as a defined contribution pension scheme in accordance with the Group's accounting policy for same.

During the year ended 31 December 2017, Ervia contributed €1.9 million, in respect of the Ervia Defined Contribution Scheme (2016: €0.8 million in respect of PRSAs/the Ervia Defined Contribution Scheme), on behalf of its employees, which was charged to the income statement.

E6 Trade and Other Payables

	31-Dec-17 €'000	31-Dec-16 €'000
Trade payables	**(8,006)**	(12,597)
Accruals	**(85,379)**	(74,934)
Promissory notes (note F7)	**(6,874)**	(15,875)
Other payables	**(40,490)**	(63,984)
Taxation and social insurance creditors[1]	**(9,693)**	(16,394)
Total	**(150,442)**	(183,784)
Analysed as follows:		
Non-current	**(5,354)**	(13,987)
Current	**(145,088)**	(169,797)
Total	**(150,442)**	(183,784)
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	**(1,589)**	(1,643)
VAT	**(8,104)**	(14,751)
Total	**(9,693)**	(16,394)

E7 Provisions and Contingencies

Provisions

	Restructuring €'000	Environmental €'000	Self-insured claims €'000	Total €'000
At 1 January 2017	**(2,718)**	**(6,561)**	**(7,815)**	**(17,094)**
Financing charge	**(27)**	**(66)**	**-**	**(93)**
Provisions released/(made) in the year	**1,262**	**(822)**	**(622)**	**(182)**
Provisions used in the year	**1,269**	**1,565**	**1,743**	**4,577**
At 31 December 2017	**(214)**	**(5,884)**	**(6,694)**	**(12,792)**

Analysed as follows:	31-Dec-17 €'000	31-Dec-16 €'000
Non-current	**(7,116)**	(12,608)
Current	**(5,676)**	(4,486)
Total	**(12,792)**	(17,094)

Restructuring
During 2013, the Group announced a voluntary severance and early retirement programme for employees that satisfied certain qualifying criteria. The termination benefits with respect to the scheme were recognised in the 2013 income statement as an exceptional item. The Group made redundancy payments of €0.8 million to 17 employees who exited in the current and prior reporting period and made related payments of €0.8 million to the defined benefit scheme under the terms of the programme.

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

E7 Provisions and Contingencies (continued)

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 2017. 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 2020.

Contingencies
Contingent liabilities with respect to government grants are disclosed in note B2.

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 2017, €1.4 million (2016: €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 2017 (2016: €nil).

E8 Operating Lease Commitments

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

	31-Dec-17 €'000	31-Dec-16 €'000
Less than one year	**(884)**	(880)
Between one and five years	**(1,278)**	(1,258)
More than five years	**(71)**	(110)
Total	**(2,233)**	(2,248)

Amounts included in the income statement in respect of land and building lease arrangements were €0.9 million (2016: €0.9 million).

E9 Restricted Deposits

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

	31-Dec-17 €'000	31-Dec-16 €'000
Current	**32,594**	43,866
Total	**32,594**	43,866

F Other disclosures

F1 Cash Generated from Operations

	Notes	2017 €'000	2016 €'000
Cash flows from operating activities			
Profit for the year		**127,365**	102,666
Adjustments for:			
– Depreciation and amortisation	B4	**133,249**	127,579
– Net finance costs	C4	**17,967**	74,592
– Retirement benefit cost		**6,424**	5,009
– Income tax expense	F3	**21,285**	18,170
		306,290	328,016
Working capital changes:			
– Change in inventories		**1,347**	(861)
– Change in trade and other receivables		**(31,616)**	(9,971)
– Change in trade and other payables		**(5,974)**	10,687
– Change in deferred revenue and government grants		**2,069**	786
– Change in provisions		**(4,395)**	(1,902)
Cash from operating activities		**267,721**	326,755
Interest paid		**(25,249)**	(42,608)
Income tax paid		**(18,199)**	(6,545)
Net cash from operating activities		**224,273**	277,602

F2 Divisional Information

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

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

In accordance with IFRS 10, the financial statements of Irish Water are not consolidated with the results of the Group (as further explained in note F7). Consequently, Irish Water is not included in this note.

F2 Divisional Information (continued)

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

			a			b	a + b = c
	Gas Networks Ireland (Statutory results) 31-Dec-17 €'000	Consolidation and eliminations 31-Dec-17 €'000	Gas Networks Ireland (Segment results) 31-Dec-17 €'000	Ervia Parent (Statutory results) 31-Dec-17 €'000	Consolidation and eliminations 31-Dec-17 €'000	Ervia Parent (Segment results) 31-Dec-17 €'000	Ervia Group (Statutory results) 31-Dec-17 €'000
Revenue	**473,175**	**-**	**473,175**	**-**	**-**	**-**	**473,175**
Operating costs (excluding depreciation and amortisation)	**(168,118)**	**-**	**(168,118)**	**(5,191)**	**-**	**(5,191)**	**(173,309)**
Operating profit/(loss) before depreciation and amortisation (EBITDA)	**305,057**	**-**	**305,057**	**(5,191)**	**-**	**(5,191)**	**299,866**
Depreciation and amortisation*	**(138,876)**	**6,000**	**(132,876)**	**(373)**	**-**	**(373)**	**(133,249)**
Operating profit/(loss)	**166,181**	**6,000**	**172,181**	**(5,564)**	**-**	**(5,564)**	**166,617**
Finance income**	**-**	**-**	**-**	**48,440**	**(48,440)**	**-**	**-**
Finance costs	**(22,602)**	**-**	**(22,602)**	**(2,695)**	**-**	**(2,695)**	**(25,297)**
Net finance (costs)/income	**(22,602)**	**-**	**(22,602)**	**45,745**	**(48,440)**	**(2,695)**	**(25,297)**
Profit/(loss) before income tax	**143,579**	**6,000**	**149,579**	**40,181**	**(48,440)**	**(8,259)**	**141,320**

* Certain assets were previously subject to intra-group disposals to entities within the Gas Networks Ireland Group at market value for consideration in excess of the net book value at the date of sale. From an Ervia Group perspective the unrealised intra-group gains were eliminated on consolidation when the related assets were sold to entities within the Gas Networks Ireland Group and subsequently the depreciation uplift recognised in the Gas Networks Ireland Group financial statements are also eliminated on consolidation (2017 and 2016: €6.0 million). The carrying value of the relevant assets included in the Gas Networks Ireland Group financial statements, that are subject to elimination on consolidation was €71.9 million as at 31 December 2017 (2016: €77.9 million).

** The intra-group dividend from Gas Networks Ireland to Ervia Parent of €48.4 million (2016: €34.7 million) for the year ended 31 December 2017 is eliminated at an Ervia Group level.

F2 Divisional Information (continued)

	Gas Networks Ireland (Statutory results) 31-Dec-16 €'000	Consolidation and eliminations 31-Dec-16 €'000	a Gas Networks Ireland (Segment results) 31-Dec-16 €'000	Ervia Parent (Statutory results) 31-Dec-16 €'000	Consolidation and eliminations 31-Dec-16 €'000	b Ervia Parent (Segment results) 31-Dec-16 €'000	a + b = c Ervia Group (Statutory results) 31-Dec-16 €'000
Revenue	497,718	-	497,718	-	-	-	497,718
Operating costs (excluding depreciation and amortisation)	(170,912)	-	(170,912)	(3,940)	141	(3,799)	(174,711)
Operating profit/(loss) before depreciation and amortisation (EBITDA)	326,806	-	326,806	(3,940)	141	(3,799)	323,007
Depreciation and amortisation*	(133,196)	6,000	(127,196)	(383)	-	(383)	(127,579)
Operating profit/(loss)	193,610	6,000	199,610	(4,323)	141	(4,182)	195,428
Finance income**	-	-	-	34,659	(34,659)	-	-
Finance costs	(45,013)	-	(45,013)	(1,879)	(10)	(1,889)	(46,902)
Net finance (costs)/income	(45,013)	-	(45,013)	32,780	(34,669)	(1,889)	(46,902)
Profit/(loss) before income tax	148,597	6,000	154,597	28,457	(34,528)	(6,071)	148,526

(a) Revenue

External revenue split by geographic location is as follows:

	2017 €'000	2016 €'000
Ireland	**434,253**	456,872
UK (including Northern Ireland and Isle of Man)	**38,922**	40,846
Total	**473,175**	497,718

The Group is not reliant on any major external customers.

(b) Capital expenditure

	Capital additions to property, plant and equipment (note B1)		Capital additions to intangible assets (note B3)	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Gas Networks Ireland	**143,682**	116,399	**3,478**	8,476
Ervia Parent	**-**	-	**-**	-
Total	**143,682**	116,399	**3,478**	8,476

F2 Divisional Information (continued)

(c) Non-current assets by geographic location

	31-Dec-17 €'000	31-Dec-16 €'000
Ireland	**2,183,351**	2,228,514
UK (including Northern Ireland and Isle of Man)	**349,714**	317,696
Total	**2,533,065**	2,546,210

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

F3 Tax

	2017 €'000	2016 €'000
Current tax expense		
Current tax	**(22,635)**	(16,220)
Adjustments in respect of previous years	**776**	2,589
	(21,859)	(13,631)
Deferred tax credit/(expense)		
Origination and reversal of temporary differences	**647**	(3,193)
Adjustments in respect of previous years	**(73)**	(1,346)
	574	(4,539)
Total income tax expense	**(21,285)**	(18,170)

Reconciliation of effective tax rate

	2017 €'000	2016 €'000
Profit before tax	**148,650**	120,836
Taxed at 12.5% (2016: 12.5%)	**(18,581)**	(15,105)
Expenses not deductible for tax purposes	**(1,630)**	(4,515)
Income not taxable	**1,022**	496
Profits taxed at higher rates	**(2,046)**	(3,115)
Effect of tax rate change	**(963)**	1,523
Exchange adjustments	**210**	1,303
Adjustments to tax charge in respect of previous years	**703**	1,243
Total income tax expense	**(21,285)**	(18,170)

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

F3 Tax

(continued)

Current tax assets and liabilities

	31-Dec-17 €'000	31-Dec-16 €'000
Current tax liabilities	**(4,191)**	(711)

Deferred tax assets and liabilities

	Retirement benefit obligation €'000	Derivative financial instruments €'000	Property, plant and equipment and intangible assets €'000	Interest €'000	Other €'000	Total €'000
At 1 January 2016	6,418	323	(202,303)	(2,022)	475	(197,109)
Recognised in income statement	782	-	(5,831)	615	(105)	(4,539)
Recognised in equity	8,961	(250)	-	-	-	8,711
Transfer to current tax	-	-	(3,662)	-	-	(3,662)
Exchange adjustments	-	-	3,287	(1,236)	-	2,051
At 31 December 2016	16,161	73	(208,509)	(2,643)	370	(194,548)
Recognised in income statement	**1,071**	**-**	**(260)**	**(49)**	**(188)**	**574**
Recognised in equity	**(1,253)**	**239**	**-**	**-**	**-**	**(1,014)**
Exchange adjustments	**-**	**-**	**608**	**(289)**	**-**	**319**
At 31 December 2017	**15,979**	**312**	**(208,161)**	**(2,981)**	**182**	**(194,669)**

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

	2017 €'000	2016 €'000
Capital losses	**3,600**	3,600
Losses forward	**42**	108
Provisions	**-**	55

F4 Related Parties

		Transaction value income/(expense)		Balance at reporting date receivable/(payable)	
		2017 €'000	2016 €'000	31-Dec-17 €'000	31-Dec-16 €'000
Irish Water	(iv)				
Transactional and support service agreement costs	(iv) (a)	**43,073**	35,543		
		43,073	35,543	**26,774**	29,059

(i) Ultimate parent undertaking
Ervia is a corporate body established under the Gas Act 1976. Ervia is 100% beneficially owned by the Irish State.

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

(iii) Banks owned by the Irish State
In the normal course of business, the Group transacts with certain Irish banks which are wholly or partially controlled by the Irish Government. All of the Group's transactions with such banks are on normal commercial terms. The Group had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2017.

(iv) Irish Water
Irish Water is deemed to be a related party of the Group, on the basis of the fact pattern set out in note F7.

(iv) (a) Transactional and support service agreement costs
The Group provides strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water, through the Group Centre, Major Projects area and Shared Services Centre. The Shared Services Centre is designed to provide transactional and support services in the areas of Finance, Procurement, Facilities, HR and IT. The costs relating to the secondment of employees are recharged to Irish Water on a full cost recovery method with no margin earned. In addition Irish Water is recharged for the use of the Group's properties.

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

Pension cost
The Group operates a defined benefit pension scheme. A number of Irish Water employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19. The Parent, as the sponsoring employer for the plan, recognises the net defined benefit cost, while Irish Water recognises only the cost of contributions payable for the year in respect of Irish Water employees. The Group's current service costs for 2017 (as set out in note E5) includes €1.1 million (2016: €0.8 million) which represents contributions payable for the year in respect of Irish Water employees. These costs are not included in the Group's employee benefit expense.

F4 Related Parties (continued)

(v) Board members' interests
The Board members had no beneficial interests in the Group at any time during the year or at 31 December 2017. The Secretary is a beneficiary of the Employee Share Ownership Plan.

(vi) Subsidiary undertakings
The Group financial statements consolidate the results of the Parent and its subsidiaries as documented in the accounting policies. A listing of the subsidiaries is provided in note F7. Transactions with related parties are entered into in the normal course of business. Sales to and from, together with outstanding payables and receivables to and from subsidiaries, are eliminated in the preparation of the consolidated financial statements, in accordance with IFRS 10.

F5 Dividends

Dividend declared

	2017 €'000	2016 €'000
To the Exchequer	**148,440**	134,659
Total	**148,440**	134,659

Dividend paid

	2017 €'000	2016 €'000
Annual dividend paid to the Exchequer	**48,440**	34,659
Special dividend on sale of the Energy business paid to the Exchequer	**100,000**	100,000
Total	**148,440**	134,659

A dividend of €148.4 million (2016: €134.7 million) was paid to the Exchequer during the year. Annual dividends are based on 45% (2016: 30%) of the previous year's profit before certain exceptional items, as directed by the shareholder. The 2017 dividend paid includes payment of a further special dividend of €100.0 million following the sale of the Energy business.

No dividend was payable to Ervia Employee Share Ownership Trust (ESOT) as a consequence of the cancellation of the rights of capital stock held previously by Ervia Employee Share Ownership Trust.

F6 Inventory

	31-Dec-17 €'000	31-Dec-16 €'000
Gas stock and engineering materials	**1,059**	2,406

In 2017 inventories recognised in the income statement amounted to €1.1 million (2016: €1.1 million). There were no write-downs of inventories to net realisable value in 2017 (2016: €nil).

F7 Subsidiaries

At 31 December 2017 the Group had the following subsidiaries:

	Company	Nature of Business	Group share
1	Aurora Telecom DAC	Non Trading	100%
2	Gas Networks Ireland (IOM) DAC	Gas Transmission	100%
3	Ervia Finance Public Limited Company	Non Trading	100%
4	Conservation Engineering Limited	Non Trading	100%
5	GNI (UK) Limited	Gas Transmission	100%
6	Gas Networks Ireland	Gas Transmission	100%
7	Gaslink Independent System Operator DAC	Non Trading	100%
	Non-controlled undertaking		
8	Ervia ESOP Trustee DAC	Trustee for Employee Share Ownership Plan	see (a) below
9	Irish Water	Water and Waste Water Services	see (b) below

The registered office of 1, 2 and 6 to 8 is:	Gasworks Road, Cork, Ireland.
The registered office of 3 to 4 is:	Webworks, Eglinton Street, Cork, Ireland.
The registered office of 5 is:	6 St. Andrew Street, 5th Floor, London, EC4A 3AE, United Kingdom.
The registered office of 9 is:	Colvill House, 24/26 Talbot Street, Dublin 1, Ireland.

(a) Ervia ESOP Trustee DAC was incorporated as trustee of the Ervia Employee Share Ownership Trust and the Ervia Approved Profit Sharing Scheme. The Group has no ability or rights to exert control over the assets or management of the company. The Board of Directors is chaired by an independent professional director with four directors representing Ervia employees and two directors appointed by Ervia. In accordance with IFRS 10, the financial statements of Ervia ESOP Trustee DAC are not consolidated with the results of the Group.

Agreement was reached in March 2014 regarding the buy-out of the 3.27% of the capital stock of Ervia held by the Trustee on behalf of ESOP beneficiaries. The agreement provided for the acquisition of the entire capital stock issued to the Ervia ESOT in exchange for promissory notes issued by Ervia to be redeemed over the period 2014 to 2018. The promissory notes do not bear a coupon while in issue. Refer to note E6.

(b) At 31 December 2017, the Group held a single voting share in Irish Water, with no economic rights attributable to that share. The Minister for Finance and Minister for Housing, Planning and Local Government each held 325 (2016: 55) Water Economic Rights ('WER') shares which carried no voting rights but carried all the economic rights to obtain benefit from the activities of Irish Water.

IFRS 10 states "an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". The Group's single voting share in Irish Water represents an existing right at 31 December 2017 that gives the Group the power to govern the financial and operating policies of Irish Water. However, as this power cannot be used to obtain variable returns, as the Group does not have rights to the variable returns of Irish Water at that date, as required by IFRS 10, and therefore in order to comply with the requirements of IFRS, the financial statements of Irish Water are not consolidated with the results of the Group.

F8 Statement of Significant Accounting Policies

1 Basis of Consolidation

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

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

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

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

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

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

iv. Loss of control
On the loss of control, the Group derecognises the assets and liabilities of the subsidiary and any components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. Any contingent consideration receivable as part of a sale transaction or disposal is recognised at fair value at the sale completion date. Subsequent changes to the fair value of the contingent consideration will be recognised in accordance with IAS 39 in profit or loss.

2 Property, Plant and Equipment

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

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

F8 Statement of Significant Accounting Policies (continued)

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

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

Buildings	40 years
Plant, pipeline and machinery	3-60 years

Depreciation is not charged on land or assets under construction.

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

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

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

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

3 Intangible Assets

i. Software and software under development
Software costs include both internally developed and externally purchased assets.

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

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

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

iii. Goodwill
Goodwill that arises on the acquisition of subsidiaries is presented within intangible assets. Refer to accounting policy 1 (iii) for the measurement of goodwill at initial recognition. Thereafter, goodwill is measured at cost after impairment losses. Refer to accounting policy 4 below for the Group's accounting policy on impairment.

F8 Statement of Significant Accounting Policies (continued)

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

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

v. Borrowing costs
Refer to accounting policy 2 (iv).

4 Impairment of Assets

i. Assets that are not subject to amortisation
Intangible assets, with an indefinite useful life or which are not yet ready for use, are tested annually for impairment.

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

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

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

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

5 Foreign Currency

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

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

F8 Statement of Significant Accounting Policies (continued)

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

6 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services (including lease income) in the normal course of business, net of discounts, VAT and other sales related taxes. Transportation capacity revenue (billed and unbilled) is recognised in line with the underlying contract while any related commodity revenue is recognised based on throughput for the period for each customer.

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

In line with IFRIC 18 Transfer of Assets from Customers, non-repayable supply contributions received are recognised in the income statement as revenue in accordance with IAS 18 Revenue. Contributions are recognised in deferred revenue when received, and are released to the income statement in accordance with fulfilment of performance obligations.

7 Leases

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

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

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

F8 Statement of Significant Accounting Policies (continued)

8 Grants

A government grant is recognised as a liability initially on the balance sheet when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same years in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are amortised to the income statement on a systematic basis over the useful life of the asset to match the depreciation charge.

9 Provisions and contingent liabilities

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

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

10 Retirement Benefit Obligations

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

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

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

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

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

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

F8 Statement of Significant Accounting Policies (continued)

11 Financial Assets and Liabilities

i. Derivative financial instruments
Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are remeasured to fair value at the reporting date. The majority of derivative financial instruments are designated as being held for hedging purposes.

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

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

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

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

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

ii. Borrowings
Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings that are not in a fair value hedging relationship are stated at amortised cost using the effective interest rate method and borrowings in a fair value hedging relationship are adjusted for fair value movements in hedged risks.

iii. Non-derivative financial assets and liabilities
Trade and other receivables
Trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount plus any directly attributable transaction costs, and are subsequently carried at this value less an appropriate allowance for impairment losses.

Specific allowances are made where there is objective evidence of impairment, for example where there is an inability to pay. An additional allowance is made on a portfolio basis to cover additional incurred losses based on an analysis of previous loss experience updated to reflect current market conditions.

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

F8 Statement of Significant Accounting Policies (continued)

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

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

Financial assets at FVTPL are stated at fair value with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner determined in note C6.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets (in accordance with IAS 39). Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income (except for changes due to impairment losses and foreign currency differences, which are recognised in profit or loss). When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

12 Net Finance Costs

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

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

Fair value adjustments on financing instruments that are recognised in profit or loss are presented as finance income or finance costs, as appropriate (refer to note A1 for further detail).

13 Income Tax

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

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

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

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

F8 Statement of Significant Accounting Policies (continued)

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

14 Inventories

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

Specific allowance is made for damaged, deteriorated, obsolete and unusable items where appropriate.

ii. Stock gas
Stocks of gas are held to maintain the pressures required within the Networks system. These stocks are not held for resale and are measured at cost.

15 Operating Profit

Operating profit is stated before net finance costs and taxation.

16 Non-GAAP Measures

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

17 Transfer of assets and liabilities to an entity under common control

Where assets and liabilities are transferred between entities that are under common control at the date of the transfer, the assets and liabilities are not measured at their fair values and instead are measured based on the carrying values. Differences between the consideration paid and the aggregate carrying value of the assets and liabilities (as of the date of the transaction) acquired are included in equity as a capital contribution. The book values reflect appropriate provision for impairment at the acquisition date.

F9 New Accounting Standards and Interpretations

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

Standard/Amendment	EU Effective Date	Endorsed by the EU
Amendments to IAS 7: Disclosure Initiative	1 January 2017	November 2017
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	November 2017

In the current year, the Group has applied the new/revised IFRS, as set out in table 1, that are mandatorily effective under IFRS, as endorsed by the EU, for accounting periods beginning on or after 1 January 2017. The application of these amendments to standards did not have a material impact on the Group's financial statements for 2017.

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

Standard/Amendment	EU Effective Date [1]	Endorsed by the EU
IFRS 9 Financial Instruments	1 January 2018	November 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2018	September 2016
Amendments to IAS 40: Transfers of Investment Property	1 January 2018	(Outstanding)
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	(Outstanding)
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018 / 1 January 2017	February 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018	November 2017
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018	February 2018
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018	October 2017
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely	n/a
IFRS 16 Leases	1 January 2019	October 2017
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019	(Outstanding)
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019	(Outstanding)
Amendments to IAS 28: Long Term Interests in Associates and Joint Ventures	1 January 2019	(Outstanding)
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019	(Outstanding)
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019	(Outstanding)
IFRS 17 Insurance Contracts	1 January 2021	(Outstanding)

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

Table 2 sets out the standards, amendments to standards and interpretations that are in issue but are not yet effective under IFRS, as endorsed by the EU, for the year ended 31 December 2017 and thus have not been applied in preparing these financial statements.

F9 New Accounting Standards and Interpretations (continued)

IFRS 9, issued on 24 July 2014, introduced new requirements for recognition, measurement, impairment and de-recognition of financial instruments and general hedge accounting. The Group will apply IFRS 9 from its effective date under IFRS, as endorsed by the EU (1 January 2018). Application of this standard will impact on the recognition and measurement of the Group's financial instruments. Under the provisions of this standard, where the Group has chosen to measure borrowings at fair value through profit or loss, the portion of the change in fair value due to changes in the Group's own credit risk will be recognised in other comprehensive income rather than within profit or loss.

The standard also broadens the scope of what can be included within a hedge relationship, which may enable certain interest rate swaps, which currently do not qualify, to be designated within cash flow hedge relationships. If the standard had been adopted in the current year, the impact to the Group's financial statements would not have been significant.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it became effective on 1 January 2018. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces a five step approach to revenue recognition. Under IFRS 15, an entity should recognise revenue when the performance obligation is satisfied i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. IFRS 15 provides prescriptive guidance to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The Group has assessed the impact of adopting the standard and the expectation is that IFRS 15 will not have a significant impact on the Group's financial statements.

IFRS 16 Leases was issued on 13 January 2016 with an IASB effective date of 1 January 2019. This new standard will replace IAS 17 Leases (and associated interpretative guidance), and offers a new comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The most significant change will be to lessee accounting, where the distinction between operating and finance leases is removed, and will effectively bring onto the balance sheet the accounting for assets and liabilities associated with operating leases. There will be no significant changes in respect of lessor accounting. The Group continues to assess the impact of adopting the standard, but from initial assessments it appears that IFRS 16 will not have a significant impact on the Group's financial statements. The impact of IFRS 16 has yet to be fully quantified, but if the standard had been adopted in the current year a depreciation charge in relation to the right-of-use asset and a lease interest charge would be recognised in the income statement in place of the operating lease charge of €0.9 million.

It is anticipated that application of the remaining IFRS/amendments/annual improvements, in issue at 31 December 2017 but not yet effective, will not have a significant impact on the Group's financial statements.

Parent Income Statement

for the year ended 31 December 2017

	Notes	Before exceptional items 2017 €'000	Exceptional items 2017 €'000	After exceptional items 2017 €'000	Before exceptional items 2016 €'000	Exceptional items 2016 €'000	After exceptional items 2016 €'000
Continuing operations							
Revenue		**-**	**-**	**-**	-	-	-
Operating costs (excluding depreciation and amortisation)	J1	**(5,191)**	**-**	**(5,191)**	(3,940)	-	(3,940)
Operating loss before depreciation and amortisation (EBITDA)		**(5,191)**	**-**	**(5,191)**	(3,940)	-	(3,940)
Depreciation and amortisation	G2	**(373)**	**-**	**(373)**	(383)	-	(383)
Operating loss		**(5,564)**	**-**	**(5,564)**	(4,323)	-	(4,323)
Finance income	H2	**48,440**	**4,468**	**52,908**	34,659	-	34,659
Finance costs	H2	**(2,695)**	**-**	**(2,695)**	(1,879)	(7,951)	(9,830)
Net finance income/(costs)	H2	**45,745**	**4,468**	**50,213**	32,780	(7,951)	24,829
Profit/(loss) before income tax		**40,181**	**4,468**	**44,649**	28,457	(7,951)	20,506
Income tax credit/(expense)	K2	**1,760**	**(27)**	**1,733**	2,204	(818)	1,386
Profit/(loss) for the year		**41,941**	**4,441**	**46,382**	30,661	(8,769)	21,892
Profit/(loss) attributable to:							
Owners of the Parent		**41,941**	**4,441**	**46,382**	30,661	(8,769)	21,892
Profit/(loss) for the year		**41,941**	**4,441**	**46,382**	30,661	(8,769)	21,892

For and on behalf of the Board:

Tony Keohane Chairman	Peter Cross Member of the Board	27th March 2018 Date of Approval

Note: See note A1 for definitions of exceptional items.

Parent Statement of Other Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 €'000	2016 €'000
Profit for the year		**46,382**	21,892
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains/(losses)	J5	**10,023**	(71,686)
Deferred tax (expense)/credit relating to defined benefit obligations	K2	**(1,253)**	8,961
Total items that will not be reclassified to profit or loss		**8,770**	(62,725)
Total other comprehensive income/(expense) for the year, net of income tax		**8,770**	(62,725)
Total comprehensive income/(expense) for the year		**55,152**	(40,833)
Total comprehensive income/(expense) attributable to:			
Owners of the Parent		**55,152**	(40,833)
Total comprehensive income/(expense) for the year		**55,152**	(40,833)

For and on behalf of the Board:

27th March 2018

Tony Keohane Chairman	Peter Cross Member of the Board	Date of Approval

Parent Balance Sheet

as at 31 December 2017

	Notes	31-Dec-17 €'000	31-Dec-16 €'000
Assets			
Non-current assets			
Property, plant and equipment	G1	**8,181**	8,566
Investment in subsidiary undertakings	G3	**681,436**	681,436
Trade and other receivables	I1	**-**	16,300
Deferred tax assets	K2	**6,514**	6,394
Total non-current assets		**696,131**	712,696
Current assets			
Trade and other receivables	I1	**272,610**	352,402
Cash and cash equivalents	H1	**24,778**	27,208
Derivative financial instruments	H3	**95**	-
Current tax assets	K2	**87**	5,663
Total current assets		**297,570**	385,273
Total assets		**993,701**	1,097,969
Equity and liabilities			
Equity			
Retained earnings		**(832,809)**	(926,097)
Total equity attributable to equity holders of the Parent		**(832,809)**	(926,097)
Liabilities			
Non-current liabilities			
Retirement benefit obligations	J5	**(127,828)**	(129,285)
Trade and other payables	J6	**(5,354)**	(13,987)
Total non-current liabilities		**(133,182)**	(143,272)
Current liabilities			
Trade and other payables	J6	**(27,710)**	(28,480)
Derivative financial instruments	H3	**-**	(120)
Total current liabilities		**(27,710)**	(28,600)
Total liabilities		**(160,892)**	(171,872)
Total equity and liabilities		**(993,701)**	(1,097,969)

For and on behalf of the Board:

27th March 2018

Tony Keohane Chairman	Peter Cross Member of the Board	Date of Approval

Parent Statement of Changes in Equity

for the year ended 31 December 2017

	Retained earnings €'000
Balance at 1 January 2016	(1,101,589)
Profit for the year	(21,892)
Other comprehensive expense for the year, net of income tax	62,725
Total comprehensive expense for the year	40,833
Dividends declared	134,659
Balance at 31 December 2016	(926,097)
Profit for the year	**(46,382)**
Other comprehensive income for the year, net of income tax	**(8,770)**
Total comprehensive income for the year	**(55,152)**
Dividends declared	**148,440**
Balance at 31 December 2017	**(832,809)**

All attributable to owners of the Parent.

Parent Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 €'000	2016 €'000
Net cash from operating activities	K1	**12,264**	36,563
Cash flows from investing activities			
(Payment)/receipt relating to the sale of Energy division		**(1,614)**	1,195
Receipts for property, plant and equipment		**-**	40
Dividends received		**48,440**	34,659
Net cash from investing activities		**46,826**	35,894
Cash flows from financing activities			
Repurchase of capital stock		**(9,001)**	(11,119)
Subsidiary loan repayments		**95,921**	81,837
Dividends paid		**(148,440)**	(134,659)
Net cash used in financing activities		**(61,520)**	(63,941)
Net (decrease)/increase in cash and cash equivalents	H1	**(2,430)**	8,516
Cash and cash equivalents at 1 January	H1	**27,208**	18,692
Cash and cash equivalents at 31 December	H1	**24,778**	27,208

Notes to the Parent Financial Statements

G Our investment in subsidiaries and the assets we use in our business

G1 Property, Plant and Equipment

	Land and buildings €'000	Plant, pipeline and machinery €'000	Total €'000
Cost			
At 1 January 2016	21,345	209	21,554
Disposals	-	(48)	(48)
At 31 December 2016	21,345	161	21,506
Disposals	**-**	**(53)**	**(53)**
At 31 December 2017	**21,345**	**108**	**21,453**
Accumulated depreciation and impairment losses			
At 1 January 2016	(12,509)	(55)	(12,564)
Depreciation for the year	(343)	(40)	(383)
Disposals	-	7	7
At 31 December 2016	(12,852)	(88)	(12,940)
Depreciation for the year	**(343)**	**(30)**	**(373)**
Disposals	**-**	**41**	**41**
At 31 December 2017	**(13,195)**	**(77)**	**(13,272)**
Carrying amounts			
At 31 December 2016	8,493	73	8,566
At 31 December 2017	**8,150**	**31**	**8,181**

Capital commitments

	2017 €'million	2016 €'million
Contracted for	**9**	5

G2 Depreciation and Amortisation

	2017 €'000	2016 €'000
Depreciation	**(373)**	(383)
Total	**(373)**	(383)

G3 Investment in Subsidiaries

	€'000
Cost	
At 31 December 2016	681,436
At 31 December 2017	**681,436**
Carrying amount	
At 31 December 2016	681,436
At 31 December 2017	**681,436**

The Parent's subsidiary is Gas Networks Ireland.

H How we finance our business

H1 Cash and Cash Equivalents

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

	31-Dec-17 €'000	31-Dec-16 €'000
Cash and cash equivalents	**24,778**	27,208

	2017 €'000	2016 €'000
At 1 January	**27,208**	18,692
(Decrease)/increase in cash and cash equivalents in the statement of cash flows	**(2,430)**	8,516
At 31 December	**24,778**	27,208

H2 Net Finance Costs

		2017 €'000	2016 €'000
Before exceptional items			
Finance income			
Dividends received		**48,440**	34,659
Total finance income		**48,440**	34,659
Finance costs			
Net interest on the net defined benefit liability		**(2,204)**	(1,247)
Other finance costs		**(491)**	(632)
Total finance costs		**(2,695)**	(1,879)
Exceptional items			
Net changes in fair value of financing derivatives	(i)	**215**	(151)
Change in estimate of cash flow on contingent consideration	(ii)	**4,253**	(7,800)
Total exceptional items		**4,468**	(7,951)
Total			
Finance income		**52,908**	34,659
Finance costs		**(2,695)**	(9,830)
Net finance income		**50,213**	24,829

(i) These are remeasurements arising on financial instruments of a financing nature which are accounted for as if held for trading or as fair value hedges in accordance with the Parent's accounting policy. The impact of these remeasurements on net finance costs for 2017 was a €0.2 million gain (2016: €0.2 million loss). Further details on derivative financial instruments falling within the scope of IAS 39 are set out in accounting policy 11 (note F8).

(ii) The Parent recognised a non cash remeasurement gain of €4.3 million during 2017 (2016: €7.8 million loss) due to changes in the expected future cash flows relating to contingent consideration previously recognised. Refer to note C6 for further details.

H3 Financial Risk Management and Financial Instruments

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

	Fair value hierarchy Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000	Total held at amortised cost €'000	Total €'000	Total in a hedging relationship €'000
At 31 December 2017							
Financial assets							
Foreign exchange rate contracts	**-**	**95**	**-**	**95**	**-**	**95**	**-**
Trade and other receivables (excluding prepayments and contingent consideration)	**-**	**-**	**-**	**-**	**269,525**	**269,525**	**-**
Cash and cash equivalents	**-**	**-**	**-**	**-**	**24,778**	**24,778**	**-**
Total financial assets	**-**	**95**	**-**	**95**	**294,303**	**294,398**	**-**
Financial liabilities							
Trade and other payables	**-**	**-**	**-**	**-**	**(33,064)**	**(33,064)**	**-**
Total financial liabilities	**-**	**-**	**-**	**-**	**(33,064)**	**(33,064)**	**-**
Net financial assets	**-**	**95**	**-**	**95**	**261,239**	**261,334**	**-**
At 31 December 2016							
Financial assets							
Trade and other receivables (excluding prepayments and contingent consideration)	-	-	-	-	349,361	349,361	-
Cash and cash equivalents	-	-	-	-	27,208	27,208	-
Total financial assets	-	-	-	-	376,569	376,569	-
Financial liabilities							
Foreign exchange rate contracts	-	(120)	-	(120)	-	(120)	-
Trade and other payables	-	-	-	-	(42,467)	(42,467)	-
Total financial liabilities	-	(120)	-	(120)	(42,467)	(42,587)	-
Net financial (liabilities)/assets	-	(120)	-	(120)	334,102	333,982	-

H3 Financial Risk Management and Financial Instruments (continued)

Financial risk management

Refer to note C5 for details of the Group's financial risk management policies. These objectives, policies and processes are also adopted by the Parent.

(i) Credit risk

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

	31-Dec-17 €'000	31-Dec-16 €'000
Trade and other receivables (excluding prepayments and amounts owed by subsidiary/non-controlled undertakings)	**20,463**	17,621
Cash and cash equivalents	**24,778**	27,208
Derivative financial instruments	**95**	-
Total	**45,336**	44,829

(i) (a) Treasury related credit risk

Refer to note C5 for an analysis of the Group's policies in respect of treasury related credit risk. These objectives, policies and processes are also adopted by the Parent.

(i) (b) Trade related credit risk

Refer to note I1 for an analysis of the Parent's exposure to trade related credit risk.

(ii) Liquidity risk

Refer to note C5 for details of the Group's objectives, policies and processes for managing liquidity risk and the methods used to measure liquidity risk. These objectives, policies and processes are also adopted by the Parent.

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

	Carrying amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
At 31 December 2017						
Foreign exchange rate contracts	**95**	**95**	**95**	**-**	**-**	**-**
Net derivative financial assets	**95**	**95**	**95**	**-**	**-**	**-**
Trade and other payables	**(33,064)**	**(33,007)**	**(27,653)**	**-**	**(5,354)**	**-**
Non-derivative financial liabilities	**(33,064)**	**(33,007)**	**(27,653)**	**-**	**(5,354)**	**-**
Net financial liabilities	**(32,969)**	**(32,912)**	**(27,558)**	**-**	**(5,354)**	**-**
At 31 December 2016						
Trade and other payables	(42,467)	(42,596)	(28,480)	(8,630)	(5,279)	(207)
Non-derivative financial liabilities	(42,467)	(42,596)	(28,480)	(8,630)	(5,279)	(207)
Foreign exchange rate contracts	(120)	(120)	(120)	-	-	-
Net derivative financial liabilities	(120)	(120)	(120)	-	-	-
Net financial liabilities	(42,587)	(42,716)	(28,600)	(8,630)	(5,279)	(207)

H3 Financial Risk Management and Financial Instruments (continued)

(iii) Market risk
Refer to note C5 for details of the Group's objectives, policies and processes for managing market risk and the methods used to measure market risk. These objectives, policies and processes are also adopted by the Parent.

(iii) (a) Exchange rate risk
Exchange rate risk derives from the fact that some of the Parent's transactions may be conducted in currencies other than euro (mainly sterling).

Transaction exposure
From time to time the Parent makes purchases in foreign currencies. The Group's policy is to manage these transaction exposures by seeking to match purchases and sales denominated in foreign currencies as far as possible. Where this is not possible, exposures will be hedged using derivatives permitted under the Group's treasury policy. Exposures will be hedged taking account of the business risks and the regulatory environment.

Also, the Group's treasury policy is that all expected exposures in excess of €300,000 equivalent in foreign currencies will be evaluated with respect to the business risks and, where appropriate, currency risks will be hedged to minimise the potential for adverse variances arising from currency movements.

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

I Where we generate our revenues

I1 Trade and Other Receivables

	31-Dec-17 €'000	31-Dec-16 €'000
Amounts due from subsidiary undertakings	**225,680**	320,215
Amounts due from non-controlled undertakings	**23,382**	27,825
Prepayments	**3,085**	3,041
Other receivables	**20,463**	17,621
Total	**272,610**	368,702
Analysed as follows:		
Non-current	**-**	16,300
Current	**272,610**	352,402
Total	**272,610**	368,702

Refer to note K3 for further details in respect of balances with subsidiary companies and non-controlled undertakings.

Credit risk

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

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

	31-Dec-17 €'000	31-Dec-16 €'000
Other receivables	**20,463**	17,621
Total	**20,463**	17,621

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

	31-Dec-17 €'000	31-Dec-16 €'000
Ireland	**20,463**	17,621
Total	**20,463**	17,621

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

	31-Dec-17 €'000	31-Dec-16 €'000
Not past due	**20,463**	17,621
Total	**20,463**	17,621

I2 Future Operating Lease Income

	31-Dec-17 €'000	31-Dec-16 €'000
Less than one year	**690**	690
Between one and five years	**1,380**	1,380
Total	**2,070**	2,070

Future operating lease income relates to future lease income from the rental of office premises. All lease arrangements are at an arm's length basis.

J What we spend on operations and our people

J1 Operating Costs (excluding depreciation and amortisation)

	2017 €'000	2016 €'000
Employee benefit expense	**(37,294)**	(32,509)
Hired and contracted services	**(8,141)**	(5,819)
Materials and maintenance	**(11,638)**	(9,005)
Rent, rates and facilities	**(1,483)**	(1,087)
Other operating expenses	**(11,184)**	(10,964)
Recharges to non-controlled undertakings	**43,073**	35,543
Recharges to subsidiary undertakings	**21,476**	19,901
Total	**(5,191)**	(3,940)

Refer to note E1 for disclosures in respect of the Group's Auditor's remuneration and Board members' emoluments.

J2 Exceptional Items

Refer to note H2 for detail in respect of exceptional costs incurred in 2017 and 2016.

J3 Employee Benefits

(a) Aggregate employee benefits

	2017 €'000	2016 €'000
Staff short-term benefits	**(28,784)**	(26,008)
Post employment benefits - pension contributions*	**(10,061)**	(7,028)
Employer's contribution to social welfare	**(3,111)**	(2,711)
	(41,956)	(35,747)
Capitalised payroll and other payroll transfers	**4,662**	3,238
Employee benefit expense charged to profit or loss	**(37,294)**	(32,509)

(b) Staff short-term benefits

	2017 €'000	2016 €'000
Wages and salaries	**(27,611)**	(24,780)
Overtime	**(33)**	(67)
Allowances	**(184)**	(157)
Other	**(956)**	(1,004)
Total	**(28,784)**	(26,008)

The average number of employees employed by the Parent was 367 for 2017 (2016: 343).

* Includes unallocated non-cash pension costs attributable to non-Parent company employees (i.e. eligible subsidiary and non-controlled undertaking employees) who participate in the Ervia defined benefit scheme.

J4 Key Management Compensation

Refer to note E4 for details in respect of the Group's key management compensation.

J5 Retirement Benefit Obligations

Refer to note E5 for disclosure in respect of the Group's retirement benefit obligations.

J6 Trade and Other Payables

	31-Dec-17 €'000	31-Dec-16 €'000
Trade payables	**(2,485)**	(3,615)
Accruals	**(15,810)**	(11,579)
Promissory notes (F7)	**(6,874)**	(15,875)
Other payables	**(6,916)**	(10,871)
Amounts due to subsidiary companies	**(85)**	(198)
Taxation and social insurance creditors[1]	**(894)**	(329)
Total	**(33,064)**	(42,467)
Analysed as follows:		
Non-current	**(5,354)**	(13,987)
Current	**(27,710)**	(28,480)
Total	**(33,064)**	(42,467)
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	**(917)**	(685)
VAT	**23**	356
Total	**(894)**	(329)

J7 Contingencies

Contingencies

There are no material contingent liabilities that the Company is aware of that require disclosure.

J8 Operating Lease Commitments

The following non-cancellable operating lease commitments are payable by the Parent and relate to the rental of buildings. There are no significant or unusual restrictions imposed by the terms of the operating leases. All lease arrangements are at an arm's length basis. Amounts included in the income statement in respect of land and building lease arrangements was €0.8 million (2016: €0.8 million).

	31-Dec-17 €'000	31-Dec-16 €'000
Less than one year	**(800)**	(800)
Between one and five years	**(1,078)**	(1,078)
Total	**(1,878)**	(1,878)

K Other disclosures

K1 Cash Generated from Operations

	Notes	2017 €'000	2016 €'000
Cash flows from operating activities			
Profit for the year		**46,382**	21,892
Adjustments for:			
– Depreciation and amortisation	G2	**373**	383
– Retirement benefit service cost		**6,424**	5,009
– Net finance income	H2	**(50,213)**	(24,829)
– Income tax credit	K2	**(1,733)**	(1,386)
		1,233	1,069
Working capital changes:			
Change in trade and other receivables		**929**	22,195
Change in trade and other payables		**3,110**	7,384
Cash from operating activities		**5,272**	30,648
Interest received		**1,057**	6,081
Income tax received/(paid)		**5,935**	(166)
Net cash from operating activities		**12,264**	36,563

K2 Tax

	2017 €'000	2016 €'000
Current tax credit/(expense)		
Current tax	**(188)**	(616)
Adjustments in respect of previous years	**548**	40
	360	(576)
Deferred tax credit		
Origination and reversal of temporary differences	**1,373**	2,149
Adjustments in respect of previous years	**-**	(187)
	1,373	1,962
Total income tax credit	**1,733**	1,386

K2 Tax (continued)

Reconciliation of effective tax rate

	2017 €'000	2016 €'000
Profit before tax	**44,649**	20,506
Taxed at 12.5% (2016: 12.5%)	**(5,581)**	(2,563)
Expenses deductible/(non deductible) for tax purposes	**74**	(1,108)
Income not taxable	**6,587**	4,333
Profits taxed at higher rates	**(86)**	(606)
Exchange adjustments	**191**	1,477
Adjustments to tax charge in respect of previous years	**548**	(147)
Total income tax credit	**1,733**	1,386

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

Current tax assets and liabilities

	31-Dec-17 €'000	31-Dec-16 €'000
Current tax assets	**87**	5,663

Deferred tax assets and liabilities

	Retirement benefit obligation €'000	Property, plant and equipment and intangible assets €'000	Interest €'000	Other €'000	Total €'000
At 1 January 2016	6,418	1	(11,310)	362	(4,529)
Recognised in income statement	782	(193)	1,477	(104)	1,962
Recognised in equity	8,961	-	-	-	8,961
At 31 December 2016	16,161	(192)	(9,833)	258	6,394
Recognised in income statement	**1,071**	**(3)**	**381**	**(76)**	**1,373**
Recognised in equity	**(1,253)**	**-**	**-**	**-**	**(1,253)**
At 31 December 2017	**15,979**	**(195)**	**(9,452)**	**182**	**6,514**

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

	2017 €'000	2016 €'000
Capital losses	**3,600**	3,600

Notes to the Parent financial statements (continued)

K3 Related Parties

		Transaction value income/(expense)		Balance receivable/(payable)	
		2017 €'000	2016 €'000	31-Dec-17 €'000	31-Dec-16 €'000
Irish Water	(iv)				
Transactional and support service agreement costs	(iv) (a)	**43,073**	35,543		
		43,073	35,543	**23,382**	27,825
Subsidiaries	(vii)				
Transactional and support service agreement costs	(vii) (a)	**21,476**	19,901		
		21,476	19,901	**225,595**	320,017

(i) Ultimate parent undertaking
Ervia is a corporate body established under the Gas Act 1976. Ervia is 100% beneficially owned by the Irish State.

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

(iii) Banks owned by the Irish State
In the normal course of business, the Parent transacts with certain Irish banks which are wholly or partially controlled by the Irish Government. All of the Parent's transactions with such banks are on normal commercial terms. The Parent had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2017.

(iv) Irish Water
Irish Water is deemed to be a related party of the Parent, on the basis of the fact pattern set out in note F7.

(iv) (a) Transactional and support service agreement costs
The Parent provides strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water, through the Group Centre, Major Projects area and Shared Services Centre. The Shared Services Centre is designed to provide transactional and support services in the areas of Finance, Procurement, Facilities, HR and IT. The costs relating to the secondment of employees are recharged to Irish Water on a full cost recovery method with no margin earned. In addition Irish Water is recharged for the use of the Parent's properties.

Pension costs
The Parent operates a defined benefit pension scheme. A number of Irish Water employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19. The Parent, as the sponsoring employer for the plan, recognises the net defined benefit cost, while Irish Water recognises only the cost of contributions payable for the year in respect of Irish Water employees. The Parent's current service costs for 2017 (as set out in note E5) includes €1.1 million (2016: €0.8 million) which represents contributions payable for the year in respect of Irish Water employees. These costs were recharged to Irish Water on a full cost recovery method with no margin earned. These costs are not included in the Parent's employee benefit expense.

(v) Gas Networks Ireland
The Parent received an annual dividend of €48.4 million from Gas Networks Ireland during 2017 (2016: €34.7 million).

K3 Related Parties (continued)

(vi) Board members' interests
The Board members had no beneficial interests in the Parent at any time during the year or at 31 December 2017. The Secretary is a beneficiary of the Employee Share Ownership Plan.

(vii) Subsidiaries
The Parent entered into transactions with subsidiaries in the normal course of business as follows:

(a) Transactional and support service agreement costs
Refer to (iv) (a) above for a description of the services provided to subsidiaries.

Notes