gasnetworks.ie

Gas Networks Ireland

Directors' Report and Financial Statements 2021

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Directors and Other Information

Directors	Cathal Marley (Chairman) Brendan Murphy (resigned 31 December 2021) Claire Madden (appointed 01 January 2022) Edwina Nyhan Denis O'Sullivan Michael O'Sullivan (resigned 31 December 2021) Liam O'Sullivan (resigned 04 March 2022)
Secretary	Liam O'Riordan
Registered Office	Gasworks Road Cork Ireland
Solicitors	McCann Fitzgerald Riverside One Sir John Rogerson's Quay Dublin 2
Auditor	Deloitte Ireland LLP Chartered Accountants & Statutory Audit Firm 6 Lapp's Quay Cork
Bankers	AIB PO Box 71 South Mall Cork
Company Number	555744

Directors' Report

The Directors of Gas Networks Ireland ("the Directors") present their Directors' report and Group financial statements for the financial year ended 31 December 2021.

Directors' Report (continued)

Principal Activities, Company Overview and Business Model

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

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

The principal objective of the Company is the safe, reliable and efficient operation, maintenance, development and decarbonisation of the gas network in Ireland. The Company owns, operates, builds and maintains a world-class transmission and distribution gas network of 14,664 kilometres of pipelines including two sub-sea interconnectors and pipelines in Scotland, Northern Ireland and the Isle of Man. Aurora Telecom, a trading name of the Company, acts as a wholesale, open-access service provider for telecoms operators and business customers, providing dark-fibre and managed bandwidth services.

The company is fully committed to working with the Department of Housing, Local Government and Heritage ('DHLGH'), the Department of Environment, Climate and Communications ('DECC'), and the CRU to utilise the gas network to its full extent and ensure security of supply in the transition to a low carbon energy system.

Natural gas is of key strategic importance to the Irish economy, representing approximately 34% of Ireland's primary energy mix and generating approximately 46% of Ireland's electricity. As natural gas is the cleanest fossil fuel, it is also the ideal partner for renewable energies such as wind and solar. The large energy storage capability and flexibility of the network mean it can ramp up to meet high heat demand during extreme cold periods, or it can provide extra fuel for power generation when the wind doesn't blow. The gas network also provides essential back-up and flexibility for the electricity grid when wind levels drop, an increasingly important feature as intermittent renewable electricity generation continues to grow. Currently available in 22 counties in Ireland, with over 711,000 business and residential customers dependent on it every day, we believe that natural gas has a major role to play in helping Ireland meet its environmental targets in the most cost effective manner possible in the short, medium and long-term. The variability of fuel types in the electricity generation mix, particularly wind and solar, saw gas electricity generation peaking at 84% of demand during 2021, reiterating the importance of having a flexible and reliable gas supply.

Directors' Report (continued)

Principal Activities and Company Overview (continued)

Our vision is for a net zero carbon gas network by 2050, by replacing natural gas with renewable gases, such as carbon neutral biomethane made from agricultural and food waste and carbon free green hydrogen. Decarbonising the gas network will complement the development of renewable electricity, reduce emissions across all sectors of the economy including those that are traditionally difficult to decarbonise such as industry, agriculture and heavy transport, and further enhance the security and diversity of Ireland's energy supply. The European Union, through its 2021 Climate Target Plan Impact Assessment, concluded that gas will continue to provide 20% of Europe's energy in 2050. The EU Energy System Integration stating that of this 20%, "80% should be of renewable origin". Further detail on our measures to decarbonise the gas network are outlined below under 'Operating Environment'.

Gas Networks Ireland creates value in several key areas. We continue to deliver and support the Governments decarbonisation ambition and are actively working to reduce carbon emissions in Ireland by 51% by 2030. We support Ireland's National Economic Plan by providing affordable and clean energy and by investing in infrastructure in support of national economic growth. For our customers we strive to deliver a customer experience that meets their needs by driving continuous improvement to reduce effort across the customers engagement and delivering cost efficient customer operations. We operate a sustainable business, minimizing our emission and waste, enhancing biodiversity and supporting our people and communities.

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

Directors’ Report (continued)

Principal Activities and Company Overview (continued)

The Company’s strategy is to provide essential gas infrastructure and services efficiently and safely. The Company has a pivotal role to play in enhancing the environment, leading the transition to a low carbon energy system. The Company’s strategic objectives are outlined below:

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

In 2018 the Government announced that Gas Networks Ireland and Irish Water would become two stand-alone, publicly owned, commercial, regulated utilities during 2023. In June of 2020 the Ervia Group commenced the work programme to establish two standalone independent utilities. A huge body of work was carried out during 2021 to achieve operational separation as of January 2022.

The Company welcomed the publication in December 2021 of the Annex of Actions that accompanies the Climate Action Plan 2021. It reinforces the key activities and roles of the Company and outlined how the decarbonisation plans for the gas network will be delivered. However, the Climate Action Plan 2021 acknowledges that further measures are required to deliver the scale of Ireland’s emissions reduction ambitions by 2030. The gas network will continue to play a critical role in Ireland’s energy sector and the company will continue to develop and deliver its capital investment plans to align with the policy initiatives laid out in Project Ireland 2040, the National Development Plan 2021-2030 and the Climate Action Plan 2021.

Accounting Records

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

Directors' Report (continued)

Results for the Year and Dividends

The results for the year are set out in the income statement and in the related notes. Revenue for the year was €476 million (2020: €447 million) and profit after tax was €72 million (2020: €94 million). The Group had total assets of €2.7 billion (2020: €2.7 billion) and liabilities of €1.6 billion (2020: €1.6 billion) at year end.

Revenue was €476m for the year to December 31st 2021, increasing by €29m compared to 2020. This increase was primarily due to regulated revenue increases from a combination of higher demand for capacity and higher transportation tariffs. Operating costs of €231m have increased by €49m compared to 2020. This is primarily due to higher gas commodity costs to run the compressor stations and by general inflationary cost pressures, offset by the delivery of further operating cost efficiencies. Wholesale gas prices were extremely volatile in 2021, reaching a peak in late December of 450p/therm. Gas Networks Ireland continued the delivery of scheduled capital investments with total investments of €147m between gas and telecoms infrastructure. This investment included key strategic projects such as the Ballough Bypass project, an increase in the number of network connections and refurbishments, and investment in Aurora Telecom's national fibre network.

Despite the various challenges faced due to COVID-19, it did not have a material impact on financial performance for the year. Following approval by the Directors, a dividend in the amount of €15.36 million (2020: €47.28 million) was paid to Ervia during the financial year.

Research and Development

Gas Networks Ireland is involved in innovative projects to develop the energy sector and to support a cleaner energy future. These include projects in the areas of Compressed Natural Gas ('CNG') and Renewable Gas. These are considered further under the 'Operating Environment' heading.

Review of the Business and Future Developments

In 2021, the total amount of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was approximately 74 TWh.

During the financial year, 28% of all gas requirements for the Republic of Ireland were supplied by the Corrib gas field and 72% were met from UK imports.

The evolving conflict between Russia and Ukraine has exacerbated the pre-existing effects of global market conditions arising from surging post Covid-19 consumer demand factors and poses increased levels of risks across many aspects of our business. These range from energy price increases, possible gas security of supply issues and disruptions to supply chains. The biggest impact experienced to date has been the significant increase in wholesale gas pricing and we are closely monitoring the potential impacts for our operations as the situation continues to evolve.

Directors' Report (continued)

Price Control

In August 2017, the CRU issued its decision regarding Price Control four (PC4) determining the level of revenue that Gas Networks Ireland is allowed to recover to run its business from October 2017 to September 2022. The decision means that Gas Networks Ireland will collect a total revenue of €1,913.6 million over the period. The existing Republic of Ireland ("ROI") price control, which covers the ROI transmission and distribution network and the transmission assets in Scotland will expire on 30 September 2022. The programme for the next price control (PC5) is well underway, with Gas Networks Ireland making its submission to the CRU in early December 2021 which is now under review by the CRU and its advisers. The final steps toward a PC5 decision will include a public consultation by the CRU with a final decision expected in Summer 2022. The submission for PC5 differed to that provided for the previous PC4 submission, with specific asks included for the decarbonisation agenda (hydrogen, CNG and biomethane).

Regulations and Tariffs

At an EU level, full implementation of the current EU Network Codes is now complete. Consequently, the focus has moved to the upcoming review of the EU gas legislative framework by the European Commission, which was published in December 2021 and the new Network Codes to emerge in turn.

The aim of the revision of the Third Energy Package for gas (Directive 2009/73/EU and Regulation 715/2009/EU) is to design a competitive, decarbonised gas market, fit for renewable gases by facilitating the uptake of renewable and low carbon gases, including hydrogen, and to ensure energy security for all citizens in Europe. The European Union needs to decarbonise the energy it consumes to reduce greenhouse gas emissions by at least 55% by 2030 and become climate-neutral by 2050. Gas Networks Ireland has actively fed into this review to date, via direct consultation input and representation through its various EU gas association memberships. The Company continues to actively participate in various EU gas association working groups, which are focused on influencing this review and inputting into associated technical and regulatory studies.

The gas tariffs for the 2021/22 year were calculated based on the complete set of decisions borne from the EU Tariff Network Code (EU 2017/460) ('TAR NC'). This included the decision to recover the shrinkage gas costs (i.e. gas required for use in the network itself and/or gas required to replace unaccounted for gas) within the regulated revenue. The transmission tariffs for 21/22 reflect a c.5% increase on the previous year, which is primarily driven by the increase in the shrinkage and CO2 costs and subsequent increase in revenue for this period. The distribution tariffs for 21/22 reflect a c.3% decrease on the previous year. The Company engaged actively with the CRU to rationalise these tariff updates in a period of economic uncertainty caused by the COVID-19 pandemic. Ultimately, this engagement allowed the gas tariffs for this period to be ratified and agreed with the CRU. The Company welcomed this decision as the most appropriate approach to recovering this revenue, in line with previous years.

Directors' Report (continued)

Regulations and Tariffs (continued)

The TAR NC Article 28 consultation, which is a review to consult on the current level of multipliers and seasonal factors for non-annual capacity products, and the level of discounts on products (e.g. Virtual Reverse Flow) was completed. Any changes to how these areas are currently addressed could have impacts on revenue recovery and the setting of gas tariffs for the relevant period(s). The Company actively liaised with the CRU and other stakeholders to ensure understanding of potential changes in these areas, and their impact on revenue recovery/tariff setting etc. for future periods. The CRU published its consultation on Article 28 in early February 2021 and the consultation closed in March 2021. The CRU considered the responses to the consultation process and decided not to change the current multipliers with the decision being incorporated into the process of tariff setting for 2021/2022. The updated Gas Transmission Network Tariffs, incorporating the outcome of the CRU decision was published in June 2021.

The company continues to comply with the EU Network Code on Gas Balancing of Transmission Networks (2014/312) by means of procuring and disposing of balancing gas on the Energy Brokers Ireland (EBI) (now Marex Spectron) Trading Platform. This continued to be utilised successfully throughout 2021.

The Company has implemented a certificate registry for grid injected renewable gas in Ireland. The registry is a tool that records quantities of renewable gas injected, exchanged and sold; and thus, traces each renewable gas molecule produced. It will ensure renewable gas can be certified and contribute towards Ireland's climate change targets. In 2020, Gas Networks Ireland proposed legislation to the DECC to be implemented in the ROI to designate Gas Networks Ireland as the Issuing Body to issue renewable gas Guarantees of Origin for ROI, according to Article 19 of the revised Renewable Energy Directive 2018/2001/EU (RED II). This proposal is under consideration. The Climate Action Plan 2021 includes an action to establish an official certification scheme for renewable gas in the gas grid with a proposed outcome of drafting secondary legislation establishing the company's renewable gas registration scheme. The action is assigned to DECC with a timeline of Q2 2022.

Funding

The Group's funding position remained strong in 2021. At 31 December 2021, the Group had €1,484.8 million in committed facilities (2020: €1,595.6 million). Borrowings at 31 December 2021, external to the Ervia Group were €1020.2 million (2020: €1,134.4 million). In 2021, Gas Networks Ireland maintained its A rating with Standard & Poor's and in May 2021, the company's credit rating was upgraded by Moody's Investors Services to A2 from A3. This strong credit rating enables Gas Networks Ireland to have access to a wide diversity of funding sources and ensures it can access funding at competitive rates.

Directors' Report (continued)

Funding (continued)

In 2021 Gas Networks Ireland commenced the process of refinancing its Revolving Credit Facility ('RCF'), the Group's principal liquidity facility. This process was concluded in January 2022 with the entry by Gas Networks Ireland into a new €300m RCF with a syndicate of international and domestic banks. The new five-year facility has an initial maturity date of January 2027 and will be used for general corporate purposes.

Operating Environment

In 2021, COVID-19 continued to present our business with significant challenges as we managed our operations in line with public health guidelines. Implementation of measures for our office based staff, frontline staff and contracted partners has ensured continuity of service throughout the year for our shippers and customers, testament to our robust business continuity plans and the dedication and hard work of our staff and service providers.

In 2021, the company continued to operate, maintain and develop the network safely, economically and efficiently, delivering €147 million of critical investment infrastructure. Critical security of supply projects were completed such as the Ballough Bypass project and Beattock Compressor Station reconfiguration project, along with a comprehensive programme of fieldworks delivered throughout another year of Covid restrictions. The Company successfully delivered a new Networks Services and Works Contract with a seamless transition of 300 staff and activities to the new service provider in August 2021.

Through our Aurora telecom business, we commissioned 70km of new fibre network, supporting high-speed data connection with subsea fibre cable between Ireland, Isle of Man, Scotland, England and Wales.

The continued impact of COVID-19, sustained outages at two gas power generation plants and relatively milder weather conditions contributed to a 1.96TWh decrease in gas demand from 2020 to 2021. During the year, 28% of all gas requirements in the Republic of Ireland were supplied by the Corrib gas field, while UK imports met 72% of demand.

In 2021 the company launched a €2.9m CNG Vehicle Grant scheme to support the purchase of up to 400 gas-powered trucks, buses and vans to help drive a more sustainable transport sector. The Grant covers 20% of the difference between CNG and diesel-powered vehicles, capped at €5,000, with a maximum €60,000 available to any one applicant.

Directors' Report (continued)

Operating Environment (continued)

As part of our commitment to delivering a cleaner energy future for Ireland, we completed a Hydrogen Safety Strategy in 2021 identifying the health and safety considerations and actions required for the introduction of hydrogen on the natural gas network. We continue to participate in a number of Irish and European gas fora and research initiatives, which are assessing how hydrogen could be transported using existing gas networks. As part of our commitment to delivering a cleaner energy future for Ireland, testing is underway with regard to blended hydrogen and an examination of how the gas network, both transmission and distribution will handle the various blends as they become available. Gas Networks Ireland is establishing a Hydrogen Hub in Brownsbarn that will facilitate the testing, training and other activities necessary for the advent of hydrogen on the gas grid. It is expected that the Brownsbarn facility will open in Q2 2022 and is a joint initiative between Gas Networks Ireland and University College Dublin Energy Institute.

Capital expenditure of €147 million (2020: €112 million) covered ongoing programmes to improve the safety and reliability of the network in 2021. In addition the Company delivered over 40,000 planned maintenance work orders across transmission and distribution networks. In contrast to 2020, construction activities were not significantly impacted by the COVID-19 pandemic. The exception was a small number of distribution programmes which require access to customer homes – these programmes were suspended for a period at the start of 2021.

In 2021, Gas Networks Ireland delivered high quality services to over 711,000 domestic and commercial customers. Despite challenges faced due to COVID-19, our customers continued to score us strongly on service and in living our brand values of Safety, Integrity, Performance, Collaboration, and Customer Service.

Gas Networks Ireland supports the process of gas customers switching from one gas supplier to another. In 2021, there were 9 competing retail suppliers active in the Irish market. During the period from January 2021 to December 2021, over 122,000 gas customers changed supplier. Since the gas market opened to competition in 2004, over 1.38 million changes of supplier have been processed.

As the National Gas Emergency Manager Gas Networks Ireland continuously undertakes planning for the purposes of the National Gas Emergency Plan in consultation with the gas industry, electricity industry, the CRU. As the operator of Ireland's gas network, we have robust and tested procedures in place to maintain security of gas supply to our customers and to ensure that staff and customer welfare is protected. As noted above, we are closely monitoring the potential impacts of the conflict between Russia and Ukraine for our operations as the situation continues to evolve.

Directors' Report (continued)

Key Performance Indicators

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

Key Performance Indicator	FY 2021	FY 2020
Total Lost Time Incident Frequency Rate – Employees (>1 day #/100k hours*	**0**	0.11
Emergency Response	**29 mins**	29 mins
Customer Service - First Contact Resolution	**91%**	91%
New Connections (volume contracted GWh)	**848**	635
Credit Rating Moody's	**A2 Stable**	A3 Stable
Credit Rating S&P	**A Stable**	A Stable
EBITDA	**€245m**	€265m
Environment		
% Waste Recycling	**100%**	99%
Water Consumption m3 PA^	**8,541**	20,121
Public Sector Energy Monitoring and Reporting Target of 33% exceeded	**52%**	47%
Employee		
Training Days	**1,034**	599
Social		
Volunteer Hours	**890**	586

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

^ m^3 PA– m^3 per annum - Pascal cubic meters are a unit of pressure measurement

Principal Risks and Uncertainties

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

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

The 2021 risk landscape was challenging, however Gas Networks Ireland managed these challenges effectively and continues to do so. The ongoing COVID-19 pandemic meant there was ongoing crisis management and business continuity activities throughout the year to ensure we prepared for and responded to any disruptive factors and protected our staff and ensured continuity of service. The external environment was closely monitored for any impact to Gas Networks Ireland such as macro impacts arising from COVID-19, Energy Price volatility and meeting increased demand for gas. Gas Networks Ireland has invested in sustainability initiatives and has business objectives relating to hydrogen transport, CNG and renewable gas. The evolving conflict between Russia and Ukraine causes increased levels of risks across many aspects of our business. These range from energy price increases, possible gas security of supply issues and disruptions to supply chains. The biggest impact experienced to date has been the significant increase in wholesale gas pricing and we are closely monitoring the potential impacts for our operations as the situation continues to evolve.

Gas Networks Ireland has well established governance structures and a comprehensive risk framework supported by Ervia's risk policy and procedures. This framework is periodically benchmarked against industry leading practice. This includes processes to identify key risks, mechanisms to design and implement controls and associated actions to manage key risks and enhance risk awareness and management across the organisation. The system of risk management and policy is well established and is consistently operated across the organisation.

The Company has a risk governance process in place which:

- ensures Safety is a priority risk and that all personnel are proactive in identifying and mitigating safety risks in their respective area;
- provides transparency and visibility of risk and the management of risk across the organisation to support the Company in the discharge of its responsibilities;
- undertakes a review of the internal and external environment to assess new and emerging risks, high impact but low probability risks and any changes to known risks and to identify opportunities;
- considers internal and external stakeholder management, delivery of the Company's strategy and ongoing business operations;
- identifies the nature, extent and financial implication of risks facing the Company;
- assesses the impact and likelihood of identified risks occurring;
- assesses the Company's ability to manage and mitigate the risks that may occur through putting appropriate controls and actions in place;
- sets the organisation's risk appetite on an annual basis; and
- reports the Group risk profile to the Ervia Group Risk Management Committee and onwards to the Gas Networks Ireland Board and Ervia Audit and Risk Committee.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

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

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

Health and Safety: A major health, safety or environmental incident could cause significant impact and harm to an employee, contractor, the general public, ground, air or water contamination or a threat to security of supply. The Company is committed to the highest possible safety and environmental standards and to managing all aspects of operations in a safe and environmentally responsible manner. The Company operates a comprehensive safety management system certified to ISO45001, Occupational health and safety management systems, that ensures it designs, constructs, operates and maintains the network using technically competent personnel to provide the highest levels of safety performance. Its environmental management system is also certified, to ISO14001 Environmental Management Systems[1]. The Company actively promotes enterprise wide safety and sustainability initiatives.

COVID-19: Gas Networks Ireland has continued to manage COVID-19 and adhered to the associated Government and Public Health Guidance throughout 2021, in order to manage any potential impact to employee health and wellbeing, operations, service delivery and supply chain. Crisis Management teams ('CMTs') are in place and there is continued engagement with key stakeholders (HSE, HAS, CRU and Government Departments). Business continuity and contingency arrangements remain in place and are implemented and tested as the situation evolves. The majority of employees worked from home throughout 2021, with essential workers identified for office/field/site work with supporting COVID-19 controls in place as per response plans. There is a coordinated employee messaging process from the CMTs through the enterprise-wide Work Safe Home Safe programme. Gas Networks Ireland has a COVID-19 Response Plan which is reviewed and updated in line with Government guidelines. Comprehensive COVID-19 risk assessments are carried out across all our offices / sites for essential office/site visits. The Capital Investment Programme has continued and the Company is working closely with our contractors to manage any claims arising from COVID-19 restrictions. No material implications (e.g. Financial, Safety etc.) to the business have arisen during 2021 as a result of the impact of COVID-19.

1 References to ISO Standards throughout this report refer to the standards set by the International Organisation for Standardisation, the independent non-governmental international organisation made up of members from the national standards bodies of 167 countries.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

People: Gas Networks Ireland is exposed to a risk if it is unable to attract, integrate and retain the talent it needs at all levels of the business. Ervia and its subsidiaries (Irish Water and Gas Networks Ireland) have operationally separated as two standalone subsidiaries from January 2022 and will legally separate in 2023. A robust programme of work with strong project governance supported operational separation during 2021 and further work to ensure successful legal separation will continue in to 2022. The programme to date has gone to schedule with no material issues identified and it is not considered a principal risk for Gas Networks Ireland, however it will remain a priority focus for the organisation in early 2022 to ensure the stand-alone Utility is effectively established.

Through listening closely to our employees we continued to deliver essential services and programmes, support our employees and to ensure their safety while working on site, in the office or at home. We also delivered a strong programme of technical training and learning programmes to ensure we continue to develop our skills and capabilities across the business to deliver on business objectives.

Growth and Decarbonisation: Failure by Gas Networks Ireland to identify and/or deliver upon the steps necessary to ensure its business model, strategy, asset management and operations responds to climate action represents a risk to its business. The climate action agenda is one of the key pillars of the programme for Government, as agreed by the coalition parties. The Climate Action and Low Carbon Development (Amendment) Act, enacted in July 2021, and the subsequently published Climate Action Plan, call out clearly the importance of the energy sector decarbonisation agenda as part of Ireland's overall emissions reduction challenge. The future role of gas as part of this agenda is critical and this became noteworthy during 2021, as energy security and the risk of electricity blackouts loomed large with numerous amber alerts issued by Eirgrid, the electricity transmission system operator. The decarbonisation of the gas sector is key and this was specifically referred to in the recent National Competitiveness Council report. Whilst EU and Irish energy policy is targeting the long-term reduction in fossil fuel usage, gas has been stated as a key pillar in the transition to a decarbonised energy system. This was reiterated and amplified by Government in December 2021, when Minister for the Environment, Climate and Communications, Eamon Ryan, brought a memo to cabinet on the security of Ireland's energy supply, which laid out a policy to build an extra two gigawatts of power generation from gas in the next decade. The new policy statement by the Government signalled to the industry, the regulator and planning authorities that the new power plants are required.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

The European Commission has also been developing a "sustainable finance taxonomy which aims to provide a definitive list of economic activities and the environmental standards they must meet to be deemed "green" investments. The Commission released a draft of the final taxonomy late in 2021, which identified gas power as green investments under certain conditions. On gas power, it allowed for such projects to be deemed green investments if they emitted less than 270 grams of CO_2 per kilowatt hour (CO_2/Kwh), if they replaced more polluting power plants such as coal and if they were equipped to run on alternative low-carbon gases in the future.

The Government's National Development Plan was also published in 2021 with key references to the climate action agenda including the vital role of the gas network in providing energy to heat homes and businesses and to generate electricity. The level of connections growth, especially in sectors such as power generation, data centres and large-scale high-heat industries has remained strong.

Gas Networks Ireland believes that further policy support and financial incentives are needed to develop Ireland's renewable gas industry. The forthcoming renewable heat obligation scheme that has been under consultation in 2021 is expected to bring a welcome stimulus to the sector. Gas Networks Ireland is committed to becoming a leader in compliant, sustainable infrastructure development and service provision in Ireland by ensuring that the role of a decarbonised gas network (in partnership with renewable electricity) in Ireland's future energy system is recognised, understood and appreciated by key stakeholders. The Company is investing in sustainability initiatives and long-term strategies including compressed natural gas in transport, production and transport of renewable gases and to ensure the gas network is ready to move and store hydrogen as it comes available.

European support for hydrogen is encouraging and interest in hydrogen as a future energy sector is growing. DECC is currently developing a hydrogen strategy and this is outlined in the Climate Action Plan. The UK Government published its hydrogen strategy in 2021 and has signaled an ambitious programme that will likely result in scale hydrogen becoming available to the Ireland grid via the interconnectors.

Regulatory Environment: Gas Networks Ireland's business activities are subject to a broad and developing range of legislative provisions and regulation. There are dedicated resources and programmes in place to manage this, with a pro-active approach to engaging with regulatory authorities in Ireland, Northern Ireland, Great Britain and the EU. During 2021, there was no adverse impact on natural gas flows due to the formal departure of the United Kingdom from the EU on 31 December 2020. Further detail on the regulatory environment is outlined above under Regulation and Tariffs.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

Price Control: During 2021, Gas Networks Ireland submitted its Price Control submission (PC5) to the Regulator, the CRU. The draft PC5 submission focuses on two overriding objectives (1) facilitating an efficient energy transition by playing a key role in addressing climate change through the development of proposals for decarbonising the gas network and (2) continuing to provide safe, reliable gas flows, preserving energy security and delivering efficiently for customers. The Regulatory Decision on this is expected during 2022 and will determine the Company's outcomes and outputs for the next 5 years (Oct 2022 – Sep 2027).

Supply Chain: The global market conditions arising from surging post Covid-19 consumer demand factors and now the conflict between Russia and Ukraine poses significant problems for global supply chains. Gas Networks Ireland continues to monitor the measures and contingencies it has in place to ensure its requirements in respect of its Supply Chain operations and any other key exposures are best mitigated in relation to the operation of its business.

Cyber: The volume and complexity of cyber security threats are increasing and are constantly evolving. A cyber-attack on Gas Networks Ireland's information technology assets could result in reputational and financial damage. Dedicated resources manage critical IT infrastructure, with a strong focus on cyber-security. Managing critical IT and Operational Technology ('OT') infrastructure and our resilience to a cyber-attack is a business priority. There is a constant focus on increasing security awareness and implementing appropriate IT security controls by an increased level of communications through staff internal communications, Cyber Security Training and awareness programmes, and by implementing appropriate IT and OT security controls across the organisation. The Company liaises with the National Cyber Security Centre on a regular basis to provide updates on the IT and OT cyber security controls that the Company has in place.

Security of Supply: The security of Ireland's natural gas supply is dependent on its ability to access imports, and the capacity and integrity of the supply and distribution infrastructure. An inability to meet the required gas demand could result in reputational and financial damage, to Gas Networks Ireland. The evolving conflict between Russia and Ukraine has seen a significant increase in wholesale gas pricing and Gas Networks Ireland continues to monitor any potential impact on security of supply. Ireland's security of supply position is closely linked to that of the UK, with 72 % of Ireland's gas demand imported from Great Britain in 2021.

The Corrib gas field provides an indigenous supply of gas and will continue to provide an important supply of gas for Ireland for the next number of years. Gas Networks Ireland will continue to seek to develop the appropriate infrastructure required to ensure that a resilient, robust and safe gas network is maintained, to help ensure security of supply to gas customers.

Following investment and delivery of projects like the twinning of South West Scotland Onshore pipeline, Ireland's ability to meet gas demand in the event of failure of the largest infrastructure increased from 28% (2016) to 85% (2018), which demonstrates that although the network is resilient, that Ireland is still entirely dependent on the Moffat entry point.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

The Ballough Bypass Project which was commissioned in 2021 enables increased flexibility in the operation and capacity of the network, but most importantly removes the potential for a widespread gas outage due to a serious incident at Ballough.

Eirgrid has indicated that it is seeking an additional 1,850MW of electrical capacity by winter 2024/2025, of which gas fired generation is expected to be the primary contributor. This represents an opportunity but also a challenge for the company in meeting project developer timelines. Gas Networks Ireland is working closely with Eirgrid and the CRU to ensure such projects are prioritised appropriately and completed on time.

As wind generation increases, gas fired generation will increasingly play a role as an intermittent provider, driving greater divergence between the average/base gas demand and winter peaks. Gas Networks Ireland will be required to continue to design, develop and operate the gas network to provide for increasing winter peak demands.

The National Risk Assessment is required under Article 7 of Regulation (EU) 2017 / 1938 (Gas Security of Supply). Gas Networks Ireland will work with the CRU to complete this risk assessment as required every 4 years.

During 2021, the DECC commenced a review of Energy Security of Supply and Gas Networks Ireland provided input and feedback in our role as owner and operator of the gas network.

Energy Price Volatility: In 2021 there was a significant rise in wholesale gas prices due to a tightened supply position. This has continued in to 2022 on the back of the evolving conflict between Russia and the Ukraine. This has led to increased costs for Gas Networks Ireland (own use gas) and has led to multiple price increases by retail gas suppliers. These increases may affect the affordability of gas and may make gas uncompetitive compared to other energy sources. The higher gas price is also detrimental to CNG growth with cost of running a CNG truck higher than diesel at present.

Financial Risk Management and Exposures: Gas Networks Ireland's activities expose it to a number of financial risks: credit risk, liquidity risk, currency risk and interest rate risk. The Group monitors and proactively undertakes an impact assessment for any macro-economic events that could impact the business e.g. COVID-19, Climate Change to ensure there is no adverse impact on the achievement of the Company's business objectives.

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

Directors' Report (continued)

EU Non-Financial Reporting Directive

The EU Non-Financial Reporting Directive (2014/95) as transposed by the EU (Disclosure of Non- Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 as amended by the EU (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) (Amendment) Regulations 2018 ("the Regulations") requires applicable companies to report a wide range of non-financial information in their Directors' report. The Company meets the definition of an 'applicable company' for the purpose of the Regulations. Under the Regulations, companies are required to set out their policy position and performance in relation to environmental, social and employee matters, respect for human rights, and anti- corruption and anti-bribery matters. Risks relating to these matters are outlined in the Principal Risks and Uncertainties section above with the relevant non-financial KPIs displayed in the Key Performance Indicators section above. Features of the company's business model are addressed above under the headings Principal Activities and Company Overview and Review of the Business and Future Developments. The work carried out across our business to promote sustainability, along with the policies pursued in the areas of environmental, social and workplace, human rights and anti-bribery and anti-corruption are outlined below.

EU Taxonomy

The EU Taxonomy Regulation, adopted by the European Commission on 4 June 2021, is a classification system establishing a list of environmentally sustainable economic activities. Gas Networks Ireland, as a "Public Interest Entity" with debt listed on a regulated market, is within the scope of the regulation. For reporting period year-ended 2021, the first two parts of the EU Taxonomy are in scope for reporting: "Climate Change Mitigation" and "Climate Change Adaptation" and companies are required to assess and disclose whether their activities are included in the activities listed in the first 2 parts of the regulation. These activities are referred to as 'eligible activities' and companies are required to disclose specific key performance indicators ('Turnover', 'CAPEX' and 'OPEX'). In 2022, additional parts of the regulation are expected to come into effect, which will result in further additional disclosures.

Following consideration, we have concluded that the current main revenue generating activities of Gas Networks Ireland are not eligible activities under the first two parts of the EU Taxonomy. Other activities have been excluded in the current year on the basis of immateriality. Consequently, the share of taxonomy-eligible economic activities accounts for 0 percent of our total revenues and therefore the related capital expenditures and operating expenses also amount to 0 percent. The share of taxonomy non-eligible economic activities in our total revenues and capital expenditures and operating expenses therefore amounts to 100 percent.

Directors' Report (continued)

EU Non-Financial Reporting Directive (continued)

Reporting Requirement	Location of Information	Pages	Relevant Policies	Description of the outcome of those policies
Environmental Matters	*Sustainability*	22	• Environmental Policy • Energy Policy	• The application of the Environmental and Energy Policies ensures that all persons working on behalf of Gas Networks Ireland are responsible for adhering to environmental and energy requirements and achieving high environmental standards. • The application of the Environmental Policy addresses the key areas of climate change, biodiversity, waste, resource use and procurement. • The application of the Energy Policy specifically addresses issues of energy performance and energy efficiency.
Social and Employee Matters	*Sustainability*	22	• Corporate Responsibility Policy Data Protection Policy • Safety Policy • Dignity at work Policy	• The application of the Corporate Responsibility Policy ensures implementation of Gas Networks Ireland's Corporate Responsibility strategy. This has resulted in the recertification of the Business Working Responsibility Mark, in line with ISO26000 from Business in the Community Ireland. • The application of the GDPR Policy ensures that Gas Networks Ireland meets and exceeds its data protection obligations. All staff and contractors have undertaken online GDPR training. • The application of the Safety Policy ensures that a comprehensive programme of health and well-being initiatives are delivered across the business. • The application of the Dignity at Work Policy ensures that Gas Networks Ireland will not tolerate any form of bullying, harassment or sexual harassment in or affecting the workplace. The policy implementation prevents and deters such behaviours and where it occurs to have the effective procedures in place to address the matter.

Directors' Report (continued)

EU Non-Financial Reporting Directive (continued)

Reporting Requirement	Location of Information	Pages	Relevant Policies	Description of the outcome of those policies
Human Rights	*Respect for Human Rights*	30	• Code of Conduct • Modern Slavery Statement	• The application of the Code of Conduct ensures that all persons working for or on behalf of Gas Networks Ireland conduct their business in a manner that respects human rights and dignity of all people. • The application of the Statement of Modern Slavery ensures that there is transparency in Gas Networks Ireland's own business and in its approach to tackling modern slavery throughout its supply chains and expects the same high standards from all its contractors, suppliers and other business partners.
Anti-Bribery and Anti-Corruption	*Anti-Bribery and Anti-Corruption*	31	• Anti-Bribery and Anti-Corruption Policy	• The application of the Anti-Bribery and Anti-Corruption Policy is core to the integrity of Gas Networks Ireland, its reputation and long term success. Any instances of bribery perpetrated will result in disciplinary action, up to and including dismissal. Compliance with this policy forms part of the terms of employment and of the terms of doing business with our contractors or agents. • The application of the Anti-fraud policy ensures all persons to which the policy applies understand what constitutes fraud and the Company's approach towards it, and what is expected of them in relation to the prevention and reporting of fraud.

				Description
Other Reporting Requirements	*Business Model*	4		• Principal Activities, Company Overview and Business Model
	Non Financial KPIs	12		• Key Performance Indicators
	Principal Risks & Policy due diligence	12		• Principal risks and uncertainties

Gas Networks Ireland manages risks relating to human rights, social and employee matters and anti-bribery and anti-corruption in its policy position, strategy, performance and decision making.

Directors' Report (continued)

Sustainability

As one of Ireland's leading utilities, our sustainability strategy is underpinned by our role in delivering a safe, affordable and clean energy future for Ireland through the decarbonisation of our network and the reduction of emissions across all sectors of Irish society.

As guardians of Ireland's vital 14,664 km national gas network, owned by the people of Ireland, we aim to deliver our services in a sustainable manner and ensure we contribute to the protection of the environment while supporting the social and economic development of the communities we operate in, as well as the wider economy.

Sustainability is a key pillar of our business strategy and we continue to embed sustainability into our strategy and purpose. We work closely with our stakeholders and are committed to being transparent about our sustainability performance. Our Sustainability Framework is underpinned by the three pillars – economic, social and environment and by championing six of the United Nations Sustainable Development Goals (UNSDGs).

To further our commitment to sustainability, we have established a dedicated Sustainability Team to embed sustainable work practices across the business and to support the development and delivery of our sustainability strategy across our Environment, Social and Economic pillars.

Sustainability at Gas Networks Ireland includes supporting the health and wellbeing of our employees in the workplace and positively impacting the communities in which we operate. The Company is proud of the fact that it is one of only 46 companies in Ireland to hold the Business Working Responsibly mark which is aligned to the ISO26000 for Social Responsibility.

The Company also reports on its sustainability performance via its annual Sustainability Report. In 2021, the Company published its third Sustainability Report meeting the Global Reporting Initiative (GRI) Standard for Sustainability Reporting for the first time. GRI is considered best practice for sustainability reporting. The report highlighted the sustainability work carried out across our business, focusing on the areas of environment, social and economic.

Notable achievements in 2021 include;

- Publication of our third sustainability report aligned to the GRI standard. This report outlines our progress in implementing the principles of sustainable development across all aspects of our operations.
- Participation in the Carbon Disclosure Platform for the second time. Gas Networks Ireland received a B CDP (2020: B-) rating which is a significant achievement for a second time participant.
- Re-certification to the Business Working Responsibly Mark which is aligned to the Social Sustainability Standard ISO26000.

Directors' Report (continued)

Sustainability (continued)

- Maintaining certification to the 5 ISO Management Systems, ISO14001 Environmental Management System, ISO50001 Energy Management, ISO45001 Occupational Health and Safety, ISO9001 Quality Management System and ISO55001 Asset Management.
- Winning both the Green Business of the Year Award and the Green Large Organisation of the Year Award at the 2021 Green Awards.
- Gas Networks Ireland was named as the winner in the 'Utilities' category at the Health & Safety Excellence Awards 2021.
- Winner of the CCA Global Outstanding Community Support Award for support provided during the pandemic.
- Launched a European first environmental 'Hot Spot' programme with Leave no Trace Ireland at Glengarra Woods, Co. Tipperary.
- Development of our Biodiversity Strategy and Biodiversity Action Plan to support the National Biodiversity Action Plan.
- Supported 31 community projects, providing over €275,000 and 890 employee volunteer hours to social causes across Ireland.

Environmental impact

As custodians of Ireland's gas infrastructure, we continue to focus on protecting the environment in the communities where we operate and we aim to deliver our services in a sustainable manner which contributes to the protection of the environment. Environment is one of the core pillars of our Sustainability Strategy. Gas Networks Ireland has adopted an iterative multi-year approach to reducing the environmental impact of its business activities. Significant milestones on this journey have been the implementation of an Environmental Management System (certified to ISO14001) in 2012, achieving the Energy Management System certification (ISO50001) in 2014 and being one of the first companies in the country to achieve the Asset Management System Standard ISO55001 in 2015. Investment in leading edge asset management systems and processes will contribute to enhanced network asset performance and energy efficiency. In 2021, Gas Networks Ireland maintained recertification to ISO14001 and ISO5001 along with ISO systems, ISO45001, ISO55001 and ISO9001.

We recognise that our activities have the potential to cause environmental impacts and that it is our responsibility to manage our activities in a manner that provides a high level of protection for our natural environment and contributes to the reduction of greenhouse gas emissions, while supporting sustainable economic development. Due to the nature of our activities we are subject to rigorous standards of environmental legislation and regulation through environmental licences and permits issued by relevant regulatory authorities.

Directors' Report (continued)

Environmental impact (continued)

For example, our compressor stations in Scotland are licenced by the Scottish Environmental Protection Agency and we comply with all aspects of our licences. Non licenced activities are subject to assessment during planning processes and we have developed tools to help our designers and planners carry out such assessments. Our bespoke Envirokit and EnviroPlan environmental planning and design toolkits assist our designers and planners in applying a standardised approach to Environmental Management. EnviroOps, our in-house environmental guidance document was developed to assist our operations personnel in applying best practice while working for the organisation.

To reduce our impact on the environment Gas Networks Ireland has developed objectives in a number of areas including air/Green House Gas (GHG) emissions, energy use, waste generation and biodiversity of which are verifiable within our certified Environmental Management System ISO14001 and Energy Management System ISO50001. Our Green House Gas inventory was independently verified according to ISO14064-3:2019 specifications with guidance for the Validation and Verification of Greenhouse Gas Statements.

The company won both the Green Business of the Year Award and the Green Large Organisation of the Year Award at the 2021 Green Awards. This is the second year that we won the Green Large Organisation of the Year Award which goes to the large business that can demonstrate a bottom-up best environmental practice in all aspects of running a large business. Judges examined all aspects of the business including waste management, biodiversity, use of 'green suppliers or materials, transport, energy and water efficiencies, to staff engagement and community involvement'.

As noted above the Company participated in the Carbon Disclosure Platform for the second time in 2021 and has publicly disclosed the carbon emissions data and climate change management information.

Throughout 2021 Gas Networks Ireland has worked with:

- Coillte and the Burncourt Community Group to help the former demesne woodland recover the natural qualities lost through the impact by littering and trail erosion.
- Leave No Trace Ireland, to help restore Glengarra Wood in Co. Tipperary as part of the international *"Hot Spot"* programme.
- The Loads Barn Owl Project.
- Fota Wildlife Park to host a free online 'Wild about Sustainability' event.
- Award winning science communicator Dr Niamh Shaw to host a 'My Place in Space' webinar highlighting the link between space exploration and sustainability.

Directors' Report (continued)

Environmental impact (continued)

Biodiversity

We have embraced our important role in promoting biodiversity awareness, not only amongst our colleagues but also in the communities where we work.

With a significant national underground infrastructure network, plus over 200 above ground installations (AGIs) and office locations, we recognise our role and responsibility to respond and act to protect and restore Ireland's biodiversity. Our 'Seeds for Nature' Charter, includes a number of important commitments; a pledge to manage all of our infrastructure, asset base and office locations (on the island of Ireland and in Scotland) to support, scale up and fast-track the implementation of the National Biodiversity Action Plan.

In 2021 we continued to develop our Biodiversity Action Plan with specific goals and measurements to be achieved by the organisation, incorporating guidance for changing the way we design, build and operate our sites and assets including environmental criteria for assessing work by our contractors and increasing the delivery of biodiversity enhancements at our sites.

In 2021 we continued to promote a range of biodiversity enhancement measures at several sites including Marino Point AGI in Cork, where our redundant assets were decommissioned and removed from the site. Bug hotels, bird boxes, a swallow barn and hedgehog houses were installed and sections of suitable ground planted with wildflowers in Spring 2021. Reduced grass cutting and pesticide use, biodiversity awareness signage and planting of native wildflowers were also implemented at many other sites.

We continue to be a key business supporter of the All-Ireland Pollinator Plan. In 2021 we continued our anchor sponsorship of the Irish Examiner biodiversity month special in May by promoting a "Working Together for Biodiversity" booklet to mark World Bee Day.

Waste Reduction

The Company is committed to reducing our waste to landfill and we track our progress monthly. The long term target is zero waste to landfill by 2025. This year the overall recycling figure in our offices was 100% (2020 99%). Furthermore, all of our waste suppliers are audited to assess operational practice and to ensure adherence to our standards.

Energy

Gas Networks Ireland is an active participant in the Government's Public Sector Monitoring and Reporting initiative. Gas Networks Ireland has already achieved energy savings of 52%.

Directors' Report (continued)

Environmental impact (continued)

Measures to achieve energy savings include:

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

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

GHG Emissions and Carbon Performance

Sustainability and decarbonisation principles are at the core of our business and strategic decisions. Gas Networks Ireland is a signatory to the Low Carbon Pledge, a Business in the Community Initiative for Irish business to invest time and resources into creating a more sustainable operation, by increasing energy efficiency and reducing carbon usage.

For 2021, our provisional scope 1 emission footprint has reduced by 13.66% from our 2010 baseline (2020 was 12.60% from our 2010 baseline). The location base for our scope 1 emissions is nationally in Ireland and in the South West of Scotland.

As production of gas at the Corrib gas field is now declining, we are increasingly reliant on our compressor stations in Scotland. These compressor stations increased our fuel gas requirements in 2021 and caused an increase in carbon emissions of 15.23% bringing combusted process gas emissions to almost 98,000 tCO_2e. We are currently appraising several decarbonisation options across our operations with a particular focus on our compressor stations. These options include an electric solution in conjunction with renewable gas.

For 2021, our provisional scope 2 emissions have seen continued and sustained reduction in carbon emissions, from our 2010 baseline we have reduced our scope 2 emissions by 52.09% (2020 was 45.74%). Electricity used in our pressure reduction and compressor stations and electricity used by our Gasworks Road (GWR) headquarters in Cork and Network Services Centre in Dublin is also included.

We are committed to consistently increasing the scope of our carbon emissions reporting. Our scope 3 emissions have increased from our baseline year of 2010 due to increased scope and accuracy of GHG reporting by our main contractor. We are working to further improve supplier engagement and include scope 3 carbon emission reduction targets in supplier contracts where possible. Our scope 3 emissions covers indirect emissions from our main period contractor, our fleet (grey and Gas Networks Ireland's fleet), 3rd party helicopter pipeline surveillance, water, waste, suppliers, staff commuting, remote working, construction materials for pipelines, travel including rail, taxis, airline travel, printed paper and grid losses for our electricity we consume.

Directors' Report (continued)

Sustainable Procurement

Gas Networks Ireland is driving enhanced sustainability practices through its entire supply chain. Environmental and sustainability requirements are embedded in the procurement processes right through to delivery stage of the contract. Larger contractors are required to provide monthly reports on their performance against a range of environmental KPIs in relation to waste management and energy use. In addition our contracts incentivise best environmental practice throughout project delivery.

Social impact

In 2021, Gas Networks Ireland was recertified to the Business Working Responsibly Mark, which is based on ISO26000 for social responsibility. We were one of the first companies in Ireland to be certified to the Mark in 2013 and are proud to be one of only 46 companies in Ireland to hold the Business Working Responsibly Mark standard, in line with ISO26000, from Business in the Community Ireland. The Mark is the only independently audited standard for Corporate Responsibility and Sustainability practices in Ireland. As holders of the mark, we are a member of the Leaders Group on Sustainability and co-chair of the Low Carbon Economy Group, and members of the Social Inclusion Group.

Gas Networks Ireland's ongoing community support throughout the pandemic was recognised when it won the Outstanding Community Support Award for exceptional customer service at the CCA Global Excellence Awards in March 2021.

Despite the pandemic, Gas Networks Ireland exceeded its corporate social responsibility goals last year. In recognition of this and the huge strides the company is making in the social and environmental sustainability arena, Gas Networks Ireland was also shortlisted in four categories for the Chambers Ireland Sustainable Business Impact Awards, including Excellence in Community, Best Charity Partnership, Excellence in Volunteering and Excellence in Environment.

	2021	2020
Social Key Performance Indicators		
Volunteering Hours	**890**	586
Volunteering on a programme	**1 in 6 employees**	1 in 6 employees

Directors' Report (continued)

Our Colleagues

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

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

Together we made great progress in 2021 and continued to deliver essential services. Over the course of 2021, teams across the business implemented local action plans to address areas that were of most relevance and importance to them. These plans continued to be adjusted during the year as we made plans for Return to Office and also future ways of working. This included focus on communication, teamwork, collaboration and safety.

As part of our mental health initiative 'Time to Talk' we delivered awareness training across the business and trained Mental Health First Aiders across the organisation. We also supported collaboration with technology supports such as video and conference call facilities and instant messaging. Communicating with our people is always a priority – making sure our people have clear, relevant, timely information.

In 2021, we also held our third People Awards, our annual recognition awards ceremony. This event was held virtually, with close to 800 employees taking part. Staff had the opportunity to nominate people from across the organisation for one of the awards which included 'unsung hero' and 'exceptional citizen awards'.

Community

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

Directors' Report (continued)

Community (continued)

Education

In 2021 we continued with our Science, Technology, Engineering and Maths ('STEM') education programme, Energize, in partnership with Junior Achievement Ireland in primary schools across the country. The Energize programme has continued to operate virtually to facilitate business volunteers to deliver the programme remotely to schools nationwide. 2021 marked the 12th year of our partnership with Junior Achievement Ireland with over 400 Gas Networks Ireland staff volunteering on Junior Achievement programmes to date, working with over 30,000 students nationwide.

We also supported other STEM initiatives including iWish, STEM South West, Science Week and Engineers Week with 890 volunteering hours delivered by Gas Networks Ireland employees in 2021. The Gas Networks Ireland team was featured in Business Plus magazine's Corporate Social Responsibility special which detailed the continued support for education and social inclusion throughout COVID-19.

Employability

Gas Networks Ireland continued to support the world of work programme which promotes education for secondary school students, working with Nagle College Cork since 2006 and Beneavin College in Finglas since 2009.

Accessibility

During 2021 Gas Networks Ireland entered into the sixth year of partnership with Age Action. Gas Networks Ireland was delighted to take part in Age Action's inaugural BIG (Be Intergenerational) Corporate Challenge, competing against other companies to raise much needed funds for charity. Gas Networks Ireland won the first year of the challenge, raising over €14,000 through a series of planet-friendly fundraising events under a theme chosen by colleagues 'strong roots, green shoots. Colleagues across the company took part in a carbon footprint challenge, a tree planting event and a number of other initiatives.

Separately our colleagues continued to volunteer to tutor older people in the use of smartphone and video calling technology, helping them to keep in touch with their families whilst cocooning. We continued with our annual donation of €50,000 worth of carbon monoxide alarms to Age Action, which were installed in the homes of their service users. We also donated proceeds from our customer surveys and our colleagues raised funds throughout the year.

When RTÉ put out the call for support to help the Parsons family from Longwood in Co Meath, Gas Networks Ireland was one of many organisations alongside an army of local volunteers and tradespeople that stepped forward. Gas Networks Ireland funded a new gas boiler for efficient and reliable heating, and a new garden for the family.

Directors' Report (continued)

Stakeholder Engagement

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

Economic impact

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

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

Investment in Our Future

Gas Networks Ireland serves over 711,000 gas customers in Ireland, including over 27,000 businesses. Ireland's national gas network infrastructure is 14,664km long and connects towns and villages in multiple counties across the country. In 2021 we connected 6,219 new commercial and residential customers to the gas network and contracted 848GWh of new natural gas demand.

In 2021 we delivered a strong financial performance. With safety as a priority for our assets and operations, we invested €147m in our gas and telecoms network infrastructure with a strong focus on driving growth and increasing new connections to the network, developing CNG as a transportation fuel and delivering programmes to improve the safety and reliability of the network.

Respect for Human Rights

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

Directors' Report (continued)

Respect for Human Rights (continued)

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

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

Modern slavery can occur in various forms, including servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another in order to exploit them for personal or commercial gain. The Company and its subsidiary GNI (UK) Limited are applicable entities for the purposes of the Modern Slavery Act and are fully supportive of the aims of the Act.

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

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

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

Anti-Bribery and Anti-Corruption

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

The Ervia group wide integrity based initiative, 'Doing the Right Thing' promotes the integrity value and emphasises the importance of ethical behaviour. As part of the initiative, an online booklet, which provides guidance on best practice, actions and behaviours, and calls out the key messages from some of the core policies is provided on the 'Doing The Right Thing' intranet site for all employees. The Anti-Fraud, Anti-Bribery and Anti-Corruption, Protected Disclosures and all other key policies are available for all employees on the intranet. Anti-Fraud, Anti-Bribery and Anti-Corruption training was rolled out to all employees during the year. In addition a number of integrity conversations have been rolled out by managers to their teams across the business.

Directors' Report (continued)

Corporate Governance

Gas Networks Ireland is a 100% owned subsidiary of Ervia.

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

The Company meets the definition of a public interest entity as it has debt listed on a regulated market. Section 1551(1) of the Companies Act 2014 requires the directors of a public interest entity to establish an Audit Committee. Gas Networks Ireland avails of the exemption under Section 1551(11)(a) as a subsidiary undertaking. An Audit and Risk Committee is established at Ervia Group level, due to the unitary board structure adopted by Ervia. Ervia has appropriate committees in place which act in respect of the entire Ervia Group and therefore no such committees have been established at the Company level. From a governance perspective, Company matters are overseen and managed by both the Gas Networks Ireland Board and the Ervia Board. The overall governance structure of the group will remain unchanged until legal separation, and it is anticipated that the existing Ervia sub-committees will continue to support the Ervia and subsidiary boards in the period to legal separation.

In light of Gas Networks Ireland's status as a public interest entity, the Ervia Group Audit and Risk Committee discharges its obligations under section 1551(14) of the Companies Act 2014 (to inform Directors of Gas Networks Ireland of the outcome of the Statutory Audit and to submit recommendations (if required) on financial reporting processes) by directing the statutory auditor, Deloitte Ireland LLP, to address the report required under Article 11 (1) of Regulation (EU) No. 537/2014 to the Board of Directors of Gas Networks Ireland as well as to the Ervia Group Audit and Risk Committee. For further information on the Ervia Group Audit and Risk Committee see the Ervia Annual Report at www.ervia.ie.

For the financial year ending 31 December 2021 the Board of Ervia was assisted in the discharging of its obligations through the delegation of certain roles and responsibilities to the Ervia Audit and Risk Committee, the Ervia Investment/Infrastructure Committee, the Ervia Remuneration Committee and the Ervia Project 23 Committee. The Ervia Project 23 Committee was established to oversee the separation and establishment of Irish Water and Gas Networks Ireland as two standalone entities further to the Government decision that Irish Water would become a standalone publicly owned, regulated utility separated from the Ervia Group during 2023.

Directors' Report (continued)

Corporate Governance (continued)

The Committees assist the Ervia Board by giving detailed consideration to business, operational and financial issues, reporting to the Ervia Board with any necessary recommendations. The Ervia Audit and Risk Committee met 5 times during the year, the Remuneration Committee met 11 times during the year, the Investment/Infrastructure Committee met 11 times during the year and the Project 23 Committee met 8 times during the year.

The Company meets the definition of a traded company under Section 1372 of the Companies Act 2014 on the basis that it is a designated activity company that has debentures admitted to trading on a regulated market in an EEA State and therefore complies with the applicable provisions of Section 1373 of the Companies Act 2014. A description of the main features of the internal control and risk management systems of the company are outlined in the Statement on the System of Internal Control below.

Directors and Secretary and their Interests

The Directors of the Company are Cathal Marley, Denis O'Sullivan, Claire Madden and Edwina Nyhan. Brendan Murphy and Michael O'Sullivan resigned with effect from 31 December 2021. Claire Madden was appointed with effect from 01 January 2022. Liam O'Sullivan resigned with effect from 04 March 2022.

The Chairman of the Company's Board is Cathal Marley. The Secretary of the Company is Liam O'Riordan. Interests of the Directors and Secretary are disclosed in note 4 of the financial statements.

Subject to receipt of Ministerial consent, Ervia has the power to appoint and remove Directors of the Company. On appointment, Directors are provided with detailed briefing documents, governance, financial and operational information. Directors have access to training programmes and the ongoing development needs of Directors are kept under review by the Chairman and the Company Secretary.

In accordance with the Articles of Association, the Directors are not entitled to receive fees. Remuneration of the Directors, as disclosed in note 4 of the financial statements, represents an apportionment of total remuneration earned in their capacity as salaried employees, based on services provided to the Group. The remuneration of the Managing Director of the Company is outlined in note 4 of the financial statements.

Directors' Report (continued)

Directors and Secretary and their Interests (continued)

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

Director	Meetings (Attended/Eligible)
Cathal Marley (Chairman)	11/11
Brendan Murphy (resigned 31 December 2021)	11/11
Claire Madden (appointed 01 January 2022)	0/0
Edwina Nyhan	11/11
Denis O'Sullivan	11/11
Liam O' Sullivan (resigned 04 March 2022)	11/11
Michael O'Sullivan (resigned 31 December 2021)	9/11

Roles and Responsibilities of the Directors

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

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

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

Directors' Responsibilities Statement for Directors'Report and Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations. The Directors are responsible for the maintenance and integrity of certain corporate and financial information included on the Group's website www.gasnetworks.ie. Legislation in Ireland concerning the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Directors' Report (continued)

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

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

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

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

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

Disclosures required under the Code of Practicefor the Governance of State Bodies

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

Directors' Report (continued)

A. Analysis of Employee Benefits

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

	2021	2020
	No. of employees	No. of employees
€50,000-€75,000	**207**	210
€75,001-€100,000	**161**	143
€100,001-€125,000	**76**	70
€125,001-€150,000	**31**	25
€150,001-€175,000	**11**	8
€175,001 and above	**6**	4

Note: All short-term employee benefits in relation to services rendered during the reporting period are included in the disclosure above. Refer to note 5 of the Financial Statements for further analysis of the various benefits included.

B. Consultancy Costs

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

	2021	2020
	€'000	€'000
Legal advice	**48**	122
Financial advice	**533**	388
Business improvement/change	**1,525**	1,917
Other	**252**	150
Total consultancy costs	**2,358**	2,577
Capitalised	**-**	-
Income Statement	**2,358**	2,577
Total consultancy costs	**2,358**	2,577

Directors' Report (continued)

C. Legal Costs and Settlements

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

	2021	2020
	€'000	€'000
Legal fees and costs	**1,535**	1,837
Settlements	**526**	365
Total	**2,061**	2,202
Number of legal cases	**20**	9

Note 1: This disclosure note excludes payments made following claims under policies of insurance taken out by Gas Networks Ireland.

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

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

D. Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2021	2020
	€'000	€'000
Domestic		
Board	**-**	-
Employees	**774**	869
International		
Board	**-**	-
Employees	**22**	49
Total	**796**	918

Travel and subsistence expenditure by Gas Networks Ireland Directors in 2021 was €nil (2020: €nil). Travel and subsistence expenditure incurred by Gas Networks Ireland Directors is deemed to be incurred in their capacity as employees.

Directors' Report (continued)

E. Hospitality

The income statement includes the following hospitality expenditure:

	2021	2020
	€'000	€'000
Staff hospitality	**20**	24
Client hospitality	**12**	17
Total	**32**	41

Transparency

Freedom of Information

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

Data Protection

In order for the Company to provide its customers with an effective service, and to enable the Company to establish and manage the relationship with customers, the Company needs to collect and use data relating to the customer. The Company is committed to protecting the rights and privacy of its customers in accordance with Data Protection Law.

Protected Disclosures and Raising Concerns

The mechanism whereby Gas Networks Ireland employees and management may raise concerns, or make disclosures in the public interest, in accordance with the Protected Disclosures Act 2014, is outlined in the Ervia Group Protected Disclosures Policy. Further guidance on raising concerns for management and employees is outlined in the Ervia Group Code of Business Conduct, the Ervia Group Anti-Fraud Policy and the Ervia Group Anti-Bribery and Anti-Corruption policy. Section 22 of the Protected Disclosures Act 2014 requires Gas Networks Ireland to publish an Annual Report relating to protected disclosures made under the Act. In accordance with this requirement, Gas Networks Ireland confirms that in the year ending 31 December 2021, there was one protected disclosure reported. The matter reported was investigated in accordance with Ervia's Protected Disclosure Policy and is now concluded.

Directors' Report (continued)

Gender Balance, Diversity and Inclusion

Throughout 2021, Ervia's iBelong Diversity and Inclusion Programme continued to focus on creating a dynamic, diverse and inclusive working community where employees feel a sense of belonging, and embedding a diversity and inclusion strategy within the organisation. Working to achieve the goals outlined in the iBelong Strategic Plan 2019 to 2023, the year saw another number of important milestones reached, including; our first company-wide acknowledgement and celebration of Pride Month, the launch of the iBelong Ethnicity and Cultural Network, the commencement of our support of neurodiversity in the workplace and the homes of our employees, and the addition of diversity-related demographic questions to our annual employee engagement survey, to help further inform our work in supporting Diversity and Inclusion in 2022 and beyond. Progress was also made in identifying and making improvements in recruitment and selection as we completed a review of gender coding in job descriptions, added an inclusion statement to our job advertisement template, and also made process changes to avoid single sex candidate shortlists wherever possible.

The iBelong Women's, Rainbow, Family and Ethnicity and Cultural Networks continued to grow and develop in 2021. A key resource and a forum of positive support for their members, the networks held numerous membership events, created connections between employees and engaged in discussions with leadership to help shape the organisation in the future.

2021 also saw increased external awareness of Ervia's commitment to and investment in Diversity and Inclusion. Ervia became a signatory to the Diversity Charter of Ireland; Gas Networks Ireland signed the Business in the Community Pledge; and members of the iBelong Ethnicity and Cultural Network represented the organisation and presented on the creation of an Inclusive Workplace at the annual conference of the Irish Human Rights and Equality Commission. Ervia and iBelong was part of a programme of work awarded the Most Effective Employee Engagement Strategy at the HR Leadership and Management Awards.

Regulation of Lobbying

In accordance with the requirements of the Regulation of Lobbying Act 2015, the Company is registered on the lobbying register maintained by the Standards in Public Office Commission and has made the required returns for the return periods in 2021.

Creditor Payment Policy/Prompt Payments

Appropriate internal financial controls are in place within the Company to ensure compliance with the provisions of the European Communities (Late Payments in Commercial Transactions) Regulations 2012–2016.

Ervia is a signatory to the Prompt Payment Code as launched by the Government in 2015 and pursuant to its provisions, undertakes to pay suppliers on time, to give clear guidance to suppliers on payment procedures and to encourage the adoption of the Code by suppliers within their own supply chains.

Directors' Report (continued)

Statement on the System of Internal Control

Scope of Responsibility

The Directors acknowledge their responsibility for ensuring that an effective system of internal control is maintained and operated.

Purpose of the System of Internal Control

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

The system of internal control, which accords with guidance issued by the Department of Public Expenditure and Reform, has been in place in Gas Networks Ireland for the year ended 31 December 2021 and up to the date of approval of the financial statements.

Management of Risk

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

Risk and Control Environment

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

Audit and Risk Committee

A unitary Board structure has been adopted by Ervia which takes ultimate responsibility for the governance of Ervia and its subsidiaries including Gas Networks Ireland. Appropriate Committees are in place at the Ervia Group level that act in respect of the entire Ervia Group.

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

Directors' Report (continued)

Risk and Control Environment (continued)

The ARC provides oversight of the risk and control environment on behalf of the Ervia Board and is responsible for assisting the Ervia Board in discharging its responsibilities as they relate to this area. On a quarterly basis the ARC performs, on behalf of the Ervia Board, a substantive review of the Ervia Risk Profile prepared by management, which includes risks relating to Gas Networks Ireland, ensuring oversight of the key and emerging risks and reviewing the effectiveness of management's responses to key risk exposures facing the Ervia Group. The ARC also reviews the overall integrity of the risk management system including the effectiveness of the risk and internal audit functions.

Integrated Assurance Forum

Gas Networks Ireland has a responsibility under the Code to ensure effective systems of internal control are maintained and operated. An assessment of the effectiveness of these controls is required annually. In order to address this requirement the Ervia Group developed the Integrated Assurance Forum ("IAF") which reports to the Ervia Group Chief Financial Officer.

The IAF meets quarterly to confirm all assurance activities and required sign-offs are co-ordinated and evidenced in a structured manner. This culminates with the IAF, at year-end, providing assurance to the Board on the effectiveness of the controls. The IAF process, along with numerous other governance, risk and control activities across the Ervia Group, supports the Board in signing-off on the Statement on the System of Internal Control. The Integrated Assurance Forum framework, further consolidates and co-ordinates in a structured manner all assurance activities in the organisation across the "Three Lines of Defence" risk management model. This ensures that Gas Networks Ireland maximises risk and governance oversight and control to build organisational resilience. The ARC is appraised of the results of the IAF on a quarterly basis.

Internal Audit

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

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

In particular the Internal Audit function:

- Evaluates risk exposure relating to achievement of the Ervia Group's, including Gas Networks Ireland, strategic objectives.
- Evaluates the systems established to ensure compliance with policies, plans, procedures, laws and regulations.

Directors' Report (continued)

Risk and Control Environment (continued)

- Evaluates the means of safeguarding assets.
- Monitors and evaluates the effectiveness of the risk management processes.
- Performs advisory services related to governance, risk management and control as appropriate.

Risk Management Function

Ervia has an established Risk Management function which is adequately resourced and responsible for the design and implementation of an Enterprise Risk Management Framework and for ensuring that sufficient risk management experience and skills are available throughout the Ervia Group including Gas Networks Ireland. The Ervia Group Head of Risk Management reports directly to the ARC and to the Ervia Group Chief Financial Officer and attends all ARC meetings. In addition, the Group Risk Management Committee, chaired by the Group Chief Executive Officer, meets quarterly.

In particular, the Risk Management function:

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

Elements of Control Environment

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

- Responsibility by management at all levels within Gas Networks Ireland and Ervia for internal control and risk management over respective business functions;
- A Corporate Governance Framework, including financial control and risk assessment. This is monitored by Ervia and Gas Networks Ireland management and by the Ervia Internal Audit and Risk functions;
- Clearly defined organisational structure, with defined authorisation limits and reporting mechanisms to higher levels of management and to the Gas Networks Ireland Board as well as Ervia management and the Ervia Board;

Directors’ Report (continued)

Risk and Control Environment (continued)

- A comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require Ervia Board approval, and are closely monitored on an ongoing basis by the Ervia Investment/Infrastructure Committee;
- Established processes to identify and evaluate business risks by identifying the nature, extent and financial implication of risks facing Gas Networks Ireland including the extent and categories which it regards as acceptable. Other processes to identify and evaluate business risks include assessing the likelihood of identified risks occurring and assessing the Company’s ability to manage and mitigate the risks that do occur through associated mitigation plans and strategies;
- Appropriate segregation of duties and documentation of processes and controls that are focused on preventing and detecting fraud;
- A comprehensive budgeting system with an annual budget which is reviewed and agreed by the Gas Networks Ireland Board;
- A comprehensive system of financial reporting;
- A comprehensive set of management information and performance indicators is produced quarterly, enabling progress against longer-term objectives and annual budgets to be monitored;
- Internal policies requiring all employees to act with integrity and maintain the highest ethical standards. These polices include the Code of Business Conduct, Anti- Fraud policy, Anti-Bribery and Anti-Corruption Policy, Regulation of Lobbying Policy and Protected Disclosures Policy;
- A comprehensive anti-fraud programme including anti-fraud policy, training and communication and a fraud response plan;
- Systematic reviews of internal financial and operational controls by Ervia Internal Audit and Risk Management. In these reviews, emphasis is focused on areas of greater risk as identified by risk assessment; and
- An internal control framework assessment that involves undertaking an extensive risk assessment, reviewing the operation and effectiveness of key control policies and processes, internal control self-assessment reporting, monthly performance reporting, supported by assurance activities of Risk, Internal and External Audit.

There were no material issues highlighted in our internal control environment through 2021.

Ongoing Monitoring and Review

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

Directors' Report (continued)

Ongoing Monitoring and Review (continued)

The monitoring and review of the effectiveness of the system of internal control in respect of Gas Networks Ireland is informed by the work of executive managers within the Company who have responsibility for the development and maintenance of the internal control framework. This is supplemented by the ARC who oversee the work of the Ervia Risk function, the work of Ervia Internal Audit and comments made by the external auditor in their management letter and/or other reports. Control deficiencies are communicated to those responsible for taking corrective action and to management and the Board of Gas Networks Ireland, where relevant, in a timely way.

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

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

Ongoing monitoring by the ARC includes;

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

Ongoing monitoring by the Gas Networks Ireland Board includes;

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

Directors' Report (continued)

Capital and Operational Expenditure

Robust and effective systems are in place to ensure compliance, as appropriate, with the relevant principles, requirements and guidelines of the Public Spending Code. Transitioning activity related to the updated Public Spending Code (2019) continued during 2021 to ensure compliance with the additional requirements of the Public Spending Code (2019) is achieved.

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

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

The financial expenditure and contract governance framework is aligned with the value for money criteria in the updated Public Spending Code, as published by the Department of Public Expenditure and Reform in December 2019.

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

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

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

Directors' Report (continued)

Capital and Operational Expenditure (continued)

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

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

General Data Protection Regulation (GDPR)

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

Review of Effectiveness

The Directors have reviewed the effectiveness of the system of internal control up to the date of approval of the Financial Statements, covering financial, operational and compliance controls and risk management systems for 2021 and will ensure a similar review is performed in 2022. A detailed review was performed by the ARC, which reported on its findings to the Ervia Board.

No material weaknesses in the internal control environment were identified during the course of conducting the internal audits completed in 2021 that have not been or are not in the process of being addressed and that have not been brought to the attention of the Ervia Audit & Risk Committee.

Statement on Relevant Audit Information

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

Directors' Report (continued)

Directors' Compliance Statement

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

The Directors are of the opinion that the policies and the structures and arrangements which the Company has in place are appropriate to secure material compliance by the Company with its relevant obligations. The Company's "relevant obligations" are identified in the Compliance Policy Statement and the associated Compliance Matrix which identifies the key actions and checks that must be in place. The Compliance Policy Statement has been communicated to all senior management of the Company to ensure consistent and robust adherence to the Compliance Policy. The Directors carried out a mid-financial year and financial year-end review of the arrangements and structures in place for 2021 to secure the Company's material compliance with its relevant obligations. The Compliance Policy Statement will be enhanced to meet the Company's compliance obligations as they and/or the Company's business evolve and develop.

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

Companies Act 2014

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

Going Concern

The Directors have a reasonable expectation that the Group and the Company will continue to meet liabilities as they fall due for the foreseeable future and consequently these financial statements are prepared on a going concern basis. The Group has €462 million in undrawn bank facilities (2020: €462 million) available together with strong profitability forecasts for 2022, to meet liabilities as they fall due. Accordingly the Directors continue to adopt the going concern basis in preparing these financial statements. Further details of this going concern assessment and the Group's liquidity position are provided in notes 1 and 23(ii), respectively, of these financial statements.

Directors' Report (continued)

Independent Auditor

The Company is cognisant of the requirements of Audit Partner and Audit firm rotation, the transition arrangements for rotation and the restriction on the entitlement of the statutory auditor to perform certain non-audit services for public interest entities.

Following receipt of Ministerial consent, Deloitte Ireland LLP were originally appointed as auditor to the Ervia Group including Gas Networks Ireland in August 2014. Ministerial consent was received on 25 March 2019 to appoint Deloitte Ireland LLP as external auditor to the Ervia Group including Gas Networks Ireland for the years 2019, 2020 and 2021, following completion of a tender process. Ministerial consent was received on 24 November 2021 on the extension of the appointment of Deloitte Ireland LLP as external auditors to the Ervia Group, including Gas Networks Ireland for the years 2022 and 2023.

Political Donations

There were no political donations made during the financial year (2020: nil).

Post Balance Sheet Events

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

For and on behalf of Gas Networks Ireland:

Cathal Marley	Denis O'Sullivan	**28th March 2022** Date of Approval

Financial Statements

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

Report on the audit of the financial statements

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

In our opinion the Group and Company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group and Company as at31 December 2021 and of the profit of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, inparticular, with the requirements of the Companies Act 2014 and, as regards the Group financialstatements, Article 4 of the IAS Regulation.

The financial statements we have audited comprise:

the Group financial statements:

- the Group Income Statement;
- the Group Statement of Other Comprehensive Income;
- the Group Balance Sheet;
- the Group Statement of Changes in Equity;
- the Group Statement of Cash Flows; and
- the related notes 1 to 28, including a summary of significant accounting policies as set out in note 1.

the Company financial statements:

- the Company Balance Sheet;
- the Company Statement of Changes in Equity;
- the Company Statement of Cash Flows; and
- the related notes 29A to 29S, including a summary of significant accounting policies as set out in note1.

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

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

Basis for opinion

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

We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Accuracy of revenue recognition associated with transmission and distribution regulated revenues; and • Valuation with regard to expenditure being inaccurately capitalised and not in line with requirements of IAS 16.
Materiality	The materiality that was determined in the current year for the Group was €11 million on the basis of approximately 1% of net assets and €10.45 million for the Company, proportionate to the Company's share of the Group's net assets.
Scoping	Our assessment of the risks of material misstatement, our evaluation of materiality and our application of that materiality determined our audit scope. The factors that we considered when assessing the scope of the Group audit and the level of work to be performed for each relevant company included the following: the financial significance and specific risks of the company; and the effectiveness of the control environment and monitoring activities, including Group-wide controls.
Significant changes in our approach	There were no significant changes in our approach in the current year.

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

Conclusions relating to going concern

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

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

- We considered the appropriateness of the method used by the directors in performing the going concern assessment in the context of the applicable financial reporting framework. We evaluated the relevance and challenged the reliability of the underlying data the directors used to make the assessment.
- We evaluated the assumptions on which the directors' assessment is based by determining whether there was adequate support for the assumptions underlying it including the various price control mechanisms in place.
- We completed an assessment of the historical accuracy of forecasts prepared by management by reviewing the budgeting process in place for the Group and Company.
- We completed a review and challenged the forward looking forecasts through evaluating both the"Budget 2022" and "Business Plan 2020 – 2024" prepared by Gas Networks Ireland as well as revenue and cost projections.
- We performed a detailed review of the Group and Company's financing facilities including; a review of the Group and Company cash position at the financial year end date, the financial resources available to the Group and Company with a focus on the repayment profile of debt.
- We considered the impacts of the Price Control submissions being made to the CRU and NIAUR on the2022 financial year onwards.
- We evaluated the adequacy of the relevant disclosures made in the financial statements.

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

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

Key Audit Matters

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

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

Accuracy of revenue recognition associated with transmission and distribution regulated revenues	
Key audit matter description	The Group's revenues of €476.2 million are principally derived from gas transportation services in both regulated and unregulated markets. Details are set out in note 3 to the financial statements with the accounting policy set out in Note 1(f). The regulated revenue is derived from a price control process imposed by the relevant regulator, primarily the Commission for Regulation of Utilities ("CRU"), whereby the regulator carries out a review of the revenues that the Group is allowed to recover through gas tariffs for the ongoing operation and maintenance of the gas network. The expenses recovered through the gas tariff setting are subject to change between Gas Years. The regulated revenue is largely system generated. The Group revenue balance includes a portion of unbilled revenue however there is limited judgement related to this given the price control process in place. The calculation of the unbilled revenue is system generated. We have determined the accuracy of revenue recognition associated with transmission and distribution regulated revenues to be a key audit matter.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the regulated revenue arrangements in place across the Group. We evaluated the design, determined the implementation and tested the operating effectiveness of the relevant internal controls over the Group and Company's significant revenue streams. For the system generated revenue recognised in respect of gas transportation and distribution services, we obtained an understanding of the relevant internal controls and billing systems (including interfaces with the general ledger) in place over those revenue streams. We also tested the operating effectiveness of relevant IT controls with the assistance of Risk Advisory specialists. For regulated revenue, on a sample basis, we traced the revenue recognised to amounts invoiced to customers and the subsequent receipt of payment from those customers. We also tested the volume of gas being charged for and ensured those charges were in line with the regulatory price tariffs. For unbilled revenue at year end, on a sample basis, we agreed the amounts to transportation/distribution records, post year end invoices and receipts for payments. We used analytical procedures to assess the accuracy of transmission and distribution revenue with focus on manual adjustments to these revenue streams. We evaluated the completeness and accuracy of the disclosures made in the financial statements with reference to the requirements of IFRS 15.
Key observations	We have no observations in respect of the amounts and disclosures related to the accuracy of revenue recognition associated with transmission and distribution regulated revenues

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

Valuation with regard to expenditure being inaccurately capitalised and not in line with requirements of IAS 16	
Key audit matter description	A key focus for the Group and Company is network investment. Property, plant and equipment of €2,512.7 million represent the majority of the Group's asset base and a significant proportion of the Group and Company's annual expenditure. The total capitalised spend in 2021 amounted to €135.9 million for the Property, Plant and Equipment balance. Details are set out in note 9 to the Group financial statements (note 29A to the Company financial statements) with the accounting policy set out in note 1 (b). Depending upon its nature, expenditure may be capitalised or expensed in the year the cost is incurred. In making this decision the Directors have to consider whether the expenditure will generate future economic benefits, which involves significant judgement, and meets the capitalisation criteria in line with the accounting policy. We determined this to be a key audit matter due to the risk that expenditure is inaccurately capitalised and not in line requirements of IAS 16.
How the scope of our audit responded to the key audit matter	We assessed whether the Group and Company's accounting policies in relation to the capitalisation of expenditure complied with IFRS. We evaluated the design, determined the implementation and tested the operating effectiveness of the relevant internal controls over the Group and Company's capitalisation process. We evaluated the design, determined the implementation and tested the operating effectiveness of relevant internal controls over the Group and Company's project management of assets capitalised (including a budget versus actual deep dive). We also tested relevant IT controls, with the assistance of Risk Advisory specialists, including interfaces between primary and subsidiary ledgers in order to assess that items capitalised are transferred to the fixed asset register on a timely basis. We inspected contracts and/or underlying invoices, on a sample basis, to ensure that the costs were accurately recorded and the classification between capital and operating expenditure was appropriate including verification that the project/asset was appropriately commissioned if capital. We obtained evidence, on a sample basis, of appropriate allocation of purchase requisitions to approved capital projects. We examined and obtained evidence for any significant reconciling items between the fixed asset register and the general ledger. We reviewed minutes of meetings of the Group's Investment Approval Committee as evidence that all items in our additions sample received the appropriate approval. We evaluated the completeness and accuracy of the disclosures made in the financial statements with reference to the requirements of IAS 16.
Key observations	We have no observations in respect of the amounts and disclosures related to the inaccurate capitalisation of property, plant and equipment.

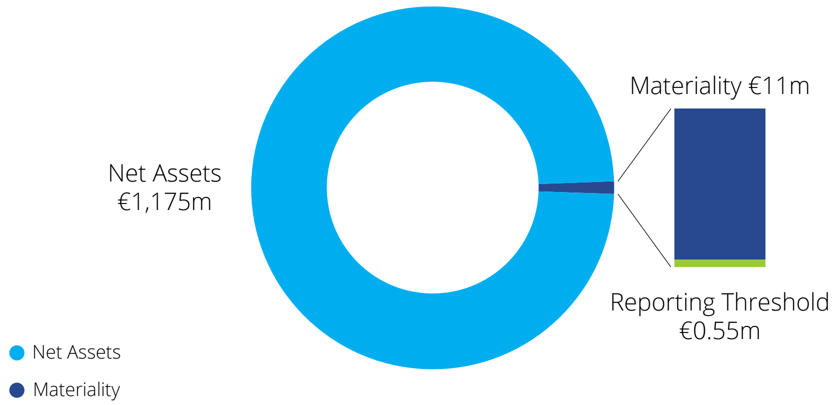
Independent auditor's report to the members of Gas Networks Ireland (continued)

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

Our application of materiality

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

We determined materiality for the Group to be €11 million which is approximately 1% of net assets. We have considered the net assets to be the critical component for determining materiality because Gas Networks Ireland is an infrastructure company and users of the financial statements would consider net asset value as a key metric in assessing performance. We have considered quantitative and qualitative factors such as our understanding of Gas Networks Ireland and its environment, history of misstatements and the control environment in place. In addition, we have concluded that net assets is also the relevant benchmark for the Company based on the rationale above. Proportionate to the Company's share of the Group's net assets, we determined materiality for the Company to be €10.45 million.



We agreed with the Audit and Risk Committee that we would report to them any audit differences in excess of €550,000, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

An overview of the scope of our audit

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

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement for Directors' Report and Financial Statements, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

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

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

Corporate Governance Statement required by the Companies Act 2014

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

- In our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsections 2(c) of section 1373 Companies Act 2014is consistent with the company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with the Companies Act 2014.

Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

Matters on which we are required to report by exception

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

The Companies Act 2014 requires us to report to you if, in our opinion, the company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 (as amended) for the financial year ended 31 December 2021. We have nothing to report in this regard.

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

Under the Code of Practice for the Governance of State Bodies (August 2016) (the "Code of Practice"), we are required to report to you if the statement regarding the system of internal control required under the Code of Practice as included in the Corporate Governance Statement in the Directors' Report does not reflect the Group's compliance with paragraph 1.9(iv) of the Code of Practice or if it is not consistent with the information of which we are aware from our audit work on the financial statements. We have nothing to report in this respect.

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

Other matters which we are required to address

Following the recommendation of the Audit and Risk Committee, we were re-appointed by Gas Networks Ireland on 25 March 2019 to audit the financial statements commencing for the financial year ended 31 December 2019 up to and including the financial year ended 31 December 2021 with which was subsequently extended to the financial year ended 31 December 2023 following ministerial consent. The period of total uninterrupted engagement including previous renewals and reappointments to date of the firm is 7 years, covering the years ending 31 December 2015 to 31 December 2021.

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Honor Moore

Honor Moore

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

Date: 30 March 2022

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

Group Income Statement
for the year ended 31 December 2021

	Notes	2021 €'000	2020 €'000
Continuing operations			
Revenue	3	**476,197**	447,277
Operating costs net (excluding depreciation and amortisation)	4	**(231,100)**	(181,923)
Operating profit before depreciation and amortisation (EBITDA)		**245,097**	265,354
Depreciation and amortisation	6	**(143,358)**	(137,787)
Operating profit		**101,739**	127,567
Finance income	7	**671**	2,020
Finance costs	7	**(14,198)**	(19,011)
Net finance costs	7	**(13,527)**	(16,991)
Profit before income tax		**88,212**	110,576
Income tax	8	**(15,740)**	(17,011)
Profit for the year		**72,472**	93,565
Profit attributable to:			
Owners of the Company		**72,472**	93,565
Profit for the year		**72,472**	93,565

Group Statement of Other Comprehensive Income
for the year ended 31 December 2021

	Notes	2021 €'000	2020 €'000
Profit for the year		**72,472**	93,565
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Translation differences on consolidation of foreign subsidiaries		**2,993**	(2,464)
Fair value gains/(losses) on cash flow hedges		**1,370**	(795)
Deferred tax on cash flow hedge movement	8	**(171)**	99
Total items that may be reclassified subsequently to profit or loss		**4,192**	(3,160)
Total other comprehensive income for the year		**4,192**	(3,160)
Total comprehensive income for the year		**76,664**	90,405
Total comprehensive income attributable to:			
Owners of the Company		**76,664**	90,405
Total comprehensive income for the year		**76,664**	90,405

Group Balance Sheet
as at 31 December 2021

	Notes	31-Dec-21 €'000	31-Dec-20 €'000
Assets			
Non-current assets			
Property, plant and equipment	9	**2,512,696**	2,506,937
Intangible assets	11	**29,087**	27,403
Derivative financial instruments	23	**378**	-
Total non-current assets		**2,542,161**	2,534,340
Current assets			
Trade and other receivables	12	**91,862**	54,524
Cash and cash equivalents	13	**59,161**	96,905
Restricted deposits	14	**46,348**	17,603
Derivative financial instruments	23	**831**	4,449
Current tax assets	8	**442**	-
Inventories	16	**463**	3,016
Total current assets		**199,107**	176,497
Total assets		**2,741,268**	2,710,837
Equity and liabilities			
Equity			
Share capital and share premium		**(318,353)**	(318,353)
Capital contribution		**(369,947)**	(363,083)
Retained earnings		**(483,293)**	(426,182)
Translation reserve		**(3,650)**	(657)
Cash flow hedge reserve		**-**	1,199
Total equity		**(1,175,243)**	(1,107,076)
Liabilities			
Non-current liabilities			
Borrowings and other debt	17	**(1,022,991)**	(1,022,854)
Deferred revenue	19	**(47,469)**	(16,927)
Grants	20	**(64,590)**	(69,647)
Provisions	21	**(6,198)**	(3,391)
Trade and other payables	22	**(15,562)**	(15,287)
Derivative financial instruments	23	**(189)**	-
Deferred tax liabilities	8	**(209,134)**	(205,125)
Total non-current liabilities		**(1,366,133)**	(1,333,231)
Current liabilities			
Borrowings and other debt	17	**(253)**	(114,860)
Deferred revenue	19	**(12,937)**	(8,682)
Grants	20	**(6,638)**	(6,613)
Provisions	21	**(1,613)**	(4,758)
Trade and other payables	22	**(178,027)**	(135,331)
Derivative financial instruments	23	**(424)**	(277)
Current tax liabilities	8	**-**	(9)
Total current liabilities		**(199,892)**	(270,530)
Total liabilities		**(1,566,025)**	(1,603,761)
Total equity and liabilities		**(2,741,268)**	(2,710,837)

For and on behalf of the Board:

Cathal Marley Chairman	Denis O'Sullivan Director	28th March 2022 Date of Approval

Group Statement of Changes in Equity
for the year ended 31 December 2021

		Share capital and share premium	Capital contribution	Retained earnings	Translation reserve	Cash flow hedge reserve	Total
		€'000	€'000	€'000	€'000	€'000	€'000
At 1 January 2020		(318,353)	(363,083)	(379,900)	(3,121)	503	(1,063,954)
Profit for the year		-	-	(93,565)	-	-	(93,565)
Other comprehensive income for the year		-	-	-	2,464	696	3,160
Total comprehensive income for the year		-	-	(93,565)	2,464	696	(90,405)
Dividends	26	-	-	47,283	-	-	47,283
At 31 December 2020		(318,353)	(363,083)	(426,182)	(657)	1,199	(1,107,076)
Profit for the year		**-**	**-**	**(72,472)**	**-**	**-**	**(72,472)**
Other comprehensive income for the year		**-**	**-**	**-**	**(2,993)**	**(1,199)**	**(4,192)**
Total comprehensive income for the year		**-**	**-**	**(72,472)**	**(2,993)**	**(1,199)**	**(76,664)**
Capital contribution	26	**-**	**(6,864)**	**-**	**-**	**-**	**(6,864)**
Dividends	26	**-**	**-**	**15,361**	**-**	**-**	**15,361**
At 31 December 2021		**(318,353)**	**(369,947)**	**(483,293)**	**(3,650)**	**-**	**(1,175,243)**

All attributable to the owners of the Company.

Group Statement of Cash Flows
for the year ended 31 December 2021

	Notes	2021 €'000	2020 €'000
Net cash from operating activities	15	**223,075**	216,983
Cash flows from investing activities			
Payments for property, plant and equipment		**(124,722)**	(105,246)
Payments for intangible assets		**(10,367)**	(10,468)
Grants received	20	**807**	7,998
Net cash used in investing activities		**(134,282)**	(107,716)
Cash flows from financing activities			
Proceeds from borrowings		**40,000**	-
Repayment of borrowings		**(151,200)**	(42,692)
Repayment of lease liabilities	10	**(247)**	(241)
Repayment of loan to ultimate parent undertaking		**-**	(23,000)
Dividends paid	26	**(15,361)**	(47,283)
Net cash used in financing activities		**(126,808)**	(113,216)
Net decrease in cash and cash equivalents	13	**(38,015)**	(3,949)
Cash and cash equivalents at 1 January	13	**96,905**	101,274
Effect of exchange rate fluctuations on cash held	13	**271**	(420)
Cash and cash equivalents at 31 December	13	**59,161**	96,905

Notes to the Group Financial statements

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies

Basis of preparation

Gas Networks Ireland ('the Company') is a designated activity company, limited by shares, and incorporated in Ireland, on 13 January 2015. The address of its registered office is Gasworks Road, Cork, Ireland. The Company registration number is 555744. The Group financial statements consolidate the financial statements of the Company and its subsidiaries (as set out in note 25), (together referred to as 'the Group'), up to 31 December each year. The Company and its subsidiaries are ultimately controlled by Ervia. The Company has availed of the exemption in section 304(2) of the Companies Act 2014 not to present its individual income statement, statement of comprehensive income and related notes.

The Group and Company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) agenda decisions, as endorsed by the EU, and effective for accounting periods beginning on or after 1 January 2021, and the Companies Acts 2014. The financial statements are presented in euro, rounded to the nearest thousand and are prepared on a historical cost basis, except for certain derivative financial instruments which are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

These policies have been consistently applied to all years presented in these financial statements with the exception of adoption of new standards (as set out below). In the process of applying these accounting policies, judgements and estimates are necessarily used which affect the amounts recognised in the financial statements. Details of the most significant accounting judgements and estimates applied are set out below.

Going concern

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

The Group and Company have considerable financial resources and the Directors believe that the Group is well placed to manage its risks successfully. The Group has significant available resources, including €59 million of cash and cash equivalents at 31 December 2021 (2020: €97 million) and committed undrawn bank facilities of €462 million at 31 December 2021 (2020: €462 million), with solid profitability and operating cash-flow forecasts for 2022 and beyond. Further details of the Group's liquidity position are provided in note 23 (ii) of these financial statements.

When completing the going concern assessment, the Directors have considered the conflict between Russia and Ukraine, as detailed in note 27 and Climate, as detailed in the Directors' Report on page 15.

The Directors have a reasonable expectation that the Group has sufficient resources to continue in operation for at least twelve months from the date of approval of the financial statements.

New IFRS accounting standards effective for the year ended 31 December 2021

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2
- Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9
- Amendment to IFRS 16 Leases Covid 19 - Related Rent Concessions

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

IFRS Interpretations Committee final agenda decisions published

In April 2021, the IFRS Interpretations Committee published a final agenda decision clarifying how to recognise certain configuration and customisation expenditures related to cloud computing arrangements, in particular Software as a Service (SaaS) arrangements. The Group has amended its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements. The nature and effect of the amendments as a result of changing this policy are described below.

SaaS arrangements are arrangements in which the Group does not currently control the underlying software used in the arrangement. Where costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates. Where costs incurred to configure or customise do not result in the recognition of an intangible software asset, then those costs that provide the Group with a distinct service (in addition to the SaaS access) are now recognised as expenses when the supplier provides the services. When such costs incurred do not provide a distinct service, the costs are now recognised as expenses over the duration of the SaaS contract.

As a result, the Group has amended its accounting policy in relation to capitalisation of cloud computing software. The change in policy has been applied in the current period as the impact of retrospective application was not material. The impact of the adoption of the agenda decision on the Group's financial statements is set out in notes 4, 6, 11 and 15.

New IFRS accounting standards and interpretations not yet adopted

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

- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020.
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current - Deferral of Effective Date
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- IFRS 17 Insurance Contracts

It is anticipated that application of the remaining IFRS amendments and annual improvements, in issue at 31 December 2021, but not yet effective, will not have a significant impact on the Group's financial statements.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

Significant Accounting Policies

a) Basis of Consolidation

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.

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.

Business combinations

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

Goodwill is measured at the acquisition date as:

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

When the excess is positive this is recognised as goodwill. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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.

b) Property, Plant and Equipment

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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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.

Depreciation

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

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

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

Depreciation is not charged on land or assets under construction. Depreciation method, useful lives (including production hours) and residual values are reviewed at each reporting date and adjusted if appropriate.

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.

c) Intangible Assets

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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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.

Borrowing costs

Refer to accounting policy b) above

d) Impairment of Assets

Assets that are not subject to amortisation

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

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.

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.

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

e) 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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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.

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).

f) Revenue

The Group's revenues are principally derived from gas transportation services, in both regulated and unregulated markets. The Group develops, operates and maintains the natural gas transmission and distribution networks in Ireland and provides gas transportation services to suppliers and shippers. The Group also operates and owns the two interconnector gas pipelines between Scotland and Ireland and has network infrastructure assets in Northern Ireland and the Isle of Man. The Group's revenue also includes operating lease income, which is recognised in accordance with IFRS 16 (see g below).

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

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

A number of the Group's sources of revenue are dependent on being approved by the industry regulator, the Commission for Regulation of Utilities (CRU). Certain circumstances may result in the regulatory "allowed" revenue being over or under recovered in the year. For example, as part of our regulatory agreement, the Group is entitled to recover any under recovery of certain pass-through costs such as gas system shrinkage through future revenue tariff adjustments. Any over or under recovery of "allowed" revenue may therefore be included, within certain parameters, in the calculation of the subsequent years' regulatory revenue. However, no adjustment is made for over or under recoveries in the year that they arise as the recoveries are subject to future tariff changes being applied to future transportation services and therefore such adjustments do not qualify for recognition as assets or liabilities at the reporting date.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

g) Leases

The Group as Lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. At the inception of a lease contract the Group assess whether a contract is, or contains, a lease. If the contract conveys the right to control the use of an asset for a period of time in exchange for consideration, it is recognised as a lease.

To assess the right to control an asset, the Group considers the following:

- does the contract contain an identifiable asset
- does the Group have the right to obtain substantially all of the economic benefits of the asset
- does the Group have the right to operate the asset throughout the period of the contract.

The lease liability (presented within 'Borrowings and other debt') is initially measured at the net present value of the lease payments. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets (presented within 'Property, plant and equipment') are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

For short-term (lease term less than 12 months) and low value leases (value of the asset when new is less than €5,000), the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefit from the leased assets are consumed. The Group had no such leases during the reporting or comparative periods.

The Group as Lessor

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

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

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

h) Retirement Benefit Obligations

Defined benefit pension scheme accounted for as Group Plan

The Ervia Group operates a defined benefit pension scheme. A number of Gas Networks Ireland's employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19 (Revised 2011: Employee Benefits) and therefore the total net pension liability (or asset) associated with the scheme is recognised in the financial statements of Ervia Group and not in the financial statements of Gas Networks Ireland – refer to the Ervia Group Annual Report for full disclosure in respect of the scheme.

Defined contribution pension schemes

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

i) Grants

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

j) Provisions and Contingent Liabilities

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

k) 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.

l) Financial Assets and Liabilities

Derivative financial instruments

Following the maturity of the Private Placement debt and associated cross currency interest rate swaps on 31 March 2021, foreign exchange forward contracts are the only derivative financial instruments used by the Group to manage its exposure to foreign exchange rate risks. Further details of derivative financial instruments are disclosed in note 23.

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

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

In the comparative period the Group designated certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Following the maturity of the Private Placement debt and associated CCIRS, on 31 March 2021, the Group no longer carries derivatives designated for hedge accounting purposes.

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

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

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

i. Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from other comprehensive income and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from other comprehensive income and recognised in profit or loss at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the relevant Group entity and counterparty where appropriate.

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

ii. Fair value hedges

Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the derivative are recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss (same line item as the derivative) with an adjustment to the carrying amount of the hedged item. The ineffective portion is recognised in the income statement immediately. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the relevant Group entity and counterparty where appropriate.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

Borrowings

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

Trade and other receivables

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

Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Where the conditions and intention for offset exists, cash balances are combined with overdraft balances and this combined balance is presented on the balance sheet.

Restricted deposits

Restricted deposits are third party monies, held under financial security or regulatory arrangements, that are legally not available for operational purposes nor are they held for the purpose of meeting short-term cash commitments.

Trade and other payables

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

Loans and balances with Group companies (Company)

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

Financial guarantees

During the normal course of business, the Group provides guarantees and bonds to third parties and subsidiary companies. Where claims are assessed as probable, the expected credit loss model is applied.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

m) Net Finance Income/Costs

Finance costs comprise interest payable on borrowings, financing charge on provisions (recognised following assessment if material), and fair value movements on financing instruments classified as fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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

Fair value adjustments on financing instruments that are recognised in profit or loss are presented as finance income or finance costs, as appropriate.

n) 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.

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.

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

o) Operating Profit

Operating profit is stated before net finance costs and taxation.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

p) Common control transactions

Transactions between entities under common control are accounted for at carrying value, with any differences between that and the consideration paid/received being recognised in equity as capital contribution/distribution.

q) Non-GAAP Measures

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

Critical Accounting Judgements and Estimates

In the process of applying these accounting policies, the Group is required to make certain estimates, assumptions and judgements that it believes are reasonable based on the information available. These are assessed in the preparation of these financial statements. The Group has also considered the implications of climate change on its operations and activities, further details of which are set out below. Due consideration has also been given to relevant macro-economic factors, including the Covid-19 pandemic.

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

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

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

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

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

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

(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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

As of 31 December 2021, the aggregate of the Group's property, plant and equipment and intangible assets was €2,541.8 million (2020: €2,534.3 million), which accounted for the majority of the Group's assets. Therefore the estimates and assumptions made in determining the carrying value are critical to the financial statements because the recoverability of the amounts, or lack thereof, could significantly affect the Group's future financial performance and position.

The Group recognises depreciation and amortisation charges annually (2021: €143.4 million and 2020: €137.8 million) which are primarily calculated to write down the cost of property, plant and equipment and intangible assets over their expected useful economic lives (UELs).

In the case of property, plant and equipment in particular, the determination of estimated UELs of assets requires significant judgement, that are based on experience, expectations about the future and other factors. The estimated UELs for major asset classifications are set out in these accounting policies. The Group reviews assets' UELs annually and any required changes are adjusted prospectively. This review includes consideration of the Group's decarbonisation ambitions and consideration of Government policies and plans in the area of climate action and greenhouse gas emissions targets. The Group has concluded that the asset lives identified continue to be the best estimate of the assets UELs. Due to the significance of asset investment by the Group, variations between actual and estimated UELs could have a material impact on future results, either positively or negatively. Historically, no changes in asset lives have been identified by the Group that have had a material impact on operating results. See note 9 for a sensitivity analysis of the impact were shorter UELs presumed for the Group's property, plant and equipment.

(b) Provisions and other liabilities

The assessments of the financial outcome of uncertain commercial and legal positions involves estimation uncertainty and requires the use of judgement, estimation and assumptions. The amounts recognised as a provision are the Group's best estimate of the expenditure required to settle present obligations at the reporting date. In assessing the likely outcome, the Group bases its assessment on available facts, historical experience, advice from legal advisors and other experts and additional relevant factors that are believed to be reasonable in the circumstances. A revised estimate is established at each reporting date to ensure that the amounts accrued correspond to the best estimate of the costs eventually to be borne by the Group. The required provision may change in the future due to new developments and as additional information becomes available. Given the nature of these provisions and the estimation uncertainty involved, further sensitivity analysis on these amounts is not deemed practicable.

(iii) Climate change

The Group continues to develop its assessment of the potential long-term impacts of climate change on the assets and liabilities in its financial statements. The impact of climate change has been considered in the preparation of these financial statements across a number of areas, predominantly in respect of the valuation of the property, plant and equipment held by the Group, as described above.

Notes to the Group financial statements (continued)

2. Segmental Information

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

The Group's operating segments are therefore those used internally by the Gas Networks Ireland Board to run the business and make strategic decisions. The Gas Networks Ireland Board is provided with information in respect of the Group on a single segment basis for the purposes of assessing performance and allocating resources. The Gas Networks Ireland Board reviews operating results at a Gas Networks Ireland Group level. In light of this, the Group has a single segment for financial reporting purposes. Therefore the segment profit and segment assets and liabilities as reported to the chief operating decision maker are as set out in the Group Income Statement and Group Balance Sheet respectively and therefore no further segmental information is provided in this note.

(a) Revenue by geographic location

	2021 €'000	2020 €'000
Ireland	**433,189**	410,972
UK (including Northern Ireland and Isle of Man)	**43,008**	36,305
Total	**476,197**	447,277

Included in the Group's total revenue are revenues of €127.8 million (2020: €121.3 million), €75.7 million (2020: €70.5 million) and €49.9 million (2020: €48.3 million) which arose from sales to the Group's three largest customers. There are no other customers from which revenue exceeded 10% of total revenue. Refer to note 3 for analysis of revenues from external customers by type.

(b) Non-current assets by geographic location

	2021 €'000	2020 €'000
Ireland	**2,153,166**	2,153,107
UK (including Northern Ireland and Isle of Man)	**388,617**	381,233
Total	**2,541,783**	2,534,340

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

Notes to the Group financial statements (continued)

3. Revenue

	2021 €'000	2020 €'000
Regulated	**425,240**	400,235
Unregulated - transportation contracts	**27,337**	25,908
Unregulated - new connections contracts	**4,368**	4,442
Unregulated - other	**19,252**	16,692
Total	**476,197**	447,277

Regulated revenue is commodity and capacity revenue earned and regulated by the Commission for Regulation of Utilities ("CRU") and the Northern Ireland Authority for Utility Regulation ("NIAUR"). Unregulated - other primarily relates to revenue from the Aurora telecommunications business and sales for operational services that are ancillary to the use of the gas transportation system.

Refer to note 1 for details of the Group's revenue accounting policy and revenue streams. Refer to note 12 for details of the Group's trade receivables from these revenue streams.

4. Operating Costs Net (excluding depreciation and amortisation)

		2021 €'000	2020 €'000
Employee benefit expense	5	**(46,789)**	(44,921)
Hired and contracted services		**(7,343)**	(7,819)
Materials, maintenance and sub-contractor costs		**(58,606)**	(45,691)
Rates and facilities		**(33,366)**	(32,269)
Gas system shrinkage and gas losses		**(41,523)**	(7,973)
Central transactional and support service costs	26	**(24,796)**	(25,993)
Cloud computing transition adjustment	11	**(3,616)**	-
Other operating expenses		**(18,561)**	(18,857)
Other operating income		**3,500**	1,600
Total		**(231,100)**	(181,923)

Certain corresponding amounts have been adjusted so that they are directly comparable with the amounts shown in respect of the current year.

Notes to the Group financial statements (continued)

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

Operating costs are stated after charging:

	2021 €'000	2020 €'000
(a) Auditor's remuneration		
Audit of the Group financial statements[1]	**(142)**	(145)
Other assurance services	**(27)**	(27)
Total	**(169)**	(172)

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

	2021 €'000	2020 €'000
(b) Directors' remuneration		
Directors - fees	**-**	-
Directors - emoluments	**(492)**	(491)
Directors - defined benefit pension contributions	**(70)**	(69)
Total	**(562)**	(560)

In accordance with the Articles of Association of the Group, the Directors are not entitled to receive fees. Remuneration of the Directors as disclosed above represents an apportionment of total remuneration earned in their capacity as salaried employees of Ervia, based on services provided to the Group. The number of directors to whom defined benefit pension contributions accrued was 6 (2020:6) and the number of directors to whom defined contribution pension contributions accrued was nil (2020:nil).

	2021 €'000	2020 €'000
(c) Managing Director's salary and benefits		
Basic salary	**(204)**	(200)
Other short-term employee benefits	**(55)**	(51)
Post-employment benefits - pension contributions	**(36)**	(35)
Total	**(295)**	(286)

Notes to the Group financial statements (continued)

5. Employee Benefits

(i) Aggregate employee benefits

	2021 €'000	2020 €'000
Staff short-term benefits	**(45,828)**	(43,928)
Post-employment benefits	**(4,448)**	(4,416)
Post-employment benefits - defined contribution scheme	**(1,375)**	(1,201)
Social insurance costs	**(5,093)**	(4,752)
	(56,744)	(54,297)
Capitalised payroll	**9,955**	9,376
Employee benefit expense charged to profit or loss	**(46,789)**	(44,921)

(ii) Staff short-term benefits

	2021 €'000	2020 €'000
Wages and salaries	**(42,773)**	(41,211)
Overtime	**(1,202)**	(1,125)
Allowances	**(893)**	(682)
Other[1]	**(960)**	(910)
Total	**(45,828)**	(43,928)

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

The average monthly number of employees providing services to the Group and the Company for the year was 562 (2020: 546).

The Group recognised employee termination expenses of €nil in the reporting period (2020: €nil). Refer to note 21 for details of termination benefits charged against the restructuring provision.

Notes to the Group financial statements (continued)

6. Depreciation and Amortisation

		2021	2020
		€'000	€'000
Depreciation of property, plant and equipment	9	**(143,674)**	(137,939)
Depreciation of right-of-use assets	10	**(365)**	(362)
Amortisation of intangible assets	11	**(6,465)**	(5,986)
Cloud computing transition adjustment	11	**564**	-
Grant amortisation	20	**6,582**	6,500
Total		**(143,358)**	(137,787)

7. Net Finance Costs

		2021	2020
		€'000	€'000
Before remeasurements			
Interest and finance costs		**(13,333)**	(19,181)
Interest capitalised		**716**	270
Lease liability finance charge	10	**(94)**	(100)
Total before remeasurements		**(12,711)**	(19,011)
Remeasurements			
Net changes in fair value of undesignated derivatives		**671**	1,948
Net changes in fair value of financial instruments designated in a fair value hedging relationship		**(1,487)**	72
Total remeasurements		**(816)**	2,020
Total			
Finance income		**671**	2,020
Finance costs		**(14,198)**	(19,011)
Net finance costs		**(13,527)**	(16,991)

Notes to the Group financial statements (continued)

8. Tax

Income tax

	2021 €'000	2020 €'000
Current tax		
Current tax	**(13,048)**	(17,847)
Adjustments in respect of previous years	**487**	(27)
	(12,561)	(17,874)
Deferred tax		
Origination and reversal of temporary differences	**(4,218)**	1,423
Adjustments in respect of previous years	**1,039**	(560)
	(3,179)	863
Total income tax	**(15,740)**	(17,011)

Reconciliation of effective tax rate

	31-Dec-21 €'000	31-Dec-20 €'000
Profit before income tax	**88,212**	110,576
Taxed at 12.5% (2020: 12.5%)	**(11,027)**	(13,822)
Depreciation on capital expenditure that is not deductible for tax purposes	**(1,744)**	(1,785)
Other expenses not deductible for tax purposes	**319**	-
Income not taxable	**496**	493
UK subsidiary profits taxed at higher rates	**(1,150)**	(1,285)
Effect of tax rate change[1]	**(4,277)**	-
Exchange adjustments	**117**	(25)
Adjustments in respect of previous years	**1,526**	(587)
	(15,740)	(17,011)

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

[1] The UK Corporation tax rate will increase from 19% to 25% from April 2023. The deferred tax calculations for the UK subsidiary are apportioned for the relevant periods at the applicable rate (as enacted in legislation).

Notes to the Group financial statements (continued)

8. Tax (continued)

Current tax assets and liabilities

	31-Dec-21	31-Dec-20
	€'000	€'000
Current tax assets/(liabilities)	**442**	(9)

Deferred tax assets and liabilities

	Derivative financial instruments	Accelerated tax depreciation	Interest charges payable	Other	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2020	72	(213,897)	7,486	(160)	(206,499)
Recognised in income statement	-	2,058	(1,210)	15	863
Recognised in equity	99	-	-	-	99
Exchange adjustments	-	849	(437)	-	412
At 31 December 2020	171	(210,990)	5,839	(145)	(205,125)
Recognised in income statement	**-**	**(1,161)**	**(1,919)**	**(99)**	**(3,179)**
Recognised in equity	**(171)**	**-**	**-**	**-**	**(171)**
Exchange adjustments	**-**	**(974)**	**315**	**-**	**(659)**
At 31 December 2021	**-**	**(213,125)**	**4,235**	**(244)**	**(209,134)**

Deferred tax has not been provided for in relation to unremitted reserves of the Group's overseas subsidiary which were €169.5 million as at 31 December 2021 (2020 €160.1million).

9. Property, Plant and Equipment

		31-Dec-21	31-Dec-20
		€'000	€'000
Property, plant and equipment - owned assets		**2,507,683**	2,502,466
Property, plant and equipment - right-of-use assets	10	**5,013**	4,471
Property, plant and equipment - as presented on the balance sheet		**2,512,696**	2,506,937

Notes to the Group financial statements (continued)

9. Property, Plant and Equipment (continued)

Property, plant and equipment - owned assets

		Land and buildings €'000	Plant, pipeline and machinery €'000	Assets under construction €'000	Total €'000
Cost					
At 1 January 2020		67,992	4,395,062	48,844	4,511,898
Additions		-	11,848	89,841	101,689
Disposals		-	(4,017)	-	(4,017)
Transfers		-	68,564	(68,564)	-
Effect of movement in exchange rates		-	(13,189)	(102)	(13,291)
At 31 December 2020		67,992	4,458,268	70,019	4,596,279
Additions		**-**	**10,344**	**125,578**	**135,922**
Disposals		**-**	**(4,590)**	**-**	**(4,590)**
Transfers		**-**	**126,957**	**(126,957)**	**-**
Transferred under common control transaction	26	**21,345**	**-**	**-**	**21,345**
Effect of movement in exchange rates		**-**	**14,834**	**199**	**15,033**
At 31 December 2021		**89,337**	**4,605,813**	**68,839**	**4,763,989**
Accumulated depreciation and impairment losses					
At 1 January 2020		(25,656)	(1,941,480)	-	(1,967,136)
Depreciation charge		(1,436)	(136,503)	-	(137,939)
Disposals		-	4,017	-	4,017
Effect of movement in exchange rates		-	7,245	-	7,245
At 31 December 2020		(27,092)	(2,066,721)	-	(2,093,813)
Depreciation charge		**(1,627)**	**(142,047)**	**-**	**(143,674)**
Disposals		**-**	**4,583**	**-**	**4,583**
Transferred under common control transaction	26	**(14,481)**	**-**	**-**	**(14,481)**
Effect of movement in exchange rates		**-**	**(8,921)**	**-**	**(8,921)**
At 31 December 2021		**(43,200)**	**(2,213,106)**	**-**	**(2,256,306)**
Carrying amounts					
At 31 December 2020		40,900	2,391,547	70,019	2,502,466
At 31 December 2021		**46,137**	**2,392,707**	**68,839**	**2,507,683**

Notes to the Group financial statements (continued)

9. Property, Plant and Equipment (continued)

The carrying value of property, plant and equipment includes assets that are subject to operating lease arrangements as described in note 10 'The Group as Lessor'. The carrying value of these assets at 31 December 2021 was €70 million (31 December 2020: €82 million) and is included in plant, pipeline and machinery.

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

	2021	2020
	€'000	€'000
UEL limited to 2050	**12,149**	11,284
UEL limited to 2060	**3,160**	2,892
UEL limited to 2070	**533**	448

10. Lease Assets and Liabilities

The Group as Lessee

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

Notes to the Group financial statements (continued)

10. Lease Assets and Liabilities (continued)

Amounts recognised on the balance sheet

Right-of-use assets

	Land and buildings	Plant, pipeline and machinery	Total
	€'000	€'000	€'000
Cost			
At 1 January 2020	566	4,629	5,195
Additions	-	-	-
At 31 December 2020	566	4,629	5,195
Additions	**-**	**907**	**907**
At 31 December 2021	**566**	**5,536**	**6,102**
Accumulated depreciation and impairment losses			
At 1 January 2020	(97)	(265)	(362)
Depreciation charge	(97)	(265)	(362)
At 31 December 2020	(194)	(530)	(724)
Depreciation charge	**(97)**	**(268)**	**(365)**
At 31 December 2021	**(291)**	**(798)**	**(1,089)**
Carrying amounts			
At 31 December 2020	372	4,099	4,471
At 31 December 2021	**275**	**4,738**	**5,013**
Lease liabilities			
At 1 January 2020	(456)	(3,100)	(3,556)
Interest expense	(5)	(95)	(100)
Lease payments	100	241	341
At 31 December 2020	(361)	(2,954)	(3,315)
Additions	**-**	**-**	**-**
Interest expense	**(4)**	**(90)**	**(94)**
Lease payments	**100**	**241**	**341**
At 31 December 2021	**(265)**	**(2,803)**	**(3,068)**

Notes to the Group financial statements (continued)

10. Lease Assets and Liabilities (continued)

Analysed as follows:

	2021 €'000	2020 €'000
Non-current	**(2,815)**	(3,068)
Current	**(253)**	(247)
Total	**(3,068)**	(3,315)

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

The Group as Lessor

The Group enters into operating lease arrangements to allow third parties the use of parts of the Gas Network Transportation system. In accordance with the Group's accounting policy all receipts from these arrangements are deemed to be earned as part of the Group's core operations and accordingly the lease income is recognised as revenue in the income statement. During 2021, lease income of €22.1 million was recognised (2020: €23.0 million), including €12.7 million in respect of variable lease payments that do not depend on an index or a rate (2020: €13.8 million). Below is a profile of undiscounted non-cancellable future operating lease income to be recognised as revenue in future years. The unexpired lease terms range from 1 to 9 years (2020: 3 to 11 years).

Maturity analysis

	31-Dec-21 €'000	31-Dec-20 €'000
Year 1	**21,019**	22,185
Year 2	**16,806**	20,889
Year 3	**8,296**	16,708
Year 4	**6,741**	8,296
Year 5	**3,909**	6,887
Year 6 onwards	**48**	4,234
Total	**56,819**	79,199

Notes to the Group financial statements (continued)

11. Intangible Assets

	Software and other	Software under development	Total
	€'000	€'000	€'000
Cost			
At 1 January 2020	147,110	8,405	155,515
Additions (incl internally developed)	-	10,430	10,430
Transfers	10,328	(10,328)	-
Effect of movement in exchange rates	(68)	(4)	(72)
At 31 December 2020	157,370	8,503	165,873
Additions (incl internally developed)	**3,522**	**7,652**	**11,174**
Transfers	**5,457**	**(5,457)**	**-**
Cloud computing transition adjustment	**(3,472)**	**(144)**	**(3,616)**
Effect of movement in exchange rates	**120**	**4**	**124**
At 31 December 2021	**162,997**	**10,558**	**173,555**
Accumulated amortisation and impairment losses			
At 1 January 2020	(132,541)	-	(132,541)
Amortisation charge	(5,986)	-	(5,986)
Effect of movement in exchange rates	57	-	57
At 31 December 2020	(138,470)	-	(138,470)
Amortisation charge	**(6,465)**	**-**	**(6,465)**
Cloud computing transition adjustment	**564**	**-**	**564**
Effect of movement in exchange rates	**(97)**		**(97)**
At 31 December 2021	**(144,468)**	**-**	**(144,468)**
Carrying amounts			
At 31 December 2020	18,900	8,503	27,403
At 31 December 2021	**18,529**	**10,558**	**29,087**

Notes to the Group financial statements (continued)

11. Intangible Assets (continued)

As described in further detail in note 1, in April 2021 the IFRS Interpretations Committee published a final agenda decision clarifying how to recognise certain configuration and customisation expenditures related to cloud computing arrangements. Costs that do not meet the capitalisation criteria should be expensed as incurred. The Group changed its accounting policy to align with the agenda decision and previously capitalised costs that no longer qualify for capitalisation were expensed in the current period (retrospective application not applied as the amount is not material). A net cloud computing transition adjustment of €3.1 million is presented above, with corresponding income statement impacts presented in notes 4 and 6 and a cashflow statement (non-cash) adjustment presented in note 15.

12. Trade and Other Receivables

		31-Dec-21	31-Dec-20
		€'000	€'000
Use of system receivable - billed		**31,508**	2,888
Use of system receivable - unbilled		**39,533**	39,977
Other trade receivables - billed		**6,250**	2,453
Other trade receivables - unbilled		**5,002**	2,556
Amounts due from Irish Water	26	**-**	19
Other receivables		**3,375**	1,390
Sub-total		**85,668**	49,283
Prepayments		**6,194**	5,241
Total		**91,862**	54,524
Analysed as follows:			
Non-current		**-**	-
Current		**91,862**	54,524
Total		**91,862**	54,524

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

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

Notes to the Group financial statements (continued)

12. Trade and Other Receivables (continued)

Use of System Receivables:

Republic of Ireland: Use of system revenue in Ireland comprises Distribution Use of System (DUoS) revenue and Transmission Use of System (TUoS) revenue. The credit terms for both DUoS and TUoS are ten business days and there were twenty eight external shippers at year end. TUoS and DUoS revenue is billed and collected by the Group. The allowed revenue is invoiced to the shippers on a monthly basis twelve business days after month end with payment due ten business days from date of invoice. Under the Gas Network Code of Operations, shippers may be required to provide financial security in order to protect the Group against non-payment of gas transportation invoices. Related funds received are held on deposit and are included within the restricted deposits balance (note 14). The Group has not recognised any impairment loss in the current or prior reporting period.

Northern Ireland: Use of system revenue in Northern Ireland comprises Transmission Use of System (TUoS) revenue. Invoices are issued by the administrator and non-payment of invoices attracts a daily interest charge. Shippers may be required to provide financial security in order to protect the group against non-payment of gas transportation invoices. Related funds received are held on deposit and are included within the restricted deposits balance (note 14). The Group has not recognised any impairment loss in the current or prior reporting period.

Other trade receivables and other receivables:

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

The Group's maximum exposure of trade receivables and other receivables to credit risk at the reporting date is €85.7 million (2020: €49.3 million). Prepayments are excluded as no credit exposure arises.

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

	31-Dec-21	31-Dec-20
	€'000	€'000
Republic of Ireland	**72,520**	42,793
UK (including Northern Ireland and Isle of Man)	**13,148**	6,490
Total	**85,668**	49,283

The majority of the Group's trade and other receivables are collected within 30 days of the invoice date. Customer payment behaviour has remained unchanged throughout the Covid-19 pandemic. Given the credit worthiness of the Group's trade and other receivables, a provision matrix is not used by the Group and an adjustment in respect of macro-economic factors is assessed as not required as it would not have a material impact on the expected credit losses (ECL) recognised. Instead an assessment of ECL is performed on individual debtors. As noted above, there are no material expected credit loss allowances recognised by the Group and the Group does not expect any significant losses of receivables that have not been provided. The Group writes off trade and other receivables where there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery e.g. when the debtor has been placed into liquidation or has entered into bankruptcy proceedings. The trade receivables that have been written off, in the current year and prior year, are immaterial.

Notes to the Group financial statements (continued)

12. Trade and Other Receivables (continued)

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

	2021	2020
	€'000	€'000
At 1 January	**(596)**	(507)
Impairment losses on financial assets	**(14)**	(110)
Allowance utilised	**93**	21
At 31 December	**(517)**	(596)

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

	2021	2020
	€'000	€'000
Not past due	**56,226**	47,529
1-30 days overdue	**29,111**	1,621
31-120 days overdue	**329**	119
> 120 days overdue	**2**	14
Total	**85,668**	49,283

13. Cash and Cash Equivalents

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

	31-Dec-21	31-Dec-20
	€'000	€'000
Short-term deposits	**36,000**	59,500
Cash on hand	**23,161**	37,405
Total	**59,161**	96,905

Cash and cash equivalents primarily comprise cash balances and short-term bank deposits with an original maturity of less than three months. The carrying amount of these assets approximates their fair value. Refer to note 23 for treasury related credit risk disclosures.

Notes to the Group financial statements (continued)

13. Cash and Cash Equivalents (continued)

	2021 €'000	2020 €'000
At 1 January	**96,905**	101,274
Decrease in cash and cash equivalents in the statement of cash flows	**(38,015)**	(3,949)
Effect of exchange rate fluctuations on cash held	**271**	(420)
At 31 December	**59,161**	96,905

14. Restricted Deposits

	31-Dec-21 €'000	31-Dec-20 €'000
Security deposits	**46,348**	17,603
Total	**46,348**	17,603

Restricted deposits include amounts held in respect of gas network shipper security deposits (note 12) and certain connection agreements (note 19). The level of shipper security in place is assessed on a regular basis, and further deposits or refunds are made if required, in accordance with the Gas Networks Ireland Code of Operations. Connection agreement security deposits are held to underwrite the capital cost of large connection projects (returned to the customers on a phased basis over 2-3 years) and to underwrite capacity payments (returned to the customer over a period of up to 7 years).

Refer to note 23 for treasury related credit risk disclosures.

Notes to the Group financial statements (continued)

15. Cash Generated from Operations

	Notes	2021	2020
		€'000	€'000
Cash flows from operating activities			
Profit for the year		**72,472**	93,565
Adjustments for:			
Depreciation and amortisation	6	**143,358**	137,787
Cloud computing transition adjustment	1	**3,616**	-
Net finance costs	7	**13,527**	16,991
Income tax expense	8	**15,740**	17,011
		248,713	265,354
Working capital changes:			
Change in trade and other receivables		**(39,431)**	(2,256)
Change in trade and other payables		**18,420**	(485)
Change in deferred revenue		**34,797**	6,817
Change in provisions		**(338)**	(2,872)
Change in inventories		**2,553**	(438)
Cash from operating activities		**264,714**	266,120
Interest paid[1]		**(28,718)**	(27,853)
Income tax paid		**(12,921)**	(21,284)
Net cash from operating activities		**223,075**	216,983

[1] Interest paid includes €14.6 million of interest paid to the ultimate parent undertaking (2020: €11.0 million).

16. Inventory

	31-Dec-21	31-Dec-20
	€'000	€'000
Stocks and materials	**463**	3,016

No inventory was pledged as security.

Notes to the Group financial statements (continued)

17. Borrowings and Other Debt

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

	31-Dec-21 €'000	31-Dec-20 €'000
Bonds	**(920,210)**	(919,270)
Loans from financial institutions[1]	**(99,966)**	(215,129)
Lease liabilities	**(3,068)**	(3,315)
Total	**(1,023,244)**	(1,137,714)

[1] Balance at 31 December 2020 includes private placement notes that expired in March 2021.

Analysed as follows:		
Non-current	**(1,022,991)**	(1,022,854)
Current	**(253)**	(114,860)
Total	**(1,023,244)**	(1,137,714)
Less than one year	**(253)**	(114,860)
Between one and five years	**(797,129)**	(298,487)
More than five years	**(225,862)**	(724,367)
Total	**(1,023,244)**	(1,137,714)

All borrowings are repayable other than by instalment. Certain borrowings are held with related parties, refer to note 26 for full details of related party disclosures.

Net debt

		31-Dec-21 €'000	31-Dec-20 €'000
Total borrowings and other debt		**(1,023,244)**	(1,137,714)
Less fair value hedges recognised within borrowings	23	**-**	4,131
Less cash and cash equivalents	13	**59,161**	96,905
Net debt		**(964,083)**	(1,036,678)

Notes to the Group financial statements (continued)

17. Borrowings and Other Debt (continued)

Changes in liabilities arising from financing activities

		Bonds	Loans from financial institutions	Lease liabilities	Sub-total	Ultimate parent undertaking[1]	Total
		€'000	€'000	€'000	€'000		€'000
At 1 January 2020		(918,297)	(268,344)	(3,556)	(1,190,197)	(28,147)	(1,218,344)
Repayment		-	42,692	-	42,692	23,000	65,692
Repayment of lease liabilities	10	-	-	241	241	-	241
Change in fair value of financial liabilities		-	11,187	-	11,187	-	11,187
Non-cash		(973)	(664)	-	(1,637)	(41)	(1,678)
At 31 December 2020		(919,270)	(215,129)	(3,315)	(1,137,714)	(5,188)	(1,142,902)
Proceeds		**-**	**(40,000)**	**-**	**(40,000)**	**-**	**(40,000)**
Repayment		**-**	**151,200**	**-**	**151,200**	**-**	**151,200**
Repayment of lease liabilities	10	**-**	**-**	**247**	**247**	**-**	**247**
Change in fair value of financial liabilities		**-**	**4,131**	**-**	**4,131**	**-**	**4,131**
Non-cash		**(940)**	**(168)**	**-**	**(1,108)**	**(41)**	**(1,149)**
At 31 December 2021		**(920,210)**	**(99,966)**	**(3,068)**	**(1,023,244)**	**(5,229)**	**(1,028,473)**

[1] Liabilities from financing activities with the ultimate parent undertaking is included within the amounts owed to the ultimate parent undertaking as disclosed in note 22. Refer to note 26 (i) (c) for details on the nature of the liability as at 31 December 2021.

18. Retirement Benefit Obligations

Defined benefit pension scheme accounted for as a Group Plan

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

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

Contributions paid to Ervia in respect of Gas Networks Ireland's employees are seperately disclosed in note 5 and are identified as a related party transaction in note 26.

Notes to the Group financial statements (continued)

18. Retirement Benefit Obligations (continued)

Defined contribution scheme

A number of Gas Networks Ireland's employees also participate in the Ervia Group Defined Contribution scheme. Contributions paid to Ervia in respect of Gas Networks Ireland's employees are also seperately disclosed in note 5 and are identified as a related party transaction in note 26.

19. Deferred Revenue

	2021 €'000	2020 €'000
At 1 January	**(25,609)**	(18,792)
Received	**(39,036)**	(12,291)
Credited to the income statement	**4,239**	5,474
At 31 December	**(60,406)**	(25,609)

Analysed as follows:

	31-Dec-21 €'000	31-Dec-20 €'000
Non-current	**(47,469)**	(16,927)
Current	**(12,937)**	(8,682)
Total	**(60,406)**	(25,609)

Customer new connection contributions, which are received in advance, are recorded initially as deferred revenue. These contributions are then released to the income statement as revenue as the connection works (performance obligation) are completed.

20. Grants

	2021 €'000	2020 €'000
At 1 January	**(76,260)**	(83,206)
Receivable in year	**(807)**	(899)
Amortised	**6,582**	6,500
Credited to operating costs	**302**	291
Effect of movement in exchange rates	**(1,045)**	1,054
At 31 December	**(71,228)**	(76,260)

Notes to the Group financial statements (continued)

20. Grants (continued)

Analysed as follows:

	31-Dec-21 €'000	31-Dec-20 €'000
Non-current	**(64,590)**	(69,647)
Current	**(6,638)**	(6,613)
Total	**(71,228)**	(76,260)

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

Grants receivable for 2021 of €0.8 million (2020: €0.9 million) related to grant funding from the Innovation and Networks Executive Agency (INEA), for investment in Compressed Natural Gas stations and Biogas related infrastructure and the development of policies and procedures in relation to Gas Networks Ireland Gas Operational Technology. A number of conditions relating to these grant fundings remain in progress at year end.

21. Provisions, Contingencies and Capital Commitments

Provisions

	Restructuring €'000	Self-insured claims €'000	Total €'000
At 1 January 2021	**(82)**	**(8,067)**	**(8,149)**
Provisions made	**-**	**(468)**	**(468)**
Provisions used	**34**	**772**	**806**
At 31 December 2021	**(48)**	**(7,763)**	**(7,811)**

Analysed as follows:

	31-Dec-21 €'000	31-Dec-20 €'000
Non-current	**(6,198)**	(3,391)
Current	**(1,613)**	(4,758)
Total	**(7,811)**	(8,149)

Notes to the Group financial statements (continued)

21. Provisions, Contingencies and Capital Commitments (continued)

Restructuring

During 2013, the Ervia Group announced a voluntary severance and early retirement programme for employees that satisfied certain qualifying criteria. The Group made termination payments and related pension payments of €0.034 million in aggregate during 2021 in respect of 2 employees who exited under the terms of the programme. These liabilities are expected to be substantially discharged by 2023.

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 2021. 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 2024.

Contingencies

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

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

Capital commitments

	2021	2020
	€'million	€'million
Capital expenditure that has been contracted for but has not been provided for	**56**	53

Notes to the Group financial statements (continued)

22. Trade and Other Payables

		31-Dec-21	31-Dec-20
		€'000	€'000
Trade payables		**(15,287)**	(7,077)
Accrued expenses		**(88,887)**	(64,647)
Other payables		**(46,233)**	(24,404)
Amounts owed to ultimate parent undertaking		**(23,672)**	(39,173)
Amounts owed to Irish Water	26	**(119)**	-
Taxation and social insurance creditors		**(19,391)**	(15,317)
Total		**(193,589)**	(150,618)
Analysed as follows:			
Non-current		**(15,562)**	(15,287)
Current		**(178,027)**	(135,331)
Total		**(193,589)**	(150,618)
Taxation and social insurance creditors			
PAYE/social insurance		**(2,282)**	(1,639)
VAT		**(17,109)**	(13,678)
Total		**(19,391)**	(15,317)

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments

Foreign exchange contracts and currency swaps

The Group has entered into foreign exchange contracts in relation to supplier payments (which are in US dollar and sterling) and in relation to the hedge of sterling based operations. These contracts have maturities extending until 2024. The trades in place at 31 December 2021 were not designated for hedge accounting purposes.

Cross currency interest rate swaps (CCIRS) and interest rate swaps

The Group's final tranche of Private Placement debt, €111 million, was repaid on 31 March 2021 in line with schedule. The associated CCIRS and interest rate swaps which were used to hedge this exposure also matured on 31 March 2021. The CCIRS was designated as a hedging instrument. Under the hedge accounting relationship the CCIRS was disaggregated into two separate components and part designated as fair value hedge (FVTPL - designated) and cash flow hedge (FVTOCI). The interest rate swaps were not designated for hedging accounting purposes.

Accounting classifications and fair values

The following table combines information about:

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

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

	Fair value hierarchy	FVTPL - undesignated	FVTPL - designated	FVTOCI	Total at amortised cost	Total
		€'000	€'000	€'000	€'000	€'000
At 31 December 2021						
Financial assets						
Foreign exchange rate contracts	Level 2	**1,209**	**-**	**-**	**-**	**1,209**
Trade and other receivables²		**-**	**-**	**-**	**85,668**	**85,668**
Cash and cash equivalents³		**-**	**-**	**-**	**59,161**	**59,161**
Restricted deposits		**-**	**-**	**-**	**46,348**	**46,348**
Total financial assets		**1,209**	**-**	**-**	**191,177**	**192,386**
Financial liabilities						
Borrowings and other debt⁴	Level 2	**-**	**-**	**-**	**(1,023,244)**	**(1,023,244)**
Foreign exchange rate contracts	Level 2	**(613)**	**-**	**-**	**-**	**(613)**
Trade and other payables¹		**-**	**-**	**-**	**(85,311)**	**(85,311)**
Total financial liabilities		**(613)**	**-**	**-**	**(1,108,555)**	**(1,109,168)**
Net financial (liabilities)/assets		**596**	**-**	**-**	**(917,378)**	**(916,782)**
At 31 December 2020						
Financial assets						
Cross currency interest rate swaps	Level 2	-	5,618	(1,371)	-	4,247
Foreign exchange rate contracts	Level 2	202	-	-	-	202
Trade and other receivables²		-	-	-	49,283	49,283
Cash and cash equivalents³		-	-	-	96,905	96,905
Restricted deposits		-	-	-	17,603	17,603
Total financial assets/(liabilities)		202	5,618	(1,371)	163,791	168,240
Financial liabilities						
Borrowings and other debt⁴	Level 2	-	(4,131)	-	(1,133,583)	(1,137,714)
Interest rate swaps	Level 2	(132)	-	-	-	(132)
Foreign exchange rate contracts	Level 2	(145)	-	-	-	(145)
Trade and other payables¹		-	-	-	(70,654)	(70,654)
Total financial liabilities		(277)	(4,131)	-	(1,204,237)	(1,208,645)
Net financial (liabilities)/assets		(75)	1,487	(1,371)	(1,040,446)	(1,040,405)

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

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

[3] Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group has a current legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. At 31 December 2021, €23.5 million of cash and cash equivalents (2020: €64.8 million) was offset against €0.3 million of bank overdrafts (2020: €27.4 million), and a net position of €23.2 million was presented as cash and cash equivalents (2020: €37.4 million). At 31 December 2021, the Group had entered no master netting arrangements and other similar agreements.

[4] The fair value of borrowings and other debt as at 31 December 2021 was €1,061.6 million (2020: €1,214.3 million).

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

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

	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Total
	€'000	€'000	€'000	€'000	€'000
Foreign exchange contracts	**378**	**831**	**(189)**	**(424)**	**596**
At 31 December 2021	**378**	**831**	**(189)**	**(424)**	**596**
Interest rate swaps	-	-	-	(132)	(132)
Cross currency interest rate swaps	-	4,247	-	-	4,247
Foreign exchange contracts	-	202	-	(145)	57
At 31 December 2020	-	4,449	-	(277)	4,172

Derivative assets and liabilities designated as hedges

The Group applies the criteria defined by IFRS9 in classifying derivates as hedges. Only derivative instruments external to the Group qualify for consideration for hedge accounting. Following the maturity of the Private Placement debt and associated CCIRS, on 31 March 2021, the Group no longer carries derivatives designated for hedge accounting purposes.

Hedge effectiveness was determined on the derivatives designated in a hedging relationship at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

The Group used the following categories for hedges:

(i) Fair value hedges (FVTPL - designated)

There were no hedges designated in a fair value hedging relationship at 31 December 2021. The ineffective portion of fair value hedges in 2021 and 2020 was €nil.

(ii) Cash flow hedges (FVTOCI)

There were no hedges designated in a cash flow hedging relationship at 31 December 2021. The amount recognised in profit or loss due to ineffectiveness on cash flow hedges was €nil during 2021 (2020: €nil).

The movements on the Group's cash flow hedge reserve (pre-tax) is as follows:

	CCIRS	Total
	€'000	€'000
At 1 January 2021	**(1,371)**	**(1,371)**
Net change in fair values	**1,371**	**1,371**
At 31 December 2021	**-**	**-**

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

Financial risk management

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

In using derivatives, the Group complies with the Financial Transactions of Certain Companies and Other Bodies Act 1992 and any requirements and conditions as may be specified by the Minister for Finance thereunder and there are procedures in place whereby this compliance is monitored, reviewed and reported to the Board on a regular basis.

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

(i) Credit risk

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

The carrying amount of financial assets, which represents their maximum credit exposure, at the reporting date was:

	31-Dec-21	31-Dec-20
	€'000	€'000
Trade and other receivables (excluding prepayments)	**85,668**	49,283
Cash and cash equivalents	**59,161**	96,905
Restricted deposits	**46,348**	17,603
Derivative financial instruments	**1,209**	4,449
Total	**192,386**	168,240

(i) (a) Treasury related credit risk

Treasury undertakes all treasury activities for the 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 Company's policy that cash is mainly placed on deposit with institutions who maintain an investment grade credit rating. Treasury regularly evaluates and measures its treasury counterparty exposures.

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

All derivative trades are transacted in compliance with the Requirements and the Conditions of the Minister of Finance, issued in accordance with provisions of the Financial Transaction of Certain Companies and Other Bodies Act 1992, most recently issued in December 2020. This outlines the criteria that must satisfied regarding each derivative counterparty with which the Group transacts. Group Treasury regularly evaluates and measures its treasury counterparty exposures. Where the exposure on derivative instruments has the potential to be material to the Group's net worth, the Group will consider entering into credit support arrangements

Financial guarantees

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 issued by financial institutions. Even though these obligations may not be recognised on the Group balance sheet, credit risk exists in relation to these instruments as they commit the Group to make payments in the event of a specific act and therefore they form part of the overall risk of the Group. The nominal values of such commitments are listed below (i.e the maximum exposure to credit risk under these obligations).

	31-Dec-21	31-Dec-20
	€'000	€'000
Letters of credit	**700**	1,400
Total	**700**	1,400

(i) (b) Trade related credit risk

Refer to note 12 for an analysis of the Group's exposure to trade related credit risk.

(ii) Funding and liquidity risk

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

(ii) (a) Funding

The Group's funding position remained strong in 2021.The Group seeks to ensure it has a mix of funding sources at acceptable terms and conditions to finance the development of the business and to meet financial obligations as they fall due. The Group maintains a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk.

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

Facilities available to the Group at the reporting date;

	31-Dec-21	31-Dec-20
	€'000	€'000
Borrowings (excluding lease liabilities)	**(1,020,176)**	(1,134,399)
Committed facilities	**(1,484,783)**	(1,595,600)

The Group's Private Placement debt matured on 31 March 2021. This redemption was funded through existing cash resources and operating cashflows. In 2021 Gas Networks Ireland commenced the process of refinancing its Revolving Credit Facility (RCF), the Group's principal liquidity facility. This process was concluded in January 2022 with the entry by Gas Networks Ireland into a new €300 million RCF with a syndicate of international and domestic banks. The new five-year facility has an initial maturity date of January 2027 and will be used for general corporate purposes.

Gas Networks Ireland is rated A by Standard & Poor's (2020: A) and A2 by Moody's Investors Services (2020: A3). This strong credit rating enables the Company to have access to a wide diversity of funding sources and ensures it can raise funding at competitive cost.

(ii) (b) Cash surpluses

Cash surpluses are used primarily to reduce the level of debt. Cash surpluses are primarily placed on deposit with counterparty banks. The Group will invest surplus cash in euro or in the currency of overseas operations.

(ii) (c) Exposure to liquidity risk

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

	Carrying amount	Contractual cash flows	< 1 year	1-2 years	2-5 years	> 5 years
	€'000	€'000	€'000	€'000	€'000	€'000
At 31 December 2021						
Borrowings and other debt	**(1,023,244)**	**(1,111,160)**	**(10,329)**	**(10,515)**	**(831,467)**	**(258,849)**
Trade and other payables	**(85,311)**	**(85,311)**	**(80,082)**	**(5,229)**	**-**	**-**
Non-derivative financial liabilities	**(1,108,555)**	**(1,196,471)**	**(90,411)**	**(15,744)**	**(831,467)**	**(258,849)**
Foreign exchange rate contracts	**596**	**596**	**407**	**170**	**19**	**-**
Net derivative financial assets	**596**	**596**	**407**	**170**	**19**	**-**
Net financial liabilities	**(1,107,959)**	**(1,195,875)**	**(90,004)**	**(15,574)**	**(831,448)**	**(258,849)**
At 31 December 2020						
Borrowings and other debt	(1,137,714)	(1,237,179)	(128,745)	(10,314)	(330,663)	(767,457)
Trade and other payables	(70,654)	(70,654)	(65,466)	(5,188)	-	-
Non-derivative financial liabilities	(1,208,368)	(1,307,833)	(194,211)	(15,502)	(330,663)	(767,457)
Interest rate swaps	(132)	(266)	(266)	-	-	-
Cross currency interest rate swaps	4,247	5,628	5,628	-	-	-
Foreign exchange rate contracts	57	57	57	-	-	-
Net derivative financial assets	4,172	5,419	5,419	-	-	-
Net financial liabilities	(1,204,196)	(1,302,414)	(188,792)	(15,502)	(330,663)	(767,457)

(iii) Market risk

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

Group Treasury is responsible for managing market risk with respect to interest rates and currency exchange rates. All such transactions are carried out within the guidelines set by the Treasury Policy and transacted in compliance Requirements and the Conditions of the Minister of Finance, issued in accordance with provisions of the Financial Transaction of Certain Companies and Other Bodies Act 1992, most recently issued in December 2020. Group Treasury seeks to apply hedge accounting in order to manage volatility in profit or loss where material in context of the Group.

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

(iii) (a) Exchange rate risk

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

GBP/EUR exchange rates were as follows:

	2021	2020
Average rate	**0.860**	0.889
Year end rate	**0.841**	0.895

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

• *Subsidiaries operating in foreign currency (sterling)*

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

Intra-group funding to foreign currency subsidiaries is translated into euro using the exchange rates at the reporting date. The profit/loss arising on the translation of the intra-group funding to foreign subsidiaries is taken to the income statement. The profit/loss arising on the translation of foreign currency liabilities, to the extent that they are used to finance or to provide a hedge against the intragroup funding in foreign subsidiaries, is also taken to the income statement.

• *Transaction exposure*

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

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

Exchange rate sensitivity analysis

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

	Profit before taxation gain/ (loss)	Other comprehensive income	Profit before taxation gain/ (loss)	Other comprehensive income
	31-Dec-21	31-Dec-21	31-Dec-20	31-Dec-20
	€'000	€'000	€'000	€'000
5% Strengthening	**(1,278)**	**(2,319)**	(241)	(1,991)
5% Weakening	**1,278**	**2,319**	241	1,991

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

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only, and
- changes in the carrying value of derivative financial instruments that are cash flow hedges impact other comprehensive income only (applies to 31 December 2020 only, as there were no derivatives designated as derivatives at 31 December 2021).

(iii) (b) Interest rate risk

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

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

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

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

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

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

	2021	2021	2020	2020
	€'000	%	€'000	%
At fixed rates[1]	**(920,210)**	**90.2%**	(1,034,553)	91.2%
At floating rates	**(99,966)**	**9.8%**	(99,846)	8.8%
Total	**(1,020,176)**	**100.0%**	(1,134,399)	100.0%

[1] The 2020 comparative figure includes interest rate swaps. The Group had €922.4 million of fixed rate debt excluding interest rate swaps at 31 December 2020. The Group held no interest rate swaps at 31 December 2021.

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

On 31 December 2020, the Group had US$140 million fixed rate debt outstanding (€111.2 million equivalent) in a US dollar Private Placement transaction which was completed on 31 March 2009. In order to hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating euro, the Group had a cross currency interest rate swap which matched the maturity profile of the debt. At 31 December 2020, the Group had outstanding interest rate swaps with a notional principal of €111.2 million, which commenced in H2 2017 and were swapped for four years effectively fixing the Private Placement debt instrument until its maturity in March 2021.

At 31 December 2021, the weighted average interest rate of the fixed debt portfolio was 1.09% (2020: 1.33%), which comprised three bonds totalling €925.0 million.

	2021	2020
Fixed rate debt had an average duration of	**5.63 years**	5.94 years

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

Cash flow sensitivity analysis for floating rate debt

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

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

	Profit before taxation gain/(loss)		Other comprehensive income	
	31-Dec-21	31-Dec-20	31-Dec-21	31-Dec-20
	€'000	€'000	€'000	€'000
50 bp increase	**(500)**	(499)	**-**	-
50 bp decrease	**500**	499	**-**	-

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

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

Notes to the Group financial statements (continued)

24. Fair Value Measurement

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

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred. There were no transfers in both 2021 and 2020.

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

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

Notes to the Group financial statements (continued)

24. Fair Value Measurement (continued)

Type	Valuation technique	Significant unobservable inputs
Forward exchange contracts *(Refer to note 23)*	The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated as the difference between the contractual forward price and the current forward price for the residual maturity of the contract. Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.
Interest rate swaps and cross currency interest rate swaps* *(Refer to note 23)*	The fair value of interest rate swaps and cross currency interest rate swaps took into account the fixed, floating and market rates prevailing at the reporting date. Fair values reflected the credit risk of the instrument and include adjustments to take account of the credit risk of the relevant Group entity and counterparty when appropriate. Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.
Private Placement (fair value hedge portion)* *(Refer to note 23)*	The fair value of the fixed rate debt was 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.

*only relevant to prior period following the maturity of the Private Placement debt and associated cross currency interest rate swaps on 31 March 2021.

(b) Fair value of financial liabilities that are not measured at fair value (but fair value disclosures are required)

The fair value of borrowings, measured at amortised cost is estimated by discounting the future cash flows to net present values using market rates prevailing at the reporting date - Fair value hierarchy: level 2. There were no financial instruments that are measured at amortised cost but for which fair value was disclosed classified as Level 3 either in the current year or in the prior year.

Notes to the Group financial statements (continued)

25. Subsidiaries

At 31 December 2021, the Group and the Company had the following subsidiaries:

Company	Nature of Business	Registered Office	% Holding of Ordinary Share Capital
GNI (UK) Limited	Gas Transmission	8th Floor, 20 Farringdon Street, London, United Kingdom EC4A 4AB	100%
Gas Networks Ireland (IOM) DAC	Gas Transmission	Gasworks Road, Cork, Ireland	100%
Network Services Transition DAC (formerly Gaslink Independent System Operator DAC)	Non-trading	Gasworks Road, Cork, Ireland	100%

26. Related Parties

The related party balances, in respect of the transactions detailed in the relevant sections below, are as follows:

	31-Dec-21	31-Dec-20
	€'000	€'000
Ervia	**(23,672)**	(39,173)
Irish Water	**(119)**	19
	(23,791)	(39,154)

Transactions with Ervia

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

(a) Transactional and support service costs

During 2021, Ervia Parent provided strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water and Gas Networks Ireland, through the Group Centre, Major Projects area and Business Services. The Business Services organisation is designed to provide transactional and support services in the areas of Finance, Procurement, Facilities, Insurance, Project Support, HR and IT.

Notes to the Group financial statements (continued)

26. Related Parties (continued)

Transactional and support services provided by Ervia Parent		
Business Services	**Group**	**Other**
Finance services	Governance and control	Major projects
Procurement services	Financial planning	Supply chain
HR services	Risk management	
IT services	Group services	
Insurance services	Stakeholder relationships	
Project support services		
Facilities services		
Management and administration		

Operating costs incurred by Ervia Parent and recharged to Irish Water and Gas Networks Ireland

	2021 €'000	2020 €'000
Employee benefit expense	**(54,042)**	(56,311)
Hired and contracted services	**(4,404)**	(3,366)
Materials, maintenance and sub-contractor costs	**(10,640)**	(11,738)
Rates and facilities	**(622)**	(695)
Other operating expenses	**(11,603)**	(13,686)
Sub-total before recharges	**(81,311)**	(85,796)
Recharges to Irish Water	**49,320**	52,403
Recharges to Gas Networks Ireland	**24,796**	25,993
Total after recharges[1]	**(7,195)**	(7,400)

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

Basis for the apportionment of Ervia Parent operating costs

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

Notes to the Group financial statements (continued)

26. Related Parties (continued)

- The identified cost drivers for each individual cost-centre are reviewed annually to ensure that operating costs are recharged in line with the underlying levels of activity.
- Operating costs directly attributable to Gas Networks Ireland are either charged directly to Gas Networks Ireland, or are recharged in full to Gas Networks Ireland
- The overarching objective of the apportionment of operating costs as set out above is to ensure operating costs are recharged to Irish Water and Gas Networks Ireland based on a fair and transparent methodology, reflective of the underlying cost drivers.

(b) Capital expenditure costs incurred by Ervia Parent and recharged to Gas Networks Ireland

	2021	2020
	€'000	€'000
Capital expenditure costs recharged	**(4,807)**	(7,472)

During 2021, the Group and Company transacted with Ervia Parent in respect of joint utility, centrally delivered and business delivered projects including the payroll costs incurred by the Major Projects area. The directly attributable Gas Networks Ireland costs were re-charged on a monthly basis with no overhead or margin applied by Ervia Parent.

(c) Dividends

	2021	2020
	€'000	€'000
Dividend paid to Ervia	**(15,361)**	(47,283)

The Company declared and paid an annual dividend to Ervia as set out above. In 2018, the Company declared an annual dividend of €54.2 million and paid €49.1 million, with the remaining €5.1 million payable in 2023 (with appropriate interest). In March 2022, the Board further approved the declaration and payment of a dividend of €20.1 million.

(d) Pension costs

	2021	2020
	€'000	€'000
Pension costs	**(5,823)**	(5,617)

Ervia Parent operates defined benefit and defined contribution pension schemes. A number of the Company's employees participate in these schemes. The defined benefit scheme is accounted for as a Group Plan in accordance with IAS 19. Ervia Parent, as the sponsoring employer for the plan, recognises the net defined benefit cost, while the Company recognises only the cost of contributions payable for the year in respect of the Company's employees. The contributions payable in respect of the Ervia defined contribution scheme are charged to profit or loss in the years during which services are rendered by the Company's employees. The contributions payable in respect of the Group's employees are included in the Company's employee benefit expense (note 5). Ervia Parent recharges these costs to Gas Networks Ireland on a full cost recovery method with no margin earned.

Notes to the Group financial statements (continued)

26. Related Parties (continued)

(e) Capital contribution

	2021 €'000	2020 €'000
Capital contribution	**(6,864)**	-

As previously noted, in 2018 the Government announced that Gas Networks Ireland and Irish Water would become two standalone, publicly owned, commercial, regulated utilities during 2023. It is expected that the Ervia Parent will be dissolved following the completion of the legal separation process. To achieve this, during 2021, property, plant and equipment was transferred from Ervia Parent to Gas Networks Ireland at its carrying value of €6.9 million for nil consideration, as a common control transaction (see note 9).

Transactions with Irish Water

Irish Water is deemed to be a related party of the Group. At 31 December 2021, the ultimate parent, Ervia Parent held a single voting share in Irish Water, with no economic rights attributable to that share. The Minister for Finance and the Minister for Housing, Local Government and Heritage each held 325 (2020: 325) Water Economic Rights ('WER') shares which carried no voting rights but carried all the economic rights to obtain benefit from the activities of Irish Water.

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

Key management compensation

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.

	2021 €'000	2020 €'000
Short-term employee benefits	**(712)**	(709)
Post-employment benefits	**(76)**	(73)
Total	**(788)**	(782)

Board members

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

Government 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, Local Authorities and with certain Irish banks which are partially owned by the Irish Government. All transactions are on normal commercial terms. The Group had no material concentration of borrowings or deposits with any such banks during the year, at the reporting date, or for the comparative period end.

Notes to the Group financial statements (continued)

27. Subsequent Events

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

As described in the Directors' Report on page 7, we are closely monitoring the developing situation arising from the conflict between Russia and Ukraine and are assessing the potential impacts for our operations as the situation continues to evolve. This is a non-adjusting event for these financial statements.

28. Approval of Financial Statements

The Directors approved the financial statements on 28 March 2022.

Company Balance Sheet
as at 31 December 2021

	Notes	31-Dec-21 €'000	31-Dec-20 €'000
Assets			
Non-current assets			
Property, plant and equipment	29A.	**2,124,384**	2,126,205
Intangible assets	29C.	**28,776**	26,891
Investment in subsidiaries	29D.	**515**	515
Trade and other receivables	29E.	**130,658**	128,868
Derivative financial instruments	29P.	**189**	-
Total non-current assets		**2,284,522**	2,282,479
Current assets			
Trade and other receivables	29E.	**77,901**	45,760
Cash and cash equivalents	29F.	**39,459**	62,206
Restricted deposits	29G.	**42,022**	13,511
Derivative financial instruments	29P.	**499**	4,402
Inventories	29I.	**405**	2,942
Total current assets		**160,286**	128,821
Total assets		**2,444,808**	2,411,300
Equity and liabilities			
Equity			
Share capital and share premium		**(318,353)**	(318,353)
Capital contribution		**(369,947)**	(363,083)
Retained earnings		**(298,212)**	(227,232)
Cash flow hedge reserve		**-**	1,199
Total equity		**(986,512)**	(907,469)
Liabilities			
Non-current liabilities			
Borrowings and other debt	29J.	**(1,022,991)**	(1,022,854)
Deferred revenue	29K.	**(47,469)**	(16,927)
Grants	29L.	**(20,032)**	(23,413)
Provisions	29M.	**(6,198)**	(3,391)
Trade and other payables	29N.	**(10,270)**	(9,733)
Derivative financial instruments	29P.	**(189)**	-
Deferred tax liabilities	29O.	**(192,087)**	(195,124)
Total non-current liabilities		**(1,299,236)**	(1,271,442)
Current liabilities			
Borrowings and other debt	29J.	**(253)**	(114,860)
Deferred revenue	29K.	**(12,937)**	(8,682)
Grants	29L.	**(3,987)**	(4,072)
Provisions	29M.	**(1,613)**	(4,758)
Trade and other payables	29N.	**(138,065)**	(98,364)
Derivative financial instruments	29P.	**(411)**	(263)
Current tax liabilities	29O.	**(1,794)**	(1,390)
Total current liabilities		**(159,060)**	(232,389)
Total liabilities		**(1,458,296)**	(1,503,831)
Total equity and liabilities		**(2,444,808)**	(2,411,300)

The profit attributable to the Company for the year ended 31 December 2021 was €86.3 million (2020: €74.1 million).

For and on behalf of the Board:

Cathal Marley Chairman	Denis O'Sullivan Director	28th March 2022 Date of Approval

Company Statement of Changes in Equity
for the year ended 31 December 2021

		Share capital and share premium	Capital contribution	Retained earnings	Cash flow hedge reserve	Total
		€'000	€'000	€'000	€'000	€'000
At 1 January 2020		(318,353)	(363,083)	(200,391)	503	(881,324)
Profit for the year		-	-	(74,124)	-	(74,124)
Other comprehensive income for the year		-	-	-	696	696
Total other comprehensive income for the year				(74,124)	696	(73,428)
Dividends	29R.	-	-	47,283	-	47,283
At 31 December 2020		(318,353)	(363,083)	(227,232)	1,199	(907,469)
Profit for the year		**-**	**-**	**(86,341)**	**-**	**(86,341)**
Other comprehensive income for the year		**-**	**-**	**-**	**(1,199)**	**(1,199)**
Total other comprehensive income for the year		**-**	**-**	**(86,341)**	**(1,199)**	**(87,540)**
Capital contribution	29R.	**-**	**(6,864)**	**-**	**-**	**(6,864)**
Dividends	29R.	**-**	**-**	**15,361**	**-**	**15,361**
At 31 December 2021		**(318,353)**	**(369,947)**	**(298,212)**	**-**	**(986,512)**

All attributable to owners of the Company.

Company Statement of Cash Flows
for the year ended 31 December 2021

	Notes	2021	2020
		€'000	€'000
Net cash from operating activities	29H.	**176,426**	208,234
Cash flows from investing activities			
Payments for property, plant and equipment		**(103,508)**	(99,658)
Payments for intangible assets		**(10,367)**	(10,065)
Grants received	29L.	**505**	899
Interest received		**1,400**	2,189
Repayment received (loan to subsidiary)		**9,605**	7,099
Dividend received	29R.	**30,000**	-
Net cash used in investing activities		**(72,365)**	(99,536)
Cash flows from financing activities			
Proceeds from borrowings		**40,000**	-
Repayment of borrowings		**(151,200)**	(40,000)
Repayment of lease liabilities	29B.	**(247)**	(241)
Repayment of borrowings (loan from ultimate parent undertaking)		**-**	(23,000)
Dividends paid	29R.	**(15,361)**	(47,283)
Net cash used in financing activities		**(126,808)**	(110,524)
Net decrease in cash and cash equivalents	29F.	**(22,747)**	(1,826)
Cash and cash equivalents at 1 January	29F.	**62,206**	64,032
Cash and cash equivalents at 31 December	29F.	**39,459**	62,206

Notes to the Company Financial Statements

Notes to the Company financial statements (continued)

29A. Property, Plant and Equipment

		31-Dec-21	31-Dec-20
		€'000	€'000
Property, plant and equipment - owned assets		**2,119,371**	2,121,734
Property, plant and equipment - right-of-use assets	29B.	**5,013**	4,471
Property, plant and equipment - as presented on the balance sheet		**2,124,384**	2,126,205

Property, plant and equipment - owned assets

		Land and buildings	Plant, pipeline and machinery	Assets under construction	Total
		€'000	€'000	€'000	€'000
Cost					
At 1 January 2020		59,641	3,632,096	41,650	3,733,387
Additions		-	11,158	87,044	98,202
Disposals		-	(4,017)	-	(4,017)
Transfers		-	65,506	(65,506)	-
At 31 December 2020		59,641	3,704,743	63,188	3,827,572
Additions		**-**	**3,410**	**103,397**	**106,807**
Disposals		**-**	**(4,590)**	**-**	**(4,590)**
Transfers		**-**	**126,751**	**(126,751)**	**-**
Transferred under common control transaction	29R.	**21,345**	**-**	**-**	**21,345**
At 31 December 2021		**80,986**	**3,830,314**	**39,834**	**3,951,134**
Accumulated depreciation and impairment losses					
At 1 January 2020		(20,670)	(1,578,918)	-	(1,599,588)
Depreciation charge		(1,217)	(109,050)	-	(110,267)
Disposals		-	4,017	-	4,017
At 31 December 2020		(21,887)	(1,683,951)	-	(1,705,838)
Depreciation charge		**(1,303)**	**(114,724)**	**-**	**(116,027)**
Transferred under common control transaction	29R.	**(14,481)**	**-**	**-**	**(14,481)**
Disposals		**-**	**4,583**	**-**	**4,583**
At 31 December 2021		**(37,671)**	**(1,794,092)**	**-**	**(1,831,763)**
Carrying amounts					
At 31 December 2020		37,754	2,020,792	63,188	2,121,734
At 31 December 2021		**43,315**	**2,036,222**	**39,834**	**2,119,371**

Notes to the Company financial statements (continued)

29A. Property, Plant and Equipment (continued)

The carrying value of property, plant and equipment includes assets that are subject to operating lease arrangements as described in note 29B 'The Company as Lessor'. The carrying value of these assets at 31 December 2021 was €65.5 million (31 December 2020: €74.5 million) and is included in plant, pipeline and machinery.

29B. Lease Assets and Liabilities

The Company as Lessee

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

Notes to the Company financial statements (continued)

29B. Lease Assets and Liabilities (continued)

Amounts recognised on the balance sheet

Right-of-use assets

	Land and buildings	Plant, pipeline and machinery	Total
	€'000	€'000	€'000
Cost			
At 1 January 2020	566	4,629	5,195
Additions	-	-	-
At 31 December 2020	566	4,629	5,195
Additions	**-**	**907**	**907**
At 31 December 2021	**566**	**5,536**	**6,102**
Accumulated depreciation and impairment losses			
At 1 January 2020	(97)	(265)	(362)
Depreciation charge	(97)	(265)	(362)
At 31 December 2020	(194)	(530)	(724)
Depreciation charge	**(97)**	**(268)**	**(365)**
At 31 December 2021	**(291)**	**(798)**	**(1,089)**
Carrying amounts			
At 31 December 2020	372	4,099	4,471
At 31 December 2021	**275**	**4,738**	**5,013**
Lease liabilities			
At 1 January 2020	(456)	(3,100)	(3,556)
Interest expense	(5)	(94)	(99)
Lease payments	100	240	340
At 31 December 2020	(361)	(2,954)	(3,315)
Additions	**-**	**-**	**-**
Interest expense	**(4)**	**(90)**	**(94)**
Lease payments	**100**	**241**	**341**
At 31 December 2021	**(265)**	**(2,803)**	**(3,068)**

Notes to the Company financial statements (continued)

29B. Lease Assets and Liabilities (continued)

Analysed as follows:

	31-Dec-21	31-Dec-20
	€'000	€'000
Non-current	**(2,815)**	(3,068)
Current	**(253)**	(247)
Total	**(3,068)**	(3,315)

Lease liabilities are monitored within the relevant business functions. The Parent does not face significant liquidity risk with regard to its lease liabilities. Refer to note 29J for a maturity analysis of lease liabilities.

The Company as Lessor

The Company enters into operating lease arrangements to allow third parties the use of parts of the Gas Network Transportation system. In accordance with the Company's accounting policy all receipts from these arrangements are deemed to be earned as part of the Company's core operations and accordingly the lease income is recognised as revenue in the income statement. During 2021, lease income of €12.7 million was recognised (2020: €13.8 million). Below is a profile of undiscounted non-cancellable future operating lease income to be recognised as revenue in future years. The unexpired lease terms range from 1 to 9 years (2020: 3 to 11 years).

Maturity analysis

	31-Dec-21	31-Dec-20
	€'000	€'000
Year 1	**11,360**	12,711
Year 2	**9,554**	11,360
Year 3	**8,296**	9,554
Year 4	**6,741**	8,296
Year 5	**3,909**	6,887
Year 6 onwards	**48**	4,234
Total	**39,908**	53,042

Notes to the Company financial statements (continued)

29C. Intangible Assets

	Software and other €'000	Software under development €'000	Total €'000
Cost			
At 1 January 2020	145,165	8,329	153,494
Additions (incl internally developed)	-	10,427	10,427
Transfers	10,328	(10,328)	-
At 31 December 2020	155,493	8,428	163,921
Additions (incl internally developed)	**3,522**	**7,618**	**11,140**
Cloud computing transition adjustment	**(3,472)**	**(144)**	**(3,616)**
Transfers	**5,438**	**(5,438)**	**-**
At 31 December 2021	**160,981**	**10,464**	**171,445**
Accumulated amortisation and impairment losses			
At 1 January 2020	(131,307)	-	(131,307)
Amortisation charge	(5,723)	-	(5,723)
At 31 December 2020	(137,030)	-	(137,030)
Amortisation charge	**(6,203)**	**-**	**(6,203)**
Cloud computing transition adjustment	**564**	**-**	**564**
At 31 December 2021	**(142,669)**	**-**	**(142,669)**
Carrying amount			
At 31 December 2020	18,463	8,428	26,891
At 31 December 2021	**18,312**	**10,464**	**28,776**

As described in further detail in note 1, in April 2021 the IFRS Interpretations Committee published a final agenda decision clarifying how to recognise certain configuration and customisation expenditures related to cloud computing arrangements. Costs that do not meet the capitalisation criteria should be expensed as incurred. The Company changed its accounting policy to align with the agenda decision and previously capitalised costs that no longer qualify for capitalisation were expensed in the current period (retrospective application not applied as the amount was not material). A net cloud computing transition adjustment of €3.1 million is presented above, with corresponding income statement impacts presented in notes 4 and 6 and a cashflow statement (non-cash) adjustment presented in note 29H.

Notes to the Company financial statements (continued)

29D. Investment in Subsidiaries

	2021 €'000	2020 €'000
Cost		
At 1 January	**515**	515
At 31 December	**515**	515
Impairment		
At 1 January	**-**	-
At 31 December	**-**	-
Carrying amount		
At 31 December	**515**	515

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

29E. Trade and Other Receivables

		31-Dec-21 €'000	31-Dec-20 €'000
Use of system receivable - billed		**29,388**	1,029
Use of system receivable - unbilled		**37,539**	37,740
Other trade receivables - billed		**1,698**	2,043
Other trade receivables - unbilled		**520**	504
Amounts due from subsidiaries	29R.	**131,927**	129,088
Amounts due from Irish Water	29R.	**-**	19
Other receivables		**3,374**	1,459
Sub-total		**204,446**	171,882
Prepayments		**4,113**	2,746
Total		**208,559**	174,628
Analysed as follows:			
Non-current		**130,658**	128,868
Current		**77,901**	45,760
Total		**208,559**	174,628

Notes to the Company financial statements (continued)

29E. Trade and Other Receivables (continued)

Trade and other receivables include use of system receivables, other trade receivables and amounts due from subsidiaries - refer to notes 12 and 29R for further details on each of these.

There are no material expected credit losses recognised by the Company.

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

	31-Dec-21	31-Dec-20
	€'000	€'000
Simplified approach	**72,519**	42,794
General approach	**131,927**	129,088
Prepayments	**4,113**	2,746
Total	**208,559**	174,628

Simplified approach - Expected Credit Losses

Refer to note 12 for further detail of the application of the ECL simplified approach within the Group and Company.

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

	2021	2020
	€'000	€'000
At 1 January	**(596)**	(507)
Impairment losses on financial assets	**(14)**	(110)
Allowance utilised	**93**	21
At 31 December	**(517)**	(596)

Notes to the Company financial statements (continued)

29E. Trade and Other Receivables (continued)

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

	2021	2020
	€'000	€'000
Not past due	**43,504**	41,150
1-30 days overdue	**28,686**	1,533
31-120 days overdue	**329**	97
> 120 days overdue	**-**	14
Total	**72,519**	42,794

General approach - Expected Credit Losses

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

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

- **Stage 1** is where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, entities are required to recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.
- **Stage 2** is where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2 entities are required to recognise lifetime ECL but interest income will continue to be recognised on a gross basis.
- **Stage 3** is where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, entities will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. This means that interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

At 31 December 2021, the Company had amounts due from subsidiaries of €131.9 million (2020: €129.1 million). In determining ECL (including probability of default and loss given default), amounts due from subsidiaries were classified as low credit risk receivables. There were no amounts classified as payable on demand or for which there has been a substantial increase in credit risk since initial recognition. In determining an expected credit loss, regard is given to the historic performance of the relevant loan as well as forward looking information for the relevant subsidiary, including detailed discounted cash flow forecasts and macro-economic factors. Further to this assessment, no ECL allowance is recognised in respect of these amounts at 31 December 2021 (2020: €nil) and no ECL was recognised during the year in respect of these amounts (2020: €nil) due to ECL being assessed as immaterial.

Notes to the Company financial statements (continued)

29E. Trade and Other Receivables (continued)

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

	2021	2020
	€'000	€'000
Stage 1 - 12 month ECL (not credit impaired)	**131,927**	129,088
Stage 2 - Lifetime ECL (not credit impaired)	**-**	-
Stage 3 - Lifetime ECL (credit impaired)	**-**	-
Total	**131,927**	129,088

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

	2021	2020
	€'000	€'000
Ireland	**72,519**	42,794
UK (including Northern Ireland and Isle of Man)	**131,927**	129,088
Total	**204,446**	171,882

29F. Cash and Cash Equivalents

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

	31-Dec-21	31-Dec-20
	€'000	€'000
Short-term deposits	**36,000**	59,500
Cash on hand	**3,459**	2,706
Total	**39,459**	62,206

	2021	2020
	€'000	€'000
At 1 January	**62,206**	64,032
Decrease in cash and cash equivalents in the statement of cash flows	**(22,747)**	(1,826)
At 31 December	**39,459**	62,206

Notes to the Company financial statements (continued)

29G. Restricted Deposits

	31-Dec-21	31-Dec-20
	€'000	€'000
Security deposits	**42,022**	13,511
Total	**42,022**	13,511

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

29H. Cash Generated from Operations

	2021	2020
	€'000	€'000
Cash flows from operating activities		
Profit for the year	**86,341**	74,124
Adjustments for:		
Depreciation and amortisation	**118,059**	112,407
Cloud computing transition adjustment	**3,616**	-
Net finance (income)/costs	**(16,876)**	14,799
Income tax expense	**7,502**	12,235
	198,642	213,565
Working capital changes:		
Change in trade and other receivables	**(33,152)**	(2,181)
Change in trade and other payables	**(1,712)**	30,008
Change in deferred revenue	**34,797**	7,333
Change in provisions	**(338)**	(2,872)
Change in inventories	**2,537**	(454)
Cash from operating activities	**200,774**	245,399
Interest paid	**(14,045)**	(23,783)
Income tax paid	**(10,303)**	(13,382)
Net cash from operating activities	**176,426**	208,234

Notes to the Company financial statements (continued)

29I. Inventory

	31-Dec-21 €'000	31-Dec-20 €'000
Stocks and materials	**405**	2,942

There were no write-downs of inventories to net realisable value in 2021 (2020: €nil).

29J. Borrowings and Other Debt

This note provides information about the contractual terms of the Company's interest-bearing borrowings. Refer to note 29P for more information about the Company's exposure to interest rate, exchange rate and liquidity risk.

	31-Dec-21 €'000	31-Dec-20 €'000
Bonds	**(920,210)**	(919,270)
Loans from financial institutions[1]	**(99,966)**	(215,129)
Lease liabilities	**(3,068)**	(3,315)
Total	**(1,023,244)**	(1,137,714)

[1] Balance at 31 December 2020 includes private placement notes that expired in March 2021.

	31-Dec-21	31-Dec-20
Analysed as follows:		
Non-current	**(1,022,991)**	(1,022,854)
Current	**(253)**	(114,860)
Total	**(1,023,244)**	(1,137,714)
Less than one year	**(253)**	(114,860)
Between one and five years	**(797,129)**	(298,487)
More than five years	**(225,862)**	(724,367)
Total	**(1,023,244)**	(1,137,714)

All borrowings are repayable other than by instalment. Certain borrowings are held with related parties (refer to note 29R for further details).

Notes to the Company financial statements (continued)

29J. Borrowings and Other Debt (continued)

Net debt

		31-Dec-21	31-Dec-20
		€'000	€'000
Total borrowings and other debt		**(1,023,244)**	(1,137,714)
Less fair value hedges recognised within borrowings	29P.	**-**	4,131
Less cash and cash equivalents	29F.	**39,459**	62,206
Net debt		**(983,785)**	(1,071,377)

Changes in liabilities arising from financing activities

		Bonds	Loans from financial institutions	Lease liabilities	Sub-total	Ultimate parent undertaking[1]	Total
		€'000	€'000	€'000	€'000	€'000	€'000
At 1 January 2020		(918,297)	(265,668)	(3,556)	(1,187,521)	(28,147)	(1,215,668)
Repayment		-	40,000	-	40,000	23,000	63,000
Repayment of lease liabilities	29B.	-	-	241	241	-	241
Change in fair value of financial liabilities		-	11,187	-	11,187	-	11,187
Non-cash		(973)	(648)	-	(1,621)	(41)	(1,662)
At 31 December 2020		(919,270)	(215,129)	(3,315)	(1,137,714)	(5,188)	(1,142,902)
Proceeds		**-**	**(40,000)**	**-**	**(40,000)**	**-**	**(40,000)**
Repayment		**-**	**151,200**	**-**	**151,200**	**-**	**151,200**
Repayment of lease liabilities	29B.	**-**	**-**	**247**	**247**	**-**	**247**
Change in fair value of financial liabilities		**-**	**4,131**	**-**	**4,131**	**-**	**4,131**
Non-cash		**(940)**	**(168)**	**-**	**(1,108)**	**(41)**	**(1,149)**
At 31 December 2021		**(920,210)**	**(99,966)**	**(3,068)**	**(1,023,244)**	**(5,229)**	**(1,028,473)**

[1] Liabilities from financing activities with the ultimate parent undertaking is included within the amounts owed to the ultimate parent undertaking as disclosed in note 29N. Refer to note 29R 'Transactions with Ervia' (c) for details on the nature of the liability as at 31 December 2021.

Notes to the Company financial statements (continued)

29K. Deferred Revenue

	2021 €'000	2020 €'000
At 1 January	**(25,609)**	(18,276)
Received	**(39,036)**	(12,291)
Credited to the income statement	**4,239**	4,958
At 31 December	**(60,406)**	(25,609)

Analysed as follows:

	31-Dec-21 €'000	31-Dec-20 €'000
Non-current	**(47,469)**	(16,927)
Current	**(12,937)**	(8,682)
Total	**(60,406)**	(25,609)

29L. Grants

	2021 €'000	2020 €'000
At 1 January	**(27,485)**	(30,822)
Received	**(807)**	(899)
Amortised	**3,971**	3,945
Credited to income statement	**302**	291
At 31 December	**(24,019)**	(27,485)

Analysed as follows:

	31-Dec-21 €'000	31-Dec-20 €'000
Non-current	**(20,032)**	(23,413)
Current	**(3,987)**	(4,072)
Total	**(24,019)**	(27,485)

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

Notes to the Company financial statements (continued)

29L. Grants (continued)

Grants receivable for 2021 of €0.8 million (2020: €0.9 million) related to grant funding from the Innovation and Networks Executive Agency (INEA), for investment in Compressed Natural Gas stations and Biogas related infrastructure and the development of policies and procedures in relation to Gas Networks Ireland Gas Operational Technology. A number of conditions relating to these grant fundings remain in progress at year end.

29M. Provisions, Contingencies and Capital Commitments

Provisions

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

Contingencies

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

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

Capital commitments

	2021	2020
	€'million	€'million
Capital expenditure that has been contracted for but has not been provided for	**40**	48

Notes to the Company financial statements (continued)

29N. Trade and Other Payables

	31-Dec-21	31-Dec-20
	€'000	€'000
Trade payables	**(13,602)**	(6,137)
Accrued expenses	**(60,576)**	(51,533)
Other payables	**(43,853)**	(22,144)
Amounts owed to ultimate parent undertaking	**(10,340)**	(12,782)
Amounts owed to Irish Water	**(119)**	-
Taxation and social insurance creditors	**(19,845)**	(15,501)
Total	**(148,335)**	(108,097)
Analysed as follows:		
Non-current	**(10,270)**	(9,733)
Current	**(138,065)**	(98,364)
Total	**(148,335)**	(108,097)
Taxation and social insurance creditors		
PAYE/social insurance	**(2,304)**	(1,632)
VAT	**(17,541)**	(13,869)
Total	**(19,845)**	(15,501)

Notes to the Company financial statements (continued)

29O. Tax

Current tax assets and liabilities

	31-Dec-21	31-Dec-20
	€'000	€'000
Current tax liabilities	**(1,794)**	(1,390)

Deferred tax assets and liabilities

	Derivative financial instruments	Accelerated tax depreciation	Interest charges payable	Other	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2020	71	(197,216)	349	(160)	(196,956)
Recognised in income statement	-	1,625	93	15	1,733
Recognised in equity	99	-	-	-	99
At 31 December 2020	170	(195,591)	442	(145)	(195,124)
Recognised in income statement	**-**	**3,369**	**(62)**	**(100)**	**3,207**
Recognised in equity	**(170)**	**-**	**-**	**-**	**(170)**
At 31 December 2021	**-**	**(192,222)**	**380**	**(245)**	**(192,087)**

29P. Financial Risk Management and Financial Instruments

Refer to note 23 for an overview of the derivative financial instruments used by the Group and the Company.

The following table combines information about:

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

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

Notes to the Company financial statements (continued)

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

		FVTPL undesignated	FVTPL designated	FVTOCI	Total at amortised cost	Total
		€'000	€'000	€'000	€'000	€'000
At 31 December 2021						
Financial assets						
Foreign exchange rate contracts	Level 2	**688**	**-**	**-**	**-**	**688**
Trade and other receivables[2]		**-**	**-**	**-**	**204,446**	**204,446**
Cash and cash equivalents[3]		**-**	**-**	**-**	**39,459**	**39,459**
Restricted deposits		**-**	**-**	**-**	**42,022**	**42,022**
Total financial assets		**688**	**-**	**-**	**285,927**	**286,615**
Financial liabilities						
Borrowings and other debt4	Level 2	**-**	**-**	**-**	**(1,023,244)**	**(1,023,244)**
Foreign exchange rate contracts	Level 2	**(600)**	**-**	**-**	**-**	**(600)**
Trade and other payables[1]		**-**	**-**	**-**	**(67,914)**	**(67,914)**
Total financial liabilities		**(600)**	**-**	**-**	**(1,091,158)**	**(1,091,758)**
Net financial (liabilities)/assets		**88**	**-**	**-**	**(805,231)**	**(805,143)**
At 31 December 2020						
Financial assets						
Cross currency interest rate swaps	Level 2	-	5,618	(1,371)	-	4,247
Foreign exchange rate contracts	Level 2	155	-	-	-	155
Trade and other receivables[2]		-	-	-	171,882	171,882
Cash and cash equivalents[3]		-	-	-	62,206	62,206
Restricted deposits		-	-	-	13,511	13,511
Total financial assets/(liabilities)		155	5,618	(1,371)	247,599	252,001
Financial liabilities						
Borrowings and other debt4	Level 2	-	(4,131)	-	(1,133,583)	(1,137,714)
Interest rate swaps	Level 2	(132)	-	-	-	(132)
Foreign exchange rate contracts	Level 2	(131)	-	-	-	(131)
Trade and other payables[1]		-	-	-	(41,063)	(41,063)
Total financial liabilities		(263)	(4,131)	-	(1,174,646)	(1,179,040)
Net financial (liabilities)/assets		(108)	1,487	(1,371)	(927,047)	(927,039)

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

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

[3] Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Parent has a current legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. As at 31 December 2021, €3.8 million of cash and cash equivalents (2020: €30.1 million) is offset against €0.3 million of bank overdrafts (2020: €27.4 million), and a net position of €3.5 million is presented as cash and cash equivalents (2020: €2.7 million). As at 31 December 2021, the Parent had entered no master netting arrangements and other similar agreements.

[4] The fair value of borrowings and other debt as at 31 December 2021 was €1,061.6 million (2020: €1,214.3 million).

Notes to the Company financial statements (continued)

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

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

	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Total
	€'000	€'000	€'000	€'000	€'000
Fair value of financial instruments					
Foreign exchange contracts	**189**	**499**	**(189)**	**(411)**	**88**
At 31 December 2021	**189**	**499**	**(189)**	**(411)**	**88**
Fair value of financial instruments					
Interest rate swaps	-	-	-	(132)	(132)
Cross currency interest rate swaps	-	4,247	-	-	4,247
Foreign exchange contracts	-	155	-	(131)	24
At 31 December 2020	-	4,402	-	(263)	4,139

Derivative assets and liabilities designated as hedges

The Company applies the criteria defined by IFRS9 in classifying derivates as hedges. Only derivative instruments external to the Company qualify for consideration for hedge accounting. Following the maturity of the Private Placement debt and associated CCIRS, on 31 March 2021, the Company no longer carries derivatives designated for hedge accounting purposes.

Hedge effectiveness was determined on the derivatives designated in a hedging relationship at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

The Company used the following categories for hedges:

(i) Fair value hedges (FVTPL - designated)

There were no hedges designated in a fair value hedging relationship at 31 December 2021. The ineffective portion of fair value hedges in 2021 and 2020 was €nil.

(ii) Cash flow hedges (FVTOCI)

There were no hedges designated in a cash flow hedging relationship at 31 December 2021. The amount recognised in profit or loss due to ineffectiveness on cash flow hedges was €nil during 2021 (2020: €nil).

Notes to the Company financial statements (continued)

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

The movements on the Company's cash flow hedge reserve (pre-tax) is as follows:

	CCIRS	Total
	€'000	€'000
At 1 January 2021	**(1,371)**	(1,371)
Net change in fair values	**1,371**	1,371
At 31 December 2021	**-**	-

Financial risk management

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

(i) Credit risk

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

	31-Dec-21	31-Dec-20
	€'000	€'000
Trade and other receivables (excluding prepayments)	**204,446**	171,882
Cash and cash equivalents	**39,459**	62,206
Restricted deposits	**42,022**	13,511
Derivative financial instruments	**688**	4,402
Total	**286,615**	252,001

(i) (a) Treasury related credit risk

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

Financial guarantees

Refer to note 23 for details of financial guarantees entered into by the Company.

(i) (b) Trade related credit risk

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

(ii) Funding and liquidity risk

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

Notes to the Company financial statements (continued)

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

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

	Carrying amount	Contractual cash flows	< 1 year	1-2 years	2-5 years	> 5 years
	€'000	€'000	€'000	€'000	€'000	€'000
At 31 December 2021						
Borrowings and other debt	**(1,023,244)**	**(1,111,160)**	**(10,329)**	**(10,515)**	**(831,467)**	**(258,849)**
Trade and other payables	**(67,914)**	**(67,914)**	**(62,685)**	**(5,229)**	**-**	**-**
Non-derivative financial liabilities	**(1,091,158)**	**(1,179,074)**	**(73,014)**	**(15,744)**	**(831,467)**	**(258,849)**
Foreign exchange rate contracts	**88**	**88**	**88**	**-**	**-**	**-**
Net derivative financial assets	**88**	**88**	**88**	**-**	**-**	**-**
Net financial liabilities	**(1,091,070)**	**(1,178,986)**	**(72,926)**	**(15,744)**	**(831,467)**	**(258,849)**
At 31 December 2020						
Borrowings and other debt	(1,137,714)	(1,237,179)	(128,745)	(10,314)	(330,663)	(767,457)
Trade and other payables	(41,063)	(41,063)	(35,875)	(5,188)	-	-
Non-derivative financial liabilities	(1,178,777)	(1,278,242)	(164,620)	(15,502)	(330,663)	(767,457)
Interest rate swaps	(132)	(266)	(266)	-	-	-
Cross currency interest rate swaps	4,247	5,628	5,628	-	-	-
Foreign exchange rate contracts	24	24	24	-	-	-
Net derivative financial assets	4,139	5,386	5,386	-	-	-
Net financial liabilities	(1,174,638)	(1,272,856)	(159,234)	(15,502)	(330,663)	(767,457)

(iii) Market risk

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

Notes to the Company financial statements (continued)

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

(iii) (a) Exchange rate risk

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

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

Exchange rate sensitivity analysis

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

	Profit before taxation gain/ (loss)	Other comprehensive income	Profit before taxation gain/ (loss)	Other comprehensive income
	31-Dec-21	31-Dec-21	31-Dec-20	31-Dec-20
	€'000	€'000	€'000	€'000
5% Strengthening	**(1,038)**	**-**	(199)	-
5% Weakening	**1,038**	**-**	199	-

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

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only, and
- changes in the carrying value of derivative financial instruments that are cash flow hedges impact other comprehensive income only (applicable to 2020 only).

(iii) (b) Interest rate risk

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

Refer to note 23 for disclosure of the Group's interest rate risk, this represents the Company's interest rate risk as all interest rate risk is carried by the Company.

Notes to the Company financial statements (continued)

29Q. Issued Share Capital

	2021 €'000	2020 €'000
Authorised:		
1,000,000 ordinary shares of €1.00 each	**1,000**	1,000
Allotted, called-up and fully paid:		
1 ordinary share of €1.00	**-**	-

29R. Related Parties

The related party balances, in respect of the transactions detailed in the relevant sections below, are as follows:

	31-Dec-21 €'000	31-Dec-20 €'000
Ervia	**(10,340)**	(12,782)
Irish Water	**(119)**	19
Subsidiaries	**131,927**	129,088
	121,468	116,325

Transactions with Ervia

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

		2021 €'000	2020 €'000
Transactional and support service agreement costs	(a)	**(24,796)**	(25,993)
Capital expenditure costs recharged	(b)	**(4,807)**	(7,472)
Dividends	(c)	**(15,361)**	(47,283)
Pension costs	(d)	**(5,823)**	(5,617)
Capital contribution	(e)	**6,864**	-

Notes to the Company financial statements (continued)

29R. Related Parties (continued)

(a) Transactional and support service agreement costs

During 2021, Ervia Parent provided strategic, governance, risk management, capital delivery management and transactional and support services to the Gas Networks Ireland Group, through the Ervia business divisions; Group Centre, Major Projects area, Supply Chain and Business Services Centre. The Business Services Centre is designed to provide transactional and support services in the areas of Finance, Procurement, Facilities, Insurance, Project Management, HR and IT. Refer to note 26 for further analysis

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

During 2021, the Group and Company transacted with Ervia Parent in respect of joint utility, centrally delivered and business delivered projects including the payroll costs incurred by the Major Projects area. The directly attributable Gas Networks Ireland costs were re-charged on a monthly basis with no overhead or margin applied by Ervia Parent.

(c) Dividends

The Company declared and paid an annual dividend to Ervia as set out above. In 2018, the Company declared an annual dividend of €54.2 million and paid €49.1 million, with the remaining €5.1 million payable in 2023 (with appropriate interest). In March 2022, the Board further approved the declaration and payment of a dividend of €20.1 million.

(d) Pension costs

Ervia Parent operates defined benefit and defined contribution pension schemes. A number of the Company's employees participate in these schemes. The defined benefit scheme is accounted for as a Group Plan in accordance with IAS 19. Ervia Parent, as the sponsoring employer for the plan, recognises the net defined benefit cost, while the Company recognises only the cost of contributions payable for the year in respect of the Company's employees. The contributions payable in respect of the Ervia defined contribution scheme are charged to profit or loss in the years during which services are rendered by the Company's employees. The contributions payable in respect of the Group's employees are included in the Company's employee benefit expense (note 5). Ervia Parent recharges these costs to Gas Networks Ireland on a full cost recovery method with no margin earned.

(e) Capital contribution

As previously noted, in 2018 the Government announced that Gas Networks Ireland and Irish Water would become two standalone, publicly owned, commercial, regulated utilities during 2023. It is expected that the Ervia Parent will be dissolved following the completion of the legal separation process. To achieve this, during 2021, property, plant and equipment was transferred from Ervia Parent to Gas Networks Ireland at its carrying value of €6.9 million for nil consideration, as a common control transaction (see note 29A).

Transactions with Irish Water

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

Joint projects

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

Notes to the Company financial statements (continued)

29R. Related Parties (continued)

Transactions with subsidiaries

		2021	2020
		€'000	€'000
Transactional and support service agreement costs	(a)	**3,607**	3,318
Interest income	(b)	**1,277**	1,845
Transportation supply services	(c)	**(38,028)**	(41,364)
Dividend received from subsidiary	(d)	**30,000**	-

(a) Transactional and support service agreement costs

Refer to note 26 and above for a description of the services received from Ervia and recharged to subsidiaries, as appropriate.

(b) Interest income

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

(c) Transportation services

During the year the Company purchased services and supplies of from a subsidiary. This expenditure primarily related to transportation services.

(d) Dividend

In April 2021, the Board of Gas Networks Ireland (IOM) DAC approved the payment of a special dividend of €30.0 million to its parent, Gas Networks Ireland (2020: €nil).

Board members

The Board members had no beneficial interests in the Company at any time during the year or at the reporting date.

Key management compensation

Refer to note 26 for details in respect of the Group's key management compensation.

Government bodies

In common with many other entities, the Company deals in the normal course of business with other Government sponsored bodies, such as, the Electricity Supply Board, Eirgrid, Local Authorities and with certain Irish banks which are partially owned by the Irish Government. All transactions are on normal commercial terms. The Parent had no material concentration of borrowings or deposits with any such banks during the year, at the reporting date, or for the comparative period end.

Notes to the Company financial statements (continued)

29S. Companies Act Disclosures

(a) Auditor's remuneration

	2021	2020
	€'000	€'000
Audit of the Company financial statements	**(109)**	(109)
Other assurance services	**(27)**	(27)
Tax advisory services	**-**	-
Other non-audit services	**-**	-
Total	**(136)**	(136)

(b) Companies Act Payroll Disclosures

Employees of Ervia, Gas Networks Ireland and Irish Water are redeployed within the organisation. In accordance with IAS 19, the related payroll and other employee benefit costs of these individuals are reported and disclosed by the entity where the employees services are rendered (note 5).

However Section 317 of the Companies Act 2014, requires disclosure in the entity's financial statements of employee numbers and payroll costs in respect of where the contract of employment exists rather than where services are rendered (being the IAS 19 requirement). The employee benefit disclosures for Gas Networks Ireland, as required by the Companies Act, are set out below.

(i) Aggregate employee benefits

	2021	2020
	€'000	€'000
Staff short-term benefits	**(48,306)**	(46,970)
Retirement benefit costs	**(6,170)**	(6,035)
Social insurance costs	**(5,365)**	(5,089)
	(59,841)	(58,094)
Capitalised payroll	**10,223**	9,479
Employee benefit expense charged to profit or loss	**(49,618)**	(48,615)

(ii) Staff short-term benefits

	2021	2020
	€'000	€'000
Wages and salaries	**(45,167)**	(44,163)
Overtime	**(1,202)**	(1,125)
Allowances	**(920)**	(698)
Other[1]	**(1,017)**	(984)
Total	**(48,306)**	(46,970)

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

Notes to the Company financial statements (continued)

29S. Companies Act Disclosures (continued)

The average number of employees with a contract of employment with Gas Networks Ireland for the year was 579 (2020: 577).

(c) Directors’ remuneration

Refer to note 4 for the Company’s Directors’ remuneration disclosures.

(d) Capialised interest and capitalised payroll

During the year, the Company capitalised €0.5 million (2020: €0.2 million) in borrowing costs. The capitalisation rate was 1.35% (2020: 1.47%). The Company also capitalised €10.2 million in payroll costs during the year (2020: €9.5 million).