

Creating Value
for the People
of Ireland

ervia

Annual Report and
Financial Statements

2020



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Strategic Report

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Ervia is a commercial semi-state company providing the strategic national gas and water infrastructure and services that underpin the growth of the Irish economy. We have a pivotal role to play in enhancing the environment, leading the transition to a low carbon energy system, protecting precious water resources and increasing resilience. We provide governance and central support services to our regulated businesses Gas Networks Ireland and Irish Water.

Strategic Report



Gas Networks Ireland

Gas Networks Ireland, owns and operates one of the most modern and safest gas networks in the world.



Aurora Telecom, provides high quality dark fibre broadband infrastructure.



Irish Water is responsible for the operation and maintenance of Ireland's water and wastewater assets. Information relating to its performance in 2020 can be found in the Irish Water Annual Report and Financial Statements at www.water.ie

The Chairman's Report

As Chairman I want to express my enormous gratitude, in what has been an exceptionally challenging year, to all of our staff and partners for their ongoing contribution and dedication to provide the safe and secure supplies of gas that underpin our economy.

The global pandemic had a huge impact on our business and brought unprecedented changes to our ways of working. I was impressed by the response to the crisis which involved an overnight shift to remote working while maintaining continuity of critical processes. Throughout the year all public health advice in relation to the COVID-19 pandemic was complied with and we worked collaboratively with a range of stakeholders to minimise the impact of the pandemic on our customers.

Tony Keohane
Chairman



Nonetheless, in 2020 we continued to create economic benefit for our employees, shareholders, contractors, partners and investors. Some of the value created is retained in the organisation to maintain and replace assets. Detailed information on how Gas Networks Ireland created value for our stakeholders is laid out on pages 16-17 of this report.

Irish Water's operational and financial performance in 2020 is outlined in the Irish Water 2020 Annual Report and Financial Statements which can be found at www.water.ie.

The primary objective of Gas Networks Ireland is the safe, reliable and efficient operation, maintenance, development and decarbonisation of the gas network and the interconnectors. We remain fully committed to working

We will continue to develop and deliver our capital investment plans to align with the policy initiatives laid out in Project Ireland 2040 and the National Development Plan 2018-2027.

with the Department of Housing, Local Government and Heritage, the Department of Environment, Climate and Communications, and the Commission for Regulation of Utilities to utilise the gas network to its full extent and ensure security of supply in the transition to a low carbon energy system.

We will continue to develop and deliver our capital investment plans to align with the policy initiatives laid out in Project Ireland 2040 and the National Development Plan 2018-2027. To this end we will maintain our ongoing engagement with customers, regulators, our shareholder and the public to understand the emerging needs as our country and economy develops.

In 2020 there was regular and ongoing engagement with officials in Dublin, Brussels and London to ensure that Brexit will not cause disruption to Ireland's energy supply. I am confident that security of supply will be maintained through the transition period and beyond.

This year our Diversity and Inclusion programme, ibelong, won a global Gartner Communications Award in the Excellence in Employee Engagement category. This award recognises the teamwork, passion and commitment across our leadership team and the ibelong council to embrace difference, nurture inclusion and champion equality in our organisation. In 2021 we will continue to promote a progressive workplace where all our employees can feel valued.

Across the year the Board continued to prioritise corporate governance in line with best practice, emerging regulation, government policy and transparency. We comply with the applicable provisions of the Code of Practice for the Governance of State Bodies. Risks are formally reviewed and monitored on an ongoing basis to ensure appropriate mitigations and controls exist. As Chairman, I am satisfied that the appropriate internal

controls exist and are managed effectively to meet our governance requirements. We have undertaken significant work to achieve compliance as appropriate with the relevant principles, requirements and guidelines of the Public Spending Code.

We will continue to govern Irish Water until separation and the establishment of two standalone, publicly owned, regulated utilities during 2023. The Board continues to ensure that Ervia's strategic objectives and operations are both sustainable and socially responsible.

I would like to thank the Ministers and officials in the Department of Housing, Local Government and Heritage and the Department of Environment, Climate and Communications for their support throughout the year. I would also like to extend my gratitude to the officials at NewERA whom we deal with on governance matters on a regular basis.

I express my appreciation to my colleagues on the Board and the Executive Team for their continued commitment, support and effective governance of the business in 2020.

As Chairman I want to express my enormous gratitude, in what has been an exceptionally challenging year, to all of our staff and partners for their ongoing contribution and dedication to provide the safe and secure supplies of gas that underpin our economy.

Tony Keohane
Chairman

The Chief Executive Officer's Review

In March 2020 when the World Health Organisation upgraded the status of the COVID-19 outbreak from an epidemic to a pandemic we had little idea of what was ahead of us. We wasted no time establishing a Crisis Management Team to manage our response to this global crisis. We adapted our ways of working and staff resourcing to maintain business continuity and to deliver critical services. We continued to provide safe, secure supplies of gas with no interruption to service.

As a major employer and provider of essential services, the safety of our staff, partners and communities is paramount. We listened to our colleagues as we moved to agile working across the organisation. We supplied office equipment, developed new health and wellbeing programmes and worked hard to help make the transition to working from home easier.

Cathal Marley
Chief Executive Officer



Creating value for the people of Ireland

Our principal activity is the transportation of natural gas on behalf of over 706,000 business and residential gas customers regardless of which natural gas supply company they choose.

We own, operate, build and maintain the natural gas network in Ireland. This includes over 14,600 km of pipelines, including two sub-sea interconnectors and pipelines in Scotland, Northern Ireland and the Isle of Man. We also provide wholesale telecom fibre services under the business name Aurora Telecom.

We attach great importance to ensuring that our investment policies are aligned to the national strategic outcomes outlined in the National Development Plan 2018–2027, the Climate Action Plan 2019 and the Government's wider energy policy.

I am personally very conscious of the importance of balancing economic objectives such as profitability and shareholder value creation, alongside socio-economic and environmental objectives, in order to promote sustainable long-term value growth.

How we create value over the longer term is impacted by macro trends and developments in the wider economy, some of which are outlined on page 13. Sometimes these trends create uncertainty for us, our customers and wider stakeholders. Details on our key risks and the mitigating actions we are taking can be found on pages 27-29.

We are committed to providing a diverse and inclusive place of work. There is a robust strategy, called ibelong, to enable this. We are an equal opportunity employer. Through our recruitment process we welcome and encourage applications from interested and suitably qualified individuals regardless of gender, age, racial or ethnic origin, membership of the traveller community, religion or beliefs, family or civil status, sexual orientation, gender identity or disability.

Performance in 2020

I am very pleased to say that we had an excellent safety performance in 2020. Our 'Work Safe Home Safe' programme promotes the right behaviours and drives our safety culture. It is supported by the necessary safety management systems. In 2020 the total amount of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was approximately 76.3 TWh.

This was supplied through the Moffat Interconnector and the Corrib and Kinsale Head gas fields. Despite the impact of COVID-19, gas demand in 2020 was broadly in line with that of 2019. During the year, 34% of all gas requirements in the Republic of Ireland were supplied by the Corrib gas field. UK imports met 64% of demand, with the remaining gas supplied from the storage at Kinsale Head gas fields which ceased production in July 2020.

We published our second sustainability report 'Sustainability in Action' this year. It highlights the progress made in implementing the principles of the UN Sustainable Development Goals. For the first time we won both the Sustainable Energy Achievement award and the Green Large Organisation of the Year award at the 2020 Green Awards.

COVID-19 has brought a new working environment which has impacted our overall performance this year. All construction was paused when the first set of restrictions were introduced. Following that construction recommenced with new ways of working, including social distancing. As a result some elements of the capital delivery programme were impacted. In 2020 we:

- ▶ Constructed two Compressed Natural Gas stations at Clonshaugh in Dublin and Ballysimon Road in Limerick.
- ▶ Completed capacity upgrade at Naas Above Ground Installation increasing capacity on the Distribution network in the area.
- ▶ Carried out boiler upgrades at five Above Ground Installation sites across the network.
- ▶ Replaced two safety-critical valves on the Seapoint to Leopardstown transmission pipeline, enabling adequate isolation in the event of an emergency.
- ▶ Commenced the construction project to provide a bypass of the Ballough Above Ground Installation in county Dublin to enhance security of supply at the critical hub of the network.
- ▶ Connected 8,091 new customers to the distribution network.
- ▶ Progressed the final stage of network extension within Wexford town.

You can read the full 2020 operating review on pages 39-49.

2021 strategic priorities

In 2018 the Government announced that Gas Networks Ireland and Irish Water would become two standalone, publicly owned, commercial, regulated utilities during 2023. In June of this year we commenced the work programme to establish two standalone independent utilities. We will achieve operational separation in 2022 and full legal separation in 2023.

We will create meaningful value for the people of Ireland by playing a key role in the transition to a low carbon energy system. This will involve completing the actions attributed to us in the Climate Action Plan 2019. We will:

- ▶ Continue to roll-out a national network of CNG stations.
- ▶ Design and prepare for construction of the Mitchelstown Central Injection facility.
- ▶ Develop a Hydrogen technical strategy.

There is more information on our climate action initiatives on pages 52-58.

Acknowledgements

I want to acknowledge the services of the members of the Board. They provide vital oversight, governance and guidance and I am very grateful for their support. I also extend my appreciation to the members of the Executive team for their energy, professionalism and leadership during the year.

Finally and most importantly, I would like to express my sincere gratitude, in this particularly difficult year, to all our staff and delivery partners for their hard work and commitment. I am proud of the way in which we responded to the challenges and the progress we made in 2020.

Cathal Marley
Chief Executive Officer

Governance Structure

ervia

A commercial State body established under Gas Act 1976, (as amended).

A holding company with two principal operating subsidiaries, both of which are supported by central support services.



- ▶ Established under the Gas Regulation Act 2013.
- ▶ Responsible for the ownership and operation of the gas network transmission and distribution systems.
- ▶ Aurora Telecom is a carrier and enterprise service provider that operates a modern, carrier grade, backhaul dark fibre network.

Strategic Objectives



Business Delivery



Customer



Growth



Sustainability



People & Culture

Information relating to Gas Networks Ireland's performance in 2020 can be found on pages 39-49.



- ▶ The National Water Services Authority, a commercial State body, established under the Water Services Act 2013.
- ▶ Responsible for the provision of collection systems and treatment of wastewater and the provision of water supplies, including water treatment facilities.

Strategic Objectives



Water



Wastewater



Customer



Sustainability

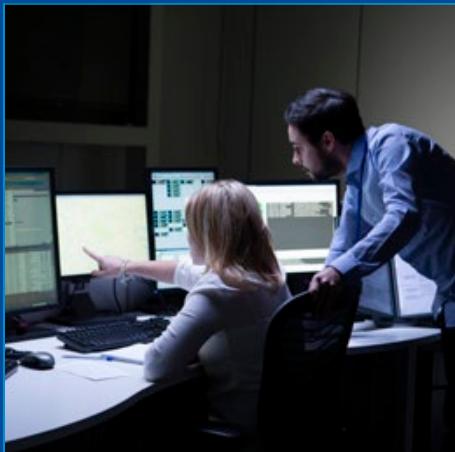


People & Culture

Information relating to Irish Water's performance in 2020 can be found in the Irish Water Annual Report and Financial Statements at www.water.ie.

Material Issues

We work closely with our shareholder and stakeholders to understand and address the issues which are most important to them.



Security of Supply and Competitiveness

Develop, operate and maintain a gas network that is both economic and efficient to ensure security of supply and competitiveness during the transition to decarbonisation.



Climate Action

Play a strong role in the transition to a low carbon energy system and explore investment opportunities to reduce greenhouse gas emissions within the scope of our commercial mandate.



Capability

Facilitate Irish Water's growth as a utility. Develop the skills and capabilities within Irish Water and Gas Networks Ireland to allow them to become two stand-alone publicly owned, regulated utilities by 2023.



How we Create Value



Strategic Framework

Purpose

To enhance the health and quality of life of the people of Ireland, protect our environment and enable economic development by delivering high quality infrastructure and services safely and efficiently.

Values

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



Performance

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



Integrity

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



Safety

We put safety at the heart of what we do.



Collaboration

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



Customer Service

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

Strategic Objectives

Our strategy is to provide essential gas, water and wastewater infrastructure and services efficiently and safely in accordance with our long term plan. At Ervia we have a pivotal role to play in enhancing the environment, leading the transition to a low carbon energy system, protecting precious water resources and increasing resilience. We will:



1. Organisation

Develop an organisation model appropriately structured and governed for the range and nature of businesses managed.



2. 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.



3. Financial Strength

Sustain a strong financial position and leverage this to access secure competitive funding to meet business needs and maximise shareholder value.



4. Sustainability

Be a leading green and sustainable Irish business by 2025.



5. 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.



6. 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.



Factors Influencing Value Creation



Ervia's Business Model

How we create value

Inputs

Business Activities

Financial



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

| Total Assets | |
|----------------------|--------|
| Gas Networks Ireland | €2.7bn |
| Aurora Telecom | €30m |

Networks



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

| Km Of Networks | |
|----------------------|-----------|
| Gas Networks Ireland | 14,617 km |
| Aurora Telecom | 1,200 km |

People and Partners



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

546 employees in Gas Networks Ireland along with 608 employees in Central Services who also supply services to Irish Water

Stakeholders



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

Natural Resources



We work to protect our environment in the transition to a low carbon energy system.

Transport 76.3 TWh of Natural Gas annually

Business Activities

Operate the Systems

- ▶ Continuous quality supply
- ▶ Safety
- ▶ Grid control
- ▶ Respond to reports of gas leaks

Continuously Improve our Offering

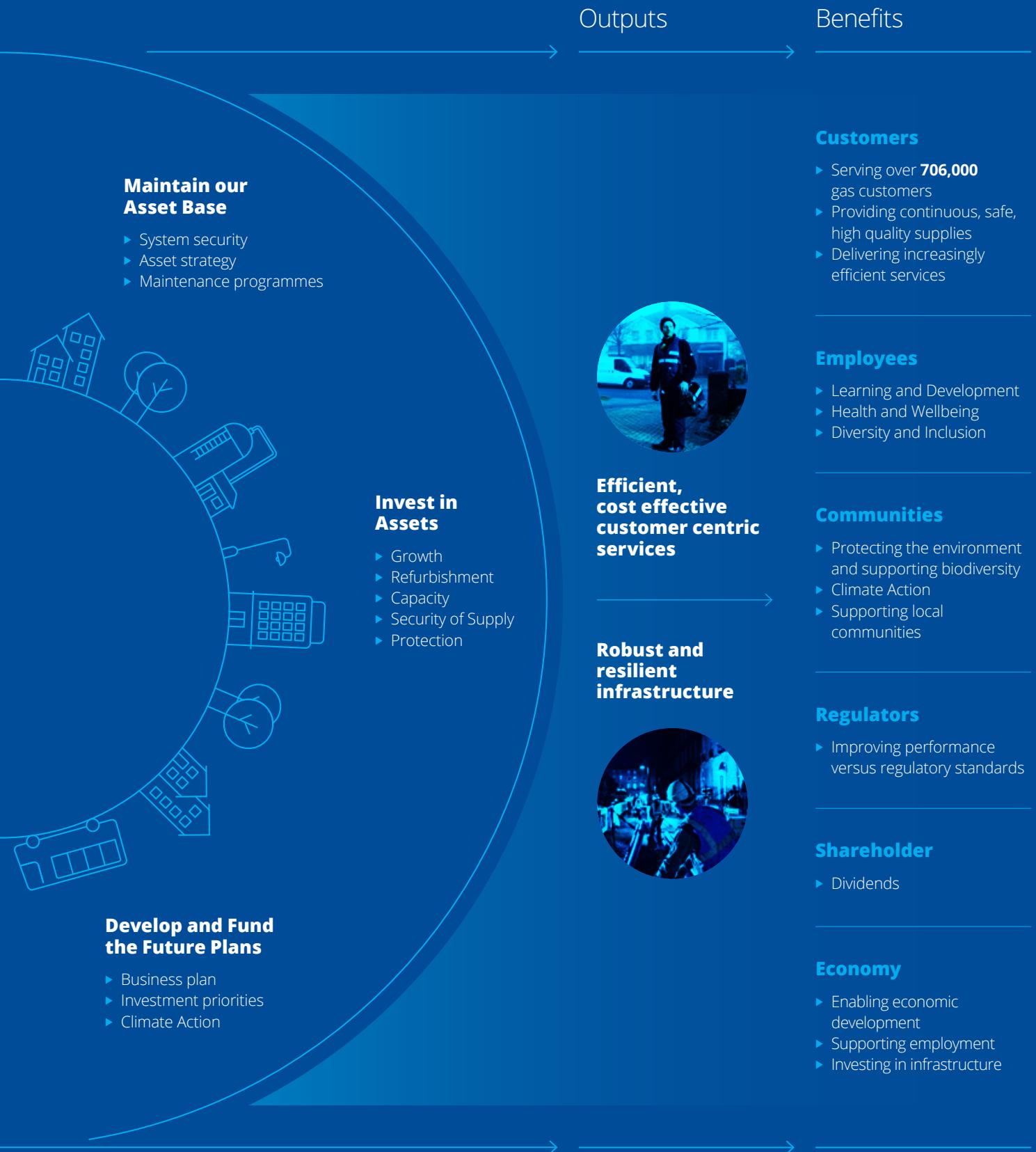
- ▶ Compressed Natural Gas
- ▶ Hydrogen
- ▶ Improve efficiency



Serve our Customers Well

- ▶ Easy to work with
- ▶ New connections

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



Stakeholder Engagement

At Ervia we take the nature and quality of our relationships with all our stakeholders very seriously. We work closely to understand their views and interests, to deliver our projects in partnership, and respond to their interests as we progress our plans.

| | Representative Bodies include | Priorities |
|---|---------------------------------------|--|
|  | General Public and Communities | Individuals, communities, environmental groups, consumer groups, business interest groups, farming bodies etc. |
|  | Partners | Partners, third party service providers and suppliers. |
|  | Regulators | Commission for Regulation of Utilities, Utility Regulator (Northern Ireland), Office of Gas and Electricity Markets. |
|  | Shareholders | Department of Housing, Planning and Local Government, Department of Communications, Climate Action and Environment, Department of Public Expenditure and Reform. |



Delivering on Our Strategy



natural gas
in transport

Highlights

Gas generated more electricity than any other energy source

The national gas network is the cornerstone of Ireland's energy system, powering 31% of Ireland's primary energy needs, 41% of the country's heating, and 52% of its electricity generation. On days of low wind gas can contribute as much as 90% of the generation fuel mix.



**Powering over
31%**
primary energy needs



**Powering over
41%**
of heating



**Powering over
52%**
of electricity generation

New connections

An additional 519 small to medium business, 41 large industrial customers and over 4,000 homes and 12 apartment blocks contracted to be connected to the gas network in 2020.

All work was carried out in accordance with the Government's public health guidelines.



**496 GWh
40**

Large industrial users



**62 GWh
420**

Commercial businesses



**29 GWh
2,435**

Mature homes



16 GWh

1,598

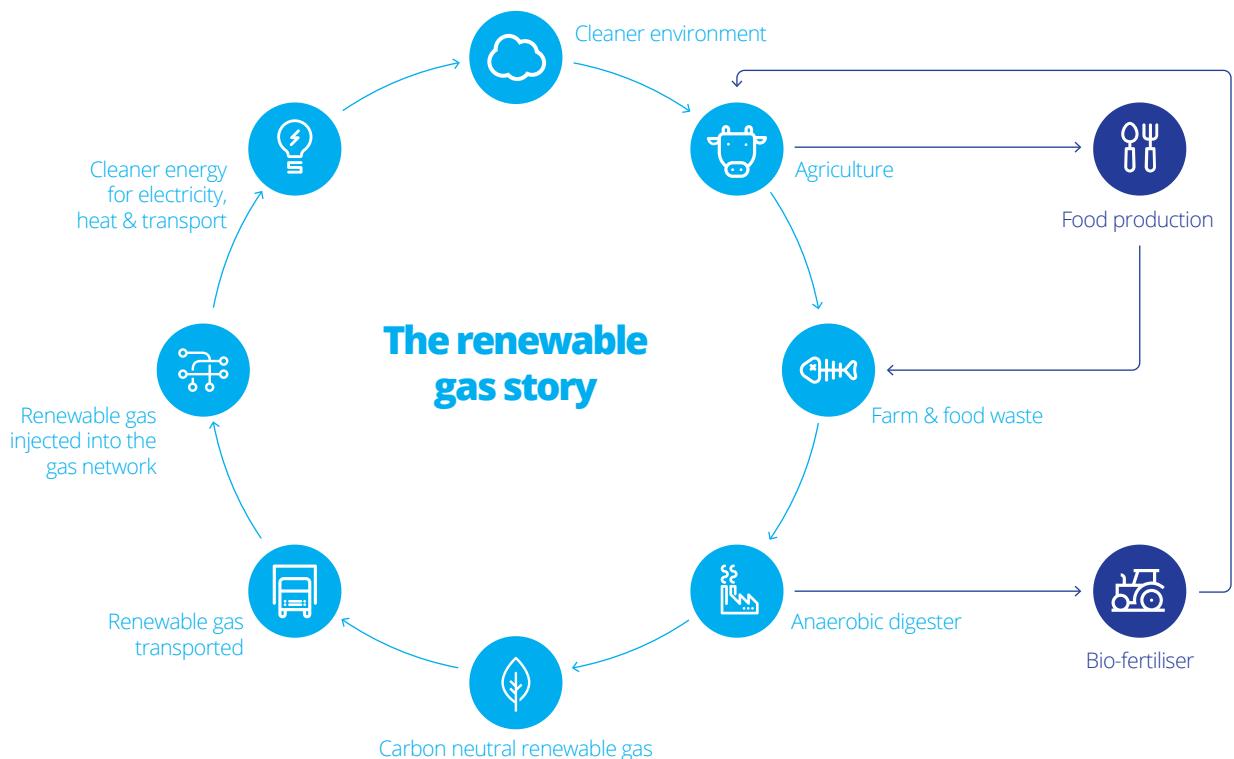
New homes



14 GWh

12

New apartment blocks



Facilitating Ireland's circular economy

With commercial volumes of renewable gas introduced into Ireland's gas network at the country's only purpose-built gas injection facility in Cush Co. Kildare, Gas Networks Ireland is helping organisations to deliver truly sustainable circular economies, by powering their businesses with renewable gas made from their own food and agricultural waste.

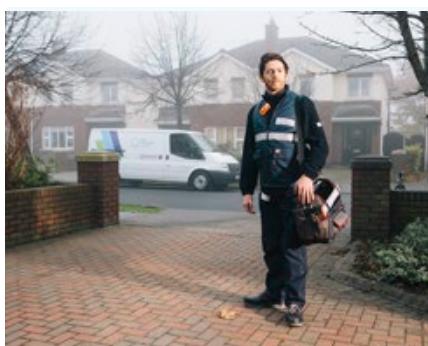
A second renewable gas injection point near Mitchelstown in Co. Cork is in development.

Ireland's road to net-zero commercial transport

We added Circle K Cashel to the expanding network of publicly accessible Compressed Natural Gas (CNG) refuelling stations and have another 11 in development with two expected to open in 2021.



Highlights (continued)



Responding within the hour, every hour

In 2020 we responded to 14,928 suspected gas escapes, carbon monoxide issues and incidents within an average of 29 minutes.

Response to the COVID-19 pandemic

Our robust and tested procedures ensured that Ireland's essential gas network continued to operate safely and without interruption throughout the pandemic.

We prioritised essential connections for HSE facilities and expedited connections for care workers' emergency accommodation. We worked with the CRU and energy suppliers to support the increased emergency credit and the supply suspension schemes for customers.



Preparing to transport hydrogen on the network

To ensure that hydrogen can be transported safely on our network we commenced construction of a Hydrogen Innovation Centre in Dublin to test how best to introduce hydrogen for use in Irish homes and businesses.



Aurora's regional fibre expansion

Aurora Telecom commissioned the concluding 300km segment of its national high fibre network from Cork to Dublin via Waterford and Carlow, bringing its footprint to over 1,200km. We also completed an additional 100km connection, paving the way for a vital transatlantic submarine cable system to land in Co. Mayo, providing a dedicated connection to the United States of America.



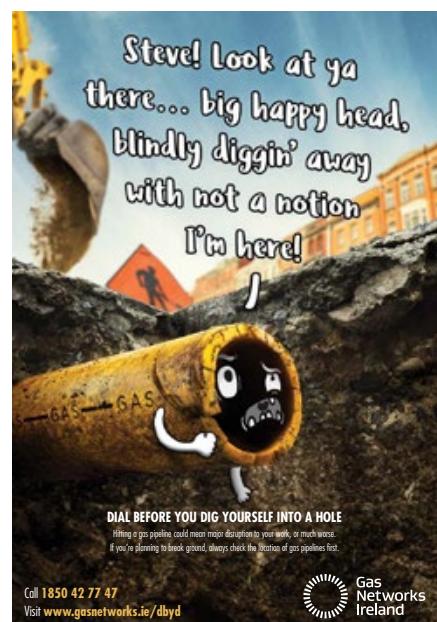
Awarded for sustainability efforts

Our efforts to embed sustainability in all aspects of our business were recognised as we won both the Sustainable Energy Achievement Award and the Green Large Organisation of the Year Award at the Green Awards 2020. We also achieved the best maiden score of any Irish energy company in the globally recognised Carbon Disclosure Project rankings.

Award winning Dial Before You Dig service used over 15,000 times

Dial Before You Dig, the vital service we provide to builders, engineers and anyone looking to excavate land safely, won the 2020 ESRI Ireland Sharing & Collaboration Customer Success Award and was also a finalist in the Networks Awards 2020 "Game changer" category.

Over 15,000 maps have been generated by more than 2,100 registered users since the service went live in October 2019.



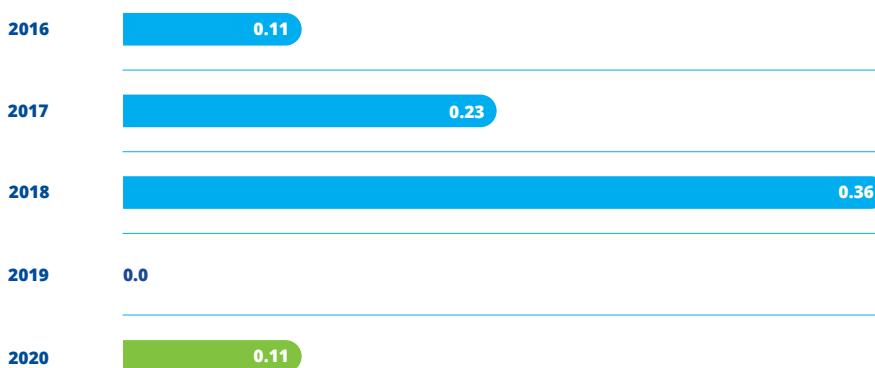
Call 1850 42 77 47
Visit www.gasnetworks.ie/dbyd

 Gas Networks Ireland

Gas Networks Ireland Operating Performance

Safety

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



- ▶ We use the Lost Time Incident Frequency Rate (LTIFR) to track the # of employee accidents per 100,000 hours worked that result in a staff member needing to take >1 day off work.
- ▶ Safety is a core value at Ervia. The Work Safe Home Safe safety culture programme has been in place since 2015 and we continue to work to improve our safety performance.

Safety

Average # mins to respond to Public Reports of Escapes



- ▶ This measure tracks how quickly we respond, on average, to reports of gas escapes as reported by the public. Our agreed metric with the CRU is 97% response within 1 hour, in 2020 a 99.9% compliance rate was achieved.
- ▶ This is a core safety metric. Maintaining these high performance standards consistently over time shows how important this is to us.

Customer Service

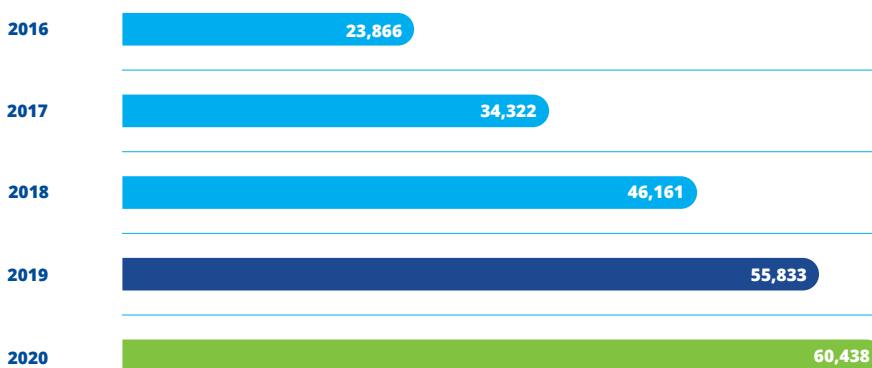
First Contact Resolution



- ▶ We review a sample of our customer contacts each month across a range of different call types. A selection of calls are surveyed independently to validate the scores.
- ▶ This measure tells us how often we are able to resolve a customer's request on that first contact, without the need to get further information, escalate to the back office, create a complaint or follow up.

Growth

New Connections Cumulative 2014-2020



- ▶ We measure the increase in network utilisation as a result of new connections.
- ▶ While we continue to see growth in new connections. The volume is primarily driven by industrial customers and businesses.

Capital Expenditure

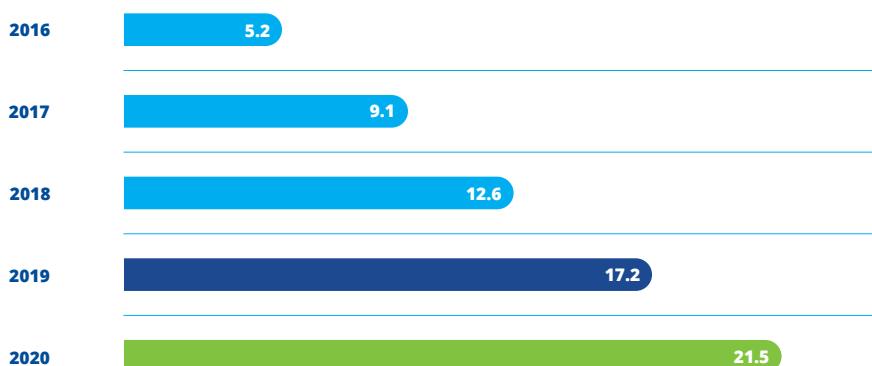
Capex €m



- ▶ We include infrastructure spend on plant, property, equipment and intangible assets.
- ▶ Delivering capital programmes is central to our ability to develop and maintain our networks.

Cumulative Operating Efficiencies

Opex Efficiencies €m



- ▶ We drive efficiencies in how we deliver our services on an ongoing basis.
- ▶ We hit our target of delivering efficiencies of €21.5m over the period 2016-2020.



Risk Management

Proactive risk management is fundamental to our ability to meet both our short-term and longer term strategic objectives. Gas Networks Ireland manages, monitors and reports on the principal risks and uncertainties that could impact our ability to deliver our strategic ambitions. The system of risk management and policy is well established and is consistently operated across the organisation. Our priority is to understand the risk environment, identify the specific risks and assess the potential exposure.

From a risk perspective, 2020 has been a challenging year for most businesses, Gas Networks Ireland included. However, the company has met this challenge head on, activating its Business Continuity Plans and Crisis Management structures in March. The COVID-19 pandemic has significantly influenced our risk profile and has been a key consideration for managing the risks outlined below. In addition, the company has effectively planned for risks associated with other external factors/drivers such as Brexit.

Risk Management Framework

The Board has overall responsibility for risk management and the systems of internal control. A proactive risk management culture supports the overall organisational culture, values and the expected behaviours for the organisation and a clear programme of work to reinforce and enhance this continues. Appropriate governance structures have been further enhanced and integrated to ensure that there is clarity of ownership and responsibility for risk management. The risk appetite is set annually by the Board by determining the nature and extent of the risks we are willing to accept. Authority is delegated to the Audit and Risk Committee to support the Board with these obligations. They are supported in maintaining an effective risk management environment by functional and executive governance fora. We are continuously enhancing risk governance by integrating and automating our activities across our systems of risk management, internal control and internal audit. Clarity of reporting on the risk profile and ensuring greater integration with organisational objectives, operational,

financial and performance reporting has been a priority for the Enterprise Risk Management teams during 2020. As part of Ervia's Risk Strategy, this and other risk culture and continuous improvement initiatives, including taking learnings from risk management during the ongoing COVID-19 pandemic will continue to be a focus in 2021.

The nature of our business operations is long term, resulting in many of our risks being enduring in nature. These risks can develop and evolve over time, as their potential impact or likelihood changes in response to internal and external events. At the same time new risks are constantly emerging. Therefore, an effective and integrated risk management framework and strong risk culture is essential to support the delivery of our strategic and operational objectives. The risk strategy and framework is continuously evolving. Proactive risk management allows us to create added value for our shareholders, customers and the wider community.

Our Risk Management Activities



Risk Management (continued)

Principal Risks and Uncertainties

| Risk | Context | Mitigation |
|--|---|---|
| Health, Safety and Environment | | |
| 1 A major health and safety or environmental incident resulting in significant impact and harm to an employee, contractor or the general public. | All health, safety and environmental legislation and arrangements must be adhered to in order to protect staff, contractors, and the public from injury or fatality and avoid potential prosecutions, financial loss and reputational damage. | <ul style="list-style-type: none"> ▶ The Central Safety Committee (which is an Executive Committee) oversees Health & Safety performance. ▶ Certified to ISO45001 Safety Management Systems and the ISO14001 Environmental Management System. ▶ Internal and external assurance activity, audits, emergency exercises and reviews. |
| 2 Significant employee health risk or business disruption due to the impact of COVID-19. | Large scale employee illness due to an epidemic or pandemic (e.g. COVID-19) that affects Ireland's population, potentially impacting employee health and wellbeing, operations, service delivery and supply chain. | <ul style="list-style-type: none"> ▶ Revised pandemic plan preparedness in place since 2018. ▶ Crisis management team operating for the duration of the crisis. ▶ Ervia and Gas Networks Ireland COVID-19 response plan in place. ▶ Business continuity contingency arrangements activated. ▶ Engagement with key stakeholders (HSE, HSA, CRU, Government Departments etc.) and peer utility benchmarking. ▶ Clear communications plan including co-ordinated employee messaging. ▶ Working arrangements in place - majority of employees working from home with essential workers identified for office/field/site work with supporting COVID-19 controls in place as per response plans. ▶ Additional health and wellbeing supports in place. |
| Network Security of Supply | | |
| 3 An event resulting in Gas Networks Ireland not being able to maintain sufficient gas supply to meet existing and future demand could result in reputational and financial damage. | Gas Networks Ireland is responsible for operating the natural gas pipeline network to ensure gas supply to the Republic of Ireland. | <ul style="list-style-type: none"> ▶ Compliance with (EU) 2017/1938 (gas Security of Supply) Regulation and key stakeholder engagement as part of the Energy Security of Supply review at Government level. ▶ Twining of the onshore gas pipeline in Scotland reinforces security of supply for Ireland and the UK which was completed in 2018. ▶ The Corrib gas field provides an indigenous supply of gas and enhances security of supply for Ireland for the next number of years. ▶ Comprehensive asset inspection and maintenance programmes. ▶ Network Development Plan published annually. ▶ Network Capacity Management Plan. ▶ Capital investment plan and projects. |
| Securing the Future - Decarbonisation and Climate Change | | |
| 4 Failure to successfully implement and deliver Gas Networks Ireland's long term growth strategy, a loss of competitiveness, the potential negative impact of legislation, an inability to meet the required decarbonisation obligations or a failure for Gas Networks Ireland to become a leading sustainable Irish business. | Decarbonisation of energy remains one of the biggest challenges facing the world. EU and Irish energy and climate action policies are targeting the long term elimination of fossil fuels, including natural gas (which is the cleanest fossil fuel). Inability to decarbonise the gas network will result in a risk of continued energy emissions and under-utilisation of the gas network. This could lead to tariff increases and potentially stranded assets. | <ul style="list-style-type: none"> ▶ Ensure that the role a decarbonised gas network can play (in partnership with renewable electricity) in Ireland's future energy system is recognised, understood and appreciated by key stakeholders. ▶ Invest in sustainability initiatives and long-term strategies including Compressed Natural Gas, renewable gas and ensure the network is ready to transport and store hydrogen. ▶ Sustainability performance and strategy with clear governance and monitoring. |

| Risk | Context | Mitigation |
|--|---|--|
| Infrastructure and Service Delivery | | |
| 5 An inability to fully deliver current or future Capital Investment Plans due to limited supply chain capacity within the construction industry or a failure of a key supplier which could result in a failure to meet network capacity or sustain asset health through planned maintenance activities. | Large capital programme agreed with the Commission for Regulation of Utilities (2017-2022). Similar programme being planned for period (2022-2027). Gas Networks Ireland's strategy to decarbonise the network requires significant investment. | <ul style="list-style-type: none"> ▶ Engagement with Commission for Regulation of Utilities on future spend and targets. ▶ Relationship management model in place. ▶ Corporate plans in place with gas demand planning and business planning. ▶ Internal supply chain expertise and proactive supply chain interactions. ▶ New construction and engineering contracts in procurement will ensure partners are right-sized for Gas Networks Ireland's workload. ▶ Broad recognition across Government, regulators and energy industry that the growth of renewables is complemented and supported by natural gas today and renewable gas in the future. |
| 6 A cyber-attack causing serious loss of service, data leakage or restriction to information and/or operational technology would impact service delivery and infrastructure. | An incident could result in potential business delivery disruption, safety issues, reputational damage or potential regulatory fines - likelihood potentially increased in current remote working environment (due to COVID-19). | <ul style="list-style-type: none"> ▶ Ongoing investment in prevention and pro-active controls across all critical systems, ▶ Contingency plans developed and Ervia-wide data and cyber security awareness training. ▶ Security Operations Centre (24*7 monitoring) being established. ▶ Ongoing risk assessment, IT expertise procured and external independent assurances reviews. |
| 7 Potential for significant business disruption as a result of negative impacts arising from UK's exit from the European Union. | Potentially impacted areas are supply chain, procurement, regulation, finance, data protection, European Affairs and EU funding, all of which could result in a potential risk to operational delivery. | <ul style="list-style-type: none"> ▶ Brexit Steering and Working Group in place. ▶ Proactive engagement with key stakeholders including Government Departments, suppliers, partner utilities, regulators, shippers, Irish Revenue and HMRC. ▶ Key exposures identified and contingencies put in place where required e.g. supply chain, procurement, tax, custom returns, data protection and regulation. ▶ Proactive engagement at EU level to build new alliances and highlight Brexit impact on Ireland. ▶ Ongoing facilitation of dialogue between Revenue and gas shippers (who use the network) in relation to meeting customs obligations. ▶ Tax and customs arrangements in place including a customs agent. |
| Our People | | |
| 8 Significant organisational transformation increases the risk of organisational stress. | Significant organisational transformation must be managed appropriately to reduce the risk of organisational instability. | <ul style="list-style-type: none"> ▶ Organisation Design Steering Group and work force planning process are in place to plan, manage and support any organisational transformations. ▶ Engagement and culture approaches including regular surveys alongside ongoing continuous improvement processes in place. ▶ Significant health and wellbeing programme in place to support staff. ▶ HR strategy is being implemented which includes initiatives such as an ibelong diversity and inclusion programmes, agile working and employee development programmes. |
| Financial and Economic | | |
| 9 Our activities expose us to a number of global macroeconomic and financial risks - credit risk, funding and operational allowance model risk, liquidity risk, currency risk and interest rate risk. | Business Plans set out the funding and allowance requirements for the business. | <ul style="list-style-type: none"> ▶ Defined risk limits, delegations of authority and exposure monitoring in place. ▶ Ongoing engagement and relationships with Government, institutional and potential investors. ▶ Close monitoring and impact assessment for any macro-economic events e.g. Brexit, COVID-19. |



Performance in 2020



The Executive Team



Cathal Marley
Chief Executive Officer



Ronan Galwey
Group Chief Financial Officer



Liam O'Sullivan
Chief Operating Officer



Dawn O'Driscoll
Group Strategic HR Director



Niall Gleeson
Deputy Chief Executive Officer
Managing Director of Irish Water



Denis O'Sullivan
Managing Director,
Gas Networks Ireland



Orlaith Blaney
Chief Communications and
Marketing Officer



Brendan Murphy
Group Commercial Regulatory Director



Claire Madden
Group Chief Legal Officer



Michael G. O'Sullivan
Director, Business Services



Liam O'Riordan
Company Secretary

Financial Review

Ervia delivered a solid financial performance during 2020, particularly in the context of the challenges introduced by COVID-19. Despite the unforeseen interruptions to capital delivery, our capital expenditure amounted to €112m in critical gas infrastructure.

Ervia delivered a Profit before Tax of €104m and made a dividend payment of €71m to the Exchequer, which included a further special dividend of €24m relating to the sale of the Bord Gáis Energy business.

Gas Networks Ireland, an Ervia subsidiary, maintained its investment grade credit ratings with Moody's and S&P in 2020. The strong credit rating enables Gas Networks Ireland to have access to a wide diversity of funding sources and ensures its continued access to competitively priced funding.

Ronan Galwey
Group Chief Financial Officer



Key Highlights 2020

Revenue

€447m

EBITDA

€258m

Profit before income tax

€104m

Capex

€112m

Dividends paid

€71m

Net Debt

€1,024m

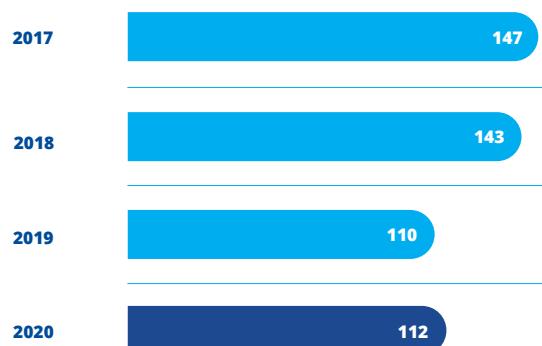
Financial Review (continued)

Key Financial Trends**Revenue**

€m

**Capex**

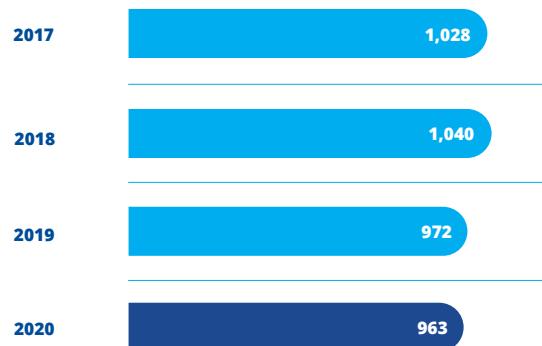
€m

**EBITDA**

€m

**Net Assets**

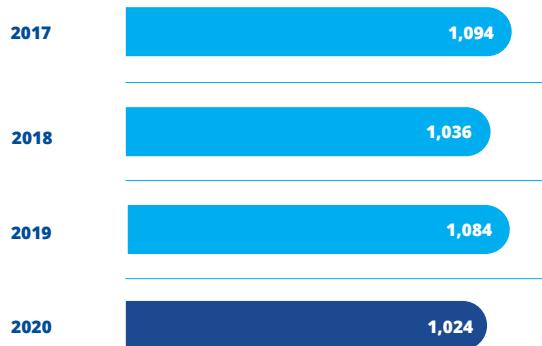
€m

**Dividends**

€m

**Net Debt**

€m



Summary Income Statement

| | 2020 €m | 2019 €m |
|---------------------------------|--------------|------------|
| Revenue | 447 | 470 |
| Operating costs | (189) | (189) |
| EBITDA | 258 | 281 |
| Depreciation and amortisation | (135) | (136) |
| Finance costs | (19) | (21) |
| Profit before income tax | 104 | 123 |
| Dividend paid to Exchequer | 71 | 139 |

Revenue

Revenue was €447m for the year to December 31st 2020, decreasing by €23m compared to 2019. This decrease was primarily driven by over-recoveries of revenue in prior years and lower pass-through revenues. Lower gas demand also contributed to the decrease in revenues. This was primarily due to high wind levels in the first quarter of 2020, and to a lesser extent due to COVID-19 related demand factors, as a result of the reduction in economic activities.

Operating Costs

Operating costs of €189m are aligned to 2019. This is primarily due to lower gas commodity costs to run the compressor stations and the continued delivery of operating cost efficiencies; offset by inflationary cost pressures.

Depreciation

Depreciation and amortisation of €135m is broadly aligned with prior year.

Profit before Income Tax

Profit before tax decreased by €19m to €104m for 2020 due to:

- ▶ Lower EBITDA of €23m,
- ▶ Partly offset by lower depreciation charges of €1m, and
- ▶ Lower finance costs of €3m, primarily due to lower financing costs and the reduction in debt during 2020.

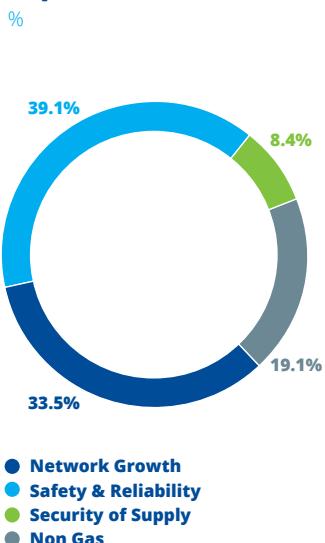
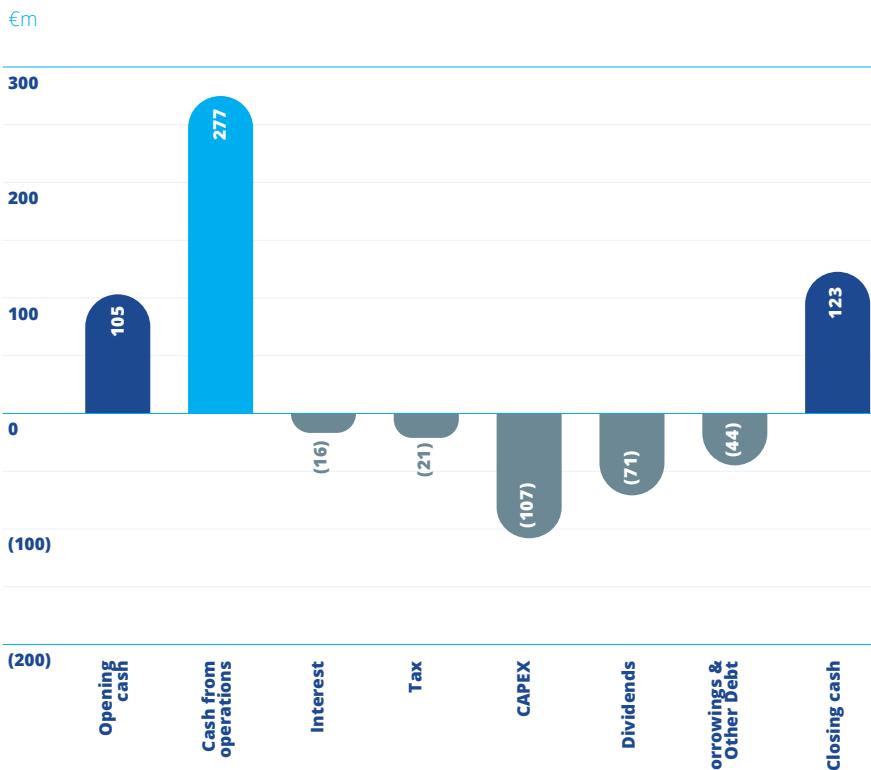
Dividends

A dividend of €71m was paid in 2020, €47m relating to the annual dividend and a special dividend of €24m relating to the sale of the Bord Gáis Energy business. The annual dividend is based on 45% of the previous year's profit before certain exceptional items.

Financial Review (continued)

Summary Balance Sheet

| | 2020 €m | 2019 €m |
|----------------------------|----------------|------------|
| Infrastructure assets | 2,496 | 2,532 |
| Other assets | 231 | 243 |
| Total assets | 2,728 | 2,775 |
| | | |
| Borrowings and other debt | (1,151) | (1,204) |
| Pension liability (IAS 19) | (183) | (147) |
| Other liabilities | (431) | (451) |
| Total liabilities | (1,764) | (1,803) |
| | | |
| Net assets | 963 | 972 |
| | | |
| Net debt | (1,024) | (1,084) |

Capex**How Cash Was Used in 2020**

Infrastructure Assets and Capital Expenditure

Ervia continued the delivery of scheduled capital investments with total investments of €112m between gas and telecoms infrastructure.

The investment included key strategic projects including the construction of two CNG stations, progress of the Ballough project and Aurora Telecom's national fibre network.

Net Debt and Cash Flows

- Net debt was €1,024m at December 31st 2020, compared to €1,084m in the prior year.
- Operating cash flows of €277m were primarily used to fund critical capex investments in gas infrastructure and fund the dividend payment to the exchequer.

- Capital expenditure in cash outlay terms was €107m.
- Ervia made a dividend payment to the Exchequer of €71m, which included a €24m special dividend relating to the sale of the Bord Gáis Energy Business.

Net Pension Deficit

Ervia Group has an accounting pension deficit (IAS 19) of €183m as of December 31st 2020, an increase in deficit of €35m compared to 2019. In accordance with IAS 19 requirements, corporate bond yields are used as the basis to determine an appropriate discount rate to calculate the present value of long-term pension scheme liabilities irrespective of the nature of the scheme's assets or their expected returns. The discount rates used to value pension liabilities have decreased by 0.55% during the year, increasing the value of pension scheme

liabilities. This increase has been partly offset by favourable movements in assumptions on demographics and inflation. Refer to Financial Statements note 20.

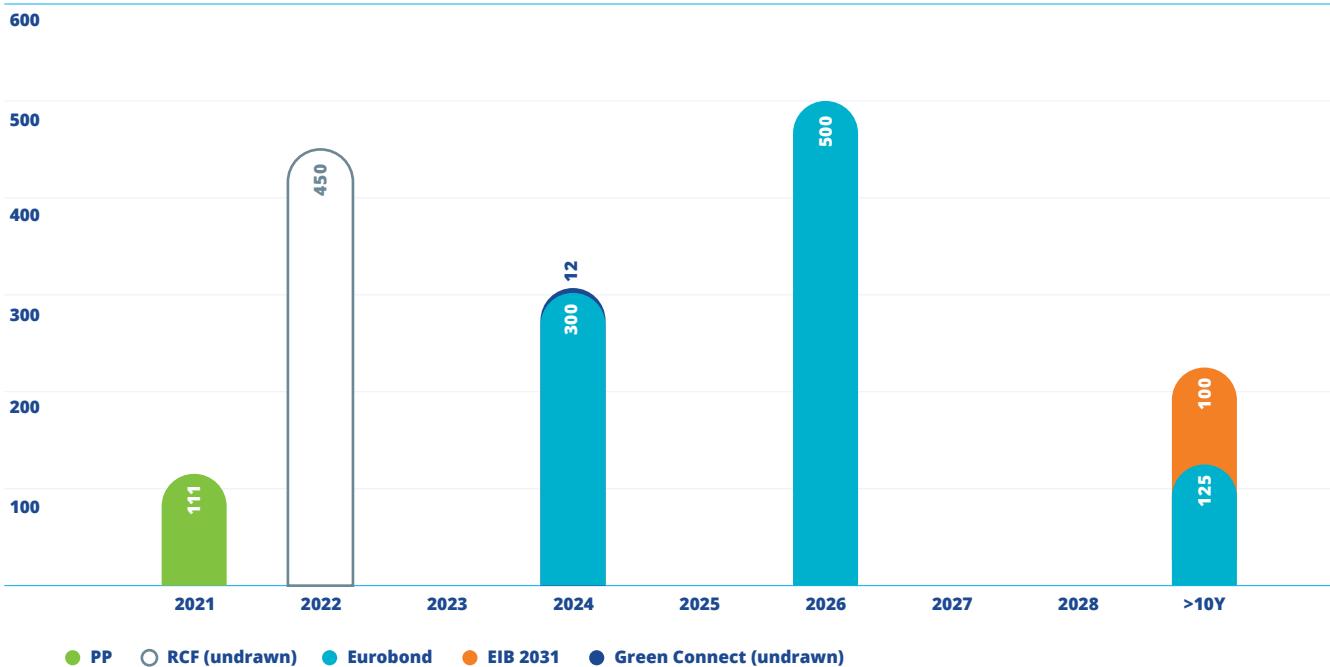
Capital Resources and Treasury Governance

Capital Resources

Ervia had total borrowings and other debt of €1,151m at December 31st 2020 (€1,204m: December 31st 2019). There were undrawn committed facilities of €462m and €123m of cash and cash equivalents at December 31st 2020.

Ervia Debt Maturity Profile

€m



Financial Review (continued)

Capital Resources and Treasury Governance (continued)

Ervia has a statutory borrowing limit of €3 billion, which sets the upper limit for drawn facilities. In 2020, Gas Networks Ireland executed a €12m facility agreement with Danske Bank A/S to provide funding towards the Green Connect Project. 91% of Gas Networks Ireland's debt (excluding lease liabilities) was at fixed rates at December 31st 2020 (88%: December 31st 2019).

The weighted average interest rate on Gas Networks Ireland's portfolio of outstanding borrowings was 1.3% (1.2%: December 31st 2019) and the average maturity of its debt was 6.4 years (7.2 years: December 31st 2019). In 2020, Gas Networks Ireland maintained its long term credit rating of A with Standard & Poor's and A3 with Moody's Investors Services.

Treasury Governance

Ervia operates a centralised treasury function. The responsibility for treasury activity and its performance rests with the Board, which exercises its responsibility through regular review. The Ervia Audit and Risk Committee provides oversight of the risk and control environment on behalf of the Ervia Board. Ervia complies with the requirements and conditions of the Minister for Finance under the Financial Transactions of Certain Companies and Other Bodies Act, 1992. Ervia's treasury function is not operated as a profit centre and treasury positions are managed in a risk averse manner. All treasury transactions have a valid underlying business reason and speculative positions are strictly prohibited. Further details of Ervia's treasury governance financial risk management policies are set out in the Financial Statements note 25.

Brexit

Following the 2016 referendum on the UK's membership of the European Union, there was significant uncertainty regarding Britain's future trading arrangements with Ireland and other European markets. On 31 January 2020, the UK left the EU and a transition agreement was put in place until 31 December 2020. A trade deal between the EU and the UK was announced on 24 December 2020 which came into effect on 1 January 2021.

Ervia continues to proactively monitor and adapt to the economic and operational developments arising from Brexit. Following the formal departure of the United Kingdom from the EU on 31 December 2020, Ervia has not experienced any adverse operational or financial impacts in line with our expectations. We are satisfied that this will continue to be the case going forward.

Financial Outlook

Ervia is set to play a key role in the programme for national economic recovery, with an ambitious capital investment programme for 2021. Looking beyond this, Ervia's strong financial position and ability to fund itself ensures it is well placed to deliver its climate action initiatives.

Operating Review

Natural gas plays a critical role in providing a cleaner, competitive and secure energy supply for Ireland. Our challenge is to drive the evolution of Ireland's energy system and respond to the challenge of climate change while providing a safe and secure energy supply.

2020 was an unprecedented year dominated by the global COVID-19 pandemic. Our crisis management procedures were stood up and we invoked the Retail Gas Management Incident Management Plan (RGMIM) in March 2020. We immediately enabled large scale working from home and accelerated our strategy on employee wellbeing and engagement. Our frontline staff continued to carry out essential works including the prioritisation of healthcare projects. We proactively engaged with our shippers and customers and responded to multiple stakeholder requests. We facilitated an increase in emergency credit for Pay As You Go customers and implemented the Commission for Regulation of Utilities supply suspension scheme. While COVID-19 presented our business with significant challenges our comprehensive response 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 2020, Gas Networks Ireland continued to operate, maintain and develop the network safely, economically and efficiently. We delivered €112 million of critical investment infrastructure and had our five management systems recertified at the same time by the NSAI.

2020 also saw us advance our journey to a decarbonised network. Two new Compressed Natural Gas (CNG) stations were constructed, at Clonshaugh in Dublin and Ballysimon Road in Limerick. The country's second publicly-accessible, fast-fill CNG station, opened in Cashel and Ireland's only purpose-built renewable gas injection facility in Cush, Co. Kildare was formally declared an entry point.

Through our division Aurora we completed the final leg of the vital national Cork Waterford Dublin ring route and the 105km Havfrue subsea connection in Mayo.

This year the gas network, a vital national asset delivered 31% of the country's primary energy needs and generated 52% of Ireland's electricity.

Denis O'Sullivan

Managing Director, Gas Networks Ireland



In 2020, Gas Networks Ireland continued to operate, maintain and develop the network safely, economically and efficiently.



Operating Review (continued)

***During the year,
34.4% of all gas
requirements in the
Republic of Ireland
were supplied by the
Corrib gas field.***

Overview

Gas Networks Ireland owns, operates and maintains the natural gas network in Ireland. Our gas network is one of the most modern and safest in the world and comprises 14,617km of gas pipelines including two sub-sea interconnectors. The safe, reliable transportation of natural gas and the delivery of a consistently excellent, cost-effective service that benefits all our customers is at the core of what we do.

Currently over 706,000 homes and businesses avail of a safe, efficient and secure supply of natural gas every day. As an energy source, natural gas is of strategic importance to Ireland and facilitates job creation and economic growth. The gas network is a vital national asset and plays a critical role in Ireland's economy, delivering 52% of the country's primary energy needs. On average 31% of Ireland's annual electricity is produced using natural gas.

Natural gas 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 networks ability to respond to changing profiles is an increasing important feature for the electricity grid as intermittent renewable electricity generation continues to grow.

Gas Networks Ireland has continued to deliver a safe, efficient and reliable gas network by focusing on security of supply and safe operations while also pursuing opportunities to optimise the network as part of Ireland's transition to a net zero carbon economy.

Operating Environment

Demand and Supply

In 2020, the total amount of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was 76.3TWh. This was supplied through the Moffat Interconnector and the Corrib and Kinsale Head gas fields. Despite the impact of COVID-19, gas demand in 2020 was broadly in line with





The safe, reliable transportation of natural gas and the delivery of a consistently excellent, cost-effective service that benefits all our customers is at the core of what we do.

that of 2019. During the year, 34.4% of all gas requirements in the Republic of Ireland were supplied by the Corrib gas field. UK imports met 63.9% of demand, with the remaining gas supplied from the storage at Kinsale Head gas fields which ceased production in July 2020.

Regulation

The Commission for Regulation of Utilities regulates all assets on the Irish Transmission and Distribution networks including the subsea interconnectors and the onshore assets in Scotland. The Utility Regulator regulates Gas Networks Ireland's transmission pipelines in Northern Ireland.

At an EU level, full implementation and compliance with the current EU Network Codes is now complete by Gas Networks Ireland. Consequently, the focus now moves to the upcoming review of the EU gas legislative framework by the European Commission, expected to be delivered in 2021 and the new Network Codes that may emerge in turn.

Gas Networks Ireland is continuing to actively participate in various EU gas association working groups in Europe including European Network of Transmission System Operators for Gas, Eurogas, Gas Infrastructure Europe and Gas Distributors for Sustainability. These workgroups are focused on influencing the gas legislative review and inputting into associated technical and regulatory studies. The gas legislative review will be impacted by the 'Green Deal', announced in December 2019, and is likely to focus on the deployment of renewable gases. As part of delivering on the EU Green Deal, the Commission published EU strategies for Energy System Integration and Hydrogen in July 2020. In addition, the Strategy on Methane Emissions published in October 2020 indicated that the Commission will deliver legislative proposals in 2021 on compulsory measurement, reporting, and verification of methane emissions, which will impact

Gas Networks Ireland in turn. We will continue to monitor these developments and proactively engage with EU and national stakeholders, in the context of considerations and implications for the Irish gas market.

Tariffs

The gas tariffs for the 2020/21 year were calculated based on the complete set of decisions arising from the EU Tariff Network Code (EU 2017/460). This included the decision to recover the shrinkage gas costs within the regulated revenue for the first time. The transmission tariffs for 20/21 reflect circa 8% increase on the previous year, which is primarily driven by the inclusion of these shrinkage costs. The distribution tariffs for 20/21 reflect circa 5% increase on the previous year.

The Tariff Network Code Article 28 consultation, which is an annual review to consult on the current level of multipliers and seasonal factors for non-annual capacity products, and the level of discounts on products (e.g. Virtual Reverse Flow) is ongoing. Any changes to how these areas are currently addressed could have impacts on revenue recovery and the setting of gas tariffs for the relevant period(s). Any decisions made on changes to these areas will be incorporated into the tariff setting process for 2021/22.

National Gas Emergency Manager – COVID-19

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 Commission for Regulation of Utilities and Government. 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.

Operating Review (continued)

Overview (continued)

From early in 2020, Gas Networks Ireland began to track and prepare for the possibility that the novel coronavirus first reported in China might spread to Ireland. Scenarios were identified which could impact Gas Networks Ireland's operations and people, Personal Protective Equipment was procured, and training provided.

Like many businesses in Ireland, Gas Networks Ireland moved most of its staff to working from home and instigated the Pandemic Plan and Business Continuity Plans. Critical processes and positions were identified, and measures put in place to maintain key services such as control rooms and emergency response services, whilst protecting staff and customers from the spread of the virus.

As public health authorities learned more about the behaviour of the virus and as Ireland's economy gradually opened up, Gas Networks Ireland restored some of the non-critical services it had suspended, developed its COVID-19 Response Plan and introduced new controls in line with best practice.

When the Irish Government published its 5-Level Plan for Living with COVID-19 in October, Gas Networks Ireland developed its own version of the plan to give staff, the wider gas industry and gas consumers, clarity over the services that would continue, be restricted or suspended at the different public health levels.

The majority of staff have worked from home for most of 2020 and will continue to do so for the first part of 2021 at least. Gas Networks Ireland has provided IT and home working supports to these staff and has made considerable efforts to support the health and wellbeing of all its staff over the course of the year.

Despite the significant impact of the COVID-19 pandemic and the associated public health restrictions, not only on Irish business and society, but globally,



Gas Networks Ireland's health, safety and environmental performance was not impacted and gas supplies and core services have been maintained throughout.

Brexit

Gas Networks Ireland remains satisfied that there will be no adverse impact on natural gas flows. We anticipate no disruption to the daily importation of natural gas from Great Britain to Ireland from January 2021. This follows extensive engagement over a sustained period with relevant stakeholders including other natural gas pipeline operators and energy regulators in the UK and Ireland, as well as EU stakeholders.

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

An EU-UK Trade and Cooperation Agreement was concluded between the EU and UK on 24 December 2020. The agreement covers not just trade in goods and services, but also a broad range of other areas. On energy, the agreement provides a new model for trading and interconnectivity, with guarantees for security of supply, open and fair competition, including on production of renewable energy. In addition, the agreement facilitates ongoing dialogue between the EU and UK on energy matters until the 30th of June 2026, with scope for future renewal.

Gas Networks Ireland remains committed to continuing our strong relationships with our stakeholders to ensure that all potential risks associated with the UK's EU departure are minimised. We will continue our engagement with all relevant stakeholders including the Department of Climate Communications and Environment, The Commission for Regulation of Utilities, the UK Department for Business Energy and Industrial Strategy, Ofgem and National Grid.

Progress against our Strategic Ambitions in 2020

Several key strategic ambitions determined our business focus for 2020.

Safety

Delivering the highest health and safety standards

Gas Networks Ireland is committed to the highest possible safety standards and during 2020 we continued to manage all aspects of operations in a safe and environmentally responsible manner. Our comprehensive Safety, Environmental, Quality, Energy and Asset Management Systems, independently certified to ISO 45001, ISO 14001, ISO 9001, ISO 50001 and ISO 55001, ensure our activities are managed in accordance with international best practice.

We provide a best-in-class emergency response service. In 2020, we responded to 14,928 publicly reported escapes of gas with an average response time of 29 minutes, and 99.96% compliance within one hour. Our Combined Lost Time Incident Frequency Rate for staff and key service providers stood at 0.28 – the lowest since we began measuring. We recorded over 650 Safety Leadership Conversations and undertook 28 Internal management system audits along with over 644 safety, technical and environmental inspections.

In 2020 Gas Networks Ireland had all five individual ISO systems certified at the same time under one Integrated Management System by the National Standards Authority of Ireland.

Gas Networks Ireland's HAZCON (HAZard and CONtrol) app won the Health and Safety Initiative of the Year award at the Networks Awards 2020 in July. The "Health and Safety Initiative of the year" award recognises exceptional commitment to all-round health and safety and is awarded to organisations who demonstrate an innovative, robust and high-quality safety management system and evidence of health and safety performance that goes beyond statutory requirements.

We also launched an app for managers and senior leaders to record Safety Leadership Conversations and the Pipeline Open Database System project was successfully completed. This project is the first phase of building an intelligent Pipeline Integrity Management System.

A hydrogen safety strategy was commenced to establish the actions required to safely introduce hydrogen to the natural gas network and we continued to promote public safety awareness via a range of campaigns, including the Gas Emergency Service, Dial-Before-You-Dig, Meter Tampering, Always Use a Registered Gas Installer and Carbon Monoxide campaigns.

Business Delivery

Operating, developing and maintaining the existing gas transmission and distribution networks both economically and efficiently

Operating, maintaining and developing our network in an efficient and economic manner is a key element of our strategy. In 2020 we delivered over 39,732 planned maintenance work orders on the transmission and distribution networks and a capital expenditure programme of €112 million which included ongoing programmes to improve the safety and reliability of the network. 98% of all planned maintenance was completed and there no gas quality non-conformances. We continued to operate the network 24*7 continuously across the year. Grid Control operated independent shifts from separate locations in Midleton compressor station and Gasworks road as a protective measure to prevent the spread of COVID-19. A new Gas control centre was built on the Brownsbarn campus. While the national approach and restrictions to contain the spread of COVID-19 impacted delivery of capital works in Q2 2020, a substantial proportion of this was recovered when construction activities recommenced in June 2020.

Gas Networks Ireland is committed to the highest possible safety standards and during 2020 we continued to manage all aspects of operations in a safe and environmentally responsible manner.

Operating Review (continued)

Progress against our Strategic Ambitions in 2020 (continued)



We met our customer satisfaction score targets across all activities surveyed and there has been a reduction of 20.5% in complaints made by our customers compared to 2019.

Key Projects 2020:

- ▶ Completed capacity upgrade at Naas Above Ground Installation increasing capacity on the Distribution network in the area.
- ▶ Carried out boiler upgrades at five Above Ground Installation sites across the network.
- ▶ Replaced two safety-critical valves on the Seapoint to Leopardstown transmission pipeline, enabling adequate isolation in the event of an emergency.
- ▶ Reinforced 4.2km of pipeline on the distribution network in Portlaoise.
- ▶ Commenced the construction project to provide a bypass of the Ballough Above Ground Installation in county Dublin to enhance security of supply at the critical hub of the network.
- ▶ Contracted 8,091 new customers to the distribution network.
- ▶ Constructed two Compressed National Gas stations at Clonshaugh in Dublin and Ballysimon Road in Limerick.
- ▶ Progressed the final stage of network extension within Wexford town.

Customers

Delivering excellent customer services

We delivered high quality services to over 706,000 domestic and commercial customers during 2020. There were:

- ▶ 41,049 customer appointments made with 99% compliance rate.
- ▶ 57,220 customer appointment kept with 99% compliance rate.
- ▶ 1.66 million meter reads.
- ▶ 448,785 customer contacts handled by our Contact Centre, inbound and outbound.

We met our customer satisfaction score targets across all activities surveyed and there has been a reduction of 20.5% in complaints made by our customers compared to 2019. 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, Performing, Collaboration, and Customer Service. There were 210 compliments for our staff from customers who recognised us going above and beyond for them. In 2020 we also rolled out our new Customer Centricity Metric to capture how committed we are to embedding our customer focus across all interactions. The Customer Metric scored 76% this year demonstrating the positive response from our customers and shippers on how we proactively engaged to ensure continuity of service throughout the year.

In 2020 two surveys were conducted (one operational survey, one management) to assess the performance of Gas Networks Ireland as perceived by Shippers and Suppliers and to identify areas for improvement. Both the Operational and Management survey results demonstrated strong satisfaction

with the service provided. A total of 88% of respondents (2019: 89%) in the operational survey stated they were satisfied with their experience. While the management survey recorded an average 80% customer satisfaction level. This was achieved despite the uncertainty and difficulty stemming from COVID-19 restrictions.

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

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

Climate Action

Securing our future – Working collaboratively to develop a sustainable energy system that facilitates and supports Ireland's net zero target. Our Vision 2050 launched in 2019 provides a strategy for the development of a carbon neutral gas network. It will deliver clean and flexible energy which will support emissions reductions across every sector of the Irish economy at the lowest cost possible. Renewable gas is a key pillar in our vision to fully decarbonise the gas network by 2050, along with hydrogen. Substituting renewable gas for natural gas is seamless and it's one of the ways Gas Networks Ireland can reduce Ireland's total CO₂ emissions across key sectors including electricity, industry, heat and transport.

In 2020 two publicly accessible, fast-fill CNG stations were constructed at Clonshaugh in Dublin and Ballysimon Road in Limerick. The country's second publicly accessible, fast-fill Compressed CNG station, opened at Circle K's forecourt in Cashel as part of the developing national network aimed at providing clean fuel to the Heavy Goods Vehicle sector. Strategically located at Junction 8 off the M8 (Dublin – Cork) motorway, the state-of-the-art station has the capacity to fill 50 Heavy Good Vehicles (HGVs) a day, with each fill

taking no more than five minutes. This new station allows hauliers and fleet operators in the region to begin the journey to carbon neutral transport by switching their fuel from diesel to CNG today and ultimately transitioning to networked renewable gas in the future.

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

Gas Networks Ireland has been granted permission by An Bord Pleanála for a proposed development of a renewable gas injection facility near Mitchelstown in Co. Cork. The Mitchelstown facility is part of the GRAZE Gas project, short-listed for funding by the Department of Environment, Climate and Communications under the Climate Action Fund.

Gas Networks Ireland has established a scheme for the issuance of electronic certificates to track Renewable Gas delivered to the Irish gas system. A draft Statutory Instrument was submitted to the Department of Climate Communications and Environment in early May. If implemented it would appoint Gas Networks Ireland as the Issuing Body for Guarantees of Origin for renewable gas in Ireland in accordance with Article 19 of the Renewable Energy Directive II.

Operating Review (continued)

Progress against our Strategic Ambitions in 2020 (continued)

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. In 2020 we built an independent distribution network in our facility in Brownsbarn to allow us to test how blends of natural gas and hydrogen perform in the network and also with downstream appliances.

Sustainability

As guardians of Ireland's natural gas infrastructure, Gas Networks Ireland aims to deliver its services in a sustainable manner that contributes 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.

For more detail on our commitment to sustainability please see pages 52-58.

Our People

Building a culture that engages, excites and empowers our people and business partners

During 2020, Gas Networks Ireland continued to focus on the support, development and wellbeing of all our employees. There were many engagements during the year including all staff briefings, focused round table briefings and all company sessions.

Staff wellbeing remains a priority. In 2020 we rolled out many health and wellbeing initiatives including mindfulness, nutrition, fitness programmes and mental wellbeing sessions. We also continued to deliver our ibelong Diversity and Inclusion programme and launched our Women's, Rainbow and Family networks to support our colleagues. In addition, our commitment to our apprenticeship programme continues with the ongoing development of our current apprentices.

We continue to invest in the development of our staff with a number of development programmes delivered throughout 2020 including our quarterly bite size training calendar, leadership development programmes and our female talent programme.

In March 2020, the onset of COVID-19 pandemic emphasised the continued need of the core elements of our people strategy including employee engagement, leadership, health and wellbeing and open communications with all our staff.

Technical Training

Early in the year an award ceremony was held in the Gas Network Ireland Technical Training Centre to present Technological University Dublin certificates to thirty successful trainees for the training programmes in 'Gas Network First Response Fitter' and 'Gas Distribution Supervisor'.

From March, Gas Networks Ireland worked to mitigate the impact of the COVID-19 restrictions on our Technical Competency development programme. From the early adoption of web conferencing platforms for training delivery to the development of new remote learning approaches, a focus was maintained throughout the year to address the technical competency development needs of the business. Key technical training was prioritised, and new solutions developed by the Gas Networks Ireland Technical Training Centre in conjunction with our external training partners.

Gas Networks Ireland aims to deliver its services in a sustainable manner that contributes 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.



The critical training related to ensuring the national gas emergency service was maintained and the maintenance of the existing capabilities. An adequate panel of competent contingency staff are available, should the need arise. COVID-19 Public health guidance was implemented for classrooms and workshops in the Technical Training Centre, including extra hand washing facilities, new signage, screens, group management procedures and temperature checks.

Nine apprentices were successfully hired into technician roles within the business from our Apprenticeship Programme. Our continuing Apprenticeship programme in partnership with SOLAS includes the crafts of plumbing, electrical instrumentation and mechanical automation and maintenance fitting.

On-line training expanded greatly in 2020. Courses delivered virtually offered opportunities to include experts drawn from locations across the globe, thereby enhancing the quality and depth of our programmes. During 2020 1,198 training days were delivered either in person or over a virtual platform. Also, e-learning modules were delivered to 882 trainees during the year. These changes to the training approach provided enhanced opportunities for trainees to attend technical training.

Technical training was delivered without compromising the quality of the training or the safety of our employees.

Operating Review (continued)

Aurora Telecom



Aurora Telecom, a division of Gas Networks Ireland owns and operates an extensive national backhaul fibre network. It provides a future proofed backhaul network for progressive projects of national economic and social importance.

A carrier-neutral operator, Aurora specialises in Dark Fibre services for telecommunications carriers, corporate organisations and government services.

In 2020 Aurora Telecom commissioned the concluding 300km segment of its national network from Cork to Dublin via Waterford and Carlow bringing the footprint to over 1,200km, the only high fibre connection of its kind for these regions. The network extends across 15 counties, in a ring topology, and interconnects the cities of Galway, Limerick, Cork, Waterford, and urban centres along this route including, Athlone, Mullingar, Shannon, Mallow, Middleton, Dungarvan and Carlow.

Aurora also completed a 105km connection, paving the way for a vital transatlantic submarine cable system to land in Co. Mayo, providing dedicated connection to the US. We also commenced the construction of

backhaul connections for other subsea cable connections due to land in 2021.

In a highly competitive market, Aurora achieved best in class operational performance in 2020, with the most modern, lowest latency network in the country, coupled with the highest levels of network availability.

The telecommunications industry is an essential service. Because of the economic and social disruption caused by COVID-19, people and organisations across the country significantly rely on technology for information, for social contact, as well as for trading, working and educating from home. The Aurora team, alongside their Gas Network Ireland colleagues, ensured that all major projects continued to be rolled out safely and on programme.

GNI (UK) Ltd

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

It also owns and operates two pipelines in Northern Ireland, the South North pipeline running from Gormanston, Co. Meath to Co. Antrim and the North West pipeline running from Carrickfergus to the Coolkeeragh power station.

GNI (UK) Ltd is regulated by the Commission for Regulation of Utilities in relation to the Republic of Ireland network and the Utility Regulator in Northern Ireland and Ofgem, in the UK.



2021 Priorities



Mobilise a new Network Services Contract.



Commence extensive engagement with the regulators on respective price controls (the existing price controls will expire in September 2022).



Progress a number of capital works including:

- ▶ Completing the Ballough Bypass project in county Dublin thereby enhancing security of supply at the critical hub of the network.
- ▶ Commence a significant project at Beattock Compressor Station in Scotland to improve the operational flexibility of the station and facilitate future security of supply and decarbonisation projects.



Focus on continued engagement with all stakeholders, including DECC on the development of energy policy.



Manage and address any implications arising from Brexit.



Continue to roll-out a national network of CNG stations.





Design and prepare for construction of the Mitchelstown Central Injection facility.



Develop a Hydrogen technical strategy.



Recertification to Business Working Responsibly Mark.



Invest in the ongoing development of our staff with a number of development programmes delivered.



Aurora to commission two telecoms network extensions which will further enhance our regional reach.



All 1850 Gas Networks Ireland phone numbers will be replaced by 1800 or 0818 phone numbers in line with ComReg requirements.



Sustainability

During 2020 we continued to embed sustainability in our strategy and purpose.

Our Sustainability framework is underpinned by the three pillars – economic, social and environment and by championing the United Nations Sustainable Development Goals (UNSDGs).

Gas Networks Ireland has adopted six of the UNSDGs to champion. The sustainability strategy is focussed on six of these goals, three primary and three supporting,

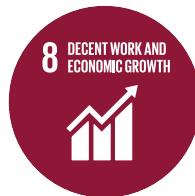
Gas Networks Ireland is committed to ensuring these areas are at the core of our business decisions strategy.



Economic



Social



Environment



We are conscious of our impact on the environment and in the communities where we operate. We are proud of the fact that we are one of only 40 companies in Ireland to hold the Business Working Responsibly mark which is aligned to the ISO26000 for Social Responsibility.

As a leading utility company sustainability is defined by our role in delivering an affordable and clean energy future for the people of Ireland through the decarbonisation of our network and the reduction of emissions across all sectors of Irish society.

2020 Highlights

This year we

- ▶ Published our second sustainability report. "Sustainability in Action" highlighting progress in implementing the principles of the UN Sustainable Goals.
- ▶ Participated in the Carbon Disclosure Platform (CDP) for the first time. We received a B- CDP rating which is a significant achievement for a first-time participant.
- ▶ Was re-certified 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.
- ▶ Exceeded the Public Sector Energy Efficiency target (33% by 2020) and achieved a 47% energy efficiency improvement.
- ▶ Won the 'Health and Safety Initiative of the Year' award for its 'HazCon' app at the Networks Awards 2020. The Health and Safety Initiative of the Year award recognises exceptional commitment to all-round health and safety.
- ▶ Won both the Sustainable Energy Achievement Award and the Green Large Organisation of the Year Award at the 2020 Green Awards.
- ▶ Were selected by the judges to be one of six organisations shortlisted for the green business of the year award.



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



Sustainability (continued)

Environmental impact



Gas Networks Ireland has adopted an iterative multi-year approach to reducing the environmental impact of its business activities. Significant milestones on this journey have been the implementation of an Environmental Management System (certified to ISO14001) in 2012, achieving the Energy Management System certification (ISO50001) in 2014 and being one of the first companies in the country to achieve the Asset Management System Standard ISO55001 in 2015.

Investment in leading edge asset management systems and processes will contribute to enhanced network asset performance and energy efficiency.

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

We published the annual Sustainability Report in alignment with the United Nations Sustainability Development Goals in 2020, outlining progress in implementing the principles of sustainable development across all aspects of our operations.

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

The environmental energy working group promotes an integrated and strategic approach to environmental and energy management across the business and our asset base. Bespoke in-house design toolkits and environmental

guidance assist our designers, planners and operations colleagues to apply a standardised approach to environmental management.

In 2020, we joined leading companies around the world to call for ambitious and collective action on nature by signing up to the Business for Nature Call to Action. We have made nature a priority through our Biodiversity commitments and aim to achieve a net positive impact on biodiversity across our operations by 2025.

This year, for the first time, we participated in the Carbon Disclosure Platform (CDP) and have publicly disclosed the carbon emissions data and climate change management information.

Biodiversity

Our multifaceted award winning Biodiversity Enhancement Programme, which is in place since 2017, was shortlisted for a Chambers Ireland CSR award this year. In 2020, we continued our work as a member of the Irish Business and Biodiversity Platform and joined leading companies around the world to call for ambitious and collective action on nature by signing up to the Business for Nature Call to Action. In 2020 we developed a Gas Networks Ireland Biodiversity Action Plan to support our Biodiversity Enhancement Programme.

The programme aims to increase biodiversity knowledge and awareness among staff and stakeholders. Biodiversity awareness initiatives undertaken during the year included:

- ▶ Conducting biodiversity webinars with staff and their families.
- ▶ Sponsoring a biodiversity booklet for gardeners which was made available via the Irish Examiner as part of National Biodiversity week.
- ▶ Supporting the All Ireland Pollinator Plan. With assets all over the island of Ireland, the Company recognised the potential to create a network of pollinator friendly habitats across the country and to share our knowledge with other businesses. We conducted ecology surveys, planted wildflower meadows (including the planting of red clover) and erected bird boxes.

Waste Reduction

We are committed to reducing our waste to landfill and we track our progress monthly. The long term target is zero waste to landfill by 2025. This year the overall recycling figure in our offices was 99% up from 94% in 2017. Furthermore, all of our waste suppliers are audited to assess operational practice and to ensure adherence to our standards.

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

Energy

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

Measures to achieve energy savings include:

- ▶ Metering and energy efficiency drives that are taking place at all office locations.
- ▶ Upgrading inefficient lighting and heating solutions.
- ▶ Replacing older inefficient vehicle fleet with efficient vehicles which are subject to enhanced inspection procedures and
- ▶ 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.

Green House Gas Emissions and Carbon Performance

Sustainability and decarbonisation principles are at the core of our business and strategic decisions. We are a signatory to the Low Carbon Pledge. It is a Business in the Community Initiative for Irish business to invest time and resources into creating a more sustainable operation, by increasing energy efficiency and reducing carbon usage. The Low Carbon Pledge was initially focused on recording and reducing Scope 1 and Scope 2 emissions sources. The new Low Carbon Pledge now calls on businesses to set science-based carbon emission reduction targets no later than 2024..



In 2020 we made a submission to the Carbon Disclosure Project (CDP) for the first time. CDP is a world leading accreditation for companies and cities to disclose the environmental impact of their operations. It aims to make environmental reporting and risk management the business norm, driving disclosure, insights and action towards a sustainable world. In 2020 GNI were awarded a CDP rating of B- which is a significant achievement for a first time participant.

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

Sustainable Procurement

We are also driving enhanced sustainability practices through our 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 us with monthly reports on their performance against a range of environmental KPIs in relation to waste management and energy use. In addition our contracts incentivise best environmental practise throughout project delivery.

We are currently developing Science Based Targets and actively focusing on the scope 3 emissions.

Sustainability (continued)

Social impact



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

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

| | 2020 | 2019 |
|-----------------------------|---|---------------------------------|
| Volunteering Hours | 586 hours 1 in 6 employees | 1,460 hours 1 in 4 employees |
| Volunteering on a programme | | |

Our Colleagues

Our overarching ambition at Ervia is that the people who work across our company feel like this is a great place to work, and that their experience of coming to work every day is enriching and rewarding. As an organisation we are committed to listening to our people in a number of ways. This includes engagement surveys, through our employee forums and a program of two-way leadership communications. By continuing to listen and address areas that are important for our people we can take really positive steps to shape our

culture, improve how we do things and how we support our people. We aim to create an environment where all of our people find their role both personally and professionally rewarding.

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

Engagement surveys

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

Together we made great progress in 2020 and we continued to deliver essential services

Over the course of the past 12 months, teams across the business implemented local action plans to address areas of engagement that were of most relevance and importance to them. These plans were adjusted during the year as a result of COVID-19 with renewed focus on communication, teamwork, collaboration and safety.

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

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



Safety

At Ervia we put safety at the heart of what we do. COVID-19 provided us with additional challenges in 2020 however our extensive business continuity plans and crisis management arrangements allowed us to successfully continue to deliver essential services to the nation whilst also protecting the safety of our employees, contractors and delivery partners.

There was a total of 2 employee Lost Time Injuries (LTIs) in 2020. The incidents were of low severity and this represents excellent safety performance. However we will continue to strive to achieve zero injuries. The employee total Lost Time Injury Rate (LTIR) was 0.11 and the reportable LTIR was 0.06.

Our Work Safe Home Safe programme continues to deliver measurable improvements to our safety performance, communications, leadership and culture and was central to our COVID-19 response. Notwithstanding the pandemic in 2020 we saw further improvements in engagement on safety and many of our proactive safety indicators such as the number of safety leadership conversations held.

There was a total of 11 Contractor LTIs in 2020 against a total of 15 in 2019. In addition to LTIs, Ervia focuses on the potential for incidents or near miss event in order to identify those high potential incidents or events that under different circumstances, might easily have resulted in more serious outcomes.

All high potential incidents and events are subject to detailed investigation to determine the root cause and to put preventative measures in place. Over the course of 2020 Ervia has worked closely with our contractors to ensure they also focus on high potential events in order to prevent serious injury and to improve overall safety performance. This will remain a key area of focus for Ervia in the future.

Community

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

Education

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

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

Employability

We supported the skills at work programme which promotes education for secondary school students. We have worked with Nagle College Cork on the skills at work programme since 2006 and this year we celebrated our ten-year anniversary partnering with Beneavin College in Finglas.

The Grow Dome Project is an award-winning social enterprise which transforms unused land into a community resource through the installation of grow domes. Again this year we continued our support for the this project through our partnership with Inner City Enterprise.

Accessibility

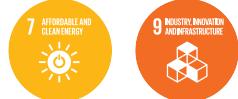
During 2020 we accelerated our partnership with Age Action by supporting their COVID-19 response and hardship fund, which provided once off grants to help with unexpected expenses. Separately our colleagues volunteered to tutor older people in the use of smartphone and video calling technology, helping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

Stakeholder Engagement

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

Sustainability (continued)

Economic impact



Natural gas is of key strategic importance to the Irish economy, representing 31 percent of Ireland's primary energy mix and generating 52 percent of Ireland's electricity.

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

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



Investment in Our Future

We serve over 706,000 gas customers in Ireland, including over 27,000 businesses. Ireland's national gas network infrastructure, which is valued at €2.7 billion, is 14,617km long and connects towns and villages in multiple counties across the country.

In 2020 we connected 8,091 new commercial and residential customers to the gas network and contracted 635GWh of new natural gas demand.

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

Governance Report

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The Board

Tony Keohane

(Chairman)



Appointed: July 5th 2016

Term: 5 years

Board Committees: Remuneration

Career: Alumni of INSEAD, expert in strategic development of businesses and organisations, Ex-Chairman of Tesco Ireland, CEO of Tesco Ireland from February 2006 until July 2013.

External Appointments: Chairman of Repak and the Malone Group, Board of Sam McCauley Chemists and An Bord Bia, strategic advisor in his own consultancy business.

Cathal Marley

Appointed: August 10th 2020

Term: 5 years

Board Committees: Investment/Infrastructure

Career: Group CEO of Ervia having previously held the role of Group CFO of Ervia. He joined Ervia in 2016 and has worked for over 20 years in the energy and infrastructure sectors, including electricity, gas and water. Having operated in a number of senior roles within large organisations both in Ireland and in Eastern Europe, he brings extensive utility, commercial and fund raising experience to Ervia.

External Appointments: Fellow of the Institute of Chartered Accountants in Ireland and holds an MBA from the UCD Michael Smurfit Business School, serves on the Audit Committee of Dublin City University and member of the IMI Council.

Chris Banks



Appointed: July 5th 2016

Term: 5 years

Board Committees: Investment/Infrastructure, Project 23

Career: Commercial Director at Scottish Water from 2002-2014 during its formative period and business transformation within public sector ownership. He held responsibility for Procurement Asset Delivery partnerships, energy management, property & facilities, IT, fleet, non-regulated businesses in renewables, contracting and international consultancy, and overseeing market opening for water retail competition. Previously he has worked at board and senior management level in building products, minerals and shipping industries.

External Appointments: Non-executive Director, Interim Commercial Director, and strategic advisor to a number of utility, consultancy, technology services and supply companies in water, waste and renewable energy sectors.

Fred Barry



Appointed: January 10th 2020 (having previously been appointed July 5th 2016)

Term: 4 years

Board Committees: Investment/Infrastructure, Project 23

Career: CEO of the National Roads Authority 2005-2015, Group Managing Director of various Jacobs companies.

External Appointments: Chairman of the National Transport Authority, Non-Executive Director of the PM Group, Fellow of Engineers Ireland and of the Irish Academy of Engineering.

Celine Fitzgerald



Appointed: January 20th 2020 (having previously been appointed on January 20th 2015)

Term: 5 years

Board Committees: Project 23, Remuneration

Career: Management consultant, CEO of GOAL, CEO of Rigney Dolphin between 2007-2012, Customer Relationship Management in Vodafone and Eircell.

External Appointments: Own consulting business (Integro consulting), Chartered Director, served on the Board of VHI up to 2020 and currently serves on the VHI Health and Wellbeing board and is a Director of the Permanent TSB Group.

Keith Harris



Appointed: July 5th 2019 (having previously been appointed on July 5th 2016)

Term: 4 years

Board Committees: Audit and Risk, Remuneration, Project 23

Career: Senior Executive and Board positions at Wessex Water, Global Head of Regulation at Enron/Azurix.

External Appointments: Director of South Staffordshire plc, Owner of private infrastructure advisory business Lorraine House, Industry partner in AIP Asset Management, associate of OXERALLP.

Sean Hogan

Appointed: January 10th 2020 (having previously been appointed January 20th 2015)

Term: 4 years

Board Committees: Audit and Risk

Career: Chartered Director, Chairman of WRAS Ltd in the UK, Chair of expert advisory committee on bovine tuberculosis for the Department of Agriculture, Environment and Rural Affairs in Northern Ireland.

External Appointments: Chairman of Northern Ireland Water Limited from March 2011–March 2015.

Mari Hurley

Appointed: June 12th 2018 (having previously been appointed on June 11th 2013)

Term: 5 years

Board Committees: Audit and Risk, Remuneration

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

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

Finbarr Kennelly

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

Term: 5 years

Board Committees: Audit & Risk, Remuneration

Career: Currently Finance Director with Procuro Euro and previously held senior positions with the Gardiner Group, Financial Controller of Alcatel Business Systems Ireland, Finance and Operations Director of Golf Vacations Ireland.

External Appointments: Former Board Member of the Housing Finance Agency plc, mentor with Plato Ireland.

Joe O'Flynn

Appointed: July 10th 2018 (having previously been appointed in January 2015, November 2013 and November 2008)

Term: 3 years

Board Committees: Project 23, Investment/ Infrastructure

Career: Former Lord Mayor of Cork and former city councillor. Former General Secretary of SIPTU, Treasurer of the Irish Congress of Trade Unions and a member of its Executive Council.

External Appointments: Former director of 2 SIPTU affiliated bodies; the Institute for the Development of Employment Advancement Services and the Larcon Centre. Member of the Executive Board of the International Transport Federation. Chairman of the One Cork Group and a member of the Cork Airport Development Council.

Report of the Board

Governance Statement

Ervia is a statutory body existing under the laws of Ireland and established pursuant to the Gas Act 1976 (as amended).

Governance

The Ervia Board ("the Board") is accountable to the Minister for Housing, Local Government and Heritage ("the Minister") for the overall performance of the Group and for ensuring good governance.

This report outlines how Ervia has applied the principles and complied with the applicable provisions of the Code of Practice for the Governance of State Bodies ("the Code"). Ervia recognises that good corporate governance is pivotal to its success and to this end we continuously review and update our policies and procedures to comply with best practice. The Board is satisfied that Ervia has complied with the applicable requirements of the Code throughout the year under review.

As a statutory body, Ervia is not subject to the provisions of the Companies Act 2014. For details of the principal legislation under which Ervia and its subsidiaries (Gas Networks Ireland and Irish Water) operate and to access the key documentation which underpins Ervia's corporate structure, refer to our website at www.ervia.ie.

Roles and Responsibilities of the Board

The Board is responsible for leading and directing Ervia's activities that are implemented within a framework of prudent and effective controls that enable risk to be assessed and managed. The Board takes all significant strategic decisions, retaining full and effective control of the Group's activities, while delegating regular day-to-day management to the Chief Executive Officer and his Executive Team.

The Chief Executive Officer and Executive Team are required to implement the strategic direction set by the Board and to ensure the Board has a clear understanding of the key activities, decisions and performance results and of any significant risks likely to arise. The Chief Executive Officer acts as a direct liaison between the Ervia Board and management.

The Board has put in place a corporate governance structure which delegates

authority to its Committees to carry out certain tasks on its behalf so that it can give the right level of attention and consideration to those and other matters. Ervia's Board Committees are outlined in further detail on pages 66-67.

The activity of the Board and its Committees is planned annually to ensure that there is effective supervision and control of the Group's business. The work and responsibilities of the Board are set out in the Ervia Governance Framework. The framework also contains the matters specifically reserved for Board decision, as summarised below.

Standing items considered by the Board at each meeting include:

- ▶ Declaration of any conflicts of interests.
- ▶ Reports from Committees.
- ▶ Financial reports/management accounts.
- ▶ Chief Executive Report.
- ▶ Safety including COVID-19.
- ▶ Benefits and concerns.

Formal Schedule of Matters Reserved for the Ervia Board

The Formal Schedule of Matters reserved for the Board, as set out in the Ervia Governance Framework, includes, in respect of all Group entities, approval of the following:

- ▶ Safety policy.
- ▶ Annual budgets.
- ▶ Multi-annual business plans.
- ▶ All contracts and expenditure with a value in excess of €10m.
- ▶ Annual Reports and Annual Financial Statements.
- ▶ Appointment/removal of auditors.
- ▶ Treasury matters.
- ▶ Significant amendments to pension schemes.
- ▶ Terms of employment of senior management.
- ▶ Code of Business Conduct.
- ▶ Enterprise Risk Management Policy, Anti-Fraud Policy, Protected Disclosures Policy and Anti-Bribery and Anti-Corruption Policy.
- ▶ Approval of the release for consultation of key policy documents of strategic importance.

Matters Considered by the Board in 2020

| | |
|-----------------------------|--|
| Strategy | <ul style="list-style-type: none"> ▶ Strategic Direction of Ervia, Gas Networks Ireland and separation of Irish Water in 2023. ▶ Updates on Project 23. ▶ Options for Ervia/Gas Networks post separation. ▶ Ongoing dialogue with Ervia's shareholder on strategic issues. ▶ Vision 2050 evolution. ▶ Sustainability strategy. ▶ Carbon Capture and Storage and hydrogen strategy. ▶ IT and digitisation strategy. ▶ Water Services Strategic Plan. ▶ Release for consultation of the first phase (Framework Plan) of the National Water Resources Plan. |
| Safety | <ul style="list-style-type: none"> ▶ Monthly updates on management of the Group's response to the COVID-19 pandemic. ▶ Monthly health and safety metrics for the Group. ▶ Bi-annual safety updates. |
| Operations | <ul style="list-style-type: none"> ▶ CEO's Operations Report including Key Performance Indicators. ▶ Capital investment evaluations. ▶ Delivery of critical projects safely throughout the COVID-19 pandemic. ▶ Quarterly water leakage performance updates. |
| Corporate Governance | <ul style="list-style-type: none"> ▶ Annual Board evaluation. ▶ Review of Board and Board Committee Terms of Reference. ▶ Monitoring compliance with the Code of Practice for the Governance of State Bodies and revised guidance on gender balance. ▶ Appointment of Ervia Chief Executive Officer. ▶ Appointment of Ervia Chief Legal Officer. ▶ Appointment of Ervia Chief Financial Officer. ▶ Review of the Code of Business Conduct Anti-Fraud Policy, Protected Disclosures Policy and Anti-Bribery and Anti- Corruption Policy. ▶ Review of Governance framework. |
| Finance | <ul style="list-style-type: none"> ▶ Annual published results. ▶ Monthly trading results including performance versus budget and forecast and COVID-19 implications. ▶ COVID-19 contract claims strategy. ▶ Stimulus funding. ▶ Annual budget. ▶ Quarterly re-forecasts. ▶ Updates on efficiencies. ▶ Dividends. ▶ Funding. ▶ Business Plans. ▶ Ervia Superannuation Scheme Actuarial Valuation. ▶ Revised Financial Approvals and Contract Approvals Policy. |

Board Responsibilities Statement for the Annual Report and Financial Statements

The Board is responsible for the preparation of the Annual Report and the accompanying Financial Statements, which in the opinion of the Board, give a true and fair view of the state of affairs and profit of Ervia for the year. The Board is responsible for the maintenance and integrity of certain corporate and financial information included on the Group's website www.ervia.ie. Legislation in Ireland concerning the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions. The Board has prepared the Financial Statements in accordance with applicable Irish law and International Financial Reporting Standards as adopted by the European Union. The Board maintains adequate accounting records in compliance with the obligations imposed by the Gas Act 1976 (as amended).

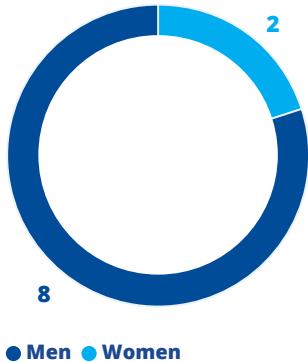
The Board is also responsible for reviewing the effectiveness of the system of internal controls comprising financial, operational, compliance and risk management controls and for reporting thereon to the Minister. Finally, the Board is responsible for safeguarding the assets of Ervia and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In preparing the Financial Statements, the Board is satisfied that:

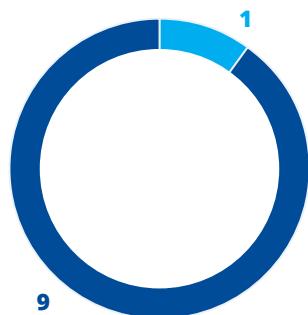
- ▶ Suitable accounting policies have been selected and applied consistently.
- ▶ Judgements and estimates used are reasonable and prudent.
- ▶ Preparation of the Financial Statements on a going concern basis is appropriate.
- ▶ The Financial Statements give a true and fair view of the financial position of Ervia at 31 December 2020.

Report of the Board (continued)

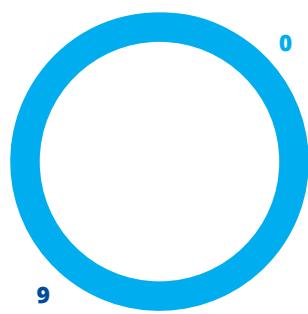
Board Gender



Executive and non-executive Board Members



Non-executive Board Member tenure



The Board

Board members are outlined on pages 60-61.

Board Composition

The Board's composition is a matter for the Minister. Decisions regarding the appointment and re-appointment of Board members are made by the Minister in accordance with the Guidelines on Appointments to State Boards as published by the Department of Public Expenditure and Reform in November 2014. The Chairman engages with the Minister in advance of Board appointments to highlight the specific skills and experience that are required on the Board.

Board Members have a blend of skills and experience and the necessary competence to support effective decision making.

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

Induction and Development of New Board Members

On appointment, Board Members are provided with detailed briefing documents covering governance, financial and operational information and an opportunity to be briefed by the Executive team on the different aspects of the business of the Group. Board Members have access to training programmes and their ongoing development needs are kept under review.

Independence

The Board is satisfied that the non-executive Board members are independent of management, in character and judgement, and free from relationships or circumstances that could affect, or appear to affect, their judgement and ability to meet the requirements of the role. Each Board member brings independent judgement to bear on issues of strategy, performance, resources and standards of conduct. Board members must declare any interest or relationship which could interfere with the exercise of their independent judgement. A declaration of any conflicts of interest is a standing item on the agenda for all Board and Committee meetings.

Board Members' Remuneration, Expenses and Attendance

The Minister determines the fees payable to Board members. A schedule of attendance at the Board and Committee meetings for 2020 is set out below, including the fees and expenses received by each member.

| Board Member | Remuneration (€) | Expenses (€) | Board (attended/ eligible) | Audit and Risk (attended/ eligible) | Remuneration (attended/ eligible) | Investment/ Infrastructure (attended/ eligible) | Project 23 (attended/ eligible) |
|---|---------------------|-----------------|----------------------------------|--|---|--|---------------------------------------|
| Tony Keohane (Board and Remuneration Committee Chairperson) | 31,500 | - | 15/15 | - | 7/7 | - | - |
| Chris Banks | 15,750 | 121 | 15/15 | - | - | 11/11 | 6/6 |
| Fred Barry (Investment/ Infrastructure Chairman) | 15,750 | - | 15/15 | - | - | 11/11 | 6/6 |
| Peter Cross (retired 19 January 2020) | 788 | - | - | - | - | - | - |
| Celine Fitzgerald (Project 23 Chairperson) | 15,750 | - | 15/15 | - | - | - | 6/6 |
| Keith Harris (Audit and Risk Committee Chairperson) | 15,750 | 354 | 15/15 | 5/5 | 7/7 | - | 6/6 |
| Sean Hogan | 15,750 | 192 | 14/15 | 5/5 | - | - | - |
| Mari Hurley | 15,750 | - | 13/15 | 5/5 | 6/7 | - | - |
| Finbarr Kennelly | 15,750 | - | 14/15 | 5/5 | 7/7 | - | - |
| Cathal Marley (CEO, appointed to Board 10 August 2020) | Note 1 | - | 5/5 | - | - | 10/11 | - |
| Joe O'Flynn | 13,246 | - | 15/15 | - | - | 9/10 | 5/6 |

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

Report of the Board (continued)

Board and Committee Effectiveness and Evaluation

The Board conducts an annual evaluation of its own performance and that of its Committees. The evaluation relates to the Board's and Committees' collective performance. The evaluation methodologies applied by the Board to determine its effectiveness are as follows:

| | |
|---------------------------------------|---|
| Internal Evaluation | <ul style="list-style-type: none"> ▶ The Board self-assessment questionnaire as provided in the Code is circulated to the Board. The questionnaire incorporates an analysis of the gender, diversity and skills mix within the Board based on the Annex to the Code on Gender Balance, Diversity and Inclusion as published by the Minister for Public Expenditure and Reform in September 2020. ▶ Completed questionnaires, include views on performance and recommendations for improvement. ▶ The Board formally concludes on its own performance, on the performance of Committees, and that of the Chairman, Chief Executive Officer and Company Secretary. |
| External Evaluation | <ul style="list-style-type: none"> ▶ In order to comply with the provisions of the Code, an external performance evaluation of the Board and its Committees is conducted every 3 years. The next external evaluation is scheduled to be undertaken during 2021. |
| Non-executive Board Member Evaluation | <ul style="list-style-type: none"> ▶ Non-Executive Board members carry out a performance evaluation of the Chairman taking into account the views of the CEO. |

Board Committees

The Board has an effective Committee structure in place to assist in the discharge of its responsibilities. Four committees of the Board assist in the discharge of its responsibilities and are delegated specific responsibilities by the Board as set out in their Terms of Reference.

Audit and Risk Committee

Activities undertaken by the Audit and Risk Committee in 2020 are outlined in the Audit and Risk Committee Report on page 74–76. The Audit and Risk Committee held 5 meetings during the year.

Investment/Infrastructure Committee

The Investment/Infrastructure Committee's responsibilities are set out in its Terms of Reference, which is available at www.ervia.ie. The Investment/Infrastructure Committee held 11 meetings during the year.

Key activities undertaken by the Investment/Infrastructure Committee in 2020 include the:

- ▶ Capital project evaluation and investment planning approach.
- ▶ Examination of impact of COVID-19 pandemic on delivery of capital projects.
- ▶ Consideration of revised Financial Authorisation and Contracts Approval Policy.
- ▶ Updates on Major Projects and related cost estimates.
- ▶ All capital expenditure proposals in excess of €10m.
- ▶ Upcoming tenders.
- ▶ COVID-19 contract claims strategy.
- ▶ Stimulus funding.
- ▶ Strategies including waste management, climate change, CO₂ footprint, IT and electricity sourcing.
- ▶ Post project reviews.

Remuneration Committee

The Remuneration Committee's responsibilities are set out in its Terms of Reference, which is available at www.ervia.ie. The Remuneration Committee held 7 meetings during the year.

Key activities undertaken by the Remuneration Committee in 2020 include:

- ▶ Review of the CEO's and other senior managers' performance for 2019.
- ▶ Review and consideration of Talent and Succession plans.
- ▶ Review of the Ervia pay model.
- ▶ Appointment of Ervia Chief Executive Officer.
- ▶ Appointment of Ervia Chief Legal Officer.
- ▶ Appointment of Ervia Chief Financial Officer.

- ▶ Set and review performance as per 2020 scorecards.
- ▶ Consideration of the results of the employee engagement survey.
- ▶ Annual review of executive pay.
- ▶ Review of Diversity and Inclusion initiatives.
- ▶ Ervia Superannuation Scheme Actuarial Valuation.
- ▶ Single Public Utility pension implications.
- ▶ Project 23 pension implications.

Project 23 Committee

The Project 23 Committee was established by the Board to consider the development of a separation plan further to the Government decision that Irish Water would become a standalone, publicly owned, commercial, regulated utility separated from the Ervia Group during 2023 and to ensure that the separation plan addresses the legal, financial, governance and operational issues involved in the creation of both Irish Water, and also the remaining Energy business, as standalone fully functioning entities capable of delivering on their respective purposes. The Committee met 6 times during the year.

Key activities undertaken by the Project 23 Committee in 2020 include:

- ▶ Stakeholder engagement.
- ▶ Updates on Project 23.
- ▶ Updates on the Single Public Utility.
- ▶ Update on transition arrangements for Shared Services.
- ▶ Options for Ervia/Gas Networks post separation.

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

The Board is responsible for ensuring that Ervia has complied with the requirements and disclosures of the Code. The following financial disclosures are required by the Code to be outlined in the Annual Report. These disclosures relate to Ervia and Gas Networks Ireland, but do not include Irish Water. Refer to the Irish Water Annual Report for the relevant disclosures in respect of Irish Water.

Analysis of Employee Benefits

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

| | 2020 | 2019 |
|--------------------|-------------|-------------|
| €50,000–€75,000 | 430 | 392 |
| €75,001–€100,000 | 266 | 237 |
| €100,001–€125,000 | 115 | 98 |
| €125,001–€150,000 | 53 | 50 |
| €150,001–€175,000 | 26 | 29 |
| €175,001 and above | 26 | 28 |

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.

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 Irish Water, the related costs are included in the Irish Water disclosure only.

| | 2020 | 2019 |
|--------------------------------|--------------|--------------|
| | €'000 | €'000 |
| Legal advice | 165 | 220 |
| Financial advice | 485 | 145 |
| Business improvement/change | 2,248 | 2,131 |
| Other | 185 | 268 |
| Total consultancy costs | 3,083 | 2,764 |
| Capitalised | - | 30 |
| Income statement | 3,083 | 2,734 |
| Total consultancy costs | 3,083 | 2,764 |

Report of the Board (continued)

Legal Costs and Settlements

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

| | 2020 €'000 | 2019 €'000 |
|-----------------------|---------------|---------------|
| Legal fees and costs | 1,940 | 1,159 |
| Settlements | 402 | 781 |
| Total | 2,342 | 1,940 |
| Number of legal cases | 11 | 5 |

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

Note 2: The number of cases relate to cases initiated by Ervia itself 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.

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

| | 2020 €'000 | 2019 €'000 |
|----------------------|---------------|---------------|
| <i>Domestic</i> | | |
| Board * | 4 | 20 |
| Employee | 1,237 | 2,950 |
| <i>International</i> | | |
| Board | - | - |
| Employee | 80 | 264 |
| Total | 1,321 | 3,234 |

* includes travel and subsistence of €668 paid directly to Board members in 2020 (2019: €6,309). The balance of €2,961 (2019: €13,517) relates to expenditure paid by Ervia on behalf of the Board members. Travel and subsistence expenditure incurred by the executive Board member is deemed to be incurred in their capacity as an employee.

Hospitality

The income statement includes the following hospitality expenditure:

| | 2020 €'000 | 2019 €'000 |
|--------------------|---------------|---------------|
| Staff hospitality | 78 | 230 |
| Client hospitality | 45 | 97 |
| Total | 123 | 327 |

Transparency

Ervia, as a commercial state body, is an open organisation which strives to be accountable and transparent to the public. Ervia is committed to improving the public's understanding of how the organisation operates and our role in delivering important national infrastructure and services to support the social and economic development of Ireland.

| | |
|---|--|
| Protected Disclosures and Raising Concerns | <p>The mechanism whereby Ervia's employees and management may raise concerns, or make disclosures in the public interest, in accordance with the Protected Disclosures Act 2014, is outlined in the Ervia Protected Disclosures Policy. Further guidance on raising concerns for management and employees is outlined in the Code of Business Conduct, the Anti-Fraud Policy and the Anti-Bribery and Anti-Corruption Policy.</p> <p>Section 22 of the Protected Disclosures Act 2014 requires Ervia to publish an Annual Report relating to protected disclosures made under the Act. In accordance with this requirement, Ervia confirms that in the year ending 31 December 2020, there were no protected disclosures reported.</p> |
| Regulation of Lobbying | <p>Ervia and its subsidiaries (Gas Networks Ireland and Irish Water) are registered on the lobbying register maintained by the Standards in Public Office Commission and have made the required submissions for the return periods in 2020 in accordance with the requirements of the Regulation of Lobbying Act 2015.</p> |
| Prompt Payments | <p>Appropriate internal financial controls are in place within Ervia to ensure compliance with the provisions of the European Communities (Late Payments in Commercial Transactions) Regulations 2012-2016.</p> <p>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.</p> |

Model Publication Schemes

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

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

Gender Balance, Diversity and Inclusion

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

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

Report of the Board (continued)

Statement on the System of Internal Controls

Scope of Responsibility

The Board acknowledges its 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 Ervia for the year ended 31 December 2020 and up to the date of approval of the Financial Statements.

Management of Risk

All employees of Ervia are responsible for the effective management of risk, which includes designing, operating and monitoring the systems of internal control. The Chief Executive Officer is the accountable executive with ultimate responsibility. The Chief Executive Officer 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 Board ensures that it has appropriate systems of internal control and risk management in place through use of the following structures and systems:

Audit and Risk Committee

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

Integrated Assurance Forum

Ervia 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 Ervia developed the Integrated Assurance Forum ("IAF") which reports to the 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 Ervia, supports the Board in signing-off on the Statement on the System of Internal Controls.

The Integrated Assurance 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 Ervia maximises risk and governance oversight and control to build organisational resilience and follows leading practice to support compliance obligations and governance requirements. 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. The Group Head of Internal Audit reports directly to the ARC and to the Chief Financial Officer.

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

In particular the Internal Audit function:

- ▶ Evaluates risk exposure relating to the achievement of the Group's strategic objectives.
- ▶ Evaluates the systems established to ensure compliance with policies, plans, procedures, laws and regulations.
- ▶ Evaluates the means of safeguarding assets.
- ▶ Monitors and evaluates the effectiveness of the Group's 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 is 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 organisation. The Head of Risk Management reports to the 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 the risks to which Ervia is exposed.

- ▶ Ensures that oversight is maintained and an assessment is undertaken of the Ervia risk profile including principal risks, emerging and trending risks and high impact low probability risks, including a description of these risks and associated mitigation measures or strategies and their effectiveness.
- ▶ Embeds an appropriate risk management culture.

Elements of Control Environment

In addition to the key structures referred to above a control environment, containing the following elements, is in place:

- ▶ Responsibility by management at all levels for internal control and risk management over respective business functions.
- ▶ A Corporate Governance Framework, including financial control and risk assessment. This is monitored by management and by the Internal Audit and Risk Management functions.
- ▶ Clearly defined organisational structure, with defined authorisation limits and reporting mechanisms to higher levels of management and to the Board.
- ▶ A comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require Board approval, and are closely monitored on an ongoing basis by the Board's Investment/Infrastructure Committee.
- ▶ Established processes to identify and evaluate business risks by identifying the nature, extent and financial implication of risks facing the Group 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 Group'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 subject to Board approval.
- ▶ A comprehensive system of financial reporting. Cumulative monthly actual results are reported against budget and considered by the Board on a monthly basis. The Board questions variances and remedial action is taken where appropriate.
- ▶ A comprehensive set of management information and performance indicators is produced quarterly, enabling progress against longer-term objectives and annual budgets to be monitored, trends evaluated and variances acted upon.
- ▶ Internal policies requiring all employees to act with integrity and maintain the highest ethical standards. These policies include the Code of 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 internal audit and risk management. In these reviews, emphasis is focused on areas of greater risk as identified by risk assessment.
- ▶ 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 the assurance activities of Risk, Internal and External Audit.

There were no material issues highlighted in our internal control environment in 2020.

Ongoing Monitoring and Review

Ervia 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 Board is satisfied that the system of internal control in place is appropriate for the business.

Ervia's monitoring and review of the effectiveness of the system of internal control is informed by the senior management within Ervia responsible for the development and maintenance of the internal control framework. This is supplemented by the ARC who oversee the work of the Ervia Risk and Internal Audit functions 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, where relevant, in a timely way.

The Board confirms that the following ongoing monitoring, by the ARC on behalf of the Board, is in place:

- ▶ Review and consideration of the programme of internal audit and consideration of its reports and findings.
- ▶ Review of regular reporting from internal audit on the status of the internal control environment, and the status of issues raised previously from their own reports.
- ▶ Review of the quarterly risk management reports from the Group Risk Management Committee on risks, controls and implementation status of action plans.
- ▶ Review and consideration of the report by the Chief Executive Officer on the effectiveness of the operation of the systems of internal control, both financial and operational.
- ▶ Review of reports from the external auditors, which contain details of any material internal financial control issues.
- ▶ Review of integrated assurance reports on Business Unit assurance over the system of internal control.

Report of the Board (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) during 2020 means full compliance with the additional requirements of the Public Spending Code (2019) will be achieved in the coming year.

The Ervia Procurement Policy (PD02) details the procedures to be followed by 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.

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

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

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

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

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

Separate Ministerial consents are requested by Ervia and Gas Networks Ireland in advance of committing to any individual capital project costing €20m or greater for regulated expenditure and €10m or greater for unregulated expenditure.

Ministerial consents are submitted to the parent 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 the parent Department, prior to the granting of Ministerial consent.

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

General Data Protection Regulation (GDPR)

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

Review of Effectiveness

The Board confirms that it has reviewed the effectiveness of the system of internal control up to the date of approval of the Financial Statements, covering financial, operational and compliance controls and risk management systems for 2020 and will ensure a similar review is performed for 2021. A detailed review was performed by the ARC.

Internal Control Reporting

Irish Water continues to manage a large number of assets with an ageing infrastructure that require significant investment. It faces ongoing challenges on its journey to deliver the business plan objectives. The key control procedures, including the operation of the Local Authority protocols under the Service Level Agreements which manage the interaction processes between Irish Water and Local Authorities, continued

Conclusion

to evolve and develop during 2020. Irish Water worked with its Local Authority partners under the existing Service Level Agreements to deliver water services.

It also continued to progress plans to transform the service to a modern public utility. Throughout 2020 engagement continued through the Workplace Relations Commission ('WRC') with a number of parties including Irish Water, Local Authority management, Department of Housing, Local Government and Heritage and various trade unions who represent Local Authority Water Services staff.

The Water Services Transformation White Paper, in setting the Government's water services transformation objectives, will be the key 2021 driver behind a renewed WRC engagement between unions, Local Authorities and Irish Water aimed at reaching agreement regarding future water services transformation and the full transition to the Single Public Utility.

In the short term in 2021, the focus will be on negotiating an enduring water services transformation agreement that can enable a unified water service, deliver excellent customer service and safeguard our water for our customers. Such transformation agreement will in turn facilitate the longer term objectives of Irish Water fully managing and controlling all public water services activities by the end of 2022, as well as undertaking the subsequent significant transformation activity required.

As part of its control framework in 2020, it should be noted, Irish Water continues to rely on certain controls operated by Local Authorities on its behalf. No material weaknesses in the internal control environment were identified during the course of conducting the internal audits completed in 2020 that have not been or are not in the process of being addressed and that have not been brought to the attention of the Ervia Audit and Risk Committee.

Risk Management

The Board carried out a robust assessment of the principal risks facing the organisation throughout 2020. These risks and mitigating controls or actions are set out on pages 27-29.

Shareholder Relationship

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

Board Members' Interests

The Board Members had no interest in Ervia or its subsidiary companies during the year. The Board is satisfied that its members are free from any business or other relationships that could materially affect, or could appear to affect, the exercise of their independent judgement.

Board members may hold directorships, executive positions or have interests in third party companies, including banks and financial institutions, some of which (or their affiliates) may, in the normal course of business, undertake transactions on an arm's length basis with Ervia. All Board members disclose any interest and recuse themselves from Board discussions and decisions where they are conflicted or have a direct or indirect interest as required by the Code. In such cases, a separate record (to which the Board Member does not have access) is maintained.

Performance Evaluation

The Board approves an annual budget that supports the corporate plans. Actual performance versus plan and budget is evaluated annually. Detailed consideration is provided in the Financial and Operating Reviews on pages 33-49.

Accounting Records

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

External Auditor

Following receipt of ministerial consent, Deloitte Ireland LLP was originally appointed as auditors to the Ervia Group in 2014. Ministerial consent was received on 25 March 2019 to appoint Deloitte Ireland LLP as external auditors to the Ervia Group for the years 2019, 2020 and 2021, following completion of a tender process.

Going Concern

Financial Statements are prepared on a going concern basis once the Board, after making appropriate enquiries, is satisfied that Ervia has adequate resources to continue in operation for the foreseeable future. Further details of this going concern assessment and the Group's liquidity position are provided in notes 1(a) and 25 (ii) respectively of these Financial Statements.

For and on behalf of the Board:



Tony Keohane
Chairman



Keith Harris
Member of the Board

Audit and Risk Committee Report

As Chairman of the Ervia Audit and Risk Committee, I am pleased to present the Audit and Risk Committee Report for the year ended December 31st 2020

In accordance with the unitary board structure in place in Ervia, the Audit and Risk Committee ("the Committee") is established at the Ervia Group level and acts in respect of Ervia and its subsidiaries ("the Group"). This report provides an insight into the workings of the Committee over the last 12 months and details how the Committee has met its responsibilities under its Terms of Reference and under the Code of Practice for the Governance of State Bodies ("the Code").

During the year the Committee dedicated significant time to fulfilling its key oversight responsibilities and continued to meet remotely throughout the COVID-19 pandemic. It has engaged regularly with senior management, internal audit, risk management and the Group's statutory auditor. In addition, in order to discharge its duties effectively, it has pursued a full agenda of reviews in its meetings throughout the year. In fulfilling his key oversight responsibilities the Chairman of the Committee meets separately with senior management, internal audit, risk management and the Group's statutory auditor on a regular basis.

Role and responsibilities of the Audit and Risk Committee

The role of the Committee is to support the Ervia Board in relation to its responsibilities for the following matters:

- ▶ Financial reporting
- ▶ Risk management
- ▶ Internal controls
- ▶ Internal audit
- ▶ External audit

Other related activities, including policies and procedures on protected disclosures, anti-fraud and anti-bribery and anti-corruption. The Chairman of the Committee reports to the Ervia Board on the matters addressed at each Committee meeting, and the Board receives all of the Committee's minutes. The Committee's Terms of Reference set out the Committee's roles and responsibilities in detail and are available on Ervia's website (www.ervia.ie). These are reviewed annually.

Keith Harris
Chair of the Committee



Membership

The Committee comprises four independent Non-Executive Ervia Board Members. Members of the Committee are appointed by the Ervia Board in consultation with the Chairman of the Committee. For details of membership and attendance at meetings see the Report of the Board on page 65. The Committee is independent from the management of the Group.

Financial Reporting

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

During the year the Committee reviewed the draft financial statements before recommending their approval by the Ervia Board. The Committee also reviewed the financial statements of Gas Networks Ireland and Irish Water, prior to their approval by the relevant subsidiary board. The Committee considered, and discussed with the Chief Executive Officer, Chief Financial Officer and the external auditor, the appropriateness of the significant accounting standards and policies, estimates and judgements applied in preparing these financial statements, together with the clarity and completeness of the disclosures in the Annual Report and Financial Statements.

Risk Management

The Committee is responsible, on behalf of the Ervia Board, for monitoring the Group's risk management activities, developments in key risks and progress in delivery of the target risk profile, enabling the Ervia Board to confirm annually that it has carried out an assessment of the Group's principal risks.

During the year the Committee reviewed, in conjunction with senior management, the Group's risk profile, its risk management policies, its high impact/low probability exposures and its risk appetite and target profile for approval by the Ervia Board. The Committee reviewed presentations on a selection of principal risks and discussed with senior management the material internal controls that exist to mitigate these risks.

Internal Controls

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

Ervia has a responsibility under the Code for ensuring that an effective system of internal control is maintained and operated. Ervia pursues this responsibility across its business units through senior management and through its "Integrated Assurance Forum", a management body which collates evidence from the various control activities performed across the Group to build a comprehensive picture of internal control and risk. Reporting to the Chief Financial Officer, the Integrated Assurance Forum provides a greater understanding of the assurance activities in place and makes recommendations for their enhancement, in order to mitigate risk and maximise governance oversight, helping also to identify and remediate any assurance gaps.

Significant consideration was given by the Committee to potential changes in the control environment as the organisation transitioned to remote working as a response to the COVID-19 pandemic. Extensive reviews and work programmes were undertaken by the Internal Audit team to ensure the existing robust control environment operated effectively throughout 2020.

Internal Audit

The Committee is responsible, on behalf of the Board, for monitoring and reviewing the effectiveness and scope of the internal audit function including its plans, activities and resources so as to ensure it can effectively review the operation of the Group's controls over significant risks within the Group.

During 2020 the Committee reviewed the plans and work undertaken throughout the year by Internal Audit and the consequent actions to be taken by management. The Committee was informed regularly by the Head of Internal Audit of the findings of internal audit reviews. The Committee also considered management's progress in addressing relevant issues, including the nature, extent and timeliness of its responses. The Committee reviewed and agreed a risk-based internal audit annual plan for 2021, including the resources required, and considered the alignment of internal audit focus and key risk areas for the Group. During 2020 the Ervia Group continued to promote the integrity value and to emphasise the importance of ethical behaviour across the organisation through the roll-out of the 'Doing the Right Thing' campaign. The campaign involves a number of initiatives including updates to the suite of ethics related corporate policies, distribution of guidance booklets to employees and quarterly integrity conversations focusing on topical integrity topics.

External Audit

The Committee is responsible, on behalf of the Ervia Board, for monitoring the external audit process. The Committee monitored the integrity of the Group's financial statements and reviewed the appropriateness of the accounting policies and financial reporting issues contained therein having regard to matters communicated to it by the external auditor. The Committee also reviewed the external auditor's audit plans, reports and findings in relation to the audit, and discussed them with

Audit and Risk Committee Report (continued)

the auditor. The Committee reviewed the external auditor's post-audit management letter and management's responses.

The Committee is also responsible, on behalf of the Ervia Board, for the initiation of audit tenders and the selection process for the external auditor, reviewing and monitoring the independence and remuneration of the external auditor. The Committee takes appropriate steps to ensure that an objective and professional relationship is maintained with the external auditor. During the year the Committee carried out an assessment of auditor independence and objectivity which included reviewing:

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

Audit and non-audit service fees are set out in Note 4 of the Financial Statements. There were no instances during the year where the external auditor was engaged to provide services which were deemed to give rise to a conflict of interest. The Committee also monitored the external auditor's compliance with relevant regulatory, ethical and professional guidance. The Committee is satisfied that Deloitte Ireland LLP is both independent and objective.

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

Ervia's subsidiary, Gas Networks Ireland, is a Public Interest Entity ('PIE') as it has debt listed on a regulated market. As a result, its auditor may provide only those non-audit services which are permissible for PIEs in line with EU Directive (2006/43/EC as amended by Directive 2014/56 EU). Compliance with this rule is monitored throughout the year. The Committee adheres strictly to the 70% non-audit services fee cap prescribed in Article 4 of Regulation (EU) No 537/2014.

Audit and Risk Committee Effectiveness

The Committee completes an annual review of its own effectiveness. For 2020, the review was conducted internally through the completion of self-evaluation questionnaires and the overall review was satisfactory.

On behalf of the Audit and Risk Committee:



Keith Harris

Chairman, Audit and Risk Committee

30th March 2021

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Independent Auditor's Report to the Members of Ervia

Report on the audit of the financial statements

Opinion on the financial statements of Ervia

In our opinion the Group and Parent company financial statements:

- ▶ give a true and fair view of the assets, liabilities and financial position of the Group and Parent company as at 31 December 2020 and of the profit of the Group and Parent company for the financial year then ended; and
- ▶ have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Gas Acts 1976 to 2009.

The financial statements we have audited comprise:

the Group financial statements:

- ▶ the Group Income Statement;
- ▶ the Group Statement of Comprehensive Income;
- ▶ the Group Balance Sheet;
- ▶ the Group Statement of Changes in Equity;
- ▶ the Group Cash Flow Statement; and
- ▶ the related notes 1 to 29, including a summary of significant accounting policies as set out in note 1(d).

the Parent company financial statements:

- ▶ the Parent Income Statement;
- ▶ the Parent Statement of Other Comprehensive Income;
- ▶ the Parent Balance Sheet;
- ▶ the Parent Statement of Changes in Equity;
- ▶ the Parent Cash Flow Statement; and
- ▶ the related notes 1 to 30R, including a summary of significant accounting policies as set out in note 1(d) of the Group notes.

The relevant financial reporting framework that has been applied in the preparation of the Group and Parent company financial statements is International

Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework").

Basis for opinion

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

We are independent of the Group and Parent 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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 Parent 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 Board with respect to going concern are described in the relevant sections of this report.

Other information

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

the Annual Report and Financial Statements. 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 the Board

As explained more fully in the Board's Responsibilities Statements, the Board are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board 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 Board are responsible for assessing the Group and Parent 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 Board either intend to liquidate the Group and Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or

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

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Parent company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- ▶ Conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report

to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the Group) to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the consolidated financial statements. The Group auditor is responsible for the direction, supervision and performance of the Group audit. The Group auditor remains solely responsible for the audit opinion.

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

Report on other legal and regulatory requirements

Matters on which we are required to report

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

- ▶ We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- ▶ In our opinion the accounting records of the Parent company were sufficient to permit the financial statements to be readily and properly audited.
- ▶ The Parent company financial statements are in agreement with the accounting records.

- ▶ In our opinion the information given in the Report of the Board is consistent with the financial statements.

Matters on which we are required to report by exception

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

Use of our report

This report is made solely to the members of Ervia, as a body, in accordance with Section 15 of the Gas Act 1976. Our audit work has been undertaken so that we might state to the Parent 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 Ervia and its members as a body, for our audit work, for this report, or for the opinions we have formed.



Kevin Sheehan

For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory
Audit Firm
Deloitte & Touche House, Earlsfort Terrace,
Dublin 2
Date: 30 March 2021

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

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

Group Income Statement

for the financial year ended 31 December 2020

| | Notes | 2020 €'000 | 2019 €'000 |
|---|-------|----------------|---------------|
| Continuing operations | | | |
| Revenue | 3 | 447,277 | 469,863 |
| Operating costs net (excluding depreciation and amortisation) | 4 | (189,323) | (188,795) |
| Operating profit before depreciation and amortisation (EBITDA) | | 257,954 | 281,068 |
| Depreciation and amortisation | 7 | (135,317) | (136,361) |
| Operating profit | | 122,637 | 144,707 |
| Finance income | 8 | 2,782 | 1,572 |
| Finance costs | 8 | (21,531) | (22,842) |
| Net finance costs | 8 | (18,749) | (21,270) |
| Profit before income tax | | 103,888 | 123,437 |
| Income tax expense | 9 | (15,990) | (18,160) |
| Profit for the financial year | | 87,898 | 105,277 |
| Profit attributable to: | | | |
| Owners of the Parent | | 87,898 | 105,277 |
| Profit for the financial year | | 87,898 | 105,277 |

For and on behalf of the Board:

Tony Keohane

Chairman

Keith Harris

Member of the Board

30th March 2021

Date of Approval

Note: As described in note 27, the financial statements of Irish Water are not consolidated with the results of the Group.

Group Statement of Other Comprehensive Income

for the financial year ended 31 December 2020

| | Notes | 2020 €'000 | 2019 €'000 |
|--|-------|-----------------|---------------|
| Profit for the financial year | | 87,898 | 105,277 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Defined benefit plan actuarial losses | 20 | (34,670) | (43,196) |
| Remeasurement of other pension assets | 20 | 9,047 | - |
| Deferred tax credit relating to defined benefit obligations | 9 | 3,203 | 5,400 |
| Total items that will not be reclassified to profit or loss | | (22,420) | (37,796) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Translation differences on consolidation of foreign subsidiaries | | (2,464) | 2,448 |
| Fair value (losses)/gains on cash flow hedges | | (795) | 1,003 |
| Deferred tax on cash flow hedge movement | 9 | 99 | (125) |
| Total items that may be reclassified subsequently to profit or loss | | (3,160) | 3,326 |
| Total other comprehensive income for the year, net of income tax | | (25,580) | (34,470) |
| Total comprehensive income for the financial year | | 62,318 | 70,807 |
| Total comprehensive income attributable to: | | | |
| Owners of the Parent | | 62,318 | 70,807 |
| Total comprehensive income for the year | | 62,318 | 70,807 |

For and on behalf of the Board:

Tony Keohane

Chairman

Keith Harris

Member of the Board

30th March 2021

Date of Approval

Note: As described in note 27, the financial statements of Irish Water are not consolidated with the results of the Group.

Group Balance Sheet

as at 31 December 2020

| | Notes | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--|-------|--------------------|--------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 2,468,875 | 2,508,976 |
| Intangible assets | 12 | 27,405 | 22,976 |
| Derivative financial instruments | 25 | - | 16,263 |
| Total non-current assets | | 2,496,280 | 2,548,215 |
| Current assets | | | |
| Trade and other receivables | 14 | 83,280 | 100,233 |
| Cash and cash equivalents | 15 | 122,887 | 105,086 |
| Restricted deposits | 16 | 17,603 | 17,717 |
| Derivative financial instruments | 25 | 4,518 | 764 |
| Inventories | 13 | 3,016 | 2,578 |
| Total current assets | | 231,304 | 226,378 |
| Total assets | | 2,727,584 | 2,774,593 |
| Equity and liabilities | | | |
| Equity | | | |
| Retained earnings | | (963,783) | (969,263) |
| Cash flow hedge reserve | | 1,199 | 503 |
| Translation reserve | | (657) | (3,121) |
| Total equity attributable to equity holders of the Parent | | (963,241) | (971,881) |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings and other debt | 18 | (1,035,075) | (1,161,545) |
| Retirement benefit obligations | 20 | (182,534) | (147,476) |
| Deferred revenue | 21 | (16,927) | (8,723) |
| Government grants | 22 | (69,857) | (76,660) |
| Provisions | 23 | (3,391) | (6,245) |
| Trade and other payables | 24 | (15,709) | (14,603) |
| Derivative financial instruments | 25 | - | (447) |
| Deferred tax liabilities | 9 | (179,846) | (188,013) |
| Total non-current liabilities | | (1,503,339) | (1,603,712) |
| Current liabilities | | | |
| Borrowings and other debt | 18 | (115,777) | (42,689) |
| Deferred revenue | 21 | (8,682) | (10,069) |
| Government grants | 22 | (6,613) | (6,546) |
| Provisions | 23 | (4,758) | (4,776) |
| Derivative financial instruments | 25 | (277) | (2,764) |
| Trade and other payables | 24 | (122,191) | (128,833) |
| Current tax liabilities | 9 | (2,706) | (3,323) |
| Total current liabilities | | (261,004) | (199,000) |
| Total liabilities | | (1,764,343) | (1,802,712) |
| Total equity and liabilities | | (2,727,584) | (2,774,593) |

For and on behalf of the Board:

Tony Keohane

Chairman

Keith Harris

Member of the Board

30th March 2021

Date of Approval

Group Statement of Changes in Equity

for the financial year ended 31 December 2020

| | Retained earnings €'000 | Translation reserve €'000 | Cash flow hedge reserve €'000 | Total €'000 |
|--|-------------------------------|---------------------------------|-------------------------------------|----------------|
| Balance at 1 January 2019 | (1,041,186) | (673) | 1,381 | (1,040,478) |
| Profit for the year | (105,277) | - | - | (105,277) |
| Other comprehensive income for the year, net of income tax | 37,796 | (2,448) | (878) | 34,470 |
| Total comprehensive income for the financial year | (67,481) | (2,448) | (878) | (70,807) |
| Dividends (note 19) | 139,404 | - | - | 139,404 |
| Balance at 31 December 2019 | (969,263) | (3,121) | 503 | (971,881) |
| Profit for the year | (87,898) | - | - | (87,898) |
| Other comprehensive income for the year, net of income tax | 22,420 | 2,464 | 696 | 25,580 |
| Total comprehensive income for the financial year | (65,478) | 2,464 | 696 | (62,318) |
| Dividends (note 19) | 70,958 | - | - | 70,958 |
| Balance at 31 December 2020 | (963,783) | (657) | 1,199 | (963,241) |

All attributable to owners of the Parent.

Note: As described in note 27, the financial statements of Irish Water are not consolidated with the results of the Group.

Group Statement of Cash Flows

for the financial year ended 31 December 2020

| | Notes | 2020 €'000 | 2019 €'000 |
|---|-------|------------------|---------------|
| Net cash from operating activities | 17 | 240,439 | 235,372 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (105,333) | (110,337) |
| Payments for intangible assets | | (10,468) | (10,105) |
| Grants received | 22 | 7,998 | 631 |
| Receipt relating to the sale of Energy division | 8 | 375 | - |
| Net cash used in investing activities | | (107,428) | (119,811) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | - | 652,823 |
| Repayment of borrowings | | (42,692) | (655,125) |
| Repayment of lease liabilities | 11 | (1,140) | (993) |
| Dividends paid | 19 | (70,958) | (139,404) |
| Net cash used in financing activities | | (114,790) | (142,699) |
| Net increase/(decrease) in cash and cash equivalents | 15 | 18,221 | (27,138) |
| Cash and cash equivalents at 1 January | 15 | 105,086 | 131,826 |
| Effect of exchange rate fluctuations on cash held | 15 | (420) | 398 |
| Cash and cash equivalents at 31 December | 15 | 122,887 | 105,086 |

Note: As described in note 27, the financial statements of Irish Water are not consolidated with the results of the Group.

-
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Notes to the Group Financial Statements

Notes to the Group Financial Statements (continued)

1. Statement of Accounting Policies

(a) Basis of Preparation

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

The Group financial statements consolidate the financial statements of the Parent and its subsidiaries, (together referred to as 'the Group'), up to 31 December each year. In accordance with IFRS, non-controlled undertakings (including Irish Water), as set out in note 27, are not consolidated.

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

The Group's significant accounting policies are set out below. These policies have been consistently applied to all years presented in these financial statements with the exception of adoption of new standards as set out in note 1 (b). 2019 disclosures in respect of the classification of cashflows from subsidiaries have been represented to show comparatives consistent with 2020 disclosures. In the process of applying these accounting policies, judgements and estimates are necessarily used which affect the amounts recognised in the financial statements. Refer to section 1 (e) of this note for details of the most significant accounting judgements and estimates applied.

Going concern

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

The Group and Company have considerable financial resources and the Board believes that the Group is well placed to manage its risks successfully. The Group had €123 million of cash and cash equivalents at 31 December 2020, committed undrawn bank facilities of €462 million providing standby liquidity and has solid profitability and operating cash-flow forecasts for 2021 and beyond. The Group therefore has significant available resources to meet the Group's net current liability position of €30 million at 31 December 2020 (2019: €27 million net current asset position), including the repayment of short term debt facilities that will mature in 2021. Further details of the Group's liquidity position are provided in note 25 (ii) of these financial statements.

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

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. The Board is satisfied that the dissolution of the Ervia Parent will be completed in an orderly wind up.

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

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

1. Statement of Accounting Policies (continued)

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

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

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

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

(d) Significant Accounting Policies

(i) Basis of Consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the Group financial statements from the date that control commences until the date that control ceases.

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

ii. Transactions eliminated on consolidation

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

iii. Business combinations

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

Goodwill is measured at the acquisition date as:

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

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

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Notes to the Group
Financial Statements (continued)

1. Statement of Accounting Policies (continued)

iv. Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary and any components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

(ii) Property, Plant and Equipment

i. Recognition

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

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

ii. Subsequent expenditure

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

iii. Depreciation

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

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

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

Depreciation is not charged on land or assets under construction.

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

iv. Borrowing costs

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

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

1. Statement of Accounting Policies (continued)

(iii) Intangible Assets

i. Software and software under development

Software costs include both internally developed and externally purchased assets.

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

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

ii. 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.

iii. Borrowing costs

Refer to accounting policy (ii) iv.

(iv) Impairment of Assets

i. Assets that are not subject to amortisation

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

ii. Assets that are subject to depreciation/amortisation

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

iii. Recognition of an impairment loss

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

iv. Reversal of an impairment loss

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

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.

Notes to the Group
Financial Statements (continued)

1. Statement of Accounting Policies (continued)

(v) Foreign Currency

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

i. Foreign currency transactions

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

ii. Foreign operations

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

(vi) Revenue

The Group's revenues are principally derived from gas transportation services, in both regulated and unregulated markets. The Group develops, operates and maintains the natural gas transmission and distribution networks in Ireland and provides gas transportation services to suppliers and shippers. The Group also operates and owns the two interconnector gas pipelines between Scotland and Ireland and has network infrastructure assets in Northern Ireland and the Isle of Man. The Group's revenue also includes operating lease income, which is recognised in accordance with IFRS 16 (see accounting policy (vii) 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 are recognised in deferred revenue when received, and are released to the income statement in accordance with the fulfilment of performance obligations. A single performance obligation is identified as the connection works and revenue is recognised over time as the connection works are completed.

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

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

(vii) Leases

The Group as Lessee

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

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



1. Statement of Accounting Policies (continued)

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

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

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

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever; • The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

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

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

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

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

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

The right-of-use assets are presented within 'Property, plant and equipment' in the balance sheet. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in section (iv) above.

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

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

Notes to the Group Financial Statements (continued)

1. Statement of Accounting Policies (continued)

The Group as Lessor

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

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

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

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

(viii) 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 years in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are amortised to the income statement on a systematic basis over the useful life of the asset to match the depreciation charge.

(ix) Provisions and Contingent Liabilities

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

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

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 23.

(x) Retirement Benefit Obligations

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

i. Defined benefit pension scheme

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

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

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

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

1. Statement of Accounting Policies (continued)

The fair value of the reimbursement rights is recognised when the Group is entitled to recover the cost of funding prior pensionable service from other public sector bodies where qualifying employees transfer their pensionable service entitlements, arising from service with other public sector bodies, to the Ervia scheme in accordance with the Public Service Transfer Network, which is governed by Section 4 of the Superannuation and Pensions Act 1963.

ii. Defined contribution pension scheme

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

(xi) Financial Assets and Liabilities

i. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and inflation-linked interest rate swaps. Further details of derivative financial instruments are disclosed in note 25.

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

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

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

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

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

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

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date. Any gain or loss recognised in other

comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

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

Notes to the Group
Financial Statements (continued)

1. Statement of Accounting Policies (continued)

(a) Cash flow hedges

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

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

(b) Fair value hedges

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

ii. Borrowings

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

Borrowings designated in a fair value relationship are measured at fair value for hedged risks, with any gains or losses arising on changes in fair value recognised in profit or loss, unless these changes are attributable to the Group's own credit risk, in which case these are recognised within other comprehensive income.

iii. Non-derivative financial assets and liabilities

Trade and other receivables

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

Amounts due from subsidiary companies (Parent)

Amounts due from subsidiary company undertakings are non-derivative financial assets which are not quoted in an active market. They are included in current trade and other receivables in the Parent balance sheet, except for those with an expectation of collection greater than twelve months after the balance sheet date, which are included in non-current trade and other receivables. These are initially recorded at transaction price and subsequently accounted for at amortised cost less expected credit loss.

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

Cash and cash equivalents

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

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

1. Statement of Accounting Policies (continued)

Trade and other payables

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

Financial assets at fair value through profit or loss (FVTPL)

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

Financial assets at FVTPL are stated at fair value with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner determined in note 26.

(xii) Net Finance Costs

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

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

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

(xiii) 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.

Notes to the Group
Financial Statements (continued)

1. Statement of Accounting Policies (continued)

(xiv) Inventories

i. Inventories

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

ii. Stock gas

Stocks of gas are held to maintain the pressures required within the Networks system. These stocks are not held for resale and are measured at the lower of cost and net realisable value.

(xv) Operating Profit

Operating profit is stated before net finance costs and taxation.

(xvi) Non-GAAP Measures

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

(e) Critical Accounting Judgements and Estimates

In the process of applying these accounting policies, the Group is required to make certain estimates, assumptions and judgements that it believes are reasonable based on the information available. These are assessed in the preparation of these financial statements, and due consideration has been given to relevant macro-economic factors, (including the Covid-19 pandemic and Brexit).

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

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

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

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

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

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

(ii) Estimation uncertainty

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

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

As of 31 December 2020, the aggregate of the Group's property, plant and equipment (PP&E) and intangible assets was €2,496.3 million (2019: €2,532.0 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.

1. Statement of Accounting Policies (continued)

Depreciation and useful lives

The Group recognises depreciation and amortisation charges annually (2020: €135.3 million) which are primarily calculated to write down the cost of PP&E and intangible assets over their expected useful economic lives. In the case of PP&E in particular, the determination of estimated useful lives of assets requires significant judgement, that are based on experience, expectations about the future and other factors. The estimated useful lives for major asset classifications are set out in these accounting policies (section (d)). The Group reviews the useful lives of assets annually and any required changes are adjusted prospectively. Due to the significance of asset investment by the Group, variations between actual and estimated useful economic lives could have a material impact on future results, either positively or negatively. Historically, no changes in useful lives have been identified by the Group that have had a material impact on operating results. See note 10 for a sensitivity analysis of the impact were shorter useful economic lives presumed for the Group's property, plant and equipment.

(b) Retirement benefit obligations

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

The actuarial financial assumptions adopted in calculating the value of the Group's defined benefit obligation has been subject to significant volatility arising from the impacts of Covid-19. Sensitivities regarding the principal assumptions used to measure the scheme liabilities are detailed in note 20.

(c) Provisions and other liabilities

The assessments of the financial outcome of uncertain commercial and legal positions involves estimation uncertainty and requires the use of judgement, estimation and assumptions. The amounts recognised as a provision are the Group's best estimate of the expenditure required to settle present obligations at the reporting date. In assessing the likely outcome, the Group bases its assessment on available facts, historical experience, advice from legal advisors and other experts and additional relevant factors that are believed to be reasonable in the circumstances. A revised estimate is established at each reporting date to ensure that the amounts accrued correspond to the best estimate of the costs eventually to be borne by the Group. The required provision may change in the future due to new developments and as additional information becomes available. Given the nature of these provisions and the estimation uncertainty involved, further sensitivity analysis on these amounts is not deemed practicable. Refer to note 23 for further detail.

Notes to the Group
Financial Statements (continued)

2. Divisional Information

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

| Division | Geographical location | Description of products and services |
|----------------------|------------------------------|--|
| Gas Networks Ireland | Ireland and UK | <p>The Gas Networks Ireland business develops, operates and maintains the natural gas transmission and distribution networks in Ireland and provides gas transportation services to suppliers and shippers. The Gas Networks Ireland business division also operates and owns the two Interconnector gas pipelines between Scotland and Ireland and has network infrastructure assets in Northern Ireland and the Isle of Man. Revenues are principally derived from gas transportation services.</p> <p>The Aurora Telecom business, which provides high quality dark fibre broadband infrastructure, is also included within this division.</p> |
| Ervia Parent | Ireland | <p>The operations of Ervia Parent includes areas not falling within the Gas Networks Ireland business division, including;</p> <ul style="list-style-type: none"> ▶ Business Services, providing support services to the Group in the areas of Transactional Services, Finance, HR, IT, Insurance, Facilities and Project Support. ▶ Group Centre consisting of the Group Chief Executive Officer's office, Group Finance, Group HR, Legal, Strategy and Commercial Regulation, and ▶ Major Projects, a centre of excellence for the delivery of key strategic gas and water infrastructure projects. In addition Supply Chain also provide support for the entire group. <p>Costs in respect of Ervia Parent are recharged to the Gas Networks Ireland and Irish Water business divisions. The operating costs of this division set out below are net of these recharges and primarily represent non cash pension costs.</p> |

In accordance with IFRS 10, the financial statements of Irish Water are not consolidated with the results of the Group (as further explained in note 27). Consequently, Irish Water is not included in this note.

(a) Revenue

Revenue split by geographic location is as follows:

| | 2020 €'000 | 2019 €'000 |
|---|----------------|---------------|
| Ireland | 410,972 | 432,132 |
| UK (including Northern Ireland and Isle of Man) | 36,305 | 37,731 |
| Total | 447,277 | 469,863 |

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

2. Divisional Information (continued)

(b) Capital expenditure

| | Capital additions to property, plant and equipment (note 10) | | Capital additions to intangible assets (note 12) | |
|----------------------|---|----------------|---|---------------|
| | 2020 €'000 | 2019 €'000 | 2020 €'000 | 2019 €'000 |
| Gas Networks Ireland | 101,689 | 102,371 | 10,430 | 7,274 |
| Ervia Parent | 87 | 122 | - | - |
| Total | 101,776 | 102,493 | 10,430 | 7,274 |

(c) Non-current assets by geographic location

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|---|--------------------|--------------------|
| Ireland | 2,135,308 | 2,142,420 |
| UK (including Northern Ireland and Isle of Man) | 360,972 | 389,532 |
| Total | 2,496,280 | 2,531,952 |

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

| | Gas Networks | | Gas Networks | | Ervia Parent (Statutory results) 2020 €'000 | Consolidation and eliminations 2020 €'000 Note 1 | Ervia Parent (Statutory results) 2020 €'000 | a | | Ervia Parent (Segment results) 2020 €'000 | Consolidation and eliminations 2020 €'000 Note 2 | Ervia Parent (Segment results) 2020 €'000 | b | | Ervia Group (Statutory results) 2020 €'000 | a + b = c | | |
|--|-----------------------------------|--------------------------------------|---------------------------------|--------------------------------------|---|---|---|-----------------|-----------------|---|---|---|-----------------|-----------------|--|-----------------|-----------|--|
| | Ireland (Statutory results) | Consolidation and eliminations | Ireland (Segment results) | Consolidation and eliminations | | | | a | b | | | | | | | | | |
| | 2020 €'000 | 2020 €'000 | 2020 €'000 | 2020 €'000 | | | | 2020 €'000 | 2020 €'000 | | | | | | | | | |
| Revenue | 447,277 | - | 447,277 | - | - | - | - | - | - | - | - | - | - | - | - | 447,277 | | |
| Operating costs net | (181,923) | - | (181,923) | (7,400) | (7,400) | - | - | (7,400) | (7,400) | (7,400) | (7,400) | (7,400) | (7,400) | (7,400) | (7,400) | (189,323) | | |
| Operating profit/(loss) before depreciation and amortisation (EBITDA) | 265,354 | - | 265,354 | (7,400) | (7,400) | - | (7,400) | (7,400) | (7,400) | (7,400) | (7,400) | (7,400) | (7,400) | (7,400) | (7,400) | 257,954 | | |
| Depreciation and amortisation | (137,787) | 3,896 | (133,891) | (1,426) | (1,426) | - | (1,426) | (1,426) | (1,426) | (1,426) | (1,426) | (1,426) | (1,426) | (1,426) | (1,426) | (1,426) | (135,317) | |
| Operating profit/(loss) | 127,567 | 3,896 | 131,463 | (8,826) | (8,826) | - | (8,826) | (8,826) | (8,826) | (8,826) | (8,826) | (8,826) | (8,826) | (8,826) | (8,826) | 122,637 | | |
| Finance income | 2,020 | - | 2,020 | 48,045 | 48,045 | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | 2,782 | |
| Finance costs | (19,011) | - | (19,011) | (2,520) | (2,520) | - | (2,520) | (2,520) | (2,520) | (2,520) | (2,520) | (2,520) | (2,520) | (2,520) | (2,520) | (2,520) | (21,531) | |
| Net finance (costs)/ income | (16,991) | - | (16,991) | 45,525 | 45,525 | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (18,749) | | |
| Profit before income tax | 110,576 | 3,896 | 114,472 | 36,699 | 36,699 | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | (47,283) | 103,888 | | |

Notes to the Group
Financial Statements (continued)

2. Divisional Information (continued)

| | Gas Networks | | a | | b | | a + b = c |
|--------------------------------|---|--|---|--|--|--|---|
| | Ireland (Statutory results) 31-Dec-20 €'000 | Consolidation and eliminations 31-Dec-20 €'000 Note 1 | Gas Networks Ireland (Segment results) 31-Dec-20 €'000 | Ervia Parent (Statutory results) 31-Dec-20 €'000 | Consolidation and eliminations 31-Dec-20 €'000 Note 3 | Ervia Parent (Segment results) 31-Dec-20 €'000 | Ervia Group (Statutory results) 31-Dec-20 €'000 |
| Infrastructure assets | 2,534,340 | (58,277) | 2,476,063 | 20,217 | - | 20,217 | 2,496,280 |
| Other assets | 176,497 | - | 176,497 | 791,831 | (737,024) | 54,807 | 231,304 |
| Total assets | 2,710,837 | (58,277) | 2,652,560 | 812,048 | (737,024) | 75,024 | 2,727,584 |
| Borrowings and other debt | (1,137,714) | - | (1,137,714) | (13,138) | - | (13,138) | (1,150,852) |
| Retirement benefit obligations | - | - | - | (182,534) | - | (182,534) | (182,534) |
| Other liabilities | (466,047) | 8,982 | (457,065) | (29,480) | 55,588 | 26,108 | (430,957) |
| Total liabilities | (1,603,761) | 8,982 | (1,594,779) | (225,152) | 55,588 | (169,564) | (1,764,343) |
| Net assets | 1,107,076 | (49,295) | 1,057,781 | 586,896 | (681,436) | (94,540) | 963,241 |
| Net debt | (1,036,678) | | (1,036,678) | 12,844 | | 12,844 | (1,023,834) |

Note 1:

Certain assets were previously subject to intra-group disposals to entities within the Gas Networks Ireland Group at market value for consideration in excess of the net book value at the date of sale. From an Ervia Group perspective the unrealised intra-group gains were eliminated on consolidation when the related assets were sold to entities within the Gas Networks Ireland Group and subsequently the depreciation uplift recognised in the Gas Networks Ireland Group financial statements are also eliminated on consolidation (2020: €3.9 million). The carrying value of the relevant assets included in the Gas Networks Ireland Group financial statements, that are subject to elimination on consolidation was €58.3 million as at 31 December 2020. The deferred tax liability on these assets, subject to elimination on consolidation, was €9.0 million as at 31 December 2020.

Note 2:

The intra-group dividend declared from Gas Networks Ireland to Ervia Parent of €47.3 million for the financial year ended 31 December 2020 is eliminated at an Ervia Group level.

Note 3:

The following Ervia Parent assets are either eliminated or reclassified (offset) on consolidation:

- The Ervia Parent investment in Gas Networks Ireland of €681.4 million is eliminated against the Gas Networks Ireland net assets (equity). Refer to note 30Q.
- The Ervia Parent intercompany receivable from Gas Networks Ireland Group of €39.3 million is eliminated against the corresponding liability in Gas Networks Ireland Group. Refer note 30I.
- The Ervia Parent deferred tax asset of €16.3 million is offset against deferred tax liabilities recognised in the Gas Networks Ireland Group.

3. Revenue

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

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

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

4. Operating Costs Net (excluding depreciation and amortisation)

| | 2020 €'000 | 2019 €'000 |
|--|------------------|---------------|
| Employee benefit expense | (101,232) | (93,496) |
| Hired and contracted services | (11,185) | (15,154) |
| Materials, maintenance and sub-contractor costs | (57,429) | (57,043) |
| Rates and facilities | (32,964) | (31,615) |
| Other operating expenses | (40,516) | (47,466) |
| Recharges to non-controlled undertakings (note 28) | 52,403 | 55,979 |
| Other operating income | 1,600 | - |
| Total | (189,323) | (188,795) |

Operating costs are stated after charging:

(a) Auditor's remuneration

| | 2020 €'000 | 2019 €'000 |
|--|---------------|---------------|
| - audit of the Group financial statements ¹ | (177) | (175) |
| - other assurance services | (63) | (63) |
| - tax advisory services | - | - |
| - other non-audit services | (18) | (77) |
| Total | (258) | (315) |

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

(b) Board members' emoluments

| | 2020 €'000 | 2019 €'000 |
|--|---------------|---------------|
| - fees | (156) | (158) |
| - remuneration of the Group Chief Executive Officer* | (301) | (338) |
| Total | (457) | (496) |

*Prior year remuneration includes remuneration of the former Group Chief Executive Officer (inclusive of accrued annual leave entitlements) who resigned on 5 April 2019.

Notes to the Group
Financial Statements (continued)

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

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

| | 2020 €'000 | 2019 €'000 |
|--|---------------|---------------|
| (b) (i) Current Group Chief Executive Officer** | | |
| Group Chief Executive Officer's basic salary | (225) | (166) |
| Other short-term employee benefits | (38) | (43) |
| Post-employment benefits - pension contributions | (38) | (28) |
| Total | (301) | (237) |

(b) (ii) Former Group Chief Executive Officer

| | | |
|--|----------|--------------|
| Group Chief Executive Officer's basic salary | - | (75) |
| Other short-term employee benefits | - | (7) |
| Post-employment benefits - pension contributions | - | (19) |
| Total | - | (101) |

**The current Group Chief Executive Officer was appointed as acting Group Chief Executive Officer on 5 April 2019 and was subsequently appointed as Group Chief Executive Officer on 10 August 2020.

5. Employee Benefits

(a) Aggregate employee benefits

| | 2020 €'000 | 2019 €'000 |
|---|------------------|------------------|
| Staff short-term benefits | (94,102) | (89,283) |
| Post-employment benefits - pension costs | (19,117) | (15,160) |
| Social insurance costs | (10,144) | (10,077) |
| | (123,363) | (114,520) |
| Capitalised payroll and other payroll transfers | 22,131 | 21,024 |
| Employee benefit expense charged to profit or loss | (101,232) | (93,496) |

(b) Staff short-term benefits

| | 2020 €'000 | 2019 €'000 |
|--------------------|-----------------|-----------------|
| Wages and salaries | (89,623) | (84,912) |
| Overtime | (1,144) | (1,091) |
| Allowances | (991) | (1,019) |
| Other ¹ | (2,344) | (2,261) |
| Total | (94,102) | (89,283) |

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

The average monthly number of employees providing services to the Group was 1,154 for 2020 (2019: 1,144).

The Group recognised employee termination expenses of €nil in the reporting period (2019: €nil). Refer to note 23 for details of termination benefits charged against the restructuring provision.

6. Key Management Compensation

| | 2020 €'000 | 2019 €'000 |
|------------------------------|----------------|---------------|
| Short-term employee benefits | (1,529) | (1,547) |
| Post-employment benefits | (150) | (180) |
| Total | (1,679) | (1,727) |

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

7. Depreciation and Amortisation

| | 2020 €'000 | 2019 €'000 |
|---|-------------------|---------------|
| Depreciation of property, plant and equipment | 10 (134,460) | (135,542) |
| Depreciation of right-of-use assets | 11 (1,371) | (1,371) |
| Amortisation of intangible assets | 12 (5,986) | (5,964) |
| Grant amortisation | 22 6,500 | 6,516 |
| Total | (135,317) | (136,361) |

8. Net Finance Costs

| | 2020 €'000 | 2019 €'000 |
|--|-----------------|---------------|
| Before remeasurements | | |
| Interest and other charges on borrowings | (19,675) | (19,403) |
| Interest capitalised | 270 | 218 |
| Change in estimate of cash flow on contingent consideration | 375 | - |
| Lease liability finance charge | 11 (360) | (382) |
| Net interest on the net defined benefit liability | 20 (1,766) | (1,935) |
| Total before remeasurements | (21,156) | (21,502) |
| Remeasurements | | |
| Net changes in fair value of financing undesignated derivatives | 2,335 | 1,572 |
| Net changes in fair value of financial instruments designated in a fair value hedging relationship | 72 | (1,340) |
| Total remeasurement items | 2,407 | 232 |
| Total | | |
| Finance income | 2,782 | 1,572 |
| Finance costs | (21,531) | (22,842) |
| Net finance costs | (18,749) | (21,270) |

Notes to the Group
Financial Statements (continued)

9. Tax

| | 2020 €'000 | 2019 €'000 |
|--|-----------------|---------------|
| Current tax expense | | |
| Current tax | (20,543) | (21,610) |
| Adjustments in respect of previous years | 100 | 100 |
| | (20,443) | (21,510) |

Deferred tax credit

| | | |
|---|-----------------|----------|
| Origination and reversal of temporary differences | 5,500 | 3,033 |
| Adjustments in respect of previous years | (1,047) | 317 |
| | 4,453 | 3,350 |
| Total income tax expense | (15,990) | (18,160) |

Reconciliation of effective tax rate

| | 2020 €'000 | 2019 €'000 |
|---|-----------------|---------------|
| Profit before tax | 103,888 | 123,437 |
| Taxed at 12.5% (2019: 12.5%) | (12,986) | (15,430) |
| Expenses not deductible for tax purposes ¹ | (1,500) | (1,793) |
| Income not taxable | 540 | 492 |
| Profits taxed at higher rates ² | (1,358) | (1,781) |
| Effect of tax rate change | - | (132) |
| Exchange adjustments | 261 | 67 |
| Adjustments in respect of previous years ³ | (947) | 417 |
| Total income tax expense | (15,990) | (18,160) |

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

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

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

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

Current tax assets and liabilities

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|-------------------------|--------------------|--------------------|
| Current tax liabilities | (2,706) | (3,323) |

9. Tax (continued)

Deferred tax assets and liabilities

| | Pension obligations €'000 | Derivative financial instruments €'000 | Accelerated tax depreciation ¹ €'000 | Interest €'000 | Other €'000 | Total €'000 |
|--------------------------------|------------------------------|---|--|-------------------|----------------|------------------|
| At 1 January 2019 | 12,298 | 197 | (207,002) | (1,727) | 104 | (196,130) |
| Recognised in income statement | 878 | - | 3,831 | (1,128) | (231) | 3,350 |
| Recognised in equity | 5,400 | (125) | - | - | - | 5,275 |
| Exchange adjustments | - | - | (925) | 417 | - | (508) |
| At 31 December 2019 | 18,576 | 72 | (204,096) | (2,438) | (127) | (188,013) |
| | | | | | | |
| Recognised in income statement | 1,201 | - | 1,032 | 2,096 | 124 | 4,453 |
| Recognised in equity | 3,203 | 99 | - | - | - | 3,302 |
| Exchange adjustments | - | - | 849 | (437) | - | 412 |
| At 31 December 2020 | 22,980 | 171 | (202,215) | (779) | (3) | (179,846) |

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

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

| | 2020 €'000 | 2019 €'000 |
|----------------|---------------|---------------|
| Capital losses | 3,600 | 3,600 |
| Losses forward | - | - |

Deferred tax has not been provided for in relation to unremitted reserves of the Group's overseas subsidiary which were €160.1 million as at 31 December 2020 (2019 €145.8 million).

10. Property, Plant and Equipment

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--|--------------------|--------------------|
| Property, plant and equipment - owned assets | 2,451,544 | 2,490,274 |
| Property, plant and equipment - leased assets | 11 | 17,331 |
| Property, plant and equipment - as presented on the balance sheet | 2,468,875 | 2,508,976 |

Notes to the Group
Financial Statements (continued)

10. 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 2019 | 89,339 | 4,316,318 | 31,763 | 4,437,420 |
| Additions | - | 7,959 | 94,534 | 102,493 |
| Transfers in year | (3) | 77,643 | (77,640) | - |
| Disposals | - | (5,536) | - | (5,536) |
| Effect of movement in exchange rates | - | 13,842 | 184 | 14,026 |
| At 31 December 2019 | 89,336 | 4,410,226 | 48,841 | 4,548,403 |
| | | | | |
| Additions | - | 11,935 | 89,841 | 101,776 |
| Transfers in year | - | 68,564 | (68,564) | - |
| Disposals | - | (4,017) | - | (4,017) |
| Effect of movement in exchange rates | - | (13,189) | (102) | (13,291) |
| At 31 December 2020 | 89,336 | 4,473,519 | 70,016 | 4,632,871 |
| Accumulated depreciation and impairment losses | | | | |
| At 1 January 2019 | (37,696) | (1,883,068) | - | (1,920,764) |
| Depreciation for the year | (1,841) | (133,701) | - | (135,542) |
| Disposals | - | 5,486 | - | 5,486 |
| Effect of movement in exchange rates | - | (7,309) | - | (7,309) |
| At 31 December 2019 | (39,537) | (2,018,592) | - | (2,058,129) |
| | | | | |
| Depreciation for the year | (1,779) | (132,681) | - | (134,460) |
| Disposals | - | 4,017 | - | 4,017 |
| Effect of movement in exchange rates | - | 7,245 | - | 7,245 |
| At 31 December 2020 | (41,316) | (2,140,011) | - | (2,181,327) |
| Carrying amounts | | | | |
| At 31 December 2019 ¹ | 49,799 | 2,391,634 | 48,841 | 2,490,274 |
| At 31 December 2020¹ | 48,020 | 2,333,508 | 70,016 | 2,451,544 |

¹ The carrying value of property, plant and equipment includes assets that are subject to operating lease arrangements as described in note 11 'The Group as Lessor'. The carrying value of these assets at 31 December 2020 was €82 million (31 December 2019: €95.2 million) and is included in plant, pipeline and machinery.

During the year, the Group capitalised €0.3 million (2019: €0.2 million) in interest. The capitalisation rate was 1.47% (2019: 1.69%). The Group also capitalised €10.9 million in payroll costs during the year (2019: €10.5 million).

Capital commitments

| | 2020 €'million | 2019 €'million |
|----------------|-------------------|-------------------|
| Contracted for | 55 | 41 |

Depreciation sensitivity

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

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

11. 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.

Amounts recognised on the balance sheet

| | Land and buildings €'000 | Plant, pipeline and machinery €'000 | Total €'000 |
|---|--------------------------------|--|-----------------|
| Right-of-use assets | | | |
| Cost | | | |
| At 1 January 2019 | 10,902 | 4,629 | 15,531 |
| Additions | 4,542 | - | 4,542 |
| At 31 December 2019 | 15,444 | 4,629 | 20,073 |
| Additions | - | - | - |
| At 31 December 2020 | 15,444 | 4,629 | 20,073 |
| Accumulated depreciation and impairment losses | | | |
| At 1 January 2019 | - | - | - |
| Charge for the year | (1,106) | (265) | (1,371) |
| At 31 December 2019 | (1,106) | (265) | (1,371) |
| Charge for the year | (1,106) | (265) | (1,371) |
| At 31 December 2020 | (2,212) | (530) | (2,742) |
| Carrying amounts | | | |
| At 31 December 2019 | 14,338 | 4,364 | 18,702 |
| At 31 December 2020 | 13,232 | 4,099 | 17,331 |
| Lease liabilities | | | |
| At 1 January 2019 | (10,802) | (3,242) | (14,044) |
| Additions | (4,542) | - | (4,542) |
| Interest expense | (284) | (98) | (382) |
| Lease payments | 1,135 | 240 | 1,375 |
| At 31 December 2019 | (14,493) | (3,100) | (17,593) |
| Interest expense | (265) | (95) | (360) |
| Lease payments | 1,260 | 240 | 1,500 |
| At 31 December 2020 | (13,498) | (2,955) | (16,453) |
| Analysed as follows: | | | |
| | 2020 €'000 | 2019 €'000 | |
| Non-current | (15,289) | (16,358) | |
| Current | (1,164) | (1,235) | |
| Total | (16,453) | (17,593) | |

A maturity analysis of lease liabilities is presented in note 18. The Group does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the relevant business functions.

Notes to the Group
Financial Statements (continued)

11. Lease Assets and Liabilities (continued)

The Group as Lessor

The Group enters into operating lease arrangements to allow third parties the use of parts of the Gas Network Transportation system. In accordance with the Group's accounting policy all receipts from these arrangements are deemed to be earned as part of the Group's core operations and accordingly the lease income is recognised as revenue in the income statement. Below is a profile of undiscounted non-cancellable future operating lease income to be recognised as revenue in future years. The unexpired lease terms range from 3 to 11 years.

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

12. Intangible Assets

| | Software and other €'000 | Software under development €'000 | Total €'000 |
|---|-----------------------------|-------------------------------------|------------------|
| Cost | | | |
| At 1 January 2019 | 141,119 | 7,150 | 148,269 |
| Additions (incl internally developed) | - | 7,274 | 7,274 |
| Transfers in year | 6,023 | (6,023) | - |
| Effect of movement in exchange rates | 111 | 4 | 115 |
| At 31 December 2019 | 147,253 | 8,405 | 155,658 |
| | | | |
| Additions (incl internally developed) | - | 10,430 | 10,430 |
| Transfers in year | 10,328 | (10,328) | - |
| Effect of movement in exchange rates | (68) | (4) | (72) |
| At 31 December 2020 | 157,513 | 8,503 | 166,016 |
| Amortisation and impairment losses | | | |
| At 1 January 2019 | (126,655) | - | (126,655) |
| Amortisation for the year | (5,964) | - | (5,964) |
| Effect of movement in exchange rates | (63) | - | (63) |
| At 31 December 2019 | (132,682) | - | (132,682) |
| | | | |
| Amortisation for the year | (5,986) | - | (5,986) |
| Effect of movement in exchange rates | 57 | - | 57 |
| At 31 December 2020 | (138,611) | - | (138,611) |
| Carrying amounts | | | |
| At 31 December 2019 | 14,571 | 8,405 | 22,976 |
| At 31 December 2020 | 18,902 | 8,503 | 27,405 |

During the year, the Group capitalised the sum of €0.7 million in payroll costs (2019: €1.1 million).

13. Inventory

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

No inventory was pledged as security.

14. Trade and Other Receivables

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--|--------------------|--------------------|
| Trade receivables | 5,406 | 6,107 |
| Trade receivables - unbilled | 42,533 | 38,561 |
| Prepayments | 9,500 | 9,298 |
| Amounts due from non-controlled undertakings | 24,444 | 35,475 |
| Grant receivable | - | 7,099 |
| Other receivables | 1,397 | 3,693 |
| Total | 83,280 | 100,233 |

Analysed as follows:

| | | |
|--------------|---------------|---------|
| Non-current | - | - |
| Current | 83,280 | 100,233 |
| Total | 83,280 | 100,233 |

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.

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 nonpayment of gas transportation invoices. Related funds received are held on deposit and are included within the restricted deposits balance (refer to note 16). The Group has not recognised any expected credit loss in respect of these customers 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 (refer to note 16). The Group has not recognised any expected credit loss in respect of these customers in the current or prior reporting period.

Notes to the Group
Financial Statements (continued)

14. Trade and Other Receivables (continued)

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 and other receivables to credit risk at the reporting date is €73.8 million (2019: €83.8 million). Prepayments of €9.0 million (2019: €9.3 million) and grants receivable of €nil (2019: €7.1 million) are excluded as no credit exposure arises.

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

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|---|--------------------|--------------------|
| Republic of Ireland | 67,290 | 76,472 |
| UK (including Northern Ireland and Isle of Man) | 6,490 | 7,364 |
| Total | 73,780 | 83,836 |

The majority of the Group's trade and other receivables are collected within 30 days of the invoice date. Customer payment behaviour has remained unchanged throughout the Covid-19 pandemic. Given the credit worthiness of the Group's trade and other receivables, a provision matrix is not used by the Group and an adjustment in respect of macro-economic factors is assessed as not required as it would not have a material impact on the expected credit losses (ECL) recognised. Instead an assessment of ECL is performed on individual debtors. As noted above, there are no material expected credit loss allowances recognised by the Group and the Group does not expect any significant losses of receivables that have not been provided. The Group writes off trade and other receivables where there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery e.g. when the debtor has been placed into liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off are subject to enforcement activities.

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

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

The ageing of trade and other receivables (excluding amounts due from non controlled undertakings), net of expected credit losses, is as follows:

| | Net receivable 31-Dec-20 €'000 | Net receivable 31-Dec-19 €'000 |
|---------------|--------------------------------------|--------------------------------------|
| Not past due | 47,582 | 46,340 |
| 0 – 30 days | 1,621 | 1,470 |
| 31 – 120 days | 119 | 157 |
| > 120 days | 14 | 394 |
| Total | 49,336 | 48,361 |

15. Cash and Cash Equivalents

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

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|------------------------------|--------------------|--------------------|
| Short-term treasury deposits | 85,000 | 62,000 |
| Cash in hand and in bank | 37,887 | 43,086 |
| Total | 122,887 | 105,086 |

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

| | 2020 €'000 | 2019 €'000 |
|---|----------------|---------------|
| At 1 January | 105,086 | 131,826 |
| Increase/(decrease) in cash and cash equivalents in the statement of cash flows | 18,221 | (27,138) |
| Effect of exchange rate fluctuations on cash held | (420) | 398 |
| At 31 December | 122,887 | 105,086 |

16. Restricted Deposits

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

Restricted deposits include amounts held in respect of gas network shipper financial security deposits (note 14) and financial security on certain connection agreements (note 21). The level of shipper financial 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 financial security deposits are held to underwrite the capital cost of large connection projects (returned to the customers on a phased basis over 2-3 years) and to underwrite capacity payments (returned to the customer over a period of up to 7 years).

Notes to the Group
Financial Statements (continued)

17. Cash Generated from Operations

| | Notes | 2020 €'000 | 2019 €'000 |
|---|-------|----------------|---------------|
| Cash flows from operating activities | | | |
| Profit for the financial year | | 87,898 | 105,277 |
| Adjustments for: | | | |
| Depreciation and amortisation | | 135,317 | 136,361 |
| Net finance costs | 8 | 18,749 | 21,270 |
| Retirement benefit cost | | 7,799 | 4,046 |
| Income tax expense | 9 | 15,990 | 18,160 |
| | | 265,753 | 285,114 |
| Working capital changes: | | | |
| Change in inventories | | (438) | (903) |
| Change in trade and other receivables | | (2,153) | 1,618 |
| Change in trade and other payables | | 9,868 | (10,100) |
| Change in deferred revenue | | 6,817 | 685 |
| Change in provisions | | (2,872) | (1,938) |
| Cash from operating activities | | 276,975 | 274,476 |
| Interest paid | | (15,575) | (18,208) |
| Income tax paid | | (20,961) | (20,896) |
| Net cash from operating activities | | 240,439 | 235,372 |

18. Borrowings and Other Debt

This note provides information about the contractual terms of the Group's borrowings. Refer to note 25 for more information about the Group's exposure to interest rate, exchange rate and liquidity risk.

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

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--|--------------------|--------------------|
| Bonds | (919,270) | (918,297) |
| Loans from financial institutions ¹ | (215,129) | (268,344) |
| Lease liabilities | (16,453) | (17,593) |
| Total | (1,150,852) | (1,204,234) |

Borrowings and other debt analysed as follows:

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|----------------------------|--------------------|--------------------|
| Between one and five years | (302,339) | (428,625) |
| More than five years | (732,736) | (732,920) |
| Non-current | (1,035,075) | (1,161,545) |
| Less than one year | (115,777) | (42,689) |
| Current | (115,777) | (42,689) |
| Total | (1,150,852) | (1,204,234) |

¹ including private placement notes.

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

18. Borrowings and Other Debt (continued)

Certain borrowings are held with related parties, refer to note 28 for full details of related party disclosures.

Net debt

| | Notes | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|---|-------|--------------------|--------------------|
| Total borrowings and other debt | | (1,150,852) | (1,204,234) |
| Less fair value hedges recognised within borrowings | 25 | 4,131 | 15,318 |
| Less cash and cash equivalents | 15 | 122,887 | 105,086 |
| Net debt | | (1,023,834) | (1,083,830) |

Changes in external borrowings and other debt

| | As at 1 January €'000 | Proceeds €'000 | Repayment €'000 | Leases (note 11) €'000 | Change in fair value of financial liabilities €'000 | Exchange movement €'000 | Other non-cash €'000 | As at 31 December €'000 |
|-----------------------------------|-----------------------------|-------------------|--------------------|------------------------------|---|-------------------------------|----------------------------|-------------------------------|
| 2019 | | | | | | | | |
| Bonds | (619,560) | (298,128) | - | - | - | - | (609) | (918,297) |
| Loans from financial institutions | (572,266) | (354,695) | 655,125 | - | 8,849 | (4,362) | (995) | (268,344) |
| Lease liabilities | (14,044) | - | - | (3,549) | - | - | - | (17,593) |
| Total | (1,205,870) | (652,823) | 655,125 | (3,549) | 8,849 | (4,362) | (1,604) | (1,204,234) |
| 2020 | | | | | | | | |
| Bonds | (918,297) | - | - | - | - | - | (973) | (919,270) |
| Loans from financial institutions | (268,344) | - | 42,692 | - | 11,187 | - | (664) | (215,129) |
| Lease liabilities | (17,593) | - | - | 1,140 | - | - | - | (16,453) |
| Total | (1,204,234) | - | 42,692 | 1,140 | 11,187 | - | (1,637) | (1,150,852) |

19. Dividends

Dividend declared

| | 2020 €'000 | 2019 €'000 |
|------------------|---------------|---------------|
| To the Exchequer | 70,958 | 139,404 |
| Total | 70,958 | 139,404 |

Dividend paid

| | 2020 €'000 | 2019 €'000 |
|---|---------------|---------------|
| Annual dividend paid to the Exchequer | 47,283 | 54,404 |
| Special dividend on sale of the Energy business paid to the Exchequer | 23,675 | 85,000 |
| Total | 70,958 | 139,404 |

Ervia is 100% beneficially owned by the Irish State. Annual dividends are based on 45% (2019: 45%) of the previous year's profit before certain exceptional items, as directed by the shareholder. A dividend of €71.0 million (2019: €139.4 million) was paid to the Exchequer during the year, which included payment of a further special dividend of €23.7 million (2019: €85.0 million) following the sale of the Energy business in 2014.

Notes to the Group Financial Statements (continued)

19. Dividends (continued)

In March 2021, the Board approved the declaration and payment of an annual dividend of €38.4 million to the Exchequer for the financial year ended 31 December 2020, subject to the Government's noting of the 2020 Financial Statements of Ervia.

In 2018, following agreement with the Department of Housing, Local Government and Heritage, Ervia withheld €5.1 million. This is due to be paid in 2023 with an appropriate interest rate accruing annually.

20. Retirement Benefit Obligations

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

Defined benefit scheme

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

The defined benefit scheme is administered by a Board of Trustees which comprises member and employer representatives. The Board of Trustees is responsible for the management and governance of the scheme including compliance with all relevant laws and regulations. The assets of the scheme are held separately from those of the Group in trustee administered funds. The scheme is subject to independent actuarial valuations at least every three years. The latest valuation of the defined benefit scheme was carried out as at 1 April 2020 by a qualified actuary. The next actuarial valuation is due with an effective date of 1 April 2023.

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

Asset volatility risk

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

Changes in bond yields risk

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

Salary risk

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

Inflation risk

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

Life expectancy risk

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

20. Retirement Benefit Obligations (continued)

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

| | 2020 €'000 | % | 2019 €'000 | % |
|---|------------------|---------------|---------------|--------|
| Investments quoted in active markets: | | | | |
| Equities | 217,337 | 43.0% | 199,428 | 42.1% |
| - developed markets | 193,817 | | 178,213 | |
| - emerging markets | 23,520 | | 21,215 | |
| Bonds | 199,405 | 39.5% | 193,521 | 40.8% |
| - Government debt | 170,163 | | 193,521 | |
| - Non-government debt | 29,242 | | - | |
| Investment funds | 77,154 | 15.3% | 68,889 | 14.4% |
| Cash | 711 | 0.1% | 1,261 | 0.3% |
| Unquoted investments: | | | | |
| Property/forestry | 3,282 | 0.7% | 4,099 | 0.9% |
| Infrastructure | 5,037 | 1.0% | 2,804 | 0.6% |
| Private equity/venture capital | 1,961 | 0.4% | 3,873 | 0.8% |
| Total fair value of plan assets at 31 December | 504,887 | 100.0% | 473,875 | 100.0% |
| Defined benefit obligation | (696,468) | | (621,351) | |
| Net pension liability at 31 December before reimbursement rights | | | | |
| Defined benefit obligation - reimbursement rights | (191,581) | | (147,476) | |
| Retirement benefit obligations | (182,534) | | (147,476) | |

Investment strategy

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

Notes to the Group
Financial Statements (continued)

20. Retirement Benefit Obligations (continued)

Movement in net defined benefit liability

| | Defined benefit liability 2020 €'000 | Defined benefit liability 2019 €'000 | Fair value of plan assets 2020 €'000 | Fair value of plan assets 2019 €'000 | Net defined benefit obligation 2020 €'000 | Net defined benefit obligation 2019 €'000 |
|---|--|--|--|--|---|---|
| Balance at the beginning of the financial year | (621,351) | (515,126) | 473,875 | 416,745 | (147,476) | (98,381) |
| Income statement | | | | | | |
| Current service cost | (14,971) | (11,460) | - | - | (14,971) | (11,460) |
| Interest on liabilities and assets | (7,692) | (10,687) | 5,926 | 8,752 | (1,766) | (1,935) |
| | (22,663) | (22,147) | 5,926 | 8,752 | (16,737) | (13,395) |
| Other comprehensive income | | | | | | |
| Return on plan assets excluding interest income | - | - | 24,854 | 48,386 | 24,854 | 48,386 |
| Experience (losses)/gains on liabilities | (5,263) | 57 | - | - | (5,263) | 57 |
| Effect of changes in financial assumptions | (74,909) | (91,639) | - | - | (74,909) | (91,639) |
| Effect of changes in demographic assumptions | 20,648 | - | - | - | 20,648 | - |
| | (59,524) | (91,582) | 24,854 | 48,386 | (34,670) | (43,196) |
| Other | | | | | | |
| Contributions by employers | - | - | 8,545 | 8,793 | 8,545 | 8,793 |
| Contributions by members | (3,598) | (3,598) | 3,598 | 3,598 | - | - |
| Benefits paid | 11,911 | 12,398 | (11,911) | (12,398) | - | - |
| Current service costs - provisions | (224) | (293) | - | - | (224) | (293) |
| Current service costs - non-controlled undertaking | (1,019) | (1,003) | - | - | (1,019) | (1,003) |
| | 7,070 | 7,504 | 232 | (7) | 7,302 | 7,497 |
| Balance at end of financial year | (696,468) | (621,351) | 504,887 | 473,875 | (191,581) | (147,476) |

The weighted average duration of the defined benefit obligation at 31 December 2020 was approximately 22 years (2019: 22 years). The Group expects to contribute €9.6 million to its pension plan in 2021.

20. Retirement Benefit Obligations (continued)

The principal actuarial assumptions used were as follows:

| | 2020 | 2019 |
|--------------------------------------|--------------|-------|
| Discount rate | 0.70% | 1.25% |
| Inflation assumption | 1.35% | 1.40% |
| Rate of increase in salaries | 1.85% | 1.90% |
| Rate of increase in pensions payment | 1.35% | 1.40% |

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

| | 2020 | 2019 |
|-----------------------------|-------------|------|
| Retiring today | | |
| Males | 22.8 | 22.5 |
| Females | 24.6 | 24.9 |
| Retiring in 25 years | | |
| Males | 25.0 | 25.4 |
| Females | 26.8 | 27.5 |

Sensitivity analysis for principal assumptions used to measure scheme liabilities

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

| Assumption | Change in assumption | Impact on scheme liabilities |
|-----------------|-------------------------------|-----------------------------------|
| Discount rate | Increase/decrease by 0.25% | Decrease by 5.3%/increase by 5.8% |
| Price inflation | Increase/decrease by 0.25% | Increase by 5.8%/decrease by 5.4% |
| Salary | Increase/decrease by 0.25% | Increase by 2.3%/decrease by 2.2% |
| Mortality | Increase/decrease by one year | Increase by 3.4%/decrease by 3.3% |

Defined benefit obligation - reimbursement rights

Ervia participates in the Public Service Transfer Network (PSTN). The PSTN is governed by Section 4 of the Superannuation and Pensions Act 1963 and allows qualifying employees to transfer their pensionable service entitlements, arising from service with other participating public sector bodies, to the Ervia scheme. Ervia is entitled to recover the cost of funding this prior pensionable service from the relevant public bodies in accordance with the provision of the PSTN, when the relevant employee superannuation benefits are paid. At 31 December 2020, the fair value of the reimbursement rights, which is deemed to be the present value of the related obligations, was valued at €9.0 million by the scheme actuary under IAS 19 assumptions.

Defined contribution scheme

During the year ended 31 December 2020, Ervia contributed €4.1 million, in respect of the Ervia Defined Contribution Scheme (2019: €3.7 million), on behalf of its employees, which was charged to the income statement.

Notes to the Group
Financial Statements (continued)

21. Deferred Revenue

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

Analysed as follows:

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

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

22. Government Grants

| | 2020 €'000 | 2019 €'000 |
|--------------------------------------|-----------------|---------------|
| At 1 January | (83,206) | (88,012) |
| Receivable in year | (1,213) | (631) |
| Amortised in year | 6,500 | 6,516 |
| Credited to the income statement | 395 | 88 |
| Effect of movement in exchange rates | 1,054 | (1,167) |
| At 31 December | (76,470) | (83,206) |

Analysed as follows:

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--------------|--------------------|--------------------|
| Non-current | (69,857) | (76,660) |
| Current | (6,613) | (6,546) |
| Total | (76,470) | (83,206) |

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 Group does not expect such circumstances to arise and there were no repayments of grants in the current or prior financial year.

Grants receivable for 2020 of €1.2 million (2019: €0.6 million) related to the grant funding from the Innovation and Networks Executive Agency (INEA) for the Causeway project, the Green Connect infrastructure project, the Development of Policies, Procedures and Training for Gas Networks Ireland's Operational Technology and the REALISE project. A number of conditions relating to these grant fundings remain in progress at year end. An additional €7.1 million was received in 2020 relating to grant funding from INEA for the Cluden Twinning project. This amount was included in receivables in the 2018 financial statements as all requirements of the grant were fulfilled.

23. Provisions

Provisions

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

Analysed as follows:

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

Restructuring

During 2013, the Ervia Group announced a voluntary severance and early retirement programme for employees that satisfied certain qualifying criteria. The Group made termination payments and related pension payments of €0.083 million in aggregate during 2020 in respect of four employees who exited under the terms of the programme. These liabilities are expected to be substantially discharged by 2023.

Environmental

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

Self-insured claims

The Group is self-insured in respect of certain injury and damage claims. The year-end provision is for the estimated costs of incidents that have occurred up to 31 December 2020. Payments are made as the cases are settled. The charge is included in the income statement under operating costs. The nature of these claims is such that a settlement date is uncertain but the Group expects the claims to be substantially settled by 2023.

Contingencies

Contingent liabilities with respect to government grants are disclosed in note 22.

In the normal course of its business, the Group enters into certain undertakings and commitments to third parties in respect of obligations to perform under contractual arrangements. Obligations to third parties are guaranteed by letters of credit or performance bonds issued by financial institutions. At 31 December 2020, €1.4 million (2019: €1.4 million) was provided by the Group by way of guarantees by financial institutions to third parties. The fair value of guarantees was €nil at 31 December 2020 (2019: €nil). The maximum exposure to credit risk under these obligations is €1.4 million.

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.

Notes to the Group
Financial Statements (continued)

24. Trade and Other Payables

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--|--------------------|--------------------|
| Trade payables | (9,778) | (14,838) |
| Accruals | (80,174) | (80,541) |
| Other payables | (30,514) | (32,247) |
| Taxation and social insurance creditors ¹ | (17,434) | (15,810) |
| Total | (137,900) | (143,436) |
| Analysed as follows: | | |
| Non-current | (15,709) | (14,603) |
| Current | (122,191) | (128,833) |
| Total | (137,900) | (143,436) |
| 1 Taxation and social insurance creditors PAYE/social insurance | (3,843) | (2,236) |
| VAT | (13,591) | (13,574) |
| Total | (17,434) | (15,810) |

25. Financial Risk Management and Financial Instruments

Fair value by class of derivative financial instrument

Cross currency interest rate swaps (CCIRS)

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

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

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

Interest rate swaps

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

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

Foreign exchange contracts and currency swaps

The Group has entered into foreign exchange contracts in relation to supplier payments (which are in US dollar and sterling) and in relation to the hedge of sterling based operations. These contracts have maturities extending until 2021. The trades in place at 31 December 2020 were not designated for hedge accounting purposes.

25. Financial Risk Management and Financial Instruments (continued)

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 26 for IFRS 13 disclosures in respect of fair value measurement.

| | Fair value hierarchy | FVTPL - undesignated €'000 | FVTPL - designated €'000 | FVTOCI €'000 | Total at amortised cost €'000 | Total €'000 |
|---|----------------------|----------------------------|--------------------------|--------------------|-------------------------------|-------------|
| At 31 December 2020 | | | | | | |
| Financial assets | | | | | | |
| Cross currency interest rate swaps | Level 2 | - | 5,618 | (1,371) | - | 4,247 |
| Foreign exchange rate contracts | Level 2 | 271 | - | - | - | 271 |
| Trade and other receivables ² | - | - | - | 73,780 | 73,780 | |
| Cash and cash equivalents ³ | - | - | - | 122,887 | 122,887 | |
| Restricted deposits | - | - | - | 17,603 | 17,603 | |
| Total financial assets | 271 | 5,618 | (1,371) | 214,270 | 218,788 | |
| Financial liabilities | | | | | | |
| Borrowings and other debt ⁴ | Level 2 | - | (4,131) | - | (1,146,721) | (1,150,852) |
| Interest rate swaps | Level 2 | (132) | - | - | - | (132) |
| Foreign exchange rate contracts | Level 2 | (145) | - | - | - | (145) |
| Trade and other payables ¹ | - | - | - | (40,292) | (40,292) | |
| Total financial liabilities | (277) | (4,131) | - | (1,187,013) | (1,191,421) | |
| Net financial (liabilities)/assets | (6) | 1,487 | (1,371) | (972,743) | (972,633) | |
| At 31 December 2019 | | | | | | |
| Financial assets | | | | | | |
| Cross currency interest rate swaps | Level 2 | - | 16,733 | (576) | - | 16,157 |
| Foreign exchange rate contracts | Level 2 | 870 | - | - | - | 870 |
| Trade and other receivables ² | - | - | - | 83,836 | 83,836 | |
| Cash and cash equivalents ³ | - | - | - | 105,086 | 105,086 | |
| Restricted deposits | - | - | - | 17,717 | 17,717 | |
| Total financial assets | 870 | 16,733 | (576) | 206,639 | 223,666 | |
| Financial liabilities | | | | | | |
| Borrowings and other debt ⁴ | Level 2 | - | (15,318) | - | (1,188,916) | (1,204,234) |
| Interest rate swaps (incl inflation linked) | Level 2 | (2,245) | - | - | - | (2,245) |
| Foreign exchange rate contracts | Level 2 | (966) | - | - | - | (966) |
| Trade and other payables ¹ | - | - | - | (47,085) | (47,085) | |
| Total financial liabilities | (3,211) | (15,318) | - | (1,236,001) | (1,254,530) | |
| Net financial (liabilities)/assets | (2,341) | 1,415 | (576) | (1,029,362) | (1,030,864) | |

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

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

3 Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. As at 31 December 2020, €66.1 million of cash and cash equivalents (2019: €57.3 million) is offset against €28.1 million of bank overdrafts (2019: €14.2 million), and a net position of €37.9 million is presented as "cash in bank and in hand" in note 15 (2019: €43.1 million). As at 31 December 2020, the Group had entered no master netting arrangements and other similar agreements.

4 The fair value of borrowings and other debt as at 31 December 2020 was €1,227.5 million (2019: €1,255.1 million).

Notes to the Group
Financial Statements (continued)

25. Financial Risk Management and Financial Instruments (continued)

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

| | Non-current assets €'000 | Current assets €'000 | Non-current liabilities €'000 | Current liabilities €'000 | Total €'000 |
|--|---------------------------------|-----------------------------|--------------------------------------|----------------------------------|--------------------|
| Fair value of financial instruments | | | | | |
| Interest rate swaps | - | - | (394) | - | (394) |
| Inflation linked interest rate swaps | - | - | - | (1,851) | (1,851) |
| Cross currency interest rate swaps | 16,157 | - | - | - | 16,157 |
| Foreign exchange contracts | 106 | 764 | (53) | (913) | (96) |
| At 31 December 2019 | 16,263 | 764 | (447) | (2,764) | 13,816 |
| Fair value of financial instruments | | | | | |
| Interest rate swaps | - | - | - | (132) | (132) |
| Cross currency interest rate swaps | - | 4,247 | - | - | 4,247 |
| Foreign exchange contracts | - | 271 | - | (145) | 126 |
| At 31 December 2020 | - | 4,518 | - | (277) | 4,241 |

Derivative assets and liabilities designated as hedges

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

Hedge effectiveness

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

The Group uses the following categories for hedges:

(i) Fair value hedges (FVTPL - designated)

These instruments hedge the exposure of changes in the fair value of an asset or liability recorded in the balance sheet. The ineffective portion of fair value hedges was €nil for 2020 (2019: €0.03 million). The fair value of hedging derivatives in a fair value hedge in the balance sheet as at 31 December 2020 was €5.6 million asset (2019: €16.7 million asset).

(ii) Cash flow hedges (FVTOCI)

The fair value of hedging derivatives in a cash flow hedge in the balance sheet as at 31 December 2020 was €1.4 million liability (2019: €0.6 million liability). These instruments hedge highly probable future transactions where the variability in cash flows generated by the hedged transaction is offset by changes in the value of the hedging instrument. The amount recognised in profit or loss due to ineffectiveness on cash flow hedges during 2020 was €nil (2019: €nil).

25. Financial Risk Management and Financial Instruments (continued)

Maturity profile of cash flow hedges

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

| | < 1 year €'000 | 1-2 years €'000 | 2-5 years €'000 | > 5 years €'000 | Total €'000 |
|--------------------------------------|-------------------|--------------------|--------------------|--------------------|----------------|
| At 31 December 2020 | | | | | |
| Cross currency interest rate swaps | (1,371) | - | - | - | (1,371) |
| Cash flow hedging derivatives | (1,371) | - | - | - | (1,371) |
| At 31 December 2019 | | | | | |
| Cross currency interest rate swaps | - | (576) | - | - | (576) |
| Cash flow hedging derivatives | - | (576) | - | - | (576) |

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

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

Effects of hedge accounting on the financial position and performance

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

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

Notes to the Group
Financial Statements (continued)

25. 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.

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

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--|--------------------|--------------------|
| Trade and other receivables (excluding grant receivable and prepayments) | 73,780 | 83,836 |
| Cash and cash equivalents | 122,887 | 105,086 |
| Restricted deposits | 17,603 | 17,717 |
| Derivative financial instruments | 4,518 | 17,027 |
| Total | 218,788 | 223,666 |

(i) (a) Treasury related credit risk

The Group operates a centralised treasury function, which undertakes all treasury activities of the Group. Group Treasury manages treasury related credit risk (relating to cash and cash equivalents and derivative instruments) through the use of counterparty credit limits which take account of, among other relevant factors, published credit ratings. It is the Group's Treasury Policy to seek that cash and derivative transactions are placed with institutions who have a credit rating of at a minimum A- (S&P equivalent). All derivative trades are transacted in compliance with the Requirements and Conditions of the Minister of Finance, issued in accordance with provisions of the Financial Transaction of Certain Companies and Other Bodies Act 1992. This outlines the criteria that must be satisfied regarding each derivative counterparty with which the Group transacts. Group Treasury regularly evaluates and measures its treasury counterparty exposures. Where the exposure on derivative instruments has the potential to be material to the Group's net worth, the Group will consider entering into credit support arrangements.

(i) (b) Trade related credit risk

Refer to note 14 for an analysis of the Group's exposure to trade related credit risk.

25. Financial Risk Management and Financial Instruments (continued)

(ii) Funding and liquidity risk

The Group's approach to managing funding and liquidity risk is to ensure, as far as possible, that it has adequate resources to meet its liabilities when due, under both normal and stressed conditions. 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 seeks to ensure that it has committed facilities in place to cover 120% of core projected needs over a one-year horizon and that facilities are arranged with appropriate financial and operating covenants to ensure that management has the necessary flexibility in the operation of its business.

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

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

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

25. Financial Risk Management and Financial Instruments (continued)

| | Carrying amount €'000 | Contractual cash flows €'000 | < 1 year €'000 | 1-2 years €'000 | 2-5 years €'000 | > 5 years €'000 |
|--|----------------------------------|---|------------------------------|----------------------------|----------------------------|-------------------------------|
| At 31 December 2020 | | | | | | |
| Borrowings and other debt | (1,150,852) | (1,235,070) | (128,499) | (10,095) | (330,437) | (766,039) |
| Trade and other payables | (40,292) | (40,292) | (32,408) | (7,884) | - | - |
| Non-derivative financial liabilities | (1,191,144) | (1,275,362) | (160,907) | (17,979) | (330,437) | (766,039) |
| Interest rate swaps | (132) | (266) | (266) | - | - | - |
| Cross currency interest rate swaps | 4,247 | 5,628 | 5,628 | - | - | - |
| Foreign exchange rate contracts | 126 | 126 | 126 | - | - | - |
| Net derivative financial assets | 4,241 | 5,488 | 5,488 | - | - | - |
| Net financial liabilities | (1,186,903) | (1,269,874) | (155,419) | (17,979) | (330,437) | (766,039) |
| At 31 December 2019 | | | | | | |
| Borrowings and other debt | (1,204,234) | (1,325,039) | (62,978) | (140,720) | (335,279) | (786,062) |
| Trade and other payables | (47,085) | (47,085) | (40,938) | (559) | (5,588) | - |
| Non-derivative financial liabilities | (1,251,319) | (1,372,124) | (103,916) | (141,279) | (340,867) | (786,062) |
| Interest rate swaps (including inflation linked) | (2,245) | (2,348) | (2,200) | (148) | - | - |
| Cross currency interest rate swaps | 16,157 | 20,353 | 4,488 | 15,865 | - | - |
| Foreign exchange rate contracts | (96) | (96) | (96) | - | - | - |
| Net derivative financial assets | 13,816 | 17,909 | 2,192 | 15,717 | - | - |
| Net financial liabilities | (1,237,503) | (1,354,215) | (101,724) | (125,562) | (340,867) | (786,062) |

(iii) Market risk

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

Group Treasury is responsible for managing market risk with respect to interest rates and currency exchange rates. All such transactions are carried out within the guidelines set by the Treasury Policy and transacted in compliance with the Financial Transactions of Certain Companies and Other Bodies Act 1992 and any requirements and conditions as may be specified by the Minister for Finance thereunder.

Group Treasury seeks to apply hedge accounting in order to manage volatility in profit or loss where material in the context of the Group.

(iii) (a) Exchange rate risk

Exchange rate risk derives from the fact that some of the Group's operations are conducted in currencies other than euro (mainly sterling). The objective of exchange rate risk management is to protect profitability by minimising the impact of material variations due to foreign exchange rate movements. The average GBP foreign exchange rate in 2020 was 1.125 (2019: 1.141) and the year end rate was 1.117 (2019: 1.181).

25. Financial Risk Management and Financial Instruments (continued)

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

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

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

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

- **Transaction exposure**

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

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

- **Debt in a foreign currency**

The Group has US dollar denominated Private Placements that have been converted to euro. Debt in foreign currency have been hedged using cross currency interest rate swaps.

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

| | Profit before taxation gain/ (loss) 31-Dec-20 €'000 | Other comprehensive income 31-Dec-20 €'000 | Profit before taxation gain/ (loss) 31-Dec-19 €'000 | Other comprehensive income 31-Dec-19 €'000 |
|------------------|--|---|--|---|
| 5% Strengthening | (241) | (1,991) | (259) | (1,862) |
| 5% Weakening | 241 | 1,991 | 259 | 1,862 |

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

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

Notes to the Group
Financial Statements (continued)

25. Financial Risk Management and Financial Instruments (continued)

(iii) (b) Interest rate risk

Interest rate risk derives from changes in interest rates which affect the market value of financial assets and liabilities of the Group and 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.

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

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

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

¹ including swaps.

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

On 31 December 2020, the Group had US\$140 million (2019: US\$140 million) fixed rate debt outstanding (€111.2 million equivalent (2019: €111.2 million)) in a US dollar Private Placement transaction which was completed on 31 March 2009. In order to hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating euro, the Group has a cross currency interest rate swap which matches the maturity profile of the debt. At 31 December 2020, the Group had outstanding interest rate swaps with a notional principal of €111.2 million, which commenced in H2 2017 and were swapped for four years effectively fixing the Private Placement debt instrument until its maturity in March 2021.

At 31 December 2020, the weighted average interest rate of the fixed debt portfolio was 1.33% (2019: 1.33%) which comprised of three bonds of €922.4 million and an interest rate swap portfolio of €111.2 million.

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

25. Financial Risk Management and Financial Instruments (continued)

Cash flow sensitivity analysis for floating rate debt

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

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

| | Profit before taxation 31-Dec-20 €'000 | Profit before taxation 31-Dec-19 €'000 | Other comprehensive income 31-Dec-20 €'000 | Other comprehensive income 31-Dec-19 €'000 |
|----------------|--|--|--|--|
| 50 bp increase | (499) | (30) | - | - |
| 50 bp decrease | 499 | 15 | - | - |

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

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

26. Fair Value Measurement

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

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

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

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

Notes to the Group
Financial Statements (continued)

26. Fair Value Measurement (continued)

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

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

| Type | Valuation technique | Significant unobservable inputs |
|---|---|--|
| Forward exchange contracts <i>(Refer to note 25)</i> | 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 <i>(Refer to note 25)</i> | The fair value of interest rate swaps and cross currency interest rate swaps takes into account the fixed, floating and market rates prevailing at the year end. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the relevant Group entity and counterparty when appropriate. Fair value hierarchy: level 2 | All significant inputs required to fair value the instrument are observable. |
| Private Placement (fair value hedge portion) <i>(Refer to note 25)</i> | The fair value of the fixed rate debt is estimated by discounting the future cash flows to net present values using market rates prevailing at the reporting date. Fair value hierarchy: level 2 | All significant inputs required to fair value the instrument are observable. |
| 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 current year or in prior year. | | |

27. Subsidiaries

At 31 December 2020 the Group had the following subsidiaries:

| Company | Nature of Business | % Holding of Ordinary Share Capital |
|---|---------------------------|--|
| 1 Aurora Telecom DAC | Non Trading | 100% |
| 2 Gas Networks Ireland (IOM) DAC | Gas Transmission | 100% |
| 3 GNI (UK) Limited | Gas Transmission | 100% |
| 4 Gas Networks Ireland | Gas Transmission | 100% |
| 5 "Network Services Transition DAC (formerly Gaslink Independent System Operator DAC)" | Non Trading | 100% |

| Non-controlled undertaking | | |
|--|---|---------------|
| 6 Ervia ESOP Trustee DAC | Trustee for Employee Share Ownership Plan | see (a) below |
| 7 Irish Water | Water and Waste Water Services | see (b) below |
| The registered office of 1, 2 and 4 to 6 is: | Gasworks Road, Cork, Ireland. | |
| The registered office of 3 is: | 8th Floor, 20 Farringdon Street, London, United Kingdom EC4A 4AB | |
| The registered office of 7 is: | Colvill House, 24/26 Talbot Street, Dublin 1, Ireland. | |

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

Agreement was reached in March 2014 regarding the buy-out of the 3.27% of the capital stock of Ervia held by the Trustee on behalf of ESOP beneficiaries. The agreement provided for the acquisition of the entire capital stock issued to the Ervia ESOT in exchange for promissory notes issued by Ervia. The promissory notes were redeemed over the period 2014 to 2018.

b) At 31 December 2020, the Group held a single voting share in Irish Water, with no economic rights attributable to that share. The Minister for Finance and Minister for Housing, Local Government and Heritage each held 325 (2019: 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.

IFRS 10 states "an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". The Group's single voting share in Irish Water represents an existing right at 31 December 2020 that gives the Group the power to govern the financial and operating policies of Irish Water. However, as this power cannot be used to obtain variable returns, as the Group does not have rights to the variable returns of Irish Water at that date, as required by IFRS 10, and therefore in order to comply with the requirements of IFRS, the financial statements of Irish Water are not consolidated with the results of the Group.

Notes to the Group Financial Statements (continued)

28. Related Parties

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

In common with many other entities, the Group deals in the normal course of business with other Government sponsored bodies, such as, the Electricity Supply Board, Eirgrid and Local Authorities. The Group also transacts with certain Irish banks which are wholly or partially controlled by the Irish Government. All of the Group's transactions with such banks are on normal commercial terms. The Group had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2020.

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

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

| | | 2020 €'000 | 2019 €'000 |
|---|---------|---------------|---------------|
| Irish Water | | (i) | |
| Transactional and support service agreement costs | (i) (a) | 52,403 | 55,979 |
| | | 52,403 | 55,979 |

The related party balances receivable are detailed below:

| | | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|-------------|-----|--------------------|--------------------|
| Irish Water | (i) | 24,444 | 35,475 |
| | | 24,444 | 35,475 |

(i) Irish Water

Irish Water is deemed to be a related party of the Group, on the basis of the fact pattern set out in note 27.

(a) Transactional and support service costs

The Group provides strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water, through the Group Centre, Major Projects area and 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. The costs relating to the secondment of employees are recharged to Irish Water on a full cost recovery method with no margin earned. Refer to note 30R (i) for further details on transactional and support service costs.

(b) Capital expenditure costs incurred by Ervia Group and recharged to Irish Water

Irish Water transacts with the Group in respect of centrally delivered and business delivered projects including the payroll costs incurred by the Major Projects area. The directly attributable Irish Water costs are re-charged on a monthly basis with no overhead or margin applied by Ervia Group. Capital expenditure costs recharged in 2020 were €21.7 million (2019: €22.2 million). Balances in relation to these transactions are included in the table above.

(c) Pension cost

The Group operates a defined benefit pension scheme. A number of Irish Water employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19. The Parent, as the sponsoring employer for the plan, recognises the net defined benefit cost, while Irish Water recognises only the cost of contributions payable for the year in respect of Irish Water employees. The Group's current service costs for 2020 (as set out in note 20) includes €1.0 million (2019: €1.0 million) which represents contributions payable for the year in respect of Irish Water employees. These costs are not included in the Group's employee benefit expense.

29. Subsequent Events

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

Details of dividend declared since the year end are set out in note 19.

Parent Income Statement

for the financial year ended 31 December 2020

| | Notes | 2020 €'000 | 2019 €'000 |
|---|-------|---------------|---------------|
| Continuing operations | | | |
| Revenue | | - | - |
| Operating costs net (excluding depreciation and amortisation) | 30A | (7,400) | (3,285) |
| Operating loss before depreciation and amortisation (EBITDA) | | (7,400) | (3,285) |
| Depreciation and amortisation | 30D | (1,426) | (1,395) |
| Operating loss | | (8,826) | (4,680) |
| Finance income | 30E | 48,045 | 54,404 |
| Finance costs | 30E | (2,520) | (2,642) |
| Net finance income | 30E | 45,525 | 51,762 |
| Profit before income tax | | 36,699 | 47,082 |
| Income tax credit | 30F | 2,028 | 307 |
| Profit for the year | | 38,727 | 47,389 |
| Profit attributable to: | | | |
| Owners of the Parent | | 38,727 | 47,389 |
| Profit for the financial year | | 38,727 | 47,389 |

For and on behalf of the Board:

Tony Keohane
Chairman

Keith Harris
Member of the Board

30 March 2021
Date of Approval

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

| | Notes | 2020 €'000 | 2019 €'000 |
|---|-------|-----------------|---------------|
| Profit for the financial year | | 38,727 | 47,389 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Defined benefit plan actuarial losses | 30M | (34,670) | (43,196) |
| Remeasurement of other pension assets | 30M | 9,047 | - |
| Deferred tax credit relating to defined benefit obligations | 30F | 3,203 | 5,400 |
| Total items that will not be reclassified to profit or loss | | (22,420) | (37,796) |
| Total other comprehensive income for the year, net of income tax | | (22,420) | (37,796) |
| Total comprehensive income for the year | | 16,307 | 9,593 |
| Total comprehensive income attributable to: | | | |
| Owners of the Parent | | 16,307 | 9,593 |
| Total comprehensive income for the financial year | | 16,307 | 9,593 |

For and on behalf of the Board:

Tony Keohane

Chairman

Keith Harris

Member of the Board

30 March 2021

Date of Approval

Parent Balance Sheet

as at 31 December 2020

| | Notes | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--|-------|--------------------|--------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 30G | 20,217 | 21,556 |
| Investment in subsidiary undertakings | 30Q | 681,436 | 681,436 |
| Trade and other receivables | 30I | 5,188 | 5,147 |
| Deferred tax assets | 30F | 16,324 | 8,523 |
| Total non-current assets | | 723,165 | 716,662 |
| Current assets | | | |
| Trade and other receivables | 30I | 62,832 | 110,552 |
| Cash and cash equivalents | 30J | 25,982 | 3,812 |
| Derivative financial instruments | 30P | 69 | - |
| Current tax assets | 30F | - | 198 |
| Total current assets | | 88,883 | 114,562 |
| Total assets | | 812,048 | 831,224 |
| Equity and liabilities | | | |
| Equity | | | |
| Retained earnings | | (586,896) | (641,547) |
| Total equity attributable to equity holders of the Parent | | (586,896) | (641,547) |
| Liabilities | | | |
| Non-current liabilities | | | |
| Retirement benefit obligations | 30M | (182,534) | (147,476) |
| Deferred grants | 30L | (210) | - |
| Trade and other payables | 30O | (5,609) | (6,147) |
| Lease liabilities | 30H | (12,221) | (13,137) |
| Total non-current liabilities | | (200,574) | (166,760) |
| Current liabilities | | | |
| Trade and other payables | 30O | (20,965) | (21,699) |
| Derivative financial instruments | 30P | - | (318) |
| Current tax liabilities | 30F | (2,696) | - |
| Lease liabilities | 30H | (917) | (900) |
| Total current liabilities | | (24,578) | (22,917) |
| Total liabilities | | (225,152) | (189,677) |
| Total equity and liabilities | | (812,048) | (831,224) |

For and on behalf of the Board:

Tony Keohane

Chairman

Keith Harris

Member of the Board

30 March 2021

Date of Approval

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

| | Retained earnings €'000 |
|---|-------------------------------|
| Balance at 1 January 2019 | (771,358) |
| Profit for the financial year | (47,389) |
| Other comprehensive expense for the financial year, net of income tax | 37,796 |
| Total comprehensive income for the financial year | (9,593) |
| Dividends declared | 139,404 |
| Balance at 31 December 2019 | (641,547) |
| Profit for the year | (38,727) |
| Other comprehensive expense for the year, net of income tax | 22,420 |
| Total comprehensive income for the financial year | (16,307) |
| Dividends declared | 70,958 |
| Balance at 31 December 2020 | (586,896) |

All attributable to owners of the Parent.

Parent Statement of Cash Flows

for the year ended 31 December 2020

| | Notes | 2020 €'000 | 2019 €'000 |
|---|-------|-----------------|---------------|
| Net cash from operating activities | 30K | 12,501 | (10,545) |
| Cash flows from investing activities | | | |
| Receipt relating to the sale of Energy division | | 375 | - |
| Payments for property, plant and equipment | | (87) | (122) |
| Dividends received | | 47,283 | 54,404 |
| Subsidiary loan repayment received | | 23,000 | 85,000 |
| Subsidiary loan interest received | | 10,955 | - |
| Net cash from investing activities | | 81,526 | 139,282 |
| Cash flows from financing activities | | | |
| Repayment of lease liabilities | | (899) | (757) |
| Dividends paid | | (70,958) | (139,404) |
| Net cash used in financing activities | | (71,857) | (140,161) |
| Net increase/(decrease) in cash and cash equivalents | 30J | 22,170 | (11,424) |
| Cash and cash equivalents at 1 January | 30J | 3,812 | 15,236 |
| Cash and cash equivalents at 31 December | 30J | 25,982 | 3,812 |

2019 disclosures have been represented to show comparatives consistent with 2020 disclosures - refer to note 1 (a).

| | |
|-----|---|
| 30A | Operating Costs Net (excluding depreciation and amortisation) |
| 30B | Employee Benefits |
| 30C | Key Management Compensation |
| 30D | Depreciation and Amortisation |
| 30E | Net Finance Costs |
| 30F | Tax |
| 30G | Property, Plant and Equipment |
| 30H | Lease Assets and Liabilities |
| 30I | Trade and Other Receivables |
| 30J | Cash and Cash Equivalents |
| 30K | Cash Generated from Operations |
| 30L | Government Grants |
| 30M | Retirement Benefit Obligations |
| 30N | Contingencies and Capital Commitments |
| 30O | Trade and Other Payables |
| 30P | Financial Risk Management and Financial Instruments |
| 30Q | Subsidiaries |
| 30R | Related Parties |

Notes to the Parent Financial Statements

30A Operating Costs Net (excluding depreciation and amortisation)

| | 2020 €'000 | 2019 €'000 |
|---|----------------|----------------|
| Employee benefit expense | (56,311) | (51,947) |
| Hired and contracted services | (3,366) | (6,990) |
| Materials, maintenance and sub-contractor costs | (11,738) | (11,950) |
| Rates and facilities | (695) | (1,186) |
| Other operating expenses | (13,686) | (14,265) |
| Recharges to non-controlled undertakings | 52,403 | 55,979 |
| Recharges to subsidiary undertakings | 25,993 | 27,074 |
| Total | (7,400) | (3,285) |

Refer to note 4 for disclosures in respect of the Group's Auditor's remuneration and Board members' emoluments.

30B Employee Benefits

| | 2020 €'000 | 2019 €'000 |
|---|-----------------|-----------------|
| (a) Aggregate employee benefits | | |
| Staff short-term benefits | (50,174) | (47,985) |
| Post-employment benefits - pension contributions* | (13,500) | (9,803) |
| Social insurance costs | (5,392) | (5,580) |
| | (69,066) | (63,368) |
| Capitalised payroll and other payroll transfers | 12,755 | 11,421 |
| Employee benefit expense charged to profit or loss | (56,311) | (51,947) |

| | 2020 €'000 | 2019 €'000 |
|--------------------------------------|-----------------|-----------------|
| (b) Staff short-term benefits | | |
| Wages and salaries | (48,412) | (46,270) |
| Overtime | (19) | (33) |
| Allowances | (309) | (277) |
| Other | (1,434) | (1,405) |
| Total | (50,174) | (47,985) |

The average monthly number of employees providing services to the Parent was 608 for 2020 (2019: 612).

* Includes unallocated non-cash pension costs attributable to non-Parent company employees (i.e. eligible subsidiary and non-controlled undertaking employees) who participate in the Ervia defined benefit scheme.

30C Key Management Compensation

Refer to note 6 for details in respect of the Group's key management compensation.

Notes to the Parent
Financial Statements (continued)

30D Depreciation and Amortisation

| | | 2020 €'000 | 2019 €'000 |
|---|-----|----------------|---------------|
| Depreciation of property, plant and equipment | 30G | (417) | (386) |
| Depreciation of right-of-use assets | 30H | (1,009) | (1,009) |
| Total | | (1,426) | (1,395) |

30E Net Finance Costs

| | | 2020 €'000 | 2019 €'000 |
|---|-----|---------------|---------------|
| Before remeasurements | | | |
| Dividends received | | 47,283 | 54,404 |
| Change in estimate of cash flow on contingent consideration | | 375 | - |
| Lease liability finance charge | 30H | (260) | (278) |
| Net interest on the net defined benefit liability | 30M | (1,766) | (1,935) |
| Other finance costs | | (494) | (117) |
| Total before remeasurements | | 45,138 | 52,074 |
| Remeasurements | | | |
| Net changes in fair value of financing undesignated derivatives | | 387 | (312) |
| Total remeasurements | | 387 | (312) |
| Total | | | |
| Finance income | | 48,045 | 54,404 |
| Finance costs | | (2,520) | (2,642) |
| Net finance income | | 45,525 | 51,762 |

30F Tax

| | 2020 €'000 | 2019 €'000 |
|--|----------------|---------------|
| Current tax credit | | |
| Current tax | (2,696) | - |
| Adjustments in respect of previous years | 126 | 52 |
| | (2,570) | 52 |

Deferred tax credit

| | | |
|---|--------------|------------|
| Origination and reversal of temporary differences | 4,630 | 310 |
| Adjustments in respect of previous years | (32) | (55) |
| | 4,598 | 255 |
| Total income tax credit | 2,028 | 307 |

Reconciliation of effective tax rate

| | 2020 €'000 | 2019 €'000 |
|--|---------------|---------------|
| Profit before tax | 36,699 | 47,082 |
| Taxed at 12.5% (2019: 12.5%) | (4,587) | (5,885) |
| Expenses not deductible for tax purposes | 279 | (319) |
| Income not taxable | 5,957 | 6,801 |
| Profits taxed at higher rates | 285 | (287) |
| Adjustments in respect of previous years | 94 | (3) |
| Total income tax credit | 2,028 | 307 |

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

Current tax assets and liabilities

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--------------------------------|--------------------|--------------------|
| Current tax assets | - | 198 |
| Current tax liabilities | (2,696) | - |

Deferred tax assets and liabilities

| | Pension obligations €'000 | Accelerated tax depreciation ¹ €'000 | Interest €'000 | Other €'000 | Total €'000 |
|--------------------------------|---------------------------------|--|-------------------|----------------|----------------|
| At 1 January 2019 | 12,298 | (182) | (9,352) | 104 | 2,868 |
| Recognised in income statement | 878 | 19 | (572) | (70) | 255 |
| Recognised in equity | 5,400 | - | - | - | 5,400 |
| At 31 December 2019 | 18,576 | (163) | (9,924) | 34 | 8,523 |
| | | | | | |
| Recognised in income statement | 1,201 | (18) | 3,306 | 109 | 4,598 |
| Recognised in equity | 3,203 | - | - | - | 3,203 |
| At 31 December 2020 | 22,980 | (181) | (6,618) | 143 | 16,324 |

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

Notes to the Parent
Financial Statements (continued)

30F Tax (continued)

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

| | 2020 €'000 | 2019 €'000 |
|----------------|---------------|---------------|
| Capital losses | 3,600 | 3,600 |

30G Property, Plant and Equipment

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--|--------------------|--------------------|
| Property, plant and equipment - owned assets | 7,357 | 7,687 |
| Property, plant and equipment - leased assets | 30H | 13,869 |
| Property, plant and equipment - as presented on the balance sheet | 20,217 | 21,556 |

| | Land and buildings €'000 | Plant, pipeline and machinery €'000 | Total €'000 |
|---|-----------------------------|--|-----------------|
| Cost | | | |
| At 1 January 2019 | 21,345 | 246 | 21,591 |
| Additions | - | 122 | 122 |
| Disposals | - | (69) | (69) |
| At 31 December 2019 | 21,345 | 299 | 21,644 |
| Additions | - | 87 | 87 |
| At 31 December 2020 | 21,345 | 386 | 21,731 |
| Accumulated depreciation and impairment losses | | | |
| At 1 January 2019 | (13,538) | (53) | (13,591) |
| Depreciation for the year | (343) | (43) | (386) |
| Disposals | - | 20 | 20 |
| At 31 December 2019 | (13,881) | (76) | (13,957) |
| Depreciation for the year | (343) | (74) | (417) |
| At 31 December 2020 | (14,224) | (150) | (14,374) |
| Carrying amounts | | | |
| At 31 December 2019 | 7,464 | 223 | 7,687 |
| At 31 December 2020 | 7,121 | 236 | 7,357 |

30H Lease Assets and Liabilities

The Company as Lessee

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

Amounts recognised on the balance sheet

| | Land and buildings €'000 | Total €'000 |
|---|--------------------------------|-----------------------------|
| Right-of-use assets | | |
| Cost | | |
| At 1 January 2019 | 10,373 | 10,373 |
| Additions | 4,505 | 4,505 |
| At 31 December 2019 | 14,878 | 14,878 |
| Additions | - | - |
| At 31 December 2020 | 14,878 | 14,878 |
| Accumulated depreciation and impairment losses | | |
| At 1 January 2019 | - | - |
| Charge for the year | (1,009) | (1,009) |
| At 31 December 2019 | (1,009) | (1,009) |
| Charge for the year | (1,009) | (1,009) |
| At 31 December 2020 | (2,018) | (2,018) |
| Carrying amounts | | |
| At 31 December 2019 | 13,869 | 13,869 |
| At 31 December 2020 | 12,860 | 12,860 |
| Lease liabilities | | |
| At 1 January 2019 | (10,289) | (10,289) |
| Additions | (4,505) | (4,505) |
| Interest expense | (278) | (278) |
| Lease payments | 1,035 | 1,035 |
| At 31 December 2019 | (14,037) | (14,037) |
| Additions | - | - |
| Interest expense | (260) | (260) |
| Lease payments | 1,159 | 1,159 |
| At 31 December 2020 | (13,138) | (13,138) |
| Analysed as follows: | | |
| | 2020 €'000 | 2019 €'000 |
| Non-current | (12,221) | (13,137) |
| Current | (917) | (900) |
| Total | (13,138) | (14,037) |

The Parent does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the relevant business functions.

Notes to the Parent
Financial Statements (continued)

30I Trade and Other Receivables

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--|--------------------|--------------------|
| Amounts due from subsidiary undertakings | 39,268 | 76,458 |
| Amounts due from non-controlled undertakings | 24,427 | 34,620 |
| Prepayments | 4,259 | 4,451 |
| Other receivables | 66 | 170 |
| Total | 68,020 | 115,699 |

Analysed as follows:

| | | |
|--------------|---------------|---------|
| Non-current | 5,188 | 5,147 |
| Current | 62,832 | 110,552 |
| Total | 68,020 | 115,699 |

Refer to note 30R for further details in respect of balances with subsidiary companies and non-controlled undertakings.

The maximum exposure of trade and other receivables to credit risk at the reporting date is €63.8 million (2018: €111.2 million). Prepayments of €4.3 million (2019: €4.5 million) are excluded as no credit exposure arises.

The Parent applies the IFRS 9 simplified approach (which uses a lifetime ECL) to measure ECL for all trade and other receivables, with the exception of certain amounts due from subsidiaries, which are measured using the IFRS 9 general approach. There are no material expected credit loss allowances recognised by the Parent and the Parent does not expect any significant losses of receivables that have not been provided.

At 31 December 2020, the Company had amounts due from subsidiaries and non-controlled undertakings of €63.7 million (2019: €111.1 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 ECL, regard is given to the historic performance of the relevant loan as well as forward looking information for the relevant subsidiary, including detailed discounted cash flow forecasts and macro-economic factors. Further to this assessment, no ECL allowance is recognised in respect of these amounts at 31 December 2020 (2019: €nil) and no ECL was recognised during the year in respect of these amounts (2019: €nil).

30J Cash and Cash Equivalents

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

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|---|--------------------|--------------------|
| Short-term treasury deposits | 25,500 | - |
| Cash in bank and in hand | 482 | 3,812 |
| Total | 25,982 | 3,812 |
| At 1 January | 2,020 | 2,019 |
| Increase/(decrease) in cash and cash equivalents in the statement of cash flows | 3,812 | 15,236 |
| At 31 December | 22,170 | (11,424) |
| | 25,982 | 3,812 |

30K Cash Generated from Operations

| | Notes | 2020 €'000 | 2019 €'000 |
|---|-------|-------------------|---------------|
| Cash flows from operating activities | | | |
| Profit for the financial year | | 38,727 | 47,389 |
| Adjustments for: | | | |
| Depreciation and amortisation | 30D | 1,426 | 1,395 |
| Retirement benefit cost | | 7,799 | 4,046 |
| Net finance income | 30E | (45,525) | (51,762) |
| Income tax credit | 30F | (2,028) | (307) |
| | | 399 | 761 |
| Working capital changes: | | | |
| Change in trade and other receivables | | 228 | (338) |
| Change in trade and other payables | | 10,227 | (7,987) |
| Cash from operating activities | | | |
| Interest received/(paid) | | 10,854 | (7,564) |
| Income tax received/(paid) | | 1,324 | (2,732) |
| | | 323 | (249) |
| Net cash from operating activities | | | |
| | | 12,501 | (10,545) |

30L Government Grants

| | 2020 €'000 | 2019 €'000 |
|----------------------------------|--------------------|--------------------|
| At 1 January | | |
| Receivable in year | (314) | - |
| Amortised in year | - | - |
| Credited to the income statement | 104 | - |
| At 31 December | (210) | - |
| Analysed as follows: | | |
| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
| Non-current | (210) | - |
| Current | - | - |
| Total | (210) | - |

Grants receivable for 2020 of €0.3 million (2019: €nil) related to the grant funding from the Innovation and Networks Executive Agency (INEA) for Project REALISE (Demonstrating a Refinery-Adapted Cluster-Integrated Strategy to Enable FullChain CCUS Implementation).

30M Retirement Benefit Obligations

Refer to note 20 for disclosure in respect of the Group's retirement benefit obligations.

Notes to the Parent
Financial Statements (continued)

30N Contingencies and Capital Commitments

Ervia Parent delivers certain centrally managed IT and facilities capital projects on behalf of Irish Water and Gas Networks Ireland. Directly attributable costs are recharged to Irish Water and Gas Networks Ireland based on appropriate cost apportionment drivers, with no overhead or margin applied. At 31 December 2020, Ervia Parent had entered into contractual commitments amounting to €nil (2019: €3.4 million) in respect of these centrally managed projects. The relevant capital commitments at 31 December 2020 attributable to Irish Water is estimated at €nil (2019: €2.5 million) and the relevant capital commitments attributable to Gas Networks Ireland is estimated at €nil (2019: €0.9 million). These estimated capital commitments are included within the overall capital commitments notes in the respective financial statements of Irish Water and Gas Networks Ireland.

Ervia Parent also provides resourcing and contractor support to the delivery of IT, telecommunication and network infrastructure capital projects that are managed directly by Irish Water and Gas Networks Ireland. These projects are managed directly by Irish Water and Gas Networks Ireland from an overall operational delivery and budgetary control perspective. Directly attributable costs are recharged to Irish Water and Gas Networks Ireland with no overhead or margin applied. At 31 December 2020, Ervia Parent had entered into contractual commitments amounting to €1.8 million (2019: €5.9 million) in respect of these projects. The relevant capital commitments at 31 December 2020 attributable to Irish Water was €1.2 million (2019: €4.2 million) and the relevant capital commitments attributable to Gas Networks Ireland was at €0.6 million (2019: €1.7 million). These capital commitments are included within the overall capital commitments notes in the respective financial statements of Irish Water and Gas Networks Ireland.

The Parent 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 Parent's results from operations, operating cash flows or net asset financial position.

30O Trade and Other Payables

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--|--------------------|--------------------|
| Trade payables | (2,701) | (5,164) |
| Accruals | (15,551) | (15,490) |
| Other payables | (6,121) | (6,895) |
| Amounts due to subsidiary companies | (84) | (85) |
| Taxation and social insurance creditors ¹ | (2,117) | (212) |
| Total | (26,574) | (27,846) |

Analysed as follows:

| | | |
|--------------|-----------------|-----------------|
| Non-current | (5,609) | (6,147) |
| Current | (20,965) | (21,699) |
| Total | (26,574) | (27,846) |

¹Taxation and social insurance creditors

| | | |
|-----------------------|----------------|--------------|
| PAYE/social insurance | (2,204) | (1,339) |
| VAT | 87 | 1,127 |
| Total | (2,117) | (212) |

30P Financial Risk Management and Financial Instruments

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 26 for IFRS 13 disclosures in respect of fair value measurement.

| | Fair value hierarchy | FVTPL - undesignated €'000 | FVTPL - designated €'000 | FVTOCI €'000 | Total at amortised cost €'000 | Total €'000 |
|--|----------------------|----------------------------|--------------------------|--------------|-------------------------------|----------------|
| At 31 December 2020 | | | | | | |
| Financial assets | | | | | | |
| Foreign exchange rate contracts | Level 2 | 69 | - | - | - | 69 |
| Trade and other receivables ² | - | - | - | - | 63,761 | 63,761 |
| Cash and cash equivalents ³ | - | - | - | - | 25,982 | 25,982 |
| Total financial assets | | 69 | - | - | 89,743 | 89,812 |
| Financial liabilities | | | | | | |
| Foreign exchange rate contracts | Level 2 | - | - | - | - | - |
| Trade and other payables ¹ | - | - | - | - | (8,906) | (8,906) |
| Total financial liabilities | | - | - | - | (8,906) | (8,906) |
| Net financial assets | | 69 | - | - | 80,837 | 80,906 |
| At 31 December 2019 | | | | | | |
| Financial assets | | | | | | |
| Trade and other receivables ² | - | - | - | - | 111,248 | 111,248 |
| Cash and cash equivalents ³ | - | - | - | - | 3,812 | 3,812 |
| Total financial assets | | - | - | - | 115,060 | 115,060 |
| Financial liabilities | | | | | | |
| Foreign exchange rate contracts | Level 2 | (318) | - | - | - | (318) |
| Trade and other payables ¹ | - | - | - | - | (12,144) | (12,144) |
| Total financial liabilities | | (318) | - | - | (12,144) | (12,462) |
| Net financial assets | | (318) | - | - | 102,916 | 102,598 |

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

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

3 Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. As at 31 December 2020, €1.3 million of cash and cash equivalents (2019: €3.8 million) is offset against €0.8 million of bank overdrafts (2019: €nil), and a net position of €0.5 million is presented as "cash in bank and in hand" in note 30J (2019: €3.8 million). As at 31 December 2020, the Parent had entered no master netting arrangements and other similar agreements.

Notes to the Parent
Financial Statements (continued)

30P Financial Risk Management and Financial Instruments (continued)

Financial risk management

Refer to note 25 for details of the Group's financial risk management policies. These objectives, policies and processes are also adopted by the Parent.

(i) Credit risk

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

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|---|--------------------|--------------------|
| Trade and other receivables (excluding prepayments) | 63,761 | 111,248 |
| Cash and cash equivalents | 25,982 | 3,812 |
| Derivative financial instruments | 69 | - |
| Total | 89,812 | 115,060 |

(i) (a) Treasury related credit risk

Refer to note 25 for an analysis of the Group's policies in respect of treasury related credit risk. These objectives, policies and processes are also adopted by the Parent.

(i) (b) Trade related credit risk

Refer to note 30I for an analysis of the Parent's exposure to trade related credit risk.

(ii) Liquidity risk

Refer to note 25 for details of the Group's objectives, policies and processes for managing liquidity risk and the methods used to measure liquidity risk. These objectives, policies and processes are also adopted by the Parent.

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

| | Carrying amount €'000 | Contractual cash flows €'000 | < 1 year €'000 | 1-2 years €'000 | 2-5 years €'000 | > 5 years €'000 |
|---|-----------------------------|------------------------------------|-------------------|--------------------|--------------------|--------------------|
| At 31 December 2020 | | | | | | |
| Lease liabilities | (13,138) | (13,138) | (917) | (935) | (2,918) | (8,368) |
| Trade and other payables | (8,906) | (8,906) | (3,297) | (5,609) | - | - |
| Non-derivative financial liabilities | (22,044) | (22,044) | (4,214) | (6,544) | (2,918) | (8,368) |
| Foreign exchange rate contracts | 69 | 69 | 69 | - | - | - |
| Net derivative financial assets | 69 | 69 | 69 | - | - | - |
| Net financial liabilities | (21,975) | (21,975) | (4,145) | (6,544) | (2,918) | (8,368) |
| At 31 December 2019 | | | | | | |
| Lease liabilities | (14,037) | (14,037) | (900) | (917) | (2,861) | (9,359) |
| Trade and other payables | (12,144) | (12,144) | (5,997) | (559) | (5,588) | - |
| Non-derivative financial liabilities | (26,181) | (26,181) | (6,897) | (1,476) | (8,449) | (9,359) |
| Foreign exchange rate contracts | (318) | (318) | (318) | - | - | - |
| Net derivative financial assets | (318) | (318) | (318) | - | - | - |
| Net financial liabilities | (26,499) | (26,499) | (7,215) | (1,476) | (8,449) | (9,359) |

30P Financial Risk Management and Financial Instruments (continued)

(iii) Market risk

Refer to note 25 for details of the Group's objectives, policies and processes for managing market risk and the methods used to measure market risk. These objectives, policies and processes are also adopted by the Parent.

(iii) (a) Exchange rate risk

Exchange rate risk derives from the fact that some of the Parent's transactions may be conducted in currencies other than euro (mainly sterling).

Transaction exposure

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

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

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

30Q Subsidiaries

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|------------------------|--------------------|--------------------|
| Cost | | |
| At 1 January | | 681,436 |
| At 31 December | 681,436 | 681,436 |
| Impairment | | |
| At 1 January | | - |
| At 31 December | | - |
| Carrying amount | | - |
| At 31 December | 681,436 | 681,436 |

The Parent's subsidiary is Gas Networks Ireland.

Notes to the Parent Financial Statements (continued)

30R Related Parties

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

In common with many other entities, Ervia Parent deals in the normal course of business with other Government sponsored bodies such as, the Electricity Supply Board, Eirgrid and Local Authorities. Ervia Parent also transacts with certain Irish banks which are wholly or partially controlled by the Irish Government. All of the transactions with such banks are on normal commercial terms. Ervia Parent had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2020.

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

The related party income/(expense) transaction values for 2020 and 2019 are detailed below for transactional and support service agreement costs:

| | | 2020 €'000 | 2019 €'000 |
|--------------|----------|---------------|---------------|
| Irish Water | (i) (a) | 52,403 | 55,979 |
| Subsidiaries | (ii) (a) | 25,993 | 27,074 |
| | | 78,396 | 83,053 |

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

| | 31-Dec-20 €'000 | 31-Dec-19 €'000 |
|--------------|--------------------|--------------------|
| Irish Water | 24,427 | 34,620 |
| Subsidiaries | 39,184 | 76,373 |
| | 63,611 | 110,993 |

(i) Irish Water

Irish Water is deemed to be a related party of the Parent, on the basis of the fact pattern set out in note 27.

Ervia Parent entered into transactions with Irish Water as follows:

(a) Transactional and support service agreement costs

Refer to (iii) (a) below for a description of the services provided by Ervia Parent to Irish Water. Refer to (iii) (b) for details of cost recharges to Irish Water and the basis for apportionment of these costs.

(b) Capital expenditure costs

Refer to (iii) (c) below for a description of the capital expenditure costs incurred by Ervia Parent and recharged to Irish Water.

(c) Pension costs

Refer to (iii) (d) below for a description of the defined benefit pension contribution costs incurred by Ervia Parent and recharged to Irish Water.

(ii) Gas Networks Ireland

The Parent entered into transactions with subsidiaries as follows:

(a) Transactional and support service agreement costs

Refer to (iii) (a) below for a description of the services provided by Ervia Parent to Gas Networks Ireland. Refer to (iii) (b) for details of cost recharges to Gas Networks Ireland and the basis for apportionment of these costs.

(b) Capital expenditure costs

Refer to (iii) (c) below for a description of the capital expenditure costs incurred by Ervia Parent and recharged to Gas Networks Ireland.

(c) Dividend

The Parent received an annual dividend of €47.3 million from Gas Networks Ireland during 2020 (2019: €54.4 million). In 2018 the Parent received a dividend of €49.1 million with the remaining €5.1 million receivable in 2023 (with appropriate interest).

30R Related Parties (continued)

(iii) Transactions with Irish Water and subsidiaries

(a) Transactional and support service costs

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

Transactional and Support Services Provided by Ervia Parent

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

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

| | 2020 €'000 | 2019 €'000 |
|---|-----------------|-----------------|
| Employee benefit expense | (56,311) | (51,947) |
| Hired and contracted services | (3,366) | (6,990) |
| Materials, maintenance and sub-contractor costs | (11,738) | (11,950) |
| Rates and facilities | (695) | (1,186) |
| Other operating expenses | (13,686) | (14,265) |
| Sub-total before recharges | (85,796) | (86,338) |
| Recharges to non-controlled undertakings - Irish Water | 52,403 | 55,979 |
| Recharges to subsidiary undertakings - Gas Networks Ireland | 25,993 | 27,074 |
| Total after recharges¹ | (7,400) | (3,285) |

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

Notes to the Parent Financial Statements (continued)

30R Related Parties (continued)

Basis for the apportionment of Ervia Parent operating costs

- ▶ Operating costs incurred by the Ervia Parent in the provision of services to Irish Water and Gas Networks Ireland 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 number of invoices processed.
- ▶ The identified cost drivers for each individual cost-centre are reviewed annually to ensure that operating costs are recharged in line with the underlying levels of activity.
- ▶ Operating costs directly attributable to Irish Water and Gas Networks Ireland are either charged directly or are recharged in full.
- ▶ 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.

(c) Capital expenditure costs incurred by Ervia Parent and recharged to Irish Water and Gas Networks Ireland

Ervia Parent interacts with Irish Water and Gas Networks Ireland in respect of centrally delivered and business delivered projects including the payroll costs incurred by the Major Projects area. The directly attributable Irish Water and Gas Networks Ireland costs are re-charged on a monthly basis with no overhead or margin applied by Ervia Parent. Capital expenditure costs recharged in 2020 were as follows, Irish Water €21.7 million and Gas Networks Ireland €7.4 million (2019: Irish Water €21.7 million and Gas Networks Ireland €6.7 million). Balances in relation to these transactions are included in the table above.

(d) Pension costs

The Parent operates a defined benefit pension scheme. A number of Irish Water employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19. The Parent, as the sponsoring employer for the plan, recognises the net defined benefit cost, while Irish Water recognises only the cost of contributions payable for the year in respect of Irish Water employees. The Parent's current service costs for 2020 (as set out in note 20) includes €1.0 million (2019: €1.0 million) which represents contributions payable for the year in respect of Irish Water employees. These costs were recharged to Irish Water on a full cost recovery method with no margin earned. These costs are not included in the Parent's employee benefit expense.

eRvia