ervia

Annual Report and Financial Statements **2016**

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About Ervia

Ervia is a commercial semi-state company which provides strategic national gas and water infrastructure and services in Ireland. Our three operating companies supply vital services that underpin the growth of the Irish economy.

Through our regulated business, Gas Networks Ireland, we build and operate one of the most modern and safe gas networks in the world. In 2014, we took responsibility for the operation and maintenance of Ireland's water and wastewater assets through our other regulated business Irish Water. We also provide dark fibre broadband infrastructure through our business Aurora Telecom.

Ervia was established in 2014 having evolved from Bord Gáis Éireann, and our strong 40-year history gives us the skills and expertise to provide reliable water and gas services safely and efficiently.

We are guardians of the national gas, water and wastewater assets. Our infrastructure supports economic and social development, protects the environment and enhances the health and quality of life of the Irish people. Ervia is supporting Ireland to thrive, prosper and grow.

Financial Highlights

	Gas Networks Ireland*	Irish Water	Total Ervia
Revenue	€498m	€906m	€1,404m
Profit before Income Tax and Exceptional Items	€149m	€54m	€203m
Capital Expenditure	€125m	€459m	€584m
Employee Numbers	887	734	1,621

* Represents the Gas Networks Ireland and central services business divisions.

Reporting Approach

Irish Water is a subsidiary of Ervia under the Companies Act 2014. However, due to its share ownership structure (refer to note F7 on page 107), Irish Water does not currently meet the definition of a subsidiary for accounting purposes under IFRS and therefore cannot be consolidated with the audited Financial Statements as included on pages 65 to 139 of this Annual Report.

However, from a governance perspective, Irish Water matters are overseen and managed by the Ervia Board and the Executive Team. Ervia's summarised financial information (including Irish Water) is presented in the Financial Review on page 27. Irish Water's Financial Statements are published separately.

Our Vision and Purpose is Clear

We have a clear vision to build a trusted Irish company that is a recognised leader in providing infrastructure and services to customers, a good corporate citizen and an organisation where staff are proud to work.

Ervia is building the backbone of Ireland. This is at the core of what we do. We provide and service the strong foundations on which the Irish economy is built and ensure that our people and our nation can thrive and prosper, now and into the future.

Ervia directly employs 1,621 people who are committed experts in their fields. Each day our team live our five guiding values: collaboration, performance, customer service, safety and integrity. These values define the character of the organisation, they guide our actions and decisions, and provide a framework for how we interact and communicate with our customers and stakeholders.

Collaboration

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

Performance

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

Customer Service

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

Safety

We put safety at the heart of what we do.

Integrity

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

Performance Highlights

Zero
serious injuries/ fatalities

€125m
invested in improving and innovating the gas network

€1.375bn
Total Dividends paid by Ervia since establishment

Irish Water delivered **66** new or upgraded Wastewater Treatment Plants since January 2014

37 public water supplies removed from EPA Remedial Action List in 2016

46km gas main extension to Wexford Town completed

890km of water pipes were replaced or rehabilitated since January 2014

€459m
Capital Investments made by Irish Water

€452m
EBITDA

77.3m litres of drinking water per day saved through Water Conservation and First Fix Schemes

28 minutes
average response time to reported potential gas leaks

€1.404bn
Revenue

€1,945m
Net Debt

Transported
72,512 GWh
of gas

€625m
long dated bonds issued on Eurobond Market

Launched **Work Safe, Home Safe** and **Inspire Mentoring** *programmes*

Draft **Lead in Drinking Water Plan** completed

Construction began on **50km** twinning gas pipeline with Scotland

Programme for **migration of non-domestic billing** to Irish Water on track

608
capital projects underway in Irish Water

3,000 lead service connections replaced up to the end of 2016

Implemented new **Performance Management System**

Work commenced at the **first three Compressed Natural Gas filling stations**

Gas Networks Ireland credit rating upgraded to A3 by Moody's

Ervia Gas Networks Ireland Irish Water

Our Strategic Pillars

Ervia's Corporate Strategy is our long-term plan to support people's daily lives through the responsible delivery of essential gas, water and wastewater services.

Our vision is achieved and supported through our seven strategic pillars. We are focused on these crucial areas to sustain and grow the business and provide a first rate service for our customers, our people and our country.

By delivering on our vision we will create a more robust future for our gas network and develop a modern public water utility that ensures tangible benefits for all our stakeholders.

Each of the seven pillars is a statement of intent. Each one outlines medium-term initiatives and company-wide targets while key success measures allow us to monitor our performance on an ongoing basis.

These pillars form the strategic framework that helps us realise our vision. They are crucial to our success in sustaining and growing the business and delivering on behalf of our customers, stakeholders and the people of Ireland.

Focusing on Safety

Safety is at the heart of everything we do. As an infrastructure company, every single day we manage complex assets and risks, and deliver construction and maintenance projects of real size and scale. As a result, there is always the possibility of injury and harm to our employees, the contractors we work with, our customers and the general public. We invest heavily to make sure no harm comes to anyone. We are focused on ensuring that we protect people's safety, health and well-being.

Our strong safety performance in 2016 meant there were no serious injuries or fatalities involving employees, contractors or members of the public arising from Ervia's work.

Putting our Customers First

We put the communities we work for and operate in at the core of our business. Through Gas Networks Ireland and Irish Water, Ervia serves 1.7 million customers every day.

We supply safe energy to warm homes and power businesses throughout Ireland. We supply treated water for cooking, cleaning and drinking, and we remove wastewater to keep our environment safe for everyone.

Through our Customer First programme we are committed to putting our customers at the centre of everything we do. We do this by focusing on delivering a consistent service that meet and exceeds our customers' expectations and striving to answer queries and resolving issues the first time round. We also focus on proactive communications and the continuous improvement of our processes to address issues before they arise. Finally we ensure that our customers can interact with us using a channel of their choice.

Our People are Central to our Success

Our people are critical to our success as a high-performing organisation. Our vision is to develop and foster a diverse, committed and capable team and to build a flexible, high-performing organisation with a 'can-do' approach.

We have created a positive and inclusive work environment. This allows us to focus on developing processes and practices that ensure the well-being, development and engagement of our people. Our objective is to have the right people with the right skills in the right roles. We want our employees to be able to develop the skills, competencies, knowledge and attitudes they need to perform their best work in their current and future roles within Ervia.

Career development is encouraged within Ervia. Opportunities begin with our graduate and apprentice programmes and continue throughout our employees' careers with us. We provide all staff with the information and tools they need to take the lead in managing their own performance. This contributes to both their own success and that of Ervia.

Peer mentoring, high-performance coaching and our performance management system, built around *Behaviours for Success*, guide this process. Our talent management programme helps us to identify and build management and leadership capabilities in the organisation. The combination of these programmes allows us to create talent pools and develop the competencies required to be a first class multi-utility.

Investing in Ireland's Infrastructure

Ervia is responsible for providing the essential gas, water and wastewater infrastructures that underpin the growth of the Irish economy. We have 40 years' experience building and maintaining Ireland's critical infrastructure and completing national transformation projects.

In 2016, Ervia invested €584 million to address the most urgent health, safety, environmental and supply issues facing Ireland's water and wastewater networks and to develop the gas network to support social and economic development and to enhance the health and quality of life of the people of Ireland.

Earning Trust and Respect

Ervia strives to be open, accountable and transparent to the public in all its dealings. We treat our customers, our assets and the natural resources we rely on with respect. We work hard to build trust while recognising the need to respect confidentiality and commercial sensitivities where appropriate.

As a regulated utility provider, we are mindful of the important mandate we have been given: to deliver quality and reliable services that enable economic and social development.

Our organisation and its subsidiaries are committed to the highest levels of transparency and accountability. We have developed a Transparency Policy to enhance this commitment and in recognition of our duties as a responsible corporate citizen. By publishing information on our website and active public engagement. We hope to create a better understanding of how the organisation operates and of Ervia's role in providing important national infrastructure and services to support the social and economic development of Ireland.

Smart and Efficient

Our two customer-facing operating businesses, Gas Networks Ireland and Irish Water, are supported by three divisions within Ervia. These divisions provide expertise, support functions and transactional services on behalf of the entire organisation. Working together, and using our combined experience and expertise, allows us to adopt a lean approach so we can do things well and once.

The Major Projects division is a centre of excellence responsible for producing key strategic infrastructure projects while the Group Centre division provides governance, oversight and support functions. Our Shared Services division ensures efficiencies across the organisation's transactional services.

Together we are committed to working as one team. We continue to identify synergies that allow us to improve and streamline our processes and to achieve cost savings on behalf of our customers and stakeholders.

Building an Enduring Business Model

Ervia is a multi-utility company with a proven track record delivering a commercially successful and robust business model. We work in an ever-changing environment, across a number of industries, where climate, regulatory and industry drivers have a significant impact on our operations.

We monitor and adapt to meet changes as they arise and continue to identify opportunities to grow the company for the benefit of the people of Ireland. As an organisation with two regulated businesses we operate within a transparent and independent regulatory framework. This enables us to maintain a strong investment grade credit rating in GNI.

In 2016, Ervia demonstrated the benefits of our multi-utility model in Nenagh Co. Tipperary and Wexford Town when we commenced gas, water and wastewater works in each town at the same time to reduce construction costs and reduce disruption to local businesses and residents thereby delivering more efficient projects overall.

In addition to the construction and rehabilitation projects undertaken throughout the year, Ervia met all operational and financial targets. The organisation also paid a dividend of €135 million to the Exchequer, ensuring shareholder value.

Delivering on Our Strategy

Our Strategic Priority	What it Means	2016 Performance
Safety	We prioritise the safety of our people, partners, customers and the public by ensuring our assets and activities do not cause harm to anyone.	Serious Injury/Fatalities
		Reportable LTIFR (>3 day) #/100 days
		Launched *Work Safe, Home Safe* programme
Customers and Communities	We put customers first and engage respectfully with communities that we work and operate in.	Customer Satisfaction
		First Contact Resolution
		Launched *Customer First* programme
People and Leadership	We have one team of capable, and committed people, supported by strong leadership.	Performance Management assessment completion %
		Training days per person
		Launched new Performance Management System and *Inspire Mentoring* programme
Infrastructure	We deliver quality, sustainable and reliable water, gas and telecoms infrastructure and manage our assets to best practice to support and develop our economy.	Capital Programme
		Number long-term Boil Water Notices remaining
		Response to PRE within one hour
Trust and Respect	We continue to work hard to earn the trust and respect of all our stakeholders.	Supporting the Government review through the work of the Joint Oireachtas Committee on the future funding of domestic water charges for IW
		Developed a Transparency Policy to enhance our accountability and in recognition of our duties as a responsible corporate citizen
Successful, Enduring Business Model	We are commercially successful, with a strong track record and a robust and enduring business model, with a high level of commercial competence.	EBITDA:
		Gas Networks Ireland IG Rating:
		S&P
		Moody's
Smart and Efficient	We operate as a fully integrated, smart and efficient organisation.	Annual efficiency/cost reduction target delivered

Gas Networks Ireland 2016	Irish Water 2016	2017 Actions and Initiatives
Zero	Zero	▸ Continue to expand and deliver the *Work Safe, Home Safe* programme; ▸ Deliver and roll out all safety programmes across partner and business organisations; ▸ Roll out health and well-being programmes to all staff.
0.11	0.18	
Across Ervia		
88%	66%	▸ Roll out the *Customer First* programme to include service culture, digital strategy and customer/shipper forums; ▸ Hold regular community and regional roadshows; ▸ Continue regular customer surveys, and evaluate and action feedback.
91%	85%	
Across Ervia		
99%	99%	▸ Deliver One Team project initiatives; ▸ Expand training, mentoring and rotation programmes at all levels across the organisation including the Leadership Development Framework.
3.2	5	
Across Ervia		
€125m	€459m	▸ Deliver the scheduled capital investment programmes for gas, water and telecoms on time and on budget; ▸ Deliver focused BWN, RAL and Lead programmes; ▸ Deliver the Water Industry Operating Framewok (WIOF) project; ▸ Deliver CNG/Bio Gas infrastructure.
n/a	5,511	
99.89%	n/a	
Across Ervia		▸ Hold key stakeholder forums to develop informed engagement and understanding; ▸ Expand our Corporate Responsibility programmes.
Across Ervia		
€323m	€129m	▸ Negotiate regulatory contracts which meet the financial needs of the business; ▸ Develop a secure funding strategy; ▸ Develop a programme to identify and deliver cost reduction and efficiency targets.
A	n/a	
A3	n/a	
€5.2m	€35.6m	▸ Identify and deliver the Evolve Project benefits; ▸ Deliver an active staff rotation policy; ▸ Develop a strategy to maximise the use of Shared Services for operational effectiveness.

Ervia's Business Model

Ervia's Strategic Pillars

Safety	Customer & Communities	People & Leadership	Trust & Respect	Infrastructure	Successful Enduring Business Model	Smart & Efficient

Our Values

Collaboration	Integrity	Safety	Customer	Performance

Ervia Activities

Irish Water is responsible for the operation of all public water and wastewater services including:

- Management of national water and wastewater assets;
- Maintenance of the water and wastewater systems;
- Investment and Planning;
- Managing Capital Projects;
- Customer Care and Billing.

Irish Water is also responsible for all capital investment decisions and the implementation of the capital programme across the country.

Gas Networks Ireland's core purpose is to ensure that over 673,000 homes and businesses receive a safe, efficient and secure supply of natural gas, 24 hours a day, 365 days a year.

Gas Networks Ireland own, operate, build and maintain the natural gas network in Ireland and connect all customers to the network.

Aurora Telecom is Ireland's leading backhaul dark fibre service provider. We own and operate a carrier neutral, open access dark fibre network with an ultra-high fibre count.

Ervia and the Economy

1,671,000 Customers

€4,744m Total Assets

1,155 Wastewater Treatment Plants

900 Water Treatment Plants

25,000km Wastewater Network

63,000km Water Network

13,954km Gas Network

641km Aurora Network

1,621 Ervia Employees

Gas Networks Ireland Credit Rating
S&P: **A**
Moody's: **A3**

€1,945m Net Debt

€452m EBITDA

Ervia Deliverables

- Customer Satisfaction
- Customer Charters and Service Levels
- Quality Capital Delivery Plans and Programmes
- Efficient Operations
- Environmental Monitoring
- Safety
- Smart and Efficient Ways of Working
- Leadership and Talent Development Programmes
- Training Programmes
- Effective EU Tendering
- Value for Money
- Business Plans

Our External Environment

find out more: **Surveying our external Environment** – *page 18*

Ireland's Climate Change Targets	Protecting Ireland's Natural Environment	Regulation of Water and Gas Sectors	Cyber Security

Chairman's Statement

Since joining the Ervia Board in July 2016, I am struck by the scale and complexity of the challenge the organisation faces, the significant progress the company has made to date and the fluidity of the external environment in which it operates.

We are now three years into Ervia's journey to support people's daily lives through the responsible delivery of gas, water and wastewater services, through our operating businesses Gas Networks Ireland and Irish Water. Our vision is to build a trusted Irish company that is recognised as a leader in delivering infrastructure and services to customers, where staff are proud to work and that is regarded as a good corporate citizen. In 2016 we continued to build on our strong foundations and make advances on this journey delivering on behalf of the people of Ireland.

Chairman **Tony Keohane** was appointed to the Board of Ervia by the Minister for Housing, Planning, Community and Local Government on July 5th 2016 and formally confirmed as Chairman in September 2016.

Chairman's Statement (continued)

"Ervia invested €584 million in 2016 to address the most urgent health, safety, environmental and supply issues facing Ireland's water and wastewater networks and to develop and maintain Ireland's national gas network."

Find out more about **Governance** *on page 49*

Board and Governance

As Chairman I would like to welcome my fellow Board Members who joined Ervia in 2016; Chris Banks, Fred Barry and Keith Harris; who bring a wealth of experience to the organisation. I would also like to thank the existing Board Members for their support during our induction to the organisation. I look forward to continuing to work with them to support and provide effective governance for the organisation in 2017.

The Ervia Board is committed to achieving the highest standards of corporate governance and ethical business conduct and continuously reviews and updates its policies and procedures in line with best practice.

A Challenge of Scale and Complexity

Ireland's water and wastewater networks continue to require significant capital investment in the short-, medium- and long-term and can benefit from a standardised best practice utility approach. Ervia has inherited a vast network of fragmented and disjointed assets in varying states of repair with some dating from the 19th century. Fixing Ireland's water and wastewater networks will require an estimated medium-term investment of some €13 billion on a structured and phased basis.

Ervia's more mature national gas utility, Gas Networks Ireland, must secure its long-term role in Ireland's decarbonised future through a continued growth agenda, development of a market for natural gas as a transport fuel and the introduction of carbon-neutral renewable gas into the national network.

Another Year of Progress

Ervia invested €584 million in 2016 to address the most urgent health, safety, environmental and supply issues facing Ireland's water and wastewater networks and to develop and maintain Ireland's national gas network. Ervia commissioned a new Wastewater Treatment Plant in Shanbally Co. Cork in 2016, effectively halving the volume of untreated sewage pumped into Cork Lower Harbour daily.

Irish Water reduced the risk of drinking water contamination at 37 Water Treatment Plants thereby removing them from the Environmental Protection Agency's Remedial Action List in 2016. Irish Water also made strong progress on the issue of lead in drinking water, completing the final public consultation for the Draft Lead in Drinking Water Plan and commencing orthophosphate treatment in Limerick for the protection of public health.

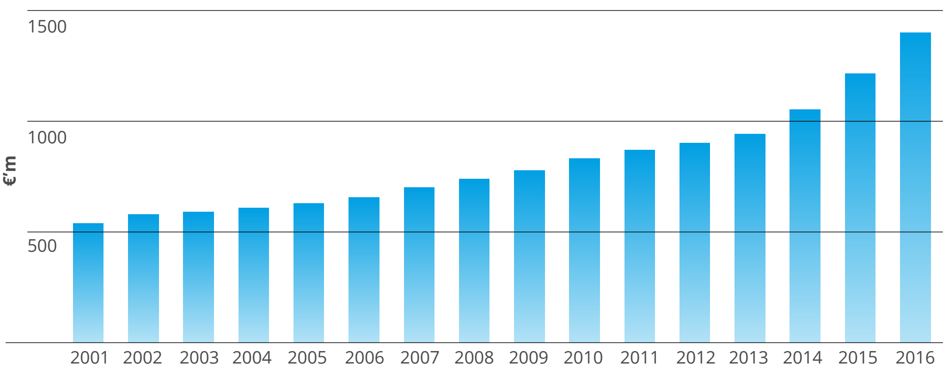
Gas Networks Ireland connected Nenagh, Co. Tipperary and Wexford Town to the natural gas network and secured a credit rating upgrade to A3 from Moody's. Gas Networks Ireland also commenced work on the first of three compressed natural gas filling stations in Ireland and the 50km Twinning Pipeline Project with Scotland to improve the security of Ireland's natural supply.

Financial Performance

Ervia delivered a solid financial performance in 2016, with an increased revenue performance of €62 million to €1.4 billion. EBITDA performance also improved with an increase of €73 million year on year to €452 million and our cash generation from operating activities was €514 million as of December 31st 2016.

In 2016 Ervia continued to be a strong contributor to the Irish economy through payroll, dividends, indirect taxes and

Cummulative Dividend Paid by Ervia to date



purchases from Irish suppliers. Ervia paid a dividend of €135 million to the Exchequer, funded by Gas Networks Ireland, bringing the total shareholder returns since the foundation of Bord Gáis Éireann to a significant €1.375 billion.

Outlook

The 2016 programme for Government included a clear commitment to the model of a single national utility for the provision of water and wastewater services for Ireland. Provisions were also included for: the establishment of an external advisory body to review and build public confidence in Irish Water; an Expert Commission to review and make recommendations on the future long-term funding for the provision of domestic water services and the establishment of a Joint Oireachtas Committee to review this expert report and make recommendations to the Dáil. This programme of work resulted in the suspension of domestic water bills for a period of nine months pending the review. Throughout this process Ervia and Irish Water have engaged fully with both the Expert Commission and the Joint Oireachtas Committee and the organisation remains committed to implementing any and all arising policy changes.

The solid financial and operating performance of the business in 2016 places Ervia in a good position to continue to deliver on our strategic objectives in 2017. We will harness the progress made in 2016 and continue to deliver the transformation programmes set out across the organisation.

Irish Water will continue to deliver significant capital investment programmes to transform the water industry and provide reliable, high quality water and wastewater infrastructure and services. The business will also work with our Local Authority partners to advance the Water Industry Operating Framework delivering further synergies and efficiencies on behalf of Ireland.

In 2017 Gas Networks Ireland will complete the Price Control 4 process with the CER to ensure that the business can operate and maintain the networks to meet the needs of gas customers at an efficient cost to 2022. Gas Networks Ireland and Ervia will also continue to advocate for the use of renewable gas and grow the market for natural gas as transport fuel in Ireland.

We will do all of this safely and to the highest possible standards, as we continue to build trust and consumer confidence, and deliver modern utility services that support the social and economic development of Ireland.

Acknowledgements

On behalf of myself and the Board, I would like to thank the Minister for Housing, Planning, Community and Local Government, Simon Coveney, and Minister for Communications, Climate Action and Environment, Denis Naughton, for their support in 2016. We are indebted to their departments and officials, at all levels, for their active engagement and support of Ervia throughout the year.

Special thanks are due to Michael McNicholas who in 2016 signalled his intention to stand down as Group Chief Executive Officer in 2017. We very much regret losing someone of his calibre from our organisation. Michael played a key role in the establishment of Ervia and has led the company through its complex and demanding evolution from its origins as Bord Gáis Éireann and for this we are most especially grateful. We wish him well in his future endeavours.

Finally I would like to express my appreciation and extend my thanks to the Executive Team and all the staff of Ervia for their support and unwavering commitment in 2016. It is because of them that the company continues to perform financially and to make such significant progress improving Ireland's infrastructure.

Tony Keohane,
Chairman

"The solid financial and operating performance of the business in 2016 places Ervia in a good position to continue to deliver on our strategic objectives in 2017."

Group Chief Executive Officer's Review

Only three years in existence, Ervia has made significant progress in establishing a new state-owned multi-utility with the technical, engineering, commercial and financial capability to deliver essential services to our customers. Since 2014 over 1,000 people have joined the company, and today between Ervia staff and our service partners there are over 7,000 people directly involved in delivering our services to our customers.

Michael McNicholas
Group Chief Executive Officer

In 2016 Gas Networks Ireland (formerly Bord Gáis Networks), celebrated 40 years in existence. It was established in 1976 to ensure Ireland maximised the economic advantage from the natural gas reserves discovered off Kinsale, Co. Cork, and to rehabilitate the city/towns gas network that had fallen into disrepair in all major urban centres across the country. Today we have a modern gas transmission and distribution network throughout Ireland, operating to highest international standards and with significant interconnection to UK and European gas markets.

By contrast our water and wastewater infrastructure has suffered from decades of underinvestment and the extent of the issues with drinking water quality and the disposal of raw sewage into our rivers and beaches has been the subject of much public debate in recent times. Our mandate since 2013 has been to leverage the experience and capability of our gas utility to establish a new public water utility and to ensure it grows its capability to address the serious challenges with our water and wastewater services.

In 2016 we met the needs of over 1.7 million customers, responded to over 140,000 service requests and delivered a capital investment programme of €584m. I am pleased to report that there were no serious injuries or fatalities across all of Ervia's operations in 2016. With many of our people and partners in construction, operations, maintenance and other high risk activities this is a satisfactory outcome.

As a new organisation we are aware of the need to have a strong focus on building the culture and behaviours in our company that exemplify a high-performing public utility. To that end we launched a number of initiatives in 2016 designed to support this culture. Our *Work Safe, Home Safe* programme focuses on the behavioural aspects of safety which are key to achieving our goal of zero injuries. *Customer First* leverages the strong commitment to service in our organisation and looks to implement practical changes that continue to improve the delivery of service to our customers, our communities and the general public. Finally, our leadership development and *Inspire Mentoring* programmes have been designed to build a strong network of leaders across the company.

Financial Performance and Funding
Ervia has delivered a solid financial performance for 2016, matched by robust operational results. Revenue was €1,404 million for the year to December 31st 2016, increasing by €62 million compared to prior year, and reflects the stable performance of Gas Networks Ireland and the continuing development of Irish Water.

The impact on revenue of the suspension of domestic water billing during 2016 was offset by increased Government subvention income.

Profit before tax increased by €51 million to €203 million for 2016 due to increased EBITDA performance of €73 million, partly offset by higher depreciation charges of €20 million arising from the increased investment in infrastructure. Any surplus arising in Irish Water will be reinvested in water and wastewater infrastructure.

During 2016 Gas Networks Ireland secured a credit rating upgrade, to an A3 rating by Moody's and raised €625 million in long term funding at competitive interest rates. This indicates the strong investor sentiment towards the regulated gas utility.

Irish Water has negotiated short term commercial bank facilities totalling €1,260m, of which €975m had been drawn at the end of 2016.

During 2016, Ervia invested a total of €584 million in critical water, wastewater and gas infrastructure in Ireland.

"During 2016 Gas Networks Ireland secured an investment grade credit rating upgrade, to an A3 rating by Moody's and raised €625 million in long term funding at competitive interest rates."

Group Chief Executive Officer's Review (continued)

"Irish Water also delivered 66 new or upgraded Wastewater Treatment Plants, improving the capacity and quality of treatment of wastewater across the country."

Find out more about **Irish Water** *on page 33*

Transforming Water Services
Irish Water is still in its early years of formation as a public utility. In 2016 the business continued to build out its core engineering capability and deepen its knowledge of the condition of Ireland's water and wastewater infrastructure. In parallel it delivered a significant work programme and made good progress addressing some of the worst problems with our water services.

In 2016 the company invested €459 million in capital projects focused on improving drinking water quality, reducing leakage, and improving the treatment of wastewater. The majority of remaining long-term Boil Water Notices which affected over 16,000 people, many having to boil water for over seven years, were lifted in 2016. While this is welcome news, the other reality is that almost 98,000 people had a Boil Water Notice imposed and, due to Irish Water's efforts, subsequently lifted during the year. This demonstrates the precarious nature of many of the public water supplies in the country.

A total of 37 Water Treatment Plants were removed from the Environmental Protections Agency's Remedial Action List in 2016. This made drinking water safe for more than 200,000 customers by eliminating the risk of contamination. Irish Water has also delivered 66 new or upgraded Wastewater Treatment Plants since 2014, improving the capacity and quality treatment of wastewater across the country. Of particular note was the completion of the Shanbally Wastewater Treatment Plant in Cork Lower Harbour, this has reduced by 50% the volume of untreated raw sewage being discharged into Cork Lower Harbour. Additionally over 77.3 million litres of water have been saved by the First Fix programme and over 890km of new water mains have been laid since January 2014, eliminating significant leakage and improving the reliability and supply pressure for customers.

Irish Water continued to develop long-term, national strategies for key issues impacting on Ireland's water sector.

Examples include the final public consultation on the Draft Lead in Drinking Water Plan which was issued in 2016, seeking to address an issue that has been ignored for decades. The business also initiated the first orthophosphate dosing pilot in Limerick applying a solution, used in Northern Ireland and Britain for many years, that builds up a protective coating over lead pipes and fittings and eliminating the risk of lead dissolving into drinking water. In addition, Irish Water developed an investment strategy to address the issue of trihalomethanes in drinking water, and published a long-term National Wastewater Sludge Management Plan that outlines a standardised national approach for managing wastewater sludge over the next 25 years.

Solid progress was made in 2016 to further develop a single national utility with the capability to fix our water services and important progress was made in improving public health and environmental standards. However, the scale of the challenge facing the utility is enormous and cannot be underestimated. It will take sustained capital investment over many investment cycles and the consistent application of maintenance standards, significant operational changes and cost savings to deliver efficient, fit-for-purpose water infrastructure and services to meet Ireland's needs.

The Role of Gas in Ireland's Energy Mix

Gas Networks Ireland also delivered its operation and maintenance activities to time, quality and budget in 2016. Capital expenditure for the year totalled €125 million and included the completion of the gas network in Nenagh, Co. Tipperary and a 46km gas pipeline to Wexford Town. The business also commenced construction of a 50km pipeline in Scotland, which will enhance Ireland's gas security of supply. Network integrity and safety were maintained to high levels during the year and again the response time to all reported gas escapes continued to meet or beat international standards.

Gas Networks Ireland's strong customer service ethic is reflected in a range of metrics such as service levels, response to complaints and 'ease to do business with', all of which met or exceeded targets during the year. The business was nominated for three separate customer service awards in 2016 and won the Irish Marketing Society's Gold Award for its *Customer Insights and Experience* programme.

The Networks business is a stable, mature regulated utility and this is reflected in its overall performance again in 2016. The key challenge facing the business is strategic and, as Ireland seeks to move to a low carbon economy, Gas Networks Ireland must reposition itself to reflect this challenge. Today, 60 percent of Ireland's final energy use is from imported coal and oil, gas has a key role to play as a transition fuel to a low carbon economy. Longer term our strategic goal is to transform Gas Networks Ireland to a low carbon company.

In the medium term our strategy is to grow the volumes of gas that we transport through our network by displacing less efficient higher carbon sources of energy. This supports Ireland's transition to a low carbon economy, and drives the utilisation of our networks, thus helping to keep our network use charges as low as possible for customers. In 2016 Gas Networks Ireland delivered on its growth targets across the domestic, commercial and industrial sectors of the economy. Furthermore, significant progress was made in developing the first three Compressed Natural Gas (CNG) filling stations in Ireland. The CNG project will provide a more competitive lower carbon source of transport fuel for heavy goods vehicles. Gas Networks Ireland was successful in winning a €5.96 million grant from the EU's Connecting Europe Facility to support the delivery of a network of CNG filling stations, which provides an important boost in funding for the project.

Delivering Multi-Utility Synergies

In Ervia we believe that there are real synergies to be delivered from having two strategic national infrastructures, gas and water/wastewater networks, under the one company. These synergies will be captured as the organisation evolves and will derive from procurement, supply chain efficiencies and front-line customer services. The net result will be improved service and lower cost for customers, consumers and the general public.

A tangible example of this potential are the Gas Networks Ireland initiated projects to bring gas to Nenagh and Wexford towns. When these projects were approved we examined the potential to deliver major water and wastewater upgrades at the same time. Working together, Irish Water and Gas Networks Ireland adopted a multi-utility approach supplying gas to the towns while rehabilitating both the sewers and the water mains in Nenagh and the water mains in Wexford Town. This approach delivered efficiencies and cost savings but most significantly it minimised the disruption and inconvenience experienced by the local businesses and communities in both towns, by opening streets once and installing two/three separate services at the same time.

Find out more about **Gas Networks Ireland** *on page 39*

"In Ervia we believe that there are real synergies to be delivered from having two strategic national infrastructures, gas and water/wastewater networks, under the one company."

Group Chief Executive Officer's Review (continued)

"We are mindful of our responsibility for two critical national infrastructure companies and we are committed to building organisational capability, delivering transformational projects and providing long-term value for Ireland."

Realising our Vision

Our vision is to be Ireland's trusted leader in service and infrastructure delivery, and while we are well advanced in this vision for Gas Networks Ireland we know it will take time to achieve this for Irish Water and Ervia as a whole. Our strategy to make this vision a reality sees us focusing on seven strategic pillars: Safety, Serving Customers and Communities, Our People and Leadership, Delivering Quality Infrastructure, Earning Trust and Respect, Building an Enduring Business and Being Smart and Efficient. Underpinning this is clarity on our purpose and living our values to build a culture that exemplifies who we are and what we stand for. Details on our strategic pillars and performance against our strategy for 2016 can be found in the *Business Overview* section of this report.

Outlook

While the political and public debate on the funding of domestic water services continues into 2017 we are clear this is a matter of policy to be determined by government. We remain focused on Ervia's mandate to leverage the knowledge and capability from our gas network business to build a national public water utility and use that combined capability to address the significant challenges faced by Ireland's public water and wastewater infrastructure and services. In parallel we continue to ensure reliable, secure and efficient national gas network services.

We are mindful of our responsibility for two critical national infrastructure companies and we are committed to building organisational capability, delivering transformational projects and providing long-term value for Ireland.

For Irish Water this will involve continuing to deliver the capital investment programme while in parallel transforming how we deliver water services, including further cost reductions and implementing new organisation models for asset operations and maintenance. It will also involve increased delivery of new connections to support economic growth and meeting the needs of priority housing developments and strategic development zones, while implementing national strategies to address public health, safety and environmental compliance risks.

In Gas Networks Ireland, the focus will continue to be on ensuring safe and reliable gas transportation services and the delivery of all capital, operations and maintenance work programmes. The business will maintain a strong focus on its growth strategy, seeking to increase the use of natural gas where it offers a more sustainable and competitive energy solution to customers. In 2017 Gas Networks Ireland will work with the CER to deliver its fourth Price Control. This will set the revenue, operating expenditure, capital investment and efficiency targets for the business for the period 2018 to 2022. Ervia and Gas Networks Ireland will continue to advocate for the use of renewable gas in Ireland's energy mix and grow the adoption rates for Compressed Natural Gas as a transport fuel of choice in Ireland.

Acknowledgements

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

I would also like to acknowledge the support of the Chairman and Board of Ervia and in particular I wish Tony Keohane well in his role as Chairman. Finally, as I step down from the role of CEO, I would like to record my particular thanks to the Executive Management Team, and all the management and staff across Ervia for their continued hard work and dedication in 2016 and for their generous support of me during my time as CEO with the company.

Michael McNicholas,
Group Chief Executive Officer

Risk Management and External Environment

Contractors at work at the Corrib Gas Terminal in Bellanaboy, Co. Mayo.

We have a clear vision to build a trusted Irish company that is a recognised leader in providing infrastructure and services to customers, a good corporate citizen and an organisation where staff are proud to work.

Surveying Our External Environment

As a commercial semi-state and parent company of Gas Networks Ireland and Irish Water, Ervia operates in an ever-changing environment where climate, regulatory, security and industry drivers have a significant impact on our business operations. Our agility in reviewing, identifying and responding to the challenges and opportunities of this environment remains vital to the success of our two critical national utilities.

Contributing to Ireland's Climate Change Targets
Decarbonisation of the energy market is one of the biggest challenges facing Ireland and Europe. The United Nations Framework Convention on Climate Change requires that 16 percent of Ireland's total energy consumption must come from renewable energy by 2020. Ireland, as a member of the European Union, is setting targets to reduce our greenhouse gas emissions by at least 30 percent by 2030, compared with 1990 levels.

The longer term target is to achieve reductions of 80-95 percent in greenhouse gas emissions by 2050 in line with the European Union ambition to transition to a low carbon economy by that date. Ireland faces considerable challenges in meeting these targets.

Natural gas as a fossil fuel – although the cleanest one – may be impacted by these national targets. Ervia believes that natural gas will continue to be the long-term fuel of choice for dispatchable power generation in the absence of credible lower carbon alternatives to meet seasonal demand and maintain grid stability. We also believe that natural gas will continue to be used for industry and heating in the medium to long-term.

Ervia is, however, committed to ensuring that gas and the gas network plays a leading role in the long-term decarbonisation of Ireland. To this end we are actively developing or investigating:

- the use of CNG for large vehicles;
- the injection of renewable gas into the gas network, Carbon Capture and Storage (CCS) for electricity and industry; and
- the use of carbon-free hydrogen in the gas network.

One of the Government's targets is to achieve a 20 percent increase in energy efficiency by 2020. The target increases to 33 percent for all public sector bodies, including Irish Water. This is a challenge that Irish Water is striving to achieve across its portfolio of circa 2,000 facilities. Irish Water is in an energy partnership with the Sustainable Energy Authority of Ireland (SEAI) to avail of their support and expertise in meeting this target.

Protecting Irelands Natural Environment
Ervia is committed to developing adequate infrastructure, both in the medium- and long-term, to ensure that we protect Ireland's natural environment for our citizens.

Our challenges include increasingly stringent regulations on water quality and the environment. At the same time, we are facing increased water consumption, waste production and energy use from a growing population and a recovering economy. In addition, there is an expectation that climate change will lead to more unpredictable weather patterns in the future in terms of temperature, rainfall and flooding.

For Irish Water, the protection of the natural environment is fundamental to the business. We treat and deliver drinking water and return treated wastewater to our rivers and seas. We take a national and long-term approach to the planning and development of our water and wastewater services and the potential impact on our natural environment.

We assess the increasing demand on our infrastructure as a result of a growing population and industry requirements, and work to optimise our investments and deliver our services in a sustainable manner.

For Gas Networks Ireland, we will innovate to begin the decarbonisation of the gas network. We will introduce renewable gas that can then be used in the decarbonisation of the electricity, heat and transport sectors and develop CNG for transport. We are also investigating longer term decarbonisation opportunities with CCS and hydrogen. Climate change also presents opportunities for innovation: synergies are emerging for Irish Water and Gas Networks Ireland, such as using wastewater sludge as a renewable energy source.

Regulation of the Water and Gas Sectors
Irish Water and Gas Networks Ireland are regulated businesses and both are subject to economic regulation by the Commission for Energy Regulation (CER).

As the water, wastewater and gas networks businesses are natural monopolies, the CER determines the revenue allowed to each business. This ensures that the businesses operate and maintain the networks to meet the needs of water and gas customers at a reasonable and efficient cost.

The revenue allowance is determined for a set period, described further below. To determine these allowed revenues, the CER carries out a detailed review of all operating and investment costs forecast for the period to make sure they are efficient and that the proposed network development is both necessary and appropriate.

Our funding is determined and approved by the CER and is set out in a Price Control (PC) process. There are three key stages in the process: preparation, consultation and determination.

The three Key Stages of a Price Control

- **Preparation** – Irish Water and Gas Networks Ireland prepare documents setting out historic performance of the last price control period for each business and the planned performance for the period ahead;
- **Consultation** – The businesses engage closely with the CER which reviews the submissions to understand the detail and merits of the proposals, and then issues its draft determination to the general public for consultation;
- **Determination** – The CER reviews responses to the consultation and, after any further engagements needed with the businesses, sets the allowed revenues to be recovered for the upcoming period.

While the core stages are common for both businesses the timeframes differ:

- Given the recent establishment of the utility, Irish Water currently works within a two year regulatory cycle, known as an Interim Revenue Control (IRC) period. The IRC2 is the second of these interim periods beginning in the financial year, from January 1st 2017, it will run until December 31st 2018. The IRC2 business plans are designed to produce the investment and efficiencies set out by Irish Water.
- As a more established utility, Gas Networks Ireland operates within a typical five year regulatory planning cycle, or PC period. The current period is PC3, which began in October 2012 and will end in September 2017. Gas Networks Ireland is currently in the consultation stage with the CER for its fourth price control, PC4. The CER is expected to publish a draft price control determination in May 2017 and the final determination by August 2017. PC4 will run from October 2017 to September 2022.

Cyber Security

Gas Networks Ireland and Irish Water assets are of strategic national importance and any incident that might interrupt their operation could have a significant impact on our customers, public and employees.

Ervia constantly monitors the external environment and the security protection around our networks and IT assets. This allows us to respond to any potential risks or emerging threats that may arise.

In recent years cyber threats have become more sophisticated with some high-profile data breaches reported in the media. Our shareholders and customers have an increased expectation that Ervia will do whatever is necessary to protect both our infrastructure and all data held. We are committed to meeting that expectation.

Both utilities operate within the following strict policy and regulatory frameworks:

- The EU sets gas, water, wastewater and environmental standards across member states;
- The Government sets overall gas, water and wastewater policy frameworks in compliance with EU legislation and policy;
- The CER is charged with protecting the interests of the customer, while approving appropriate funding to enable Irish Water and Gas Networks Ireland to provide the required services to specified standards in an efficient manner;
- The CER also regulates gas safety;
- The Health and Safety Authority (HSA) regulates both Irish Water and Gas Networks Ireland in relation to occupational health and safety;
- The Environmental Protection Agency (EPA) sets standards and enforces compliance with EU and National Regulations for drinking water supply and wastewater discharge to water bodies;
- The EPA is also the environmental regulator controlling water abstraction, river pollution and flooding, and regulating Ireland's greenhouse gas emissions, as well as monitoring and reporting on the environment.

Risk Management

Adding Value through Better Decision Making

Ervia defines risk as the potential for loss or harm, or the diminished opportunity for gain, that can adversely affect the achievement of our objectives. By better understanding our risks we are able to make informed and better decisions, and ultimately create added value for our stakeholders.

Enterprise Risk Management
Ervia recognises that risk is an inherent part of the organisation's activities, as is our commitment to managing it. Our Enterprise Risk Management (ERM) Policy is a key safeguard and integral part of Ervia's operations. This policy is reviewed annually to verify that it follows best practice and meets the requirements of the Code of Practice for the Governance of State Bodies and other regulations. It is supported by the Risk Management Framework which ensures that all employees and contractors across Ervia adopt a consistent approach to risk management and mitigation. The ERM process covers all types of risks including operational, financial, legal and regulatory, and is linked to our Corporate Strategy.

Our businesses conduct quarterly reviews of the internal and external environment to assess new and emerging risks, high impact but low probability risks and any changes to known risks, that could impact the delivery of strategic objectives.

The resilience of our services is vital and we regularly conduct exercises alongside other agencies (e.g. other utilities, Local Authorities, Emergency Response Services) to test this resilience.

Risk Function Key Focus Areas in 2016

- Reviewed our ERM policy, framework and processes to ensure responsiveness to changes in our operating environment and consistency across Ervia;
- Risk assessment methodology refreshed and rolled out. Risk impact and likelihood criteria, as well as risk categorisations, more closely aligned to our operational footprint;
- Business Resilience Framework and structures were updated and supported by training and testing;
- Risk Workshops held to further embed a risk aware culture and enable proactive risk management.

Utilising the Three Lines of Defence for Assurance

In Ervia, we operate three lines of defence for risk assurance which allow us to coordinate our duties, roles and responsibilities in order to manage the full range of risks to which we are exposed.

First Line of Defence	Second Line of Defence	Third Line of Defence
Risk Owners	*Oversight, Challenge, Support*	*Independent Assurance*
Responsible for ownership and day-to-day management of risks aligned to business objectives.	Challenge and support to Risk Owners. The dedicated risk team is responsible for reporting to the Board Risk Committee.	Independent assurance to the Board ensures that all risks are managed in line with policies and procedures and that stated controls exist and operate effectively.

Risk Management in Practice – Gas Networks Ireland

Safeguarding Security of Supply Risks

In order to safeguard and improve the security of gas supply, Gas Networks Ireland will invest circa €98 million in a Twinning Project, between Cluden and Brighouse Bay in Scotland, to build a second 50km pipeline where there is currently only a single pipe. Upon completion there will be two complete, independent gas pipelines between the UK and Irish national networks. This will enhance security of supply to Ireland, Northern Ireland and the Isle of Man. It will also resolve future network capacity constraints at the Moffat Entry Point, which will facilitate growth in peak gas demand. This will enable Ervia to extend the supply of natural gas to more homes and businesses across Ireland. An additional benefit of the project is the improvement in efficiency of the UK operation, reducing CO2 and other emissions from the compressor stations in the region.

Risk Management in Practice – Irish Water

Wastewater Disposal

Cork Lower Harbour is the second largest natural harbour in the world. Wastewater from homes and businesses in Cobh, Carrigaline, Passage West, Monkstown and Ringaskiddy (equivalent to circa 49,000 people) has been discharged untreated into the harbour for decades. The daily discharge amounts to 20 tonnes of raw sewage. As part of the Cork Lower Harbour Main Drainage Project, Irish Water has built a new wastewater treatment plant, is repairing existing sewers and installing 30km of new sewer mains, 14 new pumping stations and 1.3km of river crossing. These measures have already reduced by 50 percent the volume of untreated wastewater discharged, thereby enhancing the water quality in Cork Harbour, protecting the environment, facilitating economic development and providing for a growing population.

Principal Risks and Uncertainties

In determining our principal risks and uncertainties, our key considerations include the external environment, our internal and external stakeholder management, delivery of our strategy and our risk management approach.

Category	Risk Description	Key Mitigating Actions/Controls
Health & Safety	A major health and safety incident could cause significant impact and harm to an employee, contractor or the general public and could also result in prosecutions, financial loss and reputational damage. An environmental issue for Gas Networks Ireland or Irish Water could result in a security of supply issue or a critical asset/ operational failure.	▸ Construction regulations and client competency assessment of all construction contractors, prior to appointment, with system process control for appointment of contractors and monthly construction inspections undertaken; ▸ Ervia Central Safety Committee meet quarterly on safety management and report to the Ervia Board; ▸ Asset inspections carried out and tracker maintained on health and safety issues against targets; ▸ Water Industry Health and Safety Committee comprises senior representatives from Irish Water and Local Authorities. ▸ Introduced *Work Safe, Home Safe* programme
Operations & Asset Management	Non-compliance with drinking water or wastewater regulations could be a risk to public health, the environment and to customer satisfaction.	▸ Drinking water compliance performance, priority issues and action plan agreed with EPA; ▸ Monitoring Drinking Water Restrictions, a site specific plan to be prepared on occurrence and the EPA and HSE kept informed; ▸ Water Quality Monitoring Plan: Irish Water carries out sampling and analysis in accordance with regulations; ▸ Advance Lead in Drinking Water Mitigation Plan; ▸ Delivering Capital Investment Programme to address major deficits in terms of drinking water and wastewater quality and capacity.
	Transformation of the water industry is critical to deliver efficient services, harness technological solutions and achieve required savings and efficiencies.	▸ Continuing key stakeholder management and regular stakeholder briefings; ▸ Use of dedicated resources and water utility subject matter experts; ▸ Detailed programme management including undertaking impact assessments and implementation planning.
	Managing our critical IT infrastructure is a priority, as is resilience to a cyber-attack or a data breach. A failure, breach or data leak could result in reputational and financial damage.	▸ IT and Cyber Security Strategy; ▸ Detailed security protocols in place to protect against all cyber-attacks; ▸ Ongoing risk assessments for all vendors and independent assurance reviews.
Infrastructure Delivery	Ervia is focused on delivering the Irish Water Business Plan. Failure to deliver this plan would have significant impacts across the organisation.	▸ Key governance forums and processes in place; ▸ Integrated Delivery Plan developed for 2017-2021.

Category	Risk Description	Key Mitigating Actions/Controls
Financial	Ensure short-term liquidity and a longer term funding strategy to meet budget and Corporate Plan objectives.	▸ Policy to secure a mix of funding sources to meet financial obligations as they fall due; ▸ Maintain frequent dialogue with Government, funders and potential investors to ensure continued access to liquidity and funding; ▸ Policy to limit debt refinancing risks by maintaining a balanced maturity profile; ▸ Policy to arrange committed facilities; ▸ Maintenance of strong investment grade for the gas business to ensure continued access to capital.
Compliance & Regulation	Ervia is subject to a broad range of energy and water regulations and legislation. Managing the impact of these on our business is a priority.	▸ Proactively engage with key stakeholders including regulatory authorities in Ireland, NI, UK and the EU; ▸ Gas Networks Ireland and Irish Water Price Control process in place; ▸ Support the Department of Communications, Climate Action and Environment on energy policy; ▸ Support received and funding secured for CNG stations in 2017; ▸ Operational investment plans in place to meet water and wastewater directive requirements.
Reputation & Stakeholder	Achieving key stakeholder understanding and support for the role of Ervia and the delivery of Irish Water and Gas Networks Ireland business plans is a key priority.	▸ Executive Steering Group ensures constructive engagement with all key stakeholders; ▸ Active engagement with industry bodies and presentations at key industry events being pursued; ▸ Focus on the highest standards of customer service.
	Ervia recognises there are significant challenges building trust in Irish Water.	▸ Public engagement on key projects; ▸ Regular updates on progress to the public; ▸ Focus on fixing water and wastewater.
People & Capability	We must recruit, develop and retain the right capabilities and competencies for key positions in the organisation to avoid underperformance and under-delivery on our business objectives.	▸ Talent acquisition and development strategies; ▸ 2017 resource planning linked to talent management and career pathing; ▸ *Inspire Mentoring* programme. ▸ Graduate Programme 2017.

Ervia is building the backbone of Ireland. This is at the core of what we do. We provide and service the strong foundations on which the Irish economy is built and ensure that our people and our nation can thrive and prosper, now and into the future.

A member of staff from Irish Water talks to a customer at the National Ploughing Championship in Tullamore, Co. Offaly.

Operating and Financial Review

Executive Team

Michael McNicholas
Group Chief Executive Officer

Orlaith Blaney
Chief Communications and Marketing Officer

Sean Casey
Group Chief Operations Officer

Jerry Grant
Managing Director Irish Water

Margaret Lane
Group Strategic HR Director

Cathal Marley
Group Finance Director

Brendan Murphy
Group Commercial Regulatory Director

Liam O'Riordan
Company Secretary

Liam O'Sullivan
Managing Director Gas Networks Ireland

Michael G O'Sullivan
Director of Strategic Infrastructure and Group Strategy

Rory Williams
Group Chief Legal Officer

Finance Review

2016 has been a solid year for Ervia, with both our regulated businesses delivering improved performance on the prior year. Ervia has invested €584m in critical water, wastewater & gas infrastructure. The successful €625 million bond issue by Gas Networks Ireland in 2016 reflects positively on the business's performance and the market view of the regulated utility.

Cathal Marley
Group Finance Director

Key Highlights 2016

Revenue
€1,404 Million

Profit before Income Tax and Exceptional Items
€203 Million

Capex
€584 Million

Dividends Paid
€135 Million

Increased revenue performance of €62 million to €1,404 million

Irish Water surplus reinvested to fund critical infrastructure projects

€625 million bond issuance successfully completed by Gas Networks Ireland during the year

Stable net debt position at year end of €1,945 million, an increase of 2 percent year on year

Finance Review (continued)

Although the results of Irish Water are not consolidated within the audited financial statements as included on pages 65 to 139, the overall Ervia Group results (representing all Ervia entities, including Irish Water) are included here for information purposes. Transactions between Irish Water and other Ervia entities are not eliminated for the purposes of this information (refer to financial statements note F4 for further information).

Summarised Income Statement (before exceptional items)

	2016			2015		
	Gas Networks Ireland[1]	Irish Water[2]	Total Ervia	Gas Networks Ireland[1]	Irish Water[2]	Total Ervia
	€m's	€m's	€m's	€m's	€m's	€m's
Revenue	**498**	**906**	**1,404**	491	851	1,342
Operating Costs	**(175)**	**(777)**	**(952)**	(184)	(779)	(963)
EBITDA	**323**	**129**	**452**	307	72	379
Depreciation and amortisation	**(128)**	**(60)**	**(188)**	(125)	(43)	(168)
Finance costs	**(47)**	**(15)**	**(62)**	(47)	(12)	(59)
Profit before income tax	**149**	**54**	**203**	135	17	152

Profit before Income Tax & Exceptional Items

Irish Water
€54 Million

Gas Networks Ireland
€149 Million

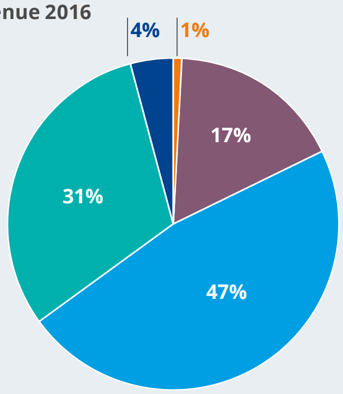
Revenue

Revenue was €1,404 million for the year to December 31st 2016, increasing by €62 million compared to the prior year, and reflecting the stable performance of Gas Networks Ireland and the continuing development of Irish Water.

The impact on revenue of the suspension of domestic water billing during 2016 was offset by increased Government subvention income.

Gas Networks Ireland regulated revenues were higher than anticipated during 2016 and were favourably impacted by increased gas transportation bookings due to higher power generation and other demand factors.

Revenue 2016



- IW – Domestic
- IW – Non-Domestic
- IW – Government Subvention
- GNI – Regulated
- GNI – Unregulated

1. Represents the Gas Networks Ireland business division and the central services business divisions (consolidated financial statements included on pages 65 to 136 of this Annual Report). Refer to note F2 on page 102 for further analysis of the divisional information.

2. Irish Water is a subsidiary of Ervia under the Companies Act 2014. Due to its share ownership structure (refer to note F7 on page 105 for further information), Irish Water does not currently meet the definition of a subsidiary for accounting purposes under IFRS and therefore cannot be consolidated within the audited financial statements as included on pages 65 to 139.

Financial information presented in the financial review is rounded to €1 million. Rounding differences may apply when compared to a visual calculation of totals in the tables contained herein.

EBITDA

EBITDA of €452 million for 2016 has increased by €73 million compared to the prior year of €379 million due to increased revenue of €62 million and lower operating costs of €11 million.

Operating costs were €175 million in Gas Networks Ireland, €9 million lower than the prior year. In Irish Water, operating costs of €777 million are down €2 million compared with prior year and reflect increased collection provisions being offset by other operating cost reductions.

Profit before Income Tax and Exceptional Items

Profit before tax increased by €51 million to €203 million for 2016 due to increased EBITDA performance of €73 million, partly offset by higher depreciation charges of €20 million arising from the increased investment in infrastructure. Any surplus arising in Irish Water is reinvested in water and wastewater infrastructure.

Exceptional Items

During 2016, a €28 million net exceptional pre-tax charge was recognised. Further detail is set out in note C4. A total of €21 million of this relates to a bond issuance and buy-back transaction which Gas Networks Ireland completed during the year. Further details are given in the Capital Resources – Gas Networks Ireland section below.

Summarised Balance Sheet

	2016			2015		
	Gas Networks Ireland[1]	Irish Water[2]	Total Ervia	Gas Networks Ireland[1]	Irish Water[2]	Total Ervia
	€m's	€m's	€m's	€m's	€m's	€m's
Infrastructure assets	**2,530**	**1,725**	**4,255**	2,560	1,326	3,886
Other assets	**309**	**180**	**489**	310	279	588
Total assets	**2,839**	**1,905**	**4,744**	2,869	1,605	4,474
Borrowings	**(1,172)**	**(974)**	**(2,146)**	(1,176)	(945)	(2,121)
Pension liability (IAS 19)	**(129)**	**(26)**	**(156)**	(51)	(27)	(78)
Other liabilities	**(495)**	**(411)**	**(906)**	(504)	(477)	(981)
Total liabilities	**(1,796)**	**(1,412)**	**(3,207)**	(1,731)	(1,450)	(3,181)
Net Assets	**1,043**	**493**	**1,536**	1,139	156	1,295
Net Debt	**(1,028)**	**(917)**	**(1,945)**	(1,022)	(890)	(1,912)

Infrastructure Assets and Capital Expenditure

During 2016, Ervia invested €584 million in critical water, wastewater and gas infrastructure in Ireland. These investments are part of longer term capital investment programmes agreed with the CER for both Gas Networks Ireland and Irish Water.

Capital Investment

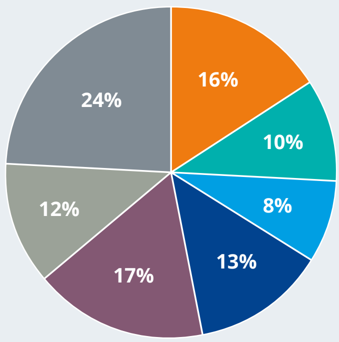
Irish Water

€459 Million

Gas Networks Ireland

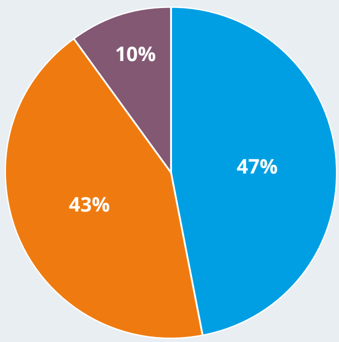
€125 Million

Irish Water Capital Investments



- Major Capital Wastewater
- Major Capital Water
- Water Conservation
- Strategic Infrastructure
- Minor Programmes
- Metering
- Other Programmes

Gas Networks Ireland Capital Investments



- Transmission Infrastructure
- Distribution Infrastructure
- Aurora / Other

Finance Review (continued)

Net Debt and Cash Flows

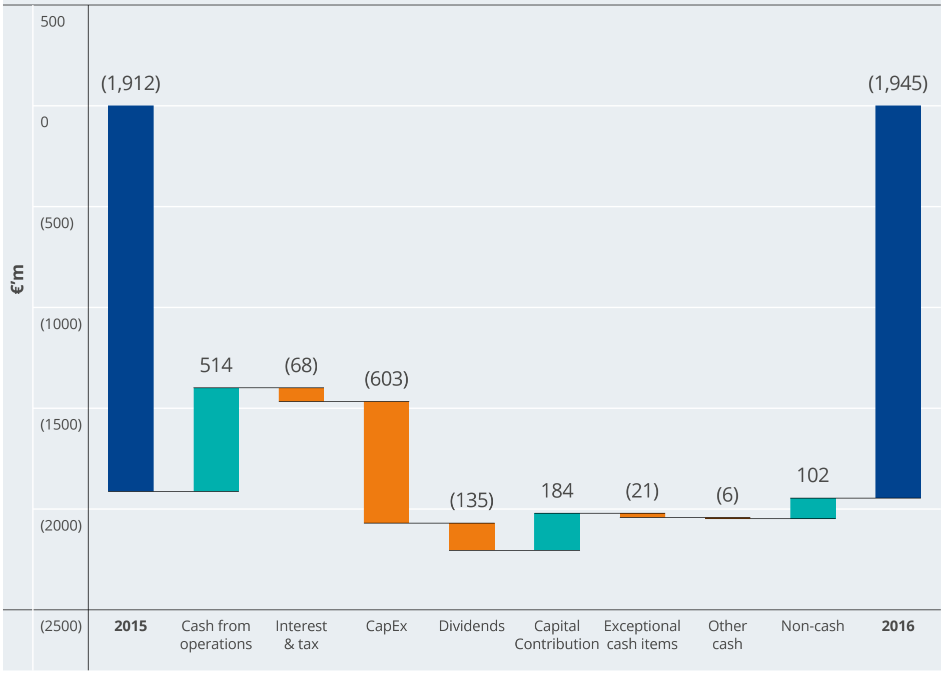
During 2016, net debt increased to €1,945 million compared to €1,912 million in the prior year.

- Operating cash flows of €514 million arose during 2016, which were used primarily for capital investment purposes;
- Capital expenditure in cash outlay terms was €603 million (€584 million capital investment in 2016);
- Gas Networks Ireland funded a dividend payment to the Exchequer of €135 million, including €100 million special dividend relating to the sale of the *Bord Gáis Energy* business;
- Irish Water received a cash shareholder capital contribution of €184 million from the Government. In addition, a debt facility of €96 million received from the Shareholder in the prior year was converted to a capital contribution during 2016 (non-cash movement).

Net Pension Deficit

Ervia Group has an accounting pension deficit ("IAS 19") of €156 million as at December 31st 2016, an increase of €78 million on the prior year. This results primarily from a decrease in the discount rates used to value pension liabilities for accounting purposes, from 2.7 percent at December 31st 2015 to 1.8 percent at December 31st 2016. The discount rates reflect international trends of lower yields on long-term corporate bonds. Net actuarial losses of €68 million pre-tax (€59 million post-tax) were recognised in 2016.

Net Debt Reconciliation 2015 to 2016



Capital Resources and Treasury Governance

Capital Resources – Gas Networks Ireland

At December 31st 2016, Gas Networks Ireland's total borrowings were €1,172 million after certain re-measurements arising from the application of IAS 39 and including capitalised loan fees. The company had undrawn facilities of €417 million (including €7 million in uncommitted facilities). As at December 31st 2016, Gas Networks Ireland had a statutory borrowing limit of €3,000 million, which sets the upper limit for drawn facilities.

In 2016 Gas Networks Ireland established a new Euro Medium Term Loans (EMTN) program under which the company raised €625 million on the Eurobond market in December. Issued at a weighted average yield of 1.60 percent and split across two maturities, the company raised a 10 year €500 million bond and a 20 year €125 million bond. The majority of the proceeds were used to buy back in full the €500 million 3.625 percent bond issued in December 2012, with the residual proceeds used to pay down intercompany obligations owed to Ervia Parent undertaking. This new financing substantially lowers the company's cost of borrowing and significantly extends the average maturity of its borrowings. At December 31st 2016 the weighted average rate on Gas Networks Ireland's portfolio of outstanding borrowings excluding limited recourse borrowings was 1.80 percent (2.90 percent: December 31st 2015) and the average maturity of its debt was 7.96 years (2.87 years: December 31st 2015).

Gas Networks Ireland has a high investment grade credit rating with both Standard & Poor's and Moody's Investors Services. In 2016, Gas Networks Ireland maintained its long term credit rating of A with Standard & Poor's and in August 2016, the company's long term credit rating was upgraded by Moody's Investors Services to A3 from Baa1.

Capital Resources – Irish Water

At December 31st 2016, Irish Water's total borrowings were €974 million (including capitalised loan fees). The company had undrawn facilities of €285 million (including €10 million in uncommitted facilities). At December 31st 2016, the company had a statutory borrowing limit of €2,000 million, which sets the upper limit for drawn facilities.

Key activities in relation to debt management undertaken during 2016 included; the rollover of €800 million of funding by way of bilateral facilities with a number of commercial banks and the refinancing of the existing €450 million of funding from the Ireland Strategic Investment Fund. The company has continued to roll its debt financing for periods of one year, pending a decision by the Government for the longer term funding strategy of the company. At December 31st 2016, the weighted average rate on the company's portfolio of outstanding borrowings was 1.30 percent (1.55 percent : December 31st 2015) and the average maturity of its debt was 0.51 years (0.55 years: December 31st 2015).

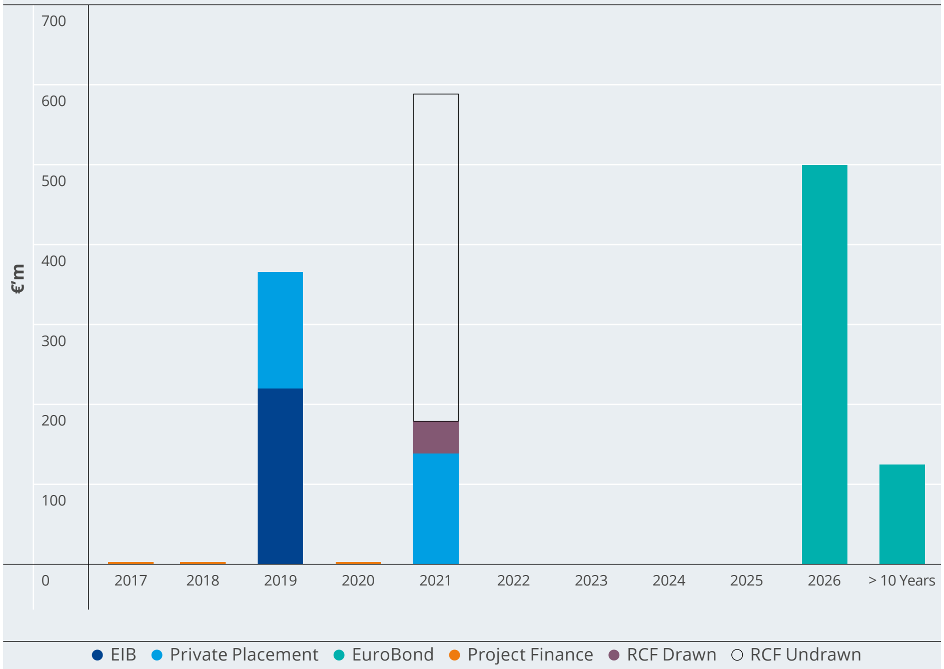
During 2016, an unconditional, irrevocable and non-refundable capital contribution of €96 million was made available by the Minister for Finance, and applied against a €96 million debt facility with the Minister for Finance, such that no further sums, claims, costs or other liabilities remain outstanding in respect of that facility.

Treasury Governance

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

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

Gas Networks Ireland Debt Maturity Profile



Children enjoy playing in the water
in Ardmore, Co. Waterford.

Irish Water

It was a great honour for me to take up the role of Managing Director of Irish Water in May 2016. Managing an organisation of the scale and complexity of Irish Water is undoubtedly challenging but also highly motivating given its importance to Irish society. In 2016 significant progress was made in transforming Irish Water to a fully functioning utility and delivering high quality, reliable infrastructure across Ireland.

Jerry Grant, Managing Director, Irish Water

Overview

Irish Water was established in 2013 to deliver water and wastewater services based on a national public water services utility model under Government policy. Since then the business has taken responsibility for a large network of fragmented and disjointed water and wastewater assets and services, some of which date from the 19th century, and we are transforming them into a modern, efficient utility.

Irish Waters' portfolio of water and wastewater assets includes:

- Approx. 63,000kms of mapped water pipelines;
- Approx. 25,000kms of wastewater pipelines;
- Approx. 900 water treatment plants;
- Approx. 1,155 wastewater treatment plants;
- 1,610 water storage reservoirs and towers;
- 1,060 water pumping stations;
- 1,909 wastewater pumping stations.

These assets are used, on a daily basis, in the abstraction, treatment and delivery of circa 1,700 million litres of drinking water, which are delivered to customers through approximately 1,000 separate water supply areas.

Irish Water also collects wastewater from over 1,000 separate communities connected to the wastewater network and treats circa 1,600 million litres of wastewater daily, before discharging it back into our rivers, estuaries and coastal areas.

The transformation of our drinking water and wastewater services is a significant undertaking and will take time. The previous model of 31 Local Authority service providers has evolved into a single way of working to modern utility standards, supported by Service Level Agreements with each Local Authority.

The challenges we, and Ireland, face are being tackled on a structured and phased basis over a number of years, and will require ongoing commitment from all our key stakeholders.

The repair and upgrading of our water and wastewater treatment plants and water and sewerage networks will require a multi-billion euro investment programme over several investment cycles beyond 2021. The investment required, to address all known deficits, is estimated to be approximately €13 billion, with particular prioritisation required in the short term.

To ensure that Irish Water is delivering on its obligations, its operations are overseen by two independent regulators: the economic regulator, the Commission for Energy Regulation; and the environmental regulator, the Environmental Protection Agency.

"Considerable progress has been achieved to reduce costs and improve services to our customers but there is more to do."

Irish Water (continued)

Financial Performance

A critical element of Irish Water's strategy is to establish a strong financial and funding position for the organisation and the water services industry. In order to begin delivering on this objective, Irish Water increased Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) to €129 million in 2016.

We achieved a seven percent reduction per annum in operational expenditure in 2016 and continued to deliver against the CER's efficiency target for the First Price Control period.

We also submitted Irish Water's proposal for the Interim Revenue Control period 2017-2018. The CER's public consultation on the IRC ended in November 2016 and its decision was published in December 2016, with further demanding efficiency targets set for 2017-2018.

Following the suspension of domestic water charges in July 2016, the Irish Government has committed to making up the funding shortfall. This will continue in 2017, pending a decision on the enduring funding model by the Joint Oireachtas Committee on the Future Funding of Domestic Water Services.

In 2016 Irish Water began the transfer of non-domestic accounts from Local Authorities, making Irish Water responsible for all aspects of account management. Irish Water also continued to deliver on the domestic metering programme; began planning for the review of non-domestic tariffs and charges by the CER; and drafted a new and equitable connections policy which was submitted to the CER.

Operating Environment

Water is one of the most essential resources on earth, critical for human health, the production of food and industrial activity. The provision of clean drinking water and the disposal of wastewater in a manner that protects the environment are vital to our daily lives, and for economic and social development.

When Irish Water took over the delivery of Ireland's national water services in January 2014, the infrastructure was under severe stress and was not delivering to the standards required by a modern economy. Although significant progress has been made since then, substantial challenges still face Ireland's water network.

As a state-owned utility, Irish Water ensures that it takes a national and long-term approach to the planning and development of our water and wastewater services.

In 2016 significant progress was made against a variety of objectives and targets to improve our infrastructure and services. We are doing this by eliminating the duplication of work and applying a systematic approach to the operation and maintenance of the water and wastewater networks.

Irish Water operates in an open and transparent manner. Our activities are monitored by our two regulators. The CER protects customer interests. It approves appropriate and sufficient funding to enable Irish Water to provide the required services to specified standards while also meeting cost efficiency targets. The EPA sets standards and enforces compliance with EU and National Regulations for drinking water supply and wastewater discharge to water bodies.

We also report against the Lobbying Act and we are compliant with all Freedom of Information, Access to Information on the Environment and Data Protection legislation.

Key challenges in 2016 included:

- 99 public water schemes listed on the EPA Remedial Action List (RAL) as being 'at risk' of contamination;
- 16,000 people on long-term Boil Water Notices (BWNs);
- At least 180,000 properties were at risk of not meeting the EU guideline on the maximum levels of lead in drinking water;
- Up to 47 percent of all drinking water was lost before it reached our taps;
- Over two-thirds of the sewer network used to transport the country's wastewater was in need of major repair;
- Untreated sewage was discharged into our rivers and seas at 44 different locations across the country;
- Domestic water charges were suspended for nine months under The Water Services (Amendment) Act 2016 which became law in July 2016.

Progress against Strategic Objectives in 2016

In 2016 Irish Water and our customers saw the benefits of our targeted investment approaches across the country. Over 608 capital projects began or were completed in the 12 month period. Highlights include:

- Removed 37 public water supplies from the EPA's RAL. This is a first step in meeting our objective of achieving a zero RAL number by 2021;
- Reduced the number of people on BWNs from over 23,000 in 2014 to circa 6,000 at the end of 2016. This follows the provision of new infrastructure at Castlerea and Boyle in Co. Roscommon;
- Delivered 66 new or upgraded Wastewater Treatment Plants across Ireland including Clonakilty, Clifden, Swords, Naas, Leixlip, Galway, Dunmore East, Ardmore, Carrigtwohill, Youghal, Shannon and Cork Lower Harbour;
- Completed the final consultation on the Draft Lead in Drinking Water Plan and over 3,000 lead service connections were also replaced;
- Ervia saved an estimated 77.3 million litres per day (Ml/day) of drinking water through our Water Conservation and First Fix schemes. Approximately 800 kilometres of new or rehabilitated water pipes are also in place;
- In January 2014, untreated sewage is discharged at 44 locations across Ireland which puts Ireland in breach of EU Wastewater Directives. In 2016, Irish Water continued to target investment to ensure that our wastewater is disposed of in a safe and sustainable manner;
- Centralised workflow across all 31 Local Authorities to a single source. In 2016, over 63,000 individual work orders were completed nationally using new technology;
- Migrated non-domestic customers to Irish Water systems in July 2016. By year-end, 24 Local Authorities had migrated with the remainder due to transfer in early 2017;
- Strengthened provisions for supporting social and economic growth, particularly in response to Government Housing Policy initiatives through a number of Network Extension programmes and Local Network Reinforcement projects to address network constraints.

In 2016, Irish Water submitted its Interim Revenue Control for 2017-2018, to the CER. The CER has allowed Irish Water total revenue of €1,843 million to fund capital investments and operations for the years 2017-2018. Irish Water has been set the challenge of delivering efficiencies of circa 20 percent within its base controllable operating expenditure for the period 2015-2018.

In 2016, Irish Water made operational savings through: payroll and associated overheads, repairs and maintenance, design, build and operate (DBO) contracts and energy and consumables. In 2017, the CER will begin a review of non-domestic tariffs through a series of public consultations and Irish Water will make submissions under key headings as part of this review.

"In 2016 Irish Water and our customers saw the benefits of our targeted investment approaches across the country. Over 608 capital projects began or were completed in the 12 month period."

Irish Water (continued)

Progress against Strategic Objectives in 2016

2016 Priority	2016 Progress	2017 Priority
Eliminate all historic BWNs by 2021	Historic BWNs (pre 2014) total was 16,021. By end 2016, 21 customers remained on a BWN, 16,000 customers had been removed.	To remove the last of the customers from remaining historic BWN.
Reduce the number of households on BWNs	At the end of 2016 5,511 customers remained on BWNs. A total of 98,431 customers had BWNs imposed during 2016 and a total of 101,890 customers had BWNs lifted.	To continue investment in water resources to minimise the risk of short term BWNs for customers.
Meet Drinking Water Compliance targets	2016 Microbiological target 99.92% - actual 99.94% (excl. Disputed Supplies) 2016 Chemical Standards target 99.51% - actual 99.45% (excl. Disputed Supplies) 2016 THM Standards target 93.00% - actual 93.00% (excl. Disputed Supplies)	2017 Microbiological target 99.92% 2017 Chemical Standards target 99.51% 2017 THM Standards target 93.00%
Transfer non-domestic billing functions and customers to Irish Water	Transfer of non-domestic customers from 31 LAs commenced in July 2016. 24 LA's were migrated by December 2016.	Remaining 7 LAs to transfer by Q1 2017.
Submit the Interim Revenue Control 2017-2018 to the CER for determination	CER made determination of €1,843 million to fund capital investments and operations for the years 2017-2018.	Work on the next funding cycle to begin.
Deliver on the Capital Investment Plan 2014-2016	608 capital projects underway in 2016, including 66 new or upgraded wastewater treatment plants and approximately 890km of new or rehabilitated water pipes.	Deliver capital expenditure of €516 million covering water and wastewater projects, national water and wastewater programmes, other infrastructure national programmes and capital maintenance.
Continue to deliver the Domestic Metering Programme	Phase 1 of the Domestic Metering Programme due for completion in early February 2017 with revised target of 895,000 domestic installations. Circa 883,000 meters installed at end December 2016.	The Domestic Metering Programme ceased at the end of 2017 with 891,000 meters installed.
Reduce leakage on the network	Circa 77 million litres per day (Ml/day) of drinking water were being saved to end 2016 through Water Conservation and First Fix schemes.	Continue to reduce leakage on the network.
Remove schemes identified as being at risk on the EPA Remedial Action List	37 supplies removed from the EPA RAL during 2016.	Further supplies to be removed from the EPA RAL in 2017.
Produce national mitigation plan for lead in drinking water	Final consultation on Draft Lead in Drinking Water Mitigation Plan completed. Orthophosphate treatment started in Limerick for the protection of public health and over 3,000 lead service connections replaced.	Publication of the final plan. Continuation of lead connection replacement and identification of other public water supplies suitable for orthophosphate treatment.

Major Projects – Irish Water

The Major Projects division of Ervia delivers strategic infrastructure projects that bring large-scale benefits to communities across Ireland. Working with Irish Water, the Major Projects Team advanced a number of projects within its portfolio in 2016 including three water supply projects and three wastewater projects. Key highlights are detailed in this section.

Greater Dublin Drainage

The Greater Dublin Drainage (GDD) initiative aims to provide the strategic drainage infrastructure required to enable the Greater Dublin Area (GDA) to continue its development. It is also required to protect the environment and ensure compliance with EU and national legislative requirements. The project involves the provision of a 26km pipeline, a wastewater treatment plant located at Clonshaugh, and a marine outfall 6km out to sea from Baldoyle Bay.

Irish Water recognises that this project is of vital importance to the GDA, as it will facilitate economic development, cater for a growing population and protect the environment.

Following completion of the site selection process and extensive input from public consultation in 2013, Irish Water is progressing the studies required to prepare the planning application for the GDD project. A number of additional studies are underway, or planned, to inform the EIS, which will form part of the planning application to An Bord Pleanála.

Vartry Water Supply Scheme

The Vartry Water Supply Scheme provides drinking water for an area stretching from Roundwood to South Dublin. It serves over 200,000 people, providing drinking water to around 15 percent of the Greater Dublin Area. In 2016 planning applications for the upgrade works were submitted to Wicklow County Council on behalf of the Vartry Water Treatment Plant and the pipeline from Vartry to Callowhill.

New Water Supply for the Eastern and Midlands Region

Irish Water's remit includes the delivery of a sustainable and resilient water supply to customers nationally and finding a new water supply source for the Eastern and Midlands region. This new water supply will meet the domestic and commercial needs of over 40 percent of Ireland's population for the medium to long-term future. It represents the first major comprehensive upgrade of 'new source' infrastructure in over 60 years.
In 2016, Irish Water hosted a 14 week period of public consultation on the project's Preferred Scheme. The feedback from this consultation period, along with further technical and environmental studies and engagement with landowners and the general public, will inform the selection of the final scheme.

Stillorgan Reservoir

The existing Stillorgan site contains three open water reservoirs that store treated drinking water prior to its distribution to customers. Such exposure to the environment presents an unacceptable contamination risk. Plans have been published to construct a new covered reservoir which will safeguard the quality of the drinking water for these 200,000 Irish Water customers. In 2016 an application was made to South Dublin County Council for the development. Subject to a successful planning grant it is hoped that construction will begin in 2018.

Cork Lower Harbour

In 2016, the Cork Lower Harbour Main Drainage Project significantly enhanced the water quality in Cork Harbour. Until last year, untreated wastewater from the surrounding areas was being discharged into the Harbour.

This discharge has been reduced by 50 percent on completion of the Shanbally Wastewater Treatment plant in 2016. It is expected that the plant will achieve full compliance by mid-2017, improving water quality and the health, wellbeing and integrity of the environment in line with the EU's Urban Wastewater Treatment Directive.

Ringsend Wastewater Treatment Plant

Irish Water is undertaking a project to extend the Ringsend Wastewater Treatment Plant to meet the higher population demands and also ensure that the treated water discharged to the lower Liffey Estuary meets the required standards.

By identifying an advanced, nutrient-reduction treatment technology known as Aerobic Granular Sludge (AGS), Irish Water can achieve €170 million in cost savings on the project.

As part of the planning application for the Ringsend upgrade and the Greater Dublin Drainage project, Irish Water will include a site for a Regional Biosolids Storage Facility. This new storage facility will serve greater Dublin and its population for the next 25 years and will safeguard public health, protect our environment and facilitate development in this growing region.

A boy enjoys reading by a natural gas fire in his home.

Gas Networks Ireland

In 2016, Gas Networks Ireland delivered €125 million of critical investment infrastructure as well as a strong financial performance, which included receiving an A3 credit rating upgrade from Moody's. We focused on growing the network through new connections and compressed natural gas for transport while also preparing for the Commission for Energy Regulation's Price Control Review. Our focus now and into the future is to maximise the utilisation of the gas network for the people of Ireland and to deliver best value for our customers.

Liam O'Sullivan, Managing Director, Gas Networks Ireland

Overview

Gas Networks Ireland owns and maintains a world-class transmission and distribution gas network of 13,954 kilometres of gas pipelines, including two sub-sea interconnectors. We are responsible for the safe, reliable and efficient transportation of natural gas through our networks on behalf of all gas customers. In 2016, we continued our progress by investing in network construction and the refurbishment and replacement of the existing network. Our goal is to ensure that the service we provide is efficient and cost effective for the benefit of all our gas customers in Ireland. Gas Networks Ireland is regulated by the CER.

Natural gas is of key strategic importance to the Irish economy, not only because of the prevalence of gas fired electricity generation, but also because of the large number of business and residential customers who rely on natural gas. There are over 680,000 natural gas customers in Ireland with natural gas now available in 20 counties.

Financial Performance

Gas Networks Ireland's operating profit for 2016 is €195 million, up on 2015 by €13 million. The increase primarily relates to higher revenues as a result of higher regulated income, due to increased gas transportation bookings in the transmission business in particular. The main drivers of higher bookings were higher power generation demand and other demand factors. Capital expenditure is at €125 million, up on 2015 by €16 million. The increase primarily relates to additional capital spend as a result of the Pipeline Twinning Project in Scotland.

Operating Environment

In 2016 the total amount of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was approximately 72,512GWh (supplied through the Moffat Interconnector and the Corrib and Inch gas fields), an increase of 8.5 percent on 2015. Of this 76 percent of this gas was delivered for use in the Republic of Ireland with the remaining 24 percent transported to the Isle of Man and to Northern Ireland.

During the year, 55 percent of all gas requirements in the Republic of Ireland were supplied by the Corrib gas field, 39 percent were met through UK imports, with the remaining gas supplied from indigenous reserves in Inch, off the County Cork coast.

The volume of gas entering the Irish gas network via the interconnectors reduced substantially in 2016, as a result of the commissioning of the Corrib field and revisions to the EU Network Code. On a number of occasions, during periods of low demand, the entire Republic of Ireland requirements were met by indigenous gas sources.

In the 2015 White Paper on Energy Policy, the Government set out the role of natural gas in supporting Ireland's transition to a low carbon future.

"There are over 680,000 natural gas customers in Ireland with natural gas now available in 20 counties."

Gas Networks Ireland (continued)

"Gas Networks Ireland provides a best-in-class emergency response service and, in 2016, we responded to 17,428 publicly reported escapes of gas with an average response time of 28 minutes, and 99.89 percent compliance within one hour."

The Paper also acknowledged that a transformation of Ireland's energy systems is required to meet climate policy objectives and that Ireland will gradually reduce its dependence on fossil fuels.

Throughout 2016, Gas Networks Ireland actively advocated for natural gas to ensure that it continues to play a critical role in supporting Irish energy policy. This will be particularly relevant in the areas of shifting energy use from carbon-intensive fuels to lower-carbon fuels (e.g. natural gas), the roll out of Compressed Natural Gas fuelling points and the development of indigenous renewable gas.

Renewable gas is a carbon-neutral fuel easily produced by a process known as anaerobic digestion. This takes the gas by-products of agri and food waste and converts them into methane, which may then be added to the network.

The CER certified Gas Networks Ireland as Full Ownership Unbundling (FOU) in March, 2016, in accordance with the third European Union Gas Directive 2009/73/EC. The FOU model stipulates that the same company cannot conduct electricity or gas generation or supply while owning and operating a gas transmission network.

As a regulated business, periodic reviews of the revenue requirements to operate our natural gas transmission and distribution networks are undertaken by the CER. In 2016, the CER began its review, known as Price Control 4, to determine the allowed revenue for Gas Networks Ireland for the five years from October 2017 to September 2022.

In November 2016, Gas Networks Ireland submitted an estimate to the CER of the required revenue for the network over this five-year period. In our submission, we recognised the need to maintain the competitiveness of our operating costs and the need to drive maximum efficiencies for the benefit of our customers. The CER will consult on the revenue requirement in early 2017.

Progress against Strategic Objectives in 2016

Gas Networks Ireland had a number of key strategic objectives that determined its focus in 2016 including:

Delivering Operational Excellence
Safety is a core value and a top priority for Gas Networks Ireland. In 2016, we met all our targets in terms of delivering a safe, secure and reliable gas supply to customers. We have a comprehensive Safety Management System, independently certified to OHSAS 18001 which ensures activities are managed in accordance with international best practice. Areas such as transmission operations, gas emergency service and distribution design are accredited to ISO 9001.

Gas Networks Ireland provides a best-in-class emergency response service and, in 2016, we responded to 17,428 publicly reported escapes of gas with an average response time of 28 minutes, and 99.89 percent compliance within one hour.

Throughout 2016, Gas Networks Ireland continued public safety awareness campaigns promoting our Gas Emergency Service, Dial-Before-You-Dig, Registered Gas Installers (RGI), Meter Tampering and the award-winning campaign promoting Carbon Monoxide safety. A new RGI advertising campaign featuring Daniel O'Donnell aired for the first time in October 2016 focusing on customer safety and awareness.

During 2016, all capital and maintenance activities were completed to time, quality, scope and cost targets. The 2016 capital expenditure of €125 million covered ongoing programmes to improve our network and to innovate. We delivered the following key projects:

- Commencement of gas pipeline works within the town of Nenagh, Co. Tipperary, as part of a multi-utility project which also saw the upgrading of water and wastewater mains. The construction works are expected to be completed in the first half of 2017;
- Completion of a 46km feeder main extension to Wexford Town and the commencement of main laying within the town;
- Started the 50km 'twinning' pipeline project in south west Scotland;
- Work began at the first three CNG filling stations in Ireland.

Gas Networks Ireland's 2016 maintenance expenditure was €38.9 million, requiring delivery of approximately 38,500 planned maintenance work orders across transmission and distribution networks. The planned maintenance was conducted in accordance with all policies and Health, Safety, Quality and Environmental requirements.

Plans to connect Listowel, Co. Kerry to the gas network were announced in 2016, following approval from the CER. The €20 million project is expected to have Listowel connected to the existing natural gas network in late 2017.

Gas Networks Ireland delivered an excellent service to over 680,000 domestic and commercial customers in 2016. Over 69,000 appointments were made with customers and a 99.3 percent compliance rate was achieved in meeting those appointments.

Over 2.28 million meters were read during the year. We handled in excess of 405,000 customer contacts including inbound and outbound calls, emails and other customer correspondence in 2016. In addition, over 23,000 online engagements and interactions via social media and our website were also handled.

The business also met its customer satisfaction score targets across all activities surveyed. The Customer Care team was shortlisted for a total of six international, UK and Irish awards, and won two. We continue to empower customers to manage their energy costs through the facilitation of supplier switching and through the installation of prepayment metering. The use of prepayment meters (16.5 percent of total domestic customers) continues to grow however it has slowed considerably with the uplift in the economy. Approximately 370 prepayment meters are fitted every month, the majority of which are exchanges from credit meters.

Delivering Financial Performance

Gas Networks Ireland continued to meet all financial metrics during 2016, including a credit rating upgrade to A3 by Moody's and the announcement of the completion of two bond issues raising €625 million. Proceeds from the bond issues will fund the continuing investment programme in maintaining and upgrading Ireland's gas network infrastructure, and refinance existing debt.

The regulated transmission tariff for 2016/17 decreased from the previous year by 1 percent, with the distribution tariff decreasing fractionally by 0.2 percent.

Securing the Future

2016 was a strong year for New Connections with a total of 10,092 connections set to deliver 922 GWh of new demand on the network. This represents an 18 percent increase on the 2015 New Connection figure. Key contributors to the additional volume were the roll-out of natural gas to Nenagh and Wexford, the targeted campaigns to increase the uptake of natural gas in towns with existing gas supply and the contracting of a future anchor load in Listowel.

Gas Networks Ireland began the roll-out of commercial CNG filling stations in 2016, after a number of successful trials in 2014 and 2015. Construction of the first station was completed in Shannon, Co. Clare in December 2016, and this station will supply CNG to a fleet of waste collection trucks. Three more stations will be constructed in 2017 as part of a strategic plan to roll out a network of 70 stations.

Gas Networks Ireland advanced the development of renewable gas in the network in 2016, with agreement to construct the first renewable gas injection point in Co. Kildare. The facility will have a capacity of 90GWh and commissioning is scheduled for late 2017. Over the next five years the intention is to construct six injection points with a total combined annual capacity of 1,450GWhs.

Gas Networks Ireland (continued)

Progress against Strategic Objectives in 2016

2016 Priority	2016 Progress	2017 Priority
Operational		
Deliver operational excellence	The business met all its targets in terms of delivering a safe, secure and reliable gas supply to customers.	Continue to operate Irish gas network safely and efficiently.
Deliver capital programmes	All capital and maintenance activities were completed to time, quality, scope and cost targets. Delivered €125 million critical investment infrastructure.	Deliver gas to Listowel, Co. Kerry, and complete the construction of a new gas network and water remediation works in Wexford Town. Construction of 50km 'twinning' pipeline in Scotland.
Deliver excellent customer service and value	Met CER and customer service targets by delivering excellent customer service and supported the Ervia 'Customer First' Programme.	Continue to meet CER and customer service targets by delivering excellent customer service.
Strategic		
Deliver financial performance	Gas Networks Ireland continued to meet all financial metrics during 2016, including credit rating upgrading. Revenue Review Estimates for next five years (PC4) submitted to CER.	Continue to maintain a solid commercial footing. Agree Price Control for 2017-2022 with CER.
Secure the future	Delivered growth through infill, CNG and renewable gas, and advocated for natural gas as a transition fuel.	Continue to grow demand for natural gas and help minimise costs for all gas customers, including the roll out of compressed natural gas stations across the country. Advocate for natural gas.
	Networks Code project continued to harmonise industry across Europe.	Address the European Commission's Winter Energy Policy Package, which concentrates on developing the 2030 Energy and Climate Framework.

Major Projects – Gas Networks Ireland

The second Scotland to Ireland Gas Interconnector has been identified as a European Project of Common Interest. This is an important project for the Irish economy as it reinforces security of energy supply across Ireland and the UK, facilitating the transport of additional gas supplies from Beattock, south west Scotland, to Gormanston in Co. Meath. Phase one of this project was constructed in 2002, and GNI (UK) is now undertaking phase two, which consists of constructing the remaining 50km of gas pipeline from Brighouse Bay to Cluden in Scotland.

GNI (UK) LTD

GNI (UK) Ltd is 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. GNI (UK) Ltd is licensed by the Utility Regulator in Northern Ireland and, Ofgem, in the UK.

GNI (UK) owns and operates a high-pressure transmission system consisting of 295km of pipeline and 18 Above Ground Installations (AGIs) in Northern Ireland. As such, GNI (UK) is also licensed by the Utility Regulator in Northern Ireland. Since 2002, £177m has been invested in this transmission network.

In early 2016, the Utility Regulatory in Northern Ireland and Ofgem, both certified GNI (UK) Ltd as Full Ownership Unbundling (FOU), in accordance with the third European Union Gas Directive 2009/73/EC.

During 2016, extensive work was undertaken to continue the development of a 'single system operator model' in Northern Ireland in conjunction with Mutual Energy. The plan is to develop a contractual joint venture to consolidate the Northern Ireland gas transmission market operations.

Aurora Telecom

Aurora Telecom, a division of Gas Networks Ireland, operates the most modern, carrier grade, backhaul dark fibre network in Ireland, and has been constructed using the latest fibre optic technology. The business is leading the way in delivering superior performance and providing a reliable and secure base layer for carriers and businesses requiring connectivity solutions.

Aurora owns and operates this extensive national network which reaches to Dublin, Galway, Athlone, Mullingar, Cork City, Ennis, Shannon, Limerick and Co. Mayo. In addition, Aurora's Dublin Metropolitan Area Network (MAN) has one of the most extensive dark fibre network footprints in Dublin. Through significant investment, Aurora transformed and tripled the size of its Dublin MAN. It also now owns and operates its own cable and fibre infrastructure which has enabled the building of true network resilience through the network's ring topologies.

The strong growth in telecommunications and fibre market demand continued in 2016. Increasing demand for fibre services in the Irish market is being driven by the growth in data centre development (both nationally and internationally) and the development of new subsea fibre cable interconnections providing transatlantic connectivity between the USA and Ireland, and between Ireland and mainland Europe.

Students receive the An Taisce Green Schools Water Theme Flag.

A staff volunteer leads an 'Our Universe' workshop with students from Our Lady Immaculate Senior National School, Darndale as part of Engineers Week 2016.

Corporate Responsibility

Corporate Responsibility (CR) in Ervia is about ensuring that our business behaves ethically and contributes to the social development of Ireland by enhancing quality of life, supporting our communities and safeguarding our environment. Our CR activities centre around the communities we work for and in, our workplace and marketplace and the environment we work hard to protect.

In the Community

In Ervia we are conscious that the work we do impacts on communities across Ireland. We work hard to build strong relationships in the communities where we operate through a number of initiatives and partnerships that allow our staff to volunteer their time and expertise. Gas Networks Ireland supports a number of educational initiatives across Ireland, with a particular focus on promoting Science, Technology, Engineering and Maths (STEM), literacy and life skills.

- In 2016 Gas Networks Ireland's national primary school STEM education programme Our Universe was delivered to over 5,000 students from 169 schools, in partnership with Junior Achievement Ireland. Over 1,000 hours were volunteered by employees, with 600 of those through Business in the Community's Time to Read literacy programme for primary school children;
- The business also collaborated with Co-operation Ireland on the Cork Youth Leadership Project, providing over 30 young people from disadvantaged communities in Cork City and County with the opportunity to develop their leadership skills through workshops and a residential experience with cross-border peers;
- Gas Networks Ireland continued to support the Skills at Work programme through links with Beneavin Secondary School in Finglas, Dublin and Nagle Community College, Cork which celebrated 10 years of partnership in 2016. The programme seeks to inspire and motivate students to realise their potential by valuing education and encouraging them to stay in school.
- In 2016 Irish Water continued to partner with An Taisce on the Water Theme of the Green Schools Programme, an international environmental education programme and award scheme for primary and secondary schools;
- Irish Water also partnered with An Taisce on its Clean Coasts Think Before You Flush campaign to raise awareness of the problem of sewage related litter on Ireland's beaches;
- Irish Water support Tidy Towns Value Water Award which encourages communities to raise awareness of all aspects of sustainable water management and recognises communities that reduce their water consumption and protect their marine/freshwater environments.
- Staff across Ervia volunteered to support Junior Achievement Ireland programmes in 2016 giving primary and secondary school students an appreciation of the value of education, work and enterprise and teaching them how they can impact the world around them and prepare students for their future careers;
- Ervia staff also supported the Time to Read programme for second class students, where staff spent one hour a week over 16 weeks in schools working with the students, assisting the children in increasing their confidence and enjoyment of reading.
- As part of our Ervia in Action Programme we awarded grants to the total value of €50,000 to local and regional organisation's across Ireland for projects supporting quality of life, innovation & entrepreneurship and inclusion.

In 2017 Ervia will finalise a group-wide strategic CR Plan to ensure our CR Programmes continue to reflect our strategic purpose and our values while enhancing quality of life at community level, we taking account of the established and emerging practices relating to responsibility and sustainability at Irish Water and at Gas Networks Ireland which holds the Business Working Responsibly Mark.

Corporate Responsibility (continued)

In the Marketplace

Ervia is committed to putting our customers first and we work hard to ensure all our customers have a positive customer experience. We do this through our dedicated *Customer First* programme which is designed to leverage the strength, expertise, learning and experience of customer service across the organisation. We also provide Special and Priority Service Registers for our vulnerable customers to ensure we can accommodate and meet their needs.

Gas Networks Ireland's award-winning Insights into Action Strategy takes a 360 degree analysis of the views of our customers, business partners and stakeholders. In 2016, 37 customer improvement initiatives were implemented, bringing the total to 463 since the start of the programme.

Within Irish Water we are continuously working to reduce costs and improve services to our customers but there is more to do. The challenges we and Ireland face are being tackled on a structured and phased basis over a number of years, and will require ongoing commitment from all key stakeholders. The outcome will ensure more efficient and effective services for our customers.

Ervia also believes that by engaging with our suppliers and supply chain partners we can provide responsible and sustainable operations. Sustainability is a key motivator in our procurement and contract management processes and strategy.

Gas Networks Ireland's award winning Insights into Action Strategy takes a 360 degree analysis of the views of our customers, business partners and stakeholders. In 2016, 37 customer improvement initiatives were implemented bringing the total to 463 since the start of the programme.

In the Workplace

The health and well-being of all employees at Ervia is of paramount importance. Our approach to occupational and personal health and well-being addresses the mind, body and emotional well-being of employees.

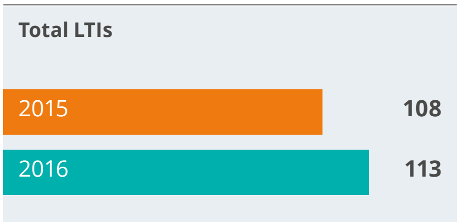
In 2016, we launched our *Work Safe, Home Safe* programme setting out the vision that our business causes no harm to anyone, including our employees. The programme complements and expands on the existing Health and Well-being initiatives across Ervia.

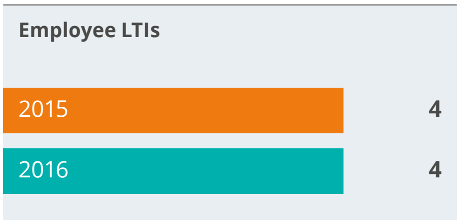
Empowering employees to deliver Ervia's strategic priorities through clear and timely communications is also a key priority for Ervia. During 2016, we accelerated our focus on employee communication, establishing fit-for-purpose channels and amplifying leadership presence to boost engagement.

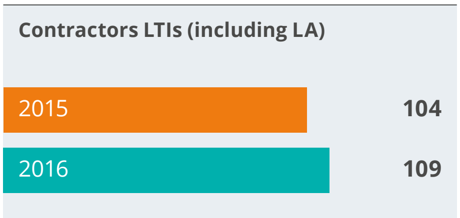
Safety

There were no serious injuries or fatalities to employees, contractors or members of the public arising from Ervia activities in 2016.

There was a total of 4 employee Lost Time Injuries (LTIs) in 2016, which is consistent with the number of LTIs which occurred in 2015. The incidents were of low severity and for an employee base of 1,621 this represents excellent safety performance. There was a total of 109 Contractor LTIs in 2016. The reportable Employee Lost Time Injury Frequency Rate (LTIFR) was 0.11 and 0.18 per 100 days for GNI and Irish Water respectively. Whilst the majority of these injuries were low severity, some had the potential to be much more serious and Ervia are committed to working closely with our employees and our contracting partners to continuously improve safety performance and strive for zero injury.







In the Environment

Ervia is responsible for the delivery of safe and reliable gas, water and wastewater infrastructure and services that underpin the Irish economy. Our activities affect the environment in which we operate and as guardians of these natural assets we recognise our responsibility to manage and treat them with respect. On behalf of Ervia, Gas Networks Ireland and Irish Water, have developed environmental policies and identified key priorities to support our commitment.

Energy usage 2016

Ervia monitors and reports on energy consumption in line with EU Energy Efficiency Regulations SI 426. We are committed to continuing the drive towards improved energy performance. In partnership with the Sustainable Energy Authority of Ireland (SEAI), Ervia participates in the National Energy Efficiency Action Plan (NEEAP), aimed at achieving 33 percent energy efficiency savings by 2020.

Electricity was the most significant energy type in Irish Water's energy mix in 2016. Electricity is primarily used in:

- Pumping water;
- Pumping wastewater;
- Aeration of wastewater;
- Disinfection of water and treated effluent;
- Sludge dewatering, water and wastewater;
- Lighting and heating.

In 2016, Irish Water consumed an estimated 592 GWh of energy. Note: This is subject to change pending sharing of energy performance data by our partners and review of electricity data from the Meter Registration System Operator.

Irish Water's progress towards our 2020 target can be reviewed on the SEAI website https://psmr.seai.ie.

In 2016 Irish Water undertook a range of initiatives to improve the energy performance of the business.

These included upgrading pumping and aeration systems, optimising processes and lighting and heating upgrades. In 2017 Irish Water will set out how it will improve the energy efficiency of water services and reduce our emissions of carbon dioxide as part of our Sustainable Energy Strategy.

Gas Networks Ireland maintained certification to the Environmental Management System ISO14001:2004, and the Energy Management System ISO50001:2011 in 2016. The business also embarked on an Environmental and Energy Awareness Campaign, to raise awareness on environmental issues at work and at home.

Gas Networks Ireland also actively participated in the NEECAP, in partnership with the SEAI to help reach the Government target of 33 percent energy efficiency savings in the Public Sector by 2020. From a set baseline in 2006, Gas Networks Ireland has already achieved over 43 percent energy efficiency improvements.

In 2016, initiatives undertaken to improve energy performance included:

- *Go Glas* a company-wide Energy and Environmental Awareness Campaign;
- The development of online Energy and Environmental Management training modules for staff;
- A review of energy efficiency of the natural gas transmission and distribution network as directed by the CER under the requirements of the European Union (Energy Efficiency) Regulations S.I. 426 (2014).

Energy use across Gas Networks Ireland's assets summarised are as follows:

Energy Use – Direct Consumption (Ireland Assets only)	2015 (GWh TFC)	2016 (GWh TFC)
Electricity	6.68	**7.07**
Natural Gas	1.43	**1.45**
Diesel	1.96	**2.16**
Petrol	0.01	**0.01**

This report describes Ervia's governance principles and practices. For the financial year ended December 31st 2016, Ervia's corporate governance practices were subject to the 2009 version of the Code of Practice for the Governance of State Bodies ('the Code').

An apprentice shadows his mentor in Gas Networks Ireland's training school in Finglas, Dublin.

Governance

The Board in 2016

1. Tony Keohane (Chairman)

Appointed: 5 July 2016

Term: 5 years

Board Committees: Remuneration

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

External Appointments: Chairman of Repak and the Malone Group, Director of Trinity College Dublin and Bord Bia. Strategic advisor in own consultancy business

2. Michael McNicholas (Group Chief Executive Officer)

Appointed: 7 May 2013

Term: 5 years

Board Committees: Investment/ Infrastructure

Career: CEO and Chief Operating Officer NTR plc, Executive Director ESB

External Appointments: Board of the Irish Management Institute (IMI)

3. Chris Banks

Appointed: 5 July 2016

Term: 5 years

Board Committees: Investment/ Infrastructure, Water Industry Operating Framework (WIOF)

Career: Commercial Director at Scottish Water from 2002-2014, Building Products, Minerals and Shipping industries

External Appointments: Non-executive Chairman of two early stage businesses in UK water retail services and communications infrastructure ducting. Strategic advisor in own consultancy business (Chris B2B Ltd)

4. Keith Harris

Appointed: 5 July 2016

Term: 3 years

Board Committees: Audit, Risk

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

External Appointments: Director and Audit Committee Chairman at South Staffordshire Water, Advisory Board member of private equity firm Buckthorn Partners, as well as an associate of OXERA, owner of the advisory business, LorraineHouse

5. Sean Hogan

Appointed: 20 January 2015

Term: 5 years

Board Committees: Risk, WIOF

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

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

6. Mari Hurley

Appointed: 11 June 2013

Term: 5 years

Board Committees: Audit, Risk, Remuneration

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

External Appointments: Appointed to the Board of NAMA in April 2014, CFO of Hostelworld Group plc

Keith Harris Chris Banks Peter Cross

Joe O'Flynn Sean Hogan

7. Fred Barry

Appointed: 5 July 2016

Term: 4 years

Board Committees: Investment/ Infrastructure, WIOF

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

External Appointments: Non-executive director of the PM Group

8. Peter Cross

Appointed: 20 January 2015

Term: 5 years

Board Committees: Audit, Risk

Career: Chief Financial Officer of Eircom July 2007 -December 2010, Chief Financial Officer of BT Openreach, Group Director of Corporate Finance and Trustee of the BT Pension Scheme, corporate finance positions with Morgan Stanley and Barings

External Appointments: Managing Director of Trasna Corporate Finance, Chairman of the HSE's Audit Committee and a Director of Cubic Telecom

Mari Hurley Tony Keohane Finbarr Kennelly Celine Fitzgerlad

Michael McNicholas Fred Barry

9. Celine Fitzgerald

Appointed: 20 January 2015

Term: 5 years

Board Committees: WIOF

Career: CEO of Rigney Dolphin between 2007 – 2012, customer relationship management in Vodafone and Eircell

External Appointments: Own consulting business (Integro Consulting), non-executive director of VHI, General Manager of GOAL

10. Finbarr Kennelly

Appointed: 11 December 2012

Term: 5 years

Board Committees: Audit, Remuneration

Career: Senior positions with the Gardiner Group, Financial Controller of telecoms company Alcatel Business Systems Ireland, former board member of The Housing Finance Agency plc, mentor with Plato Ireland.

External Appointments: Finance and Operations Director of Golf Vacations Ireland

11. Joe O'Flynn

Appointed: 20 January 2015 (having previously been appointed in November 2008 and re-appointed in November 2013)

Term: 3 years

Board Committees: Investment/ Infrastructure

Career: Former Lord Mayor of Cork and former city councillor

External Appointments: General secretary of SIPTU, director of three SIPTU affiliated bodies, Treasurer of the Irish Congress of Trade Unions and a member of its Executive Council

Report of the Board

This report describes Ervia's governance principles and practices. For the financial year ended December 31st 2016, Ervia's corporate governance practices were subject to the 2009 version of the Code of Practice for the Governance of State Bodies ('the Code'). The Report of the Board outlines how Ervia has applied these principles and complied with the provisions set out in the Code. Ervia and its subsidiary companies have instituted appropriate measures to comply with the Code, which sets out principles of Corporate Governance which the boards of state bodies are required to observe, and we can confirm full compliance with the Code.

A revised Code was issued by the Department of Public Expenditure and Reform in August 2016 ('the revised Code'). State bodies are expected to be fully compliant with the revised Code in relation to financial reporting periods beginning on or after September 1st 2016. An assessment of the impact of the revised Code on Ervia's governance structures and Ervia's reporting thereon has been undertaken and appropriate measures are being implemented to ensure full compliance before September 1st 2017. Ervia will report on compliance with the revised Code in its 2017 Annual Report.

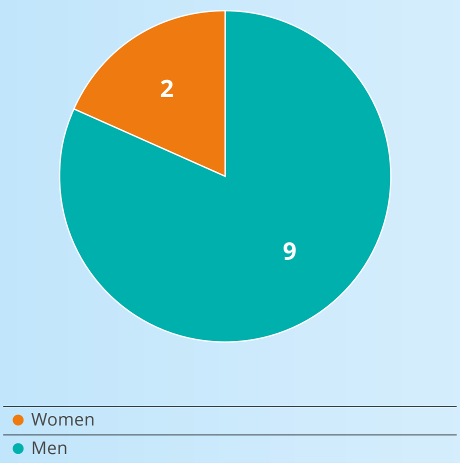
Board Composition

The Board's composition is a matter for the Minister for Housing, Planning, Community and Local Government ("the Minister"). Composition at December 31st 2016 is displayed on page 53.

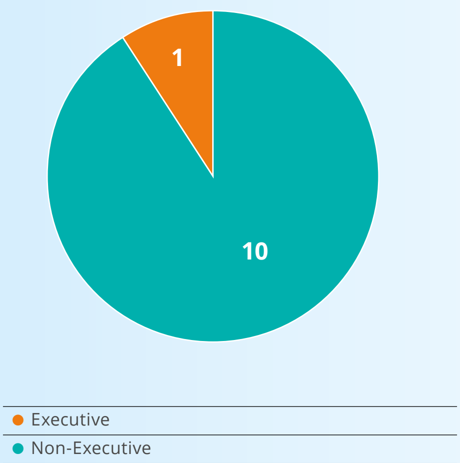
Appointment of Board Members

As Board appointments are a matter for Government, Ervia does not undertake an evaluation of individual Board members. However, the Chairman does engage with Government in advance of Board appointments to highlight the specific skills that are required on the Board. Where the Chairman considers that further diversity, including gender diversity, is required, a discussion takes place with the Minister. Board appointments conform to the Guidelines on Appointments to State Boards as published by the Department of Public Expenditure and Reform in November 2014.

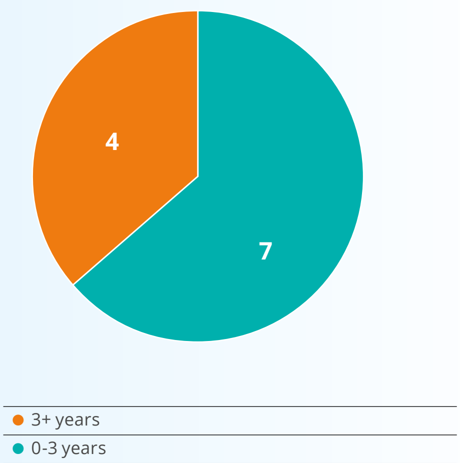
Board Gender



Executive and Non-Executive Board Members



Non-Executive Board Member Tenure



Induction and Development of New Board Members

A structured induction programme which includes meetings with members of Ervia's Executive Team, detailed business presentations and site visits to key operational locations is in place to familiarise new Board Members with the operations of the group.

The Chairman and Company Secretary review Board Members' training needs and match those needs with appropriate external seminars and speakers. The Chairman also discusses individual training and development requirements for each Board Member as part of the annual evaluation process and Board Members are encouraged to undertake appropriate training on relevant matters to ensure that their knowledge and experience matches the needs of Ervia.

Independence

The Board is satisfied that the non-executive Board Members are independent of management, independent in character and judgement and free from relationships or circumstances that could affect, or appear to affect, their judgement. Each Board Member brings independent judgement, challenge and rigour to the Board's deliberations. Board Members must declare any interest or relationship that could interfere with the exercise of their independent judgement.

Board Members' Remuneration

The Minister determines the fees payable to Board Members. Board Members' fees and expenses during 2016 are set out below.

Board Member	Remuneration	
Tony Keohane (Chairman)	€15,427	Term of office commenced on July 5th 2016 - €31,500 per annum
Michael McNicholas (Group Chief Executive Officer)	-	Does 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" issued in March 2006
Joe O'Flynn	-	Board fee waived on a discretionary basis
Sean Hogan	€15,750	
Peter Cross	€15,750	
Celine Fitzgerald	€15,750	
Mari Hurley	€15,750	
Finbarr Kennelly	€15,750	
Keith Harris	€7,713	Term of office commenced on July 5th 2016 - €15,750 per annum
Chris Banks	€7,713	Term of office commenced on July 5th 2016 - €15,750 per annum
Fred Barry	€7,713	Term of office commenced on July 5th 2016 - €15,750 per annum

Expenses of €6,855 were payable to Board Members for 2016.

Report of the Board (continued)

Role of the Board

The Ervia Board has a clearly defined role to play in Ervia's governance structure. The Board delegates authority to its Committees to carry out certain tasks on its behalf, so that it can give the right level of attention and consideration to those matters which require consideration at Board level. Ervia Board Committees are outlined in further detail below.

The Board is responsible for the proper management and long-term success of Ervia and it takes all significant strategic decisions, retaining full and effective control, while delegating day-to-day responsibility for management and operational and financial control, within defined authority limits, to the Group Chief Executive Officer and his Executive Team.

The business of the Board and its Committees is planned annually to ensure that there is effective supervision and control. The following are examples of some matters which are reserved for the Board's consideration/approval:

Board attendance in 2016

Members	Meetings A	Meetings B
Tony Keohane (Chairman)	5	5
Michael McNicholas	12	12
Sean Hogan	12	12
Peter Cross	12	12
Celine Fitzgerald	12	11
Mari Hurley	12	11
Joe O'Flynn	12	9
Finbarr Kennelly	12	12
Keith Harris	5	5
Chris Banks	5	5
Fred Barry	5	5

Column A indicates the number of meetings held during the period the Board Member was a member of the Board

Column B indicates the number of meetings attended during the period the Board Member was a member of the Board

Formal schedule of matters reserved for the Ervia Board

- Setting tone from the top and overall strategy as regards Safety
- Approval of Annual Budgets
- Approval/Review of Corporate Plan/ Subsidiary Business Plans
- Approval of contracts/expenditure with a value in excess of €10 million
- Approval of Annual Report and Financial Statements
- Acquisition of interests in non-Ervia companies
- Issue of securities in Ervia or any subsidiary and early repayment or major amendments to securities programmes
- Appointment/removal of auditors, on recommendation of the Audit and Risk Committee
- Significant amendments to Ervia pension schemes
- Establishing subsidiaries and joint ventures

For a full listing of matters refer to *www.ervia.ie.*

Examples of matters considered and/or approved by the Board in 2016:

Strategy

- Strategic direction of Ervia
- Received updates from management regarding ongoing dialogue with Ervia's principal shareholder on strategic issues

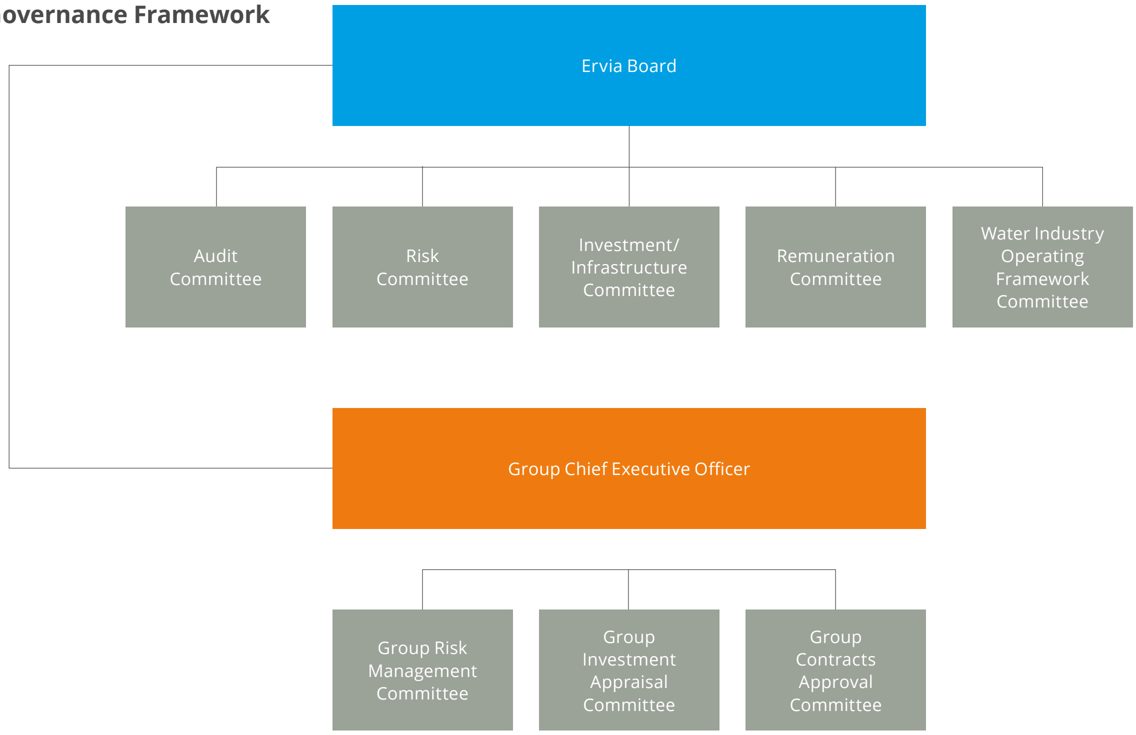
Finance

- Annual published results
- Monthly reports from the Group Finance Director on performance versus budget and forecast plus trading results
- Annual budget
- Dividends
- Funding

Operations

- Group Chief Executive Officer's Operations report including key performance indicators
- Health and Safety reports
- Capital investment evaluations

Ervia Governance Framework



Chairman

The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. He is specifically responsible for establishing and maintaining an effective working relationship with the Group Chief Executive Officer, for ensuring effective and appropriate communications with Ervia's principal capital stockholder and for ensuring that members of the Board develop and maintain an understanding of the views of shareholders. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives and is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman ensures that Board members receive accurate, timely and clear information.

Senior Independent Director

Mari Hurley is the Senior Independent Director ("SID"). The SID provides a sounding board for the Chairman. The SID also serves as an intermediary for the other Board Members where necessary and on matters where the Chairman has a conflict of interest or is otherwise unable to act.

Company Secretary

Board members have access to the advice and services of the Company Secretary Liam O'Riordan, whose responsibilities include ensuring the proper flow of information within the Board and its committees and between senior management and Board Members, as well as facilitating induction and mentoring and assisting with the ongoing professional development of Board members as required. The Company Secretary of the Board is responsible for advising the Board through the Chairman on governance matters generally.

Board Committee Composition

The Board has an effective Committee structure to assist in discharging its responsibilities, with specific purpose committees being formed to deal with matters requiring particular attention from the Board. At December 31st 2016, the Board had five Committees (the WIOF Committee is a specific purpose Committee established to provide oversight of the Water Industry Operating Framework project), each of which has formal terms of reference.

Audit Committee

The Audit Committee had six meetings during 2016. On February 28th 2017, the Board elected to consolidate the existing Audit and Risk Committees to form a single Audit and Risk Committee to ensure that adequate Board oversight of enterprise-wide audit-related issues, financial and other controls and risk is maintained.

Members	Meetings	
	A	B
Mari Hurley (Chairman)	6	6
Sean Hogan	4	4
Peter Cross	6	6
Finbarr Kennelly	6	5
Keith Harris	2	2

Column A indicates the number of meetings held during the period the Board Member was a member of the committee.

Column B indicates the number of meetings attended during the period the Board Member was a member of the committee.

Activities undertaken by the (then) Audit Committee in 2016 are outlined in the Audit and Risk Committee Report on page 62.

Report of the Board (continued)

Risk Committee

The Risk Committee had four meetings during 2016.

Members	Meetings A	Meetings B
Peter Cross (Chairman)	4	4
Sean Hogan	4	3
Mari Hurley	4	4
Keith Harris	2	2

Column A indicates the number of meetings held during the period the Board Member was a member of the committee.

Column B indicates the number of meetings attended during the period the Board Member was a member of the committee.

Key activities undertaken by the Risk Committee in 2016 with onward reporting to the Board:

Activity	Detail
Quarterly Risk Reports	▸ Quarterly Ervia Risk profile reporting including key, emerging and high impact/low probability risks;
Risk Deep Dives	▸ Business unit risk profiles ▸ Drinking water security of supply ▸ Information technology and cyber security risks
Overview of Ervia Business Resilience 2016	▸ Overview of key Ervia business continuity and crisis management activities and exercises.

Investment/Infrastructure Committee

The Investment/Infrastructure Committee had eight meetings during 2016.

Members	Meetings A	Meetings B
Joe O'Flynn (Chairman)	8	8
Michael McNicholas	8	8
Celine Fitzgerald	8	7
Finbarr Kennelly	5	5
Chris Banks	3	3
Fred Barry	3	3

Column A indicates the number of meetings held during the period the Board Member was a member of the committee.

Column B indicates the number of meetings attended during the period the Board Member was a member of the committee.

Key activities undertaken by the Investment/Infrastructure Committee in 2016:

Duty	Activity
Investment Proposals	▸ Reviewed approach to capital project evaluation and investment planning; ▸ Reviewed Major Projects (with capital value in excess of €10 million) in Gas and Water; ▸ Reviewed large connection agreements; ▸ Reviewed Irish Water Capital Investment Plan to 2021.

Remuneration Committee

The Remuneration Committee had nine meetings during 2016.

Members	Meetings A	Meetings B
Tony Keohane (Chairman)	2	2
Finbarr Kennelly	9	9
Mari Hurley	9	9
Sean Hogan	8	8

Column A indicates the number of meetings held during the period the Board Member was a member of the committee.

Column B indicates the number of meetings attended during the period the Board Member was a member of the committee.

Key activities undertaken by the Remuneration Committee in 2016:

Duty	Activity
Group Chief Executive Officer Targets	▸ Reviewed performance for 2015; ▸ Set targets for 2016;
Succession Planning	▸ Reviewed and considered the Group CEO / Executive Management Team succession plan;
Pay review	▸ Pay progression and Ervia pay model review.

Water Industry Operating Framework (WIOF) Committee

The WIOF Committee had four meetings during 2016.

Members	Meetings A	Meetings B
Sean Hogan (Chairman)	4	4
Celine Fitzgerald	4	4
Fred Barry	2	2
Chris Banks	2	2

Column A indicates the number of meetings held during the period the Board Member was a member of the committee.

Column B indicates the number of meetings attended during the period the Board Member was a member of the committee.

Key activities undertaken by the WIOF Committee in 2016:

Duty	Activity
Review of proposals for WIOF	▸ Review of Workplace Relations Commission Agreement; ▸ Review of Irish Water Service Level Agreement model; ▸ Review of Public Utility model; ▸ Stakeholder Management.

Report of the Board (continued)

Board and Committee Effectiveness and Evaluation
The Board considers it has an appropriate balance of skills, experience, independence and knowledge of Ervia to allow it to discharge its duties and responsibilities effectively, that it is of sufficient size to ensure that this balance of skills and experience can be utilised appropriately and that changes to the Board's composition can be managed without undue disruption.

Evaluation methodologies applied by the Board to determine its effectiveness:

Internal Evaluation

For 2016, the performance evaluation process for the Board and Board Committees was conducted internally, given that there had been an external review at the end of 2015. The various phases of the internal performance evaluation process which commenced in January 2017 are set out below:

- A questionnaire covering key aspects of Board effectiveness, including the composition of the Board, the content and running of Board and Committee meetings, corporate governance, risk, succession planning and the Board members' continuing education process, was circulated to the Board;
- Completed questionnaires, including views on performance and recommendations for improvement, were returned directly to the Chairman or the Senior Independent Director;
- The Chairman held follow up discussions with each of the Board members individually to clarify any points raised in the questionnaire and the Chairman and the Senior Independent Director then prepared summary reports on the Board and its Committees;
- The Board formally concluded on its own performance, on the performance of Committees and on the performance of individual Board members, including the Chairman. A number of actions were agreed which will be implemented by the Chairman during the current year. All action items arising from the 2015 evaluation were completed during the year ended December 31st 2016.

Non-Executive Board Member Evaluation

- In January 2017, non-executive Board Members carried out a performance evaluation of the Chairman taking into account the views of the Group Chief Executive Officer. Non-executive Board Members also carried out a performance evaluation of the Group Chief Executive Officer in January 2017.

Relations with Parent Department
In January 2016, the Department of Housing, Planning, Community and Local Government issued a Shareholder's Letter of Expectation to Ervia to provide guidance to the Board on the Government's current objectives for Ervia. Key areas of focus included financial target setting, the development of an ongoing dividend policy, agreement on defined levels for capital approvals and an independent valuation of Gas Networks Ireland based on the December 2015 year-end balance sheet. Discussions are ongoing with the Department in relation to these matters and a further iteration of the Shareholder's expectations is expected to issue during 2017.

Communications with Oireachtas Members
In September 2016, the Clerk of the Dáil requested that arrangements be put in place to facilitate the provision of information by state bodies to members of the Oireachtas. The new procedures for enquiries to State Bodies include: provision and maintenance of a dedicated email address for Oireachtas members; acknowledgment and response to queries within targets deadlines; internal and external appeal mechanisms; formal feedback processes to obtain feedback from Oireachtas members and that each state body should report annually in their Annual Report on compliance with the standards.

Ervia has established a dedicated email address oireachtas@ervia.ie for this purpose and received one query from an Oireachtas member in 2016. Ervia issued a response to this query within the target deadline.

Corporate Governance Statement
Ervia is committed to the highest standards of corporate governance and continuously reviews and updates its policies and procedures to ensure compliance with best practice.
The Code is fundamental to the organisation's governance practices and procedures, and Ervia and its subsidiary companies have instituted appropriate measures to comply with the Code, which sets out the principles of corporate governance which the boards of state bodies are required to observe. Ervia is currently implementing appropriate measures to comply with the revised Code and will report on compliance in its 2017 Annual Report.

The Companies Act, 2014 ("Act") commenced on June 1st 2015. As a statutory body, Ervia is not subject to the provisions of the Act. However, Ervia's subsidiaries, (including Gas Networks Ireland and Irish Water) are subject to the Act, which applies certain requirements to accounting periods commencing on or after June 1st 2015. As required by section 225(2) of the Act, the directors of these entities must acknowledge that they are responsible for securing that company's compliance with its relevant obligations (as defined in that legislation). The directors of Gas Networks Ireland, Irish Water and Ervia Finance Plc have drawn up compliance policy statements, and have put in place arrangements and structures that are, in the directors' opinion, designed to secure material compliance with the relevant obligations. The Group's subsidiaries were re-registered to "DAC" companies or converted to "LTD" companies, as appropriate during 2016.

For details of the principal legislation under which Ervia and its subsidiaries operate and to access the key documentation which underpins Ervia's corporate structure, refer to *www.ervia.ie*.

Transparency

Ervia, as a commercial state body and the parent of Gas Networks Ireland and Irish Water, is an open organisation which strives to be accountable and transparent to the public. Ervia has developed a transparency policy in order to enhance its accountability and in recognition of its duties as a responsible corporate citizen.

Protected disclosures and raising concerns

- The mechanism whereby Ervia's employees and senior management may raise concerns, or make disclosures in the public interest, in accordance with the Protected Disclosures Act 2014, is outlined in the Ervia Protected Disclosures Policy;
- Further guidance on raising concerns for management and employees is outlined in the Code of Business Conduct;
- Section 22 of the Protected Disclosures Act 2014 requires Ervia to publish an Annual Report relating to protected disclosures made under the Act. In accordance with this requirement, Ervia confirms that in the year ending December 31st 2016, one protected disclosure was made to Ervia. The matter was reported and is being investigated in accordance with Ervia's Protected Disclosures Policy.

Regulation of Lobbying

- In accordance with the requirements of the Regulation of Lobbying Act 2015, Ervia and its two major operating subsidiaries (Gas Networks Ireland and Irish Water) are registered on the lobbying register maintained by the Standards in Public Office Commission (www.lobbying.ie) and have made the required returns for the return periods in 2016.

Prompt Payments

- The Board acknowledges its responsibility for ensuring compliance with the provisions of EU Directive 2011/7/EC as transposed by the European Communities (Late Payment in Commercial Transactions) Regulations 2012 (the "Regulations"), the provisions include the entitlement of suppliers to interest on late payments;
- Ervia operates a policy of paying all undisputed supplier invoices within the agreed terms of payment to comply with the requirements of the Regulations. Appropriate internal financial controls are in place within Ervia, including clearly defined roles and responsibilities and monthly reporting and review of payment practices. Procedures have been put in place to identify the dates upon which invoices fall due for payment and for payments to be made on or before such dates. These procedures provide reasonable assurance against material non-compliance with the Regulations. No interest in respect of late payments was paid in 2016.
- In 2015 the Government launched the Prompt Payment Code of Conduct (the "Code"), which can be found at www.promptpayment.ie. Ervia is a signatory to the Code and pursuant to its provisions, undertakes to pay suppliers on time, to give clear guidance to suppliers on payment procedures and to encourage the adoption of the Code by suppliers within their own supply chains;
- The Board is satisfied that Ervia has complied with the requirements of the Regulations in all material respects.

Model Publication Schemes

Section 8 of the Freedom of Information Act 2014 (the "FOI Act") requires that Irish Water and Gas Networks Ireland, as bodies subject to the FOI Act, must prepare and publish a scheme concerning the publication of information by each body. This scheme must conform to a 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 ("FOI"), having regard to the principles of openness, transparency and accountability as set out in Sections 8(5) and 11(3) of the FOI Act.

Publication Schemes for each of Irish Water and Gas Networks Ireland were published on their websites before the go live date of April 14th 2016. Material published under the scheme is reviewed and updated on a quarterly basis. For access to each of these schemes, refer to www.water.ie and www.gasnetworks.ie. Although Ervia is not itself subject to FOI legislation, it strives to apply the principle of transparency to all it does and therefore adheres to the model publication scheme by publishing relevant information on its website.

Financial and Business Report

The Board recognises its responsibility for preparing the annual report and financial statements. The Board members' responsibilities regarding financial statements and going concern are set out on page 66.

Report of the Board (continued)

Internal Control

The Board has overall responsibility for the systems of internal control and for monitoring their effectiveness. Management is responsible for identification and evaluation of significant risks, together with design and operation of suitable internal control systems. These systems provide reasonable but not absolute assurance against material misstatements or loss.

Ervia's system of internal control consists of:

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

The Board has reviewed the effectiveness of the organisation's 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 2016 and will ensure a similar review is performed in 2017. A detailed review was performed by the Audit and Risk Committee, which reported on its findings to the Board.

The process used to review effectiveness of the system of internal control includes:

- 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;
- Close liaison with the Audit and Risk Committee which reviews Risk Management Activity Reports from the Group Risk Management Committee on risks, controls and implementation status of action plans;
- Review and consideration of the report by the Group 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 Forum reports on Business Unit assurance over the system of internal control.

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

Risk Management

Ervia recognises that risk is an inherent part of our business activities, as is our commitment to managing it. The Ervia Board has overall responsibility for the risk approach in the organisation.
In particular this includes:

- Ensuring that adequate and consistent processes and oversight for measuring, managing, monitoring and reporting of the key risks to which the Group is exposed are in place;
- Ensuring that oversight and an assessment of the Group's principal risks, including a description of these risks and associated mitigation measures or strategies and their effectiveness is undertaken;
- Embedding an appropriate risk culture.

The Board carried out a robust assessment of the principal risks facing the organisation throughout 2016. An ongoing and formal quarterly process is in place for identifying, measuring, managing, monitoring and reporting on significant risks, which has been in operation for the year under review and up to the date of approval of the annual report. These principal risks and mitigating controls/actions are as set out on pages 22 to 23.

The Board sets a strong tone from the top in relation to risk management and has appropriate transparency and visibility on risk and the management of risk across the organisation. Risk management is an integral part of Ervia's processes and plays a pivotal role in decision making across the organisation. The Board places emphasis on ensuring that sufficient risk management experience and skills are available throughout the organisation. Following the completion of the annual review of effectiveness of the Group's system of internal control and risk management systems for 2016, the Board confirms the following for 2016:

- There is an ongoing process for identifying, evaluating and managing the principal risks of the Group;
- Systems of internal control have been in place for the year under review and up to the date of approval of the annual report;
- The systems accord with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting;
- That no significant failings or weaknesses were identified in the review and where areas of improvement were identified, processes are in place to ensure necessary action is taken and progress is monitored.

Through its ongoing involvement and overview of internal control and risk management activities, the Board is satisfied that the internal control and risk management remain effective.

Conclusion

Compliance Statement

In developing its Corporate Governance Policy to ensure the Board carries out its role effectively, the Board has sought to give effect to the Code. The Chairman, and, prior to his appointment in 2016, the SID, reported to the Minister for Housing, Planning, Community and Local Government on compliance with the Code throughout the financial year.

Board Members' Interests

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

The Board is satisfied that its non-executive 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 or 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 absent themselves from Board discussions and decisions where they are conflicted or have a direct or indirect interest as required by the Code. In such cases, a separate record (to which the Board Member does not have access) is maintained. Disclosure is provided, as required, in note F4 "Related Parties" to the financial statements of related party transactions where the Board Member holds a material interest in the relevant entity.

Accounting Records

The Board Members believe that they have employed accounting personnel with appropriate expertise and that they have provided adequate resources to the financial function to ensure compliance with Ervia's obligation to keep adequate accounting records. The accounting records of Ervia are held at Webworks, Eglinton Street, Cork.

External Auditor

The external auditor, Deloitte, has expressed its willingness to continue in office for 2017. Refer to the Chairman of the Audit and Risk Committee's report on page 62 for more details.

Going Concern

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

For and on behalf of the Board:

Member of the Board

Member of the Board

Audit and Risk Committee Report

Mari Hurley
Chairman,
Audit and Risk Committee

Chairman's Introduction

In 2017, the Board elected to consolidate the existing Audit and Risk Committees to form a single Audit and Risk Committee to ensure that adequate Board oversight of enterprise-wide audit-related issues, financial and other controls and risk is maintained.

Key Objective of the Audit and Risk Committee

The role of the Audit and Risk Committee is set out in its Terms of Reference, a copy of which can be found on the Ervia website, www.ervia.ie. The Terms of Reference sets out the duties of the Audit and Risk Committee under the following headings:

- Internal Controls;
- Financial Statements;
- External Audit;
- Internal Audit;
- Risk Management;
- Protected Disclosures.

Auditor Appointment, Independence and Effectiveness

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

The Audit and Risk Committee also assesses the auditor's independence on an ongoing basis. The Audit and Risk Committee is satisfied that Deloitte is both independent and objective.

The effectiveness of the external auditor is reviewed annually, taking into account feedback from a questionnaire on the evaluation of the external auditor. The evaluation focuses on such areas as the robustness of the audit process, audit team, communications and governance. Overall the review was very satisfactory. During the year the external auditors met with the (then) Audit Committee. No executive members of the Board or management were present at this meeting.

Non-Audit Services

The Audit and Risk Committee has a policy regarding the provision of non-audit services by the external auditor. This delegates responsibility to the Group Finance Director to pre-approve non-audit services, provided they are not in conflict with the auditor's independence and the related fees are within the maximum spend limit per calendar year set by the Audit and Risk Committee.

Key activities undertaken by the (then) Audit Committee in 2016:

Activity	**Detail**
Internal Controls	The Audit Committee reviewed, on behalf of the Board, the effectiveness of the Group's system of risk management and internal control. Monitoring covered all controls, including financial, operational and compliance controls and risk management processes. During the financial year, the Committee considered reports from the Head of Internal Audit summarising the work planned and undertaken, recommending improvements and describing actions taken by management.
Financial Statements	The Committee reviewed the draft annual financial statements before recommending their approval to the Board. The Committee considered, and discussed with the Group CEO, Group Finance Director and external auditors, the appropriateness of the significant accounting policies, estimates and judgements applied in preparing these financial statements, together with presentational and disclosure issues.
External Audit	The Committee approved the remuneration and terms of engagement of the external auditor. The Audit Committee reviewed the external audit plan and the findings of the external auditor from its audit of the annual financial statements. The Committee took appropriate steps to ensure that an objective and professional relationship was maintained with the external auditor. The Committee carried out an assessment of auditor independence and objectivity. This included reviewing: ▸ a) The nature and extent of the services provided, and fees earned, for external audit and non-audit work carried out by the external auditor; and ▸ b) 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. There were no instances where the external auditor was engaged to provide services which were adjudged to give rise to a conflict of interest. ▸ The Committee also monitored the external auditor's compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, as well as assessing annually its qualifications, expertise, resources and the effectiveness of the audit process.
Internal Audit	The Committee reviewed the plans and work undertaken during the year by the Group's Internal Audit department and the consequential actions agreed with management. The Committee was appraised by the Head of Internal Audit of the findings of internal audit reviews. The Committee also considered management's progress in addressing the relevant issues, including the nature, extent and speed of response. The Committee reviewed and agreed an enterprise risk-based internal audit annual plan, including the resources required, and considered the alignment of internal audit focus with the areas of greatest risk facing the Group. The Committee also evaluated the performance of internal audit for 2016 in February 2017.

On behalf of the Audit and Risk Committee:

Chairman,
Audit and Risk Committee

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 for the year of both the Group and the Parent.

Staff in conversation at the Shanbally Wastewater Treatment Plant in Cork Lower Harbour.

Financial Statements

Board Responsibilities Statement for the year ended 31 December 2016

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 for the year of both the Group and the Parent. 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 Acts 1976 to 2009. The Board is responsible for reviewing the effectiveness of the system of internal controls comprising Financial, Operational, Compliance and Risk Management, and for reporting thereon to the Minister for Housing, Planning, Community and Local Government. The Board is also responsible for safeguarding the assets of Ervia and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

- Suitable accounting policies have been selected and applied consistently.
- Judgements and estimates used are reasonable and prudent.
- Preparation of the financial statements on the going concern basis is appropriate.

For and on behalf of the Board:

Tony Keohane	Mari Hurley	28th March 2017
Chairman	**Member of the Board**	**Date of Approval**

Independent Auditor's Report to the Members of Ervia

We have audited the financial statements of Ervia for the year ended 31 December 2016 which comprise the Group Income Statement, the Group Statement of Other Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Statement of Cash Flows and the related Group notes A1 to F9, the Parent Income Statement, the Parent Statement of Other Comprehensive Income, the Parent Balance Sheet, the Parent Statement of Changes in Equity, the Parent Statement of Cash Flows and the related Parent notes G1 to K3. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the members of Ervia, as a body, in accordance with Section 15 of the Gas Act, 1976. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an 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.

Respective responsibilities of the Board and Auditor

As explained more fully in the Board Responsibilities Statement, the Board is responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Ervia's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- The Group and Parent financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group and Parent affairs as at 31 December 2016 and of the profit of the Group and Parent for the year then ended; and
- The financial statements have been properly prepared in accordance with the requirements of the Gas Acts, 1976 to 2009.

Matters on which we are required to report

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion, adequate accounting records have been kept by the Parent.
- The Parent Income Statement and Balance Sheet are in agreement with the books of account.
- 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 ("the Code") we are required to report to you if the statement regarding the system of internal financial control required under the Code as included in the Corporate Governance Statement in the Report of the Board on pages 52 to 61 does not reflect the Group's compliance with paragraph 13.1 (iii) of the Code or if it is not consistent with the information of which we are aware from our audit work on the financial statements.

We have nothing to report.

Deloitte

Chartered Accountants and Statutory Audit Firm
Dublin
13th April 2017

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

Group Income Statement
for the year ended 31 December 2016

	Notes	Before exceptional items 2016 €'000	Exceptional items 2016 €'000	After exceptional items 2016 €'000	Before exceptional items 2015 €'000	Exceptional items 2015 €'000	After exceptional items 2015 €'000
Continuing operations							
Revenue	D1	**497,718**	**-**	**497,718**	491,108	-	491,108
Operating costs (excluding depreciation and amortisation)	E1	**(174,711)**	**-**	**(174,711)**	(184,141)	-	(184,141)
Operating profit before depreciation and amortisation (EBITDA)		**323,007**	**-**	**323,007**	306,967	-	306,967
Depreciation and amortisation	B4	**(127,579)**	**-**	**(127,579)**	(124,770)	-	(124,770)
Operating profit		**195,428**	**-**	**195,428**	182,197	-	182,197
Finance income	C4	**-**	**1,175**	**1,175**	-	1,153	1,153
Finance costs	C4	**(46,902)**	**(28,865)**	**(75,767)**	(47,065)	-	(47,065)
Net finance (costs)/income	C4	**(46,902)**	**(27,690)**	**(74,592)**	(47,065)	1,153	(45,912)
Profit/(loss) before income tax		**148,526**	**(27,690)**	**120,836**	135,132	1,153	136,285
Income tax (expense)/credit	F3	**(19,819)**	**1,649**	**(18,170)**	(19,602)	(144)	(19,746)
Profit/(loss) for the year		**128,707**	**(26,041)**	**102,666**	115,530	1,009	116,539
Profit attributable to:							
Owners of the Parent		**128,707**	**(26,041)**	**102,666**	115,530	1,009	116,539
Profit/(loss) for the year		**128,707**	**(26,041)**	**102,666**	115,530	1,009	116,539

For and on behalf of the Board:

[signature]	[signature]	28th March 2017
Chairman	**Member of the Board**	**Date of Approval**

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

Group Statement of Other Comprehensive Income for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Profit for the year		**102,666**	116,539
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial (losses)/gains	E5	**(71,686)**	42,758
Deferred tax credit/(expense) relating to defined benefit obligations	F3	**8,961**	(5,345)
Total items that will not be reclassified to profit or loss		**(62,725)**	37,413
Items that may be reclassified subsequently to profit or loss:			
Translation differences on consolidation of foreign subsidiaries		**(2,553)**	2,058
Net change in fair value of cash flow hedges		**2,001**	7,439
Deferred tax on cash flow hedge movement	F3	**(250)**	(930)
Total items that may be reclassified subsequently to profit or loss		**(802)**	8,567
Total other comprehensive (expense)/income for the year, net of income tax		**(63,527)**	45,980
Total comprehensive income for the year		**39,139**	162,519
Total comprehensive income attributable to:			
Owners of the Parent		**39,139**	162,519
Total comprehensive income for the year		**39,139**	162,519

For and on behalf of the Board:

Tony Keohane	Mari Hurley	28th March 2017
Chairman	**Member of the Board**	**Date of Approval**

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

Group Balance Sheet
as at 31 December 2016

	Notes	31-Dec-16 €'000	31-Dec-15 €'000
Assets			
Non-current assets			
Property, plant and equipment	B1	**2,501,880**	2,528,342
Intangible assets	B3	**28,030**	31,232
Trade and other receivables	D2	**16,300**	23,909
Derivative financial instruments	C5	**58,026**	54,999
Total non-current assets		**2,604,236**	2,638,482
Current assets			
Trade and other receivables	D2	**99,804**	88,273
Cash and cash equivalents	C3	**87,915**	97,434
Restricted deposits	E9	**43,866**	35,022
Derivative financial instruments	C5	**400**	6,062
Current tax assets	F3	**-**	2,520
Inventories	F6	**2,406**	1,545
Total current assets		**234,391**	230,856
Total assets		**2,838,627**	2,869,338
Equity and liabilities			
Equity			
Retained earnings		**(1,041,376)**	(1,136,094)
Translation reserve		**(2,161)**	(4,714)
Cash flow hedge reserve		**513**	2,264
Total equity attributable to equity holders of the Parent		**(1,043,024)**	(1,138,544)
Liabilities			
Non-current liabilities			
Borrowings and other debt	C2	**(1,130,380)**	(1,023,749)
Retirement benefit obligations	E5	**(129,285)**	(51,343)
Deferred revenue	D4	**(12,180)**	(12,766)
Government grants	B2	**(65,693)**	(70,571)
Provisions	E7	**(12,608)**	(14,408)
Trade and other payables	E6	**(13,987)**	(24,803)
Derivative financial instruments	C5	**(6,846)**	(10,879)
Deferred tax liabilities	F3	**(194,548)**	(197,109)
Total non-current liabilities		**(1,565,527)**	(1,405,628)
Current liabilities			
Borrowings and other debt	C2	**(41,350)**	(151,952)
Deferred revenue	D4	**(6,130)**	(4,758)
Government grants	B2	**(5,701)**	(5,983)
Provisions	E7	**(4,486)**	(4,419)
Derivative financial instruments	C5	**(1,901)**	(2,805)
Trade and other payables	E6	**(169,797)**	(155,249)
Current tax liabilities	F3	**(711)**	-
Total current liabilities		**(230,076)**	(325,166)
Total liabilities		**(1,795,603)**	(1,730,794)
Total equity and liabilities		**(2,838,627)**	(2,869,338)

For and on behalf of the Board:

Tony Keohane | Maria Hurley | 28th March 2017

Chairman | **Member of the Board** | **Date of Approval**

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

Group Statement of Changes in Equity for the year ended 31 December 2016

	Retained earnings €'000	Translation reserve €'000	Cash flow hedge reserve €'000	Total €'000
Balance at 1 January 2015	(1,115,299)	(2,656)	8,773	(1,109,182)
Profit for the year	(116,539)	-	-	(116,539)
Other comprehensive income for the year, net of income tax	(37,413)	(2,058)	(6,509)	(45,980)
Total comprehensive income for the year	(153,952)	(2,058)	(6,509)	(162,519)
Dividends declared (note F5)	133,157	-	-	133,157
Balance at 31 December 2015	(1,136,094)	(4,714)	2,264	(1,138,544)
Profit for the year	**(102,666)**	**-**	**-**	**(102,666)**
Other comprehensive expense/(income) for the year, net of income tax	**62,725**	**2,553**	**(1,751)**	**63,527**
Total comprehensive income for the year	**(39,941)**	**2,553**	**(1,751)**	**(39,139)**
Dividends declared (note F5)	**134,659**	**-**	**-**	**134,659**
Balance at 31 December 2016	**(1,041,376)**	**(2,161)**	**513**	**(1,043,024)**

All attributable to equity holders of the Parent.

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

Group Statement of Cash Flows for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Net cash from operating activities	F1	**277,602**	262,898
Cash flows from investing activities			
Proceeds from sale of Energy division		**1,195**	2,200
Payments for property, plant and equipment		**(124,743)**	(95,705)
Payments for intangible assets		**(10,415)**	(4,514)
Grants received	B2	**4,781**	557
Net cash used in investing activities		**(129,182)**	(97,462)
Cash flows from financing activities			
Repurchase of capital stock (note F7)		**(11,119)**	(12,243)
Proceeds from borrowings		**687,000**	67,241
Repayment of borrowings		**(681,353)**	(78,139)
Bond buy back payment	C4	**(21,065)**	-
Movement on credit support arrangements		**3,630**	-
Dividends paid	F5	**(134,659)**	(151,033)
Net cash used in financing activities		**(157,566)**	(174,174)
Net decrease in cash and cash equivalents	C3	**(9,146)**	(8,738)
Cash and cash equivalents at 1 January	C3	**97,434**	105,997
Effect of exchange rate fluctuations on cash held	C3	**(373)**	175
Cash and cash equivalents at 31 December	C3	**87,915**	97,434

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

Notes to the Group financial statements

Notes to the Group financial statements

A Significant Disclosures

A1 Basis of Preparation

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

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

The Group and Parent financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, as endorsed by the EU, and effective for accounting periods ending 31 December 2016.

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

The going concern statement in the Board Responsibilities Statement forms part of the Group financial statements.

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

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

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

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

A2 Significant Judgements and Estimates

Group and Parent
In the process of preparing these financial statements, judgements and estimates are necessarily used which affect the application of the Group's accounting policies (refer to note F8) and the reported amounts of assets, liabilities, income and expenses.

When necessary, the Group exercises judgement to determine the most appropriate accounting policy that will supply relevant and reliable information for preparation of its financial statements. Estimates and underlying assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Estimates are subject to continual re-evaluation and revisions to estimates are recognised prospectively. It should be noted that the impact of variation in some estimates and assumptions could have a material impact on the reported results.

A2 Significant Judgements and Estimates (continued)

The judgements and estimates applied in preparing these financial statements include, but are not limited to, the following:

i. Property, plant and equipment / intangible assets
Property, plant and equipment / intangible assets represent the majority of the Group's asset base and a significant proportion of the Group's annual expenditure. Therefore the estimates and assumptions made in determining the carrying values and related depreciation / amortisation are critical to the Group's financial performance and position.

The Group recognises property, plant and equipment / intangible assets where such expenditure satisfies the criteria of the relevant IFRS (i.e. enhancement expenditure etc.), otherwise the expenditure is classed as maintenance and is expensed in the period it is incurred. Distinguishing between enhancement expenditure and maintenance expenditure is a subjective area, particularly when projects have both elements within them.

The estimated useful economic lives of assets are based on judgement and experience. Any required changes are adjusted prospectively, and due to the significance of asset investment in the Group, variations between actual and estimated useful economic lives could impact future operating results, either positively or negatively.

The Group is required to evaluate the carrying values of assets for impairment whenever circumstances indicate, in the Group's judgement, that the carrying value of such assets may not be recoverable. An impairment review requires subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Further detail is set out in the relevant notes and the Group's accounting policies.

ii. Retirement benefit obligations
The value of retirement benefit obligations is based on actuarial valuations that are sensitive to assumptions. The principal actuarial assumptions used to calculate these retirement benefit obligations at 31 December 2016 are presented in note E5. These assumptions are updated annually. The assumptions (with the exception of the discount rate) have been set so that they represent a best estimate of future experience from the scheme. In practice future experience may not be in line with the assumptions adopted. This means that the liabilities shown in note E5 only represent one view of the future and the true costs could be different to those shown. For example members could live longer than foreseen or inflation could be higher or lower than allowed for in the defined benefit obligation calculation. Differences between actual and expected experience will be recognised through other comprehensive income as they arise and may contribute to the volatility of the balance sheet position.

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

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

Notes to the Group financial statements (continued)

A2 Significant Judgements and Estimates (continued)

iv. Provisions, contingencies, accruals and other liabilities
The assessments undertaken in recognising provisions, contingencies, accruals and other liabilities have been made in accordance with the relevant IFRS and the Group's accounting policies. The amounts recognised as a provision are the Group's best estimate of the expenditure required to settle present obligations at the reporting date. The outcome depends on future events which are by their nature uncertain. In assessing the likely outcome, the Group bases its assessment on historical experience and other factors that are believed to be reasonable in the circumstances. A revised estimate is therefore 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. Any significant differences resulting from these revised estimates could entail changes in the amounts accrued.

v. Arrangements that contain a lease
The Group has entered into a number of arrangements which fall within the scope of IFRIC 4, as they relate to use and control of a specific asset. At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. In applying the Group's accounting policy, it has been determined that each of these arrangements represent operating leases. All receipts from these arrangements, within the scope of IFRIC 4, are deemed to be earned as part of the Group's core operations and accordingly the lease income is recognised as revenue in the income statement. Refer to note D3.

vi. Fair value determination of financial assets and liabilities
The valuation of certain financial instruments is based on a number of judgemental factors and assumptions which of necessity are not based on observable inputs. Refer to note C6 for further details.

A3 Subsequent Events

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

The Ervia Board continues to monitor the work of the Joint Committee on the Future Funding of Domestic Water Services in Ireland in relation to Irish Water, as described in further detail in the Chairman's Statement. Noting that Ervia does not consolidate Irish Water, as outlined in note F7, the subsequent event has no financial impact on the Ervia financial statements.

B Our Infrastructure and the assets we use in our business

B1 Property, Plant and Equipment

	Land and buildings €'000	Plant, pipeline and machinery €'000	Assets under construction €'000	Total €'000
Cost				
At 1 January 2015	88,497	3,865,285	37,568	3,991,350
Additions	-	66,758	35,955	102,713
Transfers in year	174	12,584	(12,758)	-
Disposals	-	(3,487)	-	(3,487)
Effect of movement in exchange rates	-	13,097	90	13,187
At 31 December 2015	88,671	3,954,237	60,855	4,103,763
Additions	**-**	**3,680**	**112,719**	**116,399**
Transfers in year	**198**	**109,875**	**(110,073)**	**-**
Disposals	**-**	**(2,876)**	**-**	**(2,876)**
Effect of movement in exchange rates	**-**	**(35,518)**	**(324)**	**(35,842)**
At 31 December 2016	**88,869**	**4,029,398**	**63,177**	**4,181,444**
Accumulated depreciation and impairment losses				
At 1 January 2015	(30,476)	(1,423,536)	-	(1,454,012)
Depreciation for the year	(1,732)	(116,909)	-	(118,641)
Disposals	-	1,739	-	1,739
Effect of movement in exchange rates	-	(4,507)	-	(4,507)
At 31 December 2015	(32,208)	(1,543,213)	-	(1,575,421)
Depreciation for the year	**(1,816)**	**(119,926)**	**-**	**(121,742)**
Disposals	**-**	**2,818**	**-**	**2,818**
Effect of movement in exchange rates	**-**	**14,781**	**-**	**14,781**
At 31 December 2016	**(34,024)**	**(1,645,540)**	**-**	**(1,679,564)**
Carrying amounts				
At 31 December 2015	56,463	2,411,024	60,855	2,528,342
At 31 December 2016	**54,845**	**2,383,858**	**63,177**	**2,501,880**

During the year, the Group capitalised €0.4 million (2015: €0.9 million) in interest. The capitalisation rate was 4.4% (2015: 4.7%). The Group also capitalised €11.1 million in payroll costs during the year (2015: €10.7 million).

Gas Networks Ireland (IOM) Limited, a subsidiary within the Group, entered into a project financing arrangement in 2003. The balance outstanding of €10.3 million at 31 December 2016 (2015: €13.3 million) on this limited recourse loan facility is secured over the assets of Gas Networks Ireland (IOM) Limited (note C2).

Capital commitments

	2016 €'million	2015 €'million
Contracted for	**76**	89

Notes to the Group financial statements (continued)

B2 Government Grants

	2016 €'000	2015 €'000
At 1 January	**(76,554)**	(80,379)
Received in year	**(4,781)**	(557)
Amortised in year	**5,831**	6,057
Effects of movement in exchange rates	**4,110**	(1,675)
At 31 December	**(71,394)**	(76,554)

Analysed as follows:	31-Dec-16 €'000	31-Dec-15 €'000
Non-current	**(65,693)**	(70,571)
Current	**(5,701)**	(5,983)
Total	**(71,394)**	(76,554)

In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to. There are no unfulfilled conditions attaching to government grants received prior to 2015.

During 2015 and 2016, the Group secured approval for EU grant aid of €40.1 million from the Innovation and Networks Executive Agency (INEA) for the twinning infrastructure project and the compressed natural gas project. €4.8 million was received during the year (2015: €0.6 million) from the INEA in aggregate for these projects in progress.

B3 Intangible Assets

	Software and other €'000	Software under development €'000	Total €'000
Cost			
At 1 January 2015	121,094	1,128	122,222
Additions (incl internally developed)	-	6,029	6,029
Transfers in year	5,671	(5,671)	-
Effects of movement in exchange rates	32	-	32
At 31 December 2015	126,797	1,486	128,283
Additions (incl internally developed)	**114**	**8,362**	**8,476**
Transfers in year	**1,813**	**(1,813)**	**-**
Effects of movement in exchange rates	**(97)**	**-**	**(97)**
At 31 December 2016	**128,627**	**8,035**	**136,662**
Accumulated amortisation and impairment losses			
At 1 January 2015	(84,749)	-	(84,749)
Amortisation for the year	(12,186)	-	(12,186)
Effects of movement in exchange rates	(116)	-	(116)
At 31 December 2015	(97,051)	-	(97,051)
Amortisation for the year	**(11,668)**	**-**	**(11,668)**
Effects of movement in exchange rates	**87**	**-**	**87**
At 31 December 2016	**(108,632)**	**-**	**(108,632)**
Carrying amounts			
At 31 December 2015	29,746	1,486	31,232
At 31 December 2016	**19,995**	**8,035**	**28,030**

During the year, the Group capitalised the sum of €1.8 million in payroll costs during the year (2015: €1.5 million).

B4 Depreciation and Amortisation

	2016 €'000	2015 €'000
Depreciation	**(121,742)**	(118,641)
Amortisation of intangible assets	**(11,668)**	(12,186)
Grant amortisation	**5,831**	6,057
Total	**(127,579)**	(124,770)

Notes to the Group financial statements (continued)

C How we finance our business

C1 Analysis of Net Debt

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

		31-Dec-16 €'000	31-Dec-15 €'000
Total borrowings	C2	**(1,171,730)**	(1,175,701)
Less fair value hedges recognised within borrowings	C5	**55,818**	56,693
Less free cash deposits	C3	**87,915**	97,434
Net debt		**(1,027,997)**	(1,021,574)

Net debt reconciliation		2016 €'000	2015 €'000
At 1 January		**(1,021,574)**	(1,010,149)
Cash from operations		**326,755**	324,545
Interest paid		**(42,608)**	(37,610)
Tax paid		**(6,545)**	(24,037)
Net capital expenditure		**(130,377)**	(99,662)
Dividends paid	F5	**(134,659)**	(151,033)
Bond redemption payment	C4	**(21,065)**	-
Other cash items		**(6,294)**	(10,043)
Non cash items		**8,370**	(13,585)
At 31 December		**(1,027,997)**	(1,021,574)

C2 Borrowings and Other Debt

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

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

	Bonds	Loans from financial institutions[1]	Total	Bonds	Loans from financial institutions[1]	Total
	31-Dec-16	31-Dec-16	31-Dec-16	31-Dec-15	31-Dec-15	31-Dec-15
	€'000	€'000	€'000	€'000	€'000	€'000
Less than one year	**-**	**(41,350)**	**(41,350)**	-	(151,952)	(151,952)
Current	**-**	**(41,350)**	**(41,350)**	-	(151,952)	(151,952)
Between one and five years	**-**	**(510,463)**	**(510,463)**	(499,672)	(386,671)	(886,343)
More than five years	**(619,917)**	**-**	**(619,917)**	-	(137,406)	(137,406)
Non-current	**(619,917)**	**(510,463)**	**(1,130,380)**	(499,672)	(524,077)	(1,023,749)
Total	**(619,917)**	**(551,813)**	**(1,171,730)**	(499,672)	(676,029)	(1,175,701)

[1] including private placement notes.

Total borrowings include €426.4 million (2015: €374.1 million) of floating rate debt, €10.3 million (2015: €13.3 million) of inflation linked debt and €735.0 million (2015: €788.3 million) of fixed rate debt which have been drawn down from various lenders. The inflation linked debt is secured over the assets of Gas Networks Ireland (IOM) Limited, which primarily comprises a gas transmission pipeline to the Isle of Man. The revenues from this pipeline are indexed to the U.K. Retail Price Index (UK RPI). Accordingly, to mitigate the risk of low inflation, this debt is also linked to the UK RPI using an index-linked hedge.

Included in borrowings are sterling denominated bank loans, which have been used as a hedge of the Group's investment in a sterling denominated subsidiary in the United Kingdom. The carrying amount of the loans at 31 December 2016 was €117.0 million (2015: €135.6 million).

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

C3 Cash and Cash Equivalents

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

	31-Dec-16	31-Dec-15
	€'000	€'000
Short-term deposits	**69,000**	75,500
Cash	**18,915**	21,934
Total	**87,915**	97,434

	2016	2015
	€'000	€'000
At 1 January	**97,434**	105,997
Decrease in cash and cash equivalents in the statement of cash flows	**(9,146)**	(8,738)
Effect of exchange rate fluctuations on cash held	**(373)**	175
At 31 December	**87,915**	97,434

Notes to the Group financial statements (continued)

C4 Net Finance Costs

		2016 €'000	2015 €'000
Before exceptional items			
Finance income			
Interest income on short-term deposits		**-**	-
Total finance income		**-**	-
Finance costs			
Interest		**(31,753)**	(36,186)
Interest capitalised		**448**	948
Financing charge		**(169)**	(253)
Net interest on the net defined benefit liability		**(1,247)**	(1,750)
Other finance costs		**(14,181)**	(9,824)
Total finance costs		**(46,902)**	(47,065)
Exceptional items			
Net changes in fair value of financing derivatives	(i)	**1,175**	1,153
Bond buy back payment	(ii)	**(21,065)**	-
Change in estimate of cash flow on contingent consideration	(iii)	**(7,800)**	-
Total exceptional items		**(27,690)**	1,153
Total			
Finance income		**1,175**	1,153
Finance costs		**(75,767)**	(47,065)
Net finance costs		**(74,592)**	(45,912)

(i) These are remeasurements arising on financial instruments of a financing nature which are accounted for as if held for trading or as fair value hedges in accordance with the Group's accounting policy. The impact of these remeasurements on net finance costs for 2016 was a €1.2 million gain (2015: €1.2 million gain). Further details on derivative financial instruments falling within the scope of IAS 39 are set out in accounting policy 11 (note F8).

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

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

C5 Financial Risk Management and Financial Instruments

Accounting classifications and fair values

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

	Fair value hierarchy						
	Level 1	Level 2	Level 3	Total	Total held at amortised cost	Total	Total in a hedging relationship
At 31 December 2016	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets							
Cross currency interest rate swaps	-	**58,003**	-	**58,003**	-	**58,003**	**58,003**
Foreign exchange rate contracts	-	**423**	-	**423**	-	**423**	-
Trade and other receivables (excluding prepayments)	-	-	-	-	**108,993**	**108,993**	-
Cash and cash equivalents	-	-	-	-	**87,915**	**87,915**	-
Restricted deposits	-	-	-	-	**43,866**	**43,866**	-
Total financial assets	-	**58,426**	-	**58,426**	**240,774**	**299,200**	**58,003**
Financial liabilities							
Borrowings and other debt[1]	-	**(55,818)**	-	**(55,818)**	**(1,115,912)**	**(1,171,730)**	**(55,818)**
Interest rate derivatives	-	**(8,262)**	-	**(8,262)**	-	**(8,262)**	**(1,462)**
Foreign exchange rate contracts	-	**(485)**	-	**(485)**	-	**(485)**	-
Trade and other payables	-	-	-	-	**(183,784)**	**(183,784)**	-
Total financial liabilities	-	**(64,565)**	-	**(64,565)**	**(1,299,696)**	**(1,364,261)**	**(57,280)**
Net financial (liabilities)/assets	-	**(6,139)**	-	**(6,139)**	**(1,058,922)**	**(1,065,061)**	**723**
At 31 December 2015							
Financial assets							
Cross currency interest rate swaps	-	59,899	-	59,899	-	59,899	59,899
Foreign exchange rate contracts	-	1,162	-	1,162	-	1,162	-
Trade and other receivables (excluding prepayments)	-	-	-	-	104,570	104,570	-
Cash and cash equivalents	-	-	-	-	97,434	97,434	-
Restricted deposits	-	-	-	-	35,022	35,022	-
Total financial assets	-	61,061	-	61,061	237,026	298,087	59,899
Financial liabilities							
Borrowings and other debt[1]	-	(56,693)	-	(56,693)	(1,119,008)	(1,175,701)	(56,693)
Interest rate derivatives	-	(12,328)	-	(12,328)	-	(12,328)	(4,095)
Foreign exchange rate contracts	-	(1,356)	-	(1,356)	-	(1,356)	-
Trade and other payables	-	-	-	-	(180,052)	(180,052)	-
Total financial liabilities	-	(70,377)	-	(70,377)	(1,299,060)	(1,369,437)	(60,788)
Net financial liabilities	-	(9,316)	-	(9,316)	(1,062,034)	(1,071,350)	(889)

[1]The fair value of borrowings and other debt as at 31 December 2016 was €1,180.0 million (2015: €1,207.6 million).

Notes to the Group financial statements (continued)

C5 Financial Risk Management and Financial Instruments (continued)

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

(i) Fair value hedges
These instruments hedge the exposure of changes in the fair value of an asset or liability recorded in the balance sheet, or a firm commitment to purchase or sell an asset. The ineffective portion of fair value hedges was €nil for 2016 (2015: €nil). The fair value of hedging derivatives in a fair value hedge in the balance sheet as at 31 December 2016 was €55.7 million asset (2015: €56.8 million asset).

(ii) Cash flow hedges
These instruments hedge highly probable future transactions where the variability in cash flows generated by the hedged transaction is offset by changes in the value of the hedging instrument. The amount reclassified from equity to profit or loss due to ineffectiveness on cash flow hedges during 2016 was €0.3 million loss (2015: €nil). Ineffectiveness arising from cash flow hedges recognised in the profit or loss in 2016 was €0.1 million gain (2015: €nil).

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

	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000	Total €'000
At 31 December 2016					
Interest rate swaps	**(1,344)**	**-**	**-**	**-**	**(1,344)**
Cross currency interest rate swaps	**-**	**-**	**759**	**-**	**759**
Cash flow hedging derivatives	**(1,344)**	**-**	**759**	**-**	**(585)**
At 31 December 2015					
Interest rate swaps	(1,450)	(2,650)	-	-	(4,100)
Cross currency interest rate swaps	(279)	-	818	973	1,512
Cash flow hedging derivatives	(1,729)	(2,650)	818	973	(2,588)

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

In using derivatives, the Group complies with the Requirements of the Minister for Finance under the Financial Transactions of Certain Companies and Other Bodies Act 1992 and the Specification of the Minister for Finance. The Group's treasury function is not operated as a profit centre and treasury positions are managed in a risk averse manner. All treasury transactions have a valid underlying business reason and speculative positions are strictly prohibited.

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

C5 Financial Risk Management and Financial Instruments (continued)

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

	31-Dec-16 €'000	31-Dec-15 €'000
Trade and other receivables (excluding prepayments and amounts owed by non-controlled undertakings)	**79,934**	82,898
Cash and cash equivalents	**87,915**	97,434
Restricted deposits	**43,866**	35,022
Derivative financial instruments	**58,426**	61,061
Total	**270,141**	276,415

(i) (a) Treasury related credit risk

The Group's policy is to manage treasury related credit risk through the use of counterparty credit limits which take account of, among other relevant factors, published credit ratings. Exposure to credit risk on cash and derivative financial instruments is monitored by the Group's treasury function. It is the Group's policy that cash is mainly placed on deposit with institutions who maintain an investment grade credit rating. The Group 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.

The Group develops and maintains relationships with a small number of key relationship banks who have a long-term commitment to the Group, who understand the business, and who provide funding at competitive terms. The Group ensures that banking and treasury services are obtained at competitive prices. The Head of Group Treasury, supported by the Group Finance Director, the Group Chief Executive Officer and other appropriate senior managers, are responsible for managing and maintaining relationships.

(i) (b) Trade related credit risk

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

(ii) Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group may not be available, or the Group is unable to sell its assets on the market place and as a result is unable to meet short-term finance requirements and to settle obligations. Such a situation would negatively impact the Group's results as it could result in the incurrence of higher borrowing expenses to meet obligations.

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

(ii) (a) Funding

The Group's funding position remained strong in 2016. In July 2016, the Group extended its revolving credit facility with a group of 8 domestic and international banks, providing the Group with a strong level of liquidity out to 2021. In December 2016, Gas Networks Ireland, established a new Euro Medium Term Note program under which Gas Networks Ireland raised €625 million on the Eurobond Market, split across two maturities, €500 million over 10 years and €125 million over 20 years. Ervia and its main subsidiaries also have overdraft facilities available with relationship banks.

It is the Group's policy to seek to ensure it has a mix of funding sources at acceptable terms and conditions to finance the development of the business and to meet financial obligations as they fall due. The Group continues to maintain a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk. At 31 December 2016, the Group had €1,532.4 million in committed facilities (2015: €1,511.3 million). Borrowings at 31 December 2016 were €1,171.7 million (2015: €1,175.7 million).

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

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

Notes to the Group financial statements (continued)

C5 Financial Risk Management and Financial Instruments (continued)

(ii) (b) Cash surpluses

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

(ii) (c) Exposure to liquidity risk

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

	Carrying amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
At 31 December 2016						
Borrowings	**(1,171,730)**	**(1,288,035)**	**(71,535)**	**(31,526)**	**(547,474)**	**(637,500)**
Trade and other payables	**(183,784)**	**(183,913)**	**(169,797)**	**(8,630)**	**(5,279)**	**(207)**
Non-derivative financial liabilities	**(1,355,514)**	**(1,471,948)**	**(241,332)**	**(40,156)**	**(552,753)**	**(637,707)**
Interest rate derivatives	**(8,262)**	**(8,649)**	**(3,377)**	**(1,646)**	**(3,626)**	**-**
Cross currency interest rate swaps	**58,003**	**83,125**	**11,252**	**11,430**	**60,443**	**-**
Foreign exchange rate contracts	**(62)**	**(62)**	**(62)**	**-**	**-**	**-**
Net derivative financial assets	**49,679**	**74,414**	**7,813**	**9,784**	**56,817**	**-**
Net financial liabilities	**(1,305,835)**	**(1,397,534)**	**(233,519)**	**(30,372)**	**(495,936)**	**(637,707)**
At 31 December 2015						
Borrowings	(1,175,701)	(1,294,771)	(195,406)	(539,774)	(426,339)	(133,252)
Trade and other payables	(180,052)	(181,050)	(155,249)	(19,273)	(6,028)	(500)
Non-derivative financial liabilities	(1,355,753)	(1,475,821)	(350,655)	(559,047)	(432,367)	(133,752)
Interest rate derivatives	(12,328)	(13,580)	(5,627)	(2,941)	(5,012)	-
Cross currency interest rate swaps	59,899	85,783	15,559	10,599	40,040	19,585
Foreign exchange rate contracts	(194)	(194)	(194)	-	-	-
Net derivative financial assets	47,377	72,009	9,738	7,658	35,028	19,585
Net financial liabilities	(1,308,376)	(1,403,812)	(340,917)	(551,389)	(397,339)	(114,167)

(iii) Market risk

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

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

C5 Financial Risk Management and Financial Instruments (continued)

(iii) (a) Exchange rate risk

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

Ervia have established a Brexit committee, working closely with its relevant stakeholders to actively monitor developments in this area.

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

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

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

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

- **Transaction exposure**

From time to time the Group makes purchases in foreign currencies. The Group's policy is to manage these transaction exposures by seeking to 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 Treasury Policy. Exposures will be hedged taking account of the business risks and the regulatory environment.

Also, the 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.

- **Debt in a foreign currency**

The Group has US dollar denominated Private Placements that have been converted to euro using cross currency interest rate swaps. Sterling debt is used to hedge the investment in the sterling denominated subsidiary.
As a result of these actions taken by the Group to mitigate its underlying sensitivity to currency exchange rate fluctuations, the Group has not presented sensitivity analysis as any potential variation is insignificant.

Notes to the Group financial statements (continued)

C5 Financial Risk Management and Financial Instruments (continued)

(iii) (b) Interest rate risk

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

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

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

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

	2016 €'000	2016 %	2015 €'000	2015 %
At fixed rates[1]	**(734,995)**	**62.7%**	(788,326)	67.1%
At floating rates	**(426,454)**	**36.4%**	(374,075)	31.8%
Inflation linked debt	**(10,281)**	**0.9%**	(13,300)	1.1%
Total	**(1,171,730)**	**100.0%**	(1,175,701)	100.0%

[1] including swaps.

The Group had €621.7 million of fixed rate debt (excluding interest rate swaps) at 31 December 2016 (2015: €499.7 million). At 31 December 2016, the Group had outstanding interest rate swaps with a notional principal of €43.1 million and £60.0 million. €43.1 million which commenced on 31 October 2012 was swapped for five years at an average rate of 1.7% and £60.0 million which commenced on 31 October 2012 was swapped for five years at an average rate of 1.8%.

At 31 December 2016, the weighted average interest rate of the fixed debt portfolio was 1.58% (2015: 3.26%), which comprised of two bonds of €621.7 million and an interest rate swap portfolio of €43.1 million and £60.0 million.

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

On 31 December 2016, the Group had US$290.0 million (2015: US$327.0 million) fixed rate debt outstanding (€275.0 million equivalent (2015: €300.9 million)) in a US dollar Private Placement transaction which was completed on 31 March 2009. In order to fully hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating, the Group has a number of cross currency interest rate swaps which match the maturity profile of the debt.

C5 Financial Risk Management and Financial Instruments (continued)

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

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

	Profit before taxation 31-Dec-16 €'000	Profit before taxation 31-Dec-15 €'000	Other comprehensive income 31-Dec-16 €'000	Other comprehensive income 31-Dec-15 €'000
50 bp increase	**(1,994)**	(1,653)	**643**	2,132
50 bp decrease	**1,982**	1,637	**(49)**	(345)

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

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

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

C6 Fair Value Determination

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.

Notes to the Group financial statements (continued)

C6 Fair Value Determination (continued)

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

Type	Valuation technique	Significant unobservable inputs
Forward exchange contracts (Refer to note C5)	The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated as the difference between the contractual forward price and the current forward price for the residual maturity of the contract. Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.
Interest rate swaps and cross currency interest rate swaps (Refer to note C5)	The fair value of interest rate swaps and cross currency interest rate swaps takes into account the fixed, floating and market rates prevailing at the year end. The fair value of inflation linked swaps is determined using a valuation technique which includes market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the relevant Group entity and counterparty when appropriate. Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.
Private Placement (fair value hedge portion) (Refer to note C5)	The fair value of the fixed rate debt is estimated by discounting the future cash flows to net present values using market rates prevailing at the reporting date. Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.
Trade and other receivables (Refer to note D2)	The sale of the Energy business provides for an element of contingent purchase consideration. The fair value of this contingent consideration has been determined by discounting the expected future cash flows to net present values. The expected future cash flows are determined by considering the possible scenarios of forecast earnings targets and wind farm build out, the future cashflows under each scenario and the probability of each scenario. Fair value hierarchy: level 3	Forecast earnings targets and wind farm build out.

D Where we generate our revenues

D1 Revenue

	2016 €'000	2015 €'000
Regulated	**435,340**	427,970
Unregulated	**62,378**	63,138
Total	**497,718**	491,108

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

D2 Trade and Other Receivables

	31-Dec-16 €'000	31-Dec-15 €'000
Trade receivables	**4,086**	2,291
Trade receivables - unbilled	**55,375**	46,788
Prepayments	**7,111**	7,612
Amounts due from non-controlled undertakings	**29,059**	21,672
Other receivables	**20,473**	33,819
Total	**116,104**	112,182
Analysed as follows:		
Non-current	**16,300**	23,909
Current	**99,804**	88,273
Total	**116,104**	112,182

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

Credit risk

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

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

	31-Dec-16 €'000	31-Dec-15 €'000
Trade receivables	**4,086**	2,291
Use of system receivables - unbilled	**55,375**	46,788
Other receivables	**20,473**	33,819
Total	**79,934**	82,898

Notes to the Group financial statements (continued)

D2 Trade and Other Receivables (continued)

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

	31-Dec-16 €'000	31-Dec-15 €'000
Ireland	**70,964**	80,839
UK (including Northern Ireland and Isle of Man)	**8,970**	2,059
Total	**79,934**	82,898

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

	Net receivable 31-Dec-16 €'000	Net receivable 31-Dec-15 €'000
Not past due	**77,765**	82,600
0 – 30 days	**516**	207
31 – 120 days	**1,348**	91
> 120 days	**305**	-
Total	**79,934**	82,898

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

	2016 €'000	2015 €'000
At 1 January	**(326)**	(944)
Impairment loss (recognised)/reversed	**(60)**	160
Provision utilised	**71**	458
At 31 December	**(315)**	(326)

D3 Future Operating Lease Income

	31-Dec-16 €'000	31-Dec-15 €'000
Less than one year	**28,109**	28,994
Between one and five years	**96,608**	98,211
More than five years	**146,037**	174,523
Total	**270,754**	301,728

The Group's future operating lease income relates to agreements to allow third parties the use of parts of the Gas Network Transportation system. In accordance with the Group's accounting policy all receipts from these arrangements are deemed to be earned as part of the Group's core operations and accordingly the lease income is recognised as revenue in the income statement. Above is a profile of non cancellable future operating lease income to be recognised as revenue in future years. The unexpired lease terms range from 3 to 14 years.

D4 Deferred Revenue

	2016 €'000	2015 €'000
At 1 January	**(17,524)**	(20,257)
Received in year	**(4,391)**	(4,055)
Credited to the income statement	**3,605**	6,788
At 31 December	**(18,310)**	(17,524)

Analysed as follows:

	31-Dec-16 €'000	31-Dec-15 €'000
Non-current	**(12,180)**	(12,766)
Current	**(6,130)**	(4,758)
Total*	**(18,310)**	(17,524)

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

Notes to the Group financial statements (continued)

E What we spend on operations and our people

E1 Operating Costs (excluding depreciation and amortisation)

	2016 €'000	2015 €'000
Payroll expense	**(69,674)**	(73,577)
Hired and contracted services	**(33,858)**	(32,203)
Infrastructure materials and maintenance	**(42,851)**	(49,717)
Rent, rates and facilities	**(29,101)**	(30,764)
Other operating expenses	**(34,770)**	(34,805)
Recharges to non-controlled undertakings (note F4)	**35,543**	36,925
Total	**(174,711)**	(184,141)

Operating costs are stated after charging:

	2016 €'000	2015 €'000
Auditor's remuneration		
- statutory audit services	**(154)**	(154)
- other audit related assurance services	**(127)**	(117)
- tax advisory services	**(38)**	(32)
- other non audit services	**(30)**	-
Total	**(349)**	(303)
Board members' emoluments		
- fees	**(117)**	(102)
- remuneration of the Group Chief Executive Officer	**(335)**	(334)
Total	**(452)**	(436)

Details of the all-in cost of the remuneration package of the Group Chief Executive Officer is made up as follows:

Group Chief Executive Officer's annual basic salary	**(250)**	(250)
Other benefits including pension costs, cost of company car and health insurance	**(85)**	(84)
Total	**(335)**	(334)

E2 Exceptional Items

Refer to note C4 for detail in respect of exceptional costs incurred in 2016 and 2015.

E3 Payroll Costs

	2016 €'000	2015 €'000
Wages and salaries	**(63,707)**	(64,954)
Social insurance costs	**(7,022)**	(7,165)
Pension costs - defined benefit plans	**(11,112)**	(13,119)
Pension costs - defined contribution plans	**(789)**	(572)
	(82,630)	(85,810)
Capitalised payroll and other payroll transfers	**12,956**	12,233
Payroll costs charged to profit or loss	**(69,674)**	(73,577)

The average number of employees employed by the Group was 904 for 2016 (2015: 909).

E4 Key Management Compensation

	2016 €'000	2015 €'000
Short-term employee benefits	**(1,403)**	(1,425)
Post employment benefits	**(172)**	(173)
Total*	**(1,575)**	(1,598)

Key management consists of the Ervia Board, the Ervia CEO and his direct reports.

*Net of recharges to non-controlled undertakings.

E5 Retirement Benefit Obligations

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

Defined benefit scheme

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

The defined benefit scheme is administered by a Board of Trustees which comprises member and employer representatives. The Board of Trustees is responsible for the management and governance of the scheme including compliance with all relevant laws and regulations. The assets of the scheme are held separately from those of the Group in trustee administered funds. The scheme is subject to independent actuarial valuations at least every three years. The latest valuation of the defined benefit scheme was carried out as at 1 July 2014 by a qualified actuary. The next actuarial valuation is due with an effective date of 1 April 2017.

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

Interest risk

The pension scheme liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the pension scheme holds other assets such as equities the value of the assets and liabilities may not move in the same way.

Investment risk

The net deficit recognised in the Group balance sheet represents the present value of the defined benefit obligation less the fair value of the schemes' assets. If the actual return on scheme assets is less than the discount rate, it will create a scheme deficit. Currently the scheme is invested in a relatively diversified portfolio and holds equity securities, debt instruments, forestry and other suitable investment classes. Due to the long-term nature of the schemes liabilities, the Trustees of the schemes consider it appropriate that a reasonable proportion of the scheme assets should be invested in a diversified portfolio of equity securities and other return seeking assets to leverage the return generated by the fund. External investment consultants regularly conduct investment reviews to determine the most appropriate investment strategy taking account of asset valuations, nature and duration of the liabilities and funding requirements.

Notes to the Group financial statements (continued)

E5 Retirement Benefit Obligations (continued)

Longevity risk
The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of scheme participants. An increase in the life expectancy of the scheme participants will increase the defined benefit obligation.

Salary risk
The present value of the defined benefit obligation is calculated by reference to the future salaries of the scheme participants. As such, an increase in salary in excess of the actuarial assumption will increase the scheme's liability.

Inflation risk
Pension increases in payment are not guaranteed and are granted on a discretionary basis. It is expected that if future pension increases are granted they will be in line with price inflation. As such, higher inflation than assumed in the actuarial assumptions would lead to an increase in the scheme's liability. A portion of the scheme's assets are invested in inflation-linked securities to mitigate this risk.

Other risks
Actions taken by the local regulator or changes to European legislation, could result in stronger local funding standards, which could materially affect the cost of funding.

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

	2016 €'000	%	2015 €'000	%
Investments quoted in active markets:				
Equities	**178,708**	**44.3%**	156,261	42.3%
- developed markets	160,733		140,558	
- emerging markets	17,975		15,703	
Bonds	**191,214**	**47.4%**	178,794	48.4%
- Government debt	174,699		163,498	
- Non-government debt	16,515		15,296	
Investment funds	**25,661**	**6.4%**	26,622	7.2%
Cash	**-**	**0.0%**	131	0.0%
Unquoted investments:				
Property/forestry	**4,727**	**1.2%**	4,724	1.3%
Private equity/venture capital	**3,033**	**0.8%**	2,616	0.7%
Total fair value of plan assets at 31 December	**403,343**	**100.0%**	369,148	100.0%
Defined benefit obligation	**(532,628)**		(420,491)	
Net pension liability at 31 December	**(129,285)**		(51,343)	

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

	2016 €'000	2015 €'000
Current service cost	**(11,112)**	(13,119)
Net interest on the net defined benefit liability	**(1,247)**	(1,750)
Administrative expenses	**(272)**	(272)
Total pension cost recognised in the income statement	**(12,631)**	(15,141)

E5 Retirement Benefit Obligations (continued)

Analysis of amount charged to provisions

	2016 €'000	2015 €'000
Current service cost	**(660)**	(1,064)
Amount charged to provisions	**(660)**	(1,064)

Remeasurements recognised in other comprehensive income

	2016 €'000	2015 €'000
Return on plan assets excluding interest income	**25,387**	(1,846)
Experience gains on liabilities	**7,936**	215
Effect of changes in financial assumptions	**(105,009)**	44,389
Total pension (loss)/gain recognised in other comprehensive income	**(71,686)**	42,758

Movement in the fair value of plan assets

	2016 €'000	2015 €'000
Opening fair value of plan assets	**369,148**	364,599
Interest income on plan assets	**9,952**	8,008
Return on plan assets (excluding interest income)	**25,387**	(1,846)
Contributions by employers	**7,871**	7,370
Contributions by members	**2,680**	2,715
Administration expenses	**(272)**	(272)
Benefits paid	**(11,423)**	(11,426)
Closing fair value of plan assets	**403,343**	369,148

Movement in the present value of the defined benefit obligation

	2016 €'000	2015 €'000
Opening defined benefit obligation	**(420,491)**	(449,376)
Service costs	**(12,608)**	(14,672)
Interest cost	**(11,199)**	(9,758)
Contributions by members	**(2,680)**	(2,715)
Benefits paid	**11,423**	11,426
Actuarial (loss)/gain	**(97,073)**	44,604
Closing defined benefit obligation	**(532,628)**	(420,491)

The weighted average duration of the defined benefit obligation at 31 December 2016 was approximately 22 years (2015: 20 years). The Group expects to contribute €8.7 million to its pension plan in 2017.

The principal actuarial assumptions used were as follows:

	2016	2015
Discount rate	**1.80%**	2.7%
Inflation assumption	**1.65%**	1.5%
Rate of increase in salaries	**2.15%**	2.0%
Rate of increase in pensions payment	**1.65%**	1.5%

Notes to the Group financial statements (continued)

E5 Retirement Benefit Obligations (continued)

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:

	2016	2015
Retiring today		
Males	**22.0**	21.9
Females	**24.6**	24.5
Retiring in 25 years		
Males	**25.1**	24.9
Females	**27.2**	27.1

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, whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Decrease by 5.3%/increase by 5.7%
Price inflation	Increase/decrease by 0.25%	Increase by 5.7%/decrease by 5.3%
Salary	Increase/decrease by 0.25%	Increase by 2.3%/decrease by 2.2%
Mortality	Increase/decrease by one year	Increase by 2.9%/decrease by 2.9%

Defined contribution scheme

Prior to December 2016, the Group operated Personal Retirement Savings Accounts for all qualifying employees. These were accounted for as a defined contribution pension scheme in accordance with the Group's accounting policy for same. In compliance with the provisions of the Pensions Act 1990 (as amended), Ervia appointed Personal Retirement Savings Account (PRSA) providers. During 2016, the Ervia Defined Contribution Scheme was established, commencing in December 2016. From that date the PRSAs were no longer facilitated.

During the year ended 31 December 2016, Ervia contributed €0.8 million (2015: €0.6 million), in respect of PRSAs/the Ervia Defined Contribution Scheme, on behalf of its employees, which was charged to the income statement.

E6 Trade and Other Payables

	31-Dec-16 €'000	31-Dec-15 €'000
Trade payables	**(12,597)**	(13,641)
Accruals	**(74,934)**	(88,752)
Promissory notes (note F7)	**(15,875)**	(26,993)
Other payables	**(63,984)**	(38,293)
Taxation and social insurance creditors[1]	**(16,394)**	(12,373)
Total	**(183,784)**	(180,052)

Analysed as follows:		
Non-current	**(13,987)**	(24,803)
Current	**(169,797)**	(155,249)
Total	**(183,784)**	(180,052)

1 Taxation and social insurance creditors		
PAYE/PRSI/social insurance	**(1,643)**	(1,874)
VAT	**(14,751)**	(10,499)
Total	**(16,394)**	(12,373)

E7 Provisions and Contingencies

Provisions

	Restructuring €'000	Environmental €'000	Self-insured claims €'000	Total €'000
At 1 January 2016	**(2,925)**	**(7,530)**	**(8,372)**	**(18,827)**
Financing charge	**(48)**	**(121)**	**-**	**(169)**
Provisions made in the year	**-**	**-**	**(1,410)**	**(1,410)**
Provisions used in the year	**255**	**1,090**	**1,967**	**3,312**
At 31 December 2016	**(2,718)**	**(6,561)**	**(7,815)**	**(17,094)**

Analysed as follows:	31-Dec-16 €'000	31-Dec-15 €'000
Non-current	**(12,608)**	(14,408)
Current	**(4,486)**	(4,419)
Total	**(17,094)**	(18,827)

Restructuring
During 2013, the Group announced a voluntary severance and early retirement programme for employees that satisfied certain qualifying criteria. The termination benefits with respect to the scheme were recognised in the 2013 income statement as an exceptional item. These liabilities are expected to be substantially discharged by 2017.

Environmental
The year-end provision includes an appropriate estimate of the cost of decontamination of legacy Gas Works sites, obligations for site remediation and costs to be incurred in compliance with environmental regulations and constructive obligations. These liabilities are expected to be substantially discharged by 2018.

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 2016. 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 2018.

Notes to the Group financial statements (continued)

E7 Provisions and Contingencies (continued)

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

In the normal course of its business, the Group enters into certain undertakings and commitments to third parties in respect of obligations to perform under contractual arrangements. Obligations to third parties are guaranteed by letters of credit or performance bonds issued by financial institutions. At 31 December 2016, €1.4 million (2015: €3.6 million) was provided by the Group by way of guarantees by financial institutions to third parties. The fair value of guarantees was €nil million at 31 December 2016 (2015: €nil).

E8 Operating Lease Commitments

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

	31-Dec-16 €'000	31-Dec-15 €'000
Less than one year	**(880)**	(872)
Between one and five years	**(1,258)**	(2,036)
More than five years	**(110)**	(149)
Total	**(2,248)**	(3,057)

Amounts included in the income statement in respect of land and building lease arrangements were €0.9 million (2015: €0.9 million).

E9 Restricted Deposits

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

	31-Dec-16 €'000	31-Dec-15 €'000
Current	**43,866**	35,022
Total	**43,866**	35,022

F Other disclosures

F1 Cash Generated from Operations

	Notes	2016 €'000	2015 €'000
Cash flows from operating activities			
Profit for the year		**102,666**	116,539
Adjustments for:			
Depreciation and amortisation	B4	**127,579**	124,770
Net finance costs	C4	**74,592**	45,912
Retirement benefit cost		**5,009**	7,574
Income tax expense	F3	**18,170**	19,746
		328,016	314,541
Working capital changes:			
Change in inventories		**(861)**	35
Change in trade and other receivables		**(9,971)**	6,052
Change in trade and other payables		**10,687**	6,382
Change in deferred revenue		**786**	(2,733)
Change in provisions		**(1,902)**	268
Cash from operating activities		**326,755**	324,545
Interest paid		**(42,608)**	(37,610)
Income tax paid		**(6,545)**	(24,037)
Net cash from operating activities		**277,602**	262,898

F2 Divisional Information

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

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

Notes to the Group financial statements (continued)

F2 Divisional Information (continued)

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

	Gas Networks Ireland 2016 €'000	Ervia Parent 2016 €'000	Consolidation and eliminations 2016 €'000	Total 2016 €'000	Gas Networks Ireland 2015 €'000	Ervia Parent* 2015 €'000	Consolidation and eliminations 2015 €'000	Total 2015 €'000
Revenue	**497,718**	**-**	**-**	**497,718**	490,967	2,448	(2,307)	491,108
Operating costs (excluding depreciation and amortisation)	**(170,912)**	**(3,940)**	**141**	**(174,711)**	(178,547)	(7,901)	2,307	(184,141)
Operating profit/(loss) before depreciation and amortisation (EBITDA)	**326,806**	**(3,940)**	**141**	**323,007**	312,420	(5,453)	-	306,967
Depreciation and amortisation	**(127,196)**	**(383)**	**-**	**(127,579)**	(124,192)	(578)	-	(124,770)
Operating profit/(loss)	**199,610**	**(4,323)**	**141**	**195,428**	188,228	(6,031)	-	182,197

(a) Revenue

External revenue split by geographic location is as follows:

	2016 €'000	2015 €'000
Ireland	**456,872**	451,780
UK (including Northern Ireland and Isle of Man)	**40,846**	39,328
Total	**497,718**	491,108

The Group is not reliant on any major external customers.

(b) Capital expenditure

	Capital additions to property, plant and equipment (note B1)		Capital additions to intangible assets (note B3)	
	2016 €'000	2015 €'000	2016 €'000	2015 €'000
Gas Networks Ireland	**116,399**	98,204	**8,476**	5,996
Ervia Parent	**-**	4,509	**-**	33
Total	**116,399**	102,713	**8,476**	6,029

(c) Non-current assets by geographic location

	31-Dec-16 €'000	31-Dec-15 €'000
Ireland	**2,228,514**	2,259,720
UK (including Northern Ireland and Isle of Man)	**317,696**	323,763
Total	**2,546,210**	2,583,483

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

*Gaslink, the independent system operator of the natural gas transmission and distribution network, which ceased trading on 1 August 2015 is included in the 2015 results of Ervia Parent. The 2015 results of Ervia Parent, as reflected in the Parent Income Statement, include the relevant results of the Parent's networks business prior to 1 August 2015. Refer to note G5 for further details.

F3 Tax

	2016 €'000	2015 €'000
Current tax expense		
Current tax	**(16,220)**	(27,940)
Adjustments in respect of previous years	**2,589**	(88)
	(13,631)	(28,028)
Deferred tax expense		
Origination and reversal of temporary differences	**(3,193)**	8,662
Adjustments in respect of previous years	**(1,346)**	(380)
	(4,539)	8,282
Total income tax expense	**(18,170)**	(19,746)

Reconciliation of effective tax rate

	2016 €'000	2015 €'000
Profit before tax	**120,836**	136,285
Taxed at 12.5% (2015: 12.5%)	**(15,105)**	(17,036)
Expenses not deductible for tax purposes	**(4,515)**	(2,113)
Tax effect of additional losses forward/additional liabilities due	**-**	621
Reassessment of deferred tax balances	**-**	260
Income not taxable	**496**	496
Profits taxed at higher rates	**(3,115)**	(2,097)
Effect of tax rate change	**1,523**	-
Exchange adjustments	**1,303**	591
Adjustments to tax charge in respect of previous years	**1,243**	(468)
Total income tax expense	**(18,170)**	(19,746)

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

Current tax assets and liabilities

	31-Dec-16 €'000	31-Dec-15 €'000
Current tax assets	**-**	2,520
Current tax liabilities	**(711)**	-

Notes to the Group financial statements (continued)

F3 Tax (continued)

Deferred tax assets and liabilities

	Retirement benefit obligation €'000	Tax losses forward €'000	Derivative financial instruments €'000	Property, plant and equipment and intangible assets €'000	Interest €'000	Other €'000	Total €'000
At 1 January 2015	10,597	2,985	1,253	(208,795)	(5,168)	607	(198,521)
Recognised in income statement	1,166	(2,985)	-	7,662	2,571	(132)	8,282
Recognised in equity	(5,345)	-	(930)	-	-	-	(6,275)
Exchange adjustments	-	-	-	(1,170)	575	-	(595)
At 31 December 2015	6,418	-	323	(202,303)	(2,022)	475	(197,109)
Recognised in income statement	**782**	**-**	**-**	**(5,831)**	**615**	**(105)**	**(4,539)**
Recognised in equity	**8,961**	**-**	**(250)**	**-**	**-**	**-**	**8,711**
Transfer to current tax	**-**	**-**	**-**	**(3,662)**	**-**	**-**	**(3,662)**
Exchange adjustments	**-**	**-**	**-**	**3,287**	**(1,236)**	**-**	**2,051**
At 31 December 2016	**16,161**	**-**	**73**	**(208,509)**	**(2,643)**	**370**	**(194,548)**

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.

	2016 €'000	2015 €'000
Capital losses	**3,600**	3,300
Losses forward	**108**	125
Provisions	**55**	55

F4 Related Parties

		Transaction value income/(expense)		Balance at reporting date receivable/(payable)	
		2016	2015	31-Dec-16	31-Dec-15
		€'000	€'000	€'000	€'000
Irish Water	(iv)				
Secondment of employees	(iv) (a)	**844**	4,236		
Transactional and support service agreement costs	(iv) (b)	**34,699**	32,689		
		35,543	36,925	**29,059**	21,672

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

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

(iii) Banks owned by the Irish State
In the normal course of business, the Group transacts with certain Irish banks which are wholly or partially controlled by the Irish Government. All of the Group's transactions with such banks are on normal commercial terms. The Group had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2016.

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

(iv) (a) Secondment of employees
The costs relating to these employees are recharged to Irish Water on a full cost recovery method with no margin earned.

(iv) (b) Transactional and support service agreement costs
The Group provides strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water, through the Group Centre, Major Projects area and Shared Services Centre. The Shared Services Centre is designed to provide transactional and support services in the areas of Finance, Procurement, Facilities, HR and IT. In addition Irish Water is recharged for the use of the Group's properties.

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

Pension cost
The Group operates a defined benefit pension scheme. A number of Irish Water employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19. The Parent, as the sponsoring employer for the plan, recognises the net defined benefit cost, while Irish Water recognises only the cost of contributions payable for the year in respect of Irish Water employees. The Group's current service costs for 2016 (as set out in note E5) includes €0.8 million (2015: €0.5 million) which represents contributions payable for the year in respect of Irish Water employees. These costs are not included in the Group's payroll costs.

(v) Board members' interests
The Board members had no beneficial interests in the Group at any time during the year or at 31 December 2016. The Secretary is a beneficiary of the Employee Share Ownership Plan.

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

Notes to the Group financial statements (continued)

F5 Dividends

Dividend declared

	2016 €'000	2015 €'000
To the Exchequer	**134,659**	133,157
Total	**134,659**	133,157

Dividend paid

	2016 €'000	2015 €'000
2014 annual dividend paid to the Exchequer	**-**	17,876
2015 annual dividend paid to the Exchequer	**-**	33,157
2016 annual dividend paid to the Exchequer	**34,659**	-
Special dividend on sale of the Energy business paid to the Exchequer	**100,000**	100,000
Total	**134,659**	151,033

A dividend of €134.7 million (2015: €151.0 million) was paid to the Exchequer during the year. Annual dividends are based on 30% of the previous year's profit before exceptional items. The 2016 dividend paid includes payment of a further special dividend of €100.0 million following the sale of the Energy business.

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

F6 Inventory

	31-Dec-16 €'000	31-Dec-15 €'000
Gas stock and engineering materials	**2,406**	1,545

In 2016 inventories recognised in the income statement amounted to €1.1 million (2015: €1.3 million). There were no write-downs of inventories to net realisable value in 2016 (2015: €nil).

F7 Subsidiaries and Joint Ventures

At 31 December 2016 the Group had the following subsidiaries and joint ventures:

	Company	Nature of Business	Group share	
1	Sudanor Limited	Non Trading	100%	
2	Aurora Telecom DAC	Non Trading	100%	
3	Gas Networks Ireland (IOM) DAC	Gas Transmission	100%	
4	Natural Gas Finance Limited	Non Trading	100%	
5	Ervia Finance Public Limited Company	Non Trading	100%	
6	Conservation Engineering Limited	Non Trading	100%	
7	Platin Power Trading Limited	Non Trading	100%	
8	Ervia Energy Trading Limited	Non Trading	100%	
9	Ervia Holdings Limited	Non Trading	100%	
10	Oisín Power Generation Limited	Non Trading	50%	see (c) below
11	GNI (UK) Limited	Gas Transmission	100%	
12	Gas Networks Ireland	Gas Transmission	100%	
13	Gaslink Independent System Operator DAC	Non Trading	100%	
	Non-controlled undertaking			
14	Ervia ESOP Trustee DAC	Trustee for Employee Share Ownership Plan		see (a) below
15	Irish Water	Water and Waste Water Services		see (b) below

	The registered office of 1 to 3, and 12 to 14 is:	Gasworks Road, Cork, Ireland.
	The registered office of 4 to 10 is:	Webworks, Eglinton Street, Cork, Ireland.
	The registered office of 11 is:	6 St. Andrew Street, 5th Floor, London, EC4A 3AE, United Kingdom.
	The registered office of 15 is:	Colvill House, 24/26 Talbot Street, Dublin 1, Ireland.

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

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

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

IFRS 10 states "an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". The Group's single voting share in Irish Water represents an existing right at 31 December 2016 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.

(c) At 31 December 2016, the Group's investment in joint ventures was carried at €nil (2015: €nil).

Notes to the Group financial statements (continued)

F8 Statement of Significant Accounting Policies

1 Basis of Consolidation

i. Subsidiaries

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

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

ii. Transactions eliminated on consolidation

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

iii. Business combinations

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

Goodwill is measured at the acquisition date as:

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

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

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

iv. Loss of control

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

F8 Statement of Significant Accounting Policies (continued)

2 Property, Plant and Equipment

i. Recognition

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

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

ii. Depreciation

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

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

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

Depreciation is not charged on land or assets under construction.

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

iii. Subsequent expenditure

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

iv. Borrowing costs

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

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

3 Intangible Assets

i. Software and software under development

Software costs include both internally developed and externally purchased assets.

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific assets.

ii. Research and development

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

Notes to the Group financial statements (continued)

F8 Statement of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

F8 Statement of Significant Accounting Policies (continued)

5 Foreign Currency

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

i. Foreign currency transactions

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

ii. Foreign operations

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

6 Revenue

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

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

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

7 Leases

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

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

Accounting for arrangements that contain a lease

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

Notes to the Group financial statements (continued)

F8 Statement of Significant Accounting Policies (continued)

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

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

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

10 Retirement Benefit Obligations
The Group operates both defined benefit and defined contribution pension schemes.

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

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

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

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

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

F8 Statement of Significant Accounting Policies (continued)

11 Financial Assets and Liabilities

i. Derivative financial instruments

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

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

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

(a) Cash flow hedges

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

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

(b) Fair value hedges

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

ii. Interest bearing borrowings

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

iii. Non-derivative financial assets and liabilities

Trade and other receivables

Trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount net of transaction costs, and are subsequently carried at this value less an appropriate allowance for impairment losses.

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

Cash and cash equivalents

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

Trade and other payables

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

Notes to the Group financial statements (continued)

F8 Statement of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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.

14 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.

15 Operating Profit
Operating profit is stated before net finance costs and taxation.

F8 Statement of Significant Accounting Policies (continued)

16 Non-GAAP Measures

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

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

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

F9 New Accounting Standards and Interpretations

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

Standard/Amendment	EU Effective Date	Endorsed by the EU
Annual Improvements to IFRS 2010-2012	1 February 2015	December 2014
Amendment to IAS 19 Defined Benefit Plans: Employee Contributions	1 February 2015	December 2014
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016	November 2015
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	November 2015
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	December 2015
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	December 2015
Amendments to IAS 1: Disclosure Initiative	1 January 2016	December 2015
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016	December 2015
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception	1 January 2016	September 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016	n/a

In the current year, the Group has applied the new/revised IFRS, as set out in table 1, that are mandatorily effective under IFRS, as endorsed by the EU, for accounting periods beginning on or after 1 January 2016. The application of these amendments to standards did not have a material impact on the Group's financial statements for 2016.

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

Standard/Amendment	EU Effective Date[1]	Endorsed by the EU
IFRS 9 Financial Instruments	1 January 2018	November 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2018	September 2016
Amendments to IAS 40: Transfers of Investment Property	1 January 2018	(Outstanding)
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	(Outstanding)
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018 / 1 January 2017	(Outstanding)
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018	(Outstanding)
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018	(Outstanding)
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018	(Outstanding)
Amendments to IAS 7: Disclosure Initiative	1 January 2017	(Outstanding)
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	(Outstanding)
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely	n/a
IFRS 16 Leases	1 January 2019	(Outstanding)

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

Notes to the Group financial statements (continued)

F9 New Accounting Standards and Interpretations (continued)

Table 2 sets out the standards, amendments to standards and interpretations that are in issue but are not yet effective under IFRS, as endorsed by the EU, for the year ended 31 December 2016 and thus have not been applied in preparing these financial statements.

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

The standard also broadens the scope of what can be included within a hedge relationship, which may enable certain interest rate swaps, which currently do not qualify, to be designated within cash flow hedge relationships. If the standard had been adopted in the current year, with all such swaps being designated and all hedges being fully effective, €1.2 million of fair value gains would have been recognised in other comprehensive income rather than within the income statement.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective (1 January 2018). The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces a five step approach to revenue recognition. Under IFRS 15, an entity should recognise revenue when the performance obligation is satisfied i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. IFRS 15 provides prescriptive guidance to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The Group continues to assess the impact of adopting the standard, but from initial assessments it appears that IFRS 15 will not have a significant impact on the Group's financial statements.

IFRS 16 Leases was issued on 13 January 2016 with an IASB effective date of 1 January 2019 (not yet endorsed by the EU). This new standard will replace IAS 17 Leases (and associated interpretative guidance), and offers a new comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The most significant change will be to lessee accounting, where the distinction between operating and finance leases is removed, and will effectively bring onto the balance sheet the accounting for assets and liabilities associated with operating leases. There will be no significant changes in respect of lessor accounting. The Group continues to assess the impact of adopting the standard, but from initial assessments it appears that IFRS 16 will not have a significant impact on the Group's financial statements. The impact of IFRS 16 has yet to be fully quantified, but if the standard had been adopted in the current year a depreciation charge in relation to the right-of-use asset and a lease interest charge would be recognised in the income statement in place of the operating lease charge of €0.9 million.
It is anticipated that application of the remaining IFRS/amendments/annual improvements, in issue at 31 December 2016 but not yet effective, will not have a significant impact on the Group's financial statements.

Parent Income Statement
for the year ended 31 December 2016

	Notes	Before exceptional items 2016 €'000	Exceptional items 2016 €'000	After exceptional items 2016 €'000	Before exceptional items 2015 €'000	Exceptional items 2015 €'000	After exceptional items 2015 €'000
Continuing operations							
Revenue	I1	-	-	-	269,401	-	269,401
Operating costs (excluding depreciation and amortisation)	J1	**(3,940)**	-	**(3,940)**	(121,938)	32,036	(89,902)
Operating (loss)/profit before depreciation and amortisation (EBITDA)		**(3,940)**	-	**(3,940)**	147,463	32,036	179,499
Depreciation and amortisation	G4	**(383)**	-	**(383)**	(59,016)	-	(59,016)
Operating (loss)/profit		**(4,323)**	-	**(4,323)**	88,447	32,036	120,483
Finance income	H2	**34,659**	-	**34,659**	15,522	-	15,522
Finance costs	H2	**(1,879)**	**(7,951)**	**(9,830)**	(24,589)	(1,083)	(25,672)
Net finance income/(costs)	H2	**32,780**	**(7,951)**	**24,829**	(9,067)	(1,083)	(10,150)
Profit/(loss) before income tax		**28,457**	**(7,951)**	**20,506**	79,380	30,953	110,333
Income tax credit/(expense)	K2	**2,204**	**(818)**	**1,386**	(10,289)	(3,869)	(14,158)
Profit/(loss) for the year		**30,661**	**(8,769)**	**21,892**	69,091	27,084	96,175
Profit/(loss) attributable to:							
Owners of the Parent		**30,661**	**(8,769)**	**21,892**	69,091	27,084	96,175
Profit/(loss) for the year		**30,661**	**(8,769)**	**21,892**	69,091	27,084	96,175

For and on behalf of the Board:

28th March 2017

Chairman **Member of the Board** **Date of Approval**

Note:
During 2015, the Parent's networks business was transferred to Gas Networks Ireland, a newly incorporated subsidiary of the Parent. Results from the Parent's networks business up until the date of transfer are included in the 2015 figures presented above. Refer to note K3 for further details of the transfer.
See note A1 for definitions of exceptional items.

Parent Statement of Other Comprehensive Income for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Profit for the year		**21,892**	96,175
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial (losses)/gains	J5	**(71,686)**	42,758
Deferred tax credit/(expense) relating to defined benefit obligations	K2	**8,961**	(5,345)
Total items that will not be reclassified to profit or loss		**(62,725)**	37,413
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of cash flow hedges		**-**	5,568
Deferred tax on cash flow hedge movement	K2	**-**	(696)
Total items that may be reclassified subsequently to profit or loss		**-**	4,872
Total other comprehensive (expense)/income for the year, net of income tax		**(62,725)**	42,285
Total comprehensive (expense)/income for the year		**(40,833)**	138,460
Total comprehensive (expense)/income attributable to:			
Owners of the Parent		**(40,833)**	138,460
Total comprehensive (expense)/income for the year		**(40,833)**	138,460

For and on behalf of the Board:

Tony Keohane   Mari Hurley   28th March 2017

Chairman   **Member of the Board**   **Date of Approval**

Note:
During 2015, the Parent's networks business was transferred to Gas Networks Ireland, a newly incorporated subsidiary of the Parent. Results from the Parent's networks business up until the date of transfer are included in the 2015 figures presented above. Refer to note K3 for further details of the transfer.

Parent Balance Sheet
as at 31 December 2016

	Notes	31-Dec-16 €'000	31-Dec-15 €'000
Assets			
Non-current assets			
Property, plant and equipment	G1	**8,566**	8,990
Intangible assets	G3	**-**	-
Investment in subsidiary undertakings	G5	**681,436**	681,436
Trade and other receivables	I2	**16,300**	23,909
Deferred tax assets	K2	**6,394**	-
Total non-current assets		**712,696**	714,335
Current assets			
Trade and other receivables	I2	**352,402**	474,107
Cash and cash equivalents	H1	**27,208**	18,692
Derivative financial instruments	H3	**-**	31
Current tax assets	K2	**5,663**	2,740
Total current assets		**385,273**	495,570
Total assets		**1,097,969**	1,209,905
Equity and liabilities			
Equity			
Retained earnings		**(926,097)**	(1,101,589)
Total equity attributable to equity holders of the Parent		**(926,097)**	(1,101,589)
Liabilities			
Non-current liabilities			
Retirement benefit obligations	J5	**(129,285)**	(51,343)
Trade and other payables	J6	**(13,987)**	(24,803)
Deferred tax liabilities	K2	**-**	(4,529)
Total non-current liabilities		**(143,272)**	(80,675)
Current liabilities			
Trade and other payables	J6	**(28,480)**	(27,641)
Derivative financial instruments	H3	**(120)**	-
Total current liabilities		**(28,600)**	(27,641)
Total liabilities		**(171,872)**	(108,316)
Total equity and liabilities		**(1,097,969)**	(1,209,905)

For and on behalf of the Board:

Tony Reames | Mari Hurley | 28th March 2017

Chairman | **Member of the Board** | **Date of Approval**

Note:
During 2015, the assets and liabilities relating to the Parent's networks business were transferred to Gas Networks Ireland, a newly incorporated subsidiary of the Parent. Refer to note K3 for further details of the transfer.

Parent Statement of Changes in Equity for the year ended 31 December 2016

	Cashflow hedge reserve €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2015	8,773	(1,101,158)	(1,092,385)
Profit for the year	-	(96,175)	(96,175)
Other comprehensive income for the year, net of income tax	(4,872)	(37,413)	(42,285)
Total comprehensive income for the year	(4,872)	(133,588)	(138,460)
Transfer to subsidiary under common control transaction (note K3)	(3,901)	-	(3,901)
Dividends declared	-	133,157	133,157
Balance at 31 December 2015	-	(1,101,589)	(1,101,589)
Profit for the year	**-**	**(21,892)**	**(21,892)**
Other comprehensive expense for the year, net of income tax	**-**	**62,725**	**62,725**
Total comprehensive expense for the year	**-**	**40,833**	**40,833**
Dividends declared	**-**	**134,659**	**134,659**
Balance at 31 December 2016	**-**	**(926,097)**	**(926,097)**

All attributable to owners of the Parent.

Parent Statement of Cash Flows for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Continuing operations			
Net cash from operating activities	K1	**36,563**	128,724
Cash flows from investing activities			
Equity proceeds from sale of Energy division		**1,195**	2,200
Receipts/(payments) for property, plant and equipment		**40**	(63,980)
Payments for intangible assets		**-**	(4,997)
Dividends received		**34,659**	-
Common control disposal		**-**	(63,298)
Net cash from/(used in) investing activities		**35,894**	(130,075)
Cash flows from financing activities			
Repurchase of capital stock		**(11,119)**	(12,243)
Repayment of borrowings		**-**	(73,520)
Subsidiary loan repayments		**81,837**	168,040
Dividends paid		**(134,659)**	(151,033)
Net cash used in financing activities		**(63,941)**	(68,756)
Net increase/(decrease) in cash and cash equivalents	H1	**8,516**	(70,107)
Cash and cash equivalents at 1 January	H1	**18,692**	88,799
Cash and cash equivalents at 31 December	H1	**27,208**	18,692

Notes to the Parent financial statements

G Our investment in subsidiaries and the assets we use in our business

G1 Property, Plant and Equipment

	Land and buildings €'000	Plant, pipeline and machinery €'000	Assets under construction €'000	Total €'000
Cost				
At 1 January 2015	80,148	3,249,319	28,443	3,357,910
Additions	-	125,938	5,061	130,999
Transfers in year	159	1,030	(1,189)	-
Disposals under common control transaction (note K3)	(58,962)	(3,274,129)	(32,315)	(3,365,406)
Disposals	-	(101,949)	-	(101,949)
At 31 December 2015	21,345	209	-	21,554
Disposals	**-**	**(48)**	**-**	**(48)**
At 31 December 2016	**21,345**	**161**	**-**	**21,506**
Accumulated depreciation and impairment losses				
At 1 January 2015	(26,866)	(1,115,479)	-	(1,142,345)
Depreciation for the year	(993)	(53,338)	-	(54,331)
Disposals under common control transaction (note K3)	15,350	1,136,065	-	1,151,415
Disposals	-	32,697	-	32,697
At 31 December 2015	(12,509)	(55)	-	(12,564)
Depreciation for the year	**(343)**	**(40)**	**-**	**(383)**
Disposals	**-**	**7**	**-**	**7**
At 31 December 2016	**(12,852)**	**(88)**	**-**	**(12,940)**
Carrying amounts				
At 31 December 2015	8,836	154	-	8,990
At 31 December 2016	**8,493**	**73**	**-**	**8,566**

During the year, the Parent capitalised €nil (2015: €0.4 million) in interest. The capitalisation rate was 4.4% (2015: 4.7%). The Parent also capitalised €nil in payroll costs during the year (2015: €2.4 million).

Capital commitments

	2016 €'million	2015 €'million
Contracted for	**5**	5

Notes to the Parent financial statements (continued)

G2 Government Grants

	2016 €'000	2015 €'000
At 1 January	-	(49,295)
Amortised in year	-	2,314
Transfer under common control transaction (note K3)	-	46,981
At 31 December	-	-

Analysed as follows:

	31-Dec-16 €'000	31-Dec-15 €'000
Non-current	-	-
Current	-	-
Total	-	-

G3 Intangible Assets

	Software and other €'000	Software under development €'000	Total €'000
Cost			
At 1 January 2015	120,416	1,128	121,544
Additions (incl internally developed)	-	5,785	5,785
Transfers in year	1,103	(1,103)	-
Disposals under common control transaction (note K3)	(121,519)	(5,810)	(127,329)
At 31 December 2015	-	-	-
Additions (incl internally developed)	-	-	-
Transfers in year	-	-	-
Disposals	-	-	-
At 31 December 2016	-	-	-
Accumulated amortisation and impairment losses			
At 1 January 2015	(84,071)	-	(84,071)
Amortisation for the year	(6,999)	-	(6,999)
Disposals under common control transaction (note K3)	91,070	-	91,070
At 31 December 2015	-	-	-
Amortisation for the year	-	-	-
At 31 December 2016	-	-	-
Carrying amounts			
At 31 December 2015	-	-	-
At 31 December 2016	-	-	-

The Parent capitalised €nil in payroll costs during the year (2015: €1.3 million).

G4 Depreciation and Amortisation

	2016 €'000	2015 €'000
Depreciation	**(383)**	(54,331)
Amortisation of intangible assets	-	(6,999)
Grant amortisation	-	2,314
Total	**(383)**	(59,016)

G5 Investment in Subsidiaries

Cost		€'000
At 1 January 2015		10,134
Disposals under common control transaction	(i)	(515)
Investment in Gas Networks Ireland (common control transaction)	(i)	681,436
Return on capital	(iii)	(8,806)
At 31 December 2015		682,249
At 31 December 2016		**682,249**
Impairment		
At 31 December 2015		(813)
At 31 December 2016		(813)
Carrying amount		
At 31 December 2015		681,436
At 31 December 2016		**681,436**

(i) On 1 August 2015, the assets and liabilities relating to the Parent's networks business were transferred to Gas Networks Ireland, a newly incorporated subsidiary of the Parent. As the Parent (being the entity transferring the assets and liabilities) and Gas Networks Ireland were under common control at the date of the transfer, the assets and liabilities were not measured at their fair values and instead were measured based on the carrying values. The carrying values reflect appropriate provision for impairment at the acquisition date. The table below sets out the carrying values (as of the date of the transaction) of the assets, liabilities and reserves transferred and the capital contribution and share premium arising from the transaction.

Notes to the Parent financial statements (continued)

G5 Investment in Subsidiaries (continued)

	1-Aug-15 €'000
Property, plant and equipment	2,213,991
Intangible assets	36,259
Investment in subsidiaries	515
Inventories	1,768
Trade and other receivables	316,163
Cash and cash equivalents and restricted deposits	92,595
Financial instruments	51,394
Tax assets and liabilities	(188,802)
Borrowings and other debt	(1,094,637)
Deferred revenue	(18,873)
Government grants	(46,981)
Provisions	(18,648)
Trade and other payables	(117,209)
Cash flow hedge reserve	3,901
Total transferred	1,231,436
Satisfied by:	
Capital contribution	363,083
Share capital and premium	318,353
	681,436
Intercompany loan receivable	550,000
Total	1,231,436

(ii) At 31 December 2016, the Parent's investment in joint ventures was carried at €nil (2015: €nil).

(iii) During 2015, the Parent derecognised an investment in a subsidiary of €8.8 million, following the distribution of all assets and liabilities of that subsidiary (dividend of €9.7 million received by the Parent).

H How we finance our business

H1 Cash and Cash Equivalents

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

	31-Dec-16 €'000	31-Dec-15 €'000
Short-term deposits	**27,000**	18,000
Cash	**208**	692
Total	**27,208**	18,692

	2016 €'000	2015 €'000
At 1 January	**18,692**	88,799
Increase/(decrease) in cash and cash equivalents in the statement of cash flows	**8,516**	(70,107)
At 31 December	**27,208**	18,692

H2 Net Finance Costs

		2016 €'000	2015 €'000
Before exceptional items			
Finance income			
Dividends received		**34,659**	12,374
Interest income on funding provided to subsidiary undertakings		**-**	3,148
Total finance income		**34,659**	15,522
Finance costs			
Interest		**-**	(20,944)
Interest capitalised		**-**	372
Financing charge		**-**	(127)
Net interest on the net defined benefit liability		**(1,247)**	(1,750)
Other finance costs		**(632)**	(2,140)
Total finance costs		**(1,879)**	(24,589)
Exceptional items			
Net changes in fair value of financing derivatives	(i)	**(151)**	(1,083)
Change in estimate of cash flow on contingent consideration	(ii)	**(7,800)**	-
Total exceptional items		**(7,951)**	(1,083)
Total			
Finance income		**34,659**	15,522
Finance costs		**(9,830)**	(25,672)
Net finance income/(costs)		**24,829**	(10,150)

(i) These are remeasurements arising on financial instruments of a financing nature which are accounted for as if held for trading or as fair value hedges in accordance with the Parent's accounting policy. The impact of these remeasurements on net finance costs for 2016 was €0.2 million loss (2015: €1.1 million loss). Further details on derivative financial instruments falling within the scope of IAS 39 are set out in accounting policy 11 (note F8).

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

Notes to the Parent financial statements (continued)

H3 Financial Risk Management and Financial Instruments

This note presents information about the Parent's financial instruments and financial risk management.

	Fair value hierarchy						
	Level 1	Level 2	Level 3	Total	Total held at amortised cost	Total	Total in a hedging relationship
At 31 December 2016	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets							
Trade and other receivables (excluding prepayments and contingent consideration)	**-**	**-**	**-**	**-**	**349,361**	**349,361**	**-**
Cash and cash equivalents	**-**	**-**	**-**	**-**	**27,208**	**27,208**	**-**
Total financial assets	**-**	**-**	**-**	**-**	**376,569**	**376,569**	**-**
Financial liabilities							
Foreign exchange rate contracts	**-**	**(120)**	**-**	**(120)**	**-**	**(120)**	**-**
Trade and other payables	**-**	**-**	**-**	**-**	**(42,467)**	**(42,467)**	**-**
Total financial liabilities	**-**	**(120)**	**-**	**(120)**	**(42,467)**	**(42,587)**	**-**
Net financial (liabilities)/assets	**-**	**(120)**	**-**	**(120)**	**334,102**	**333,982**	**-**
At 31 December 2015							
Financial assets							
Foreign exchange rate contracts	-	31	-	31	-	31	-
Trade and other receivables (excluding prepayments and contingent consideration)	-	-	-	-	471,930	471,930	-
Cash and cash equivalents	-	-	-	-	18,692	18,692	-
Total financial assets	-	31	-	31	490,622	490,653	-
Financial liabilities							
Trade and other payables	-	-	-	-	(52,444)	(52,444)	-
Total financial liabilities	-	-	-	-	(52,444)	(52,444)	-
Net financial assets	-	31	-	31	438,178	438,209	-

H3 Financial Risk Management and Financial Instruments (continued)

Financial risk management
Refer to note C5 for details of the Group's financial risk management policies. These objectives, policies and processes are also adopted by the Parent.

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

	31-Dec-16 €'000	31-Dec-15 €'000
Trade and other receivables (excluding prepayments and amounts owed by subsidiary/non-controlled undertakings)	**17,621**	31,498
Cash and cash equivalents	**27,208**	18,692
Derivative financial instruments	**-**	31
Total	**44,829**	50,221

(i) (a) Treasury related credit risk
Refer to note C5 for an analysis of the Group's policies in respect of treasury related credit risk. These objectives, policies and processes are also adopted by the Parent.

(i) (b) Trade related credit risk
Refer to note I2 for an analysis of the Parent's exposure to trade related credit risk.

(ii) Liquidity risk
Refer to note C5 for details of the Group's objectives, policies and processes for managing liquidity risk and the methods used to measure liquidity risk. These objectives, policies and processes are also adopted by the Parent.
The following are the contractual maturities of financial liabilities (and assets of a similar nature), including the undiscounted interest payment associated with borrowings and the undiscounted net cash flows attributable to financial instruments. The disclosure includes cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward foreign exchange rate contracts.

	Carrying amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
At 31 December 2016						
Trade and other payables	**(42,467)**	**(42,596)**	**(28,480)**	**(8,630)**	**(5,279)**	**(207)**
Non-derivative financial liabilities	**(42,467)**	**(42,596)**	**(28,480)**	**(8,630)**	**(5,279)**	**(207)**
Foreign exchange rate contracts	**(120)**	**(120)**	**(120)**	**-**	**-**	**-**
Net derivative financial liabilities	**(120)**	**(120)**	**(120)**	**-**	**-**	**-**
Net financial liabilities	**(42,587)**	**(42,716)**	**(28,600)**	**(8,630)**	**(5,279)**	**(207)**
At 31 December 2015						
Trade and other payables	(52,444)	(53,442)	(27,641)	(19,273)	(6,028)	(500)
Non-derivative financial liabilities	(52,444)	(53,442)	(27,641)	(19,273)	(6,028)	(500)
Foreign exchange rate contracts	31	31	31	-	-	-
Net derivative financial assets	31	31	31	-	-	-
Net financial liabilities	(52,413)	(53,411)	(27,610)	(19,273)	(6,028)	(500)

Notes to the Parent financial statements (continued)

H3 Financial Risk Management and Financial Instruments (continued)

(iii) Market risk
Refer to note C5 for details of the Group's objectives, policies and processes for managing market risk and the methods used to measure market risk. These objectives, policies and processes are also adopted by the Parent.

(iii) (a) Exchange rate risk
Exchange rate risk derives from the fact that some of the Parent's transactions may be conducted in currencies other than euro (mainly sterling).

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

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

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

(iii) (b) Interest rate risk
During 2015, as part of the common control transaction (refer to note K3 for further details), the Parent transferred all borrowings and the majority of its derivative financial instruments to its subsidiaries. As a result, the Parent no longer has exposure to interest rate risk.

I Where we generate our revenues

I1 Revenue

	2016 €'000	2015 €'000
Regulated	-	240,609
Unregulated	-	28,792
Total	-	269,401

On 1 August 2015, the assets and liabilities relating to the Parent's networks business were transferred to Gas Networks Ireland, a newly incorporated subsidiary of the Parent. Up to that date, the Parent's revenues were principally derived from gas transportation services, in both regulated and unregulated markets. The Parent's revenue also included operating lease income, which was recognised in accordance with IFRIC 4.

I2 Trade and Other Receivables

	31-Dec-16 €'000	31-Dec-15 €'000
Amounts due from subsidiary undertakings	**320,215**	442,669
Amounts due from non-controlled undertakings	**27,825**	21,672
Prepayments	**3,041**	2,177
Other receivables	**17,621**	31,498
Total	**368,702**	498,016
Analysed as follows:		
Non-current	**16,300**	23,909
Current	**352,402**	474,107
Total	**368,702**	498,016

During 2015, trade and other receivables in respect of the Parent's networks business were transferred under the common control transaction as set out in note K3. Also refer to note K3 for further details in respect of balances with subsidiary companies and non-controlled undertakings.

Credit risk

Credit risk on receivables is managed through proactive monitoring and management of balances and credit vetting (where applicable). Prepayments and amounts owed by subsidiary/non-controlled undertakings are excluded from the analysis of credit exposure below. The maximum exposure to credit risk for trade and other receivables at the reporting date can be analysed as follows:

	31-Dec-16 €'000	31-Dec-15 €'000
Other receivables	**17,621**	31,498
Total	**17,621**	31,498

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

	31-Dec-16 €'000	31-Dec-15 €'000
Ireland	**17,621**	31,498
Total	**17,621**	31,498

Notes to the Parent financial statements (continued)

I2 Trade and Other Receivables (continued)

The ageing of trade and other receivables, net of impairment, at the reporting date was:

	31-Dec-16 €'000	31-Dec-15 €'000
Not past due	**17,621**	31,498
Total	**17,621**	31,498

I3 Future Operating Lease Income

	31-Dec-16 €'000	31-Dec-15 €'000
Less than one year	**690**	690
Between one and five years	**1,380**	2,070
Total	**2,070**	2,760

Future operating lease income relates to future lease income from the rental of office premises. All lease arrangements are at an arm's length basis.

I4 Deferred Revenue

	2016 €'000	2015 €'000
At 1 January	**-**	(20,257)
Received in year	**-**	(312)
Credited to the income statement	**-**	1,696
Transferred under common control transaction (note K3)	**-**	18,873
At 31 December	**-**	-

Analysed as follows:

	31-Dec-16 €'000	31-Dec-15 €'000
Non-current	**-**	-
Current	**-**	-
Total	**-**	-

J What we spend on operations and our people

J1 Operating Costs (excluding depreciation and amortisation)

	2016 €'000	2015 €'000
Payroll expense	**(31,505)**	(59,758)
Hired and contracted services	**(6,061)**	(20,965)
Materials and maintenance	**(9,005)**	(52,187)
Rent, rates and facilities	**(1,087)**	(14,860)
Other operating expenses	**(11,726)**	(22,494)
Recharges to non-controlled undertakings	**35,543**	36,925
Recharges to subsidiary undertakings	**19,901**	11,401
Total	**(3,940)**	(121,938)

Refer to note E1 for disclosures in respect of the Group's Auditor's remuneration and Board members' emoluments.

J2 Exceptional Items

During 2015, the Parent disposed of an asset to a subsidiary in the Ervia Group for €99.7 million, while at the same time acquiring an asset from that same subsidiary. The asset disposed of was derecognised at its carrying amount and the acquired asset was recognised at its fair value. This disposal resulted in a gain of €32.0 million recognised in the Parent's financial statements. The asset acquired was for consideration of €90.3 million.

Refer to note H2 for detail in respect of exceptional costs incurred in 2016.

J3 Payroll Costs

	2016 €'000	2015 €'000
Wages and salaries	**(25,004)**	(48,695)
Social insurance costs	**(2,711)**	(5,367)
Pension costs - defined benefit plans*	**(6,562)**	(13,119)
Pension costs - defined contribution plans	**(466)**	(467)
	(34,743)	(67,648)
Capitalised payroll and other payroll transfers	**3,238**	7,890
Payroll costs charged to profit or loss	**(31,505)**	(59,758)

The average number of employees employed by the Parent was 343 for 2016 (2015: 669).

*Includes unallocated non-cash pension costs attributable to non-Parent company employees (i.e. eligible subsidiary and non-controlled undertaking employees) who participate in the Ervia defined benefit scheme.

J4 Key Management Compensation

Refer to note E4 for details in respect of the Group's key management compensation.

J5 Retirement Benefit Obligations

Refer to note E5 for disclosure in respect of the Group's retirement benefit obligations.

Notes to the Parent financial statements (continued)

J6 Trade and Other Payables

	31-Dec-16 €'000	31-Dec-15 €'000
Trade payables	**(3,615)**	(2,715)
Accruals	**(11,579)**	(8,481)
Promissory notes (F7)	**(15,875)**	(26,993)
Other payables	**(10,871)**	(13,356)
Amounts due to subsidiary companies	**(198)**	(246)
Taxation and social insurance creditors[1]	**(329)**	(653)
Total	**(42,467)**	(52,444)
Analysed as follows:		
Non-current	**(13,987)**	(24,803)
Current	**(28,480)**	(27,641)
Total	**(42,467)**	(52,444)
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	**(685)**	(653)
VAT	**356**	-
Total	**(329)**	(653)

J7 Contingencies

In the normal course of its business, the Parent 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 2016, €nil (2015: €2.9 million) was provided by the Parent by way of guarantees by financial institutions to third parties. The fair value of guarantees was €nil at 31 December 2016 (2015: €nil).

In association with the transfer of assets and liabilities from the Parent to Gas Networks Ireland on 1 August 2015 (note K3), guarantees were provided by the Parent to the European Investment Bank (EIB) in July 2015, indemnifying the EIB against any losses on the loans provided to Gas Networks Ireland (total loan principal amounts of €103.1 million and £100.0 million, and total loan interest of €0.1 million as at 31 December 2016). The fair value of the guarantee was €nil at 31 December 2016.

J8 Operating Lease Commitments

The following non-cancellable operating lease commitments are payable by the Parent and relate to the rental of buildings. There are no significant or unusual restrictions imposed by the terms of the operating leases. All lease arrangements are at an arm's length basis. Amounts included in the income statement in respect of land and building lease arrangements was €0.8 million (2015: €0.8 million).

	31-Dec-16 €'000	31-Dec-15 €'000
Less than one year	**(800)**	(800)
Between one and five years	**(1,078)**	(1,881)
Total	**(1,878)**	(2,681)

K Other disclosures

K1 Cash Generated from Operations

	Notes	2016 €'000	2015 €'000
Cash flows from operating activities			
Profit for the year		**21,892**	96,175
Adjustments for:			
Depreciation and amortisation	G4	**383**	59,016
Gain on sale of property, plant and equipment	J2	**-**	(32,036)
Retirement benefit service cost	J5	**5,009**	7,574
Net finance (income)/costs	H2	**(24,829)**	10,150
Income tax (credit)/expense	K2	**(1,386)**	14,158
		1,069	155,037
Working capital changes:			
Change in inventories		**-**	(187)
Change in trade and other receivables		**22,195**	(5,125)
Change in trade and other payables		**7,384**	6,763
Change in deferred revenue		**-**	(1,384)
Change in provisions		**-**	153
Cash from operating activities		**30,648**	155,257
Interest received/(paid)		**6,081**	(6,562)
Income tax paid		**(166)**	(19,971)
Net cash from operating activities		**36,563**	128,724

Notes to the Parent financial statements (continued)

K2 Tax

	2016 €'000	2015 €'000
Current tax expense		
Current tax	**(616)**	(23,560)
Adjustments in respect of previous years	**40**	(88)
	(576)	(23,648)
Deferred tax expense		
Origination and reversal of temporary differences	**2,149**	9,930
Adjustments in respect of previous years	**(187)**	(440)
	1,962	9,490
Total income tax credit/(expense)	**1,386**	(14,158)

Reconciliation of effective tax rate	2016 €'000	2015 €'000
Profit before tax	**20,506**	110,333
Taxed at 12.5% (2015: 12.5%)	**(2,563)**	(13,792)
Expenses (not deductible)/deductible for tax purposes	**(1,108)**	486
Income not taxable	**4,333**	289
Tax effect of additional losses forward / additional liabilities due	**-**	621
Reassessment of deferred tax balances	**-**	260
Exchange adjustments	**1,477**	(1,408)
Profits taxed at higher rates	**(606)**	(86)
Adjustments to tax charge in respect of previous years	**(147)**	(528)
Total income tax credit/(expense)	**1,386**	(14,158)

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

Current tax assets and liabilities

	31-Dec-16 €'000	31-Dec-15 €'000
Current tax assets	**5,663**	2,740

K2 Tax (continued)

Deferred tax assets and liabilities

	Retirement benefit obligation €'000	Derivative financial instruments €'000	Property, plant and equipment and intangible assets €'000	Interest €'000	Other €'000	Total €'000
At 1 January 2015	10,597	1,253	(194,529)	(14,889)	608	(196,960)
Transfer to subsidiary company	-	(557)	191,537	(1,889)	(109)	188,982
Recognised in income statement	1,166	-	2,993	5,468	(137)	9,490
Recognised in equity	(5,345)	(696)	-	-	-	(6,041)
At 31 December 2015	6,418	-	1	(11,310)	362	(4,529)
Recognised in income statement	**782**	**-**	**(193)**	**1,477**	**(104)**	**1,962**
Recognised in equity	**8,961**	**-**	**-**	**-**	**-**	**8,961**
At 31 December 2016	**16,161**	**-**	**(192)**	**(9,833)**	**258**	**6,394**

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.

	2016 €'000	2015 €'000
Capital losses	**3,600**	3,300

Notes to the Parent financial statements (continued)

K3 Related Parties

		Transaction value income/ (expense)		Balance receivable/ (payable)	
		2016	2015	31-Dec-16	31-Dec-15
		€'000	€'000	€'000	€'000
Irish Water	(iv)				
Secondment of employees	(iv) (a)	**844**	4,236		
Transactional and support service agreement costs	(iv) (b)	**34,699**	32,689		
		35,543	36,925	**27,825**	21,672
Subsidiaries	(vi)				
Transactional and support service agreement costs	(vi) (a)	**19,901**	11,401		
Interest income	(vi) (b)	**-**	3,148		
Gas transportation services	(vi) (c)	**-**	(27,053)		
		19,901	(12,504)	**320,017**	442,423

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

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

(iii) Banks owned by the Irish State
In the normal course of business, the Parent transacts with certain Irish banks which are wholly or partially controlled by the Irish Government. All of the Parent's transactions with such banks are on normal commercial terms. The Parent had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2016.

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

(iv) (a) Secondment of employees
The costs relating to these employees are recharged to Irish Water on a full cost recovery method with no margin earned.

(iv) (b) Transactional and support service agreement costs
The Parent provides strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water, through the Group Centre, Major Projects area and Shared Services Centre. The Shared Services Centre is designed to provide transactional and support services in the areas of Finance, Procurement, Facilities, HR and IT.

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 2016 (as set out in note E5) includes €0.8 million (2015: €0.5 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 payroll costs.

(v) Board members' interests
The Board members had no beneficial interests in the Parent at any time during the year or at 31 December 2016. The Secretary is a beneficiary of the Employee Share Ownership Plan.

K3 Related Parties (continued)

(vi) Subsidiaries

On 1 August 2015, the assets and liabilities relating to the Parent's networks business were transferred to Gas Networks Ireland, a newly incorporated subsidiary of the Parent. As the Parent (being the entity transferring the assets and liabilities) and Gas Networks Ireland were under common control at the date of the transfer, the assets and liabilities were not measured at their fair values and instead were measured based on the carrying values. The carrying values reflect appropriate provision for impairment at the acquisition date.

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

(vi) (a) Transactional and support service agreement costs

Refer to (iv) (b) above for a description of the services provided to subsidiaries.

(vi) (b) Interest income

During 2015, the Parent had interest income arising from intercompany loan facilities provided to subsidiaries.

(vi) (c) Gas transportation services

The Parent had a contract to receive gas transportation services from a subsidiary. This contract transferred to Gas Networks Ireland during 2015.

Notes

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