

# Gas Networks Ireland Financial Statements

as at 31 December 2016



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# Directors and Other Information

<b>DIRECTORS</b>	Sean Casey (Chairman) Michael McNicholas Liam O'Sullivan Brendan Murphy Michael O'Sullivan	<i>(appointed Chairman on 14 June 2017)</i> <i>(resigned on 31 May 2017) former Chairman</i>
<b>SECRETARY</b>	Liam O'Riordan	
<b>REGISTERED OFFICE</b>	Gasworks Road Cork Ireland	
<b>SOLICITORS</b>	McCann Fitzgerald Riverside One Sir John Rogerson's Quay Dublin 2	
<b>BANKERS</b>	Danske Bank International House 3 Harbourmaster Place IFSC Dublin 1	AIB South Mall PO Box 71 66 South Mall Cork
<b>AUDITOR</b>	Deloitte Chartered Accountants & Statutory Audit Firm Lapp's Quay Cork	
<b>COMPANY NUMBER</b>	555744	

# Directors' Report

The Directors of Gas Networks Ireland (The Directors) present their Directors' report and Group financial statements for the year ended 31 December 2016.

## Principal Activities

The principal activity of the company is the transportation of natural gas on behalf of all gas customers. The Company owns, operates, builds and maintains the natural gas network in Ireland.

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

## 2016 Results

The results for the year are set out in the income statement and in the related notes. Revenue for the year was €498 million and profit after tax was €110 million. The Directors recommended the payment of a dividend in the amount of €35 million to Ervia.

## Future Developments in the Business

The company proposes to maintain its current activities. 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 during 2017.

## Key Performance Indicators

The Directors monitor performance using a suite of key performance indicators including:

Key Performance Indicator*	FY 2016	FY 2015
Lost time Accident (> 3 days including contractors)	7	4
Emergency Response	28 mins	28 mins
Customer Satisfaction	88%	89%
Completion of Planned Maintenance Programmes	98%	99%
Technical Competency Training Programme Delivered	108%	110%
New Connections (GWH)	922	804
Credit Rating Moody's	A3 Stable	Baa1 Positive
Credit Rating S&P	A Stable	A Stable
EBITDA (FY 2016 , August – December 2015)	€327m	€125m

\*All key performance indicators relate to full year 2015 with the exception of EBITDA (August – December 2015)

## Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to meet liabilities as they fall due to continue in operational existence for the foreseeable future. The Group has €417 million in undrawn facilities (including €7 million in uncommitted facilities), together with strong profitability forecasts for 2017, available to meet any liabilities as they fall due.

## Principal Risks and Uncertainties

Gas Networks Ireland has in place a comprehensive risk framework supported by Ervia risk policy and procedures, which includes processes to identify and put controls and actions in place to manage key risks.

The Directors consider that the following are the principal risk factors that could materially and adversely affect the Company's future operating profits or financial position:

**Health, Safety and Environment:** A major safety or asset related incident could cause significant impact to an employee, contractor, general public or to property. A natural or man-made event could also result in the damage of facilities, a security of supply issue or a critical asset/operational failure. Gas Networks Ireland is committed to the highest possible safety standards and to managing all aspects of operations in a safe and environmentally responsible manner. We operate a comprehensive safety management system that ensures Gas Networks Ireland designs, constructs, operates and maintains the network through the use of technically competent personnel to provide the highest levels of safety performance.

**Financial Risk Management and Exposures:** The Group's activities expose it to a number of financial risks: credit risk, liquidity risk, currency risk and interest rate risk. Financial risk management policies have been established: to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. These financial risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. Refer to note C5 for full analysis of the Company's financial risk management objectives, policies and exposures.

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

**Critical IT Infrastructure:** Dedicated resources manage our critical IT infrastructure, with an expert focus on cyber-security and data protection. In line with the external environment, Gas Networks Ireland continues to enhance its security around IT infrastructure and constantly increase security awareness and controls across the organisation.

## Directors and Secretary and their interests

The Directors and Secretary are set out on page 3. Interests of the Directors and Secretary are disclosed in note F2. These are non-voting interests which comprise less than 1% of the capital stock.

Subject to receipt of Ministerial consent, Ervia has the power to appoint and remove Directors of the Company. In compliance with "Guidelines on Contracts, Remuneration and Other Conditions of Chief Executives and Senior Management of Commercial State Bodies" issued in March 2006, no remuneration was provided to the Directors or Secretary in their capacity as such. In accordance with Section 12.1 of the Code of Practice for the Governance of State Bodies ("2009"), the remuneration of the Managing Director of Gas Networks Ireland for the period is outlined in note E1 of the financial statements.

## Corporate Governance

Gas Networks Ireland is a subsidiary of Ervia. Ervia operates as a group company with five divisions in a single multi utility model. Gas Networks Ireland and Irish Water are the operating utility divisions. Major projects delivers key national infrastructural projects. Shared Services provides all transactional and support services to the Group. Group Centre provides corporate oversight and governance for all of the Group activities.

Gas Networks Ireland, as a subsidiary of Ervia, has put appropriate measures in place to comply with the Code of Practice for the Governance of State Bodies, 2009 ("The Code of Practice"). In August 2016, the Department of Public Expenditure and Reform published a revised Code of Practice for the Governance of State Bodies ("the revised Code") which sets out principles of corporate governance which the Boards of State Bodies are required to observe. State bodies are expected to be fully compliant with the revised Code in relation to financial reporting periods beginning on or after 1 September 2016. Gas Networks Ireland will ensure full compliance with the revised Code during 2017.

A unitary Board structure has been adopted by Ervia which takes ultimate responsibility for the governance of Ervia and its subsidiaries. For the year ending 31 December 2016, the Board of Ervia was assisted in the discharging of its obligations through the delegation of certain roles and responsibilities to four committees:

- Audit\*
- Risk\*
- Investment/Infrastructure
- Remuneration

*\* On 28 February 2017, the Ervia 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 & risk is maintained and enhanced.*

Ervia has appropriate committees in place which act on behalf of the entire group and therefore no such committees have been established at the Gas Networks Ireland level. From a governance perspective, Gas Networks Ireland matters are overseen and managed by both the Gas Networks Ireland Board and the Ervia Board.

## Statement on the System of Internal Control

The Directors have taken steps to ensure an appropriate control environment is in place. The Company's system of internal control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

- A clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Directors;
- A comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure;
- A comprehensive set of management information and performance indicators linked to balanced scorecards;
- A comprehensive anti-fraud programme which includes an anti-fraud policy, employee training and communication and a fraud response plan;
- A code of ethics that requires all employees to maintain the highest ethical standards in conducting business;
- A corporate governance framework, which includes a risk assessment and financial control review. This is monitored by the Ervia Internal Audit and Ervia Risk functions;

- Ervia Internal Audit and Ervia Risk functions both conduct systematic reviews of internal financial controls. In these reviews, emphasis is focused on areas of greater risk as identified by risk assessment;
- Robust finance and accounting systems and processes which support the regular flow of information to management and the Directors; and
- Comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Directors.

Gas Networks Ireland has established processes to identify and evaluate business risks by:

- Identifying the nature, extent and financial implication of risks facing Gas Networks Ireland including the extent and categories which it regards as acceptable;
- Assessing the likelihood of identified risks occurring;
- Assessing Gas Networks Ireland's ability to manage and mitigate the risks that do occur;
- Establishing an anti-fraud training programme for all staff.

The Ervia Group maintains a comprehensive suite of formal policies and procedures, to ensure that appropriate delegation practices are implemented across the Ervia Group. The policies and procedures include the setting and maintenance of appropriate authorisation limits, the establishment of appropriate segregation of duties and the documentation of processes and controls that are focused on preventing and detecting fraud. Gas Networks Ireland has implemented the Ervia's policies and procedures to mitigate Gas Networks Ireland's business risks.

The Directors' monitoring and review of the effectiveness of the system of internal control is informed by the work of executive managers within Gas Networks Ireland who have responsibility for the development and maintenance of the internal control framework. This is supplemented by the work of the Ervia Group Risk Function and of the work of Ervia internal audit function and by the work of the auditor in its management letter and /or reports. Ervia's Audit and Risk Committees oversees the work of the risk function and internal audit on behalf of the Ervia Board.

A comprehensive internal audit programme was carried out during 2016. No issues involving material loss, contingencies or uncertainties were noted in the above mentioned annual review, which require disclosure in the annual financial statements or in the auditor's report on the financial statements, under the requirements of the Code of Practice for the Governance of State Bodies.

The internal control self-assessment process (ICSA) reports continued to provide additional evidence on the effectiveness of the system of internal control. It is supported and completed by management in Gas Networks Ireland, Major Projects, Shared Services and Group Centre in 2016.

There were no material issues highlighted in the ICSA process through 2016. Areas for improvement were identified and these have been either addressed or control enhancements are being developed.

The Chairman of Gas Networks Ireland has received confirmation from management and is satisfied that:

- All commercially significant developments in relation to Gas Networks Ireland have been reported to Ervia, for inclusion in the 2016 Ervia Annual Report where considered appropriate by Ervia and to Gas Networks Ireland for inclusion in the Gas Networks Ireland financial statements where considered appropriate by Gas Networks Ireland;
- All appropriate procedures for financial reporting, internal audit, travel, procurement and asset disposals are being carried out;
- The Codes of Business Conduct for Directors and Employees are in place and adhered to;
- Government policy on the pay of Chief Executives and all State Body employees as it relates to Gas Networks Ireland is being complied with;
- Government guidelines on the payment of Directors' fees are being complied with;
- The Guidelines for the Appraisal and Management of Capital Expenditure Proposals are being complied with;
- Government travel policy requirements are being complied with in all respects;

- Gas Networks Ireland complies with standards prescribed by the protocol for the Provision of Information to Members of the Oireachtas by State Bodies under the Aegis of Government Departments outlined in circular 25/2016 published by the Department of Public Expenditure & Reform; and
- The Code of Practice for the Governance of State Bodies has been adopted and is being complied with, including the requirements of the Ethics in Public Office Act, 1995 and the Standards in Public Office Act, 2001.

### **Statement on Relevant Audit Information**

In accordance with Section 330 of the Companies Act 2014, the Directors confirm that, in so far as the Directors are aware, there is no relevant audit information of which the Company's statutory auditors are unaware, and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's statutory auditors are aware of that information.

### **Directors Compliance Statement**

In accordance with Section 225 of the Companies Act 2014, the Board of Directors ("Board") of Gas Networks Ireland acknowledges that it is responsible for ensuring compliance by the Company with its "relevant obligations" under the Companies Act 2014 and tax law.

The Board is of the opinion that the policies and the structures and arrangements which the Company has in place are appropriate to secure material compliance by the Company with its relevant obligations. The Company's "relevant obligations" are identified in the Compliance Policy Statement Matrix and the associated Compliance Matrix which identifies the key actions and checks that must be in place. This Policy Statement has been communicated to all senior management of the Company to ensure a consistent and robust adherence to this Compliance Policy.

### **Companies Act 2014**

Following receipt of Ministerial consent, on 17 November 2016, Gas Networks Ireland was re-registered as a Designated Activity Company Limited by shares in accordance with Part 20 Companies Act 2014. Gas Networks Ireland is exempt from the obligation to use the words describing the company type in its name pursuant to section 151 Companies Act 2014.

### **Political Donations**

There were no donations made during the year to any political party.

### **Independent Auditor**

In August 2014, following a tender process, Ministerial approval was granted for the appointment of Deloitte as Auditor for Ervia and its subsidiary companies for a three year term, with the option to extend for up to a further two years, subject to review after the initial three year period. At its meeting on 28th February 2017, based on the satisfactory outcome of the assessment of the effectiveness of the external audit process, the Ervia Board approved an extension of up to two years on Deloitte's term of appointment as Auditor, subject to agreement with Deloitte.

Pursuant to Section 383(2) of the Companies Act 2014, the Auditor, Deloitte, Chartered Accountants and Statutory Audit Firm, will continue in office.

### **Creditor Payment Policy/Prompt Payments**

The Directors acknowledge their responsibility for ensuring compliance with the provisions of the EU Directive 2011/7/EC as transposed into Irish Law (the "Regulations"), whose provisions include the entitlement of suppliers to interest on late payments.



Gas Networks Ireland 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 Gas Networks Ireland, 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 was paid in respect of late payments in 2016.

In 2015 the Government launched the Prompt Payment Code of Conduct (the "Code"), which can be found at [www.promptpayment.ie](http://www.promptpayment.ie). Gas Networks Ireland 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 Directors are satisfied that Gas Networks Ireland has complied with the requirements of the Regulations in all material respects.

### Accounting Records

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

### Post Balance Sheet Events

There are no significant events affecting the Group which have taken place since the end of the year.

For and on behalf of Gas Networks Ireland:



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Sean Casey  
Chairman



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Liam O'Sullivan  
Director

23<sup>rd</sup> June 2017

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Date of Approval

# Directors' Responsibilities Statement

## for the year ended 31 December 2016

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations.

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

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

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

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

The Code of Practice for the Governance of State Bodies ("the Code") provides a framework for the application of best practice in corporate governance by both commercial and non-commercial State bodies. State bodies and their subsidiaries are required to confirm to the relevant Minister that they comply with the up-to-date requirements of the Code in their governance practices and procedures. Gas Networks Ireland, as a subsidiary of Ervia is obliged to comply with the Code and the Directors are responsible for ensuring said compliance. In accordance with section 13.3 of the Code, Gas Networks Ireland reports to Ervia on its compliance with the Code. In August 2016, the Department of Public Expenditure and Reform published a revised Code which applies to financial periods commencing on or after 1 September 2016. State bodies must comply with the revised Code by 1 September 2017. Gas Networks Ireland is currently implementing appropriate measures to ensure compliance with the revised Code.

For and on behalf of Gas Networks Ireland:



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Sean Casey  
Chairman



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Liam O'Sullivan  
Director

23<sup>rd</sup> June 2017

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Date of Approval

# Independent Auditor's Report

## to the members of Gas Networks Ireland

We have audited the financial statements of Gas Networks Ireland for the financial year ended 31 December 2016 which comprise the Group Financial Statements: the Group Income Statement, the Group Statement of Other Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Statement of Cash Flows and the related Group notes A1 to F10, the Company Financial Statements: the Company Balance Sheet, the Company Statement of Changes in Equity, the Company Statement of Cash Flows and the related Company notes G1 to J5. The relevant financial reporting framework that has been applied in the preparation of the Group and the Company financial statements is the Companies Act 2014 and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("relevant financial reporting framework").

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

### Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with the Companies Act 2014 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 the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Group Financial Statements 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 Company financial statements give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2016 and of the profit of the Group for the year then ended; and
- the Group and Company financial statements have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

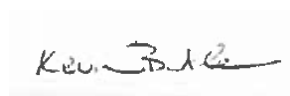
### **Matters on which we are required to Report by the Companies Act 2014**

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The Company balance sheet is in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements.

### **Matters on which we are required to Report by Exception**

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

Under the Code of Practice for the Governance of State Bodies ("the code") we are required to report to you if the statement regarding the system of internal control required under the code as included in the corporate governance statement in the report of the Board does not reflect the Company'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.



**Kevin Butler**  
**For and on behalf of Deloitte**  
**Chartered Accountants and Statutory Audit Firm**  
**Cork**

**Date:** 27<sup>th</sup> June 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 Directors but no control procedures can provide absolute assurance in this area. Legislation in Ireland governing the preparation and dissemination of Financial Statements differs from legislation in other jurisdictions.*

# Group Income Statement

for the year ended 31 December 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
Revenue	D1	497,718	-	497,718	199,003	-	199,003
Operating costs (excluding depreciation and amortisation)	E1	(170,912)	-	(170,912)	(73,729)	-	(73,729)
<b>Operating profit before depreciation and amortisation (EBITDA)</b>		<b>326,806</b>	<b>-</b>	<b>326,806</b>	<b>125,274</b>	<b>-</b>	<b>125,274</b>
Depreciation and amortisation	B4	(133,196)	-	(133,196)	(55,454)	-	(55,454)
<b>Operating profit</b>		<b>193,610</b>	<b>-</b>	<b>193,610</b>	<b>69,820</b>	<b>-</b>	<b>69,820</b>
Finance income	C4	-	1,325	1,325	-	1,092	1,092
Finance costs	C4	(45,013)	(21,065)	(66,078)	(16,645)	-	(16,645)
Net finance (costs)/income	C4	(45,013)	(19,740)	(64,753)	(16,645)	1,092	(15,553)
<b>Profit/(loss) before income tax</b>		<b>148,597</b>	<b>(19,740)</b>	<b>128,857</b>	<b>53,175</b>	<b>1,092</b>	<b>54,267</b>
Income tax (expense)/credit	F5	(20,875)	2,468	(18,407)	(9,060)	(137)	(9,197)
<b>Profit/(loss) for the period</b>		<b>127,722</b>	<b>(17,272)</b>	<b>110,450</b>	<b>44,115</b>	<b>955</b>	<b>45,070</b>

See note A1 for definitions of exceptional items.

\* The 2015 comparatives and respective notes (unless otherwise stated) relate to the 5 month trading period from 1 August 2015 to 31 December 2015 (refer to note F4 for greater detail).

# Group Statement of Other Comprehensive Income

for the year ended 31 December 2016

Notes	2016 €000	2015* €000
<b>Profit for the period</b>	<b>110,450</b>	45,070
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Translation differences on consolidation of foreign subsidiaries	(2,553)	(1,316)
Net change in fair value of cash flow hedges	2,001	1,871
Deferred tax on cash flow hedge movement	(250)	(234)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(802)</b>	321
<b>Total other comprehensive (expense)/income for the period, net of income tax</b>	<b>(802)</b>	321
<b>Total comprehensive income for the period</b>	<b>109,648</b>	45,391
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	109,648	45,391
<b>Total comprehensive income for the period</b>	<b>109,648</b>	45,391

\* The 2015 comparatives and respective notes (unless otherwise stated) relate to the 5 month trading period from 1 August 2015 to 31 December 2015 (refer to note F4 for greater detail).

# Group Balance Sheet

as at 31 December 2016

	Notes	31-Dec-16 €000	31-Dec-15 €000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	B1	2,571,203	2,603,240
Intangible assets	B3	28,028	31,232
Derivative financial instruments	C5	58,026	54,999
<b>Total non-current assets</b>		<b>2,657,257</b>	<b>2,689,471</b>
<b>Current assets</b>			
Trade and other receivables	D2	67,615	59,953
Cash and cash equivalents	C3	60,708	78,742
Restricted deposits	E8	43,866	35,022
Derivative financial instruments	C5	400	6,031
Inventories	F6	2,406	1,545
<b>Total current assets</b>		<b>174,995</b>	<b>181,293</b>
<b>Total assets</b>		<b>2,832,252</b>	<b>2,870,764</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital and share premium		(318,353)	(318,353)
Capital contribution		(363,083)	(363,083)
Retained earnings		(179,885)	(104,094)
Cash flow hedge reserve		513	2,264
Translation reserve		(2,161)	(4,714)
<b>Total equity attributable to equity holders of the Company</b>		<b>(862,969)</b>	<b>(787,980)</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings and other debt	C2	(1,130,380)	(1,023,749)
Deferred revenue	D4	(12,180)	(12,766)
Government grants	B2	(65,693)	(70,571)
Provisions	E6	(12,608)	(14,408)
Trade and other payables	E5	(39,332)	(45,591)
Derivative financial instruments	C5	(6,846)	(10,879)
Deferred tax liabilities	F5	(214,141)	(206,928)
<b>Total non-current liabilities</b>		<b>(1,481,180)</b>	<b>(1,384,892)</b>
<b>Current liabilities</b>			
Borrowings and other debt	C2	(41,350)	(151,952)
Deferred revenue	D4	(6,130)	(4,758)
Government grants	B2	(5,701)	(5,983)
Provisions	E6	(4,486)	(4,419)
Derivative financial instruments	C5	(1,781)	(2,805)
Trade and other payables	E5	(422,281)	(527,756)
Current tax liabilities	F5	(6,374)	(219)
<b>Total current liabilities</b>		<b>(488,103)</b>	<b>(697,892)</b>
<b>Total liabilities</b>		<b>(1,969,283)</b>	<b>(2,082,784)</b>
<b>Total equity and liabilities</b>		<b>(2,832,252)</b>	<b>(2,870,764)</b>

For and on behalf of the Board:



Sean Casey  
Chairman



Liam O'Sullivan  
Director

23<sup>rd</sup> June 2017

Date of Approval

# Group Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital and share premium €000	Capital contribution €000	Cash flow hedge reserve €000	Translation reserve €000	Retained earnings €000	Total €000
<b>Balance at 13 January 2015</b>	-	-	-	-	-	-
Profit for the period	-	-	-	-	(45,070)	(45,070)
Other comprehensive (income)/expense for the period, net of income tax	-	-	(1,637)	1,316	-	(321)
<b>Total comprehensive (income)/expense for the period</b>	-	-	(1,637)	1,316	(45,070)	(45,391)
Transfer from Ervia under common control transaction (note F4)	(318,353)	(363,083)	3,901	(6,030)	(59,024)	(742,589)
<b>Balance at 31 December 2015</b>	(318,353)	(363,083)	2,264	(4,714)	(104,094)	(787,980)
Profit for the year	-	-	-	-	(110,450)	(110,450)
Other comprehensive (income)/expense for the year, net of income tax	-	-	(1,751)	2,553	-	802
<b>Total comprehensive (income)/expense for the year</b>	-	-	(1,751)	2,553	(110,450)	(109,648)
Dividends paid (note F2)	-	-	-	-	34,659	34,659
<b>Balance at 31 December 2016</b>	(318,353)	(363,083)	513	(2,161)	(179,885)	(862,969)

All attributable to equity holders of the Company.



# Group Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016 €000	2015 €000
<b>Net cash from operating activities</b>	F3	241,000	165,195
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(124,743)	(45,643)
Payments for intangible assets		(10,415)	(165)
Grants received		4,781	-
Common control transaction	F4	-	83,498
<b>Net cash (used in)/from investing activities</b>		<b>(130,377)</b>	<b>37,690</b>
<b>Cash flows from financing activities</b>			
Dividends paid	F2	(34,659)	-
Proceeds from borrowings		687,000	69,860
Repayment of borrowings		(681,353)	(1,482)
Bond buy back payment	C4	(21,065)	-
Repayment of loan to ultimate parent undertaking		(81,837)	(192,242)
Movements on credit support arrangements		3,630	-
<b>Net cash used in financing activities</b>		<b>(128,284)</b>	<b>(123,864)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	C3	<b>(17,661)</b>	<b>79,021</b>
Cash and cash equivalents at the beginning of the period	C3	78,742	-
Effect of exchange rate fluctuations on cash held	C3	(373)	(279)
<b>Cash and cash equivalents at 31 December</b>	C3	<b>60,708</b>	<b>78,742</b>

# Notes to the Group Financial Statements

## A. Significant Disclosures

This section contains notes to the financial statements which are of such significance that their disclosure is given more prominence in terms of layout.

<b>A1</b>	Basis of Preparation	<b>A3</b>	Subsequent Events
<b>A2</b>	Judgements and Estimate		

## B. Our Infrastructure and the Assets we use in our Business

The Company owns a significant number of assets which it uses in its operations. The notes in this section provide information on the assets owned by the Group, details in respect of any grants received to compensate for the investment in these assets and an analysis of the income statement charge for the year in respect of these assets.

<b>B1</b>	Property, Plant and Equipment	<b>B3</b>	Intangible Assets
<b>B2</b>	Government Grants	<b>B4</b>	Depreciation and Amortisation

## C. How we Finance our Business

This section contains the notes to the financial statements that detail the financing arrangements of the Group, as well as details in respect of the Group's financial risk management.

<b>C1</b>	Analysis of Net Debt	<b>C4</b>	Net Finance Costs
<b>C2</b>	Borrowings and Other Debt	<b>C5</b>	Financial Risk Management and Financial Instruments
<b>C3</b>	Cash and Cash Equivalents	<b>C6</b>	Fair Value Determination

## D. Where we generate our Revenues

The Group generates its income from regulated and unregulated activities. Among other things, the notes in this section provide information on revenue performance during the year and revenues to be recognised in future years.

<b>D1</b>	Revenue	<b>D3</b>	Future Operating Lease Income
<b>D2</b>	Trade and Other Receivables	<b>D4</b>	Deferred Revenue

## E. What we spend on Operations and our People

This section analyses the operating costs incurred by the Group, including costs in respect of employees. Among other things, the notes in this section also provide information in respect of amounts owing at year end, an assessment of uncertain liabilities at year end and a profile of operating lease expenses payable in future years.

<b>E1</b>	Operating Costs (excluding depreciation & amortisation)	<b>E5</b>	Trade and Other Payables
<b>E2</b>	Payroll Costs	<b>E6</b>	Provisions and Contingencies
<b>E3</b>	Key Management Compensation	<b>E7</b>	Operating Lease Commitments
<b>E4</b>	Retirement Benefit Obligations	<b>E8</b>	Restricted Deposits

## F. Other Disclosures

This section sets out all remaining financial statement disclosures.

<b>F1</b>	Segmental Information	<b>F7</b>	Subsidiaries
<b>F2</b>	Related Parties	<b>F8</b>	Statement of Significant Accounting Policies
<b>F3</b>	Cash Generated from Operations	<b>F9</b>	New Accounting Standards and Interpretations
<b>F4</b>	Assets and Liabilities Transferred Under Common Control	<b>F10</b>	Approval of Financial Statements
<b>F5</b>	Tax		
<b>F6</b>	Inventory		

## A1. Basis of Preparation

### Group and Company

Gas Networks Ireland ('the Company') is a designated activity company, limited by shares, and incorporated in Ireland, on 13 January 2015. The address of its registered office is Gasworks Road, Cork, Ireland.

The Group financial statements consolidate the financial statements of the Company and its subsidiaries, (together referred to as 'the Group'), up to 31 December each year. The Company and its subsidiaries are ultimately controlled by Ervia.

The Group and Company 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 periods 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 Directors have a reasonable expectation that the Group will continue to meet its liabilities as they fall due for the foreseeable future and consequently the financial statements are prepared on a going concern basis. The Group has €417 million in undrawn facilities (including €7 million in uncommitted facilities), together with strong profitability forecasts for 2017, available to meet any liabilities as they fall due.

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 8.

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. Judgements and Estimates

### Group and Company

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.

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) 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.

#### (iii) 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

## A2. Significant Judgements and Estimates (continued)

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.

### **(iv) 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.

### **(v) 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

At the date of approval of the financial statements the Directors are not aware of any post balance sheet events that require adjustment of disclosure to be made in the financial statements.

## B1. Property, Plant and Equipment

	Land and buildings €000	Plant, pipeline and machinery €000	Assets under construction €000	Total €000
<b>Cost</b>				
<b>At 13 January 2015</b>	-	-	-	-
Transferred under common control transaction (note F4)	67,311	3,912,638	42,621	4,022,570
Additions	-	34,298	23,205	57,503
Disposals	-	(375)	-	(375)
Transfers in period	16	4,938	(4,954)	-
Effect of movement in exchange rates	-	(12,375)	(20)	(12,395)
<b>At 31 December 2015</b>	<b>67,327</b>	<b>3,939,124</b>	<b>60,852</b>	<b>4,067,303</b>
Additions	-	<b>3,680</b>	<b>112,720</b>	<b>116,400</b>
Disposals	-	<b>(2,790)</b>	-	<b>(2,790)</b>
Transfers in year	<b>198</b>	<b>109,875</b>	<b>(110,073)</b>	-
Effect of movement in exchange rates	-	<b>(35,518)</b>	<b>(324)</b>	<b>(35,842)</b>
<b>At 31 December 2016</b>	<b>67,525</b>	<b>4,014,371</b>	<b>63,175</b>	<b>4,145,071</b>
<b>Accumulated depreciation and impairment losses</b>				
<b>At 13 January 2015</b>	-	-	-	-
Transferred under common control transaction (note F4)	(19,106)	(1,397,546)	-	(1,416,652)
Depreciation for the period	(593)	(52,201)	-	(52,794)
Disposals	-	365	-	365
Effect of movement in exchange rates	-	5,018	-	5,018
<b>At 31 December 2015</b>	<b>(19,699)</b>	<b>(1,444,364)</b>	-	<b>(1,464,063)</b>
Depreciation for the year	<b>(1,473)</b>	<b>(125,889)</b>	-	<b>(127,362)</b>
Disposals	-	<b>2,776</b>	-	<b>2,776</b>
Effect of movement in exchange rates	-	<b>14,781</b>	-	<b>14,781</b>
<b>At 31 December 2016</b>	<b>(21,172)</b>	<b>(1,552,696)</b>	-	<b>(1,573,868)</b>
<b>Carrying amounts</b>				
At 31 December 2015	47,628	2,494,760	60,852	2,603,240
<b>At 31 December 2016</b>	<b>46,353</b>	<b>2,461,675</b>	<b>63,175</b>	<b>2,571,203</b>

During the year, the Group capitalised €0.4 million (2015: €0.6 million) in interest. The capitalisation rate was 4.4% (2015: 4.7%). The Group also capitalised €9.4 million in payroll costs during the year (2015: €4.1 million).

Gas Networks Ireland (IOM) DAC, a subsidiary of 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) DAC (note C2).

<b>Capital commitments</b>	<b>2016</b>	<b>2015</b>
	<b>€million</b>	<b>€million</b>
Capital expenditure that has been contracted for but has not been provided for	<b>70</b>	58
Capital expenditure that has been authorised by the Directors but has not yet been contracted for	<b>97</b>	54

## B2. Government Grants

	2016 €000	2015 €000
<b>At 1 January/13 January</b>	<b>(76,554)</b>	-
Transferred under common control transaction (note F4)	-	(80,571)
Received in the period	<b>(4,781)</b>	-
Amortised in period	<b>5,831</b>	2,527
Effects of movement in exchange rates	<b>4,110</b>	1,490
<b>At 31 December</b>	<b>(71,394)</b>	(76,554)
<b>Analysed as follows:</b>	<b>31-Dec-16 €000</b>	<b>31-Dec-15 €000</b>
Non-current	<b>(65,693)</b>	(70,571)
Current	<b>(5,701)</b>	(5,983)
<b>Total</b>	<b>(71,394)</b>	(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 from the INEA in aggregate for these projects in progress.

### B3. Intangible Assets

	Software and other €000	Software under development €000	Total €000
<b>Cost</b>			
<b>At 13 January 2015</b>	-	-	-
Transferred under common control transaction (note F4)	122,175	5,810	127,985
Additions (incl internally developed)	-	160	160
Transfers in period	4,644	(4,644)	-
<b>At 31 December 2015</b>	<b>126,819</b>	<b>1,326</b>	<b>128,145</b>
Additions (incl internally developed)	<b>99</b>	<b>8,372</b>	<b>8,471</b>
Transfers in year	<b>1,663</b>	<b>(1,663)</b>	-
Effects of movement in exchange rates	<b>(97)</b>	-	<b>(97)</b>
<b>At 31 December 2016</b>	<b>128,484</b>	<b>8,035</b>	<b>136,519</b>
<b>Accumulated amortisation and impairment losses</b>			
<b>At 13 January 2015</b>	-	-	-
Transferred under common control transaction (note F4)	(91,726)	-	(91,726)
Amortisation for the period	(5,187)	-	(5,187)
<b>At 31 December 2015</b>	<b>(96,913)</b>	-	<b>(96,913)</b>
Amortisation for the year	<b>(11,665)</b>	-	<b>(11,665)</b>
Effects of movement in exchange rates	<b>87</b>	-	<b>87</b>
<b>At 31 December 2016</b>	<b>(108,491)</b>	-	<b>(108,491)</b>
<b>Carrying amounts</b>			
At 31 December 2015	29,906	1,326	31,232
<b>At 31 December 2016</b>	<b>19,993</b>	<b>8,035</b>	<b>28,028</b>

The Group capitalised €0.3 million in payroll costs during the year (2015: €0.2 million).

### B4. Depreciation and Amortisation

		2016 €000	2015 €000
Depreciation	B1	(127,362)	(52,794)
Amortisation of intangible assets	B3	(11,665)	(5,187)
Grant amortisation	B2	5,831	2,527
<b>Total</b>		<b>(133,196)</b>	<b>(55,454)</b>



## C1. Analysis of 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	60,708	78,742
<b>Net debt</b>		<b>(1,055,204)</b>	<b>(1,040,266)</b>

		2016 €000	2015 €000
<b>Net debt reconciliation</b>			
<b>At 1 January/13 January</b>		<b>(1,040,266)</b>	-
Cash from operations		296,068	203,163
Interest paid		(48,689)	(33,925)
Tax paid		(6,379)	(4,043)
Net capital expenditure		(130,377)	(45,808)
Dividends paid	F2	(34,659)	-
Common control transaction	F4	-	(971,250)
Repayment of loan to ultimate parent undertaking		(81,837)	(192,242)
Bond redemption payment	C4	(21,065)	-
Other cash items		3,630	-
Non cash items		8,370	3,839
<b>At 31 December</b>		<b>(1,055,204)</b>	<b>(1,040,266)</b>

## 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 <sup>1</sup>	Total	Bonds	Loans from financial institutions <sup>1</sup>	Total
	31-Dec-16 €000	31-Dec-16 €000	31-Dec-16 €000	31-Dec-15 €000	31-Dec-15 €000	31-Dec-15 €000
Less than one year	-	(41,350)	(41,350)	-	(151,952)	(151,952)
<b>Current</b>	-	(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)
<b>Non-current</b>	<b>(619,917)</b>	<b>(510,463)</b>	<b>(1,130,380)</b>	<b>(499,672)</b>	<b>(524,077)</b>	<b>(1,023,749)</b>
<b>Total</b>	<b>(619,917)</b>	<b>(551,813)</b>	<b>(1,171,730)</b>	<b>(499,672)</b>	<b>(676,029)</b>	<b>(1,175,701)</b>

<sup>1</sup> 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) DAC, which primarily comprises a gas transmission pipeline

## C2. Borrowings and Other Debt *(continued)*

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 F2 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	42,000	57,500
Cash	18,708	21,242
<b>Total</b>	<b>60,708</b>	<b>78,742</b>
	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
<b>At 1 January/13 January</b>	<b>78,742</b>	<b>-</b>
(Decrease)/increase in cash and cash equivalents in the statement of cash flows	<b>(17,661)</b>	79,021
Effect of exchange rate fluctuations on cash held	<b>(373)</b>	(279)
<b>At 31 December</b>	<b>60,708</b>	<b>78,742</b>

## C4. Net Finance Costs

		2016 €000	2015 €000
<b>Before exceptional items</b>			
<b>Finance costs</b>			
Interest		(32,260)	(13,749)
Interest capitalised		448	576
Financing charge		(169)	(127)
Other finance costs		(13,032)	(3,345)
<b>Total finance costs</b>		<b>(45,013)</b>	<b>(16,645)</b>
<b>Exceptional items</b>			
Net changes in fair value of financing derivatives	(i)	1,325	1,092
Bond buy back payment	(ii)	(21,065)	-
<b>Total exceptional items</b>		<b>(19,740)</b>	<b>1,092</b>
<b>Total</b>			
Finance income		1,325	1,092
Finance costs		(66,078)	(16,645)
<b>Net finance costs</b>		<b>(64,753)</b>	<b>(15,553)</b>

- (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 €1.3 million gain (2015: €1.1 million gain). Further details on derivative instruments falling within the scope of IAS 39 are set out in accounting policy 8 (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.

## 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.

At 31 December 2016	Fair value hierarchy			Total	Total held at amortised cost	Total	Total in a hedging relationship
	Level 1	Level 2	Level 3				
	€000	€000	€000	€000	€000	€000	€000
<b>Financial assets</b>							
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)	-	-	-	-	63,546	63,546	-
Cash and cash equivalents	-	-	-	-	60,708	60,708	-
Restricted deposits	-	-	-	-	43,866	43,866	-
<b>Total financial assets</b>	-	58,426	-	58,426	168,120	226,546	58,003
<b>Financial liabilities</b>							
Borrowings and other debt <sup>1</sup>	-	(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	-	(365)	-	(365)	-	(365)	-
Trade and other payables	-	-	-	-	(461,613)	(461,613)	-
<b>Total financial liabilities</b>	-	(64,445)	-	(64,445)	(1,577,525)	(1,641,970)	(57,280)
<b>Net financial (liabilities)/assets</b>	-	(6,019)	-	(6,019)	(1,409,405)	(1,415,424)	723
<b>At 31 December 2015</b>							
<b>Financial assets</b>							
Cross currency interest rate swaps	-	59,899	-	59,899	-	59,899	59,899
Foreign exchange rate contracts	-	1,131	-	1,131	-	1,131	-
Trade and other receivables (excluding prepayments)	-	-	-	-	54,518	54,518	-
Cash and cash equivalents	-	-	-	-	78,742	78,742	-
Restricted deposits	-	-	-	-	35,022	35,022	-
<b>Total financial assets</b>	-	61,030	-	61,030	168,282	229,312	59,899
<b>Financial liabilities</b>							
Borrowings and other debt <sup>1</sup>	-	(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	-	-	-	-	(573,347)	(573,347)	-
<b>Total financial liabilities</b>	-	(70,377)	-	(70,377)	(1,692,355)	(1,762,732)	(60,788)
<b>Net financial liabilities</b>	-	(9,347)	-	(9,347)	(1,524,073)	(1,533,420)	(889)

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

### Derivative Assets and Liabilities Designated as Hedges

As part of the common control transaction (refer to note F4 for further details), Ervia Parent transferred all derivatives in hedging relationships to the Gas Networks Ireland Group. All derivative terms and hedged risks remain the same and the hedge relationships and hedge accounting has

## C5. Financial Risk Management and Financial Instruments (continued)

continued post transfer. 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:

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

### Financial Risk Management

Financial risk management policies have been established 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. These 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 Ervia 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.

## C5. Financial Risk Management and Financial Instruments (continued)

### (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.

Under the Gas network code of operations, Shippers are required to provide Financial Security to GNI in order to protect the group against non-payment of Gas transportation invoices. Related funds received are held on deposit and are included within the restricted deposits balance. Refer to Note E8.

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	31-Dec-15
	€000	€000
Trade and other receivables (excluding prepayments and amounts due from related parties)	62,312	54,518
Cash and cash equivalents	60,708	78,742
Restricted deposits	43,866	35,022
Derivative financial instruments	58,426	61,030
<b>Total</b>	<b>225,312</b>	<b>229,312</b>

### (i) (a) Treasury Related Credit Risk

The Ervia Group operates a centralised treasury function, which undertakes all treasury activities of the Ervia Group, including on behalf of the Gas Networks Ireland Group.

The Ervia Group treasury function, on behalf of the Gas Networks Ireland Group, manages 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 is monitored by the Ervia Group 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 Ervia Group treasury function 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 Ervia Group treasury function, on behalf of the Gas Networks Ireland Group, develops and maintains relationships with financial institutions in order to develop their long-term commitment to the Group; institutions who understand the business and who provide funding at competitive terms. The Ervia Group treasury function ensures that banking and treasury services are obtained at competitive prices. The Ervia Group Head of Treasury, supported by the Ervia Group Finance Director, the Ervia Group Chief Executive Officer, the Gas Networks Ireland Head of Finance 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.

## C5. Financial Risk Management and Financial Instruments (continued)

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 eight 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. Gas Networks Ireland also has an overdraft facility available.

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

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.

### **(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.

**C5. Financial Risk Management and Financial Instruments** *(continued)*

	Carrying amount €000	Contractual cash flows €000	< 1 year €000	1-2 years €000	2-5 years €000	> 5 years €000
<b>At 31 December 2016</b>						
Borrowings	(1,171,730)	(1,288,035)	(71,535)	(31,526)	(547,474)	(637,500)
Trade and other payables	(461,613)	(461,613)	(422,281)	-	(39,332)	-
<b>Non-derivative financial liabilities</b>	<b>(1,633,343)</b>	<b>(1,749,648)</b>	<b>(493,816)</b>	<b>(31,526)</b>	<b>(586,806)</b>	<b>(637,500)</b>
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	58	58	58	-	-	-
<b>Net derivative financial assets</b>	<b>49,799</b>	<b>74,534</b>	<b>7,933</b>	<b>9,784</b>	<b>56,817</b>	<b>-</b>
<b>Net financial liabilities</b>	<b>(1,583,544)</b>	<b>(1,675,114)</b>	<b>(485,883)</b>	<b>(21,742)</b>	<b>(529,989)</b>	<b>(637,500)</b>
<b>At 31 December 2015</b>						
Borrowings	(1,175,701)	(1,294,771)	(195,406)	(539,774)	(426,339)	(133,252)
Trade and other payables	(573,347)	(573,347)	(527,756)	-	(45,591)	-
<b>Non-derivative financial liabilities</b>	<b>(1,749,048)</b>	<b>(1,868,118)</b>	<b>(723,162)</b>	<b>(539,774)</b>	<b>(471,930)</b>	<b>(133,252)</b>
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	(225)	(225)	(225)	-	-	-
<b>Net derivative financial assets</b>	<b>47,346</b>	<b>71,978</b>	<b>9,707</b>	<b>7,658</b>	<b>35,028</b>	<b>19,585</b>
<b>Net financial liabilities</b>	<b>(1,701,702)</b>	<b>(1,796,140)</b>	<b>(713,455)</b>	<b>(532,116)</b>	<b>(436,902)</b>	<b>(113,667)</b>

**(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.

The Ervia Group Treasury function is responsible for managing market risk with respect to interest rates and currency exchange rates for the Group. 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 Ervia Group Treasury Policy. Generally the treasury function seeks to apply hedge accounting in order to manage volatility in profit or loss.

**(iii) (a) Exchange Rate Risk**

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

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



## C5. Financial Risk Management and Financial Instruments (continued)

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

### • Subsidiaries operating in foreign currency (sterling)

The assets and liabilities of foreign operations, 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 operations 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 currency operations 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 operations, 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 Ervia Group's Treasury Policy. Exposures will be hedged taking account of the business risks and the regulatory environment. Also, the Ervia 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.

### • 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 sterling denominated subsidiaries.

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.

### **(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.

## C5. Financial Risk Management and Financial Instruments (continued)

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 <sup>1</sup>	(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%
<b>Total</b>	<b>(1,171,730)</b>	<b>100.0%</b>	<b>(1,175,701)</b>	<b>100.0%</b>

<sup>1</sup> 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 a bond 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.

### 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 gain/(loss)		Other comprehensive income	
	31-Dec-16 €000	31-Dec-15 €000	31-Dec-16 €000	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

## C5. Financial Risk Management and Financial Instruments *(continued)*

- 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 year during which the change has occurred.

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

Type	Valuation technique	Significant unobservable inputs
Forward exchange contracts <i>(Refer to note C5)</i>	The fair value of forward exchange contracts is based on their quoted price, if available.  If a quoted price is not available, then fair value is estimated as the difference between the contractual forward price and the current forward price for the residual maturity of the contract.  Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.
Interest rate swaps and cross currency interest rate swaps <i>(Refer to note C5)</i>	The fair value of interest rate swaps and cross currency interest rate swaps takes into account the fixed, floating and market rates prevailing at the reporting date.  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 <i>(fair value hedge portion)</i> <i>(Refer to note C5)</i>	The fair value of the fixed rate debt is estimated by discounting the future cash flows to net present values using market rates prevailing at the reporting date.  Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.

## D1. Revenue

	2016	2015
	€000	€000
Regulated	435,340	173,242
Unregulated	62,378	25,761
<b>Total</b>	<b>497,718</b>	<b>199,003</b>

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	31-Dec-15
	€000	€000
Trade receivables	4,086	2,291
Trade receivables - unbilled	55,375	46,788
Prepayments	4,069	5,435
Amounts due from related parties	F2 1,234	-
Other receivables	2,851	5,439
<b>Total</b>	<b>67,615</b>	<b>59,953</b>

### Analysed as follows:

Non-current	-	-
Current	67,615	59,953
<b>Total</b>	<b>67,615</b>	<b>59,953</b>

Trade receivables are stated net of allowances for impairment. Trade receivables mainly represent receivables in respect of use of system revenue in the Republic of Ireland and charges for use of the transmission pipelines in Northern Ireland. Refer to note F2 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 were sixteen external shippers at year end. TUoS and DUoS revenue is billed and collected by the Group. The allowed revenue is invoiced to the shippers on a monthly basis twelve business days after month end with payment due ten 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 pipelines. Invoices are issued by the administrator and non-payment of invoices attracts a daily interest charge. Payments in relation to new connections or alterations are paid for in advance of the work being carried out. Credit risk on all other receivables is managed through proactive monitoring and management of balances and credit vetting (where applicable).

## D2. Trade and Other Receivables (continued)

Prepayments and amounts due from related parties 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	31-Dec-15
	€000	€000
Trade receivables	4,086	2,291
Use of system receivables - unbilled	55,375	46,788
Other receivables	2,851	5,439
<b>Total</b>	<b>62,312</b>	<b>54,518</b>

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

	31-Dec-16	31-Dec-15
	€000	€000
Ireland	53,342	52,459
UK (including Northern Ireland and Isle of Man)	8,970	2,059
<b>Total</b>	<b>62,312</b>	<b>54,518</b>

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

	Net receivable 31-Dec-16	Net receivable 31-Dec-15
	€000	€000
Not past due	60,143	54,220
0 – 30 days	516	207
31 – 120 days	1,348	91
> 120 days	305	-
<b>Total</b>	<b>62,312</b>	<b>54,518</b>

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

	2016	2015
	€000	€000
<b>At 1 January/13 January</b>	<b>(327)</b>	<b>-</b>
Transferred under common control transaction (note F4)	-	(502)
Impairment loss (recognised)/reversed	(60)	160
Provision utilised	71	15
<b>At 31 December</b>	<b>(316)</b>	<b>(327)</b>

## D3. Future Operating Lease Income

	31-Dec-16	31-Dec-15
	€000	€000
Less than one year	27,419	28,303
Between one and five years	95,228	96,141
More than five years	146,037	174,523
<b>Total</b>	<b>268,684</b>	<b>298,967</b>

Future operating lease income by the Group 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 5 to 14 years.

## D4. Deferred Revenue

	2016 €000	2015 €000
<b>At 1 January/13 January</b>	<b>(17,524)</b>	-
Transferred under common control transaction (note F4)	-	(18,873)
Received in period	(4,391)	(3,743)
Credited to the income statement	3,605	5,092
<b>At 31 December</b>	<b>(18,310)</b>	<b>(17,524)</b>
<b>Analysed as follows:</b>	<b>31-Dec-16 €000</b>	<b>31-Dec-15 €000</b>
Non-current	(12,180)	(12,766)
Current	(6,130)	(4,758)
<b>Total</b>	<b>(18,310)</b>	<b>(17,524)</b>

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.

## E1. Operating Costs (excluding depreciation and amortisation)

	2016 €000	2015 €000
Payroll expense	(38,169)	(15,559)
Hired and contracted services	(27,796)	(10,144)
Materials and maintenance	(33,847)	(19,603)
Rent, rates and facilities	(28,015)	(12,167)
Central transactional and support service costs	(19,901)	(7,876)
Other operating expenses	(23,184)	(8,380)
<b>Total</b>	<b>(170,912)</b>	<b>(73,729)</b>

	2016 €000	2015 €000
<b>Operating costs are stated after charging:</b>		
<b>Auditor's remuneration</b>		
- statutory audit services	(134)	(37)
- other audit related assurance services	(91)	(41)
- tax advisory services	-	-
- other non audit services	(30)	-
<b>Total non audit services</b>	<b>(255)</b>	<b>(78)</b>
<b>Directors' emoluments</b>		
- fees	-	-
- remuneration of the Managing Director*	(266)	(109)
<b>Total</b>	<b>(266)</b>	<b>(109)</b>

Details of the all-in cost of the remuneration package of the Managing Director is made up as follows:

Managing Director's basic salary	(185)	(77)
Defined benefit pension contributions made on behalf of the Managing Director	(30)	(11)
Other benefits	(51)	(21)
<b>Total</b>	<b>(266)</b>	<b>(109)</b>

\*Disclosures in respect of 2015 represent the 5 month period from 1 August to 31 December 2015.

## E2. Payroll Costs

	2016	2015
	€000	€000
Wages and salaries	(38,703)	(16,047)
Social insurance costs	(4,309)	(1,772)
Pension costs	(4,875)	(1,991)
	<b>(47,887)</b>	(19,810)
Capitalised payroll	9,718	4,251
<b>Payroll costs charged to profit or loss</b>	<b>(38,169)</b>	<b>(15,559)</b>

There were 557 employed by the Group at 31 December 2016 (2015: 558). The average number of employees, employed by the Group for the year was 562.

## E3. Key Management Compensation

	2016	2015
	€000	€000
Short-term employee benefits	(662)	(671)
Post-employment benefits	(81)	(80)
<b>Total</b>	<b>(743)</b>	<b>(751)</b>

Key management consists of the Ervia Board, the Ervia CEO and relevant direct reports. The key management cost is allocated over the Ervia group based on the services provided to individual group entities. The above disclosure for 2015 includes an apportionment of relevant costs for the full calendar year 2015.

## E4. Retirement Benefit Obligations

### Defined Benefit Pension Scheme accounted for as a Group Plan

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

There is no contractual agreement or stated policy in place for charging the Gas Networks Ireland's net defined benefit cost. The funding contribution rate is calculated every 3 years, by the pension scheme's actuary, for the Ervia Group as a whole. Gas Networks Ireland's contribution amount is determined by applying the Ervia Group contribution rate to the salaries of the participating Gas Networks Ireland employees. Refer to the Ervia Group Annual Report for full disclosure in respect of the scheme, as required by IAS 19.

During 2016, the contributions paid to Ervia in respect of the Gas Networks Ireland's employees was €4.5 million (2015: €1.9 million). These costs are included in the Gas Networks Ireland Group payroll costs (set out in note E2) and are identified as a related party transaction in note F2.

#### E4. Retirement Benefit Obligations (continued)

##### Defined Contribution Scheme

Prior to December 2016, Ervia Group operated Personal Retirement Savings Accounts for all qualifying employees. A number of Gas Networks Ireland's employees participated in that scheme. 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, the Gas Networks Ireland Group contributed €0.3 million (2015: €0.1 million), in respect of PRSAs/the Ervia Defined Contribution Scheme, on behalf of its employees, which was charged to the income statement.

#### E5. Trade and Other Payables

	31-Dec-16 €000	31-Dec-15 €000
Trade payables	(8,982)	(10,926)
Accrued expenses	(63,422)	(80,336)
Amounts owed to ultimate parent undertaking	(320,017)	(442,204)
Other payables	(53,129)	(25,930)
Taxation and social insurance creditors <sup>1</sup>	(16,063)	(13,951)
<b>Total</b>	<b>(461,613)</b>	<b>(573,347)</b>
<b>Analysed as follows:</b>		
Non-current	(39,332)	(45,591)
Current	(422,281)	(527,756)
<b>Total</b>	<b>(461,613)</b>	<b>(573,347)</b>
<b><sup>1</sup> Taxation and social insurance creditors</b>		
PAYE/PRSI/social insurance	(957)	(1,221)
VAT	(15,106)	(12,730)
<b>Total</b>	<b>(16,063)</b>	<b>(13,951)</b>



## E6. Provisions and Contingencies

### Provisions

	Restructuring	Environmental	Self-insured claims	Total
	€000	€000	€000	€000
<b>At 1 January 2016</b>	<b>(2,925)</b>	<b>(7,530)</b>	<b>(8,372)</b>	<b>(18,827)</b>
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
<b>At 31 December 2016</b>	<b>(2,718)</b>	<b>(6,561)</b>	<b>(7,815)</b>	<b>(17,094)</b>

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

### Restructuring

During 2013, the Ervia 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 Ervia Group 2013 income statement as an exceptional item. This provision was transferred to the Gas Networks Ireland Group during 2015 as part of the common control transaction (refer to note F4). 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.

### 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 and are counter indemnified by the Group. At 31 December 2016, €1.4 million (2015: €0.7 million) was provided by the Group by way of guarantees by financial institutions to third parties. The fair value of guarantees was €nil at 31 December 2016 (2015: €nil).

## E7. 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	31-Dec-15
	€000	€000
Less than one year	(80)	(72)
Between one and five years	(180)	(155)
More than five years	(110)	(149)
<b>Total</b>	<b>(370)</b>	<b>(376)</b>

Amounts included in the income statement in respect of land and building lease arrangements were €0.1 million (2015: €0.1 million).

## E8. Restricted Deposits

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

	31-Dec-16	31-Dec-15
	€000	€000
Current	43,866	35,022
<b>Total</b>	<b>43,866</b>	<b>35,022</b>

## F1. Segmental Information

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

The Group's operating segments are therefore those used internally by the Gas Networks Ireland Board to run the business and make strategic decisions. The Gas Networks Ireland Board is provided with information in respect of the Group on a single segment basis for the purposes of assessing performance and allocating resources. The Gas Networks Ireland Board reviews operating results at a Gas Networks Ireland Group level. In light of this, the Group has a single segment for financial reporting purposes and therefore no further detailed segmental information on operating results is provided in this note.

## F1. Segmental Information (continued)

<b>(a) Revenue</b>	<b>2016</b>	<b>2015</b>
External revenue split by geographic location is as follows:	<b>€000</b>	<b>€000</b>
Ireland	<b>456,872</b>	182,237
UK (including Northern Ireland and Isle of Man)	<b>40,846</b>	16,766
<b>Total</b>	<b>497,718</b>	199,003

Refer to note D1 for disclosure of revenues from external customers by group of similar products/services. The Group is not reliant on any major external customers.

<b>(b) Non-current assets by geographic location</b>	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Ireland	<b>2,222,258</b>	2,247,532
UK (including Northern Ireland and Isle of Man)	<b>376,973</b>	386,940
<b>Total</b>	<b>2,599,231</b>	2,634,472

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

## F2. Related Parties

		Transaction value		Balance at reporting date	
		income/(expense)		receivable/(payable)	
		2016	2015	31-Dec-16	31-Dec-15
		€000	€000	€000	€000
<b>Ervia</b>	<b>(i)</b>				
Transactional and support service agreement costs	<b>(i) (a)</b>	<b>(19,901)</b>	(7,876)		
Dividends paid	<b>(i) (b)</b>	<b>(34,659)</b>	-		
		<b>(54,560)</b>	(7,876)	<b>(320,017)</b>	(442,204)
<b>Irish Water</b>	<b>(iv)</b>				
Joint projects	<b>(iv) (a)</b>	-	-	1,234	-

### (i) Ultimate Parent Undertaking

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

#### (i) (a) Transactional and Support Service Agreement Cost

The Ervia Group provides strategic, governance, risk management, capital delivery management and transactional and support services to the Gas Networks Ireland Group, through the Ervia business divisions; Group Centre, Major Projects area 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.

#### (i) (b) Dividends Paid

The Group paid an annual dividend of €34.7 million to Ervia during 2016.

### Common Control Transaction

On 1 August 2015, the assets and liabilities relating to Ervia's networks business were transferred to Gas Networks Ireland. As Ervia (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. Refer to note F4 for further detail of this transaction.

## F2. Related Parties (continued)

### *Pension Costs*

Ervia operates defined benefit and defined contribution pension/PRSA schemes. A number of the Company's employees participate in these schemes. The defined benefit scheme is accounted for as a Group Plan in accordance with IAS 19. Ervia, as the sponsoring employer for the plan, recognises the net defined benefit cost, while the Company recognises only the cost of contributions payable for the year in respect of the Company's employees. The contributions payable in respect of PRSAs/the Ervia Defined Contribution Scheme are charged to profit or loss in the periods during which services are rendered by the Company's employees.

During the year, the total contributions payable in respect of the Company's employees was €4.9 million (2015: €2.0 million). These costs are included in the Company's payroll costs, set out in note E2.

### **(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.

#### *(iv) (a) 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.

### **(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. Sean Casey (Chairman), Michael O'Sullivan (Director) and Liam O'Riordan (Secretary) are beneficiaries of the Ervia Employee Share Ownership Plan.

### **(vi) Subsidiaries**

The Group financial statements consolidate the results of the Company and its subsidiaries. A listing of the subsidiaries is provided in note F7. Transactions with related parties are entered into in the normal course of business. Sales to and from, together with outstanding payables and receivables to and from subsidiaries, are eliminated in the preparation of the financial statements, in accordance with IFRS 10.

### F3. Cash Generated from Operations

	Notes	2016 €000	2015 €000
<b>Cash flows from operating activities</b>			
Profit for the period		110,450	45,070
Adjustments for:			
Depreciation and amortisation	B4	133,196	55,454
Net finance costs	C4	64,753	15,553
Income tax expense	F5	18,407	9,197
		<b>326,806</b>	125,274
Working capital changes:			
Change in inventories		(861)	240
Change in trade and other receivables		(7,265)	20,549
Change in trade and other payables		(21,496)	58,397
Change in deferred revenue		786	(1,349)
Change in provisions		(1,902)	52
<b>Cash from operating activities</b>		<b>296,068</b>	203,163
Interest paid		(48,689)	(33,925)
Income tax paid		(6,379)	(4,043)
<b>Net cash from operating activities</b>		<b>241,000</b>	165,195

#### F4. Assets and Liabilities Transferred Under Common Control

On 1 August 2015, the assets and liabilities relating to Ervia's networks business were transferred to Gas Networks Ireland. As Ervia (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 share capital, share premium, capital contribution and loan arising from the transaction.

		<b>1-Aug-15</b> <b>€000</b>
Property, plant and equipment		2,605,918
Intangible assets		36,259
Investment in subsidiaries		-
Inventories		1,785
Trade and other receivables		331,451
Cash and cash equivalents	(ii)	83,498
Restricted deposits		33,917
Financial instruments		42,361
Tax assets and liabilities		(202,636)
Borrowings and other debt	(ii)	(1,109,419)
Deferred revenue		(18,873)
Government grants		(80,571)
Provisions		(18,648)
Trade and other payables		(412,453)
<b>Total transferred</b>		<b>1,292,589</b>
<b>Satisfied by:</b>		
Share capital and share premium	(i)	318,353
Capital contribution		363,083
Retained earnings relating to subsidiary assets (note F7)		59,024
Other reserves		2,129
Loan from ultimate parent undertaking		550,000
<b>Total</b>		<b>1,292,589</b>

- (i) The Company has authorised share capital of 1,000,000 ordinary shares of €1 each and issued share capital of 1,001 ordinary shares of €1 each in favour of Ervia.

		<b>1-Aug-15</b> <b>€000</b>
<b>(ii)</b>		
<b>Net Debt</b>		
Borrowings and other debt		(1,109,419)
Cash and cash equivalents		83,498
Marked to market IFRS adjustments		54,671
<b>Total</b>		<b>(971,250)</b>

## F5. Tax

Income tax expense	2016 €'000	2015 €'000
<b>Current tax expense</b>		
Current tax	(15,604)	(4,250)
Adjustments in respect of previous periods	2,549	-
	<b>(13,055)</b>	<b>(4,250)</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(3,930)	(4,947)
Adjustments in respect of previous periods	(1,422)	-
	<b>(5,352)</b>	<b>(4,947)</b>
<b>Total income tax expense</b>	<b>(18,407)</b>	<b>(9,197)</b>

Reconciliation of effective tax rate	2016 €'000	2015 €'000
Profit before income tax	128,857	54,267
Taxed at 12.5% (2015: 12.5%)	(16,107)	(6,783)
Expenses not deductible for tax purposes	(3,434)	(883)
Income not taxable	496	206
Profits taxed at higher rates	(2,433)	(1,046)
Effect of tax rate change	2,118	-
Exchange adjustments	(174)	(691)
Adjustments to tax charge in respect of previous periods	1,127	-
<b>Total income tax expense</b>	<b>(18,407)</b>	<b>(9,197)</b>

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
<b>Current tax liabilities</b>	<b>(6,374)</b>	<b>(219)</b>

### Deferred tax assets and liabilities

	Tax losses forward €'000	Derivative financial instruments €'000	Property, plant and equipment and intangible assets €'000	Interest €'000	Other €'000	Total €'000
<b>At 13 January 2015</b>	-	-	-	-	-	-
Transfer from ultimate parent undertaking	684	557	(214,791)	11,435	110	(202,005)
Recognised in income statement	(684)	-	(2,548)	(1,715)	-	(4,947)
Recognised in equity	-	(234)	-	-	-	(234)
Exchange adjustments	-	-	690	(432)	-	258
<b>At 31 December 2015</b>	-	323	(216,649)	9,288	110	(206,928)
Recognised in income statement	-	-	(4,490)	(862)	-	(5,352)
Recognised in equity	-	(250)	-	-	-	(250)
Transfer to current tax	-	-	(3,662)	-	-	(3,662)
Exchange adjustments	-	-	3,287	(1,236)	-	2,051
<b>At 31 December 2016</b>	-	73	(221,514)	7,190	110	(214,141)

In accordance with IAS 12, deferred tax has not been provided for in relation to unremitted reserves of the Group's overseas subsidiary which were €84.0 million as at 31 December 2016 (2015: €63.0 million).

## F6. Inventory

	31-Dec-16 €000	31-Dec-15 €000
<b>Gas stock and engineering materials</b>	<b>2,406</b>	1,545

In 2016 inventories recognised in the income statement amounted to €1.1 million (2015: €0.6 million). There were no write-downs of inventories to net realisable value in 2016 (2015: €nil).

## F7. Subsidiaries

At 31 December 2016, the Group had the following subsidiaries:

Company	Nature of Business	Group Share
1 GNI (UK) Limited	Gas Transmission	100%
2 Gas Networks Ireland (IOM) DAC	Gas Transmission	100%
3 Gaslink Independent System Operator DAC	Non Trading	100%

At 31 December 2016, the registered office addresses of the subsidiaries was;

The registered office of 1 is: 6 St. Andrew Street, 5th Floor, London, EC4A 3AE, United Kingdom.

The registered office of 2 and 3 is: Gasworks Road, Cork, Ireland.

All subsidiaries were acquired by the Group on 1 August 2015. Refer to note F4 for details of the common control transaction between Gas Networks Ireland and Ervia, its ultimate parent undertaking, which took place on 1 August 2015. Retained earnings of subsidiaries were transferred at their carrying value at the transfer date.

## F8. Statement of Significant Accounting Policies

### 1 Basis of Consolidation

#### (i) Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date (i.e. when control is transferred to the Group), except where the transaction is accounted for as a transfer of assets and liabilities from an entity under common control (refer to accounting policy 17 below).

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



## F8. Statement of Significant Accounting Policies (continued)

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.

### *(ii) Subsidiaries*

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

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

### *(iii) Transactions Eliminated on Consolidation*

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

### *(iv) Loss of Control*

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

## 2 Foreign Currency

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

### *(i) Foreign Currency Transactions*

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

### *(ii) Foreign Operations*

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

## 3 Property, Plant and Equipment

### *(i) Recognition*

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

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

## F8. Statement of Significant Accounting Policies (continued)

### (ii) Depreciation

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

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

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

Depreciation is not charged on land or assets under construction.

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

### (iii) Subsequent Expenditure

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

### (iv) Borrowing Costs

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

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

## 4 Intangible Assets

### (i) 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.

### (ii) 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.

### (iii) Amortisation of Intangible Assets

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. Amortisation is not charged on goodwill or

## F8. Statement of Significant Accounting Policies (continued)

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 3 (iv).

## 5 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.

## 6 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

## F8. Statement of Significant Accounting Policies (continued)

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.

## 7 Inventories

### *(i) Inventories*

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

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

### *(ii) Stock Gas*

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

## 8 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.

## F8. Statement of Significant Accounting Policies (continued)

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.

#### *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.

## 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

## **F8. Statement of Significant Accounting Policies** (continued)

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

### **11 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 periods' regulatory revenue. No adjustment is made for over or under recoveries in the period 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.

### **12 Operating Profit**

Operating profit is stated before net finance costs and taxation.

### **13 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

## F8. Statement of Significant Accounting Policies (continued)

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).

### 14 Income Tax

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

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

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.

### 15 Retirement Benefit Obligations

#### *(i) Defined Benefit Pension Scheme Accounted for as Group Plan*

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

#### *(ii) Defined Contribution Pension Schemes*

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

### 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.

## F8. Statement of Significant Accounting Policies (continued)

### 17 Transfer of Assets and Liabilities from 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*

<i>Standard/Amendment</i>	<i>EU Effective Date</i>	<i>Endorsed by the EU</i>
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*

<i>Standard/Amendment</i>	<i>EU Effective Date<sup>1</sup></i>	<i>Endorsed by the EU</i>
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)

<sup>1</sup>IASB date provided if not yet endorsed by the EU



## 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, €1.3 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 €0.1 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.

## F10. Approval of Financial Statements

The Directors approved the financial statements on 23 June 2017.

# Company Balance Sheet

for the year ended 31 December 2016

	Notes	31-Dec-16 €000	31-Dec-15 * €000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	G1	2,194,543	2,217,231
Intangible assets	G3	27,716	31,232
Investment in subsidiary undertakings	G4	515	515
Trade and other receivables	I1	182,824	182,114
Derivative financial instruments	H3	58,026	54,999
<b>Total non-current assets</b>		<b>2,463,624</b>	<b>2,486,091</b>
<b>Current assets</b>			
Inventories	J4	2,373	1,507
Trade and other receivables	I1	68,665	77,187
Cash and cash equivalents	H2	37,106	58,773
Restricted deposits	I6	39,384	30,336
Derivative financial instruments	H3	399	5,735
Current tax assets	J2	-	858
<b>Total current assets</b>		<b>147,927</b>	<b>174,396</b>
<b>Total assets</b>		<b>2,611,551</b>	<b>2,660,487</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital and share premium		(318,353)	(318,353)
Capital contribution		(363,083)	(363,083)
Cash flow hedge reserve		513	2,264
Retained earnings		(74,020)	(33,260)
<b>Total equity attributable to equity holders of the Company</b>		<b>(754,943)</b>	<b>(712,432)</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings and other debt	H1	(1,122,629)	(1,013,468)
Government grants	G2	(38,503)	(41,412)
Deferred revenue	I3	(12,180)	(12,766)
Provisions	I4	(12,608)	(14,408)
Derivative financial instruments	H3	(23)	(2,646)
Deferred tax liabilities	J2	(203,536)	(192,321)
<b>Total non-current liabilities</b>		<b>(1,389,479)</b>	<b>(1,277,021)</b>
<b>Current liabilities</b>			
Borrowings and other debt	H1	(38,820)	(148,933)
Government grants	G2	(3,922)	(3,922)
Deferred revenue	I3	(6,130)	(4,758)
Provisions	I4	(4,486)	(4,419)
Trade and other payables	I2	(409,407)	(506,197)
Derivative financial instruments	H3	(1,623)	(2,805)
Current tax liabilities	J2	(2,741)	-
<b>Total current liabilities</b>		<b>(467,129)</b>	<b>(671,034)</b>
<b>Total liabilities</b>		<b>(1,856,608)</b>	<b>(1,948,055)</b>
<b>Total equity and liabilities</b>		<b>(2,611,551)</b>	<b>(2,660,487)</b>

For and on behalf of the Board:



Sean Casey  
Chairman



Liam O'Sullivan  
Director

23<sup>rd</sup> June 2017

Date of Approval

\* The 2015 comparatives and respective notes (unless otherwise stated) relate to the 5 month trading period from 1 August 2015 to 31 December 2015 (refer to note G4 for greater detail).

# Company Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital and share premium €000	Capital contribution €000	Cash flow hedge reserve €000	Retained earnings €000	Total €000
<b>Balance at 13 January 2015</b>	-	-	-	-	-
Profit for the period	-	-	-	(33,260)	(33,260)
Other comprehensive income for the period, net of income tax	-	-	(1,637)	-	(1,637)
<b>Total comprehensive income for the period</b>	-	-	(1,637)	(33,260)	(34,897)
Transfer from Ervia under common control transaction (note G4)	(318,353)	(363,083)	3,901	-	(677,535)
<b>Balance at 31 December 2015</b>	(318,353)	(363,083)	2,264	(33,260)	(712,432)
Profit for the year	-	-	-	(75,419)	(75,419)
Other comprehensive income for the year, net of income tax	-	-	(1,751)	-	(1,751)
<b>Total comprehensive income for the year</b>	-	-	(1,751)	(75,419)	(77,170)
Dividends paid	-	-	-	34,659	34,659
<b>Balance at 31 December 2016</b>	(318,353)	(363,083)	513	(74,020)	(754,943)

All attributable to owners of the Company.

# Company Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016 €000	2015 €000
<b>Net cash from operating activities</b>	J3	<b>188,538</b>	158,386
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(77,565)	(40,364)
Payments for intangible assets		(8,434)	(165)
Grants received	G2	1,061	-
Common control transaction	G4	-	63,298
<b>Net cash (used in)/from investing activities</b>		<b>(84,938)</b>	22,769
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		687,000	69,860
Repayment of borrowings		(678,336)	-
Repayment of loan to ultimate parent undertaking		(81,837)	(192,242)
Bond buy back payment		(21,065)	-
Movements on credit support arrangements		3,630	-
Dividends paid		(34,659)	-
<b>Net cash used in financing activities</b>		<b>(125,267)</b>	(122,382)
<b>Net (decrease)/increase in cash and cash equivalents</b>	H2	<b>(21,667)</b>	58,773
Cash and cash equivalents at 1 January/13 January	H2	58,773	-
Effect of exchange rate fluctuations on cash held	H2	-	-
<b>Cash and cash equivalents at 31 December</b>	H2	<b>37,106</b>	58,773

# Notes to the Group Financial Statements

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

The notes in this section provide information on the Company's investment in subsidiaries, the assets owned by the Company and any grants received.

<b>G1</b>	Property, Plant and Equipment	<b>G3</b>	Intangible Assets
<b>G2</b>	Government Grants	<b>G4</b>	Investment in Subsidiaries

## **H. How we finance our business**

This section contains the notes to the financial statements that detail the financing arrangements of the Company, as well as details in respect of the Company's financial risk management.

<b>H1</b>	Borrowing and Other Debt	<b>H3</b>	Financial Risk Management and Financial Instruments
<b>H2</b>	Cash and Cash Equivalents		

## **I. Operational assets and liabilities**

The notes in this section provide information in respect of amounts due/owing at the financial year end, an assessment of uncertain liabilities at the reporting date and a profile of lease expenses payable in future years.

<b>I1</b>	Trade and Other Receivables	<b>I4</b>	Provisions and Contingencies
<b>I2</b>	Trade and Other Payables	<b>I5</b>	Operating Leases
<b>I3</b>	Deferred Revenue	<b>I6</b>	Restricted Deposits

## **J. Other disclosures**

This section sets out all remaining financial statements disclosures.

<b>J1</b>	Related Parties	<b>J4</b>	Inventories
<b>J2</b>	Tax	<b>J5</b>	Disclosure of the Company's Profit for the Period
<b>J3</b>	Cash Generated from Operations		

## G1. Property, Plant and Equipment

	Land and buildings €000	Plant, pipeline and machinery €000	Assets under construction €000	Total €000
<b>Cost</b>				
<b>At 13 January 2015</b>	-	-	-	-
Transferred under common control transaction (note G4)	58,962	3,274,129	32,315	3,365,406
Additions	-	33,196	10,932	44,128
Transfers in period	15	79	(94)	-
Disposals	-	(375)	-	(375)
<b>At 31 December 2015</b>	<b>58,977</b>	<b>3,307,029</b>	<b>43,153</b>	<b>3,409,159</b>
Additions	-	3,512	75,276	78,788
Transfers in year	197	92,522	(92,719)	-
Disposals	-	(2,746)	-	(2,746)
<b>At 31 December 2016</b>	<b>59,174</b>	<b>3,400,317</b>	<b>25,710</b>	<b>3,485,201</b>
<b>Accumulated depreciation and impairment losses</b>				
<b>At 13 January 2015</b>	-	-	-	-
Transferred under common control transaction (note G4)	(15,350)	(1,136,065)	-	(1,151,415)
Depreciation for the period	(487)	(40,391)	-	(40,878)
Disposals	-	365	-	365
<b>At 31 December 2015</b>	<b>(15,837)</b>	<b>(1,176,091)</b>	<b>-</b>	<b>(1,191,928)</b>
Depreciation for the year	(1,192)	(100,273)	-	(101,465)
Disposals	-	2,735	-	2,735
<b>At 31 December 2016</b>	<b>(17,029)</b>	<b>(1,273,629)</b>	<b>-</b>	<b>(1,290,658)</b>
<b>Carrying amounts</b>				
At 31 December 2015	43,140	2,130,938	43,153	2,217,231
<b>At 31 December 2016</b>	<b>42,145</b>	<b>2,126,688</b>	<b>25,710</b>	<b>2,194,543</b>

During the year, the Company capitalised €0.2 million (2015: €0.5 million) in interest. The capitalisation rate was 4.4% (2015: 4.7%). The Company also capitalised €9.4 million in payroll costs during the year (2015: €4.1 million).

### Capital commitments

	2016 €million	2015 €million
Capital expenditure that has been contracted for but has not been provided for	25	29
Capital expenditure that has been authorised by the Directors but has not yet been contracted for	79	48

## G2. Government Grants

	2016 €000	2015 €000
<b>At 1 January/13 January</b>	<b>(45,334)</b>	-
Transfer under common control transaction (note G4)	-	(46,981)
Received in period	(1,061)	-
Amortised in period	3,970	1,647
<b>At 31 December</b>	<b>(42,425)</b>	(45,334)
<b>Analysed as follows:</b>	<b>31-Dec-16 €000</b>	<b>31-Dec-15 €000</b>
Non-current	(38,503)	(41,412)
Current	(3,922)	(3,922)
<b>Total</b>	<b>(42,425)</b>	(45,334)

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 2016.

During 2016, the Company secured approval for EU grant aid of €6.4 million from the Innovation and Networks Executive Agency (INEA) for the compressed natural gas project. €1.1 million was received during the year (2015: €nil) from the INEA for this project in progress.

## G3. Intangible Assets

	Software and other €000	Software under development €000	Total €000
<b>Cost</b>			
<b>At 13 January 2015</b>	-	-	-
Acquisition under common control transaction (note G4)	121,519	5,810	127,329
Additions (incl internally developed)	-	160	160
Transfers in period	4,644	(4,644)	-
<b>At 31 December 2015</b>	<b>126,163</b>	<b>1,326</b>	<b>127,489</b>
Additions (incl internally developed)	-	8,126	8,126
Transfers in year	1,663	(1,663)	-
<b>At 31 December 2016</b>	<b>127,826</b>	<b>7,789</b>	<b>135,615</b>
<b>Accumulated amortisation and impairment losses</b>			
<b>At 13 January 2015</b>	-	-	-
Acquisition under common control transaction (note G4)	(91,070)	-	(91,070)
Amortisation for the period	(5,187)	-	(5,187)
<b>At 31 December 2015</b>	<b>(96,257)</b>	-	<b>(96,257)</b>
Amortisation for the year	(11,642)	-	(11,642)
<b>At 31 December 2016</b>	<b>(107,899)</b>	-	<b>(107,899)</b>
<b>Carrying amount</b>			
At 31 December 2015	29,906	1,326	31,232
<b>At 31 December 2016</b>	<b>19,927</b>	<b>7,789</b>	<b>27,716</b>

The Company capitalised €0.3 million in payroll costs during the year (2015: €0.2 million).

## G4. Investment in Subsidiaries

### Cost

At 1 January 2016	515
<b>At 31 December 2016</b>	<b>515</b>

### Impairment

At 1 January 2016	-
<b>At 31 December 2016</b>	<b>-</b>

### Carrying amount

At 31 December 2015	(i)	515
<b>At 31 December 2016</b>		<b>515</b>

- (i) On 1 August 2015, the assets and liabilities relating to the Ervia's networks business were transferred to Gas Networks Ireland, a newly incorporated subsidiary of Ervia. As Ervia (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 share capital, share premium, capital contribution and loan arising from the transaction.

	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	63,298
Restricted deposits	29,297
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)
<b>Total transferred</b>	<b>1,227,535</b>
<b>Satisfied by:</b>	
Share capital and premium	(ii) 318,353
Capital contribution	363,083
Cash flow hedge reserve	(3,901)
Loan from ultimate parent undertaking	550,000
<b>Total</b>	<b>1,227,535</b>

- (ii) The Company has authorised share capital of 1,000,000 ordinary shares of €1 each and issued share capital of 1,001 ordinary shares of €1 each in favour of Ervia.



## H1. Borrowings and Other Debt

This note provides information about the contractual terms of the Company's interest-bearing borrowings. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note H3.

	Loans from financial institutions <sup>1</sup>			Loans from financial institutions <sup>1</sup>		
	Bonds	Total	Total	Bonds	Total	Total
	31-Dec-16 €000	31-Dec-16 €000	31-Dec-16 €000	31-Dec-15 €000	31-Dec-15 €000	31-Dec-15 €000
Less than one year	-	(38,820)	(38,820)	-	(148,933)	(148,933)
<b>Current borrowings</b>	-	<b>(38,820)</b>	<b>(38,820)</b>	-	<b>(148,933)</b>	<b>(148,933)</b>
Between one and five years	-	(502,712)	(502,712)	(499,672)	(376,390)	(876,062)
More than five years	(619,917)	-	(619,917)	-	(137,406)	(137,406)
<b>Non-current borrowings</b>	<b>(619,917)</b>	<b>(502,712)</b>	<b>(1,122,629)</b>	<b>(499,672)</b>	<b>(513,796)</b>	<b>(1,013,468)</b>
<b>Total</b>	<b>(619,917)</b>	<b>(541,532)</b>	<b>(1,161,449)</b>	<b>(499,672)</b>	<b>(662,729)</b>	<b>(1,162,401)</b>

<sup>1</sup>including private placement notes.

Total borrowings includes €426.4 million (2015: €374.1 million) of floating rate debt and €735.0 million (2015: €788.3 million) of fixed rate debt which have been drawn down from various lenders.

Included in borrowings are sterling denominated bank loans, which have been used as a hedge of the Company'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 J1 for further details).

## H2. 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	42,000	57,500
Cash	(4,894)	1,273
<b>Total</b>	<b>37,106</b>	<b>58,773</b>
	2016 €000	2015 €000
<b>At 1 January/13 January</b>	<b>58,773</b>	-
(Decrease)/increase in cash and cash equivalents in the statement of cash flows	(21,667)	58,773
<b>At 31 December</b>	<b>37,106</b>	<b>58,773</b>

### H3. Financial Risk Management and Financial Instruments

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

	Fair value hierarchy				Total held at amortised cost €000	Total €000	Total in a hedging relationship €000
	Level 1 €000	Level 2 €000	Level 3 €000	Total €000			
<b>At 31 December 2016</b>							
<b>Financial assets</b>							
Cross currency interest rate swaps	-	58,003	-	58,003	-	58,003	58,003
Foreign exchange rate contracts	-	422	-	422	-	422	-
Trade and other receivables (excluding prepayments)	-	-	-	-	249,120	249,120	-
Cash and cash equivalents	-	-	-	-	37,106	37,106	-
Restricted deposits	-	-	-	-	39,384	39,384	-
<b>Total financial assets</b>	-	<b>58,425</b>	-	<b>58,425</b>	<b>325,610</b>	<b>384,035</b>	<b>58,003</b>
<b>Financial liabilities</b>							
Borrowings and other debt	-	(55,818)	-	(55,818)	(1,105,631)	(1,161,449)	(55,818)
Interest rate derivatives	-	(1,462)	-	(1,462)	-	(1,462)	(1,462)
Foreign exchange rate contracts	-	(184)	-	(184)	-	(184)	-
Trade and other payables	-	-	-	-	(409,407)	(409,407)	-
<b>Total financial liabilities</b>	-	<b>(57,464)</b>	-	<b>(57,464)</b>	<b>(1,515,038)</b>	<b>(1,572,502)</b>	<b>(57,280)</b>
<b>Net financial assets/(liabilities)</b>	-	<b>961</b>	-	<b>961</b>	<b>(1,189,428)</b>	<b>(1,188,467)</b>	<b>723</b>
<b>At 31 December 2015</b>							
<b>Financial assets</b>							
Cross currency interest rate swaps	-	59,899	-	59,899	-	59,899	59,899
Foreign exchange rate contracts	-	835	-	835	-	835	-
Trade and other receivables (excluding prepayments)	-	-	-	-	256,167	256,167	-
Cash and cash equivalents	-	-	-	-	58,773	58,773	-
Restricted deposits	-	-	-	-	30,336	30,336	-
<b>Total financial assets</b>	-	<b>60,734</b>	-	<b>60,734</b>	<b>345,276</b>	<b>406,010</b>	<b>59,899</b>
<b>Financial liabilities</b>							
Borrowings and other debt	-	(56,693)	-	(56,693)	(1,105,708)	(1,162,401)	(56,693)
Interest rate derivatives	-	(4,095)	-	(4,095)	-	(4,095)	(4,095)
Foreign exchange rate contracts	-	(1,356)	-	(1,356)	-	(1,356)	-
Trade and other payables	-	-	-	-	(506,197)	(506,197)	-
<b>Total financial liabilities</b>	-	<b>(62,144)</b>	-	<b>(62,144)</b>	<b>(1,611,905)</b>	<b>(1,674,049)</b>	<b>(60,788)</b>
<b>Net financial liabilities</b>	-	<b>(1,410)</b>	-	<b>(1,410)</b>	<b>(1,266,629)</b>	<b>(1,268,039)</b>	<b>(889)</b>

### H3. Financial Risk Management and Financial Instruments (continued)

As part of the common control transaction (refer to note G4 for further details), Ervia Parent transferred all derivatives in hedging relationships to the Company. All derivative terms and hedged risks remain the same and the hedge relationships and hedge accounting has continued post transfer. The Company uses the following categories for hedges:

#### (i) Fair Value Hedges

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:

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

### 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 Company.

#### (i) Credit Risk

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

	<b>31-Dec-16</b> €000	<b>31-Dec-15</b> €000
Trade and other receivables (excluding prepayments, amounts due from subsidiaries and amounts due from related parties)	53,341	46,373
Cash and cash equivalents	37,106	58,773
Restricted deposits	39,384	30,336
Derivative financial instruments	58,425	60,734
<b>Total</b>	<b>188,256</b>	<b>196,216</b>

#### (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 Company.

### H3. Financial Risk Management and Financial Instruments (continued)

#### (i) (b) Trade Related Credit Risk

Refer to note I1 for an analysis of the Company'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 Company.

As part of the common control transaction (refer to note G4 for further details), Ervia transferred all borrowings and the majority of its derivative financial instruments to the Company.

The Company's funding position remained strong in 2016. In July 2016, the Company extended its revolving credit facility with a group of eight domestic and international banks, providing the Company 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

The Company seeks to ensure it has a mix of funding sources at acceptable terms and conditions to finance the development of the business and to meet financial obligations as they fall due. The Company maintains a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk. At 31 December 2016, the Company had €1,522.1 million in committed facilities (2015: €1,498.1 million). Borrowings at 31 December 2016 were €1,161.4 million (2015: €1,162.4 million).

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

	Carrying amount €000	Contractual cash flows €000	< 1 year €000	1-2 years €000	2-5 years €000	> 5 years €000
<b>At 31 December 2016</b>						
Borrowings	(1,161,449)	(1,277,682)	(68,973)	(28,973)	(542,236)	(637,500)
Trade and other payables	(409,407)	(409,407)	(409,407)	-	-	-
<b>Non-derivative financial liabilities</b>	<b>(1,570,856)</b>	<b>(1,687,089)</b>	<b>(478,380)</b>	<b>(28,973)</b>	<b>(542,236)</b>	<b>(637,500)</b>
Interest rate derivatives	(1,462)	(1,783)	(1,783)	-	-	-
Cross currency interest rate swaps	58,003	83,125	11,252	11,430	60,443	-
Foreign exchange rate contracts	238	238	238	-	-	-
<b>Net derivative financial assets</b>	<b>56,779</b>	<b>81,580</b>	<b>9,707</b>	<b>11,430</b>	<b>60,443</b>	<b>-</b>
<b>Net financial liabilities</b>	<b>(1,514,077)</b>	<b>(1,605,509)</b>	<b>(468,673)</b>	<b>(17,543)</b>	<b>(481,793)</b>	<b>(637,500)</b>
<b>At 31 December 2015</b>						
Borrowings	(1,162,401)	(1,281,336)	(192,387)	(537,186)	(418,511)	(133,252)
Trade and other payables	(506,197)	(506,197)	(506,197)	-	-	-
<b>Non-derivative financial liabilities</b>	<b>(1,668,598)</b>	<b>(1,787,533)</b>	<b>(698,584)</b>	<b>(537,186)</b>	<b>(418,511)</b>	<b>(133,252)</b>
Interest rate derivatives	(4,095)	(5,226)	(3,839)	(1,387)	-	-
Cross currency interest rate swaps	59,899	85,783	15,559	10,599	40,040	19,585
Foreign exchange rate contracts	(521)	(521)	(521)	-	-	-
<b>Net derivative financial assets</b>	<b>55,283</b>	<b>80,036</b>	<b>11,199</b>	<b>9,212</b>	<b>40,040</b>	<b>19,585</b>
<b>Net financial liabilities</b>	<b>(1,613,315)</b>	<b>(1,707,497)</b>	<b>(687,385)</b>	<b>(527,974)</b>	<b>(378,471)</b>	<b>(113,667)</b>

### 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 Company.

As part of the common control transaction (refer to note G4 for further details), Ervia transferred all borrowings and the majority of its derivative financial instruments to the Company.

#### (iii) (a) Exchange Rate Risk

Exchange rate risk derives from the fact that some of the Company's transaction may be conducted in currencies other than the euro (mainly sterling). Refer to note C5 for details of the Group's objectives, policies and processes for managing exchange rate risk and the methods used to measure exchange rate risk. These objectives, policies and processes are also adopted by the Company.

#### • Transaction Exposure

From time to time the Company 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 Ervia Group's Treasury Policy. Exposures will be hedged taking account of the business risks and the regulatory environment. Also, the Ervia 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.

#### • Debt in a Foreign Currency

The Company 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 sterling denominated subsidiaries.

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

#### (iii) (b) Interest Rate Risk

Refer to note C5 for details of the Group's objectives, policies and processes for managing interest rate risk and the methods used to measure interest rate risk. These objectives, policies and processes are also adopted by the Company.

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

	2016 €000	2016 %	2015 €000	2015 %
At fixed rates <sup>1</sup>	(734,995)	63.3%	(788,326)	67.8%
At floating rates	(426,454)	36.7%	(374,075)	32.2%
<b>Total</b>	<b>(1,161,449)</b>	<b>100.0%</b>	<b>(1,162,401)</b>	<b>100.0%</b>

<sup>1</sup> including swaps.

### H3. Financial Risk Management and Financial Instruments (continued)

The Company 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 Company 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 were reset on a periodic basis for one, three or six months over the prevailing market rate.

On 31 December 2016, the Company had US\$290.0 million (2015: US\$ 327.0 million) fixed rate debt outstanding (€275.0 million equivalent (2015: €300.9 million equivalent)) 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 Company has a number of cross currency interest rate swaps which match the maturity profile of the debt.

#### Cash Flow Sensitivity Analysis for Floating Rate Debt

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

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

	Profit before taxation gain/(loss)		Other comprehensive income	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	€000	€000	€000	€000
50 bp increase	(2,132)	(1,870)	643	2,132
50 bp decrease	2,132	1,870	(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 profit or loss,
- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only, and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

The impact on other comprehensive income, of a 50bp increase/decrease, is opposite but is not necessarily 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.

## 11. Trade and Other Receivables

	31-Dec-16	31-Dec-15
	€000	€000
Trade receivables	622	215
Trade receivables - unbilled	49,313	43,094
Amounts due from subsidiaries	194,545	209,794
Amounts due from related parties	J1 1,234	-
Prepayments	2,369	3,134
Other receivables	3,406	3,064
<b>Total</b>	<b>251,489</b>	<b>259,301</b>

### Analysed as follows:

Non-current	182,824	182,114
Current	68,665	77,187
<b>Total</b>	<b>251,489</b>	<b>259,301</b>

Trade receivables are stated net of allowances for impairment. During 2015, trade and other receivables in respect of Ervia's networks business were transferred to Gas Networks Ireland under the common control transaction set out in note G4. Refer to note J1 for further details in respect of balances held with group undertakings.

### Credit Risk

Credit risk on receivables is managed through proactive monitoring and management of balances and credit vetting (where applicable).

Prepayments, amounts due from subsidiaries and amounts due from related parties 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	31-Dec-15
	€000	€000
Trade receivables	622	215
Use of system receivables - unbilled consumption	49,313	43,094
Other receivables	3,406	3,064
<b>Total</b>	<b>53,341</b>	<b>46,373</b>

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

	31-Dec-16	31-Dec-15
	€000	€000
Ireland	53,341	46,373
UK (including Northern Ireland and Isle of Man)	-	-
<b>Total</b>	<b>53,341</b>	<b>46,373</b>

## 11. Trade and Other Receivables (continued)

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

	Net receivable 31-Dec-16 €000	Net receivable 31-Dec-15 €000
Not past due	52,439	46,231
0 – 30 days	450	140
31 – 120 days	141	2
> 120 days	311	-
<b>Total</b>	<b>53,341</b>	<b>46,373</b>

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

	2016 €000	2015 €000
<b>At 1 January/13 January</b>	<b>(317)</b>	-
Transferred under common control transaction (note G4)	-	(484)
Impairment loss (recognised)/reversed	<b>(60)</b>	160
Provision utilised	61	7
<b>At 31 December</b>	<b>(316)</b>	<b>(317)</b>

## 12. Trade and Other Payables

	31-Dec-16 €000	31-Dec-15 €000
Trade payables	<b>(6,470)</b>	(8,877)
Accruals	<b>(54,643)</b>	(63,484)
Other payables	<b>(50,725)</b>	(23,046)
Amounts owed to ultimate parent undertaking	<b>(280,665)</b>	(396,857)
Taxation and social insurance creditors <sup>1</sup>	<b>(16,904)</b>	(13,933)
<b>Total</b>	<b>(409,407)</b>	<b>(506,197)</b>

### Analysed as follows:

Non-current	-	-
Current	<b>(409,407)</b>	(506,197)
<b>Total</b>	<b>(409,407)</b>	<b>(506,197)</b>

### <sup>1</sup>Taxation and social insurance creditors

PAYE/PRSI/social insurance	<b>(957)</b>	(1,221)
VAT	<b>(15,947)</b>	(12,712)
<b>Total</b>	<b>(16,904)</b>	<b>(13,933)</b>



### 13. Deferred Revenue

	2016 €000	2015 €000
<b>At 1 January/13 January</b>	<b>(17,524)</b>	-
Transferred under common control transaction (note G4)	-	(18,873)
Received in the period	<b>(4,391)</b>	(3,743)
Credited to the income statement	<b>3,605</b>	5,092
<b>At 31 December</b>	<b>(18,310)</b>	(17,524)

<b>Analysed as follows:</b>	31-Dec-16 €000	31-Dec-15 €000
Non-current	<b>(12,180)</b>	(12,766)
Current	<b>(6,130)</b>	(4,758)
<b>Total</b>	<b>(18,310)</b>	(17,524)

### 14. Provisions and Contingencies

#### Provisions

	Restructuring €000	Environmental €000	Self-insured claims €000	Total €000
<b>At 1 January 2016</b>	<b>(2,925)</b>	<b>(7,530)</b>	<b>(8,372)</b>	<b>(18,827)</b>
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
<b>At 31 December 2016</b>	<b>(2,718)</b>	<b>(6,561)</b>	<b>(7,815)</b>	<b>(17,094)</b>

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

Refer to note E6 for further disclosure in respect of the Company's provisions.

#### Contingencies

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

In the normal course of its business, the Company enters into certain undertakings and commitments to third parties in respect of obligations to perform under contractual arrangements. Obligations to third parties are guaranteed by letters of credit or performance bonds issued by financial institutions. At 31 December 2016, €1.4 million (2015: €0.7 million) was provided by the Company by way of guarantees by financial institutions to third parties. The fair value of guarantees was €nil at 31 December 2016 (2015: €nil).

## 15. Operating Leases

### Future Operating Lease Income

	31-Dec-16	31-Dec-15
	€000	€000
Less than one year	18,481	20,082
Between one and five years	58,080	62,469
More than five years	127,463	150,616
<b>Total</b>	<b>204,024</b>	<b>233,167</b>

Future operating lease income relates to agreements to allow third parties the use of parts of the Gas Network Transportation system. These agreements transferred to Gas Networks Ireland from Ervia as part of the common control transaction set out in note G4. All lease arrangements are on an arm's length basis.

### Operating Lease Commitments

The following operating leases are payable by the Company 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 on an arm's length basis.

	31-Dec-16	31-Dec-15
	€000	€000
Less than one year	(80)	(72)
Between one and five years	(180)	(155)
More than five years	(110)	(149)
<b>Total</b>	<b>(370)</b>	<b>(376)</b>

Amounts included in the income statement in respect of land and building lease arrangements were €0.1 million (2015: €0.1 million).

## 16. Restricted Deposits

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

	31-Dec-16	31-Dec-15
	€000	€000
Current	39,384	30,336
<b>Total</b>	<b>39,384</b>	<b>30,336</b>

## J1. Related Parties

		Transaction value income/(expense)		Balance receivable/(payable)	
		2016 €000	2015 €000	31-Dec-16 €000	31-Dec-15 €000
<b>Ervia</b>	(i)				
Transactional and support service agreement costs	(i) (a)	(19,901)	(8,172)		
Dividends paid	(i) (b)	(34,659)	-		
		<b>(54,560)</b>	<b>(8,172)</b>	<b>(280,665)</b>	<b>(396,857)</b>
<b>Irish Water</b>	(iv)				
Joint projects	(iv) (a)	-	-	1,234	-
		-	-		
<b>Subsidiaries</b>	(vi)				
Transactional and support service agreement costs	(vi) (a)	3,134	1,378		
Interest income	(vi) (b)	4,828	1,139		
Transportation supply services	(vi) (c)	(47,058)	(21,266)		
		<b>(39,096)</b>	<b>(18,749)</b>	<b>194,545</b>	<b>209,794</b>

### (i) Ultimate Parent Undertaking

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

#### (i) (a) Transactional and Support Service Agreement Costs

The Ervia Group provides strategic, governance, risk management, capital delivery management and transactional and support services to the Gas Networks Ireland Group, through the Ervia business divisions; Group Centre, Major Projects area 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.

#### (i) (b) Dividends Paid

Gas Networks Ireland paid an annual dividend of €34.7 million to Ervia during 2016.

### Common Control Transaction

On 1 August 2015, the assets and liabilities relating to Ervia's networks business were transferred to Gas Networks Ireland. As Ervia (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. Refer to note G4 for further detail of this transaction.

### Pension Costs

Ervia operates a defined benefit pension scheme. A number of the Company's employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19. Ervia, as the sponsoring employer for the plan, recognises the net defined benefit cost, while the Company recognises only the cost of contributions payable for the year in respect of the Company's employees. During the period, the contributions payable in respect of the Company's employees was €4.5 million (2015: €1.9 million). These costs are included in the Company's payroll costs.

### (ii) Government Sponsored Bodies

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

### (iii) Banks owned by the Irish State

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

## J1. Related Parties (continued)

### (iv) Irish Water

Irish Water is deemed to be a related party of the Company.

#### (iv) (a) Joint Projects

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

### (v) Board Members' Interests

The Board members had no beneficial interests in the Company at any time during the year or at 31 December 2016. Liam O'Sullivan (Director), Sean Casey (Chairman), Michael O'Sullivan (Director) and Liam O'Riordan (Secretary) are beneficiaries of the Ervia Employee Share Ownership Plan.

### (vi) Subsidiaries

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

#### (vi) (a) Transactional and Support Service Agreement Costs

Refer to (i) (a) above for a description of the services received from Ervia and recharged to subsidiaries, as appropriate.

#### (vi) (b) Interest Income

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

#### (vi) (c) Transportation and Power Generation Supply Services

Ervia's contract to receive gas transportation services from a subsidiary transferred to the Company on 1 August 2015, as part of the common control transaction (refer to note G4 for further detail).

## J2. Tax

Current tax assets and liabilities	31-Dec-16 €000	31-Dec-15 €000			
<b>Current tax assets</b>	-	858			
<b>Current tax liabilities</b>	<b>(2,741)</b>	-			
<b>Deferred tax assets and liabilities</b>					
	Derivative financial instruments €000	Property, plant and equipment and intangible assets €000	Interest €000	Other €000	Total €000
<b>At 13 January 2015</b>	-	-	-	-	-
Transfer from ultimate parent undertaking	557	(191,532)	1,889	110	(188,976)
Recognised in income statement	-	(1,396)	(1,715)	-	(3,111)
Recognised in equity	(234)	-	-	-	(234)
<b>At 31 December 2015</b>	<b>323</b>	<b>(192,928)</b>	<b>174</b>	<b>110</b>	<b>(192,321)</b>
Recognised in income statement	-	(6,845)	(458)	-	(7,303)
Recognised in equity	(250)	-	-	-	(250)
Transfer to current tax	-	(3,662)	-	-	(3,662)
<b>At 31 December 2016</b>	<b>73</b>	<b>(203,435)</b>	<b>(284)</b>	<b>110</b>	<b>(203,536)</b>

In accordance with IAS 12, deferred tax has not been provided for in relation to unremitted reserves of the Company's overseas subsidiary which were €84.0 million as at 31 December 2016 (2015: €63.0 million).

### J3. Cash Generated from Operations

	2016 €000	2015 €000
<b>Cash flows from operating activities</b>		
Profit for the period	75,419	33,260
Adjustments for:		
Depreciation and amortisation	109,137	44,416
Net finance costs	62,807	12,251
Income tax expense	13,889	5,639
	<b>261,252</b>	<b>95,566</b>
Working capital changes:		
Change in inventories	(866)	261
Change in trade and other receivables	(3,900)	57,688
Change in trade and other payables	(17,102)	39,293
Change in deferred revenue	786	(1,349)
Change in provisions	(1,902)	52
<b>Cash from operating activities</b>	<b>238,268</b>	<b>191,511</b>
Interest paid	(46,743)	(29,785)
Income tax paid	(2,987)	(3,340)
<b>Net cash from operating activities</b>	<b>188,538</b>	<b>158,386</b>

### J4. Inventories

	31-Dec-16 €000	31-Dec-15 €000
<b>Gas stock and engineering materials</b>	<b>2,373</b>	<b>1,507</b>

### J5. Disclosure of the Company's Profit for the Period

As permitted by Section 304 of the Companies Act 2014, no separate income statement or statement of other comprehensive income is presented in respect of the Company. Profit for the financial period ended 31 December 2016 was €75.4 million (2015: €33.3 million).

Refer to note E1 and E2 for disclosures in respect of Directors' emoluments and payroll costs respectively.