Irish Water
Financial Statements

as at 31 December 2016

Contents

Directors and Other Information	**3**
Directors' Report	**4**
Directors' Responsibilities Statement	**15**
Independent Auditor's Report	**16**
Income Statement	**18**
Statement of Other Comprehensive Income	**19**
Balance Sheet	**20**
Statement of Changes in Equity	**21**
Statement of Cash Flows	**22**
Notes to the Financial Statements	**23**

Directors and Other Information

DIRECTORS	Michael McNicholas Jerry Grant (appointed 24 May 2016) Brendan Murphy Michael O'Sullivan John Tierney (contract expired 28 April 2016) Cathal Marley (appointed 1 December 2016)	
SECRETARY	Liam O'Riordan	
REGISTERED OFFICE	Colvill House 24/26 Talbot Street Dublin 1	
SOLICITORS	McCann Fitzgerald Riverside One Sir John Rogerson's Quay Dublin 2	A & L Goodbody IFSC North Wall Quay Dublin 1
BANKERS	Allied Irish Bank 40-41 Westmoreland Street Dublin 2	
AUDITOR	Deloitte Chartered Accountants & Statutory Audit Firm Deloitte & Touche House Earlsfort Terrace Dublin 2	
COMPANY NUMBER	530363	

Directors' Report

The Directors of Irish Water (The Directors) present their Directors' report and financial statements for the year ended 31 December 2016.

Principal Activities

Irish Water (the Company) is the national water utility responsible for providing and developing public water services throughout Ireland. Incorporated in July 2013 as a company pursuant to the Water Services Act 2013 (and the Companies Act 2014), Irish Water brings the water and wastewater services of the 31 Local Authorities together under one national service provider. Irish Water is now responsible for the operation of all public water and wastewater services including:

- Management of national water and wastewater assets;
- Maintenance of the water and wastewater system;
- Investment and planning;
- Managing capital projects; and
- Customer services.

Safeguarding Water

Ireland's water and wastewater infrastructure has suffered from significant underinvestment; the quality of drinking water supplied and the standard of wastewater treatment do not consistently meet health and environmental requirements of a modern society and economy. It is recognised that a multi-annual, multi-billion euro investment programme is required to fix Ireland's water services. Irish Water was established to address this challenge and also to improve how water services are delivered through a single public utility; delivering significant cost savings and improved service compared with delivering services through 31 different local service delivery models. The key challenges are:

- **Transforming the Delivery of Water Services**

  Access to clean water and effective management of wastewater is a basic requirement for a modern society. However, clean water is expensive to produce and deliver. It is a complex process to turn water from rivers, lakes and groundwater (raw water) into clean drinking water and deliver it safely to each customer's tap. Wastewater must then be collected and treated before it can be reintroduced safely back into the environment.

- **Cleaner, Safer Drinking Water**

  Water is delivered through some 1,000 separate water supply areas (public water supply zones) and involves the abstraction, treatment and delivery of 1,670 million litres of drinking water each day. In Ireland's two largest cities of Dublin and Cork, there continues to be a high level of reliance on 19th century systems which are no longer fit for purpose. Outside major urban centres, the water network is fragmented with many small and vulnerable water sources getting inadequate treatment. Water quality does not meet European and Irish drinking water standards in many schemes and up to 30% of water treatment plants are considered to be "at risk" of failure in terms of quality parameters. We also lose almost half of the water we produce through leakage.

• **Effective Management of Wastewater**

Irish Water collects wastewater from over 1,000 separate communities connected to the wastewater network (wastewater zones are known as "agglomerations") and treats 1,600 million litres of wastewater daily, before discharging it back into rivers, lakes, harbours and coastal areas. Wastewater must be collected and treated before it is returned to the environment. Currently, raw untreated sewage is discharged by Irish Water into rivers, lakes, harbours and coastal areas at 44 locations across Ireland, and wastewater that is not fully treated is being released back into the environment at a further 43 locations resulting in potential public health and environmental risks. In addition, Ireland is in breach of EU Wastewater Directives, which are monitored and enforced in Ireland by the Environmental Protection Agency (EPA). Many combined sewers are frequently overloaded during periods of heavy rain resulting in the flooding of properties and giving rise to overflows which may cause pollution of rivers and streams.

• **Supporting Social and Economic Growth**

The welcome return of economic growth brings the requirement for additional capacity to support housing development, offices, factories and commercial buildings. This growth is currently hampered by limited system capacity for water and wastewater.

To begin the process of transforming water services, Irish Water developed its first seven year business plan (2015-2021), with the overriding objective of bringing water infrastructure and services to at least an acceptable level. Subsequent business plans will focus on moving Ireland to a greater level of compliance with health and environmental standards, and further strengthen the capacity and reliability of systems and services. The current business plan is focused on key deliverables which include; establishing a reliable database of water assets and their condition, implementing more robust monitoring and measurement of quality metrics, developing and implementing a capital investment plan targeted at the worst of the infrastructure deficit and transforming the previous service delivery model to deliver improved services while achieving significant efficiencies and cost savings.

Over the term of the plan Irish Water will invest €5.5 billion in targeted investment projects to bring water infrastructure and services to an acceptable level and to support economic and social development as the economy recovers and grows. In parallel it will start the process of standardising operations and maintenance practices to improve the quality and reliability of service. The plan also includes the requirement to change how services are delivered, moving away from 31 local service delivery models to a more regional and national based model and with targeted cumulative savings of €1.1 billion (€271 million annually by 2021) over the term of the plan achieved through efficiencies and economy of scale.

By 2021 the plan will ensure that the risk of drinking water contamination currently affecting 774,000 people is eliminated, that all current boil water notices (BWN) are lifted and a reduction of over 10% in water network leakage to less than 38%. This is the first step towards sustainable levels of leakage. Irish Water will also implement a national lead strategy benefiting at least 180,000 homes. By 2021, Irish Water is targeting no untreated wastewater discharge. Irish Water will also deliver much needed water and wastewater capacity in support of social and economic development.

2016 Results

The results for the year are set out in the income statement and in the related notes. The policy direction from the shareholder is that Irish Water should not pay a dividend, rather any surplus generated from its operations should be reinvested in fixing water infrastructure.

Revenue for the year was €906 million (2015: €851 million). Operating costs (before depreciation) of €777 million were €2 million lower than the prior year, reflecting significant savings offset by increased collection provisions – refer to note E1 of the financial statements.

EBITDA for the year was €129 million (2015: €72 million), profit after tax was €54 million (2015: €17 million) and net cash from operating activities was €168 million inflow (2015: €56 million outflow). The Company has utilised surplus cash generated, combined with a government cash equity contribution of €184 million and bank financing of €123 million to fund capital investments of €459 million in critical infrastructure projects during 2016. This forms part of the longer term capital investment programme agreed with the Commission for Energy Regulation.

The Company received €836 million in cash funding from the government during 2016, €652 million in government subvention recognised in revenue plus a government cash equity contribution of €184 million. In addition, a debt facility of €96 million received from the government in 2015 was converted to a capital contribution during 2016.

Available bank facilities at 31 December 2016 of €1,260 million, of which €974 million was drawn as at 31 December 2016. All loans are for a term of one year in accordance with current government policy and maturing facilities are rolled forward on this basis, pending a government decision on the long-term funding strategy of the Company.

Key activities in relation to debt management undertaken during the year include the rollover of €800 million of loans with a number of commercial banks, and the refinancing of the existing €450 million of debt funding from the Ireland Strategic Investment Fund. At 31 December 2016, the weighted average interest rate on the Company's outstanding borrowings was 1.30%.

Business Review and Future Developments

In the 'Business Plan to 2021', the Company has committed to delivering a capital investment programme of €5.5 billion. The Directors believe that the challenge of fully transforming water and wastewater services in Ireland will extend well beyond 2021 and will require several investment plan cycles.

Further detail on the Company's 'Business Plan to 2021' is available at www.water.ie.

Irish Water has prioritised its investments during 2016 to address public water supplies impacted by water quality issues. Each year the EPA produces a report, known as the Remedial Action List (RAL) that identifies public water supplies that are at risk of contamination. The RAL from the EPA identifies specific actions that need to be taken in order to manage risks to consumers. During 2016 Irish Water targeted investments which resulted in 37 water supplies being removed from the RAL. This represents significant progress by Irish Water in meeting its objective of achieving zero schemes on the RAL by 2021. Through its ongoing capital investment programme, Irish Water continues to prioritise schemes which remain on the RAL. Action plans have been developed for each scheme and have been submitted to the EPA.

In cases where the Health Service Executive (HSE) considers the quality of water intended for human consumption constitutes a potential danger to human health, they recommend to the water supplier that a Water Restriction Notice and/or a BWN is issued by the water provider. Similarly, these notices are removed from supplies, in consultation with the HSE, when the problem is resolved by the water supplier. The number of people on BWN reduced from 8,970 at the start of 2016 to 5,511 by the end of 2016. This follows the provision of new infrastructure at Castlerea, South Roscommon and Boyle. Irish Water targets to reduce existing long term BWN to zero by the end of 2017.

Irish Water plans to deliver capital expenditure of over €500 million in 2017, including local wastewater and drinking water projects, national drinking water and wastewater programmes and capital maintenance on plant and equipment. Irish Water will continue to prioritise investment in water resources to minimise the risk of short term BWN for customers and to remove supplies most at risk as per the EPA's Remedial Action List. This programme is also targeting a national plan to meet trihalomethane (THM) standards in all water supplies by 2021.

The Company also continued to target investment to ensure that wastewater is disposed of in a safe and sustainable manner. Irish Water has delivered 66 new or upgraded wastewater treatment plants since 2014, 39 of these in 2016. Upgrade works have been completed in Clonakilty and Clifden, and significant upgrade progress is being made elsewhere, with major upgrades in progress in Swords, Naas (Osberstown), Leixlip, Galway, Dunmore East, Ardmore, Carrigtwohill, Youghal, Shannon and Cork Lower Harbour. Work commenced in early 2017 in Bundoran, Killybegs and other towns.

Since Irish Water's establishment in January 2014, Local Authorities have continued to bill Non-Domestic Customers for water and wastewater services on behalf of Irish Water. In July 2016, the transfer of the billing and collection of the non-domestic billing process from Local Authorities to Irish Water systems commenced. By December 2016, a total of 24 of the 31 Local Authorities (c.140,000 customer accounts) had been migrated to the Irish Water billing platform. The migration of the remaining Local Authorities is expected to be completed during 2017 and will result in efficiencies, standardisation, improved controls and enhanced service to customers.

In 2017 Irish Water will continue the development and expansion of water and wastewater capacity to support social and economic growth, particularly in response to Government Housing Policy initiatives. Irish Water will also continue to prioritise the delivery of critical infrastructure to support industrial development, major strategic development zones and commercial zones around the country.

Principal Risks and Uncertainties

Irish Water has a comprehensive risk framework in place supported by the Ervia risk policy and procedures, which include processes to identify and put controls and actions in place to manage key risks.

Irish Water has a quarterly risk governance process which:

- Undertakes a review of the internal and external environment to assess new and emerging risks, high impact but low probability risks and any changes to known risks;
- Identifies the nature, extent and financial implication(s) of risks facing Irish Water;
- Assesses the likelihood of identified risks occurring;
- Assesses Irish Water's ability to manage and mitigate the risks that do occur and puts appropriate controls and actions in place; and
- Reports to the Ervia Group Risk Management Committee and onwards to the Ervia Audit and Risk Committee.

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:

Drinking Water & Wastewater Standards: Failure to deliver the required standard of drinking water and/or wastewater non-compliance could result in a public health risk to consumers and in environmental impacts on receiving waters, prosecution, EU infringement and reputational damage. The significant under-investment in Ireland's water services infrastructure over decades has resulted in a system that is not fit for purpose to meet the needs of a modern economy. In many areas the system is under severe stress and there are resultant high level and severe risks right across all aspects of the network. These risks include public health risks such as not having adequate treatment for microbiological contamination, excess THM levels, pesticides and the occurrence of lead in drinking water, inadequate water availability, sustainability and reliability through lack of headroom or accidental discharge of wastewater to drinking water sources, bathing waters, freshwater fisheries or shellfisheries. As a result, Irish Water is committed to delivering a capital programme of €5.5 billion to address major deficits in Ireland's water infrastructure over the period to 2021 as outlined in the 'Business Plan to 2021' which sets out its detailed objectives and strategy.

Transformation of the Water Industry: In response Irish Water is committed to implementing a transformed and efficient Irish Water/Local Authority service delivery model known as the 'Water Industry Operating Framework'. The level of change that is required to move to a new model is very significant and will require full industry engagement. Significant efforts will be required to secure agreement across all internal and external stakeholders (Government, Trade Unions, Local Authorities, etc.).

Health and Safety: Irish Water is committed to implementing the highest health and safety standards. Irish Water has developed action plans under its 'Work Safe Home Safe' framework including a Safety Leadership programme for all staff and a robust system for inspection and upgrade of assets and work sites. Through working with the Water Industry Health and Safety Committee and the Irish Water Management Safety Committee, Irish Water will track incidents and lessons learnt to drive out required initiatives to improve overall safety performance.

Regulatory Environment: The Company's business activities are subject to a broad and developing range of legislative provisions and regulation. Irish Water is subject to economic regulation by the Commission for Energy Regulation (CER). The CER determines the revenue allowed to ensure Irish Water operates and maintains the network to meet the needs of water customers at a reasonable and efficient cost. The CER ensures that proposed network development is both necessary and appropriate to meet EU and national water and wastewater environmental obligations and directions.

Trade Credit and Funding Risks: During 2016 legislation was introduced to suspend domestic water charges for a period, pending recommendation from a Joint Committee on the Future Funding of Domestic Water Services. As a result, domestic bills during 2016 have been issued to domestic customers for the period January-March 2016 only. The suspension of domestic water charges has had a direct impact on the domestic customer collections. Consequently the Company has recognised an additional impairment allowance in respect of 2015 domestic revenue. The Company therefore has minimal trade credit risk at the balance sheet date in relation to domestic customer receivables.

The funding strategy remains reliant on short term commercial funding and Government support. Irish Water seeks to maintain a diversified commercial funding base by securing facilities from a range of private banks as well as Government linked finance.

Going Concern Risk: The Directors have a reasonable expectation that the Company will continue to meet its liabilities as they fall due and continue in operational existence for the foreseeable future.

The Company's forecasts and projections show that Irish Water is expected to meet its liabilities as they fall due through a combination of State funding/support and/or tariffs charged by Irish Water and/or third party borrowings. The Company's funding strategy remains reliant on short term commercial funding and Government support. The suspension of domestic water charges has had a direct impact on domestic collections during the period of the suspension; however Irish Water's cash flows continue to be supported by increased subvention from the State.

With the inclusion of Irish Water's €5.5 billion capital investment plan in the Programme for Government and a commitment to the ongoing provision of operational subvention to Irish Water in line with CER determinations, the Directors believe that the Government has demonstrated its commitment to the continued funding of Irish Water.

Subsequent Events: There have been no material post balance sheet events. The Directors continue to monitor the work of the Joint Committee on the Future Funding of Domestic Water Services. It had been expected that this Committee would report on the issue to the Dáil in March 2017 but this has now been extended to April 2017. A subsequent vote in the Oireachtas (no later than one month following receipt of the final report from the Joint Committee on the Future Funding of Domestic Water Services) will determine the future funding model for the provision for domestic water and wastewater services in Ireland.

The Directors note that a change in the funding mix of Irish Water, in terms of State funding/support and/or tariffs charged by Irish Water and/or third-party borrowings, is a possible outcome of the Oireachtas vote. Domestic customer refunds is a further potential outcome. The Directors are satisfied that appropriate arrangements will be put in place in such circumstances and that funding options sufficient to ensure the continuing operations of the Company will be available to it.

Reputation and Public Perception: While Irish Water has made significant progress in establishing a single public utility, and starting to address the significant problems with water and wastewater services, the issue of paying for domestic water services continues to be an issue of public and political debate. The Directors recognise that the start-up of the new public utility and the issue of domestic charges has impacted on the perception of the utility and that a continued engagement, coupled with ongoing delivery of our plans, is required to enhance public confidence in the utility and its activities.

The Expert Commission on Water Charges recommended that Irish Water increase its communications and engagement activity with the public to build a greater understanding of the challenges facing Ireland's water and wastewater networks and of the progress Irish Water is making in addressing these challenges. Irish Water will focus on this recommendation in addition to delivery of all other objectives.

Key Performance Indicators

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

Key Performance Indicator	31 December 2016	31 December 2015
Schemes on EPA Remedial Action List	99	115
No. of customers on BWN	5,511	8,970
Network Leakage	45%	47%
Microbiological Compliance	99.94%	99.95%
Chemical Compliance	99.45%	99.39%
THM Compliance	93%	91.38%

These metrics are a component of Irish Water's robust reporting requirement to the EPA.

Directors and Secretary and their interests

The Directors and Secretary are set out on page 3.

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

Subject to receipt of Ministerial consent, Ervia has the power to appoint and remove directors of the Company. In accordance with the Articles of Association, the directors are appointed for a term that shall not exceed five years. On 28 April 2016 Mr. John Tierney's contract expired as Managing Director of Irish Water and his ex-officio appointment as Director of the Company ceased on that day. On 24 May 2016, Jerry Grant was appointed Managing Director and Director of Irish Water. On 25 November 2016, Ministerial consent was received to re-appoint Michael McNicholas, Jerry Grant, Michael O'Sullivan and Brendan Murphy to the Board of Irish Water. In addition, Cathal Marley was appointed to the Board of Irish Water on that date.

Terms of appointment were effective from 1 December 2016 for a maximum term of 5 years for Michael McNicholas, Jerry Grant and Cathal Marley; a maximum term of 3 years for Michael O'Sullivan; and a maximum term of 1 year for Brendan Murphy. 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 Irish Water for the period is outlined in note E1 of the financial statements.

Corporate Governance

Irish Water is a subsidiary of Ervia. However, due to its share ownership structure (see note F4 in the financial statements), Irish Water does not currently meet the definition of a subsidiary of Ervia for accounting purposes and therefore is not consolidated into Ervia's financial statements. Ervia operates as a group company with five divisions in a single multi utility model. Irish Water and Gas Networks Ireland 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.

Irish Water, as a subsidiary of Ervia, has put appropriate measures in place to comply fully 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. Irish Water will ensure full compliance with the revised Code during 2017.

A full assessment of the impact of the revised Code on Irish Water's governance structures and Irish Water's reporting thereon has been undertaken and appropriate measures are being implemented to ensure compliance for 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.*

Irish Water forms part of the Ervia Group which has appropriate committees in place which act on behalf of the entire group and therefore no such committees have been established at the Irish Water level. From a governance perspective, Irish Water matters are overseen and managed by both the Irish Water Board and the Ervia Board. The Irish Water Board is responsible for the Company's performance.

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.

Irish Water has established processes to identify and evaluate business risks by:

- Identifying the nature, extent and financial implication of risks facing Irish Water including the extent and categories which it regards as acceptable;
- Assessing the likelihood of identified risks occurring;
- Assessing Irish Water's ability to manage and mitigate the risks that do occur; and
- 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 Group. The policies and procedures include the setting and maintenance of appropriate authorisation limits, the establishment of appropriate segregation of duties and the documentation of processes and controls that are focused on preventing and detecting fraud.

The Directors' monitoring and review of the effectiveness of the system of internal control is informed by the work of executive managers within Irish Water 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 other reports. Ervia's Audit and Risk Committee 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, and while some control weaknesses were noted, these have been, or are being, responded to in an appropriate and timely manner with necessary compensating controls identified in addition to action being taken. Irish Water's control environment has resulted in the need for additional procedures in certain areas, some of which are still in the process of being implemented. However, no issues involving material loss, contingencies or uncertainties were noted by the Company during 2016 requiring disclosure in the 2016 financial statements or in the auditors' report on the 2016 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 Irish Water, 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.

In 2016 Irish Water continued to manage a large number of assets with an ageing infrastructure that requires significant investment. As it continues to evolve it faces ongoing challenges on its journey to deliver the business plan objectives. The internal control environment needs to continue to develop to address these challenges.

The key control procedures, including the operation of the Local Authority protocols under the Service Level Agreements which manage the interaction processes between Irish Water and Local Authorities, have been developed further during 2016, through applying Ervia's policies and internal control framework. As part of its control framework in 2016, it should be noted, Irish Water continues to rely on certain controls operated by Local Authorities on its behalf.

At its inception in 2014 Irish Water inherited from the Local Authorities the capital investment plans that were in place at that time. It has since developed a forward looking capital investment plan incorporating these historic projects and the new Irish Water projects identified as part of Irish Waters longer term asset strategy. The Board are aware of challenges, when combining the Local Authority projects and the new Irish Water projects, in ensuring that a consistent scoping and estimation process applies for all capital investments. This is being reviewed in 2017 and is particularly important in the context of ensuring reliable business planning and a robust regulatory framework.

The Chairman of Irish Water has received confirmation from management and is satisfied that:

- All commercially significant developments in relation to Irish Water have been reported to Ervia for inclusion in the 2016 Ervia Annual Report where considered appropriate by Ervia and to Irish Water for inclusion in the Irish Water financial statements where considered appropriate by Irish Water;
- 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 Irish Water 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;
- There have been no significant post balance sheet events. The Directors continue to monitor the work of the Joint Committee on the Future Funding of Domestic Water Services whose work is scheduled to conclude in April 2017. A subsequent vote in the Oireachtas (no later than one month later) will determine the future funding model for the provision for domestic water and wastewater services in Ireland;
- Irish Water 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.

Companies Act 2014

Following receipt of Ministerial consent, on 15 November 2016, Irish Water was re-registered as a Designated Activity Company Limited by shares in accordance with Part 20 Companies Act 2014. Irish Water is exempt from the obligation to use the words describing the company type in its name pursuant to section 151 of the Companies Act 2014.

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 Irish Water 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, acting on behalf of the Company, and in the interests of its shareholders, customers, employees, creditors and other stakeholders, is committed to securing compliance with its relevant obligations and has therefore drawn up this statement which sets out the Company's policies in respect of compliance.

Given the nature, scale and stage of development of the Ervia Group, the Group has a number of centralised services which have a degree of oversight in ensuring compliance with the Company's relevant obligations. Notwithstanding the presence of these Group controls, responsibility for compliance by Irish Water rests with the officers of the Company. The Board is of the opinion that these policies and the structures and arrangements which the Company has put 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.

This Policy Statement and the structures and arrangements which the Company has put in place are appropriate to secure material compliance by the Company with its relevant obligations will be subject to periodic review by the Board in order to ensure that it is fit-for-purpose. It will be reviewed/enhanced to meet the Company's compliance obligations as they and/or the Company's business evolve and develop.

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

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"), who's provisions include the entitlement of suppliers to interest on late payments. Irish Water 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 Irish Water, including clearly defined roles and responsibilities, monthly reporting and monthly 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. Irish Water 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 Irish Water has complied with the requirements of the Regulations and the Code in all material respects.

Political Donations

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

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 the keeping of 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 Colvill House, 24/26 Talbot Street, Dublin 1.

Independent Auditor

In August 2014, following a tender process, Ministerial approval was granted for the appointment of Deloitte as Independent 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 28 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 Independent 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.

For and on behalf of Irish Water:

Michael McNicholas		27th March 2017
Michael McNicholas Director	Brendan Murphy Director	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 Company as at the financial year end date and of the profit or loss of the Company 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 for the Company financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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. Irish Water, 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, Irish Water 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. Irish Water is currently implementing appropriate measures to ensure compliance with the revised Code.

For and on behalf of Irish Water:

Michael McNicholas

27th March 2017

Michael McNicholas
Director

Brendan Murphy
Director

Date of Approval

Independent Auditor’s Report

to the members of Irish Water

We have audited the Financial Statements of Irish Water for the financial year ended 31 December 2016 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes A1 to F7. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) 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 Auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than 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 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 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 Financial Statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2016 and of the profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the 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 Financial Statements are 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; and
- under the Code of Practice for the Governance of State Bodies (2009) ("the Code") we are required to report to you if the statement regarding the system of internal financial control required under the Code as included in the Corporate Governance Statement in the Directors' Report 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.

Gerard Fitzpatrick
For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Dublin

Date: 13th April 2017

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Financial Statements since first published. These matters are the responsibility of the 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.

Income Statement

for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Continuing operations			
Revenue	D1	**906,231**	851,127
Operating costs (excluding depreciation and amortisation)	E1	**(777,022)**	(779,008)
Operating profit before depreciation and amortisation (EBITDA)		**129,209**	72,119
Depreciation and amortisation	B3	**(60,044)**	(42,791)
Operating profit		**69,165**	29,328
Finance income	C4	**-**	-
Finance costs	C4	**(14,784)**	(11,912)
Net finance costs	C4	**(14,784)**	(11,912)
Profit before income tax		**54,381**	17,416
Income tax expense	F3	**-**	-
Profit for the year		**54,381**	17,416

Statement of Other Comprehensive Income

for the year ended 31 December 2016

		2016 €'000	2015 €'000
Profit for the year		**54,381**	17,416
Other comprehensive income			
Items that will not be reclassified to the income statement			
Defined benefit actuarial gains	E4	**3,230**	7,870
Total other comprehensive income for the year		**3,230**	7,870
Total comprehensive income for the year		**57,611**	25,286

Balance Sheet

as at 31 December 2016

	Notes	2016 €'000	2015 €'000
Assets			
Non-current assets			
Property, plant and equipment	B1	**1,638,045**	1,235,179
Intangible assets	B2	**86,887**	91,206
Trade and other receivables	D2	**6,290**	66,181
Total non-current assets		**1,731,222**	1,392,566
Current assets			
Trade and other receivables	D2	**113,772**	151,920
Cash and cash equivalents	C3	**57,056**	55,380
Restricted deposits	E8	**2,829**	5,609
Total current assets		**173,657**	212,909
Total assets		**1,904,879**	1,605,475
Equity and liabilities			
Equity			
Share capital and share premium	F2	**(54,000)**	(54,000)
Capital contribution	F2	**(576,466)**	(296,466)
Retained losses		**137,325**	194,936
Total equity		**(493,141)**	(155,530)
Liabilities			
Non-current liabilities			
Borrowings and other debt	C2	**-**	(100,000)
Retirement benefit obligations	E4	**(26,397)**	(27,230)
Deferred revenue	D3	**(17,561)**	(20,034)
Provisions	E6	**(57,489)**	(61,254)
Trade and other payables	E5	**(11,773)**	(20,945)
Total non-current liabilities		**(113,220)**	(229,463)
Current liabilities			
Borrowings and other debt	C2	**(974,101)**	(845,493)
Deferred revenue	D3	**(21,808)**	(13,826)
Provisions	E6	**(19,728)**	(40,651)
Trade and other payables	E5	**(282,881)**	(320,512)
Total current liabilities		**(1,298,518)**	(1,220,482)
Total liabilities		**(1,411,738)**	(1,449,945)
Total equity and liabilities		**(1,904,879)**	(1,605,475)

For and on behalf of the Board:

Michael McNicholas Director	Brendan Murphy Director	27th March 2017 Date of Approval

Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital and share premium €'000	Capital contribution €'000	Retained losses €'000	Total €'000
Balance at 1 January 2015	-	(296,466)	220,222	(76,244)
Profit for the year	-	-	(17,416)	(17,416)
Other comprehensive income, net of income tax	-	-	(7,870)	(7,870)
Total comprehensive income for the year	-	-	(25,286)	(25,286)
Issued shares (note F2)	(54,000)	-	-	(54,000)
Balance at 31 December 2015	(54,000)	(296,466)	194,936	(155,530)
Profit for the year	**-**	**-**	**(54,381)**	**(54,381)**
Other comprehensive income, net of income tax	**-**	**-**	**(3,230)**	**(3,230)**
Total comprehensive income for the year	**-**	**-**	**(57,611)**	**(57,611)**
Capital contribution (note F2)	**-**	**(280,000)**	**-**	**(280,000)**
Balance at 31 December 2016	**(54,000)**	**(576,466)**	**137,325**	**(493,141)**

Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Net cash from/(used in) operating activities	F1	**168,168**	(55,726)
Cash flows from investing activities			
Payments for property, plant and equipment		**(451,663)**	(493,042)
Payments for intangible assets		**(19,785)**	(18,006)
Payments and receipts for net assets acquired from Local Authorities		**(1,587)**	(60,441)
Net cash used in investing activities		**(473,035)**	(571,489)
Cash flows from financing activities			
Proceeds from borrowings		**352,543**	770,461
Repayments of borrowings		**(230,000)**	(125,000)
Capital contributions received		**184,000**	-
Net cash from financing activities		**306,543**	645,461
Net increase in cash and cash equivalents	C3	**1,676**	18,246
Cash and cash equivalents at 1 January	C3	**55,380**	37,134
Cash and cash equivalents at 31 December	C3	**57,056**	55,380

Notes to the 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.

A1	Basis of Preparation	**A3**	Subsequent Events
A2	Judgements and Estimate	**A4**	Going Concern

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 Company and an analysis of the income statement charge for the year in respect of these assets.

B1	Property, Plant and Equipment	**B3**	Depreciation and Amortisation
B2	Intangible Assets		

C. 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.

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

D. Where we generate our revenues

The notes in this section provide information on the revenue performance during the year, balances receivable held at year end and revenues to be recognised in future years.

D1	Revenue	**D3**	Deferred Revenue
D2	Trade and Other Receivables		

E. What we spend on operations and our people

This section analyses the operating costs incurred by the Company, 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.

E1	Operating Costs (excluding depreciation & amortisation	**E5**	Trade and Other Payables
E2	Payroll Costs	**E6**	Provisions and Contingent Liabilities
E3	Key Management Compensation	**E7**	Operating Lease Commitments
E4	Retirement Benefit Obligations	**E8**	Restricted Deposits

F. Other disclosures

This section sets out all remaining financial statement disclosures.

F1	Cash generated from operations	**F5**	Statement of Significant Accounting Policies
F2	Equity	**F6**	New Accounting Standards and Interpretations
F3	Tax	**F7**	Approval of Financial Statements
F4	Related Parties		

A1. Basis of Preparation

Irish Water ('the Company') is a designated activity company, limited by shares, and incorporated in Ireland on 17 July 2013. Ervia holds 100% of the voting shares of the Company, however, these shares carry no economic rights to obtain benefit from the activities of the Company. The Minister for Finance and the Minister for Housing, Planning, Community and Local Government hold 100% of the economic rights to obtain benefit from the activities of the Company.

The financial statements are presented in euro, rounded to the nearest thousand and are prepared on a historical cost basis except for certain assets and liabilities which are measured at fair value.

The 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 on or before 31 December 2016.

The Company's significant accounting policies are set out in note F5. These policies have been consistently applied to all years presented in these financial statements. 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 Company 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. Please refer to further detail provided in note A4 to the financial statements.

A2. Judgements and Estimates

In the process of preparing these financial statements, judgements and estimates are necessarily used which affect the application of the Company's accounting policies (refer to note F5) and the reported amounts of assets, liabilities, income and expenses.

When necessary, the Company 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.

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

As of December 31, 2016, the aggregate of the Company's Property, Plant and Equipment (PP&E) and Intangible assets was €1,725 million, which accounted for 91% of the Company's assets. Therefore the estimates and assumptions made in determining the carrying value are critical to the financial statements because the recoverability of the amounts, or lack thereof, could significantly affect the Company's future financial performance and position.

Impairment
The Company operates under a regulated framework, administered by the Commission for Energy Regulation (CER). The Company therefore recovers the costs of efficient capital spend on PP&E and Intangible assets through regulated revenues based on its approved Regulatory Asset Base (RAB). In compliance with, and supplemental to, the requirements of IAS 36 Impairment of Assets, the Company carried out the following during the year:

1. Reviewed the carrying amounts of PP&E and Intangible assets at the reporting date to determine whether there is any indicator of impairment;
2. Tested Intangible assets under development (€12 million) for impairment; and
3. Compared the Regulatory Asset Base value with the aggregate of the carrying amounts of PP&E and Intangible assets.

Based on the foregoing, the Company has concluded that an impairment charge is not required. The key assumption, concerning the future, used by the Company in reaching this conclusion is that the Company will continue to generate regulated revenues based on its existing Regulatory Asset Base.

The Company, having considered the relevant requirements of IAS 1 Presentation of Financial Statements, has concluded that it is impractical to disclose the impact of variation in this assumption as it is not possible to evaluate the impact of unknown potential revenue generation restrictions that could arise in the future relating to its existing Regulatory Asset Base.

Useful lives
The Company recognises depreciation and amortisation charges annually (2016: €60 million) which is primarily calculated to write down the cost of PP&E and Intangible assets over their expected useful economic lives. The determination of estimated useful lives of assets require judgement by the Company based on experience, expectations about the future and other factors. The estimated useful live for major asset classifications are set out in note F5. The Company reviews the useful lives of assets annually and any required changes are adjusted prospectively. Due to the significance of asset investment by the Company, variations between actual and estimated useful economic lives could have a material impact on future results, either positively or negatively. Heretofore, no changes in useful lives have been identified by the Company that have had a material impact on operating results.

A2. Judgements and Estimates *(continued)*

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

(ii) Recognition of revenue / trade and other receivables
In accordance with the Company's accounting policy, revenue is recognised at fair value once collection is reasonably assured. The determination of fair value of the Company's revenue requires judgement and estimation, particularly in respect of the ongoing suspension of domestic water charges, coupled with a new immature customer base and limited historic evidence in respect of collection profiles. The Company has applied judgement and estimation in arriving at the 2016 reported results based on current collection profiles. Any future improvements in collection profiles could have a favourable impact on future reported results.

An impairment allowance in respect of trade and other receivables is recognised in accordance with the Company's accounting policy, being impairment losses are recognised where there is objective evidence of a dispute or an inability to pay. An additional allowance is made on a portfolio basis to cover additional incurred losses based on an analysis of previous losses experienced and adjusted to reflect current economic conditions. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

Services provided, but not invoiced, are recorded as unbilled consumption in accordance with the Company's accounting policy. The recognition of unbilled revenue involves an estimation of the value of the services provided. This estimation process is conducted through interaction with the Local Authorities and is either based on actual services provided in the prior comparative period or based on historic trend analysis. The Company uses the expertise of the Local Authorities to mitigate uncertainty in the estimation process.

Revenue - recognition
The Company has assumed certain customer connection contributions from Local Authorities. The Company has used its judgement and recognised these as non-repayable supply contributions in the income statement when the performance obligations are fulfilled in accordance with IAS 18 Revenue. Further detail is provided in note D3.

(iii) Asset acquisition accounting
The Company assumed the responsibilities for public water and wastewater services from Local Authorities, and it was determined that this transaction did not fall within the scope of IFRS 3 Business Combinations.

As part of this acquisition, a key estimate for the Company was to ascertain the fair value of the assets acquired and liabilities assumed. A due diligence process for each Local Authority was implemented whereby the assets and liabilities to be transferred to the Company were identified. This process facilitated the Company's payment due to/due from each Local Authority in return for the transfer of water and wastewater assets and liabilities. Additionally, an exercise was conducted to identify all contingencies and capture them as liabilities if they met the recognition criteria. The due diligence process reduced, but did not eliminate, the estimation uncertainty surrounding the fair value of assets acquired and liabilities assumed.

During 2016, a detailed assessment was conducted to bring up to date the Company's fair value assessment of certain assets acquired and liabilities assumed that continued to be recognised on the Company's balance sheet.

A2. Judgements and Estimates *(continued)*

For example, in respect of legal claims that Company has reassessed the best estimate of the expenditure required to settle these obligations, based on experience since transfer from the Local Authorities and other factors that are believed to be reasonable in the circumstances (including legal advice). The Company also considered its experience to date in respect of collection rates on receivables acquired and adjusted its fair value assessment accordingly. All adjustments were recognised in the income statement, refer to note E1 for further details.

(iv) Retirement benefit obligations

The Company has determined that its responsibility for any future increases in superannuation benefits, payable to Local Authorities and Department Housing, Planning, Community and Local Government (formerly Department of Environment and Local Government) employees who will transfer to the Company, has given rise to a constructive obligation to provide for a defined benefit retirement obligation. Further details are provided in note E4.

The value of retirement benefit obligations is based on actuarial valuations that are sensitive to assumptions. The principal actuarial assumptions used to calculate these retirement benefit obligations at 31 December 2016 are presented in note E4. These assumptions are updated annually. The assumptions (with the exception of the discount rate) have been set so that they represent a best estimate of future experience from the scheme. In practice future experience may not be in line with the assumptions adopted. This means that the liabilities shown in note E4 only represent one view of the future and the true costs could be different to those shown. For example members could live longer than foreseen or inflation could be higher or lower than allowed for in the defined benefit obligation calculation. Differences between actual and expected experience will be recognised through other comprehensive income as they arise and may contribute to the volatility of the balance sheet position. One actuarial assumption in particular which was revised during 2016, was the number of employees to be transferred. This assumption was revised downwards during 2016, and the resulting adjustment has been recognised in other comprehensive income as it is deemed to represent an actuarial assumption.

(v) 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 Company's accounting policies. The amounts recognised as a provision are the Company's best estimate of the expenditure required to settle present obligations at the reporting date. The outcome depends on future events which are by their nature uncertain. In assessing the likely outcome, the Company 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 Company. Any significant differences resulting from these revised estimates could entail changes in the amounts accrued.

(vi) Taxation

Provisions for tax liabilities require the Company to make estimates in relation to tax issues and exposures. Amounts provided are based on the Company's interpretation of tax laws and the likelihood of settlement. Where final tax outcome is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

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

A3. Subsequent Events

There have been no material post balance sheet events. The Directors continue to monitor the work of the Joint Committee on the Future Funding of Domestic Water Services in Ireland. It had been expected that this Committee would report on the issue to the Dáil in March 2017 but this has now been extended to April 2017. A subsequent vote in the Oireachtas (no later than one month following receipt of the final report from the Joint Committee on the Future Funding of Domestic Water Services in Ireland) will determine the future funding model for the provision for domestic water and wastewater services in Ireland.

The Directors note that a change to the funding mix of Irish Water, in terms of State funding/support and /or tariffs charged by Irish Water and/or third-party borrowings, is a possible outcome of the Oireachtas vote. Domestic customer refunds is a further potential outcome. The Directors are satisfied that appropriate arrangements will be put in place in such circumstances and that sufficient funding options will be available to the Company.

A4. Going Concern

The Company’s business activities, together with the factors likely to affect its future development and position, are set out in the Directors’ Report. In addition, note C5 to the financial statements includes the Company’s objectives, policies and process for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

The Company’s forecasts and projections show that Irish Water is expected to meet its liabilities as they fall due through a combination of State funding, tariffs charged by Irish Water, and third party borrowings. The Company’s funding strategy remains reliant on short term commercial funding and Government support. The suspension of domestic water charges has had a direct impact on domestic collections during the period of the suspension; however Irish Water’s cash flows continue to be supported by increased subvention from the State. With the inclusion of Irish Water’s €5.5 billion capital investment plan in the Programme for Government and a commitment to the ongoing provision of operational subvention to Irish Water in line with CER determinations, the Directors believe that the Government has demonstrated its commitment to the continued funding of Irish Water.

Following consideration of the facts set out above, and while noting the Company’s net current liability position of €1.1 billion at 31 December 2016 (2015: €1.0 billion), the Directors have reasonable expectation that the Company 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 Directors have concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern over the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

The Directors have concluded that appropriate disclosures have been made in these financial statements regarding matters which they have considered in the context of going concern.

B1. Property, Plant and Equipment

	Infrastructure assets €'000	Operational assets €'000	Non-network assets €'000	Assets under construction €'000	Total €'000
Cost					
At 1 January 2015	374,651	100,342	17,417	259,947	752,357
Additions	-	-	2,383	521,078	523,461
Transfers	195,402	119,736	3,893	(319,031)	-
At 31 December 2015	570,053	220,078	23,693	461,994	1,275,818
Additions	**-**	**-**	**323**	**442,244**	**442,567**
Transfers	**163,172**	**244,511**	**18,114**	**(425,797)**	**-**
Disposals	**-**	**-**	**(59)**	**-**	**(59)**
At 31 December 2016	**733,225**	**464,589**	**42,071**	**478,441**	**1,718,326**
Accumulated depreciation and impairment losses					
At 1 January 2015	(6,110)	(4,048)	(4,829)	-	(14,987)
Depreciation for the year	(10,264)	(10,331)	(5,057)	-	(25,652)
At 31 December 2015	(16,374)	(14,379)	(9,886)	-	(40,639)
Depreciation for the year	**(15,275)**	**(18,104)**	**(6,297)**	**-**	**(39,676)**
Disposals	**-**	**-**	**34**	**-**	**34**
At 31 December 2016	**(31,649)**	**(32,483)**	**(16,149)**	**-**	**(80,281)**
Carrying amounts					
At 31 December 2015	553,679	205,699	13,807	461,994	1,235,179
At 31 December 2016	**701,576**	**432,106**	**25,922**	**478,441**	**1,638,045**

During the year, the Company capitalised €5.1 million in interest (2015: €8.3 million). The capitalisation rate was 1.6% (2015: 2.5%). The Company also capitalised €6.0 million in payroll costs during the year (2015: €5.8 million).

Capital commitments	2016 €'000	2015 €'000
Capital expenditure that has been contracted for but has not been provided for	**277,583**	195,340
Capital expenditure that has been authorised by the Board but has not yet been contracted	**251,417**	285,449

B2. Intangible Assets

	Software €'000	Software and other under development €'000	Total €'000
Cost			
At 1 January 2015	84,206	13,125	97,331
Additions	331	20,126	20,457
Transfers in year (assets brought into use)	31,982	(31,982)	-
At 31 December 2015	116,519	1,269	117,788
Additions	**-**	**16,049**	**16,049**
Transfers in year (assets brought into use)	**5,268**	**(5,268)**	**-**
At 31 December 2016	**121,787**	**12,050**	**133,837**
Accumulated amortisation and impairment losses			
At 1 January 2015	(9,443)	-	(9,443)
Amortisation for the year	(17,139)	-	(17,139)
At 31 December 2015	(26,582)	-	(26,582)
Amortisation for the year	**(20,368)**	**-**	**(20,368)**
At 31 December 2016	**(46,950)**	**-**	**(46,950)**
Carrying amounts			
At 31 December 2015	89,937	1,269	91,206
At 31 December 2016	**74,837**	**12,050**	**86,887**

During the year, the Company capitalised €0.2 million in interest (2015: €0.1 million). The Company also capitalised €0.6 million in payroll costs during the year (2015: €0.5 million).

B3. Depreciation and Amortisation

	2016 €'000	2015 €'000
Depreciation	**(39,676)**	(25,652)
Amortisation of intangible assets	**(20,368)**	(17,139)
Total	**(60,044)**	(42,791)

C1. Analysis of Debt

		31-Dec-16	31-Dec-15
		€'000	€'000
Total borrowings	C2	**(974,101)**	(945,493)
Less free cash deposits	C3	**57,056**	55,380
Net debt		**(917,045)**	(890,113)

		2016	2015
		€'000	€'000
Net debt reconciliation			
At 1 January		**(890,113)**	(324,558)
Cash from/(used in) operations		**186,916**	(28,091)
Interest paid		**(18,748)**	(27,635)
Net capital expenditure		**(473,035)**	(571,489)
Capital contributions received	F2	**184,000**	-
Non cash capital contribution/issue of shares	F2	**96,000**	54,000
Other non cash items		**(2,065)**	7,660
At 31 December		**(917,045)**	(890,113)

C2. 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 and liquidity risk, see note C5.

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

	Loans from financial institutions 31-Dec-16	Facilities from Government and Government related agencies 31-Dec-16	Total 31-Dec-16	Loans from financial institutions 31-Dec-15	Facilities from Government and Government related agencies 31-Dec-15	Total 31-Dec-15
	€'000	€'000	€'000	€'000	€'000	€'000
Less than one year	**(674,101)**	**(300,000)**	**(974,101)**	(449,493)	(396,000)	(845,493)
Current borrowings	**(674,101)**	**(300,000)**	**(974,101)**	(449,493)	(396,000)	(845,493)
Between one and two years	-	-	-	(100,000)	-	(100,000)
Non-current borrowings	-	-	-	(100,000)	-	(100,000)
Total borrowings	**(674,101)**	**(300,000)**	**(974,101)**	(549,493)	(396,000)	(945,493)

At 31 December 2016, the Company's borrowings comprise of facilities drawn from the Ireland Strategic Investment Fund and commercial banks. Interest is charged on the borrowings at a floating rate.

As noted here, certain borrowings are held with related parties. Refer to note F4 for the full details of the Company's related party disclosures.

C3. Cash and Cash Equivalents

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

	2016 €'000	2015 €'000
Short-term deposits	**56,750**	54,550
Cash	**306**	830
Total	**57,056**	55,380

	2016 €'000	2015 €'000
At 1 January	**55,380**	37,134
Increase in cash and cash equivalents in the statement of cash flows	**1,676**	18,246
At 31 December	**57,056**	55,380

C4. Net Finance Costs

	2016 €'000	2015 €'000
Finance income		
Interest income on short-term deposits	**-**	-
Total finance income	**-**	-
Finance costs		
Interest and finance costs	**(19,361)**	(19,554)
Interest capitalised	**5,326**	8,402
Pension net interest cost	**(749)**	(760)
Total finance costs	**(14,784)**	(11,912)
Net finance costs	**(14,784)**	(11,912)

C5. Financial Risk Management and Financial Instruments

The carrying values of the financial assets and liabilities of the Company can be analysed as set out below. The Company has not disclosed the fair values for financial instruments such as trade receivables and payables because their carrying amounts are a reasonable approximation of fair value.

At 31 December 2016	Total at amortised cost €'000
Financial assets	
Trade and other receivables (excluding prepayments)	**119,902**
Cash and cash equivalents	**57,056**
Restricted deposits	**2,829**
	179,787
Financial liabilities	
Borrowings and other debt[1]	**(974,101)**
Trade and other payables	**(294,654)**
	(1,268,755)
Net financial liabilities	**(1,088,968)**

At 31 December 2015	Total at amortised cost €'000
Financial assets	
Trade and other receivables (excluding prepayments)	217,834
Cash and cash equivalents	55,380
Restricted deposits	5,609
	278,823
Financial liabilities	
Borrowings and other debt[1]	(945,493)
Trade and other payables	(341,457)
	(1,286,950)
Net financial liabilities	(1,008,127)

[1]The fair value of borrowings and other debt as at 31 December 2016 was €974.1 million (2015: €945.5 million).

Financial Risk Management

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 Company's activities. The Company, 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.

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

(i) Credit Risk

Credit risk is defined as the total loss that the Company would sustain on its business and market transactions if a counterparty defaulted and failed to perform its contractual obligations. These include credit exposures arising from trading relationships with customers. The objective of credit risk management is to manage and control credit risk exposures within acceptable parameters, while optimising the return.

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)	**119,902**	217,834
Cash and cash equivalents	**57,056**	55,380
Restricted deposits	**2,829**	5,609
Total	**179,787**	278,823

(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 Irish Water.

The Ervia Group treasury function, on behalf of Irish Water, 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 Company'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.

The Ervia Group treasury function, on behalf of Irish Water, develops and maintains relationships with financial institutions in order to develop their long-term commitment to the Company; 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 Irish Water Head of Finance and other appropriate senior managers, are responsible for managing and maintaining relationships.

(i) (b) Trade related credit risk

Please refer to note D2 for an analysis of the Company's exposure to trade related credit risk.

(ii) Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Company may not be available or the Company 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 Company's results as it could result in the incurrence of higher borrowing expenses to meet obligations.

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

The Ervia Group treasury function, on behalf of Irish Water, negotiates the appropriate pricing and terms for all relevant financial transactions. Cash and liquidity management are undertaken centrally by the Ervia Group treasury function. Cash pooling is carried out and account balances netted where possible to minimise cash leakage and to minimise the interest expense. The Ervia Group treasury function undertake cash forecasting and planning in conjunction with the Company on a regular basis. Cash flow forecasts are updated on a daily and weekly basis and used to manage liquidity.

(ii) (a) Cash surpluses

Cash surpluses are used primarily to reduce the level of debt. The Company 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 Company will invest surplus cash in euro. The Company's policy is to develop and maintain relationships to facilitate its long-term liquidity, access to capital and availability of risk management facilities.

The Company's policy is to invest surplus cash in a risk averse manner. Where funds are available for investment the Company will seek to optimise the return, taking into account the liquidity of the instrument, the interest rate yield curve, market conditions at the time of the transaction, the relative risk of the investment product and the approved credit limits under the Ervia Group treasury policy. The Company seeks to minimise the cost of short-term borrowing, subject to achieving appropriate terms and conditions. The Company monitors the level of bank charges and seeks to minimise such costs whilst ensuring that its banking services meet operational requirements.

(ii) (b) Funding

At 31 December 2016, the Company's total borrowings were €974.1 million (including capitalised loan fees) and the Company had available funding facilities of €1,260.0 million (including €10.0 million in uncommitted facilities). At 31 December 2016, the Company had a statutory borrowing limit of €2,000.0 million, which sets the upper limit for drawn facilities.

Key activities in relation to debt management undertaken during 2016 include; the rollover of €800.0 million of funding by way of bilateral facilities with a number of commercial banks and the refinancing of the existing €450.0 million of funding from the Ireland Strategic Investment Fund. The Company has continued to roll its debt financing for periods of one year, pending a decision by the Government for the longer term funding strategy of the Company (refer to note A3 also). At 31 December 2016, the weighted average rate on the Company's portfolio of outstanding borrowings was 1.30% and the average maturity of its debt was 0.51 years.

During 2016, an unconditional, irrevocable and non-refundable capital contribution of €96.0 million was made available by the Minister for Finance (refer to note F2), and applied against a €96.0 million debt facility with Minister for Finance, such that no further sums, claims, costs or other liabilities remain outstanding in respect of that facility.

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

(ii) (c) Exposure to liquidity risk
The following are the contractual maturities of financial liabilities, including the undiscounted interest payment associated with borrowings.

	Carrying amount	Contractual cash flows	< 1 year	1-2 years	2-5 years	> 5 years
	€'000	€'000	€'000	€'000	€'000	€'000
At 31 December 2016						
Borrowings	**(974,101)**	**(976,124)**	**(976,124)**	**-**	**-**	**-**
Trade and other payables	**(294,654)**	**(294,654)**	**(282,881)**	**-**	**(11,773)**	**-**
Total	**(1,268,755)**	**(1,270,778)**	**(1,259,005)**	**-**	**(11,773)**	**-**
At 31 December 2015						
Borrowings	(945,493)	(948,905)	(848,905)	(100,000)	-	-
Trade and other payables	(341,457)	(341,457)	(320,512)	(7,758)	(13,187)	-
Total	(1,286,950)	(1,290,362)	(1,169,417)	(107,758)	(13,187)	-

(iii) Market risk
Market risk is the possibility that changes in currency exchange rates or interest rates will adversely affect the value of the Company'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 currency exchange rates and interest rates for the Company.

(iii) (a) Exchange rate risk
The Company is exposed to certain trade-related foreign currency risk which is not significant and therefore the impact on the Company's results will be minimal.

(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 Company and the level of finance charges.

The Company'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 debt in place for Irish Water is short term in nature and has been maintained at floating interest rates, pending a decision by the Government on the long term funding strategy of the Company.

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

	2016	2016	2015	2015
	€'000	%	€'000	%
At fixed rates	**-**	**0.0%**	-	0.0%
At floating rates	**(974,101)**	**100.0%**	(945,493)	100.0%
Total	**(974,101)**	**100.0%**	(945,493)	100.0%

The Company held only floating rate debt at 31 December 2016 (2015: €945 million floating rate debt).

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

Interest costs on variable rate loans are reset on a periodic basis over the prevailing market rate and the overdraft facility, which was undrawn at 31 December 2016, is subject to the prevailing overdraft rate.

Cash flow sensitivity analysis for floating rate debt

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

It is estimated that a general increase of 50 basis points in interest rates at 31 December would impact profit before taxation by the amounts shown below:

	Profit before taxation gain/(loss) 31-Dec-16 €'000	Profit before taxation gain/(loss) 31-Dec-15 €'000
50 bp increase	**(4,871)**	(4,727)
50 bp decrease	**4,871**	4,727

C6. Fair Value Determination

A number of the Company'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 Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

C6. Fair Value Determination *(continued)*

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

Type	Valuation technique	Significant unobservable inputs
Domestic revenue/domestic trade receivables (*Refer to note A2*)	In accordance with the Company's accounting policy, revenue is recognised at the fair value of the consideration received or receivable, as assessed at the reporting date, being 31 December 2016. This determination of fair value requires a high degree of judgement and estimation. Valuation techniques include net present value analysis of expected collection profiles. Fair value hierarchy: level 3	Collection profile

D1. Revenue

	2016 €'000	2015 €'000
Domestic revenue	**22,376**	232,255
Non-domestic revenue	**231,755**	219,872
Government subvention revenue	**652,100**	399,000
Total	**906,231**	851,127

The Company is responsible for the operation of public water services including management of national water assets, maintenance of the water system, investment and planning, managing capital projects and customer care and billing.

Since 1 January 2014, under the transfer of water and wastewater services from Local Authorities to one national service provider, the Local Authorities continued to bill and collect as agents for the Company for all non-domestic water related supply and services. During 2016, a significant project proceeded to migrate this process to the Company. At 31 December 2016, the non-domestic billing processes of 24 of the 31 Local Authorities had migrated to the Company. It is planned that the remainder will be migrated in early 2017.

The Government, acting in its capacity as Government, has purchased from the Company a certain volume of water at the market price on behalf of customers. This is recognised as Government subvention revenue in the income statement. This revenue is recognised by the Company on a systematic basis to reflect the timing of the sale of goods to the Government. At 31 December 2016, all subvention revenue recognised by the Company has been billed and collected. Refer to the related parties note (note F4) for further analysis in respect of such transactions with the Government.

The Company commenced billing for domestic water related supply and services on 1 January 2015. During 2016, following the formation of a new Government under the confidence and supply arrangement, legislation was introduced to suspend domestic water charges for a period, pending recommendation from the Joint Committee on the Future Funding of Domestic Water Services in Ireland. The period of suspension began at the end of the first billing cycle of 2016. In accordance with the Company's accounting policy, domestic revenue is recognised at fair value once collection is reasonably assured. As was the case in 2015, the determination of fair value in respect of domestic revenue for the first billing cycle of 2016 required a high degree of judgement and estimation. Refer to note A2 for further details.

Formal agreement was received from the Government to replace the domestic revenue deficit incurred by the Company during the period of suspension. It has been determined that the Government is, again in these circumstances, acting in its capacity as Government, by purchasing from the Company a certain volume of water at the market price on behalf of customers. On this basis the Company has recognised additional subvention revenue for billing cycles 2, 3 and 4 of 2016 (presented within "Government subvention revenue" in the table above).

D2. Trade and Other Receivables

	2016 €'000	2015 €'000
Trade receivables	**51,917**	82,148
Unbilled consumption	**36,007**	90,962
Prepayments	**160**	267
Restricted cash balances held by Local Authorities	**2,878**	8,733
Amounts due from related parties	**21,360**	32,575
Other receivables	**7,740**	3,416
Total	**120,062**	218,101

Non-current	**6,290**	66,181
Current	**113,772**	151,920
Total	**120,062**	218,101

Trade and other receivables are stated net of impairment allowances. Receivables are classified in the financial statements as current or non-current in accordance with their expected realisation.

Credit Risk

Trade receivables consists of amounts due from a large number of both non-domestic and domestic customers. The Company's policy is to recognise domestic revenue at its fair value once collection is reasonably assured.

The Company's non-domestic customers are spread across diverse industries. During 2015, in line with the agreed Service Level Agreements, the Local Authorities, acting as agents for the Company, continued to bill and collect all non-domestic trade receivables on our behalf. At 31 December 2016, the non-domestic billing processes of 24 of the 31 Local Authorities has migrated to the Company. It is planned that the remainder will be migrated in early 2017. The Company has established processes in place to track Local Authority collection performance against agreed targets.

The Company has a number of other receivable balances due from Local Authorities and other related parties. Refer to note F4 for the full details of the Company's related party disclosures. The Company actively engages with the Local Authorities on a regular basis and the Company believes it has minimal credit risk arising from its transactions with Local Authorities.

The Company commenced billing for domestic water related supply and services on 1 January 2015. As set out in further detail in notes A2 and D1, during 2016 legislation was introduced to suspend domestic water charges for a period, pending recommendation from the Joint Committee on the Future Funding of Domestic Water Services in Ireland. The suspension of domestic water charges has negatively impacted domestic collection rates during 2016. Consequently the Company has recognised an additional impairment allowance in respect of 2015 domestic revenue. In addition the lower collection rates have impacted the fair value of revenue recognised in respect of the domestic revenue billed in Q1 2016. The principal areas of judgement and estimation in respect of the impairment allowance for domestic customers are set out in note A2. The Company is satisfied that the net trade receivable, recognised at 31 December 2016 in respect of domestic revenue, is appropriate and reasonable.

D2. Trade and Other Receivables *(continued)*

The maximum exposure to credit risk for trade and other receivables (excluding prepayments) at the reporting date can be analysed as follows:

	2016 €'000	2015 €'000
Trade receivables billed	**51,917**	82,148
Trade receivables unbilled	**36,007**	90,962
Restricted cash balances held by Local Authorities	**2,878**	8,733
Amounts due from related parties	**21,360**	32,575
Other trade receivables	**7,740**	3,416
Total	**119,902**	217,834

The ageing of trade receivables, net of impairment, is set out below. The Company had no receivables that were past due and not impaired.

	Net receivable 2016 €'000	Net receivable 2015 €'000
Not past due	**77,907**	154,503
0-365 days	**40,054**	63,331
1-2 years	**1,941**	-
Total	**119,902**	217,834

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

	2016 €'000	2015 €'000
At 1 January	**(49,961)**	(24,590)
Impairment loss recognised	**(84,406)**	(28,516)
Allowance utilised	**6,513**	3,145
At 31 December	**(127,854)**	(49,961)

D3. Deferred Revenue

	2016 €'000	2015 €'000
At 1 January	**(33,860)**	(49,453)
Received in year	**(45,626)**	(24,657)
Credited to the income statement	**40,117**	40,250
At 31 December	**(39,369)**	(33,860)
Analysed as follows:		
Non-current	**(17,561)**	(20,034)
Current	**(21,808)**	(13,826)
Total	**(39,369)**	(33,860)

Customer connection contributions received in advance of customer connections are recorded initially as deferred revenue. 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)

Operating costs are stated after charging:		2016 €'000	2015 €'000
Payroll expense		**(35,760)**	(29,672)
Local Authority Service Level Agreement payroll & overheads and secondment of employees		**(263,230)**	(263,659)
Hired & contracted services and central transactional & support service costs		**(221,471)**	(256,287)
Materials, maintenance and plant hire		**(105,696)**	(101,035)
Rent, rates, utilities and insurance		**(72,809)**	(76,700)
Charge for bad and doubtful receivables	(i)	**(84,406)**	(28,516)
Release in respect of asset acquisition	(ii)	**26,959**	5,700
Other operating costs		**(20,609)**	(28,839)
Total		**(777,022)**	(779,008)

(i) The charge represents both domestic and non-domestic customers. The increased charge during 2016 is primarily as a result of the suspension of domestic billing. During 2016 a detailed review was performed to reassess the expected collection profiles in respect of domestic revenue which was initially recognised in 2015 and has not yet been collected. Refer to note A2 for further details in respect of judgement and estimation applied.

(ii) On 1 January 2014, the Company acquired the net assets of the water and wastewater infrastructure assets from the Local Authorities. As part of the acquisition certain assets and liabilities (provisions, accruals and adjustments to debtors) were recognised at fair value. During 2016, following detailed assessment, the Company released €27.0 million in respect of the fair value of certain assets and liabilities acquired (2015: €5.7 million). Refer to note A2.

	2016 €'000	2015 €'000
Auditor's remuneration[1]		
- statutory audit services	**(190)**	(190)
- other audit related assurance services	**(25)**	(88)
- other non-audit services	**-**	(140)
Total	**(215)**	(418)

[1] amounts net of irrecoverable VAT

	2016	2015
Directors' emoluments		
- fees	**-**	-
- remuneration of the Managing Director*	**(819)**	(248)
Total	**(819)**	(248)

*Remuneration details for 2016 relate to both the former and current Managing Director. The former Managing Director's contract expired on 28 April 2016.

Details of the remuneration of the current and former Managing Director are as follows:

Current Managing Director**	2016 €'000	2015 €'000
Managing Director's basic salary	**(133)**	-
Pension contributions made on behalf of the Managing Director	**(21)**	-
Other benefits, including cost of company car	**(10)**	-
Total	**(164)**	-

**Acting Managing Director from 29 April 2016. Appointment confirmed on 24 May 2016.

E1. Operating Costs (excluding depreciation and amortisation) *(continued)*

Former Managing Director	**€'000**	**€'000**
Managing Director's basic salary	**(67)**	(200)
Pension contributions made on behalf of the Managing Director	**(11)**	(28)
Termination benefits - severance***	**(100)**	-
Termination benefits - defined benefit pension contributions payable***	**(473)**	-
Other benefits, including cost of company car and health insurance	**(4)**	(20)
Total	**(655)**	(248)

***Termination benefits relate to the former Managing Director and are binding contractual entitlements inherited from his previous employment with Dublin City Council. They comprise a severance benefit payable to the former Managing Director and a payment due to the Ervia Defined Benefit Scheme to cover post-retirement pension entitlements, both arising from the terms of his Dublin City Council employment arrangements.

E2. Payroll Costs

	2016	**2015**
	€'000	**€'000**
Wages and salaries	**(35,951)**	(30,896)
Social insurance costs	**(3,883)**	(3,380)
Pension costs	**(2,515)**	(1,703)
	(42,349)	(35,979)
Capitalised payroll	**6,589**	6,307
Payroll costs charged to the income statement	**(35,760)**	(29,672)

The average number of employees employed by the Company was 592 for 2016 (2015: 495).

E3. Key Management Compensation

	2016	**2015**
	€'000	**€'000**
Short-term employee benefits*	**(1,019)**	(1,041)
Post employment benefits*	**(128)**	(129)
Termination benefits - severance**	**(100)**	-
Termination benefits - other**	**(473)**	-
Total	**(1,720)**	(1,170)

*Short-term employee benefits and post-employment benefits represent an apportionment of compensation payable to the Ervia Board, the Ervia CEO and his direct reports, based on the services provided.

**Termination benefits relate to the former Managing Director and are binding contractual entitlements inherited from his previous employment with Dublin City Council. They comprise a severance benefit payable to the former Managing Director and a payment due to the Ervia Defined Benefit Scheme to cover post-retirement pension entitlements, both arising from the terms of his Dublin City Council employment arrangements.

E4. Retirement Benefit Obligation

Defined benefit constructive obligation
The Company has recruited a number of staff from Local Authorities and the Department for Housing, Planning, Community and Local Government. Under the Water Services Acts, the Company's responsibility for their pension commences from the date the person was accepted into the employment of the Company in accordance with section 19 or was appointed under section 27.

Pending the enactment of legislation and the establishment of the Irish Water defined benefit scheme, these staff were seconded from the Local Authorities or the Department for Housing, Planning, Community and Local Government to Irish Water. As these currently seconded staff will ultimately become Irish Water employees, this gives rise to the constructive obligation outlined below. At 31 December 2016, the Irish Water defined benefit scheme was in the process of being established. The scheme was established on 27 January 2017, and on the establishment of the scheme the staff on secondment arrangements became permanent employees of the Company.

Under the Water Services Act 2013, as amended, the Company is responsible for any future increases in superannuation benefits (in excess of any applicable uprating) payable to Local Authority and the Department for Housing, Planning, Community and Local Government employees ultimately employed by Irish Water, which arise from pensionable service completed prior to becoming Irish Water employees.

The Company has determined that a defined benefit obligation has arisen as a result of the requirements of the Water Services Act 2013, as amended, in relation to the Local Authority and the Department for Housing, Planning, Community and Local Government staff ultimately employed by Irish Water, as outlined in the table below:

	2016 €'000	2015 €'000
At 1 January	**(27,230)**	(32,820)
Pension interest cost	**(749)**	(760)
Pension service cost	**(1,648)**	(1,520)
Actuarial gain/(loss)	**3,230**	7,870
At 31 December	**(26,397)**	(27,230)

Defined benefit pension scheme accounted for as a Group Plan
The Ervia Group 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 (revised). Ervia, as the sponsoring employer for the scheme, 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 2016, the contributions paid to Ervia in respect of the Company's employees was €0.8 million (2015: €0.5 million). These costs are included in the Company's payroll costs (set out in note E2) and are identified as a related party transaction in note F4.

The key assumptions used in determining the actuarial obligation at 31 December are:

	2016	2015
Discount rate	1.90%	2.75%
Basic salary increases	2.15%	2.00%
Pension increases	1.65%	1.50%
Inflation	1.65%	1.50%

E4. Retirement Benefit Obligation *(continued)*

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

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

Personal retirement savings accounts (PRSAs)
Prior to December 2016, the Company operated Personal Retirement Savings Accounts for all qualifying employees. These were accounted for as a defined contribution pension scheme in accordance with the Company's accounting policy for same. In compliance with the provisions of the Pensions Act 1990 (as amended), the Company appointed Personal Retirement Savings Account (PRSA) providers. During 2016, the Irish Water 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 Company contributed €1.7 million (2015: €1.2 million), in respect of PRSAs, on behalf of its employees, which was charged to the income statement.

E5. Trade and Other Payables

	2016 €'000	2015 €'000
Trade payables due	**(20,601)**	(16,951)
Accruals	**(172,497)**	(224,592)
Amounts due to related parties	**(74,884)**	(69,474)
Other payables	**(16,561)**	(20,031)
Taxation and social insurance creditors[1]	**(10,111)**	(10,409)
Total	**(294,654)**	(341,457)
Analysed as follows:		
Non-current	**(11,773)**	(20,945)
Current	**(282,881)**	(320,512)
Total	**(294,654)**	(341,457)

[1] **Taxation and social insurance creditors**		
PAYE/PRSI/social insurance	**(925)**	(971)
VAT	**(9,230)**	(9,475)
Other taxes	**44**	37
Total	**(10,111)**	(10,409)

E6. Provisions and Contingent Liabilities

Provisions

	€'000
At 1 January 2016	**(101,905)**
Provisions released/made in the year (net)	**11,478**
Provisions utilised in the year	**1,210**
Transfers in the year	**12,000**
At 31 December 2016	**(77,217)**

Analysed as follows:	2016	2015
	€'000	€'000
Non-current	**(57,489)**	(61,254)
Current	**(19,728)**	(40,651)
Total	**(77,217)**	(101,905)

The provision is primarily made up of legal claims outstanding against the Company, wayleaves provision and contractor retention and claims. The majority of these provisions are associated with the water and wastewater infrastructure assets which were transferred to the Company from the Local Authorities on 1 January 2014. As part of the due diligence process to agree the assets and liabilities to be transferred from each Local Authority to Irish Water, an exercise was conducted to identify all potential liabilities and capture them as a provision, if they met the recognition criteria of IAS 37. During 2016, a detailed assessment was conducted to bring up to date the Company's best estimate of the expenditure required to settle these obligations. In assessing the likely outcome, the Company based its assessment on experience since transfer from the Local Authorities and other factors that are believed to be reasonable in the circumstances (including legal advice). Refer to note A2 for detail of judgements and estimates applied.

Contingent Liabilities

There are no material contingent liabilities that the Company is aware of that require disclosure. As part of the due diligence process to agree the assets and liabilities to be transferred from each Local Authority to the Company, an exercise was conducted to identify all contingent liabilities and disclose them in the financial statements, if they met the disclosure criteria of IAS 37. The Company does not expect any other liabilities that are not provided for in these financial statements to arise.

E7. Operating Lease Commitments

The following operating leases are payable by the Company and generally relate to the rental of office premises. 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.

	2016	2015
	€'000	€'000
Less than one year	**(3,188)**	(1,539)
Between one and five years	**(10,295)**	(4,871)
More than five years	**(1,833)**	-
Total	**(15,316)**	(6,410)

Amounts included in the income statement in respect of land and building lease arrangements were €3.3 million (2015: €1.6 million).

E8. Restricted Deposits

Restricted deposits include amounts held by the Company in respect of third party collateral relating to major projects.

	2016	2015
	€'000	€'000
Current	**2,829**	5,609
Total	**2,829**	5,609

F1. Cash Generated from Operations

	2016 €'000	2015 €'000
Cash flows from operating activities		
Profit for the year	**54,381**	17,416
Adjustments for:		
Depreciation and amortisation	**60,044**	42,791
Retirement benefit service cost	**1,648**	1,520
Net finance costs	**14,784**	11,912
	130,857	73,639
Working capital changes:		
Change in trade and other receivables	**86,973**	(104,649)
Change in trade and other payables	**(24,933)**	24,771
Change in deferred revenue	**6,706**	(15,593)
Change in provisions	**(12,687)**	(6,259)
Cash from/(used in) operating activities	**186,916**	(28,091)
Interest paid	**(18,748)**	(27,635)
Net cash from/(used in) operating activities	**168,168**	(55,726)

F2. Equity

Share capital

Authorised:	2016 €'000
50,000,000 "A" shares at €0.01 each	**500**
50,000,000 "B" shares at €0.01 each	**500**
Total	**1,000**

Authorised:	2015 €'000
50,000,000 "A" shares at €0.01 each	500
50,000,000 "B" shares at €0.01 each	500
Total	1,000

Issued, called up and fully paid:	2016 €
1 "A" share at €0.01 each	**0.01**
110 "B" shares at €0.01 each	**1.10**
Total	**1.11**

Issued, called up and fully paid:	2015 €
1 "A" share at €0.01 each	0.01
110 "B" shares at €0.01 each	1.10
Total	1.11

Share premium

	2016 €'000	2015 €'000
At 1 January	**(54,000)**	-
Issue of shares	**-**	(54,000)
At 31 December	**(54,000)**	(54,000)

On incorporation the Company issued 1 "A" share to Ervia. An "A" share gives the holder the right to exercise a vote at any general meeting of the Company. By being the sole holder of an "A" share Ervia has full voting control. The "A" share do not confer on the holders thereof any entitlement to any participation in the profits or assets of the Company save for the return of the subscription value in case of liquidation.

F2. Equity *(continued)*

On incorporation the Company issued 2 "B" shares at €0.01 each. One of these was issued to the Minister for the Environment, Community and Local Government (now the Minister for Housing, Planning, Community and Local Government). The second "B" share was issued to the Minister for Finance. These shares have no power of control or direction over the Company giving the holder the right to be notified and attend but not vote at any general meeting of the Company. These shares do carry the right to receive whatever dividends or distributions (if any) may be determined by the Board and do convey 'Ministerial Consents' and have protective rights. In the case of liquidation after the subscription value is repaid to the A shareholder(s) the balance of the net proceeds are distributable to the holders of the "B" shares pro rata to the number of "B" shares held by each.

At 31 December 2014, the Company held a Convertible Debt Instrument of €54.0 million with the Department of Finance. The right of the Minister for Finance to convert the principal amount of the Convertible Debt Instrument was exercisable on or at any time after the date of issuance by completing a notice of conversion. This principal amount was converted into 108 "B" shares of €0.01 each in the capital of Irish Water on 16 September 2015, and a share premium account recognised in respect of the balance. The resulting shares were registered, in equal amounts, in the names of the Minister for Finance and the Minister for the Environment, Community and Local Government (now the Minister for Housing, Planning, Community and Local Government).

Capital contribution

	2016 €'000	2015 €'000
At 1 January	**(296,466)**	(296,466)
Capital contribution received in February 2016	**(184,000)**	-
Capital contribution against debt facility with Minister for Finance in May 2016	**(96,000)**	-
At 31 December	**(576,466)**	(296,466)

At 31 December 2015, the capital contribution reserve was the net of a cash capital contribution of €407.0 million received from the Minister for Finance in 2014, and the fair value of the total identifiable net liabilities acquired as a result of the transfer of water and wastewater infrastructure assets from Local Authorities, as detailed further in note F4. During 2016, the Company received an unconditional, irrevocable and non-refundable capital contribution of €280.0 million from the Minister for Finance.

F3. Tax

Income tax expense	2016 €'000	2015 €'000
Current tax expense	-	-
Deferred tax expense	-	-
Total expense	-	-

Reconciliation of effective tax rate		
Profit before tax	**54,381**	17,416
Taxed at 12.5%	**(6,798)**	(2,177)
Expenses not deductible for tax purposes	**(1,011)**	(1,072)
Deferred tax asset not recognised on above profit before tax	**7,809**	3,249
Income tax expense	-	-

Deferred tax asset

A deferred tax asset of up to €13.3 million (2015: €21.3 million) has not been recognised in respect of tax losses of up to €309.1 million (2015: €274.2 million) as offset by taxable temporary differences of up to €202.4 million (2015: €104.1 million). This deferred tax asset has not been recognised as it is not probable that there will be sufficient taxable profits in the foreseeable future against which the net amount of up to €106.7 million (2015: €170.1 million) can be utilised. As required by IAS 12, deferred tax asset recognition is regularly reassessed.

F4. Related Parties

		Transaction value income/(expense)		Balance at reporting receivable/(payable)	
		2016	2015	31-Dec-16	31-Dec-15
		€'000	€'000	€'000	€'000
Ervia Group entities	(i)				
Secondment of employees	(i) (a)	**(844)**	(4,236)		
Transactional and support service agreement costs	(i) (b)	**(34,699)**	(32,689)		
		(35,543)	(36,925)	**(29,059)**	(21,672)
Government	(ii)				
Government subvention income		**652,100**	399,000		
Capital contribution		**184,000**	-		
		836,100	399,000	**-**	-
Local authorities	(iv)				
Secondment of employees	(iv) (a)	**(18,347)**	(16,820)		
Service level agreement	(iv) (b)				
- operating expenditure		**(244,883)**	(246,839)		
- capital expenditure		**(26,935)**	(26,456)		
- procurement recharges		**(45,609)**	(46,488)		
Working capital arrangements	(iv) (c)	**-**	-		
Asset acquisition	(iv) (d)	**-**	-		
		(335,774)	(336,603)	**(21,587)**	(6,494)

(i) Ultimate parent undertaking

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

IFRS 10 states "an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". As a result of the continued existence of the WER share at 31 December 2016, the Group does not satisfy the conditions of control as required by IFRS 10, and therefore in order to comply with the requirements of IFRS, the financial statements of Irish Water are not consolidated with the results of the Group.

On this basis the Company is deemed to be a related party of the Ervia Group.

(i) (a) Secondment of employees
The costs relating to these employees are recharged from Ervia Group on a full cost recovery method with no margin paid.

(ii) (b) Transactional and support service agreement costs
The Ervia Group provides strategic, governance, risk management, capital delivery management and transactional and support services to the Company, through the Group Centre, Major Projects area and Shared Services Centre. The Ervia Group Shared Services Centre is designed to provide transactional and support services to the Ervia Group (including the Company) in the areas of Finance, Procurement, Facilities, HR and IT, while supporting 31 Local Authorities in the areas of Finance (accounts payable and project accounting), Procurement and IT. In addition the Company is recharged for the use of Ervia properties.

F4. Related Parties *(continued)*

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

Pension costs
The Ervia Group 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 (revised). 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 2016, the contributions payable in respect of the Company's employees was €0.8 million (2015: €0.5 million). These costs are included in the Company's payroll costs, set out in note E2.

(ii) Government and government related entities

In common with many other entities, the Company deals in the normal course of business with the Government and government related entities, in particular:

- As described in note D1, the Company has received government subvention income during the year.
- As described in note F2, the Company has received a cash capital contribution of €184.0 million and a non-cash capital contribution of €96.0 million against a debt facility from the Minister for Finance.
- As described in notes C2 and C5, the Company had drawn facilities of €300.0 million with the Ireland Strategic Investment Fund (2015: €300.0 million) and €nil with the Minister for Finance (2015: €96.0 million). These facilities are on an arm's length basis.

(iii) Banks owned by the Irish State

In common with many other entities, the Company deals in the normal course of business with the Government and government related entities. In accordance with the standard, details of such transactions are not set out in the table disclosed above. However, the Company has disclosed detail in respect of the following significant transactions with Government and government related entities.

(iv) Local Authorities

In common with many other entities, the Company deals in the normal course of business with Local Authorities. In accordance with the standard, details of such transactions are not set out in the table disclosed above. However, the Company has disclosed detail in respect of the following significant transactions with Local Authorities;

(iv) (a) Secondment of employees
The costs relating to these employees are recharged from Local Authorities on a full cost recovery method with no margin paid.

(iv) (b) Service level agreement
A service level agreement between the Company and each Local Authority was drafted and signed on the basis that the Company would own the water assets from 1 January 2014. The service level agreement between the Company and each individual Local Authority is an outsourcing agreement for up to a 12 year period. The scope of services provided is outlined in the service level agreement:

F4. Related Parties *(continued)*

> *The parties acknowledge that the Services (as defined below) are delivered within that framework pursuant to this Agreement and that they will work together to define efficiency and other initiatives to ensure delivery of the Services within the framework defined by the Competent Authorities.*

The 'Services' comprise the following headings:

- *water treatment (including source protection);*
- *water network and related operations (including water conservation);*
- *delivery of water to customer connections and collection of wastewater from customer sewers;*
- *wastewater network operations including combined sewers which discharge into the collection network;*
- *wastewater treatment and related operations (including sludge management);*
- *sampling & testing;*
- *regular reporting on activities;*
- *support for the water services capital programme; and*
- *management, engineering and administration support in relation to the above.*

Each Local Authority will continue to operate and maintain the water assets on behalf of the Company in return for the agreed fees set out in the service level agreement. Performance targets and service levels are agreed in an Annual Service Plan between each Local Authority and the Company in accordance with the service level agreement.

Licence to use the Water Infrastructure assets

A Licence to use the water assets has been granted by each Local Authority to the Company as part of the service level agreement in place between the Company and each Local Authority, as follows:

> *The parties grant each other a mutual licence for a period of 12 months from the Effective Date, or such longer period as the parties may agree in writing, to perform their obligations under this Agreement as if all treatment plants, pumping stations, pipelines, premises, plant and equipment, Scada and telemetry systems and other property necessary for Irish Water to perform its Water Services Functions transfer to Irish Water on the Effective Date ("Retained Premises") and both parties shall act in good faith so as to enable both parties to fulfil their statutory and contractual obligations in relation to such Retained Premises.*
>
> *Irish Water shall, until such time as the 'Retained Premises' are transferred by a transfer order to Irish Water, indemnify the Local Authority from and against any and all losses that arises out of or result from the retention of the Retained Premises by the Local Authority except to the extent that the Losses result from the fraud or negligence of the Local Authority.*

The Licence is a 12 month mutual licence (starting 1 January 2014) enabling both the Company and the Local Authorities to carry out their contractual and statutory functions as if a statutory transfer of the water assets had taken place as anticipated (the "Licence"). In return for the Licence, the Company gave the Local Authorities an indemnity for any loss suffered by the Local Authorities as a result of their continuing to legally own the assets. The Licence relates to physical assets (e.g. pipelines, plant and equipment) and does not relate to contracts or entitlements (irrespective of whether they are attaching to such assets). The Licence has been extended by the agreement of both parties until 31 December 2017.

F4. Related Parties *(continued)*

(iv) (c) Working capital arrangements
The Company has provided the Local Authorities with working capital advances to cover payments which are made by the Local Authorities each month and subsequently recharged to the Company under the service level agreement at (iv) (b) above. Such payments are in respect of salaries, central management charges and a limited amount of goods and services.

(iv) (d) Asset acquisition
As set out in the Company's 2014 financial statements, the water and wastewater infrastructure assets transferred from the Local Authorities to the Company on 1 January 2014. No consideration was paid by the Company for the water infrastructure assets acquired. The Local Authorities were compensated for certain financial assets (including receivables) or charged for certain financial liabilities transferred. Balances outstanding in respect of this transaction are included in the table above.

(v) Directors' interests
Directors had no beneficial interests in the Company at any time during the year or at 31 December 2016. The secretary and Michael O'Sullivan (Executive Director) are beneficiaries of the Ervia Employee Share Ownership Plan.

F5. Statement of Significant Accounting Policies

1 Property, Plant and Equipment

(i) Recognition

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

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

(ii) Depreciation

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

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

● Infrastructure assets (including boundary boxes, reservoirs, water & waste pipelines and service connections)	40-100	years
● Operational assets (including meters, pumps, and electrical & mechanical systems)	12-70	years
● Non-network assets (including fixtures & fittings, vehicles and computer equipment)	3-15	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 Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Borrowing costs

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

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

F5. Statement of Significant Accounting Policies *(continued)*

2 Intangible Assets

(i) Software, software under development and other intangible assets
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 Company. These costs are recognised as intangible assets as it is considered probable that these products will generate economic benefits exceeding the recognised costs. These costs are capitalised only if the criteria set out in IAS 38 are met. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets.

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

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

(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 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.

(iv) Borrowing costs
Refer to accounting policy 1 (iv).

3 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

F5. Statement of Significant Accounting Policies *(continued)*

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
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.

4 Foreign Currency

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

(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.

5 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services in the normal course of business. Revenue is recognised when the significant risks and rewards of ownership are transferred to the customer, recovery of consideration is probable and the amount of revenue can be reliably measured. Revenue is not recognised until the service has been provided to the customer and is shown net of value added tax.

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

For non-domestic customers, the receivable billed is dependent on the volume supplied. Where services have been provided, but for which no invoice has been raised at the reporting date, an estimate of value of water and wastewater services supplied to customers between the date of the last meter reading and the reporting date is recognised in revenue and presented as unbilled consumption.

F5. Statement of Significant Accounting Policies *(continued)*

For domestic customers with meters, the receivable billed is dependent on the volume supplied, subject to the assessed cap as provided for in the Water Services Act 2013, as amended. Where services have been provided, but for which no invoice has been raised at the reporting date, an estimate of the value of water and wastewater services supplied to customers between the date of the last meter reading and the reporting date is made. For domestic customers who do not have a meter, the receivable billed and revenue recognised is calculated based on the assessed cap as provided for in the Water Services Act 2013, as amended, including an estimate for unbilled consumption.

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

Payments received in advance of revenue recognition are recorded as deferred revenue. 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. Development levies are recorded as deferred revenue and recognised in the income statement as revenue upon the completion of the services rendered.

6 Leases

Leases in terms of which the Company 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 receipts/payments are recognised as income/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. Lease income is recognised as revenue, where arises as part of the ordinary activities of the Company. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives are recognised as a reduction of rental expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Accounting for arrangements that contain a lease
The determination of whether an arrangement contains a lease is dependent on whether the arrangement relates to the use and the control of a specific asset. 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.

F5. Statement of Significant Accounting Policies *(continued)*

7 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 Company will comply with the conditions attaching to it. Grants that compensate the Company for expenses incurred are recognised in the income statement on a systematic basis in the same years in which the expenses are incurred. Grants that compensate the Company 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.

8 Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The associated financing charge is recognised in finance costs.

Contingent liabilities may arise in respect of contractual agreements to which an entity of the Company 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).

9 Retirement Benefit Obligations

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

Post-employment benefit plans include not only formal arrangements but also informal practices that give rise to constructive obligations and therefore the accounting treatment is the same regardless of whether an obligation is legal or constructive.

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

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

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

F5. Statement of Significant Accounting Policies *(continued)*

(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.

(iii) Defined benefit pension scheme accounted for as a Group Plan
The Ervia Group 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 (revised).

10 Financial Assets and Liabilities

(i) Interest bearing borrowings
Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest rate method.

(ii) Non-derivative financial assets and liabilities

Trade and other receivables
Trade and other receivables are initially recognised at fair value 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 allowance is made on a portfolio basis to cover additional incurred losses based on an analysis of previous losses experienced and adjusted to reflect current economic 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.

11 Net Finance Costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest payable on borrowings, financing charge on provisions, impairment losses recognised on financial assets (other than trade receivables) 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.

F5. Statement of Significant Accounting Policies *(continued)*

12 Income Tax

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

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

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

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

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

13 Operating Profit

Operating profit is stated before net finance costs and taxation.

14 Non-GAAP Measures

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

F6 New Accounting Standards and Interpretations

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

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

In the current year, the Company 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 Company's financial statements for 2016.

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

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

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

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 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. Application of this standard could have a material impact on the amounts reported and disclosures made in the Company's financial statements. The impact of IFRS 16 has yet to be 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 €3.3 million.

F6 New Accounting Standards and Interpretations *(continued)*

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 Company 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 Company's financial statements.

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 Company's financial statements.

F7 Approval of Financial Statements

The Directors approved the financial statements on 27th March 2017.