Irish Water
Financial Statements

as at 31 December 2015

Contents

Directors and Other Information

DIRECTORS	Michael McNicholas Jerry Grant *(appointed 24 May 2016)* Brendan Murphy Michael O'Sullivan John Tierney *(resigned 28 April 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 present their Directors' report and financial statements for the year ended 31 December 2015.

Principal Activities

Irish Water (the Company) is Ireland's national water utility. The Company is responsible for the delivery of all public water services including the supply of drinking water and the collection, treatment and disposal of waste water. These services were previously provided by 34 Local Authorities (consolidated to 31 Local Authorities in 2014). On 1 January 2014, responsibility for and ownership of Ireland's water and waste water infrastructure was transferred to the Company from the Local Authorities. The operation and maintenance of these assets continues to be provided by the Local Authorities, acting as agents to the Company under a Service Level Agreement and individual Annual Service Plans with each Local Authority. These activities include responsibility for the provision of public drinking water supplies from source to consumption, as well as the operation and management of abstraction, treatment, storage and distribution of drinking water. Operations and Maintenance is also responsible for the collection, treatment and disposal of wastewater. Underpinning all activities is a drive to seek improved ways of operating and delivering value for money for the company and for customers. New approaches to service delivery through the suite of Transformation Plan projects (i.e. laboratory rationalisation, use of handheld technologies, standard operating procedures) and Water Industry Operating Framework are all key to moving the business towards the high performing utility model.

Business Review and Future Developments

The results for the year are set out on page 16. Revenue for the year was €851.1 million (2014: €687.2 million). Profit for the year before income tax was €17.4 million (2014: €138.8 million loss before income tax), with any surplus to be reinvested in fixing Ireland's ageing water infrastructure.

The first domestic water and waste water bills were issued in April 2015. A total of 64% of customers (975,000 customers) had paid water charges at the end of the 4th billing cycle compared to 61% at the end of the 3rd billing cycle, 55% at the end of the 2nd billing cycle and 44% at the end of the 1st billing cycle. The 4th cycle of bills was sent to customers in January and February 2016, and covered services provided in the last three months of 2015.

Total cash collected from charges paid to date by domestic customers in the first full year of billing is €144.2 million. Cash collected during the 4th billing cycle (up to 11 April 2016) was €33.4 million compared to €42.3 million in the 3rd billing cycle, €38.0 million in the 2nd billing cycle and €30.5 million in the 1st billing cycle. Overall payments received in the first three months of 2016 therefore showed total collections in the 4th billing cycle were lower than the 3rd billing cycle.

Irish Water customers remain liable for balances due on any bills issued and Irish Water continues to accept payment and to deal with any billing queries in relation to outstanding balances.

The Directors believe that under the Programme for Government Irish Water, as established under legislative provision (Water Services Act 2013, as amended), will continue in operation as a public utility. The proposed short term suspension of domestic water charges will have a direct impact on domestic collections during the period of the suspension, however, the Directors expect that cash flows will be supported by increased short term subvention, and/or State funding/support, and/or third party borrowings.

Based on the Government's commitment to the utility model and the highlighting of continued support for Irish Water's €5.5 billion capital plan in the Programme for Government, along with Government support for funding through a combination of State funding/support, and/or tariffs charged by Irish Water, and/or third party borrowings, the Directors believe that the Government has demonstrated its commitment to the continued funding of Irish Water.

Irish Water will engage fully with the External Advisory Body and the Expert Commission. Refer to note E10 for further details.

Key Achievements

In 2014 and 2015, 500km of water pipes were replaced, 2,727 customer leaks were repaired under the First Fix Scheme saving 34 million litres of water every day and the risk of water supply contamination was removed for another 250,000 people. The removal of long-term "Boil Water" notices was a priority for Irish Water in 2015. Over 21,743 people were removed from these notices. Priority was also given to addressing water schemes identified as "at risk" on the EPA Remedial Action List. Over 250,000 people now have a safer drinking water supply.

Irish Water developed Ireland's first national operating model for water services, instigating monthly reporting across the country with standardised Key Performance Indicators (KPIs) and establishing a National Control Centre. Irish Water also began roll-out of the National Telemetry System, and implemented an integrated approach to health and safety management and a standard asset management approach.

The capital investment programme has been funded by external facilities and shareholder capital contributions. Available funding facilities at 31 December 2015 were €1,356 million (including €10 million of uncommitted facilities), of which €946 million was drawn. Cumulative shareholder capital contributions to 31 December 2015 were €461 million.

Key activities in relation to funding undertaken during the year include the execution of €800 million of funding by way of bilateral facilities with a number of commercial banks, the refinancing of the existing €300 million facility along with the execution of an additional €150 million facility from the Ireland Strategic Investment Fund and the execution of a €96 million working capital facility agreement with the Minister for Finance. These funding facilities are for a term of one year. The Company's funding policy is to roll forward all maturing facilities on an annual basis, subject to Government approval, and at the signing of these financial statements, €550 million of funding facilities have been rolled to 2017.

In its 'Business Plan to 2021', the Company has committed to delivering a capital investment programme of €5.5 billion between 2014 and 2021. The Company believes that the challenge of fully transforming water and waste water services in Ireland will extend beyond 2021. The Company has published its Water Services Strategic Plan and a multi-billion euro programme which will continue through several successive investment cycles.

Key to this plan is the delivery of the following objectives over the period to 2021:
• establish the highest health and safety standards,
• implement a €5.5 billion capital investment programme,
• deliver capital efficiency savings of €500 million,
• evolve Irish Water into a high performing utility,

• transform the water services operating model,
• deliver operating cost savings of €1.1 billion,
• achieve best practice customer service,
• put Irish Water on a solid commercial footing, and
• support economic growth in line with economic and spatial planning policy.

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

Principal Risks and Uncertainties

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:

Reputation and Public Perception

While many key milestones have been achieved in the major undertaking of establishing the Company, we recognise that there have also been significant challenges in demonstrating its value and gaining full public confidence in the Company. Our strategy is focussed on enhancing the quality, safety and sustainability of Ireland's water and waste water services and affirming their efficiency. At the same time, a strategy is in place which is designed to ensure stakeholder understanding of the challenges facing the Company and the progress it is making in meeting its business plan objectives. There is a focus on providing the highest standards of customer service and enhancing customer perception of Irish Water.

Trade Credit Risk

The Company commenced billing for domestic water related supply and services on 1 January 2015, which gave rise to a new domestic customer base. The Company's policy of recognising domestic revenue at its fair value once collection is reasonably assured reflects the credit risk arising in respect of domestic revenue (and the associated trade receivable) as recognised in the financial statements. Credit risk on domestic trade receivables is managed through proactive monitoring and management of trade receivable balances. Accounts in arrears are managed through customer follow up by the Company's credit collection team. Since the February 2016 Irish General Election there has been a decline in cash received by the Company from domestic customers. It is unclear what the impact, if any, will be on the ultimate collectability of receivables from domestic customers as at 31 December 2015 (€111.0 million). As noted earlier under 'Business review and future developments' the Company has outlined the latest information on billing and collection of domestic water charges.

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, continue to bill and collect all non-domestic trade receivables on behalf of the Company. The Company has established processes in place to track Local Authority collection performance against agreed targets.

A significant project is currently underway to migrate this billing and collection activity to the Company, as part of normal operations.

Financial Risk Management and Exposures

The Company's activities expose it to a number of financial risks: interest rate risk, credit risk and currency risk. Financial risk management policies have been established: to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. These financial risk management policies and systems are reviewed regularly to reflect changes in market conditions and the 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. Refer to note B5 for full analysis of the Company's financial risk management objectives, policies and exposures.

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/or Government support. Irish Water seeks to maintain a diversified commercial funding base by securing facilities from a range of commercial banks as well as Government linked finance.

Health, Safety, Quality & Environment (HSQE)

Failing to effectively manage health and safety has the potential to cause harm to employees, contractors or the public. Irish Water is committed to implementing the highest health and safety standards. To deliver on this objective, Irish Water will implement a comprehensive Safety Management system including a Safety Leadership programme for its staff and develop a water industry health and safety consultative forum. To support this, Irish Water will focus on HSQE inspection and audit programmes including behavioural audits designed to engage and develop a learning organisation.

Drinking Water & Waste Water Standards

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 it is under severe stress and there are clearly high level risks right across all aspects of water services. Irish Water is committed to delivering a Capex programme of €5.5 billion to address major deficits over the period to 2021 as outlined in the Business Plan. This very significant level of investment is targeted at addressing the major deficits in terms of Drinking Water Quality and Capacity, Wastewater Quality and Capacity and repairing the most critical infrastructure that is in need of urgent investment.

Transformation of the Water Industry

Failure to transform the Water Services Model would have a significant impact on Irish Water's ability to deliver efficient services, harness technology solutions and achieve required savings and efficiencies. In response there is a focus on implementing a transformed and efficient Irish Water/Local Authority service delivery model. The Irish Water Business Plan has demanding objectives and targets over the period to 2021, which are challenged regularly. Delivery of the transformation requires a coordinated response that regularly engages with Government, internal and external stakeholders, trade unions and key Local Authority stakeholders.

Regulatory Environment

The Company's business activities are subject to a broad and developing range of legislative provisions and regulation. There are dedicated resources and programmes in place to manage this with a pro-active approach to engaging with Regulatory Authorities in Ireland and the EU. The Company has a key focus on efficiency targets and operational and investment plans to meet EU and national water and wastewater environmental obligations and directions and Irish Water Interim Price Control 2 (IPC2) outcomes.

Key Performance Indicators

Some of the principal key performance indicators used by the Directors to monitor performance are as follows:

Key Performance Indicator	Baseline	FY15 Performance
Schemes on EPA Remedial Action List	121	115
No. of Customers on Boil Water Notices	21,743	8,978
Network Leakage	49%	47%
Operating Costs Excluding Bad Debts	€789m	€750m
Funding Facilities	€1,300m	€1,356m

In addition to a robust reporting requirement for the Environmental Protection Agency, Irish Water also reports on the following drinking water compliance metrics to Ervia as and from March 2016:

- **Microbiological Compliance:** The sum of all compliant test results for E. coli and Enterococci divided by the sum of all test results undertaken for E. coli and Enterococci taken for the month in question, culminating in an annual KPI.
- **Chemical Compliance:** The sum of all compliant test results for all Chemical parameters (26 no. as defined in the Drinking Water Regulations) divided by the sum of all test results undertaken for all Chemical parameters taken for the month in question, culminating in an annual KPI.
- **THM Compliance**: The sum of all compliant test results for the THM parameter divided by the sum of all test results undertaken for the THM parameter taken for the month in question, culminating in an annual KPI.

The focus in 2015 was establishing an accurate baseline for the key drinking water compliance metrics. In 2016, Operations and Maintenance began to report on the following metrics, measuring performance against the baselines established below.

Key Performance Indicator	Baseline *(derived from EPA 2013 DW Report)*
Microbiological Compliance	99.82%
Chemical Compliance	99.84%
THM Compliance	92.10%

Results and Dividends

The results of the Company for the year are set out in the income statement on page 17 and in the related notes. As outlined by the Shareholders in their Shareholder's Expectation letter for Ervia, it is expected that any surplus cash at the end of the financial year will be invested in the business.

Directors and Secretary and their Interests

The Directors and Secretary are set out on page 3.

Interests of the Directors and Secretary are disclosed in note E3. These are non-voting interests which comprise less than 1% of the capital stock.

Subject to receipt of Ministerial consent, Ervia has the power to appoint directors and remove them. In accordance with the Articles of Association, the directors are appointed for a term that shall not exceed one year, subject to Ministerial consent. On 4 November 2015, Ministerial consent was received to re-appoint the existing Directors for a further year from 1 December 2015. On 28 April 2016, the former Managing Director and Director of Irish Water, John Tierney, retired from office. On 24 May 2016, Jerry Grant was appointed Managing Director and Director of Irish Water. 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.

Creditor Payment Policy and Prompt Payments

The Directors acknowledge their responsibility for ensuring compliance with the provisions of the EU Directive 2011/7/EC as transposed by the European Communities (Late Payment in Commercial Transactions) Regulations 2012 (the "Regulations"), whose 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 and monthly reporting and review of payment practices. Procedures have been put in place to identify the dates upon which invoices fall due for payment and for payments to be made on or before such dates. These procedures provide reasonable assurance against material non-compliance with the Regulations. No interest was paid in respect of late payments in 2015.

In 2015 the Government launched the Prompt Payment Code of Conduct (the "Code"). 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 in all material respects.

Political Donations

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

Post Balance Sheet Events

Following the 2016 General Election, a new Government was formed and the Programme for Government contains commitments in relation to Irish Water. Details of these important events affecting the Company which have taken place since the end of the financial year are set out in note E10 to the financial statements. The Directors have considered the developments and have reviewed Irish Water's performance in 2016 to date, assessed the risks arising, revised performance projections, and have held discussions with key stakeholders. Following their review, the Directors have determined that Irish Water, as established under legislative provision (Water Services Act 2013, as amended), will, under the new Programme for Government, continue in operation as a public utility.

Irish Water will engage fully with the External Advisory Body and the Expert Commission. Refer to note E10 for further details.

Our Auditor has included an Emphasis of Matter paragraph in their Audit Opinion as a result of this subsequent event, noting the importance to the shareholders of understanding the context of the financial statements.

Accounting Records

The Directors believe that they have complied with the requirements of sections 281 to 285 of the Companies Act 2014 with regard to adequate accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The accounting records of the Company are maintained at Colvill House, 24/26 Talbot Street, Dublin 1.

Corporate Governance

Irish Water is a subsidiary of Ervia, however, due to its share ownership structure, Irish Water does not currently meet the definition of a subsidiary for accounting purposes and therefore cannot be consolidated with the audited Ervia Financial Statements.

Irish Water, as a subsidiary of Ervia, has put appropriate measures in place to comply with the Code of Practice for the Governance of State Bodies, 2009 ("The Code of Practice"). The Code of Practice sets out principles of corporate governance which the Boards of State Bodies are required to observe.

The Directors have taken steps to ensure an appropriate control environment by:

- Clearly defining management responsibilities; and
- Establishing formal procedures for reporting significant control failures and ensuring appropriate corrective action.

A unitary Board structure has been adopted by Ervia which takes ultimate responsibility for the governance of Ervia and its subsidiaries. The Board of Ervia is assisted in the discharging of its obligations through the delegation of certain roles and responsibilities to four committees:

- Audit and Finance
- Risk
- Investment / Infrastructure
- Remuneration

Irish Water forms part of the Ervia Group (comprising the Group Centre, Shared Services, Major Projects and the Ervia Group subsidiary companies) 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.

The Ervia Audit and Finance Committee informs the Directors on an exception basis only, of matters that arise which are material to the approval of the subsidiary financial statements, under the following headings:

- Key accounting policies;
- Key areas of judgement applied in the preparation of financial statements;
- Going concern;
- Internal controls; and
- Compliance with laws and regulations.

The 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.

In respect of Irish Water, the key control procedures as set out above, including the operation of the Local Authority protocols under the Service Level Agreements which manage the interaction processes between Irish Water and Local Authorities, continued to evolve and develop in 2015. In this regard, Irish Water has continued to implement the required systems, processes and procedures necessary to ensure robust internal financial controls through applying Ervia's policies and internal control framework. As part of its control framework in 2015, Irish Water continued to rely on certain key controls operated by Local Authorities on its behalf.

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. Irish Water has implemented Ervia's policies and procedures to mitigate Irish Water business risks.

The Directors' monitoring and review of the effectiveness of the system of internal control is informed by the work of executive managers within Irish Water who have responsibility for the development and maintenance of the internal control framework. This is supplemented by the work of the Ervia Risk Function; the Ervia Risk Committee which oversees the work of the Risk Function; the work of Ervia Internal Audit; the Ervia Audit and Finance Committee which oversees the work of Ervia Internal Audit; and the work of the External Auditor in their Management Letter and/or other reports.

A comprehensive internal audit programme was carried out during 2015, 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. No issues involving material loss, contingencies or uncertainties were noted by the Company during 2015 requiring disclosure in the 2015 financial statements or in the auditor's report on the 2015 financial statements, under the requirements of the Code of Practice for the Governance of State Bodies. .

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 2015 Ervia Annual Report where considered appropriate by Ervia;
- 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; 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 the commencement of the Companies Act 2014, Irish Water is required to convert to one of the new entity types during the 18 month transition period from 1 June 2015. For Corporate Governance oversight reasons, and subject to Ervia Board approval and Ministerial consent, Irish Water shall convert to a Designated Activity Company ("DAC"), to ensure that the activities of Irish Water remain limited to those permitted under the current objects clauses in its Memorandum of Association and which can only be changed with Ministerial consent. The required changes to the Memorandum and Articles of Association of Irish Water are currently under consideration by the Department of Environment, Community & Local Government. For the duration of the transition period, Irish Water will be treated as a DAC in accordance with Part 16 of the Companies Act 2014.

Going Concern

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/or Government support. The proposed short term suspension of domestic water charges will have a direct impact on domestic collections during the period of the suspension, however, the Directors expect that cash flows will be supported by increased short term subvention, and/or State funding/support, and/or third party borrowings. Based on the Government's commitment to the utility model and the highlighting of continued support for Irish Water's €5.5 billion capital plan in the Programme for Government, along with Government support for funding through a combination of State funding/support, and/or tariffs charged by Irish Water, and/or third party borrowings, the Directors believe that the Government has demonstrated its commitment to the continued funding of Irish Water. Thus the Directors continue to adopt the going concern basis in preparing the annual financial statements. Please refer to further detail provided in note E2 to the financial statements.

Auditor

In August 2014, following a tender process, Ministerial approval was granted for the appointment of Deloitte as Auditor for Ervia and its subsidiary companies for a three year term, with the option to extend for up to a further two years, subject to review after the initial three year period.

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	Jerry Grant	8th June 2016
Michael McNicholas Chairman	Jerry Grant Managing Director	Date of Approval

Directors' Responsibilities Statement

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 Erviaon its compliance with the Code.

For and on behalf of Irish Water:

Michael McNicholas		8th June 2016
Michael McNicholas Chairman	Jerry Grant Managing 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 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes A1 to E11. 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 Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with the Companies Act 2014 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 as at 31 December 2015 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 2015 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.

Emphasis of Matter - Events after the Reporting Period

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of the disclosure made in Note E10 to the Financial Statements concerning the commencement of a review by an Expert Commission of the sustainable long term funding model for the delivery of domestic water and wastewater services which may have financial implications for the Company in 2016 and beyond. The matters disclosed in Note E10 are of such importance that they are important to the shareholders understanding the context of the Financial Statements.

These matters relate to conditions that arose after the reporting period and are therefore considered by the Directors not to require adjustment in the Financial Statements. The Directors consider it appropriate to disclose these matters.

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.
- under the Code of Practice for the Governance of State Bodies ("the code") we are required to report to you if the statement regarding the system of internal control required under the code as included in the corporate governance statement in the report of the Board does not reflect the Company's compliance with paragraph 13.1 (iii) of the code or if it is not consistent with the information of which we are aware from our audit work on the Financial Statements.

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

Date 10th June 2016

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 2015

	Notes	2015 €'000	2014 €'000
Continuing operations			
Revenue	C1	**851,127**	687,188
Operating costs (excluding depreciation and amortisation)	D1	**(779,008)**	(793,762)
Operating profit/(loss) before depreciation and amortisation (EBITDA)		**72,119**	(106,574)
Depreciation and amortisation	A3	**(42,791)**	(23,425)
Operating profit/(loss)		**29,328**	(129,999)
Finance income	B4	**-**	34
Finance costs	B4	**(11,912)**	(8,814)
Net finance costs	B4	**(11,912)**	(8,780)
Profit/(loss) before income tax		**17,416**	(138,779)
Income tax expense	E5	**-**	-
Profit/(loss) for the year		**17,416**	(138,779)

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Statement of Other Comprehensive Income

for the year ended 31 December 2015

		2015 €'000	2014 €'000
Profit/(loss) for the year		**17,416**	(138,779)
Other comprehensive income			
Items that will not be reclassified to the income statement			
Defined benefit actuarial gains/(losses)	D4	**7,870**	(10,330)
Total other comprehensive income/(loss) for the year		**7,870**	(10,330)
Total comprehensive income/(loss) for the year		**25,286**	(149,109)

Profit/(loss) for the year

Other comprehensive income

Items that will not be reclassified to the income statement

Defined benefit actuarial gains/(losses) D4

Total other comprehensive income/(loss) for the year

Total comprehensive income/(loss) for the year

Balance Sheet

as at 31 December 2015

	Notes	2015 €'000	2014 €'000
Assets			
Non-current assets			
Property, plant and equipment	A1	**1,235,179**	737,370
Intangible assets	A2	**91,206**	87,888
Trade and other receivables	C2	**66,181**	30,360
Total non-current assets		**1,392,566**	855,618
Current assets			
Trade and other receivables	C2	**151,920**	72,855
Cash and cash equivalents	B3	**55,380**	37,134
Restricted deposits	D8	**5,609**	5,607
Current tax asset	E5	**-**	2
Total current assets		**212,909**	115,598
Total assets		**1,605,475**	971,216
Equity and liabilities			
Equity			
Share capital	E6	**-**	-
Share premium	E6	**(54,000)**	-
Capital contribution	E6	**(296,466)**	(296,466)
Retained losses		**194,936**	220,222
Total equity		**(155,530)**	(76,244)
Liabilities			
Non-current liabilities			
Borrowings and other debt	B2	**(100,000)**	(54,000)
Retirement benefit obligations	D4	**(27,230)**	(32,820)
Deferred revenue	C3	**(20,034)**	(32,801)
Provisions	D6	**(61,254)**	(75,789)
Trade and other payables	D5	**(20,945)**	(15,053)
Total non-current liabilities		**(229,463)**	(210,463)
Current liabilities			
Borrowings and other debt	B2	**(845,493)**	(307,692)
Deferred revenue	C3	**(13,826)**	(16,652)
Provisions	D6	**(40,651)**	(32,375)
Trade and other payables	D5	**(320,512)**	(327,790)
Total current liabilities		**(1,220,482)**	(684,509)
Total liabilities		**(1,449,945)**	(894,972)
Total equity and liabilities		**(1,605,475)**	(971,216)

For and on behalf of Irish Water:

Michael McNicholas

Michael McNicholas
Chairman

Jerry Grant
Managing Director

8th June 2015
Date of Approval

Statement of Changes in Equity

for the year ended 31 December 2015

	Share capital	Share premium	Capital contribution	Retained losses	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2014	-	-	-	71,113	71,113
Loss for the year	-	-	-	138,779	138,779
Other comprehensive loss net of income tax	-	-	-	10,330	10,330
Total comprehensive loss for the year	-	-	-	149,109	149,109
Capital contribution (note E6)	-	-	(296,466)	-	(296,466)
Balance at 31 December 2014	-	-	(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 E6)	-	**(54,000)**	**-**	**-**	**(54,000)**
Balance at 31 December 2015	**-**	**(54,000)**	**(296,466)**	**194,936**	**(155,530)**

Statement of Cash Flows

for the year ended 31 December 2015

	Notes	2015 €'000	2014 €'000
Net cash used in operating activities	E4	**(55,726)**	(58,962)
Cash flows from investing activities			
Payments for property, plant and equipment		**(493,042)**	(508,407)
Payments for intangible assets		**(18,006)**	(39,474)
Payments and receipts for net assets acquired from Local Authorities		**(60,441)**	-
Interest received		**-**	34
Net cash used in investing activities		**(571,489)**	(547,847)
Cash flows from financing activities			
Proceeds from borrowings		**645,461**	200,181
Capital contributions received		**-**	407,000
Net cash from financing activities		**645,461**	607,181
Net increase in cash and cash equivalents	B3	**18,246**	372
Cash and cash equivalents at 1 January	B3	**37,134**	36,762
Cash and cash equivalents at 31 December	B3	**55,380**	37,134

Notes to the Financial Statements

A 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.

A1 Property, Plant and Equipment

A2 Intangible Assets

A3 Depreciation and Amortisation

B 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.

B1 Analysis of Net Debt

B2 Borrowings and Other Debt

B3 Cash and Cash Equivalents

B4 Net Finance Costs

B5 Financial Risk Management and Financial Instruments

B6 Fair Value Determination

C 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.

C1 Revenue

C2 Trade and Other Receivables

C3 Deferred Revenue

D 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.

D1 Operating Costs (excluding depreciation and amortisation)

D2 Payroll Costs

D3 Key Management Compensation

D4 Retirement Benefit Obligations

D5 Trade and Other Payables

D6 Provisions and Contingent Liabilities

D7 Operating Lease Commitments

D8 Restricted Deposits

E Other Disclosures

This section sets out all remaining financial statements disclosures.

A1 Property, Plant and Equipment

	Infrastructure assets €'000	Operational assets €'000	Non-network assets €'000	Assets under construction €'000	Total €'000
Cost					
At 1 January 2014	29,214	11,965	9,516	1,852	52,547
Acquired from Local Authorities on 1 January 2014 (note E7)	127,589	-	-	-	127,589
Additions	217,848	88,377	7,901	258,095	572,221
At 31 December 2014	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**
Accumulated depreciation and impairment losses					
At 1 January 2014	(326)	(133)	(224)	-	(683)
Depreciation for the year	(3,363)	(6,336)	(4,605)	-	(14,304)
At 31 December 2014	(3,689)	(6,469)	(4,829)	-	(14,987)
Depreciation for the year	**(12,685)**	**(7,910)**	**(5,057)**	**-**	**(25,652)**
At 31 December 2015	**(16,374)**	**(14,379)**	**(9,886)**	**-**	**(40,639)**
Carrying amounts					
At 31 December 2014	370,962	93,873	12,588	259,947	737,370
At 31 December 2015	**553,679**	**205,699**	**13,807**	**461,994**	**1,235,179**

During the year, the Company capitalised €8.3 million (2014: €3.6 million) in interest. The Company also capitalised €5.8 million in payroll costs during the year (2014: €3.7 million).

Capital commitments	2015 €'000	2014 €'000
Capital expenditure that has been contracted for but has not been provided for	**195,340**	344,193
Capital expenditure that has been authorised by the Board but has not yet been contracted for	**285,449**	64,211

A2 Intangible Assets

	Software €'000	Software under development €'000	Total €'000
Cost			
At 1 January 2014	27,002	30,323	57,325
Additions (including internally developed)	40,006	-	40,006
Transfers in year (assets brought into use)	17,198	(17,198)	-
At 31 December 2014	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**
Accumulated amortisation and impairment losses			
At 1 January 2014	(321)	-	(321)
Amortisation for the year	(9,122)	-	(9,122)
At 31 December 2014	(9,443)	-	(9,443)
Amortisation for the year	**(17,139)**	**-**	**(17,139)**
At 31 December 2015	**(26,582)**	**-**	**(26,582)**
Carrying amounts			
At 31 December 2014	74,763	13,125	87,888
At 31 December 2015	**89,937**	**1,269**	**91,206**

During the year, the Company capitalised €0.1 million (2014: €0.5 million) in interest. The Company also capitalised €0.5 million in payroll costs during the year (2014: €0.1 million).

A3 Depreciation and Amortisation

	2015	2014
	€'000	€'000
Depreciation	**(25,652)**	(14,303)
Amortisation of intangible assets	**(17,139)**	(9,122)
Total	**(42,791)**	(23,425)

B1 Analysis of Net Debt

		31-Dec-15	31-Dec-14
		€'000	€'000
Total borrowings	B2	**(945,493)**	(361,692)
Less free cash deposits	B3	**55,380**	37,134
Net debt		**(890,113)**	(324,558)

B2 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 B5.

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

	Borrowings 2015 €'000	Convertible debt instrument 2015 €'000	Total 2015 €'000	Borrowings 2014 €'000	Convertible debt instrument 2014 €'000	Total 2014 €'000
Less than one year	**(845,493)**	**-**	**(845,493)**	(307,692)	**-**	(307,692)
Current borrowings	**(845,493)**	**-**	**(845,493)**	(307,692)	**-**	(307,692)
Between one and two years	**(100,000)**	**-**	**(100,000)**	-	(54,000)	(54,000)
Non-current borrowings	**(100,000)**	**-**	**(100,000)**	**-**	(54,000)	(54,000)
Total borrowings	**(945,493)**	**-**	**(945,493)**	(307,692)	(54,000)	(361,692)

At 31 December 2015, the Company's borrowings comprise of facilities drawn from the Ireland Strategic Investment Fund, commercial banks and the Minister for Finance. Interest is charged on the borrowings at a floating rate.

At 31 December 2014, the Company had a convertible debt instrument of €54.0 million held by the Minister for Finance. Following the receipt of a notice of conversion from the Minister for Finance, the principal amount was converted into 'B' shares in the capital of the Company on 16 September 2015 with the resulting shares registered, in equal amounts, in the names of the Minister for Finance and the Minister for the Environment, Community and Local Government. Refer to note E6 for further details.

As noted here, certain borrowings are held with related parties. Refer to note E3 for the full details of the Company's related party disclosures.

B3 Cash and Cash Equivalents

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

	2015 €'000	2014 €'000
Short-term deposits	**54,550**	36,700
Cash	**830**	434
Total	**55,380**	37,134

	2015 €'000	2014 €'000
At 1 January	**37,134**	36,762
Increase in cash and cash equivalents in the statement of cash flows	**18,246**	372
At 31 December	**55,380**	37,134

B4 Net Finance Costs

	2015 €'000	2014 €'000
Finance income		
Foreign exchange gain	**-**	4
Interest income on short-term deposits	**-**	30
Total finance income	-	34
Finance costs		
Interest and finance costs	**(19,554)**	(12,093)
Interest capitalised	**8,402**	4,129
Pension net interest cost	**(760)**	(850)
Total finance costs	**(11,912)**	(8,814)
Net finance costs	**(11,912)**	(8,780)

B5 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 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)**

At 31 December 2014	Total at amortised cost €'000
Financial assets	
Trade and other receivables (excluding prepayments)	97,677
Cash and cash equivalents	37,134
Restricted deposits	5,607
	140,418
Financial liabilities	
Borrowings and other debt[1]	(361,692)
Trade and other payables	(342,843)
	(704,535)
Net financial liabilities	(564,117)

[1]The fair value of borrowings and other debt as at 31 December 2015 was €945.5 million (2014: €363.6 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.

B5 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-15	31-Dec-14
	€'000	€'000
Trade and other receivables (excluding prepayments)	**217,834**	97,677
Cash and cash equivalents	**55,380**	37,134
Restricted deposits	**5,609**	5,607
Total	**278,823**	140,418

(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 C2 for an analysis of the Company's exposure to trade related credit risk.

B5 Financial Risk Management and Financial Instruments *(continued)*

(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.

B5 Financial Risk Management and Financial Instruments *(continued)*

(ii)(b) Funding

In 2015, the Company took significant steps forward in implementing its funding model to allow for significant new investment in water and waste water infrastructure. As part of this, the business secured €800.0 million of new committed bank finance and €10.0 million of uncommitted finance with 8 domestic and international banks. In addition, the business entered into €450.0 million of finance facilities with the Ireland Strategic Investment Fund, €150.0 million of which was new finance, and the Company entered into a €96.0 million working capital facility with the Minister for Finance. At 31 December 2015, the Company had €410.0 million of undrawn finance facilities.

At 31 December 2015, all of the Company's finance facilities were short-term in nature and were due for repayment within a year. The Company's funding policy is to roll forward all maturing facilities on an annual basis subject to Government approvals. At the signing of these financial statements, €550 million of funding facilities have been rolled to 2017. The Company's funding strategy remains reliant on short term commercial funding and/or Government support.

Note E10 describes the Directors consideration of post balance sheet events.

(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 €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
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)**	**-**
At 31 December 2014						
Borrowings	(361,692)	(370,307)	(315,101)	(55,206)	-	-
Trade and other payables	(342,843)	(342,843)	(327,790)	(15,053)	-	-
Total	(704,535)	(713,150)	(642,891)	(70,259)	-	-

B5 Financial Risk Management and Financial Instruments *(continued)*

(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 objective is to achieve a stable and low cost of debt, taking account of business risks in general and in particular the regulatory price control environment.

The 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 Company monitors exposure to interest rate risk on a calendar year basis. Even though the majority of borrowings are short-term in nature, the Company's policy is to monitor open interest rate exposure positions, taking into account the current and expected shape of the yield curve, taking advantage of low interest rate environments to fix the Company's interest rate obligations if appropriate and thereby increase certainty as to the Company's interest rate expense profile.

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

	2015	2015	2014	2014
	€'000	%	€'000	%
At fixed rates	-	-	(361,692)	100.0%
At floating rates	**(945,493)**	**100.0%**	-	-
Total	**(945,493)**	**100.0%**	(361,692)	100%

The Company held only floating rate debt at 31 December 2015 (2014: €361.7 million fixed debt).

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 2015, is subject to the prevailing overdraft rate.

B5 Financial Risk Management and Financial Instruments *(continued)*

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)	Profit before taxation gain/(loss)
	31-Dec-15	31-Dec-14
	€'000	€'000
50 bp increase	**(4,727)**	-
50 bp decrease	**4,727**	-

B6 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.

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 E1)*	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 2015. This determination of fair value requires a high degree of judgement and estimation. Valuation techniques include net present value analysis of expected collection profiles and realignment of unregistered customers using the average unit rates of registered domestic customers. Fair value hierarchy: level 3	Customer base, collection profile and discount factor

C1 Revenue

	2015 €'000	2014 €'000
Domestic revenue	**232,255**	-
Non-domestic revenue	**219,872**	248,066
Government subvention revenue	**399,000**	439,122
Total	**851,127**	687,188

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.

The Company commenced billing for domestic water related supply and services on 1 January 2015. In accordance with the Company's accounting policy, revenue is recognised at fair value once collection is reasonably assured. This determination of fair value requires a high degree of judgement and estimation. Refer to note E1 for further details. Note E10 describes the Directors consideration of post balance sheet events.

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 2015 for all non-domestic water related supply and services. A significant project is currently underway to migrate this process to the Company.

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. Refer to the related parties note (note E3) for further analysis in respect of such transactions with Government.

C2 Trade and Other Receivables

	2015	2014
	€'000	€'000
Trade receivables	**82,148**	32,054
Unbilled consumption	**90,962**	33,395
Prepayments	**267**	5,538
Restricted cash balances held by Local Authorities	**8,733**	8,733
Amounts due from related parties	**32,575**	21,627
Other receivables	**3,416**	1,868
Total	**218,101**	103,215

Non-current	**66,181**	30,360
Current	**151,920**	72,855
Total	**218,101**	103,215

Trade receivables are stated net of impairment allowances, with an additional provision of €12.0 million recognised separately within Provisions (refer to note D6). 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. A significant project is currently underway to migrate this process to the Company. The Company has established processes in place to track Local Authority collection performance against agreed targets.

The Company commenced billing for domestic water related supply and services on 1 January 2015, which gave rise to a new domestic customer base. The Company's policy of recognising domestic revenue at its fair value once collection is reasonably assured mitigates the credit risk arising in respect of domestic revenue (and the associated trade receivable). Credit risk on domestic trade receivables is managed through proactive monitoring and management of trade receivable balances. Accounts in arrears are actively managed by the Company's credit collection team through customer follow up. Note E10 describes the Directors consideration of post balance sheet events.

The Company has a number of other receivable balances due from Local Authorities and other related parties. Refer to note E3 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 having regard to the net financial position arising from its transactions with Local Authorities.

C2 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:

	2015 €'000	2014 €'000
Domestic customers - billed	**56,430**	-
Domestic customers - unbilled	**54,520**	-
Non-domestic customers - billed	**25,718**	32,054
Non-domestic customers - unbilled	**36,442**	33,395
Restricted cash balances held by Local Authorities	**8,733**	8,733
Amounts due from related parties	**32,575**	21,627
Other trade receivables	**3,416**	1,868
Total	**217,834**	97,677

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 2015 €'000	Net receivable 2014 €'000
Not past due	**159,015**	75,520
0-365 days	**58,819**	22,157
Total	**217,834**	97,677

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

	2015 €'000	2014 €'000
At 1 January	**(24,590)**	-
Impairment loss recognised	**(28,516)**	(24,590)
Allowance utilised	**3,145**	-
At 31 December	**(49,961)**	(24,590)

C3 Deferred Revenue

	2015 €'000	2014 €'000
At 1 January	**(49,453)**	-
Assumed from Local Authorities (note E7)	**-**	(114,334)
Received in year	**(24,657)**	(1,924)
Credited to the income statement	**40,250**	66,805
At 31 December	**(33,860)**	(49,453)

	2015 €'000	2014 €'000
Analysed as follows:		
Non-current	**(20,034)**	(32,801)
Current	**(13,826)**	(16,652)
Total	**(33,860)**	(49,453)

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.

D1 Operating Costs (excluding depreciation and amortisation)

Operating costs are stated after charging:	2015 €'000	2014 €'000
Payroll expense	**(29,672)**	(15,528)
Local Authority Service Level Agreement payroll & overheads and secondment of employees	**(252,770)**	(262,997)
Hired & contracted services and central transactional & support service costs	**(259,748)**	(230,336)
Materials, maintenance and plant hire	**(88,682)**	(84,509)
Rent, rates, utilities and insurance	**(89,556)**	(133,557)
Charge for bad and doubtful receivables	**(28,516)**	(24,590)
Other operating costs	**(30,064)**	(42,245)
Total	**(779,008)**	(793,762)

	2015 €'000	2014 €'000
Auditor's remuneration[1]		
- statutory audit services	**(190)**	(190)
- other audit related assurance services	**(88)**	(10)
Total assurance services	**(278)**	(200)
- other non-audit services	**(140)**	(128)
Total	**(418)**	(328)

[1] amounts net of irrecoverable VAT

Directors' emoluments		
- fees	**-**	(127)
- remuneration of the Managing Director*	**(248)**	(248)
- expenses	**-**	(6)
Total	**(248)**	(381)

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

	2015 €'000	2014 €'000
Managing Director's basic salary	**(200)**	(200)
Defined benefit pension contributions made on behalf of the Managing Director	**(28)**	(28)
Other benefits, including cost of company car and health insurance	**(20)**	(20)
Total	**(248)**	(248)

*Remuneration details relate to the former Managing Director who retired on 28 April 2016.

D2 Payroll Costs

	2015 €'000	2014 €'000
Wages and salaries	**(30,896)**	(17,212)
Social insurance costs	**(3,380)**	(1,586)
Pension costs	**(1,703)**	(560)
	(35,979)	(19,358)
Capitalised payroll	**6,307**	3,830
Payroll costs charged to the income statement	**(29,672)**	(15,528)

The average number of employees employed by the Company was 495 for 2015 (2014: 289).

D3 Key Management Compensation

	2015	2014
	€'000	€'000
Short term employee benefits	**(1,041)**	(898)
Post employment benefits	**(129)**	(116)
Total	**(1,170)**	(1,014)

D4 Retirement Benefit Obligations

Personal retirement savings accounts (PRSAs)

The Company operates a defined contribution pension arrangement (Personal Retirement Savings Accounts) for all qualifying employees. In compliance with the provisions of the Pensions Act 1990 (as amended), the Company has appointed Personal Retirement Savings Account (PRSA) providers. During the year ended 31 December 2015, the Company contributed €1.2 million (2014: €0.6 million) on behalf of its employees, which was charged to the income statement.

Defined benefit constructive obligation

The Company has recruited a number of staff from Local Authorities and the Department of the Environment, 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 Department of the Environment, 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 2015, an Irish Water defined benefit scheme is in the process of being established.

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 Department of the Environment, 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 Department of the Environment, Community and Local Government staff ultimately employed by Irish Water, as outlined in the table below:

	2015 €'000	2014 €'000
At 1 January	**(32,820)**	-
Assumed from Local Authorities (note E7)	**-**	(20,970)
Pension interest cost	**(760)**	(850)
Pension service cost	**(1,520)**	(670)
Actuarial gain/(loss)	**7,870**	(10,330)
At 31 December	**(27,230)**	(32,820)

D4 Retirement Benefit Obligations *(continued)*

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 2015, the contributions paid to Ervia in respect of the Company's employees was €0.5 million. These costs are included in the Company's payroll costs (set out in note D2) and are identified as a related party transaction in note E3.

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

	2015	2014
Discount rate	2.75%	2.20%
Basic salary increases	2.00%	2.00%
Pension increases	1.50%	1.50%
Inflation	1.50%	1.50%

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:

	2015	2014
Retiring today		
Males	**21.9**	21.7
Females	**24.5**	24.3
Retiring in 25 years		
Males	**24.9**	24.8
Females	**27.1**	27.0

D5 Trade and Other Payables

	2015 €'000	2014 €'000
Trade payables due	**(16,951)**	(21,283)
Accruals	**(224,592)**	(228,269)
Amounts due to related parties	**(69,474)**	(65,418)
Other payables	**(20,031)**	(15,154)
Taxation and social insurance creditors[1]	**(10,409)**	(12,719)
Total	**(341,457)**	(342,843)

	2015 €'000	2014 €'000
Analysed as follows:		
Non-current	**(20,945)**	(15,053)
Current	**(320,512)**	(327,790)
Total	**(341,457)**	(342,843)

	2015 €'000	2014 €'000
[1] Taxation and social insurance creditors		
PAYE/PRSI/social insurance	**(971)**	(653)
VAT	**(9,475)**	(12,066)
Other taxes	**37**	-
Total	**(10,409)**	(12,719)

D6 Provisions and Contingent Liabilities

Provisions

	€'000
At 1 January 2015	**(108,164)**
Provisions made in the year	**(979)**
Provisions used in the year	**2,406**
Transfers in the year	**4,832**
At 31 December 2015	**(101,905)**

Analysed as follows:	2015	2014
	€'000	€'000
Non-current	**(61,254)**	(75,789)
Current	**(40,651)**	(32,375)
Total	**(101,905)**	(108,164)

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.

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.

D7 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.

	2015	2014
	€'000	€'000
Less than one year	**(1,539)**	(480)
Between one and five years	**(4,871)**	(80)
Total	**(6,410)**	(560)

D8 Restricted Deposits

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

	2015	2014
	€'000	€'000
Current	**5,609**	5,607
Total	**5,609**	5,607

E1 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 and the reported amounts of assets, liabilities, income and expenses.

i. Judgements

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. These include but are not limited to the following:

Constructive obligation in respect of defined benefit obligation

The Company has determined that its responsibility for any future increases in superannuation benefits, payable to Local Authorities and 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 D4.

Accounting for customer connection contributions

The Company 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 C3.

Asset acquisition accounting

The Company has assumed the responsibilities for public water and wastewater services from Local Authorities, and determined that this transaction does not fall within the scope of IFRS 3 Business Combinations. Further details supporting this judgement made are outlined in note E7.

ii. Estimates

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. These include but are not limited to the following:

Calculation of unbilled consumption

Services provided, but not invoiced, are recorded as unbilled consumption in accordance with the Company's accounting policy.

The recognition of unbilled non-domestic 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.

The recognition of unbilled domestic revenue involves an estimation of the value of the services supplied to customers with meters between the date of the last meter reading and the reporting date. For domestic customers who do not have a meter, an estimation process is carried out to determine the value of the services supplied based on assessed caps as provided for in the Water Services Act 2013, as amended.

E1 Judgements and Estimates *(continued)*

Recognition of domestic revenue

In accordance with the Company's accounting policy, domestic revenue is recognised at the measurement date at the fair value of the consideration received or receivable. This determination of fair value requires a high degree of judgement and estimation compared to non domestic revenue, given the new immature customer base and the current payment profile of domestic revenue customers, which currently extends beyond normal credit terms.

The principal areas of judgement and estimation are as follows;

- **Customer base**, being the realignment of unregistered customers using the average unit rates of registered customers, the objective of which is to appropriately categorise revenue in respect of customers that have not yet registered with the Company.
- **Collection profile**, being the percentage of consideration receivable that is expected to be received within the estimated timeframes, the objective of which is to conclude on the probability of collection and assist with the requirement to adjust any non current receivables to reflect the time value of money.
- **Discount factor**, being the rate deemed most appropriate to account for the time value of money.

These estimates and judgements are arrived at through considered assessment of customer collection rates for 2015, alignment to the regulatory model, statistical analysis prepared by the central statistics office and 10 year government bond yielding 1% with an appropriate risk premium. Note E10 describes the Directors consideration of post balance sheet events.

Impairment allowance in respect of trade and other receivables

As set out above, domestic revenue is recognised at its fair value, which implicitly mitigates the credit risk associated with the transaction and therefore the necessity to provide an allowance for impairment on a transactional basis. However, given the inherent risks associated with the domestic customer base, including its immature nature, the Company has recognised a risk-based impairment allowance in respect of its domestic customer base.

The impairment allowance in respect of all 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. Note E10 describes the Directors consideration of post balance sheet events.

Fair value of identifiable assets acquired and liabilities assumed on the transfer from Local Authorities

As outlined in note E7, the assets and liabilities of each Local Authority transferred to the Company as of 1 January 2014. 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 reduces, but does not eliminate, the estimation uncertainty surrounding the fair value of assets acquired and liabilities assumed.

Measurement of defined benefit obligation

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 2015 are presented in note D4. These assumptions are updated annually. The Company considers the actuarial assumptions used at 31 December 2015 appropriate and well-founded, but reasonably possible changes at the reporting date to one or more of the relevant actuarial assumptions could bear a material impact on the defined benefit retirement obligation recorded.

Measurement of legal and other related claims provision

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. In particular, the measurement of the provision for legal and other related claims is sensitive to assumptions concerning costs and settlement schedules. 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. Refer to note D6.

Useful lives and accruals

The measurement of certain assets, liabilities, income and costs which require a high degree of estimation and judgement include; the useful lives of property, plant and equipment/intangible assets and various operating accruals. These items are estimated in accordance with the relevant IFRS and the Company's accounting policies. Further detail is set out in the relevant notes.

E2 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 on pages 4 to 13. In addition, note B5 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 Directors have considered the developments subsequent to the year-end outlined in note E10 of the financial statements, in forming their conclusions regarding going concern.

In the view of the Directors, the establishment of the Expert Commission (refer to note E10) on the sustainable long term funding model for the delivery of domestic water and wastewater services by Irish Water does not impact on the commitments in place in relation to State funding nor on previously published Government funding decisions which remain in effect as at the date of signing these financial statements.

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/or Government support. The proposed short term suspension of domestic water charges will have a direct impact on domestic collections during the period of the suspension, however, the Directors expect that cash flows will be supported by increased short term subvention, and/or State funding/support, and/or third party borrowings. Based on the Government's commitment to the utility model and the highlighting of continued support for Irish Water's €5.5 billion capital plan in the Programme for Government, along with Government support for funding through a combination of State funding/support, and/or tariffs charged by Irish Water, and/or third party borrowings, the Directors believe that the Government has demonstrated its commitment to the continued funding of Irish Water.

On consideration of the above, and while noting the Company's net current liability position of €1.0 billion at 31 December 2015, 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. 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.

E3 Related Parties

		Transaction value income/(expense)		Balance at reporting receivable/(payable)	
		2015	2014	31-Dec-15	31-Dec-14
		€'000	€'000	€'000	€'000
Ervia Group	(i)				
Secondment of employees	(i) (a)	**(4,236)**	(9,174)		
Transactional and support service agreement costs	(i) (b)	**(32,689)**	(25,921)		
		(36,925)	(35,095)	**(21,672)**	(12,673)
Government	(ii)				
Government subvention income		**399,000**	439,122		
Capital contribution		**-**	296,466		
		399,000	735,588	**-**	-
Local authorities	(iv)				
Secondment of employees	(iv) (a)	**(16,820)**	(10,946)		
Service level agreement	(iv) (b)				
- operating expenditure		**(235,950)**	(252,051)		
- capital expenditure		**(26,456)**	(30,969)		
- procurement recharges		**(46,488)**	(104,021)		
Working capital arrangements	(iv) (c)	**-**	-		
Asset acquisition	E7	**-**	-		
		(325,714)	(397,987)	**(6,494)**	(39,435)

(i) Ultimate parent undertaking

At 31 December 2015, 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 the Environment, 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 defines control as "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". Ervia's single voting share in the Company represents an existing right at 31 December 2015 that gives Ervia "power" over the Company through Ervia's ability to direct activities that significantly affect the variable returns of the Company. However, at 31 December 2015, this did not constitute 'control', as defined by IFRS 10, as Ervia was not exposed to, or did not have rights to, variable returns or economic benefits from the Company at that date. Therefore, in order to comply with the requirements of IFRS, as the Company does not meet the definition of a subsidiary of Ervia under IFRS, the financial statements of the Company are not consolidated with the results of Ervia at 31 December 2015.

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.

(i) (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.

E3 Related Parties *(continued)*

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 2015, the contributions payable in respect of the Company's employees was €0.5 million (2014: €nil). These costs are included in the Company's payroll costs, set out in note D2.

(ii) Government, government sponsored bodies and government related entities

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

- As described in note C1, the Company has received government subvention income during the year.
- As described in note E6, the Company has received a cash capital contribution from the Minister for Finance.
- As described in notes B2 and B5, the Company had facilities with the Ireland Strategic Investment Fund (2015: €450.0 million and 2014: €307.7 million) and the Minister for Finance (2015: €96.0 million and 2014: €54.0 million). These facilities are on an arm's length basis.

(iii) Banks owned by the Irish State

In the normal course of business, the Company transacts with certain Irish banks which have become wholly or partially controlled by the Irish Government. All of the Company's transactions with such banks are on normal commercial terms. The Company had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2015.

(iv) 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:

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;*
- *waste water network operations including combined sewers which discharge into the collection network;*
- *waste water 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.

E3 Related Parties *(continued)*

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 2016.

(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.

(v) Directors' interests

Directors had no beneficial interests in the Company at any time during the year or at 31 December 2015. The secretary and Michael O'Sullivan (Executive Director) are beneficiaries of the Ervia Employee Share Ownership Plan.

E4 Cash Generated from Operations

	2015 €'000	2014 €'000
Cash flows used in operating activities		
Profit/(loss) for the year	**17,416**	(138,779)
Adjustments for:		
Depreciation and amortisation	**42,791**	23,425
Retirement benefit service cost	**1,520**	670
Net finance costs	**11,912**	8,780
	73,639	(105,904)
Working capital changes:		
Change in trade and other receivables	**(104,649)**	(13,230)
Change in trade and other payables	**24,771**	136,670
Change in deferred revenue	**(15,593)**	(64,881)
Change in provisions	**(6,259)**	488
Cash used in operating activities	**(28,091)**	(46,857)
Interest paid	**(27,635)**	(12,101)
Income tax paid	**-**	(4)
Net cash used in operating activities	**(55,726)**	(58,962)

E5 Tax

Income tax expense	2015 €'000	2014 €'000
Current tax expense	-	-
Deferred tax expense	**-**	-
Total expense	**-**	-

Reconciliation of effective tax rate		
Profit/(loss) before tax	**17,416**	(138,779)
Taxed at 12.5%	**2,177**	(17,347)
Expenses not deductible for tax purposes	**1,072**	1,466
Deferred tax asset not recognised	**(3,249)**	15,877
Interest income taxed at higher rates	-	4
Income tax expense	**-**	-

Current tax assets and liabilities	2015 €'000	2014 €'000
Current tax asset	**-**	2

Deferred tax asset

A deferred tax asset of up to €21.3 million (2014: €25.5 million) has not been recognised in respect of tax losses of up to €274 million (2014: €232 million) as offset by taxable temporary differences of up to €104 million (2014: €28 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 €170 million (2014: €204 million) can be utilised. As required by IAS 12, deferred tax asset recognition is regularly reassessed.

E6 Equity

Share capital

Authorised:	2015 €'000	Authorised:	2014 €'000
50,000,000 "A" shares at €0.01 each	**500**	50,000,000 "A" shares at €0.01 each	500
50,000,000 "B" shares at €0.01 each	**500**	50,000,000 "B" shares at €0.01 each	500
Total	**1,000**	**Total**	1,000

Issued, called up and fully paid:	2015 €	Issued, called up and fully paid:	2014 €
1 "A" share at €0.01 each	**0.01**	1 "A" share at €0.01 each	0.01
110 "B" shares at €0.01 each	**1.10**	2 "B" shares at €0.01 each	0.02
Total	**1.11**	**Total**	0.03

Share premium

	2015 €'000	2014 €'000
At 1 January	**-**	-
Issue of shares	**(54,000)**	
At 31 December	**(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.

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. 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 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.

Capital contribution

	2015 €'000	2014 €'000
At 1 January	**(296,466)**	-
Movement during the year (note E7)	**-**	(296,466)
At 31 December	**(296,466)**	(296,466)

The capital contribution reserve is 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 E7.

E7 Asset Acquisition

Under the Water Services Act 2013, the Company brought the water and wastewater services of the 34 Local Authorities together under one national service provider.

With effect from 1 January 2014 (see note E3), the Company is responsible for the operation of public water services including the management of national water assets, maintenance of the water system, investment and planning, managing capital projects and customer care and billing. As well as responsibility for public water services, the Company also makes capital and investment decisions regarding the country's water infrastructure on a national basis.

As set out in the Company's 2014 financial statements, the transfer of the water and wastewater infrastructure assets from the Local Authorities to the Company at 1 January 2014 did not meet the definition of a business combination. As a result, IFRS 3 Business Combinations did not apply to the transfer, and therefore the Company applied asset acquisition accounting to this transaction.

The asset acquisition date was identified as 1 January 2014, which is the date the Company obtained control of the water infrastructure assets. i.e. the date from which it was deemed probable that the future economic benefits associated with the assets will flow to the Company and the cost (fair value) could be measured reliably.

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. The Irish Government has made a cash capital contribution to the Company and a non-cash contribution, represented by the other net assets transferred from the Local Authorities. The capital contribution was recorded in equity (see note E6).

Consideration for the transfer from Local Authorities to the Company was measured at fair value at the acquisition date. A market participant would value the opening assets based on their prospective earnings which is set by the regulator. The Company is subject to the regulations developed by the Commission for Energy Regulation. These regulations prescribe the elements on which the Company's regulated revenues are based. Those revenues determine the profitability of the Irish Water business. As the value of the Company's assets are derived from the expected economic returns in the future, this regulatory regime is critical to valuing the transferred assets.

The fair value attributed to opening property, plant and equipment was based on the future return provided for in the regulatory regime, which consisted mostly of liabilities linked to opening assets assumed by the Company, for which the regulator has allowed a future return.

The fair value of working capital balances was determined with reference to recoverable amount for assets and contractual and estimated cash outflows for liabilities.

E7 Asset Acquisition *(continued)*

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of transfer.

	Note	1-Jan-14
		€'000
Property, plant and equipment	A1	127,589
Trade receivables		81,506
Bonds and deposits		8,459
Total assets acquired		**217,554**
Capital accruals		(8,370)
Deferred revenue	C3	(114,334)
Provisions		(107,676)
Trade payables and accruals		(21,800)
Consideration payable		(52,819)
Relevant contracts tax payable		(2,119)
Retirement benefit obligation	D4	(20,970)
Total liabilities acquired		**(328,088)**
Total identifiable net liabilities acquired		**(110,534)**
Capital contribution from Irish Government		407,000
Net capital contribution received		**296,466**

E8 Statement of Accounting Policies

1 Basis of Preparation

Irish Water ('the Company') is a limited company 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 the Environment, 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.

On 1 January 2014, Irish Water became responsible for water and wastewater infrastructure assets from Local Authorities and acquired other associated assets and assumed certain liabilities as a result. The Company's accounting policy in respect of this transaction was to initially recognise these assets and liabilities at fair value upon acquisition, and subsequently measure on a historical cost basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The 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 2015.

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 E2 to the 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 E1 for further details.

The policies set out below have been consistently applied to all periods presented in these financial statements, and have been applied consistently throughout.

2 Property, Plant and Equipment

i. Recognition

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

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

E8 Statement of Accounting Policies *(continued)*

ii. Depreciation

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

The charge for depreciation is 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[1], reservoirs, water & waste pipelines and service connections);	40-200 years
• Operational assets (including meters[1], pumps, and electrical & mechanical systems); and	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.

[1] Capital expenditure incurred on the meter establishment programme has an estimated weighted average useful life of 32 years.

Depreciation methods, 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.

E8 Statement of Accounting Policies (*continued*)

3 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 Intangible Assets 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 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 goodwill or 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 2 (iv).

4 Impairment of Assets

i. Assets that are not subject to amortisation

Intangible assets, including goodwill, 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.

E8 Statement of Accounting Policies (*continued)*

iii. Recognition of an impairment loss

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell 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.

5 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.

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

E8 Statement of Accounting Policies (*continued*)

Accounting for arrangements that contain a lease

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

7 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.

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.

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.

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 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).

E8 Statement of Accounting Policies (*continued)*

9 Grants

A government grant is recognised in the balance sheet initially as deferred revenue 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.

10 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.

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.

E8 Statement of Accounting Policies (*continued*)

11 Operating Profit

Operating profit is stated before net finance costs and taxation.

12 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.

13 Income Tax

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

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

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

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

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

E8 Statement of Accounting Policies (*continued)*

14 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.

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 sheme 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).

15 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.

Notes to the financial statements

E9 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 IFRSs 2011–2013 Cycle	1 January 2015	December 2014

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 2015. The application of these amendments to standards did not have a material impact on the Company's financial statements for 2015.

Table 2: New standards, amendments to standards, and interpretations in issue at 31 December 2015 but not yet effective

Standard/Amendment	*EU Effective Date* [1]	*Endorsed by the EU*
Annual Improvements to IFRSs 2010–2012 Cycle	1 February 2015	December 2014
Amendments to IAS 19: Defined Benefit Plans: Employee Contributions	1 February 2015	December 2014
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	November 2015
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016	November 2015
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016	December 2015
Amendments to IAS 1: Disclosure Initiative	1 January 2016	December 2015
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	December 2015
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	December 2015
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception	1 January 2016	(Outstanding)
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely	(Outstanding)
IFRS 15 Revenue from Contracts with Customers	1 January 2018	(Outstanding)
IFRS 14 Regulatory Deferral Accounts	1 January 2016	n/a
IFRS 9 Financial Instruments	1 January 2018	(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 2015 and thus have not been applied in preparing these financial statements.

IFRS 9, issued on 24 July 2014, introduced new requirements for recognition, measurement, impairment and de-recognition of financial instruments and general hedge accounting. Subject to EU endorsement, the Company will apply IFRS 9 from its effective date under IFRS, as endorsed by the EU. The Company continues to assess the impact of adopting the standard while the standard continues through the stages of EU IFRS endorsement.

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 (IASB effective date being 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 while the standard continues through the stages of EU IFRS endorsement.

It is anticipated that application of the remaining IFRS/amendments/annual improvements, in issue at 31 December 2015 but not yet effective, will not have a significant impact on the Company's financial statements.

E10 Subsequent Events

Following the 2016 General Election, a new Government was formed and the Programme for Government contains the following commitment:

> *'we will protect the existing €42 billion capital investment plan published by the outgoing Government for the period 2016-21, including the €5.5 billion plan set out by Irish Water to continue to upgrade the dilapidated national water infrastructure.'*

The Government is committed under a confidence and supply arrangement with Fianna Fáil to:

1. Retain Irish Water as a single national utility in public ownership responsible for the delivery of water and wastewater services.
2. Establish an External Advisory Body on a statutory basis to advise on measures to improve the transparency and accountability of Irish Water, including quarterly reporting to the Government and an Oireachtas Committee of Irish Water's performance on the implementation of the Irish Water business plan.
3. Introduce and support legislation in the Oireachtas to suspend domestic water charges for a period of nine months from the end of the current billing cycle. The suspension of domestic water charges will be extended by the Government if this is required and requested by the Special Oireachtas committee on the Funding of Domestic Water Services in order to facilitate the completion of its work and the consideration of its recommendations by the Oireachtas.
4. Establish an Expert Commission to make recommendations for the sustainable long-term funding model for the delivery of domestic water and wastewater services by Irish Water. The Expert Commission will endeavour to report within five months of its establishment.

The Directors have considered the developments described above and have reviewed Irish Water's performance in 2016 to date, assessed the risks arising, revised performance projections, and held discussions with key stakeholders.

Potential impact of subsequent events

Following their review, the Directors believe that Irish Water, as established under legislative provision (Water Services Act 2013, as amended), will, under the new Programme for Government, continue in operation as a public utility.

During 2015, the Company prepared and published the "Irish Water Business Plan". Expenditure continues to be managed and controlled in line with expectations as set out in this plan. There has been no change to the underlying long term assumptions or risk assessments that underpin the Irish Water Business Plan. The new Programme for Government has highlighted the Government's continued support for Irish Water's €5.5 billion capital plan.

Irish Water will engage fully with the External Advisory Body and the Expert Commission. The Directors understand that different outcomes are possible arising from the planned review, but the extent of any changes are unknown at the present time. The matters arising from the proposed government policy amendments affecting the future outlook of Irish Water can be summarised as follows:

- ***Revenue, cash collection and receivables***

  Details of the Company's revenue recognition and bad debt provisioning policy for 2015 are given in note E8 to the financial statements.

  The announcement of the Programme for Government represents a non-adjusting event under IFRS, as these conditions arose after the balance sheet date, and therefore domestic revenue, which comprised 27% of total revenue, recognised in the year ended 31 December 2015 (€232.3 million) and the carrying value of domestic trade receivables (€111.0 million) as at the balance sheet date, have not been reviewed in the context of the subsequent events.

  Since the February 2016 General Election there has been a decline in cash received by the Company from domestic customers. It is unclear what the impact, if any, will be on the ultimate collectability of receivables from domestic customers as at 31 December 2015 (€111.0 million). Collections for the quarter ending 11 April 2016 amounted to €33.4 million bringing overall cumulative cash collected to date in relation to 2015 domestic billing to €144.2 million. Collections for the previous quarter to 11 January amounted to €42.3 million. As at the date of approval of the financial statements, all amounts invoiced are legally due to Irish Water.

E10 Subsequent Events *(continued)*

- ***Funding***

  In the view of the Directors, the establishment of the Expert Commission on the sustainable long term funding model for the delivery of domestic water and wastewater services by Irish Water does not impact on the commitments in place in relation to State funding nor on previously published Government funding decisions which remain in effect as at the date of signing these financial statements.

  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/or Government support. The proposed short term suspension of domestic water charges will have a direct impact on domestic collections during the period of the suspension, however, the Directors expect that cash flows will be supported by increased short term subvention, and/or State funding/support, and/or third party borrowings. Based on the Government's commitment to the utility model and the highlighting of continued support for Irish Water's €5.5 billion capital plan in the Programme for Government, along with Government support for funding through a combination of State funding/support, and/or tariffs charged by Irish Water, and/or third party borrowings, the Directors believe that the Government has demonstrated its commitment to the continued funding of Irish Water.

- ***Impairment considerations***

  The announcement of the Programme for Government represents a non-adjusting event under IFRS, as these conditions arose after the balance sheet date. The financial impact, if any, of the above on the carrying value of non-financial assets (€1.3 billion) as at the balance sheet date cannot be reliably estimated at the date of the approval of the financial statements.

Conclusion

The Directors have concluded that appropriate disclosures have been made in the financial statements regarding post balance sheet events and the matters related to the current political environment.

Having made due enquiries and considering the matters described above, 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. Refer to note E2 for a summary of the Directors conclusions with regards to going concern, which are made after consideration of the developments outlined in this note.

The developments regarding the proposed policies of the new Government represent a non-adjusting event under IFRS, as these conditions arose after the balance sheet date. An estimate of any financial impact of the matters described above cannot be reliably made at the date of the approval of the financial statements.

There have been no other material post balance sheet events.

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Directors' Report on pages 4 to 13. In addition, note E1 to the financial statements sets out a summary of the key estimates and judgements which were considered in preparing the financial statements. Note B5 sets out 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.

E11 Approval of Financial Statements

The Directors approved the financial statements on 8 June 2016.