Annual Report and Financial Statements

2017

Part of ervia group

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Business Overview

Introduction

We are Irish Water, part of Ervia group. We are safeguarding Ireland's national water and wastewater assets.

We are responsible for providing clean and safe water for millions of people across Ireland. We operate and maintain water and wastewater infrastructure including thousands of treatment plants and assets, as well as tens of thousands of kilometres of pipe network.

We provide our customers with a safe and reliable supply of drinking water. We collect their wastewater and safely return it to the environment. In delivering these vital services, which underpin social and economic growth for present and future generations, we are leveraging capabilities across Ervia to transform Ireland's ageing and broken water network, under a single modern and efficient national utility.

Performance Highlights

Financial Highlights

Revenue €1,013m ↗	Profit before Income Tax* €209m ↗
Capital Expenditure €526m ↗	Employee Numbers 759 ↙

* Any surplus is re-invested to fund critical infrastructure projects.

Operational Highlights

Replaced 203km of old leaking water mains in 2017.

23,000 people removed from long-term Boil Water Notices since January 2014.

We removed and replaced 1,234 lead service connections and treated a further 1,553 in 2017.

We removed a total of 33 public water supplies from the EPA's Remedial Action List in 2017.

Continued to deliver integrated work programmes to address EU infringement proceedings.

300 assessments have been completed as part of the Reservoir Programme.

Over 400 capital projects to upgrade plants underway.

Commissioned new wastewater treatment plant in Cork Lower Harbour.

Ervia Group Chairman's Statement

Tony Keohane
Ervia Group Chairman

During the year Irish Water invested €526 million to improve drinking water quality and to ensure the safe disposal of wastewater.

Irish Water delivered a solid financial performance in 2017, with an increased revenue performance of €107 million to €1,013 million, reflecting the continuing development of the business.

Our Financial Performance

I am pleased to present Irish Water's Annual Report and Financial Statements for 2017.

Profit before taxation and exceptional items increased by €155 million year on year to €209 million, due to increased EBITDA performance of €161 million, lower finance costs and higher depreciation charges.

We also recognised an exceptional expense of €178 million in 2017 due to the Domestic Water Charges Refund Programme. This expense was offset by Government funding in the form of an exceptional grant income and therefore does not impact our bottom line.

Our Strategy

Irish Water has a long-term plan to deliver and improve water and wastewater infrastructure and services across Ireland. The business is committed to:

- investing €5.5 billion in Ireland's Infrastructure to protect public health and the environment between 2014-2021;
- working with our Local Authority partners to transform the water industry into an effective and efficient modern water utility;
- achieving operational efficiencies and realising a reduction of circa €272 million by 2021.

Progress against our Objectives

Our solid financial and operating performance means that Irish Water is well positioned to provide strategic national water infrastructure that underpins the growth of the Irish economy.

Domestic water charges were discontinued at the beginning of 2017 and replaced with Exchequer funding to finance Irish Water's extensive capital investment programme. During the year Irish Water invested €526 million to improve drinking water quality and to ensure the safe disposal of wastewater.

The business focused on a number of priorities to guarantee continuity of service and cater for growth; key achievements included removing 33 public water supplies from the EPA's Remedial Action List, removing and replacing 1,234 lead service connections, treating a further 1,553 and launching the Leakage Reduction Programme.

Throughout 2017 Irish Water continued to work with its Local Authority partners to deliver water services and to advance the Water Industry Operating Framework (WIOF). A complex transformation project, WIOF aims to provide an effective and efficient single public utility model while equally incorporating new responsibilities, processes and staffing to meet the country's changing needs.

Our Operations

As part of the Ervia Group, Irish Water can leverage the combined experience and expertise of colleagues across the company to deliver real synergies while also growing the business on behalf of the people of Ireland. Throughout 2017 Irish Water was supported by Ervia's Major Projects function to deliver key strategic projects critical to the future of Ireland's water infrastructure, the details of which can be found on pages 41-42.

Throughout 2017 the Board remained focused on corporate governance in line with best practice, emerging regulation and trends. As Chairman I am satisfied that the appropriate internal controls exist and are managed effectively to meet our governance requirements while also mitigating risks across the business.

Ervia Group Chairman's Statement (continued)

Finally the Board is committed to ensuring that the strategic objectives and operations of Irish Water are both sustainable and socially responsible. In 2018 we will continue to innovate in order to support these commitments across the business. We aim to enhance the health and quality of life of the people of Ireland, protect our environment and enable economic development.

Acknowledgements

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

I would also like to welcome our new Ervia Group CEO Mike Quinn, who joined Ervia, and the Board, in October 2017 and to extend my sincere thanks to his predecessor Michael McNicholas, who stepped down in June 2017, for his leadership during the businesses' formative years. Finally I would like to thank Irish Water's Board and Management Team for their ongoing commitment and effective governance of the business in 2017.

As Chairman I am inspired by the unwavering commitment of the staff of Irish Water. They work tirelessly each day to deliver our vision to provide all of our customers with a safe and reliable supply of drinking water, to collect and treat their wastewater and return it safely to the environment.

This is only possible with the support of our Local Authority Partners and colleagues across Ervia who support us on our journey to be Ireland's trusted leader in water and wastewater service and infrastructure delivery.

Tony Keohane
Ervia Group Chairman


UISCE
WATER

Ervia Group CEO's Review

Mike Quinn
Ervia Group Chief Executive Officer

It is with great pleasure that I present the 2017 Annual Report and Financial Statements for Irish Water, my first as Group CEO with Ervia. Reflecting on the businesses' milestones an incredible amount was achieved in 2017. Our progress highlights our commitment to supporting Ireland's economic and social development for the future.

How did Irish Water perform in 2017?

Irish Water delivered a solid financial performance for 2017, matched by strong operational results. Revenue was €1,013 million for the year, an increase of €107 million from the previous year, reflecting the continuing development of Irish Water and higher regulated revenues to fund significant capex investments.

During 2017 we invested €526 million in critical water and wastewater infrastructure projects across Ireland which was funded from surplus operating cash flows, Government cash equity subscription and available debt facilities. Irish Water's profit before taxation and exceptional items was €209 million, with any cash surpluses arising in Irish Water reinvested in water and wastewater infrastructure. At the end of the year Irish Water's total borrowings were €825 million, the business had undrawn facilities of €435 million and €16 million of cash and cash equivalents.

What were the key achievements across the business in 2017?

In 2017 Irish Water continued to improve the delivery of Ireland's water and wastewater infrastructure and services – enhancing the health and quality of life of the people of Ireland, protecting the environment and enabling economic development. Over the twelve month period we provided services to over 1.7 million customers and delivered 1.7 billion litres of clean drinking water and treated 1.2 billion litres of wastewater each day before returning it safely into our environment. Key highlights included:

- Continuing to deliver Irish Water's ambitious investment strategy including 400 capital projects;
- Removing 33 public water supplies from the EPA's Remedial Action List;
- Successfully refunding domestic water charges to over 94% of customers in line with the Water Services Act 2017;
- Commissioning a new wastewater treatment plant in Cork Lower Harbour and advancing plans for an additional 4 strategic infrastructure projects;
- Delivering year on year operational cost savings of €40m in 2017. This brings our total annual saving to €116m to the end of 2017. These efficiencies were realised in Irish Water in line with our commitment to deliver value for the people of Ireland.

How is safety prioritised?

Safety is at the heart of what we do. As an infrastructure company we manage complex construction and maintenance projects and invest heavily to protect the safety, health and well-being of our staff, partners, contractors and the general public. In 2017 there was a total of 2 employee Lost Time Injuries and although this is an excellent safety result we continue to strive for zero injury.

Throughout the year Irish Water continued to test and refine our extensive incident management plans and the business played a key role in executing National Emergency Response Plans in partnership with the Local Authorities and the ESB during Storm Ophelia, thus demonstrating the vital role the business plays in guaranteeing security of supply and continuity of service for all our customers.

Ervia Group CEO's Review (continued)

In January 2017 one of our contractors sustained serious injuries as a result of a trench collapse on a wastewater project in the West of Ireland. The incident had the potential to be fatal and serves to remind us of the hazards and risks we manage on a daily basis.

What are Irish Water's priorities for 2018 and beyond?

In 2018 Irish Water will continue to improve the reliability and integrity of our national water infrastructure by improving drinking water quality and building capacity in the network while in parallel rolling out our Leakage Reduction Programme and replacing 261km of the highest risk water mains. The business will also upgrade critical wastewater infrastructure to reduce the number of assets currently overloaded and at risk of failure in order to ensure that we return treated wastewater safely back into the environment.

Irish Water's plans include developing a new water supply source for the Eastern and Midlands region to meet the domestic, commercial and industrial needs of 40% of Ireland's population in the Eastern and Midlands region. The Greater Dublin Drainage Project will, in parallel, develop a new wastewater treatment facility in order to protect public health and safeguard the environment, thereby meeting the 50% projected increase in wastewater generation in Dublin, Kildare and Meath by 2050.

In 2018 Irish Water and Ervia will also continue to work with our Local Authority partners to deliver a single efficient public water utility. Together we will transform the delivery of water services in Ireland and put in place a plan that will lay the groundwork for our economic growth and our social development. We are committed to improving our technology and ways of working and combining our experiences to create a system that serves our country, our health, our quality of life and our environment far into the future.

Finally, we will continue to put the communities we work for and operate in at the core of our business. Throughout 2018 we will continue to work hard to earn the trust and support of our customers and stakeholders by providing best-in-class infrastructure and services to meet and exceed the economic and social needs of our country.

Closing Thoughts

On a personal note I have been inspired by both the performance and people I have experienced during my short time with Ervia and Irish Water. Our achievements in 2017 would not be possible without a collective and collaborative effort and I would like to thank the staff for their hard work, passion and commitment to what we do and the Board and Management Team for their leadership over the course of the year.

We have much to look forward to in 2018 and our ambitious targets will continue to drive and inspire our operational and strategic goals. I believe that by continuing to work together, we will deliver on our promises to our customers and communities around Ireland while growing our business and building trust and confidence in who we are, what we do and why we do it.

Mike Quinn
Ervia Group Chief Executive Officer

Irish Water Managing Director's Report

Jerry Grant
Managing Director

Each day Irish Water provides water and wastewater infrastructure and services to 1.7 million customers across Ireland. We do this, in partnership with 31 Local Authorities, by managing 88,000km of pipe network and 7,000 water and wastewater assets nationwide (including water and wastewater treatment plants). Since taking responsibility for Ireland's water services in 2014, we have made major strides. We have identified areas for improvement and invested appropriately to improve the performance of our assets. We are working hard to transform the network and to create a system that serves our country, our health and quality of life while equally protecting our environment far into the future.

Irish Water Managing Director's Report (continued)

In 2017 Irish Water continued to evolve into a high-performing single public utility. We concentrated on the strategic priorities set out in our Business Plan 2015-2021 to transform Ireland's water services. The business continued to deliver our €5.5 billion capital investment programme in order to provide new and upgraded assets and to guarantee process optimisation and improved operating procedures. Over the course of the year, we invested €526 million in 400 capital projects across a number of priority areas to ensure the safe and reliable supply of water.

Our Progress in 2017

As part of our ongoing commitment to protecting public health and the environment, Irish Water commissioned a new wastewater treatment plant at Shanbally, Co Cork, halving the volume of untreated sewage being discharged into Cork Lower Harbour. Work in Dublin continued on an upgrade of the Ringsend Wastewater Treatment Plant. Together these plants will significantly reduce the amount of untreated sewage being discharged into the environment while also contributing to the businesses' compliance targets under the European Union's Urban Waste Water Treatment Directive.

Throughout 2017, we focused on providing safe and clean drinking water to all our customers. We did this by improving drinking water quality and by reducing the number of customers on legacy Boil Water Notices, while in parallel addressing and removing 'at risk' schemes from the EPA's Remedial Action List (RAL). The number of water supply zones on the RAL was reduced to 46 at the end of 2017 from 121 in 2015.

During the year we also launched the national Leakage Reduction Programme in order to source and repair parts of the network where almost 50% of treated drinking water is currently lost. The business used targeted find and fix programmes such as the *First Fix* scheme to address domestic side leakage. Over 26,000 customers had leaks repaired on their property and over 4,400 District Meter Areas (DMA's) are being maintained.

Finally as a national utility, we continued to refine and implement national strategies and standards to ensure the same standard of service for water and wastewater be available to everyone no matter where they live in the country. In 2017 we engaged key stakeholders to progress items of national strategic importance; including the National Water Resources Strategy, our Lead in Drinking Water Mitigation initiative and our National Wastewater Sludge Management Plans. All of these programmes contribute to our long-term vision for the delivery of Irelands water services.

Financing Our Business

Irish Water has been tasked with delivering one of the most extensive capital investment and transformational change programmes in the history of the State and this will require significant funding to deliver on our ambitious agenda.

Following the Report from the Joint Oireachtas Committee on the Future Funding of Water Services in April 2017, domestic water charges were discontinued and replaced with Government funding to enable Irish Water to deliver on key business targets. Detail on our financial performance during the year can be found in the Financial Review of the report on page 34.

Outlook

Our primary focus for 2018 will be to continue to deliver against the targets set out in our Business Plan. We recognise that the Business Plan targets to 2021 are conditional on achieving the Single Public Utility during the lifetime of the Plan, with first phase commencing early in 2019. In addition, the ongoing development of our data and analytical systems will increasingly allow us to make evidence based decisions that underpin the delivery of modern and efficient infrastructure and services in order to meet the needs of our evolving society.

We will develop our strategic project portfolio to meet the medium and long-term social and economic needs of the country including the Eastern and Midlands Region Water Supply and Greater Dublin Drainage Projects, with a combined cost in the order of €2 billion. Together with our colleagues in Ervia's Major Projects function, we will continue to progress the Risk Reduction Programme for drinking water including upgrades at plants in Central Kerry (Lough Guitane), Louth/East Meath (Staleen) and Letterkenny, Co. Donegal.

We are also mindful of our next investment cycle post 2021 which will require continued high levels of investment to sustain leakage reduction. We will continue the upgrade of our water and wastewater treatment assets and cater for the expected increase in demand to support economic growth and housing development. We will work with regional and local planning authorities to ensure that the future development of water services is in line with Ireland's national development plans and can be delivered without causing risk to existing customer service standards. We will also continue to work with our regulators to deliver on our financial targets and efficiencies, while continuing to provide new and upgraded assets and infrastructure that safeguard our water into the future.

Central to the successful delivery of these objectives is our continued transformation towards becoming an effective and efficient single public water utility model. We will continue to work with our Local Authority partners to become a fully integrated national utility, through the Water Industry Operating Framework, using integrated technology, single ways of working and improved capability and operational capacity. We recognise that integrating water services staff from 31 Local Authorities into the Single Public Utility organisation during 2019-2021 is an ambitious but necessary step to achieve the Business Plan targets in full.

I would like to acknowledge the huge contribution of my colleagues across Irish Water and Ervia for their ongoing commitment to delivering a high performing water utility and best in class services for our customers. Throughout 2018 and beyond, we will continue to work with our Local Authority partners, our regulators, the communities and businesses we service to ensure that Ireland has a world class water infrastructure that provides secure and sustainable water services, essential for our health, our communities, the economy and the environment.

Jerry Grant
Managing Director, Irish Water

Strategy and Risk Review

Our Vision and Purpose

We have a clear vision to provide all of our customers with a safe and reliable supply of drinking water, to collect and treat their wastewater and to return it safely to the environment.

Each day we are responsible for delivering 1.7 billion litres of treated drinking water to 1.5 million households and 200,000 businesses across Ireland. We also treat 1.2 billion litres of wastewater generated by these homes and businesses daily before returning it safely into our environment. To do this we operate and maintain over 88,000km of water and wastewater network and 7,000 water and wastewater assets including 2,000 treatment plants.

Irish Water is supporting Ireland's social and economic growth, through appropriate investment in water services and will protect the environment in all our activities.

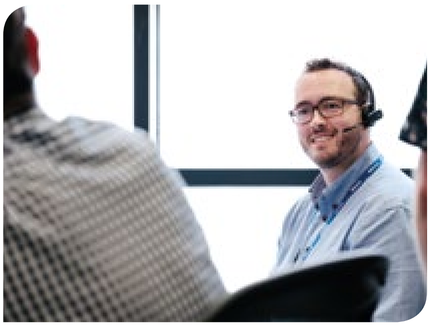
Together we are safeguarding our water for our future.

Our Values

Irish Water, as part of the Ervia group, shares five guiding values that define the character of our organisation. They guide our actions and decisions and provide a framework for how we communicate with each other, our customers and our stakeholders.

Collaboration

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



Customer Service

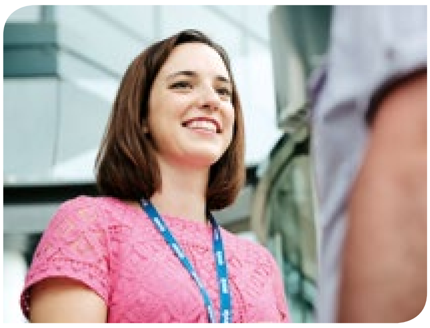
Our goal is to provide quality services for our customers. We listen to their needs and strive to exceed their expectations.

Performance

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

Safety

We put safety at the heart of what we do.



Integrity

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

Irish Water directly employs 759 people who are committed experts in their fields. We are scientists, engineers and experts, custodians of Ireland's most valuable resources. We provide and service the strong foundations upon which the Irish economy is built and ensure that our people and our nation can thrive and prosper, now and into the future.

Stronger Together

Who we are, what we do and most importantly, why we do it, drives our culture, shapes our identity and guides us on our exciting and ambitious journey to become Ireland's trusted leader in water and wastewater services and infrastructure delivery.

We are supported by three functions: Major Projects, Shared Services and Group Centre. These functions provide expertise, support and transactional services on behalf of the entire organisation. Working together with our colleagues across Ervia, and using our combined experience and expertise allows us to sustain and grow our business and deliver on behalf of the people of Ireland.

Our Strategy

Our strategy is our long-term plan to deliver water and wastewater infrastructure and services. We have three main objectives:

We will invest €5.5b in Ireland's Infrastructure to protect public health and the environment between 2014-2021.

We will work with our Local Authority partners to transform the water industry into an effective and efficient modern water utility.

We will achieve operational excellence realising €1.1 billion of cumulative operating efficiencies by 2021.

Strategic Pillars

We are investing in Ireland's water and wastewater infrastructure and driving improvements and efficiencies on behalf of the people of Ireland. We have seven core strategic pillars that provide a clear road map for our success to ensure our vision becomes a reality.

We are focused on these crucial areas to sustain and grow our business and provide a first rate service for our customers, people and country. By delivering on our vision we will develop a modern public water utility that delivers tangible benefits for all our stakeholders.

Safety

Safety is at the heart of everything we do. We invest heavily to make sure no harm comes to anyone and we are focused on protecting people's safety, health and well-being.

Customers and Communities

Through our Customer First programme we are committed to putting our customers at the centre of everything we do by delivering consistent services that meet and exceed our customers' expectations.

People and Leadership

Our people are critical to our success. We have one team of committed, capable and talented people who we aspire to fully support with strong leadership.

Infrastructure

We deliver quality, sustainable and reliable water and wastewater infrastructure and manage our assets to best practice to support and develop our economy.

Trust and Respect

We strive to be open, accountable and transparent to the public in all our dealings. We treat our customers, our assets and the natural assets we rely on with respect.

Successful Enduring Business Model

We are part of Ervia, a commercially successful company with a proven track record and a robust and enduring business model, with a high level of commercial competence.

Smart and Efficient

We operate as a fully integrated, smart and efficient organisation.

Irish Water Business Model

Inputs

Financial

We receive a regulated return on Irish Water's Assets

Total Assets of **€2.3bn**

Networks

The water and wastewater networks cover the length and breadth of the country

88,000km of water and wastewater networks

People & Partners

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

759 employees in **20** locations together with **3,408** LA staff in **31** Local Authorities

Stakeholders

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

- **€270m** equity injection
- **€752m** government subvention

Natural Resources

We protect our atmosphere, rivers, lakes and seashore

Supply **1.7bn litres** of clean, safe drinking water and treat **1.2bn litres** of wastewater daily

Business Activities

Develop and fund future plans

- Business Plan
- Investment priorities

Continuously improving our offering

- New connections
- Innovative solutions

Serving our customers

- Putting our customers first
- Facilitating strategic development zones
- Supporting economic growth

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

Outputs

Benefit

Invest €526m in new assets in 2017

- Growth
- Refurbishment
- Capacity
- Protection

Maintain the €2.3bn asset base

- Water saved
- Mains replacement

Operate the system

- Continuous Quality Supply
- Water Treatment
- Wastewater Treatment

Increasingly efficient, cost effective and customer centric services

Enhanced infrastructure to support economic growth and the needs of our communities

Customers

- **1.7m** customers served
- Operating **924** water and **1,094** wastewater treatment plants 24/7 365 days per year

Employees

- Payroll **€63m**
- **3,712** training days

Communities

- Protecting the environment and supporting biodiversity
- Supporting local communities and education on water related issues

Stakeholder

- Improving performance vs regulatory standards

Shareholder

- Enabling economic growth
- Supporting development
- Investing **€526m** in the business

Delivering on our Strategy...in 2017

		2016	2017	2021
Infrastructure Delivery	Capex €m	459	526	804
	Number of Wastewater discharge locations with no treatment or preliminary treatment only (base 44)	38	38	0
Leakage Reductions	Water saved (Millions of litres per day)	89	115	263
Efficiencies	Annual €m Opex efficiencies savings since 2014	77	116	272
	€m cumulative Opex efficiencies since 2014	131	247	1,100
	€m cumulative Capex efficiencies	250	290	500
Water Quality	Customers on Boil Water Notices	5,511	14	0
	Schemes on legacy EPA Remedial Action List (historical only)	68	46	1

Responding to the need of...	*Communities*	Commissioned new wastewater treatment facility in Cork Lower Harbour
	Industry	New Connections Policy developed
		Migration of non-domestic billing to single contact centre

759 IW professional, technical and support staff together with **3,408** LA staff in **31** LAs and our Customer Contact Centre and Service Delivery Partners.

Serve our **1.7m** customers, and operate **2,000** water and wastewater plants to supply **1.7bn** litres of treated drinking water each day and treat the wastewater produced.

We are transforming the water industry, delivering **€1.1bn** of Opex Savings and **€500m** of Capex savings by 2021.

Fix Leaks

- **115mld** water saved through *First Fix* and *Find and Fix* programmes
- Over **26,000** customer leaks repaired
- **4,400** district meter areas upgraded or maintained

Improve Quality

- **Only 14 customers** subject to Boil Water Notices
- Removed and replaced **1,234** lead service connections, **1,553** lead services treated.
- **>168,000** individual tests on drinking water supplies

Increase Capacity

- **203km** new or renewed water mains laid
- Upgraded or newly built **5** water treatment plants

Enhancing the health and quality of life of the people of Ireland, protecting our environment and enabling economic development.

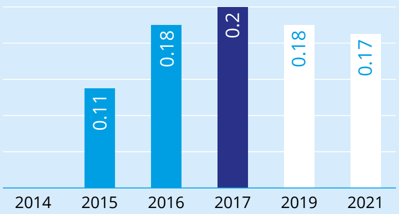
Delivering on our Strategy (continued)

Safety

What we measure

Why we measure it

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



We use Lost Time Injury Frequency Rates (LTIFR) to track the # of employee accidents per 100,000 hours worked, that result in a staff member needing to take >1 days off work.

(Data not available for 2014)

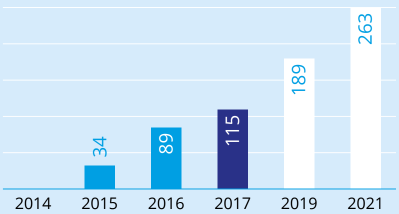
Safety is a core value at Ervia. The Work Safe Home Safe, safety culture programme has been in place since 2015 and we continue to work to improve our safety performance.

Water Saved

What we measure

Why we measure it

Water Saved by Fixing Leaks Cumulative (Millions of Litres per Day)



This is a measure of the water saved as a result of our efforts in rehabilitating mains and pro-actively finding and fixing leaks.

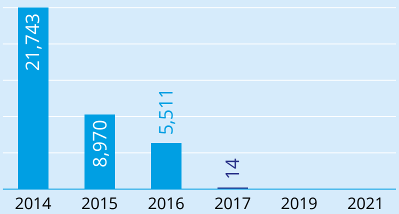
In 2017 45% of all water treated is lost between the treatment plant and the tap. We aim to increase the effectiveness and resilience of our network by reducing the quantity of water lost in the system.

Boil Water Notices

What we measure

Why we measure it

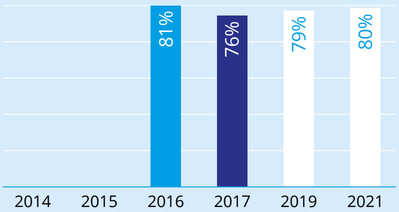
# of customers remaining on BWNs since IW started operations



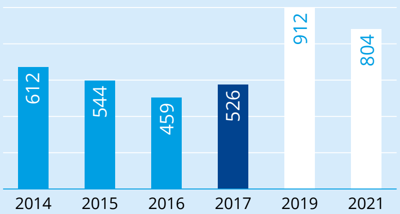
The number of customers remaining on Boil Water Notices since we first took over the operation of the Drinking Water Network.

A Boil Water Notice is imposed by the HSE where contamination of the drinking water supply has occurred or there is a risk of contamination.

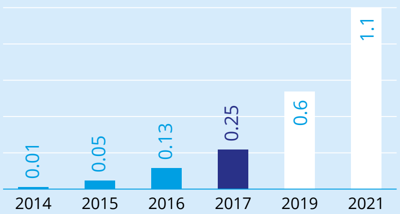
Customer Service

	What we measure	Why we measure it
First Contact Resolution – Metering and Operations % 	We review a sample of our customer contacts each month across a range of different call types. A selection of calls are surveyed independently to validate the scores. *(Data not available for 2014/15)*	This measure tells us how often we are able to resolve a customer's request on their first contact, without the need to get further information, escalate to the back office, create a complaint or follow up.

Capital Expenditure

	What we measure	Why we measure it
Capex €m 	We include infrastructure spend on plant, property, and equipment, financial and intangible assets.	Delivering capital programmes is central to our ability to develop and maintain our networks.

Operating Efficiencies

	What we measure	Why we measure it
Cumulative OPEX Efficiencies €bn 	We drive efficiencies in how we deliver our services on an ongoing basis.	This metric shows the cumulative savings of €1.1bn over the period 2014–2021. €116m annual savings have been secured since 2014 and we are on track to deliver the targeted savings of €272m (per annum) by 2021 subject to meeting the transformation timeframe set by the Board.

The External Environment

Irish Water operates in an ever-changing environment where climate, regulatory, security and industry drivers have a significant impact on its business operations. Irish Water's agility in reviewing, identifying and responding to the challenges and opportunities of this environment remains vital to its success.

Customer Expectations in a Digital Age

Globally, customer expectations are evolving and changing in line with, the pace of digital transformation. Transactions are increasingly online or mobile and customers, suppliers, staff and assets are all evolving towards real-time connectivity. Largely influenced by the digital age, research shows that customers generally want timely and accurate information, quick response and action with minimal customer effort.
In parallel, the threat of data and IT security breaches is deepening and companies must now invest in significant resources to build robust defenses against cybercrime.

In the short to medium-term, we will continue to invest in systems to protect against cyber-attack and to enhance capability. Improving our digital capabilities will also enable enhanced productivity across our operations.

A customer centric culture is key to meeting the expectations of our customers. Our employees are crucial to this and therefore aligning employee engagement and driving change to improve customer experience is a strategic focus across our organisation. The 'Customer First' programme at Ervia, launched in 2016, works to embed a 'Customer First' ethos in all that we do and build internal understanding of how this ethos and culture is key to realising our vision to be Irelands' trusted leader in service and infrastructure delivery. This will stimulate greater customer and stakeholder engagement, more timely customer notifications, improved service response times and the provision of other value-add services.

Innovation and Decarbonisation

Energy decarbonisation remains one of Ireland's biggest challenges. The European Union's long-term target is for member countries to achieve reductions of 80-95 percent in greenhouse gas emissions by 2050. To achieve this, emissions from the use of natural gas will have to drop from c.9 million tonnes in 2015 to less than 2 million tonnes in 2050.

Natural and renewable sources of low carbon fuels can replace higher emitting fossil fuels, such as oil, coal, peat and diesel. There is potential for some of this renewable gas to be generated from wastewater sludge from Irish Water treatment plants.

In the longer term Irish Water has the potential to satisfy some of its own electricity demand through the installation of wind turbines and solar panels at its sites throughout the country.

Regulation

Operational Compliance

Businesses worldwide are increasingly expected to operate in a manner that meets sustainability and service requirements while also complying with more stringent legal and regulatory obligations.

Irish Water is subject to multiple legislative provisions and regulations and operates within strict policy and regulatory frameworks. In addition we are also subject to Freedom of Information provisions. Similarly, major infrastructure developments are subject to significant public planning and consultation processes. Furthermore, the Commission for Regulation of Utilities (CRU) provides independent economic oversight. In addition, we must meet the requirements of our environmental regulator, the Environmental Protection Agency (EPA).

These requirements generate cost and capability challenges which we must meet while balancing growth and efficiency demands. In particular, we face unique compliance challenges due to a legacy of underinvestment in water and wastewater assets.

Corporate Transparency

We are committed to meeting the need for greater transparency in the provision of public services. Customers and stakeholders have growing expectations of businesses in terms of how they communicate their plans, how they consult with communities they operate in and how they listen to and address concerns.

We will continue to operate in accordance with our statutory requirements including planning and public consultations, regulated price controls and published business plans. We will also continue to engage in proactive two-way communications with all relevant stakeholders regarding developments and day-to-day operations. Our businesses will continue to engage with stakeholder entities, such as the Public Water Forum, to enable improved dialogue and openness with customers and other parties.

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Risk Management at Irish Water

Understanding our risks allows us to make informed and better decisions, in pursuit of our strategic and operational objectives, creating added value for our stakeholders.

Enterprise Risk Management
The Ervia Board has overall responsibility for ensuring the organisation has an appropriate risk management system in place. The Ervia Audit and Risk Committee has delegated authority to support the Ervia Board with these obligations. To address this, there is an annually reviewed Enterprise Risk Management Policy which acts as a key safeguard.

Our Risk Management Framework
Ervia's Enterprise Risk Management Framework applies to all employees across Ervia and Irish Water, ensuring a consistent and integrated approach to risk management.

The regulated and operational complexity of our businesses exposes Irish Water to a number of risks. Our framework guarantees that an appropriate governance structure, adequate risk responsibilities and risk management processes are in place to ensure risks are identified and evaluated. This enables an overall determination of the nature and extent of risks we are willing to accept in pursuit of our strategic and operational objectives.

Across the organisation, all managers are responsible for identifying risks within their areas of responsibility and managing these risks through associated mitigation plans or strategies. Key risks, emerging and trending risks, and those risks that have a high severity of impact yet low probability of occurrence are discussed and reviewed within a quarterly risk governance structure.

Irish Water is committed to ensuring we have a robust risk management culture which recognises risk management as a core capability and an integral part of all our activities.

Principal Risks and Uncertainties

Risk Category	Key Risk Description	Key Mitigating Controls & Actions
Health & Safety	Employee, contractor or public safety incidents which could result in injury or loss of life, prosecutions, financial loss and reputational damage	▸ Enterprise wide *Work Safe, Home Safe* programme ▸ Quarterly Central Safety Committee reporting to the Irish Water and Ervia Boards, and a Water Industry Health & Safety Committee (Senior representatives from Irish Water and the LAs) ▸ Comprehensive Safety Management Systems
	An environmental issue for Irish Water could result in a contamination, compromise public safety or limit supply	▸ Resilience and Crisis management response plans in place ▸ Risk Assessment, Maintenance and Inspection processes ▸ Control measures in sites using gas/chemicals such as monitors, alarms, chemical storage restrictions
Security of Supply	A major incident or event impacting on the network or a failure to deliver major projects such as the New Source of Water Supply for the Eastern and Midlands Region (see case study on page 31) resulting in a critical security of supply issue for our customers.	▸ Short and long-term investment strategy and Capital Investment Plans in place ▸ Ongoing investment in strategic infrastructure to deliver security of supply (e.g. Vartry Water Supply Scheme) ▸ Delivering the new supply of water required for the Eastern and Midlands regions
Reputation & Stakeholder	Failure to gain trust and support from our customers and stakeholders	▸ Customer service focus through our *Customer First* programme ▸ Comprehensive and clear Stakeholder Engagement Strategy ▸ Collaborative public engagement on key projects ▸ Brand strategy in place
Transformation	Not delivering the transformation of Irish Water's service delivery model to a Single Public Utility, due to potential delays in reaching full stakeholder agreement, would impact on our financial and non-financial business plan objectives	▸ Programme team in place that includes dedicated experts from Irish Water and Local Authorities ▸ Ongoing engagement with all key stakeholders ▸ Implementation programme developed
Resources	Failure to have an appropriate resource plan, and implement recruitment, retention and people development strategies will result in a failure to achieve our objectives	▸ Talent acquisition and development strategies ▸ Resource planning linked to talent management and career planning ▸ Mentoring and coaching programmes ▸ Graduate programmes

Risk Management at Irish Water (continued)

Risk Category	Key Risk Description	Key Mitigating Controls & Actions
Investment Plan Delivery	Not aligning our Capital Investment Plan to realise the greatest benefits in addressing the biggest asset and customer service risks or delivering the plan on time or within budget	▸ Dedicated Asset Delivery function in operation ▸ Integrated delivery plan for 2017-2021 developed ▸ Approval and oversight governance fora in place ▸ Controls in place to monitor our Capital Investment Plan spend against budget
Cyber Threats	Failing to protect Irish Water from external IT security threats and to manage our critical IT infrastructure negatively impacts our resilience to cybercrime or a data breach	▸ Comprehensive IT and Cyber Security Strategies in place ▸ Detailed security protocols in place ▸ Ongoing risk assessments and external independent assurance reviews
Financial	Irish Water has a high reliance on State funding and its activities also expose it to a number of financial risks including credit risk, liquidity risk, currency and interest rate risk	▸ Defined risk limits and delegations of authority and exposure monitoring in place ▸ Ongoing dialogue and strong relationships with Government, funders and potential investors to deliver the optimal funding model ▸ Established financial risk policies in place ▸ Access and secure debt from international bank and capital markets and Government equity/capital contributions over the period to 2021 to fund the committed €5.5bn capex programme
	Failure to deliver operating and capital efficiency cost savings and to deliver against original timelines as outlined in the Business Plan, could result in reputational risk and impact future organisational strategy	▸ Efficiency targets are set for each key business activity and are monitored and reported ▸ Delivering the transformation of the service delivery model to a Single Public Utility ▸ Repairs & Maintenance savings driven by the benefits delivered through leakage reduction, investment in asset/infrastructure upgrades, increased automation, procurement efficiencies and optimising performance of existing assets
Regulatory	The impact of adverse regulatory changes or a failure to adhere to a broad range of water and wastewater regulations and legislation could have a financial, reputational and operational impact on our business activities	▸ Proactive engagement with key stakeholders including the regulatory authorities ▸ Regulatory Price Control process in place for Irish Water ▸ Annual reporting to the Environmental Protection Agency ▸ Operational investment plans to meet water and wastewater directive requirements ▸ Capital investment approval process in place to address regulatory risks

Risk Management in Practice

Irish Water – Ensuring a sustainable resilient water supply for future generations

A New Source of Water Supply for the Eastern and Midlands Region
The recent water restrictions in Dublin following Storm Emma showed the vulnerability of the water network and the potential for devastating impact on homes businesses and the economy of the country. A new source and scheme is required to meet the needs of the Eastern and Midlands Region of Ireland because the existing sources and infrastructure neither have the capacity, resilience or connectivity to meet the Region's growing domestic and business requirements. If this situation is not addressed then regular water outages are likely to become a feature of everyday life for the region in the future, compromising both current but also future social and economic development.

Naturally, a project of this size and complexity brings with it considerable risks that must be identified, managed and controlled to ensure a sustainable resilient water supply into the future.

Operating and Financial Review

The Executive Team

Mike Quinn
Ervia Chief Executive Officer

Cathal Marley
Ervia Group Chief Financial Officer

Liam O'Sullivan
Ervia Chief Operating Officer and Managing Director, Gas Networks Ireland

Jerry Grant
Managing Director, Irish Water

Orlaith Blaney
Ervia Chief Communications and Marketing Officer

Michael G. O'Sullivan
Ervia Director of Business Services

Dawn O'Driscoll
Ervia Group Strategic HR Director

Brendan Murphy
Ervia Group Commercial and Regulatory Director

Rory Williams
Ervia Group Chief Legal Officer

Liam O'Riordan
Company Secretary

Financial Review

Cathal Marley
Ervia Group Chief Financial Officer

Irish Water delivered a strong financial performance during 2017 with improvements to key financial metrics, thereby enabling the delivery of significant capital and maintenance investment programmes in critical water asset infrastructure.

Key Highlights 2017

- Revenue €1,013 million
- EBITDA €290 million
- Profit before Income Tax €209 million
- Capex €526 million
- Total Assets €2,335 million
- Irish Water surplus reinvested to fund critical infrastructure projects
- Improved net debt position at year end of €809 million

Summary Income Statement

	2017 €m's	2016 €m's
Revenue	**1,013**	906
Commercial revenue	**261**	254
Government subvention	**752**	652
Operating costs	**(723)**	(777)
EBITDA	**290**	129
Depreciation and amortisation	**(69)**	(60)
Finance costs	**(12)**	(15)
Profit before income tax	**209**	54

Revenue

Revenue was €1,013 million for the year to 31 December 2017, increasing by €107 million compared to the prior year, primarily reflecting the continuing development of the company, with higher regulated revenues being generated to fund the significant capex investments incurred to date in critical water and wastewater infrastructure.

Following the Report from the Joint Oireachtas Committee on the Future Funding of Domestic Water Services in April 2017, the suspension of domestic water billing during 2016 was confirmed and the resulting revenue shortfalls were met by increased Government subvention income during 2017. Total Government subvention income for 2017 was €752 million, compared to €652 million for 2016.

Financial Review (continued)

Profit before Tax
2017: €209m
2016: €54m

Capital Investment
2017: €526m
2016: €459m

EBITDA
EBITDA of €290 million for 2017 has increased by €161 million compared to the prior year of €129 million due to the higher revenue of €107 million and lower operating costs of €54 million.

Operating costs of €723 million were €54 million lower than the prior year, primarily reflecting the reduction in collection provisions in the current year, due to additional charges recognised in 2016 following the suspension of domestic charges, combined with the delivery of operating cost efficiencies.

Profit before Income Tax
Profit before tax increased by €155 million to €209 million for 2017 due to increased EBITDA performance of €161 million plus lower finance costs of €3 million, partly offset by higher depreciation charges of €9 million arising from the increased investment in infrastructure. Any surplus arising in Irish Water is reinvested in water and wastewater infrastructure.

Exceptional Items
The company recognised an exceptional expense of €178 million during 2017 in connection with the refund of cash previously collected from domestic customers in the period 2015 to 2016. The corresponding funding received from Government to meet the costs of the refund programme was classified as exceptional grant income. Therefore the net impact of the refund programme on the Irish Water Income Statement was nil – refer to note E2 for further details.

Summary Balance Sheet

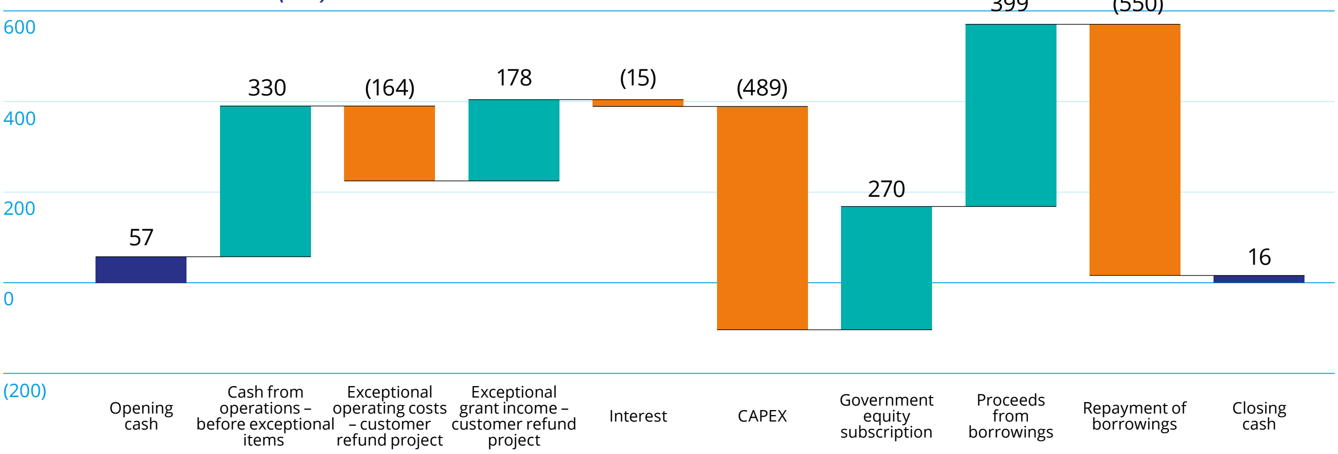
	2017 €m's	2016 €m's
Infrastructure assets	**2,181**	1,725
Other assets	**153**	195
Total assets	**2,335**	1,920
Borrowings	**(825)**	(974)
Pension liability (IAS 19)	**(29)**	(26)
Other liabilities	**(523)**	(426)
Total liabilities	**(1,376)**	(1,427)
Net assets	**958**	493
Net debt	**(809)**	(917)

Infrastructure Assets and Capital Expenditure
During 2017, Irish Water continued the delivery of scheduled capital investments with total investments of €526 million (€459 million in 2016) in water and wastewater infrastructure.

Net Debt and Cash Flows
During the year net debt reduced to €809 million at 31 December 2017 compared to €917 million in the prior year:

- Surplus operating cash flows before exceptional items of €330 million were used to partially meet water and wastewater capital investment funding requirements.
- Capital expenditure in cash outlay terms was €489 million.
- Irish Water received a shareholder equity subscription of €270 million from the Government.

How cash was used in 2017 (€'m)



The proceeds were primarily used to meet residual capital funding requirements and to reduce net debt at year end to €809 million.

Capital Resources

At 31 December 2017, Irish Water's total borrowings were €825 million (including capitalised loan fees). At 31 December 2017, the Company had undrawn facilities of €435 million and €16 million of cash and cash equivalents. The Company has a statutory borrowing limit of €2,000 million, which sets the upper limit for drawn facilities.

Key activities in relation to debt management undertaken during 2017 include; the rollover of €800 million of bilateral funding facilities with a number of commercial banks and the refinancing of the existing €450 million of funding facilities from the Ireland Strategic Investment Fund. The Company has continued to roll its debt financing for periods of one year, pending implementation by the Government of the recommendations of the Joint Oireachtas Committee on the Future Funding of Domestic Water Services (JOC) and a Department of Housing, Planning and Local Government led Working Group on the Future Funding Model for Irish Water. The revised funding model provides funding certainty to Irish Water on a multi-annual basis within the constraints of government budgetary planning. At 31 December 2017, the weighted average interest rate on the Company's portfolio of outstanding borrowings was 1.32% (1.30%: 31 December 2016) and the average maturity of its debt was 0.55 years (0.51 years: 31 December 2016). During 2017, Irish Water issued 540 'B' shares for a subscription price of €270 million and allotted such shares in equal amounts to the Minister for Finance and the Minister for Housing, Planning and Local Government.

Treasury Governance

Ervia operates a centralised Treasury function, which undertakes all treasury activities of the Ervia Group, including on behalf of Irish Water. The responsibility for Treasury activity and its performance rests with the Board which exercises its responsibility through regular review. The Ervia Audit and Risk Committee, on behalf of the Ervia Board, reviews the appropriateness of the Treasury Policy and the effectiveness of the system of internal controls.

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

Operating Review

Jerry Grant, *Managing Director*
Irish Water

In 2017 we continued to deliver on key financial and performance metrics set out in our Business Plan (2015-2021). Concentrating on these metrics has allowed us to improve our data and provided us with a better understanding of our assets and the scale of the challenges facing Ireland's water and wastewater infrastructure. We remain focused on repairing and upgrading these services and we will continue to prioritise our investment decisions to ensure that we use available funding effectively, making investments that deliver the biggest benefit to communities and businesses, while safeguarding our environment.

Irish Water is responsible for delivering safe and clean drinking water and environmentally safe wastewater services to households and businesses across Ireland. These vital services underpin social and economic progress for present and future generations. Through their delivery we leverage Ervia's capabilities to complete one of the largest ever transformation programmes in the Irish public service - transitioning from 31 Local Authorities towards a single national utility.

We deliver water services to approximately 83 percent of the Irish population which amounts to supplying 1.7 billion litres of treated drinking water to 1.5 million households and almost 200,000 businesses every day. We also treat the wastewater produced from these homes and businesses before returning it safely into our environment. This is achieved by operating and maintaining over 2,000 water and wastewater treatment plants, over 5,000 other assets, including pumping stations and reservoirs, and 88,000km of pipe networks.

As a national utility, Irish Water has one national strategic plan and a single budget to fulfil specific key objectives. These include drinking water and wastewater quality, service continuity and catering for growth. One of our key objectives is to provide the same standard of service for water and wastewater to every customer in the country.

Progress Against Strategic Objectives

We deliver water services to approximately 83 percent of the Irish population which amounts to supplying 1.7 billion litres of treated drinking water to 1.5 million households and almost 200,000 businesses every day.

Infrastructure Delivery

During 2017, Irish Water remained fully committed to delivering our ambitious capital and infrastructure investment strategy to deliver modern, efficient and reliable water and wastewater services across Ireland.

Key 2017 achievements include:

- We progressed over 400 infrastructure projects; completed 21 key infrastructure projects including 5 new and upgraded water treatment plants and 16 new and upgraded wastewater treatment plants;
- We removed and replaced 1,234 lead service connections under the *Lead in Drinking Water Mitigation Plan* and treated a further 1,553;
- 42 national work programmes are ongoing which include the delivery of reservoir cleaning and refurbishment, telemetry monitoring of critical operating parameters, filter refurbishment and safety programmes;
- 300 assessments have been completed as part of the Reservoir Programme with the cleaning and disinfection of reservoirs starting towards the end of 2017;
- We installed flow-monitoring on 97 wastewater sites to meet EPA requirements, with a further 114 in progress;
- We replaced 203km of the most at risk water mains during this period;
- We laid or rehabilitated 18km of wastewater network;
- We removed a total of 33 public water supplies from the EPA's Remedial Action List;
- 25 dam inspections were completed;
- We progressed a Regional Biosolids Storage Facility for the Greater Dublin Area, following a series of public consultations as part of our *National Urban Wastewater Sludge Plan*.

Reducing Leakage

Almost half of the water that Irish Water produces is lost through leakage from our water mains and within customer properties. This is due to the historical factors of negligible mains replacement and reactive leak repairs and the limited life of pipe and fittings types.

In 2017, we launched a *Leakage Reduction Programme*. As a result of the recommended leakage reduction activities the volume of drinking water lost has been reduced by approximately 115 million litres per day to date from these programmes.

Through our public-side First Fix Scheme, to date, over 26,000 customers have had leaks repaired. Over 1,100km of new or renewed water mains have also been laid since January 2014, and over 4,400 District Meter Areas have been maintained.

In 2018, Irish Water will continue to improve the reliability and integrity of our national water infrastructure and ensure all assets remain within EPA compliance. This will be achieved by rolling-out all elements of the Leakage Reduction Programme nationwide and replacing 261km of the highest risk water mains. We will also continue to support and contribute to the national River Basin Management Plans, and prioritise wastewater treatment upgrades and a catchment management approach to protect raw water sources for drinking water. Finally, we will continue to develop and implement water and wastewater Sludge Management Plans on an ongoing basis.

Investing in Strategic Infrastructure

Ervia's Major Projects function delivers strategic infrastructure projects that bring large-scale benefits to communities across Ireland. In 2017 the function advanced a number of projects. Key highlights are detailed in this section.

Vartry Water Supply Scheme

This Scheme provides drinking water for a supply area stretching from Wicklow to Dublin and serves around 15% of the Greater Dublin Area. Some of the assets are over 150 years old and require upgrading. In 2017 Irish Water undertook extensive consultation on planning applications to replace the water treatment facilities at Vartry and deliver a new link pipeline transferring water from Vartry to Callowhill. Planning permission was approved in January 2018 and construction on the pipeline commenced at the beginning of the year.

New Water Supply for the Eastern and Midlands Region

Irish Water's remit includes the delivery of a sustainable and resilient water supply to customers and finding a new source of water supply for the Eastern and Midlands region. This supply project will help meet the domestic, commercial and industrial needs of the Dublin region and over 40% of Ireland's population and will represent the first comprehensive upgrade of new source infrastructure in over 60 years. In 2017 the business completed a 14 week public consultation period on the preferred scheme and feedback from this process, alongside further technical and environmental studies, will inform the selection of the final scheme and will accompany Irish Water's planning application to An Bord Pleanála.

Stillorgan Reservoir

The existing Stillorgan site contains three open water reservoirs which store treated drinking water prior to its distribution to customers. Such exposure to the environment presents an unacceptable contamination risk and in 2016 plans to construct a new covered reservoir in order to safeguard the quality of the drinking water for 200,000 customers served by the reservoir were lodged. In December 2017 planning permission was granted by An Bord Pleanála for the upgrade of the reservoir and construction will commence in 2018.

Cork Lower Harbour

The Cork Lower Harbour Main Drainage Project is significantly enhancing the water quality in Cork Harbour and will end the current practice of the discharge of raw sewage into the lower harbour area. The commissioning of the new 65,000 population equivalent wastewater treatment plant at Shanbally in 2017 has halved the volume of untreated sewage being discharged into the harbour.

Construction works on the southern networks of the project commenced in January 2017 and work in the towns on the northern network and the associated estuary crossing is on programme to commence in 2018. These upgrades will support social and economic development in Cork while ensuring that Ireland achieves compliance with the European Union's Urban Waste Water Treatment Directive.

Greater Dublin Drainage

The Greater Dublin Drainage (GDD) Project will develop a new regional wastewater treatment facility and associated infrastructure to serve the population of the Dublin and surrounding counties of Kildare and Meath. The new infrastructure will protect public health and safeguard the environment by meeting the 50% projected increase in wastewater generation by 2050.

The project will have the capacity to provide wastewater treatment for the equivalent of half a million people and will deliver a new underground sewer network from Blanchardstown to Clonshaugh, a new wastewater treatment plant on 30 hectares and an outfall pipe discharging to the Irish Sea. Irish Water continued to progress studies to support the planning application for the project in 2017.

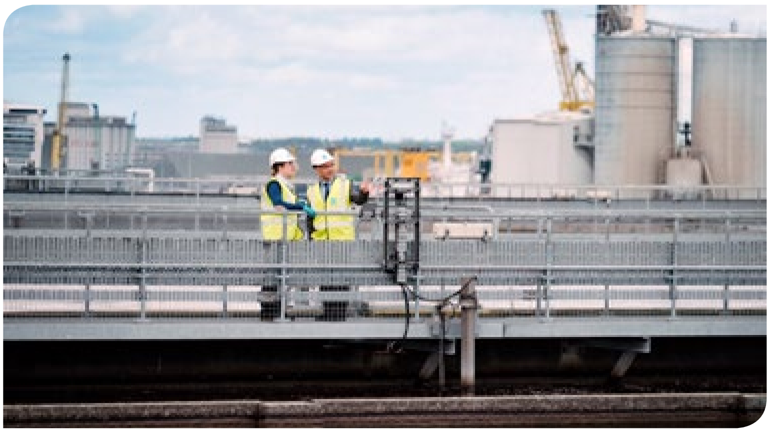
Operating Review (continued)

Progress Against Strategic Objectives (continued)

Ringsend Wastewater Treatment Plant
Irish Water is extending the Ringsend Wastewater Treatment Plant to meet growing population demands and ensure that treated water being discharged to the lower Liffey estuary meets the required standards.

In 2017 Irish Water continued to progress its planning application and Environmental Impact Assessment Report for permission to implement advanced nutrient reduction treatment technology known as Aerobic Granular Sludge at the plant. Irish Water is also progressing work on a capacity upgrade for the plant and construction will commence in early 2018.

Part of the planning applications for the Ringsend and GDD projects will include a Regional Biosolids Storage Facility. Following extensive public consultation, a preferred site for this facility has been identified in Kilshane in Dublin 11.



This facility will serve the greater Dublin area and its population for the next 25 years and will protect our environment and facilitate development in this growing region.

Achieving Cost Reduction and Efficiency Improvements

As we transform the water and wastewater industry, Irish Water is committed to delivering €1.1 billion of opex savings and €500 million of capital savings by 2021. This is contingent on delivering the planned Single Public Utility transformation programme; working with the key stakeholders to achieve this.

In 2017, we delivered operational expenditure savings of €40 million. This brings our total annual saving to €116m to the end of 2017, through efficiencies in contractor management, payroll, overheads, goods and services, and energy efficiencies. Capital expenditure savings of €290 million have also been identified and we are on target to deliver a further €210 million by 2021.

Irish Water launched the first deliverable of our Environmental Information Management System (EIMS) Project in 2017. EIMS will be a vital tool for managing environmental information for our business, including drinking water and wastewater regulatory compliance. In its first phase, the system replaces multiple manual processes and collates data into a central system. This creates a single information source that we can use to support future business and investment decisions.

We also migrated all non-domestic accounts from the 31 Local Authorities, bringing all aspects of water services management for these customers' billing and revenues under Irish Water.

Key priorities for 2018 include achieving cost reduction targets, as set by the Commission for Regulation of Utilities (CRU), and supporting the CRU public consultations on both the Non-Domestic Tariff Framework Review, and national harmonised Connection Charges. We will also focus on delivering other cost efficiencies through:

- Procurement and supply chain management to drive cost savings and economies of scale, and standardising procurement and third party supplier contracts;
- Contractor management to deliver better ways of working at site level and nationally, as well as

better plant investment to reduce the need for ongoing contractor maintenance;

- Energy management which will see the replacement of plant and machinery with energy efficient alternatives, and the reduction in energy usage through real time monitoring and transition of locations onto lower cost tariffs;
- The introduction of a national telemetry system to enable regional monitoring and support of water and wastewater treatment assets remotely.

Improving Water Quality

For Irish Water, providing safe and clean drinking water is a top priority. Water quality in some of Ireland's public water schemes does not meet mandatory European and Irish drinking water standards and many of our water treatment plants are considered to be at risk of failure in terms of quality parameters. In 2017, we implemented measures to improve these standards.

The number of water supply zones on the EPA's Remedial Action List (RAL), which required investment and/or significant improvement to reduce the risk of failure to accepted levels, was reduced to 46 from 121 in 2015. Many of these schemes also require additional treatment to address trihalomethane (THM) compliance. Ireland currently fails to meet the requirements of the European Drinking Water Regulations for THMs, and the European Commission has announced its intention to bring infringement proceedings against Ireland in 2018. To address this, we have produced a national THM strategy and allocated funding as part of our priority programmes to 2022.

In January 2014, 23,000 people were on long-term Boil Water Notices (BWN) in Ireland. By prioritising investment in these schemes, Irish Water reduced this number to 26 by January 2017. There are currently only 5 of these customers on a BWNs at the end of 2017.

Throughout 2017, we continued to monitor and report on all public drinking water supplies nationwide, taking over 8,500 regulatory samples which amounted to over 168,000 individual tests. 68 water treatment plants were upgraded under the *National Disinfection Programme* and 1,234 lead service connections were removed or replaced under the *Lead in Drinking Water Mitigation Plan*. The Drinking Water Quality section of the Irish Water website was also expanded, allowing visitors to search for information on their public water supply and see all sample results for that scheme against 48 drinking water parameters.

In November 2017 we launched our first consultation on the *National Water Resources Management Plan*. This plan sets out how Irish Water will maintain the supply and demand for drinking water over the short, medium and long-term, while minimising environmental impacts. We are also developing *Water Safety Plans* to provide a 'catchment based' approach to protecting drinking water sources. This is the first step in ensuring protection of public health through the provision of safe drinking water.

In 2018 Irish Water will continue to prioritise investment to ensure public water supplies are no longer at risk and can be removed from the EPA's RAL. We will continue to monitor our drinking water supplies for compliance with all statutory requirements and to provide public information on these through our website and other appropriate means.

Delivering through our People

Irish Water employs 759 professional, technical and support staff, and we work with 3,408 staff in the 31 Local Authorities. We are made up of five core functions: Asset Operations, Asset Management, Customer, Asset Delivery and Support Services. These are supported by our Customer Contact Centre and Service Delivery Partners. We are also supported by Ervia's Group Centre, Shared Services and Major Projects functions to ensure that efficiencies and economies of scale are realised across the organisation.

Operating Review (continued)

Progress Against Strategic Objectives (continued)

Implementing a single public utility model will require continued transformation in the way we work. It will also enable us to standardise procedures as we look at incorporating new responsibilities, processes and staffing. When complete, we will comprise over 3,200 staff in national and regional offices. As we move through this transformation we will continue to work closely with our Local Authority partners. Such a transformation is a complex undertaking, which will take place over a number of phases to ensure service continuity while managing environmental, operational, and health and safety risks.

Procurement

Our mission is to seek to source the most cost-effective solutions for all Irish Water sourcing activities in order to maximise the benefits for the company. We achieve this by developing competitive sourcing processes and building up effective relationships with our key suppliers.

Responding to the Needs of Communities and Enterprise

In 2017, Irish Water worked with regional and local planning authorities, as well as other agencies, to plan for the future of water services and infrastructure to meet social and economic growth. Future development of water services must be in line with agreed national and regional development plans, and additional demand must be met without risk to existing customer service standards.

We have played an active role in the preparation of Ireland's *National Planning Framework 2040*, and we will continue to support our national and regional spatial planning policies as they evolve. We take full account of the increased demand to support housing and economic development. We are therefore committed to reviewing our investment plans in order to support government policies for planning and housing provision. We aim to understand and plan for future development ensuring it is consistent with national, regional and local planning policy.

Incident Management

Throughout 2017, Irish Water resolved an estimated 800 supply outages every month, highlighting that critical assets are prone to failure. While we dealt with many outages in the same day, the uncertain nature of these outages and the condition and age of the assets can have prolonged and severe consequences. These include significant economic loss, social disruption and customer inconvenience. We will continue to use operational and asset data to classify our assets by risk rating (probability and impact) and, where possible, prioritising them for rehabilitation to prevent future incidents.

Contingency planning is another of our increasingly important functions. This builds on the extensive incident management plans embedded across our business while also providing additional planning around potential large scale or protracted events. In 2017, this included drought planning and preparation for severe weather events, such as storms, floods, and cold weather such as ex-hurricane Ophelia. Irish Water is also a member of the National Emergency Co-ordination Group and we operate a Memorandum of Understanding with Local Authorities, under the National Emergency Response Plans.

Improving Customer Engagement

We are committed to a best-practice approach to customer service and operations, and we are focused on improving our engagement with customers. In 2017, 390,000 customer calls were answered, over 71,000 work orders issued and 27,978 outbound calls made to customers on Irish Water's vulnerable customer register. We redesigned our website to give customers easier access to information and services, and our channels of engagement expanded to include Twitter, LinkedIn, Boards.ie and SMS texts.

We continued to work with a wide range of external stakeholders in order to improve service delivery. These included elected representatives obtaining water service updates on behalf of their constituents and the distribution of up-to-date information to community groups and local media.

Connections and Developer Services

In 2017 Irish Water became the direct point of contact for all connections, developer services and enquiries (previously managed through the 31 Local Authorities), and we developed a national process for establishing connection agreements. To that end, we facilitated early engagement at the pre-planning stage, through our Pre-Connection Enquiry process which advises on the feasibility of a proposed connection. This process provides us with information as to where connection demand is likely to be highest in the short-term, while also providing an efficient and effective centralised service. Irish Water is also establishing a quality assurance programme for all new housing development infrastructure to ensure a uniform standard of water and wastewater infrastructure.

Transforming our Industry

Irish Water is working together with our Local Authority partners to streamline the water services sector and its transformation into an effective and efficient single public utility. By doing so we can employ this model to deliver more services regionally, with shared cross-boundary working, centres of excellence and increased specialisation. This will help us to achieve significant efficiencies, improved asset operations, better customer service standards and economies of scale.

Funding Domestic Water Services

In the first quarter of 2017, a report by the Joint Oireachtas Committee (JOC) on the Future Funding of Domestic Water Services confirmed that direct charging for normal domestic water usage would be discontinued and replaced by Exchequer funding from taxation and secure multi-annual funding. Changes were also recommended to the capital funding of Irish

Water, with the JOC recommending that all existing debt funding be re-financed by government sources.

Throughout 2017, Irish Water worked with its stakeholders to implement fully the recommendations of the JOC report, and this will continue into 2018. Our focus is to ensure that Irish Water's programme of investment and transformational change, outlined in our Business Plan, is supported by a robust, stable funding model. This model takes a minimum six year view of operating costs and a ten year view of capital expenditure needs. In addition, we will ensure that the necessary reporting is in place to meet all governance requirements, reflecting our performance against regulatory targets.

The Water Services Act 2017 paved the way for the refund of domestic water charges to households. Irish Water began to issue refund cheques in late November 2017, and over 94 percent of refunds were delivered by the end of 2017. The remainder will be resolved as quickly as possible in 2018.


Clean Coasts

Corporate Responsibility

Corporate Responsibility (CR) is an important part of how Irish Water delivers its business. Our CR activities underpin our commitment to enhancing the health and quality of life of the people of Ireland, protecting our environment and enabling economic and social development.

We centre our CR activities on the communities we serve, our workplace and marketplace and the environment we work hard to protect. As a young organisation we are at the beginning of our CR journey, partnering with environmental education programmes to improve awareness of the role we play in delivering safe and reliable water services.

In 2017/18, we also worked with our colleagues in Ervia and Youth Work Ireland to develop and deliver a pilot programme focusing on employability skills for young people who are not in employment, education or training. The programme aims to develop the resilience and self-confidence of Ireland's young people.

In the Community

Throughout 2017 Irish Water continued to invest in partnerships and community programmes to heighten awareness of water-related issues and promote better use of water and wastewater assets in homes and businesses.

The business partnered with the international *Green Schools* environmental education and awards programme to promote sustainability. The Water Theme of the programme increases awareness of water conservation, supply, protection and pollution issues in schools. It encourages schools to examine how they use water, and provides practical ideas, actions and solutions to reduce consumption levels and increase sustainability.

In the academic year 2016/17, 97,573 students in 448 schools participated in the Water Theme of the programme and 178 schools were awarded Green Flags. A 30% reduction in water usage by participating schools was recorded, which is equivalent to water savings of 460 million litres.

Irish Water also supported An Taisce's *Clean Coasts* initiative delivering *Think Before You Flush* and *Think Before You Pour* campaigns to raise public awareness of the impact that sanitary and other products have on our wastewater system and marine environment.

Finally Irish Water sponsors the annual *Value Water* Award in the national Tidy Towns competition. The award is given to those communities taking positive steps towards saving water through a combination of awareness raising activities, knowing where their water comes from and how it is used by the community to reduce the community footprint.

Corporate Responsibility (continued)

In the Marketplace

Irish Water is committed to putting our customers first. We work hard to provide them with quality services and we listen to their needs and strive to exceed their expectations. We do this through an Ervia-wide *Customer First* programme which leverages customer service expertise and experience from across the business to provide best in class services to our customers. We also provide Special and Priority Service Registers for our vulnerable customers to ensure we can accommodate and meet their needs.

Irish Water is working hard on a number of efficiency and effectiveness programmes to deliver best-in-class services for our customers. The business is focused on continually improving the quality of supply, our responsiveness and the experience customers have when they engage with us. Together we are committed to collaborating closely with our partners and stakeholders on our journey to become Ireland's leader in infrastructure and service delivery.

In the Workplace

The health and well-being of our employees is paramount. Our approach to occupational and personal health and well-being addresses the mind, body and emotional well-being of our staff.

Our *Work Safe, Home Safe* programme continues to grow in scope and ambition and in 2017 a comprehensive programme of health and well-being initiatives were delivered across Irish Water and Ervia. Key initiatives focused on increasing physical activity, improving mental wellbeing and supporting our employees to make better personal choices through the provision of a comprehensive medical screening and health promotion programme.

Safety

There was a total of 2 employee Lost Time Injuries (LTIs) in 2017. The incidents were of low severity and for an employee base of 759 this represents an excellent safety performance however we continue to strive for zero injury. The employee total Lost Time Injury Rate* (LTIR) was 0.20 and the reportable LTIR was 0.10 which is consistent with 2016 rates and remains at the lowest the business has ever achieved. As part of our 2017 *Work Safe, Home Safe* programme there was a particular focus on enhancing our safety culture and further developing our safety leadership throughout the organisation with over 110 key influencers completing our new Behavioural Safety Programme.

There was a total of 98 Contractor LTIs in 2017 which was a slight increase on the 97 recorded for 2016. In January one of our contractors sustained serious injuries as a result of a trench collapse on a wastewater project in the West of Ireland. The incident had the potential to be fatal and serves to remind us of the many hazards that we and our contracting partners must manage on a daily basis. Over the course of 2017 Irish Water held a number of safety workshops with our key partners to outline our expectations, understand their views and to agree actions to continuously improve our safety performance and strive for zero injury. This will remain a key area of focus for Ervia and Irish Water in 2018 and beyond.

* Number of incidents per 100,000 hours worked

In the Environment

Irish Water Energy Usage

Irish Water, as one of Ireland's largest public sector energy consumers, has a responsibility to play a leading role in energy efficiency. The European Union (Energy Efficiency) Regulations (S.I. No.426 of 2014) requires Irish Water to publish an annual statement describing the actions it is taking, or has taken, to improve its energy efficiency and an assessment of the energy savings arising from those actions.

Irish Water's energy performance, as reported in the SEAI's Annual Report 2017 on Public Sector Energy Efficiency Performance, shows energy savings of 9.7%. This is calculated on the basis of the water services assets' performance since 2009. These assets were owned and operated by local authorities up to the end of 2013. The savings figure may be revised in future years as we continue to work together with our partners in the local authorities, and SEAI to improve the quality and quantity of energy data, including historical data.

Investing in Ireland's water and wastewater infrastructure is a key priority for Irish Water. We are upgrading and replacing inefficient systems whilst ensuring the best whole life sustainable options are selected for new capital investments to help meet our energy efficiency obligations. Energy Efficiency Design (EED) is integrated into our investment process to ensure sustainable energy in design, building and operation of our assets.

Measures taken in 2017 to achieve long-term sustainable energy efficiencies include:

- Approximately 200 distinct energy efficiency projects identified and progressed across our operations including pumping, aeration, lighting, heating, and electrical management;
- Energy efficiency requirements included applicable equipment specifications to ensure sustainable energy equipment was selected when it was being replaced;
- Sustainable Energy Strategy drafted and agreed across the business. It sets outs our sustainable energy aims across a number of strands, including energy projects, new projects, innovation and renewable energy;
- EED is embedded into business activities. This ensures that new and upgraded plant, equipment, buildings, systems and directly associated activities are designed, equipped, maintained and operated in such a manner to ensure a high level of energy performance and that energy is used efficiently;
- Energy KPI's identified and improved for our largest sites to monitor, track and improve energy performance.

Our Sustainable Energy Strategy sets out how we aim to achieve a 33% improvement in our energy efficiency by 2020 against a 2009 base year.

Key objectives planned for 2018 include:

- Publication of our Sustainable Energy Strategy
- Generation and utilisation of on-site renewable energy
- Energy efficiency upgrades
- Continue to further integrate and embed EED into business activities

Governance

The Ervia Board

Tony Keohane (Chairman)

Appointed: 5 July 2016
Term: 5 years

Mike Quinn (Group CEO)

Appointed: 31 October 2017
Term: 5 years

Chris Banks

Appointed: 5 July 2016
Term: 5 years

Fred Barry

Appointed: 5 July 2016
Term: 4 years

Peter Cross

Appointed: 20 January 2015
Term: 5 years

Celine Fitzgerald

Appointed: 20 January 2015
Term: 5 years

Keith Harris

Appointed: 5 July 2016
Term: 3 years

Sean Hogan

Appointed: 20 January 2015
Term: 5 years

Mari Hurley

Appointed: 11 June 2013
Term: 5 years

Finbarr Kennelly

Appointed: 12 December 2017
(having previously been appointed
on 11 December 2012)
Term: 5 years

The Irish Water Board

Mike Quinn (Chairman)

Appointed: 31 October 2017

Term: 5 years

Career: Joined Ervia in late October 2017 from Bord na Móna where he held the role of Chief Executive Officer. He joined Bord na Móna in 2015 having worked as a Group Vice President for Precision Castparts (PCC), a global aerospace company, where he led a group of five companies with locations in the USA, India, China, the UK and Ireland. Prior to joining PCC, Mike held various senior management positions in Tellabs, Stryker and Lufthansa Tecknik. He spent the earlier part of his career working in engineering roles with Amdahl Ireland and Apple Computers.

Jerry Grant

Appointed: 24 May 2016

Term: 5 years

Career: Managing Director of Irish Water since early 2016, having previously held the position of Head of Asset Management. Prior to joining Irish Water, he served as Managing Director of RPS in Ireland for 10 years, leading a team of 600 technical and professional specialists to deliver transport, water, energy and waste management infrastructure throughout Ireland. He is a Chartered Engineer, a Fellow of Engineers Ireland, a member of the Chartered Institution of Water & Environmental Management and a Fellow of the Irish Academy of Engineers. Jerry was presented with the 2016 ACEI President's Award by the Association of Consulting Engineers in Ireland (ACEI) for his outstanding and continuous contribution to and support of the engineering profession over the years.

Cathal Marley

Appointed: 1 December 2016

Term: 5 years

Career: Group Chief Financial Officer of Ervia. He joined Ervia in 2016 and has worked for over 20 years in the energy and infrastructure sectors, including electricity, gas and water. Having operated in a number of senior financial roles within large organisations both in Ireland and in Eastern Europe, he brings extensive commercial and fundraising experience to Ervia. He is a Fellow of the Institute of Chartered Accountants in Ireland and holds an MBA from the UCD Michael Smurfit Business School. Cathal also serves on the Audit Committee of Dublin City University.

Michael G. O'Sullivan

Appointed: 1 December 2014

Term: 5 years

Career: Joined Ervia (formerly Bord Gáis Éireann) in 2006 as Group Chief Financial Officer. Has held a number of Senior Executive roles over the years and currently holds the position of Director of Business Services. He is a fellow of the Chartered Association of Certified Accountants, a member of the Irish Association of Corporate Treasurers and holds an MBA from Manchester Business School.

Brendan Murphy

Appointed: 1 December 2014

Re-appointed: 1 November 2017

Term: 1 year

Career: Commercial & Regulatory Director of Ervia since December 2013. He previously served as Director of Finance Technology & Risk with the NTMA and prior to that as Group Treasurer of ESB. Brendan is a Chartered Accountant and a Fellow of the Association of Corporate Treasurers U.K.

Report of the Board

The Governance Statement

The Board of Directors of Irish Water ("the Board") present their Report of the Board for the financial year ended 31 December 2017.

Irish Water ("the Company") was incorporated in July 2013 as a private company pursuant to the Water Services Act 2013 (and the Companies Act 2014). Irish Water brings the water and wastewater services of the 31 Local Authorities together under one national service provider.

Irish Water is a subsidiary of Ervia. However, due to its share ownership structure, Irish Water does not currently meet the definition of a subsidiary of Ervia for accounting purposes and therefore it is not consolidated into Ervia's financial statements. Ervia operates as a group with five divisions in a single multi-utility model. Irish Water and Gas Networks Ireland are the operating utility divisions. Major Projects delivers key national infrastructural projects. Shared Services provides all transactional and support services to the Group. Group Centre provides corporate oversight and governance for all of the Group activities.

A unitary Board structure has been adopted by Ervia, which takes ultimate responsibility for the governance of Ervia and its subsidiaries. Appropriate committees are in place at the Ervia Group level which act in respect of the entire group. From a governance perspective, Irish Water matters are overseen and managed by both the Irish Water Board and the Ervia Board.

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. The Board is satisfied that Irish Water has complied with the applicable requirements of the Code. In accordance with provision 1.9 of the Business and Financial Reporting Requirements outlined in the Code, Irish Water reports to Ervia and to the Minister on its compliance with the Code.

Irish Water is subject to the provisions of the Companies Act 2014. For details of the principal legislation under which Irish Water operates and to access the key documentation which underpins the corporate structure, refer to *https://www.water.ie/about-us/freedom-of-information/model-publication-scheme/about/*

Directors' Compliance Statement

The Board of Directors of Irish Water acknowledge that they are responsible for securing the Company's compliance with its relevant obligations in accordance with Section 225 of the Companies Act 2014.

The Board is of the opinion that the policies and the structures and arrangements which the Company has in place are appropriate to secure material compliance by the Company with its relevant obligations. The Company's "relevant obligations" are identified in the Compliance Policy Statement and the associated Compliance Matrix which identifies the key actions and checks that must be in place. This Compliance Policy Statement has been communicated to all senior management of the Company to ensure consistent and robust adherence. The Directors carried out a mid-financial year and year-end review of the arrangements and structures in place for 2017 to secure the Company's material compliance with its relevant obligations.

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

Role and Responsibilities of the Board

The Board's role is to provide leadership and direction to the Company within a framework of prudent and effective controls which enables risk to be assessed and managed, and satisfies itself, with reasonable assurance, that such controls are adequate to secure compliance with statutory and governance obligations.

The Ervia Governance Framework outlines the formal schedule of matters reserved for the Irish Water Board.

Schedule of matters reserved for Irish Water Board	Matters considered by the Irish Water Board during 2017
▸ **Approval of Annual Report and Accounts** ▸ **Annual Business Plan** ▸ **Annual Budget** ▸ **Review and adoption of Ervia's Risk Management Policy, as it relates to Irish Water** ▸ **Banking arrangements i.e. changes to bank mandates/ cheque signatories and in line with the delegated authority framework** ▸ **Removal and approval of Safety Policy and Procedures**	▸ Approval of revolving credit facilities with credit institutions ▸ Approval of 2016 Financial Statements and un-audited interim financial statements ▸ Approval of budgets for capital programmes and expenditure ▸ Approval of the issue of new shares by Irish Water and the allotment of such shares in equal shares to the Minister for Finance and the Minister for Housing, Planning and Local Government ▸ Approval of submission by Irish Water of an application for Ministerial consent regarding audit fees for 2017 and 2018 ▸ Approval of Enterprise Risk Management Policy ▸ Draft of Irish Water Business Plan 2017 to 2021 ▸ Approval of payments of refunds to domestic customers ▸ Review and consideration of Director's Compliance Policy Statement

Directors' Responsibilities Statement for the Annual Report and Financial Statements

The Board is responsible for preparing the Director's 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;

Report of the Board (continued)

- 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 appropriate 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 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 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 Board in 2017

Ervia Board

The former CEO, Michael McNicholas stepped down from his role in June 2017. Following a competitive recruitment process undertaken by the Board of Ervia, Mike Quinn commenced as CEO of the Ervia Group in October 2017. Sean Casey, former Group Chief Operations Officer, acted as CEO in the intervening period.

Irish Water Board of Directors

The former Chairman of the Board, Michael McNicholas, stepped down from his role in May 2017. Brendan Murphy acted as Chairman in the intervening period. Mike Quinn was appointed Chairman of the Irish Water Board on 31 October 2017, following his appointment as CEO of the Ervia Group on 31 October 2017.

Board Composition, Appointment and Re-election

In accordance with the Memorandum and Articles of Association of Irish Water, the Board's composition is a matter for Ervia subject to the approval of the Minister for Housing, Planning, and Local Government.

In accordance with the Memorandum and Articles of Association of Irish Water, Ervia has the power to appoint and remove Directors of the Company, subject to Ministerial consent. In accordance with the Articles of Association, the Directors are appointed for a term that shall not exceed five years.

Re-election of Directors is reserved for Ervia and is subject to the consent of the Minister for Housing, Planning and Local Government.

The Board has a blend of skills and experience and the necessary competence to address the major challenges of the organisation. The Board is led by the Chairman, Mike Quinn, who is responsible for ensuring its effectiveness in all aspects of its role. The Company Secretary is responsible for ensuring that Board procedures are complied with and for advising the Board, through the Chairperson, on governance matters generally.

Induction and Development of New Directors

On appointment, Directors are provided with detailed briefing documents, governance, financial and operational information.

Directors have access to training programmes and the ongoing development needs of Board members are kept under review by the Chairman and Company Secretary. Directors are encouraged to undertake appropriate training on relevant matters to ensure that their knowledge and experience matches the needs of Irish Water.

Directors' Remuneration, Expenses and Attendance

The Directors are not entitled to receive fees. Remuneration of the Directors as disclosed in note E1 of the financial statements represents an apportionment of total remuneration earned in their capacity as salaried employees of Ervia, based on services provided to the Company.

The remuneration of the Managing Director of the Company is outlined in note E1 of the financial statements.

The Board meets on a monthly basis. A schedule of the attendance at the Board meetings for 2017 is outlined below.

Director	Attended	Eligible	Fees as Director on Board of Irish Water for 2017	Expenses as Director on Board of Irish Water for 2017
Mike Quinn (Chairman appointed 31 October 2017)	3	3	Nil	Nil
Michael McNicholas (former Chairman, retired from Irish Water Board on 31 May 2017)	4	4	Nil	Nil
Jerry Grant	14	14	Nil	Nil
Cathal Marley	13	14	Nil	Nil
Michael G. O' Sullivan	13	14	Nil	Nil
Brendan Murphy	13	14	Nil	Nil

Board Committees

From a governance perspective, Irish Water matters are overseen and managed by both the Irish Water Board and the Ervia Board and by the committees established at Ervia Group level.

Irish Water meets the definition of a relevant company under Section 167 of the Companies Act 2014. The Ervia Audit and Risk Committee is established at the Ervia Group level due to the unitary Board structure adopted by Ervia which takes ultimate responsibility for the governance of Ervia and all of its subsidiaries.

Ervia has appropriate committees in place which act in respect of the entire group and therefore no such committees have been established at the Company level.

For the financial year ending 31 December 2017, the Board of Ervia was assisted in the discharging of its obligations through the delegation of certain roles and responsibilities to three committees:

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

In addition, the Water Industry Operating Framework Committee is a specific purpose Committee established to provide oversight of the specific project.

The Committees assist the Ervia Board by giving detailed consideration to business, operational and financial issues across the Ervia Group and they report to the Ervia Board with any necessary recommendations.

Report of the Board (continued)

For a report of the Ervia Audit and Risk Committee see pages 64-66. The Ervia Audit and Risk Committee met 6 times during the year. The Ervia Remuneration Committee met 11 times during the year. The Ervia Investment/Infrastructure Committee met 9 times during the year. The Water Industry Operating Framework Committee met 4 times during the year.

Board Effectiveness

The Board of Irish Water considers it has an appropriate balance of skills, experience, independence and knowledge of the Company to allow it to discharge its duties and responsibilities effectively, that it is of sufficient size to ensure that this balance of skills and experience can be utilised appropriately and that changes to the Board's composition can be managed without undue disruption. Directors receive formal induction on joining the Board and regularly update and refresh their skills and knowledge.

Relations with Shareholders

On incorporation, Irish Water issued 1 "A" share to Ervia, which gives the right to exercise a vote at any general meeting of the Company but does not confer any entitlement to any participation in the profits or assets of the Company. On incorporation the Company issued 2 'B' shares, one to the Minister for Housing, Planning and Local Government and one to the Minister for Finance. These shares have no power of control or direction over the Company but do carry the right to receive whatever dividends may be determined by the Board. Following a €270 million equity contribution in August 2017, Irish Water issued 540 'B' shares and alloted such shares in equal amounts to the Minister for Finance and the Minister for Housing, Planning and Local Government.

The nature of the unitary Board structure in operation in the Ervia Group facilitates active and ongoing consultation between Irish Water and Ervia. The Company also actively engages with its parent department, the Department of Housing, Planning and Local Government and with the Department of Finance.

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

The Board is responsible for ensuring that Irish Water has complied with the requirements of the Code, as published by the Department of Public Expenditure and Reform in August 2016. The following disclosures are required by the Code:

Analysis of Employee Benefits

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

	2017	2016
€50,000-€75,000	**291**	243
€75,001-€100,000	**172**	70
€100,001-€125,000	**47**	17
€125,001-€150,000	**25**	8
€150,001-€175,000	**5**	3
€175,001 and above	**2**	1

Note: All short-term employee benefits in relation to services rendered during the reporting period are included in the disclosure above. Refer to note E3 of the Financial Statements for further analysis of the various benefits included.

Consultancy Costs

Consultancy costs include the directly incurred cost of external advice to management and exclude outsourced 'business-as-usual' functions. Consultancy costs are defined as engagements to provide intellectual or knowledge-based services (e.g. expert analysis and advice) through delivering reports, studies, assessments, recommendations, proposals, etc. that contribute to decision or policy-making in a contracting authority for a limited period to carry out a specific finite task.

	2017 €'000	2016 €'000
Legal advice	**544**	1,303
Financial/actuarial advice	**406**	302
Human resources	**708**	238
Business improvement	**7,680**	5,111
Other	**3,925**	5,162
Total consultancy costs	**13,263**	12,116
Consultancy costs capitalised	**6,908**	5,571
Income statement	**6,355**	6,545
Total	**13,263**	12,116

Legal Costs and Settlements

The table below provides a breakdown of amounts recognised as expenditure in the reporting period in relation to legal costs, settlements and conciliation and arbitration proceedings relating to contracts with third parties. This does not include expenditure incurred in relation to general legal advice received by Irish Water which is included in consultancy costs above.

	2017 €'000	2016 €'000
Legal fees	**1,366**	463
Settlements	**591**	1,383
Total	**1,957**	1,846
Number of Legal Cases	**18**	19

This disclosure note is net of payments made by our insurance company. The number of cases relate to cases initiated by the State body itself or legal proceedings taken against it excluding insurance proceedings and wayleave conciliations.

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2017 €'000	2016 €'000
Domestic		
— Board	**-**	-
— Employee	**2,530**	2,237
International		
— Board	**-**	-
— Employees	**20**	15
Total	**2,550**	2,252

Hospitality

The income statement includes the following hospitality expenditure:

	2017 €'000	2016 €'000
Staff hospitality	**12**	4
Client hospitality	**-**	-
Total	**12**	4

Report of the Board (continued)

Transparency

Irish Water is an open organisation which strives to be accountable and transparent to the public.

Irish Water is committed to improving the understanding of how the organisation operates and our role in delivering important national infrastructure and services to support the social and economic development of Ireland.

Protected Disclosures and Raising Concerns	The mechanism whereby Irish Water's employees and management may raise concerns, or make disclosures in the public interest, in accordance with the Protected Disclosures Act 2014, is outlined in the Ervia Group Protected Disclosures Policy. Further guidance on raising concerns for management and employees is outlined in the Ervia Group Code of Business Conduct. Section 22 of the Protected Disclosures Act 2014 requires Irish Water to publish an Annual Report relating to protected disclosures made under the Act. In accordance with this requirement, Irish Water confirms that in the year ending 31 December 2017, there were no protected disclosures to report.
Regulation of Lobbying	In accordance with the requirements of the Regulation of Lobbying Act 2015, Irish Water is registered on the lobbying register maintained by the Standards in Public Office Commission and has made the required returns for the return periods in 2017.
Prompt Payments	The Board of Irish Water acknowledges its responsibility for ensuring compliance with the provisions of EU Directive 2011/7/EC as transposed by the European Communities (Late Payment in Commercial Transactions) Regulations 2012 (the Regulations), 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 in respect of late payments was paid in 2017. Irish Water is a signatory to the Prompt Payment Code and pursuant to its provisions, undertakes to pay suppliers on time, to give clear guidance to suppliers on payment procedures and to encourage the adoption of the code by suppliers within their own supply chains. The Directors are satisfied that Irish Water has complied with the requirements of the Regulations and the Prompt Payment Code in all material respects.
Freedom of Information	The Company is subject to the provisions of the Freedom of Information Act 2014 ('FOI Act'). The Model Publication Scheme has been prepared and published in accordance with the requirements of Section 8 of the FOI Act. Its purpose is to facilitate access to records held by the Company by outlining the structure of the Company, including a description of its functions, powers, duties and services it provides to the public. The scheme is accessible through the Company's website. Under the scheme, the Company publishes as much information as possible in an open and accessible manner on a routine basis outside FOI, having regard to the principles of openness, transparency and accountability.
Data Protection	In order for Irish Water to provide the customer with water services, and to enable Irish Water to establish and manage the relationship with that customer, Irish Water needs to collect and use data relating to the customer. Irish Water currently complies with the Data Protection Acts 1988 and 2003. A project is currently in progress to ensure compliance with the EU General Data Protection Regulation ("GDPR").

Statement on the System of Internal Control

Scope of Responsibility

The Board of Irish Water acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated. This responsibility takes account of the requirements of the Code of Practice for the Governance of State Bodies (2016).

Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a tolerable level rather than to eliminate it and can only therefore provide reasonable but not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or detected in a timely way.

The system of internal control, which accords with guidance issued by the Department of Public Expenditure and Reform, has been in place in Irish Water for the year ended 31 December 2017 and up to the date of approval of the financial statements.

Management of Risk

A unitary Board structure has been adopted by Ervia which takes ultimate responsibility for the governance of Ervia and its subsidiaries, including Irish Water. Appropriate Committees are in place at the Ervia Group ("the Group") level that act in respect of the entire group. Ervia has an Audit and Risk Committee (the "ARC"), which acts in respect of the Group, comprising 5 non-executive Ervia Board members who have the necessary expertise required for the role. The ARC informs the Irish Water Board on an exceptions only basis of matters which arise during its review of the financial statements of Irish Water which are material to the approval of the Irish Water Financial Statements. From a governance perspective, Irish Water matters are overseen and managed by both the Irish Water Board and the Ervia Board.

Ervia has an established Internal Audit function which is adequately resourced and conducts a programme of work agreed with the ARC for the entire Group, including Irish Water. The Group Head of Internal Audit reports directly to the ARC and to the Group Chief Financial Officer.

In addition, Ervia has an established Risk function which is responsible for the design and implementation of an Enterprise Risk framework and ensures that sufficient risk management experience and skills are available throughout the Group, including Irish Water. In particular the Risk function:

- ensures that adequate and consistent processes and oversight are in place for identifying, measuring, managing, monitoring and reporting of risks to which Irish Water is exposed;
- ensures that oversight is maintained and an assessment is undertaken of the Irish Water risk profile including principal risks, emerging and trending risks and high impact low probability risks, including a description of these risks and associated mitigation measures or strategies and their effectiveness are undertaken; and
- embeds an appropriate risk management culture.

Irish Water observes its responsibility under the Code for ensuring an effective system of internal control is maintained and operated across the business units through the Integrated Assurance Forum. The Integrated Assurance Forum collates evidence from the various control activities performed across the organisation to build a comprehensive picture of internal control and risk. It has helped provide a greater understanding of the assurance activities in place which mitigate risk and maximise governance oversight to identify and remediate assurance gaps.

Risk and Control Framework

The Board of Irish Water has overall responsibility for ensuring the organisation has an appropriate risk management system in place. Processes to identify and evaluate business risks in Irish Water include:

- 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;

Report of the Board (continued)

- assessing Irish Water's ability to manage and mitigate the risks that do occur through associated mitigation plans and strategies;
- establishing an anti-fraud training programme for all staff; and
- oversight by the ARC, on behalf of the Ervia Board.

On a quarterly basis the ARC performs, on behalf of the Ervia Board, a substantive review of the Ervia Group Risk Register prepared by management, which includes risks relating to Irish Water, ensuring oversight of the key risks and reviewing the effectiveness of management's responses to key risk exposures facing the Ervia Group. The ARC also reviews the overall integrity of the risk management system including the effectiveness of the Group Risk function. The Group maintains a comprehensive suite of formal policies and procedures, to ensure that appropriate delegation practices are implemented across the Group including Irish Water. 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 focussed on preventing and detecting fraud.

The Irish Water 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;

- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Irish Water Board as well as Ervia management and the Ervia Board;
- Comprehensive budgeting systems with an annual budget subject which is reviewed and agreed by the Irish Water Board;
- Comprehensive system of financial reporting;
- Comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require Ervia Board approval, and are closely monitored by the Ervia Investment/ Infrastructure Committee;
- Comprehensive set of management information and performance indicators are produced quarterly using interrelated balanced scorecards;
- Robust finance and accounting systems and processes which support the regular flow of information to management and the Irish Water Board;
- Code of ethics requiring all employees to maintain the highest ethical standards;
- Comprehensive anti-fraud programme including anti-fraud policy, training and communication and a fraud response plan;
- Responsibility by Ervia and Irish Water management at all levels for internal control over respective business functions;
- Corporate Governance Framework, including financial control and risk assessment. This is monitored by Ervia and Irish Water management and by the Ervia Internal Audit and Risk functions;
- Ervia Internal Audit and Risk Functions both conduct systematic reviews of internal financial and operational controls. In these reviews, emphasis is focused on areas of greater risk as identified by risk assessment;
- An Integrated Assurance Framework across the "Three Lines of Defence" model which further consolidates and co-ordinates in a structured manner all assurance activities in the organisation. This ensures that Irish Water maximises risk and governance oversight on control to build organisational resilience and follows leading practice to meet all compliance obligations and governance requirements; and
- Internal control framework assessment that involves undertaking an extensive risk assessment, reviewing the operation and effectiveness of key control policies and processes, internal control self-assessment reporting, monthly performance reporting, supported by assurance activities of Risk, Internal and External Audit.

There were no material issues highlighted in our internal control environment through 2017.

Ongoing Monitoring and Review

The Board of Irish Water confirms formal procedures have been established for monitoring control processes and that control deficiencies are communicated to those responsible for taking corrective action and to management and the Board of Irish Water, where relevant, in a timely way. Irish Water confirms that it has procedures to monitor the effectiveness of its risk management and control procedures.

The monitoring and review of the effectiveness of the system of internal control in respect of Irish Water 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 ARC who oversee the work of the Ervia Risk function, the work of Ervia Internal Audit and comments made by the External Auditors in their management letter and/or other reports.

Ongoing monitoring by Irish Water management includes:

- review and consideration of the programme of Internal Audit and consideration of its reports and findings in respect of Irish Water. The programme of internal audit for Irish Water is also reviewed by the ARC;
- review of regular reporting from Internal Audit on the status of the internal control environment in Irish Water and the status of issues raised previously from their own reports. These reports are also reviewed by the ARC;
- participation in the Integrated Assurance Forum;
- preparation of reports by the Managing Director of Irish Water on the effectiveness of the operation of the system of internal control, both financial and operational; and
- monthly meetings with the Ervia Executive to discuss financial, risk, internal audit and operational matters pertaining to Irish Water.

Ongoing monitoring by the ARC includes;

- review of the Integrated Assurance Forum reports over the system of internal control in Irish Water. This is performed on a quarterly basis as part of the review of the Group results of the Integrated Assurance Forum;
- review of reports from the external auditors, which contain details of any material internal financial control issues; and
- review and consideration of the reports from the Managing Director of Irish Water on the effectiveness of the operation of the systems of internal control, both financial and operational.

Ongoing monitoring by the Irish Water Board includes;

- review and consideration of the reports from the Managing Director of Irish Water on the effectiveness of the operation of the systems of internal control, both financial and operational; and
- review of reports from the external auditors, which contain details of any material internal financial control issues.

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

Procurement

The Board of Irish Water is satisfied that there are procedures in place to ensure compliance with current procurement rules and guidelines and that procurement policies and procedures have been developed and published for all staff. During 2017 Irish Water complied with these procedures.

Irish Water adheres to the relevant provisions of the Public Spending Code.

Review of Effectiveness

The Board of Irish Water confirms that Irish Water has procedures to monitor the effectiveness of its risk management and control procedures. Irish Water's monitoring and review of the effectiveness of the system of internal control is informed by the work of the internal and external auditors, the ARC which oversees their work on behalf of the Ervia Board, and the senior management within Irish Water responsible for the development and maintenance of the internal control framework.

The Board of Irish Water confirms that Irish Water has reviewed the effectiveness of the system of internal control up to the date of approval of the Financial Statements covering financial, operational and compliance controls and risk management systems for 2017. A detailed review was performed by the ARC, which reported on its findings to the Ervia Board.

Internal Control Reporting

In 2017 Irish Water continued to manage a large number of assets with an aging infrastructure that requires significant investment. It faces ongoing challenges on its journey to deliver the business plan objectives. The key control procedures,

Report of the Board (continued)

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 2017. 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 2017, it should be noted, Irish Water continues to rely on certain controls operated by Local Authorities on its behalf.

No material weaknesses in the internal control environment were identified during the course of conducting the internal audits completed in 2017 that have not been or are not in the process of being addressed and that have not been brought to the attention of the ARC during the year.

External Auditor Review

The external auditors, Deloitte, have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances.

Conclusion

Principal Activities and Company Overview

The principal activities and an overview of the company are provided in the Irish Water Managing Director's Report on page 11.

Results for the Year

The results for the year are outlined in the Financial Review on page 34.

The policy direction from the shareholder is that Irish Water should not pay a dividend, rather any surplus generated from its operations should be reinvested in fixing water infrastructure.

Business Review and Future Developments

Commentaries on performance in the year ended 31 December 2017, including information on future developments are contained in the Operating Review on page 38.

Accounting Records

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

Political Donations

There were no political donations made during the financial year by the Company (2016: Nil).

Principal Risks and Uncertainties

The regulated and operational complexity of our business exposes the Company to a number of risks. Understanding our risks will enable the Company to take informed, better decisions and ultimately create added value for our stakeholders.

An outline of the principal risks faced by Irish Water is discussed in the Report on Risk Management and External Environment at pages 29-30. Refer to note C5 for full analysis of the Company's financial risk management objectives, policies and exposures.

Research and Development

Irish Water is currently involved in a number of innovative projects including the piloting of meter display units and developing assessment methodology for climate change adaptations. These projects are funded by the Water Services Innovation Fund administered by the Commission for Regulation of Utilities and will deliver benefits for our customers, the environment and the economy.

Key Performance Indicators

The Directors monitor performance using a suite of key performance indicators. These are considered in detail on pages 22, 24 and 25.

Directors and Secretary and their interests

The Directors had no beneficial interests in the Company at any time during the financial year or at 31 December 2017.

The Company Secretary, Liam O'Riordan, and Michael G. O'Sullivan (Executive Director) are beneficiaries of the Ervia Employee Share Ownership Plan.

Directors are free from any business or other relationships that could materially affect, or could appear to affect, the exercise of their independent judgement.

Directors disclose any interest and recuse themselves from Board discussions and decisions where there are conflicted or have a direct or indirect interest as required by the Code.

In compliance with "Guidelines on Contracts, Remuneration and Other Conditions of Chief Executives and Senior Management of Commercial State Bodies" issued in March 2006, no remuneration was provided to the Directors or Secretary in their capacity as such. In accordance with Section 1.4 of the Business and Financial Reporting Requirements annexed to the Code the remuneration of the Managing Director of Irish Water for the period is outlined in note E1 of the financial statements.

Companies Act 2014

Irish Water is exempt from the obligation to use the words 'Designated Activity Company' describing the company type in its name pursuant to section 151 of the Companies Act 2014.

Statement on Relevant Audit Information

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

Going Concern

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

The Company's forecasts and projections show that Irish Water is expected to meet its liabilities as and when they fall due through a combination of State funding/support and/or tariffs charged by Irish Water and/or third party borrowings. The Company's funding strategy remains reliant on short term commercial funding and Government support.

Accordingly the Director's continue to adopt the going concern basis in preparing the Company's financial statements.

Subsequent Events

There have been no material events between the balance sheet date and the date on which the financial statements were approved.

Independent Auditor

In February 2017, on the recommendation of the then Audit Committee (now the Audit and Risk Committee), the Ervia Board approved an extension to the term of appointment of the external audit firm Deloitte for two years, being the 2017 and 2018 financial year end audits, subject to agreement with Deloitte. Pursuant to Section 383(2) of the Companies Act 2014, the Auditor, Deloitte, Chartered Accountants and Statutory Audit Firm, will continue in office.

In accordance with Section 17(3) of the Water Services Act 2013, fees payable to Deloitte to audit the financial statements of Irish Water for the years 2017 and 2018 have been approved by the Minister for Housing, Planning and Local Government with the consent of the Minister for Communications, Climate Action and Environment and the Minister for Public Expenditure and Reform.

For and on behalf of Irish Water:

Mike Quinn

Mike Quinn
Chairman

Jerry Grant
Director

26th March 2018

Audit and Risk Committee Report

As Chairman of the Ervia Audit and Risk Committee, I am pleased to present the Audit and Risk Committee Report for the year ended 31 December 2017.

In accordance with the unitary board structure in place in Ervia, the Audit and Risk Committee is established at the Ervia Group level ("the Group") and acts on behalf of Ervia and its subsidiaries, which include Irish Water.

In February 2017, the Board of Ervia elected to consolidate the existing Audit and Risk Committees to form a single Audit and Risk Committee to ensure the maintenance of appropriate Ervia Board oversight of enterprise-wide audit-related issues, financial and other controls and risk management. The purpose of this report is to provide an insight into the workings of the Committee over the last twelve months and to detail how the Committee has met its responsibilities under its Terms of Reference and under the 2016 Code of Practice for the Governance of State Bodies ("the Code").

Role and Responsibilities of the Audit and Risk Committee

During the year the Committee has devoted significant time to fulfilling its key oversight responsibilities. It has engaged regularly with senior management, internal audit, risk management and the statutory auditors, Deloitte, to ensure the information the Committee receives is timely, accurate and appropriate, thereby enabling the Committee to discharge its duties effectively.

The Committee's role and responsibilities are set out in its Terms of Reference (which is available on the Ervia website www.ervia.ie) under the following headings:

- Internal Controls;
- Financial Statements;
- External Audit;
- Internal Audit;
- Risk Management;
- Other activities including Protected Disclosures and Anti-Fraud.

The Terms of Reference of the Committee are reviewed annually and amended when appropriate.

Membership

The Committee currently consists of 5 independent Non-Executive Ervia Board Members. Members of the Committee are appointed by the Ervia Board in consultation with the Chairperson of the Committee. For details of membership and attendance at meetings see the Ervia Annual Report at www.ervia.ie

Financial Reporting

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

During the year the Committee reviewed the draft Financial Statements. The Committee considered, and discussed with the Group CEO, Group Chief Financial Officer and external auditors, the appropriateness of the significant accounting policies, estimates and judgements applied in preparing these Financial Statements, together with presentational and disclosure matters.

Risk Management

The Committee is responsible for monitoring the Group's risk management activities, developments in key risks, and progress in delivery of the target risk profile, enabling the Ervia Board to confirm annually that it has conducted an assessment of the Group's principal risks. During the year the Committee reviewed the Group's risk profile, its risk management policies, its high impact/low probability exposures and its risk appetite and target profile, in conjunction with senior management for approval by the Ervia Board.

Internal Audit

The Committee is responsible for monitoring and reviewing, on behalf of the Ervia Board, the effectiveness and scope of the internal audit programme for the Group. It aims to ensure that the internal audit function is adequately resourced and has sufficient access to people and information, allowing it to review the Group's controls over significant risks within the organisation.

During the year the Committee reviewed the plans and work undertaken throughout the year by the Group's Internal Audit department and the consequential actions to be taken by management. The Committee was apprised regularly by the Head of Internal Audit in relation to the findings of internal audit reviews conducted in Irish Water. The Committee also considered management's progress in addressing the relevant issues, including the nature, extent and timeliness of its responses. The Committee reviewed and agreed a risk-based internal audit annual plan for 2018, including the resources required, and considered the alignment of internal audit focus and key risk areas for the Group. The Committee also performed its annual evaluation of the performance of internal audit during the year.

Integrated Assurance Forum and Internal Controls

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

During the year the Committee reviewed management's monitoring of the internal control processes through the Integrated Assurance Forum. Irish Water has a responsibility under the Code for ensuring that an effective system of internal control is maintained and operated. Irish Water undertakes this responsibility through the Group's Integrated Assurance Forum which collates evidence from the various control activities performed across Irish Water to build a comprehensive picture of internal control and risk. It has provided a greater understanding of the assurance activities in place which mitigate risk and maximise governance oversight to identify and remediate assurance gaps.

External Audit

The Committee is responsible for overseeing the initiation of the Group's audit tenders and the selection process for the external auditor, reviewing and monitoring the independence and remuneration of the external auditor and monitoring the external audit process.

During the year the Committee reviewed the external audit plan for the year and the findings of the external auditor from its audit of the annual financial statements. The Committee took appropriate steps to ensure that an objective and professional relationship was maintained with the external auditor. The Committee carried out an assessment of auditor independence and objectivity which included reviewing:

- the nature and extent of the services provided, and fees earned, for external audit and non-audit work carried out by the external auditor;
- compliance with the Group's policy governing

Audit and Risk Committee Report (continued)

the provision of non-audit services to the Group whereby clear rules and limits are in place, permitting non-audit services which do not present a conflict of interest;
- fees paid to the Group's auditor for audit services, audit related services and other non-audit services.

Audit and non-audit services are set out in note E1 of the Financial Statements. There were no instances during the year where the external auditor was engaged to provide services which were deemed to give rise to a conflict of interest. The Committee also assessed the external auditor's qualifications, expertise, resources and the effectiveness of the audit process.

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

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

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

Non-Audit Services

In order to ensure the independence and objectivity of the statutory auditors, the Committee reviews and approves the provision of all non-audit services by the external auditor.

The Committee will continue to monitor the type and level of services provided to prevent any perceived or actual impact on the external auditor's independence.

Audit and Risk Committee Effectiveness

The Committee completes an annual review of its own effectiveness. For 2017, the review was conducted internally through the completion of self-evaluation questionnaires and the overall review was satisfactory.

On behalf of the Ervia Audit and Risk Committee:

Peter Cross

Peter Cross
Chairman, Ervia Audit and Risk Committee

26th March 2018

Financial Statements

Contents

Independent Auditor's Report to the Members of Irish Water

Report on the audit of the financial statements

Opinion on the financial statements of Irish Water (the 'company')

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 2017 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.

The financial statements we have audited comprise:

- the Income Statement;
- the Statement of Other Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Statement of Cash Flows; and
- the related notes A1 to F7, including a summary of significant accounting policies as set out in note F5.

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 ("the relevant financial reporting framework").

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement for the Annual Report and Financial Statements, 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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.

Independent Auditor's Report to the Members of Irish Water (continued)

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

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

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the 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 Report of the Board is consistent with the financial statements and the Report of the Board has been prepared in accordance with the Companies Act 2014.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Board.

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 (August 2016) (the "Code of Practice"), we are required to report to you if the statement regarding the system of internal control required under the Code of Practice as included in the Corporate Governance Statement in the Annual Report does not reflect the Group's compliance with paragraph 1.9(iv) of the Code of Practice or if it is not consistent with the information of which we are aware from our audit work on the financial statements.We have nothing to report in this respect.

Gerard Fitzpatrick

For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

28th March 2018

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

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

Income Statement
for the year ended 31 December 2017

	Notes	2017 €'000	2016 €'000
Continuing operations			
Revenue	D1	**1,012,880**	906,231
Operating costs (excluding depreciation and amortisation)	E1	**(722,524)**	(777,022)
		290,356	129,209
Exceptional items – Customer refunds and associated processing costs	E2	**(177,535)**	-
Exceptional items – Grant income	E2	**177,535**	-
		-	-
Operating profit before depreciation and amortisation (EBITDA)		**290,356**	129,209
Depreciation and amortisation	B3	**(69,358)**	(60,044)
Operating profit		**220,998**	69,165
Finance costs	C4	**(11,595)**	(14,784)
Net finance costs	C4	**(11,595)**	(14,784)
Profit before income tax		**209,403**	54,381
Income tax expense	F3	**(13,695)**	-
Profit for the year		**195,708**	54,381

Statement of Other Comprehensive Income

for the year ended 31 December 2017

		2017 €'000	2016 €'000
Profit for the year		**195,708**	54,381
Other comprehensive (expense)/income			
Items that will not be reclassified to the income statement			
Defined benefit actuarial (losses)/gains	E5	**(466)**	3,230
Deferred tax credit relating to defined benefit obligations	F3	**(38)**	-
Total other comprehensive (expense)/income for the year		**(504)**	3,230
Total comprehensive income for the year		**195,204**	57,611

Balance Sheet

as at 31 December 2017

	Notes	31-Dec-17 €'000	31-Dec-16 €'000
Assets			
Non-current assets			
Property, plant and equipment	B1	**2,071,685**	1,638,045
Intangible assets	B2	**109,431**	86,887
Trade and other receivables	D2	**5,290**	6,290
Total non-current assets		**2,186,406**	1,731,222
Current assets			
Trade and other receivables	D2	**129,002**	128,657
Cash and cash equivalents	C3	**15,588**	57,056
Restricted deposits	E9	**3,523**	2,829
Total current assets		**148,113**	188,542
Total assets		**2,334,519**	1,919,764
Equity and liabilities			
Equity			
Share capital and share premium	F2	**(324,000)**	(54,000)
Capital contribution	F2	**(576,466)**	(576,466)
Retained earnings		**(57,879)**	137,325
Total equity		**(958,345)**	(493,141)
Liabilities			
Non-current liabilities			
Retirement benefit obligations	E5	**(28,797)**	(26,397)
Deferred revenue	D3	**(42,249)**	(17,561)
Provisions	E7	**(68,982)**	(57,489)
Trade and other payables	E6	**(307)**	(11,773)
Deferred tax liabilities	F3	**(13,733)**	-
Total non-current liabilities		**(154,068)**	(113,220)
Current liabilities			
Borrowings and other debt	C2	**(824,802)**	(974,101)
Deferred revenue	D3	**(18,000)**	(21,808)
Provisions	E7	**(32,150)**	(19,728)
Trade and other payables	E6	**(347,154)**	(297,766)
Total current liabilities		**(1,222,106)**	(1,313,403)
Total liabilities		**(1,376,174)**	(1,426,623)
Total equity and liabilities		**(2,334,519)**	(1,919,764)

For and on behalf of the Board:

Mike Quinn

26th March 2018

Mike Quinn
Chairman

Jerry Grant
Director

Date of Approval

Statement of Changes in Equity
for the year ended 31 December 2017

	Share capital and share premium €'000	Capital contribution €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2016	(54,000)	(296,466)	194,936	(155,530)
Profit for the year	-	-	(54,381)	(54,381)
Other comprehensive income, net of income tax	-	-	(3,230)	(3,230)
Total comprehensive income for the year	-	-	(57,611)	(57,611)
Capital contribution (note F2)	-	(280,000)	-	(280,000)
Balance at 31 December 2016	(54,000)	(576,466)	137,325	(493,141)
Profit for the year	**-**	**-**	**(195,708)**	**(195,708)**
Other comprehensive expense, net of income tax	**-**	**-**	**504**	**504**
Total comprehensive income for the year	**-**	**-**	**(195,204)**	**(195,204)**
Issue of shares (note F2)	**(270,000)**	**-**	**-**	**(270,000)**
Balance at 31 December 2017	**(324,000)**	**(576,466)**	**(57,879)**	**(958,345)**

Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 €'000	2016 €'000
Net cash from operating activities	F1	**328,420**	168,168
Cash flows from investing activities			
Payments for property, plant and equipment		**(449,963)**	(451,663)
Payments for intangible assets		**(39,439)**	(19,785)
Payments and receipts for net assets acquired from Local Authorities		**683**	(1,587)
Net cash used in investing activities		**(488,719)**	(473,035)
Cash flows from financing activities			
Proceeds from borrowings		**398,831**	352,543
Repayments of borrowings		**(550,000)**	(230,000)
Capital contributions received		**-**	184,000
Issue of shares		**270,000**	-
Net cash from financing activities		**118,831**	306,543
Net (decrease)/increase in cash and cash equivalents	C3	**(41,468)**	1,676
Cash and cash equivalents at 1 January	C3	**57,056**	55,380
Cash and cash equivalents at 31 December	C3	**15,588**	57,056

Notes to the financial statements

A	**Significant disclosures** This section contains notes to the financial statements which are of such significance that their disclosure is given more prominence in terms of layout.	A1 Basis of Preparation A2 Critical Accounting Judgements and Estimates A3 Subsequent Events A4 Going Concern
B	**Our infrastructure and the assets we use in our business** The Company owns a significant number of assets which it uses in its operations. The notes in this section provide information on the assets owned by the Company and an analysis of the income statement charge for the year in respect of these assets.	B1 Property, Plant and Equipment B2 Intangible Assets B3 Depreciation and Amortisation
C	**How we finance our business** This section contains the notes to the financial statements that detail the financing arrangements of the Company, as well as details in respect of the Company's financial risk management.	C1 Analysis of Net Debt C2 Borrowings and Other Debt C3 Cash and Cash Equivalents C4 Net Finance Costs C5 Financial Risk Management and Financial Instruments C6 Fair Value Measurement
D	**Where we generate our revenues** The notes in this section provide information on the revenue performance during the year, balances receivable held at year end and revenues to be recognised in future years.	D1 Revenue D2 Trade and Other Receivables D3 Deferred Revenue
E	**What we spend on operations and our people** This section analyses the operating costs incurred by the Company, including costs in respect of employees. Among other things, the notes in this section also provide information in respect of amounts owing at year end, an assessment of uncertain liabilities at year end and a profile of operating lease expenses payable in future years.	E1 Operating Costs (excluding depreciation and amortisation) E2 Exceptional Items E3 Employee Benefits E4 Key Management Compensation E5 Retirement Benefit Obligations E6 Trade and Other Payables E7 Provisions and Contingent Liabilities E8 Operating Lease Commitments E9 Restricted Deposits
F	**Other disclosures** This section sets out all remaining financial statements disclosures.	F1 Cash Generated from Operations F2 Equity F3 Tax F4 Related Parties F5 Statement of Significant Accounting Policies F6 New Accounting Standards and Interpretations F7 Approval of Financial Statements

A Significant disclosures

A1 Basis of Preparation

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

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 31 December 2017.

Certain comparative balances have been restated in the financial statements to align with current year presentation.

The Company's significant accounting policies are set out in note F5. These policies have been consistently applied to all years presented in these financial statements. In the process of applying these accounting policies, judgements and estimates are necessarily used which affect the amounts recognised in the financial statements. Refer to note A2 for details of the critical accounting judgements and estimates applied.

The Directors have a reasonable expectation that the Company will continue to meet its liabilities as they fall due for the foreseeable future and consequently the financial statements are prepared on a going concern basis. Please refer to further detail provided in note A4 to the financial statements.

As permitted by IAS 1 Presentation of Financial Statements, the Company has disclosed additional information in respect of exceptional items on the face of the income statement, to aid understanding of the Company's financial performance.

An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood.

A2 Critical Accounting Judgements and Estimates

In the process of applying its accounting policies set out in note F5, the Company is required to make certain estimates, assumptions and judgements that it believes are reasonable based on the information available. These estimates, assumptions and judgements affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these estimates could have a material effect on the financial statements.

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

(i) Critical judgements in applying the Company's accounting policies
The following are the critical judgements apart from those involving estimates (which are dealt with separately below) that the Company has made in the process of applying the accounting policies as set out in F5 and that have the most significant effect on the amounts recognised in the financial statements.

Notes to the financial statements (continued)

A2 Critical Accounting Judgements and Estimates (continued)

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

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

(a) Infrastructure assets and the assets we use in our business
As of 31 December 2017, the aggregate of the Company's property, plant and equipment (PP&E) and intangible assets was €2,181.1 million, which accounted for the majority of the Company's assets. Therefore the estimates and assumptions made in determining the carrying value are critical to the financial statements because the recoverability of the amounts, or lack thereof, could significantly affect the Company's future financial performance and position.

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

1. Reviewed the carrying amounts of PP&E and intangible assets at the reporting date to determine whether there is any indicator of impairment,
2. Tested intangible assets under development (€32.8 million) for impairment,
3. Compared the RAB value with the aggregate of the carrying amounts of PP&E and intangible assets.

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

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

Depreciation and useful lives
The Company recognises depreciation and amortisation charges annually (2017: €69.4 million) which is primarily calculated to write down the cost of PP&E and intangible assets over their expected useful economic lives. The determination of estimated useful lives of assets are based on experience, expectations about the future and other factors. The estimated useful lives for major asset classifications are set out in note F5. The Company reviews the useful lives of assets annually and any required changes are adjusted prospectively. Due to the significance of asset investment by the Company, variations between actual and estimated useful economic lives could have a material impact on future results, either positively or negatively. Historically, no changes in useful lives have been identified by the Company that have had a material impact on operating results.

A2 Critical Accounting Judgements and Estimates (continued)

(b) Unbilled revenue

The Company raises bills and recognises revenue in accordance with its right to receive revenue in line with the Company's accounting policy (F5). For water and wastewater customers, the revenue recognised depends on the amount due for the services provided between the date of the last meter read and year end. Meters are read on a cyclical basis and the Company recognises revenue for unbilled values based on estimated amounts from the last billing date to the end of the financial year. The estimated value since the last bill, takes into account the rolling average daily rate or similar information for comparable customers by the number of days outstanding. The migration of non-domestic billing from the Local Authorities to the Company was completed during the year, which has enhanced this estimation process with additional historical data.

(c) Provision for impairment of trade receivables

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

(d) Retirement benefit obligations

The Company's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

(e) Provision for other liabilities and charges

The assessments of the financial outcome of uncertain commercial and legal positions involves estimation uncertainty and requires the use of judgement, estimation and assumptions. The amounts recognised as a provision are the Company's best estimate of the expenditure required to settle present obligations at the reporting date. In assessing the likely outcome, the Company bases its assessment on available facts, historical experience, advice from legal advisors and other experts and additional relevant factors that are believed to be reasonable in the circumstances. A revised estimate is established at each reporting date to ensure that the amounts accrued correspond to the best estimate of the costs eventually to be borne by the Company. The required provision may change in the future due to new developments and as additional information becomes available. Refer to note E7 for further detail.

(f) Taxation

Provisions for tax liabilities require the Company to make estimates in relation to tax issues and exposures. Amounts provided are based on the Company's interpretation of tax laws and the likelihood of settlement. Where final tax outcome is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made. In line with IAS 12, the Company reassessed its unrecognised deferred tax assets at 31 December 2017 and recognised these to the extent the criteria as set out in IAS 12 were met. Refer to note F3.

Notes to the financial statements (continued)

A3 Subsequent Events

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

A4 Going Concern

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

The Company's forecasts and projections show that Irish Water is expected to meet its liabilities as they fall due through a combination of State funding and support, tariffs charged by Irish Water and third party borrowings. Irish Water's state funding for 2018 was agreed and approved in Q4 2017 as part of the government budgetary process. The revised framework for the Company's long-term funding model is outlined in the Water Services Act 2017, following the discontinuance of domestic water charges.

In addition the Directors believe that the Government has demonstrated its commitment to the continued funding of Irish Water, through the inclusion of the Company's capital investment programme in the National Development Plan. The Water Services Policy Statement and the approval of the Strategic Funding Plan is a long-term commitment to improving Ireland's water and wastewater infrastructure, providing the basis for Irish Water's annual funding allowance.

Following consideration of the facts set out above, and while noting the Company's net current liability position of €1.1 billion at 31 December 2017 (2016: €1.1 billion), the Directors have reasonable expectation that the Company will continue to meet its liabilities as they fall due for the foreseeable future and consequently the financial statements are prepared on a going concern basis. The Directors have concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern over the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

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

B Our infrastructure and the assets we use in our business

B1 Property, Plant and Equipment

	Infrastructure assets €'000	Operational assets €'000	Non-network assets €'000	Assets under construction €'000	Total €'000
Cost					
At 1 January 2016	570,053	220,078	23,693	461,994	1,275,818
Additions	-	-	323	442,244	442,567
Transfers	163,172	244,511	18,114	(425,797)	-
Disposals	-	-	(59)	-	(59)
At 31 December 2016	733,225	464,589	42,071	478,441	1,718,326
Additions	**-**	**-**	**-**	**480,645**	**480,645**
Transfers	**147,440**	**257,059**	**15,905**	**(420,404)**	**-**
At 31 December 2017	**880,665**	**721,648**	**57,976**	**538,682**	**2,198,971**
Accumulated depreciation and impairment losses					
At 1 January 2016	(16,374)	(14,379)	(9,886)	-	(40,639)
Depreciation for the year	(15,275)	(18,104)	(6,297)	-	(39,676)
Disposals	-	-	34	-	34
At 31 December 2016	(31,649)	(32,483)	(16,149)	-	(80,281)
Depreciation for the year	**(15,351)**	**(24,818)**	**(6,836)**	**-**	**(47,005)**
At 31 December 2017	**(47,000)**	**(57,301)**	**(22,985)**	**-**	**(127,286)**
Carrying amounts					
At 31 December 2016	701,576	432,106	25,922	478,441	1,638,045
At 31 December 2017	**833,665**	**664,347**	**34,991**	**538,682**	**2,071,685**

During the year, the Company capitalised €5.8 million in interest (2016: €5.1 million). The capitalisation rate was 1.7% (2016: 1.6%). The Company also capitalised €14.3 million in payroll costs during the year (2016: €6.0 million).

Capital commitments

	2017 €'000	2016 €'000
Capital expenditure that has been contracted for but has not been provided for	**357,247**	277,583

Notes to the financial statements (continued)

B2 Intangible Assets

	Software €'000	Software and other under development €'000	Total €'000
Cost			
At 1 January 2016	116,519	1,269	117,788
Additions	-	16,049	16,049
Transfers in year	5,268	(5,268)	-
At 31 December 2016	121,787	12,050	133,837
Additions	**-**	**44,897**	**44,897**
Transfers in year	**24,154**	**(24,154)**	**-**
At 31 December 2017	**145,941**	**32,793**	**178,734**
Accumulated amortisation and impairment losses			
At 1 January 2016	(26,582)	-	(26,582)
Amortisation for the year	(20,368)	-	(20,368)
At 31 December 2016	(46,950)	-	(46,950)
Amortisation for the year	**(22,353)**	**-**	**(22,353)**
At 31 December 2017	**(69,303)**	**-**	**(69,303)**
Carrying amounts			
At 31 December 2016	74,837	12,050	86,887
At 31 December 2017	**76,638**	**32,793**	**109,431**

During the year, the Company capitalised €0.2 million in interest (2016: €0.2 million). The Company also capitalised €1.6 million in payroll costs during the year (2016: €0.6 million).

B3 Depreciation and Amortisation

	2017 €'000	2016 €'000
Depreciation	**(47,005)**	(39,676)
Amortisation of intangible assets	**(22,353)**	(20,368)
Total	**(69,358)**	(60,044)

C How we finance our business

C1 Analysis of Net Debt

		31-Dec-17 €'000	31-Dec-16 €'000
Total borrowings	C2	**(824,802)**	(974,101)
Less cash and cash equivalents	C3	**15,588**	57,056
Net debt		**(809,214)**	(917,045)

		2017 €'000	2016 €'000
Net debt reconciliation			
At 1 January		**(917,045)**	(890,113)
Cash from operations		**343,453**	186,916
Interest paid		**(15,033)**	(18,748)
Net capital expenditure		**(488,719)**	(473,035)
Issue of shares/shareholder capital contribution	F2	**270,000**	280,000
Other non cash items		**(1,870)**	(2,065)
At 31 December		**(809,214)**	(917,045)

C2 Borrowings and Other Debt

This note provides information about the contractual terms of the Company's interest-bearing borrowings. For more information about the Company's exposure to interest rate risk and liquidity risk, see note C5.

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

	Loans from financial institutions 31-Dec-17 €'000	Facilities from Government and Government related agencies 31-Dec-17 €'000	Total 31-Dec-17 €'000	Loans from financial institutions 31-Dec-16 €'000	Facilities from Government and Government related agencies 31-Dec-16 €'000	Total 31-Dec-16 €'000
Less than one year	**(524,802)**	**(300,000)**	**(824,802)**	(674,101)	(300,000)	(974,101)
Current borrowings	**(524,802)**	**(300,000)**	**(824,802)**	(674,101)	(300,000)	(974,101)
Total borrowings	**(524,802)**	**(300,000)**	**(824,802)**	(674,101)	(300,000)	(974,101)

At 31 December 2017, the Company's borrowings comprise of facilities drawn from the Ireland Strategic Investment Fund and commercial banks.

Notes to the financial statements (continued)

C3 Cash and Cash Equivalents

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

	2017 €'000	2016 €'000
Cash and cash equivalents	**15,588**	57,056
Total	**15,588**	57,056

	2017 €'000	2016 €'000
At 1 January	**57,056**	55,380
(Decrease)/increase in cash and cash equivalents in the statement of cash flows	**(41,468)**	1,676
At 31 December	**15,588**	57,056

C4 Net Finance Costs

		2017 €'000	2016 €'000
Finance costs			
Interest and finance costs		**(17,132)**	(19,361)
Interest capitalised		**6,008**	5,326
Pension net interest cost	E5	**(471)**	(749)
Total finance costs		**(11,595)**	(14,784)
Net finance costs		**(11,595)**	(14,784)

C5 Financial Risk Management and Financial Instruments

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

At 31 December 2017

	Total at amortised cost €'000
Financial assets	
Trade and other receivables (excluding prepayments)	**132,848**
Cash and cash equivalents	**15,588**
Restricted deposits	**3,523**
	151,959
Financial liabilities	
Borrowings and other debt[1]	**(824,802)**
Trade and other payables	**(347,461)**
	(1,172,263)
Net financial liabilities	**(1,020,304)**

At 31 December 2016

	Total at amortised cost €'000
Financial assets	
Trade and other receivables (excluding prepayments)	134,787
Cash and cash equivalents	57,056
Restricted deposits	2,829
	194,672
Financial liabilities	
Borrowings and other debt[1]	(974,101)
Trade and other payables	(309,539)
	(1,283,640)
Net financial liabilities	(1,088,968)

1 The fair value of borrowings and other debt as at 31 December 2017 was €824.8 million (2016: €974.1 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.

Notes to the financial statements (continued)

C5 Financial Risk Management and Financial Instruments (continued)

(i) Credit risk

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

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

	31-Dec-17 €'000	31-Dec-16 €'000
Trade and other receivables (excluding prepayments)	**132,848**	134,787
Cash and cash equivalents	**15,588**	57,056
Restricted deposits	**3,523**	2,829
Total	**151,959**	194,672

(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.

Ervia Group Treasury, 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. It is the Company's policy that cash is mainly placed on deposit with institutions who maintain an investment grade credit rating. Ervia Group Treasury regularly evaluates and measures its treasury counterparty exposures.

(i) (b) Trade related credit risk

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

(ii) Funding and liquidity risk

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

Ervia Group Treasury, on behalf of the Company, develops and maintains relationships with financial institutions in order to develop their understanding of the business and to build their long-term commitment to the Company. All banking and treasury services are sourced at competitive prices. The Ervia Group Head of Treasury, supported by the Ervia Group Chief Financial Officer, the Ervia Group Chief Executive Officer, the Irish Water Head of Finance and other appropriate senior managers, are responsible for managing and maintaining relationships.

Cash and liquidity management are undertaken centrally by the Ervia Group treasury function. Ervia Group Treasury is responsible for ensuring the Company has access to sufficient liquidity to ensure that the Company is able to settle obligations arising through its day-to-day operations, maturing debt obligations and capital investment outlays. Cash pooling is carried out and account balances netted where possible to minimise cash leakage and the interest expense.

Ervia Group Treasury 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 are used to manage liquidity.

C5 Financial Risk Management and Financial Instruments (continued)

(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 Bonds, Money Market Funds and Certificates of Deposit. The Company will invest surplus cash in euro. The Company's policy is to develop and maintain relationships to facilitate its long-term liquidity, access to capital and availability of risk management facilities.

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

(ii) (b) Funding

At 31 December 2017, Irish Water's total borrowings were €824.8 million (including capitalised loan fees). At 31 December 2017, the Company had undrawn facilities of €435.0 million and €15.6 million of cash and cash equivalents. The Company has a statutory borrowing limit of €2,000.0 million, which sets the upper limit for drawn facilities.

Key activities in relation to debt management undertaken during 2017 include; the rollover of €800.0 million of bilateral funding facilities with a number of commercial banks and the refinancing of the existing €450.0 million of funding facilities from the Ireland Strategic Investment Fund. The Company has continued to roll its debt financing for periods of one year, pending implementation by the Government of the recommendations of the Joint Oireachtas Committee on the Future Funding of Domestic Water Services and a Department of Housing, Planning and Local Government led Working Group on the Future Funding Model for Irish Water. At 31 December 2017, the weighted average rate on the Company's portfolio of outstanding borrowings was 1.32% (2016: 1.30%) and the average maturity of its debt was 0.55 years (2016: 0.51 years). In 2017, a new funding framework was set out in the Water Services Act 2017, to give the Company increased funding certainty on a multi-annual basis having regard for the Government budgetary processes. The framework is to provide funding certainty and stability for the Company so that it can plan and deliver requisite investment in water and wastewater infrastructure.

During 2017, Irish Water issued 540 'B' shares for a subscription price of €270.0 million and allotted such shares in equal amounts to the Minister for Finance and the Minister for Housing, Planning and Local Government.

Notes to the financial statements (continued)

C5 Financial Risk Management and Financial Instruments (continued)

(ii) (c) Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including the undiscounted interest payment associated with borrowings.

	Carrying amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
At 31 December 2017						
Borrowings	**(824,802)**	**(825,937)**	**(825,937)**	**-**	**-**	**-**
Trade and other payables	**(347,461)**	**(347,461)**	**(347,154)**	**-**	**(307)**	**-**
Total	**(1,172,263)**	**(1,173,398)**	**(1,173,091)**	**-**	**(307)**	**-**
At 31 December 2016						
Borrowings	(974,101)	(976,124)	(976,124)	-	-	-
Trade and other payables	(309,539)	(309,539)	(297,766)	-	(11,773)	-
Total	(1,283,640)	(1,285,663)	(1,273,890)	-	(11,773)	-

(iii) Market risk

Market risk is the possibility that changes in market factors 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. Ervia Group Treasury 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 debt in place for the Company is short term in nature and has been maintained at floating interest rates, pending implementation by the Government of the recommendations of the Joint Oireachtas Committee on the Future Funding of Domestic Water Services and a Department of Housing, Planning and Local Government led Working Group on the Future Funding Model for the Company.

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.

C5 Financial Risk Management and Financial Instruments (continued)

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

	2017 €'000	2017 %	2016 €'000	2016 %
At fixed rates	**-**	**0.0%**	-	0.0%
At floating rates	**(824,802)**	**100.0%**	(974,101)	100.0%
Total	**(824,802)**	**100.0%**	(974,101)	100.0%

Interest costs on variable rate loans are reset on a periodic basis over the prevailing market rate.

Cash flow sensitivity analysis for floating rate debt
Based on debt balances outstanding at 31 December 2017 it is estimated that a general increase of 50 basis points in interest rates at 31 December would impact full year profit before taxation by the amounts shown below:

	Profit before taxation gain/(loss) 31-Dec-17 €'000	Profit before taxation gain/(loss) 31-Dec-16 €'000
50 bp increase	**(4,124)**	(4,871)
50 bp decrease	**4,124**	4,871

C6 Fair Value Measurement

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.

Notes to the financial statements (continued)

D Where we generate our revenues

D1 Revenue

		2017 €'000	2016 €'000
Government subvention revenue	(i)	**751,663**	652,100
Non-domestic revenue		**261,217**	231,755
Domestic revenue	(ii)	**-**	22,376
Total		**1,012,880**	906,231

(i) The Government, acting in its capacity as Government, purchased from the Company a certain volume of water at the market price on behalf of customers and in line with the allowed revenue set by the Regulator. This revenue is recognised by the Company on a systematic basis to reflect the timing of the sale of goods to the Government. At 31 December 2017, all subvention revenue recognised by the Company has been billed and collected.

(ii) During 2016, legislation was introduced to suspend domestic water charges from the end of the first billing cycle of 2016. This suspension was then extended to 31 December 2017 following recommendation from the Joint Oireachtas Committee on the Future Funding of Domestic Water Services. Under the Water Services Act 2017, direct charging for normal usage of domestic water was discontinued and replaced by funding from the Exchequer on behalf of domestic households. Following the new legislation, and in order for Irish Water as the national water utility to have a role in the management of water resources and water conservation, an excessive charging framework for domestic customers will be developed in conjunction with the CRU.

D2 Trade and Other Receivables

	2017 €'000	2016 €'000
Trade receivables	**42,752**	51,917
Unbilled consumption	**54,058**	36,007
Prepayments	**1,444**	160
Restricted cash balances held by Local Authorities	**2,193**	2,878
Amounts due from related parties	**33,609**	36,245
Other receivables	**236**	7,740
Total	**134,292**	134,947
Non-current	**5,290**	6,290
Current	**129,002**	128,657
Total	**134,292**	134,947

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

Credit risk
Trade receivables consists of amounts due from a large number of non-domestic customers, spread across diverse industries.

D2 Trade and Other Receivables (continued)

The Company completed the migration of non-domestic billing processes of the 31 Local Authorities in 2017, bringing all aspects of water services management for billing and revenues under the Company. In line with the agreed Service Level Agreements, the Local Authorities, acting as agents for the Company, previously billed and collected non-domestic trade receivables on the Company's behalf.

The credit risk on trade receivables is managed through the 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. The impairment allowance in respect of trade receivables for credit losses is determined by the application of expected default and loss factors to the various non-domestic customers on a portfolio basis, in addition to impairment allowances taken against individual accounts. The Company has a number of other receivable balances due from Local Authorities and other related parties. Refer to note F4 for the full details of the Company's related party disclosures. The Company actively engages with the Local Authorities on a regular basis and the Company believes it has minimal credit risk arising from its transactions with Local Authorities.

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

	2017 €'000	2016 €'000
Trade receivables billed	**42,752**	51,917
Trade receivables unbilled	**54,058**	36,007
Restricted cash balances held by Local Authorities	**2,193**	2,878
Amounts due from related parties	**33,609**	36,245
Other receivables	**236**	7,740
Total	**132,848**	134,787

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 2017 €'000	Net receivable 2016 €'000
Not past due	**94,169**	92,792
0-365 days	**38,679**	40,054
1-2 years	**-**	1,941
Total	**132,848**	134,787

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

	2017 €'000	2016 €'000
At 1 January	**(127,854)**	(49,961)
Impairment loss recognised	**(26,283)**	(84,406)
Allowance utilised	**83,421**	6,513
At 31 December	**(70,716)**	(127,854)

The suspension of domestic water charges negatively impacted domestic collection rates during 2016 and consequently the Company recognised an additional impairment allowance in the prior year. The residual domestic debtor has been provided for in full in 2017.

Notes to the financial statements (continued)

D3 Deferred Revenue

	2017 €'000	2016 €'000
At 1 January	**(39,369)**	(33,860)
Received in year	**(63,557)**	(45,626)
Credited to the income statement	**42,677**	40,117
At 31 December	**(60,249)**	(39,369)
Analysed as follows:		
Non-current	**(42,249)**	(17,561)
Current	**(18,000)**	(21,808)
Total	**(60,249)**	(39,369)

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.

E What we spend on operations and our people

E1 Operating Costs (excluding depreciation and amortisation)

Operating costs are stated after charging:

		2017 €'000	2016 €'000
Employee benefit expense	E3	**(47,507)**	(36,451)
Local Authority Service Level Agreement payroll & functional support overheads and secondment of employees	F4	**(220,882)**	(247,626)
Hired & contracted services and central transactional & support service costs		**(218,880)**	(221,996)
Materials, maintenance and plant hire		**(104,933)**	(105,490)
Rent, rates, utilities and insurance		**(72,760)**	(77,315)
Charge for bad and doubtful receivables	D2	**(26,283)**	(84,406)
Release in respect of asset acquisition	(i)	**4,274**	26,959
Other operating costs		**(35,553)**	(30,697)
Total		**(722,524)**	(777,022)

(i) On 1 January 2014, the Company acquired the net assets of the water and wastewater infrastructure assets from the Local Authorities. As part of the acquisition certain assets and liabilities (provisions, accruals and adjustments to debtors) were initially recognised at fair value. During 2017, following detailed assessment, the Company released €4.3 million (2016: €27.0 million) in respect of certain assets and liabilities acquired. Refer to note A2.

	2017 €'000	2016 €'000
(a) Auditor's remuneration[1]		
– statutory audit services	**(190)**	(190)
– other audit related assurance services	**-**	(25)
– tax advisory services	**-**	-
– other non-audit services	**-**	-
Total	**(190)**	(215)

[1] amounts net of irrecoverable VAT

(b) Directors' remuneration		
Directors' fees	**-**	-
Directors – emoluments*	**(576)**	(504)
Directors – pension contributions*	**(88)**	(80)
Directors – termination benefits**	**-**	(573)
Total	**(664)**	(1,157)

* In accordance with the Articles of Association of the Company, the Directors are not entitled to receive fees. Remuneration of the Directors as disclosed above represents an apportionment of total remuneration earned in their capacity as salaried employees of Ervia, based on services provided to the Company.

** See further details below in respect of termination benefits relating to the former Managing Director.

Notes to the financial statements (continued)

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

(c) Managing Director salary and benefits

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

	2017 €'000	2016 €'000
(c) (i) Current Managing Director**		
Managing Director's basic salary	**(200)**	(133)
Other short-term employee benefits	**(13)**	(10)
Post employment benefits – pension contributions	**(32)**	(21)
Total	**(245)**	(164)

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

	2017 €'000	2016 €'000
(c) (ii) Former Managing Director		
Managing Director's basic salary	**-**	(67)
Other short-term employee benefits	**-**	(4)
Post employment benefits – pension contributions	**-**	(11)
Termination benefits – severance***	**-**	(100)
Termination benefits – defined benefit pension contributions payable***	**-**	(473)
Total	**-**	(655)

***Termination benefits related to the former Managing Director and were binding contractual entitlements inherited from his previous employment with Dublin City Council. The termination benefits included a severance payment to the former Managing Director and a payment to the Ervia Defined Benefit Scheme to cover post-retirement pension entitlements, both arising from the terms of his Dublin City Council employment arrangements.

E2 Exceptional Items

Pursuant to section 22 of the Water Services Act 2017, Irish Water was required to refund the cash previously collected from domestic customers in respect of the relevant billing periods from 01 January 2015 to 31 March 2016. The amount of relevant cash collected by Irish Water during 2015 and 2016 was in the amount of €171.7 million. As permitted by IAS 1 Presentation of Financial Statements, Irish Water has elected to present the refund expense of €171.7 million as an exceptional item. In addition the associated administration costs of the refund programme in the amount of €5.9 million are also presented as an exceptional item. The refund programme, including the associated administration costs of €5.9 million, has been fully funded by the Government, through a government grant with the sole condition that the funding is used to refund domestic customers and to discharge the associated administration costs.

As at 31 December 2017, €177.5 million had been received from Government in grant funding and €163.7 million had been paid out under the refund programme as presented in the statement of cash flows (note F1). The residual grant funding of €13.8 million held by Irish Water as at 31 December 2017 is presented in cash and cash equivalents (note C3) and the corresponding liability of €13.8 million is presented in trade and other payables (note E6). The remaining liability of €13.8 million is expected to be discharged in 2018.

E3 Employee Benefits

(a) Aggregate employee benefits

	2017 €'000	2016 €'000
Staff short-term benefits	**(49,644)**	(36,069)
Post employment benefits - pension contributions	**(8,555)**	(2,515)
Employer's contribution to social welfare	**(5,196)**	(3,883)
Termination benefits	**-**	(573)
	(63,395)	(43,040)
Capitalised payroll	**15,888**	6,589
Employee benefit expense charged to profit or loss	**(47,507)**	(36,451)

The employee benefit expense before capitalised payroll of €63.4 million for 2017 includes 148 staff previously seconded from the Local Authorities and the Department of Housing, Planning and Local Government to Irish Water. These staff became permanent employees of the Company in January 2017. The comparable cost of these individuals for 2016 is included in non-payroll costs in note E1.

(b) Staff short-term benefits

	2017 €'000	2016 €'000
Wages and salaries	**(47,883)**	(34,978)
Overtime	**(77)**	(129)
Allowances	**(881)**	(271)
Other	**(803)**	(691)
Total	**(49,644)**	(36,069)

(c) Termination benefits

		2017 €'000	2016 €'000
Termination benefits	E4	**-**	(573)
Total		**-**	(573)

The average number of employees employed by the Company was 752 for 2017 (2016: 592).

E4 Key Management Compensation

	2017 €'000	2016 €'000
Short-term employee benefits*	**(1,015)**	(1,019)
Post employment benefits*	**(270)**	(128)
Termination benefits - severance**	**-**	(100)
Termination benefits - other**	**-**	(473)
Total	**(1,285)**	(1,720)

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

** Termination benefits related to the former Managing Director and were binding contractual entitlements inherited from his previous employment with Dublin City Council. The termination benefits included a severance payment to the former Managing Director and a payment to the Ervia Defined Benefit Scheme to cover post-retirement pension entitlements, both arising from the terms of his Dublin City Council employment arrangements.

Notes to the financial statements (continued)

E5 Retirement Benefit Obligations

The Company operates a defined benefit scheme and a defined contribution scheme. In addition certain employees of the Company, that were previously employees of Ervia, participate in the Ervia defined benefit pension scheme.

(a) Defined benefit pension scheme

The Company operates a contributory defined benefit scheme as required under sections 19 and 27 of the Water Services (No. 2) Act 2013 in relation to employees of the Company, that were previously employed by either the Local Authorities or by the Department of Housing, Planning and Local Government. The Irish Water defined benefit scheme was established on 27 January 2017. The scheme provides retirement benefits based on final pensionable salary and net pensionable salary in respect of pensionable service together with a "wrap around element" which broadly maintains the final salary linkage in respect of pensionable service completed in either the Local Government Superannuation Scheme or any Superannuation Scheme applicable to Civil Servants. The Company had recognised a liability for the relevant "wrap around element" as a defined benefit constructive obligation as at 31 December 2016.

The defined benefit scheme is administered by a Board of Trustees which comprises member and employer representatives. The Board of Trustees is responsible for the management and governance of the scheme including compliance with all relevant laws and regulations. The assets of the scheme are held separately from those of the Company in trustee administered funds. An initial actuarial valuation was carried out as at the commencement date of 27 January 2017. The next actuarial valuation is due with an effective date of 1 April 2019.

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

Asset volatility

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

Changes in bond yields

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

Salary inflation

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

Inflation

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

Life expectancy

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

E5 Retirement Benefit Obligations (continued)

	2017 €'000	%	2016 €'000
Investments quoted in active markets:			
Equities	**2,123**	**62.0%**	-
– developed markets	**2,123**		-
Bonds	**729**	**21.3%**	-
– nominal	**361**		-
– inflation-linked	**368**		-
Cash	**428**	**12.5%**	-
Unquoted investments:			-
Property/forestry	**144**	**4.2%**	-
Total fair value of plan assets at 31 December	**3,424**	**100.0%**	-
Defined benefit obligation	**(32,221)**		(26,397)
Net pension liability at 31 December	**(28,797)**		(26,397)

Investment strategy
The Company and Trustees have agreed an initial investment strategy that is growth orientated (75% growth /25% liability matching).

Analysis of the amounts recognised in the income statement

	2017 €'000	2016 €'000
Current service cost	**(4,237)**	(1,648)
Net interest on the net defined benefit liability	**(471)**	(749)
Total pension cost recognised in the income statement	**(4,708)**	(2,397)

Remeasurements recognised in other comprehensive income

	2017 €'000	2016 €'000
Return on plan assets excluding interest income	**115**	-
Experience gains on liabilities	**434**	10,395
Effect of changes in financial assumptions	**(1,015)**	(7,165)
Total pension (loss)/gain recognised in other comprehensive income	**(466)**	3,230

Notes to the financial statements (continued)

E5 Retirement Benefit Obligations (continued)

Movement in the fair value of plan assets

	2017 €'000	2016 €'000
Opening fair value of plan assets	**-**	-
Interest income on plan assets	**31**	-
Return on plan assets (excluding interest income)	**115**	-
Contributions by employers	**2,774**	-
Contributions by members	**521**	-
Administration expenses	**-**	-
Benefits paid	**(17)**	-
Closing fair value of plan assets	**3,424**	-

Movement in the present value of the defined benefit obligation

	2017 €'000	2016 €'000
Opening defined benefit obligation	**(26,397)**	(27,230)
Service cost	**(4,237)**	(1,648)
Interest cost	**(502)**	(749)
Contributions by members	**(521)**	-
Benefits paid	**17**	-
Actuarial (loss)/gain	**(581)**	3,230
Closing defined benefit obligation	**(32,221)**	(26,397)

The weighted average duration of the defined benefit obligation at 31 December 2017 was approximately 32 years. The Company expects to contribute €3.3 million to its pension plan in 2018.

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

	2017	2016
Discount rate	**1.85%**	1.90%
Basic salary increases*	**2.20%**	2.15%
Pension increases	**1.70%**	1.65%
Inflation	**1.70%**	1.65%

*Plus salary scale to allow for promotional increases.

E5 Retirement Benefit Obligations (continued)

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

	2017	2016
Retiring today		
Males	**22.2**	22.0
Females	**24.7**	24.6
Retiring in 25 years		
Males	**25.2**	25.1
Females	**27.3**	27.2

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Decrease by 7.7%/increase by 8.5%
Price inflation	Increase/decrease by 0.25%	Increase by 8.4%/decrease by 7.7%
Salary	Increase/decrease by 0.25%	Increase by 11.5%/decrease by 11.0%
Longevity in retirement	Increase/decrease by one year	Increase by 2.7%/decrease by 2.6%

(b) 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 2017, the contributions paid to Ervia in respect of the Company's employees was €1.1 million (2016: €0.8 million). These costs are included in the Company's employee benefit expense (set out in note E3) and are identified as a related party transaction in note F4.

(c) Defined contribution pension scheme/Personal retirement savings accounts (PRSAs)
During the year ended 31 December 2017, the Company contributed €3.1 million (2016: €0.2 million), on behalf of its employees, which was charged to the income statement. During the year ended 31 December 2016, the Company contributed €1.5 million, in respect of PRSAs, on behalf of its employees, which was charged to the income statement. PRSAs were no longer facilitated by the Company, subsequent to the establishment of the Irish Water Defined Contribution Scheme in December 2016.

Notes to the financial statements (continued)

E6 Trade and Other Payables

		2017 €'000	2016 €'000
Trade payables due		**(22,058)**	(20,601)
Accruals		**(192,724)**	(172,497)
Amounts due to related parties		**(92,076)**	(89,769)
Other payables		**(17,499)**	(16,561)
Taxation and social insurance creditors[1]		**(9,311)**	(10,111)
Customer refunds and associated processing costs payable	E2	**(13,793)**	-
Total		**(347,461)**	(309,539)

	2017 €'000	2016 €'000
Analysed as follows:		
Non-current	**(307)**	(11,773)
Current	**(347,154)**	(297,766)
Total	**(347,461)**	(309,539)

	2017 €'000	2016 €'000
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	**(1,447)**	(925)
VAT	**(7,864)**	(9,186)
Total	**(9,311)**	(10,111)

E7 Provisions and Contingent Liabilities

Provisions

	2017 €'000
At 1 January	**(77,217)**
Provisions released/made in the year (net)	**(16,059)**
Provisions utilised in the year	**2,412**
Reclassification from trade and other payables	**(10,268)**
At 31 December	**(101,132)**

Analysed as follows:	2017 €'000
Non-current	**(68,982)**
Current	**(32,150)**
Total	**(101,132)**

E7 Provisions and Contingent Liabilities (continued)

The provision is primarily made up of legal claims, wayleaves provision, contractor claims and self-insurance. The majority of these provisions are associated with the water and wastewater infrastructure assets which were transferred to the Company from the Local Authorities on 1 January 2014. As part of the due diligence process to agree the assets and liabilities to be transferred from each Local Authority to Irish Water, an exercise was conducted to identify all potential liabilities and capture them as a provision, if they met the recognition criteria of IAS 37. During 2017, a detailed assessment was conducted to bring up to date the Company's best estimate of the expenditure required to settle these obligations. In assessing the likely outcome, the Company based its assessment on experience since transfer from the Local Authorities and other factors that are believed to be reasonable in the circumstances (including legal advice). Refer to note A2 for detail of the critical judgements and estimates applied.

Contingent liabilities

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

E8 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.

	2017 €'000	2016 €'000
Less than one year	**(3,398)**	(3,188)
Between one and five years	**(9,227)**	(10,295)
More than five years	**(269)**	(1,833)
Total	**(12,894)**	(15,316)

Amounts included in the income statement in respect of land and building lease arrangements were €3.5 million (2016: €3.3 million).

E9 Restricted Deposits

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

	2017 €'000	2016 €'000
Current	**3,523**	2,829
Total	**3,523**	2,829

Notes to the financial statements (continued)

F Other disclosures

F1 Cash Generated from Operations

		2017 €'000	2016 €'000
Cash flows from operating activities			
Profit for the year		**195,708**	54,381
Adjustments for:			
Depreciation and amortisation	B3	**69,358**	60,044
Retirement benefit cost		**1,463**	1,648
Net finance costs	C4	**11,595**	14,784
Income tax expense	F3	**13,695**	-
		291,819	130,857
Working capital changes:			
Change in trade and other receivables		**(2,133)**	86,973
Change in trade and other payables		**5,447**	(24,933)
Change in deferred revenue		**20,880**	6,706
Change in provisions		**13,647**	(12,687)
Cash from operating activities before exceptional items		**329,660**	186,916
Exceptional items - Customer refunds and associated processing costs paid		**(163,742)**	-
Exceptional items - Grant income received		**177,535**	-
Cash from operating activities		**343,453**	186,916
Interest paid		**(15,033)**	(18,748)
Net cash from operating activities		**328,420**	168,168

F2 Equity

Share capital

	2017 €'000
Authorised:	
50,000,000 "A" shares at €0.01 each	**500**
50,000,000 "B" shares at €0.01 each	**500**
Total	**1,000**

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

	2017 €
Issued, called up and fully paid:	
1 "A" share at €0.01 each	**0.01**
650 "B" shares at €0.01 each	**6.50**
Total	**6.51**

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

F2 Equity (continued)

Share premium

	2017 €'000	2016 €'000
At 1 January	**(54,000)**	(54,000)
Issue of shares	**(270,000)**	-
At 31 December	**(324,000)**	(54,000)

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

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

At 31 December 2014, the Company held a Convertible Debt Instrument of €54.0 million with the Department of Finance. The right of the Minister for Finance to convert the principal amount of the Convertible Debt Instrument was exercisable on or at any time after the date of issuance by completing a notice of conversion. This principal amount was converted into 108 "B" shares of €0.01 each in the capital of Irish Water on 16 September 2015, and a share premium account recognised in respect of the balance. The resulting shares were registered, in equal amounts, in the names of the Minister for Finance and the Minister for the Environment, Community and Local Government (now the Minister for Housing, Planning and Local Government). The Company issued 540 "B" shares for a subscription price of €270.0 million to the Minister for Finance and the Minister for Housing, Planning and Local Government in August 2017.

Capital contribution

	2017 €'000	2016 €'000
At 1 January	**(576,466)**	(296,466)
Capital contribution received in February 2016	**-**	(184,000)
Capital contribution against debt facility with Minister for Finance in May 2016	**-**	(96,000)
At 31 December	**(576,466)**	(576,466)

Notes to the financial statements (continued)

F3 Tax

Income tax expense

	2017 €'000	2016 €'000
Current tax expense	**-**	-
Deferred tax expense	**(13,695)**	-
Total income tax expense	**(13,695)**	-

Reconciliation of effective tax rate		
Profit before tax	**209,403**	54,381
Taxed at 12.5% (2016: 12.5%)	**(26,175)**	(6,798)
Expenses not deductible for tax purposes	**(987)**	(1,011)
Deferred tax asset not recognised	**-**	7,809
Recognition of previously unrecognised deferred tax asset	**13,467**	-
Total income tax expense	**(13,695)**	-

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

Deferred tax assets and liabilities

	Retirement benefit obligation €'000	Tax losses forward €'000	Property, plant and equipment and intangible assets €'000	Other €'000	Total €'000
At 1 January 2017	-	-	-	-	-
Recognised in income statement	**1,016**	**29,574**	**(44,338)**	**53**	**(13,695)**
Recognised in equity	**(38)**	**-**	**-**	**-**	**(38)**
At 31 December 2017	**978**	**29,574**	**(44,338)**	**53**	**(13,733)**

F4 Related Parties

		Transaction value income/(expense) 2017 €'000	Transaction value income/(expense) 2016 €'000	Balance at reporting date receivable/(payable) 31-Dec-17 €'000	Balance at reporting date receivable/(payable) 31-Dec-16 €'000
Ervia Group entities	(i)				
Transactional and support service agreement costs	(i) (a)	**(43,073)**	(35,543)		
		(43,073)	(35,543)	**(26,774)**	(29,059)
Government	(ii)				
Government subvention income		**751,663**	652,100		
Capital contribution		**-**	184,000		
Issue of shares		**270,000**	-		
		1,021,663	836,100	**-**	-
Local authorities	(iv)				
Secondment of employees	(iv) (a)	**(49)**	(18,347)		
Service level agreement	(iv) (b)				
– operating expenditure (payroll and functional support overheads)		**(220,833)**	(229,279)		
– operating expenditure (general overheads)		**(10,338)**	(15,604)		
– capital expenditure		**(39,344)**	(26,935)		
– procurement recharges		**(37,512)**	(45,609)		
Working capital arrangements	(iv) (c)	**-**	-		
Asset acquisition	(iv) (d)	**-**	-		
		(308,076)	(335,774)	**(29,500)**	(21,587)

(i) Ultimate parent undertaking

At 31 December 2017, Ervia held a single voting share in the Company, with no economic rights attributable to that share. The Minister for Finance and the Minister for Housing, Planning and Local Government each held 325 Water Economic Rights ('WER') shares which carried no voting rights but carried all the economic rights to obtain benefit from the activities of the Company.

IFRS 10 states "an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". As a result of the continued existence of the WER share at 31 December 2017, the Group does not satisfy the conditions of control as required by IFRS 10, and therefore in order to comply with the requirements of IFRS, the financial statements of Irish Water are not consolidated with the results of the Group.

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

(i) (a) 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. The costs relating to the secondment of employees to the Company are recharged from Ervia Group on a full cost recovery method with no margin paid. In addition the Company is recharged for the use of Ervia properties.

Notes to the financial statements (continued)

F4 Related Parties (continued)

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

Pension costs
The Ervia Group operates a defined benefit pension scheme. A number of the Company's employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19 (revised). Ervia, as the sponsoring employer for the plan, recognises the net defined benefit cost, while the Company recognises only the cost of contributions payable for the year in respect of the Company's employees. During 2017, the contributions payable in respect of the Company's employees was €1.1 million (2016: €0.8 million). These costs are included in the Company's employee benefit expense, set out in note E3.

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

- As described in note D1, the Company received government subvention income during the year.
- As described in note E2, the Company received €177.5 million in grant funding from the Government during the year.
- As described in note F2, the Company issued 540 "B" shares for a subscription price of €270.0 million to the Minister for Finance and the Minister for Housing, Planning and Local Government during the year.
- As described in notes C2 and C5, the Company had drawn facilities of €300.0 million with the Ireland Strategic Investment Fund (2016: €300.0 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 are wholly or partially controlled by the Irish Government. All of the Company's transactions with such banks are on normal commercial terms. The Company had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2017.

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

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

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

> *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.*

F4 Related Parties (continued)

The 'Services' comprise the following headings:

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

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

Licence to use the Water Infrastructure assets

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

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

The Licence is a 12 month mutual licence (starting 1 January 2014) enabling both the Company and the Local Authorities to carry out their contractual and statutory functions as if a statutory transfer of the water assets had taken place as anticipated (the "Licence"). In return for the Licence, the Company gave the Local Authorities an indemnity for any loss suffered by the Local Authorities as a result of their continuing to legally own the assets. The Licence relates to physical assets (e.g. pipelines, plant and equipment) and does not relate to contracts or entitlements (irrespective of whether they are attaching to such assets). The Licence has been extended by the agreement of both parties until 31 December 2018.

(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.

Notes to the financial statements (continued)

F4 Related Parties (continued)

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

(v) Directors' interests
Directors had no beneficial interests in the Company at any time during the year or at 31 December 2017. The secretary and Michael O'Sullivan (Executive Director) are beneficiaries of the Ervia Employee Share Ownership Plan.

F5 Statement of Significant Accounting Policies

1 Property, Plant and Equipment

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

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

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

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

▸ Infrastructure assets (including boundary boxes, reservoirs, water & waste pipelines and service connections)	40-100 years
▸ Operational assets (including meters, pumps, and electrical & mechanical systems)	12-70 years
▸ Non-network assets (including fixtures & fittings, vehicles and computer equipment)	3-15 years

Depreciation is not charged on land or assets under construction.

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

F5 Statement of Significant Accounting Policies (continued)

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.

2 Intangible Assets

i. Software, software under development and other intangible assets
Software costs include both internally developed and externally purchased assets.

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

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

Other intangible assets include the water industry operating framework, a complex transformation project to provide an effective and efficient single public utility model.

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

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

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

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

Notes to the financial statements (continued)

F5 Statement of Significant Accounting Policies (continued)

3 Impairment of Assets

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

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

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

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

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

4 Foreign Currency

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

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

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

F5 Statement of Significant Accounting Policies (continued)

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.

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

Payments received in advance of revenue recognition are recorded as deferred revenue. In line with IFRIC 18 Transfer of Assets from Customers, non-repayable supply contributions received are recognised in the income statement as revenue in accordance with IAS 18 Revenue. Contributions are recognised in deferred revenue when received, and are released to the income statement in accordance with fulfilment of performance obligations. Development levies are recorded as deferred revenue and recognised in the income statement as revenue upon the completion of the services rendered.

6 Leases

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

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

Accounting for arrangements that contain a lease

The determination of whether an arrangement contains a lease is dependent on whether the arrangement relates to the use and the control of a specific asset. Leases are classified as finance leases if the arrangement transfers substantially all the risks and rewards of ownership. All other leases are categorised as operating leases.

Notes to the financial statements (continued)

F5 Statement of Significant Accounting Policies (continued)

7 Grants

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

8 Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The associated financing charge is recognised in finance costs. Contingent liabilities may arise in respect of contractual agreements to which an entity of the Company is a party. These are estimated (if possible) based on information available of the potential cost associated with the outturn of any such events which exist at the reporting date. These are liabilities, over and above those provided for in the financial statements, which could arise as a result of the occurrence or non-occurrence of one or more uncertain future events but given the nature of the contingencies they cannot be provided for in the financial statements (in accordance with IFRS).

9 Retirement Benefit Obligations

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

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

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

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

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

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.

F5 Statement of Significant Accounting Policies (continued)

iii. Defined benefit pension scheme accounted for as a Group Plan
The Ervia Group operates a defined benefit pension scheme. A number of the Company's employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19 (revised).

10 Financial Assets and Liabilities

i. Borrowings
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 of the consideration received or receivable and are subsequently carried at this value less an appropriate allowance for impairment losses.

Specific allowances are made where there is objective evidence of impairment, for example where there is an inability to pay. An additional allowance is made on a portfolio basis to cover additional incurred losses based on an analysis of previous losses experienced and adjusted to reflect current economic conditions.

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

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

11 Net Finance Costs

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

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

12 Income Tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

Notes to the financial statements (continued)

F5 Statement of Significant Accounting Policies (continued)

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

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

13 Operating Profit

Operating profit is stated before net finance costs and taxation.

14 Non-GAAP Measures

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

F6 New Accounting Standards and Interpretations

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

Standard/Amendment	EU Effective Date	Endorsed by the EU
Amendments to IAS 7: Disclosure Initiative	1 January 2017	November 2017
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	November 2017

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 2017. The application of these amendments to standards did not have a material impact on the Company's financial statements for 2017.

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

F6 New Accounting Standards and Interpretations (continued)

Standard/Amendment	EU Effective Date[1]	Endorsed by the EU
IFRS 9 Financial Instruments	1 January 2018	November 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2018	September 2016
Amendments to IAS 40: Transfers of Investment Property	1 January 2018	(Outstanding)
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	(Outstanding)
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018 / 1 January 2017	February 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018	November 2017
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018	February 2018
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018	October 2017
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely	n/a
IFRS 16 Leases	1 January 2019	October 2017
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019	(Outstanding)
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019	(Outstanding)
Amendments to IAS 28: Long Term Interests in Associates and Joint Ventures	1 January 2019	(Outstanding)
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019	(Outstanding)
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019	(Outstanding)
IFRS 17 Insurance Contracts	1 January 2021	(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 2017 and thus have not been applied in preparing these financial statements.

Notes to the financial statements (continued)

F6 New Accounting Standards and Interpretations (continued)

IFRS 9, issued on 24 July 2014, introduced new requirements for recognition, measurement, impairment and de-recognition of financial instruments and general hedge accounting. The Company will apply IFRS 9 from its effective date under IFRS, as endorsed by the EU (1 January 2018). The Company has assessed the impact of adopting the standard and the expectation is that IFRS 9 will not have a significant impact on the Company's financial statements.

IFRS 16 Leases was issued on 13 January 2016 with an IASB effective date of 1 January 2019. This new standard will replace IAS 17 Leases (and associated interpretative guidance), and offers a new comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The most significant change will be to lessee accounting, where the distinction between operating and finance leases is removed, and will effectively bring onto the balance sheet the accounting for assets and liabilities associated with operating leases. There will be no significant changes in respect of lessor accounting. Application of this standard could have a material impact on the amounts reported and disclosures made in the Company's financial statements. The impact of IFRS 16 has yet to be quantified, but if the standard had been adopted in the current year a depreciation charge in relation to the right-of-use asset and a lease interest charge would be recognised in the income statement in place of the operating lease charge of €3.5 million.

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

It is anticipated that application of the remaining IFRS/amendments/annual improvements, in issue at 31 December 2017 but not yet effective, will not have a significant impact on the Company's financial statements.

F7 Approval of Financial Statements

The Directors approved the financial statements on 26th March 2018.

Directors and Other Information

DIRECTORS	Mike Quinn *(Chairman appointed 31 October 2017)*
	Michael McNicholas *(former Chairman resigned 31 May 2017)*
	Jerry Grant
	Brendan Murphy *(acting Chairman 01 June 2017 to 30 October 2017)*
	Michael O'Sullivan
	Cathal Marley

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 Banks 40-41 Westmoreland Street Dublin 2	
AUDITOR	Deloitte Chartered Accountants & Statutory Audit Firm Deloitte & Touche House Earlsfort Terrace Dublin 2	
COMPANY NUMBER	530363	

Notes