UISCE
ÉIREANN : IRISH
WATER

Annual Report and Financial Statements

2019

Part of ervia group

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Introduction

Irish Water is part of the 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 and collect their wastewater safely, returning 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 and our Local Authority partners to transform Ireland's ageing and broken water network, under a single modern and efficient national utility.

Highlights

Revenue

€1,122m

Profit/Surplus before Income Tax*

€262m

Capital Expenditure

€863m

Average Employee Numbers

792

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

Strategic Report

The Chairman's Report

The emergence of the COVID-19 pandemic is an unprecedented situation. From the outset we have adhered to good public health guidance. Given the nature of our services we have reviewed our contingency plans and the threat to our supply chain. We will continue to evaluate this situation and provide any update to our stakeholders at the appropriate time.

Tony Keohane
Ervia Group Chairman

The Water Services Policy Statement 2018-2024 sets out Government priorities for the provision of water services under the themes of Quality, Conservation and Future Proofing. In 2019 Irish Water delivered an ambitious capital and infrastructure investment programme to deliver modern, efficient and reliable water and wastewater services.

This year our capital expenditure amounted to €863m, spread across each of the policy themes of Quality, Conservation and Future Proofing delivering important outputs and positive outcomes for customers and communities. The overall investment for the Interim Regulatory Control Period (2017 to 2019) was approximately €2.1 billion.

Significant investment will be required over the coming years to deliver the overall Capital Investment Plan. I acknowledge the disruption caused by events during the year such as the restrictions imposed on drinking water supplies from the Leixlip water treatment plant and non-compliant discharges from the Ringsend wastewater treatment plant. These type of events highlight the critical importance of the work Irish Water is undertaking to improve the water and wastewater infrastructure.

The existing water supply sources for the Greater Dublin Area do not have the capacity or resilience to meet future demand. A new source of supply has been identified, which is the first major comprehensive delivery of 'new source' infrastructure in over 60 years. The Water Supply Project – Eastern and Midlands Region will involve abstracting water from the River Shannon at Parteen Basin and transporting treated drinking water to communities across the region, including in the Greater Dublin Area. This year Irish Water continued to make progress on the Strategic Infrastructure Development planning application for the project.

Despite excellent work by Local Authorities who have provided water services across the country over many decades, a fragmented service and funding model and the absence of a single national risk-based approach to asset and investment priorities has resulted in Ireland's water and wastewater infrastructure still facing many challenges. For the past six years, Irish Water has focussed on establishing consistent service standards for customers regardless of location, with a priority on public health and protecting the environment. This important work will continue in the years ahead.

Throughout 2019 Irish Water continued to work with its Local Authority partners to deliver water services and to transform the service to a modern public utility. This is a complex transformation project, which will incorporate new responsibilities, processes and staffing to meet the country's changing needs. I recognise that integrating water services staff from 31 Local Authorities into the Single Public Utility organisation is an ambitious programme. It is a necessary step to provide the next level of efficient and effective water and wastewater services.

The Ervia Board is a unitary board structure, which means that it has ultimate responsibility for the governance of Ervia and its subsidiaries. From a governance perspective, Irish Water matters are overseen by both the Ervia and Irish Water Boards. Appropriate committees are in place at the Ervia level which act in respect of the entire Group. These arrangements will remain in place until Irish Water, in line with the Government's decision, is established as a stand-alone, publicly owned, commercial, regulated utility in 2023.

The Ervia Remuneration Committee is responsible for setting and reviewing performance targets. Irish Water had a strong performance in 2019, good progress was made against all five of the strategic objectives which are detailed on page 13.

Across the year the Ervia Board continued to prioritise corporate governance in line with best practice, transparency, emerging regulation and trends. We comply with the applicable provisions of the Code of Practice for the Governance of State Bodies. Risks are formally reviewed and monitored on an ongoing basis to ensure appropriate mitigations and controls exist. As Chairman, I am satisfied that the appropriate internal controls exist and are managed effectively to meet our governance requirements. For more details please see the Report of the Board on pages 54 – 67.

The Ervia Board is committed to ensuring that the strategic objectives and operations of Irish Water are both sustainable and socially responsible. We developed a new sustainability strategy in 2019 and we will continue to innovate to support these commitments in 2020, ensuring that we are good corporate citizens.

I would like to thank the Minister and officials in the Department of Housing, Planning and Local Government for their support throughout the year. I would also like to express my gratitude to the officials at NewERA whom we deal with on governance matters on a regular basis.

I thank Peter Cross for his service as a member of the Ervia Board. He stepped down as a Board member in January of this year. I also want to acknowledge all of my colleagues on the Ervia Board and the Executive Team for their ongoing commitment, passion and effective governance of the business in 2019.

As Chairman I recognise the enormous contribution and dedication of the people that work in Irish Water who, along with our delivery partners, collectively provide water and wastewater services to the businesses and households of Ireland.

Tony Keohane
Chairman

The Chief Executive Officer's Review of 2019

As Chairman of the Irish Water Board and the Ervia Group CEO (Interim) I am pleased to present the 2019 Irish Water Annual Report and Financial Statements. Considerable progress was made in 2019 and we delivered strong operational and financial performances.

Cathal Marley
Ervia Group Chief Executive Officer (Interim)

I would like to welcome Niall Gleeson who joined us as Managing Director of Irish Water in August 2019, and thank Eamon Gallen, General Manager, who was Acting Managing Director up until this date.

On 11th March 2020 the World Health Organisation upgraded the status of the COVID-19 outbreak from epidemic to pandemic. As a major employer and provider of essential water and wastewater services the safety of our staff, partners and communities is paramount. Irish Water has established a Crisis Management Team to manage our response to this global crisis. We will continue to monitor the rapidly changing situation and adapt our ways of working as necessary to maintain business continuity and staff resourcing to deliver critical services.

Our Capital Investment Plan is aligned to the wider infrastructure investment policy of Government such as the National Development Plan 2018-2027, the Water Services Policy Statement 2018-2025 and the River Basin Management Plan 2018-2021. The Capital Investment Plan will enable us to address compliance, particularly in relation to public health, address environmental issues, and support housing supply and job creation. It is of critical importance that multi-annual funding is secured to deliver this essential water and wastewater infrastructure.

It is a particular concern that the supply and demand of drinking water in the greater Dublin area is so finely balanced, with little or no headroom available. Typically a city the size of Dublin would have at least 15% headroom to provide resilience and support economic growth. The Water Supply Project - Eastern and Midlands Region, which will provide a vital new water source for the Greater Dublin Area, is a key element in addressing the supply shortage issue. It will, together with the ongoing capital investment and leakage reduction initiatives not only provide the critically needed additional water supply, but very importantly provide the additional resilience required to ensure a safe and reliable water supply.

I am proud to say we had an excellent safety record in 2019. For the first time we had no employee lost time incidents during the year, which is a significant achievement. In addition, by working closely with our asset delivery contractors, we reduced the accident frequency rates in 2019. Throughout the year we continued to increase the testing and reporting of all public drinking water supplies nationwide and the results are published on the Irish Water website.

The production of drinking water is resource intensive, both in terms of the financial costs involved and the impact it has on the environment. We take sustainability seriously and reducing leakage levels is one of our top priorities. In 2019 Irish Water invested significantly in the delivery of almost 400km of new and rehabilitated water mains. Together with our local authority partners we fixed an average of over 1,800 leaks every month. As a result we conserved 66 megalitres per day (as of the end of Quarter 3), a net reduction in leakage from the system. This represents a significant increase in leakage reduction. It is strongly supported by the quality and accuracy of the data we are receiving from the National Leakage Management System, which was implemented in 2018.

We engaged extensively with our customers, communities and stakeholders in 2019, through multiple communication channels, to inform them of operational incidents and outages on our water and wastewater networks and to communicate the importance of the water and waste water infrastructure and the value of the work we do. We undertook public consultations and community engagement to update people on local infrastructure projects and plans. One of the key policy objectives from the Water Services Policy Statement 2018 – 2025 was directed towards 'Encouraging behavioural change through awareness, education and information'. In July 2019 we launched a public information campaign to encourage water conservation by members of the public and improve understanding of the challenges we face in providing safe clean drinking water now and in the future. This campaign also informed the public about the extent of leakage of treated drinking water from our networks, currently approximately 43%. It explained the systematic data based national approach that Irish Water has now developed to address this serious problem and the investment that is being made to deliver this approach and reduce leakage of treated drinking water.

The transformation of the public water services to a modern public utility remains a critical task that will require a substantial programme of change. It will however ensure that we have modern and effective systems for the delivery of water and wastewater services in Ireland. We are continuing to engage, in an open and constructive manner, with all stakeholders with a view to making real progress towards this goal. There is more detail about the development of the Single Public Utility on page 35.

In line with the Government's decision in 2018 Ervia is working to establish Irish Water as a standalone, publicly owned, commercial, regulated utility. We are engaging with the relevant Government departments to deliver this as planned. It is of course extremely important that there is stability during the separation period so that Irish Water can maintain focus on service delivery and continue to progress its investment plans in critical water and wastewater infrastructure. We are fully committed to ensuring that Irish Water continues to maintain a strong customer focus. We will continue to work to ensure that Irish Water remains accountable and transparent, while providing value for money for taxpayers.

As Chairman of the Irish Water Board I want to acknowledge the services of the members of the Board. I would like to thank Michael G. O'Sullivan, whose term of office expired in November 2019, and Mike Quinn, who resigned from the Board in April 2019. I welcome Niall Gleeson who became a Board member in August 2019 and Yvonne Harris and Maria O'Dwyer who were appointed to the Board in September 2019.

Finally and most importantly, I would like to express my sincere gratitude to all our staff and delivery partners for their hard work and commitment throughout the year. While we face many challenges ahead, we remain committed to continuing to work to ensure that customers receive safe, reliable and efficient public water services.

Cathal Marley
Ervia Group Chief Executive Officer (Interim)
Chairman of the Irish Water Board

Irish Water Managing Director's Report

Niall Gleeson
Managing Director, Irish Water

Irish Water operates water and wastewater assets including treatment plants, pumping stations, reservoirs, and 89,000 km of pipe networks to supply water and wastewater services to 1.6 million homes and 172,000 businesses. Our activities benefit households, businesses, communities, the environment and the wider economy.

I joined Irish Water in August 2019 and since then I have spent the time embracing the challenges facing Irish Water and ensuring that our business and our staff continue to make good progress against our business plan. There has been much achieved to date and my priority is to continue to build on this solid foundation.

Irish Water achievements to date

Over the past six years, important investment has been made to eliminate long term boil water notices, to end the discharge of untreated wastewater into open water bodies and to deliver new capacity for drinking water and wastewater treatment. Ireland is still not compliant with European water directives and significant challenges remain.

Irish Water is currently managing a portfolio of more than 400 capital projects and 40 national programmes. €3.9 billion has been invested to date with a further projected spend of circa €5 billion up to 2024.

Irish Water has delivered significant improvements since 2014 when there were 121 public water schemes considered 'at risk' of water quality failures by the EPA. Since then Irish Water has completed remedial works in 102 of these schemes, leaving 19 schemes from this original Remedial Action List (RAL). In total 174 schemes have been removed from the EPA RAL during this timeframe (2014 to 2019) and 86 schemes were added to the RAL by the EPA, where new issues were identified. Irish water is committed to addressing the compliance risks associated with all supplies remaining on the EPA RAL.

47 water treatment plants and 101 wastewater treatment plants have been built or upgraded since 2014. 15 areas that had no wastewater treatment are now connected to new wastewater treatment plants and works have been completed on a further 35 areas to improve their wastewater treatment.

1,905km of water mains and 220km of sewers have been laid or repaired.

Major national strategic infrastructure is being progressed including the Water Supply Project for the Eastern and Midlands Region, the Vartry Water Supply Scheme and Stillorgan Reservoir, the Ringsend wastewater treatment upgrade works, the Cork Lower Harbour main drainage scheme, the Greater Dublin Drainage project and the Regional Biosolids Storage Facility and the Arklow wastewater treatment plant.

Significant continued investment in water and wastewater infrastructure and services is still required to support environmental and economic wellbeing.

Performance in 2019

In 2019 Irish Water invested €863m to deliver important improvements for customers and communities including:

- 26 water supplies were removed from the EPA RAL
- 4,660 people were removed from 'Boil Water Notices' that had been in place for more than 30 days.
- 2 new Water Treatment Plants were completed (Kildarragh and Goldrum) and 2 were upgraded (Kilgarvan and Inistioge).
- 1 new Wastewater Treatment Plant was completed (Courtmacsherry) and 9 upgraded (Mohill, Athenry, Castleblaney, Enniscorthy, Manorhamilton, Ardee, Grange, Tubbercurry and Ballinafad).
- 15 agglomerations were removed from the EPA's priority list of areas for wastewater improvement.
- 15,774 lead services were replaced.
- 2 agglomerations with no wastewater treatment were connected to newly constructed treatment plants (Passage-Monkstown and Courtmacsherry-Timoleague).
- Works were completed on 14 agglomerations listed in the 2018-2021 River Basin Management Plan.
- Net Water Saving of 66 MLD (megalitres per day) (to the end of Quarter 3) were achieved from specific initiatives to address national water leakage.
- 393km of water mains were laid (new and rehabilitated).
- 69km of sewer were laid (new and rehabilitated).

Irish Water Managing Director's Report (continued)

Progress on Strategic Projects

- Regional Biosolids Storage Facility: Planning permission was granted early 2019. Phase 1 tender documents released to market.
- Vartry Water Supply Scheme: Works continue at the reservoir and water treatment plant upgrade. Project is on schedule and within budget.
- Ringsend Wastewater Treatment Plant Upgrade: Planning permission was granted in April 2019. Construction of the capacity upgrade is underway.
- Cork Lower Harbour Main Drainage Scheme. Sewage from Passage-Monkstown was treated at the new Shanbally wastewater treatment plant from June 2019. Works on Cobh network began in late 2019 along with first pilot drill of the estuary crossing.
- Water Supply Project – Eastern and Midlands Region. Work continuing to prepare Strategic Infrastructure Development planning application.
- Greater Dublin Drainage: Planning permission granted by An Bord Pleanala in late 2019. Tender documents to issue in early 2020.

Efficiencies

Irish Water is delivering real value for the people of Ireland by continuing to optimise operations and drive efficiencies. In 2019 we realised €49 million of capital efficiencies through procurement, value engineering, innovation and standardisation of design. An internal benchmarking exercise is conducted annually to identify potential savings in our operations. A further €28 million of operational efficiencies were secured via the delivery of lean initiatives and continuous improvement.

2019 operational challenges

Irish Water's Crisis Management Team was convened on 4 occasions in 2019 in response to extreme weather events and drinking water quality incidents.

In the early part of the year a number of storms impacted the operation of some of our plants and our ability to treat drinking water and wastewater effectively.

In late 2019, two boil water notices were imposed in quick succession on the public water schemes supplied from the Leixlip Water Treatment Plant, affecting in excess of 650,000 customers. Irish Water is agreeing an appropriate remedial action plan for the plant with the EPA and is progressing with upgrade works on the site to reduce the risk of further outages affecting customers. There is more information on our progress in 2019 available in the Operating Review on pages 34-43.

Outlook for 2020

In 2020, investment in public water infrastructure by Irish Water is forecast at €783 million. This valuable public investment will deliver critical outcomes for customers and communities across the policy themes of Quality, Conservation and Future Proofing. Significant projects due to start or continue in 2020 include:

- Leixlip Pipeline & Network.
- Shannon Town Wastewater Treatment Plant Upgrade.
- Barrow Water Supply Area Extension Scheme.
- Blanchardstown Regional Drainage Scheme.
- Skibbereen Regional Water Supply Scheme.
- Cork City Water Supply Scheme – Lee Road Water Treatment Plant Upgrade.
- Upper Liffey Valley Sewerage Scheme.

These projects, along with the other significant infrastructure development projects including the Water Supply Project East and Midlands Region, are an important element of Project Ireland 2040 and will bring clear environmental, public health and economic benefits to the customers and communities who benefit from them.

We are continuing to develop Irish Water's National Water Resources Plan. This is the first of its kind 25 year strategic plan for water resources across Ireland and will have implications for water conservation, leakage reduction and delivery of future proofed infrastructure. Ireland's economy is continuing to grow with increasing demand for industrial premises, offices and housing. This year we responded to 2,221 pre-connection enquiries for new water services connections covering 131,728 housing units. Offers were issued for 4,683 new connections, covering 28,533 housing units. We are continuing to invest in quality drinking water supplies and wastewater treatment options. New Drainage Area Plans (DAPs) will improve our wastewater network with a focus on environmental compliance, customer service and growth.

A new national connection charging policy agreed by the Commission for the Regulation of Utilities (CRU), Irish Water's economic regulator, came into operation in 2019 and now applies a single set of charges and a standardised scope of work for water and wastewater services connections. The CRU also published its decision on Irish Water's Non-Domestic Tariff Framework in 2019 to produce a harmonised range of tariffs for non-domestic customers to replace 500 current tariffs. This will come into effect from 2020 and Irish Water's business customers will now have greater transparency, simplicity and equity in tariffs applied to provide their service.

Completing the strategic national water infrastructure projects our economy and communities need will be critical for the entire country. Successful delivery of current and future capital programmes depends on the planning and legal process and our supply chain's capability and availability. Key resources will be in high demand in the coming years and project delivery costs will be a key challenge for Irish Water and our stakeholders.

Partnership

In its RC3 decision paper published in December 2019, the Commission for the Regulation of Utilities (CRU), has set challenging efficiency targets for Irish Water up to 2024. This increases the importance of continuing the transformation of the industry to a single public utility with an in-sourced service delivery model that retains the knowledge, experience and capability currently in local authorities.

Throughout 2019 Irish Water continued to work with its Local Authority partners to deliver water services and to transform the service to a modern public utility. This is a complex transformation project, which will incorporate new responsibilities, processes and staffing to meet the country's changing needs. I recognise that integrating water services staff from 31 Local Authorities into the Single Public Utility organisation is an ambitious programme. It is a necessary step to provide the next level of efficient and effective water and wastewater services.

Acknowledgements

I would like to publicly recognise the tremendous efforts made by the staff of Irish Water and our partners to manage the challenges during 2019 especially in relation to managing boil water notices in Dublin and elsewhere. Despite the headlines, by working closely and collaboratively with Local Authorities, other partners and agencies we are keeping the water and wastewater plants and networks operating for the vast majority of users of the public water services across the country. We will continue to work collaboratively with our partners, government agencies, the communities and the businesses we serve to provide secure and sustainable water supplies.

Niall Gleeson,
Managing Director, Irish Water

Strategic Framework

Purpose

To support Ireland's social and economic growth, through appropriate investment in water services and to protect the environment in all our activities.

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.

Strategic Objectives

1	Water	Sustainably abstract and safely deliver clean and wholesome drinking water to meet Ireland's socio-economic needs to 2030.
2	Wastewater	Establish and safely operate climate resilient wastewater treatment and infrastructure to meet Ireland's socio-economic needs to 2030.
3	Customer	Deliver customer value propositions will position the business among Ireland's most trusted and valued utilities by 2030.
4	Sustainability	Operate a sustainable efficient business delivering water services to the community in a manner that supports national policy and contributes to the protection of the environment.
5	People and Culture	Support a culture that engages, excites and empowers our people and business partners through a collaborative team environment we are proud of and delivers safely to the citizens of Ireland.

Values

Our five shared values 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.

Performance

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

Integrity

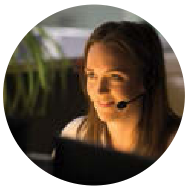
We are open and honest in everything we do. We treat each other, our customers, our assets and the natural resources we rely on with respect.

Safety

We put safety at the heart of what we do.

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.

Irish Water Business Model

Inputs → **Business Activities**

Financial
We receive a regulated return on our Assets.

Total Assets of **€3.8bn**

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

89,000km of public water and wastewater networks

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

792 employees in **11** locations together with **3,175** staff in **31** Local Authorities and our delivery partners.

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

- **€1,111m** capital contribution
- **€855m** government subvention

Natural Resources
We protect our rivers, lakes and seashore.

Supply **1.7bn** litres of clean, safe drinking water and treat **1.3bn** litres of wastewater daily.

Develop and fund future plans
- Strategic Funding Plan
- Revenue Price Control
- Investment priorities

Continuously **improving** our offering
- New connections
- Innovative solutions
- Improve efficiency

Serving our customers
- Putting our customers first
- 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 **Benefits**

Invest in new assets in 2019

- Water Quality
- Wastewater Quality
- Conservation
- Future Proofing

Maintain the asset base

- Leakage reduction
- Network rehabilitation

Operate the system

- Security of 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

- **1.77m** domestic and business customers served.
- Operating **755** water and **1,062** wastewater treatment plants 24/7 365 days per year.

Employees

- Learning and development
- Health and wellbeing
- Diversity and Inclusion

Communities

- Protecting the environment and supporting biodiversity.
- Supporting local communities.

Stakeholders and Regulators

- Improving performance versus regulatory standards.

Shareholder

- Enabling economic growth.
- Supporting development.
- Investing in water and wastewater infrastructure.

Factors Influencing Value Creation

Supporting and Facilitating Government Policy

The Trend

Project Ireland 2040 is the Government's overarching policy initiative that is made up of the National Planning Framework to 2040 and the National Development Plan 2018–2027. It aims to meet the future demands of a growing population through prioritising investment in infrastructure of almost €116 billion by 2027. This investment covers broadband, transport, health and education, as well and water and wastewater. In addition, the Government has published its Water Services Policy Statement 2018-2025 which clarifies the Government's expectations for the delivery and development of water and wastewater services in the years ahead.

The impact

Project Ireland 2040 will require significant investment in public water and wastewater infrastructure over many investment cycles. Water and wastewater services will need to be upgraded to serve the growing population.

Our response

We have identified our priorities for capital investment in line with the Government's Water Services Policy Statement and which aligns with Project Ireland 2040. These plans are subject to adequate funding over multiple investment cycles. We are continuing to develop and deliver plans to provide for the country's future public water and wastewater requirements. We will continue to develop our expert, agile and dedicated workforce to implement these plans. We will also continue to engage with the public and our customers to understand their needs as our country develops.

Building a Sustainable Future

The Trend

Businesses, both public and private, are increasingly expected to operate in a manner that demonstrates care for the environment, respect for their resources and employees, and commitment to meet increasing customer expectations. It is reasonable to anticipate that today's sustainability demands are likely to be tomorrow's national and sectoral regulations and legal obligations.

The impact

Ireland's economic and population growth is increasing demand for public water services resulting in extensive pressure on the infrastructure. Greater energy and resource inputs are required, generating more waste and other by-products. Simultaneously, customer and societal expectation is for more frugal use of valuable resources, a decreasing carbon footprint, and the elimination or recycling of wastes.

Our response

As a publicly owned organisation, Irish Water has a responsibility to operate and deliver services in a sustainable manner. We are protecting our environment by supplying 1.7bn litres of high quality drinking water every day and treating 1.3 billion litres of wastewater each day before it is released back into the environment. We are trialling new and innovative technologies and undertaking energy efficiency initiatives across our portfolio of assets. We will continue to evolve our environmental, economic and social strategies and policies aligning these with the UN Sustainable Development Goals to deliver a reliable and sustainable public water supply.

Factors Influencing Value Creation (continued)

Compliance and Supply Resilience

The Trend

Irish Water develops and operates public water infrastructure and delivers national services at significant scale in an Irish context. Any serious disruption to the operation of these services could have a significant impact on the population. Continued investment in water and wastewater assets is essential to meet quality and compliance standards.

The impact

Compliance generates cost and operational challenges which we must meet while balancing growth and efficiency demands. Irish Water faces compliance challenges as a result of changing national and EU policies and regulation; changing weather patterns; and increased growth and demand for public water services, while also having to prioritise investment due to funding limitations.

Our response

Irish Water will work to meet national and international regulations through our programmes to reduce water leakage, improve water quality and upgrade wastewater treatment facilities and services that meet national and EU requirements. We will continue to engage and co-operate with all relevant stakeholders and regulators. In our role as the national public utility we will continue to plan for contingencies on the network, and we will ensure that we continue to efficiently operate, develop and maintain the existing assets and networks to safeguard the interests of consumers both in terms of efficiencies and reliability of supply.

Customer Expectations in a Digital Age

The Trend

Digitalisation has become a key part of all our lives. We interface and utilize technology every day, in our homes, in our cars and at work. Customers are increasingly online and mobile and they expect the businesses they interact with to facilitate this. They expect to be able to switch seamlessly between channels with no impact on their experience. Social media and other mechanisms are empowering increasingly engaged customers. The General Data Protection Regulation (GDPR) enacted in 2018 has also fundamentally reshaped the way in which data is handled and customers rightly expect their data to be protected and that robust consent management processes are in place.

The impact

As with all businesses providing a service, Irish Water customers are demanding more from the services received in the form of easy to use digital channels, timely and accurate information, proactive alerts, fast responses and actions. They also expect that the privacy of their personal information will be protected and comply with national and European standards for data protection.

Our response

Irish Water is committed to delivering excellent customer experience that exceeds both regulatory standards and customer expectations. We will continue to invest in IT platforms and digital channels to ensure we are meeting our customer's expectations and that we have robust systems in place to protect data and defend our systems against cyber-attack. We will deliver IT solutions to enhance productivity across our operations. It is our ambition to be a trusted brand as we meet our commitments to the citizens of Ireland.

Decarbonisation

The Trend

Ireland is committed to reducing its carbon emissions by 30% by 2030 (compared to 2005 levels) and by 80-95% by 2050. The Government's Energy and Climate Plans set out an ambitious range of decarbonisation and sustainability commitments to be implemented over the coming years to realise Ireland's targets. This is a major challenge for Ireland, made more difficult by a growing economy and population.

The impact

As a major energy consumer, these ambitions present challenges for Irish Water. In line with Government policy for state bodies, Irish Water will need to reduce energy consumption further and we will need to become even more energy efficient to fully decarbonise our operations by 2030.

Our response

Irish Water is committed to reducing energy consumption through a range of energy intiatives, including asset replacement and the commencement of sustainable energy pilots at two wastewater treatment plants to install solar panels to generate renewable energy. We are also reviewing the potential to produce more renewable energy from on-site wind turbines.

Strategic Stakeholder Engagement

Background

Successfully delivering on our mission to provide public water and wastewater services to the highest standards requires meaningful engagement by Irish Water with a wide range of stakeholders. We prioritise the critical role of our stakeholders and work closely with them to address their needs and expectations.

Irish Water engages with stakeholders through public consultation on our infrastructure projects and plans. We commit to continuous and responsive two-way communication, at every stage of the consultation process to ensure that information is accessible, meaningful, transparent and accountable for all stakeholders. Stakeholder engagement is not confined to statutory consultation and can be broadly categorised across a range of categories.

Customers and Communities

Our customers and communities are our most important stakeholders. Engagement takes place daily through our customer channels and we deliver public consultation, public information campaigns and manage incidents and disruptions through media engagement, digital and social media, open events, advertising, and face to face meetings.

In 2019 Irish Water launched its 'Story of Water' documentary to explain to the public the critical importance of public water services and the challenge we face to upgrade and expand our infrastructure to support future growth and protect the environment. The documentary was initially broadcast on Virgin Media TV and is now available on Irish Water's digital channels. We will continue to use the documentary in 2020 as part of a dedicated public information and engagement campaign.

Shareholder & Regulators

Irish Water has ongoing engagement with the Minister for Housing, Planning and Local Government and his Department as Irish Water's principal shareholder responsible for ensuring implementation of Government public water services policy.

Irish Water has two regulators. The Commission for the Regulation of Utilities (CRU), is our economic regulator and the Environmental Protection Agency (EPA) is our Environmental Regulator. We engage directly and report to both regulators on our performance and compliance with price control and environmental legislation. Irish Water also engages with the HSE on an ongoing basis to ensure our drinking water and wastewater treatment processes do not impact on public health.

Other bodies including An Bord Pleanala, the Health and Safety Authority and Inland Fisheries Ireland have responsibility for ensuring compliance with relevant legislation and we engage with these bodies through meetings, in writing and through formal statutory processes.

Service Delivery Partners

Irish Water is in daily contact with 31 local authorities who operate our assets under a Service Level Agreement (SLA). We also have ongoing engagement with the Local Government Management Agency and its committees and steering groups to ensure effective implementation of the SLA and effective delivery of water services nationally. We also engage closely with contractors and third parties who deliver support services including the operation of our contact centre.

Formal Stakeholder Representative Groups

An Fóram Uisce (AFU)

An Fóram Uisce (AFU) facilitates public engagement on issues relating to water as an environmental, social and economic resource and the implementation of the Water Framework Directive and the River Basin Management Plan for Ireland 2018-2021. Irish Water regularly attends meetings with AFU to provide updates on issues of interest to its members.

The Water Advisory Body (WAB)

The Water Advisory Body (WAB) has five members representing the EPA, CRU, An Forum Uisce, and two additional professional members. The WAB reports to the Joint Oireachtas Committee on Housing Planning & Local Government and Irish Water appears before the WAB and provides written reports to the Body as requested.

Irish Water National Stakeholder Forum

The Irish Water National Stakeholder Forum meets four times annually to update key national stakeholders on our plans, to inform two-way decision making, a culture of transparency and dialogue on specific themes and to provide relevant expert briefings.

Trade Unions

Irish Water engages fully with trade unions who represent our directly employed staff and those working in local authorities and we participate as required in formal industrial relations processes through the Workplace Relations Commission (WRC).

Elected Representatives

Irish Water operates a dedicated Local and Elected Representative Support Desk (LRSD/ERSD) through our contact centre to respond to queries by phone or email from elected representatives and to communicate proactively on service disruptions, customer and project updates, press releases and all forms of public consultation.

Media

Media is an important channel of communication with Irish Water customers and stakeholders, particularly when there is disruption to service, issues with water quality or when infrastructure projects or upgrades impact a community. We work proactively to maintain strong and open relationships with local and national media.

Business Representative Groups and supply chain

Irish Water engages regularly with business representative groups including IBEC, Chambers Ireland, ISME and SFA to discuss issues relevant to their members. With a multi-billion euro capital investment in public water andd wastewater infrastructure, Irish Water also has a critical dependence on the construction industry and our supply chain. We actively engage with these stakeholders.

Catchment Management

Irish Water is one of many stakeholders with responsibility for maintaining the health of our water bodies. We regularly engage with the farming community at a local level and through their national representative bodies on initiatives like water conservation and reduction of pesticide and wastewater effluent in drinking water.

We also engage regularly with other bodies including the National Federation of Group Water Schemes, the Local Authority Waters Programme (LAWPRO), the National Pesticides Action Group, Waterways Ireland, the Office of Public Works and the ESB.

Continuously Improving our Stakeholder Engagement

Effective stakeholder engagement is a priority for Irish Water and as an organisation we are always seeking to identify ways to improve and build on the effectiveness of this engagement so that we can better understand stakeholder needs and expectations and build this into our evolving plans.


UISCE
WATER

Delivering on our Strategy

Water Framework Directive

Water Services Policy Statement

Water Services Strategic Plan

Strategic Funding Plan

Irish Water is a publicly owned, regulated, commercial State body with responsibility for the operation and maintenance of water and wastewater assets.

The operating model for Irish Water is set in the context of the EU Water Framework Directive (WFD). The WFD is the overarching Directive in relation to water policy in the EU.

Over the year an average of 792 professional, technical and support staff, together with 3,175 local authority staff and our customer contact centre and service delivery partners serve our 1.77 million customers. In 2019 we operated 1,817 water and wastewater plants to supply 1.7 billion litres of drinking water each day and treating the wastewater produced.

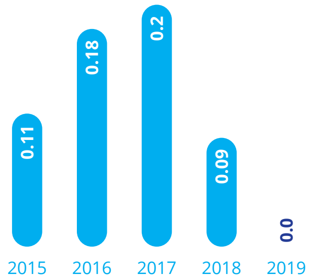
Focussing on	In 2019 we
Quality	▸ Removed 4,660 customers from boil water notices that were in place for more than thirty days. ▸ Removed and replaced over 15,700 lead services connections. ▸ Performed over 170,000 individual tests on public drinking water supplies.
Conservation	▸ Fixed leaks to make net savings of 65.78 megalitres of water per day. ▸ Repaired over 4,000 customer leaks under the first fix free scheme.
Future Proofing	▸ Upgraded or built 4 water treatment plants. ▸ Upgraded or built 10 wastewater treatment plants. ▸ Laid or rehabilitated 393km of water mains network. ▸ Laid or rehabilitated 69km of sewer network.

Key Performance Indicators

		Measure	Definition	Unit	2017	2018	2019
QUALITY							
Water	Drinking Water	Boil Water Notice (> 30 days)	Population remaining at year end on BWN that has been in place for > 30 days	No. remaining	19	423	14,117
Water	Drinking Water	Schemes on EPA RAL	No. of schemes on Live RAL	No. remaining	77	63	52
Water	Lead	Lead	Total lead services replaced	No.	1,307	12,477	15,774
Wastewater	UWWTD	Priority areas for wastewater improvement	No. of priority areas for wastewater improvement (Starting point Q1 2015)	No. remaining	148	132	120
Wastewater	UWWTD	Untreated Agglomerations	No. of agglomerations with no treatment or preliminary treatment only	No. remaining	43	37	35
CONSERVATION							
Savings		Leakage	Net Unaccounted For Water (average of period) is the national figure expressed in megalitres per day	Ml/day	-17	-27	66
FUTURE PROOFING							
Capacity & Resilience		Wastewater Treatment Plants	New and upgraded Total (Quantity)	No.	14	11	10
Capacity & Resilience		Water Treatment Plants	New and upgraded Total (Quantity)	No.	5	10	4
Capacity & Resilience		Wastewater network	Length of sewer laid (total)	km	20	74	69
Capacity & Resilience		Water network	Length of water main laid (total)	km	238	416	393

Safety

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



What we measure

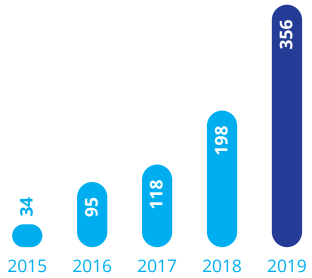
We use Lost Time Injury Frequency Rates (LTIFR) to track the number of employee accidents per 100,000 hours worked, that result in a staff member needing to take >1 days off work.

Why we measure it

Safety is a core value at Irish Water. 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*

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



What we measure

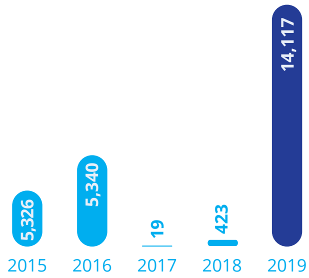
This is a measure of the water saved as a result of our efforts in rehabilitating mains and pro-actively finding and fixing leaks. (2019 figures are estimates)

Why we measure it

We aim to increase the effectiveness and resilience of our network by reducing the quantity of water lost in the system.

Boil Water Notices (>30 days)

of customers remaining



What we measure

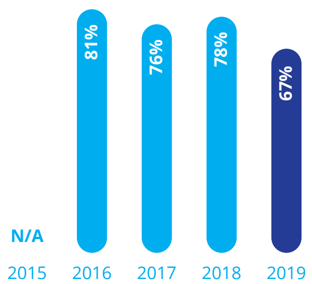
The number Boil Water Notices that have been in place for more than thirty days.

Why we measure it

A Boil Water Notice is imposed after consultation with HSE where contamination of the drinking water supply has occurred.

Customer Service

First Contact Resolution – Metering and Operations %



What we measure

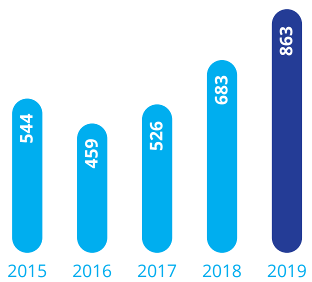
We review a sample of our customer contacts each month across a range of different call types. A selection of calls are surveyed independently to validate the scores. *(Data not available for 2014/15)*

Why we measure it

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

Capex €m



What we measure

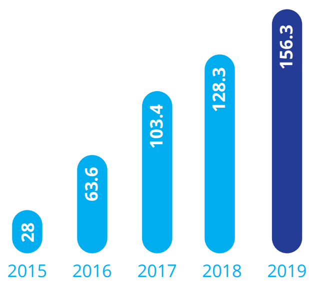
We include infrastructure spend on plant, property, and equipment and intangible assets.

Why we measure it

Delivering a capital programme is central to developing and maintaining our asset base.

Operating Efficiencies

Cumulative OPEX Efficiencies €m



What we measure

The figures presented in this year's report have been re-stated to reflect incremental savings and costs contained resulting from efficiency initiatives

Why we measure it

We drive efficiencies in how we deliver our services on an ongoing basis. A further €28 million of operational efficiencies were secured in 2019 via the delivery of lean initiatives and continuous improvement.

* The figures reported here show marginal adjustments on those previously reported as a result of enhanced data and measurement capabilities.

Risk Management

Proactive risk management is fundamental to our ability to meet both our short-term and longer-term strategic objectives.

Irish Water manages, monitors and reports on the principal risks and uncertainties that could impact our ability to deliver our strategic ambitions. The system of risk management and policy is well established and is consistent and clear across the organisation. Our priority is to understand the risk environment, identify the specific risks and assess the potential exposure for Irish Water while enabling the pursuit of opportunities and risk mitigation to maximise our business outcomes.

Risk Management Framework

The Board has overall responsibility for risk management and systems of internal control. A proactive risk management culture supports the overall organisational culture, values and the expected behaviours for the organisation. Appropriate governance structures have been further enhanced and integrated to ensure that there is clarity of ownership and responsibility for risk management. Annually the risk appetite is set by the Board by determining the nature and extent of the risks we are willing to accept in pursuit of our strategic ambitions. The Audit and Risk Committee has the delegated authority to support the Board with these obligations while various governance forums are in place to maintain an effective risk management environment. We are continuously enhancing the governance culture by integrating and automating our activities across our systems of risk management, internal control and internal audit.

The nature of our business operations is long term, resulting in many of our risks being enduring in nature. These risks can develop and evolve over time, as their potential impact or likelihood changes in response to internal and external events. At the same time new risks are constantly emerging. Therefore an effective and integrated risk management framework and strong risk culture is essential to support the delivery of our strategic and operational objectives. Continuously evolving our Risk Strategy and Framework and managing our risks proactively allows us to create added value for our shareholders, customers and the wider community.

Our Risk Management Activities

Day to Day

Operational Areas

Identify, manage and report risks.

Integrating with Strategy and Process

Risk Framework

Risk assessment is integral to strategy planning, capital decisions and project appraisal.

Governance

Policy

Functional and Executive Risk Committees support the Audit and Risk Committee.

Principal Risks and Uncertainties

	Risk	Context	Mitigation
Health, Safety and Environment			
1	A significant public, employee or contractor safety incident resulting in a risk of serious injury/ fatality to staff, contractor or the public.	All health and safety legislation and arrangements must be adhered to in order to protect staff, contractors, and the public from injury or fatality and avoid potential prosecutions, financial loss and reputational damage.	The Central Safety Committee (which is an Executive Committee) oversees Health & Safety performance. Enterprise wide 'Work Safe Home Safe' programme.
2	Significant employee health risk or business disruption due to potential impact of COVID-19 pandemic.	Large scale employee illness due to an epidemic or pandemic (Covid-19) that affects Ireland's population, leading to a potential impact on employee health, operations, service delivery and supply chain.	Crisis Management Teams in place Engagement with key stakeholders (HSE, Government Departments etc.) Business continuity and contingency arrangements in place and being implemented/tested as situation evolves.
Security of Supply			
3	Failure to meet present and future water demand in the Greater Dublin Area because of a lack of available headroom, reliance on a primary water source and critical single points of failure across an aged water infrastructure.	Without additional capacity, this could result in potential water supply issues, social and economic impacts and a failure to support future growth demands.	National Water Resources Plan underway to: assess the capacity of Irish Water's supplies and quality; and plans to manage the supply and demand balance across the Country in the short, medium and long term. The Water Supply Project - Eastern and Midlands Region has been identified as the preferred project for the long term strategic solution to meet the future demands of the eastern and midlands region. Ongoing monitoring of all resource levels (rivers, lakes, boreholes, impounding reservoirs) with short term measures available to boost water available for use. Treatment plant upgrades taking place at key sites (e.g. Leixlip WTP).
4	Not delivering the projected water leakage savings required due to increasing leakage incidents on an aged water infrastructure system.	Not achieving leakage savings targets could impact Irish Water's reputation and credibility, generate customer and service impacts and result in increased operating costs and reduced efficiency.	A new Leakage Management System has been rolled out to all Local Authorities enabling smarter and more efficient leakage reduction activities. A Leakage Management Response Plan and Annual Leakage Management plan are in place.
5	There are short term and long term impacts to the delivery of water services due to the increased frequency and intensity of extreme weather events (e.g. Storms such as Ophelia or Emma and Drought conditions in summer months).	Irish Water's operations and assets withstood the severe weather experienced during 2017, 2018 and 2019. However, there has been an increased frequency and intensity of severe weather events, a trend which is likely to continue.	Comprehensive resilience plans and processes in place. Assets are being designed for climate resilience (flooding, storm water, climate vulnerability and management standard).
Transformation of Water Services			
6	Failure to deliver the Transformation Programme due to a potential lack of the necessary support and agreement from key stakeholders.	The Water Services Policy Statement provides for one single publicly owned national water services authority - failure to deliver would result in significant impacts to the delivery of business plan commitments and required service levels under the SLA.	Engagement ongoing with the representative unions through the Workplace Relations Commission.

Risk Management (continued)

Risk		Context	Mitigation
Climate Change, Biodiversity and Sustainability			
7	The potential for Irish Water's activities to have an impact on biodiversity or the environment.	There are significant opportunities for Irish Water to respond to the climate and biodiversity emergency, generating environmental, reputational and financial benefits.	35 energy action plans in place across Irish Water resulting in 30% energy efficiency improvement to date. Biodiversity Management Plans & Enhancement Measures developed for 55 Irish Water sites. Biodiversity Information and Guidance Documents developed and incorporated into General Civil and Engineering Specifications.
Delivering Infrastructural Investment			
8	An inability to fully deliver current or future Capital Investment Plans due to: Limited supply chain capacity within the construction industry. Funding limitations. Increasing costs beyond agreed budgets (e.g. construction inflationary pressures due to market saturation). Complexities and delays in project approvals.	Across the Irish semi-state and private sector, significant multi-year capital projects are planned or underway, resulting in capacity constraints and construction price inflation which can impact on Irish Water's ability to deliver its multi-year capital programme. Availability of long term multi-cycle funding is key to ensuring we deliver.	Capital planning and monitoring is ongoing with quarterly reporting and projections provided to Irish Water's Investment Approval Committee. Strategic Funding Plan in place. Supply chain restructured in line with industry best practice. Enhanced cost-estimation capability. Implementation of contracting strategy. Early Contractor Involvement Programme – integrated design, development and construction planning.
Customer, Reputation & Stakeholder			
9	It is critical that there is appropriate awareness and understanding of the service role that Irish Water undertakes. Trust, confidence and support must be gained from our customers and stakeholders.	A failure to create awareness and understanding of the Ervia and Irish Water brand could result in an inability to gain the trust of key stakeholders and deliver key organisational objectives.	Communications plans, including opportunities for public engagement and participation, are in place on projects and programmes, as well as Public Information and education campaigns to inform and engage customers, communities and shareholders.
Service Delivery			
10	Irish Water relies on a number of key suppliers to deliver both our change programmes and services to public water customers. Growing demands for water connections and limited asset capacity could impact the company's ability to keep pace with development and growth demands across the Irish State.	This reliance exposes us to operational impacts should a key supplier fail. Irish Water has a significant role to play in supporting Ireland's economic growth, compliance and development goals. Early engagement with all key stakeholders including developers.	Governance structures and contractor management strategy in place. Relationship Management model in place for key relationships. Financial Health Ratings for all strategic suppliers. Delivery of Networks Extension Initiative, Major Urban Housing Development Sites, and LIHAF (Local Infrastructure Housing Activation Fund).

Risk		Context	Mitigation
Our People			
11	Not having the right organisational structure and the right people and culture in place would undermine the ability to deliver of our business objectives.	Significant organisational transformation must be managed appropriately to reduce risk of organisational instability.	Organisation Design Steering Group in place & Work Force Planning process established. Engagement and Culture surveys take place, with ongoing continuous improvement processes. HR strategy being implemented which includes key initiatives such as an IBelong Diversity and Inclusion programme, Agile working and people development programmes
Technology, Financial and Economic			
12	A cyber-attack causing serious loss of service, data leakage or restriction to information and/or operational technology would impact service delivery and infrastructure.	An incident could result in potential business delivery disruption, safety issues, reputational damage or potential regulatory fines.	Comprehensive prevention and pro-active controls across all systems, and contingency plans developed. Ongoing risk assessments, training and external independent assurance reviews.
13	Potential for significant business disruption as a result of potential negative impacts arising from EU/UK Brexit trade deal negotiations.	Potentially impacted areas are security of energy supply, regulation, finance, supply chain, data protection and operational delivery. Brexit Steering and Working Group established to prepare and implement contingency plans.	Engagement with key stakeholders including Government Departments. Contingency plan in place.
14	Exposure to a number of global macroeconomic and financial risks - credit risk, funding and operational allowance model risk, liquidity risk and interest rate risks.	Business Plans set out the funding and allowance requirements for each business.	Defined risk limits, delegations of authority and exposure monitoring in place. Ongoing dialogue and strong relationships with Government and funders.
Environmental Compliance			
15	A significant failure to deliver safe, clean drinking water could lead to health and compliance risks.		Drinking Water Safety Plans managing risk at Water Supply Zone level are in place. Delivery of the Capital Investment Plan to upgrade assets and improve compliance. Implementation of THM strategy.
16	Wastewater overflows and/or non-compliance incidents resulting in environmental damage, prosecution, and reputational damage.	Limited public understanding of wastewater treatment and overflow processes together with poor asset condition can drive significant reputational risk to Irish Water. Asset upgrades as part of Capital Investment Plan (e.g. Ringsend, Cork Lower Harbour).	Multi-agency plan for 2020 bathing season to reduce prohibition periods, improve testing turnaround times and improve public beach signage. Cross-functional Environmental Management Group ensures consistent wastewater reporting on priority plants to EPA and other stakeholders. Sampling and analysis of wastewater discharges.

Financial Review

Ronan Galwey
Ervia Group Chief Financial Officer (Interim)

Irish Water delivered a strong financial performance during 2019.Increased capital expenditure year on year to €863m and a reduction in net debt to €148m were key highlights.

Key Highlights 2019

- Revenue €1,122m
- EBITDA €380m
- Profit before income tax €262m
- Capex €863m
- Total assets €3,803m
- Irish Water surplus reinvested to fund critical infrastructure projects
- Net debt position at year end reduced to €148m

Summary Income Statement

	2019 €m	2018 €m
Revenue	**1,122**	982
Commercial revenue	**267**	262
Government subvention	**855**	720
Operating costs	**(741)**	(734)
EBITDA	**380**	248
Depreciation and amortisation	**(112)**	(83)
Finance costs	**(7)**	(9)
Profit before income tax	**262**	157

Revenue

Revenue of €1,122m for the year to December 31st 2019 was €140m higher compared to prior year. Government subvention revenue for the domestic sector of €855m was €135m higher compared to prior year. Commercial revenues of €267m which primarily comprise non-domestic customer billing and customer connection revenues were €5m higher compared to prior year.

Capex Investments

Operating Costs

Operating costs of €741m have increased by €7m compared to prior year, primarily reflecting higher operating costs required to support the increasing capital delivery programme year on year, higher energy costs and other inflationary cost pressures, partly offset by the continued delivery of operating efficiencies.

Summary Balance Sheet

	2019 €m	2018 €m
Infrastructure assets	**3,552**	2,781
Other assets	**251**	203
Total assets	**3,803**	2,985
Borrowings and other debt	**(255)**	(885)
Pension liability (IAS 19)	**(34)**	(27)
Other liabilities	**(703)**	(596)
Total liabilities	**(992)**	(1,508)
Net assets	**2,810**	1,477
Net debt	**(148)**	(823)

Financial Review (continued)

Infrastructure Assets and Capital Expenditure

Irish Water continued the delivery of scheduled capital investments in 2019, with total investments of €863m (€683m in 2018) in water and wastewater infrastructure.

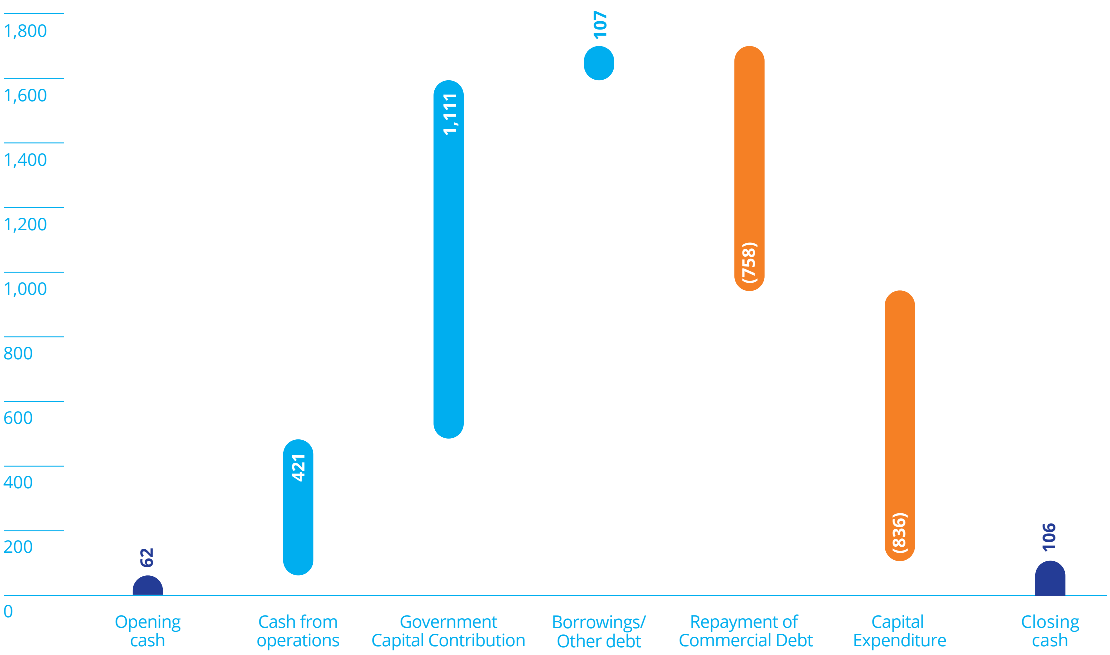
Net Debt and Cash Flows

The net debt position at December 31st 2019 was €148m, as compared to €823m in the prior year. In 2019 capital contribution funding received from Government of €1,111m during 2019 was utilised as follows:

- €758m received from the Minister for Finance was used to repay commercial borrowings related to the domestic sector.
- €353m received from the Department of Housing, Planning and Local Government was used to partially meet water and wastewater capital investment funding requirements (€836m in cash outlay terms) resulting in a residual funding requirement of €483m.

Surplus operating cash flows of €421m and the net increase in borrowings and other debt of €107m were utilised to meet the residual capital funding requirement of €483m and increased cash liquidity of €106m at year end.

How cash was used in 2019 (€m)



Capital Resources

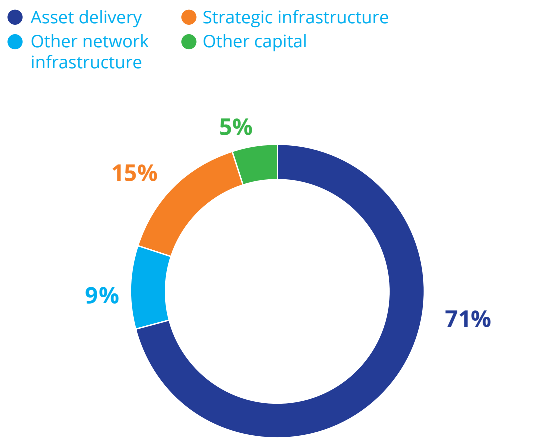
Irish Water has a statutory borrowing limit of €2,000m, which sets the upper limit for drawn facilities. As at December 31st 2019 there were

- total borrowings of €238m (including capitalised loan fees)
- undrawn facilities of €352m,
- €106m of cash and cash equivalents.

In 2019 as part of the implementation of the recommendations of the Inter Departmental Working Group on the Replacement of Irish Water's Commercial Borrowings with State funding, the Minister of Finance provided €758m of equity to Irish Water under a Deed of Capital Contribution. Following receipt of the money, Irish Water repaid €758m of commercial borrowings relating to the domestic sector and cancelled €660m of commercial bank facilities. This left Irish Water with €600m of commercial bank facilities, including €590m of committed facilities as at 31st December 2019. These facilities continue to be used as an interim source of funding and will be rolled on a short term basis until the replacement of the remaining Irish Water's external debt facilities with State funding is completed.

At December 31st 2019, the weighted average interest rate on the Company's portfolio of outstanding borrowings was 0.76% (0.93%: December 31st 2018) and the average maturity of its debt was 0.28 years (0.42 years: December 31st 2018).

Capital Investments 2019



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 Ervia 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, Public Expenditure and Reform under the Financial Transactions of Certain Companies and Other Bodies Act, 1992 and the Specification of the Minister for Finance and Public Expenditure and Reform. 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 24.

Operating Review

Irish Water employs 792 professional, technical and support staff, and we work with 3,175 staff in the 31 Local Authorities who act on behalf of Irish Water to provide water and wastewater services at a local level under Service Level Agreements. We are made up of five core functions: Asset Operations, Asset Management, Asset Delivery, Customer and Support Services. These are supported by our Customer Contact Centre and service delivery partners. We are also supported by Ervia's Group Centre, Business Services and Major Projects functions to ensure that efficiencies and economies of scale are realised across the organisation.

The focus of Irish Water remains the repair, upgrading and the effective and efficient operation of the country's water and wastewater services. Investment will continue to be prioritised to deliver the biggest benefit to communities and businesses through optimising the deployment of our financial resources, while safeguarding the environment.

Irish Water has put in place stringent corporate governance structures to ensure that it uses available funding most effectively. Irish Water has continued close engagement with a wide range of oversight bodies and stakeholders. Irish Water welcomes the establishment of the Water Advisory Body ('WAB') and the publication of its first report in October 2019, following engagement with Irish Water. Irish Water also had continued engagement with the national water forum, An Forám Uisce, in 2019.

Brexit and any resulting trade agreements remains a key challenge facing Ireland and Irish Water is making the necessary plans for the different scenarios facing both the company and our customers. In particular, Irish Water has conducted a detailed review of its supply chain and has put contingency plans in place where required in order to ensure the maintenance of services post "Brexit". In this context, Irish Water signed a Memorandum of Understanding with Northern Ireland Water in 2019.

Transformation of Irish Water to a Single Public Utility

During 2019 Irish Water continued to work with its Local Authority partners under the existing Service Level Agreements to deliver water services. It also continued to progress plans to transform the service to a modern public utility. Throughout 2019 engagement continued through the Workplace Relations Commission ('WRC') with a number of parties including Irish Water, Local Authority management, the DHPLG and various trade unions who represent Local Authority Water Services staff. Following the Minister's letter to the Joint Oireachtas Committee in July 2019 on a possible future referendum on the public ownership of water services, further engagement on this issue continued to the end of 2019, facilitated via the WRC. There will be further meetings in 2020.

Maintaining momentum in this regard is of critical importance to the establishment of the Single Public Utility ('SPU'). The creation of the SPU is essential in order to facilitate a transformation in how water and wastewater services are provided nationally and is a key enabler to meeting the Irish Water Business Plan targets for asset development, efficiency, and shareholder value creation. To date progress has been slower than anticipated. Failure to implement the SPU in line with current projected timelines will have a material impact on Irish Water's ability to deliver on outcome and output targets set by the Commission for Regulation of Utilities ('CRU') for the Price Control Period 2020-2024.

In July 2018 the Government announced the separation of Irish Water and Ervia. In 2019, an Interdepartmental Steering Group was convened to progress the plans for the separation of Irish Water as a standalone, publicly owned, commercial, regulated utility. This Group which includes representatives from Irish Water will review and approve the separation plan including milestones and timing as well as monitor and oversee the implementation of the plan.

Progress against Strategic Objectives

Irish Water operates within a framework of national policies and Irish Water strategies. The Water Services Policy Statement 2019-2024 (WSPS) sets out the priorities of Government regarding the provision of water services under the three themes of Quality, Conservation and Future Proofing. Below are some of the measures that Irish Water undertook to implement the objectives of the WSPS in 2019.

Irish Water remains fully committed to delivering our ambitious capital and infrastructure investment strategy to deliver modern, efficient and reliable water and wastewater services. We continued to perform strongly. With a total investment of €863m in 2019 bringing the overall investment for the Interim Regulatory Control Period (2017 to 2019) to approximately €2.1 billion. The 2019 investment spread was across the three Water Services Policy Statement themes of Quality, Future Proofing and Conservation. We are seeing tangible outputs from this investment right across the country.

QUALITY

Water Quality

A key priority for Irish Water is reducing the number of people on Boil Water Notices. In 2019 this was a particular challenge with the imposition of two boil water notices in quick succession on the public water schemes supplied from the Leixlip Water Treatment Plant. These were the largest boil water notices to date, with a total population affected of c.657,395 across north Dublin and parts of Kildare and Meath. The first notice was imposed on 22nd October and lasted for 3 days. This followed a plant process failure which resulted in turbidity levels of the filtered water going above defined quality criteria. The second notice was imposed on 4th November and lasted 9 days. This was the result of high turbidity in the raw and filtered water following severe weather. Leixlip Water Treatment Plant was added to the EPA's Remedial Action List for Quarter 3, 2019. The EPA conducted an audit of the plant and Irish Water submitted its response to these audits to the EPA on 30th November, and is agreeing an appropriate remedial action plan for the plant with the EPA. Irish Water is continuing to upgrade works on the site. This in turn has implications for the overall water supply to the Greater Dublin Area as supply is reduced while these upgrade works are being completed.

At the end of 2019 there was a total population of 14,117 impacted by boil water notices which had been in place for more than 30 days. The largest single boil water notice remains on the Lough Talt public water supply in Co Sligo, impacting circa 12,500 people. Irish Water has been seeking to build an upgraded plant to serve this scheme which also has elevated levels of THMs. Planning permission was granted for these essential works by Sligo County Council using the "Imperative Reasons of Overriding Public Interest" process in May 2019 and works are now progressing to ensure that a safe and secure supply of water will be delivered to the people on this scheme by the end of 2020.

The projected date for each supply for the removal of the boil water notices is subject to consultation and agreement with the HSE.

We operate 755 water treatment plants, some of which take water from small sources that are vulnerable to contamination and the impacts of climate change. A small number of public water schemes have been identified as being "at risk" of not meeting mandatory European drinking water standards. These schemes are listed on the EPA's Remedial Action List (RAL) and Irish Water prioritises investment in these supplies. The number of public water schemes on the EPA's Remedial Action List was reduced to 52 in 2019. While there was a significant increase in the number of people being served by the schemes on the RAL due to the addition of all the public water schemes being served from the Leixlip Water Treatment Plant, over the course of the year, 134,805 people were taken off the list.

Throughout the year we continued to monitor and report on all public drinking water supplies nationwide, taking over 8,300 regulatory samples which amounted to over 170,000 individual tests. The results of this sampling is published on the Irish Water website, allowing households and businesses to see the results for their water supply.

Under our National Disinfection Programme we have upgraded a total of 82 sites in 2019, representing a significant investment in protecting public health. Our Coagulation, Filtration and Clarification (CFC), Filtration and Sludge Programme installs new or upgraded CFC, filtration or sludge treatment facilities in water treatment plants to minimise the risk of non-compliance. As part of this programme, Irish Water has upgraded a total of 70 sites, including 31 sites upgraded in 2019. We continued to roll out our national work programmes, including the delivery of reservoir cleaning and refurbishment, telemetry monitoring of critical operating parameters, and safety programmes.

An overview of the National Lead Programme was presented at the EPA Conference in May 2019 which included the water supply zone assessments for the possible introduction of orthophosphate treatment. Irish Water is progressing plans to begin treating orthophosphate at water treatment plants that meet the requirements of both health and environment assessments, as detailed in Irish Water's Lead in Drinking Water Mitigation Plan.

In 2019, 25 water treatment plants have been rationalised. Rationalisation is achieved by decommissioning a plant and laying a water main connection to a neighbouring treatment plant producing drinking water more efficiently and/or to a higher quality.

There is a growing public understanding of the reality around the resilience of water supply to Dublin and the surrounding areas. This was brought to the fore even more with the Boil Water Notices on Leixlip and the remedial works required to fix this issue. These works are hampered by the need to keep the production levels of Leixlip Water Treatment Plant optimised. In addition to the Leixlip upgrade works, Irish Water is also progressing works to optimise production at Athy Water Treatment Plant and with the Barrow network extension. Irish Water ran public information campaigns asking the public to conserve water over the summer months and in the Greater Dublin Region at the end of the year.

We are developing a National Water Resources Plan which, for the first time, will set out how we intend to maintain the supply demand balance for drinking water supplies over the short, medium and long term while minimising the impact on the environment. The publication of the draft plan is now scheduled for 2020.

We are delivering drinking water projects of national strategic importance. These multi-annual projects are being developed in accordance with complex environmental, procurement and planning legislative and regulatory requirements.

Operating Review (continued)

Vartry Water Supply Scheme
We are making a significant investment to ensure a safe and sustainable water supply for over 200,000 people in the North Wicklow and South Dublin areas. This scheme involves the upgrade of the existing Vartry water treatment plant, a new 4km pipeline from Vartry to Callowhill and 40km of trunk mains that will deliver water to a new covered storage reservoir in Stillorgan, County Dublin. This will replace and upgrade the original scheme that was developed in the 1860s by Dublin Corporation.

The pipeline from Vartry to Callowhill was commissioned in December 2018. Works are ongoing on the Vartry Water Treatment Plant upgrade which commenced in October 2018, involving the construction of a new water treatment plant on the existing site and upgrades works to the existing reservoir and spillway to improve dam safety.

The existing Stillorgan resevoir site contains three open water reservoirs that store treated drinking water. This is one of the last such sites in Europe. Construction of a new covered reservoir began in November 2018 and works are ongoing.

Wastewater Quality
Irish Water is responsible for the provision and development of water services including the collection, treatment and discharge of wastewater. We operate 1,062 wastewater treatment plants, 2,083 wastewater pumping stations, 26,000 km of foul/combined sewer network and 2,000 storm water overflows nationally.

Our investment in wastewater treatment and networks is aligned with commitments made in the River Basin Management Plan (2018–2021) to improve water quality. Appendix 1 of the River Basin Management Plan lists 255 agglomerations for which Irish Water was to progress works. At the start of 2019 Irish Water had reduced this number to 161. By the end of 2019, this number has been reduced further to 147.

Irish Water has progressed major capital works to treat wastewater in areas identified in 2014 as having no wastewater treatment. This includes Passage-Monkstown which was connected to Shanbally wastewater treatment plant in Quarter 2, 2019 and is no longer discharging into Cork Lower Harbour. Since 2014, another 6 areas have been added, bringing the remaining number of untreated

agglomerations to 35. Irish Water is progressing works on all of these remaining areas.

In a judgment of 28 March 2019, the Court of Justice of the European Union found that Ireland was not in compliance with Articles 3, 4, 5 and 12 of Directive 91/271 in relation to the treatment of urban wastewater at 28 named agglomerations across Ireland. In response, Ireland agreed to deliver a detailed programme of works and other measures to ensure full compliance with the judgment. The programme primarily consists of capital works projects to be delivered by Irish Water to bring the named agglomerations into compliance with the Directive. As at the end of 2019, there are substantial works planned or ongoing at the remaining 13 agglomerations.

Over the course of the summer months, there were discharges from the Ringsend Treatment Plant in Dublin which provides over 40% of Ireland's wastewater treatment capacity. This resulted in the closure of beaches along the Dublin coast during the bathing season. Irish Water acknowledges the inconvenience caused to bathers arising from these discharges. These overflows were caused by excessive rainfall which on occurrence causes the storage tanks on the site to overflow. These storm overflow water tanks are a standard feature of wastewater treatment plants and are designed to alleviate pressure on the network that would otherwise see the effluent back up in the network. As heavy rainfall is a feature of Irish weather it is anticipated that these discharges will continue. We will continue to engage with all stakeholders including the EPA, the HSE and the local authorities, to ensure effective communications are maintained in relation to any such future occurrences during the bathing season, and we will also liaise with local authorities on early warning bathing notices for any affected areas.

In May 2019 Irish Water presented its proposals to address challenges in the wastewater networks. Irish Water is developing Drainage Area Plans with a focus on environmental compliance, customer service and growth. The company is also progressing a number of national wastewater programmes and assessments including storm water overflows which became a matter of public interest in 2019.

Irish Water is also progressing its critical sewer surveys to assess the Sewer Rehabilitation Prioritisation Programme. 14km of new and 55km of rehabilitated sewer was laid in 2019.

The Shared Waters Enhancement and Loughs Legacy ('SWELL') project was launched in June 2019 at an event in Derry. This major cross-border project has been awarded €35 million under the EU's INTERREG VA Programme and will see the construction of new wastewater treatment works as well as upgrades to sewerage networks on both sides of the border to address wastewater pollution in Carlingford Lough and Lough Foyle.

Irish Water continued its partnership with An Taisce's Clean Coasts "Think Before You Flush" campaign throughout the year. This is a public awareness campaign about the problems sanitary products and other items can cause in the plumbing in our homes, our wastewater network and treatment plants and our marine environment when they are flushed down the toilet. In December 2019, Irish Water and Clean Coasts launched the related "Think Before You Pour" campaign. This campaign focused on raising awareness of the issues caused by pouring fats, oils and greases down the drain and provided advice on how to dispose of these correctly in advance of the Christmas period.

We continued to progress a number of major wastewater projects, including:

Cork Lower Harbour Main Drainage Project

The commissioning of the new 65,000 population equivalent wastewater treatment plant at Shanbally in 2016 and the repair and extension of the sewer network in Carrigaline, Crosshaven, Passage West, Monkstown, Shanbally and Ringaskiddy, has already resulted in a 75% reduction in the volume of untreated sewage being discharged into Cork Lower Harbour. Our goal is to have a sewage-free harbour by the end of 2021.

Construction works on the southern networks element were completed successfully in 2019 and the works on the Cobh network and the Cobh to Monkstown estuary crossing commenced in 2019.

Operating Review (continued)

Ringsend Wastewater Treatment Plant Upgrade
The Ringsend Wastewater Treatment Plant was originally designed to treat wastewater for a capacity of 1.6 million population equivalent but is currently operating in excess of that capacity at 1.9 million population equivalent. Irish Water is undertaking a project to extend the treatment plant to meet this higher demand and also to ensure the treated water discharged to the lower Liffey estuary meets the required standards.

An Bord Pleanála granted planning permission for the project on 24th April 2019, facilitating the use of advanced nutrient reduction treatment technology at the plant. This technology, known as Aerobic Granular Sludge, will enable the treated wastewater outfall to remain at its current location thereby overcoming the requirement for the previously permitted long sea outfall tunnel.

Delivering a quality service

Irish Water is committed to a best-practice approach to customer service and operations, and is focused on improving engagement with its customers. In 2019 it delivered a redevelopment and enhancement of its website, a key customer engagement channel.

Our contact centre continued to operate 24/7 supporting all our customers.

Direct engagement with customers, communities and stakeholders remains key. Over the course of the year we continued to engage through a mix of information evenings, public briefings, elected representative engagement via Councillor Clinics and our dedicated communications channels and continued engagement with community groups, environmental groups, business representative bodies and public and private fora.

Irish Water actively promotes a Work Safe, Home Safe culture internally and across the industry. Irish Water hosted a Safety Leadership Conference in May 2019 with our Local Authority colleagues. We also implemented a new App for all our staff and contractors in September to report and capture all HazCons.

Irish Water commenced a new practice of communicating directly with all users of schemes on the Environmental Protection Agency's Remedial Action List in 2018 and this practice continues in 2019.

CONSERVATION

Applying one standardised system for the calculation, monitoring and reporting of leakage across the country is key to improving public discourse in relation to leakage rates. To this end, the new Leakage Management System was embedded within Irish Water and its 31 Local Authority partners throughout the year.

Irish Water's national Leakage Reduction Programme which is being delivered in conjunction with Local Authorities continued to gain momentum with awareness of the programme augmented by branded site works. Increasing levels of support from Local Authorities is key to accelerating work on this critical work programme to ensure we meet our leakage reduction targets. Working with local authority partners, we are currently fixing over 1,800 leaks every month, with the plan to increase this number even further. Challenges remain as the work is addressing networks that are old, complex and overstretched. As of the end of Quarter 3 2019, Irish Water had delivered net leakage savings of 66 TWh.

In July 2019 the CRU published its Decision Paper on Irish Water's Household Water Conservation Charge. Irish Water is now preparing to engage directly with customers on both the charge itself and on leakage detection in preparation for future charging.

Irish Water continues to closely monitor all water supply zones. Dublin, in particular, continues to face significant challenges in relation to the supply of drinking water. Whilst 2019 did not see a return of the drought conditions experienced in 2018, Irish Water is building on the awareness gained on the importance of conserving water.

A Water Conservation Campaign was run by Irish Water from June to September to encourage the public to use only what they need, one year on from the worst drought in 70 years which resulted in the country's first hosepipe ban. The public information campaign covered TV, press, radio, online and social media.

A major part of encouraging conservation is to also explain what Irish Water is doing to tackle the high rate of leakage in Ireland. Thus in July and August Irish Water launched a public information campaign explaining what it was doing to fix leaks. The campaign ran on radio, print, online and social media. This was followed by close engagement with key stakeholders.

Another key conservation activity is education and training. Irish Water teamed up with An Taisce's Green-Schools programme for a seventh year to support schools working to gain a Green Flag under the water theme. The water theme aims to increase awareness of water conservation among primary and secondary school students. Irish Water is delighted to be working with young people in schools throughout Ireland through the Green-Schools programme to encourage new and innovative ideas about water use and water conservation.

As part of our support of Irish businesses, we are also running a Water Stewardship Training Programme in partnership with Central Solutions and the Lean and Green Skillnet. The programme is an international best practice certification, accredited by the European Water Stewardship Standard.

The training will support our business customers with training on how to lower water consumption and reduce operating costs while protecting the environment. The water conservation campaign and the water stewardship programme is fully supported by Ireland's largest business stakeholder groups, agencies and business.

Operating Review (continued)

FUTURE PROOFING

Irish Water has been improving wastewater capacity and resilience. Since the start of 2014, we have constructed 36 new wastewater treatment plants including one in 2019. We have also upgraded a total of 65 treatment plants, with 9 of these upgrades being completed in 2019. We have also laid a total of 220km of sewer network since 2014. During 2019 14km of new sewer was laid and 55km was rehabilitated.

We have improved water capacity and resilience by constructing 11 new water treatment plants in total since 2014, with 2 of these completed in 2019. We have upgraded 36 water treatment plants since 2014, with 2 of these delivered in 2019. We have also laid a total of 1,905km of water main, equivalent to circa three times the length of Ireland. In 2019, 60km of new water main was laid, and 333km was rehabilitated.

Irish Water continued to progress its National Water Resources Plan ('NWRP'). Workshops were held with each Local Authority in quarter 2 and quarter 3 of 2019 to assess their future needs. The results from these workshops will be incorporated into the draft NWRP which will be published in 2020 for public consultation.

A new national connection charging policy with a single set of charges and a standardised scope of work for water and wastewater services connections was approved by the Commission for Regulation of Utilities, following a public consultation process, and came into effect on 1 April 2019. Irish Water are now operating under this new policy and charging structure. Connections and Developer Services within Irish Water responds to requests from all applicants who wish to connect to Irish Water's infrastructure. This includes an assessment of housing development design layouts for water services, pre-connection enquiries for properties interested in future connections, connection applications and also general engagement with housing developers. In 2019, Irish Water responded to a total of 2,221 Pre-Connection Enquiries covering 131,728 housing units and issued offers for a total of 4,683 connection applications, covering 28,533 housing units. Approximately 93% of the connection application units were in housing or mixed unit developments. Irish Water is working with the construction industry to develop a partnership approach for the purpose of delivering housing.

As part of the development of scientific services within Irish Water, in May 2019 it was announced that Irish Water is submitting a planning application for a best in class facility for water testing and analysis in Limerick. As well as enhancing our work in protecting public health, the new national laboratory will also offer a substantial benefit to the local and regional economy with the employment of circa 90 staff by 2023.

On 3 July 2019, the CRU published its decision on Irish Water's Non-Domestic Tariff Framework. The purpose of the Framework is to generate a harmonised suite of tariffs for non-domestic customers. A more harmonised approach will benefit Irish Water's customers in terms of transparency, simplicity and equity. Irish Water is now working with non-domestic customers and stakeholders on the transition to this new charging structure.

The All of Government Climate Action Plan was published by the Department of Communications, Climate Action and Environment ('DCCAE') on 17 June 2019. This Plan sets out an ambitious course of action to address the disruption climate is having on Ireland's environment, society, economic and natural resources. This was followed by the publication by the Department of Housing Planning and Local Government of its "Water Quality and Water Services Infrastructure - Climate Change Sectoral Adaptation Plan". Presenting an assessment of key future climate risks, the plan outlines the adaptive measures available to build resilience in responding to climate change and weather related events, and other socio-economic impacts. Many of the proposed adaptation actions are already underway and Irish Water is including these measures into its operations and strategies. Irish Water is progressing its Sustainability and Energy Efficiency Strategies and these are being reviewed to ensure alignment with the Action Plan, as well as the forthcoming National Water Resource Plan.

Irish Water also continued to progress a number of major projects that are key to meeting the future requirements for the country.

Water Supply Project – Eastern and Midlands Region

The delivery of a sustainable and resilient national water supply requires the identification of a new source of supply for the Eastern and Midlands region. The existing water supply sources and infrastructure for this region do not have the capacity or resilience to meet these requirements nor can they be addressed by fixing leaks alone. This project will represent the first major comprehensive delivery of 'new source' infrastructure in over 60 years.

The preferred scheme for the project, identified after an extensive four stage public consultation process, involves the abstraction of water from the River Shannon at Parteen Basin, treatment nearby at Birdhill, together with a 170km underground treated water pipeline from Birdhill to Dublin capable of providing treated water to communities across the Region.

Irish Water is continuing to progress the preparation of a Strategic Infrastructure Development (SID) planning application for the project. A planning application will be submitted to An Bord Pleanála following the enactment of the new abstraction legislation, the publication of the National Water Resources Plan and other dependencies.

Greater Dublin Drainage Project

We are developing a new regional wastewater treatment facility and associated infrastructure to serve the population of Dublin, Kildare and Meath. This project proposes a new regional wastewater treatment facility be built in Clonshaugh in County Dublin along with associated infrastructure to serve the population of the Dublin, Kildare and Meath areas. The volume of wastewater generated in the Greater Dublin Region is projected to increase by more than 50% in the period to 2050. This project is part of our investment in wastewater infrastructure for the Greater Dublin region and will facilitate this growth while also protecting public health and safeguarding the environment.

The project was granted planning permission on 13th November 2019. The planning permission and associated conditions are the subject of Judicial Review proceediings.

Regional Biosolids Storage Facility

The Regional Biosolids Project involves the construction of a new regional facility to provide storage for the biosolids produced at wastewater facilities serving the Greater Dublin Area. The new regional facility will lead to greater efficiencies and more effective management of the biosolids over the longer term.

The project formed part of the planning applications for both the Ringsend and GDD projects and a Compulsory Purchase Order in respect of the lands required for the project was submitted with the Ringsend application. An Bord Pleanála granted planning permission for the project on 24th April 2019 as part of the Ringsend planning permission and also confirmed the Compulsory Purchase Order.

Corporate Responsibility

At Irish Water we have a strong belief in Corporate Citizenship and our Corporate Responsibility 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 focus on the communities we serve, our marketplace, our workplace and on our environment.

In the Community

During 2019 Irish Water continued to support its strong partnerships and community programmes. These programmes promote positive behaviours in water and wastewater related activities in homes and businesses and increase awareness of water-related issues and the benefits of making simple positive changes.

Irish Water continued in partnership with An Taisce to deliver the Clean Coasts initiative. This includes the Think Before You Flush and Think Before You Pour campaigns. The aim is to raise public awareness of the impact of fats, oils and greases and sewage related litter such as wipes, cotton buds and sanitary products on our wastewater system. These campaigns also provide advice on how to correctly dispose of these items to protect wastewater networks and the marine environment.

Irish Water ran two Think Before You Pour campaigns in 2019, at Easter and Christmas. The core message for the Christmas campaign was based on our market research which showed that 58% of the public pour FOGs (fats, oils and greases) down the kitchen sink. Irish Water had to clear over 8,000 reported sewer blockages in 2019 and there were thousands of additional blockages cleared in the course of planned works over the course of the year. These public information campaigns covered press, radio, website, social media and "gunkpot" giveaways to encourage better kitchen behaviour.

We also entered into our 6th year of partnership with An Taisce's Green-Schools Programme. This international environmental education and awards programme – known internationally as Eco-Schools - is to promote sustainability. Within this the Irish Water partnered "Water Theme" looks at developing awareness around water conservation and how to effectively manage this important resource in schools and at home. It encourages schools and students to examine how they use water and provides practical ideas, actions and solutions to reduce consumption levels and increase sustainability.

Twenty multi-school student forums have been held around the country each year since Irish Water began to sponsor the Green-Schools Programme and in 2018/2019 this increased to 21. The forums enable schools to engage with each other and share their knowledge and experience of the Green-Schools Water Theme. In the academic year 2018/2019, 129,244 students in 562 schools participated in the Water Theme of the Green-Schools programme. 122 Green Flags for Water were awarded and 203 million litres of water were saved by participating schools.

Social media is an important medium for the Green-Schools programme. Schools, classrooms, teachers and older students are becoming more vocal and engaged through social media channels. The various Water theme initiatives are heavily promoted on a regular basis through Green-Schools' various social media accounts, including Twitter, Facebook, Instagram, YouTube and Flickr. The wide range of social media platforms used ensure that the Water theme resources and information on the Water programmes, are available and accessible to a wide audience.

As part of our support of Irish businesses, Irish Water also continued to roll out its Water Stewardship Programme. The Water Stewardship Training Programme was run in 2019 in partnership with Central Solutions and the Lean & Green Skillnet. The programme is an international best practice certification, accredited by the European Water Stewardship Standard. The training will support our business customers with training on how to lower water consumption and reduce operating costs while protecting the environment. The Water Stewardship Programme is fully supported by Ireland's largest business stakeholder groups, agencies and business.

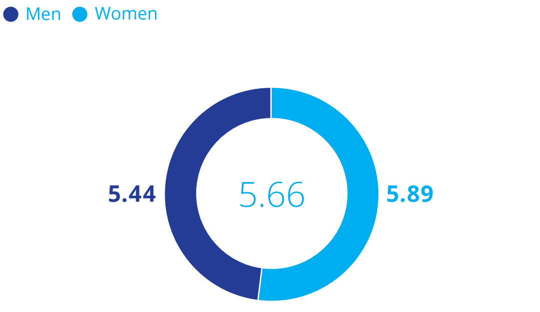
In the Marketplace

Irish Water is working hard on a number of efficiency and effectiveness programmes to deliver best-in-class services for our customers. We are focused on improving the quality of supply, our responsiveness to our customers, and improving the experience customers have when they engage with us.

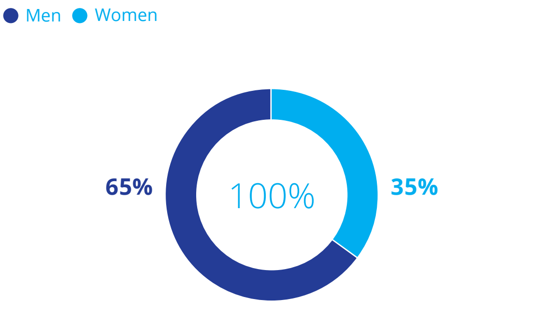
In 2019, we introduced a number of significant enhancements to our website, a key communication tool for our customers and a source of information which we are constantly upgrading and expanding. We have taken steps to ensure the information presented to each visitors is tailored to their requirements. In addition, we have strived to make

Corporate Responsibility (continued)

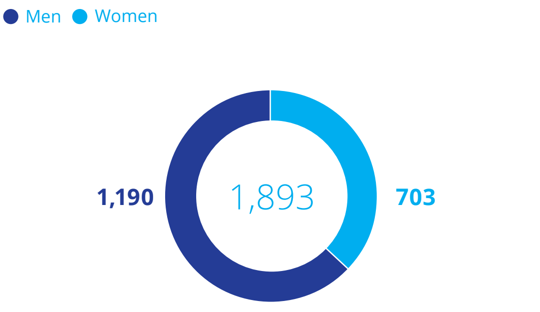
Average Length of Service – Years



Gender – Employees



Training Completed – Days



information available that adds to the transparency of the industry. An example of this is the dedicated website for drinking water quality where any member of the public can access the water quality results using their home address. In early 2020 we exceeded the publication of over one million test results on this site.

We are committed to increasing transparency in the provision of public water services. We will continue to operate in accordance with our statutory requirements including planning and public consultations, regulated price controls, funding requirements and business plans and strategies. Beyond this, we regularly proactively communicate and consult with a wide range of community, environmental, business and interest groups and their elected representatives. We will continue to engage in proactive two-way communications with all relevant stakeholders on our journey to become Ireland's leader in infrastructure and service delivery.

In the Workplace

Our overarching ambition is that the people who work across our company feel like this is a great place to work, and that their experience of coming to work every day is enriching and rewarding. As an organisation we are committed to listening to our people in a number of ways. This includes engagement surveys, through our employee forums and a program of two-way leadership communications. By continuing to listen and address areas that are important for our people we can take really positive steps to shape our culture, improve how we do things and how we support our people.

We aim to create an environment where all of our people find their role both personally and professionally rewarding. These are a sample of some of the employee related initiatives that we implemented over the past year:

- In 2019 we launched the Leadership Principles; 6 commitments which leaders across the business have signed and display at their locations. We have focused on rolling out a comprehensive series of internal communication programmes such as leadership roadshows and open door initiatives. We do this to connect all our teams to the leadership and purpose of the organisation.

- Under our 'Work Safe Home Safe' programme we have a dedicated pillar focused on employee wellbeing. This year our wellbeing calendar of activity was based around the themes of Mind, Body and Life. The Agile Working programme was referenced by staff during the year as having a really meaningful impact on their work life balance. We also achieved the Ibec Keepwell mark in 2019.
- This year we introduced the People Awards, an annual recognition awards ceremony. Staff had the opportunity to nominate people from across the organisation for one of the awards which included 'unsung hero' and 'exceptional citizen awards'.
- iBelong, the Diversity and Inclusion programme was launched in November 2019. This followed the establishment of the Ervia wide Diversity and Inclusion Council and Working Groups earlier in the year. A full programme of activity to celebrate Diversity and Inclusion took place in November. The longer term strategy for the coming years is being developed by the council.

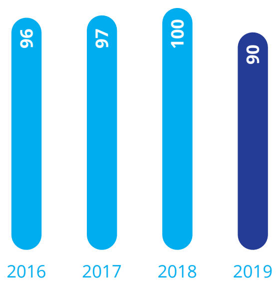
Safety

At Irish Water we put safety at the heart of everything we do and our vision is that our activities and assets shall not cause harm to anyone. 2019 was a key year in moving towards that vision. For our own employees we achieved a significant milestone of one year incident free with 1.1 million hours worked safely. We continued to work closely with our Asset Delivery Contractors which has resulted in a significant reduction in our accident frequency rates from 0.78 in 2018 to 0.55 in 2019.

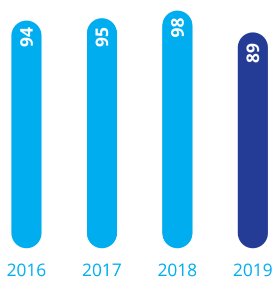
We have focused and delivered key initiatives with our Local Authority partners such as a very successful annual conference and a focus on near miss reporting and high potential incidents.

We showcased our works in safety nationally at various national events such as Road Safety Authority (RSA) annual seminars and the Construction Industry Federation national summit and have been recognised as leaders in safety by a number of our stakeholders. In 2019 we became an active member of the Water UK Safety Group collectively working on key strategic initiatives.

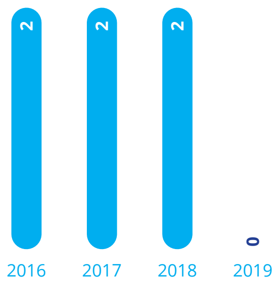
Total LTIs



Contractors LTIs



Employee LTIs



Our 'Work Safe, Home Safe' programme continues to deliver measurable improvements to our safety performance, communications, leadership and culture. In 2019 we saw further improvements in our proactive safety indicators such as the number of hazard reports and the number of safety leadership conversations held resulting in 1,149 conversations across our industry in 2019.

We worked with our partners across Ervia to develop a process around high potential incidents. These are incidents or events that under different circumstances might easily have resulted in more serious outcomes. All high potential incidents and events are subject to detailed investigation to determine the root cause and to put preventative measures in place.

In the Environment

As guardians of Ireland's water and wastewater assets we have a responsibility to protect the environment in which we operate and to act responsibly through our activities. We also believe that by engaging with our suppliers and supply chain partners we can provide responsible and sustainable operations, in particular through our procurement and contract management processes.

The European Union (Energy Efficiency) Regulations (S.I. No.426 of 2014) require us to publish an annual statement describing the actions we are taking, or have taken, to improve our energy efficiency and an assessment of the energy savings arising from those actions.

We have made significant improvements in our energy efficiency, delinking our energy use from our carbon emissions. We are at the forefront in installing renewable energy sources, providing a low carbon, renewable and secure energy supply for our assets. We are developing plans to move towards carbon neutrality including further development of renewable energy sources. We view our sludges as a valuable resource in the context of the circular economy, providing a sustainable source of precious finite materials. We are progressing a number of initiatives, taking a sustainable, circular economy model for the management of our sludges. This is a significant change from the traditional linear model of 'take-make-consume-waste-dispose', towards a sustainable approach which focusses on productive reuse and recycling of sludges as a product.

Irish Water, as one of Ireland's largest public sector energy consumer, is improving the energy efficiency of water services. Our sustainable energy strategy takes a proactive approach, building on the work of Local Authorities. It takes a business wide approach including concept design, new projects, retrofits and our people. We are implementing Energy Efficient Design (EED) for all our new and existing assets in collaboration with SEAI. Our strategic agreement with SEAI helps to design for energy efficiency from concept, avoiding locking in inefficiencies whilst also helping to transform the industry at a national level. Our approach helps embed energy efficiency, facilitating us to develop, maintain and sustain a culture of energy efficiency.

Improving energy efficiency is a key sustainability measure for improving our carbon footprint and reducing our greenhouse gas emissions. We have made significant progress on our journey to become an energy efficient sustainable water utility, in 2019 we had achieved a 30% improvement in our energy efficiency performance with a corresponding saving of over 75,000 tonnes of carbon. We are on track to meet our target of 33% energy efficiency improvement by 2020, putting us in a strong position to meet our target for 50% by 2050.

Energy efficiency improvement is a key mitigation measure of our climate change policy to help ensure water and wastewater services are resilient to climate change and developing a low greenhouse gas emitting water and wastewater service. We are developing a business wide climate mitigation and adaptation strategy, aligned with the Water Sector Adaptation Plan under the National Adaptation Framework.

We are rising to meet the challenge of Ireland's biodiversity crisis by implementing biodiversity surveys, biodiversity management plans and biodiversity enhancement on our assets. Our approach protects and improves biodiversity whilst also providing additional benefits such as carbon sequestration and drinking water source protection.

Measures taken in 2019 to improve the sustainability of water services included:

- Collaboration with external stakeholders on initiatives for improving the sustainability of water services.
- Sustainability awareness of our people through internal forums.
- Set up of a sustainability governance model, using an asset management approach, to facilitate continual improvement of our sustainability activities.
- Implementing strategic initiative with the Sustainable Energy Authority of Ireland to embed energy efficiency in our business and upskill our people and contractors.
- Decarbonising our energy consumption including installation of solar renewable energy sources.
- Developing and implementing a new energy governance model, using an asset management approach aligned with ISO 5000.
- Implementing energy efficiency projects across our operations including pumping, aeration, renewables, lighting and heating.
- Implementing biodiversity protection and enhancement measures on our assets.
- Fixing over 1,800 leaks per month, reducing our demand for energy.
- Water conservation awareness campaign.
- Development of a climate change mitigation and adaptation strategy.
- Development of a climate change vulnerability and management standard.
- Progressing a circular economy model for our sludges.
- Development of a waste management strategy.
- Implementation of a process chemical strategy for sustainable chemical management.

Key objectives planned for 2020 include:

- Developing and implementing a sustainability strategy aligned with the Government Climate Action plan and UN Sustainable Development Goals.
- Continued implementation of our sustainable energy strategy.
- Development of a carbon neutrality roadmap.
- Continue decarbonising our energy consumption through energy efficiency improvement and renewable energy.
- Improving energy efficiency by upgrading and replacing inefficient plant and processes.
- Continuing to protect and enhance biodiversity on our assets.
- Continue embedding Energy Efficiency Design into our activities in collaboration with SEAI.
- Implementation of waste management strategy, with a particular focus on circular economy.
- Developing low greenhouse gas water services through Implementation of our climate change mitigation and adaptation strategy.

We welcome the publication of the Climate Action Plan 2019 and the setting of new sustainability and climate action targets to tackle climate breakdown. The publication of the Government Plan is an important milestone and a significant climate action mandate, accelerating our transition to an energy efficient, low carbon, sustainable water utility. The consequences of climate change for our planet are far reaching, with significant impacts on water resources and infrastructure. The improvements we have made over the past number of years reflects our commitment to managing and reducing our greenhouse emissions and their contribution to climate change.

Governance Reports

The Ervia Board

Tony Keohane (Chairman)

Appointed: July 5th 2016
Term: 5 years

Chris Banks

Appointed: July 5th 2016
Term: 5 years

Fred Barry

Appointed: January 10th 2020
(having previously been appointed July 5th 2016)
Term: 4 years

Celine Fitzgerald

Appointed: January 10th 2020
(having previously been appointed on January 20th 2015)
Term: 5 years

Keith Harris

Appointed: July 5th 2019
(having previously been appointed on July 5th 2016)
Term: 4 years

Sean Hogan

Appointed: January 10th 2020
(having previously been appointed on January 20th 2015)
Term: 4 years

Mari Hurley

Appointed: June 12th 2018
(having previously been appointed on 11th June 2013)
Term: 5 years

Finbarr Kennelly

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

Joe O'Flynn

Appointed: July 10th 2018
(having previously been appointed in January 2015, November 2013 and November 2008)
Term: 3 years

The Irish Water Board

Cathal Marley (Chairman)

Appointed: December 1st 2016
Term: 5 years

Career: Group CEO (Interim) of Ervia having previously held the role of Group CFO 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 fund raising 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.

Niall Gleeson

Appointed: August 6th 2019
Term: 5 years

Career: Irish Water Managing Director Niall Gleeson joined the organisation in August 2019 from Shanahan Engineering where he held the role of Senior Director, based in Hong Kong. Prior to this, Niall was Managing Director of Veolia Ireland, which built and currently operates 30 water and wastewater treatment plants on behalf of Irish Water and other clients, and Managing Director of Alstom Ltd where he was responsible for the maintenance on the Dublin Luas light rail system. Niall brings to Irish Water a wealth of engineering experience, business expertise, and leadership and engagement of teams. He holds a degree in engineering from DIT Bolton St, Dublin.

Eamon Gallen

Re-appointed: August 6th 2019
(having previously been appointed October 1st 2018)
Term: 5 years

Career: General Manager of Irish Water, having previously served as Acting Managing Director of Irish Water from October 2018 to August 2019 and Head of Customer Operations in Irish Water. Eamon joined Ervia in 2004 and prior to taking on roles in Irish Water, he held the role of Ervia Chief Information Officer (CIO) and he has held a number of senior programme management roles including the programme to establish Irish Water. Eamon has a CIMA honours degree, an MBA from University College Cork and is a qualified Chartered Director.

Brendan Murphy

Re-appointed: November 1st 2018
(having previously been appointed in November 2017 and December 2014)
Term: 3 years

Career: Commercial and Regulatory Director of Ervia since December 2013. He previously served as Director of Finance Technology and 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.

Yvonne Harris

Appointed: September 26th 2019
Term: 3 years

Career: Head of Customer Operations in Irish Water since March 2018. Yvonne previously held senior management positions in Irish Water and, prior to that, in Ervia. She has over 30 years experience in the utilities sector and was responsible for delivering numerous large scale transformation programmes both in the IT and business sectors, including the establishment of Irish Water. She holds a Bachelor of Business Studies and a Masters in Business Practice.

Maria O'Dwyer

Appointed September 26th 2019
Term: 3 years

Career: Leading the Connections and Developer Services team in Irish Water since 1st January 2016. Prior to joining Irish Water, Maria held a number of senior management roles in Gas Networks Ireland. Maria is a Chartered Engineer with Engineers Ireland and has over 20 years' experience in the engineering and utility sector. She has a Bachelors Degree in Electronic Engineering and a Masters in Engineering Science from University College Dublin.

Report of the Board

The Governance Statement

The Board of Directors of Irish Water ("the Board") present the Report of the Board for the financial year ended December 31st 2019. 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 ('the Group'). However, due to its share ownership structure, Irish Water does not meet the definition of a subsidiary for accounting purposes and therefore it is not consolidated into Ervia's financial statements.

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 Group level which act in respect of the entire group. From a governance perspective, Irish Water matters are overseen by both the Irish Water Board and the Ervia Board.

Irish Water, as a subsidiary of Ervia, is obliged to comply with the Code of Practice for the Governance of State Bodies ("the Code"). The Board is responsible for ensuring compliance with the Code and that the Company has complied with the applicable provisions of the Code throughout the year under review. 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 for Housing, Planning and Local Government ("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-information/modelpublication-scheme/about/*

Directors' Compliance Statement

The Board acknowledges that it is 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 Board carried out a mid-financial year and year-end review of the arrangements and structures in place for 2019 to secure the Company's material compliance with its relevant obligations.

Compliance is a dynamic process, involving multiple policies and procedures, the commitment of the Board and senior management and the support of all employees, contractors and agents is essential 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 the Compliance Policy Statement.

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 2019
▸ 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. ▸ Affixing the company seal to documents. ▸ Review and approval of Safety Policy and Procedures.	▸ Approval of revolving credit facilities with credit institutions. ▸ Approval of 2018 Annual Report and Financial Statements and the un-audited interim financial statements. ▸ Approval of budgets for capital programmes and expenditure. ▸ Approval of Enterprise Risk Management Policy as it relates to Irish Water. ▸ Review and consideration of Director's Compliance Policy Statement. ▸ Review and consideration of Leakage Management plan.

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.

Report of the Board (continued)

In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies for the Company's financial statements and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards.
- Prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not 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 2019

Niall Gleeson was appointed as Managing Director of Irish Water with effect from August 6th 2019. Mr. Gleeson was appointed to the Board of Irish Water with effect from that date in his capacity as Managing Director of Irish Water. Eamon Gallen, who was acting as Managing Director of Irish Water until Mr. Gleeson's appointment, was re-appointed to the Board of Irish Water with effect from August 6th 2019.

Mike Quinn resigned from the Board with effect from 5th April 2019. Following Mr. Quinn's resignation, Cathal Marley, CEO (Interim) of Ervia, was appointed Chairman of the Board. Yvonne Harris and Maria O'Dwyer were appointed to the Board of Irish Water with effect from September 26th 2019. Michael G. O'Sullivan's term of office on the Board expired on November 30th 2019.

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. 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.

The Board has a blend of skills and experience and the necessary competence to address the major challenges of the Company. The Board is led by the Chairman, Cathal Marley, 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 Chairman, 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.

Directors' Remuneration, Expenses and Attendance

The Directors are not entitled to receive fees. A schedule of the attendance at the Board meetings for 2019 is outlined below.

Director	Meeting Attendance (attended/eligible)	Fees as Irish Water Director for 2019	Expenses as Irish Water Director 2019
Cathal Marley (Chairman)	12/12	Nil	Nil
Eamon Gallen (re-appointed August 6th 2019)	11/12	Nil	Nil
Niall Gleeson (appointed August 6th 2019)	3/4	Nil	Nil
Yvonne Harris (appointed September 26th 2019)	3/3	Nil	Nil
Brendan Murphy	12/12	Nil	Nil
Maria O'Dwyer (appointed September 26th 2019)	3/3	Nil	Nil
Michael G. O'Sullivan (term of office expired November 30th 2019)	8/11	Nil	Nil
Mike Quinn (former Chairman resigned April 5th 2019)	4/5	Nil	Nil

Board Committees

From a governance perspective, Irish Water matters are overseen by both the Irish Water Board and the Ervia Board and by the committees established at 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 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 ended December 31st 2019, the Board of Ervia was assisted in discharging its obligations through the delegation of certain roles and responsibilities to the Audit and Risk Committee, the Investment/ Infrastructure Committee, the Remuneration Committee and the Project 23 Committee.

During 2019 the Project 23 Committee and the Single Public Utility Committee were combined to oversee the separation of Irish Water as a standalone, publicly owned, commercial, regulated utility from the Ervia Group during 2023.

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.

The report of the Ervia Audit and Risk Committee can be found on page 68. The Ervia Audit and Risk Committee met 5 times during the year. The Ervia Remuneration Committee met 12 times during the year. The Ervia Investment/Infrastructure Committee met 11 times during the year. The Single Public Utility Committee met twice in 2019 before merging with the Project 23 Committee, the combined Committee met 3 times during the year.

Board Effectiveness

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

Report of the Board
(continued)

Relations with Shareholders

Ervia holds one 'A' share in the Company and the Minister for Housing, Planning and Local Government and the Minister for Finance hold 325 'B' shares each.

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. 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.

	2019	2018
€50,000-€75,000	319	313
€75,001-€100,000	175	182
€100,001-€125,000	79	56
€125,001-€150,000	28	23
€150,001-€175,000	10	7
€175,001 and above	11	7

Note: All short-term employee benefits in relation to services rendered during the reporting period are included in the disclosure above. Refer to note 5 of the Financial Statements for further analysis of the various benefits included.

Consultancy Costs

Consultancy costs include the directly incurred cost of external advice. They 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 time period to carry out a specific finite task. They exclude outsourced 'business-as-usual' functions. Where consultancy work is contracted by Ervia on behalf of Irish Water, its related cost is included in Irish Water's disclosure only.

	2019 €'000	2018 €'000
Legal advice	314	530
Financial advice	840	517
Human resources	-	-
Business improvement	65	49
Engineering	300	335
Environmental & Safety	-	257
Other	364	266
Total consultancy costs	**1,883**	**1,954**
Capitalised	62	353
Income statement	1,821	1,601
Total consultancy costs	**1,883**	**1,954**

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, conciliation and arbitration proceedings. This does not include expenditure incurred in relation to general legal advice as this is included in consultancy costs above.

	2019 €'000	2018 €'000
Legal fees & costs	1,791	1,381
Settlements	1,713	3,973
Total	**3,504**	**5,354**
Number of legal cases	39	13

Note 1: This disclosure note excludes payments made by our insurance company.

Note 2: The number of cases relate to cases initiated by Irish Water itself or legal proceedings taken against it, and excludes insurance proceedings and wayleave conciliations.

Note 3: The legal costs above include an amount of €127,000 in relation to a legal matter, assumed from a Local Authority, involving Fáilte Ireland.

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2019 €'000	2018 €'000
Domestic		
Board	-	-
Employee	3,048	2,760
International		
Board	-	-
Employee	28	29
Total	**3,076**	**2,789**

Travel and subsistence expenditure by Irish Water Directors in 2019 was €nil (2018: €nil). Travel and subsistence expenditure incurred by Irish Water Directors is deemed to be incurred in their capacity as employees.

Hospitality

The income statement includes the following hospitality expenditure:

	2019 €'000	2018 €'000
Staff hospitality	3	3
Client hospitality	-	-
Total	**3**	**3**

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, the Ervia Group Anti-Fraud Policy and the Ervia Group Anti-Bribery and Anti-Corruption policy. 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 ended December 31st 2019, there were no protected disclosures to report.

Regulation of Lobbying

Irish Water is registered on the lobbying register maintained by the Standards in Public Office Commission. In accordance with the requirements of the Regulation of Lobbying Act 2015 the required returns have been made for the return periods in 2019.

Report of the Board (continued)

Prompt Payments

Appropriate internal financial controls are in place within the Company to ensure compliance with the provisions of the European Communities (Late Payments in Commercial Transactions) Regulations 2012-2016. Controls include setting clearly defined roles and responsibilities, monthly reporting and a 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 2019.

The Company is a signatory to the Prompt Payment Code as launched by the Government in 2015 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.

Freedom of Information

The Company is subject to the provisions of the Freedom of Information Act 2014 ('FOI Act'). A Model Publication Scheme has been prepared and published in accordance with the requirements of Section 8 of the FOI Act. The scheme is accessible through the Company's website www.water.ie. 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 is committed to protecting the rights and privacy of its customers in accordance with Data Protection Law.

Statement on the System of Internal Controls

Scope of Responsibility

The Board acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated.

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 and 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 December 31st 2019 and up to the date of approval of the financial statements.

Management of Risk

All employees of Irish Water have a responsibility for the effective management of risk which includes designing, operating and monitoring the systems of internal control for Irish Water. The Group CEO (Interim) is the accountable executive with ultimate responsibility. The Group CEO (Interim) delegates clear roles and responsibilities for effective risk management and for ensuring the systems of internal control are operating effectively to his Executive Team and their reports.

Risk and Control Environment

The Board has overall responsibility for ensuring the Company has appropriate systems of internal control and risk management in place. A number of key structures are in place to provide effective systems of internal control and risk management, outlined below.

Audit and Risk Committee

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 4 non-executive Ervia Board members who have the necessary expertise 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 by both the Irish Water Board and the Ervia Board.

The ARC provides oversight of the risk and control environment on behalf of the Ervia Board and is responsible for assisting the Ervia Board in discharging its responsibilities as they apply to this area. On a quarterly basis the ARC performs 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 risk and internal audit functions.

Integrated Assurance Forum

Irish Water has a responsibility under the Code to ensure effective systems of internal control are maintained and operated. An assessment of the effectiveness of these controls is required annually. In order to address this requirement the Ervia Group developed the Integrated Assurance Forum ("IAF") which reports to the Group Chief Financial Officer (Interim).

The IAF meets quarterly to confirm all assurance activities and required sign-offs are co-ordinated and evidenced in a structured manner. This culminates with the IAF, at year-end, providing assurance to the Ervia Board on the effectiveness of the controls. The IAF process, along with numerous other governance, risk and control activities across the Ervia Group, supports the Board in signing-off on the Statement on the System of Internal Controls.

The Integrated Assurance Forum framework, further consolidates and co-ordinates, in a structured manner, all assurance activities in the organisation across the "Three Lines of Defence" model. This ensures that Irish Water maximises risk and governance oversight and control to build organisational resilience and follows leading practice to meet all compliance obligations and governance requirements. The ARC is appraised of the results of the IAF on a quarterly basis.

Internal Audit

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 (Interim).

The Internal Audit function provides a systematic and disciplined approach to evaluate and improve the effectiveness of the Group's, including Irish Water's, governance, risk management and internal control.

In particular the Internal Audit function:

- Evaluates risk exposure relating to achievement of the Group's, including Irish Water's, strategic objectives.
- Evaluate the systems established to ensure compliance with policies, plans, procedures, laws and regulations.
- Evaluate the means of safeguarding assets.
- Monitors and evaluates the effectiveness of the risk management processes.
- Performs advisory services related to governance, risk management and control as appropriate.

Report of the Board
(continued)

Risk Management Function

Ervia also has an established Risk Management function which is adequately resourced and responsible for the design and implementation of an Enterprise Risk Framework and for ensuring that sufficient risk management experience and skills are available throughout the Group, including Irish Water. The Group Head of Risk Management reports to the Group Chief Financial Officer(Interim) and attends all ARC meetings.

In particular, the Risk Management 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.
- Embeds an appropriate risk management culture.

Elements of Control Environment

In addition to the key structures referred to above, a control environment, containing the following elements, is in place in Irish Water:

- Responsibility by management at all levels within Irish Water and Ervia for internal control and risk management over respective business functions.
- Established processes to identify and evaluate business risks by identifying the nature, extent and financial implication of risks facing Irish Water including the extent and categories which it regards as acceptable. Other processes to identify and evaluate business risks include assessing the likelihood of identified risks occurring and assessing Irish Water's ability to manage and mitigate the risks that do occur through associated mitigation plans and strategies.
- Clearly defined organisational structure, with defined authorisation limits and reporting mechanisms to higher levels of management and to the Irish Water Board as well as Ervia management and the Ervia Board.
- A comprehensive budgeting system with an annual budget which is reviewed and agreed by the Irish Water Board.
- A comprehensive system of financial reporting
- A 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 on an ongoing basis by the Ervia Investment/Infrastructure Committee.
- Appropriate segregation of duties and documentation of processes and controls that are focused on preventing and detecting fraud.
- A comprehensive set of management information and performance indicators is produced quarterly, enabling progress against longer-term objectives and annual budgets to be monitored, trends evaluated and variances acted upon.
- A risk management process enabling identification and assessment of risks that could impact achievement of agreed business objectives and ensuring appropriate mitigating measures and controls are put in place.
- A Group Risk Management Committee chaired by the Group CEO (Interim) which reports to the Ervia Audit and Risk Committee.
- A Code of Conduct requiring all employees to maintain the highest ethical standards.
- A comprehensive anti-fraud programme including anti-fraud policy, training and communication and a fraud response plan. During 2019 an initiative was launched across the Group, including Irish Water, to promote the integrity value and to emphasise the importance of ethical behaviour. As part of the initiative, the Anti-Fraud Framework was reviewed to identify opportunities to increase awareness across the organisation. A number of ethics related policies including the Code of Business Conduct, the Anti-Fraud Policy and Anti-Bribery and Anti-Corruption Policy were updated and approved by the Ervia Board. The initiative will continue in 2020.

- A 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 Management functions.
- Systematic reviews of internal financial and operational controls by Internal Audit and Risk Management. In these reviews, emphasis is focused on areas of greater risk as identified by risk assessment.
- An 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 2019

Ongoing Monitoring and Review

Formal procedures have been established for monitoring control processes. 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.

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 and Ervia 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 Management 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 Ervia and 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.
- 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.
- 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.
- Review of reports from the external auditors, which contain details of any material financial control issues.

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

Report of the Board (continued)

Procurement

Robust and effective systems are in place to ensure compliance, as appropriate, with the relevant principles, requirements and guidelines of the Public Spending Code.

The Ervia Procurement Policy (PD02) details the procedures to be followed by the Group to support procurement requirements in the organisation. Application of PD02 ensures that value for money is obtained in procurement practices, EU and Irish laws relating to public procurement are adhered to, tender processes are appropriately managed and governance and management oversight of the procurement process is maintained across the Group.

The Ervia Financial Authorisation and Contract Approvals Policy (PD03) sets out the financial expenditure governance framework to be applied for capital and operating expenditure. All expenditure approvals must comply with the requirements of the Ervia Governance Framework and PD03.

Internal staff training is provided across the Group on the application of both PD02 and PD03.

In addition to national and EU procurement requirements, all capital expenditure must have regard to compliance with any requirements that may be set by the Commission for Regulation of Utilities ('CRU'), environmental and planning related requirements and infrastructural priorities. Appropriate investment appraisal methods are used in respect of capital projects and capital programmes in order to facilitate effective decision making. Capital projects are assessed and completed in line with a 5 stage process.

The capital commitments process for Irish Water operates on the basis that the company requests the relevant Ministerial consents in advance for an overall envelope of capital commitments to be entered into during the following financial year.

Contracts with a value in excess of €3.5m are presented to the Group Contracts Approval Committee for detailed review and approval. All capital expenditure greater than €10m is approved by the Ervia Board and the relevant subsidiary Board.

Ministerial consents are requested by Irish Water in advance of committing to any individual capital project costing €20m or greater. Ministerial consents are submitted to the parent Department (the Department of Housing, Planning and Local Government) and other relevant government departments involved in the consenting process for the specific application. In addition, requests for Ministerial approval are submitted to NewERA who provide project specific financial and commercial advice to DHPLG, prior to the granting of Ministerial consent.

The Board is kept appraised of the status of capital projects and programmes as they progress including updates on implementation against plan, timescales and quality. Budget and variance reporting is also presented to the Board. All projects have specific objectives against which they are measured. Tenders and subsequent contracts include KPIs which are used to measure performance throughout the course of the project. Post project reviews and financial close reports are presented to the subsidiary Boards, the Ervia Investment/ Infrastructure Committee and the Ervia Board for evaluation. Project close out meetings facilitate a 'lessons learned' approach which are then applied to existing and future projects across the organisation.

The Group is currently reviewing its capital expenditure approval process to ensure it aligns with the guidance in the updated Public Spending Code, as published by the Department of Public Expenditure and Reform in December 2019, effective from 1 January 2020. As part of this analysis, potential enhancements to the existing capital project planning, execution and completion phases will be identified to further align with the value for money requirements for the evaluation, planning and management of public investment projects for Ireland.

General Data Protection Regulation (GDPR)

The Ervia Group Data Protection Officer has not raised any significant areas of concern regarding non-compliance with legislative requirements under GDPR.

Review of Effectiveness

The Board has reviewed the effectiveness of the system of internal controls up to the date of approval of the Financial Statements, covering financial, operational and compliance controls and risk management systems for 2019 and will ensure a similar review is performed for 2020. A detailed review was performed by the ARC, which reported on its findings to the Ervia Board.

Internal Control Reporting

Irish Water continues to manage a large number of assets with an aging infrastructure that require significant investment. It faces ongoing challenges on its journey to deliver the business plan objectives. The key control procedures, including the operation of the Local Authority protocols under the Service Level Agreements which manage the interaction processes between Irish Water and Local Authorities, continued to evolve and develop in 2019. During the year Irish Water worked with its Local Authority partners under the existing Service Level Agreements to deliver water services. It also continued to progress plans to transform the service to a modern public utility. Throughout 2019 engagement continued through the Workplace Relations Commission ('WRC') with a number of parties including Irish Water, Local Authority management, DHPLG and various trade unions who represent Local Authority Water Services staff. Following the Minister's letter to the Joint Oireachtas Committee in July 2019 on a possible future referendum on the public ownership of water services, further engagement on this issue continued to the end of 2019, facilitated via the WRC. It is anticipated that there will be further meetings in 2020. 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 2019, it should be noted, Irish Water continued to rely on certain controls operated by Local Authorities on its behalf.

Conclusion

Principal Activities and Company Overview

The principal activities and an overview of the Company are provided in the Managing Director's Report on pages 8-9.

Results for the Year

The results for the year are outlined in the Financial Review on pages 30-33. 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 December 31st 2019, including information on future developments are contained in the Operating Review on pages 34-43. In the current environment, forecasting future costing of capital projects and programmes is challenging. Irish Water continues to review and evolve its processes in this regard to ensure all variables including time, risk, cost, scope, form of contract etc. are fully understood and form part of our overall Capital Investment Planning process.

Report of the Board (continued)

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 (2018: Nil).

Principal Risks and Uncertainties

The regulated and operational complexity of our business exposes the Company to a number of risks. Understanding the risks and potential opportunities will enable the Company to make informed decisions and ultimately create value for our stakeholders. An outline of the principal risks faced by the Company is discussed in the Report on Risk Management at page 26. Refer to note 24 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 developing assessment methodology for climate change adaptation and novel sensing techniques for monitoring trade effluent. 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 22-23.

Directors and Secretary and their Interests

The Directors had no beneficial interests in the Company at any time during the financial year or at December 31st 2019. 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 they 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 and former Acting Managing Director of Irish Water for the period is outlined in note 4 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 they 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 continued Government support. Accordingly the Director's continue to adopt the going concern basis in preparing the Company's financial statements.

Subsequent Events

There are no significant events affecting the Company which have taken place since the end of the financial year, other than as described in note 29 of the financial statements.

Independent Auditor

In accordance with Section 17(3) of the Water Services Act 2013, fees payable to Deloitte Ireland LLP to audit the financial statements of Irish Water for the year 2019 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.

Following completion of a tender process, Ministerial Consent was received on March 25th 2019 to appoint Deloitte Ireland LLP as external auditors to the Ervia Group including Irish Water for the years 2019, 2020 and 2021.

For and on behalf of Irish Water:

Cathal Marley	**Niall Gleeson**
Chairman	Director

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 December 31st 2019.

Keith Harris
Chair of the Committee

In accordance with the unitary board structure in place in Ervia, the Audit and Risk Committee ('the Committee') is established at the Ervia Group level and acts in respect of Ervia and its subsidiaries ('the Group'). This report provides an insight into the workings of the Committee over the last 12 months and details how the Committee has met its responsibilities under its Terms of Reference and under the Code of Practice for the Governance of State Bodies ("the Code").

During the year the Committee dedicated significant time to fulfilling its key oversight responsibilities. It has engaged regularly with senior management, internal audit, risk management and the Group's statutory auditor.

In addition, in order to discharge its duties effectively, it has pursued a full agenda of reviews in its meetings throughout the year. In fulfilling his key oversight responsibilities the Chairman of the Committee meets separately with senior management, internal audit, risk management and the Group's statutory auditor on a regular basis.

Role and responsibilities of the Audit and Risk Committee

The role of the Committee is to support the Ervia Board in relation to its responsibilities for the following matters:

- Financial reporting
- Risk management
- Internal Controls
- Internal audit
- External audit

Other related activities, including policies and procedures on protected disclosures, anti-fraud and anti-bribery and anti-corruption.

The Chairman of the Committee reports to the Ervia Board on the matters addressed at each Committee meeting, and the Board receives all of the Committee's minutes.

The Committee's Terms of Reference set out the Committee's roles and responsibilities in detail and are available on Ervia's website (www.ervia.ie). These are reviewed annually.

Membership

The Committee comprises four independent Non-Executive Ervia Board Members. Members of the Committee are appointed by the Ervia Board in consultation with the Chairman of the Committee. For details of membership and attendance at meetings see the Ervia Annual Report available at www.ervia.ie . The Committee is independent from the management of the Group.

Financial Reporting

The Committee is responsible, on behalf of the Ervia Board, for monitoring the integrity of the Group's Financial Statements preparation and for 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 Group's draft financial statements before recommending their approval by the Ervia Board. The Committee also reviewed the financial statements of Irish Water prior to their approval by the Irish Water Board. The Committee considered, and discussed with the Group CEO (Interim), Group Chief Financial Officer (Interim) and external auditor, the appropriateness of the significant accounting standards and policies, estimates and judgements applied in preparing these financial statements, together with presentational and disclosure matters.

Risk Management

The Committee is responsible, on behalf of the Ervia Board, 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 carried out an assessment of the Group's principal risks.

During the year the Committee reviewed, in conjunction with senior management, the Group's risk profile, its risk management policies, its high impact/ low probability exposures and its risk appetite and target profile for approval by the Ervia Board. The Committee reviewed presentations on a selection of principal risks and discussed with senior management the material internal controls that exist to mitigate these risks.

Internal Controls

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

Irish Water has a responsibility under the Code for ensuring that an effective system of internal control is maintained and operated. Irish Water pursues this responsibility across its business units through senior management and through the Ervia wide "Integrated Assurance Forum", a management body which collates evidence from the various control activities performed across the Group, including Irish Water, to build a comprehensive picture of internal control and risk. Reporting to the Group Chief Financial Officer (Interim), the Integrated Assurance Forum provides a greater understanding of the assurance activities in place and makes recommendations for their enhancement, in order to mitigate risk and maximise governance oversight, helping also to identify and remediate any assurance gaps.

Internal Audit

The Committee is responsible, on behalf of the Ervia Board, for monitoring and reviewing the effectiveness and scope of the internal audit function including its plans, activities and resources so as to ensure it can effectively review the operation of the Group's controls over significant risks within the Group.

During 2019 the Committee reviewed the plans and work undertaken throughout the year by Internal Audit and the consequential actions to be taken by management. The Committee was informed regularly by the Group Head of Internal Audit of the findings of internal audit reviews. The Committee also considered management's progress in addressing relevant issues, including the nature, extent and timeliness of its responses. The Committee reviewed and agreed a risk-based internal audit annual plan for 2020, including the resources required, and considered the alignment of internal audit focus and key risk areas for the Group.

Audit and Risk Committee Report (continued)

During 2019 an initiative was launched across the Ervia Group to promote the integrity value and to emphasise the importance of ethical behaviour. As part of the initiative, the Ervia Anti-Fraud Framework was reviewed to identify opportunities to increase awareness across the organisation and the suite of ethics related corporate policies were updated and recommended by the Committee for approval by the Ervia Board.

External Audit

The Committee is responsible, on behalf of the Ervia Board, for monitoring the external audit process.

The Committee monitored the integrity of the Group's financial statements and reviewed the appropriateness of the accounting policies and financial reporting issues contained therein having regard to matters communicated to it by the external auditor. The Committee also reviewed the external auditor's audit plans, reports and findings in relation to the audit, and discussed them with the auditor. The Committee reviewed the external auditor's post-audit management letter and management's responses.

The Committee is also responsible, on behalf of the Ervia Board, for the initiation of audit tenders and the selection process for the external auditor, reviewing and monitoring the independence and remuneration of the external auditor. Following completion of a tender process during 2018/2019 ministerial consent was received on 25 March 2019 to appoint Deloitte as external auditor for the Ervia Group for the years 2019, 2020 and 2021.

The Committee take appropriate steps to ensure that an objective and professional relationship is maintained with the external auditor. During the year, 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 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.
- Assurances provided by the external auditor in this regard.

Audit and non-audit service fees are set out in Note 4 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 monitored the external auditor's compliance with relevant regulatory, ethical and professional guidance. The Committee is satisfied that Deloitte Ireland LLP is both independent and objective.

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 members of management present.

Audit and Risk Committee Effectiveness

The Committee completes an annual review of its own effectiveness. For 2019, the review was conducted internally through the completion of self-evaluation questionnaires and the overall review was satisfactory.

I would like to acknowledge the contribution of Peter Cross, the previous Chairman of the Audit and Risk Committee, whose term of office expired in January 2020.

On behalf of the Audit and Risk Committee:

Keith Harris
Chairman, Audit and Risk Committee

Financial Statements

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 2019 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 1 to 30, including a summary of significant accounting policies as set out in note 1 (e).

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, 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 directors' report is consistent with the financial statements and the directors' report 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 directors' report.

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 Report of the Board does not reflect the Group's compliance with paragraph 1.9(iv) of the Code of Practice or if it's 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.

Kevin Sheehan

For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm

Deloitte & Touche House, Earlsfort Terrace, Dublin 2

Date: 30th March 2020

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 financial year ended 31 December 2019

	Notes	2019 €'000	2018 €'000
Continuing operations			
Revenue	3	**1,121,506**	982,205
Operating costs (excluding depreciation and amortisation)	4	**(741,131)**	(734,031)
Operating profit before depreciation and amortisation (EBITDA)		**380,375**	248,174
Depreciation and amortisation	7	**(111,790)**	(82,530)
Operating profit		**268,585**	165,644
Finance costs	8	**(6,886)**	(8,844)
Profit before income tax		**261,699**	156,800
Income tax expense	9	**(33,473)**	(20,866)
Profit for the financial year		**228,226**	135,934

Statement of Other Comprehensive Income
for the financial year ended 31 December 2019

	Notes	2019 €'000	2018 €'000
Profit for the financial year		**228,226**	135,934
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Defined benefit actuarial (losses)/gains	19	**(6,090)**	2,642
Deferred tax credit/(charge) relating to defined benefit obligations	9	**761**	(330)
Total other comprehensive income for the financial year		**(5,329)**	2,312
Total comprehensive income for the financial year		**222,897**	138,246

Balance Sheet
as at 31 December 2019

	Notes	31-Dec-19 €'000	31-Dec-18 €'000
Assets			
Non-current assets			
Property, plant and equipment	10	**3,428,619**	2,647,069
Intangible assets	12	**123,207**	134,378
Trade and other receivables	13	**2,746**	5,619
Total non-current assets		**3,554,572**	2,787,066
Current assets			
Trade and other receivables	13	**139,149**	135,235
Cash and cash equivalents	14	**106,371**	61,594
Restricted deposits	15	**2,822**	790
Total current assets		**248,342**	197,619
Total assets		**3,802,914**	2,984,685
Equity and liabilities			
Equity			
Share capital and share premium	26	**(324,000)**	(324,000)
Capital contribution	26	**(2,067,466)**	(956,466)
Retained earnings		**(419,022)**	(196,125)
Total equity		**(2,810,488)**	(1,476,591)
Liabilities			
Non-current liabilities			
Borrowings and other debt	17	**(13,595)**	-
Deferred tax liabilities	9	**(67,490)**	(34,914)
Retirement benefit obligations	19	**(34,074)**	(27,362)
Deferred revenue	20	**(56,133)**	(40,284)
Government grants	21	**(1,107)**	-
Provisions	22	**(81,477)**	(53,880)
Trade and other payables	23	**(9,824)**	(3,509)
Total non-current liabilities		**(263,700)**	(159,949)
Current liabilities			
Borrowings and other debt	17	**(241,216)**	(884,794)
Deferred revenue	20	**(71,295)**	(40,641)
Government grants	21	**(30)**	-
Provisions	22	**(26,820)**	(39,681)
Trade and other payables	23	**(389,229)**	(383,029)
Current tax liabilities		**(136)**	-
Total current liabilities		**(728,726)**	(1,348,145)
Total liabilities		**(992,426)**	(1,508,094)
Total equity and liabilities		**(3,802,914)**	(2,984,685)

For and on behalf of the Board:

Cathal Marley
Chairman

Niall Gleeson
Director

30th March 2020
Date of Approval

Statement of Changes in Equity
for the financial year ended 31 December 2019

	Share capital and share premium €'000	Capital contribution €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2018	(324,000)	(576,466)	(57,879)	(958,345)
Profit for the financial year	-	-	(135,934)	(135,934)
Other comprehensive (income) for the financial year, net of income tax	-	-	(2,312)	(2,312)
Total comprehensive income for the financial year	-	-	(138,246)	(138,246)
Capital contribution (note 26)	-	(380,000)	-	(380,000)
Balance at 31 December 2018	(324,000)	(956,466)	(196,125)	(1,476,591)
Profit for the financial year	**-**	**-**	**(228,226)**	**(228,226)**
Other comprehensive expense for the financial year, net of income tax	**-**	**-**	**5,329**	**5,329**
Total comprehensive income for the financial year	**-**	**-**	**(222,897)**	**(222,897)**
Capital contribution (note 26)	**-**	**(1,111,000)**	**-**	**(1,111,000)**
Balance at 31 December 2019	**(324,000)**	**(2,067,466)**	**(419,022)**	**(2,810,488)**

Statement of Cash Flows
for the financial year ended 31 December 2019

	Notes	2019 €'000	2018 €'000
Net cash from operating activities	16	**421,380**	231,159
Cash flows from investing activities			
Payments for property, plant and equipment		**(809,837)**	(572,185)
Payments for intangible assets		**(25,984)**	(52,093)
(Payments)/receipts for net assets acquired from Local Authorities		**(1,278)**	1,000
Grants received	21	**542**	-
Net cash used in investing activities		**(836,557)**	(623,278)
Cash flows from financing activities			
Proceeds from borrowings		**528,319**	698,125
Repayments of borrowings		**(1,177,000)**	(640,000)
Repayment of lease liabilities	11	**(2,365)**	-
Capital contributions received	26	**1,111,000**	380,000
Net cash from financing activities		**459,954**	438,125
Net increase in cash and cash equivalents	14	**44,777**	46,006
Cash and cash equivalents at 1 January	14	**61,594**	15,588
Cash and cash equivalents at 31 December	14	**106,371**	61,594

Notes to the Financial Statements

1. Statement of Accounting Policies

(a) Basis of Preparation

Irish Water ('the Company') is a designated activity company, limited by shares, registered and incorporated in Ireland on 17 July 2013. The Company registration number is 530363. 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 ('A' shares). 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 ('B' shares). Accordingly, the financial statements of Irish Water are not consolidated with the results of the Ervia Group.

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 ended 31 December 2019.

The Company's significant accounting policies are set out below. These policies have been consistently applied to all financial years presented in these financial statements with the exception of adoption of new standards as set out in note 1 (b). 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 section 1 (f) of this note for details of the most significant accounting judgements and estimates applied.

(b) New IFRS accounting standards effective for the financial year ended 31 December 2019

In the current financial year, the Company applied IFRS 16 Leases (as issued by the IASB in January 2016) which is effective for an annual period that begins on or after 1 January 2019. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requirements and requiring the recognition of a right of use asset and a lease liability at commencement for all leases, except for short-term leases and low value assets when recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 1 (e).

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives which continue to be presented under IAS 17 and IFRIC 4.

The impact of adoption of IFRS 16 on the Company's financial statements is described in 1 (d).

The Company has also adopted the following amendments to standards, which have had no material impact on the Company's results or financial statement disclosures:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Annual Improvements to IFRS Standards 2015-2017 Cycle

Notes to the Financial Statements
(continued)

1. Statement of Accounting Policies (continued)

(c) New IFRS accounting standards and interpretations not yet adopted

The following new accounting standards and amendments to existing standards have been issued but are not yet effective or have not yet been endorsed by the EU:

- IFRS 17 Insurance Contracts
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendment to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendment to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non Current

It is anticipated that application of the remaining IFRS/amendments/annual improvements, in issue at 31 December 2019 but not yet effective, will not have a significant impact on the Company's financial statements.

(d) Impact of adoption of IFRS 16 Leases

(i) Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 continues to be applied to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies the definition of a lease and related guidance as set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or lessee in the lease contract). In preparation for the first time adoption of IFRS 16, the Company carried out an implementation project. The project has identified that the new definition in IFRS 16 did not change the scope of contracts that meet the definition of a lease for the Company.

(ii) Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating lease under IAS 17, which were off-balance sheet.

In applying IFRS 16, for all leases (except as noted below), the Company;

a) Recognises right of use assets and lease liabilities in the balance sheet, initially measured at the present value of future lease payments;

b) Recognises depreciation of right of use assets and interest on lease liabilities in the income statement; and

c) Separates the total amount of cash paid into the principal portion (presented within financial activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right of use asset, whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight line basis.

1. Statement of Accounting Policies (continued)

Under IFRS 16, right of use assets are tested for impairment in accordance with IAS 36. This replaces the previous requirement to recognise a provision of onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low value assets (less than $5,000), the Company has opted to recognise a lease expense on a straight line basis as permitted by IFRS 16. This expense is presented within materials, maintenance and plant hire in the income statement.

In addition to the practical expedient not to reassess whether a contract contains a lease on transition to IFRS 16, the only other transitional practical expedient adopted by the Company was the option to exclude initial direct costs from the measurement of the right of use asset at the date of initial application.

(iii) Impact on Lessor Accounting

IFRS 16 does not change how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of lease differently.

(iv) Financial impact of initial application of IFRS 16

Company as Lessee

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position is 1.89%.

The following table shows a reconciliation of the operating lease commitment previously disclosed applying IAS 17 at 31 December 2018 discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the balance sheet at the date of initial application.

Lease liability recognised under IFRS 16 at 1 January 2019

	€'000
Operating lease commitment at 31 December 2018 under IAS 17	20,875
Reassessment of lease terms under IFRS 16	(908)
Effect of discounting the above amounts	(1,210)
Present Value of Lease liability recognised under IFRS 16 at 1 January 2019	18,757

The Company recognised €18.76m of right of use assets under IFRS 16 at 1 January 2019.

Company as Lessor

No transition adjustments.

Notes to the Financial Statements
(continued)

1. Statement of Accounting Policies (continued)

(e) Significant Accounting Policies

(i) Property, Plant and Equipment

i. Recognition

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

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

ii. Depreciation

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

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

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

Depreciation is not charged on land or assets under construction.

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

iii. Subsequent expenditure

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

1. Statement of Accounting Policies (continued)

(ii) 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 Single Public Utility 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 the income statement 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 ii(i).

(iii) 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 the income statement. 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.

Notes to the Financial Statements
(continued)

1. Statement of Accounting Policies (continued)

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 the income statement, 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.

(iv) 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 the income statement. Non-monetary assets and liabilities in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction, and are not subsequently retranslated.

(v) Revenue
Revenue is measured based on the consideration which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when or as the performance obligations, as set out in the contract, are satisfied. 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 considered probable.

A number of the Company's sources of revenue are dependent on being approved by the industry regulator, the Commission for Regulation of Utilities (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 financial year that they arise.

Revenue principally comprises the sales values derived from the following;

Supply of water and waste water services to non-domestic customers
Revenue 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 waste water services supplied to customers between the date of the last meter reading and the reporting date is recognised in revenue.

Supply of water and waste water services to domestic customers - Government subvention revenue
The Government, acting in its capacity as Government, purchases 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. All subvention revenue is billed and collected within the reporting period.

1. Statement of Accounting Policies (continued)

New connections revenue
The Company receives contributions from customers in respect of the cost of connecting them to the water network. Where such contributions are billed in advance, they are recognised in deferred revenue and are released to revenue as the performance obligation is satisfied.

(vi) Leases
IFRS 16 was effective from 1 January 2019. As explained in note 1d, the standard has been applied retrospectively with the cumulative effect and therefore the policy set out below is only relevant to the current financial year. The impact of adoption is disclosed in note 1d.

The Company as Lessee
The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except short-term leases (defined as a lease term of 12 months or less) and leases of low value assets. For short-term and low value leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefit from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

Lease payments included in this measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within borrowings and other debt in the balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever;

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payment change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Notes to the Financial Statements
(continued)

1. Statement of Accounting Policies (continued)

The Company did not make any such adjustments during the period presented.

The right of use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day (less any lease incentives already received) and any initial direct costs.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right of use asset, unless these costs are incurred to produce inventories.

Right of use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right of use asset reflects that the Company expects to exercise a purchase option, the related right of use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right of use assets are presented within 'Property, plant and equipment' in the balance sheet.

The Company applies IAS 36 to determine whether a right of use asset is impaired and accounts for any identified impairment loss as described in accounting policy (iii) above.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right of use asset. The related payments would be recognised as an expense in the period in which the event or condition that triggers those payments occurs and would be included in the appropriate line in operating expenses in the income statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

Policies applicable prior to 1 January 2019
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.

1. Statement of Accounting Policies (continued)

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

(vii) Grants
A 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.

(viii) 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 that cannot be provided for in the financial statements (in accordance with IFRS).

(ix) 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 the income statement 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 benefit liability or asset.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation of the scheme net of 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 from which no legal or constructive obligation to pay further amounts arises. The contributions payable under the defined contribution schemes are charged to the income statement in the periods during which services are rendered by employees.

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Notes to the Financial Statements
(continued)

1. Statement of 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).

(x) 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 the fair value of the consideration receivable and are subsequently carried at this value less an appropriate allowance for impairment losses. Impairment losses are provided for using a lifetime expected credit loss model, with the expected impairment being recognised as an expense in operating costs. The expected credit loss amount is calculated by applying expected loss rates, based on actual historical cash collection performance, to the aged debt profile with future macro-economic factors and factors specific to the debtors taken into consideration.

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.

(xi) Net Finance Costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in the income statement, using the effective interest rate 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 the income statement using the effective interest rate method. The pension net interest cost is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

(xii) 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 financial years.

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

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

1. Statement of Accounting Policies (continued)

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.

(xiii) Operating Profit
Operating profit is stated before net finance costs and taxation.

(xiv) Non-GAAP Measures
EBITDA is defined as earnings before interest, tax, depreciation and amortisation. Net debt is defined as total borrowings and other debt 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.

(f) Critical Accounting Judgements and Estimates

In the process of applying these accounting policies, 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 become known.

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

(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.

(b) Revenue recognition - portfolio approach and probability assessment
The Company has applied the practical expedient offered by IFRS 15, the 'portfolio approach', whereby the Company applies IFRS 15 to a portfolio of contracts with similar characteristics. The Company has applied its judgement in identifying appropriate portfolios of customers such that it reasonably expects that the effects on the financial statements of applying IFRS 15 to the portfolio would not differ materially from applying IFRS 15 to the individual contracts within that portfolio.

IFRS 15 specifies that revenue should only be recognised if it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. Following detailed assessment, the Company has determined that there is no readily identifiable group of customers where, at the point of billing, collection of revenue is assessed as 'not probable'.

Notes to the Financial Statements
(continued)

1. Statement of Accounting Policies (continued)

(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 financial year.

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

As of 31 December 2019, the aggregate of the Company's property, plant and equipment (PP&E) and intangible assets was €3,551.8 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 results 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 reviews during the financial 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 (€16.7 million) for impairment; and
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 (2019: €111.8 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 Section (e) of this note 'Significant Accounting Policies'. 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.

(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. 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 financial 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 between last billing date and the reporting period end.

1. Statement of Accounting Policies (continued)

(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 i.e. estimated using an aged debt provision matrix based on the number of days the debt is past due and applying the Company's historical credit loss experience. Following assessment, no adjustments have been made to these rates to reflect forward looking macro-economic factors, as the Company's trade receivables are short term and thus a change in such macro-economic factors is unlikely to have a significant impact over the credit risk exposure period. There have been no material changes to the estimation techniques or significant assumptions during 2019. 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 projected pension benefit cash outflows underpinning its defined benefit obligation are 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. Significant judgement is also required when deriving the yield curve at longer terms as the number of long dated high quality corporate bonds is sparse for longer durations.

(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 22 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 the 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. Refer to note 9.

Notes to the Financial Statements
(continued)

2. 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 24 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. 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. Irish Water's state funding for 2020 was agreed and approved in Q4 2019 as part of the government budgetary process. The Directors believe that the Government has demonstrated its commitment to the continued funding of Irish Water, including beyond 2020, through its inclusion of the Company's capital investment programme in the National Development Plan 2040 and its approval of the Irish Water Strategic Funding Plan 2019-2024 in November 2018.

Following consideration of the facts set out above, while noting the Company's net current liability position of €0.5 billion at 31 December 2019 (2018: €1.2 billion), the Directors have concluded that they have a reasonable expectation that the Company will continue to meet its liabilities as they fall due for the foreseeable future and consequently the financial statements are prepared on a going concern basis. The Directors have concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern over the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

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

3. Revenue

	2019 €'000	2018 €'000
Government subvention revenue	**855,000**	719,832
Non-domestic revenue	**208,091**	203,032
New connections	**58,415**	59,341
Total	**1,121,506**	982,205

4. Operating Costs (excluding depreciation and amortisation)

		2019 €'000	2018 €'000
Employee benefit expense	5	**(51,415)**	(53,717)
Local Authority Service Level Agreement payroll & functional support overheads and secondment of employees	27	**(214,183)**	(213,014)
Hired & contracted services		**(169,830)**	(186,466)
Central transactional & support service costs1	27	**(55,979)**	(44,044)
Materials, maintenance and plant hire		**(116,160)**	(117,293)
Rent, rates, utilities and insurance		**(82,098)**	(74,527)
Charge for bad and doubtful receivables	13	**(17,545)**	(18,448)
Release in respect of liabilities reassessment	(i)	**2,944**	8,104
Other operating costs		**(36,865)**	(34,626)
Total		**(741,131)**	(734,031)

[1]Refer to note 27 for further details on costs incurred on services provided to the Company by Ervia.

(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 liabilities, including provisions and other liabilities were initially recognised at fair value. During 2019, following detailed assessment, the Company released €2.9 million (2018: €8.1 million) in respect of these liabilities. Refer to note 1 (f).

Operating costs are stated after charging:
(a) Auditor's remuneration[1]

	2019 €'000	2018 €'000
Statutory audit services	**(200)**	(190)
Other audit related assurance services	**-**	-
Tax advisory services	**(8)**	-
Other non-audit services	**-**	-
Total	**(208)**	(190)

[1] amounts exclude irrecoverable VAT

(b) Directors' remuneration

	2019 €'000	2018 €'000
Directors' fees	**-**	-
Directors - emoluments*	**(753)**	(628)
Directors - defined benefit pension contributions*	**(94)**	(72)
Directors - defined contribution pension contributions*	**(8)**	(24)
Total	**(855)**	(724)

* 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 includes an apportionment of total remuneration earned by certain directors in their capacity as employees of Ervia, based on services provided to the Company. The number of directors to whom retirement benefits accrued amounted to 8 (2018:6).

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(continued)

4. Operating Costs (excluding depreciation and amortisation) (continued)

(c) Managing Director salary and benefits
Remuneration details for 2019 relate to the current Managing Director (appointed on 06 August 2019) and the former acting Managing Director (resigned on 06 August 2019).

(c) (i) Current Managing Director

	2019 €'000	2018 €'000
Basic salary	**(81)**	-
Other short-term employee benefits	**(6)**	-
Post-employment benefits - pension contributions	**(9)**	-
Total	**(96)**	-

(c) (ii) Former Managing Directors (Including Acting)

	2019 €'000	2018 €'000
Basic salary	**(114)**	(195)
Other short-term employee benefits	**(36)**	(41)
Post-employment benefits - pension contributions	**(19)**	(32)
Total	**(169)**	(268)

Remuneration details for 2018 relate to both the former Managing Director (contract expired on 30 September 2018) and the former acting Managing Director (appointed on 01 October 2018 and resigned on 06 August 2019).

5. Employee Benefits

(a) Aggregate employee benefits

	2019 €'000	2018 €'000
Staff short-term benefits	**(57,871)**	(59,079)
Post-employment benefits - pension contributions	**(7,640)**	(8,909)
Employer's contribution to social welfare	**(5,817)**	(5,957)
	(71,328)	(73,945)
Capitalised payroll	**19,913**	20,228
Employee benefit expense charged to the income statement	**(51,415)**	(53,717)

5. Employee Benefits (continued)

(b) Staff short-term benefits

	2019 €'000	2018 €'000
Wages and salaries	**(55,561)**	(56,512)
Overtime	**(85)**	(75)
Allowances	**(1,027)**	(1,109)
Other	**(1,198)**	(1,383)
Total	**(57,871)**	(59,079)

The average number of employees employed by the Company was 792 for 2019 (2018: 836).

6. Exceptional Items

Pursuant to section 22 of the Water Services Act 2017, Irish Water was required to refund €171.7m in cash previously collected from domestic customers. As permitted by IAS 1 Presentation of Financial Statements, Irish Water elected to present the refund expense of €171.7 million as an exceptional item in 2017. In addition the associated administration costs of the refund programme in the amount of €5.9 million were also presented as an exceptional item in 2017. The refund programme, including the associated administration costs of €5.9 million, was funded by the Government, through a government grant with the sole condition that the funding be used to refund domestic customers and to discharge the associated administration costs.

Exceptional cash-flows
The Company recognised the following cash-flows during 2019, relating to the refund programme:

1) Exceptional cash-inflows of €6.7 million relating to the derecognition of uncashed refund cheques issued to domestic customers; and

2) Exceptional cash-outflows of €6.7 million relating to the refund of excess cash in hand held by the Company under the programme to the Government.

Refund programme assets and liabilities
The Company has recognised the following liabilities and assets as at 31 December 2019, relating to the refund programme:

1) A liability of €13.5m (refer to Provisions note 22), primarily attributable to refunds due to domestic customers, where either refunds cheques issued have not been presented for encashment, or where the customers have not notified the Company of their updated contact details;

2) Cash in hand of €0.2m held by the company; and

3) An asset of €13.3m (refer to Trade and Other Receivables note 13) which represents the amounts receivable from Government to meet the Company's unfunded liabilities under the refund programme.

Notes to the Financial Statements
(continued)

7. Depreciation and Amortisation

	2019 €'000	2018 €'000
Depreciation of Property, Plant and Equipment	**(69,329)**	(57,677)
Depreciation of Right of Use assets	**(3,045)**	-
Amortisation of intangible assets	**(39,446)**	(24,853)
Grant amortisation	**30**	-
Total	**(111,790)**	(82,530)

8. Finance Costs

		2019 €'000	2018 €'000
Finance costs			
Interest and finance costs		**(13,388)**	(15,308)
Interest capitalised to PP&E and intangible assets		**7,400**	6,959
Lease liability finance charge		**(328)**	-
Pension net interest cost	19	**(570)**	(495)
Total finance costs		**(6,886)**	(8,844)

9. Tax

Income tax expense

	2019 €'000	2018 €'000
Current tax expense	**(136)**	(15)
Deferred tax expense	**(33,337)**	(20,851)
Total income tax expense	**(33,473)**	(20,866)

9. Tax (continued)

Reconciliation of effective tax rate

	2019 €'000	2018 €'000
Profit before tax	**261,699**	156,800
Taxed at 12.5% (2018: 12.5%)	**(32,713)**	(19,600)
Expenses not deductible for tax purposes	**(811)**	(1,266)
Income taxable at higher rates	**(76)**	-
Adjustments in respect of previous financial years	**127**	-
Total income tax expense	**(33,473)**	(20,866)

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
At 1 January 2018	978	29,574	(44,338)	53	(13,733)
Recognised in income statement	151	3,218	(24,085)	(135)	(20,851)
Recognised in equity	(330)	-	-	-	(330)
At 31 December 2018	799	32,792	(68,423)	(82)	(34,914)
Recognised in income statement	**153**	**(2,003)**	**(31,654)**	**167**	**(33,337)**
Recognised in equity	**761**	**-**	**-**	**-**	**761**
At 31 December 2019	**1,713**	**30,789**	**(100,077)**	**85**	**(67,490)**

10. Property, Plant and Equipment

		31-Dec-19 €'000	31-Dec-18 €'000
Property, Plant and Equipment - owned assets		**3,412,851**	2,647,069
Right of use assets - leases	11	**15,768**	-
Property, Plant and Equipment - as presented on the balance sheet		**3,428,619**	2,647,069

Notes to the Financial Statements
(continued)

10. Property, Plant and Equipment (continued)

Property, Plant and Equipment-owned assets

	Infrastructure assets €'000	Operational assets €'000	Non-network assets €'000	Assets under construction €'000	Total €'000
Cost					
At 1 January 2018	880,665	721,648	57,976	538,682	2,198,971
Additions	-	-	-	633,082	633,082
Transfers	264,051	165,234	27,047	(456,332)	-
Disposals	-	-	(42)	-	(42)
At 31 December 2018	1,144,716	886,882	84,981	715,432	2,832,011
Additions	**-**	**-**	**-**	**835,181**	**835,181**
Transfers	**429,298**	**181,066**	**33,180**	**(643,544)**	**-**
Disposals	**-**	**-**	**(93)**	**-**	**(93)**
At 31 December 2019	**1,574,014**	**1,067,948**	**118,068**	**907,069**	**3,667,099**
Accumulated depreciation and impairment losses					
At 1 January 2018	(47,000)	(57,301)	(22,985)	-	(127,286)
Depreciation for the financial year	(17,337)	(31,673)	(8,667)	-	(57,677)
Depreciation on disposals	-	-	21	-	21
At 31 December 2018	(64,337)	(88,974)	(31,631)	-	(184,942)
Depreciation for the financial year	**(20,611)**	**(37,310)**	**(11,408)**	**-**	**(69,329)**
Depreciation on disposals	**-**	**-**	**23**	**-**	**23**
At 31 December 2019	**(84,948)**	**(126,284)**	**(43,016)**	**-**	**(254,248)**
Carrying amounts					
At 31 December 2018	1,080,379	797,908	53,350	715,432	2,647,069
At 31 December 2019	**1,489,066**	**941,664**	**75,052**	**907,069**	**3,412,851**

During the financial year, the Company capitalised €7.3 million in interest (2018: €6.7 million). The capitalisation rate was 1.3% (2018: 1.6%). The Company also capitalised €19.8 million in payroll costs during the financial year (2018: €18 million).

Capital commitments

	2019 €'000	2018 €'000
Capital expenditure that has been contracted for but has not been provided for.	**627,205**	448,567

11. Leases

The Company as Lessee

The Company has entered various leasing arrangements which generally relate to the rental of land and buildings. There are no significant or unusual restrictions imposed by the terms of these leases. All lease arrangements are at an arm's length basis.

(a) Amounts recognised on the Balance Sheet
Right of use assets

	Land and buildings €'000	Total €'000
Balance as at 1 January 2019 - note 1d	18,757	**18,757**
Additions	437	**437**
Depreciation[1]	(3,426)	**(3,426)**
Balance as at 31 December 2019	15,768	**15,768**

Lease liabilities

	Land and buildings €'000	Total €'000
Balance as at 1 January 2019 - note 1d	(18,757)	**(18,757)**
Additions	(437)	**(437)**
Interest expense	(328)	**(328)**
Lease payments	2,693	**2,693**
Balance as at 31 December 2019	(16,829)	**(16,829)**

Analysed as follows:

	Land and buildings €'000	Total €'000
Non current	(13,595)	**(13,595)**
Current	(3,234)	**(3,234)**
Total	(16,829)	**(16,829)**

A maturity analysis of lease liabilities is presented in note 17. The Company does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the relevant business functions.

[1] During the financial year, the Company capitalised €0.381 million in depreciation of ROU assets (2018: nil).

(b) Other amounts recognised in the income statement

	2019 €'000
Expenses relating to short-term leases	**7,042**
Expenses relating to low-value assets that are not short term leases	**-**
Expenses relating to variable lease payments not included in lease liabilities	**-**
Total	**7,042**

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12. Intangible Assets

	Software and other €'000	Software and other under development €'000	Total €'000
Cost			
At 1 January 2018	145,941	32,793	178,734
Additions	-	49,800	49,800
Transfers in financial year	23,231	(23,231)	-
At 31 December 2018	169,172	59,362	228,534
Additions	**-**	**28,275**	**28,275**
Transfers in financial year	**70,932**	**(70,932)**	**-**
At 31 December 2019	**240,104**	**16,705**	**256,809**
Accumulated amortisation and impairment losses			
At 1 January 2018	(69,303)	-	(69,303)
Amortisation for the financial year	(24,853)	-	(24,853)
At 31 December 2018	(94,156)	-	(94,156)
Amortisation for the financial year	**(39,446)**	**-**	**(39,446)**
At 31 December 2019	**(133,602)**	**-**	**(133,602)**
Carrying amounts			
At 31 December 2018	75,016	59,362	134,378
At 31 December 2019	**106,502**	**16,705**	**123,207**

During the financial year, the Company capitalised €0.1 million in interest (2018: €0.2 million). The Company also capitalised €0.1 million in payroll costs during the financial year (2018: €2.2 million).

13. Trade and Other Receivables

		2019 €'000	2018 €'000
Trade receivables		**37,799**	45,260
Unbilled consumption		**52,033**	51,593
Prepayments		**2,594**	823
Restricted cash balances held by Local Authorities	27	**2,193**	2,193
Amounts due from related parties	27	**32,535**	32,609
Refund Programme Receivable from Government		**13,261**	6,512
Other receivables		**1,480**	1,864
Total		**141,895**	140,854
Non-current		**2,746**	5,619
Current		**139,149**	135,235
Total		**141,895**	140,854

Trade and other receivables are stated net of expected credit losses. Receivables are classified in the financial statements as current or non-current in accordance with their expected realisation. Refer to note 27 for further detail in respect of balances.

Expected Credit Loss Allowance

There is no material concentration of credit risk as the Company's trade receivables consist of amounts due from a large number of non-domestic customers, spread across diverse industries.

The credit terms for non-domestic customers varies by Local Authority region, ranging up to 45 days. The Company has been restricted from changing these credit terms, but will work to align these as part of the overall process to harmonise non-domestic tariffs. The credit risk on trade receivables is managed through the proactive monitoring and management of trade receivable balances. Following the migration of the non-domestic debtors from 31 Local Authorities in 2017, the Company now has full visibility and control on all aspects of the credit and collection activity. The Company's credit collection team, actively manages accounts in arrears through customer follow up. The Company is continuing to develop and enhance its credit risk management practices.

The Company has a number of other receivable balances due from Local Authorities and other related parties. The Company actively engages with the Local Authorities on a regular basis and the Company believes it has minimal credit risk arising from its transactions with Local Authorities.

The Company writes off a trade receivable where there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off are subject to enforcement activities.

The maximum exposure of trade and other receivables to credit risk at the reporting date is €139.3 million (2018:€140.0 million). Prepayments of €2.6 million (2018:€0.6 million) are excluded as no credit risk arises.

Notes to the Financial Statements (continued)

13. Trade and Other Receivables (continued)

	2019 €'000	2018 €'000
Trade receivables	**37,799**	45,260
Unbilled consumption	**52,033**	51,593
Restricted cash balances held by Local Authorities	**2,193**	2,193
Amounts due from related parties	**32,535**	32,609
Refund Programme Receivable from Government	**13,261**	6,512
Other receivables	**1,480**	1,864
Total	**139,301**	140,031

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

	Net receivable 2019 €'000	Net receivable 2018 €'000
Not past due	**112,803**	102,758
0-365 days overdue	**23,752**	37,273
>1 year	**2,746**	-
Total	**139,301**	140,031

The following table shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with IFRS 9:

Provision for impairment of receivables

	2019 €'000	2018 €'000
At 1 January	**(88,572)**	(70,716)
Impairment loss recognised	**(17,545)**	(18,448)
Allowance utilised	**7,955**	592
At 31 December	**(98,162)**	(88,572)

Prior to 2017, and in line with the agreed Service Level Agreements, the Local Authorities, acting as agents for the Company, billed and collected non-domestic trade receivables on the Company's behalf. In 2017, the Company completed the migration of non-domestic billing processes of the 31 Local Authorities, thus bringing all aspects of water services management for billing and revenues under the Company. The period since the migration of non-domestic billing processes is relatively short, thus and as noted previously, the Company is continuing to develop and enhance its credit risk management practices. The Company's policy is to write off debt only when the customer is no longer using our service and the Company has fully exhausted all enforcement activities. This process is subject to review and approval by the Company's Credit Committee and adherence to internal governance procedures. There has been limited quantum of non domestic debtor write offs to date. Owing to these factors, application of the Company's accounting policy for recognising impairment losses on trade receivables has resulted in an impairment provision of 52% of its gross trade receivables being provided for at 31 December 2019 (48% at 31 December 2018). The Company recognised a bad debt charge of €17.5 million during 2019, which represents 8% of non-domestic revenue recognised in 2019.

14. Cash and Cash Equivalents

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

	2019 €'000	2018 €'000
Cash and cash equivalents	**106,371**	61,594
Total	**106,371**	61,594

	2019 €'000	2018 €'000
At 1 January	**61,594**	15,588
Increase in cash and cash equivalents in the statement of cash flows	**44,777**	46,006
At 31 December	**106,371**	61,594

15. Restricted Deposits

Restricted deposits include amounts held as collateral by the Company in respect of third party construction contractors.

	2019 €'000	2018 €'000
Current	**2,822**	790
Total	**2,822**	790

16. Cash Generated from Operations

		2019 €'000	2018 €'000
Cash flows from operating activities			
Profit for the financial year		**228,226**	135,934
Adjustments for:			
Depreciation and amortisation	7	**111,790**	82,530
Retirement benefit cost		**87**	726
Net finance costs	8	**6,886**	8,844
Income tax expense	9	**33,473**	20,866
		380,462	248,900
Working capital changes:			
Change in trade and other receivables		**5,618**	(1,054)
Change in trade and other payables		**(947)**	(2,605)
Change in deferred revenue		**47,112**	20,676
Change in provisions		**1,251**	(7,571)
Cash from operating activities before exceptional items		**433,496**	258,346
Exceptional items - Customer refunds and associated processing costs	6	**6,722**	(7,030)
Exceptional items - Grant income (refunded)	6	**(6,749)**	(6,512)
Cash from operating activities		**433,469**	244,804
Interest paid		**(12,089)**	(13,645)
Net cash from operating activities		**421,380**	231,159

17. Borrowings and Other Debt

This note provides information about the contractual terms of the Company's interest-bearing borrowings and other debt. For more information about the Company's exposure to interest rate risk and liquidity risk, see note 24.

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

	31-Dec-19 €'000	31-Dec-18 €'000
Loans from financial institutions	**(237,981)**	(584,794)
Lease liabilities	**(16,830)**	-
Facilities from Government and Government Related Agencies	**-**	(300,000)
Total	**(254,811)**	(884,794)

Borrowings and other debt analysed as follows:

	31-Dec-19 €'000	31-Dec-18 €'000
Between one and five years	**(13,595)**	-
More than five years	**-**	-
Non-current	**(13,595)**	-
Less than one year	**(241,216)**	(884,794)
Current	**(241,216)**	(884,794)
Total	**(254,811)**	(884,794)

At 31 December 2019, the Company's borrowings comprise facilities drawn from commercial banks. Interest is charged on the borrowings at floating rates.

Net Debt

		31-Dec-19 €'000	31-Dec-18 €'000
Total borrowings and other debt		**(254,811)**	(884,794)
Less cash and cash equivalents	14	**106,371**	61,594
Net debt		**(148,440)**	(823,200)

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18. Changes in Borrowings and Other Debt

	Loans from financial institutions 2019 €'000	Facilities from Government and Government related agencies 2019 €'000	Lease liabilities 2019 €'000	Total 2019 €'000	Loans from financial institutions 2018 €'000	Facilities from Government and Government related agencies 2018 €'000	Lease liabilities 2018 €'000	Total 2018 €'000
As at 1 January	**(584,794)**	**(300,000)**	**-**	**(884,794)**	(524,802)	(300,000)	-	(824,802)
Lease liability - IFRS 16 transition (note 1d)	**-**	**-**	**(18,757)**	**(18,757)**	-	-	-	-
Cash flows	**348,681**	**300,000**	**2,365**	**651,046**	(58,125)	-	-	(58,125)
Other non-cash movements	**(1,868)**	**-**	**(437)**	**(2,305)**	(1,867)	-	-	(1,867)
As at 31 December	**(237,981)**	**-**	**(16,829)**	**(254,810)**	(584,794)	(300,000)	-	(884,794)

19. Retirement Benefit Obligations

The Company operates a defined benefit scheme and a defined contribution scheme. In addition certain employees of the Company, who 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, who 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 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. The latest valuation of the defined benefit scheme was carried out as at 1 April 2019 by a qualified actuary. The next actuarial valuation is due with an effective date of 1 January 2022.

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 larger deficit. The scheme holds a significant proportion of growth assets (equities) which, though expected to outperform corporate bonds in the long-term, create additional 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 on a discretionary basis to post retirement pension increases awarded). 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.

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19. Retirement Benefit Obligations (continued)

	2019 €'000	%	2018 €'000	%
Investments quoted in active markets:				
Equities	**9,070**	**70.0%**	**4,771**	66.5%
- developed markets	9,070		4,771	
Bonds	**2,908**	**22.4%**	**1,819**	25.3%
- nominal	1,482		919	
- inflation-linked	1,426		900	
Cash	**403**	**3.1%**	**219**	3.1%
Unquoted investments:				
Property/forestry	**580**	**4.5%**	**367**	5.1%
Total fair value of plan assets at 31 December	**12,961**	**100.0%**	7,176	100.0%
Defined benefit obligation	**(47,035)**		(34,538)	
Net pension liability at 31 December	**(34,074)**		(27,362)	

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

	2019 €'000	2018 €'000
Current service cost	**(3,496)**	(4,369)
Net interest on the net defined benefit liability	**(570)**	(495)
Total pension cost recognised in the income statement	**(4,066)**	(4,864)

Remeasurements recognised in other comprehensive income

	2019 €'000	2018 €'000
Return on plan assets excluding interest income	**1,581**	(447)
Experience gain/(loss) on liabilities	**1,707**	(3,774)
Effect of changes in financial assumptions	**(9,378)**	6,863
Total pension (loss)/gain recognised in other comprehensive income	**(6,090)**	2,642

19. Retirement Benefit Obligations (continued)

Movement in the fair value of plan assets

	2019 €'000	2018 €'000
Opening fair value of plan assets	**7,176**	3,424
Interest income on plan assets	**206**	101
Return on plan assets (excluding interest income) - gain/(loss)	**1,581**	(447)
Contributions by employers	**3,444**	3,657
Contributions by members	**674**	645
Benefits paid	**(120)**	(204)
Closing fair value of plan assets	**12,961**	7,176

Movement in the present value of the defined benefit obligation

	2019 €'000	2018 €'000
Opening defined benefit obligation	**(34,538)**	(32,221)
Service cost	**(3,496)**	(4,369)
Interest cost	**(776)**	(596)
Contributions by members	**(674)**	(645)
Benefits paid	**120**	204
Actuarial (loss)/gain	**(7,671)**	3,089
Closing defined benefit obligation	**(47,035)**	(34,538)

The weighted average duration of the defined benefit obligation at 31 December 2019 was approximately 30 years. The Company expects to contribute €3.9 million to its pension plan in 2020.

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

	2019	2018
Discount rate	1.40%	2.25%
Basic salary increases*	1.90%	2.00%
Pension increases	1.40%	1.50%
Inflation	1.40%	1.50%

*Plus salary scale to allow for promotional increases.

19. 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:

	2019	2018
Retiring today		
Males	22.5	22.3
Females	24.9	24.8
Retiring in 25 years		
Males	25.4	25.3
Females	27.5	27.4

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 €3.4m/increase by €3.8m
Price inflation	Increase/decrease by 0.25%	Increase by €3.7m/decrease by €3.4m
Salary	Increase/decrease by 0.25%	Increase by €4.1m/decrease by €3.9m
Longevity in retirement=	Increase/decrease by one year	Increase by €1.4m/decrease by €1.4m

(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 2019, the contributions paid to Ervia in respect of the Company's employees was €1 million (2018: €1 million). These costs are included in the Company's employee benefit expense (set out in note 5) and are identified as a related party transaction in note 27.

(c) Defined contribution pension scheme
During the financial year ended 31 December 2019, the Company contributed €3.3 million (2018: €3.5 million) to the Irish Water Defined Contribution Scheme, on behalf of its employees, which was charged to the income statement.

20. Deferred Revenue

	2019 €'000	2018 €'000
At 1 January	**(80,925)**	(60,249)
Transfer to deferred grants	**609**	-
Received in financial year	**(105,527)**	(80,418)
Credited to the income statement	**58,415**	59,341
Transfers in the financial year	**-**	401
At 31 December	**(127,428)**	(80,925)
Analysed as follows:		
Non-current	**(56,133)**	(40,284)
Current	**(71,295)**	(40,641)
Total	**(127,428)**	(80,925)

Customer connection contributions which are received in advance of customer connections are recorded initially as deferred revenue. Contributions are then released to the income statement as revenue as the connection works (performance obligation) are completed.

21. Government Grants

	2019 €'000
At 1 January	**-**
Transfers from deferred revenue	**609**
Received in the financial year	**542**
Amortised in the financial year	**(30)**
Credited to the income statement	**16**
At 31 December	**1,137**

Analysed as follows:

	31-Dec-19 €'000
Non-current	**1,107**
Current	**30**
Total	**1,137**

In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to. No grants were repaid in the current or prior financial year.

Notes to the Financial Statements
(continued)

22. Provisions and Contingent Liabilities

Provisions

	Customer Refunds Provision 2019 €'000	Other Provisions 2019 €'000	Total 2019 €'000
At 1 January	**-**	**(93,561)**	**(93,561)**
Transfers from other payables	**(6,763)**	**-**	**(6,763)**
Provisions released/made in the financial year (net)	**(6,722)**	**(15,591)**	**(22,313)**
Provisions utilised in the financial year	**-**	**14,340**	**14,340**
At 31 December	**(13,485)**	**(94,812)**	**(108,297)**

Analysed as follows:

	2019 €'000	2018 €'000
Non-current	**(81,477)**	(53,880)
Current	**(26,820)**	(39,681)
Total	**(108,297)**	(93,561)

Refer to note 6 for details of the provisions relating to the customers refund programme. The company derecognised €6.7 million of uncashed refund cheques issued to domestic customers.

Other provisions are 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 2019, 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). These liabilities are expected to be substantiallly discharged by 2023. Refer to note 1 (section f) 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. As described above, the Company is subject to various litigation, claims and contract disputes in the ordinary course of operations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

23. Trade and Other Payables

		2019 €'000	2018 €'000
Trade payables due		**(64,671)**	(102,429)
Accruals		**(202,503)**	(174,926)
Amounts due to related parties	27	**(104,928)**	(83,130)
Other payables		**(13,096)**	(4,120)
Taxation and social insurance creditors[1]		**(13,855)**	(15,170)
Customer refunds and associated processing costs payable	6	**-**	(6,763)
Total		**(399,053)**	(386,538)

Analysed as follows:		
Non-current	**(9,824)**	(3,509)
Current	**(389,229)**	(383,029)
Total	**(399,053)**	(386,538)

[1]Taxation and social insurance creditors:		
PAYE/PRSI/social insurance	**(1,687)**	(1,590)
VAT	**(12,168)**	(13,580)
Total	**(13,855)**	(15,170)

24. Financial Risk Management and Financial Assets/Liabilities

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.

	Total at amortised cost €'000
At 31 December 2019	
Financial assets	
Trade and other receivables[3]	**139,301**
Cash and cash equivalents	**106,371**
Restricted deposits	**2,822**
	248,494
Financial liabilities	
Borrowings and other debt[1]	**(254,811)**
Trade and other payables[2]	**(182,695)**
	(437,506)
Net financial liabilities	**(189,012)**

	Total at amortised cost €'000
At 31 December 2018	
Financial assets	
Trade and other receivables[3]	140,031
Cash and cash equivalents	61,594
Restricted deposits	790
	202,415
Financial liabilities	
Borrowings and other debt[1]	(884,794)
Trade and other payables[2]	(196,442)
	(1,081,236)
Net financial liabilities	(878,821)

[1]The fair value of borrowings and other debt as at 31 December 2019 was €254.8 million (2018: €884.8 million).
[2]Accrued expenses and taxation liabilities have been excluded as these are not classified as financial liabilities
[3]Prepayments have been excluded as these are not classified as a financial asset.

24. Financial Risk Management and Financial Assets/Liabilities (continued)

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. 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, develops a disciplined and constructive control environment in which all employees understand their roles and obligations.

(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. It includes 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-19 €'000	31-Dec-18 €'000
Trade and other receivables (excluding prepayments)	**139,301**	140,031
Cash and cash equivalents	**106,371**	61,594
Restricted deposits	**2,822**	790
Total	**248,494**	202,415

(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 13 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.

24. Financial Risk Management and Financial Assets/Liabilities (continued)

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.

(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 2019, the Company's total borrowings excluding lease liabilities were €238.0 million (including capitalised loan fees), (2018: €884.8 million). At 31 December 2019, the Company had undrawn facilities of €352.0 million (2018: €375.0 million) and €106.0 million (2018: €61.6 million) of cash and cash equivalents. The Company has a statutory borrowing limit of €2,000.0 million (2018: €2,000.0 million), which sets the upper limit for drawn facilities.

In 2019 as part of the implementation of the recommendations of the Inter Departmental Working Group on the Replacement of Irish Water's Commercial Borrowings with State funding, the Minister of Finance provided €758m of equity to Irish Water under a Deed of Capital Contribution. In addition Irish Water received a cash contribution of €353m which was used to fund critical infrastructure projects.

Following receipt of the money, Irish Water repaid €758m of commercial borrowings relating to the domestic sector and cancelled €660m of commercial bank facilities. This left Irish Water with €600m of commercial bank facilities, including €590m of committed facilities as at 31st December 2019. These facilities continue to be used as an interim source of funding and will be rolled on a short term basis until the replacement of the remaining Irish Water's external debt facilities with State funding is completed.

At December 31st 2019, the weighted average interest rate on the Company's portfolio of outstanding borrowings was 0.76% (0.93%: December 31st 2018) and the average maturity of its debt was 0.28 years (0.42 years: December 31st 2018).

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

24. Financial Risk Management and Financial Assets/Liabilities (continued)

	Carrying amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
At 31 December 2019						
Borrowings and other debt	**(254,811)**	**(255,856)**	**(238,432)**	**(4,201)**	**(10,838)**	**(2,385)**
Trade and other payables	**(182,695)**	**(182,695)**	**(172,871)**	**(9,824)**	**-**	**-**
Total	**(437,506)**	**(438,551)**	**(411,303)**	**(14,025)**	**(10,838)**	**(2,385)**
At 31 December 2018						
Borrowings	(884,794)	(885,710)	(885,710)	-	-	-
Trade and other payables	(196,442)	(196,442)	(192,933)	(3,509)	-	-
Total	(1,081,236)	(1,082,152)	(1,078,643)	(3,509)	-	-

(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 is 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.

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

	2019 €'000	2019 %	2018 €'000	2018 %
At fixed rates	**-**	**0.0%**	-	0.0%
At floating rates	**(237,981)**	**100.0%**	(884,794)	100.0%
Total	**(237,981)**	**100.0%**	(884,794)	100.0%

24. Financial Risk Management and Financial Assets/Liabilities (continued)

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 2019 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-19 €'000	Profit before taxation gain/ (loss) 31-Dec-18 €'000
50 bp increase	**(1,190)**	(4,424)
50 bp decrease	**1,190**	4,424

25. 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. There were no transfers in 2019.

26. Equity

(a) Share capital

	2019 €'000		2018 €'000
Authorised:		Authorised:	
50,000,000 "A" shares at €0.01 each	**500**	50,000,000 "A" shares at €0.01 each	500
50,000,000 "B" shares at €0.01 each	**500**	50,000,000 "B" shares at €0.01 each	500
Total	**1,000**	**Total**	1,000

	2019 €		2018 €
Issued, called up and fully paid:		Issued, called up and fully paid:	
1 "A" share at €0.01 each	**0.01**	1 "A" share at €0.01 each	0.01
650 "B" shares at €0.01 each	**6.50**	650 "B" shares at €0.01 each	6.50
Total	**6.51**	**Total**	6.51

Share premium

	2019 €'000	2018 €'000
At 1 January	**(324,000)**	(324,000)
At 31 December	**(324,000)**	(324,000)

At 31 December 2019, Ervia held the one "A" share, the Minister for Housing, Planning and Local Government held 325 "B" shares and the Minister for Finance held 325 "B" shares.

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 the 1 issued "A" share Ervia has full voting control. The "A" share does 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.

"B" shares have no power of control or direction over the Company giving the holders 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.

Capital contribution

	2019 €'000	2018 €'000
At 1 January	**(956,466)**	(576,466)
Cash capital contribution	**(1,111,000)**	(380,000)
At 31 December	**(2,067,466)**	(956,466)

During 2019, the Company received an unconditional, irrevocable and non-refundable cash capital contribution of €1,111 million (2018: €380.0 million) from the Government.

Notes to the Financial Statements
(continued)

27. Related Parties

		2019 €'000	2018 €'000
Ervia Group entities charges	(a)		
Central transactional and support service costs	(a)(ii)	**(55,979)**	(44,044)
		(55,979)	(44,044)
Local Authorities charges	(b)		
Service level agreement	(b) (i)		
▸ operating expenditure (payroll, functional support overheads and secondment of employees)		**(214,183)**	(213,014)
▸ operating expenditure (general overheads)		**(4,735)**	(4,728)
▸ capital expenditure		**(53,106)**	(52,633)
▸ procurement recharges		**(31,648)**	(35,088)
		(303,672)	(305,463)

The related party balances receivable/(payable) are detailed below:

		31-Dec-19 €'000	31-Dec-18 €'000
Payable to Ervia Group entities	(a) (i-iii)	**(35,475)**	(28,000)
Payable to Local Authorities	(b) (i)	**(69,453)**	(55,130)
Amounts due to related parties		**(104,928)**	(83,130)
Receivable from Local Authorities	(b) (ii-iii)	**32,535**	32,609
Restricted cash balances held by Local Authorities	(b) (iii)	**2,193**	2,193
Amounts receivable from related parties		**34,728**	34,802

In addition the Company had additional related party transactions with Government as follows:

Government	(c)		
Government subvention income		**855,000**	719,832
Capital contribution		**1,111,000**	380,000
		1,966,000	1,099,832

27. Related Parties (continued)

(a) Ultimate parent undertaking

At 31 December 2019, Ervia held 100% of the voting shares ("A" shares) in the Company, but with no economic rights attributable to that interest. The Minister for Finance and the Minister for Housing, Planning and Local Government each held 325 Water Economic Rights ("B" shares) 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". Ervia's share ownership in the Company 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 Ervia Group. The Company is deemed to be a related party of the Ervia Group.

(a) (i) Central transactional & support services
The Ervia Group provides strategic, governance, risk management, capital delivery management, transactional and support services to the Company, through the Group Centre, Major Projects area and Business Services.

Transactional and Support Servies Provided by Ervia Parent Business Services	Group	Other
Finance transaction services	Governance and control	Major Projects (Delivery of major capital infrastructure projects)
Procurement services	Financial planning	Supply Chain
HR services	Risk management	
IT services	Group services	
Facilities services	Stakeholder relationships	
Management and administration		

(a) (ii) Operating Costs incurred by Ervia Parent and recharged to Group companies

	2019 €'000	2018 €'000
Employee benefit expense	**(51,947)**	(43,934)
Hired and contracted services	**(6,990)**	(4,940)
Materials, maintenance and sub-contractor costs	**(11,950)**	(10,603)
Rent, rates and facilities	**(1,186)**	(1,356)
Other operating expenses	**(14,265)**	(12,030)
Sub-total before recharges	**(86,338)**	(72,863)
Recharges to non-controlled undertakings - Irish Water	**55,979**	44,044
Recharges to subsidiary undertakings - Gas Networks Ireland	**27,074**	22,725
Total after recharges[1]	**(3,285)**	(6,094)

[1] Total operating costs after recharges primarily represent non cash pension costs, which are not recharged to Ervia Group companies

Notes to the Financial Statements
(continued)

27. Related Parties (continued)

Basis for the apportionment of Ervia Parent Operating Costs

(1) Operating costs incurred by the Ervia Parent in the provision of services to Irish Water and Gas Networks Ireland (and its subsidiaries) are recovered on a costs recoupment basis.

(2) Operating costs incurred in the provision of such services are recharged to Irish Water and Gas Networks Ireland based on a cost causation basis, reflective of the underlying cost driver associated with each of cost centres within Ervia Parent. For example, the relevant cost driver for the Finance Transaction Services - Accounts Payable cost centre has been identified as the "number of invoices processed". Therefore the costs of the Accounts Payable cost centre are recharged to Irish Water and Gas Networks Ireland based on the relative proportion of numbers of invoices processed.

(3) The identified cost drivers for each individual cost-centre are reviewed annually to ensure that operating costs are recharged in line with the underlying levels of activity.

(4) Operating costs directly attributable to Irish Water are either charged directly to Irish Water, or are recharged in full to Irish Water.

(5) The overarching objective of the apportionment of operating costs as set out above is to ensure operating costs are recharged to Irish Water and Gas Networks Ireland based on a fair and transparent methodology, reflective of the underlying cost drivers.

(a) (iii) Capital expenditure costs incurred by Ervia Group and recharged to Irish Water
The Company transacts with the Ervia Group in respect of joint utility, centrally delivered and business delivered projects including the payroll costs incurred by the Major Projects area. The directly attributable Irish Water costs are re-charged on a monthly basis with no overhead or margin applied by the Ervia Group. Capital expenditure costs recharged to Irish Water in 2019 were €22.2m (2018: €18.7m). Balances outstanding in relation to these transactions are included in the table on the previous page.

(a) (iv) 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 2019, the contributions payable in respect of the Company's employees was €1.0 million (2018: €1.0 million). These costs are included in the Company's employee benefit expense, set out in note 5.

(b) 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 mentioned above. However, the Company has disclosed detail in respect of the following significant transactions with Local Authorities.

(b) (i) Service level agreement
A service level agreement between the Company and each Local Authority was 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.

Each Local Authority continues 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.

27. Related Parties (continued)

A Licence to use the water assets was granted by each Local Authority to the Company as part of the service level agreement in place between the Company and each Local Authority. The Licence is a 12 month mutual licence 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 2020.

(b) (ii) 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 (b) (i) above. Such payments are in respect of salaries, central management charges and a limited amount of goods and services.

(b) (iii) Asset acquisition
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 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 on page 60.

(c) 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:

- The Company repaid a €300 million loan with the Ireland Strategic Investment Fund in December 2019. This facility was provided on an arm's length basis at standard commercial terms. Following the repayment, the Company cancelled in full €450 million of facilities held with the Ireland Strategic Investment Fund.
- The Company refunded €6.7 million relevant to the domestic water refunds programme to the government during the financial year.

(d) 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 financial year or at 31 December 2019.

(e) Directors' interests

Directors had no beneficial interests in the Company at any time during the financial year or at 31 December 2019.

(f) Key management compensation

	2019 €'000	2018 €'000
Short-term employee benefits	**(1,150)**	(1,100)
Post-employment benefits	**(129)**	(138)
Total	**(1,279)**	(1,238)

Key management consists of the Ervia Board, the Ervia CEO and his direct reports. Key management compensation costs are apportioned to the Company and other entities within the Ervia Group based on services provided.

Notes to the Financial Statements (continued)

28. Companies Act Payroll Disclosures

During 2019, certain Irish Water employees were redeployed to Ervia Business Services (a business unit within the Ervia statutory entity). Ervia Business Services provides centralised support services, principally to Gas Networks Ireland and Irish Water.

In accordance with IAS 19 Employee Benefits, the related payroll and other employee benefit costs of these individuals are reported and disclosed in the Ervia Parent & Group financial statements and are not reported in the standalone Irish Water Income Statement.

However, in accordance with the requirements of Section 317 of the Companies Act 2014, the related employee numbers and payroll costs incurred by the Ervia Business Services, but where the contracts of employment remain with Irish Water, they are included in the disclosure below. The number of employees redeployed is 56 and the associated payroll costs recorded in the Ervia Income Statement, but disclosed below are €5.3 million.

(i) Aggregate Employee Benefits

	31-Dec-19 €'000	31-Dec-18 €'000
Staff short-term benefits	**(62,202)**	(59,079)
Termination benefits	**-**	-
Retirement benefit costs	**(8,123)**	(8,909)
Social insurance costs	**(6,274)**	(5,957)
	(76,599)	(73,945)
Capitalised payroll	**21,827**	20,228
Employee benefit expense - net	**(54,772)**	(53,717)

(ii) Staff Short-Term Benefits

	31-Dec-19 €'000	31-Dec-18 €'000
Basic pay/ benefits	**(59,816)**	(56,512)
Overtime	**(85)**	(75)
Allowances	**(1,030)**	(1,109)
Other[1]	**(1,271)**	(1,383)
Total	**(62,202)**	(59,079)

[1]Other short term employee benefits primarily include permanent health, life insurance benefits and taxable travel allowances

The payroll costs of €5.3 million included in the disclosure above are included within the employee benefit expense of the Ervia Parent of €51.9 million as set out in note 27(a). These costs are recharged to Irish Water and Gas Networks Ireland as appropriate in accordance with the bais for apportionment of Ervia Parent operating costs as set out in further detail in note 27(a).

The average number of employees employed by the Company was 848 for 2019 (2018: 836)

29 Subsequent Events

As described in the Chairman's Statement and the Chief Executive Officer Review, we are closely monitoring the developing situation relating to the Coronavirus (COVID-19). This is a non-adjusting event in accordance with IFRS requirements and therefore the 2019 financial results and the 2019 year-end financial position do not reflect any resulting financial effects of COVID-19. At the date of approval of these financial statements it is not possible to provide an estimate of the possible financial effects of COVID-19.

30 Approval of Financial Statements

The Directors approved the financial statements on 30th March 2020.

Directors and Other Information

Directors	Cathal Marley *(Chairman)*	
	Eamon Gallen	
	Niall Gleeson *(appointed 6 September 2019)*	
	Yvonne Harris *(appointed 26 September 2019)*	
	Brendan Murphy	
	Maria O'Dwyer *(appointed 26 September 2019)*	
	Michael G. O'Sullivan *(resigned 30 November 2019)*	
	Mike Quinn *(resigned 5 April 2019)*	
Secretary	Liam O'Riordan	
Registered Office	Colvill House 24/26 Talbot Street Dublin 1	
Solicitors	**McCann Fitzgerald** Riverside One Sir John Rogerson's Quay Dublin 2	**A & L Goodbody** IFSC North Wall Quay Dublin 1
Bankers	**Allied Irish Bank** 40–41 Westmoreland Street Dublin 2	
Auditor	**Deloitte Ireland LLP** Chartered Accountants & Statutory Audit Firm Deloitte & Touche House Earlsfort Terrace Dublin 2	
Company Number	530363	

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