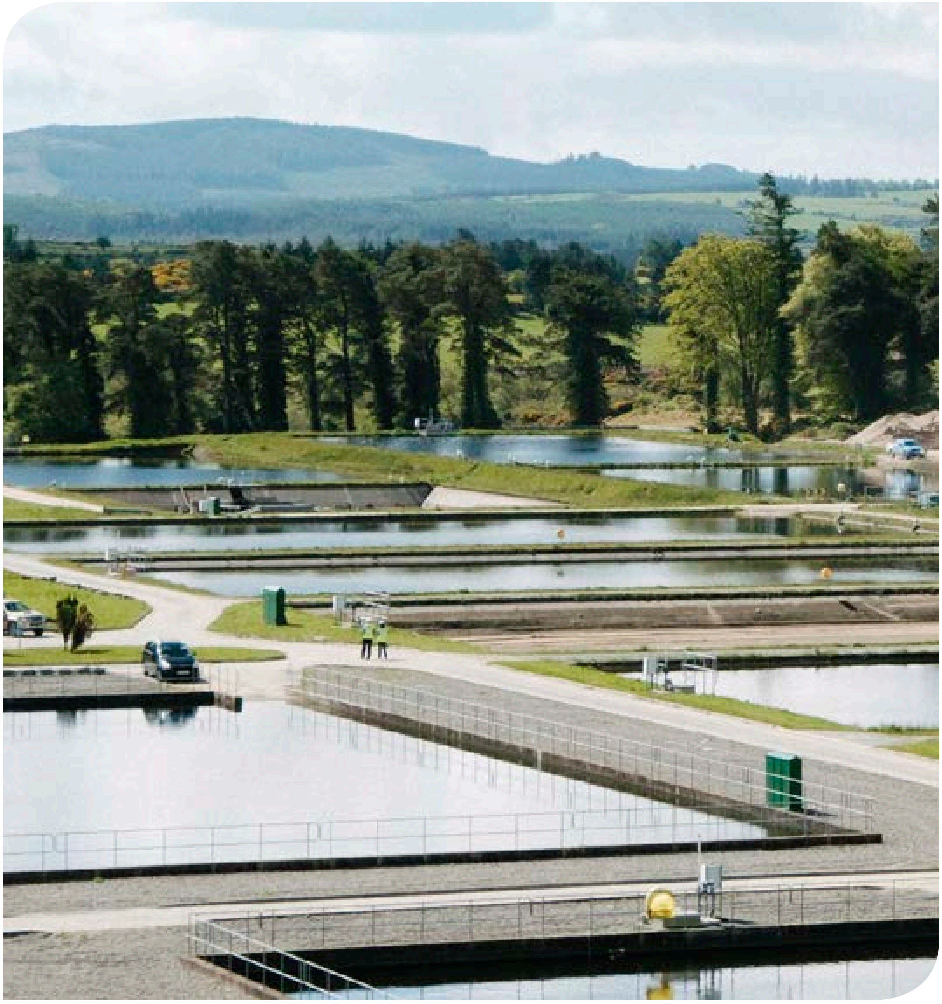
UISCE ÉIREANN : IRISH WATER

Annual Report and Financial Statements

2020



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
€1,061m

Capital Expenditure
€846m

Surplus/Profit before Income Tax*
€121m

Average Employee Numbers
791

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

Strategic Report

The Chairman's Report

The global pandemic had a huge impact on our business and brought unprecedented changes to our ways of working. I was very pleased by the response to the crisis which included an overnight shift to remote working while also maintaining continuity of critical processes and supplies.

COVID-19 and Capital Delivery

Despite the unforeseen interruption to work programmes and capital delivery in the first half of 2020 our capital expenditure amounted to €846m for the full year. The investment was made in each of the policy themes of Quality (50%), Conservation (18%) and Future Proofing (32%). This was a remarkable performance given the challenges faced and has resulted in positive outcomes for customers and communities. I would like to acknowledge how beneficial the additional stimulus funding was. It allowed Irish Water to progress critical works on the Leakage Reduction Programme and a large number of capital maintenance interventions.

National Water Resource Plan

The National Water Resource Plan was launched for consultation in December. It sets out how we will balance the supply and demand for drinking water over the short, medium and long term. It is a 25-year strategy to ensure we have a safe, sustainable, secure and reliable drinking water supply for all our customers, whilst also safeguarding the natural environment. This national plan allows us to review all of our water supplies in a consistent way and to develop a clear approach to resolving issues. This in turn will allow us to prioritise investment in water services.

Water Sector Transformation

I welcome the recently published policy paper on Water Sector Transformation that clearly sets out the Government's views and expectations as to how Irish Water will operate as the national, publicly owned, regulated, water services utility. Irish Water will engage collaboratively with all stakeholders including the Group of Unions and Local Authorities, under the auspices of the Workplace Relations Commission, to reach agreement on how this can best be done, with the target of concluding negotiations by July 2021.

Governance

The Ervia Board is a unitary board structure, which means that it has ultimate responsibility for the governance of Ervia and its subsidiaries. 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, regulated utility in 2023.

The Ervia Remuneration Committee is responsible for setting and reviewing performance targets. Irish Water performed well in 2020, in particular in its response to COVID-19. Progress was made against all five of the strategic objectives which are detailed on page 12.

Tony Keohane
Ervia Group Chairman

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 60-73.

Sustainability

The Ervia Board is committed to ensuring that the strategic objectives and operations of Irish Water are both sustainable and socially responsible. Protection of the ecosystems in which we live, and work is fundamental to our operations. This year we developed a Sustainability Strategy 2020-2040. It calls out the actions to be implemented to facilitate the measurement, management and reporting of progress made on the sustainability initiatives.

Diversity and Inclusion

The ibelong Diversity and Inclusion agenda was heavily supported during the year and a 3 year strategy agreed to embed the programme. We are an equal opportunity employer and through our recruitment process we welcome and encourage applications from interested and suitably qualified individuals regardless of gender, age, racial or ethnic origin, membership of the traveller community, religion or beliefs, family or civil status, sexual orientation, gender identity or disability.

Conclusion

I would like to thank the Minister and officials in the Department of Housing, Local Government and Heritage 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 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 2020.

I want to express my enormous gratitude to all our staff and partners for their ongoing support and dedication to the provision of water and wastewater services, in what was an exceptionally challenging year.

Tony Keohane
Chairman

The Chief Executive Officer's Review

In March 2020 when the World Health Organisation upgraded the status of the COVID-19 outbreak from an epidemic to a pandemic we had little idea of what was ahead of us. We wasted no time establishing a Crisis Management Team to manage our response to this global crisis. We adapted our ways of working and staff resourcing to maintain business continuity and to deliver critical services. We continued to provide safe, secure supplies with little or no interruption to services.

As Chairman of the Irish Water Board and the Ervia Group CEO I am very pleased to present the 2020 Irish Water Annual Report and Financial Statements. Given the exceptionally challenging year we made good progress in 2020 and we delivered strong operational and financial performances.

Irish Water is a major employer and provider of essential services and the safety of our staff, partners and communities is paramount. The Board oversaw the development and delivery of a comprehensive COVID-19 response work programme. We supported our colleagues as they moved to agile working across the organisation. We supplied office equipment, developed new health and wellbeing programmes and worked hard to help make the transition to working from home easier.

Our Capital Investment Plan is aligned to the wider infrastructure investment policies 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. In August, Irish Water was given regulatory approval to make capital expenditure of €5.4 billion over the coming four years as part of the RC3 Capital Investment Plan. It 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 one of our core strategic objectives to operate a sustainable efficient business delivering water services to communities in a manner that supports national policy and contributes to the protection of the environment. 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 continue to focus on leakage reduction initiatives. In 2020 Irish Water invested significantly, supported by stimulus funding, in the delivery of 178km of new and rehabilitated water mains. Together with our local authority partners we fixed an average of 1,922 leaks every month. As a result we conserved 51 megalitres per day (Ml/d) as of the end of Quarter 3 2020, which reduced national leakage to 40%.

However, the ongoing capital investment and leakage reduction initiatives will not be enough to provide the necessary resilience to ensure a secure reliable water supply of drinking water in the Greater Dublin Area, where there is little or no headroom available. The average daily demand in 2020 was 571 Ml/d with a peak demand of 613 Ml/d. However the current maximum sustainable production is just 564 Ml/d. 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, will provide a vital new water source for the Greater Dublin Area and is a key element in addressing the supply shortage issue.

Cathal Marley
Ervia Group Chief Executive Officer

Once again I am proud to say we had an excellent safety record in 2020. For the second consecutive year we had no employee lost time incidents during 2020, which is a major achievement. In addition, by working closely with our asset delivery contractors, we reduced the accident frequency rates in 2020. 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.

We monitored the potential for significant business disruption as a result of negative impacts arising from the EU/UK Brexit trade deal negotiations. Areas of concern included regulation, finance, supply chain, data protection and operations. A Brexit Steering and Working Group prepared and implemented contingency plans, engaging with a wide range of partners and stakeholders.

In line with the Government's decision in 2018 Ervia is working to establish Irish Water as a standalone, publicly owned, regulated utility. In June of this year we commenced the work programme to establish two standalone independent utilities. We will achieve operational separation in 2022 and full legal separation in 2023. 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. We have undertaken significant work to support compliance, as appropriate, with the relevant principles, requirements and guidelines of the updated Public Spending Code. This year we introduced a new continuous improvement programme approach across Asset Management, Asset Delivery, Asset Operations, IT and Finance to deliver improved processes and ways of working.

As Chairman of the Irish Water Board I want to acknowledge the services of the members of the Board. Finally and most importantly, I would like to express my sincere gratitude, in this particularly difficult year, to all our staff and delivery partners for their hard work and commitment. I am proud of the way in which we responded to the challenges and the progress we made in 2020.

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

Irish Water Managing Director's Report

Despite the unique challenges posed by the Coronavirus pandemic and the uncertainties around the Brexit negotiations, 2020 was an exceptional year of performance and achievement. Strong advance planning resulted in a seamless transition to remote working in March. Our systems and processes were adjusted to continue to provide essential public water services. The delivery of the capital investment programme remained strong throughout the year, and the allocation of additional funding from the Government under the Stimulus Package is a positive affirmation of the key role investment in public water and wastewater infrastructure has to play in any future economic recovery planning.

Managing through a Global Pandemic

From early January 2020, teams across Irish Water met weekly to monitor the Coronavirus developments in China and review pandemic plans. Preparedness activities included workshops and scenario planning for activities that could be impacted and close liaison and communication with Local Authority and supply chain partners.

The Irish Water Crisis Management Team (CMT) was formally convened on 27th February, meeting daily during the first wave (March- May) and twice weekly throughout the rest of 2020, with a total of over 100 CMT meetings held. We also developed detailed "Living with COVID Guidelines" which outline Irish Water's response and approach for its key activities for each restriction level. These are reviewed and updated on a continuous basis to ensure alignment with all Public Health Guidelines and Government Plans Over 300 construction sites safely demobilised in March were successfully remobilised in May with all required COVID-19 safety measures in place.

We successfully managed drought conditions and the impact on individual water supplies in May, June and July and overall increases in domestic consumption as a result of COVID-19. We also managed water supplies across the country as Ireland experienced a staycation boom. We worked collaboratively with Mayo Local Authority, HSE and stakeholders in getting a Do Not Consume notice lifted from Achill Island following soaring demand as it became a preferred destination for Irish holidaymakers.

Achievements in 2020

From 1st January 2014 to end 2020 Irish Water has already invested circa €4.5bn in public water and wastewater services. Despite the unique challenges posed in 2020, Irish Water delivered an overall investment of €846m.

This investment included an additional €87 million in Stimulus Package funding spent across all counties on key asset upgrades. The primary focus was on leakage reduction works and capital maintenance upgrades, with a number of treatment plant upgrade projects also benefiting. Works included watermain

Niall Gleeson
Managing Director, Irish Water

replacement projects and the repair or replacement of failed or failing assets that are critical to the delivery of water services.

Irish Water is currently managing a portfolio of over 300 capital projects and 40 national programmes. Despite a period of shut down from March to May 2020, these projects are recognised as essential to improve and enhance services vital in the fight against the spread of COVID-19 and maintaining the economic health of the country.

Irish Water has delivered significant improvements since 2014, eliminating long term boil water notices, already ending up to half of all discharges of untreated wastewater into open water bodies and delivering higher quality and new capacity for drinking water and wastewater treatment. Ireland is still not compliant with European water and wastewater directives and significant challenges still remain. Continued investment in water and wastewater infrastructure and services is required to support environmental and economic wellbeing.

"From 1st January 2014 to end 2020 Irish Water has already invested circa €4.5bn in public water and wastewater services. Despite the unique challenges posed in 2020, Irish Water delivered an overall investment in public water and wastewater services of €846m."

Irish Water Managing Director's Report (continued)

Performance in 2020

Performance highlights in 2020 included:

- 11 water supplies were removed from the EPA's Remedial Action List.
- 14,568 people were removed from 'Boil Water Notices' that had been in place for more than 30 days. Lough Talt Water Treatment Plant was successfully completed, resulting in the Boil Water Notice in place for circa 13,000 people being lifted.
- 5 new Water Treatment Plants were completed or upgraded.
- 7 new Wastewater Treatment Plants were completed or upgraded.
- We continued to progress works to improve the resilience of the water supply to the Greater Dublin Area, with work started on the construction of a strategic link between Srowland and Ballymore Eustace water treatment plants and upgrades to filters and ultra violet treatment at Leixlip Water Treatment Plant.
- 11 agglomerations were removed from the EPA's priority list of areas for wastewater improvement.
- 3,025 lead services were replaced.
- A new Wastewater Treatment Plant in Killala became the 16th area where Irish Water has eliminated raw sewage discharge reaching a milestone of a 51% reduction in raw sewage discharges since 2014.
- Works were completed on 10 agglomerations listed in the 2018-2021 River Basin Management Plan.
- Net Water Saving of 51 ML/d were achieved from specific initiatives to address national water leakage resulting in leakage down to 40% nationally and 36.5% in Dublin.
- 178km of watermain was laid (new and rehabilitated).
- 42km of sewer was laid (new and rehabilitated).
- €35.5 million of capital efficiencies were realised through procurement, value engineering, innovation and standardisation of design.
- €25 million of operational efficiencies were secured via the delivery of lean initiatives and continuous improvement.

Progress on Strategic Projects

- 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: Construction of the capacity upgrade commenced in 2019 continued throughout the year and is at an advanced stage.
- Cork Lower Harbour Main Drainage Scheme. Works on Cobh network which began in 2019 continued and the successful drill of the estuary crossing was completed.
- Water Supply Project – Eastern and Midlands Region. Work continuing to prepare Strategic Infrastructure Development planning application.
- Greater Dublin Drainage: Judicial review proceedings were taken in 2020 and the High Court determined that the planning permission should be quashed. The matter is still before the High Court to determine next steps.
- Regional Biosolids Storage Facility: It is currently anticipated that construction will commence in 2022 and that the facility will be operational by 2024.

Outlook for 2021

In 2021, investment in public water infrastructure by Irish Water is forecast at €895 million. This valuable public investment will deliver critical outcomes for customers and communities across the policy themes of Quality, Conservation and Future Proofing.

Investment will continue to be prioritised on improving water and wastewater quality through significant capital projects and delivery of our national programmes. Irish Water has progressed major capital works to treat wastewater in 16 of the 44 areas identified in 2014 and is planning on breaking ground on at least 12 untreated agglomerations in 2021.

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 the National Development Plan (NDP). The NDP is being extended to 2030 and Irish Water will support the Government's review of the plan.

We realise that COVID-19 will continue to impact the way work during 2021. Irish Water will adhere to all public health advice while working to minimise the impact of COVID-19 on our customers, staff and delivery partners.

The implementation of a new framework of non-domestic tariffs and the introduction of the Household Water Conservation Charge were postponed in 2020 in recognition of the economic pressures from the pandemic prevention measures. Irish Water will work with the regulators and other key stakeholders to ensure all necessary systems and customer supports are ready for when the decision is made to proceed.

In addition in 2021 we will adopt the final Framework Plan for the National Water Resources Plan and the commencement of Phase 2 of the Plan comprising of four Regional Water Resources Plans. We will also implement the Sustainability Strategy 2020-2040 and launch the Biodiversity Action Plan.

Transformation and partnership

In July 2018 the Government announced the separation of Irish Water and Ervia. During the year Irish Water worked with Ervia and an Inter Departmental Steering Group to progress the plans for the separation of Irish Water as a standalone, publicly owned, regulated utility. Operational Separation is due to be complete in 2022 and Legal Separation in 2023.

Irish Water is also committed to continue with plans to transform the service to a Single Public Utility. We welcome the publication of the Water Services Transformation policy and we are committed to supporting the process in 2021.

Acknowledgements

I would like to publicly recognise the tremendous efforts made by the staff of Irish Water and our local authority partners in ensuring public water services were safely maintained throughout the year under very difficult circumstances. It is this dedication and resilience that allowed us to respond quickly and efficiently to the changes required to work practices, We are confident that Irish Water has the expertise to manage the unique and prolonged challenges of the ongoing public health crisis for as long as necessary.

We will continue to work collaboratively with our partners, government agencies, the communities and the businesses we serve to provide safe and sustainable water services.

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

Water	Sustainably abstract and safely deliver clean and wholesome drinking water to meet Ireland's socio-economic needs to 2030.
Wastewater	Establish and safely operate climate resilient wastewater treatment and infrastructure to meet Ireland's socio-economic needs to 2030.
Customer	Deliver customer value propositions to position the business among Ireland's most trusted and valued utilities by 2030.
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.
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

Financial
We receive a regulated return on our Assets.

Total Assets of **€4.6bn**

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.

791employees in **11** locations together with **3,139** 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.

- **€488m** capital contribution
- **€815m** government subvention

Natural Resources
We protect our rivers, lakes and seashore.

Supply **1.8bn** litres daily of clean, safe drinking water and treating the wastewater produced.

Business Activities

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 2020

- 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

- **1.8m** domestic and business customers served.
- Operating **737** water and **1,061** 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 as 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. In October 2020 the Government announced its intention to expand the National Development Plan to 2030 and funding will be set accordingly. Irish Water is committed to support this review of the NDP which is due to be complete in 2021. We continue to develop and deliver plans to provide for the country's future public water and wastewater requirements.

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 1.8 bn litres daily of high quality drinking water every day and treating the wastewater produced 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 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. These include our Biodiversity and Sustainability Strategies.

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 current 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 to ensure Ireland is positioned to meet future changes as a result of changes to EU Directives and Regulations.

In our role as the national public utility we have maintained essential public water services through the COVID-19 pandemic and we will continue to plan for and respond to contingencies both nationally and operationally. 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.

Decarbonisation

The Trend

In March 2021 the Government approved the final text of legislation to set Ireland on the path to net Zero emissions no later than 2050 and to a 51% reduction in emissions by the end of this decade. 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 2050.

Our Response

Irish Water is committed to reducing energy consumption through a range of energy initiatives, 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.

Customer Expectations in a Digital Age

The Trend

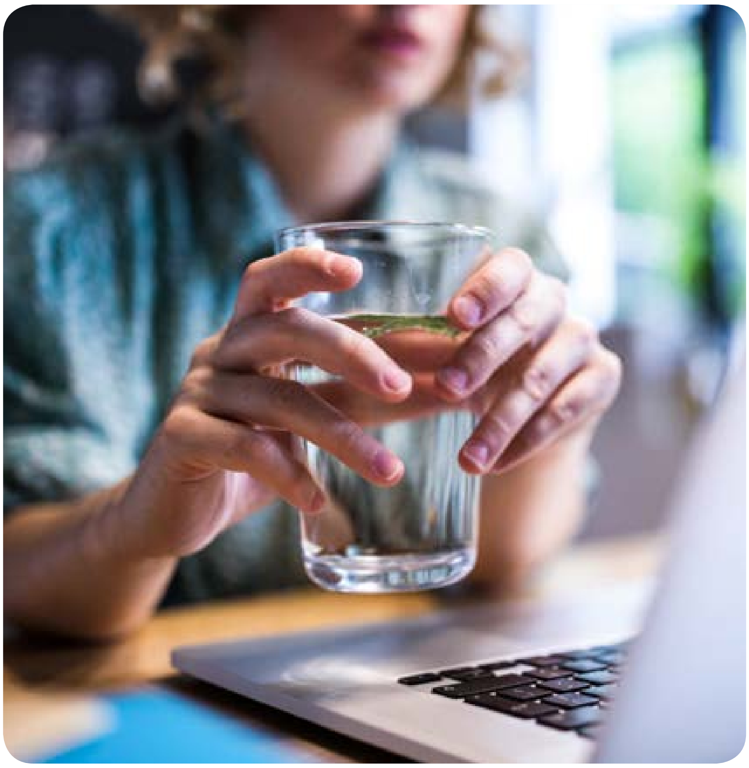
Digitalisation has become a key part of all our lives. This was never more evident than in 2020 when remote working and remote learning became the norm for the entire population. This resulted in increased use of online service channels and uptake in new technologies such as remote meeting platforms and online webinar and conference facilities. It is widely anticipated that these new ways of engaging will remain the norm rather than the exception even when this pandemic period has passed. Our customers are increasingly online and mobile and they expect us to facilitate this. They expect to be able to switch seamlessly between channels with no impact on their experience.

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

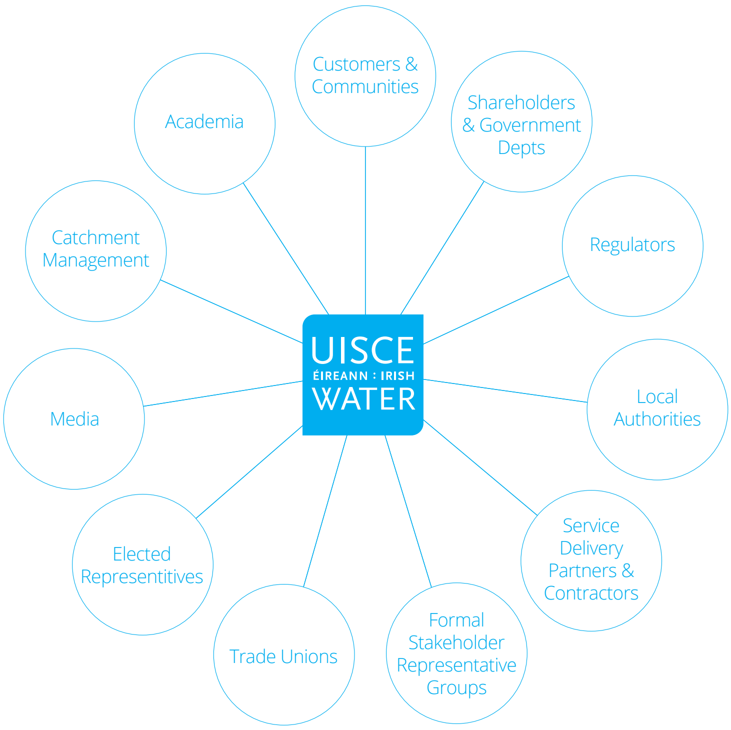
Irish Water is committed to delivering excellent customer experience that exceeds both regulatory standards and customer expectations. We will continue to invest in IT platforms and digital channels to ensure we are meeting our customer's expectations and that we have robust systems in place to protect 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.



Strategic Stakeholder Engagement

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.

Stakeholder engagement is the process whereby we actively engage with our customer and stakeholders in an open, transparent and meaningful way. 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.

As a result of the measures imposed to tackle the spread of COVID-19, the use of remote and online channels for engagement became more important. Our contact centre remained fully operational throughout the year and all our staff continued to work remotely. Our website and online channels remained important sources of information and were expanded to include information and support to our customers and stakeholders. Remote channels such as online platforms for meetings and webinars were integrated into our stakeholder engagement and consultations, and events and activities continued throughout the year using the appropriate channels in adherence to the health guidelines.

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 or virtual meetings. In 2020, particular emphasis was placed on supporting essential services and the vulnerable and elderly who were being advised to isolate at home and maintain social distancing.

Shareholder & Regulators

Irish Water has ongoing engagement with the Minister for Housing, Local Government and Heritage 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 Pleanála, 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 (An Fóram)

An Fóram Uisce is the national water forum and 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 welcomed the establishment of the Irish Water Liaison Group within An Fóram in 2020 and regular meetings were held throughout the year. Irish Water also attends meetings of An Fóram Uisce to provide updates on issues of interest to its members.

The Water Advisory Body (WAB)

The Water Advisory Body has five members representing the EPA, CRU, An Fóram Uisce, and two additional professional members. Irish Water appears before the WAB and provides written reports to the Body as requested. The WAB reports to the Joint Oireachtas Committee on Housing, Local Government and Heritage and publishes its reports every three months.

Irish Water National Stakeholder Forum

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

Strategic Stakeholder Engagement (continued)

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 Representative Support Desk (LRSD) for all Councillors and the Elected Representative Support Desk (ERSD) for all Oireachtas Members and MEPs. The service is operated through our contact centre and is available to all elected representatives to respond to their queries by phone or email 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 such as Ibec, Chambers Ireland, ISME and SFA, and industry groups including IDA and Enterprise Ireland to discuss issues relevant to their members. With a multi-billion euro capital investment in public water and wastewater infrastructure, Irish Water also has a critical dependence on the construction industry and our supply chain. We actively engage with these stakeholders.

Irish Water continues to facilitate the development of new housing, supporting employment and economic development, by working with developers to establish new connections to the water and wastewater networks. We recognise the challenging situation the construction industry finds itself in, given the COVID-19 restrictions, and we commit to being as responsive and flexible as possible to support housing construction once sites reopen.

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. 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. In 2020 we commissioned a survey of our stakeholders to get feedback on our performance and to identify areas for improvement. Irish Water will use the outputs from this research to develop a strategic framework for its stakeholder engagement for the future.

Delivering on our Strategy

Water Framework Directive

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.

Water Services Policy Statement

Water Services Strategic Plan

Strategic Funding Plan

Over the year an average of 791 professional, technical and support staff, together with 3,139 local authority staff and our customer contact centre and service delivery partners serve our 1.8 million customers. In 2020 we operated 1,798 water and wastewater plants to supply 1.8 billion litres of drinking water each day and treating the wastewater produced.

Focussing on	In 2020 we
Quality	▸ Removed 14,568 customers from boil water notices that were in place for more than thirty days. ▸ Removed and replaced over 3,025 lead services connections. ▸ Performed over 175,000 individual tests on public drinking water supplies.
Conservation	▸ Fixed leaks to make net savings of 51 megalitres of water per day (to the end of Q3 2020). ▸ Repaired over 2,295 customer leaks under the first fix free scheme.
Future Proofing	▸ Upgraded or built 5 water treatment plants. ▸ Upgraded or built 7 wastewater treatment plants. ▸ Laid or rehabilitated 178km of watermain network. ▸ Laid or rehabilitated 42km of sewer network.

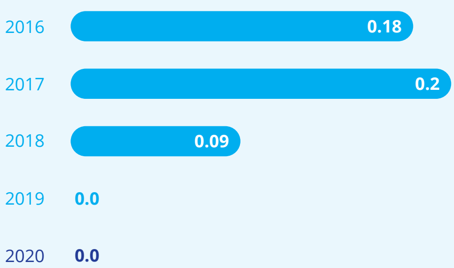
Key Performance Indicators

		Measure	Definition	Unit	2018	2019	2020
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	423	14,117	1,042
Water	Drinking Water	Schemes on EPA RAL	No. of schemes on Live RAL	No. remaining	63	52	46
Water	Lead	Lead	Total lead services replaced	No.	12,477	15,774	3,025
Wastewater	UWWTD	Priority areas for wastewater improvement	No. of priority areas for wastewater improvement (Starting point Q1 2015)	No. remaining	132	120	113
Wastewater	UWWTD	Untreated Agglomerations	No. of agglomerations with no treatment or preliminary treatment only	No. remaining	37	35	34
Conservation							
Savings		Leakage	Net Unaccounted For Water (average of period) is the national figure expressed in megalitres per day	Ml/day	-27	66	51
Future Proofing							
Capacity & Resilience		Wastewater Treatment Plants	New and upgraded Total (Quantity)	No.	11	10	7
Capacity & Resilience		Water Treatment Plants	New and upgraded Total (Quantity)	No.	10	4	5
Capacity & Resilience		Wastewater network	Length of sewer laid (total)	km	74	69	42
Capacity & Resilience		Water network	Length of watermain laid (total)	km	416	393	178

Key Performance Indicators (continued)

Safety

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



What we measure

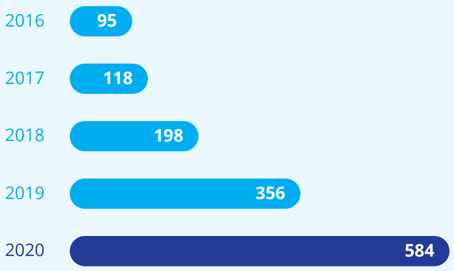
We use Lost Time Injury Frequency Rates (LTIFR) to track the number of employee accidents per 100,000 hours worked, that result in a staff member needing to take >1 days off work.

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 (Megalitres per Day)



What we measure

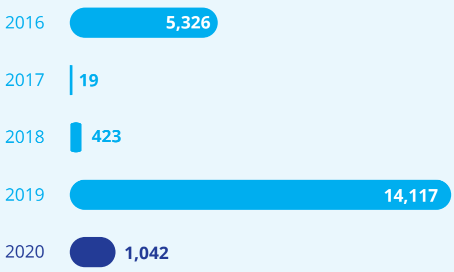
This is a measure of the water saved as a result of our efforts in rehabilitating mains and pro-actively finding and fixing leaks. (2020 figures are estimates)

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 remainingwe



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

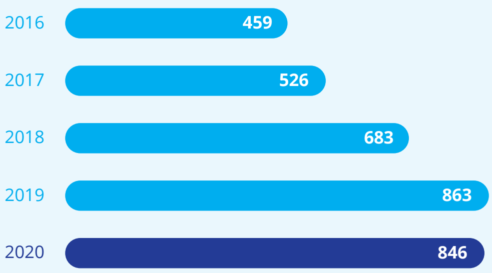
We review a sample of our customer contacts each month across a range of different call types. A selection of calls are surveyed independently to validate the scores.

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

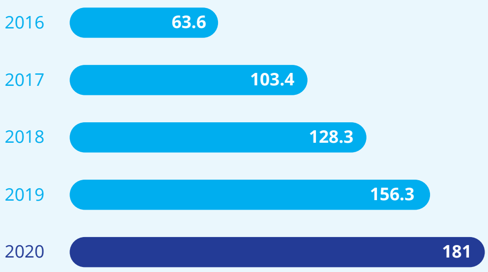
Delivering a capital programme is central to developing and maintaining our asset base.

Why we measure it

The figures reflect incremental savings and costs contained resulting from efficiency initiatives

Operating Efficiencies

Cumulative OPEX Efficiencies €m



What we measure

We measure operational efficiencies secured via the delivery of lean initiatives and continuous improvement.

Why we measure it

We drive efficiencies in how we deliver our services on an ongoing basis. A further €25 million of operational efficiencies were secured in 2020.

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 Enterprise Risk Management (ERM) and policy is well established and is consistently operated 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.

From a risk perspective, 2020 has been a challenging year for most businesses, Irish Water included. However, the company has met this challenge head on, for example COVID-19, activating its Business Continuity Plans and Crisis Management structures in March. The COVID-19 pandemic has significantly influenced our risk profile and has been a key consideration for managing the risks outlined below. In addition, the company has effectively planned for risks associated with other external factors/drivers such as Brexit.

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. Ensuring clarity of reporting on the risk profile and ensuring greater integration with financial and performance reporting has been a priority for the ERM teams in 2020. As part of our Risk Strategy, this and other risk culture improvement initiatives will continue to be a focus in 2021.

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 pro actively allows us to create added value for our shareholders, customers and the wider community.

Our Risk Management Activities

Day to Day	Integrating with Strategy and Process	Governance
Operational Areas	**Risk Framework**	**Policy**
Identify, manage and report risks.	Risk assessment is integral to strategic and financial planning, capital decisions and project appraisal.	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 safety incident resulting in a risk of serious injury/ fatality to staff, delivery partner or the public.	Key considerations: Varying safety practices and safety culture maturity across Local Authorities and aged asset base requiring significant investment over the medium/ long-term. All health and safety legislation and arrangements must be adhered to in order to protect staff, delivery partners, and the public from injury or fatality and avoid potential prosecutions, financial loss and reputational damage.	Monitoring process, including risk based, asset-specific interventions. Implementation, promotion and certification of the Safety Management System to ISO 45001. Use of Corrective Action /Preventative Action (CAPA) system to track and address systemic safety issues.
2	A significant employee health risk or business disruption due to impact of COVID-19 pandemic.	Large scale employee illness due to an epidemic or pandemic (COVID-19) that affects Ireland's population, potentially impacting employee health and well-being, operations service delivery and supply chain.	Irish Water COVID-19 response plan in place including Crisis Management Teams. Engagement with key stakeholders (HSE, EPA, CRU, Government Departments etc.) Business continuity, contingency arrangements in place and scenario planning carried out as situation evolved. Coordinated employee messaging through enterprise-wide Work Safe Home Safe programme. COVID-19 risk assessments across all our offices/sites for essential office/site visits.
Security of Supply & Service Delivery			
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 Framework consultation and publication process assesses national water capacity and quality, focuses on sustainable supply and demand balance in the short, medium and long term. The Water Supply Project 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. Key upgrade measures and investment at critical DW assets.
4	Not delivering the projected water leakage savings required due to increasing leakage incidents on an aged water infrastructure system or effectively informing the public on key challenges or progress and plans.	Not achieving leakage savings targets could impact Irish Water's reputation and credibility, generate customer and service impacts, increasing operating costs and reducing efficiencies.	Utilised funding effectively to progress 2020 leakage management priorities Key programmes in place including - Find & fix programme, First Fix Programme, Targeted investment, Metering, Pressure / network management Leakage Management System, Response Plan and Annual Leakage Management plan 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 in recent years. An increased frequency and intensity of severe weather events is likely to continue.	Comprehensive resilience plans and processes in place (e.g. Severe Weather programme, Water Scarcity tracker, Standard Operating Procedures). Assets are being designed for climate resilience (flooding, storm water, climate vulnerability and management standard).

Risk Management (continued)

	Risk	Context	Mitigation
Security of Supply & Service Delivery (continued)			
6	A significant failure to deliver safe, clean drinking water could lead to public health, reputation, compliance, and prosecution risks.	While work continues across the aging asset base to improve resilience and quality of DW supply, there is a risk of delays to critical improvement works due to external factors such as legal challenges and judicial reviews, as well as a high level statutory and planning issues, across a portfolio of projects. There is ongoing potential for prosecution with Ireland and European enforcement Authorities.	Managing risk at Water Supply Zone level through Drinking Water Safety plans. Delivery of the Capital Investment Plan to upgrade assets and improve compliance. Implementation of THM strategy, and Lead in Drinking Water Mitigation Plan, development of pesticide strategy, Working group planning for revised DW Directive.
7	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 in operation during bathing season to reduce prohibition periods, improve testing turnaround times and improve public beach signage. Cross-functional Environmental Management Group ensures consistent wastewater reporting / messaging on priority plants to EPA and other stakeholders. Sampling and analysis of wastewater discharges. Drainage Area Plans under development in key agglomerations.
Transformation of Water Services			
8	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, Strategic Funding Plan (SFP) efficiencies and required service levels under the Service Level Agreement (SLA).	The Government White Paper published, provide the momentum needed to help move to the full integration of all Local Authority water services activities and staff into the Irish Water organisation structures (by the end of 2022). The Single Public Utility programme and Irish Water liaise regularly with the Department of Housing, Local Government and Heritage. Mandate to formalise a transformation agreement in the Workplace Relations Commission by July 2021.
Climate Change, Biodiversity			
9	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.	Climate Change Adaptation and Mitigation strategy in place. Biodiversity Action Plan in development, which will identify biodiversity enhancement measures to be implemented across all Irish Water sites where appropriate. Irish Water has committed to being a Key Partner in the new All Ireland Pollinator Plan 2021-2025 and will report annually on the targets within this new plan.

	Risk	Context	Mitigation
Delivering Growth & Infrastructural Investment			
10	Failure to fully deliver the Irish Water Capital Investment Plan due to both internal and external factors resulting in the unavailability of water services and limiting the Company's response to public health, safety, economic development and environmental risks.	Availability of long term multi-cycle funding is a key dependency. Across the Irish semi-state and private sector, significant multi-year capital projects are planned or underway. The schedule/ programme for many of these were impacted by COVID-19 which in turn can impact on Irish Water's ability to deliver its multi-year capital programme on schedule/as planned.	Strategic Funding Plan 2020-2024 in place and RC3 allowance approved controls in place to monitor our Capital Investment plan spend against budget. Delivery of Project Clarity Enhanced cost-estimation capability. Implementation of contracting strategy. Early Contractor Involvement Programme – integrated design, development and construction planning.
11	Growing demands for water connections and limited asset capacity will impact the company's ability to keep pace with development and growth demands across Ireland.	Irish Water has a significant role to play in supporting Ireland's economic growth, compliance and development goals.	Delivery of Networks Extension Initiative, Major Urban Housing Development Sites, and LIHAF (Local Infrastructure Housing Activation Fund). Early engagement with all key stakeholders including developers.
Supply Chain			
12	Failure of a key supplier that supports our delivery of change programmes and services to public water customers.	This reliance exposes us to operational impacts should a key supplier fail.	Governance structures and contractor management strategy in place. Relationship Management model in place for key relationships. Financial Health Ratings for all strategic suppliers. Early Contractor Engagement.
Customer, Reputation & Stakeholder			
13	A failure to create awareness and understanding of the Irish Water brand could result in an inability to gain the trust of key stakeholders and deliver key organisational objectives.	Trust, confidence and support of our service role must be gained from our customers and stakeholders.	Communication 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.
Our People			
14	Not having the right organisational structure and the right people and culture in place would undermine the ability to deliver our business objectives.	Significant organisational transformation must be managed appropriately to reduce risk of organisational instability.	Organisation Design Steering Group in place and 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

Risk Management (continued)

	Risk	Context	Mitigation
Technology, Financial and Economic			
15	A cyber-attack targeting systems or infrastructure causing serious loss of service, data leakage, restriction to information and/or operational technology would impact service delivery and infrastructure.	An incident could result in potential business delivery disruption, public health or safety issues, reputational damage or potential regulatory fines. The likelihood potentially increases in remote working environment.	Comprehensive prevention and pro-active controls across all systems, contingency plans developed, and the data security messaging under Doing the Right Thing programme. Ongoing risk assessments, training and external independent assurance reviews. Security Operations Centre being established.
16	Potential for business disruption as a result of potential negative impacts arising from EU/UK Brexit trade deal negotiations.	Potentially impacted areas are regulation, finance, supply chain, data protection and operational delivery.	Brexit Steering and Working Group established, key exposures identified and contingencies prepared and implemented. Engagement with key stakeholders including Government Departments; suppliers; partner utilities. Memorandum of understanding in place. Tax and Customs arrangements in place.
17	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.

Financial Review

Ronan Galwey
Ervia Group Chief Financial Officer

Irish Water delivered a satisfactory financial performance during 2020, particularly in the context of the challenges introduced by COVID-19. Cost containment measures were implemented to mitigate the financial impacts of lower revenues from non-domestic customers. The reduction in revenues arose from demand factors due to the implementation of the necessary health and safety measures.

The surplus/profit generated by Irish Water together with Government capital contributions of €488m, which included funding from the Government's Stimulus Package, enabled the delivery of a capital investment programme of €846m in critical water and wastewater infrastructure.

Irish Water's activities were a significant source of economic stimulus during 2020. The capital, operating and maintenance programmes provided both direct and indirect employment and other economic benefits across the Irish economy. During the year, Irish Water took appropriate measures to ensure that supplier payments were maintained to support the cash flows of our delivery partners.

Key Highlights 2020

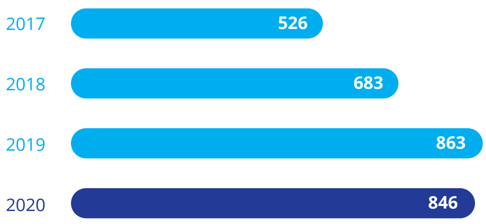
Revenue	EBITDA	Surplus/profit before income tax
€1,061m	€262m	€121m
Capex	Total assets	Net debt
€846m	€4,582m	€191m

Irish Water surplus reinvested to fund critical infrastructure projects

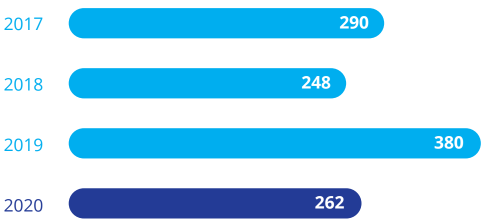
Key Financial Trends

Revenue €m

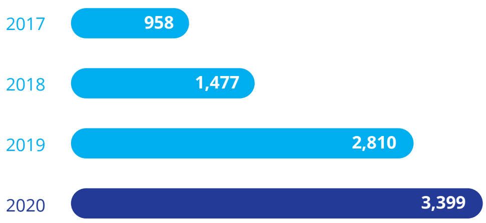
Capex €m



EBITDA €m



Net Assets €m



Summary Income Statement

	2020 €m	2019 €m
Revenue	**1,061**	1,122
Commercial revenue	**246**	267
Government subvention	**815**	855
Operating costs	**(799)**	(741)
EBITDA	**262**	380
Depreciation and amortisation	**(138)**	(112)
Finance costs	**(4)**	(7)
Surplus/profit before income tax	**121**	262

Revenue

Revenue of €1,061m for the year to December 31st 2020, was €60m lower compared to 2019. Government subvention income of €815m in respect of domestic water billing was €40m lower than prior year due to a reduction in allowed revenues. Commercial revenues of €246m were €20m lower than prior year due to lower non-domestic billing of €35m arising from COVID-19 demand factors, partly offset by higher customer connection revenues of €15m.

Operating Costs

Operating costs of €799m increased by €58m when compared to 2019. This increase is primarily due to the introduction of rates in 2020 (€42m) and higher bad debts provision recognised (€41m) due to COVID-19 and other inflationary cost pressures. These were partly offset by the delivery of a further €25m in operating cost efficiencies.

Financial Review (continued)

Operating Costs Summary

	2020 €m
Employee benefit expense	**58**
Local Authority SLA payroll and functional support overheads	**221**
Hired & contracted services	**171**
Central transactional & support service costs	**52**
Materials, maintenance and plant hire	**110**
Rent, rates, utilities and insurance	**123**
Impairment losses on financial assets	**41**
Other operating costs	**23**
Total	**799**

Depreciation

Depreciation and amortisation of €138m has increased compared to prior year due to the levels of capital investment.

Surplus/profit before tax

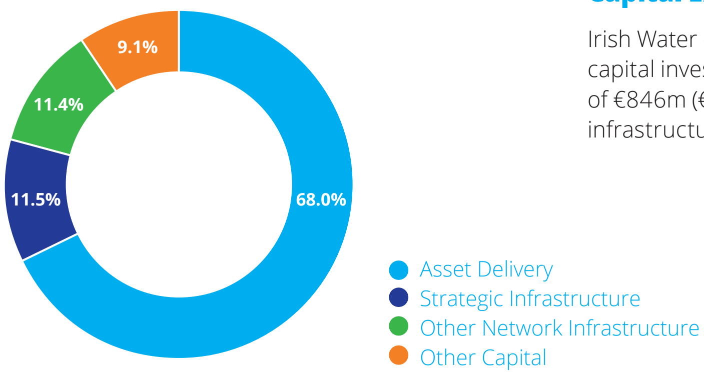
Surplus/profit before tax decreased by €141m to €121m for 2020 due to:

- lower EBITDA of €119m
- higher depreciation charges of €26m
- partly offset by lower finance costs of €3m.

Summary Balance Sheet

	2020 €m	2019 €m
Infrastructure assets	**4,260**	3,552
Other assets	**322**	251
Total assets	**4,582**	3,803
Borrowings and other debt	**(385)**	(255)
Pension liability (IAS 19)	**(43)**	(34)
Other liabilities	**(755)**	(703)
Total liabilities	**(1,183)**	(992)
Net assets	**3,399**	2,810
Net debt	**(191)**	(148)

CAPEX (%)



Infrastructure Assets and Capital Expenditure

Irish Water continued the delivery of scheduled capital investments in 2020, with total investments of €846m (€863m in 2019) in water and wastewater infrastructure.

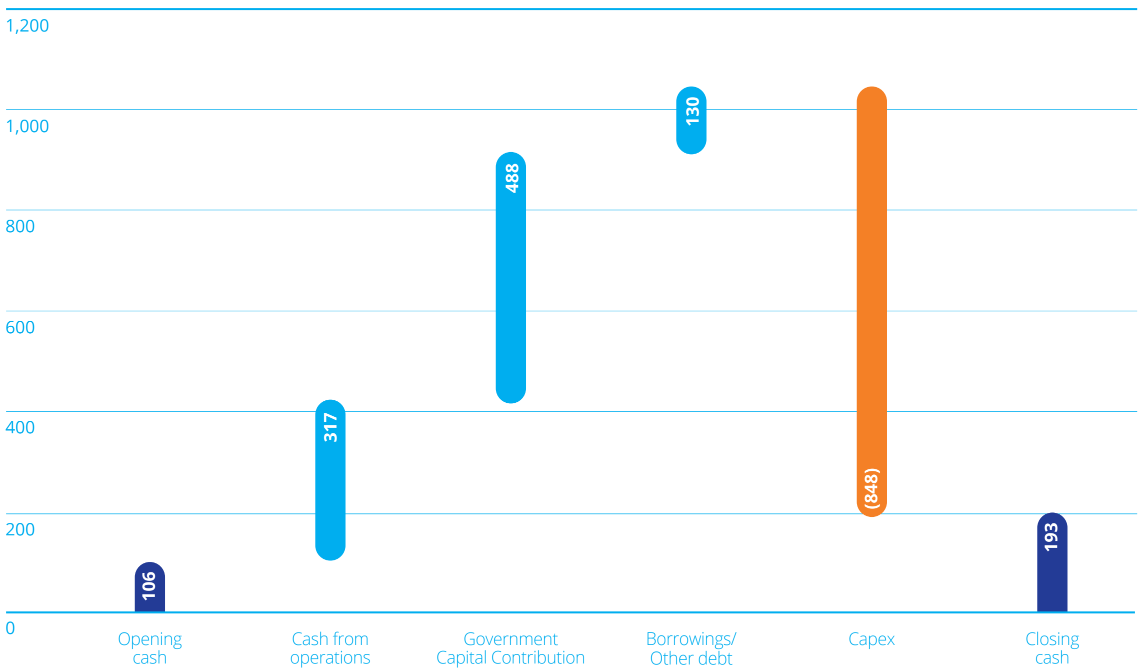
Net Debt and Cash Flows

The net debt position at December 31st 2020 was €191m, as compared to €148m in the prior year.

In 2020 capital contribution funding received from Government of €488m was used to partially meet water and wastewater capital investment funding requirements (€848m in cash outlay terms) resulting in a residual funding requirement of €360m.

Surplus operating cash flows of €317m and the net increase in borrowings and other debt of €130m were utilised to meet the residual capital funding requirement of €360m and increase cash by €87m at year end.

How cash was used in 2020 (€m)



Financial Review (continued)

Capital Resources

Irish Water has a statutory borrowing limit of €2,000m, which sets the upper limit for drawn facilities. As at December 31st 2020 there were

- total borrowings of €372m (including capitalised loan fees),
- undrawn committed commercial bank facilities of €350m,
- €193m of cash and cash equivalents.

During 2020 the Company continued the implementation of the recommendations of the Inter-Departmental Working Group on the replacement of Irish Water's commercial borrowings with state funding. In June 2020 the Company entered into new state loan facilities totalling €1,022m, provided by the Minister for Finance, for capital expenditure attributed to the non-domestic sector. Using funds drawn from this facility €238m of commercial borrowings were repaid in July 2020. Debt facilities of €240m were subsequently cancelled.

A further €134m was drawn down from the facility in 2020 to fund capital expenditure relating to the non-domestic sector. Amounts will be made available on an annual basis, between 2021 and 2024, from the remaining €650m to facilitate non-domestic capital expenditure.

At December 31st 2020, the weighted average interest rate on the Company's portfolio of outstanding borrowings was 0.53% (0.76%: December 31st 2019) and the average maturity of its debt was 9.91 years (0.28 years: December 31st 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 provides oversight of the risk and control environment on behalf of the Ervia Board.

Ervia complies with the requirements and conditions of the Minister for Finance, under the Financial Transactions of Certain Companies and Other Bodies Act, 1992. 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 23.

Operating Review

Overview of 2019

Impact of COVID-19

Throughout the year all public health advice in respect to COVID-19 pandemic was adhered to and best endeavours were made to minimise the impact of the pandemic on customers.

Impact on operations

The provision of public water and wastewater services is classified as an essential service. The services were delivered in collaboration with the Local Authority partners under the existing Service Level Agreements. Frontline staff within Irish Water and the Local Authorities maintained services without any supply interruptions. The Business Continuity Plan was invoked in March. All staff and service partners that could transitioned to remote working.

Impact on capital delivery

The initial restrictions in March called for the cessation of all construction. Operations at over 300 works sites were stopped and following engagement with safety bodies and contractors reopened from May onwards. Work continued on the construction projects that were classified as essential for the remainder of the year.

An allocation of €87 million in Stimulus Package funding was received in 2020. This was spent across all counties on key asset upgrades. The primary focus was on leakage reduction works and capital maintenance upgrades, with a number of treatment plant upgrade projects also benefiting. Works included over 60 km watermain replacement projects which will make a real difference in reducing leakage and improving security of supply to customers. The capital maintenance funding was distributed across all Local Authorities to repair or replace failed or failing assets that are critical to the delivery of water services. It is estimated that circa 350 people were employed, or retained employment, as a direct result of the stimulus funding. In addition, there are indirect employment benefits to the materials suppliers, designers and local businesses.

Safety remains a key priority and significant work continues with Local Authorities and supply chain throughout the public health emergency. The Industry Safety Action Plan 2020 was rolled out, supplemented with new COVID-19 standard operating procedures. There were over 600 attendees at the industry virtual safety days, sharing expertise with representative bodies including Construction Industry Federation.

Serving our Customers

Given our commitment to reduce the impact of the pandemic on customers, there was a continued focus on improving engagement and a commitment to a best-practice approach to customer service and operations. All available channels were used to provide information to our customers and in particular to support vulnerable and isolating customers. Remote customer channels, including web, digital and phone, were maintained or enhanced to provide information and services to customers. Information was provided across our channels to support vulnerable and isolating customers and extra supports provided to non-domestic customers on payments and conservation.

Extra supports were also provided to business customers. Water usage was closely monitored. Some industries saw increased demand and with more people working from home domestic water usage patterns changed also. This change, coupled with a period of prolonged high temperatures in May and June resulted in the need for water conservation and the imposition of national water conservation order in June and July.

The implementation of a new framework of non-domestic tariffs and the introduction of the Household Water Conservation Charge were postponed in 2020 in recognition of the economic pressures from the pandemic prevention measures. We will continue to work with regulators and other key stakeholders to ensure all necessary systems and customer supports are in place in a timely fashion.

The customer contact centre operates 24 hours a day, 365 days of the year. Contact centre staff are working remotely providing the same high standard of service to all our customers. In 2019 the contact was awarded to a new service provider following a public tender process. We are now working with both the new and the old service providers to transition staff and all services by mid- 2021, with no discernible change in service.

The COVID-19 restrictions presented a significant challenge for onsite connection works. The site works were limited, with only essential work undertaken.

Operating Review (continued)

During the restrictions, connections were facilitated for HSE healthcare facilities, food production facilities and domestic connections for social housing and for frontline workers living with high-risk relatives. Additional initiatives and improvements were delivered to support the construction industry, ensure the protection of our assets and provide a high-quality service to customers. This year approximately fourteen and a half thousand new houses were connected to water and wastewater services. To support the development industry following consultation with the Irish Home Builders Association, we published a revisoin to the Standard Details and Codes of Practices for water and wastewtaer infrastructure in new developments. During the year a pilot was launched ot facilitate self lay in the public road which has to he potential to deliver efficiencies for the development industry.

Brexit

We continued to monitor the potential for significant business disruption as a result of negative impacts arising from EU/UK Brexit trade deal negotiations. Areas of concern included regulation, finance, supply chain, data protection and operational delivery. A Brexit Steering and Working Group prepared and implemented contingency plans and engaged in a wide range of interactions with various Government departments.

Regulatory Contract

In 2019 the Commission for the Regulation of Utilities asked for additional information in relation to the Capital Investment Plan 2020-2024. In August 2020, it published and update Revenue Control 3.5 (CRU/20/085) allowing for capital investment of €5.4bn investment in infrastructure and assets over the period 2020-2024.

Progress against Strategic Objectives

Irish Water operates within a framework of national policies. The Water Services Policy Statement 2019 – 2024 sets out the priorities of Government regarding the provision of public water services under the three themes of Quality, Conservation and Future Proofing. We have used this framework as the basis for this operational review.

QUALITY

Water Quality

A key priority is reducing the number of people on Boil Water Notices, and in 2020 14,568 people were removed from a Boil Water Notice that had been in place for more than 30 days. Lough Talt was the largest supply with a Boil Water Notice, serving nearly 13,000 people. The removal of the boil water notice followed the completion of an upgraded plant to serve this scheme which had an insufficient barrier for Cryptosporidium and had elevated levels of THMs. At the end of 2020 there was a total population of 1,042 impacted by boil water notices that had been in place for more than 30 days. The projected date for the removal of the boil water notices is subject to consultation and agreement with the HSE.

We operate 737 water treatment plants, having rationalised 20 and commissioned 2 new plants in 2020. Some of these 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 investment in these supplies is prioritised. Over the course of 2020, remedial works on 11 schemes were completed, resulting in their removal from the EPA's Remedial Action List. Of these supplies, 6 had elevated levels of THMs and the remedial work increases the overall levels of THM compliance. At the end of the year there were 46 schemes on the Remedial Action List. An action plan is being prepared or has been submitted for each of these schemes.

In collaboration with our Local Authority partners and commercial laboratories, we managed to maintain the regulatory monitoring programme during 2020 despite being unable to enter people's homes to take samples from March onwards. The results of the monitoring of public drinking water supplies is published on the Irish Water website, for individual water supplies. A new environmental

information system was also introduced in 2020 which is integrated with the EPA system to streamline reporting. The establishment of the National Laboratory made substantial progress across all of the main components including the laboratory, equipment, information management system, and sampling hubs.

We continued to roll out the national work programmes, including:

- The delivery of reservoir cleaning and refurbishment, telemetry monitoring of critical operating parameters, safety programmes and water quality programmes. Under the National Disinfection Programme 53 sites were upgraded.
- The upgrade of 14 sites via the Coagulation, Filtration and Clarification (CFC), Filtration and Sludge Programme. This involves the installation of new or upgraded CFC, filtration or sludge treatment facilities in water treatment plants to minimise the risk of non-compliance.
- The development of 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.

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. During 2020, there were 20 water treatment plants rationalised.

Work started in 2020 on the construction of a strategic link between Srowland and Ballymore Eustace water treatment plants which will help to build resilience in the water distribution network. This project will allow the production of up to an additional 18 million litres of drinking water per day for communities in Kildare and the Greater Dublin Area.

A new 6 km water main was connected from Jordanstown to Balbriggan, improving the security of supply for 24,000 customers in Balbriggan and surrounding areas. These works are were undertaken alongside works in Howth, Malahide and Swords worth an overall investment of almost €22 million in water supply schemes across Fingal.

The Lee Road Water Treatment Plant upgrade in Cork City progressed in 2020. It includes the installation of ultraviolet treatment to make the water supply more secure. A new water supply for over 15,000 people in the Thurles, Borrisoleigh, Ballycahill and Holycross area was also completed.

Operating Review (continued)

The draft National Water Resources Plan (NWRP) was published in December 2020. It sets out, for the first time, 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. It was subject to a statutory public consultation until March 2021. Following on from the public consultation, submissions and observations received will be taken into consideration, and the Framework Plan updated. Phase 2 comprises four Regional Water Resources Plans each of which will be subject to Strategic Environmental Assessment and Appropriate Assessment. Each of the four regions will also have their own public consultation phases. These public consultations will take place throughout 2021.

Vartry Water Supply Scheme

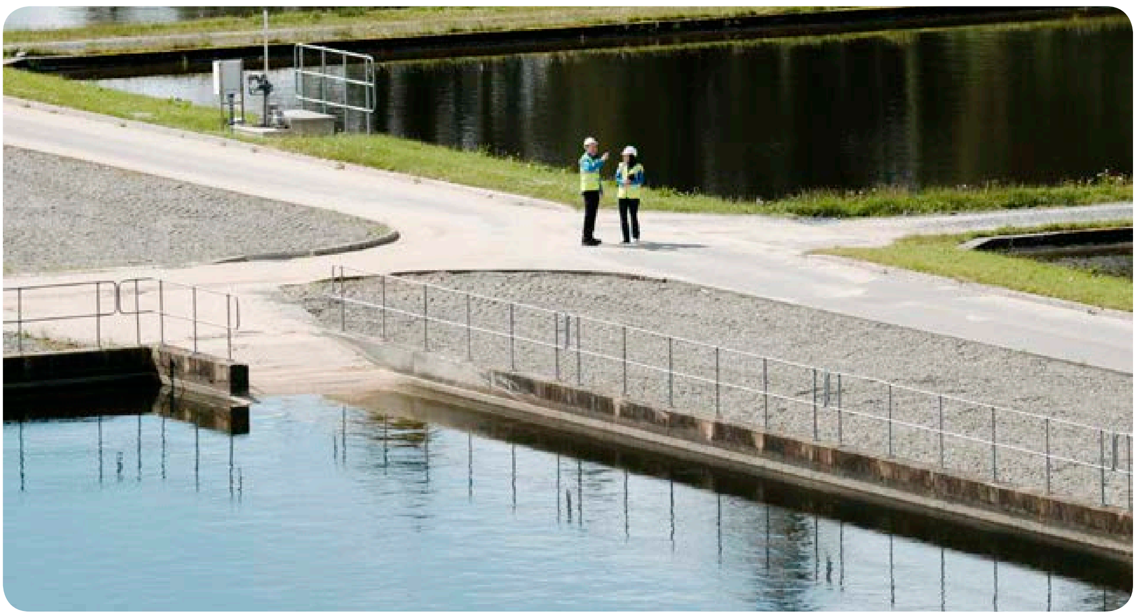
The project consists of the construction of a new water treatment plant at Vartry, a new pipeline, the Vartry to Callowhill link, to replace the existing Vartry tunnel and the construction of a new covered storage reservoir at Stillorgan. The pipeline was commissioned in December 2018.

- The new Water Treatment plant is structurally complete and will be operational in the second half of 2021.
- The existing Stillorgan site contains three open water reservoirs that store treated drinking water. This is one of the last such sites in Europe. Construction on the covered reservoir began in November 2018 and the new reservoir is now structurally complete and will be operational in the second half of 2021.
- Work on the decommissioning of the existing water treatment plant at Vartry and the decommissioning of the open reservoirs at Stillorgan will continue into 2022.

Wastewater Quality

Irish Water is responsible for the provision and development of public wastewater services which includes the collection, treatment and discharge of wastewater. We operate 1,061 wastewater treatment plants, 2,212 wastewater pumping stations and 26,000km of foul/combined sewer network.

The investment in wastewater treatment and networks is aligned with commitments made in the River Basin Management Plan (RBMP) 2018–2021 to improve water quality. Appendix 1 of the River Basin Management Plan lists 255 agglomerations requiring attention. By the end of 2020, this number has been reduced to 127.



There were 11 sites removed from the EPA's Priority Areas for Wastewater Improvement List in 2020. At the end of the year there were 113 agglomerations remaining on the list and there are plans in place for the majority of these remaining sites.

We worked closely with the Department of Housing, Local Government and Heritage and other key stakeholders on the development of the third cycle River Basin Management Plan and the related public consultations. It is anticipated that this work will continue throughout 2021.

Of the 44 areas identified in 2014 as having no wastewater treatment, major capital works have been progressed at 16 plants. In the past seven years an additional 6 areas were identified, bringing the total number of untreated agglomerations to 34 as of the end of 2020. Works are progressing 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 bring the named agglomerations into compliance with the Directive. Work was completed in 2020 at one additional agglomeration. There are substantial works planned or ongoing at the 12 remaining non-compliant agglomerations.

As part of the proposals to address challenges in wastewater networks, we are developing Drainage Area Plans with a focus on environmental compliance, customer service and growth. We are also progressing the Critical Sewer Surveys to assess the Sewer Rehabilitation Prioritisation Programme.

In 2020, we also worked with the other stakeholders on the progression of the Shared Waters Enhancement & Loughs Legacy project. This major cross-border project was awarded €35m under the EU's INTERREG VA Programme in 2019 for 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.

Cork Lower Harbour Main Drainage Project

This critical project is nearing substantial completion. Construction works on the southern networks element completed successfully in 2019 and the vital connection between Cobh and Monkstown was made in 2020 with the completion of the estuary crossing works. Construction on the Cobh network commenced in 2019 and raw sewage from Cobh town will be transferred for treatment via the estuary crossing by the end of 2021 in compliance with the Urban Waste Water Treatment Directive.

Ringsend Wastewater Treatment Plant Upgrade

In February 2018, work commenced on the first element, the construction of a new 400,000 population equivalent extension at the plant. These works are at an advanced stage with testing and commissioning stages expected to be completed in the second half of 2021.

Works on the first of four contracts to upgrade the secondary treatment tanks at the plant with Aerobic Granular Sludge (AGS) Technology commenced in November 2020. The second contract is at procurement stage and is expected to commence in Q3 2021. These contracts are phased to ensure that Ringsend Wastewater Treatment Plant can continue to treat wastewater from the homes, businesses, schools and hospitals in the Greater Dublin Area.

Construction of the new phosphorous recovery facility is scheduled to commence at the end of Q1 2021 and will take approximately two years to complete. Initial upgrades to sludge treatment facilities commenced in 2020 and are scheduled to be completed in Q2 2021. Further upgrades to sludge treatment facilities are anticipated to commence towards the end of 2021 and continue into 2024.

Infrastructure is being developed to achieve compliance with the Urban Wastewater Treatment Directive for a population equivalent of 2.1 million by the end of 2023. When all the proposed works are complete in 2025, the Ringsend Wastewater Treatment Plant will be able to treat wastewater for up to 2.4 million population equivalent while meeting the required standards.

It is currently anticipated that construction will commence on the Regional Biosolids Storage Facility in 2022 and the facility will be operational by 2024. It will store the additional biosolids that will be created from the Ringsend plant following commissioning of the capacity upgrade contract and retrofits to the existing process tanks and biosolid treatment upgrades.

Operating Review (continued)

CONSERVATION

The national Leakage Reduction Programme was delivered conjunction with Local Authorities. Funding from the Government Stimulus Package was allocated to the nation-wide Leakage Reduction Programme in recognition of the fact the leakage rate is not sustainable. This funding lead to activity across all 26 counties addressing leakage, water scarcity and drought.

Leakage repairs were deemed essential works but some other activities under the Leakage Reduction Programme had to be scaled back during the COVID restrictions. Despite this 2,295 First Fix repairs were completed, 3,025 lead connections were replaced, and 178km of new and rehabilitated watermain were laid in 2020. This resulted in an overall net reduction in leakage of 51ML/d (by Quarter 3 2020). The national leakage rate has dropped from 46% in September 2018 to 40% in September 2020.

The supply and demand for water in each supply zone is constantly monitored. The introduction of lockdown measures put increased pressure on water supplies where there was increased demand from domestic users and no significant drop in demand from industry and businesses. This, coupled with periods of prolonged high temperatures in April and May saw a return of drought conditions. Drought and severe weather negatively impact leakage savings. Water restrictions destabilise the network and can increase leakage by causing bursts on weak pipes. Despite remedial works a national water conservation order was imposed on June 8th. This was subsequently lifted in early July when rainfall levels increased supplies.

FUTURE PROOFING

Since the start of 2014 108 wastewater treatment plants have been constructed or upgraded, including 7 in 2020. A total of 262 km of new or rehabilitated sewer network was laid since 2014, with 42 km laid during 2020.

Water capacity and resilience has been improved by constructing or upgrading a total of 52 water treatment plants since 2014, with 5 of these completed in 2020. In total 2,084 km of new or rehabilitated watermain has been laid since 2014, 178 km of which was laid in 2020.

There is growing public understanding of the reality around the resilience of water supply to Dublin and the surrounding areas. This was highlighted with the imposition of the boil water notices on the water supplies served by Leixlip Water Treatment Plant. The remedial works required to fix this issue continued throughout 2020 with 15 filter upgrades completed and the implementation of ultraviolet treatment on schedule for completion.

Water Supply Project, Eastern and Midlands Region

Further to the national water supply strategy as outlined in the National and Regional Water Resources Plan, the Water Supply Project, Eastern and Midlands Region will provide a major New Source of water to meet the supply requirements of the Eastern and Midlands Region, in a sustainable manner, to 2050 and beyond. Irish Water is progressing a SID planning application to An Bord Pleanála for the WSP, including an Environmental Impact Assessment Report and Natura Impact Statement following the enactment of Abstraction legislation. As part of the refresh to the National Development Plan Irish Water has reviewed the project estimate and has provided a revised preliminary estimate to the Department of Housing, Local Government and Heritage, following a technical and design review and addressing the requirements of the Public Spending Code. Irish Water is also currently progressing a capital commitment request with the Department and NewERA for a budget approval to continue to support the project for the coming 12 months. We are also engaging with the Commission of Regulation of Utilities to facilitate the conclusion of their independent review of the project.

Greater Dublin Drainage Project

The Greater Dublin Drainage (GDD) is the development of a new regional wastewater treatment facility and associated infrastructure to serve the Greater Dublin Area, in particular, the population of north Dublin along with small parts of the surrounding counties of Kildare and Meath. A new regional plant is required to provide the additional treatment capacity needed once the country's largest wastewater treatment facility at Ringsend reaches its maximum upgraded capacity by the mid-2020s. In addition having adequate wastewater treatment capacity is vital to protect public health, safeguard the environment and facilitate sustainable social and economic growth.

Following detailed site investigations, extensive environmental assessments and wide-ranging public consultations over a seven-year period, on 20th June 2018, Irish Water made an application for strategic infrastructure development to An Bord Pleanála for the GDD project. An Bord Pleanála granted planning permission for the project in November 2019. Judicial Review proceedings were taken against the An Bord Pleanála planning permission and the High Court determined in November 2020 that the planning permission for the Greater Dublin should be quashed. That matter is still before the High Court to determine the next steps. The delivery of the GDD project will be delayed and this may have a direct impact on the project's programme, activities and the projected final cost.

Sustainability

At Irish Water, we are passionate about improving the sustainability of water services and playing our part in building a more sustainable future. We are implementing policies and strategies through our strategic business plan to support sustainability aligned with the UN sustainable development goals, taking a proactive approach to sustainability across our water and wastewater assets. The UN Sustainable Development Goals (SDG's) have set an ambitious framework, with water having an individual goal within the SDG's, SDG 6 -: "ensure availability and sustainable management of water and sanitation for all".

Irish Water's Sustainability Objective:

"Our key strategic Sustainability objective is to 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. To stay ahead of challenges, we will continue to drive change within as we build a sustainable business fit for the future."

Our mission is to ensure that all our customers receive a safe, reliable and sustainable supply of drinking water and have their wastewater collected and safely returned to the environment. Our ability to take drinking water from the environment, and return treated wastewater requires a healthy and sustainable functioning ecosystem, fundamentally supported by a diversity of plant and animal life. Irish Water, as guardians of Ireland's water and wastewater assets, with a dedicated sustainability team, are integrating and embedding sustainability and sustainable development into everything we do.

Together with our stakeholders, the SDGs will continue to serve as a blueprint for how we behave as a responsible water utility and to focus resources for delivering the most significant and positive impacts across our three strategic pillars of sustainability: Environment, Society and Economic.

Environment

As guardians of Ireland's public water and wastewater assets we have a responsibility to protect the environment in which we operate and to act responsibly through our activities. As outlined in our Water Services Strategic Plan, we are committed to protecting the environment in all our activities and support Ireland's social and economic growth through appropriate investment in Water Services.

Climate Action

Irish Water, as one of Ireland's largest public sector energy consumers, 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.

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.

Irish Water have made significant progress on the journey to become a low carbon, energy efficient, sustainable water utility. Our strategy and energy management programme take a business wide approach with 36 Energy Action Plans and 255 discrete energy projects, including energy efficient design, innovation, energy retrofits, renewable energy, lighting and heating, energy audits and planning, process optimisation, staff awareness and training.

Sustainability (continued)

In 2020, we achieved a 32% improvement in our energy efficiency performance, saving an equivalent of 95,000 tonnes of carbon. We are on track to meet our target of 33% energy efficiency improvement, putting us in a strong position to meet our new target of 50% by 2030.

Biodiversity

We developed and published a Biodiversity Action Plan (BAP) in 2020. It will help us to conserve, enhance and work with the natural environment. Our approach will protect and enhance biodiversity at our sites whilst also providing additional benefits such as carbon sequestration and drinking water source protection. We have implemented Biodiversity Management Plans & Enhancement Measures for 85 sites nationally.

All of our sites, projects and activities interact with the ecosystems in which they are located. For example, allowing natural wetland or riverside vegetation to flourish may reduce the risk of flooding, while effectively managing invasive species reduces potential damage to infrastructure and reduces health risks.

Society

An employer of nearly 800 people, together with over 3,000 staff in Local Authorities, Irish Water recognises the importance of equality, diversity and inclusivity among our workforce. We are committed to ensure our business makes a positive impact in the communities in which we operate.

Irish Water continued to support its strong partnerships and community programmes in 2020. 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.

An Taisce Clean Coasts

In Ireland thousands of wet wipes, cotton buds, sanitary products and other unsuitable items are flushed down toilets every day. This causes costly blockages in our homes, businesses and wastewater systems, leading to sewer overflows in our communities and plastic pollution in rivers, on beaches and in the ocean. *Think Before You Flush* is a public awareness campaign about problems these items cause in our marine environment and wastewater systems. The campaign is operated by

An Taisce's Clean Coasts programme in partnership with Irish Water. As part of this national campaign a number of communities are chosen each year where we work closely with businesses, schools and the community to deliver educational workshops and engage the local residents in the campaign.

There are five national events run throughout the year and 30 regional activities in six communities. Many events were modified as a result of the global health pandemic with the majority being delivered online. The message from the *Think Before You Flush* campaign became even more relevant as it was noted that more people used more wipes than before resulting in more blockages on the network and there was a reported increase in wipes arriving at Wastewater Treatment Plants. An online national media campaign was carried out to highlight this issue.

In the six *Think Before You Flush* communities a number of videos were developed and shared on social media channels to deliver the core messages of the campaign and reach audiences. *Think Before You Flush* in Bundoran in Donegal achieved a best practice community award from The International Blue Flag for beaches programme. GAA star, Kieran Donoaghy stared in a *Think Before You Flush* public awareness video in Tralee in Kerry, a location impacted by high numbers of blockages caused by inappropriate items being flushed down the toilet.

Think Before You Pour is another element of the campaign which focuses on our kitchen behaviour where we ask the public not to use their kitchen sink as a bin. Our market research 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 as part of planned works. Irish Water launched a public information campaign for Christmas 2020 fronted by celebrity chef Nevin Maguire. This public information campaign was delivered through media, website, and social media.

An Taisce Green-Schools Programme

The Green-Schools programme is an important partnership for Irish Water. The programme allows us to invest in developing tomorrow's water advocates. The 2019-2020 academic year represented Irish Water's seventh year sponsoring the Water Theme of the programme. Across Irish Water staff from many functions continue to contribute to the Green-Schools programme which gives us a direct route to children, teachers, parents, future engineers, scientists and communicators.

When the schools closed in March the Green-Schools team innovated and moved everything online into a 'Stay Home' programme, engaging kids and parents in their own homes with new and exciting activities. Activities were themed around important topics such as conservation during the drought in early summer. Irish Water played a key role by amplifying Green-Schools' online activities through our social platforms. There were 13 weeks of online water activities alone with 53 water activity resources created by Green-Schools, 12 of which were translated into Irish. The programme continues to deliver amazing results for Irish Water and communities with 110 Water flags awarded this year.

Green-Schools' staff delivered 30 teacher training seminars on the Water theme nationwide in September, October and November 2019, at which 161 teachers were present. An online summer Green Schools teacher training course with a Water Day supported by Irish Water, had a reach of over 5,000 teachers and students through the 16 teachers present. The Walk for Water annual event was postponed due to COVID-19 however, a mini walk for water activity was successful as an activity for the Stay Home campaign.

Green-Schools ran 22 water workshops around the country between October and February of 2019-2020 and Irish Water staff presented at each one. They had 544 students in attendance with a 78 per cent rise in secondary school student attendance from last year. Feedback this year was extremely positive.

The Water Poster competition was a great success again this year with over 2,700 poster entries on the theme of 'Let's Take Climate Action for Water". This year saw the introduction of a video competition with many great entries.

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, and shared by the

Sustainability (continued)

Irish Water social media team. The wide range of social media platforms used ensure that the Water Theme resources and information are available and accessible to a wide audience.

146,474 students, 16,637 staff, and 570 schools participated in the Water theme this year. Water saving by schools in the 2019/2020 academic school year was 592 million litres which was nearly 3 times as much as last year.

Water Stewardship Programme

Water conservation and water stewardship for business is becoming very important in our drive to become a more sustainable nation. Irish Water is working in partnership with businesses to safeguard our water supply now and into the future with the 'Irish Water Certified Water Stewardship Programme' which is providing water stewardship training for business customers. The innovative programme is the first of its kind globally. It is an international best practice certification accredited by the European Water Stewardship Standard (EWS). The initiative is being implemented with the endorsement of key business stakeholder groups such as IBEC, IDA, Chambers Ireland, Origin Green, BIM and Enterprise Ireland.

The specialised training provides business owners with the knowledge and expertise to lower water consumption and reduce operating costs while protecting the environment. Small changes such as identifying water waste on site, setting a baseline for water use, raising awareness amongst staff and customers or upgrading to water efficient devices can help to save water and money. The pilot programme alone in 2019 and 2020 has resulted in 460 new water conservation projects by business customers.

P-Tech Initiative

Irish Water continued its partnership with P-TECH – Pathways in Technology. This education programme in Dublin's North East Inner City aims to boost student opportunities in the digital economy. The six-year education model integrates third-level modules and workplace experiences alongside second-level schooling, with the aim of enabling students to earn a third-level qualification and skills required to enter the workforce.

Engineers Week

Irish Water is proud to support Engineer's Week in February each year. In 2020 our engineering staff volunteered for their profiles to feature online and in print in titles across the country showcasing the many opportunities in the water industry for engineers. Particular emphasis was placed on our many female engineers. We also hosted a large community event for Engineers Week at Mallow's Gate Cinema, with well over 200 students and teachers from the three local secondary schools and University College Cork in attendance.

In the Marketplace

The Public Spending Code (PSC) obliges us to treat public funds with care, and to ensure that the best possible value for money is obtained whenever public money is being spent or invested. Irish Water undertook significant work on the implementation of the revised PSC. This requires enhanced documentation to be captured and presented for approval. The new requirements were incorporated into existing Expenditure and Contract Approval Policies and amendments are being made, as necessary, to existing projects as they progress through the governance stages. A project team is supporting process and system changes associated with the PSC requirements ensuring compliance is planned and achieved within the necessary timescales.

Irish Water also provided enhanced online and self-serve processes for all our customers. For business customers it launched a first of its kind Certified Water Stewardship Programme for Businesses and a new online Business Hub which is a one stop shop for bespoke water conservation advice and free online training to help businesses reduce water use and reduce their bills. A new site was developed for the website also providing information and support for customers as a result of COVID-19.

Our dedicated Drinking Water Quality website continued to be updated and allows users of public water schemes to see the results of their water quality testing and information on water quality using their home or business address.

We continue with our commitment to open and transparent engagement with all our customers and local communities. Due to social distancing guidelines some events had to be scaled down to adhere to public health guidelines. Our public consultations and engagements with stakeholders continued regardless with traditional channels of engagement enhanced with virtual meeting and webinar platforms.

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.

2020 was a challenging year as we adjusted to living with COVID-19 and dealt with the impact it has had on our lives as well as on our business. By listening closely to our employees we adapted effectively to the pandemic to ensure we continued to deliver essential services and to support our employees and to ensure their safety while working on site, in the office or at home.

Sustainability (continued)

Engagement surveys

In December we completed our third annual engagement survey and during the year we also delivered two pulse surveys. These surveys allow us to fully understand what is important to employees so that we can deliver the right initiatives to support them. They also help to ensure that local teams can continue to make progress in areas of engagement that are important to them.

Together we made great progress in 2020 and we continued to deliver essential services

Over the course of the past 12 months, teams across the business implemented local action plans to address areas of engagement that were of most relevance and importance to them. These plans were adjusted during the year as a result of COVID-19 with renewed focus on communication, teamwork, collaboration and safety.

We delivered national programmes such as health screening; we progressed our ibelong diversity and inclusion agenda with the introduction of three new employee groups and we delivered wellbeing activities including mindfulness sessions, wellness podcast series, and our back care programme. We also supported collaboration with technology supports such as video and conference call facilities and instant messaging. Communicating with our people across the pandemic continues to be a priority – making sure our people have clear, relevant and timely information.

In 2020, we also held our second People Awards, our annual recognition awards ceremony. This event was held virtually. Staff had the opportunity to nominate people from across the organisation for one of the awards which included the 'unsung hero' and 'exceptional citizen' awards.

Safety

Safety remains a key priority and significant work continues with Local Authorities and supply chain throughout the public health emergency. The Industry Safety Action Plan 2020 was rolled out across all our contractors and work sites, supplemented with new COVID-19 standard operating procedures.

There were over 600 attendees at the industry virtual safety days, sharing expertise with representative bodies including Construction Industry Federation.

We continued to work closely with our Asset Delivery Contractors and our local authority service partners which has resulted in a significant reduction in our accident frequency rates from to 0.59 and 0.43 respectively in 2020.

This year saw the inauguration of the Ervia Major Projects Contractor Safety Award. The winner was O'Connor Utilities Limited, working on behalf of Irish Water, for the delivery of the Cobh to Monkstown Estuary Crossing contract. The works included two horizontal directional drills under the Lee Estuary - the longest ever carried out in Ireland. This award acknowledges efforts to proactively reward positive behaviours in relation to health and safety such as promoting safe ways of working and being helpful to the public.

In 2020 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 1,449 conversations across our industry in 2020. 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.

Economic

We are committed to protecting the environment in all our activities and supporting Ireland's social and economic growth through appropriate investment in water services.

Our sustained capital investments in our infrastructure aims to improve drinking water supplies, protect our waterways and support the economy. Committed to create shared value for the people of Ireland; we will continue to support economic growth and spatial development, future proof the water and wastewater networks as we enhance the quality of supplies, conserve water resources and increase our resilience.

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.

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.

Measures taken in 2020 to improve the sustainability of water services included:

- Collaborating with external stakeholders on initiatives for improving the sustainability of water services.
- Developing a sustainability strategy framework.
- Increasing awareness of sustainability within Irish Water.
- Implementing strategic initiatives 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.
- Implementing an 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.
- Delivering biodiversity protection and enhancement measures on our assets.
- Roll out the water conservation awareness campaign.
- Preparing a climate change mitigation and adaptation strategy.
- Progressing a circular economy model for our sludges.
- Participating in National waste resource groups in collaboration with the Department of Environment, Climate and Communications.
- Producing a waste management strategy.

Key objectives planned for 2021 include:

- Developing and implementing a sustainability strategy aligned with the Government Climate Action plan and UN Sustainable Development Goals.
- Continuing the implementation of our sustainable energy strategy.
- Implementing and communicating our climate change strategy.
- Developing a carbon neutrality roadmap.
- Continuing to decarbonise 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.
- Embedding energy efficiency design into our activities in collaboration with SEAI.
- Implementing of waste management strategy, with a particular focus on circular economy.

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

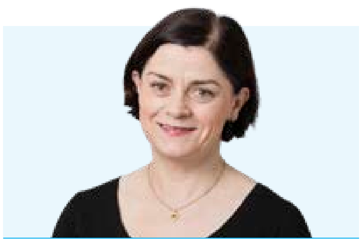
Appointed: January 20th 2020
(having previously been appointed on January 20th 2015). Term: 5 years

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

Cathal Marley

Appointed: August 10th 2020
Term: 5 years

The Irish Water Board

Cathal Marley (Chairman)

Appointed: December 1^{st} 2016
Term: 5 years

Career: Group CEO 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 roles within large organisations both in Ireland and in Eastern Europe, he brings extensive utility, 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 and is a member of the IMI Council.

Niall Gleeson

Appointed: August 6^{th} 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 6^{th} 2019
(having previously been appointed October 1^{st} 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 1^{st} 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 26^{th} 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 26^{th} 2019
Term: 3 years

Career: Maria has held a number of senior management roles in asset management in both Gas Networks Ireland and Irish Water. 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 31 December 2020. 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, Local Government and Heritage ("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 our website www.water.ie .

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 2020 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

- Approval of Annual Report and Financial Statements.
- 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.
- The release for consultation of key policy documents of strategic importance.
- Formal submissions to the Regulatory authorities in relation to price controls.

Matters considered by the Irish Water Board during 2020

- COVID-19 contracts/claims strategy.
- Monthly updates on the COVID-19 pandemic.
- Delivery of critical projects safely throughout the COVID-19 pandemic.
- Stimulus funding.
- Approval of revolving credit facilities with credit institutions.
- Approval of 2019 Annual Report and Financial Statements and the unaudited interim financial statements.
- Irish Water Strategic Funding Plan 2020-2024.
- Approval of Annual Budget.
- Updates on efficiencies.
- Approval of budgets for capital programmes and expenditure.
- Approval of Post Project Review reports.
- Approval of Enterprise Risk Management Policy as it relates to Irish Water.
- Review and consideration of Director's Compliance Policy Statement.
- Review of Water Services Strategic Plan.
- Approval of the release for consultation the first phase (framework plan) of the National Water Resources Plan.
- Quarterly water leakage performance reduction updates.

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. The Directors are responsible for the maintenance and integrity of certain corporate and financial information included on the Company's website www.water.ie. Legislation in Ireland concerning the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

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

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

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

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

The Board in 2020

The Directors of the Company are Cathal Marley, Niall Gleeson, Eamon Gallen, Yvonne Harris, Brendan Murphy and Maria O'Dwyer.

The Secretary of the Company is Liam O'Riordan.

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, Local Government and Heritage.

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. The remuneration of the Managing Director is outlined in note 4 of the financial statements. A schedule of the attendance at the Board meetings for 2020 is outlined below.

Director	Meeting Attendance (attended/eligible)	Fees as Irish Water Director for 2020	Expenses as Irish Water Director 2020
Cathal Marley (Chairman)	15/16	Nil	Nil
Eamon Gallen	16/16	Nil	Nil
Niall Gleeson	16/16	Nil	Nil
Yvonne Harris	16/16	Nil	Nil
Brendan Murphy	15/16	Nil	Nil
Maria O'Dwyer	16/16	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 ending December 31st 2020, 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 (this committee is charged with overseeing the separation and establishment of Irish Water and Gas Networks Ireland as two standalone entities).

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 74. The Ervia Audit and Risk Committee met 5 times during the year. The Ervia Remuneration Committee met 7 times during the year. The Ervia Investment/Infrastructure Committee met 11 times during the year. The Ervia Project 23 Committee met 6 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.

Relations with Shareholders

Ervia holds one 'A' share in the Company. The Minister for Housing, Local Government and Heritage 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, Local Government and Heritage 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.

	2020	2019
€50,000-€75,000	336	319
€75,001-€100,000	190	175
€100,001-€125,000	82	79
€125,001-€150,000	33	28
€150,001-€175,000	8	10
€175,001 and above	10	11

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.

	2020 €'000	2019 €'000
Legal advice	256	314
Financial advice	276	840
Business improvement	29	65
Engineering	220	300
Other	175	364
Total consultancy costs	**956**	**1,883**
Capitalised	79	62
Income statement	877	1,821
Total consultancy costs	**956**	**1,883**

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.

	2020 €'000	2019 €'000
Legal fees & costs	1,083	1,791
Settlements	2,770	1,713
Total	**3,853**	**3,504**
Number of legal cases	34	39

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.

Note 3: The 2020 settlements above include an amount of €519,998 in relation to a legal matter. It involved the compulsory purchase order of lands from Fáilte Ireland. The settlement amount paid for the lands was determined by arbitration.

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2020 €'000	2019 €'000
Domestic		
Board	-	-
Employee	1,908	3,048
International		
Board	-	-
Employee	12	28
Total	**1,920**	**3,076**

Travel and subsistence expenditure by Irish Water Directors in 2020 was €nil (2019: €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:

	2020 €'000	2019 €'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 31 December 2020, there were no protected disclosures reported.

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 2020.

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. 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.

Gender Balance, Diversity and Inclusion

Throughout 2020, Ervia's ibelong Diversity and Inclusion Programme continued to focus on creating a dynamic, diverse and inclusive working community where employees feel a sense of belonging, and embedding a diversity and inclusion strategy within the organisation. The programme was originally launched in 2019 with the purpose of enshrining diversity and inclusion in the workplace through the creation of a Diversity and Inclusion strategy, implementation of the ibelong strategic plan from 2019-2023, and the introduction of a series of metrics and measurements to track progress in this space.

The ibelong Diversity and Inclusion programme of work is overseen by the Diversity and Inclusion Council, which includes employee representatives from all levels of the organisation and executive sponsorship. The initial priority was given to gender diversity at Ervia, supported by the launch of the ibelong Women's Network, Ervia's first employee resource group, in 2020. The Diversity and Inclusion Index was introduced to the Balanced Scorecard in 2020 and further metrics were proposed in the roll out of Unconscious Bias training and the elimination of single sex candidate shortlists in the recruitment and selection process. Further highlights of 2020 included two further employee groups, the ibelong Rainbow Network, and the ibelong Family Network. A review of female talent at all levels of the organisation resulted in the creation and launch of a Female Talent Development Programme. Furthermore, a review of the Ervia HR policies was also undertaken with a view to improving and enhancing our policies from a Diversity and Inclusion perspective in 2021 and 2022. The ibelong programme received a 2020 Global Gartner Communications Award for Excellence in Employee Engagement.

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 31 December 2020 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 is the accountable executive with ultimate responsibility. The Group CEO 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 ensures that the Company has appropriate systems of internal control and risk management in place through use of the following structures and systems:

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 level that act in respect of the entire group.

Ervia has an Audit and Risk Committee (the "ARC") 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 relate to this area. On a quarterly basis the ARC performs, on behalf of the Ervia Board, a substantive review of the Ervia Risk profile 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.

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" risk management model. This ensures that Irish Water maximises risk and governance oversight and control to build organisational resilience and follows leading practice to support compliance obligations and governance requirements. The ARC is appraised of the results of the IAF on a quarterly basis.

Report of the Board (continued)

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.

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.

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 and attends all ARC meetings. In addition, the Group Risk Management Committee, chaired by the Group Chief Executive Officer, meets quarterly.

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.
- 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.
- 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 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.
- 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.
- Appropriate segregation of duties and documentation of processes and controls that are focused on preventing and detecting fraud.
- A comprehensive budgeting system with an annual budget subject to Board approval.
- A comprehensive system of financial reporting.
- 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.

- Internal policies requiring all employees to act with integrity and maintain the highest ethical standards. These policies include the Code of Conduct, Anti-Fraud Policy, Anti-Bribery and Anti-Corruption Policy, Regulation of Lobbying Policy and Protected Disclosures Policy.
- A comprehensive anti-fraud programme including anti-fraud policy, training and communication and a fraud response plan.
- 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 2020.

Ongoing Monitoring and Review

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 Directors are satisfied that the system of internal control in place is appropriate for the business.

Formal procedures have been established for monitoring control processes. 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. 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.

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 a report 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 report 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 report 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 report 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)

Capital and Operational Expenditure

Robust and effective systems are in place to support compliance, as appropriate, with the relevant principles, requirements and guidelines of the Public Spending Code (PSC). Transitioning activity related to the updated PSC (2019) during 2020 means full compliance with the additional requirements of the updated PSC (2019) is expected to be achieved in the coming year.

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 Expenditure and Contract Approval Policy (PD03) sets out the financial expenditure and contract governance framework including the authorisation process and authority levels for capital and operational expenditure in each of Ervia and its subsidiaries. All expenditure and contract approvals must comply with the requirements of the Ervia Governance Framework and PD03.

During 2020 a review of the financial expenditure and contract governance framework including the authorisation process was undertaken. Subsequently the governance framework was enhanced to align with the principles, including value for money criteria, in the updated Public Spending Code, as published by the Department of Public expenditure and Reform in December 2019. This included the demarcation of responsibilities and the introduction of revised Approval Gate structures and standardised reporting requirements. The revised PD03 policy was approved by the Board in December 2020.

The framework established by this policy applies from the date of approval by the Board of Ervia. It is acknowledged however that there will be a transition period during which it will be necessary to develop and implement new processes and procedures. In addition internal staff training on the implementation of the revised policy will be provided across the Group in 2021.

All capital expenditure must have regard to national and EU procurement requirements, in addition 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.

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.

Capital investments including contracts with a value in excess of €3.5m are presented to the (executive) Expenditure Approval Committee for detailed review and approval. All capital expenditure greater than €10m requires the approval of the Ervia Board and the Irish Water 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 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 the parent Department, 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.

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 2020 and will ensure a similar review is performed for 2021. 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 2020. 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 2020 engagement continued through the Workplace Relations Commission ('WRC') with a number of parties including Irish Water, Local Authority management, Department of Housing, Local Government and Heritage and various trade unions who represent Local Authority Water Services staff.

The Water Services Transformation White Paper, in setting the Government's water services transformation objectives will be the key 2021 driver behind a renewed WRC engagement between unions, Local Authorities and Irish Water aimed at reaching agreement regarding future water services transformation and full transition to the Single Public Utility.

In the short term in 2021, the focus will be on negotiating an enduring water services transformation agreement that can enable a unified water service, deliver excellent customer service and safeguard our water for our customers. Such a transformation agreement will in turn facilitate the longer term objectives of Irish Water fully managing and controlling all public water services activities by the end of 2022, as well as understanding the subsequent significant transformation activity required.

As part of its control framework in 2020, it should be noted, Irish Water continued to rely on certain controls operated by Local Authorities on its behalf. No material weaknesses in the internal control environment were identified during the course of conducting the internal audits completed in 2020 that have not been or are not in the process of being addressed and that have not been brought to the attention of the Ervia ARC.

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 8-11.

Results for the Year

The results for the year are outlined in the Financial Review on pages 34-38. 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 2020, including information on future developments are contained in the Operating Review on pages 40-47. Project Clarity work is underway to implement the recommendations from the Scottish Water International report and support the delivery of the Capital Investment Programme. Furthermore, a formalised change control process, for the Capital Investment Programme, is being proposed and discussed with the CRU.

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 (2019: 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 28. Refer to note 23 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 25-27.

Directors and Secretary and their Interests

The Directors had no beneficial interests in the Company at any time during the financial year or at 31 December 2020. 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 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. Accordingly the Director's continue to adopt the going concern basis in preparing the Company's financial statements. Refer to note 2 of the Financial Statements for the Company's detailed going concern disclosure.

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 28 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 2020 have been approved by the Minister for Housing, Local Government and Heritage with the consent of the Minister for Environment, Climate and Communications and the Minister for Public Expenditure and Reform. Following receipt of ministerial consent, Deloitte Ireland LLP was originally appointed as auditors to the Ervia Group, including Irish Water, in August 2014. Ministerial consent was received on 25 March 2019 to appoint Deloitte Ireland LLP as external auditors to the Ervia Group, including Irish Water, for the years 2019, 2020 and 2021, following completion of a tender process.

For and on behalf of Irish Water:

Cathal Marley
Chairman

Niall Gleeson
Director

Audit and Risk Committee Report

Keith Harris
Chair of the Committee

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 2020.

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 and continued to meet remotely throughout the COVID-19 pandemic. 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, Group Chief Financial Officer 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, 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.

Significant consideration was given by the Committee to potential changes in the control environment as the organisation transitioned to remote working as a response to the COVID-19 pandemic. Extensive reviews and work programmes were undertaken by the Internal Audit team to ensure the existing robust control environment operated effectively throughout 2020.

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 2020 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.

Audit and Risk Committee Report (continued)

The Committee reviewed and agreed a risk-based internal audit annual plan for 2021, including the resources required, and considered the alignment of internal audit focus and key risk areas for the Group.

During 2020 the Ervia Group continued to promote the integrity value and to emphasise the importance of ethical behaviour across the organisation through the rollout of the 'Doing the Right Thing' campaign. The campaign involves a number of initiatives including updates to the suite of ethics related corporate policies, distribution of guidance booklets to employees and quarterly integrity conversations focusing on topical integrity topics.

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.

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 2020, the review was conducted internally through the completion of self-evaluation questionnaires and the overall review was satisfactory.

On behalf of the Audit and Risk Committee:

Keith Harris
Chairman, Audit and Risk Committee
29th March 2021

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 2020 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 29, including a summary of significant accounting policies as set out in note 1 (d).

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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. The directors are responsible for the other information contained within the annual report. 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.

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.

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.

Use of our report

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.

Kevin Sheehan

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

Deloitte & Touche House, Earlsfort Terrace, Dublin 2

Date: 30 March 2021

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 2020

	Notes	2020 €'000	2019 €'000
Continuing operations			
Revenue	3	**1,061,199**	1,121,506
Operating costs	4	**(758,497)**	(723,586)
Impairment losses on financial assets	4	**(40,869)**	(17,545)
Operating profit before depreciation and amortisation (EBITDA)		**261,833**	380,375
Depreciation and amortisation	6	**(137,632)**	(111,790)
Operating profit		**124,201**	268,585
Finance costs	7	**(3,518)**	(6,886)
Profit before income tax		**120,683**	261,699
Income tax expense	8	**(13,418)**	(33,473)
Profit for the financial year		**107,265**	228,226

Statement of Other Comprehensive Income

for the financial year ended 31 December 2020

	Note	2020 €'000	2019 €'000
Profit for the financial year		**107,265**	228,226
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Defined benefit actuarial losses	18	**(7,610)**	(6,090)
Deferred tax credit relating to defined benefit obligations	8	**951**	761
Total other comprehensive income for the financial year		**(6,659)**	(5,329)
Total comprehensive income for the financial year		**100,606**	222,897

Balance Sheet

as at 31 December 2020

	Notes	31-Dec-20 €'000	31-Dec-19 €'000
Assets			
Non-current assets			
Property, plant and equipment	9	**4,159,995**	3,428,619
Intangible assets	11	**99,988**	123,207
Trade and other receivables	12	**8,609**	2,746
Total non-current assets		**4,268,592**	3,554,572
Current assets			
Trade and other receivables	12	**101,808**	139,149
Cash and cash equivalents	13	**193,374**	106,371
Restricted deposits	14	**17,925**	2,822
Total current assets		**313,107**	248,342
Total assets		**4,581,699**	3,802,914
Equity and liabilities			
Equity			
Share capital and share premium	25	**(324,000)**	(324,000)
Capital contribution	25	**(2,555,466)**	(2,067,466)
Retained earnings		**(519,628)**	(419,022)
Total equity		**(3,399,094)**	(2,810,488)
Liabilities			
Non-current liabilities			
Borrowings and other debt	16	**(382,495)**	(13,595)
Deferred tax liabilities	8	**(79,957)**	(67,490)
Retirement benefit obligations	18	**(43,313)**	(34,074)
Deferred revenue	19	**(95,547)**	(56,133)
Government grants	20	**(2,397)**	(1,107)
Provisions	21	**(64,159)**	(81,477)
Trade and other payables	22	**(21,413)**	(9,824)
Total non-current liabilities		**(689,281)**	(263,700)
Current liabilities			
Borrowings and other debt	16	**(2,286)**	(241,216)
Deferred revenue	19	**(95,810)**	(71,295)
Government grants	20	**(34)**	(30)
Provisions	21	**(33,386)**	(26,820)
Trade and other payables	22	**(361,808)**	(389,229)
Current tax liabilities		**-**	(136)
Total current liabilities		**(493,324)**	(728,726)
Total liabilities		**(1,182,605)**	(992,426)
Total equity and liabilities		**(4,581,699)**	(3,802,914)

For and on behalf of the Board:

Cathal Marley	**Niall Gleeson**	29th March 2021
Chairman	Director	Date of Approval

Statement of Changes in Equity
for the financial year ended 31 December 2020

	Share capital and share premium €'000	Capital contribution €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2019	(324,000)	(956,466)	(196,125)	(1,476,591)
Profit for the financial year	-	-	(228,226)	(228,226)
Other comprehensive income 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 25)	-	(1,111,000)	-	(1,111,000)
Balance at 31 December 2019	(324,000)	(2,067,466)	(419,022)	(2,810,488)
Profit for the financial year	**-**	**-**	**(107,265)**	**(107,265)**
Other comprehensive income for the financial year, net of income tax	**-**	**-**	**6,659**	**6,659**
Total comprehensive income for the financial year	**-**	**-**	**(100,606)**	**(100,606)**
Capital contribution (note 25)	**-**	**(488,000)**	**-**	**(488,000)**
Balance at 31 December 2020	**(324,000)**	**(2,555,466)**	**(519,628)**	**(3,399,094)**

Statement of Cash Flows

for the financial year ended 31 December 2020

	Notes	2020 €'000	2019 €'000
Net cash from operating activities	15	**317,398**	421,380
Cash flows from investing activities			
Payments for property, plant and equipment		**(824,111)**	(809,837)
Payments for intangible assets		**(26,239)**	(25,984)
Receipts/(payments) for net assets acquired from Local Authorities		**1,000**	(1,278)
Grants received	20	**1,328**	542
Net cash used in investing activities		**(848,022)**	(836,557)
Cash flows from financing activities			
Proceeds from borrowings		**860,559**	528,319
Repayments of borrowings		**(727,000)**	(1,177,000)
Repayment of lease liabilities	10	**(3,932)**	(2,365)
Capital contributions received	25	**488,000**	1,111,000
Net cash from financing activities		**617,627**	459,954
Net increase in cash and cash equivalents	13	**87,003**	44,777
Cash and cash equivalents at 1 January	13	**106,371**	61,594
Cash and cash equivalents at 31 December	13	**193,374**	106,371

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, Local Government and Heritage 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 on the going concern basis of accounting (refer to note 2 for further disclosure).

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) agenda decisions, as endorsed by the EU, and effective for accounting periods beginning on or after 1 January 2020.

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 (e) 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 2020

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

- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to References to the Conceptual Framework in IFRS standards

(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 for this accounting period or have not yet been endorsed by the EU:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current
- Amendments to IFRS 16: Covid-19 Related Rent Concessions
- Amendments to IAS 16: Property, Plant and Equipment- Proceeds before intended use
- Annual Improvements to IFRS Standards 2018- 2020 Cycle
- Amendments to IAS 37: Onerous Contracts- Costs of Fulfilling a Contract
- Amendments to IFRS 3 Business Combinations: References to the Conceptual Framework
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies

1. Statement of Accounting Policies (continued)

- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- IFRS 17 Insurance Contracts

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

(d) 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. 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.

iii. 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)	40–100years
Operational assets (including meters, pumps, and electrical & mechanical systems)	12–70years
Non-network assets (including fixtures & fittings, vehicles and computer equipment)	3–15years

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.

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. 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.

iii. Borrowing costs
Refer to accounting policy (i) iv.

(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.

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.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

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. 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 would be 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.

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.

1. Statement of Accounting Policies (continued)

(vi) Leases

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;
- 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.

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.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

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.

(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
The Company evaluates its exposures to contingent liabilities relating to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or Government regulation. A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made after careful analysis of the individual matter. Analysis includes assessing the likelihood that a pending claim will succeed, or a liability will arise, and the point of recognition for the associated liability.

Matters that either are possible obligations or do not meet the recognition criteria for a provision are recognised as contingent liabilities, unless the possibility of transferring economic benefits is remote.

Provisions determined may change in the future due to new developments and as additional information becomes available. Reflecting the inherent uncertainty in this evaluation process actual costs may be different from the estimated provision. Details of provisions are disclosed in note 21.

(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.

1. Statement of Accounting Policies (continued)

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.

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 2011) Employee Benefits.

(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 transaction price receivable and are subsequently carried at this value, as there is no significant financing component, less an appropriate allowance for expected credit 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 and deposits repayable on demand, less overdrafts payable on demand. Where the conditions and intention for offset exists, debit balances are combined with credit balances and this combined balance is presented on the balance sheet.

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 (recognised following assessment if material), 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.

1. Statement of Accounting Policies (continued)

(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 period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods. Current 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.

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

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

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

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

(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.

(e) 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 are assessed in the preparation of these financial statements and due consideration has been given to relevant macro-economic factors, including the ongoing and uncertain impacts of the Covid-19 pandemic. The Company has provided additional information in respect of each of the impacted judgements and estimates as set out below.

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.

1. Statement of Accounting Policies (continued)

(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'.

(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 2020, the aggregate of the Company's property, plant and equipment (PP&E) and intangible assets was €4,260.0 million (2019: €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 (€7.8 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.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Depreciation and useful lives
The Company recognises depreciation and amortisation charges annually (2020: €137.6 million and 2019: €111.8 million) which are primarily calculated to write down the cost of PP&E and intangible assets over their expected useful economic lives. In the case of PP&E in particular, the determination of estimated useful lives of assets requires significant judgements, that are based on experience, expectations about the future and other factors. The estimated useful lives for major asset classifications are set out in section (d) 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.

Covid-19 restrictions during 2020, have impacted on non-domestic customer consumption patterns and have also impacted on the frequency of meter reads carried out by the Company. Therefore, this has resulted in additional estimation uncertainty, with regard to unbilled revenue calculations at the end of the reporting period, due to the lower availability of customer actual consumption data. The Company is satisfied that the unbilled revenue estimates are reasonable and prudent.

(c) Allowance for expected credit losses
An allowance for expected credit losses in respect of trade and other receivables is recognised in accordance with the Company's accounting policy i.e. estimated using an aged debt matrix based on the number of days the debt is past due and applying the Company's historical credit loss experience, adjusted for current and forecasted economic conditions at the balance sheet date.

The ongoing and uncertain future economic impacts of the Covid-19 global pandemic, has impacted and is expected to continue to impact on customer payment behaviours. This necessarily increases the level of estimation uncertainty on the measurement of expected credit losses at the balance sheet date, particularly with regard to estimating the impacts of the forward looking economic outlook on the collection of the Company's trade and other receivables at the balance sheet date.

The Company has considered a broad range of factors in assessing the requirement to increase historic credit loss rates to incorporate the impact of the forward looking economic outlook. The factors considered included macro-economic forecasts, Covid-19 scenario analysis, impact assessment on customer industry segments, and historic and forward looking customer cash collection analysis.

Based on a review of the above factors, the Company has assessed that a reasonable range for additional expected credit losses due to the future economic outlook would be in the range of between €4 million and €15 million. Following due consideration, the Company has concluded that an additional charge of €10 million represents the best estimate based on the information available.

Impairment losses on financial assets' are presented as a line item on the income statement, and 2019 disclosures have been represented to show comparatives consistent with 2020.

1. Statement of Accounting Policies (continued)

(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.

The actuarial financial assumptions adopted in calculating the value of the Company's defined benefit obligation has been subject to significant volatility arising from the impacts of Covid-19. Sensitivities regarding the principal assumptions used to measure the scheme liabilities are detailed in note 18.

(e) Provisions and other liabilities

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 majority of the Company's provisions are associated with the water and wastewater infrastructure assets which were transferred to the Company from the Local Authorities on 1 January 2014. Refer to note 21 for further detail on the 2020 reassessment process.

The 2020 reassessment process has also included due consideration of the impacts of Covid-19. In particular, the estimation of the portion of incremental Covid-19 related costs borne by the contractor base, that is expected to be settled by the Company in 2021, has increased the level of estimation uncertainty in this area. Based on a review of all relevant factors, including claims received, Office of Government Procurement Guidance and previous claims experience, the Company has made its best estimate based on the information available (as included in note 22). The required provision may change in the future due to new developments and as additional information becomes available.

Given the nature of these provisions and the estimation uncertainty involved, further sensitivity analysis on these amounts is not deemed practicable.

Notes to the Financial Statements (continued)

2. Going Concern

The Directors believe that the Company is well placed to manage its risks successfully. 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 are set out in note 23 to the financial statements.

The Company's forecasts and projections show that Irish Water is expected to meet its liabilities as they fall due through a combination of State funding 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 2021 was agreed and approved in Q4 2020 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 2021, through its inclusion of the Company's capital investment programme in the National Development Plan 2040 and the ongoing approval of the Irish Water Strategic Funding Plan.

During 2020 the Company continued the implementation of the recommendations of the Inter Departmental Working Group on the Replacement of Irish Water's Commercial Borrowings with State funding and in June 2020, the Company entered into new €1,022 million State loan facilities (€371 million drawn at year end), provided by the Minister for Finance for capital expenditure attributed to the non-domestic sector. Using funds drawn from this facility, the Company repaid all commercial bank borrowings during the year, and this contributed to an improvement in the Company's net current liability position which is €180 million at 31 December 2020 (2019: €480 million).

In addition, the Company has €350 million of undrawn committed commercial bank facilities as at 31 December 2020 that will continue to be used as an interim source of funding and will be rolled on a short-term basis until the Company enters into a new State working capital facility, which is expected to be completed in 2021.

Following consideration of the facts set out above, 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. In making this assessment the Directors have considered the continuing and potential impact of the Covid-19 pandemic on the Company's business over the period of assessment, including consideration of updated financial projections. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

3. Revenue

	2020 €'000	2019 €'000
Government subvention revenue	**815,000**	855,000
Non-domestic revenue	**173,006**	208,091
New connections	**73,193**	58,415
Total	**1,061,199**	1,121,506

4. Operating Costs

		2020 €'000	2019 €'000
Employee benefit expense	5	**(58,123)**	(51,415)
Local Authority Service Level Agreement payroll & functional support overheads	26	**(220,511)**	(214,183)
Hired & contracted services		**(171,205)**	(169,830)
Central transactional & support service costs[1]	26	**(52,403)**	(55,979)
Materials, maintenance and plant hire		**(110,441)**	(116,160)
Rent, rates, utilities and insurance		**(122,644)**	(82,098)
Release in respect of liabilities reassessment	21	**13,620**	2,944
Other operating costs		**(36,790)**	(36,865)
Operating costs (before impairment losses on financial assets)		**(758,497)**	(723,586)
Impairment losses on financial assets	12	**(40,869)**	(17,545)
Total		**(799,366)**	(741,131)

[1]Refer to note 26 for further details on costs incurred on services provided to the Company by Ervia.

Operating costs are stated after charging:

(a) Auditor's remuneration[1]

	2020 €'000	2019 €'000
The audit of entity financial statements	**(202)**	**(200)**
Other audit related assurance services	**-**	**-**
Tax advisory services	**-**	**(8)**
Other non-audit services	**-**	**-**
Total	**(202)**	**(208)**

[1] amounts exclude irrecoverable VAT

(b) Directors' remuneration*

	2020 €'000	2019 €'000
Directors - fees	**-**	-
Directors - emoluments	**(976)**	(753)
Directors - defined benefit pension contributions	**(111)**	(94)
Directors - defined contribution pension contributions	**(19)**	(8)
Total	**(1,106)**	(855)

* In accordance with the Articles of Association of the Company, the Directors are not entitled to receive fees. Remuneration of the directors as disclosed above represents an apportionment of total remuneration earned in their capacity as salaried employees of Ervia and Irish Water, based on services provided to the Company. The number of directors to whom defined benefit pension contributions accrued was 5 (2019:6) and the number of directors to whom defined contribution pension contributions accrued was 1 (2019:2).

Notes to the Financial Statements (continued)

4. Operating Costs (continued)

(c) Managing Director salary and benefits

(c) (i) Current Managing Director - appointed 6 August 2019

	2020 €'000	2019 €'000
Basic salary	**(200)**	(81)
Other short-term employee benefits	**(15)**	(6)
Post-employment benefits - pension contributions	**(24)**	(9)
Total	**(239)**	(96)

(c) (ii) Former Acting Managing Director - resigned 6 August 2019

	2020 €'000	2019 €'000
Basic salary	**-**	(114)
Other short-term employee benefits*	**-**	(36)
Post-employment benefits - pension contributions	**-**	(19)
Total	**-**	(169)

* Other short-term benefits include out-of-pocket expenses, which although incurred by the former Acting Managing Director in carrying out his duties to the Company, were subject to income tax in accordance with Revenue guidelines.

5. Employee Benefits

(a) Aggregate employee benefits

	2020 €'000	2019 €'000
Staff short-term benefits	**(62,144)**	(57,871)
Post-employment benefits - pension costs	**(9,095)**	(7,640)
Social insurance costs	**(6,618)**	(5,817)
	(77,857)	(71,328)
Capitalised payroll	**19,734**	19,913
Employee benefit expense charged to the income statement	**(58,123)**	(51,415)

(b) Staff short-term benefits

	2020 €'000	2019 €'000
Wages and salaries	**(59,667)**	(55,561)
Overtime	**(63)**	(85)
Allowances	**(1,104)**	(1,027)
Other	**(1,310)**	(1,198)
Total	**(62,144)**	(57,871)

Refer to note 27 for the Company's payroll disclosures as required by Companies Act 2014.

The average monthly number of employees providing services to the Company was 791 for 2020 (2019: 792).

6. Depreciation and Amortisation

		2020 €'000	2019 €'000
Depreciation of property, plant and equipment	9	**(86,284)**	(69,329)
Depreciation of right-of-use assets	10	**(3,056)**	(3,045)
Amortisation of intangible assets	11	**(48,326)**	(39,446)
Grant amortisation	20	**34**	30
Total		**(137,632)**	(111,790)

7. Finance Costs

		2020 €'000	2019 €'000
Finance costs			
Interest and finance costs		**(4,601)**	(13,388)
Interest capitalised		**1,807**	7,400
Lease liability finance charge	10	**(277)**	(328)
Pension net interest cost	18	**(447)**	(570)
Total finance costs		**(3,518)**	(6,886)

8. Tax

Income tax expense

	2020 €'000	2019 €'000
Current tax expense	**-**	(136)
Deferred tax expense	**(13,418)**	(33,337)
Total income tax expense	**(13,418)**	(33,473)

Notes to the Financial Statements (continued)

8. Tax (continued)

Reconciliation of effective tax rate

	2020 €'000	2019 €'000
Profit before tax	**120,683**	261,699
Taxed at 12.5% (2019: 12.5%)	**(15,086)**	(32,713)
Expenses not deductible for tax purposes[1]	**(762)**	(811)
Income not taxable[2]	**1,702**	-
Income taxable at higher rates	**(85)**	(76)
Adjustments in respect of previous financial years[3]	**813**	127
Total income tax expense	**(13,418)**	(33,473)

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

[1] Primarily relates to depreciation on capital expenditure that is not allowable for tax purposes.

[2] Relates to release to the income statement during 2020 of provisions that were initially recognised in connection with the transfer of water and waste-water assets from the Local Authorities in 2014 to the Company (refer to notes 4 and 21).

[3] Adjustment in 2020 primarily relates to the reassessment in 2020 of the taxable nature of releases of provisions to the income statement in a prior year, as described immediately above.

Deferred tax assets and liabilities

	Pension obligations €'000	Tax losses forward €'000	Accelerated tax depreciation[1] €'000	Other €'000	Total
At 1 January 2019	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)
Recognised in income statement	**229**	**23,279**	**(36,979)**	**53**	**(13,418)**
Recognised in equity	**951**	**-**	**-**	**-**	**951**
At 31 December 2020	**2,893**	**54,068**	**(137,056)**	**138**	**(79,957)**

[1] The deferred tax liability arises primarily due to temporary timing differences arising from our assets being subject to capital allowances under tax legislation (tax depreciation) over a shorter period than that applied to accounting depreciation (based on the useful economic lives of the assets).

9. Property, Plant and Equipment

		31-Dec-20 €'000	31-Dec-19 €'000
Property, plant and equipment - owned assets		**4,147,375**	3,412,851
Property, plant and equipment - leased assets	10	**12,620**	15,768
Property, plant and equipment - as presented on the balance sheet		**4,159,995**	3,428,619

9. 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 2019	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
Additions	**-**	**-**	**-**	**820,859**	**820,859**
Transfers	**274,561**	**222,866**	**22,551**	**(519,978)**	**-**
Disposals	**-**	**-**	**(64)**	**-**	**(64)**
At 31 December 2020	**1,848,575**	**1,290,814**	**140,555**	**1,207,950**	**4,487,894**
Accumulated depreciation and impairment losses					
At 1 January 2019	(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)
Depreciation for the financial year	**(24,374)**	**(46,690)**	**(15,220)**	**-**	**(86,284)**
Depreciation on disposals	**-**	**-**	**13**	**-**	**13**
At 31 December 2020	**(109,322)**	**(172,974)**	**(58,223)**	**-**	**(340,519)**
Carrying amounts					
At 31 December 2019	1,489,066	941,664	75,052	907,069	3,412,851
At 31 December 2020	**1,739,253**	**1,117,840**	**82,332**	**1,207,950**	**4,147,375**

During the financial year, the Company capitalised €1.8 million in interest (2019: €7.4 million). The capitalisation rate was 1.15% (2019: 1.3%). The Company also capitalised €19.7 million in payroll costs during the financial year (2019: €19.9 million).

Capital commitments

	2020 €'000	2019 €'000
Capital expenditure that has been contracted for but has not been provided for	382,114	627,205

Notes to the Financial Statements (continued)

10. Lease Assets and Liabilities

The Company as Lessee

The Company has entered into 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
Cost		
At 1 January 2019	18,757	18,757
Additions	437	437
Disposals	-	-
At 31 December 2019	19,194	19,194
Additions	**325**	**325**
Disposals	**(210)**	**(210)**
At 31 December 2020	**19,309**	**19,309**
Accumulated depreciation and impairment losses		
At 1 January 2019	-	-
Charge for the year	(3,426)	(3,426)
At 31 December 2019	(3,426)	(3,426)
Charge for the year	**(3,473)**	**(3,473)**
Depreciation on disposals	**210**	**210**
At 31 December 2020	**(6,689)**	**(6,689)**
Carrying amounts		
At 31 December 2019	15,768	15,768
At 31 December 2020	**12,620**	**12,620**

Lease liabilities

At 1 January 2019	(18,757)
Additions	(438)
Interest expense	(328)
Lease payments[1]	2,693
At 31 December 2019	(16,830)
Additions	**(324)**
Interest expense	**(277)**
Lease payments[1]	**4,209**
At 31 December 2020	**(13,222)**

[1] Lease payments includes payments for the principal portion of the lease liability, presented as financing activities of €3.9 million (2019: €2.4 million) in the statement of cash flows.

10. Lease Assets and Liabilities (continued)

Analysed as follows:

	2020 €'000	2019 €'000
Non-current	**(10,936)**	(13,595)
Current	**(2,286)**	(3,235)
Total	**(13,222)**	(16,830)

A maturity analysis of lease liabilities is presented in note 23. The Company does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the relevant business functions. During the financial year, the Company capitalised €0.417 million in depreciation of right-of-use assets (2019: €0.381 million).

(b) Other amounts recognised in the income statement

	2020 €'000	2019 €'000
Expenses relating to short-term leases	**5,822**	7,042
Total	**5,822**	7,042

11. Intangible Assets

	Software and other €'000	Software and other under development €'000	Total €'000
Cost			
At 1 January 2019	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
Additions	**-**	**25,107**	**25,107**
Transfers in financial year	**33,963**	**(33,963)**	**-**
At 31 December 2020	**274,067**	**7,849**	**281,916**
Accumulated amortisation and impairment losses			
At 1 January 2019	(94,156)	-	(94,156)
Amortisation for the financial year	(39,446)	-	(39,446)
At 31 December 2019	(133,602)	-	(133,602)
Amortisation for the financial year	**(48,326)**	**-**	**(48,326)**
At 31 December 2020	**(181,928)**	**-**	**(181,928)**
Carrying amounts			
At 31 December 2019	**106,502**	**16,705**	**123,207**
At 31 December 2020	**92,139**	**7,849**	**99,988**

11. Intangible Assets (continued)

During the financial year, the Company capitalised €nil in interest (2019: €0.1 million). The Company also capitalised €nil in payroll costs during the financial year (2019: €0.1 million).

12. Trade and Other Receivables

		2020 €'000	2019 €'000
Trade receivables		**24,998**	37,799
Unbilled consumption		**33,065**	52,033
Prepayments		**3,336**	2,594
Restricted cash balances held by Local Authorities	26	**2,193**	2,193
Amounts due from related parties	26	**31,535**	32,535
Customer refund programme receivable from Government	21	**13,072**	13,261
Other receivables		**2,218**	1,480
Total		**110,417**	141,895

Non-current	**8,609**	2,746
Current	**101,808**	139,149
Total	**110,417**	141,895

Trade and other receivables are stated net of expected credit losses and are classified in the financial statements as current or non-current in accordance with their expected realisation. Refer to note 1 (e) for an assessment of the critical judgements and estimates applied. Refer to note 26 for further detail in respect of balances with related parties and restricted cash balances held by Local Authorities.

Allowance for expected credit losses
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 into liquidation or has entered into bankruptcy proceedings. This process is subject to robust internal governance as noted below. None of the trade receivables that have been written off are subject to enforcement activities.

12. Trade and Other Receivables (continued)

The maximum exposure of trade and other receivables to credit risk at the reporting date is €107.1 million (2019: €139.3 million). Prepayments of €3.3 million (2019: €2.6 million) are excluded as no credit risk arises.

	2020 €'000	2019 €'000
Trade receivables	**24,998**	37,799
Unbilled consumption	**33,065**	52,033
Restricted cash balances held by Local Authorities	**2,193**	2,193
Amounts due from related parties	**31,535**	32,535
Customer refund programme receivable from Government	**13,072**	13,261
Other receivables	**2,218**	1,480
Total	**107,081**	139,301

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

	Gross carrying amount 2020 €'000	Allowance for expected credit losses 2020 €'000	Net receivable 2020 €'000	Gross carrying amount 2019 €'000	Allowance for expected credit losses 2019 €'000	Net receivable 2019 €'000
Not past due	**93,632**	**(13,641)**	**79,991**	118,870	(6,067)	112,803
0-365 days overdue	**63,146**	**(37,554)**	**25,592**	52,259	(28,507)	23,752
>1 year	**80,303**	**(78,805)**	**1,498**	66,334	(63,588)	2,746
Total	**237,081**	**(130,000)**	**107,081**	237,463	(98,162)	139,301

The following table shows the movement in the allowance for expected credit losses for trade receivables:

	2020 €'000	2019 €'000
At 1 January	**(98,162)**	(88,572)
Impairment losses on financial assets	**(40,869)**	(17,545)
Allowance utilised	**9,031**	7,955
At 31 December	**(130,000)**	(98,162)

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 expected credit losses on trade receivables has resulted in an allowance for expected credit losses of 69% of its gross trade receivables being provided for at 31 December 2020 (2019: 52%). The Company recognised expected credit losses of €40.9 million during 2020 (2019: €17.5 million), which represents 24% of non-domestic revenue recognised in 2020 (2019: 8%). Refer to note 1 (e) for further detail.

Notes to the Financial Statements (continued)

13. Cash and Cash Equivalents

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

	2020 €'000	2019 €'000
Short-term deposits	**189,696**	103,652
Cash in bank and in hand	**3,678**	2,719
Total	**193,374**	106,371

	2020 €'000	2019 €'000
At 1 January	**106,371**	61,594
Increase in cash and cash equivalents in the statement of cash flows	**87,003**	44,777
At 31 December	**193,374**	106,371

Cash and cash equivalents includes contributions received in advance from customers for new connections (see note 19). These contributions are retained in cash and cash equivalents to fund the associated new connection activities.

14. Restricted Deposits

These are amounts held as collateral by the Company in respect of third party construction contracts for the duration of the construction project and are released following completion of the project and a 12 month defects liability period.

	2020 €'000	2019 €'000
Current	**17,925**	2,822
Total	**17,925**	2,822

15. Cash Generated from Operations

		2020 €'000	2019 €'000
Cash flows from operating activities			
Profit for the financial year		**107,265**	228,226
Adjustments for:			
Depreciation and amortisation	6	**137,632**	111,790
Retirement benefit cost		**816**	87
Net finance costs	7	**3,518**	6,886
Income tax expense	8	**13,418**	33,473
		262,649	380,462
Working capital changes:			
Change in trade and other receivables		**30,610**	5,618
Change in trade and other payables		**(24,966)**	(947)
Change in deferred revenue		**63,929**	47,112
Change in provisions		**(10,751)**	1,251
Cash from operating activities before exceptional items		**321,471**	433,496
Exceptional items - customer refunds and associated processing costs[1]	21	**(28)**	6,722
Exceptional items - grant income received/(refunded)	21	**189**	(6,749)
Cash from operating activities		**321,632**	433,469
Tax paid		**(136)**	-
Interest paid		**(4,098)**	(12,089)
Net cash from operating activities		**317,398**	421,380

[1] Exceptional cash-inflows of €6.7 million during 2019 related to the derecognition of uncashed refund cheques issued to domestic customers.

Notes to the Financial Statements (continued)

16. Borrowings and Other Debt

This note provides information about the contractual terms of the Company's borrowings and other debt. For more information about the Company's exposure to interest rate risk and liquidity risk, see note 23.

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

	31-Dec-20 €'000	31-Dec-19 €'000
Loans from financial institutions	**-**	(237,981)
Lease liabilities	**(13,222)**	(16,830)
Facilities from Government	**(371,559)**	-
Total	**(384,781)**	(254,811)

Borrowings and other debt analysed as follows:

	31-Dec-20 €'000	31-Dec-19 €'000
Between one and five years	**(10,743)**	(13,595)
More than five years	**(371,752)**	-
Non-current	**(382,495)**	(13,595)
Less than one year	**(2,286)**	(241,216)
Current	**(2,286)**	(241,216)
Total	**(384,781)**	(254,811)

At 31 December 2020, the Company's borrowings comprise facilities drawn from Government, at fixed interest rates (2019: all borrowings were commercial facilities at floating interest rates).

Net debt

		31-Dec-20 €'000	31-Dec-19 €'000
Total borrowings and other debt		**(384,781)**	(254,811)
Less cash and cash equivalents	13	**193,374**	106,371
Net debt		**(191,407)**	(148,440)

17. Changes in Borrowings and Other Debt

	As at 1 January €'000	Proceeds €'000	Repayment €'000	Leases (note 10) €'000	Non-cash €'000	As at 31 December €'000
2019						
Loans from financial institutions	(584,794)	(283,319)	632,000	-	(1,868)	(237,981)
Facilities from Government	(300,000)	(245,000)	545,000	-	-	-
Lease liabilities	-	-	-	(16,830)	-	(16,830)
Total	(884,794)	(528,319)	1,177,000	(16,830)	(1,868)	(254,811)
2020						
Loans from financial institutions	**(237,981)**	**(489,000)**	**727,000**	**-**	**(19)**	**-**
Facilities from Government	**-**	**(371,559)**	**-**	**-**	**-**	**(371,559)**
Lease liabilities	**(16,830)**	**-**	**-**	**3,608**	**-**	**(13,222)**
Total	**(254,811)**	**(860,559)**	**727,000**	**3,608**	**(19)**	**(384,781)**

18. 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 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, Local Government and Heritage. 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 April 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.

Notes to the Financial Statements (continued)

18. Retirement Benefit Obligations (continued)

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 quarter of the fund is invested in inflation linked bonds as a match to such real liabilities.

Life expectancy risk
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.

Analysis of plan assets and the net pension liability recognised on the balance sheet

	2020 €'000	%	2019 €'000	%
Investments quoted in active markets:				
Equities	**12,058**	**66.5%**	9,070	70.0%
- developed markets	**12,058**		9,070	
Bonds	**3,997**	**22.1%**	2,908	22.4%
- nominal	**-**		1,482	
- inflation linked	**3,997**		1,426	
Cash	**1,375**	**7.6%**	403	3.1%
Unquoted investments:				
Property/forestry	**693**	**3.8%**	580	4.5%
Total fair value of plan assets at 31 December	**18,123**	**100.0%**	12,961	100.0%
Defined benefit obligation	**(61,436)**		(47,035)	
Net pension liability at 31 December	**(43,313)**		(34,074)	

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

18. Retirement Benefit Obligations (continued)

Movement in net defined benefit liability

	Defined benefit liability		Fair value of plan assets		Net defined benefit obligation	
	2020 €'000	2019 €'000	2020 €'000	2019 €'000	2020 €'000	2019 €'000
Balance at the beginning of the financial year	**(47,035)**	(34,538)	**12,961**	7,176	**(34,074)**	(27,362)
Income statement						
Current service cost	**(4,461)**	(3,496)	**-**	-	**(4,461)**	(3,496)
Interest on liabilities and assets	**(656)**	(776)	**209**	206	**(447)**	(570)
	(5,117)	(4,272)	**209**	206	**(4,908)**	(4,066)
Other comprehensive income						
Return on plan assets excluding interest income	**-**	-	**1,305**	1,581	**1,305**	1,581
Experience (losses)/gains on liabilities	**(172)**	1,707	**-**	-	**(172)**	1,707
Effect of changes in financial assumptions	**(9,504)**	(9,378)	**-**	-	**(9,504)**	(9,378)
Effect of changes in demographic assumptions	**761**	-	**-**	-	**761**	-
	(8,915)	(7,671)	**1,305**	1,581	**(7,610)**	(6,090)
Other						
Contributions by employers	**-**	-	**3,279**	3,444	**3,279**	3,444
Contributions by members	**(668)**	(674)	**668**	674	**-**	-
Benefits paid	**299**	120	**(299)**	(120)	**-**	-
	(369)	(554)	**3,648**	3,998	**3,279**	3,444
Balance at end of financial year	**(61,436)**	(47,035)	**18,123**	12,961	**(43,313)**	(34,074)

The weighted average duration of the defined benefit obligation at 31 December 2020 was approximately 30 years (2019: 30 years). The Company expects to contribute €3.8 million to its pension plan in 2021.

The principal actuarial assumptions used were as follows:

	2020	2019
Discount rate	**0.80%**	1.40%
Inflation assumption	**1.35%**	1.40%
Rate of increase in salaries*	**1.85%**	1.90%
Rate of increase in pensions payment	**1.35%**	1.40%

* Plus salary scale to allow for promotional increases

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:

Notes to the Financial Statements (continued)

18. Retirement Benefit Obligations (continued)

	2020	2019
Retiring today		
Males	**22.8**	22.5
Females	**24.6**	24.9
Retiring in 25 years		
Males	**25.0**	25.4
Females	**26.8**	27.5

Sensitivity analysis for principal assumptions used to measure scheme liabilities

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Decrease by 7.2%/increase by 7.9%
Price inflation	Increase/decrease by 0.25%	Increase by 7.8%/decrease by 7.2%
Salary	Increase/decrease by 0.25%	Increase by 8.0%/decrease by 7.6%
Mortality	Increase/decrease by one year	Increase by 3.1%/decrease by 3.0%

(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. 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.

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

During 2020, the contributions paid to Ervia in respect of the Company's employees was €1.0 million (2019: €1.0 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 26.

(c) Defined contribution pension scheme

During the financial year ended 31 December 2020, the Company contributed €3.7 million (2019: €3.3 million) to the Irish Water Defined Contribution Scheme, on behalf of its employees, which was charged to the income statement.

19. Deferred Revenue

	2020 €'000	2019 €'000
At 1 January	**(127,428)**	(80,925)
Transfer to government grants	**-**	609
Received in financial year	**(137,122)**	(105,527)
Credited to the income statement	**73,193**	58,415
At 31 December	**(191,357)**	(127,428)

Analysed as follows:

Non-current	**(95,547)**	(56,133)
Current	**(95,810)**	(71,295)
Total	**(191,357)**	(127,428)

Customer new connection contributions, which are received in advance, are recorded initially as deferred revenue. These contributions are then released to the income statement as revenue as the connection works (performance obligation) are completed.

20. Government Grants

	2020 €'000	2019 €'000
At 1 January	**1,137**	-
Transfers from deferred revenue	**-**	609
Received in the financial year	**1,328**	542
Amortised in the financial year	**(34)**	(30)
Credited to the income statement	**-**	16
At 31 December	**2,431**	1,137

	31-Dec-20 €'000	31-Dec-19 €'000
Non-current	**2,397**	1,107
Current	**34**	30
Total	**2,431**	1,137

There are no unfulfilled conditions attached to grants recognised in the income statement. In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to. The Company does not expect such circumstances to arise and there were no repayments of grants in the current or prior financial year.

These amounts relate to grant funding from the European Investment Bank for an energy efficiency programme and from the EU for procuring and implementing a cyber security threat detection system and the Interreg Source-to-Tap and Swell projects for cross border projects. A number of conditions relating to these grant funding remain in progress at year end.

21. Provisions and Contingent Liabilities

Provisions

	Customer refund provision 2020 €'000	Other provisions 2020 €'000	Total 2020 €'000
At 1 January	**(13,485)**	**(94,812)**	**(108,297)**
Provisions made in the financial year	**-**	**(13,918)**	**(13,918)**
Provisions released in the financial year	**-**	**16,688**	**16,688**
Provisions utilised in the financial year	**28**	**7,954**	**7,982**
At 31 December	**(13,457)**	**(84,088)**	**(97,545)**

Analysed as follows:

	2020 €'000	2019 €'000
Non-current	**(64,159)**	(81,477)
Current	**(33,386)**	(26,820)
Total	**(97,545)**	(108,297)

Customer refund provision

Pursuant to section 22 of the Water Services Act 2017, Irish Water was required to refund to customers €171.7 million in cash which had been previously collected from domestic customers. This customer refund programme 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. At 31 December 2020, the Company continues to recognises a liability of €13.5 million, primarily relating to refunds due to domestic customers, where either refund cheques issued have not been presented for encashment, or where the customers have not notified the Company of their updated contact details. A corresponding asset of €13.1 million (note 12) is also recognised, which represents the amounts receivable from the Government to meet the Company's unfunded liabilities under the customer refund programme. Cash in hand of €0.4 million is held by the Company in respect of the customer refund programme. Cashflows in respect of the programme are presented in note 15 as exceptional items consistent with previous years.

Other provisions

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 2020, 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). Following this assessment in 2020, the Company released €13.6 million (2019: €2.9 million) in respect of these liabilities.

The remaining liabilities are expected to be substantially discharged by 2022.

21. Provisions and Contingent Liabilities (continued)

Contingent liabilities

There are no material contingent liabilities that the Company is aware of that require disclosure. As part of the due diligence process to agree the assets and liabilities to be transferred from each Local Authority to the Company, an exercise was conducted to identify all contingent liabilities and disclose them in the financial statements, if they met the disclosure criteria of IAS 37.

The Company is subject to various litigation, claims and contract disputes in the ordinary course of operations. While any such proceedings has an element of uncertainty, we do not expect the ultimate resolution of these proceedings to have a material adverse effect on our results from operations, operating cash flows or net asset financial position.

22. Trade and Other Payables

		2020 €'000	2019 €'000
Trade payables due		**(19,608)**	(64,671)
Accruals		**(234,737)**	(202,503)
Amounts due to related parties	26	**(82,149)**	(104,928)
Other payables		**(25,438)**	(13,096)
Taxation and social insurance creditors[1]		**(21,289)**	(13,855)
Total		**(383,221)**	(399,053)
Analysed as follows:			
Non-current		**(21,413)**	(9,824)
Current		**(361,808)**	(389,229)
Total		**(383,221)**	(399,053)
[1] Taxation and social insurance creditors:			
PAYE/social insurance		**(2,425)**	(1,687)
VAT		**(18,864)**	(12,168)
Total		**(21,289)**	(13,855)

Notes to the Financial Statements (continued)

23. Financial Risk Management and Financial Assets/Liabilities

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

At 31 December 2020

	Total at amortised cost €'000
Financial assets	
Trade and other receivables[2]	**107,081**
Cash and cash equivalents[3]	**193,374**
Restricted deposits	**17,925**
	318,380
Financial liabilities	
Borrowings and other debt[4]	**(384,781)**
Trade and other payables[1]	**(127,195)**
	(511,976)
Net financial liabilities	**(193,596)**

At 31 December 2019

	Total at amortised cost €'000
Financial assets	
Trade and other receivables[2]	139,301
Cash and cash equivalents[3]	106,371
Restricted deposits	2,822
	248,494
Financial liabilities	
Borrowings and other debt[4]	(254,811)
Trade and other payables[1]	(182,695)
	(437,506)
Net financial liabilities	(189,012)

[1] Accrued expenses and taxation liabilities have been excluded as these are not classified as financial liabilities

[2] Prepayments have been excluded as these are not classified as a financial asset.

[3] Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Company has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. As at 31 December 2020, €3.8 million of cash (2019: €4.4 million) is offset against €0.1 million of bank overdrafts (2019: €1.7 million), and a net position of €3.7 million is presented in 'cash in bank and in hand' in note 13 (2019: €2.7 million). As at 31 December 2020, the Company had entered no master netting arrangements and other similar agreements.

[4] The fair value of borrowings and other debt as at 31 December 2020 was €384.8 million (2019: €254.8 million).

23. 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-20 €'000	31-Dec-19 €'000
Trade and other receivables (excluding prepayments)	**107,081**	139,301
Cash and cash equivalents	**193,374**	106,371
Restricted deposits	**17,925**	2,822
Total	**318,380**	248,494

(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 and cash equivalents 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 12 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.

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.

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 idle cash and interest expense.

Notes to the Financial Statements (continued)

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

(ii) (a) Cash surpluses
Cash surpluses are used primarily to reduce the level of debt. Cash surpluses are held in euro and largely invested in deposit accounts.

(ii) (b) Funding
At 31 December 2020, the Company's total borrowings excluding lease liabilities were €371.6 million (including capitalised loan fees) (2019: €238.0 million). At 31 December 2020, the Company had undrawn committed commercial bank facilities of €350 million (2019: €352 million) and €193.4 million (2019: €106.4 million) of cash and cash equivalents. The Company has a statutory borrowing limit of €2,000 million (2019: €2,000 million), which sets the upper limit for drawn facilities.

During 2020 the Company continued the implementation of the recommendations of the Inter Departmental Working Group on the Replacement of Irish Water's Commercial Borrowings with State funding. In June 2020, the Company entered into new €1,021.6 million State loan facilities, provided by the Minister for Finance for capital expenditure attributed to the non-domestic sector and using funds drawn from this facility a total of €238.0 million of commercial borrowings was repaid in July 2020. Debt facilities totalling €240 million were subsequently cancelled. A further €133.6 million was drawn down from the Minister for Finance facilities in 2020 to fund capital expenditure relating to the non-domestic sector. The remaining facilities of €650.0 million, are to be made available over the period 2021 to 2024, subject to the approval of the Minister for Finance, to cover non-domestic capital expenditure over that period. Following the completion of phase 2 of the replacement process, the Company has €360 million of commercial bank facilities, including €350 million of committed facilities as at 31 December 2020. These facilities will continue to be used as an interim source of funding and will be rolled on a short-term basis until their replacement with a new State working capital facility is completed (expected to be completed in 2021).

At 31 December 2020, the weighted average interest rate on the Company's portfolio of outstanding borrowings was 0.53% (2019: 0.76%) and the average maturity of its debt was 9.91 years (2019: 0.28 years).

(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.

	Carrying amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
At 31 December 2020						
Borrowings and other debt	**(384,781)**	**(404,767)**	**(4,282)**	**(4,707)**	**(14,023)**	**(381,755)**
Trade and other payables	**(127,195)**	**(127,195)**	**(105,782)**	**(21,413)**	**-**	**-**
Total	**(511,976)**	**(531,962)**	**(110,064)**	**(26,120)**	**(14,023)**	**(381,755)**
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)

(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.

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

(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. As described in the liquidity risk section of this note, as at 31 December 2020 all of the Company's borrowings are long-term and at fixed interest rates, thus the Company is no longer exposed to cash flow interest rate risk on its borrowings.

24. 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 2020.

The fair value of borrowings, measured at amortised cost is estimated by discounting the future cash flows to net present values using market rates prevailing at the reporting date - Fair value hierarchy: level 2. There were no financial instruments that are measured at amortised cost but for which fair value disclosures are required, classified as Level 3 either in current year or in prior year.

Notes to the Financial Statements (continued)

25. Equity

(a) Share capital

	2020 €'000		2019 €'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

	2020 €		2019 €
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

	2020 €'000	2019 €'000
At 1 January	**(324,000)**	(324,000)
At 31 December	**(324,000)**	(324,000)

At 31 December 2020, Ervia held the one A share, the Minister for Housing, Local Government and Heritage 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 the case of liquidation.

B shares give the holder no power of control or direction over the Company. These shares give the holder the right to be notified and attend but not vote at any general meeting of the Company. These shares do carry the right to receive whatever dividends or distributions (if any) may be determined by the Board and do convey 'Ministerial Consents' and have protective rights. In the case of liquidation after the subscription value is repaid to the A shareholder(s) the balance of the net proceeds are distributable to the holders of the B shares pro rata to the number of B shares held by each.

(b) Capital contribution

	2020 €'000	2019 €'000
At 1 January	**(2,067,466)**	(956,466)
Cash capital contribution	**(488,000)**	(1,111,000)
At 31 December	**(2,555,466)**	(2,067,466)

During 2020, the Company received a non-refundable cash capital contribution of €488 million (2019: €1,111 million) from the Government.

26. Related Parties

Irish Water ('the Company) is a designated activity company. At 31 December 2020, 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, Local Government and Heritage 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.

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 2020.

The directors had no beneficial interests in the Company at any time during the financial year or at 31 December 2020.

		2020 €'000	2019 €'000
Ervia Group entities charges	(a)		
Central transactional and support service costs	(a)(ii)	**(52,403)**	(55,979)
		(52,403)	(55,979)
Local Authorities charges	(b)		
Service level agreement	(b) (i)		
- operating expenditure (payroll, functional support overheads)		**(220,511)**	(214,183)
- operating expenditure (general overheads)		**(2,870)**	(4,735)
- capital expenditure		**(48,230)**	(53,106)
- procurement recharges		**(27,523)**	(31,648)
		(299,134)	(303,671)

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

		31-Dec-20 €'000	31-Dec-19 €'000
Payable to Ervia Group entities	(a) (i-iii)	**(24,444)**	(35,475)
Payable to Local Authorities	(b) (i)	**(57,705)**	(69,453)
Amounts due to related parties		**(82,149)**	(104,928)
Receivable from Local Authorities	(b) (ii-iii)	**31,535**	32,535
Restricted cash balances held by Local Authorities	(b) (iii)	**2,193**	2,193
Amounts receivable from related parties		**33,728**	34,728

Notes to the Financial Statements (continued)

26. Related Parties (continued)

In addition the Company had the following related party transactions with Government:

		31-Dec-20 €'000	31-Dec-19 €'000
Government	(c)		
Government subvention income		**815,000**	855,000
Capital contribution		**488,000**	1,111,000
		1,303,000	1,966,000

(a) Ultimate parent undertaking

(a) (i) Central transactional and 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

	2020 €'000	2019 €'000
Employee benefit expense	**(56,311)**	(51,947)
Hired and contracted services	**(3,366)**	(6,990)
Materials, maintenance and sub-contractor costs	**(11,738)**	(11,950)
Rent, rates and facilities	**(695)**	(1,186)
Other operating expenses	**(13,686)**	(14,265)
Sub-total before recharges	**(85,796)**	(86,338)
Recharges to non-controlled undertakings - Irish Water	**52,403**	55,979
Recharges to subsidiary undertakings - Gas Networks Ireland	**25,993**	27,074
Total after recharges[1]	**(7,400)**	(3,285)

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

26. Related Parties (continued)

Basis for the apportionment of Ervia Parent operating costs

- 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.
- 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 the cost centres within Ervia Parent. For example, the relevant cost driver for the Finance 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 number of invoices processed.
- 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.
- Operating costs directly attributable to Irish Water are either charged directly to Irish Water, or are recharged in full to Irish Water.
- The overarching objective of the apportionment of operating costs 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 recharged on a monthly basis with no overhead or margin applied by the Ervia Group. Capital expenditure costs recharged to Irish Water in 2020 were €21.7 million (2019: €22.2 million). Balances outstanding in relation to these transactions are included in the table above.

(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. 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 2020, the contributions payable in respect of the Company's employees was €1.0 million (2019: €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 IFRS, details of such transactions are not set out in the table 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.

26. 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 2021.

(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 above.

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

- As described in the Finance Review and note 23, all of the Company's borrowings as at 31 December 2020 are drawn from a new €1,021.6 million State loan facility, provided by the Minister for Finance, which was entered into in June 2020.
- During 2020, the Company received €0.2 million from the Government in respect of the domestic water customer refund programme (2019: €6.7 million). Refer to note 21.

(d) Key management compensation

	2020 €'000	2019 €'000
Short-term employee benefits	**(1,116)**	(1,150)
Post-employment benefits	**(103)**	(129)
Total	**(1,219)**	(1,279)

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.

27. 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, the related payroll and other employee benefit costs of these individuals are reported and disclosed in the Ervia Parent and Group financial statements and are not reported in the standalone Irish Water income statement.

27. Companies Act Payroll Disclosures (continued)

However, in accordance with the requirements of Section 317 of the Companies Act 2014, the related employee numbers and payroll costs incurred by Ervia Business Services, but where the contracts of employment remain with Irish Water, are included in the disclosure below. The number of employees redeployed is 49 (2019: 56) and the associated payroll costs recorded in the Ervia income statement, but disclosed below are €4.5 million (2019: €5.3 million).

(i) Aggregate employee benefits

	31-Dec-20 €'000	31-Dec-19 €'000
Staff short-term benefits	**(65,861)**	(62,202)
Retirement benefit costs	**(9,481)**	(8,123)
Social insurance costs	**(7,012)**	(6,274)
	(82,354)	(76,599)
Capitalised payroll	**20,324**	21,827
Employee benefit expense charged to the income statement	**(62,030)**	(54,772)

(ii) Staff short-term benefits

	31-Dec-20 €'000	31-Dec-19 €'000
Basic pay/benefits	**(63,322)**	(59,816)
Overtime	**(62)**	(85)
Allowances	**(1,104)**	(1,030)
Other[1]	**(1,373)**	(1,271)
Total	**(65,861)**	(62,202)

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

The payroll costs of €4.5 million (2019: €5.3 million) included in the disclosure above are included within the employee benefit expense of the Ervia Parent of €56.3 million (2019: €51.9 million) as set out in note 26 (a). These costs are recharged to Irish Water and Gas Networks Ireland as appropriate in accordance with the basis for the apportionment of Ervia Parent operating costs as set out in further detail in note 26 (a).

28. Subsequent Events

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

29. Approval of Financial Statements

The Directors approved the financial statements on 29th March 2021.

Directors and Other Information

Directors	Cathal Marley *(Chairman)*	
	Eamon Gallen	
	Niall Gleeson	
	Yvonne Harris	
	Brendan Murphy	
	Maria O'Dwyer	
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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