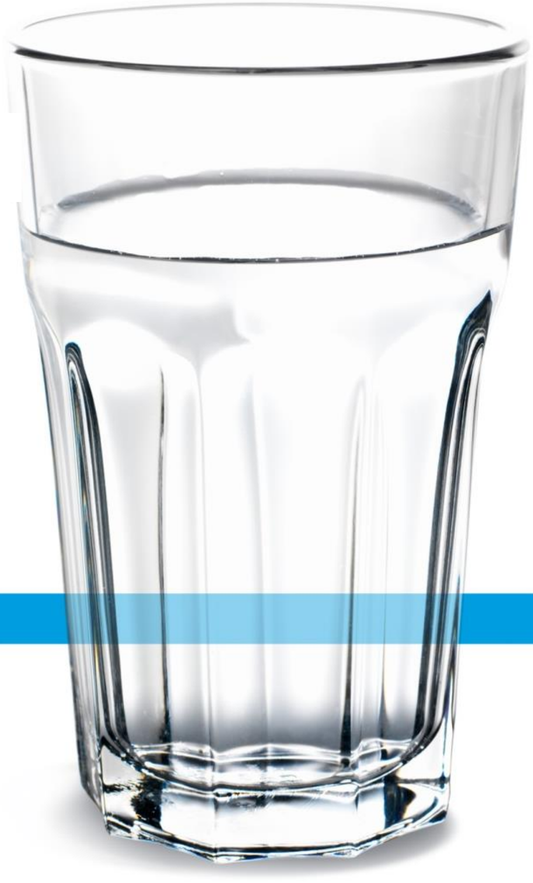
Irish Water
Financial Statements

as at 31 December 2014



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Directors and Other Information

DIRECTORS	Michael McNicholas John Tierney Brendan Murphy Michael O'Sullivan	
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	Danske Bank International House 3 Harbourmaster Place Dublin 1
AUDITOR	Deloitte Earlsfort Terrace Dublin 2	
COMPANY NUMBER	530363	

Directors' Report

The Directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2014.

Principal Activities, Business Review and Future Developments

Irish Water was established as a subsidiary of Ervia in July 2013 with the objective of delivering effective water services, including a reliable and clean water supply and the safe disposal of wastewater.

On 1 January 2014, Irish Water became responsible for the operation and maintenance of a large portfolio of fragmented and disjointed water and wastewater assets under the Water Services Act 2014. This involved the transfer of water and wastewater infrastructure assets and other associated assets and liabilities from the 34 Local Authorities (LAs) to Irish Water. Due to mergers during 2014 of certain LAs, the total number of LAs at 31 December 2014 had reduced to 31. Further detail on the acquisition of assets and liabilities is provided in note 8 to the financial statements.

Irish Water's operations include several thousand water extraction points, treatment plants, pumping stations and wastewater discharge points, approximately 58,000 kilometres of drinking water pipeline and an estimated 25,000 kilometres of wastewater pipelines. Irish Water manages this asset base through Service Level Agreements (SLAs) with LAs who continue to provide day to day operations. Irish Water is also responsible for capital investment decisions, prioritising improvements to the asset base to facilitate compliance with standards and enabling social and economic development.

The on-going establishment of Irish Water is one of the largest industry reforming programmes to be undertaken in the history of the State. In 2014, the utility put in place a transformation plan outlining the amalgamation of water services previously provided by 34 LAs into a single national provider to deliver economies of scale and ensure the consistent and strategic management and delivery of water and wastewater resources. Irish Water also published its Capital Investment Plan detailing how €1.7 billion will be invested between 2014-2016 to help to bring Ireland's water infrastructure and services up to the standard required to meet environmental regulations and to support economic growth.

Domestic charges will support a new funding model that will enable Irish Water, as a regulated utility, to access international financial markets to support future investment. By the end of 2014, Ervia had sourced available debt funding facilities of €412 million for Irish Water with a further €350 million in progress, a significant achievement for a new business and a testament to the future strategy and business model of Irish Water.

Key Achievements and Performance Indicators

- On January 1st 2014, Irish Water assumed responsibility for public water and wastewater services from what was then 34 LAs and became the single national service provider of water services in Ireland serving 3.3 million people and producing over 1.6 billion litres of drinking water every day and taking wastewater away for treatment before it is returned to our rivers and seas;

- Provided customer service for operational issues through a national Customer Contact Centre with effect from April 28th 2014. By 31 December 2014, over 114,000 calls had been handled (this also includes metering calls) and over 57,500 work orders were raised regarding operational matters with almost 52,000 of these work orders closed out by year end;

- Published the proposed Capital Investment Plan 2014-2016 announcing an investment in the public water and wastewater infrastructure of up to €1.7 billion between 2014-2016. This was made up of 386 capital projects and a programme of minor projects. Works in 2014 included the completion of the Leixlip Water Treatment Plant Upgrade, the commencement of the Osberstown Waste Water Treatment Plant Upgrade, and the acceleration of the investment required in County Roscommon to facilitate the lifting of Boil Water Notices affecting 18,000 people during 2015;

- Submitted the Water Charges Plan to the Commission for Energy Regulation ("CER") which included details on domestic tariffs and a Price Control Submission for 2014-2016. In November 2014 the Government confirmed a revised water charges structure and that liability for charges would commence from January 2015 with bills issuing from April 2015;

- Launched Ireland's largest Customer Application Campaign to facilitate the registration of all customers on the public water and wastewater networks in Ireland;

- Installed over 539,000 domestic water meters under the National Metering Programme by the end of 2014, exceeding Government targets of 450,000 meters and ahead of international benchmarks;

- Began developing a 25 year Water Services Strategic Plan (WSSP). An initial consultation was held in September 2014 with the draft plan to be ready for public consultation in early 2015;

- Began preparation of the first Irish Water Business Plan. It is intended the Plan will set out performance goals and targets for delivery of efficiencies in operational and capital expenditure to 2021; and

- Agreed a Transformation Plan with the 31 LAs in August 2014. Under this Plan a series of transformation initiatives are being implemented in partnership with the LAs. It provides for the development of the Water Industry Operating Framework (WIOF) i.e. to facilitate a more effective delivery of water services (by Irish Water and the LAs) under the single utility model.

Water and Wastewater Assets

Irish Water supplies drinking water to approximately 80% of the population. This is delivered through some 1,000 separate public supply zones and involves the abstraction, treatment and delivery of 1,670 million litres of drinking water each day. Irish Water also collects wastewater from over 1,000 separate communities and treats 1,600 million litres of wastewater daily before it discharges it back into our rivers and coastal seas.

In 2014, its first year of service, Irish Water provided water and wastewater services in partnership with LAs without major disruption. Whilst many customers receive a good quality water supply and wastewater provision, there are major issues to be dealt with including water quality, capacity and reliability of service and the inadequacy of waste water services in many parts of the country. Despite the good work of LAs over many decades, under-investment, combined with a lack of asset management systems and maintenance programmes, has led to a legacy of deficiencies in many treatment plants and networks. In addition, limitations on treatment and/or network capacity urgently need to be addressed to accommodate new housing, commercial and industrial developments.

Water quality does not meet European and Irish drinking water standards in many of our schemes and up to 30% of water treatment plants are considered to be "at risk" of failure in terms of quality parameters. Ireland also fails to meet the requirements of the EU Urban Waste Water Treatment Directive in 71 areas and is the subject of an infringement case initiated by the European Commission.

Significant capital investment is necessary to improve water supply capacity, quality and reliability and to upgrade wastewater infrastructure in the short, medium and long term.

Capital Investment

The Capital Investment Plan 2014-2016, which provides for investment of up to €1.7 billon in water and wastewater assets, was published within five months of the establishment of Irish Water in May 2014. The plan highlights the impact of years of under-investment in our water infrastructure and identifies investment priorities that deliver the biggest impact while maximising value for money. The plan is made up of 386 capital projects and a programme of minor projects. The plan will deliver improvements in drinking water quality and capacity, leakage, wastewater compliance and capacity, business efficiencies and customer service. The CER reviewed this plan and approved €1.35 billion of capital expenditure against this plan with a facility to increase spending to €1.7 billion if Irish Water secured the necessary funding.

The Capital Investment Plan will also fund contractual commitments, previously entered into by LAs, to completion and prioritise projects to commence. Throughout the duration of the Capital Investment Plan, Irish Water will continuously review the programmes, adjusting priorities to take account of emerging information and needs in order to optimise the investments being made.

Capital Resources

At 31 December 2014, Irish Water had available funding facilities of €412 million (including €50 million in uncommitted facilities). Of this, €362 million was drawn leaving a further €50 million undrawn. As at 31 December 2014, Irish Water had a statutory borrowing limit of €2 billion, which sets the upper limit for drawn facilities.

In 2014 Irish Water received an unconditional, irrevocable and non-refundable cash capital contribution of €407m from the Minister for Finance.

The policy for Irish Water is to have a number of sources of funds at any particular time and to maintain a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk. It is recognised that during the establishment period of Irish Water, it may be difficult to meet all of these objectives, therefore they represent the medium term goals of Irish Water following business establishment.

In early 2015, Irish Water secured €550 million of funding by way of bilateral facilities with a number of commercial banks and negotiations are at an advanced stage with other commercial banks and financial institutions. These are expected to be executed in 2015. Irish Water's long term goal is to achieve an investment grade credit rating.

Working with Local Authorities

At the beginning of 2014 Irish Water took over responsibility for the provision of public Water Services from the then 34 LAs. In order to maintain continuity of service, Irish Water entered into Service Level Agreements (SLAs) with the LAs for the operation of Irish Water's assets for the next twelve years.

In August 2014 Irish Water and LAs agreed a Transformation Plan which sets out a clear road-map to transition from the current operating model to a single way of working reflecting best utility practice, with a focus on asset management, operations and customer service.

This will allow Irish Water to centralise some activities at a national level within Irish Water and move to regional models for the delivery of a number of other services. It will also facilitate the standardised use of technology to deliver efficiencies and economies of scale and reduce the overall operating cost and staffing numbers over time.

Significant incremental changes have already been delivered in 2014 and the detailed design of the Water Industry Operating Framework will be agreed in 2015.

Our Priorities

The scale of the challenge facing Irish Water cannot be underestimated. The transformation of water services delivery, working with 31 local services providers, into a single way of working to modern utility practice, while reducing costs and improving services, is a significant undertaking and will take time. It must be approached on a structured and phased basis over a number of years. Priorities for the short to medium term include:

- Establishing the highest Health & Safety standards;
- Demonstrating our commitment to the delivery of improved water and wastewater services at an affordable cost for our customers. The implementation of the Irish Water/LA) Transformation Plan will be critical in this regard;
- Meet the efficiency targets set by the CER as part of the Water Charges Plan;
- Remediating drinking water quality problems where customers have a Boil Water Notice or water supplies fail other mandatory requirements of the Drinking Water Regulations. This includes prioritising high risk plants identified on the EPA Remedial Action List;
- Complying with the Urban Waste Water Treatment Directive and, in particular, addressing the lack of wastewater treatment at 44 urban centres and improving treatment at the 38 larger urban areas which do not currently meet the required treatment standards and which will also address environmental issues;
- Reducing the excessive leakage from water mains through water conservation programmes. Completion of the domestic Metering Programme will help identify where lead pipes exist and the location of customer side leaks which can be addressed through our “first fix policy”. Phase 1 of the metering programme will be completed in 2016 and will contribute to our knowledge of leakage levels in the network and on the customer side of the meter;
- Investing in our assets to increase the level of resilience will be essential to adapt to the impacts of climate change;
- Research and Innovation has a key role in maximising the benefits of investment for our customers and the environment;
- Capturing accurate information on the nature, condition and performance of all of our assets (infrastructure and equipment) into quality assured databases, to help inform investment and asset maintenance decisions; and
- Putting Irish Water on a solid commercial footing.

Summary

Irish Water was established to address the challenges facing the water services sector. The Company's mandate is to bring a singular focus to address these challenges and provide access to capital, accelerate capital investment programmes, restructure the current fragmented service delivery model and deliver significant operating efficiencies.

Over time we will establish Irish Water as a best practice utility by leveraging the experience of our colleagues in the Ervia Group including Gas Networks Ireland, and building on the expertise of LAs. Both the staff and management of Irish Water are committed to continuing to deliver key milestones and safe and reliable water and wastewater services and infrastructure to customers across Ireland as the utility evolves.

Principal Risks and Uncertainties

The Directors consider the following risk profiles:

Financial Risks

(a) Credit Risk
Trade receivables consist of a large number of customers spread across diverse industries. The LAs, as agents for Irish Water, continue to bill and collect all Non-Domestic trade receivables on our behalf and in line with the agreed Service Level Agreements. Irish Water have established processes in place to track LA collection performance against agreed targets.

Domestic billing of water charges commenced in January 2015 and the controls appropriate to a large domestic billing operation were under development in 2014 and will be in place as required in 2015.

(b) Liquidity Risk
The company manages liquidity risk by working towards:

- Holding sufficient cash balances to meet forecast requirements
- Ensuring ample headroom on funding facilities to meet forecast requirements
- Limiting the concentration of debt maturities
- Prefunding maturing debt where appropriate

Irish Water is in an establishment period and the medium term goal is to seek to have a number of sources of funds available at any particular time and to maintain a balanced debt maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk. As at 31 December 2014, the Company held cash and cash equivalents of €37 million and had undrawn facilities available of €50 million.

(c) Interest Rate Risk
Interest costs are currently managed using fixed rate debt and as Irish Water advances through the establishment phase, other instruments may be considered for fixing debt.

The Company's policy is to achieve a stable and low cost of debt for Irish Water, taking account of business risks in general and the regulatory environment. The Company's policy is to secure a minimum level of fixed rate funding for Irish Water over a rolling three year timeframe as the Company progresses through the establishment phase.

As at 31 December 2014, floating rate debt was €nil and fixed rate debt was €362 million using fixed rate debt instruments.

(d) Currency Risk
The Company's policy is to protect profitability by minimising the impact of material variations due to foreign exchange rate movements. Foreign exchange policy takes account of business risks and the regulatory environment. All significant foreign exchange exposures are hedged using forward foreign currency contracts.

(e) Counterparty Risk
The Company's policy to manage counterparty risk is through the use of counterparty credit limits, which take account of, among other relevant factors, published credit ratings.

The Ervia Group, on behalf of Irish Water, mainly deals with approved counterparties who maintain an investment grade rating. The Ervia Group closely monitors and measures its counterparty exposures, including that of Irish Water, and revises counterparty limits in the event of changes in counterparty credit status.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation.

Given the scale of the task of transitioning water services from 31 LAs, and our dependency thereon, there are significant operational risks including the serviceability and quality of the existing asset base and whether these assets are able to deliver the required drinking water quantity and quality across the country. Staff retention risks could affect our ability to effectively operate the business and to create one cohesive organisation, including the need for full implementation of the SLAs across 31 LAs. The delivery and management of a large programme of capital investment projects could also have significant operational risks and must be closely managed. Finally, as a company we need to ensure that water service consumers are transitioned to being water service customers and that our billing process is rolled out effectively.

Brand and Reputation Risk

The establishment of Irish Water is part of Government's transformation programme for local government. The introduction of water charges for domestic properties has proved to be divisive both publically and politically in 2014. The brand and reputation of Irish Water was impacted by events in 2014 and building trust and confidence in both public and political environments is a key risk to be managed by Irish Water in 2015.

Regulatory and Legislative Risk

Irish Water is a fully regulated utility. The CER is the economic regulator, and the Environmental Protection Agency (EPA) is the environmental regulator. Environmental regulatory risks include non-compliance with EU and legislative requirements and the need to tackle legacy issues arising from the water services asset base transferring to Irish Water. Economic regulatory risks include uncertainty regarding the ability of Irish Water to fully comply with detailed regulatory requirements, given the early stage of Irish Water's development as a utility.

Safety

The Company is exposed to the usual risks associated with the operation of a very significant water and waste water infrastructure. In addition, we have inherited assets without any Health and Safety due diligence and no record of asset condition. Attention to safety and promoting best practices is a key priority and the Company operates a comprehensive safety programme in dealing with the relevant authorities, the Regulator, staff, contractors and the general public.

The board has analysed these and other risks. Appropriate actions are taken by management to mitigate these risks. Not all risks are within the Company's control and other factors besides those listed above may also have an adverse effect.

Results

The Income Statement and Balance Sheet for the year ended 31 December 2014 are set out on pages 17 and 19 respectively.

Books of Account

The Directors are responsible for ensuring that adequate accounting records, as outlined in Sections 281-285 of the Companies Act 2014, are kept by the Company. To achieve this, the Directors have appointed appropriate personnel to ensure that those requirements are complied with. These accounting records are maintained at Colvill House, 24/26 Talbot Street, Dublin 1.

Directors and Secretary and their Interests

The Directors who were in office during the financial year and at the date of the approval of these financial statements are as follows:

Executive Directors:

Michael McNicholas	
John Tierney	
Brendan Murphy	*(appointed 1 December 2014)*
Michael O'Sullivan	*(appointed 1 December 2014)*

Non-executive Directors:

Sean Kelly (deceased)	*(resigned 19 June 2014)*
Hilary Quinlan	*(resigned 30 September 2014)*
Philip Lee	*(resigned 15 October 2014)*
Rose Hynes	*(term of office expired 30 November 2014)*
Margaret Rae	*(term of office expired 30 November 2014)*
Regina Finn	*(term of office expired 30 November 2014)*
Jacqueline Hall	*(term of office expired 30 November 2014)*
Brian McKeown	*(term of office expired 30 November 2014)*
Billy Moore	*(term of office expired 30 November 2014)*
Colman Sheehy	*(term of office expired 30 November 2014)*

Secretary:
Liam O'Riordan

During 2014, a unitary board structure was established at the Ervia corporate level, with the new unitary board taking responsibility for the governance of Ervia and its subsidiaries, including Irish Water. An executive Board, comprising Ervia and Irish Water senior management executives was appointed with effect from 1 December 2014.

In accordance with the Articles of Association, the Directors will serve for a term that shall not exceed one year. Subject to Ministerial (Minister for the Environment, Community and Local Government) consent, Ervia has the power to appoint Directors and remove them.

The Directors had no interest in the share capital of the Company or Ervia at any time during the year.

Michael O' Sullivan and the secretary are beneficiaries of the Ervia Employee Share Ownership Plan (ESOP). An agreement was implemented during 2014, which provided for the acquisition of all capital stock held on behalf of all Ervia ESOP beneficiaries in exchange for promissory notes issued by Ervia to be redeemed over the period 2014 to 2018 for a fixed consideration.

Directors' Remuneration

Directors' fees during 2014 and 2013 are set out below:

	2014 €'000	2013*** €'000
Rose Hynes (Chairman)	**27.5**	13.8
Michael McNicholas (Chief Executive Officer)*	**-**	-
John Tierney (Managing Director)*	**-**	-
Margaret Rae**	**-**	-
Brendan Murphy*	**-**	-
Michael O'Sullivan*	**-**	-
Regina Finn	**13.8**	2.5
Jacqueline Hall	**13.8**	2.5
Sean Kelly (deceased)	**7.1**	2.5
Philip Lee	**11.9**	2.5
Brian McKeown	**13.8**	2.5
Billy Moore	**13.8**	2.5
Hilary Quinlan	**11.3**	2.5
Colman Sheehy	**13.8**	2.5
	126.8	33.8

*Does not receive a Board fee in compliance with "Guidelines on Contracts, Remuneration and Other Conditions of Chief Executives and Senior Management of Commercial State Bodies" issued in March 2006.
**Ms. Margaret Rae opted to waive her Board fee from the date of her appointment on a discretionary basis.
***Comparative relates to remuneration from the date of appointment to 31 December 2013 which was 17 July 2013 for Rose Hynes (Chairman), 11 November 2013 for Regina Finn and 1 November 2013 for all other board members.

Expenses paid to Directors during 2014 which are disclosed in accordance with the Code of Practice for the Governance of State Bodies were €6,007 and related to mileage/other travel, accommodation and subsistence.

Subsequent Events

At the date of approval of the financial statements the Directors are not aware of any post balance sheet events that require adjustment or disclosure to be made in the financial statements.

Corporate Governance

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

The Board has taken steps to ensure an appropriate control environment by:

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

The Board is responsible for high level policy and the strategic direction in relation to the nature and scale of risk that Irish Water is prepared to assume to achieve its corporate objectives.

Corporate Governance (continued)

The system of internal control can only 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 would be detected in a timely period.

The Board has established processes to identify and evaluate business risks for the Company by:

- Identifying the nature, extent and financial implication of risks facing the Company including the extent and categories which it regards as acceptable;
- Assessing the likelihood of identifying risks occurring;
- Assessing the Company's ability to manage and mitigate the risks that do occur; and
- Establishing an anti-fraud training programme for all staff.

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability. It includes in particular:

- Comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Directors;
- Regular reviews by the Directors of periodic and annual financial reports which assess financial performance against budgets and forecasts;
- Setting targets to measure financial and other performance;
- Clearly defined capital investment control guidelines; and
- Formal project management disciplines.

The key control procedures for Irish Water as set out above, including the operation of the LA protocols under the Service Level Agreements which manage the interaction processes between Irish Water and LAs, are continuing to evolve and develop as Irish Water progresses through its establishment phase. Irish Water faces significant challenges in building a completely new water utility, implementing the required systems, processes and procedures necessary to ensure robust internal financial controls while applying Ervia's policies and internal control framework. In this regard, Irish Water currently depends to a significant degree on the controls operated by LAs on its behalf.

Irish Water is subject to oversight by Ervia's Internal Audit and Risk team, which operates in accordance with the framework code of best practice as set out in the Code of Practice for the Governance of State Bodies and international standards for the professional practice of internal audit. The work of internal audit is informed by analysis of the risk to which the Ervia group is exposed as well as the strategic objectives of the Ervia group and annual internal audit plans are based on this analysis. The internal audit plans are approved by the Ervia Audit and Finance Committee. Irish Water has the ability to add items to the internal audit plan for issues which may require additional assurance.

A comprehensive internal audit programme was carried out during 2014, and while some issues were noted, these have been, or are being, responded to in an appropriate and timely manner with necessary compensating controls identified in addition to action being taken. Irish Water's control environment requirements has resulted in the need for additional procedures in certain areas, some of which are still in the process of being implemented. However, no issues involving material loss, contingencies or uncertainties were noted by the Company during 2014 requiring disclosure in the 2014 financial statements or in the auditor's report on the 2014 financial statements, under the requirements of the Code of Practice for the Governance of State Bodies.

The Board's monitoring and review of the effectiveness of the system of internal financial control is informed by comments made by the external Auditors in their Management letter and/or other reports. The Managing Director of Irish Water, who has responsibility for the development and maintenance of the financial control framework, has confirmed that:

Corporate Governance (continued)

- All appropriate procedures for financial reporting, internal audit, travel, procurement and asset disposals are being carried out;
- A code of business conduct for Directors has been put in place and adhered to and Directors are requested to complete a register of interests. A code of business conduct has been put in place and adhered to and employees are requested to acknowledge receipt and understanding of same;
- Government guidelines on the payment of Directors' fees are being complied with;
- Government policy on the pay of employees is being complied with;
- Guidelines for the Appraisal and Management of Capital Expenditure Proposals are being complied with;
- Government travel policy requirements are being complied with in all respects; and
- The Code of Practice for the Governance of State Bodies has been adopted and is being complied with, including the requirements of the Ethics in Public Office Act, 1995 and the Standards in Public Office Act, 2001.

Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and consequently the financial statements are prepared on a going concern basis. Please refer to further detail provided in note 2 to the financial statements.

Auditor

The Auditors, Deloitte, Chartered Accountants and Statutory Audit Firm, have indicated their willingness to continue in office in accordance with Section 383 (2) of the Companies Act 2014.

For and on behalf of the Board:

Michael McNicholas		10th June 2015
Michael McNicholas	John Tierney	Date of Approval

Directors’ Responsibility Statement

Irish Company law requires the directors to prepare financial statements giving a true and fair view of the assets, liabilities, and financial position of the Company and the profit or loss of the Company for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. 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 that the financial statements comply with IFRSs as adopted by the European Union; 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 keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities and financial position and income statement of the Company and to enable them to ensure that the financial statements are prepared in accordance with IFRS as adopted by the European Union and comply with Irish statute comprising the Companies Act 2014. 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 directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For and on behalf of the Board:

		10th June 2015
Michael McNicholas	John Tierney	Date of Approval

Independent Auditors' Report to the Members of Irish Water

We have audited the financial statements of Irish Water for the financial year ended 31 December 2014 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 28. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("relevant financial reporting framework").

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act, 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

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

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Statements as at 31 December 2014 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2014 and of the loss for the 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 Acts 2014.

Matters on which we are required to report by the Companies Act 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of;

- the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.
- under the Code of Practice for the Governance of State Bodies ("the code") we are required to report to you if the statement regarding the system of internal control required under the code as included in the corporate governance statement in the report of the board does not reflect the company's compliance with paragraph 13.1 (iii) of the code or if it is not consistent with the information of which we are aware from our audit work on the financial statements.

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

Date 10th June 2015

Income Statement

for the year ended 31 December 2014

	Notes	2014 €'000	2013 * €'000
Continuing operations			
Revenue	3	**687,188**	-
Operating costs (excluding depreciation and amortisation)	4	**(793,762)**	(68,156)
Operating loss before depreciation and amortisation (EBITDA)		**(106,574)**	(68,156)
Depreciation and amortisation	5	**(23,425)**	(1,004)
Operating loss		**(129,999)**	(69,160)
Finance income	6	**34**	9
Finance costs	6	**(8,814)**	(1,960)
Net finance costs	6	**(8,780)**	(1,951)
Loss before income tax		**(138,779)**	(71,111)
Income tax expense	7	**-**	(2)
Loss for the year		**(138,779)**	(71,113)

* *For the period from 17 July 2013 (date of incorporation) to 31 December 2013.*

Statement of Other Comprehensive Income

for the year ended 31 December 2014

	2014 €'000	2013 * €'000
Loss for the year	**(138,779)**	(71,113)
Other comprehensive income		
Items that will not be reclassified to the income statement		
Defined benefit actuarial losses	**(10,330)**	-
Total other comprehensive loss for the year	**(10,330)**	-
Total comprehensive loss for the year	**(149,109)**	(71,113)

**For the period from 17 July 2013 (date of incorporation) to 31 December 2013.*

Balance Sheet

as at 31 December 2014

	Notes	2014 €'000	2013 €'000
Assets			
Non-current assets			
Property, plant and equipment	9	**737,370**	51,864
Intangible assets	10	**87,888**	57,004
Trade and other receivables	12	**30,360**	-
Total non-current assets		**855,618**	108,868
Current assets			
Trade and other receivables	12	**72,855**	43
Cash and cash equivalents	13	**37,134**	36,762
Restricted deposits	13	**5,607**	5,602
Current tax asset	11	**2**	-
Total current assets		**115,598**	42,407
Total assets		**971,216**	151,275
Equity and liabilities			
Equity			
Share capital	14	**-**	-
Capital contribution reserve	15	**(296,466)**	-
Retained losses		**220,222**	71,113
Total equity		**(76,244)**	**71,113**
Liabilities			
Non-current liabilities			
Borrowings and other debt	16	**(54,000)**	(161,511)
Retirement benefit obligations	17	**(32,820)**	-
Deferred revenue	18	**(32,801)**	-
Provisions	19	**(75,789)**	-
Trade and other payables	20	**(15,053)**	(5,600)
Total non-current liabilities		**(210,463)**	(167,111)
Current liabilities			
Borrowings and other debt	16	**(307,692)**	-
Deferred revenue	18	**(16,652)**	-
Provisions	19	**(32,375)**	-
Trade and other payables	20	**(327,790)**	(55,275)
Current tax liabilities	11	**-**	(2)
Total current liabilities		**(684,509)**	(55,277)
Total liabilities		**(894,972)**	(222,388)
Total equity and liabilities		**(971,216)**	(151,275)

For and on behalf of the Board:

Michael McNicholas

Michael McNicholas

J Tierney

John Tierney

10th June 2015

Date of Approval

Statement of Changes in Equity

for the year ended 31 December 2014

	Share capital €'000	Capital contribution €'000	Retained losses €'000	Total €'000
Period ended 31 December 2013:				
Loss for the period	-	-	(71,113)	(71,113)
Other comprehensive income net of income tax	-	-	-	-
Total comprehensive loss for the period	-	-	(71,113)	(71,113)
Issue of shares	-	-	-	-
Balance at 31 December 2013	-	-	(71,113)	(71,113)
Period ended 31 December 2014:				
Loss for the year	**-**	**-**	**(138,779)**	**(138,779)**
Other comprehensive loss net of income tax	**-**	**-**	**(10,330)**	**(10,330)**
Total comprehensive loss for the year	**-**	**-**	**(149,109)**	**(149,109)**
Capital contributions (note 15)	**-**	**296,466**	**-**	**296,466**
Balance at 31 December 2014	**-**	**296,466**	**(220,222)**	**76,244**

Statement of Cash Flows

for the year ended 31 December 2014

	Notes	2014 €'000	2013* €'000
Cash flows used in operating activities			
Loss for the year		**(138,779)**	(71,113)
Adjustments for:			
Depreciation and amortisation	5	**23,425**	1,005
Retirement benefit service cost	17	**670**	-
Net finance costs	6	**8,780**	1,951
Income tax expense	7	**-**	2
		(105,904)	(68,155)
Working capital changes:			
Change in trade and other receivables		**(13,230)**	(43)
Change in trade and other payables		**136,670**	26,045
Change in deferred income		**(64,881)**	-
Change in provisions		**488**	-
Cash used in operating activities		**(46,857)**	(42,153)
Interest paid		**(12,101)**	(210)
Income tax paid		**(4)**	-
Net cash used in operating activities		**(58,962)**	(42,363)
Cash flows from investing activities			
Payments for property, plant and equipment		**(508,407)**	(47,696)
Payments for intangible assets		**(39,474)**	(33,138)
Interest received		**34**	9
Net cash used in investing activities		**(547,847)**	(80,825)
Cash flows from financing activities			
Proceeds from borrowings		**200,181**	159,950
Capital contributions received		**407,000**	-
Net cash from financing activities		**607,181**	159,950
Net increase in cash and cash equivalents	13	**372**	36,762
Cash and cash equivalents at 1 January/17 July	13	**36,762**	-
Cash and cash equivalents at 31 December		**37,134**	36,762

**For the period from 17 July 2013 (date of incorporation) to 31 December 2013.*

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1. Statement of Accounting Policies

(a) Basis of Preparation

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

The financial statements are presented in euro, rounded to the nearest thousand and are prepared on a historical cost basis.

On 1 January 2014, Irish Water became responsible for water and wastewater infrastructure assets from LAs, and acquired other associated assets and assumed certain liabilities as a result. The Company's accounting policy in respect of this transaction is to initially recognise these assets and liabilities at fair value upon acquisition, and subsequently measure on a historical cost basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Further details are provided in note 8.

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, as endorsed by the EU, and effective for accounting periods ending on or before 31 December 2014.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and consequently the financial statements are prepared on a going concern basis. Please refer to further detail provided in note 2 to the financial statements.

In the process of applying these accounting policies, judgements and estimates are necessarily used which affect the amounts recognised in the financial statements. These estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and assumptions are reviewed on an ongoing basis. The areas involving a higher degree of judgement, complexity or areas where assumptions and estimates are significant to the financial statements are described in note 1(r) to the financial statements.

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

(b) New Accounting Standards and Interpretations

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

Standard/Amendment	*Effective Date (as endorsed by the EU)*	*Endorsed by the EU*
IFRS 10 Consolidated Financial Statements	1 January 2014	December 2012
IFRS 11 Joint Arrangements	1 January 2014	December 2012
IFRS 12 Disclosure of Interests in Other Entities	1 January 2014	December 2012
IAS 27 (2011) Separate Financial Statements	1 January 2014	December 2012
IAS 28 (2011) Investments in Associates and Joint Ventures	1 January 2014	December 2012
Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2014	December 2012
Amendments to IFRS 10, 11, 12 Transition Guidance	1 January 2014	April 2013
Amendments to IFRS 10, 12 and IAS 27 Investment Entities	1 January 2014	November 2013
Amendment to IAS 36 Impairment of Assets	1 January 2014	December 2013
Amendment to IAS 39 Novation of Derivatives and Hedge Accounting	1 January 2014	December 2013

In the current year, the Company has applied a number of new and revised IFRS, as set out in table 1, that are mandatorily effective under IFRS, as endorsed by the EU, for accounting periods beginning on or after 1 January 2014.

The package of five standards on control, consolidation, joint arrangements, associates and disclosures, comprising IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011), IAS 28 (2011), and the amendments to these standards set out in table 1, became effective on 1 January 2014 under IFRS as endorsed by the EU, with retrospective application for comparative periods presented. IFRS 10 provides a single consolidation model that identifies control as the basis of consolidation for all types of entities. It has replaced IAS 27 (2008) and SIC 12. IFRS 11 establishes principles for financial reporting by the parties to a joint arrangement, thereby replacing IAS 31 and amending IAS 28 (2008). IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The application of these new standards and amendments to standards did not have a material impact on the Company's financial statements for 2014.

The remaining amendments, annual improvements and interpretations set out in table 1 were applied by the Company from their effective date under IFRS, as endorsed by the EU. The application of these did not have a significant impact on the Company's financial statements.

Statement of Accounting Policies (continued)

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

Standard/Amendment	*IASB Effective Date*	*Endorsed by the EU*
IFRIC 21 Levies	1 January 2014	June 2014
Annual Improvements to IFRS 2011-2013	1 July 2014	December 2014
Annual Improvements to IFRS 2010-2012	1 July 2014	December 2014
Amendment to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014	December 2014
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	(Outstanding)
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	(Outstanding)
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016	(Outstanding)
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016	(Outstanding)
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016	(Outstanding)
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	(Outstanding)
Amendments to IAS 1: Disclosure Initiative	1 January 2016	(Outstanding)
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception	1 January 2016	(Outstanding)
IFRS 15 Revenue from Contracts with Customers	1 January 2017	(Outstanding)
IFRS 14 Regulatory Deferral Accounts	1 January 2016	(Outstanding)
IFRS 9 (2010 and 2009) Financial Instruments	1 January 2018	(Outstanding)

Table 2 sets out the standards, amendments to standards and interpretations that are in issue but are not yet effective under IFRS, as endorsed by the EU, for the year ended 31 December 2014 and thus have not been applied in preparing these financial statements.

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. Subject to EU endorsement, the Company will apply IFRS 9 from its effective date under IFRS, as endorsed by the EU (IASB effective date being 1 January 2018). The impact of IFRS 9 on the financial statements is still under assessment. The Company continues to assess the impact of adopting the standard while the standard continues through the stages of EU IFRS endorsement.

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective (IASB effective date being 1 January 2017). The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces a five step approach to revenue recognition. Under IFRS 15, an entity should recognise revenue when the performance obligation is satisfied i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. IFRS 15 provides prescriptive guidance to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. Application of this standard could have a material impact on the amounts reported and disclosures made in the Company's financial instruments. However it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company has completed a detailed review.

Statement of Accounting Policies (continued)

The remaining IFRS, amendments and annual improvements have not yet been endorsed by the EU, however based on assessment of the IFRS/amendment/annual improvement as currently issued, it is anticipated that the application of these will not have a significant impact on the Company's financial statements.

(c) Property, Plant and Equipment

i. Recognition

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses thereon. Cost includes direct costs (including directly attributable labour and overhead costs) 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. No depreciation is charged on assets under construction.

ii. Depreciation

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

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

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

Depreciation is not charged on land or assets under construction.

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

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

iii. Subsequent Expenditure

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

Statement of Accounting Policies (continued)

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 year in which they are incurred.

(d) Intangible Assets

i. Software and Software Under Development

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

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

ii. Research and Development

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

iii. Amortisation of Intangible Assets

Intangible assets are amortised on a straight-line basis in 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 assets are amortised, on a straight-line basis, over their estimated useful lives of up to 7 years.

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

iv. Borrowing Costs

Refer to accounting policy 1(c)(iv).

(e) 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 any such indication exists, then the asset's recoverable amount is estimated.

Statement of Accounting Policies (continued)

iii. Recognition of an Impairment Loss

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

iv. Reversal of an Impairment Loss

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

A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit 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.

(f) 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.

(g) Leases

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

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

Statement of Accounting Policies (continued)

Accounting for arrangements that contain a lease

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

(h) Financial Assets and Liabilities

i. Interest Bearing Borrowings

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

ii. Non-Derivative Financial Assets and Liabilities

Trade and other receivables
Trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount net of transaction costs, and are subsequently carried at this value less an appropriate allowance for impairment losses.

Impairment losses are recognised where there is objective evidence of a dispute or an inability to pay. An additional allowance is made on a portfolio basis to cover additional incurred losses based on an analysis of previous losses experienced and adjusted to reflect current economic conditions.

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

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

(i) Provisions

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

(j) Grants

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

(k) Share Capital

The units of share capital are valued at the price at which they were issued to the Minister for the Environment, Community and Local Government, the Minister for Finance, and Ervia.

(l) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services in the normal course of business.

Revenue is recognised when the significant risks and rewards of ownership are transferred to the customer, recovery of consideration is probable and the amount of revenue can be reliably measured. Revenue is not recognised until the service has been provided to the customer and is shown net of value added tax and other sales related taxes.

Where services have been provided, but for which no invoice has been raised at the year end, an estimate of the value is included in revenue as unbilled consumption. This includes an estimate of the value of water and wastewater services supplied to customers between the date of the last meter reading and the year-end.

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

In line with IFRIC 18 Transfer of Assets from Customers, non-repayable supply contributions received are recognised in the income statement as revenue in accordance with IAS 18 Revenue. Contributions are recognised in deferred income when received, and are released to the income statement in accordance with fulfilment of performance obligations.

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

(m) Operating Profit/(Loss)

Operating profit/(loss) is stated before net finance costs and taxation.

(n) Net Finance Costs

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Company's right to receive payment is established.

Finance costs comprise interest payable on borrowings, 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 method. Pension interest costs represent the interest cost calculated by applying the discount rate used to discount to the net defined benefit obligation and presented on a net basis.

(o) Income Tax

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

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

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

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

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

(p) 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. Actuarial gains and losses are recognised outside of the income statement and are presented in other comprehensive income.

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

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

ii. Defined Contribution Pension Scheme

The Company operates a defined contribution pension scheme.

A defined contribution scheme is a post-employment scheme under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

The contributions payable under the defined contribution schemes are charged to the income statement in the periods during which services are rendered by employees.

(q) Determination of Fair Values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and for non-financial asset and liabilities. In estimating the fair value of an asset or liability, the Company uses market observable data where 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 in 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 are 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.

(r) Estimates and Judgements

In the process of preparing these financial statements, estimates and judgements are necessarily used which affect the amounts recognised in the financial statements. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation.

When there is no standard or interpretation applicable to a specific transaction, the Company exercises judgement to determine the most appropriate accounting policy that will supply relevant, reliable information for preparation of its financial statements. It should be noted that the impact of variation in some assumptions and estimates can have a particularly material impact on the reported results. These include but are not limited to the following:

i. Judgements

Asset acquisition accounting
Irish Water has assumed the responsibilities for public water and wastewater services from LAs, and determined that this transaction does not fall within the scope of IFRS 3 Business Combinations. Further details supporting this judgement made are outlined in note 8.

Statement of Accounting Policies (continued)

Constructive obligation in respect of defined benefit obligation
Irish Water has determined that its responsibility for any future increases in superannuation benefits payable to LA and DECLG ("Department of the Environment, Community and Local Government") employees who will transfer to Irish Water has given rise to a constructive obligation to provide for a defined benefit retirement obligation. Further details are provided in note 17.

Accounting for customer connection contributions
Irish Water assumed certain customer connection contributions from LAs. Irish Water has used its judgement and recognised these as non-repayable supply contributions in the income statement when the performance obligations are fulfilled in accordance with IAS 18 Revenue. Further detail is provided in note 18.

ii. Assumptions and Estimation Uncertainties

Calculation of unbilled consumption
Services provided, but not invoiced, are recorded as unbilled revenue in accordance with Irish Water's accounting policy. The recognition of unbilled revenue involves an estimation of the value of the services provided, but due to the complexity of billing cycles across the LAs, a number of approaches are adopted to calculate this valuation. The estimation can either be based on actual services provided in the prior comparative period, or on historic trend analysis. Irish Water uses the expertise of the LAs to mitigate uncertainty in the estimation process.

Impairment allowance in respect of trade and other receivables
The impairment allowance in respect of trade and other receivables is derived through the application of expected default and loss factors, informed by historical loss experience and other factors on a portfolio basis, in addition to impairment allowances taken against individual accounts.

Fair value of identifiable assets acquired and liabilities assumed on the transfer from Local Authorities
As outlined in note 8, the assets and liabilities of each LA transferred to Irish Water as of 1 January 2014. A key estimate for Irish Water was to ascertain the fair value of the assets acquired and liabilities assumed.

A due diligence process for each LA was implemented whereby the assets and liabilities to be transferred to Irish Water were identified. This process facilitated Irish Water's payment due to/due from each LA in return for the transfer of water and wastewater assets and liabilities. Additionally, an exercise was conducted to identify all contingencies and capture them as liabilities if they met the recognition criteria.

The due diligence process reduces, but does not eliminate, the estimation uncertainty surrounding the fair value of assets acquired and liabilities assumed.

Measurement of defined benefit obligation
Reasonably possible changes at the reporting date to one or more of the relevant actuarial assumptions outlined in note 17 could bear a material impact on the defined benefit retirement obligation recorded.

Measurement of legal and other related claims provision
The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. In particular, the measurement of the provision for legal and other related claims is sensitive to assumptions concerning costs and disbursement schedules. A revised estimate is therefore established at each reporting date to ensure that the amounts accrued correspond to the best estimate of the costs eventually to be borne by the Company. Any significant differences resulting from these revised estimates could entail changes in the amounts accrued. Refer to Note 19.

2. Going Concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the director's report on pages 4 to 13. In addition, note 21 to the financial statements includes the Company's objectives, policies and process for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

The Irish Government has confirmed that the establishment of Irish Water remains a core policy commitment. The Company has commitments in place in relation to the receipt of state funding and the Company's forecasts and projections show that it will be able to operate during the period of assessment within the level of the funding being provided, recognising published Government funding decisions. The Company will continue to operate as a regulated utility governed by the Commission for Energy Regulation.

Irish Water is expected to meet its liabilities as they fall due through a combination of operational cash inflows from the domestic and non-domestic sector, third party finance (such as the Ireland Strategic Investment Fund, EIB, bank lending and capital markets facilities) and State support which may be in the form of both equity and subvention.

On the basis of the above the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and consequently the financial statements are prepared on a going concern basis. The Directors have concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern over the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

3. Revenue

	2014 €'000	2013* €'000
Total	**687,188**	**-**

**For the period from 17 July 2013 (date of incorporation) to 31 December 2013.*

Revenue of €687 million for the year to 31 December 2014 was generated from non-domestic income (€248 million) and government subvention (€439 million, see related party note 25(b)). Irish Water did not commence trading in 2013 and had no revenue accruing for 2013.

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

Under the transfer of water and wastewater services from LAs to one national service provider (see note 8), the LAs will continue to bill and collect as agents for Irish Water for 2014 and 2015 for all non-domestic water related supply and services.

During 2014, the Company provided non-domestic water related supply and services in the Republic of Ireland, which it considers to be its sole geographical and operational segment for the year.

4. Operating Costs (excluding depreciation and amortisation)

	2014 €'000	2013* €'000
Payroll and salaries	**15,528**	1,418
SLA payroll and overheads (note 25(d)(iii))	**252,051**	-
Operational water and waste costs	**271,451**	289
Administration and facilities	**60,277**	9,392
Utilities and rates	**106,325**	-
Other	**88,130**	57,057
Total	**793,762**	68,156

For the period from 17 July 2013 (date of incorporation) to 31 December 2013.

Current year figures represent operations from 1 January 2014 when Irish Water became responsible for public water and waste water services. The comparative figures represent the period from incorporation (July 2013) to 31 December 2013 and cover those costs incurred during the establishment of the Irish Water entity.

Payroll costs	2014 €'000	2013* €'000
Wages and salaries	**17,212**	1,276
Social welfare costs	**1,586**	140
Pension costs - defined contribution plans	**560**	2
	19,358	1,418
Capitalised payroll	**(3,830)**	-
Payroll costs charged to the income statement	**15,528**	1,418

**For the period from 17 July 2013 (date of incorporation) to 31 December 2013.*

The average number of employees employed by the Company was 289 (2013: 20) for 2014. During the year ended 31 December 2014, the Company contributed €560,000 (2013: €2,400) on behalf of its employees to an appointed Personal Retirement Savings Account (PRSA) provider.

Operating costs are stated after charging:	2014* €'000	2013** €'000
Auditor's remuneration		
- statutory audit services	**190**	22
- other audit related assurance services	**10**	3
- other non-audit services	**128**	-
Total	**328**	25

** amounts net of irrecoverable VAT*

Board members' emoluments		
- fees	**127**	34
- remuneration of the Managing Director	**248**	165
- expenses	**6**	-
Total	**381**	199

***For the period from 17 July 2013 (date of incorporation) to 31 December 2013.*

Operating Costs (continued)

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

	2014 €'000	2013* €'000
Managing Director's basic salary	**200**	135
Other benefits including pension costs, cost of company car and health insurance	**48**	30
Total	**248**	165

**Remuneration details for 2013 are from April to December 2013 as the Managing Director commenced office in April 2013.*

5. Depreciation and Amortisation

	2014 €'000	2013* €'000
Depreciation	**14,303**	683
Amortisation of intangible assets	**9,122**	321
Total	**23,425**	1,004

**For the period from 17 July 2013 (date of incorporation) to 31 December 2013.*

6. Net Finance Costs

	2014 €'000	2013* €'000
Finance income		
Foreign exchange gain	**4**	-
Interest income on short-term deposits	**30**	9
Total finance income	**34**	9
Finance costs		
Interest & finance costs on borrowings	**(12,093)**	(2,880)
Interest capitalised	**4,129**	920
Pension net interest cost	**(850)**	-
Total finance costs	**(8,814)**	(1,960)
Net finance costs	**(8,780)**	(1,951)

**For the period from 17 July 2013 (date of incorporation) to 31 December 2013.*

7. Income Tax Expense

	2014 €'000	2013* €'000
Current tax expense		
Current tax	-	2
	-	2
Deferred tax expense		
Origination and reversal of temporary differences	-	-
	-	-
Total expense	-	2

Reconciliation of effective tax rate	2014 €'000	2013* €'000
Loss before tax	**(138,779)**	(71,111)
Taxed at 12.5%	**(17,347)**	(8,889)
Expenses not deductible for tax purposes	**1,466**	270
Deferred tax asset not recognised	**15,877**	8,620
Interest income taxed at higher rates	**4**	1
Income tax expense	-	2

**For the period from 17 July 2013 (date of incorporation) to 31 December 2013.*

8. Asset Acquisition

Under the Water Services Act 2013, Irish Water brought the water and wastewater services of the 34 LAs together under one national service provider. The transfer of water and wastewater infrastructure assets from the 34 LAs to Irish Water was provided for in the enactment of the Water Services Act 2013. Due to the merging of certain LAs during 2014, the total number of LAs at 31 December 2014 had reduced to 31.

Irish Water has taken over the responsibilities for public water and wastewater services from the LAs from January 2014 (see note 25(d)). It is responsible for the operation of public water services including the management of national water assets, maintenance of the water system, investment and planning, managing capital projects and customer care and billing. As well as responsibility for public water services, Irish Water will also be making capital and investment decisions regarding the country's water infrastructure on a national basis.

(a) Acquisition Accounting

Irish Water has considered whether the transfer of the water and wastewater infrastructure assets from the 34 LAs to Irish Water at 1 January 2014 meets the definition of a business combination.

A 'business combination' is defined by IFRS 3 Business Combinations as a transaction or other event in which an acquirer obtains control of one or more businesses.

IFRS 3 defines a business as an integrated set of activities and assets that is capable of being conducted and managed to provide a return to investors (or other owners, members or participants) by way of dividends, lower costs or other economic benefits. A business generally consists of inputs, processes applied to those inputs and the ability to create outputs.

Asset Acquisition (continued)

The Directors have assessed that the transfer of the water infrastructure assets did not meet the definition of a business as:

- an economic return from the individual LA asset transfers was not capable of being generated; and
- key business processes were not transferred and were instead established by Irish Water.

Irish Water has been established as a new utility under the internationally-developed High Performance Utility Model ('HPU model'), encompassing international best practice and streamlined structures and processes, which covers such key processes as asset management (including capital delivery and technical advisory), asset operations, corporate services, customer operations, human resources and support services. The HPU model is fundamentally different to the models used by the individual LAs and therefore confirms that key processes were not acquired by Irish Water, but rather developed by Irish Water to ensure an economic return could be achieved.

As a result, IFRS 3 *Business Combinations* does not apply to the acquisition of an asset or a group of assets that does not constitute a business. Therefore, Irish Water has applied asset acquisition accounting to this transaction. In such cases, the acquirer (Irish Water) shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of and recognition criteria of intangible assets in IAS 38 *Intangible Assets*) and liabilities assumed. The cost of the group of assets (and liabilities) acquired in an asset acquisition is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase and does not give rise to goodwill.

(b) Acquisition Date

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

(c) Consideration

No consideration has been paid by Irish Water for the water infrastructure assets acquired. The LAs will be compensated for certain financial assets (including receivables) or charged for certain financial liabilities transferred.

The Irish government has made a cash capital contribution to Irish Water and a non-cash contribution, represented by the other net assets transferred from the 34 LAs. The capital contribution has been recorded in equity (see note 15).

(d) Fair value of identifiable assets acquired and liabilities assumed

Consideration for the transfer from LAs to Irish Water has been measured at fair value at the acquisition date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date determined using:

• Discounted cash flows;
• Market values; or
• Replacement values.

A market participant would value the opening assets based on their prospective earnings which is set by the regulator. Irish Water is subject to the regulations developed by the Commission for Energy Regulation ('CER' or 'the Regulator'). These regulations prescribe the elements on which Irish Water's regulated revenues are based. Those revenues determine the profitability of the Irish Water business. As the value of Irish Water's assets are derived from the expected economic returns in the future, this regulatory regime is critical to valuing the transferred assets.

Asset Acquisition (continued)

The value attributed to opening property, plant and equipment is based on the future return provided for in the regulatory regime – which consists mostly of liabilities linked to opening assets assumed by Irish Water, for which the regulator has allowed a future return.

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

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

	Note	2014 €'000
Property, plant and equipment	9	127,589
Trade receivables		81,506
Bonds and deposits		8,459
Total assets acquired		**217,554**
Capital accruals		(8,370)
Deferred income	18	(114,334)
Provisions	19	(107,676)
Trade payables and accruals		(21,800)
Consideration payable		(52,819)
Relevant contracts tax payable		(2,119)
Retirement benefit obligation	17	(20,970)
Total liabilities acquired		**(328,088)**
Total identifiable net liabilities acquired	8(c)	**(110,534)**
Capital Contribution from Irish Government	8(c)	407,000
Net capital contribution received	15	**296,466**

9. Property, Plant and Equipment

	Infrastructure assets €'000	Operational assets €'000	Non-network assets €'000	Assets under construction €'000	Total €'000
Cost					
Additions from date of incorporation (17 July 2013)	29,214	11,965	9,516	1,852	52,547
At 31 December 2013	29,214	11,965	9,516	1,852	52,547
Acquired from Local Authorities on 1 January 2014 (Note 8)	**127,589**	**-**	**-**	**-**	**127,589**
Additions	**217,848**	**88,377**	**7,901**	**258,095**	**572,221**
At 31 December 2014	**374,651**	**100,342**	**17,417**	**259,947**	**752,357**
At 17 July 2013	-	-	-	-	-
Depreciation for the period	326	133	224	-	683
At 31 December 2013	326	133	224	-	683
Depreciation for the year	**3,363**	**6,336**	**4,605**	**-**	**14,304**
At 31 December 2014	**3,689**	**6,469**	**4,829**	**-**	**14,987**
Carrying amounts					
At 31 December 2013	28,888	11,832	9,292	1,852	51,864
At 31 December 2014	**370,962**	**93,873**	**12,588**	**259,947**	**737,370**

During the year, the Company capitalised €3.6 million (2013: €119,000) in interest. The Company also capitalised €3.7 million in payroll costs during the year (2013: €Nil).

10. Intangible Assets

	Software under development €'000	Software €'000	Total €'000
Cost			
Additions (including internally developed) from incorporation (17 July 2013)	30,323	27,002	57,325
At 31 December 2013	30,323	27,002	57,325
Additions (including internally developed)	**-**	**40,006**	**40,006**
Transfers in year (assets brought to use)	**(17,198)**	**17,198**	**-**
At 31 December 2014	**13,125**	**84,206**	**97,331**
Amortisation			
At 17 July 2013	-	-	-
Amortisation for the period	-	321	321
At 31 December 2013	-	321	321
Amortisation for the year	**-**	**9,122**	**9,122**
At 31 December 2014	**-**	**9,443**	**9,443**
Carrying amounts			
At 31 December 2013	30,323	26,681	57,004
At 31 December 2014	**13,125**	**74,763**	**87,888**

During the year, the Company capitalised €531,000 (2013: €801,000) in interest. The Company also capitalised €118,000 in payroll costs during the year (2013: €Nil).

Software and software under development

Software costs include both internally developed and externally purchased assets. Amortisation of software is charged to the income statement as part of depreciation and amortisation. Software under development is reviewed for impairment at each reporting date and will be reviewed on at least an annual basis into the future. Expenditure on internally generated brands is expensed as incurred.

11. Tax Assets and Liabilities

Current tax assets and liabilities

	2014 €'000	2013 €'000
Current tax assets	**2**	-
Current tax liabilities	**-**	(2)

Deferred tax note
No deferred tax asset has been recognised in respect of the deductible temporary differences relating to expenditure incurred to date by Irish Water as it is not probable that such differences will reverse in the foreseeable future. As required by IAS 12 Income Taxes, deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The aggregate amount of temporary differences for which a deferred tax asset has not been recognised will be up to €204 million on which a tax credit of up to €25.5 million may be available. As encouraged by IAS 12, deferred tax asset recognition is regularly reassessed.

12. Trade and Other Receivables

	2014 €'000	2013 €'000
Trade receivables	**32,054**	-
Unbilled consumption	**33,395**	-
Prepayments	**5,538**	43
Restricted cash balances held by Local Authorities	**8,733**	-
Amounts due from related parties	**21,627**	-
Other receivables	**1,868**	-
Total	**103,215**	43
Non-current	**30,360**	
Current	**72,855**	43
Total	**103,215**	43

Trade receivables are stated net of impairment allowances. Impairment losses are recognised where there is objective evidence of a dispute or an inability to pay. The Company's exposure to credit risks related to trade and other receivables is set out in note 21.

13. Cash, Cash Equivalents and Restricted Deposits

Cash and cash equivalents

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

	2014 €'000	2013 €'000
Short-term deposits	**36,700**	35,800
Cash	**434**	962
Total	**37,134**	36,762

	2014 €'000	2013 €'000
At 1 January/17 July	**36,762**	-
Increase in cash and cash equivalents in the statement of cash flows	**372**	36,762
At 31 December	**37,134**	36,762

Restricted deposits

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

	2014 €'000	2013 €'000
Current	**5,607**	5,602
Total	**5,607**	5,602

14. Share Capital

Share capital

Authorised:	2014 €'000	2013 €'000
50,000,000 "A" shares at €0.01 each	**500**	500
50,000,000 "B" shares at €0.01 each	**500**	500
Total	**1,000**	1,000

Issued, called up and fully paid:	2014 €	2013 €
1 "A" share at €0.01 each	**0.01**	0.01
2 "B" shares at €0.01 each	**0.02**	0.02
Total	**0.03**	0.03

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

On incorporation the Company issued 2 "B" shares at €0.01 each. One of these was issued to the Minister for the Environment, Community and Local Government. The second "B" share was issued to

Share Capital (continued)

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

15. Capital Contribution Reserve

	2014 €'000	2013 €'000
At beginning of year/period	**-**	-
Movement during the year/period (note 8)	**296,466**	-
At end of year/period	**296,466**	**-**

Under Section 37, the Minster for Finance may, for the purposes of the Act and subject to such conditions as he or she may determine, advance monies to Irish Water. The Minister for Finance has sought the approval of the Government to provide such monies to Irish Water and the Government decided that it would provide an amount of equity in 2014 to Irish Water ("Capital Funding").

Capital Funding is a capital contribution, which is effectively a gratuitous payment from the Government to Irish Water and is irrevocable, non-refundable and unconditional in all respects. Irish Water is not obliged to repay any capital contribution received and no shares or other consideration has been issued in exchange.

The closing capital contribution reserve is the net of a cash capital contribution of €407 million received from the Minister for Finance in 2014, and the fair value of the total identifiable net liabilities acquired as a result of the transfer of water and wastewater infrastructure assets from LAs, as detailed further in note 8.

16. Borrowings and Other Debt

This note provides information about the contractual terms of the Company's interest-bearing borrowings. For more information about the Company's exposure to interest rate and liquidity risk, see note 21.

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

	Convertible debt instrument 2014 €'000	Loans from financial institutions 2014 €'000	Total 2014 €'000	Total 2013 €'000
Less than one year	**-**	**307,692**	**307,692**	-
Current borrowings	**-**	**307,692**	**307,692**	-
Between one and five years	**54,000**		**54,000**	161,511
More than five years	**-**	**-**	**-**	-
Non-current borrowings	**54,000**	**-**	**54,000**	161,511
Total borrowings	**54,000**	**307,692**	**361,692**	161,511

Borrowings and Other Debt (continued)

The Company's borrowings comprise of facilities drawn from the National Pension Reserve Fund (NPRF)/Irish Strategic Investment Fund (ISIF) and the Department of Finance.

The NPRF/ISIF is a related party by virtue of being a Government sponsored body. Interest is charged at a fixed rate on the borrowings. The total funding available from this facility is €308 million. The borrowings are on an arm's length basis, other than that they are guaranteed by the Minister for Finance.

The Company also has a Convertible Debt Instrument of €54 million with the Department of Finance which is a related party by virtue of being a Government related entity. The principal amount of the Convertible Debt which is held by the Minister for Finance will be convertible into B Shares of €0.01 each in the capital of Irish Water, or such other class of shares in the capital of Irish Water as Irish Water and the Minister for Finance may from time to time agree. The right to convert will be exercisable on or at any time after the date of issuance by completing a notice of conversion.

Full details of related parties are provided in note 25.

17. Retirement Benefit Obligations

The Company operates a defined contribution pension scheme (Personal Retirement Savings Accounts) for all qualifying employees.

Personal retirement savings accounts (PRSAs)
In compliance with the provisions of the Pensions Act 1990 (as amended), the Company has appointed Personal Retirement Savings Account (PRSA) providers. During the year ended 31 December 2014, the Company contributed €560,000 (2013: €2,400) on behalf of its employees, which was charged to the income statement.

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

Pending the enactment of legislation and the establishment of the Irish Water defined benefit scheme, these staff were seconded from the LAs or DECLG to Irish Water. As these currently seconded staff will ultimately become Irish Water employees, this gives rise to the constructive obligation outlined below.

At 31 December 2014, an Irish Water defined benefit scheme is in the process of being established and has a number of administrative hurdles to satisfy before becoming active.

Under the Water Services Act 2014, Irish Water is responsible for any future increases in superannuation benefits payable to LA and DECLG employees ultimately employed by Irish Water, which arise from Irish Water service.

Irish Water has determined that a defined benefit liability has arisen as a result of the requirements of the Water Services Act 2014, in relation to the LA and DECLG staff ultimately employed by Irish Water, as outlined in the table below:

Retirement Benefit Obligations (continued)

	2014 €'000	2013 €'000
At beginning of year/period	**-**	-
Assumed from Local Authorities (Note 8)	**20,970**	-
Pension interest cost	**850**	-
Pension service cost	**670**	-
Actuarial loss	**10,330**	-
Total	**32,820**	-

The key assumptions used in determining the actuarial obligation at 1 January 2014 and 31 December 2014 are:

	2014	2013
Discount rate	**2.2%**	3.9%
Basic salary increases*	**2.0%**	2.5%
Pension increases	**1.5%**	2.0%
Inflation	**1.5%**	2.0%
Mortality	**88%/91%**	88%/91%

**plus salary scale to allow for promotional increases*

18. Deferred Revenue

Deferred revenue

	2014 €'000	2013 €'000
At 1 January/17 July		
Assumed from Local Authorities (Note 8)	**114,334**	-
Received in year	**1,924**	-
Recognised as revenue in year	**(66,805)**	-
At 31 December	**49,453**	-
Analysed as follows:		
Non-current	**32,801**	-
Current	**16,652**	-
Total	**49,453**	-

Customer connection contributions received in advance of customer connections are recorded initially as deferred revenue. Upon completion of the services rendered, the contributions are recognised in full in the income statement as revenue.

19. Provisions

Legal claims and other related provisions	Total €'000
At 1 January 2014	
Assumed from Local Authorities on 1 January 2014 (Note 8)	**107,676**
Provisions made/(released) in the year	**6,315**
Provisions used in the year	**(5,827)**
At 31 December 2014	**108,164**

Analysed as follows:

	2014 €'000
Non-current	**75,789**
Current	**32,375**
Total provisions	**108,164**

Legal claims and other related provisions are associated with the water and wastewater infrastructure assets which were transferred to Irish Water from the LAs on 1 January 2014. As part of the due diligence process to agree the assets and liabilities to be transferred from each LA to Irish Water, an exercise was conducted to identify all contingencies and capture them as a provision if they met the recognition criteria of IAS 37. The provision is made up of legal claims outstanding against the Company, way-leaves, and contractor retention and claims.

20. Trade and Other Payables

	2014 €'000	2013 €'000
Trade payables due	**21,283**	15,324
Accruals	**228,269**	33,385
Amounts due to related parties	**65,418**	2,532
Other payables	**15,154**	6,375
Taxation and social welfare creditors*	**12,719**	3,259
Total	**342,843**	60,875
Analysed as follows:		
Non-current	**15,053**	5,600
Current	**327,790**	55,275
Total	**342,843**	60,875
*** Taxation and social welfare creditors**		
PAYE/PRSI/social welfare	**653**	189
VAT	**12,066**	3,047
Other taxes	**-**	23
Total	**12,719**	3,259

21. Financial Risk Management and Financial Assets/Liabilities

Nature and extent of risks
The main financial risks that the Company had exposure to during the year were as follows:

(i) credit risk derived from the possible default of a non-domestic customer;
(ii) liquidity risk derived from the risk that suitable sources of funding for the Company's operations may not be available; and
(iii) market risk derived from exposure to fluctuations in foreign currency exchange rates, and interest rates.

This note presents information about the Company's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and its management of capital.

The Company's financial risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Financial risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Risk management framework
Responsibility for treasury activity and its performance rests with the Ervia Board, which exercises its responsibility through regular review. The Ervia Board Risk Committee reviews the appropriateness of the Company's Treasury Policy and the Ervia Audit and Finance Committee reviews the effectiveness of the system of internal controls.

The fair values of the primary financial assets and liabilities of the Company, together with their carrying values excluding provisions, can be analysed as follows:

Financial Risk Management and Financial Assets/Liabilities (continued)

	Assets and liabilities at amortised cost (carrying value)	Fair value
	2014	2014
	€'000	€'000
Assets		
Non-current financial assets		
Trade and other receivables (excluding prepayments)	30,360	30,360
Total non-current financial assets	30,360	30,360
Current financial assets		
Trade and other receivables (excluding prepayments)	67,317	67,317
Cash and cash equivalents	37,134	37,134
Restricted deposits	5,607	5,607
Total current financial assets	110,058	110,058
Total financial assets	140,418	140,418
Liabilities		
Non-current financial liabilities		
Borrowings and other debt	(54,000)	(54,276)
Trade and other payables	(15,053)	(15,053)
Total non-current financial liabilities	(69,053)	(69,329)
Current financial liabilities		
Borrowings and other debt	(307,692)	(309,302)
Trade and other payables	(327,790)	(327,790)
Total current financial liabilities	(635,482)	(637,092)
Total financial liabilities	(704,535)	(706,421)
Net financial liabilities	(564,117)	(566,003)

Financial Risk Management and Financial Assets/Liabilities (continued)

	Assets and liabilities at amortised cost or other 2013 €'000	Fair value 2013 €'000
Assets		
Current financial assets		
Trade and other receivables (excluding prepayments)	-	-
Cash and cash equivalents	36,762	36,762
Restricted deposits	5,602	5,602
Total current financial assets	42,364	42,364
Total financial assets	42,364	42,364
Liabilities		
Non-current financial liabilities		
Borrowings and other debt	(161,511)	(163,117)
Trade and other payables	(5,600)	(5,600)
Total non-current financial liabilities	(167,111)	(168,717)
Current financial liabilities		
Trade and other payables	(55,275)	(55,275)
Total current financial liabilities	(55,275)	(55,275)
Total financial liabilities	(222,386)	(223,992)
Net financial liabilities	(180,022)	(181,628)

Financial Risk Management and Financial Assets/Liabilities (continued)

Credit Risk

Credit risk is defined as the total loss that the Company would sustain on its business and market transactions if a counterparty defaulted and failed to perform its contractual obligations. These include credit exposures arising from trading relationships with customers.

The objective of credit risk management is to manage and control credit risk exposures within acceptable parameters, while optimising the return.

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

	2014	2013
	€'000	€'000
Trade and other receivables (excluding prepayments)	**97,677**	-
Cash and cash equivalents	**37,134**	36,762
Restricted deposits	**5,607**	5,602
Total	**140,418**	42,364

Treasury related credit risk
The Ervia Group operates a centralised treasury function, which undertakes all treasury activities of the Group, including on behalf of Irish Water.

The Ervia Group on behalf of Irish Water manages treasury related credit risk through the use of counterparty credit limits which take account of, among other relevant factors, published credit ratings. Exposure to credit risk on cash is monitored by the Ervia Group treasury function. It is the company's policy that cash is mainly placed on deposit with institutions who maintain an investment grade rating. The Ervia Group treasury function regularly evaluates and measures its treasury counterparty exposures.

The Ervia Group treasury function on behalf of Irish Water develops and maintains relationships with financial institutions in order to develop their long-term commitment to the company, who understand the business, and who may provide funding at competitive terms. The Ervia Group treasury function ensures that banking and treasury services are obtained at competitive prices. The Ervia Group Head of Treasury, supported by the Ervia Group Finance Director, the Ervia Group Chief Executive Officer, the Irish Water Head of Finance, and other appropriate senior managers, are responsible for managing and maintaining relationships.

Trade related credit risk
Trade receivables consist of a large number of customers spread across diverse industries. The LAs, as agents for Irish Water, continue to bill and collect all Non-Domestic trade receivables on our behalf and in line with the agreed Service Level Agreements. Irish Water have established processes in place to track LA collection performance against agreed targets.

Financial Risk Management and Financial Assets/Liabilities (Continued)

The maximum exposure to credit risk for trade receivables at the reporting date can be analysed as follows:

	2014 €'000	2013 €'000
Non-domestic customers - billed	32,054	-
Non-domestic customers - unbilled	33,395	-
Other trade receivables	32,228	-
Total	**97,677**	-

The ageing of trade receivables, net of impairment, is as follows:

	Net receivable 2014 €'000	Net receivable 2013 €'000
Not past due	75,520	-
Past due	22,157	-
Total	**97,677**	-

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

	2014 €'000	2013 €'000
At 1 January/17 July	-	-
Impairment loss recognised	24,590	-
Allowance utilised	-	-
At 31 December	**24,590**	-

The allowance for impairment losses in respect of trade receivables is based on an incurred loss model and is determined by the application of expected default and loss factors based on current legislation, informed by historical loss experience and other factors on a portfolio basis, in addition to impairment allowances taken against individual accounts. As domestic water charges only became payable by domestic customers from 1st January 2015, the 31st December 2014 trade receivables relates to non-domestic trade receivables.

Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Company may not be available, or the Company is unable to sell its assets on the market place and as a result is unable to meet short-term finance requirements and to settle obligations. Such a situation would negatively impact the Company's results as it could result in the incurrence of higher borrowing expenses to meet obligations. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation.

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

Cash surpluses are used primarily to reduce the level of debt. The Company does not systematically and continually deposit and borrow funds, although circumstances will arise from time to time where it is necessary or advantageous to hold cash on deposit. Cash surpluses may be invested in, but not limited to; Deposit Accounts, Time Deposits, Commercial Paper, Exchequer Bills, Government Gilts, Money Market Funds and Certificates of Deposit. The Company will invest surplus cash in euro. The Company's policy is to develop and maintain relationships to facilitate its long-term liquidity, access to capital and availability of risk management facilities. The Irish Water policy is that the priority in investing surplus cash is safety. Where funds are available for investment the Company will seek to optimise the return, taking into account the liquidity of the instrument, the interest rate yield curve, market conditions at the time of the transaction, the relative risk of the investment product and the approved credit limits under the Ervia Group treasury policy. The Company seeks to minimise the cost of short-term borrowing, subject to achieving appropriate terms and conditions. The Company monitors the level of bank charges and seeks to minimise such costs whilst ensuring that its banking services meet operational requirements.

At present, the Company believes it has access to sufficient funding and has both committed and uncommitted borrowing facilities to meet currently foreseeable requirements. Irish Water is in an establishment period and the medium term goal is to seek to have a number of sources of funds available at any particular time and to maintain a balanced debt maturity profile to minimise, insofar as possible, peaked repayments, refinancing risk, and to meet its financial obligations as they fall due. Funding was made available in 2014 from National Pensions Reserve Fund/ Ireland Strategic Investment Fund, a commercial bank, the Minister for Finance and the Local Government Fund. In 2015 the company will, in addition to non-domestic customers, begin to bill domestic customers and will use its revenue stream to fund its operations. Furthermore, Commercial bank funding as well as Government debt funding will be used to finance capital expenditure.

The following are the contractual maturities of financial liabilities (and assets of a similar nature), including the undiscounted interest payment associated with borrowings.

Financial Risk Management and Financial Assets/Liabilities (Continued)

	Carrying amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
At 31 December 2014						
Borrowings	**(361,692)**	**(370,307)**	**(315,101)**	**(55,206)**	**-**	**-**
Trade and other payables	**(342,843)**	**(342,843)**	**(327,790)**	**(15,053)**	**-**	**-**
Total	**(704,535)**	**(713,150)**	**(642,891)**	**(70,259)**	**-**	**-**
At 31 December 2013						
Borrowings	(161,511)	(169,017)	(5,243)	(163,774)	-	-
Trade and other payables	(60,875)	(60,875)	(60,875)	-	-	-
Total	(222,386)	(229,892)	(66,118)	(163,774)	-	-

Market Risk

Market risk is the possibility that changes in currency exchange rates or interest rates will adversely affect the value of the Company's financial assets, liabilities or expected future cash flows. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Ervia Group treasury function is responsible for managing market risk with respect to interest rates and currency exchange rates for the Company.

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

(b) Interest rate risk
Interest rate risk derives from changes in interest rates which affect the market value of financial assets and liabilities of the Company and the level of finance charges. The Company's objective is to achieve a stable and low cost of debt, taking account of business risks in general and the regulatory price control environment in particular. The Company's exposure to interest rate fluctuations covers two types of risk:

(i) a risk of change in the cash flows related to floating rate financial assets and liabilities; and
(ii) a risk of change in the value of fixed rate financial assets and liabilities.

The Company monitors exposure to interest rate risk on a calendar year basis. The Company's policy is to monitor open interest rate exposure positions, taking into account the current and expected shape of the yield curve, with a view to taking advantage of low interest rate environments to fix the Company's interest rate obligations and increase certainty as to the Company's interest rate expense profile.

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

	2014 €'000	2014 %	2013 €'000	2013 %
At fixed rates	**361,692**	**100.0%**	161,511	100.0%
At floating rates	**-**	**0.0%**	-	0.0%
Total	**361,692**	**100.0%**	161,511	100.0%

Financial Risk Management and Financial Assets/Liabilities (Continued)

The Company had €362 million of fixed rate debt at 31 December 2014 (2013: €162 million).

At 31 December 2014, the weighted average interest rate of the fixed debt portfolio, including guarantee fees where relevant, was 4.18% (2013: 4.62%), which comprised NPRF/ISIF debt of €308 million and a Department of Finance convertible debt instrument of €54 million.

Interest costs on the overdraft facility which was undrawn at 31 December 2014, are subject to the prevailing overdraft rate.

Cash flow sensitivity analysis for floating rate debt
Cash flow sensitivity analysis for floating rate debt was not applicable at 31 December 2014 as there was no floating rate debt.

22. Operating Leases

Non-cancellable operating lease rentals payable
The following operating leases are payable by the Company and generally relate to the rental of land and buildings. There are no significant or unusual restrictions imposed by the terms of the operating leases. All lease arrangements are at an arm's length basis.

	2014	2013
	€'000	€'000
Less than one year	**480**	560
Between one and five years	**80**	600
More than five years	**-**	-
Total	**560**	1,160

23. Capital Commitments

The following are the capital commitments which the directors have agreed and relate to the establishment of Irish Water, the rollout of domestic meters and major projects:

	2014	2013
	Total	Total
	€'000	€'000
Less than one year	**334,238**	297,835
Between one and five years	**335,500**	322,340
More than five years	**-**	-
Total	**669,738**	620,175

24. Contingencies

Contingent liabilities may arise in respect of contractual agreements to which the Company is a party. These are estimated based on information available of the potential cost associated with the outturn of any such events which exist at the reporting date. Liabilities over and above those provided for in the financial statements could arise as a result of the occurrence or non-occurrence of one or more uncertain future events but given the nature of the contingencies it is not practicable to make an estimate of the financial impact.

As part of the due diligence process to agree the assets and liabilities to be transferred from each LA to Irish Water, an exercise was conducted to identify all contingencies and capture them as a provision if they met the recognition criteria of IAS 37. There are no material contingent liabilities that require disclosure.

25. Related Parties

(a) Ervia
The Company is deemed to be a related party of Ervia, on the basis of the fact pattern set out in note 26.

During 2014, Ervia seconded certain employees to Irish Water to work on its establishment. The costs relating to these employees are recharged to Irish Water on a full cost recovery method with no margin earned. During 2014, the total value of transactions incurred by Ervia and recharged to Irish Water in respect of these activities was €9.2 million. At 31 December 2014, €3.0 million (2013: €5.4 million) was payable by Irish Water in respect of these activities.

In addition, the Ervia Group provides strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water, through the Group Centre, Major Projects area and Shared Services Centre. The Shared Services Centre is designed to provide transactional and support services to the Group in the areas of Finance, Procurement, Facilities, HR and IT, while supporting 31 LAs in the areas of Finance (accounts payable and project accounting), Procurement and IT. During 2014, the total value of transactions incurred by Irish Water in respect of these services was €25.9 million. At 31 December 2014, €9.6 million was payable by Irish Water in respect of these activities.

(b) Government, Government Sponsored Bodies and Government Related Entities
In common with many other entities, the Company deals in the normal course of business with other Government sponsored bodies, such as the Electricity Supply Board, Eirgrid and LAs:

- As described in note 3, the Company has received government subvention income during the year;
- As described in note 15, the Company has received a cash capital contribution from the Minister for Finance; and
- As described in note 16, the Company also has transactions with the NPRF, ISIF and the Department of Finance.

(c) Banks owned by the Irish State
In the normal course of business, the Company transacts with certain Irish banks which have become wholly or partially controlled by the Irish Government. All of the Company's transactions with such banks are on normal commercial terms. The Company had no borrowings with any such banks during the year ended or at 31 December 2014 (2013: €nil).

Related Parties (continued)

The Company's cash and cash equivalents and restricted deposits sitting on deposit with such banks was €37.1 million at 31 December 2014 (2013: €1.0 million).

(d) Local Authorities
(i) Secondees
During the year the LAs seconded a number of employees to the Company. The total amount transacted by the Company in respect of these secondees for the year totalled €10.3 million (2013: €3.2 million). At 31 December 2014, the Company had payables to the LAs of €1.6 million (2013: €0.2 million).

(ii) Licence to use the Water Infrastructure assets
A Licence to use the water assets has been granted by each LA to Irish Water as part of the Service Level Agreement ('SLA') in place between IW and each LA, as follows:

> The parties grant each other a mutual licence for a period of 12 months from the Effective Date, or such longer period as the parties may agree in writing, to perform their obligations under this Agreement as if all treatment plants, pumping stations, pipelines, premises, plant and equipment, Scada and telemetry systems and other property necessary for Irish Water to perform its Water Services functions transfer to Irish Water on the Effective Date ("Retained Premises") and both parties shall act in good faith so as to enable both parties to fulfil their statutory and contractual obligations in relation to such Retained Premises.

Irish Water shall, until such time as the Retained Premises are transferred by a transfer order to Irish Water, indemnify the LA from and against any and all losses that arises out of or result from the retention of the Retained Premises by the LA except to the extent that the Losses result from the fraud or negligence of the LA.

The Licence is a 12 month mutual licence (starting 1 January 2014) enabling both Irish Water and the LAs 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, IW gave the LAs an indemnity for any loss suffered by the LAs 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 2015.

(iii) Service Level Agreements (SLA's)
A Service Level Agreement between Irish Water and each LA was drafted and signed on the basis that Irish Water would own the water assets from 1 January 2014. The SLA between Irish Water and each individual LA is an outsourcing agreement for up to a 12 year period. The scope of services provided are outlined in the SLA:

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

The Services comprise the following headings:
- water treatment (including source protection);
- water network and related operations (including water conservation);
- delivery of water to customer connections and collection of wastewater from customer sewers;
- waste water network operations including combined sewers which discharge into the collection network;
- waste water treatment and related operations (including sludge management);

Related Parties (continued)

- sampling & testing;
- regular reporting on activities;
- support for the water services capital programme; and
- management, engineering and administration support in relation to the above.

Each LA will continue to operate and maintain the water assets on behalf of Irish Water in return for the agreed fees set out in the SLA. Performance targets and service levels are agreed in an Annual Service Plan between each LA and Irish Water in accordance with the SLA.

Amounts paid by Irish Water to the LAs in relation to the SLA's in 2014 were €252.1 million for operating expenditure (see note 4), €31.0 million for capital expenditure, and €104.3 million recharged for goods and services acquired through the LAs procurement systems.

(e) Directors' Interests
Directors had no beneficial interests in the Company at any time during the year or at 31 December 2014. The secretary and Michael O'Sullivan (Executive Director) are beneficiaries of the Bord Gáis Éireann Employee Share Ownership Plan.

(f) Key Management Compensation

	2014 €'000	2013 €'000
Salaries and other short-term employee benefits	**1,429**	646
Other benefits including pension costs, costs of company car and health insurance	**265**	98
Total	**1,694**	744

The key management compensation amounts disclosed above represent compensation to those people having the authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel includes Directors and senior executives.

26. Ultimate Parent Undertaking

At 31 December 2014, Ervia held a single voting share in the Company, with no economic rights attributable to that share. The Minister for Finance and the Minister for the Environment, Community and Local Government each held a single Water Economic Rights ('WER') share which carried no voting rights but carried all the economic rights to obtain benefit from the activities of the Company.

IFRS 10 defines control as "an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". Ervia's single voting share in the Company represents an existing right at 31 December 2014 that gives Ervia "power" over the Company through Ervia's ability to direct activities that significantly affect the variable returns of the Company. However, at 31 December 2014, this did not constitute "control", as defined by IFRS 10, as Ervia was not exposed to, or did not have rights to, variable returns or economic benefits from the Company at that date. Therefore, in order to comply with the requirements of IFRS, as the Company does not meet the definition of a subsidiary of Ervia under IFRS, the financial statements of the Company are not consolidated with the results of Ervia at 31 December 2014.

Refer to note 14 for further details of shareholdings and voting rights.

27. Subsequent Events

At the date of approval of the financial statements the directors are not aware of any post balance sheet events that require adjustment or disclosure to be made in the financial statements.

28. Approval of Financial Statements

The Directors approved the financial statements on 10 June 2015.