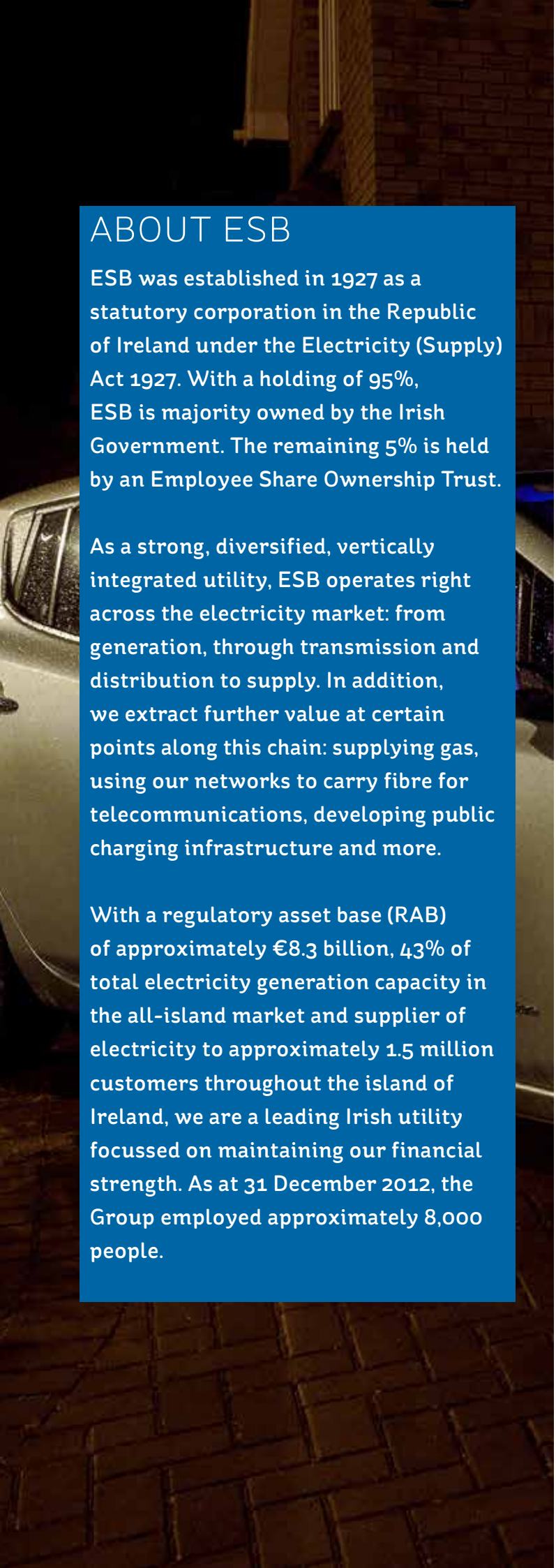
Energy for generations

ENERGY FOR CONNECTING YOU 24/7

Annual Report and Accounts 2012

esb.ie



ABOUT ESB

ESB was established in 1927 as a statutory corporation in the Republic of Ireland under the Electricity (Supply) Act 1927. With a holding of 95%, ESB is majority owned by the Irish Government. The remaining 5% is held by an Employee Share Ownership Trust.

As a strong, diversified, vertically integrated utility, ESB operates right across the electricity market: from generation, through transmission and distribution to supply. In addition, we extract further value at certain points along this chain: supplying gas, using our networks to carry fibre for telecommunications, developing public charging infrastructure and more.

With a regulatory asset base (RAB) of approximately €8.3 billion, 43% of total electricity generation capacity in the all-island market and supplier of electricity to approximately 1.5 million customers throughout the island of Ireland, we are a leading Irish utility focussed on maintaining our financial strength. As at 31 December 2012, the Group employed approximately 8,000 people.

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03:35
ENERGY FOR RECHARGING
BEFORE A BUSY DAY



ONLINE

This report is also available to view online at www.esb.ie/main/about-esb/financial-information.jsp

HIGHLIGHTS

FINANCIAL

- EBITDA OF €1,095 MILLION AND OPERATING PROFIT OF €415 MILLION
- OPERATING COSTS SAVINGS OF OVER €200 MILLION WERE ACHIEVED SINCE 2010
- €1.8 BILLION CONTRIBUTED TO THE IRISH ECONOMY
- A TOTAL OF €1.1 BILLION OF BONDS WERE ISSUED

OPERATIONAL

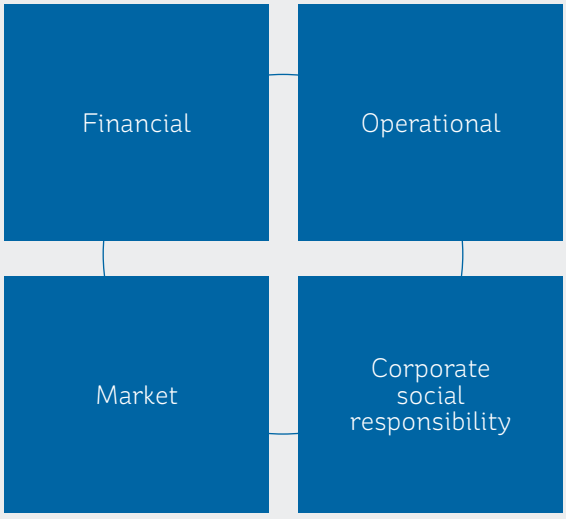
- 1.3 TWh OF ELECTRICITY GENERATED FROM RENEWABLE SOURCES
- CARRINGTON POWER LIMITED, AN 881 MW COMBINED CYCLE GAS TURBINE (CCGT) PLANT MANCHESTER, ENGLAND REACHED FINANCIAL CLOSE
- SMART METERING HAS NOW PROGRESSED TO THE DETAILED DESIGN PHASE

MARKET

- LAUNCH OF A NEW CORPORATE STRATEGY IN RESPONSE TO SIGNIFICANT CHANGES IN THE ECONOMIC, MARKET, FINANCIAL AND POLITICAL LANDSCAPE
- GENERATION MARKET SHARE OF 48% AND SUPPLY MARKET SHARE OF 36%
- 1.4 MILLION ELECTRICITY CUSTOMERS AND 80,000 DUAL FUEL CUSTOMERS
- SUCESSFUL COMPLETION BY ESB NETWORKS AND NIE OF THE MARKET HARMONISATION PROJECT

CORPORATE SOCIAL RESPONSIBILITY

- ELECTRIC IRELAND WAS THE 'OFFICIAL ENERGY PARTNER' TO TEAM IRELAND FOR LONDON 2012 OLYMPICS
- INTERNAL CARBON FOOTPRINT HAS REDUCED BY 33% SINCE 2006
- ESB WAS ONE OF 11 ORGANISATIONS TO SIGN THE DIVERSITY CHARTER IRELAND



TO UNDERSTAND THESE HIGHLIGHTS IN CONTEXT OF ESB'S BUSINESS ENVIRONMENT REFER TO **PAGE 7**

KEY FACTS & FIGURES

OPERATING PROFIT*

€415m

2012	€415m	-€54m -12%
2011	€469m	

EBITDA*

€1,095m

2012	€1,095m	-€26m -2%
2011	€1,121m	

TOTAL ASSETS

€12,600m

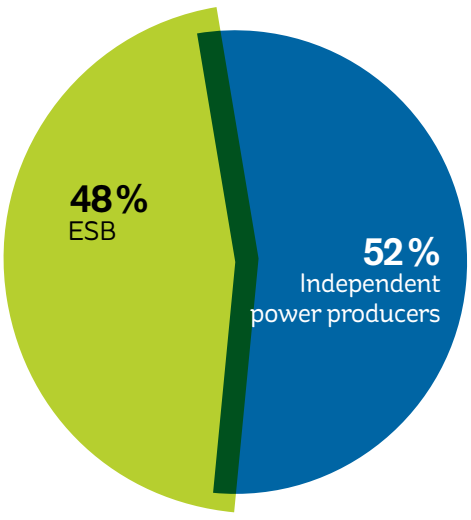
2012	€12,600m	
2011	€12,539m	€61m 0.5%

NET DEBT

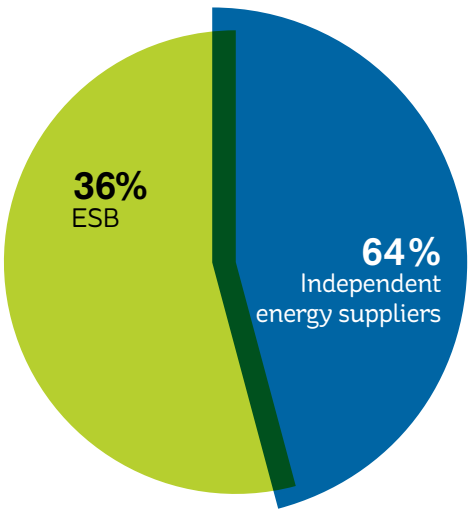
€4,414m

2012	€4,414m	
2011	€4,324m	€90m 2%

GENERATION
all-island market share



SUPPLY
all-island market share



*includes exceptional item relating to staff exit costs (€161 million)



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2012 HIGHLIGHTS

- LAUNCH OF OUR NEW CORPORATE STRATEGY
- OVER €1 BILLION ISSUED IN THE BOND MARKETS
- SUCCESSFUL FINANCING AND START OF CONSTRUCTION OF OUR CARRINGTON POWER STATION IN BRITAIN
- ON TRACK TO MEET OUR COST REDUCTION TARGETS-OVER €200 MILLION ACHIEVED TO DATE.

07:59

ENERGY FOR ESTABLISHING A GOOD START

01 BUSINESS OVERVIEW


Lochlann Quinn, Chairman

CHAIRMAN'S STATEMENT

RESULTS

I am pleased to announce a good set of financial results for 2012 in spite of a very challenging business environment. The Group recorded an operating profit of €415 million in 2012 (2011: €469 million). The results include an exceptional item (€161 million) which relates to costs associated with a voluntary severance scheme launched in 2012 as part of our Performance Improvement Programme.

DIVIDEND

The Board is recommending a final dividend of 3.96 cent per unit of stock or €78.4 million in aggregate bringing total dividends over the last decade to almost €1 billion.

STRATEGY

In 2012 ESB's share of generation on an all-island basis was 48% and our share of the total supply business, again on an all-island basis was, 36%. Increasing interconnection to Britain and the arrival of large European utilities in our home market are transforming the competitive landscape.

The Board and management have developed and are implementing a long-term strategy to prepare ESB for these challenges. A significant step is the start of construction of our 881 MW generating station at Carrington, near Manchester. A further crucial element is our Performance Improvement Programme which is aimed at taking €280 million of costs out of the business by 2015, right across the generation, networks and supply businesses. This focus on costs is essential if we are to continue to offer competitive products to our customers and protect the financial strength of ESB.

SAFETY

2012 was sadly overshadowed by two staff fatalities in January 2013. Any fatality associated with our business, whether a staff member, contractor or member of the public is deeply regrettable. Safety is our top priority and will remain at the forefront of our core objectives.

GOVERNANCE AND THE BOARD

Your Board is committed to the highest standards of corporate governance. We run our business in a manner that is responsible and consistent with our belief in transparency and accountability. For us, good governance is necessary to form a foundation for the sustainable growth our business.

During the year Garry Keegan and Seán Conlan completed five years service as Board members. I want to thank them for their very valuable contributions. Anne Butler joined the Board in 2012 and she is most welcome.

OUTLOOK

The outlook for 2013 remains challenging, but we believe that our corporate strategy will position us to face these uncertainties.

OUR STAFF

I want to acknowledge the contribution of all ESB staff in 2012 and I want to especially thank them for their continued support in helping us to deliver our challenging targets.

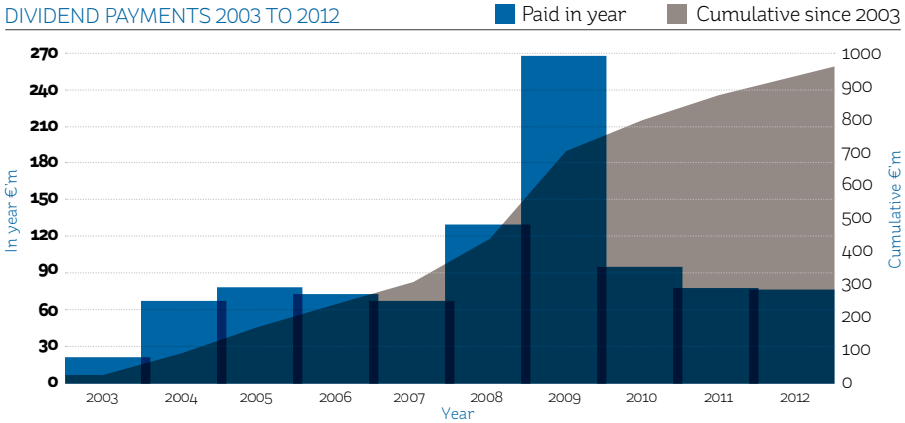
CONCLUSION

In accordance with the provisions of the Electricity (Supply) Acts 1927 – 2004 the Board presents the Annual Report and Accounts for the year ended 31 December 2012.



Lochlann Quinn, Chairman

DIVIDEND PAYMENTS 2003 TO 2012



CHIEF EXECUTIVE REVIEW


Pat O'Doherty, Chief Executive

2012 Highlights

- Launch of our new Corporate Strategy
- Over €1 billion issued in the bond markets
- Successful financing and start of construction of our Carrington power station in Britain
- On track to meet our cost reduction targets-over €200 million achieved to date

WE WILL REMAIN VERTICALLY INTEGRATED WITH A PRESENCE ACROSS THE VALUE CHAIN OF GENERATION, NETWORKS, TRADING AND SUPPLY.

Firstly, I must reiterate the message from our Chairman; we are deeply saddened by the two staff fatalities in January 2013 – our colleague Shane Conlan who was working in a Finglas substation on 15 January and our colleague Oisín Crotty who died in a road traffic accident while driving to work on 17 January. It is an unimaginable loss for their families and traumatic for their ESB Networks colleagues.

We also think of John Geraghty, an employee of Lyons Poling Contractors and of John O'Donnell, a Bord na Móna employee at Lough Ree Power who were fatally injured during the year.

WHAT WERE ESB'S KEY ACHIEVEMENTS IN 2012?

One of the key achievements for us as a Group was the launch of our new Corporate Strategy to 2025. This strategy equips us to grow and manage risks while reaffirming what has always been our mission to bring sustainable and competitive energy solutions to all our customers.

Another significant milestone for ESB during 2012 was our success in securing funding for Carrington power station in the UK. This project has been funded on a ring-fenced basis so it does not displace any of our investment in electricity infrastructure on the island of Ireland. Our ability to raise finance for this project, and indeed our two successful bond issues in the second half of the year, reflect market confidence in ESB's strategy and our ability to compete successfully.

HOW DID THE BUSINESS PERFORM IN 2012?

From a business perspective ESB had a good performance in a most difficult year. ESB is a capital intensive business, investing over €750 million a year. Some of that money we can generate from our businesses but we also need external funding. It is a tribute to our finance and treasury colleagues, and indeed to how ESB is perceived, that we were able to issue over €1 billion in the bond markets during 2012 to repay maturing debt and to fund our capital investment programme.

In terms of our Performance Improvement Programme - we are on track to take €280 million out of our cost base by 2015; over €200 million has been secured to date. We have reached agreement with staff on the €140 million savings or 20% on our 2010 payroll. We will meet this target in part through savings associated with close to 1,000 staff exits since 2010 but there is still a shortfall to which everyone of us in ESB has to contribute. I want to acknowledge the huge loyalty and commitment of staff in this regard.

WHAT WERE THE HIGHLIGHTS IN EACH OF THE FOUR BUSINESSES AREAS?

In ESB Networks we invested €395 million in renewing and extending the transmission and distribution system. This allows us, for example, to bring new wind generation onto the transmission system and to improve reliability of supply through investment in the distribution system.

In Northern Ireland, NIE worked hard with the utility regulator to finalise RP5. Despite, significant effort on both sides, the matter will proceed to the competition commission for review. During 2012

NIE continued investing and will continue to invest in the network.

In Generation and Wholesale Markets the highlight for me was the successful financing and start of construction of our Carrington power station project near Manchester. This investment in Britain is a huge statement of intent and of confidence that we can compete and prosper in the emerging British/Irish integrated electricity market.

In the supply business Electric Ireland is winning back customers through value for money and customer service which is ahead of its competitors. 2012 also saw the introduction of new energy efficiency product lines and offerings such as repair and servicing for boilers and heating systems, and a new remote heating device known as Climote.

COULD YOU TELL US MORE ABOUT THE NEW CORPORATE STRATEGY TO 2025?

It is about achieving ESB's mission to bring sustainable and competitive energy solutions to all our customers. It's about being Ireland's foremost energy company and about competing successfully in the British/Irish market. That's the challenge we've set ourselves. We'll stick to our core business – energy. We will remain vertically integrated with a presence across the value chain of generation, networks, trading and supply. This will give us the necessary scale and diversification of risk. We will be prudent, ensuring that ESB remains financially strong through careful investment and cost discipline. It's all about what ESB does well – thinking strategically, planning long term and adapting to change.

FOR A DETAILED VIEW OF OUR STRATEGY, REFER TO **PAGE 12**

SUSTAINABLE INNOVATION IS A KEY STRATEGIC OBJECTIVE FOR ESB. CONCRETELY, WHAT DOES THAT MEAN?

In a sentence it represents ESB's commitment to a low carbon future. Remember we started as a renewables company; our first station was the hydro generating station at Ardnacrusha. We have set ourselves the goal of achieving a net carbon neutral portfolio by 2050 at the latest. Currently our generation portfolio includes 560 MW of renewables and we want to get that to 1800 MW by 2025.

In 2012 we completed wind turbine erection at our Carrickatane 21 MW windfarm in Co. Derry and erection is underway at our 35 MW windfarm in Myndd y Betwys in Wales. Also in 2012 our Ocean Energy project attracted EU funding.

We want to stay at the forefront of emerging technologies such as smart grids, which will intelligently integrate the activities of all users of the network – generators and customers – with economic and environmental benefits. We will continue to rollout our public charging infrastructure to support the electrification of transport. And on the supply side of the business we want to encourage our customers to insulate their homes and to be smart in their consumption of energy.

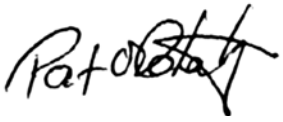
WHAT ARE SOME OF THE CHALLENGES THAT FACE ESB IN 2013?

Safety remains our top priority as our business performance must be underpinned by a strong safety record. Another priority is the emerging British/Irish market. From being a big player in a small market we are now going to be a small player in this bigger market. It is also very important that we build on progress to-date in meeting our performance improvement and cost reduction targets.

A particularly exciting project for 2013 is our Fibre to the Building initiative. That's one to watch.

The Government has requested ESB to develop and deliver specific proposals for the sale of non-strategic generation assets with the objective of paying special dividends to the State of up to €400 million. In making this request the Government explicitly recognised that maintaining ESB's investment grade credit rating is critical. We are proud to have contributed almost €1 billion in dividends to the State over the last decade and we are now actively identifying assets for sale on terms which do not compromise ESB's credit rating or strategic objectives.

As we look forward to these challenges I want to acknowledge the extraordinary contribution by staff in 2012.



Pat O'Doherty, Chief Executive

KEY PRIORITIES FOR 2013

LOOKING FORWARD TO 2013 AND BEYOND, OUR KEY PRIORITIES INCLUDE:

> Safety continues as the primary value of the business and will remain so for the future.

> Positioning the business for the emerging regional electricity market by developing our generation portfolio in Britain.

> Maintaining the financial strength of the ESB by meeting our cost reduction and performance improvement targets and by aligning capital expenditure with the conditions in the financial markets.

OUR STRATEGY

OUR VISION

To be Ireland's foremost energy company, competing successfully in the all-islands market.

OUR MISSION

To bring sustainable and competitive energy solutions to all our customers.

OUR VALUES

FOR SAFETY:

We will always put the safety of staff, contractors, customers and public first, relentlessly pursuing our goal of zero injuries and incidents.

INTEGRITY AND RESPECT:

We respect each other as employees of ESB and conduct all our affairs with our customers, partners, stakeholders and the public with integrity and to the highest ethical standards.

RELIABLE AND COMPETITIVE SERVICE:

We deliver reliable and competitively priced products and services to all our customers, constantly striving to improve our performance.

SUSTAINABLE INNOVATION:

We embrace the challenges facing the energy sector, always seeking to deliver novel, creative and sustainable solutions which meet the needs of our customers.

TEAM-WORK:

We promote openness and collaboration in everything we do and we develop our people to fulfill their potential.

OUR STRATEGY TO 2025 AND BUSINESS MODEL

GENERATION

SCALE AND GROWTH
Build a sustainable position of scale in the all-islands market. Grow ESB share of the combined all-islands generation portfolio to meet competition in the combined British/Irish market.

PORTFOLIO
Deliver a balanced low-carbon generation portfolio.

GTS INTEGRATION
Integrate generation, trading and supply operations in the all-islands market.

FINANCIAL
Optimise the return from ESB's all-islands assets by delivering excellent asset performance, managing costs and maximising trading and commercial opportunities.

NETWORKS

CRITICAL INFRASTRUCTURE
Continue to deliver the key infrastructure and customer performance required under regulatory regimes, including the investment to facilitate renewables integration.

SMART GRIDS
Lead the development of smart grids in Ireland with regulatory support.

COST
Optimise ESB Networks and NIE cost bases and increase their flexibility to adjust levels of capital expenditure and operating expenditure under future regulatory reviews.

EFFICIENCIES
Drive efficiencies within NIE and ESB Networks to create customer and shareholder benefit.

SUPPLY

SCALE AND GROWTH
Aim to increase ESB's supply market share on an all-island basis.

CUSTOMERS
Develop differentiated customer model in service, pricing, products and energy services that delivers value to our customers.

PRODUCTS
Develop a strong articulate Electric Ireland brand to support a move away from pricing-led campaigns. Maintain a customer focused and flexible service-delivery model.

PROFIT
Achieve competitive cost-reflective pricing and trading. Manage operating costs so as to achieve margins and market share targets.

INNOVATION

ESB INTERNATIONAL
Be the engineering solutions provider of choice to the power industry and double its external business over the next 5 years.

EMERGING ENERGY
Be a driving force for the development and roll out of new energy technologies, with a particular focus on cleantech (e.g. electrification of transport and heating and ocean power).

FIBRE TO THE BUILDING
Explore the potential to use ESB's networks infrastructure to deliver high-speed broadband by Fibre to the Building on a commercial basis.

ESB NOVUSMODUS
Create a successful cleantech investment fund for ESB and create future opportunities for ESB by learning from the fund.

BUSINESS SERVICE CENTRE (BSC)

BEST PRACTICE BSC
Meet cost and service quality targets based on external benchmarks by 2015.

CUSTOMER SERVICE
Work in partnership with Business Units to ensure business needs are met in an affordable way.

OPERATIONAL EXCELLENCE
Streamline, standardise, simplify.

OUR PEOPLE

BUSINESS ENVIRONMENT CONTEXT FOR ESB STRATEGY

THE ESB GROUP STRATEGY IS FRAMED AS A RESPONSE TO THE LONG-TERM FORCES THAT ARE AT WORK WITHIN OUR MARKETS. AT A FUNDAMENTAL LEVEL, THE CURRENT BUSINESS ENVIRONMENT FOR EUROPEAN POWER UTILITIES IS MARKED BY VERY SIGNIFICANT UNCERTAINTY – WITH WIDELY DIFFERENT VIEWS OF DRIVERS SUCH AS FUTURE FUEL PRICES AND TECHNOLOGICAL EVOLUTION.

FOR ESB, THERE ARE 3 FACTORS IN PARTICULAR THAT WILL TRANSFORM THE CONTEXT WITHIN WHICH ESB WILL OPERATE AND THAT OUR STRATEGY AIMS TO ADDRESS:

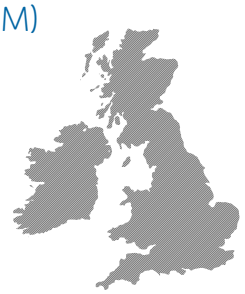
1 INTEGRATION OF REGIONAL ENERGY MARKETS (REM)

2 EUROPEAN AND NATIONAL CLIMATE POLICY

3 CHALLENGING EUROPEAN AND IRISH ECONOMIC ENVIRONMENT

1 INTEGRATION OF REGIONAL ENERGY MARKETS (REM)

The integration of European energy markets is a major policy priority for European and National authorities across the continent – reflecting the long-term thrust to create a Single European Market across all sectors. This has been reflected in both a regulatory thrust to enhance the ability of power and gas to be traded between different national market systems and in the construction of physical electricity and gas interconnection to allow this to happen.



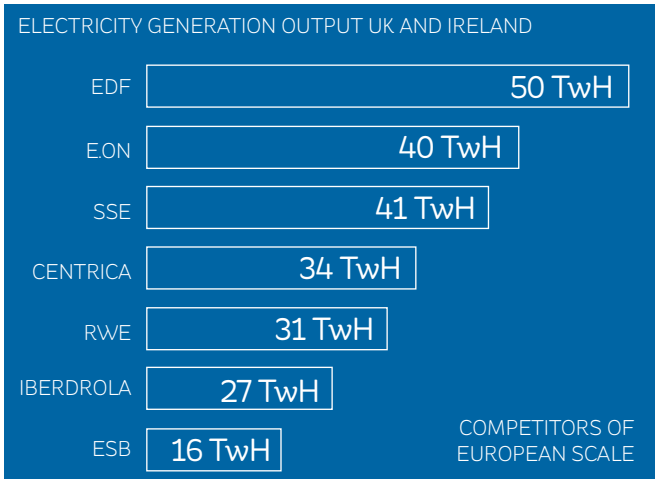
ALL-ISLANDS MARKET INTEGRATION
Driven by EU Directives and interconnection

European policy lays out the ambition to create a common Regional Energy Market (REM) encompassing Ireland, Britain and France by 2016. In addition, the last year has seen the opening of the East West Interconnector (EWIC) between Ireland and Britain which brings the total amount of rated interconnection between the two islands to approximately 1000 MW.

The impact of this trend will be to transform the competitive environment within which ESB operates – changing our Generation and Supply businesses from relatively large players within the Irish Single Electricity Market (SEM) to a player with much smaller shares in a combined Irish-British-French market which is dominated by larger mostly Pan-European utilities.

In order to ensure the future viability of our Generation, Trading and Supply (GTS) businesses in the face of this emerging challenge, ESB aims to increase their scale, capabilities and cost competitiveness.

Source: European Commission - "A Roadmap for moving to a competitive low carbon economy in 2050"



2 EUROPEAN AND NATIONAL CLIMATE POLICY

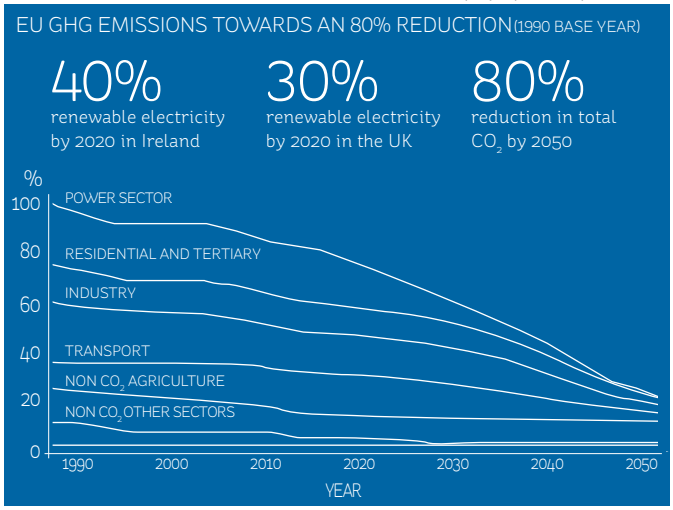
The long-term need to decarbonise European and global societies to address the threat of world-wide climate change will present an enduring challenge to the energy industry over coming decades. At a European level, this is reflected in a comprehensive set of European Union and national laws and regulations including the "20-20-20" targets agreed by European leaders in 2007 as part of the EU Climate and Energy Targets.

Current EU policy is to reduce total societal carbon emissions by 80% by 2050. In the near term, there are also legally binding targets at European and national levels to decrease carbon emissions, increase the proportion of energy from renewable sources and enhance energy efficiency by 20% before 2020.

The impact of these policies for the markets in which ESB operates will be profound. For example, there are currently government policies in place to ensure that, by the end of this decade, 40% of electricity generated within the Irish market and 30% within Britain will be sourced from renewable sources. In addition, over the long-run, societal decarbonisation will require new business models, regulatory frameworks and technologies – for example, a move from dispatchable thermal generation to a greater reliance on intermittent renewables such as wind. Decarbonisation will require a significant increase in the level of investment in generation and networks infrastructure across the European utility industry.

To prosper in such a context, ESB must innovate by investing in low carbon technologies and evolving new business models. In 2008, ESB was one of the first utilities in Europe to commit itself to a net zero carbon generation portfolio and ESB's new strategy continues that focus.

Source: ESB estimates based on regulatory filings, company reports and press articles



3 CHALLENGING EUROPEAN AND IRISH ECONOMIC ENVIRONMENT

Since 2007, the European and indeed global economic and financial climate has been marked by fundamental uncertainty and slowed economic growth. This has had a significant impact on our markets including:

- Electricity demand destruction due to reduced economic activity
- Greater stress on financial markets creating uncertainty around the price and availability of funding
- Increased pressure on arrears, fuel poverty and affordability of energy.

For ESB, this new and uncertain context will necessitate greater cost efficiency so that we can deliver value to our customer and shareholders and robust management of our financial strength to ensure access to funding. It will also require that we retain the flexibility to scale up or scale down our investment plans in response to evolving conditions.

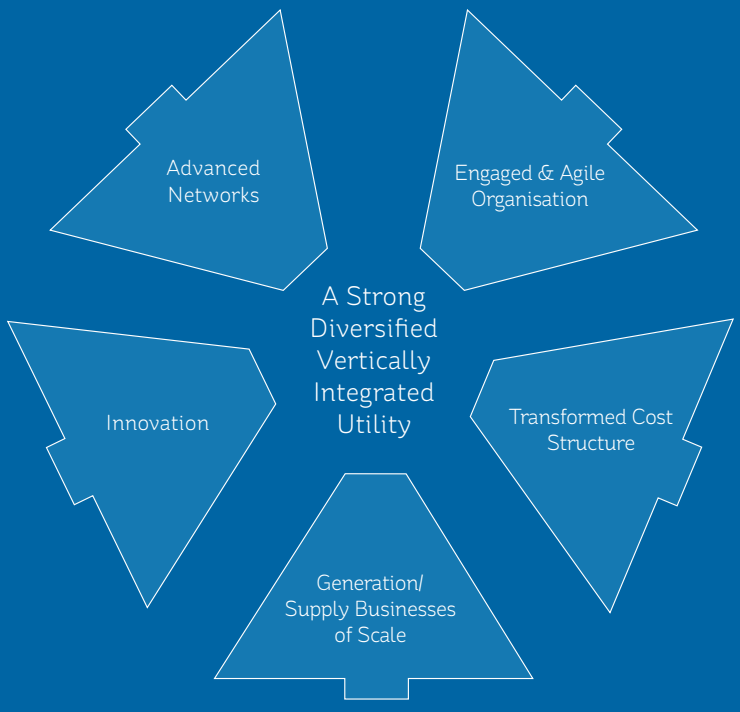
OUR STRATEGY TO 2025

ESB CORPORATE STRATEGY IS FOCUSED AROUND FIVE KEY PRIORITIES EACH OF WHICH ARE DESIGNED TO SUPPORT THE OVERALL OBJECTIVE OF A STRONG DIVERSIFIED VERTICALLY INTEGRATED UTILITY (VIU):

THE FIVE PRIORITIES OF ESB STRATEGY TO 2025

1 GENERATION/SUPPLY BUSINESSES OF SCALE: In response to the integration of the Irish and British electricity markets, ESB will grow the scale and capabilities of our generation, trading and supply businesses so that they can compete within this new all-islands competitive environment. Recognising the long-term imperative to decarbonise society, we will also invest to reduce the carbon intensity of our power generation fleet and increase the role of renewable energy in our fuel mix in line with the overall market and public policy.

2 ADVANCED NETWORKS: ESB will work to deliver high quality and affordable electricity networks for our customers in both the Republic of Ireland and Northern Ireland. This will include investment to underpin social and economic development, security of supply and the achievement of climate change targets.



3 INNOVATION: Recognising that forces such as decarbonisation, competition and technological evolution will dramatically change our operating context, ESB will innovate to create and grow new opportunities in areas directly adjacent to our core business.

4 ENGAGED & AGILE ORGANISATION: The delivery of our strategy will require an organisation that is flexible, highly motivated and adaptable. We will create a dynamic workplace that stimulates and engages our people and that can respond quickly and effectively to change.

5 TRANSFORMED COST STRUCTURE: Increased competition, an uncertain economic environment and the need to fund our future growth will require ESB to operate with even greater efficiency. We will enhance the cost-effectiveness of our business so that it can survive and prosper in this new context.

AIMS FOR 2025

	2012	2025
A STRONG DIVERSIFIED VIU		
› FINANCIAL STRENGTH	BBB+ RATING	A- RATING
› TOTAL EBITDA	€1,100M	€2,400M
01 GENERATION/SUPPLY BUSINESS OF SCALE		
› GENERATION CAPACITY	4,800MW	7,000MW
› ALL ISLANDS MARKET SHARE	5%	7%
› RENEWABLE GENERATION (INCLUDING HYDRO)	12% CAPACITY	26% CAPACITY
02 ADVANCED NETWORKS		
› SMART GRIDS	PILOT	FULL IMPLEMENTATION
› WIND ENERGY CONNECTED	2,100MW	3,500-4,000MW
03 INNOVATION		
› EMERGENT BUSINESSES	ESB INTERNATIONAL	DOUBLE ESBI REVENUE
	E-CARS	EXPLOIT NEW INVESTMENT OPPORTUNITIES
	NOVUS MODUS	
	FIBRE/TELECOMS	
04 TRANSFORMED COST STRUCTURE		
› COST BASE	PERFORMANCE IMPROVEMENT PROGRAMME	COMPETITIVE COST STRUCTURE
05 ENGAGED AND AGILE ORGANISATION		
› ENGAGEMENT	HIGH LEVELS OF ENGAGEMENT AND PERFORMANCE	
› CHANGE	FAST LOCALLY DRIVEN CHANGE	
› SAFETY	ZERO INJURIES OR SAFETY INCIDENTS	

OUR PROGRESS AGAINST STRATEGIC PRIORITIES

OUR STRATEGIC PRIORITY	PROGRESS AGAINST STRATEGIC PRIORITY
GENERATION/ SUPPLY BUSINESS OF SCALE	Successful financing of and commencement of construction of an 881 MW generating station at Carrington, near Manchester, Great Britain.
ENGAGED & AGILE ORGANISATION	Successful establishment of a new Business Service Centre in 2012. This centre is the new finance model in ESB. It will enable operational excellence and will ensure that cost and service targets based on external benchmarks are achieved.
TRANSFORMED COST STRUCTURE	ESB delivered over €200 million cost savings to date.
INNOVATION	A dedicated business line "ESB innovation" was established in 2012 to provide co- ordination and strategic focus enabling us to continue developing new technical and business solutions across the clean technology sector.
ADVANCED NETWORKS	This strategic priority is continually realised through on-going capital investment on the networks system. 2012 also marked the progression of Smart Metering into the detailed design phase.



10:14
ENERGY FOR FUELLING YOUNG MINDS

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FIVE-YEAR SUMMARY

	2012 €'m	2011 €'m	2010 €'m	2009 €'m	2008 €'m
Revenue and other operating income	3,295	2,995	2,740	3,114	3,515
Operating profit before exceptional items[1]	576	469	339	350	340
Adjusted profit before taxation[2]	351	283	249	335	304
EBITDA[3]	1,095	1,121	839	814	753
Capital expenditure[4]	765	883	819	921	1,094
Net debt	(4,414)	(4,324)	(3,944)	(2,231)	(2,088)
Gearing (%)[5]	53%	52%	50%	35%	40%
Total assets	12,600	12,539	12,112	9,567	8,645

1 Stated before the following exceptional items: 2012: staff exit costs (€161 million). 2010: pension charge (€330 million). 2009: profit on disposal of generating assets: (€265 million).
2 Excludes market to market movements on RPI swaps and exceptional items.
3 Includes exceptional items (€161 million).
4 Excludes NIE acquisition in 2010 (€1.2 billion).
5 Excludes joint ventures.

02 OPERATING & FINANCE REVIEW

OPERATING ENVIRONMENT

OVERVIEW OF THE ELECTRICITY MARKETS IN THE REPUBLIC OF IRELAND AND NORTHERN IRELAND

The structure of the electricity market in the Republic of Ireland (ROI) and Northern Ireland (NI) can be divided into four segments: generation, supply, transmission and distribution. Electricity generation and supply are open to full competition throughout the island of Ireland. Electricity transmission and distribution are regulated monopolies in each of ROI and NI.

Energy Policy and Regulation

Energy policies and energy affairs are managed through the Minister for Communications, Energy and Natural Resources in ROI and the Department of Enterprise, Trade and Investment in NI. Energy policy and regulation are heavily influenced by European Union law.

The Commission for Energy Regulation (CER) is the independent regulator of the energy markets in ROI. The Northern Ireland Authority for Utility Regulation (NIAUR) is the independent regulator of the energy market in NI.

Single Electricity Market (SEM)

The SEM is the single wholesale market (pool) for electricity in ROI and NI. Virtually all electricity generated in, or imported into the market must be sold, and from which all wholesale electricity consumed in, or exported from the market must be purchased. The pool sets the spot price for electricity, known as the system marginal price (SMP) every half hour. Generators also receive separate payments for the provision of stable generation capacity through the capacity payment mechanism. Price volatility in the pool is managed by generators and suppliers by entering into fixed financial contracts (contracts for differences).

The SEM came into operation on the island of Ireland in November 2007. It is operated by the Single Electricity Market Operator (SEMO). SEMO is a joint venture between EirGrid plc (EirGrid), the transmission system operator for ROI, and SONI Limited (SONI), the transmission system operator for NI. SEMO is licensed and regulated co-operatively by the CER and the NIAUR.

Electricity Networks

The electricity transmission system is a high voltage network for the transmission of bulk electricity supplies. The distribution system delivers electricity to individual customers over the medium/low voltage networks. Two entities, ESB Group and Eirgrid Group, own and operate the electricity networks on the island of Ireland respectively.

Interconnection with Other Networks

For geographical reasons, the electricity transmission systems on the island are isolated compared to systems in mainland Europe and in Great Britain. The Moyle Interconnector links the electricity grids of NI and Scotland through submarine cables running between converter stations in County Antrim, Northern Ireland and Ayrshire in Scotland. The link has a capacity of 500 MW.

The East- West Interconnector links the electricity transmission system in ROI to the electricity transmission system in Great Britain, enabling two way transmission of electricity. The East-West Interconnector runs between Deeside in north Wales and Woodland, County Meath in ROI. Approximately 260km in length, the underground and undersea link has the capacity to transport 500 MW – enough energy to power 300,000 homes.

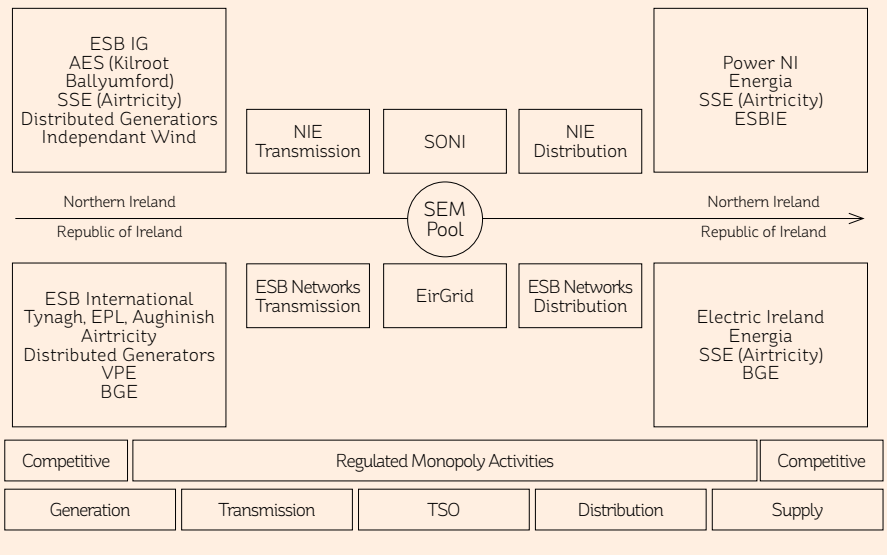
Electricity Generation

The SEM generation sector comprises approximately 10,400 MW of capacity connected to the system on an all-island basis. The capacity connected to the system includes a mix of older generation plants alongside modern combined cycle gas turbine (CCGT) plants and renewable energy sources such as wind power. These stations generate electricity from fuels such as gas, coal and oil as well as indigenous fuels including hydro, wind, peat and biomass. The Government has set a target for 40% of electricity to be generated from renewable resources by 2020.

Electricity Supply

The liberalisation of the electricity market began in February 2000, with a 28% market opening, allowing major consumers of electricity to select a supplier of their choice. A second phase brought market liberalisation to most non-domestic customers. Full market opening to all consumers occurred in February 2005.

OVERVIEW OF SINGLE ELECTRICITY MARKET



Following a public consultation process commenced by the CER in December 2009, with effect from 4 April 2011, the CER removed price regulation previously imposed on ESB's retail electricity supply business in ROI. In connection with the removal of such price regulation, ESB re-branded its retail electricity supply business as 'Electric Ireland' and this business now operates in ROI without price regulation.

FACTORS DRIVING THE GLOBAL ENERGY MARKETS

The World in a word

If one word could be used to summarise the world power and commodity markets over the last few years it would undoubtedly be "globalisation". Whilst before, markets operated largely in isolation of each other, today the interplay between them is rapid and profound. When one benefits, all benefit, when one suffers, all suffer, and the price of electricity and gas in the SEM strongly reflect these changes.

On February 1st, 2011 coal stood at $117.5/T and gas at 53.2p/th, whilst two years later coal had fallen over 25% to $87.9/T and gas had risen over 20% to 65.5p/th. Both markets have been driven, in very different directions, by the fundamentals of supply and demand on a global scale, and in trying to understand future direction it is vital to see the effects in this light.

The ESB portfolio has weathered these trends, reflecting the benefits of a balanced fuel mix including coal, gas, peat, wind and hydro powered plant.

Falling Coal

In the coal markets, supply has increased, whilst demand has moved much more slowly. Exports from Colombia rose as the political situation has stabilised, however, the biggest change has been in the United States, where the rise of cheap shale gas production – making gas prices around a third of that in Europe and a fifth of that in Japan – has led to coal being displaced from the generation mix and exported overseas, simultaneously reducing US energy bills and lowering carbon emissions.

On the demand side, growth in the Chinese and Indian economies has slowed, reducing demand below projected levels, and though there has been some switching from gas to coal generation in Europe – especially in Germany and the United Kingdom – it has not been enough to offset the growth in supply. As a result, prices have fallen to marginal levels for suppliers with large pit to port distances such as the United States and Russia.

Rising Gas

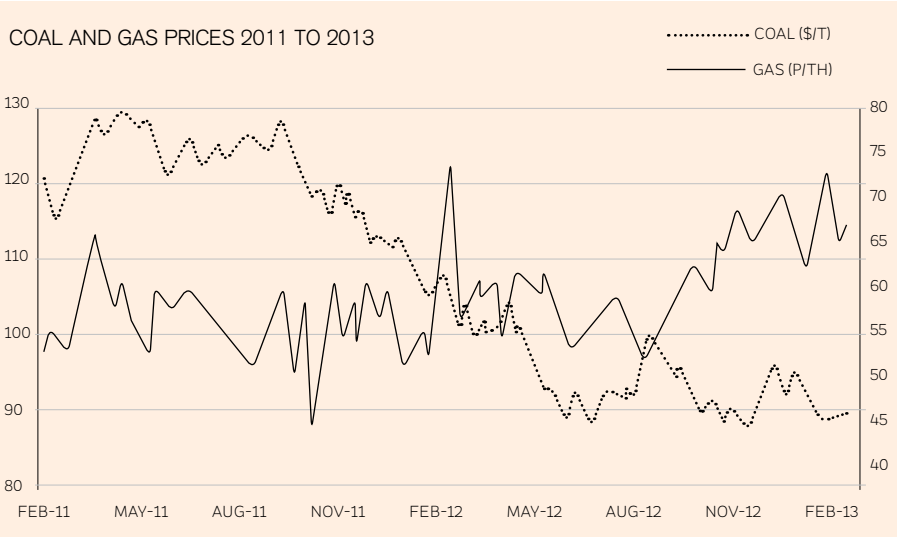
With North Sea gas production falling the UK gas market is increasingly dependent on gas from other sources – in particular Norway, continental Europe and, from a variety of sources, liquefied natural gas (LNG), and it is the latter of these that has had the most profound effect on price.
By its very nature LNG can be supplied to a myriad of destinations. However, the rapid growth in shale gas production in the mid 2000's meant by the end of the decade there was very little US demand for imported gas. As mentioned above gas prices in the Far East are significantly higher than in Europe due to there being little gas production in the region and hence a significant premium being paid for energy security.

The supply situation is kept in check by demand for gas in the Far East; however, this status quo was fundamentally disrupted by the Tohoku earthquake on March 11th 2011, which led to the prolonged closure of Japan's nuclear units and at present only two of Japan's 54 nuclear units are operating. This shortfall in nuclear production – which accounted for 30% of power supply prior to the earthquake – has been met by an increase in LNG imports, which has led to a significant drop in supplies to the United Kingdom. In fact, supplies from LNG facilities fell by over 40% between the second half of 2010 and the second half of 2012.

The combination of falling domestic production from the North Sea and a shortfall of LNG has led to the UK having to import gas from Europe. However, European gas prices have historically been much higher due to the indexation to crude oil and oil products, which was initially designed to fairly remunerate the construction of long pipelines from northern Russia to central Europe in the 1970s. The result of this has seen the increase in gas prices and consequently the increase in power prices with nearly 40% of power in the Single Electricity Market coming from gas fired generation. This is not the only challenge in the gas market with growing concerns over the security of supplies in the Middle Eastern and Northern African countries.

The impact of these global factors on our financial performance is outlined in further detail in the finance review on page 21.

Source: Spectrum



FINANCE REVIEW

FIGURE 1: FIVE-YEAR SUMMARY

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Revenue and other operating income	3,295	2,995	2,740	3,114	3,515
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1 Stated before the following exceptional items: 2012: staff exit costs (€161 million). 2010: pension charge (€330 million). 2009: profit on disposal of generating assets: (€265 million).
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3 Includes exceptional items (€161 million).
4 Excludes NIE acquisition in 2010 (€1.2 billion).
5 Excludes joint ventures.

THIS YEAR HAS SEEN GOOD FINANCIAL PERFORMANCE ACROSS OUR BUSINESS WITH REVENUE AND OPERATING PROFIT AT €3.3 BILLION AND €415 MILLION RESPECTIVELY.

FIGURE 2: SUMMARISED INCOME STATEMENT

	2012 €'m	2011 €'m
Revenue & other operating income	3,295	2,995
Operating costs	(2,719)	(2,526)
Operating profit	**576**	**469**
Exceptional items	(161)	-
Operating profit after exceptional items	**415**	**469**
Total finance costs	(269)	(414)
Joint venture profits	21	24
Profit/(loss) before tax	**166**	**79**
Tax credit	28	21
Profit/(loss) after tax	**194**	**100**

Revenue

Revenue and other operating income at €3,295 million has increased by €300 million over 2011 (€2,995 million).

Higher underlying commodity prices are reflected in higher revenues in Electric Ireland and our generation business. Also over 100,000 electricity customers and 80,000 gas customers have switched to Electric Ireland during 2012.

Operating costs

Overall operating costs at €2,719 million have increased by €193 million year on year. Excluding the impact of fuel, other energy costs and depreciation, operating costs are €950 million and are up €60 million on 2011. These variances can be explained in more detail below:

FIGURE 3: OPERATING COSTS

	2012 €'m	2011 €'m
Fuel & other energy costs	1,056	951
Depreciation & amortisation	713	685
Employee costs[6]	465	475
Operating & maintenance costs	485	415
	2,719	**2,526**

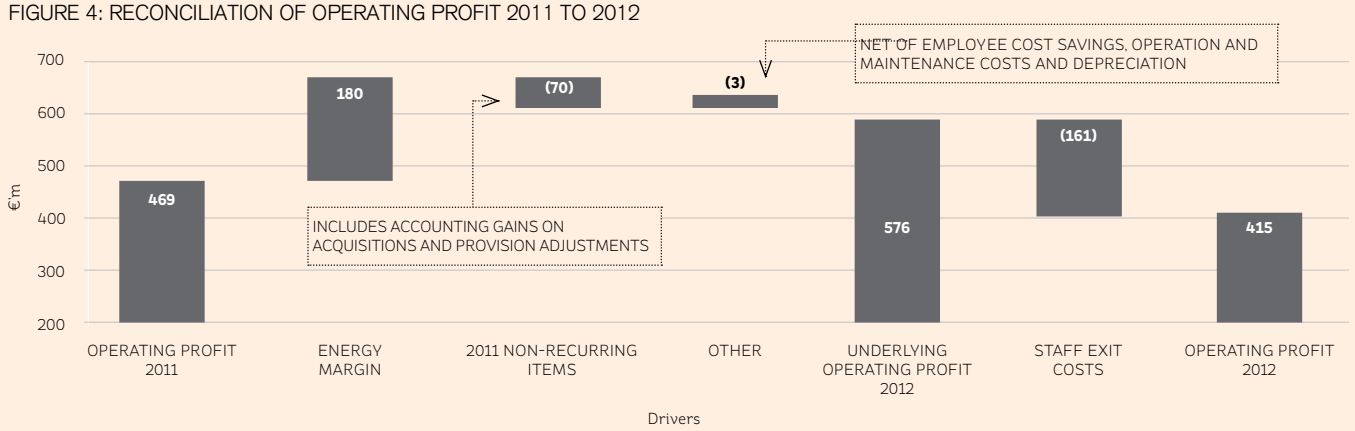
6 excludes exceptional staff exit costs in 2012 (€161 million).

Fuel and other energy costs have increased by €105 million on 2011 levels largely due to higher commodity prices and increased volumes.

Depreciation at €713 million is up €28 million on 2011 due to continued capital spend in both of our networks businesses.

A DETAILED BREAKDOWN OF OUR OPERATING COSTS BY BUSINESS SEGMENT IS PROVIDED IN **NOTE 1** TO THE CONSOLIDATED FINANCIAL STATEMENTS.

FIGURE 4: RECONCILIATION OF OPERATING PROFIT 2011 TO 2012



Employee costs (excluding exceptional staff exit costs) at €465 million are down €10 million on 2011. In 2010 ESB began implementing an ambitious cost reduction plan (PIP – Performance Improvement Programme) with the aim of taking €280 million, the equivalent of 25% out of controllable costs by the end of 2015. This included a 20% reduction in payroll, close to 1,000 staff exits have taken place since since 2010. At the end of 2012 over €200 million in savings had been achieved.

Exceptional item

The 2012 exceptional charge relates to a voluntary severance scheme launched as part of the Performance Improvement Programme. Savings associated with staff exits will be realised in terms of reduced payroll costs in future years.

Operating profit and EBITDA

Operating profit before exceptional items (underlying operating profit) has increased by €107 million. Reported operating profit is reduced by exceptional staff exit costs (€161 million) giving an overall reduction of €54 million year on year.

The increase in underlying operating profit is due to a higher energy margin (up €180 million). Drivers of this higher energy margin include:

- A generation portfolio mix which includes coal, gas, hydro and increasing wind generation which offsets the full impact of reduced margins for gas-fired plant.
- Reduction in carbon costs arising from the removal of the carbon levy and lower carbon costs in the market.
- A pricing policy aligned to reflect movements in commodity prices.

Factors which constrained profits in 2012 include lower market demand and a reduced capital programme which has resulted in a lower level of employee costs and operation and maintenance costs being capitalised.

During 2011, there were a number of one-off gains which have impacted on the year on year performance. These include gains associated with the acquisition of remaining 50% shareholding in Corby (€41 million), reductions in provisions (€20 million) and the receipt of insurance proceeds (€9 million).

Further details of the increase in profit between 2011 and 2012 are set out in the 'Reconciliation of operating profit 2011 to 2012' in Figure 4.

EBITDA for 2012 at €1,095 million is €26 million lower than 2011. The items driving the operating profit decrease of €54 million described above also drive the change in EBITDA but exclude the €28 million increase in depreciation.

Adjusted profit before taxation

Adjusted profit before taxation has increased by €68 million to €351 million (2011: €283 million). This increase is driven by higher underlying operating profit as discussed above offset by higher finance costs due to higher fixed rate debt.

FIGURE 5: RECONCILIATION OF ADJUSTED PROFIT BEFORE TAXATION

	2012 €'m	2011 €'m
Profit/ (loss) before taxation	166	79
Exceptional staff exit costs	161	-
Marked to market movement on inflation linked RPI swaps	23	204
Adjusted profit before taxation	351	283

Total finance costs

Total finance costs reduced by 35% year on year driven by lower fair value losses on financial instruments (down €186 million) offset by higher net interest on borrowings (up €40 million).

FIGURE 6: TOTAL FINANCE COSTS

	2012 €'m	2011 €'m
Net interest on borrowings	193	154
Financing charges	55	54
Finance income	(2)	(2)
Net finance costs	**246**	**206**
Fair value losses on financial instruments	23	208
Total Finance costs	**269**	**414**

Interest and finance charges at €246 million are €40 million higher than 2011. This increase is mainly driven by a higher proportion of fixed rate debt which carries a higher charge than floating rate debt; 76% of the Group's debt was fixed in 2012 as compared to 58% in 2011.

Fair value losses on financial instruments primarily relate to inflation linked interest rate swaps. In 2012 fluctuations in interest rates and market expectations of future retail price indices resulted in a unfavourable non-cash movement of €23 million in the income statement (2011: €208 million).

Taxation

The current tax charge of €28 million is offset by movements on deferred tax. This includes a write back of deferred tax assets of €29 million and a credit to reflect the movement in the UK effective tax rate from 25% to 23%.

Segmental performance

The Group was organised into five main reportable segments or strategic divisions, which are managed separately. In 2012, the Group restructured its business units to align with the new Corporate Strategy. This reorganisation established a new business line "ESB Innovation" which comprises of the Novusmodus Group, ESBI Engineering, Telecoms and Ocean Energy and renamed Energy International to "ESB Generation and Wholesale Markets". In 2012 the Group retained the 2011 reporting structure; however, for 2013 the new structure will be applied.

Further details on the operational performance of the business segments are included in the business unit review sections. The Group operating profit of €415 million is set out below on a segmental basis. The results discussed below includes the exceptional staff exit costs.

- ESB Energy International's, underlying operating profit at €238 million is up €14 million on 2011 reflecting higher energy margin arising from additional running of coal plants, higher margins on wholesale market contracts and lower carbon costs offset by the reversal of one-off gains in 2011. Reported operating profit for 2012 of €179 million is €44 million lower than 2011 due to costs associated with staff exits.
- ESB Networks' operating profit for 2012 at €166 million is down €87 million on 2011. This decrease is primarily due staff exit costs, higher depreciation charges and lower capitalisation of costs partially offset by higher revenues.
- NIE's operating profit for 2012 amounted to €64 million and is up €20 million on 2011 reflecting higher use of system income arising from tariff changes and an increase in service charges (as agreed by the Utility Regulator). This is offset in part by higher depreciation costs and higher operating costs arising from a significant IT project undertaken during the year to facilitate increased competition in the electricity market to facilitate residential customers wishing to change electricity supplier.
- Electric Ireland reported an operating profit of €33 million (net margin 2%) for 2012. This compares to losses of €38 million in 2011 and €43 million in 2010. This financial position was not sustainable and Electric Ireland launched an aggressive cost reduction programme aligned with a review of their pricing policy to ensure it was cost reflective and in line with the market. Electric Ireland now has 36% of the overall electricity market and is competing on price in line with its competitors.
- Other segments include Corporate and Business Service Centre activities which provide support services to the main business segments. This segment also includes most of the finance costs of the Group.

FURTHER DETAIL OF THE PERFORMANCE BY BUSINESS SEGMENT IS PROVIDED IN **NOTE 1** TO THE CONSOLIDATED FINANCIAL STATEMENTS.

FIGURE 7: SUMMARISED CASH FLOW STATEMENT

	2012 €'m	2011 €'m
EBITDA	1,095	1,121
Exceptional item – staff exits	161	-
Provision utilisation & other working capital movements	(296)	(271)
Interest and tax	(247)	(174)
Net cash inflow from operating activities	**713**	**676**
Capital expenditure	(758)	(884)
Other	26	25
Net cash outflow from investing activities	**(732)**	**(859)**
Net cash inflow / (outflow) from financing activities	(103)	256
Net increase/ (decrease) in cash	**(122)**	**73**

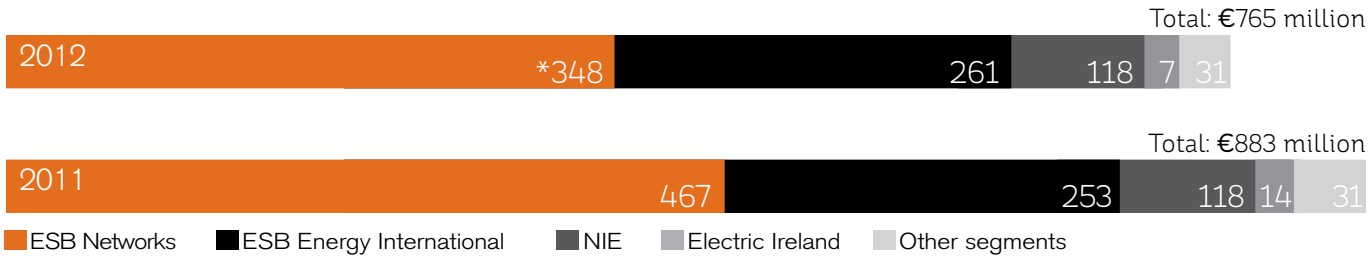
Cash flow

Cash flow and funding have been actively managed during 2012 and is reflected in the successful funding achieved during the year and also the profiling of our capital programme.

Cash decreased by €122 million at the end of 2012 largely due to debt repayment during the year associated with management of our debt profile.

Net cash inflow from operating activities were maintained based on a solid EBITDA performance while outflows from investing activities reduced due to a lower capital programme during 2012.

FIGURE 8: CAPITAL EXPENDITURE



*Capital expenditure in ESB Networks is stated after accounting adjustments primarily IFRIC 18 Transfer of assets from customers.

Net debt and gearing

Net debt of €4.4 billion in 2012 (2011: €4.3 billion) is consistent with prior year and reflects our management of EBITDA, capital spend and funding arrangements.

The gearing level of 53% is in line with 2011 and is being maintained well within acceptable parameters. During the year total assets increased to €12.6 billion from €12.5 billion, mainly reflecting the capital investment programme.

Capital expenditure

Capital expenditure totalled €765 million in 2012, down €118 million on 2011.

Expenditure in 2012 includes €107 million spent on the initial phase of the Carrington CCGT power station in Great Britain. This project is expected to reach commercial operation in 2016. A further €86 million has been invested in the generation business, of which €68 million relates to renewable energy.

Capital spend in the networks business continued in 2012 with €466 million invested in the networks infrastructure in the Republic of Ireland and Northern Ireland. This expenditure is based on the five-year capital expenditure programmes agreed with the respective regulators.

TREASURY MANAGEMENT

Framework for treasury and trading operations

The main financial risks faced by the Group relate to liquidity, commodity (electricity and fuel) price movements, foreign exchange, interest rates, counterparty credit and operational risk. Group treasury is responsible for the day-to-day treasury activities of the Group. The Finance and Performance Improvement Committee of the Board is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the Committee for review.

Derivative instruments are used to mitigate financial risks and are executed in compliance with the specification of the Minister for Finance issued under the aegis of the 'Financial Transactions of Certain Companies and Other Bodies Act 1992'. IAS 39 hedge accounting is applied to the Group's derivatives' positions where available.

Foreign exchange and interest rate risk management

The majority of the Group's business is transacted within the Eurozone. Operating and investing cash flows are mainly denominated in euro. Foreign currency exposures arise from purchasing fuel and other materials or services, foreign currency denominated debt and from business that is carried on outside the Eurozone. The majority of fuel related currency exposures are managed using currency derivatives such as forward purchase contracts. The Group's policy is to finance its euro denominated business through borrowing directly in euro or to convert any foreign currency borrowing to euro through the use of derivative instruments. Foreign currency denominated investments are funded by foreign currency denominated debt. Consequently, a substantial proportion of Group debt is now sterling denominated, following the acquisition of NIE in December 2010. At the end of 2012 67% of ESB's debt was effectively denominated in euro, with the remaining 33% in sterling.

The Group's current interest rate guideline is to have up to 75% (and minimum 50%) of the debt portfolio at fixed (or inflation linked) rates of interest. At 31 December 2012, 93% of the Group's debt was fixed to maturity or inflation linked. This relatively high percentage arises from a series of longer term Eurobond funding (which is typically fixed) being used to repay shorter term bank debt (which is typically floating).

Counterparty credit risk

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts within financial and commodity markets. The Group's policy is to limit exposure to counterparties based on assessments of credit risk. Exposures and related limits are subject to ongoing review and monitoring. Dealing activities are controlled by establishing dealing mandates with counterparties.

Funding and liquidity management

The Group's funding operations are of strategic importance and support;

- capital expenditure
- the refinancing of maturing debt
- the maintenance of liquidity

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account the compatibility between funding costs and risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements and Group treasury maintains diversity in ESB's lender base in order to achieve a strategic spread of risk.

Despite the recent difficult funding environment, the Group has continued to raise large scale funding from its key funding sources. Finance raised during 2011 and 2012 included Eurobond funding of circa €1.6 billion, Project Financing of circa €600 million, a €235 million European Investment Bank loan, and other Bank financing of circa €450 million.

FIGURE 9: ESB GROUP BONDS ISSUED IN 2011 AND 2012:

Issuer	Amount	Coupon	Maturity
NIE Finance	£400m	6.375%	2026
ESB Finance	€600m	6.25%	2017
ESB Finance	€500m	4.375%	2019

The focus on long term bond funding has meant Eurobond funding as a proportion of overall debt has risen from 12% at year end 2010 to 46% in 2012.

The series of successful transactions over the last two years has also allowed the Group to significantly improve its debt maturity profile. The proportion of debt maturing within the next 4 years has fallen from 43% at year end 2010 to 25% at year end 2012.

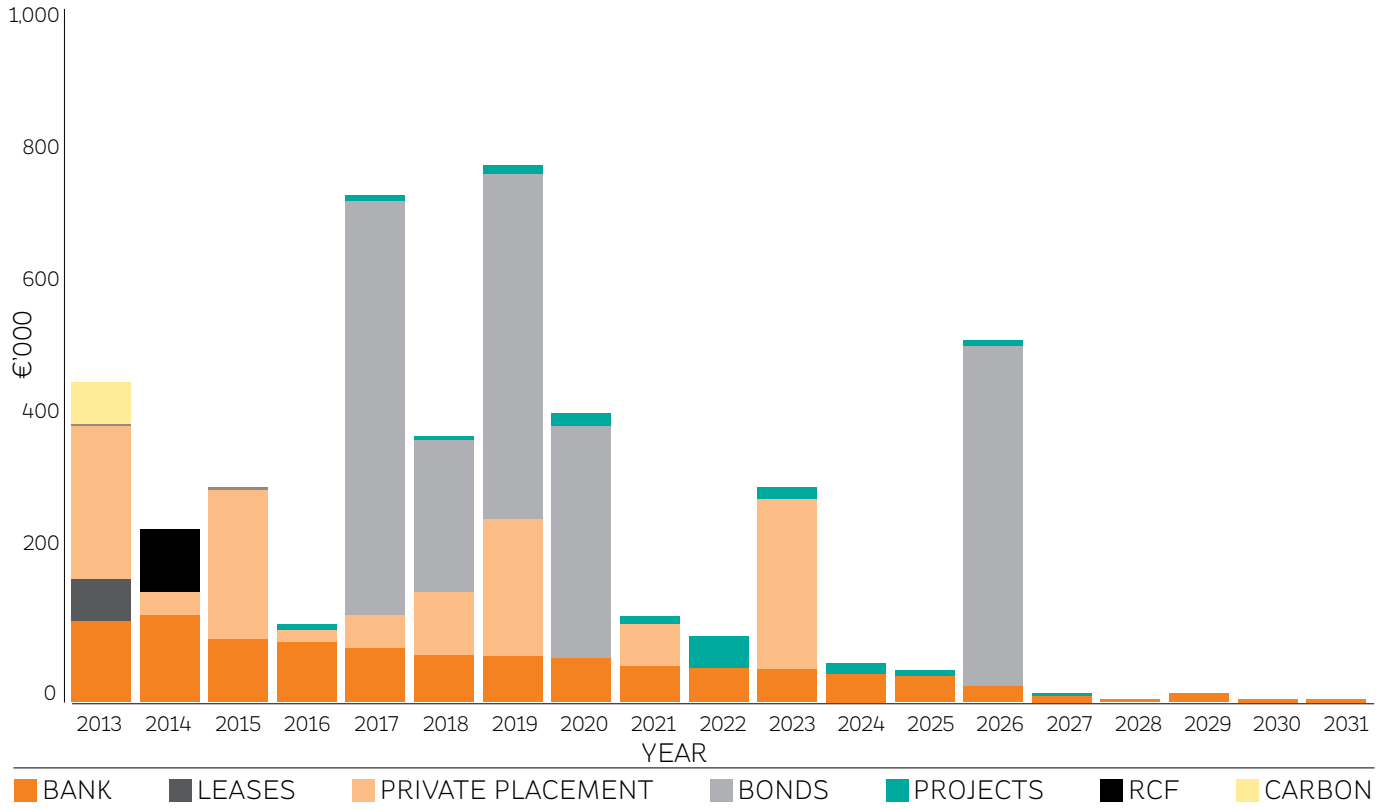
Following these transactions ESB continues to have sufficient undrawn committed borrowing facilities in place to ensure that liquidity demands can be met as required. At year end, the Group had over €1,700 million in cash and undrawn committed facilities. The Group also continues to maintain its ability to fund with the active management of bank, investor and ratings relations.

Future outlook

The economic climate is expected to continue to pose challenges for our business into 2013. However, the Group has a strong liquidity position, access to diverse funding sources and a manageable debt maturity profile. In addition, further progress in the performance improvement initiative will lower costs, maintain competitiveness and preserve strong financial metrics.

This should enable the Group to deliver significant capital expenditure programmes and to continue to compete successfully. Finally, focus will be maintained on the management of the trading risk arising from the SEM and related markets, while continued effective fuel procurement strategies will mitigate the volatility in market prices.

FIGURE 10: DEBT MATURITY PROFILE AS OF 31 DECEMBER 2012



ESB GENERATION AND WHOLESALE MARKETS

ESB GENERATION AND WHOLESALE MARKETS (G&WM) COMPRISES ESB'S GENERATION, TRADING AND ASSET DEVELOPMENT ACTIVITIES.

The generation and trading business manages, operates and trades ESB's electricity generation portfolio in Ireland and abroad, subject to licence obligations with respect to ring-fencing. This portfolio includes 4.3 GW of generation in the Single Electricity Market (SEM) and 0.4 GW in Great Britain (GB). In addition, ESB has 50% joint ventures in Marchwood (GB) and Amorebieta (Spain) with a cumulative capacity of 1.6 GW.

Asset development activities comprise identifying and developing opportunities to enhance and expand the generation portfolio to achieve ESB growth targets. Our projects are managed from development through construction to commercial operations.

881MW

THE SIZE OF THE CARRINGTON POWER PLANT (GB) – A SIGNIFICANT GENERATION INVESTMENT IN THE REGIONAL ENERGY MARKET

OPERATING ENVIRONMENT

Total SEM demand declined by almost 3% in 2012, the fourth consecutive year of demand contraction. Continued high natural gas prices and relatively competitive coal prices resulted in increased coal plant running throughout 2012. These factors also resulted in reduced gas fired plant running and significantly reduced margins, which constitute the majority of capacity on the system. G&WM's balanced portfolio, with a mix of fuels including coal, gas, peat, wind and hydro, has helped ESB to weather these market trends.

In 2012, ESB welcomed the decision by the SEM Regulatory Authorities which provided for the removal of ring-fences which historically segregated ESB's regulated and unregulated generation portfolios. The licence changes required to give effect to this decision are expected in early 2013. This will allow ESB to implement organisational and IT system changes to realise the benefits of greater integration of its generation businesses, which will result in costs savings and improved risk management.

The government announced in October 2012 that ESB would be required to sell some non-strategic generation assets to provide an extraordinary dividend of up to €400 million by 2014. The government reaffirmed its commitment that ESB would remain a financially strong, vertically integrated utility, that it would maintain its credit rating, and that it would retain significant scale to compete in the All Islands (SEM and GB) market while continuing to move to an appropriate market share in Ireland.

INVESTMENT AND GROWTH

G&WM's investment strategy is to build a balanced low carbon generation portfolio of scale in the All Islands market.

The implementation of this strategy was advanced significantly in 2012 with the successful financing of the Carrington power plant near Manchester, GB. Construction commenced on this 881 MW combined cycle gas turbine project in late 2012 and it is expected to reach commercial operations in early 2016. This project has been funded on a ring-fenced basis so that it does not displace any of our investment in electricity infrastructure on the island of Ireland.

ESB's investment in a low carbon portfolio continued with the construction of the Myndd y Betwys wind farm (35 MW) in Wales and the Carrickatane wind farm (21 MW) in Northern Ireland. These assets are expected to be operational in early 2013, and will bring ESB's operational wind portfolio to over 380 MW. In total G&WM generated approximately 1.3 TWh of electricity from renewable sources (wind and hydro) during 2012 – enough to supply the electricity requirement of around a quarter of a million households.

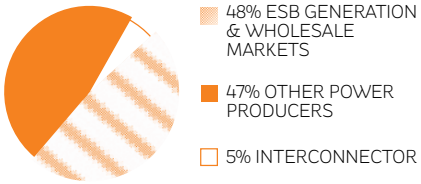
Refurbishment of the hydro portfolio also continued in 2012 with the upgrade of Erne and Turlough Hill units. Major overhauls were also successfully completed in 2012 at the Moneypoint and Synergen power stations. These two plants generated approximately one quarter of the entire electricity requirement in the SEM in 2012. As the generation cost of electricity from these plants is amongst the lowest in the SEM, their continued high availability benefits all electricity customers.

STRATEGY AND RESPONDING TO CHANGE

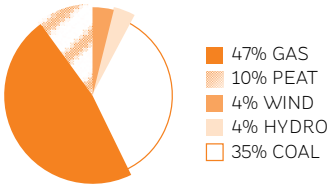
The planned evolution of the SEM over the next five years will result in a fundamentally different competitive environment, as ESB's home market expands, becoming the Regional Electricity

ESB GENERATION AND WHOLESALE MARKETS PERFORMANCE IN 2012

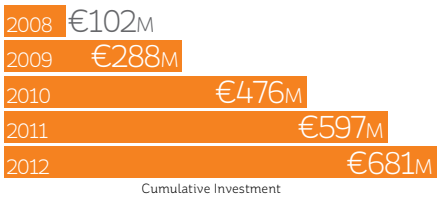
GENERATION MARKET SHARE (SEM)



PORTFOLIO FUEL MIX



CAPITAL EXPENDITURE ON RENEWABLE GENERATION 2008 TO 2012



Market (REM) including GB. In response, ESB's generation strategy includes building a growing position in the larger REM, delivering a balanced low-carbon portfolio, optimising financial performance and fully integrating our generation, trading and supply activities.

G&WM invested in significant trading systems and infrastructure with the intention of facilitating the integration of the generation businesses in 2013 and to support enhanced trading and risk management capabilities.

G&WM made significant strides this year in meeting its ambitious performance improvement and cost reduction targets to 2015. Over 150 employees exited the business during 2012 as part of a voluntary severance scheme and there were payroll reductions for staff remaining in the business, improving G&WM's competitiveness.

OUR PEOPLE

G&WM has been preparing for the integration of the generation portfolios that were previously separate for regulatory reasons. By the end of 2012, 911 staff were employed within G&WM, a reduction of 13% during the year. Bringing together the regulated and unregulated generation businesses and adjusting to the reduced numbers while maintaining the safe and effective performance of the business remains a significant focus for 2013.

GENERATION PORTFOLIO

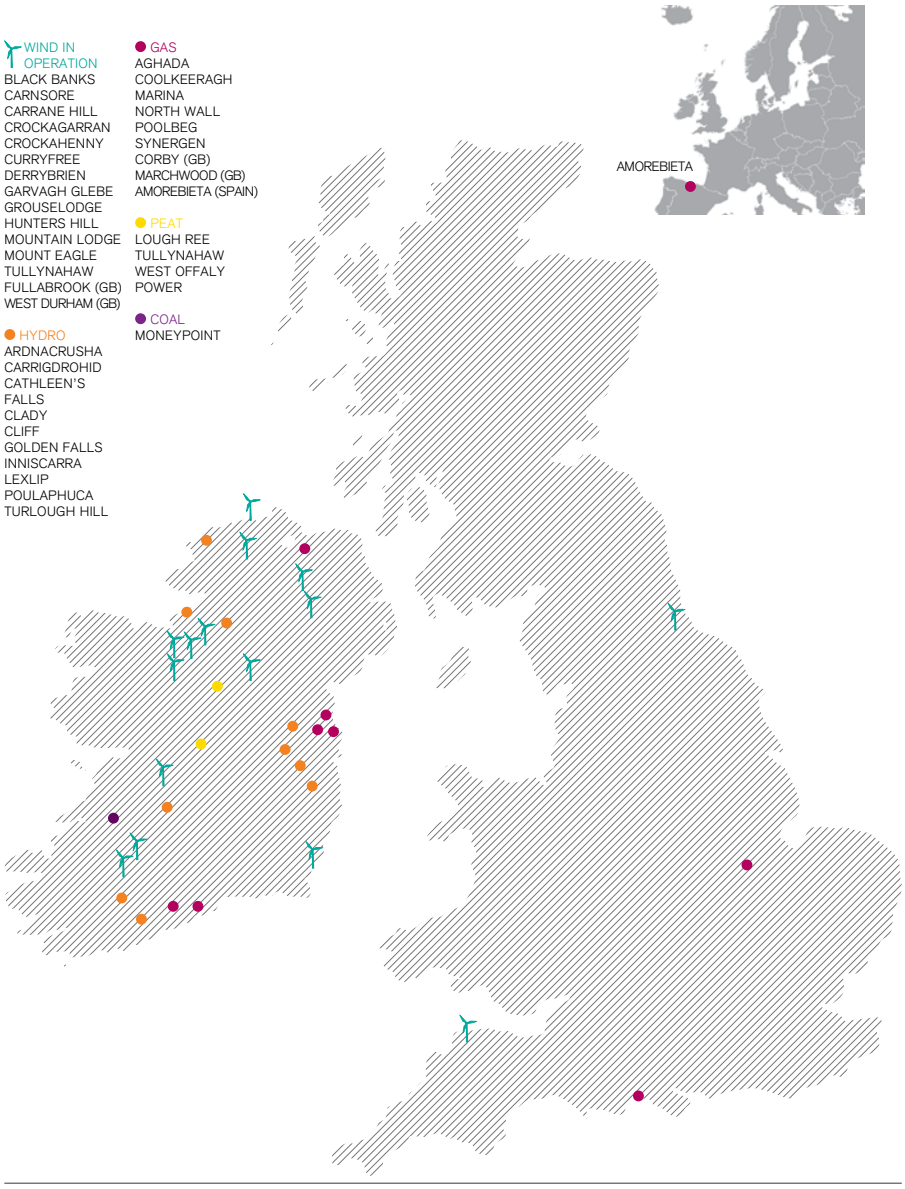
WIND IN OPERATION
BLACK BANKS
CARNSORE
CARRANE HILL
CROCKAGARRAN
CROCKAHENNY
CURRYFREE
DERRYBRIEN
GARVAGH GLEBE
GROUSELODGE
HUNTERS HILL
MOUNTAIN LODGE
MOUNT EAGLE
TULLYNAHAW
FULLABROOK (GB)
WEST DURHAM (GB)

HYDRO
ARDNACRUSHA
CARRIGDROHID
CATHLEEN'S FALLS
CLADY
CLIFF
GOLDEN FALLS
INNISCARRA
LEXLIP
POULAPHUCA
TURLOUGH HILL

GAS
AGHADA
COOLKEERAGH
MARINA
NORTH WALL
POOLBEG
SYNERGEN
CORBY (GB)
MARCHWOOD (GB)
AMOREBIETA (SPAIN)

PEAT
LOUGH REE
TULLYNAHAW
WEST OFFALY POWER

COAL
MONEYPOINT



PRIORITIES FOR 2013

- Maintain strong safety and operational performance, adapting to the reduced staff numbers and taking delivery of the benefits from integration of ESB's previously separate generation businesses
- Continue to drive the effective delivery of 2015 performance improvement targets
- Finalise the construction and commissioning of 56 MW of wind capacity with projects at Myndd y Betwys in Wales and Carrickatane in Northern Ireland
- Safely progress construction of the 881 MW Carrington power plant near Manchester, GB
- Progress the sale of some non strategic generation assets whilst maintaining the financial strength and scale to compete in the All Islands market
- Take final delivery of the core trading and business intelligence systems supporting the enhanced trading and risk management capabilities required to meet future market and portfolio demands

ESB NETWORKS

IN 2012 ESB NETWORKS FOCUSED ON RENEWING AND EXTENDING ITS DISTRIBUTION AND TRANSMISSION SYSTEM. ESB NETWORKS HAS NOW CONNECTED APPROXIMATELY 1,740 MW OF RENEWABLE GENERATION TO THE NATIONAL DISTRIBUTION NETWORK.

Priorities for 2013 are: safety, infrastructure delivery, customer service, strong financial performance and the development of sustainable networks.

CAPITAL INVESTMENT

Capital investment on the networks system in 2012 totalled €395 million and was primarily focused on reinforcing the transmission system to accommodate new wind generation that will be connected to the system before the end of the decade. By the end of 2012, approximately 1,740 MW of wind generation was connected to the system and this is expected to increase to 5,000 MW by the end of 2020.

We also continued to invest in the distribution system to improve reliability of supply and ensure the safety of the network.

Specific achievements in 2012 include:

- The completion of a new 24 km 110 kV circuit in Co. Cavan and the continuation of work on two major reinforcement projects in Co. Donegal and Co. Galway which together involve a total of 150 km of a new 110 kV line.
- Major reinforcement projects at two Dublin bulk supply substations were developed which included the commissioning of a new 250 MVA transformer.
- Construction commenced on a new 110 kV/ MV station and two 110 kV customer stations to serve major customers in the Dublin area.
- A total of 125 MW of wind farm capacity was connected and two new 110 kV substations connecting multiple wind farms were commissioned.
- 12,800 new connections were completed in 2012 (15,121 in 2011). The relatively low volume of load-related work resulted in a shift in investment activities to replacing the old plant and renewing the low voltage network.

€395M

THE CAPITAL INVESTMENT MADE ON THE NETWORKS SYSTEM IN 2012

STRATEGIC AIMS AND RESPONSE TO CHANGE

A number of major milestones were achieved in 2012. Our research and development programmes made informed decisions regarding major infrastructure deployment and allowed ESB Networks to continue its pivotal role in helping improve the competitive market operations for all electricity customers.

Some of the 2012 highlights are:

SMART METER PROGRAMME: The smart metering project has now commenced the detailed design stage. Under the governance of CER, the Energy Industry will work together over the next 18 months to finalise the detailed requirements for the full roll out of Smart Meters.

R&D PROJECTS: ESB Networks co-ordinated the North Atlantic Green Zone Project proposal, a joint proposal of all the system operators on the island of Ireland, with the support of government bodies, to be included in the EU-wide list of Smart Grid Projects of Common Interest which may attract EU funding from the Connecting Europe Facility and other EU funding budgets in 2013.

COST EFFICIENCY/PERFORMANCE IMPROVEMENT: In 2012 we reduced staff numbers by circa 10% through a combination of a voluntary severance programme and natural retirements which will enable the business to deliver greater efficiencies.

MARKET HARMONISATION PROJECT: A new market platform which enables a single market interface for changing customer supplier in both the Republic of Ireland and Northern Ireland electricity markets, was delivered on schedule and within budget in 2012. This project, which was approved by CER and NIAUR, was delivered by ESB Networks and NIE.

ESB NETWORKS' PERFORMANCE IN 2012

REGULATED ASSET BASE

2012	€6.8bn	
2011	€6.5bn	€0.3bn

CHARTER DEFAULTS

2012	1,422	(755)
2011	2,177	

CUSTOMER MINUTES LOST (CML'S)

2012	105 minutes	(11) minutes
2011	116 minutes	

EFFICIENT CUSTOMER SERVICE DELIVERY

The continuity improvement achieved over the last five years continued in 2012 with both fault and planned customer minutes lost (CML) slightly below the 2011 outcome.

In response to the increasing use of electronic media to access information, ESB Networks launched PowerCheck, a free iPhone and Android smartphone app, which allows customers to view real-time information about planned and unplanned power interruptions and projected restoration times. In addition the ESB Networks website was revamped in order to provide easier access to existing online information and a more service-based experience for the customer.

Customer satisfaction with ESB Networks overall performance at 84% is at an all time high. Telephone response rates to customers in the Networks Customer Care Centre (NCCC) continue to be at world-class levels.

The Schedule Support Centre continues to deliver customer service improvements in meter works and related services. During the year, ESB Networks worked with electricity suppliers to install new electronic 'Pay As You Go' meters to assist customers who are having difficulty budgeting for their electricity bills.

We continued to operate a scheme that facilitates our business customers in reducing their levels of contracted connection capacity (MIC) and in lowering their electricity bills.

OUR PEOPLE

The success of ESB Networks depends on a team effort to deliver its various work programmes and projects. The human resources strategy, which is part of the overall business strategy, supports the business in ensuring the right skill mix is in place to support a high performance organisation delivering work to the highest quality and safety standards.

The ongoing development of ESB Networks staff is crucial to effective delivery of the strategy, and during 2012 the business worked to equip all of its staff with the competencies and skills they need to contribute effectively. Towards the end of year we realigned our middle and front-line management team, in order to support the business strategy and further develop this critical resource.

84%

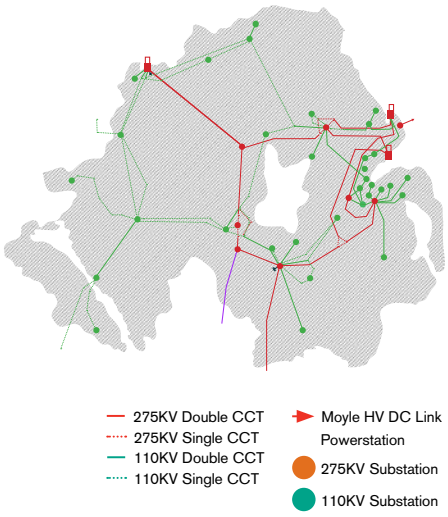
OVERALL CUSTOMER SATISFACTION

PRIORITIES FOR 2013

- SAFETY: Health and safety are core values of ESB Networks and the business is committed to continual improvement of health and safety standards to ensure a safe working environment for staff, contractors, customers and the general public.
- INFRASTRUCTURE DELIVERY: The Networks business is focused on delivering the critical infrastructure required to support the ongoing growth of the Irish economy.
- CUSTOMER SERVICE: We are committed to ensuring that our customers continue to enjoy a high quality, value for money service.
- FINANCIAL PERFORMANCE: The economic climate remains difficult and strong financial performance is essential in order to continue to meet the many challenges facing the business. ESB Networks will strive to operate within the expenditure allowances set by the CER, delivering costs efficiencies and performance improvements in all parts of the business.
- SUSTAINABLE NETWORKS: Smart networks are a key link in the integration of clean and renewable generation along the electricity value chain to customers and their energy devices. ESB Networks aims to be a recognised leader in the area of energy and environmental sustainability and has developed an integrated smart networks strategy to meet national targets.

NIE

NORTHERN IRELAND ELECTRICITY (NIE) IS RESPONSIBLE IN NORTHERN IRELAND FOR THE PLANNING, DEVELOPMENT, CONSTRUCTION AND MAINTENANCE OF THE TRANSMISSION AND DISTRIBUTION NETWORK AND FOR THE OPERATION OF THE DISTRIBUTION NETWORK.



OPERATING ENVIRONMENT

NIE derives its revenue principally through charges for use of the distribution system and Public Service Obligation (PSO) charges levied on electricity suppliers and charges for transmission services (mainly for use of the transmission system) levied on the electricity transmission system operator in Northern Ireland (SONI).

NIE is regulated by the Utility Regulator and the Department of Enterprise, Trade and Investment (DETI). NIE is subject to a price control, defined in a formula set out in its licence. The principles of price regulation in the licence conditions reflect the general duties of the Utility Regulator and DETI under the relevant legislation. These include ensuring that NIE can finance its authorised activities.

NIE's fifth five-year price control (RP5) which was due to commence on 1 April 2012 has been delayed.

In April 2012, the Utility Regulator published its draft determination for RP5 for consultation. The Utility Regulator's final determination was published in October 2012 and NIE responded on 20 November 2012, advising the Utility Regulator that regrettably it was unable to accept the Utility Regulator's proposed terms for the RP5 price control.

NIE has not taken this decision lightly. The allowances proposed by the Utility Regulator fall substantially short of the amounts required to enable NIE to meet its statutory and licence obligations and to carry out the necessary programme of work for RP5 to deliver the level of service that NIE's customers expect.

Since both NIE and the Utility Regulator consider that the present price control requires modification, NIE now expects the Utility Regulator to refer the matter to the Competition Commission.

INVESTMENT AND GROWTH

Since its privatisation in 1993, NIE has made significant investment in network infrastructure. During the period NIE has continued to invest in its infrastructure to replace worn network assets, to accommodate increasing load and new consumer connections and to meet requirements in respect of the connection of renewable generation. In addition, a new billing and market IT system, to facilitate full retail competition in the Northern Ireland electricity market, was successfully implemented in May 2012, in conjunction with ESB Networks.

In its business plan submission to the Utility Regulator for RP5, NIE proposed that the

€118M

THE CAPITAL INVESTMENT MADE ON THE NETWORKS SYSTEM IN NORTHERN IRELAND IN 2012

NIE'S PERFORMANCE IN 2012

NIE REGULATED ASSET BASE

2012	£1,197m	
2011	£1,155m	£42m

CUSTOMER MINUTES LOST (DISTRIBUTION FAULTS)

2012	46 minutes	(13) minutes
2011	59 minutes	

STAGE 2 COMPLAINTS

2012	2	
2011	1	1

level of investment would need to increase significantly, with the focus of investment driven by: the need to replace worn network assets installed as part of significant network development during the 1950s and 1960s; an increasing need for large transmission related projects; and meeting the requirements of new legislation. As outlined above, the allowances proposed by the Utility Regulator fell substantially short of the amounts required to enable NIE to meet its statutory and licence obligations and to carry out the necessary programme of work for RP5 to deliver the level of service customers expect.

While new connections to the network in 2012 at 6,400 were down 18% on 2011, reflecting the current economic downturn, requests for small scale generation connections during the year were up 78%.

STRATEGIC AIMS AND RESPONSE TO CHANGE

NIE aims to grow and maintain a secure and sustainable electricity network to meet the demands of Northern Ireland's electricity market, including the connection of renewable generation to support the Northern Ireland Assembly in reaching its targets in respect of electricity consumption from renewable sources.

In order to further strengthen the interconnection of the electricity networks of Northern Ireland and the Republic of Ireland, NIE will continue to work jointly with EirGrid on the development of the 400 kV Tyrone-Cavan interconnector. NIE's strategy in meeting these objectives will include maintaining a strong investment credit rating and ensuring the business is adequately resourced with qualified personnel to meet its obligations.

CUSTOMER SERVICE

A key priority for NIE is to consistently provide the highest standards in customer service and network performance. During the year, strong standards of customer service were maintained.

NIE continues to improve its emergency response capabilities during severe weather events in order to effectively restore supply to all customers. The significant commitment of its front-line staff helps to ensure that NIE effectively manages this very important aspect of its business. The average number of minutes lost per consumer per annum through distribution fault interruptions has significantly improved since privatisation.

OUR PEOPLE

NIE currently employs approximately 1,300 people and views its employees as the most important asset in its business. It encourages its employees to realise their maximum potential and to be appropriately challenged and engaged in the business by providing continuous opportunities for skills enhancement and personal development. NIE maintains Investors In People (IIP) accreditation.

Employee relations are positive and changes are implemented through a partnership approach with trade unions. Safety remains the primary focus for the business and NIE promotes a positive and proactive health and safety culture and adheres to all necessary legislation and recognised safety standards believing all incidents are preventable.

PRIORITIES FOR 2013

- SAFETY: Ensuring the health and safety of employees, contractors and the general public will continue to be NIE's top priority.
- SECURING A SATISFACTORY RP5 OUTCOME: Maintaining and developing a secure and sustainable electricity network and maintaining the financial health of the business by achieving a satisfactory conclusion to the RP5 price control process.
- CUSTOMER SERVICE: We strive to deliver excellent service to customers and maintain NIE's focus on customer service.
- COMPETITIVE COST BASE: Maintaining NIE's competitive cost base and continuing to successfully deliver capital investment programmes within approved parameters.
- HUMAN RESOURCES: Continued investment in employees to ensure adequate resources to meet business obligations and promoting a working environment that actively encourages employees to realise their full potential.

£140 MILLION

THE AMOUNT THAT NIE CONTRIBUTED TO NORTHERN IRELAND'S ECONOMY IN 2012

ELECTRIC IRELAND

ELECTRIC IRELAND IS THE RETAIL ARM OF ESB, SUPPLYING COMPETITIVE ELECTRICITY, GAS AND ENERGY SERVICES TO ALL MARKET SEGMENTS.

Electric Ireland, launched in 2011, is the new brand for ESB supply and energy services activities.

OPERATING ENVIRONMENT

The Republic of Ireland experienced the EU's highest level of residential customer switching between suppliers in 2009 and 2010. The ending of electricity supply tariff regulation by the CER in April 2011 represented a significant milestone for ESB and allowed Electric Ireland to operate on a commercial basis in the competitive market.

With the entry of Electric Ireland into the competitive electricity and gas markets, competition intensified throughout 2011 and 2012, offering customers a choice of suppliers and competitive price plans. Electric Ireland has been competing effectively in the residential and business markets with competitively priced products with over 200,000 residential electricity customers returning to Electric Ireland in the last two years. Electric Ireland has also won over 80,000 residential gas customers since our entry into the residential gas market in April 2011.

Aggressive levels of competition in the market and the economic downturn have presented significant challenges for the business in terms of debt management.

STRATEGIC AIMS AND RESPONSE TO CHANGE

Electric Ireland's strategic objective is to be the foremost supplier of energy and related services in the Irish market offering competitive and sustainable energy solutions. This will be achieved by providing excellent customer service and delivering products and services that meet customer needs and provide value for money.

During 2012, significant progress has been made, including;

- competing effectively in the open residential and business markets with competitively priced products
- launching and developing new product offerings, including gas and Home Services
- continuing to provide excellent customer service
- maintaining our focus on cost improvement to ensure Electric Ireland has a competitive and flexible cost base
- promoting awareness of the Electric Ireland supply business following rebranding
- continuing to work proactively and sympathetically with customers to manage debt repayment in the current economic climate.

CUSTOMERS

In a continuing drive to retain and win back residential customers, Electric Ireland successfully launched and developed new product offerings. These included competitive electricity price plans and building market share in the residential gas market.

The residential electricity marketing and sales campaign has been very successful with customer losses reduced from an average of circa 24,000 per month in 2010, to net growth in customers since April 2011 and strong awareness of the Electric Ireland supply business. By the end of 2012, Electric Ireland had 1.3 million residential electricity customers and 80,000 dual fuel customers, with over 100,000 residential electricity customers switching to Electric Ireland in 2012 from competing suppliers.

During 2012, Electric Ireland also launched further price plans for the business market, primarily targeted at the small business sector. Despite significantly increased competition, Electric Ireland continues to maintain its strong presence in the large business market sector in the RoI and NI markets. This market segment consists of predominantly high load factor customers to whom we provide tailored customer service, supported by a range of energy efficiency solutions.

In addition to competitive electricity price offerings, Electric Ireland has increased sales of energy efficiency measures through our Home Services offerings. A full installation service including home insulation, gas boiler servicing and upgrades, heat pumps, solar panels, and BER certification is provided. A major urban refurbishment project of 500 homes has been completed in conjunction with Dundalk Town Council and the Sustainable Energy Authority of Ireland (SEAI).

2012 also saw the introduction of new product lines including oil boiler servicing, boiler product cover, a new remote heating control device (Climote) for the domestic home market and new energy services for the business market.

Electric Ireland continued to prioritise quality customer service and customer satisfaction remained high throughout 2012. This was reflected in the results of the annual energy retail market consumer survey published by the CER in July 2012, which found that Electric Ireland residential customers had the highest overall customer satisfaction with their supplier, amongst all major energy suppliers in the Irish market. This survey also found that customers in Ireland are satisfied with the service and level of competition in the competitive retail marketplace. In 2012 Electric Ireland's Customer Contact

ELECTRIC IRELANDS PERFORMANCE IN 2012

CUSTOMER NUMBERS (ELECTRICITY AND GAS)

2012	1.5m	
2011	1.4m	0.1m

ENERGY EFFICIENCY SAVINGS (Gwh)

2012	119Gwh	
2011	68Gwh	51Gwh

RESIDENTIAL CUSTOMER SATISFACTION

2012	83%	
2011	78%	5%

Centre achieved its service targets, was awarded ISO 27001 accreditation and also retained accreditation under the Customer Contact Centre Association Global Standard. In addition, Electric Ireland continues to deliver service levels in line with our Customer Charter and Customer Service Codes of Practice.

The popularity of e-services such as paperless billing has increased significantly with 180,000 Electric Ireland customers receiving paperless billing (online). These customers can also view their account and payment history online.

With the increasing use of social media channels such as Twitter and Facebook, customers are engaging in new ways and meeting customer needs through such channels is a priority for Electric Ireland.

The economic downturn presents significant challenges for debt management. While proactively working to ensure that debt is collected, Electric Ireland has responded to customers experiencing serious hardship by:

- Identifying as early as possible when customer payments are in arrears and contacting them to discuss the options available. Electric Ireland made almost 220,000 tailored payment arrangements with customers in 2012.
- Actively promoting the installation of pay-as-you-go meters for those in most difficulty. It is our objective to further minimise disconnections through the continued roll out of pay-as-you-go meters and special payment arrangements. As a result of these initiatives, we have reduced the number of customers disconnected by almost a third over the last two years at a time when other energy suppliers increased disconnections.
- Proactively engaging with St Vincent de Paul, the Money Advice and Budgeting Service (MABS) and other agencies to support customers experiencing affordability issues and those with special requirements.

Potential debt exposure from business customers continues to be actively managed.

OUR PEOPLE

During 2012 ESB's three former separate supply businesses were integrated into a single supply business. As part of the restructuring, a more flexible and cost- effective service - delivery model was implemented to allow Electric Ireland compete effectively in the competitive market.

SUSTAINABILITY

Electric Ireland works with customers to help them reduce usage and get better value from their electricity consumption, through the promotion of energy efficient products and energy awareness campaigns. These campaigns included energy efficiency advice, ESB's online store and web-based tools including the 'Appliance Calculator' and the 'Energy Wizard' home auditing tool, also available as an app.

The Better Energy Programme, administered by SEAI, is a key component of the National Plan to deliver the EU target of 20% improvement in energy efficiency by 2020. As part of this Programme, Electric Ireland plans to deliver over 180 GWh of energy efficiency savings cumulatively for 2011 through 2013, the equivalent of a reduction in electricity consumption of over 30,000 homes. In 2012 this was achieved through a range of programmes, from retrofitting 2,000 homes to minimise their energy usage to a suite of measures to reduce consumption in commercial retail premises and eliminate energy losses in industrial processes.

Electric Ireland achieved ISO14001 certification for its Environmental Management System, ensuring that all internal processes are best in class and that the organisation meets the highest standards for sustainability and environmental management.

PRIORITIES FOR 2013

Electric Ireland is facing exciting and challenging times in the increasingly competitive energy market, against the backdrop of the economic downturn.

We will strive to maintain our position as the foremost supplier of energy and related services in the Irish market offering competitive and sustainable energy solutions

Our priorities for 2013 include:

- Provide excellent customer service and deliver products and services that meet customer needs, provide value and earn a reasonable and sustainable level of profit
- Successfully promote the Electric Ireland brand as the leading energy supply brand in Ireland
- Maintain the focus on further cost improvement and flexibility to ensure a competitive cost base
- Continue to respond to our customers by offering payment options to facilitate debt repayment in the harsh economic climate
- Develop new ways of contributing to Ireland's energy efficiency targets under the Better Energy Programme, by helping homes and businesses to become more energy efficient
- Ensure that Electric Ireland can operate on a level playing field with its competitors.

100K

THE NUMBER OF CUSTOMERS WHO RETURNED TO ELECTRIC IRELAND IN 2012



12:25
ENERGY FOR
DRIVING INNOVATION

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2012 HIGHLIGHTS

33%
REDUCTION IN INTERNAL CARBON FOOTPRINT SINCE 2006

640
SUSTAINABLE INNOVATIONS RECORDED IN 2012

ESB WAS 1 OF 11 ORGANISATIONS TO SIGN THE DIVERSITY CHARTER IRELAND IN 2012

ELECTRIC IRELAND WAS THE "OFFICIAL ENERGY PARTNER" TO TEAM IRELAND

03 CORPORATE SOCIAL RESPONSIBILITY

INTRODUCTION MESSAGE FROM PAT NAUGHTON, EXECUTIVE DIRECTOR, PEOPLE AND SUSTAINABILITY



Since being established in 1927, ESB has a proud tradition of being centrally involved in every aspect of the social, community and economic development of Ireland, from development of the Ardnacrusha hydro-electric station in 1929, through bringing electricity to every town and village in the 1950s, maintaining Ireland's energy security during the oil crisis of the 1970s and to the development of competition on the island of Ireland with increasing focus on renewable generation and decarbonisation. In ESB we continue to play a central role in the economic, community and social development of Ireland by ensuring that we operate in a responsible manner across all aspects of our activities in Ireland and overseas.

ESB's corporate social responsibility aim is to be exemplary in every aspect of our business operations to ensure ESB has a positive impact on our staff, the markets in which we conduct our business, the environment in which we operate and the communities we serve. This ambition is aligned with our vision to be Ireland's foremost energy company competing successfully in the all-islands market and underpinned by our aim of conducting all our affairs with our customers, partners, stakeholders and the public with integrity and to the highest ethical standards.

In 2008, we developed a Sustainability Charter to underline our commitment to becoming exemplary in sustainability. I am pleased to report that we have achieved all of the commitments outlined in our charter to the end of 2012, building on the achievement in 2011 of being one of the first recipients of the Business Working Responsibly Mark. We will continue to lead by example in this important area and to build on this success, by continuing to encourage our staff to think in innovative ways, to advance our corporate social responsibility (CSR) agenda by getting the fundamentals right, by being an exemplary employer and by addressing our broader responsibilities to society.

OUR APPROACH TO CORPORATE SOCIAL RESPONSIBILITY



SUSTAINABILITY CHARTER

To underpin our commitment to becoming exemplary in sustainability, ESB developed and adopted a Sustainability Charter in 2008.

CHARTER COMMITMENT	PROGRESS IN 2011	PROGRESS IN 2012
Reduce CO_2 emissions from generation by 30% by 2012; 50% by 2020 and become carbon neutral by 2035 (based on 2005 baseline)	We have achieved our 2011 goal of reducing emissions by 30% and we are well on our way to achieving our 2020 target.	As part of the new ESB Corporate Strategy to 2025, ESB has committed to achieve a net-carbon neutral portfolio across our generation activities by 2050 in line with other European utilities.
Adopting a target of a 30% reduction in carbon emissions from our internal business activities by 2012, in addition to our targets for the performance of Network and Generation assets	At the end of 2011 ESB's internal carbon footprint has been reduced by 25% against the baseline set in 2006.	At the end of 2012 ESB's internal carbon footprint has reduced by 33% against the 2006 baseline. We will continue to reduce our carbon footprint as part of our new Sustainability Strategy.
Committing to leadership in sustainability through partnership at all levels in the organisation	In 2011, staff surveys show an ongoing strong commitment to sustainability (over 90% of staff support the Sustainability Programme).	ESB continues to use central and local partnership groups to further embed sustainability throughout the company supported by a network of sustainability champions with leadership and support from directors and senior managers in each business.
Reducing our impact on the environment to a practicable minimum by the prevention of pollution, reduction of waste and the efficient use of energy, water and other resources	In 2011 remote electronic water metering was installed in all of our major locations.	Formal accreditation of the environmental management system in Electric Ireland and a number of additional wind farms to the ISO 14001 standard was achieved.
Identification and dissemination of best practice in sustainability throughout ESB, including our international operations	In 2011 we extended our Sustainability Awards Scheme to our international operations and introduced bi-monthly awards. Our overall sustainability award for 2011 was won by our team in Rousch, Pakistan.	In 2012 we launched our Sustainable Innovations web-site which enables staff to share innovative sustainable ideas with other staff in other locations across ESB. Over 640 Sustainable Innovations were recorded in 2012 spread across 60 locations.
Integrating sustainability considerations into our procurement activities as well as in our investment and expenditure decisions	Our procurement policy continues to require that procurement specifications should take into account best-practice environmental and sustainability standards.	We undertook a further review of the impact of our procurement activities (including fuel) focussing in particular on the social and societal impact. Following this review ESB has proposed a revised Corporate Procurement Policy which includes key Corporate Social Responsibility principles in line with SA8000 social certification standard for industry.
Actively and effectively communicating and involving staff and contractors in identifying and implementing performance improvements	In the 2011 staff survey, 74% of staff confirmed that they are adequately informed how to be sustainable at work and 71% reported improvements in sustainability in the past year.	The 2012 Sustainability Awards were selected from a shortlist of over 640 Sustainable Innovations which were proposed by staff across over 60 ESB locations in Ireland and overseas. As part of the review of the next phase of the Sustainability Strategy, a series of workshops were held with staff to canvas views, opinions and feedback on our work to date and on the next phase of our sustainability journey.
Adopting appropriate management structures, management systems and targets	Sustainability continues to be a key target for all ESB directors and business units.	As part of the launch of the new Corporate Strategy in 2012, work began on a new Sustainability Strategy which will be rolled out in 2013.
Assessing the impact of our operations on biodiversity and implementing opportunities for enhancement	A new Biodiversity Policy was approved in 2011; the plans will be managed through our Environmental Management Systems (EMS) process.	The new Biodiversity Policy was launched in 2012 and communicated to all parts of ESB for inclusion within business unit EMS.
Openly reporting on our environmental performance in a verifiable way	Our 2011 Sustainability Report was aligned to the Global Reporting Initiative (GRI). In October 2011 ESB was one of 4 companies in Ireland to be accredited to the new Business Working Responsibly Standard (BWR).	Each business area in ESB has an Environmental Management System (EMS) which ensures the management of environmental performance in a verifiable way. In 2012, Electric Ireland and a number of operational windfarms were the latest businesses to certify their EMS to the ISO 14001 standard.

SUSTAINABILITY

ESB remains committed to the highest levels of sustainability in all aspects of our operations as we move to decarbonise our generation activities by 2050 in line with other European utilities. Our new Corporate Strategy places a strong emphasis on sustainable innovation – embracing the challenges facing the energy sector, always seeking to deliver novel, creative and sustainable solutions that meet the needs of our customers. In 2008 we launched our Sustainability Charter which outlined key commitments across carbon reduction, embedding sustainability at all levels in ESB and integrating sustainability in all aspects of our business, from procurement through to reducing energy, water and waste from our operations.

2012 was an important year for ESB on our sustainability journey. Our key targets to reduce our CO2 emissions, from generation by 30% by 2012 (based on 2005 baseline) has been achieved, as has our target to reduce our carbon footprint from internal activities by 30% by 2012. We are planning the next phase of our sustainability journey to re-position sustainability as a source of key strategic advantage for ESB in the all-islands market.

ENERGY USAGE 2012

In compliance with SI542/2009, ESB is disclosing its energy usage in 2012, the initiatives we undertook during the year to improve our energy performance and our commitment to further improve our energy performance for 2013.

Electricity generation accounts for over 90% of ESB's use of energy, however this falls outside the scope of the regulations. In 2012 ESB consumed 30,595 GWh of fossil fuel energy in generating electricity in the Republic of Ireland. This comprised:
12,097 GWh of natural gas
13,492 GWh of coal
4,630 GWh of peat
376 GWh of oil

In relation to energy use, which we are required by statute to report, the amount of energy used in our buildings constitutes the most significant portion, followed by that used in our fleet and in private cars used on company business. The bulk of energy use in buildings is attributable to space heating.

Internal use accounted for 117 GW Primary Energy Equivalent (PEE) in our non-generation activities (155 GWh in 2006). This consisted of:
65 GWh of electricity as PEE
1 GWh of natural gas
51 GWh of transport diesel
0.3 GWh of renewable energy in transport

Energy source	2012 (GWh)	2006 (GWh)	Change (GWh)
Electricity	27	38	(11)
Electricity (PEE)*	65	96	(31)
Fossil fuels			
- Natural gas	1	1	-
- Heating oil	-	-	-
- Diesel	51	59	(8)
Total fossil fuels	52	60	(8)
Renewable energy	0.3	-	(0.3)
Total (PEE)	117	156	(39)

* PEE is the primary energy equivalent

Actions undertaken to reduce energy usage in 2012

ESB's generating plants are subject to the integrated pollution control licensing regime and are required to optimise energy efficiency. Generation efficiency is also promoted as a result of the requirement to purchase emissions allowances under the EU's emissions trading scheme and the application of the carbon levy. In 2008 ESB adopted a target of a 30% improvement in non-generation energy efficiency by 2012, against a 2006 baseline in the context of a government objective for the public sector of a 33% improvement by 2020.

Steps to deliver this target in ESB continued in 2012, including:

- undertaking trial installations of electric pumps and other efficient energy systems in our office buildings as part of the Better Energy Programme (DCENR)
- continued upgrade of the electricity networks system and the conversion of network from operating at 10 kV to 20 kV
- installation of energy efficient lighting and advanced lighting controls
- insulation, boiler and heating control upgrades
- installation of advanced controls for exterior lighting
- introduction of electric vehicles to our fleet and continued trials of biofuels (ESB has the largest fleet of biofuel vehicles in the country)
- introducing a web-based meeting/ communications facility to avoid the need for business travel
- introducing work-place travel planning

We will continue to deliver efficiency savings in all aspects of our business in 2013.

ESB INNOVATION

The challenges and opportunities presented by energy policy objectives to achieve decarbonised, sustainable and secure energy, call for new technologies, renewable resources and smart grids. ESB, as it has done over many years, is continuing to develop new technical and business solutions across the clean technology sector. The opportunities and issues arising apply right across ESB but it is recognized that the pace and breath of developments require co-ordination and focused investment. A separate dedicated business area, ESB Innovation, has been established to provide that co-ordination and strategic focus.

The core purpose of ESB Innovation is to lead collaboration across the ESB Group, to identify and develop emerging technologies as commercial business opportunities, for ESB (and for external clients). ESB Innovation will leverage resources, sectoral insights and smart technology programmes across the ESB Group, to maximise returns from existing businesses and support the developments of new business opportunities.

ESB Innovation groups together a number of businesses that are focused on taking assets and insight within ESB and using those to develop new opportunities.

€200 MILLION

THE NOVUSMODUS FUND IS ONE OF THE LARGEST CLEAN TECH FUNDS IN EUROPE.

ESB INTERNATIONAL

ESB International (ESBI) has a proud tradition of providing solutions to customers around the world and, as the centre of engineering excellence for ESB Group, plays a leading role in the delivery of the overall group strategy through its support in the delivery of new networks and generation projects. New and emergent technologies are continually monitored and evaluated to determine where they can best be deployed to meet ESB's needs.

ESBI has been actively growing its external business and has targeted key markets and clients in Europe, Middle East, Africa and Asia for further growth over the coming years. The range of services offered include the full spectrum of engineering solutions currently provided to the power sector, supplemented by consultancy services from other sustainable, innovative businesses developed in ESB, e.g. Electric Vehicles, Ocean Energy and Smart Grid technologies.

TELECOMS

ESB Telecom's fibre-optic network forms a key part of the national telecommunications infrastructure, enabling broadband connectivity for businesses and consumers. This was significantly expanded in 2012, with the completion of a subsea fibre-optic cable directly linking Irish business to major UK cities.

This fixed network is augmented by one of the largest networks of independent mobile tower sites in the country, allowing our customers to support the growing demand for services delivered over mobile devices and smartphones.

The next stage in the evolution of the telecoms offering will come with the recently announced Fibre to the Building initiative which has the potential to act as a major technology enabler for businesses and consumers right across the country.

ELECTRIC VEHICLES

ESB ecars is on track to having one of the most advanced electric vehicle infrastructures anywhere in Europe. The programme has reached a milestone target in December 2012 with more than 1,150 installed charge points, 500 of which are public, 550 domestic/commercial and 30 fast-charge points. In addition, ESB ecars is, in conjunction with major international partners, developing the business models and systems to support a commercial ecar platform. The international interest in the work being done here was reflected during 2012 in the hosting by ESB ecars of an International Electric Vehicle conference in Dublin with more than 260 delegates and speakers from Europe, US, Japan and China.

OCEAN ENERGY

Our Ocean Energy team continues to support a range of initiatives in this new and potentially transformative sector through its involvement in demonstration projects such as WestWave and support of R&D for the advancement of relevant technology. Ocean Energy on behalf of ESB also advocates the advantages of wave energy for Ireland at events such as the International Conference on Ocean Energy, held in Dublin in 2012.

NOVUSMODUS

ESB has recognised for some time that the new solutions in technology and business models will drive changes in how power is generated, delivered and consumed will come from a variety of sources – some of whom have no current connection to the energy sector. The ESB Novusmodus fund was set up to invest in the renewable energy and energy efficiency sectors, and with a fund of €200 million is one of the largest clean tech funds in Europe. This fund builds on the engineering expertise within ESB to evaluate and identify the most credible investments and support them through the delivery of their business plans – delivering both financial returns for ESB and increasing awareness within ESB of the new solutions being developed to meet the energy sector's challenges.

Through all of these businesses ESB Innovation will deliver novel technologies and approaches to be applied across ESB while also ensuring that the financial returns are appropriate to sustain this investment.

EQUALITY AND DIVERSITY

2012 has been a period of significant organisational change. ESB's Equality and Diversity policies, practices and initiatives are leveraged to positively engage with and support staff. During times of organisational change, there is an increased focus on employee engagement, resilience and well-being. ESB continues to create and promote a positive and inclusive work environment. Our policies are regularly reviewed and aim to support a culture of respect and dignity for the individual in workplace fairness and equality of opportunity.

In October 2012, ESB was one of eleven organisations to sign The Diversity Charter Ireland. The signing of the charter is a voluntary commitment by each of the organisations to promote effective diversity management, preventing discrimination and promoting equality for all employees, customers, stakeholders and the environment in which they operate.

The main purpose of the Diversity Charter is to promote the acceptance, appreciation and inclusion of diversity within the corporate culture and to work together to share up-to-date information on best practice and promote the benefits of diversity.

ESB is further demonstrating its commitment to effective diversity management, promoting equality and preventing discrimination. This commitment means that we will:

- Continually work to ensure we have a corporate culture that is characterised by respect and appreciation for each person's diversity
- Promote equality and non- discrimination at every stage of our human resources processes
- Build awareness and understanding of the benefits of promoting equality and diversity

In 2012, ESB received a Willing Able Mentoring (WAM) Leader Award for Employer of Graduates with Disabilities and hosted an event for the launch of WAM Bassadors booklet, outlining individuals' experiences in the work-place.

ESB continues to be an active member on a number of external equality and diversity networking groups. Among the initiatives that help promote a positive and inclusive work environment were the following:

- Overview of mediation services to resolve workplace conflicts
- Women's learning and networking events – to promote and cultivate the growth and advancement of women in the organisation, including workshops to promote positive learning and action opportunities
- Joint Equality Council whose members are a cross-section of staff and union representatives and include a disability and LGBT representative
- Traineeship Programme for People with Disabilities - continues to be a hugely successful initiative not just for the participants, but also in raising awareness of inclusiveness of people with disabilities in the work-place
- Disability Access Group established to look at all areas of access in ESB
- ESB continues year on year to exceed its 3% NDA target of employing employees with disabilities
- Business Unit Diversity Groups – continue to raise awareness at local levels by integrating equality and diversity practices and initiatives for staff and customers
- Staff Survey Action Groups work to address issues arising from the staff surveys and highlight the positive opportunities, supports and services available

The organisation is predominantly a male work-force; 23% of staff are female with 3 females at ESB Board level. 20% of managers are female.



IN PROFILE

ROBERT FORDE, ELECTRIC IRELAND.

In 2006, I took part in ESB Traineeship Programme for People with Disabilities, as I am visually impaired. I had a 6 month placement, assigned to Generation Operations in the Energy, Trading and Regulation area. Having successfully completed my traineeship and with skills, confidence and support that I acquired during my placement, it encouraged me to undertake further studies related to ergonomics. In April 2007, another position became available in ESB and I believe that my previous experience on the Traineeship was invaluable in attaining a contract. Since then, I have seen many changes in the organisation and have moved to Electric Ireland, where I currently deal with electricity and gas customers. The Traineeship Programme for People with disabilities was a great platform from which to launch my ESB career and it is fantastic and reassuring to see the continued commitment and support of ESB management and team members to ensure the success of this initiative, now in its 7th year.

OUR PEOPLE – AN ENGAGED AND AGILE ORGANISATION

Central to the success of ESB are our people. We recognise that people who feel valued and highly motivated will deliver high performance and that their role and contribution is essential to ESB and its future success.

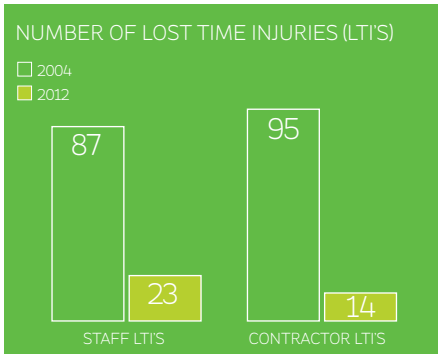
In 2012 we launched our new Corporate Strategy which outlines our strategic objectives in this area. Underpinning this strategy is our intent to develop our organisation through an engaged and agile workforce and a culture of high performance. ESB has responded to a changed industry environment by working with our people, across the organisation, in the transformation of our cost base to secure our future.

Guided by our mission and our vision for the future and staying close to our values, we take on the challenges this future now brings, keeping those positive attributes that have served us so well through our history.

Safety and Health

In ESB we remain committed to achieving our goal of zero injuries across all areas of operation and in 2012 many parts of ESB maintained another injury-free year. Against a background of significant organisational change, staff lost time injuries (LTI) decreased by 14% to 23, however their relative severity has increased.

Regrettably there was one contractor staff fatality during 2012. Contractor safety performance as determined by LTI was also slightly worse than 2011 with a total of 14 recorded. There were no staff fatalities in 2012. However regrettably there were two electrical fatalities to members of the public: one from contact with overhead network and the other on the customer side of the meter.



The categorisation of safety incidents has led to improved shared learning across the business areas.

Investigation of high potential severity incidents in order to prevent their becoming future injurious incidents will be a key area of focus for 2013 as we continue our objective of achieving zero safety incidents to staff and contractors.

Driving and road use remains a significant hazard for ESB. In 2012 we launched a new Safe Driving Strategy to 2020 with the aim of reducing at-fault road traffic collisions to zero. During 2012 we continued to reduce our collision numbers which have reduced by 53% since 2003 and completed over 1,700 advanced driver qualifications for staff who drive as part of their work.

ESB is committed to establishing and maintaining appropriate safety competence in the organisation. Since establishing a dedicated Certificate in Safety and Health at Work with University College Dublin, a total of 379 ESB staff and managers have successfully completed the course.

Employee well-being

ESB is strongly committed to supporting staff in maintaining good health and well-being to enable them to perform in the work-place and to live a balanced and healthy life. In these challenging times in Ireland, we believe that there is a greater need for the provision of support and the promotion of health and well-being to maintain a healthy and high performing work-force.

We provide support to our staff through our well-established services including Occupational Health Services, Employee Assistance Programme and Equality and Diversity programmes, which are all aimed at assisting staff during these challenging times.

Employee Assistance Programme

ESB's in-house Employee Assistance Programme (EAP) provides professional and confidential support to individual staff members who are experiencing personal problems/issues. Typical issues that can arise include problems relating to physical and mental health, financial and relationship/family issues.

Health Maintenance Programme

Our health maintenance programmes are focused on general health advice and support, with an increasing focus on the mental health area. While it is recognised that stress may be part and parcel of living in the current economic climate, the availability of active work-place stress awareness programmes are crucial to supporting staff in dealing with these challenges. We also maintain an extensive health service offering versatile programmes for the promotion of a healthy lifestyle such as: general health, diet, information and advice and exercise initiatives to engage staff in enjoyable activities and team events.

Below are some of the programmes provided during the year:

- General health screening – cardio screening, bowel screening
- Flu vaccination and smoking cessation programmes
- Briefings on health and fitness throughout the year
- Regular communications to staff on health topics via intranet site, including exercise, diet, stress management, mindfulness and meditation practices
- Staff Olympic Challenge – engagement of staff in making pledges of healthy lifestyle changes e.g. change in diet, new exercise regime

Learning and Development

The creation of an 'engaged and agile organisation' has been identified as a critical enabler of our future success. ESB is committed to building a sustainable high performance culture through enhancing our people's capability to foster positive relationships and engagement across the organisation.

For example we have:

- committed to a 3-year Leadership Programme for senior managers.
- developed a number of programmes aimed at enhancing the people management capability of both newly appointed and more experienced line managers.
- continue with the delivery and enhancement of our HRM Programme for Line Managers which is an accredited CIPD certificate programme.

In addition, ESB continues to encourage continuous professional development to ensure that staff in ESB have the skills and the competence required for individual and organisational success. ESB is an Engineers Ireland CPD accredited company. We recruit engineering graduates each year based on business needs. In 2012, ESB won the gradireland 'most popular graduate employer' award in the engineering sector, from among a shortlist of companies including Siemens, Arup, Kingspan and EirGrid. We also recruit apprentice network technicians and after 1 year these apprentices have the opportunity to compete for ESB engineering undergraduate scholarships. Other graduates are selected to participate in our Trainee Accountant Programme (ACCA, CIMA or ACA accredited).

ESB continues to participate in the government's national internship scheme, JobBridge, which provides individuals who have been on the live register for at least three months with the opportunity to undertake a quality internship in an organisation in the private, public, community or voluntary sectors for a six or nine-month period. ESB has pledged to provide up to 200 internships throughout the company during the scheme's lifetime (1/7/2011- 30/6/2013). To date we have appointed 81 interns throughout the company. Thirty-nine of those 81 interns have since left the company and approximately 50% of those have found paid employment. This undoubtedly meets the purpose of the JobBridge scheme by making people more employable by giving them the opportunity to gain experience in their career of choice.

ESB also remains committed to supporting FIT Ltd, a registered charity and not-for-profit organisation whose mission is to promote an inclusive smart economy by creating a fast-track to marketable technical skills for those at risk of long-term unemployment. Each year ESB hosts a number of conferences where students are given an insight into how the corporate business world operates.



IN PROFILE

LOUISE CONNOLLY, GAS PIPELINE ENGINEER ON THE HIGH-PRESSURE PIPELINE FOR THE CARRINGTON CCGT PROJECT. ENGINEERS IRELAND'S 2011 CHARTERED ENGINEER OF THE YEAR.

I graduated from Cork Institute of Technology (CIT) in 2004 with a degree in mechanical engineering and found a graduate position with ESB International. Armed with my degree, background and preparation, starting work with ESB International was still an adventure into the unknown. No matter what you do beforehand, your first full-time position is always a steep learning curve! I got an intensive introduction to the power plant business, from the minutiae, such as the day-to-day acronyms used by power plant engineers, to site visits, to working with design teams. The most unexpected lesson that I learned was about communication; I just didn't realise how much you have to talk to people. I had always understood the importance of numbers, maths and theory - the technical aspects of the work. Delivering projects and working with contractors was an eye-opener and underlined the importance of communicating with clarity.

ESB International made sure that I was closely mentored in my first year. Then, after 15 months I was given the opportunity to take up the role of Warranty Engineer at the Bizkaia Energia power plant in Amorebieta, outside Bilbao in Northern Spain. My next big project, was working on an environmental retrofit project at Moneypoint in Co. Clare. In 2008, I moved to work as a Gas Pipeline Engineer on the Carrington CCGT project, an 881 MW gas fired power plant being built in the UK. A key part of the project is the development of a 600 mm diameter 2.4 km high-pressure gas pipeline through an industrial brown field area. My responsibilities include: preparation of technical specifications for design, construction and material supply contracts; management of tendering processes and evaluations; contract management of gas pipeline design and construction, design reviews; programme, risk and safety management.

In the eight years I've been with ESBI, I have worked with many amazing talented and dedicated people, and I've been given the opportunity to develop skills I never knew I had.

OUR COMMUNITY

2012 WAS AN EXCITING YEAR FOR ESB AS ELECTRIC IRELAND HAD THE HONOUR OF BEING THE 'OFFICIAL ENERGY PARTNER' TO TEAM IRELAND FOR LONDON OLYMPICS 2012. WE WERE ALSO DELIGHTED TO CONTINUE OUR SUPPORT TO GREAT IRISH EVENTS SUCH AS FEIS CEOIL AND ELECTRIC PICNIC.

TEAM IRELAND

Electric Ireland was the 'Official Energy Partner' to Team Ireland for the London Olympics 2012. Electric Ireland announced the sponsorship in September 2011 and worked in partnership with the Olympic Council of Ireland over the following twelve months to support Irish athletes in their quest to qualify for Team Ireland.

Electric Ireland's sponsorship was designed to support Irish athletes and their fans in the lead-up to the Olympics. Electric Ireland's sponsorship support programme included an integrated communications campaign featuring Ireland Olympic hopefuls in TV, radio, press, PR and outdoor advertising.

Electric Ireland was proud to support Team Ireland at the London Olympic Games. Combining our energy and passion with that of many athletes resulted in winning five medals – Ireland's most successful Olympics since Melbourne in 1956. Boxer Katie Taylor won gold, boxer John Joe Nevin won silver, boxers Paddy Barnes and Michael Conlan and show jumper Cian O'Connor all won bronze.





PROUD SPONSORS OF TEAM IRELAND AT THE LONDON OLYMPIC GAMES

KATIE TAYLOR

SUPPORTING IRISH ATHLETES AND THEIR FANS IN THE LEAD-UP TO THE OLYMPICS

DEIRDRE RYAN



FEIS CEOIL

Electric Ireland was proud to support Feis Ceoil 2012, which welcomed over 5,000 classical musicians for this annual music competition.

Classical musicians from all over Ireland competed at the RDS Dublin during this eleven-day festival of classical music. Voices, pianos, strings, choirs, clarinets, oboes filled the auditoriums with beautiful melodies and heart-warming overtures.

Rounding off this two-week event in grand style, a selection of the most outstanding competitors from the Electric Ireland Feis Ceoil played at a special Gala Concert in the National Concert Hall.

ELECTRIC PICNIC

Electric Ireland was the 'Official Energy Partner' to the 2012 Electric Picnic Festival. Electric Ireland's sponsorship featured a new initiative called DANCERGY – a dance-themed activity led by well-known 1990s fitness instructor, Mr. Motivator.

With the installation of a sustainable energy dance floor, Mr. Motivator led daily dance sessions where festival-goers had the opportunity to take to the floor with the fitness legend while contributing towards the energy requirements of Electric Picnic.

Electric Ireland also provided 6 km of energy efficient festoon lighting around the camp sites and walkways to the main arena. This reduced the festivals lighting emissions by 80%.

ROAD SAFETY AUTHORITY

Electric Ireland is delighted to partner with the Road Safety Authority for the third year running to promote road safety among our youngest road-users and their families. Since the beginning of this campaign, the RSA and Electric Ireland have distributed over 250,000 high visibility vests to children starting school. This has helped ensure that our youngest and most vulnerable road-users are clearly visible on the roads at all times and reflects Electric Ireland's ongoing commitment to promoting safe road-use at all times.



IN PROFILE

MARK ROHAN

Mark (32) from Ballinahown, Co. Westmeath was an inter-county under-21 footballer before suffering life threatening injuries in a road accident 12 years ago which left him paralysed from the chest down. At the time Mark was an apprentice with ESB and looking forward to a career in the industry.

Mark's return to competitive sport saw him compete at the highest levels in tennis, archery and basket ball, before taking up hand cycling. Within two years he had won the gold medal at the World Championships in Quebec. However, the crowning glory for Mark was his double gold medal victory at the London 2012 Paralympics where members of his family, friends and work colleagues travelled to see his outstanding performances.

At an event held in ESB headquarters to celebrate Mark's success, ESB Chief Executive, Pat O'Doherty described the champion hand cyclist as "an inspiration and a model for ESB in terms of his performance and determination. In truth you have shown us that there is nothing that we cannot do," he said.

Mark acknowledges the support he has received from ESB both professionally and in his sporting career. "After my accident ESB offered me a change in career, moving into an IT area which I adapted to very well. This gave me an opportunity to change my outlook, and look at alternatives and develop strengths in other areas outside my previous comfort zone. Most of all I learned a great deal about myself, my inner strength and the depth of support and love of my family, friends and work colleagues."

REPORT ON ESB 'S IMPLEMENTATION OF THE PROVISIONS OF THE OFFICIAL LANGUAGES ACT (2003)

ESB agreed a language scheme in March 2008, under Section 11 of the Official Languages Act 2003. The Language Commissioner under Section 21 of the Official Languages Act 2003 monitors compliance with the provisions of the act. A review of the scheme in ESB reported that it has made substantial progress in its implementation. Leaflets and brochures provided with household customers' bills are in both Irish and English. They are also available to business customers. Electric Ireland also has a panel of Irish speakers available to deal with customers who wish to discuss their service needs through Irish.



15:35
ENERGY FOR ENABLING BUSINESS

IN THIS SECTION

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Executive Team	48
Board Members' Report	50
Risk Management Report	58

THE WAY WE WORK

THE WAY WE ARE STRUCTURED

Our organisation is structured to allow for effective and efficient decision-making with clear accountabilities.

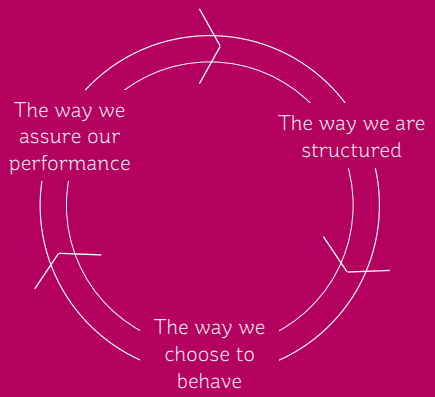
THE WAY WE CHOOSE TO BEHAVE

- We comply with the Code of Practice for the Governance of State Bodies (updated in 2009).
- We conform as far as possible and on a voluntary basis, to the UK Corporate Governance Code.
- Our code of ethics outlines our approach to responsible business behaviour.

The underlying principle of the code is that employees will strive to perform their duties in accordance with the highest standards of integrity, loyalty, fairness and confidentiality and that they will abide by all legal and regulatory requirements to enhance the reputation of the ESB Group.

THE WAY WE ASSURE OUR PERFORMANCE

- Management assurance is provided by a combination of effective management processes and risk and compliance activities.
- Independent assurance is provided primarily by internal audit and by our external auditors.



04 CORPORATE GOVERNANCE

CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

I WANT TO SET OUT BELOW HOW GOVERNANCE UNDERPINS OUR ACTIVITIES IN ESB AND DESCRIBE HOW WE APPLY THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE AS SET OUT IN THE CODE OF PRACTICE FOR THE GOVERNANCE OF STATE BODIES, THE UK CORPORATE GOVERNANCE CODE AND THE IRISH CORPORATE GOVERNANCE ANNEX.



COMPLIANCE

ESB has put in place the appropriate measures to comply with the Code of Practice for the Governance of State Bodies, updated in 2009. The Code sets out the governance framework agreed by Government for the internal management and the internal and external reporting relationships, of commercial and non-commercial State bodies. ESB continuously reviews and updates its policies and procedures to ensure compliance with the Code and best practice in corporate governance

ESB also conforms as far as possible, and on a voluntary basis, to the UK Corporate Governance Code. Our compliance on a voluntary basis with the Corporate Governance Code demonstrates our commitment to the highest standards of governance and corporate behaviour.

BOARD MEMBERSHIP

I believe that your Board in 2012 brought the necessary experience, independence and challenge to ensure effective decision making. The range of Board members' experience in politics, engineering, banking, law, accounting and in our industry is set out in their biographies on pages 46 to 47.

The Code of Practice provides that the Chairman may engage with Government on succession and this provides an opportunity for reviewing board composition and skills.

ROLE OF THE CHAIRMAN

I was appointed Chairman and Board member of ESB in January 2008 and re-appointed for a further two years in January 2013. My role is to lead a unified Board, to facilitate open discussion, effective decision making and timely communication with our owners and stakeholders.

ROLE OF THE BOARD

The Board is responsible for the long-term success of ESB and decisions are only made after the necessary level of information has been made available to Board members and with due consideration of the risks identified through the risk management process.

The Board has reserved the following for its own consideration:

- approval of Group strategy, annual budgets and annual and interim financial statements
- review of operational and financial performance
- approval of major capital expenditure
- overall review of Group health and safety performance
- appointment of the Chief Executive
- appointments to senior management on the recommendation of the Chief Executive
- appointment of the Company Secretary.

BOARD MEETINGS

We have eleven scheduled Board meetings during the year and any additional Board meetings as required. Papers, including minutes of Board committees, are circulated in advance of each meeting.

There is an agreed procedure in place, which allows Board members to take independent professional advice in the course of their duties and all Board members have access to the advice of the Company Secretary.

BOARD COMMITTEES

Six committees of the Board assist in the execution of its responsibilities and the Board delegates specific responsibilities to those board committees as set out in their terms of reference. The committees assist the Board by giving more detailed consideration to business, operational and governance issues and they report to the Board with any necessary recommendations. Further details of these committees are set on pages 52 to 53 of this report.

CONCLUSION

Good governance is good business. In pursuit of our goal of strong and sustainable growth the Board and management will remain committed to transparency and accountability in all we do.



Lochlann Quinn
Chairman

THE BOARD



01 LOCHLANN QUINN

APPOINTMENT TO THE BOARD
January 2008 as Chairman and Board member and reappointed in January 2013.

COMMITTEE MEMBERSHIP Ex-officio member of all Board Committees except Audit and Risk Committee.

CAREER EXPERIENCE Chartered Accountant, Partner with Arthur Andersen & Co and Former Deputy Chairman of Glen Dimplex.

EXTERNAL APPOINTMENTS Member of the Board of Smurfit Graduate School at University College Dublin and is a former chairman of Allied Irish Bank plc and of the National Gallery of Ireland.

02 PAT O'DOHERTY

APPOINTMENT TO THE BOARD
January 2013 as Board member and November 2011 as Chief Executive.

COMMITTEE MEMBERSHIP Member of Investment Committee and member of Health, Safety and Environment Committee.

CAREER EXPERIENCE Executive Director, ESB Energy International (2010 to 2011), Executive Director, ESB Networks (2009 to 2010) and Executive Director ESB Power Generation (2005 to 2008). He held the position of General Manager, Synergen and also held senior positions in ESB Networks.

03 ANNE BUTLER

APPOINTMENT TO THE BOARD
November 2012.

CAREER EXPERIENCE Former President of the Institution of Engineers of Ireland and was a founding Director of the Environmental Protection Agency (EPA). Established an environmental consultancy / advisory service.

EXTERNAL APPOINTMENTS Served on a number of boards including the National Roads Authority (NRA), Ordinance Survey Ireland (OSI). Member of the Governing Body of the Dublin Institute of Technology.



01 02 03 04 05 06 07 08 09 10 11

04 BRENDAN BYRNE

APPOINTMENT TO THE BOARD
September 2004. Reappointed September 2009.

COMMITTEE MEMBERSHIP Chairman of the Audit and Risk Committee and Chairman of Finance and Performance Improvement Committee.

CAREER EXPERIENCE Chartered Accountant, has held a number of senior management positions in Aer Lingus and has worked extensively in the field of change management.

EXTERNAL APPOINTMENTS Director of a number of companies in the aviation industry specialising in the areas of Air Cargo and Information Technology.

05 DAVE BYRNE

APPOINTMENT TO THE BOARD
January 2011 as a Worker Board member.

COMMITTEE MEMBERSHIP Member of the Regulation Committee and the Finance and Performance Improvement Committee.

CAREER EXPERIENCE Part of team that is now BSC organisation but worked for a period in Customer Supply.

EXTERNAL APPOINTMENTS President of ESBOA until April 2010 and then appointed as the Group of Unions representative in Central Partnership.

06 JOHN COLEMAN

APPOINTMENT TO THE BOARD
January 2007 as a Worker Board member and reappointed in January 2012.

COMMITTEE MEMBERSHIP Member of the Investment Committee and the Health, Safety and Environment Committee.

CAREER EXPERIENCE Joined ESB as a Day Worker in Ferbane Generating Station.

EXTERNAL APPOINTMENTS Secretary of the ATGWU Day Workers Union, Chairman of ATGWU ESB Branch.

07 ELLVENA GRAHAM

APPOINTMENT TO THE BOARD
October 2010.

COMMITTEE MEMBERSHIP Chairman of the Investment Committee, member of Remuneration and Management Development Committee and the Finance and Performance Improvement Committee.

CAREER EXPERIENCE Chief Operating Officer in Ulster Bank, other senior positions at the Bank including Director of Business Services, Chief Operating Officer – Corporate Bank, Head of Operations and also Executive Director Group Operation EMEA.

EXTERNAL APPOINTMENTS Member of the Advisory Board of Women's Executive Network in Ireland.

08 SEAN KELLY

APPOINTMENT TO THE BOARD
January 2011 as a Worker Board member.

COMMITTEE MEMBERSHIP Member of the Investment Committee and member of the Health, Safety and Environment Committee.

CAREER EXPERIENCE Joined ESB as an apprentice in June 1997. Safety Champion for Newcastle West, Safety Rep. for the Mid-Western Division, Branch official in Limerick No.2 Branch of the T.E.E.U.

EXTERNAL APPOINTMENTS Chairperson of the Mid- Western Local Implementation Group (LIG).

09 SEAMUS MALLON

APPOINTMENT TO THE BOARD
February 2006 and reappointed in May 2011.

COMMITTEE MEMBERSHIP Member of the Health, Safety and Environment Committee and the Regulation Committee.

CAREER EXPERIENCE Elected to the Armagh District Council, the Northern Ireland Assembly and the Northern Ireland Convention. Member of Seanad Eireann and MP for Newry and Armagh at Westminister. Deputy Leader of the SDLP and Deputy First Minister of Northern Ireland.

10 TONY MERRIMAN

APPOINTMENT TO THE BOARD
January 2007 as a Worker Board member and reappointed in January 2012.

COMMITTEE MEMBERSHIP Chairman of the Health, Safety and Environment Committee and a member of the Finance and Performance Improvement Committee.

CAREER EXPERIENCE Joined ESB as a Network Technician in 1979. Served as an officer with the ESB Group of Unions.

EXTERNAL APPOINTMENTS Board member of ESB ESOP Trustee Limited.

11 NOREEN WRIGHT

APPOINTMENT TO THE BOARD June 2011.

COMMITTEE MEMBERSHIP Member of the Investment Committee, Remuneration and Management Development Committee and Chairman of the Regulation Committee.

CAREER EXPERIENCE Called to the Bar of Northern Ireland in 1976. Worked in the in-house legal team in Northern Ireland Electricity (NIE). Senior management posts in NIE/Viridian including Company Secretary and Head of Legal Services.

EXTERNAL APPOINTMENTS Member of the Industrial and Fair Employment Tribunals, Lay Magistrate and Member of the Northern Ireland Valuation Tribunal. Director of Springvale Training Limited and Co-operation Ireland Limited. Trustee of Garfield Weston Trust.

"GOOD GOVERNANCE IS GOOD BUSINESS. IN PURSUIT OF OUR GOAL OF STRONG AND SUSTAINABLE GROWTH THE BOARD AND MANAGEMENT WILL REMAIN COMMITTED TO TRANSPARENCY AND ACCOUNTABILITY IN ALL WE DO. "

LOCHLANN QUINN
CHAIRMAN

EXECUTIVE TEAM

JOHN SHINE, DEPUTY CHIEF EXECUTIVE AND NIE



John Shine was appointed Deputy Chief Executive in November 2009. He joined ESB in 1978 and has held a number of senior positions in Networks, Marketing, and Business Development. He left ESB in 1998 to develop a successful international services business. He rejoined ESB in November 2002 when he was appointed Executive Director of ESB Networks. In November 2008 he was appointed Chairman and Managing Director of ESB Networks Ltd. He holds a degree in electrical engineering and an MBA from University College Dublin.

DONAL FLYNN, GROUP FINANCE



Donal Flynn was appointed Finance and Commercial Director in August 2010. Prior to joining ESB Donal worked in Airtricity for seven years and was its Chief Financial Officer from February 2008 when SSE acquired Airtricity. Donal worked in a number of finance roles with General Electric from 1998 to 2003. He qualified as a chartered accountant with Arthur Andersen having worked in both the London and Dublin practices of the firm between 1995 and 1998. Donal holds Bachelor of Commerce and Masters in Accounting degrees from University College Galway and University College Dublin respectively.

BRID HORAN, ESB BSC AND ELECTRIC IRELAND



Brid Horan was appointed Executive Director ESB BSC and Electric Ireland in 2010. Previously, she held the position of Executive Director ESB Energy Solutions from November 2009 and ESB Customer Supply and Group Services from December 2006. Brid was appointed a Non – Executive Director of FBD Holdings plc in December 2011. Brid joined ESB in 1997 as Group Pensions Manager. She was a Commissioner of the National Pensions Reserve Fund from its establishment in 2001 to 2009 and was a Board member of IDA Ireland from 1996 to 2006. Before joining ESB she headed KPMG Pension & Actuarial Consulting.

JERRY O'SULLIVAN, ESB NETWORKS



Jerry O'Sullivan was appointed Managing Director, ESB Networks in 2010. He joined ESB in 1981 and held a number of positions in Power Station Construction, Distribution and Transmission, Retail, Contracting, Marketing, and Customer Service. He was appointed Head of Network Services in 2002 and Head of Sustainability and Network systems in 2008. He holds a degree in civil engineering from University College Cork.

JOHN REDMOND, COMPANY SECRETARY



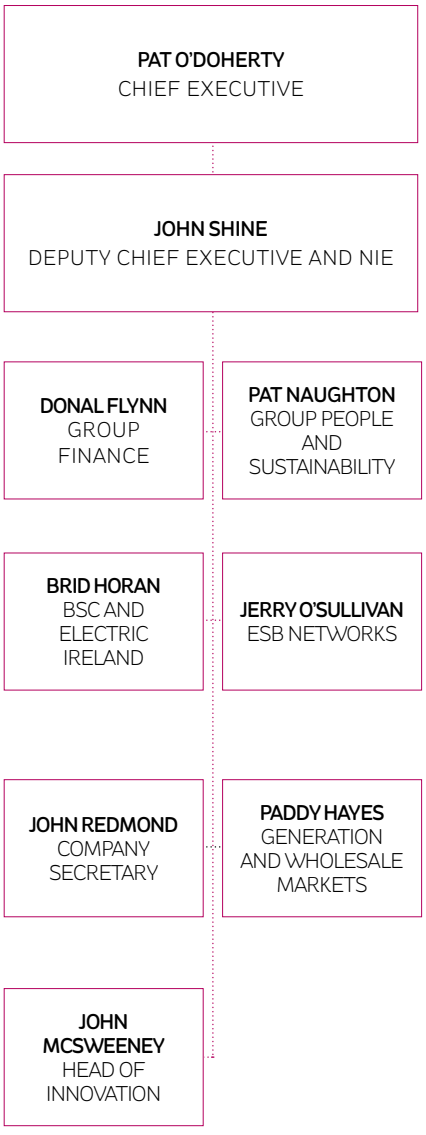
John Redmond was appointed Company Secretary in 2002. He was previously group secretary and senior vice president corporate affairs of GPA Group plc and subsequently company secretary of debis AirFinance BV (an associate of Daimler Chrysler) and of the SEC registered Airplanes Limited. From 1980 to 1988 he worked in the Department of Foreign Affairs and the Department of Finance. He is a graduate of NUI Maynooth and holds post graduate qualifications from Napier University Edinburgh and from University College Dublin. He became a Fellow of the Institute of Chartered Secretaries in 1997.

JOHN MCSWEENEY, INNOVATION



John McSweeney was appointed Head of Innovation in 2012. He previously held senior positions as acting Executive Director of ESB Energy International in 2011, Manager of ESB Asset Development, Manager of Engineering and Facility Management at ESB International and Manager of ESB IT Solutions and Telecoms. A Physics graduate and mechanical engineer, John joined ESB in 1992. Prior to his career in the energy sector, he held senior positions in the Irish Industrial Development Authority including Director, Germany and is a former Irish Army Officer.

EXECUTIVE TEAM CHART



PADDY HAYES, GENERATION AND WHOLESALE MARKETS



Paddy Hayes was appointed Executive Director, Generation and Wholesale Markets in June 2012. Previously he held various senior management positions in ESB including Head of Independent Generation and Manager Energy Portfolio. Prior to joining ESB in 1999, Paddy worked in a number of roles with British Steel. He is a chartered engineer and holds a masters degree in engineering from University College Dublin and an MBA from the University of Warwick.

PAT NAUGHTON, GROUP PEOPLE AND SUSTAINABILITY



Pat Naughton was appointed Executive Director Group People and Sustainability in 2012. A mechanical engineer by profession Pat has worked in a variety of roles since joining the company in 1978. He previously held senior positions as HR Manager ESB Energy International, Manager Strategy and Portfolio Development ESB Energy International and Manager Hydro Stations ESB Power Generation.

"THE DELIVERY OF OUR STRATEGY WILL REQUIRE AN ORGANISATION THAT IS HIGHLY MOTIVATED AND ADAPTABLE. WE AS AN EXECUTIVE TEAM ARE COMMITTED TO CREATING A DYNAMIC WORKPLACE THAT STIMULATES AND ENGAGES OUR PEOPLE AND THAT CAN RESPOND QUICKLY AND EFFECTIVELY TO CHANGE". – **JOHN SHINE**, DEPUTY CHIEF EXECUTIVE

BOARD MEMBERS' REPORT

THE BOARD MEMBERS PRESENT THEIR REPORT TOGETHER WITH THE AUDITED FINANCIAL STATEMENTS OF THE PARENT AND OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2012.

PRINCIPAL ACTIVITIES

The principal activities of the ESB Group are the generation, transmission, distribution and supply of electricity in the Republic of Ireland and, the transmission and distribution of electricity in Northern Ireland. The Group also operates internationally, in related activities including in Great Britain, mainland Europe and a number of projects in Asia.

BUSINESS REVIEW

Commentaries on performance in the year ended 31 December 2012, including information on recent events and likely future developments, are contained in the Chairman's Statement and the Chief Executive's Review. The performance of the business and its financial position together with the principal risks faced by the Group are reflected in the financial review as well as the reviews for each major business line within the Group.

RESULTS FOR THE YEAR

The financial results of the Group show a profit after tax of €194 million for the financial year compared with €100 million in 2011. The Board is recommending a dividend of 3.96 cent per unit of stock or €78.4 million in aggregate. A final dividend per unit of capital stock of 3.66 cent, amounting to €72.5 million in aggregate was paid in 2012 in respect of 2011. Further details of the results for the year and results for the prior year are set out in the Group income statement and related notes.

CORPORATE GOVERNANCE

ESB complies with the Code of Practice for the Governance of State Bodies. The Code sets out principles of corporate governance which the Boards of State Bodies are required to observe. ESB also complies with the corporate governance and other obligations imposed by the Ethics in Public Office Act, 1995 and the Standards in Public Office Act, 2001. ESB conforms as far as possible, and on a voluntary basis, to the UK Corporate Governance Code (the "Corporate Governance Code") and to the Irish Corporate Governance Annex ('the Irish Annex').

The Corporate Governance Code consists of principles (main and supporting) and provisions. Companies listed on the Irish Stock Exchange are required, as part of the listing rules, to describe how they apply the principles of the Corporate Governance Code, whether the company has complied with all relevant provisions and the related Irish Annex and to provide an explanation of non-compliance. ESB is a statutory corporation established under the Electricity (Supply) Act 1927 as amended and, accordingly, is not obliged to comply with the Corporate Governance Code or the Irish Annex. However, ESB supports the principles and provisions of the Corporate Governance Code and the Irish Annex and voluntarily complies with them subject to the following exceptions:

(i) Appointments to the Board are a matter for Government and accordingly ESB does not have a nomination committee.
(ii) Board members are appointed for terms of up to four or five years and therefore are not subject to re-election to the Board at lesser intervals.
(iii) ESB's policies and disclosures in relation to remuneration of the Chief Executive are in accordance with applicable Government guidelines. The details of Board members' remuneration on page 55 do not include amounts paid to the four Worker Board members as employees of ESB (as such pay is neither increased nor decreased because of their membership of the Board), but do include amounts paid to them by way of fees.
(iv) The Board evaluation process does not evaluate the individual performance of Board members as the Board does not have a formal role in determining its own composition.
(v) The Board Chairman is also Chairman of the Remuneration and Management Development Committee given the importance of compliance by ESB with Government policy in this area and the role of the Chairman as the primary interface with Government. The Chairman was appointed a member of the Audit and Risk Committee, on an interim basis, in January 2013.

PRINCIPLES OF GOOD GOVERNANCE

There were 11 general Board meetings and 1 special strategy Board meeting during 2012. The number below opposite each name represents the attendance by each Board member at the general Board meetings, and at the special strategy meeting, during the year.

Board members 2012	Meetings Attended
Lochlann Quinn	11,1
Pat O'Doherty^	11,1
Brendan Byrne*	11,1
Dave Byrne	10,1
John Coleman	11,1
Seán Conlan*+	8,1
Ellvena Graham*	10,1
Garry Keegan*+	4,0
Sean Kelly	10,1
Seamus Mallon*	11,1
Tony Merriman	11,1
Noreen Wright*	10,1
Anne Butler*§	2,0

* Independent Board members
^ Pat O'Doherty was appointed to the Board in January 2013 and attended the above meetings in his role as Chief Executive.
+ Seán Conlan - retired 22 October 2012
+ Garry Keegan - retired 5 June 2012
§ Anne Butler was appointed to the Board in November 2012

THE BOARD

While day-to-day responsibility for the leadership and control of the company is delegated to the Chief Executive and his Senior Management Team, within pre-defined authority limits, the Board is ultimately responsible for the performance of the company. During 2012 the Board comprised the Board members in the table opposite of whom the Chairman and the independent directors were appointed by Government and the four worker Board members were appointed by the Minister for Communications, Energy and Natural Resources pursuant to the Worker Participation (State Enterprises) Acts. The Board size and structure is governed by the Electricity Supply Acts 1927-2004 and by the Worker Participation (State Enterprises) Acts.

The Board has determined that the Board members identified on pages 46 and 47 were independent during 2012. This determination took account of the relevant provisions of the Corporate Governance Code regarding directors' independence in character and judgment and the absence of relationships or circumstances which could compromise directors' independence. In the light of these factors the Board is satisfied of the independence of the directors identified as such on page 50.

Taken together the Company believes the Board brings the necessary range of skills, knowledge and independence to the Board's work and the work of its Committees. The specific skills, expertise and experience of the Board inform the Board's consideration of major strategic and operational issues and the selection of Board members to serve on Board Committees.

Mr Lochlann Quinn was appointed Chairman of the Board in January 2008 and re-appointed for a further term of two years in January 2013. The Chairman's responsibilities include leading the Board, determining its agenda, ensuring its effectiveness and facilitating full participation by each Board member. The Chairman is also responsible for ensuring effective communication with the Group's owners and stakeholders: the Ministers for Finance, for Public Expenditure and Reform and for Communications, Energy and Natural Resources and their officials and with ESB ESOP Trustee Limited, the Employee Share Ownership Plan for ESB. The roles of the Chairman, who is part-time, and the Chief Executive are separate.

Seán Conlan was the Senior Independent Director until October 2012. Mr. Brendan Byrne was subsequently appointed Senior Independent Director.

The Board meets monthly (with the exception of August) and also meets on other occasions as necessary. The Board has a formal schedule of matters specifically reserved to it for decision. The principal matters reserved to the Board include:

- Approval of Group strategy, annual budgets and annual and interim accounts;
- Reviewing operational and financial performance;
- Approval of major capital expenditure;
- Review of the Group's internal controls and risk management;
- Overall review of Group health and safety performance;
- Appointment of the Chief Executive;
- Appointments to Senior Management on the recommendation of the Chief Executive and
- Appointment of the Company Secretary.

The Board has delegated authority to management for normal course of business decisions subject to specified limits and thresholds.

The Board members, in the furtherance of their duties, may take independent professional advice at the expense of ESB. All Board members have access to the advice and services of the Company Secretary. Insurance cover is in place to protect Board members and Officers against liability arising from legal actions taken against them in the course of their duties. An induction programme is in place to familiarise new Board members with the operations of the Group. There is ongoing financial and operational reporting to the Board and Board Papers are sent to each member on a timely basis before the Board Meetings. The Board Papers include the minutes of Board committee meetings.

The Chairman conducts an annual performance evaluation of the Board and of its Committees. This evaluation is undertaken in order to comply, so far as possible, with the Corporate Governance Code. The evaluation relates to the Board's collective performance and not to the individual performance of Board members. The purpose of the evaluation is to review the Board's own operation and to identify ways to improve its effectiveness. It also helps to identify specific skills required or desirable in Board members and this can be advised to Government by the Chairman for consideration when making appointments.

As part of the evaluation of the Board and its committees Board members complete a detailed questionnaire. The questionnaire facilitates a structured and objective review of the whole range of the Board's duties, processes, competencies and effectiveness. In addition the Chairman meets with Board members for an open exchange among Board members concerning the efficiency and effectiveness of the Board.

As Board appointments are a matter for Government or for election by staff, ESB does not undertake an evaluation of individual Board members. However, the Chairman does engage with Government in advance of Board appointments about the specific skills which are required in the Board.

BOARD COMMITTEES IN 2012

COMMITTEES ARE ESTABLISHED TO ASSIST THE BOARD IN THE DISCHARGE OF ITS RESPONSIBILITIES. THE COMMITTEES ARE SET OUT BELOW.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is a formally constituted committee of the Board with written terms of reference, which are available on ESB's website. The purpose of the Audit and Risk Committee is to oversee the financial reporting process, the internal control systems and the risk management processes of ESB. The Company Secretary acts as Secretary of the Committee.

During 2012 the Committee reviewed:

- Selection/ re-appointment of the Company's auditors;
- ESB's Risk Policy, 2012 Risk Plan and regular risk reports.
- The Group Internal Audit Plan, audit reports and regular implementation reports;
- The effectiveness of the internal audit function;
- The External Audit Plan, the scope of the audit as set out in the engagement letter and the effectiveness of the external audit;
- The effectiveness of the company's risk management and internal control systems;
- Business continuity planning;
- The interim and annual financial statements;
- Corporate Governance compliance;
- A report from the external auditor on its audit of the financial statements and the recommendations made by the auditor in its management letter and management's response;
- ESB's Group Insurance Programme;
- ESB Code of Ethics and Fraud Policy;
- The Committee's own terms of reference to ensure they remained relevant and up to date.

INVESTMENT COMMITTEE

The purpose of the Investment Committee is to review investment proposals aimed at ensuring the positioning of ESB for future success consistent with the strategy approved by the Board. The Committee held nine meetings during 2012. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings attended
Ellvena Graham, Chairman	7
John Coleman	9
Sean Kelly	8
Pat O'Doherty	9
Noreen Wright	9

The Chairman of the Board, Lochlann Quinn, also attended 6 meetings of the Investment Committee during 2012.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The purpose of the Health, Safety and Environment Committee is to advise the Board on health, safety and environmental matters. The Committee held four meetings during 2012. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings attended
Tony Merriman, Chairman	4
Sean Kelly	4
John Coleman	4
Seamus Mallon	4
Pat O'Doherty	4

FINANCE AND PERFORMANCE IMPROVEMENT COMMITTEE

The purpose of the Finance and Performance Improvement Committee is to oversee strategy and policy on financial matters, to monitor the company's Performance Improvement Programme and to advise the Board as appropriate. The Committee held seven meetings during 2012. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings attended
Brendan Byrne, Chairman	7
Dave Byrne	6
Ellvena Graham	5
Tony Merriman	6

The Chairman of the Board, Lochlann Quinn, also attended 4 meetings of the Finance and Performance Improvement Committee during 2012.

The Committee has developed a policy regarding the provision of non-audit services by the external auditor, whereby, other than as notified to the Committee, such services should be limited to advice in relation to accounting, taxation and compliance issues. The fees payable for non-audit services in any financial year should not exceed audit fees for that year. The internal and external auditors have full and unrestricted access to the Audit and Risk Committee. The Committee Chairman reports the outcome of its meetings to the Board. The Board is satisfied that at all times during the year at least one member of the Committee had recent and relevant financial experience. The Committee held eight meetings during 2012.

The members of the Committee and the number of meetings attended are set out below:

Members	Meetings attended
Brendan Byrne, Chairman	8
Seán Conlon+	8
Garry Keegan+	6

The Chairman of the Board, Lochlann Quinn, also attended 7 meetings of the Audit and Risk Committee during 2012 by invitation of the Chairman of the Committee.
+Seán Conlan - retired 22 October 2012.
+Garry Keegan - retired 5 June 2012.
§ Anne Butler and Lochlann Quinn were appointed to the Audit and Risk Committee in January 2013.

REGULATION COMMITTEE

The purpose of this Committee is to monitor evolving legislation and regulatory matters at national and European level and to oversee compliance with regulatory requirements. The Committee held five meetings during 2012. The members of the Committee and the number of meetings attended are set out in the following table:

Members	Meetings attended
Noreen Wright, Chairman	5
Dave Byrne	5
Seamus Mallon	5

REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE

The purpose of the Remuneration and Management Development Committee is to advise the Board on all aspects of the remuneration of the Chief Executive, to approve any changes to the remuneration of Worker Board members, to set the remuneration of the executive management group following consultation with the Chief Executive and to monitor the development of current and future leaders of ESB. During 2012, the Committee considered new appointments to executive management and remuneration issues within the framework of Government policy on semi-state companies. The Committee held two meetings during 2012 which were attended by all Committee Members.

Members	Meetings attended
Lochlann Quinn, Chairman	2
Ellvena Graham	2
Noreen Wright	2

FOR FURTHER DETAILS ON COMMITTEE MEMBERSHIP, LENGTH OF SERVICE AND BOARD COMPOSITION PLEASE REFER TO PAGE 57

INTERNAL CONTROLS

The Board has overall responsibility for the Group's system of internal control and for monitoring its effectiveness. The system of internal control is designed to provide reasonable but not absolute assurance against material misstatement or loss. In order to discharge that responsibility in a manner which ensures compliance with legislation and regulations, the Board has established an organisational structure with clear operating and reporting procedures, lines of responsibility, authorisation limits, segregation of duties and delegated authority. The Board has reviewed the effectiveness of the Group's system of internal control covering financial, operational and compliance controls and risk management systems. ESB has in place a strong control framework, which includes the following:

- A code of ethics that requires all Board members and employees to maintain the highest ethical standards in conducting business;
- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board which support the maintenance of a strong control environment;
- A corporate governance framework which includes risk analysis, financial control review and formal annual governance compliance statements by the management of business lines and in the Corporate Centre. This is monitored by the Group Internal Audit department, which reports to the Audit and Risk Committee on an ongoing basis;
- A comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require the approval of the Board, and are closely monitored on an ongoing basis by the Investment Committee of the Board. They can also be subject to post completion audits;
- Comprehensive budgeting systems with an annual budget approved by the Board;
- A comprehensive system of financial reporting.
- Cumulative monthly actual results are reported against budget. Any significant changes and adverse variances are questioned by the Board, and remedial action taken where appropriate;
- Consideration of operational and financial issues by Board Committees as described on page 45; and
- A confidential helpline service to provide staff with a confidential, and if required, anonymous means to report fraud or ethical concerns.

These controls are reviewed systematically by Group Internal Audit. In these reviews, emphasis is focused on areas of greater risk as identified by risk analysis. The Board, supported by the Audit and Risk Committee, have reviewed the effectiveness of the system of internal control. The process used by the Board and the Audit and Risk Committee to review the effectiveness of the system of internal control includes:

- Review and consideration of the half-yearly risk review process and regular risk management updates;
- Independent advice on the adequacy of the current risk management process in operation in ESB;
- Review and consideration of certifications from management of satisfactory and effective operation of systems of internal controls, both financial and operational;
- A review of the programme of Group Internal Audit and consideration of their findings and reports;
- Group Internal Audit also report regularly on the status of issues raised previously from their own reports and reports from the external auditor; and
- A review of reports of the external auditor, KPMG, which contain details of any significant control issues identified, arising from its work as auditor.

THE BOARD'S ENTERPRISE RISK MANAGEMENT (ERM) PROCESS

Risk management is an integral part of all business activity and is managed in a consistent manner across the business units. To achieve this, ESB has adopted since 2005 an enterprise-wide approach to risk management. Across the Group, a consistent framework for the identification, assessment, management and reporting of risk has been implemented.

This risk management framework is maintained and updated by the Group Risk Manager, overseen by the Board and the Audit and Risk Committee, and implemented by management at all levels across the Group.

The risk framework includes an executive level Group Risk Committee of senior managers from across the Group, chaired by the Group Finance Director. This Committee oversees and directs risk policy and practice, considers risk assessments carried out at business unit and Group level, and reviews overall risk trends for the Group. The Committee's findings are reported on a regular basis to the Executive Director Team Risk Forum, chaired by the Chief Executive, to the Audit and Risk Committee and to the full Board.

The Group Internal Auditor is independent of the risk management process and has provided independent assurance to the Audit and Risk Committee on the adequacy of the risk management arrangements in place in the Group. The Enterprise Risk Management process is continuously reviewed in light of emerging risk and governance standards.

Details of risks are maintained and updated in the Corporate Risk Register. Risks are ranked by probability and potential consequences. The nature of each risk determines how the exposure is dealt with.

The enterprise approach provides ongoing assessment of the consolidated risk position for the Group. The combined risk plans of each business unit are reviewed to highlight trends and to identify common or interdependent risks across the Group. The Group Risk Committee provides a key input to the assessment and ranking of risk from a Group perspective.

For more information on the established risk management framework, including some of the Group's most significant risks, see the Risk Management Report on pages 58 to 61.

BOARD MEMBERS' REMUNERATION 2012

	2012 €	2011 €
Chairman: Lochlann Quinn		
Fees	78,750	78,750
Chief Executive: Pádraig McManus (to 30 November 2011)		
Salary	-	373,452
Performance related pay (in respect of 2009)	-	84,199
Taxable benefits	-	16,231
Pension contributions	-	87,127
Payment in lieu of notice	-	99,401
Fees (11 months)	-	14,477
	-	674,887

Pat O'Doherty,
(Chief Executive from 1 December 2011)

	2012 €	2011 €
Salary	295,000	24,583
Taxable benefits	9,418	-
Pension contributions	48,380	4,028
	352,798	28,611

Non- Executive Board members' remuneration

	2012 €	2011 €
Brendan Byrne	15,750	15,750
Dave Byrne	15,750	15,750
John Coleman	15,750	15,750
Seán Conlan	12,794	15,750
Ellvena Graham	15,750	15,750
Garry Keegan	6,775	15,750
Sean Kelly	15,750	15,750
Eoin Fahy	-	2,701
Seamus Mallon	15,750	12,686
Tony Merriman	15,750	15,750
Anne Butler	2,114	-
Noreen Wright	15,750	8,069
	147,683	149,456

CHIEF EXECUTIVE'S REMUNERATION

The Chief Executive's remuneration is set within a range determined by the Ministers for Public Expenditure and Reform and for Communications, Energy and Natural Resources. Mr. O'Doherty was appointed Chief Executive as from 1 December 2011 and was appointed a Board member in January 2013. His remuneration consists of an annual salary of €295,000 and a company car. He is a member of the ESB Staff Defined Benefit Pension Scheme. In line with Government policy at this time, he did not receive any performance related payments in 2012.

WORKER BOARD MEMBERS' REMUNERATION

Board members appointed under the Worker Participation (State Enterprises) Acts are remunerated as employees of ESB. They are members of the ESB Staff Defined Benefit Pension Scheme.

NON-EXECUTIVE BOARD MEMBERS' REMUNERATION

The remuneration of the Non-Executive Board members (including the Chairman) is determined by the Minister for Public Expenditure and Reform and the Minister for Communications, Energy and Natural Resources and they do not receive pensions.

BOARD MEMBERS' EXPENSES

In compliance with the Code of Practice for the Governance of State Bodies, disclosure is required of the expenses paid to the Chief Executive and Board members, broken down by category. During 2012, the following amounts were reimbursed to, or paid on behalf of, the Chief Executive and Board members: €53,285 for travel expenses, €16,349 for subsistence, €10,569 for business entertainment, €3,547 for conferences and €2,450 for subscriptions.

The above business expenses include those of the Chief Executive in respect of his duties as an executive.

GOING CONCERN

The financial statements are prepared on a going concern basis as the Board, after making appropriate enquiries, is satisfied that ESB has adequate resources to continue in operational existence for the foreseeable future.

ACCOUNTING RECORDS

The Board members believe that they have employed accounting personnel with appropriate expertise and provided adequate resources to the financial function to ensure compliance with ESB's obligation to keep proper books of account. The books of account of ESB are held at 27 Lower Fitzwilliam Street, Dublin 2.

ELECTORAL ACT, 1997

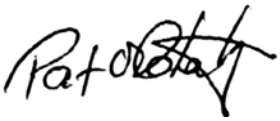
The Board made no political donations during the year.

CONCLUSION

This report was approved by the Board on 27 February 2013 for submission to the Minister for Communications, Energy and Natural Resources.
On behalf of the Board



Lochlann Quinn, Chairman



Pat O'Doherty, Chief Executive
27 February 2013

18:04

ENERGY FOR DEVELOPING
NEW TALENT



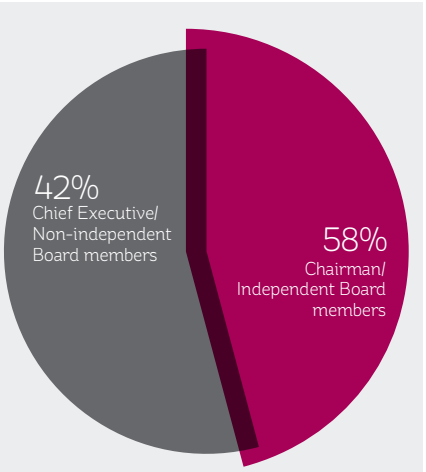
COMMITTEE MEMBERSHIP AND LENGTH OF SERVICE

Name	On committee since:
AUDIT AND RISK COMMITTEE	
Brendan Byrne, Chairman	February 2005
Seán Conlan+	February 2008
Garry Keegan+	February 2011
INVESTMENT COMMITTEE	
Ellvena Graham, Chairman	April 2011
John Coleman	February 2007
Sean Kelly	February 2011
Pat O'Doherty	December 2011
Noreen Wright	September 2011
HEALTH, SAFETY AND ENVIRONMENT COMMITTEE	
Tony Merriman, Chairman	February 2007
John Coleman	February 2007
Seamus Mallon	May 2006
Sean Kelly	January 2012
Pat O'Doherty	December 2011
FINANCE AND PERFORMANCE IMPROVEMENT COMMITTEE	
Brendan Byrne, Chairman	March 2008
Dave Byrne	February 2011
Ellvena Graham	February 2011
Tony Merriman	January 2012
REGULATION COMMITTEE	
Noreen Wright, Chairman	January 2012
Seamus Mallon	February 2007
Dave Byrne	March 2012
REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE	
Lochlann Quinn, Chairman	February 2008
Ellvena Graham	January 2012
Noreen Wright	January 2012

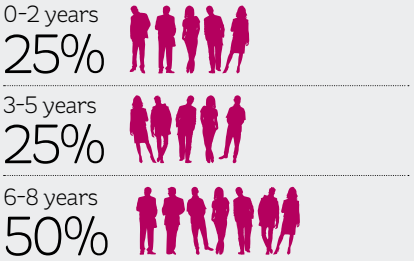
+Seán Conlan - retired 22 October 2012
+Garry Keegan - retired 5 June 2012

SOME STATISTICS ABOUT THE COMPOSITION OF OUR BOARD:

INDEPENDENCE OF BOARD



BOARD TENURE*



BOARD GENDER*



* Including Chief Executive

RISK MANAGEMENT REPORT

THE BOARD OF ESB HAS OVERALL RESPONSIBILITY FOR THE GROUP'S RISKS. IN THIS REGARD, THE BOARD HAS ESTABLISHED AN OVERALL RISK MANAGEMENT FRAMEWORK THAT PROVIDES CONTINUOUS IDENTIFICATION, EVALUATION AND MANAGEMENT OF ESB'S SIGNIFICANT RISKS.

ESB'S RISK FRAMEWORK

The approach that the Board has adopted to fulfilling its risk oversight duties is based on the overall risk management framework outlined in the Board members' Report on page 54. This section describes in more detail the operation of the overall risk framework on which the Board relies, highlighting the main components of the framework. This section also provides a summary of Group's key risks and the main mitigation strategies deployed by Executive management.

ESB's risk management framework meets the requirements for risk management that are specified in Section 8.1 and 8.2 of the Code of Practice for the Governance of State Bodies as updated in 2009. The framework also complies with International Risk management standard ISO 31000.

The risk framework is based on an Enterprise Risk Management (ERM) model, which ESB adopted in 2005. ERM provides an integrated approach to risk and has become established practice in ESB for managing uncertainty and minimising threats.

ESB's risk management has been designed to achieve maximum integration of risk management into normal business processes. It provides for risk identification and assessment, with escalation as appropriate.

RISK OBJECTIVES

The objectives of our risk management framework include

- Manage risk to a level acceptable to the Board.
- Maximise the achievement of our strategy by managing our risks and opportunities across the Group.
- Ensure that the fundamentals of good risk management are incorporated into decision making at all levels.
- Maintain a high level of awareness and control at all levels of the organisation in respect of the risks associated with delivering ESB's business objectives.

RISK MANAGEMENT POLICY

Recognising that risk is an active element of the environment within which ESB operates, the Company is committed to successfully managing the Group's exposure to risk and to minimising its impact on the achievement of business objectives.

It is ESB's policy that risk management should be integrated into normal management processes such as business planning, investment analysis, project management, operational management, and management reporting.

ESB therefore requires its management at all levels in carrying out their duties to:

- Identify and review all significant risks to which their business area may be exposed
- Avoid unreasonable or unnecessary exposures to risk
- Respond appropriately to risks, based on risk assessments, by applying relevant controls and mitigants
- Monitor and report on the current status of risks, including progress against planned mitigation actions

RISK MANAGEMENT FRAMEWORK

In support of the above policy, the Board has established an overall risk management framework that provides continuous identification, evaluation and management of ESB's significant risks. This risk management framework consists of appropriate structures to support risk management, formal assignment of risk responsibilities, procedures and systems for risk identification/assessment/reporting, plus ongoing monitoring of the effectiveness of risk mitigation actions and controls.

The risk management framework has become firmly established throughout the Group in recent years. The key components of the framework comprise of the following:

- Processes for identifying and prioritising the Group's risks for Management and Board attention;

- Monitoring mechanisms to ensure proper execution of mitigation plans and strategies;
- Ongoing assessments to highlight trends and to identify new and emerging risk areas; and
- Maintenance of a Group perspective on risk through a process of consolidating and aligning the various views of risk across the Group.

The Group Risk Manager provides assistance to Management to deploy the relevant parts of the framework in a way that is appropriate to each part of the business. The risk management framework is maintained in accordance with ESB's Group Risk policy, which is approved annually by the Board.

RISK IDENTIFICATION, ASSESSMENT AND RESPONSE DURING 2012

In line with the Group wide risk management framework, all business lines during 2012 performed risk assessments to identify and assess their strategic, commercial and operational risks and agreed responses to those risks. At mid-year and toward year-end, all business groups updated their risk assessments as part of the semi-annual risk reporting process. Additionally, risk assessments were performed centrally by the corporate functions and on all major projects and programs.

RISK REPORTING AND REVIEW

At the beginning of the year, a schedule of specific risk items for review with the Board during 2012 was agreed with the Chairman of the Audit and Risk Committee. The items included Insurance cover, risk appetite, business continuity and a number of the Company's specific HILP (High Impact, Low Probability) risks. The schedule of risk items agreed at the start of the year was met in full.

In September, the Audit and Risk Committee held a specific session devoted to risk, to which all Board members were invited. This session included a comprehensive review of the mitigation strategies to address the following:

- Group's main ICT (Information Communications and Technology) risks
- the key risks relating to ESB's Networks Distribution Business
- Significant risks associated with ESB's regulatory obligations, particularly the requirements relating to provision of technical data and services to Generators and Suppliers in the energy market

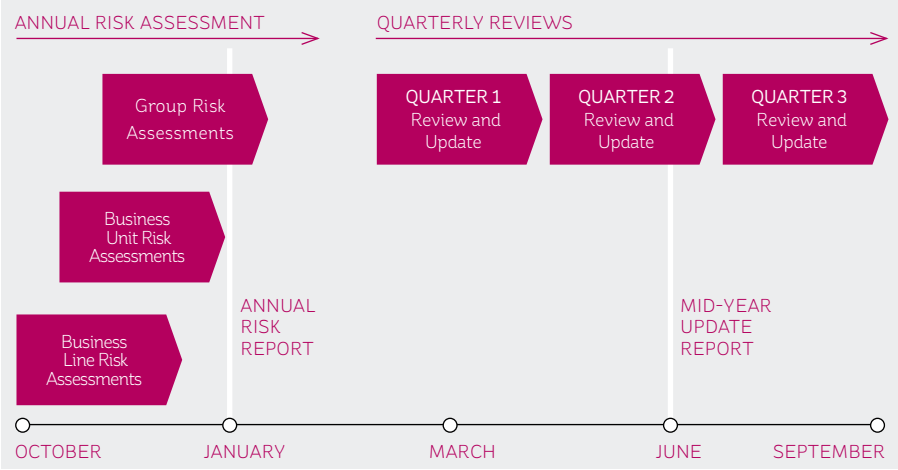
MAINTAINING THE RISK FRAMEWORK

ESB strictly monitors the ongoing effectiveness of its risk management framework in the light of emerging risks and challenges to the Company. The Group Risk policy, the overall risk governance structures and the ongoing process for continuous risk assessment and escalation are all reviewed on an annual basis and changes as required are approved by the Board.

During 2012, a number of enhancements to the process were implemented including:

- The Group's risk policy and risk appetite was reviewed in conjunction with the development of ESB's new strategy.
- Business unit representation on the Executive Level Risk committee was extended and strengthened.
- A new risk reporting regime, agreed with the Audit and Risk Committee in January, was implemented and fully complied with during the year.

RISK MANAGEMENT IS AN ONGOING PROCESS



- The annual Group wide risk identification and assessment takes place in quarter 3 alongside the annual business planning and budgeting cycle.
- Risk status and mitigation strategies are reviewed quarterly.
- The Board is regularly appraised during the year with the overall group wide position.

PRINCIPAL RISKS AND MITIGATION STRATEGIES

Risks	Impact	Mitigation Strategies
SAFETY & ENVIRONMENT RISKS		
Injury to staff, contractors and the general public	As a major energy utility, ESB is committed to the highest possible safety standards to protect against the risk of injury to staff, contractors and the general public.	ESB rigorously enforces its safety policies and standards to achieve its ultimate target of zero injuries. An extensive safety leadership programme, fully supported by the Board and Management, is in place throughout ESB to address key safety issues. Staff and Management at all levels are involved in undertaking safety audits and reviews. In relation to public safety, ongoing media and direct marketing campaigns are run to increase public awareness of the risks and dangers. ESB has a strategic partnership with the Health and Safety Authority to improve electrical safety in the construction and agricultural sectors.
Environment & Climate Change	Many ESB activities have potential for significant environmental impact and are regulated by relevant national and EU laws.	Strong control and regular compliance auditing are a feature of ESB's environmental protection systems. The Group commits significant resources towards ensuring compliance with applicable planning and environmental laws/regulations and works closely with all relevant authorities.To address the challenges of climate change, ESB is pursuing an ambitious carbon reductions strategy and investing strongly in renewable energy and environmental friendly technology.
COMMERCIAL & MARKET RISKS		
Competitor Action	The Group faces strong competition in all its markets. The level of competitor activity in the domestic supply sector has fundamentally altered the nature of this market.	ESB continues to adapt to changes in the market place, new entrants and anticipated developments for 2013 such as the planned sale of Bord Gáis Energy and East-West Interconnection. ESB participates in all CER consultations regarding further market deregulation and in line with CER approvals, has implemented new structures and systems appropriate to the competitive market. New organisation structures have been implemented in 2012, entry to the gas market has progressed well and the Electric Ireland brand has become firmly established. The Company for 2013 will continue to develop dynamic product and pricing strategies that will be responsive to changing market conditions.
Economic & market conditions	The prevailing macroeconomic environment and uncertainty in financial markets present risks and challenges to the Group's profitability levels and potentially to delivery of the Group's investment and growth targets.	ESB is addressing the various risks and uncertainty associated with the current economic climate. The ongoing financial market uncertainty is closely monitored by ESB Group Treasury. Our risk management process has helped to identify and manage the increased financial risks. Performance risks specific to each business are identified in individual risk plans, where specific mitigation actions are planned and assigned. As part of this process, new organisational structures have been established to deliver the Group's strategy, adjust to new cost structures and to meet the challenges of the current economic environment. The company's cost reduction programme with the aim of taking €280 million out of the cost base by 2015, is progressing to target.
Trading Risk	Power prices in the SEM, and fuel prices paid by the Group in connection with its electricity generating activities, have shown significant volatility in recent years. ESB's profits can be materially affected by changes in power prices, fuel and CO_2 prices, and by relative movements between prices of different fuel types.	ESB has adopted an appropriate trading and hedging strategy to manage potential price volatility and uncertainty in the SEM. Financial contracts are entered into and trading decisions are taken in line with this strategy. Business Units have strengthened their traditional energy trading functions to ensure the full extent of ongoing SEM trading positions is fully understood and managed. In line with regulatory ringfencing requirements, Business Units participating in the SEM market maintain the appropriate trading capability, structures and systems for effective management of risk in the SEM. The embedded risk management and controls covering trading activities that apply in the relevant Business Units are subject to a strict governance and reporting regime, including regular review by Group Internal Audit.
Funding & Liquidity	The key financial risk areas facing the Group include exposure to foreign exchange rates, interest rates, funding, liquidity risk, and reliance on related financial and operational controls. This risk also relates to ESB's continuing ability to secure adequate funding at appropriate cost for planned investments and to maintaining ESB's credit metrics within rating targets.	Group Treasury is responsible for the day to day treasury activities of the Group, including the trading of specific derivative instruments to mitigate these risks. Policies and procedures to protect the Group from the treasury/financial risks are regularly reviewed, revised and approved by the Board as appropriate. ESB has continued to successfully raise funds in 2012. ESB issued two benchmark Eurobond in September and November totaling €1.1 billion at a blended tenor and cost of 6 years and 5.5%. ESB maintains an overall financing strategy that takes account of market conditions and is appropriate to ESB's strategic plan and targets. The Group's policy is to maintain strong liquidity to meet funding requirements for more than a year ahead, and to access funds from a diverse range of markets. The Company has a very strong liquidity position. Group Treasury continue to monitor the markets and further transactions will be considered in 2013 following the significant Bond issuances of 2012.
ESB Pensions	The ongoing volatility in financial markets, current economic conditions and the pensions levy imposed on all Pension Funds continues to be challenging for Pension Funds.	The Scheme's funding plan regarding the Minimum Funding standard (MFS) was approved by the Pensions Board. The ongoing actuarial review shows the scheme to be broadly in balance and investment performance continues to be monitored closely.

Risks	Impact	Mitigation Strategies
REGULATORY RISKS		
Compliance & market changes	The principal regulatory risks faced by the Group originate from licence compliance, ring-fencing requirements, the impact of price control reviews, and an evolving EU regulatory framework. A range of regulatory items with potential impact on ESB activities are due for decision or review during 2013. These include approval of Article 9(9) certification of NIE and RoI transmission arrangements; the high level design for REM (Regional Electricity Market); and the NIE Price Review – RP5.	ESB manages these risks through a dedicated Regulatory Affairs teams which provide ongoing input to the development of the regulatory, trading and pricing regimes, and also monitors compliance with the Group's regulatory and licence requirements. ESB maintains a proactive and structured approach to consultations with regulatory authorities on market developments.
OPERATIONAL RISKS		
Plant Performance Risk	Failure to achieve the targeted performance and availability of existing generation plant through damage to ESB plant, incidents and breakdowns.	Such plant risks are minimised through ESB's well established plant safety and maintenance regimes, operating and technical procedures, and staff training. The Group also has in place appropriate insurance contracts to protect against financial loss from outages arising from plant damage. Plant availability was approximately 89%.
Knowledge and Skills	ESB has a high dependency on the technical competence of its management/ staff. The Group especially needs to maintain high standards of competence in new and developing areas of the business. The Group is also conscious of the need to maintain skill levels in the context of the significant staff number reductions and re-assignments arising from the 2012 re-organisation and VS scheme.	ESB is determined to maintain the necessary knowledge and skills for high levels of competitiveness both in the Irish market and abroad. To this end, ESB continues to invest in staff training and development and in ongoing performance improvement, particularly in the context of people management and new technologies such as smart metering, renewables, electric vehicles and smart grids.
Business Processes and IT systems	ESB's Enterprise Risk processes identify and address (escalating where appropriate) operational risks that could lead to losses or reputational damage from mistakes or shortcomings in the Group's business processes and IT systems.	Each Business Unit is responsible for limiting and managing operational risks within its area of responsibility by ensuring that well documented routines, reliable IT systems and satisfactory internal controls are in place. From a Group perspective, the Chief Information Officer is responsible for ESB's overall IT strategy, including governance arrangements for the security/reliability of IT infrastructure and systems. Internal controls, including IT governance, are subject to internal and external audit. The planning of the Group's internal audit programme takes account of potential operational risks identified by the risk management framework.
Investments / Project Execution Risk	ESB is making significant capital investments in Network infrastructure and Generation Plant. Failure to bring in capital projects on time and on budget could lead to losses on capital or not deliver the Business plan returns.	ESB ensures that strong project management / delivery approval is rigorously applied to all major projects. Regular reviews of appropriateness of business cases, market conditions and timings of investments are performed.
Successful delivery of change	The full benefits of agreed change programmes are not delivered or are delayed.	ESB is maintaining a continued focus on improving overall cost competitiveness and delivering the remaining cost improvement targets of its Performance Improvement Plan agreed in 2012. The challenging targets of this programme remain on track to be met in early 2013. New Organisation structures were implemented from September 2012, and a voluntary severance scheme was launched resulting in significant reductions in staff numbers by year end. Significant IT and business process change is progressing to introduce further efficiencies across the Group. As part of the strategic review during 2012, a new People strategy has been developed which will be rolled out in 2013, focussing on enhanced Workforce Engagement and developing a High Performance Culture.
Reputation and Public standing	Reputational risk could arise from damage to the group's image, credibility, standing with customers and key stakeholders and which could impair its ability to retain and generate business. Such damage may result from a breakdown of trust, confidence or business relationships. Safeguarding the group's reputation is important to its continued success.	As part of the ERM process, each business unit is responsible for identifying, assessing and determining all reputational risks that may arise within their respective areas of business. The reputational impact of such risks is considered alongside financial or other impacts. Matters identified at BU level as a reputational risk to the group are reported and escalated as necessary through our ERM risk reporting process. Should a risk event occur, the Group's crisis management processes are designed to minimise the reputational impact of an event. Crisis management teams are in place both at Corporate and business unit level to ensure the effective management of any such events. This includes ensuring through our Corporate Communications that the Group's perspective is represented fairly in the media.



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ENERGY FOR
NURTURING FAMILY TIME

05 FINANCIAL STATEMENTS

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STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

THE BOARD MEMBERS ARE RESPONSIBLE FOR PREPARING THE ANNUAL REPORT AND THE GROUP AND PARENT FINANCIAL STATEMENTS.

The Electricity Supply Acts 1927 to 2004 require the Board Members to prepare Group and Parent financial statements for each financial year. Under ESB's governing regulations (the "Regulations"), adopted pursuant to the Electricity Supply Acts 1927 to 2004, the Board is required to prepare financial statements and reports as required by, and in accordance with, the Companies Acts 1963 to 2012 (the "Companies Acts"), in the same manner as a company established under the Companies Acts. Further, the Board Members have prepared the financial statements of the Parent and the Group in accordance with IFRS as adopted by the EU, and as applied in accordance with the Companies Acts.

The Group financial statements are required by law to present a true and fair view of the state of affairs of the Parent and the Group as at the end of the financial year, and of the profit and/or loss of the Parent and the Group for the financial year. Pursuant to IFRS as adopted by the EU, the financial statements are required to present fairly the financial position and performance of the Group and the Parent.

In preparing each of the Group and Parent financial statements on pages 74 to 131 the Board Members are required to:

> Select suitable accounting policies and then apply them consistently;
> Make judgments and estimates that are reasonable and prudent; and
> Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent will continue in business.

The Board Members are responsible for keeping proper books of account which correctly record and explain the transactions of the Group and the Parent, disclose with reasonable accuracy at any time the financial position of the Group and Parent, enable them to ensure that the financial statements comply with the Companies Acts and enable the accounts of the Group and the Parent to be readily and properly audited. The Board Members are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board Members are responsible for preparing a Board Members' Report that complies with the requirements of the Companies Acts.

The Board Members are responsible for the maintenance and integrity of the financial information included on the Group's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board



Lochlann Quinn Chairman



Pat O'Doherty, Chief Executive
27 February 2013

INDEPENDENT AUDITOR'S REPORT TO THE STOCKHOLDERS OF ELECTRICITY SUPPLY BOARD (ESB)

As the auditor appointed by the Minister for Communications, Energy and Natural Resources with the consent of the Minister for Finance, under Section 7 of the Electricity (Supply) Act 1927, we have audited the Group and Parent financial statements (the ''financial statements'') of ESB for the year ended 31 December 2012 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent balance sheets, the Group and Parent statements of changes in equity, the Group and Parent cash flow statements, the statement of accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the Parent financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2012.

This report is made solely to the stockholders of ESB, as a body, in accordance with section 193 of the Companies Act 1990, made applicable to ESB by virtue of the Regulations adopted by it as its governing regulations under the Electricity (Supply) Act, 1927, as amended by the Electricity (Supply) (Amendment) Act 2004. Our audit work has been undertaken so that we might state to the stockholders of ESB 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 ESB and its stockholders, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF BOARD MEMBERS AND AUDITOR

As explained more fully in the Statement of Board Members' Responsibilities set out on page 64, the Board Members are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

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 Group's and Parent'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 annual report to identify material inconsistencies with the audited financial statements. 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- the Parent's balance sheet gives a true and fair view in accordance with IFRSs as adopted by the EU, as applied in accordance with the provisions of the Companies Acts 1963 to 2012, as applied by the Electricity (Supply) Acts 1927 to 2004, of the state of the Parent's affairs as at 31 December 2012; and
- the financial statements have been properly prepared in accordance with the provisions of the Companies Acts 1963 to 2012 as applied by the Electricity (Supply) Acts 1927 to 2004, and as regards the Group's financial statements Article 4 of the IAS Regulations.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY THE COMPANIES ACTS 1963 TO 2012

We have obtained all the information and explanations which we considered necessary for the purposes of our audit.

The Parent's balance sheet is in agreement with the books of account and, in our opinion, proper books of account have been kept by the Parent.

In our opinion the information given in the Board Members' report and the description in the annual corporate governance statement of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated Group financial statements is consistent with the financial statements.

In our opinion the information given in the Board Members' 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 following:
Under the Companies Acts 1963 to 2012 we are required to report to you if, in our opinion the disclosures of Board Members' 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 financial control required under the Code as included in the Corporate Governance Statement on pages 50 to 55 does not reflect the Group'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 and we report if it does not.

At the request of the Board Members, we review:

- the board members' statement, set out on page 50 to 55, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Group's compliance with the nine provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review;
- the six specified elements of board members' remuneration disclosures in the report to shareholders by the Board.

Patricia Carroll
For and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
Dublin, Ireland
27 February 2013

STATEMENT OF ACCOUNTING POLICIES

1. BASIS OF PREPARATION

Electricity Supply Board (ESB) is a statutory corporation established under the Electricity (Supply) Act, 1927 and is domiciled in Ireland. The consolidated financial statements of ESB as at and for the year ended 31 December 2012 comprise the Parent and its subsidiaries (together referred to as "ESB" or "the Group") and the Group's interests in associates and jointly controlled entities.

The Parent and consolidated financial statements are prepared under IFRS (International Financial Reporting Standards) as adopted by the EU (EU IFRS) and, in the case of the Parent, as applied in accordance with the Companies Acts 1963 to 2012. The Companies Acts 1963 to 2012 provide a Parent company that presents its individual financial statements together with its consolidated financial statements with an exemption from publishing the Parent income statement and statement of comprehensive income which forms part of the Parent financial statements prepared and approved in accordance with the Acts. The financial statements of the Parent and Group have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective for accounting periods ending on or before 31 December 2012.

The Parent and consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and certain financial asset investments which are measured at fair value.

These financial statements are prepared in euro, and except where otherwise stated, all financial information presented in euro has been rounded to the nearest thousand.

The preparation of financial statements in conformity with EU IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.
The estimates and underlying assumptions are reviewed on an ongoing basis. Judgments made by management in the application of EU IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 28 to the financial statements.

The policies set out below have been consistently applied to all years presented in these consolidated financial statements and have been applied consistently by Group entities – with the exception of (i) adoption of new standards as set out below, and (ii) non-repayable supply contributions (see Section 12 of the policies below).

The board members consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis. Further details of the Group's liquidity position are provided in Note 18 of the financial statements.

2. BASIS OF CONSOLIDATION

The Group's financial statements consolidate the financial statements of the Parent and of all subsidiary undertakings together with the Group's share of the results and net assets of associates and joint ventures made up to 31 December 2012. The results of subsidiary undertakings acquired or disposed of in the year are included in the Group income statement from the date of acquisition or up to the date of disposal.

Accounting for business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Acquisitions on or after 1 January 2010
From 1 January 2010 the Group applied IFRS 3 Business Combinations (2008) in accounting for business combinations. From this date onwards, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions between 1 January 2004 and 1 January 2010
For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the goodwill excess was negative, a bargain purchase gain was recognised immediately in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)
As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

Subsidiaries
Subsidiaries are entities controlled by ESB. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In the Parent financial statements, investments in subsidiaries are carried at cost less any impairment charges.

Joint ventures
Joint venture undertakings (joint ventures) are those undertakings over which ESB exercises contractual control jointly with another party.

Joint ventures are accounted for using the equity method of accounting. The Group's share of the profits after tax of joint ventures is included in the consolidated income statement after interest and financing charges. The Group's share of items of other comprehensive income is shown in the statement of comprehensive income. The Group's interests in the net assets or liabilities of joint ventures are included as investments in joint ventures on the face of the consolidated balance sheet at an amount representing the Group's share of the fair values of the net assets at acquisition plus goodwill, less any impairment and the Group's share of post acquisition retained income and expenses.

The amounts included in the consolidated financial statements in respect of post acquisition results of joint ventures are taken from their latest audited financial statements made up to the Group's balance sheet date.

In the Parent financial statements, investments in joint ventures are carried at cost less any impairment charges.

Associates
Entities other than joint ventures and subsidiaries in which the Group has a participating interest, and over whose operating and financial policies the Group is in a position to exercise significant influence, are accounted for as associates using the equity method and are included in the consolidated financial statements from the date on which significant influence is deemed to arise until the date on which such influence ceases to exist.

In the Parent financial statements, investments in associates are carried at cost less any impairment charges.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the Investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The adoption of the other new standards (as set out in the 2011 Annual Report) that became effective for the Group's financial statements for the year ended 31 December 2012 did not have any significant impact on the Group or company financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these consolidated financial statements.

Amendment to IAS 19: Employee Benefits
In June 2011, the IASB published an amended version of IAS 19 Employee Benefits. Adoption of the amendment is required for annual periods beginning on or after 1 January 2013 and generally applies retrospectively. The Group's wholly owned subsidiary undertaking Northern Ireland Electricity Limited ('NIE') operates a defined benefit scheme in respect of all eligible employees. The primary impact of this amendment on the Group will be the determination of the net interest expense (or income) on the net defined benefit pension liability (asset) for the period. The net interest expense/(income) will be determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the beginning of the annual period. The net interest on the net defined benefit liability comprises:

- interest cost on the defined benefit obligation; and
- interest income on plan assets.

Previously the Group determined interest income on plan assets based on their long-term rate of expected return.

The adoption of the amendment to IAS 19 is expected to increase the defined benefit expense recognised in profit or loss, with a corresponding reduction in the defined benefit plan remeasurement loss recognised in other comprehensive income by €1.1 million for the year ended 31 December 2012. The change in accounting policy is not expected to impact on net assets as at 31 December 2012 or 31 December 2013.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

Other new standards

These new standards, amendments and interpretations are either not expected to have a material impact on the consolidated financial statements once applied or are still under assessment

Accounting standard/ interpretation	Effective date[1]
Not expected to have a material impact on the consolidated financial statements	
IAS 1 (Amendment) – Presentation of Financial Statements	1 July 2012
Annual improvements to IFRS 2009 – 2011 cycle – various standards	1 January 2013
IAS 27 (Amendment) – Consolidated and Separate Financial Statements	1 January 2014
IFRS 7 (Amendment) – Disclosures: offsetting financial assets and financial liabilities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
IAS 28 (Amendment) – Investments in Associates and Joint Ventures	1 January 2014
Investment entities (Amendments to IFRS 10, 12 and IAS 27)	1 January 2014*
Still under assessment	
IFRS 10 – Consolidation Financial Statements	1 January 2014
IFRS 11 – Joint Arrangements	1 January 2014
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2014
Transition guidance (amendments to IFRS 10, 11, 12)	1 January 2014
IAS 32 (Amendment) – Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 9 – Financial Instruments	1 January 2015*

* Not EU endorsed at the time of approved financial statements
[1] the effective dates are those applying to EU endorsed IFRS if later then the IASB effective dates

4. FOREIGN CURRENCIES

These financial statements are prepared in euro, which is the Parent's functional currency.

Foreign currency transactions

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. The resulting monetary assets and liabilities are translated at the rate ruling at the balance sheet date and the exchange differences are dealt with in the income statement. Non monetary assets and liabilities are carried at historical cost and not subsequently retranslated.

Net investments in foreign operations

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured accordingly in that currency. In the consolidated financial statements, the Group's net investments in overseas subsidiary undertakings, joint ventures, associates and related goodwill are translated at the rate ruling at the balance sheet date. Where an intergroup loan is made for the long term and its settlement is neither planned nor foreseen, it is accounted for as part of the net investment in a foreign operation. The profits, losses and cash flows of overseas subsidiary undertakings, joint ventures and associates are translated at average rates for the period where that represents a reasonable approximation of the actual rates.

Exchange differences resulting from the retranslation of the opening balance sheets of overseas subsidiary undertakings, joint ventures and associates at closing rates, together with the differences on the translation of the income statements, are dealt with through a separate component of equity (translation reserve) and reflected in the Group statement of comprehensive income. Translation differences held in this reserve are released to the income statement on disposal of the relevant entity.

Where foreign currency denominated borrowings are designated as a hedge of the net investment in a foreign operation, exchange differences on such borrowings are taken to the same translation reserve to the extent that they are effective hedges.

5. PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Recognition and measurement

Property, plant and equipment is stated at cost less accumulated depreciation and provisions for impairment in value, except for land which is shown at cost less impairment. Property, plant and equipment includes capitalised employee, interest and other costs that are directly attributable to the asset.

Depreciation

The charge for depreciation is calculated to write down the cost of property, plant and equipment to its estimated residual value over its expected useful life using methods appropriate to the nature of the Group's business and to the character and extent of its property, plant and equipment. No depreciation is provided on freehold land or on assets in the course of construction. Major asset classifications and their allotted life spans are:

Generation plant and thermal station structures	20 years
Wind farm generating assets	20/25 years
Distribution plant and structures	25/30 years
Transmission plant and structures	30 years
General buildings and hydro stations	50 years

Depreciation is provided on all depreciable assets from the date of commissioning (date available for use), as follows:

- On the straight-line method for transmission, distribution and general assets, and
- On a projected plant usage basis for generating units.

Reviews of depreciation rates and residual values are conducted annually.

Subsequent expenditure

Subsequent expenditure on property, plant and

equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Included in property, plant and equipment are strategic spares in relation to the Electricity Generation business. Capital stock in the Networks business is carried within assets under construction pending commissioning.

6. LEASED ASSETS

Finance leases are leases where the Group, as lessee, assumes substantially all the risks and rewards of ownership, while operating leases are those in which the lessor retains those risks and rewards of ownership.

Non-current assets acquired under finance leases are included in the balance sheet at their equivalent capital value and are depreciated over the shorter of the lease term and their expected useful lives. The corresponding liabilities are recorded as a finance lease payable and the interest element of the finance lease payments is charged to the income statement on a constant periodic rate of interest. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

7. INTANGIBLE ASSETS AND GOODWILL

(a) Goodwill

Goodwill that arises on the acquisition of subsidiaries is disclosed separately. For the measurement of goodwill at initial recognition, see note 2 of the accounting policies.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of the asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses in respect of goodwill are recognised in profit or loss, and are not reversed.

(b) Emission allowances

In accordance with the provisions of the European CO2 emissions trading scheme, emissions allowances covering a percentage of the expected emissions during the year are granted to ESB at the beginning of each year by the relevant government authority.

Emission allowances issued to ESB are recorded as intangible assets not subject to amortisation at market value on the date of issue. At that date, the allowances are recorded as a government grant in deferred income, at the same market value attributed to the intangible assets, and the government grant is amortised to the Income Statement on the basis of actual emissions during the year.

As emissions arise, a provision is recorded in the income statement to reflect the amount required to settle the liability to the Authority. This provision includes the carrying value of the emission allowances held, as well as the current market value of any additional allowances required to settle the obligation. These allowances, together with any additional allowances purchased during the year, are returned to the relevant Authority in charge of the scheme within four months of the end of that calendar year, in order to cover the liability for actual emissions of CO2 during that year. Emissions allowances held at cost as intangible assets are therefore not amortised as they are held for settlement of the emission liability in the following year.

To the extent that the volume of emissions allowances granted for a period exceed the volume of emission allowances required for that period the resulting surplus is utilised against emission allowances required in future periods.

(c) Software costs and other intangible assets

Acquired computer software licenses and other intangible assets including grid connections and other acquired rights, are capitalised on the basis of the costs incurred to acquire and bring the specific asset into use. These costs are measured at cost less accumulated amortisation which is estimated over their useful lives on a straight line basis and accumulated impairment losses. Major asset classifications and their allotted life spans are:

Software	3/5 years
Other intangibles	20 years

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and the Parent, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development, employees and an appropriate portion of relevant overheads. These costs are measured at cost less accumulated amortisation which is estimated over their estimated useful lives (three to five years) on a straight line basis and accumulated impairment losses.

8. IMPAIRMENT OF ASSETS OTHER THAN GOODWILL

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. 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 its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

STATEMENT OF ACCOUNTING POLICIES CONTINUED

9. BORROWING COSTS

Borrowing costs attributable to the construction of major assets, which necessarily take substantial time to get ready for intended use, are added to the cost of those assets at the weighted average cost of borrowings, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred. The capitalisation rate applied equates to the average cost of ESB's outstanding debt.

10. INVENTORIES

Inventories are carried at the lower of average cost and net realisable value. Cost comprises all purchase price and direct costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is based on normal selling price less further costs expected to be incurred prior to disposal.

Specific provision is made for damaged, deteriorated, obsolete and unusable items where appropriate.

11. FINANCIAL ASSETS AND LIABILITIES

(a) 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 and subsequently carried at amortised cost using the effective interest method less provision made for impairment.

Specific provisions are made where there is objective evidence of impairment, for example where there is a dispute or an inability to pay. An additional provision is made on a portfolio basis to cover additional incurred losses based on an analysis of previous losses experienced as updated based on current market conditions.

Cash and cash equivalents

For the purpose of the cash flow statement, 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 bank 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, and subsequently carried at amortised cost using the effective interest rate method.

Loans to and receivables from group companies

Loans to and receivables from Group Companies are non-derivative financial assets which are not quoted in an active market. They are included in current assets on the balance sheet, except for those with maturities greater than twelve months after the balance sheet date, which are included in non-current assets. Loans and receivables are included within trade and other receivables in the Parent balance sheet and are initially recorded at fair value and thereafter at amortised cost.

Financial assets or liabilities at fair value through profit or loss

Financial instruments classified as assets or liabilities at fair value through the income statement are financial instruments either held for trading or designated at fair value through profit and loss at inception.

On initial recognition, these assets are recognised at fair value, with transaction costs being recognised in profit or loss, and are subsequently measured at fair value. Gains and losses on these financial assets are recognised in profit or loss as they arise.

Instruments held for trading are those that are acquired principally for the purpose of sale in the near term, are part of a portfolio of investments which are managed together and where short term profit taking occurs, or are derivative financial instruments, other than those in effective hedging relationships.

(b) Derivative financial instruments and other hedging instruments

The Group uses derivative financial instruments and non-derivative financial instruments to hedge its exposure to foreign exchange, interest rate, and commodity price risk arising from operational, financing and investing activities. The principal derivatives used include interest rate swaps, inflation linked interest rate swaps, currency swaps, forward foreign currency contracts and indexed swap contracts relating to the purchase of fuel.

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities, including gas and electricity. Where the contract was entered into and continues to be held for the purposes of receipt or delivery of the commodities in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as 'own use' contracts and are measured at cost. These contracts are therefore not within the scope of IAS 39 Financial Instruments: Recognition and Measurement.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised in accordance with IAS 39 as 'cash flow' hedges.

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are re-measured to fair value at the balance sheet date. The majority of these derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on subsequent re-measurement is dependent on the

classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge.

Derivatives that are not part of effective hedging relationships are treated as if held for trading, with all fair value movements being recorded through the income statement.

(i) Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. When the firm commitment or forecasted transaction results in the recognition of an non-financial asset or liability, the cumulative gain or loss is removed from other comprehensive income and included in the initial measurement of that asset or liability. Otherwise the cumulative gain or loss is removed from other comprehensive income and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in other comprehensive income is recognised in the income statement immediately.

(ii) Hedge of net investment in foreign entity
Where a foreign currency liability hedges a net investment in a foreign operation, foreign exchange differences arising on translation of the liability are recognised directly in other comprehensive income, and taken to the translation reserve, with any ineffective portion recognised immediately in the income statement.

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

(d) Insurance contracts
During the normal course of business, Parent company guarantees and bonds are provided to subsidiary companies of the Parent. These guarantees and bonds are classified under IFRS 4 as insurance contracts. Where it is expected that no claims will be made on these contracts, no provision is made in the Parent company financial statements. Where claims are probable, the provisions policy (14) is applied.

12. NON-REPAYABLE SUPPLY CONTRIBUTIONS AND CAPITAL GRANTS

Non-repayable supply contributions and capital grants received up until 1 July 2009 were recorded as deferred income and are released to the Income Statement on a basis consistent with the depreciation policy of the relevant assets.

Following the implementation of IFRIC 18 Transfer of Assets from Customers, non-repayable supply contributions received after 1 July 2009 (the effective date of the interpretation) are recognised in full upon completion of services rendered, in the Income Statement as revenue in accordance with IAS 18 Revenue.

13. CAPITAL STOCK

The units of capital stock are measured at the price at which they were initially issued to the Department of Finance, the Department of Communication, Energy and Natural Resources and the ESB ESOP Trustee Limited.

14. INCOME TAX

Income tax on the profit or loss for the year 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 other comprehensive income.

Current tax
Current tax is provided at current rates and is calculated on the basis of results for the period. The income tax expense in the income statement does not include taxation on the Group's share of profits of joint venture undertakings, as this is included within the separate lines on the face of the income statement for profits from joint ventures.

Deferred tax
Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised only to the extent that the Board consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

15. PROVISIONS

A provision is recognised if, as a result of a past event, the Group 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. 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 unwinding of the discount is recognised as a finance cost.

Provision for generating station closure
The provision for closure of generating stations represents the present value of the current estimate of the costs of closure of the stations at the end of their useful lives.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

The estimated costs of closing stations are recognised in full at the outset of the asset life, but discounted to present values using a risk free rate. The costs are capitalised in property, plant and equipment and are depreciated over the useful economic lives of the stations to which they relate. The costs are reviewed each year and amended as appropriate. Amendments to the discounted estimated costs are capitalised into the relevant assets and depreciated over the remaining life of the relevant assets. As the costs are capitalised and initially provided on a discounted basis, the provision is increased by a financing charge in each period, which is calculated based on the provision balance and discount rate applied at last measurement date (updated annually) and is included in the income statement as a financing charge. In this way, the provision will equal the estimated closure costs at the end of the useful economic lives of stations. The actual expenditure is set against the provision as stations are closed.

The provision for generating station closure costs is included within current or non current provisions as appropriate on the balance sheet.

16. OPERATING SEGMENTS – IFRS 8

As a result of the €3 billion wholesale Eurobond debt programme, which is listed on the Irish Stock Exchange, the disclosure requirements of IFRS 8 Operating Segments apply to the Group. IFRS 8 specifies how an entity should disclose information about its segments using a "management approach" under which segment information is presented on the same basis as that used for internal reporting. We have accordingly presented financial information for segments whose operating activities are regularly reviewed by the Chief Operating Decision Maker ('CODM') in order to make decisions about allocating resources and assessing performance has been presented in note 1 to the financial statements.

17. REVENUE

(a) Electricity revenue

Revenue comprises the sales value derived from the generation, distribution and sale of electricity, together with other goods and services to customers outside the Group and excludes value added tax. Electricity revenue includes the value of units supplied to customers between the date of the last meter reading and the period end and this estimate is included in trade and other receivables in the balance sheet as unbilled consumption. Electricity revenue is recognised on consumption of electricity.

(b) Contract revenue

Contract revenue is recognised on a time apportionment basis by reference to the stage of completion of the contract at the balance sheet date.

18. OTHER OPERATING INCOME

Other operating income comprises of income which accrues to the Group outside of the Group's normal trading activities.

19. COSTS

(a) Energy costs

Energy costs comprise direct fuel, (primarily coal and gas), purchased electricity, use of system charges ("other electricity costs") and net emissions costs. Fuel and purchased electricity costs are recognised as they are utilised. The Group has entered into certain long term power purchase agreements for fixed amounts. Amounts payable under the contracts that are in excess of or below market rates are recoverable by the Group or repayable to the market under the Public Service Obligation ('PSO') levy.

(b) Operating and other maintenance costs

Operating and other maintenance costs relate primarily to overhaul and project costs, contractor costs and establishment costs. These costs are recognised in the income statement as they are incurred.

(c) Finance income and finance costs

Finance income comprises interest income on bank deposits, which attract interest at prevailing deposit interest rates.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, fair value gains and losses on financial instruments not qualifying for hedge accounting, losses on hedging instruments that are recognised in the income statement and reclassifications of amounts previously recognised in other comprehensive income.

20. EXCEPTIONAL ITEMS

The Group has used the term "exceptional" to describe certain items which, in management's view, warrant separate disclosure by virtue of their size or incidence, or due to the fact that certain gains or losses are determined to be non-recurring in nature. Exceptional items may include restructuring, significant impairments, profit or loss on asset disposals, material changes in estimates or once off costs where separate identification is important to gain an understanding of the financial statements.

21. EMPLOYEE RELATED LIABILITIES

Restructuring liabilities

Voluntary termination benefits are payable under a tripartite agreement between the Board of ESB, the Group of Unions and Government when an employee accepts voluntary redundancy in exchange for those benefits.

The Group recognises termination benefits when it is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement age, or to provide termination benefits as a result of an offer made to employees to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. Benefits falling due more than twelve months after the Balance Sheet date are discounted to present value.

Other short term employee related liabilities

The costs of vacation leave and bonuses accrued are recognised when employees render the service that increases their entitlement to future compensated absences.

22. PENSION OBLIGATIONS

Pension obligations

The Group companies operate various pension schemes in the Republic of Ireland and Northern Ireland, which are funded through payments to trustee administered funds. A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate fund but where the Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all members of the scheme the benefits relating to employee service in the current and prior periods. A defined benefit scheme is a pension scheme that is not a defined contribution scheme.

Pension schemes in the Republic of Ireland

The Group operates two pension schemes, which are called the ESB General Employees' Superannuation Scheme and the ESB Defined Contribution Pension Scheme (formerly ESB Subsidiary Companies Pension Scheme).

There was a change in accounting treatment of the ESB General Employees' Superannuation Scheme during 2010. This scheme was accounted for as a defined benefit scheme for the purposes of reporting under IAS 19 Employee Benefits up until October 2010. Benefits payable are determined by reference to final salary and the Scheme is registered as a defined benefit scheme with the Irish Pensions Board. Following the approval of a comprehensive agreement ('the Agreement') with staff to address the actuarial deficit arising on this scheme the extent of the employer's and of the members' obligations in respect of the scheme were clarified. Accordingly, from October 2010 the scheme is accounted for as a defined contribution scheme.

For periods up to October 2010 the defined benefit obligation was calculated by independent actuaries using the projected unit credit method. The current service cost, interest cost and expected return on plan assets up until October 2010 were, and have been, recognised within the employee benefits expense in the income statement in the year in which they arose. Past service cost and curtailment cost were recognised immediately in the income statement. In the case of past service costs, where changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period) they were amortised on a straight line basis over the vesting period. Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation were allocated to the income statement over the active employees' expected average remaining working lives.

The liability recognised in the balance sheet in respect of the defined benefit scheme was the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses. The present value of the defined benefit obligation was determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Arising from the Agreement referred to above, the Group derecognised the cumulative defined benefit obligation provided for up until and as at October 2010. In its place, the Group has recognised a pension related obligation in relation to (a) a once-off contribution which, pursuant to the Agreement, will be paid over future years, and (b) pre-existing commitments relating to past service (the present value of the agreed contributions that relates to service prior to October 2010).

The ESB Defined Contribution Pension Scheme (formerly ESB Subsidiary Companies Pension Scheme) is a defined contribution schemes and contributions to the scheme are accounted for on a defined contribution basis with the employers' contribution charged to income in the period the contributions become payable.

Pension scheme in Northern Ireland

The Group's wholly owned subsidiary undertaking Northern Ireland Electricity Limited ('NIE') operates a defined benefit scheme in respect of all eligible employees. The defined benefit obligation of NIE is calculated annually by independent actuaries using the projected unit credit method, and discounted at a rate selected with reference to the current rate of return of high quality corporate bonds of equivalent currency and term to the liabilities. Pension scheme assets are measured at fair value. Full actuarial valuations are obtained at least triennially and are updated annually thereafter. Actuarial gains and losses are recognised in full in the period in which they occur and are recognised in other comprehensive income.

The cost of providing benefits under the defined benefit scheme is charged to the income statement over the periods benefiting from employees' service. Past service costs are recognised immediately to the extent that the benefits are already vested. Curtailment losses are recognised in the income statement in the period they occur. The expected return on pension scheme assets and the interest on pension scheme liabilities are included within net finance cost.

GROUP INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 Excluding exceptional items € '000	2012 Exceptional items *Note 3* € '000	2012 Including exceptional items € '000	2011 Excluding exceptional items € '000	2011 Exceptional items *Note 3* € '000	2011 Including exceptional items € '000
Revenue	1/2	**3,260,112**	**-**	**3,260,112**	2,916,219	-	2,916,219
Other operating income	4	**35,108**	**-**	**35,108**	78,629	-	78,629
Operating costs	5	**(2,719,021)**	**(161,162)**	**(2,880,183)**	(2,525,915)	-	(2,525,915)
Operating profit		**576,199**	**(161,162)**	**415,037**	468,933	-	468,933
Net interest on borrowings	6	**(193,075)**	**-**	**(193,075)**	(153,335)	-	(153,335)
Financing charges	6	**(55,404)**	**-**	**(55,404)**	(54,357)	-	(54,357)
Fair value losses on financial instruments	6	**(23,294)**	**-**	**(23,294)**	(208,192)	-	(208,192)
Finance income	6	**2,434**	**-**	**2,434**	1,790	-	1,790
Net finance cost		**(269,339)**	**-**	**(269,339)**	(414,094)	-	(414,094)
Share of joint ventures' profit	12 (a)	**20,704**	**-**	**20,704**	23,912	-	23,912
Profit before taxation		**327,564**	**(161,162)**	**166,402**	78,751	-	78,751
Income tax credit	17	**7,560**	**20,145**	**27,705**	21,281	-	21,281
Profit after taxation		**335,124**	**(141,017)**	**194,107**	100,032	-	100,032
Attributable to:							
Equity holders of the Parent		**335,047**	**(141,017)**	**194,030**	99,742	-	99,742
Non-controlling interest		**77**	**-**	**77**	290	-	290
Profit for the financial year		**335,124**	**(141,017)**	**194,107**	100,032	-	100,032

Notes 1 to 32 form an integral part of these financial statements.

Lochlann Quinn, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Executive Director, Group Finance

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 € '000	2011 € '000
Profit for the financial year		**194,107**	100,032
Other Comprehensive Income (OCI)			
Effective hedge of a net investment in foreign subsidiary		**(620)**	(656)
Translation differences on consolidation of foreign subsidiaries		**9,868**	1,412
Translation differences on equity accounting for joint ventures		**1,267**	51
Defined benefit pension scheme actuarial losses	20 (c)	**(56,373)**	(113,122)
Fair value (losses) / gains on cash flow hedges		**(91,649)**	18,707
Fair value losses on cash flow hedges in joint ventures	12	**(5,399)**	(10,094)
Transferred to income statement on cash flow hedges		**(20,862)**	(33,209)
Tax on items taken directly to OCI		**22,927**	28,521
Tax on items taken directly to OCI for joint ventures	12	**1,382**	2,697
Tax on items transferred from OCI		**2,608**	760
Total other comprehensive loss		**(136,851)**	(104,933)
Total comprehensive income / (loss) for the financial year		**57,256**	(4,901)
Attributable to:			
Equity holders of the Parent		**57,179**	(5,191)
Non-controlling interest		**77**	290
Total comprehensive income / (loss) for the financial year		**57,256**	(4,901)

Lochlann Quinn, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Executive Director, Group Finance

GROUP BALANCE SHEET

As at 31 December 2012

	Notes	2012 € '000	2011 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**10,287,736**	10,162,326
Intangible assets	10	**287,598**	371,978
Goodwill	11	**185,938**	181,664
Investments in joint ventures	12	**31,436**	28,678
Financial asset investments	12	**48,849**	40,826
Derivative financial instruments	19	**353,956**	427,732
Deferred tax assets	17	**231,970**	181,052
Total non-current assets		**11,427,483**	11,394,256
Current assets			
Inventories	13	**133,016**	136,566
Derivative financial instruments	19	**84,326**	75,024
Current tax asset		**1,380**	12,182
Trade and other receivables	14	**794,131**	643,710
Cash and cash equivalents	15	**159,405**	277,409
Total current assets		**1,172,258**	1,144,891
Total assets		**12,599,741**	12,539,147
EQUITY			
Capital stock	16	**1,979,882**	1,979,882
Translation reserve		**(6,952)**	(17,467)
Cash flow hedging, revaluation and other reserves		**203,397**	356,306
Retained earnings		**1,601,343**	1,474,234
Equity attributable to equity holders of the Parent		**3,777,670**	3,792,955
Non-controlling interest		**1,845**	1,832
Total equity		**3,779,515**	3,794,787
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	18	**4,124,413**	4,367,862
Liability for pension obligation	21	**723,826**	732,835
Defined benefit pension liabilities	20	**132,524**	91,216
Employee related liabilities	21	**146,415**	62,574
Trade and other payables	22	**7,813**	13,281
Deferred income and government grants	23	**592,376**	620,020
Provisions	24	**184,586**	219,121
Deferred tax liabilities	17	**854,068**	864,683
Derivative financial instruments	19	**597,752**	553,837
Total non-current liabilities		**7,363,773**	7,525,429
Current liabilities			
Borrowings and other debt	18	**449,246**	233,309
Liability for pension obligation	21	**90,941**	101,907
Employee related liabilities	21	**67,090**	79,144
Trade and other payables	22	**615,087**	583,192
Deferred income and government grants	23	**49,707**	57,187
Provisions	24	**90,731**	137,393
Current tax liabilities		**22,488**	-
Derivative financial instruments	19	**71,163**	26,799
Total current liabilities		**1,456,453**	1,218,931
Total liabilities		**8,820,226**	8,744,360
Total equity and liabilities		**12,599,741**	12,539,147

Lochlann Quinn, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Executive Director, Group Finance

PARENT BALANCE SHEET

As at 31 December 2012

	Notes	2012 €'000	2011 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**7,000,831**	7,060,138
Intangible assets	10	**161,860**	212,674
Investments in subsidiary undertakings	12	**72,832**	72,832
Derivative financial instruments	19	**1,324**	2,559
Deferred tax assets	17	**124,167**	122,926
Total non-current assets		**7,361,014**	7,471,129
Current assets			
Inventories	13	**104,885**	109,360
Derivative financial instruments	19	**4,169**	7,437
Current tax asset		**384**	6,968
Trade and other receivables	14	**2,415,867**	1,946,550
Cash and cash equivalents	15	**47,990**	202,470
Total current assets		**2,573,295**	2,272,785
Total assets		**9,934,309**	9,743,914
EQUITY			
Capital stock	16	**1,979,882**	1,979,882
Cash flow hedging and other reserves		**(50,117)**	(10,736)
Retained earnings		**1,200,584**	1,122,518
Equity attributable to equity holders of the Parent		**3,130,349**	3,091,664
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	18	**1,822,880**	2,974,835
Liability for pension obligation	21	**723,826**	732,835
Employee related liabilities	21	**146,415**	62,574
Trade and other payables	22	**-**	5,649
Deferred income and government grants	23	**590,456**	619,861
Provisions	24	**170,109**	205,042
Deferred tax liabilities	17	**419,887**	398,079
Derivative financial instruments	19	**87,954**	69,217
Total non-current liabilities		**3,961,527**	5,068,092
Current liabilities			
Borrowings and other debt	18	**434,950**	219,746
Liability for pension obligation	21	**90,941**	101,907
Employee related liabilities	21	**60,045**	68,856
Trade and other payables	22	**2,083,540**	1,028,126
Deferred income and government grants	23	**44,155**	49,354
Provisions	24	**72,577**	103,987
Current tax liabilities		**-**	1,675
Derivative financial instruments	19	**56,225**	10,507
Total current liabilities		**2,842,433**	1,584,158
Total liabilities		**6,803,960**	6,652,250
Total equity and liabilities		**9,934,309**	9,743,914

Lochlann Quinn, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Executive Director, Group Finance

GROUP STATEMENT OF CHANGES IN EQUITY

As at 31 December 2012

Reconciliation of changes in equity	Capital stock € '000	Translation reserve € '000	Cash flow hedging and other reserves [1] € '000	Retained earnings € '000	Total € '000	Non-controlling interest € '000	Total equity € '000
Balance at 1 January 2011	1,979,882	(18,904)	468,238	1,445,947	3,875,163	1,542	3,876,705
Total comprehensive income / (loss) for the year							
Income for the year	-	587	-	99,155	99,742	290	100,032
Defined benefit scheme actuarial losses	-	-	(113,122)	-	(113,122)	-	(113,122)
Revaluation reserves on acquisition of Synergen Power Ltd	-	-	(5,562)	5,562	-	-	-
Translation differences net of hedging	-	850	(630)	587	807	-	807
Cash flow hedges:							
- Net fair value gains	-	-	18,707	-	18,707	-	18,707
- Transfers to income statement							
- Finance cost	-	-	4,371	-	4,371	-	4,371
- Finance cost (foreign translation movements)	-	-	(33,766)	-	(33,766)	-	(33,766)
- Other operating expenses	-	-	(3,814)	-	(3,814)	-	(3,814)
- Fair value losses for hedges in joint ventures	-	-	(10,094)	-	(10,094)	-	(10,094)
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	28,521	-	28,521	-	28,521
Tax on items transferred to income statement	-	-	760	-	760	-	760
Tax on items taken directly to OCI for joint ventures	-	-	2,697	-	2,697	-	2,697
Total comprehensive income / (loss) for the year	-	1,437	(111,932)	105,304	(5,191)	290	(4,901)
Transactions with owners recognised directly in equity							
Dividends	-	-	-	(77,017)	(77,017)	-	(77,017)
Balance at 31 December 2011	1,979,882	(17,467)	356,306	1,474,234	3,792,955	1,832	3,794,787
Balance at 1 January 2012	**1,979,882**	**(17,467)**	**356,306**	**1,474,234**	**3,792,955**	**1,832**	**3,794,787**
Total comprehensive income / (loss) for the year							
Income for the year	-	-	-	194,030	194,030	77	**194,107**
Defined benefit scheme actuarial losses	-	-	(56,373)	-	(56,373)	-	**(56,373)**
Revaluation reserves on acquisition of Synergen Power Ltd	-	-	(5,543)	5,543	-	-	**-**
Translation differences net of hedging	-	10,515	-	-	10,515	-	**10,515**
Cash flow hedges:							
- Net fair value losses	-	-	(91,649)	-	(91,649)	-	**(91,649)**
- Transfers to income statement							
- Finance cost	-	-	948	-	948	-	**948**
- Finance cost (foreign translation movements)	-	-	18,422	-	18,422	-	**18,422**
- Other operating expenses	-	-	(40,232)	-	(40,232)	-	**(40,232)**
- Fair value losses for hedges in joint ventures	-	-	(5,399)	-	(5,399)	-	**(5,399)**
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	22,927	-	22,927	-	**22,927**
Tax on items transferred to income statement	-	-	2,608	-	2,608	-	**2,608**
Tax on items taken directly to OCI for joint ventures	-	-	1,382	-	1,382	-	**1,382**
Total comprehensive income / (loss) for the year	**-**	**10,515**	**(152,909)**	**199,573**	**57,179**	**77**	**57,256**
Transactions with owners recognised directly in equity							
Dividends	-	-	-	(72,464)	(72,464)	(64)	**(72,528)**
Balance at 31 December 2012	**1,979,882**	**(6,952)**	**203,397**	**1,601,343**	**3,777,670**	**1,845**	**3,779,515**

[1] The cash flow hedging and other reserves comprises of (i) a €55.3 million revaluation reserve (2011: €60.8 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009; (ii) other reserves relating to the NIE defined benefit pension scheme of (€133.2) million (2011: (€87.1) million), and (iii) cash flow hedge reserve of €281.3 million (2011: €382.6 million).

PARENT STATEMENT OF CHANGES IN EQUITY

As at 31 December 2012

Reconciliation of changes in equity	Capital Stock € '000	Cash flow hedging reserve € '000	Retained earnings € '000	Total equity € '000
Balance at 1 January 2011	1,979,882	20,309	998,146	2,998,337
Total comprehensive income / (loss) for the year				
Income for the year	-	-	201,389	201,389
Cash flow hedges:				
- Net fair value losses	-	(2,795)	-	(2,795)
- Transfers to income statement				
- Finance cost	-	3,390	-	3,390
- Finance cost (foreign translation movements)	-	(33,766)	-	(33,766)
- Other operating expenses	-	(3,468)	-	(3,468)
Tax on items taken directly to statement of comprehensive income (OCI)	-	4,834	-	4,834
Tax on items transferred to income statement	-	760	-	760
Total comprehensive income / (loss) for the year	**-**	(31,045)	201,389	170,344
Transactions with owners recognised directly in equity				
Dividends	-	-	(77,017)	(77,017)
Balance at 31 December 2011	1,979,882	(10,736)	1,122,518	3,091,664
Balance at 1 January 2012	**1,979,882**	**(10,736)**	**1,122,518**	**3,091,664**
Total comprehensive income / (loss) for the year				
Income for the year	-	-	150,530	**150,530**
Cash flow hedges:				
- Net fair value losses	-	(70,184)	-	**(70,184)**
- Transfers to income statement				
- Finance cost	-	948	-	**948**
- Finance cost (foreign translation movements)	-	18,422	-	**18,422**
- Other operating expenses	-	5,939	-	**5,939**
Tax on items taken directly to statement of comprehensive income (OCI)	-	8,658	-	**8,658**
Tax on items transferred to income statement	-	(3,164)	-	**(3,164)**
Total comprehensive income / (loss) for the year	**-**	**(39,381)**	**150,530**	**111,149**
Transactions with owners recognised directly in equity				
Dividends	-	-	(72,464)	**(72,464)**
Balance at 31 December 2012	**1,979,882**	**(50,117)**	**1,200,584**	**3,130,349**

GROUP CASH FLOW STATEMENT

As at 31 December 2012

	Notes	2012 € '000	2011 € '000
Cash flows from operating activities			
Profit before taxation		**166,402**	78,751
Adjustments for:			
Depreciation and amortisation	5	**713,120**	685,172
Amortisation of supply contributions and release of other deferred income		**(37,692)**	(32,653)
Profit on disposal of non-current assets	8	**(2,456)**	(4,759)
Gain arising on early termination of lease arrangement	4	**(5,213)**	-
Gain relating to acquisition of Corby Power Limited	4	**-**	(28,805)
Net finance cost	6	**269,339**	414,094
Impact of fair value adjustments in operating costs		**13,619**	8,760
Profits from joint ventures	12	**(20,704)**	(23,912)
Operating cash flows before changes in working capital and provisions		**1,096,415**	1,096,648
Credit in relation to provisions		**(11,444)**	(20,139)
Charge in relation to employee related liabilities		**213,834**	45,707
Utilisation of provisions		**(16,548)**	(31,518)
Utilisation of employee related liabilities		**(224,457)**	(182,302)
Increase in trade and other receivables		**(149,274)**	(17,919)
Decrease / (increase) in inventories		**3,551**	(28,168)
Increase / (decrease) in trade and other payables		**47,645**	(11,784)
Cash generated from operations		**959,722**	850,525
Current tax refunded / (paid)		**10,118**	(14,849)
Financing costs paid		**(257,022)**	(159,478)
Net cash inflow from operating activities		**712,818**	676,198
Cash flows from investing activities			
Purchase of property, plant and equipment		**(703,861)**	(771,871)
Purchase of intangible assets		**(39,660)**	(52,655)
Proceeds from sale of non-current assets		**4,794**	7,364
Purchase of financial assets		**(15,500)**	(24,684)
Payments in relation to acquisitions net of cash acquired		**-**	(34,835)
Deferred income received		**4,476**	(3,360)
Dividends received from joint venture undertakings	12	**15,339**	19,517
Interest received		**2,434**	1,790
Net cash outflow from investing activities		**(731,978)**	(858,734)
Cash flows from financing activities			
Dividends paid		**(72,527)**	(77,017)
Repayments of term debt facilities and finance leases		**(516,711)**	(23,621)
Proceeds from the issue of new debt		**1,336,048**	1,177,993
Decrease in other borrowings (net)		**(841,083)**	(812,741)
Payments on inflation linked interest rate swaps		**(8,822)**	(8,918)
Net cash (outflow) / inflow from financing activities		**(103,095)**	255,696
Net (decrease) / increase in cash and cash equivalents		**(122,255)**	73,160
Cash and cash equivalents at 1 January	15	**277,409**	199,585
Effect of exchange rate fluctuations on cash held		**4,251**	4,664
Cash and cash equivalents at 31 December	15	**159,405**	277,409

PARENT CASH FLOW STATEMENT

As at 31 December 2012

	Notes	2012 € '000	2011 € '000
Cash flows from operating activities			
Profit before taxation		**168,177**	227,618
Adjustments for:			
Depreciation and amortisation		**479,999**	478,864
Amortisation of supply contributions and release of other deferred income	23	**(32,904)**	(32,180)
Loss / (profit) on disposal of non-current assets		**591**	(12)
Gain arising on early termination of lease arrangement	4	**(5,213)**	-
Net finance cost		**147,464**	130,583
Impact of fair value movement on financial instruments in operating costs		**6,494**	8,760
Dividend received from subsidiary undertakings		**(7,870)**	(17,221)
Operating cash flows before changes in working capital and provisions		**756,738**	796,412
Credit in relation to provisions		**(25,117)**	(29,643)
Charge in relation to employee related liabilities		**198,244**	30,231
Utilisation of provisions		**(15,817)**	(30,933)
Utilisation of employee related liabilities		**(186,019)**	(153,860)
Increase in trade and other receivables		**(469,317)**	(2,425)
Decrease / (increase) in inventories		**4,474**	(26,609)
Increase / (decrease) in trade and other payables		**1,058,153**	(116,698)
Cash generated from operations		**1,321,339**	466,475
Current tax refunded		**12,452**	-
Financing costs paid		**(145,123)**	(134,590)
Net cash inflow from operating activities		**1,188,668**	331,885
Cash flows from investing activities			
Purchase of property, plant and equipment		**(385,089)**	(549,863)
Purchase of intangible assets		**(18,334)**	(22,006)
Proceeds from sale of non-current assets		**589**	2,370
Deferred income received	23	**1,118**	332
Interest received		**44,667**	35,748
Dividends received from subsidiary undertakings		**7,870**	17,221
Net cash outflow from investing activities		**(349,179)**	(516,198)
Cash flows from financing activities			
Dividends paid		**(72,464)**	(77,017)
Repayments of term debt facilities and finance leases		**(254,619)**	(8,939)
Proceeds from the issue of new debt		**110,134**	477,293
Decrease in other borrowings (net)		**(777,020)**	(145,456)
Net cash (outflow) / inflow from financing activities		**(993,969)**	245,881
Net (decrease) / increase in cash and cash equivalents		**(154,480)**	61,568
Cash and cash equivalents at 1 January	15	**202,470**	140,902
Cash and cash equivalents at 31 December	15	**47,990**	202,470

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING

As a result of issuing publicly traded debt, the Group comes within the scope of IFRS 8 Operating Segments, and has made the appropriate disclosures in these financial statements.

For management purposes, the Group is organised into four key reportable segments, being the Group's strategic divisions which are managed separately and in respect of which internal management information is supplied to Executive Management and to the Board being collectively the 'Chief Operating Decision Maker' (CODM) of the Group. Two further corporate divisions provide support services to the principal operating divisions of the Group and are combined as 'other segments' in the information below. Corby Power Limited ('Corby') was acquired by ESB Energy International on 4 May 2011, and is included in ESB Energy International.

A description of the Group's key reportable segments is as follows:

(a) **Electric Ireland** is a leading supplier of electricity to domestic customers in the Republic of Ireland and has a substantial market share in the non domestic sector in the Republic of Ireland and Northern Ireland. Revenues are derived from sales to electricity customers.

(b) **ESB Networks** is principally concerned with the ownership and operation of the electricity distribution network and the ownership of the electricity transmission network in the Republic of Ireland. ESB Networks is a regulated business earning an allowed return on its Regulated Asset Base (RAB) through Use of System charges payable by electricity generators and suppliers. It is ring-fenced through regulation from the Group's generation and supply businesses.

(c) **ESB Energy International** comprises the generation, engineering consulting and international investment business across the Group. Within this business segment, from 2011 the Group has progressed its strategy of integrating its previously regulated Power Generation business with its Independent Generation business which operates power stations and wind farms in Ireland, Northern Ireland and, mainly through joint venture investments, in Great Britain and Spain.

(d) **NIE** is responsible for the planning, development, construction and maintenance of the transmission and distribution network, as well as with the operation of the distribution network. NIE derives its revenue principally from charges for the use of the distribution systems levied on electricity suppliers and from charges on transmission services collected from the System Operator for Northern Ireland ('SONI').

(e) **Other segments** include the results of internal service providers, which supply the main business units of the Group with support services. These segments are governed by regulation, and service level agreements are in place to ensure that transactions between operating segments are on an arm's length basis similar to transactions with third parties. This segment also includes most finance costs in the Group, as the majority of Treasury activity is conducted centrally.

The Chief Operating Decision Maker monitors the operating results of the segments separately in order to allocate resources between segments and to assess performance. Segment performance is predominately evaluated based on operating profit. Finance costs are not recharged to other reportable segments and are the key driver in the results of this segment for the year.

The CODM monitors the operating results of the segments separately in order to allocate resources between segments and to assess performance. Segment performance is predominantly evaluated based on operating profit.

During 2012, the CODM announced a management restructure of certain parts of the Group. The main impact of this on key reportable segments will be the renaming of ESB Energy International as Generation and Wholesale Markets, and the realignment of certain activities. This will principally include the transfer of the engineering consulting business from ESB Energy International, and aspects of the telecommunications business from ESB Networks, into Other segments. This will be reflected in management reporting from 1 January 2013.

Revenue by product

Reportable segments are split by type of product revenue earned. Electric Ireland revenues consist of sales to electricity customers. ESB Energy International revenue derives mainly from electricity generation with some additional engineering services earnings. ESB Networks and NIE earn Use of System income in the Republic of Ireland and Northern Ireland respectively.

(a) Income statement

(i) Segment revenue - 2012	Electric Ireland € '000	ESB Networks € '000	ESB Energy International € '000	NIE [1] € '000	Other segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	1,959,664	499,548	536,861	258,601	5,438	-	3,260,112
Inter-segment revenue [2]	3,657	399,590	1,170,054	30,364	135,126	(1,738,791)	-
Revenue	1,963,321	899,138	1,706,915	288,965	140,564	(1,738,791)	3,260,112
(ii) Segment operating costs - 2012							
Exceptional item: employee exit costs	(11,916)	(74,955)	(58,843)	-	(15,448)	-	(161,162)
Depreciation and amortisation	(12,967)	(343,463)	(211,758)	(136,120)	(8,812)	-	(713,120)
Other operating costs	(1,905,764)	(347,346)	(1,258,474)	(88,540)	(144,568)	1,738,791	(2,005,901)
(iii) Segment operating result - 2012							
Operating profit / (loss)	32,674	166,177	178,678	64,305	(26,797)	-	415,037
Net finance cost	(998)	(1,216)	(42,487)	(47,881)	(176,757)	-	(269,339)
Share of joint ventures' profit	-	-	20,704	-	-	-	20,704
Profit / (loss) before taxation	31,676	164,961	156,895	16,424	(203,554)	-	166,402

NOTES TO THE FINANCIAL STATEMENTS

(a) Income statement (continued)

(i) Segment revenue - 2011

	Electric Ireland € '000	ESB Networks € '000	ESB Energy International € '000	NIE [1] € '000	Other segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	1,695,413	492,011	505,103	216,611	7,081	-	2,916,219
Inter-segment revenue [2]	6,473	390,555	1,045,730	24,877	144,890	(1,612,525)	-
Revenue	1,701,886	882,566	1,550,833	241,488	151,971	(1,612,525)	2,916,219

(ii) Segment operating costs - 2011

Depreciation and amortisation	(11,971)	(330,214)	(213,282)	(118,482)	(11,223)	-	(685,172)
Other operating costs	(1,727,638)	(331,399)	(1,164,496)	(78,913)	(150,822)	1,612,525	(1,840,743)

(iii) Segment operating result - 2011

Operating profit / (loss)	(37,723)	253,607	223,097	44,092	(14,140)	-	468,933
Net finance cost	(736)	(1,470)	(29,218)	(49,760)	(332,910)	-	(414,094)
Share of joint ventures' profit	-	-	23,912	-	-	-	23,912
Profit / (loss) before taxation	(38,459)	252,137	217,791	(5,668)	(347,050)	-	78,751

[1] NIE segment includes depreciation on the fair value uplift recognised on acquisition of NIE, and primarily impacts the depreciation and amortisation line in 2011 and 2012.

[2] All inter-segment revenues are eliminated upon consolidation and are reflected in the eliminations column above.

(b) Other disclosures

	2012 € '000	2011 € '000
Additions to non-current assets (excluding acquisitions)		
Electric Ireland	**7,110**	14,202
ESB Networks	**347,700**	467,499
ESB Energy International	**260,573**	202,086
NIE	**118,356**	117,875
Other segments	**31,009**	31,319
Total	**764,748**	832,981

Additions to non-current assets (excluding acquisitions) includes investment in property, plant and equipment, intangible assets and financial assets other than through business combinations during the year.

NOTES TO THE FINANCIAL STATEMENTS

2. GEOGRAPHIC INFORMATION

(a) Non-current assets by geographic location

	2012 € '000	2011 € '000
Ireland	**7,697,727**	7,785,799
UK including Northern Ireland	**3,130,998**	2,988,687
Rest of world	**12,832**	10,987
Total	**10,841,557**	10,785,473

Non-current assets for this purpose consist of property, plant and equipment, intangible assets, goodwill and financial asset investments. Derivative financial instruments and deferred tax assets are excluded.

(b) External revenue by geographic market

	2012 € '000	2011 € '000
Ireland	**2,716,749**	2,425,972
UK including Northern Ireland	**509,820**	460,713
Rest of world	**33,543**	29,534
Total	**3,260,112**	2,916,219

3. EXCEPTIONAL ITEMS

The Group presents certain items separately which are unusual by virtue of their size and incidence in the context of its ongoing core operations. This presentation is made on the income statement to aid understanding of the performance of the Group's underlying business. Judgement is used by the Group in assessing the particular items which should be disclosed as exceptional.

During the year the company reached agreement with the Group of Unions (on behalf of employees) on proposals to reduce costs in the company. As part of this agreement, a voluntary severance programme was launched. This programme closed by the end of the year, with 528 employees leaving the Group, as disclosed in note 7.

4. OTHER OPERATING INCOME / (EXPENSE)

	2012 € '000	2011 € '000
Amortisation of supply contributions	**33,292**	32,653
Profit on disposal of property, plant and equipment and intangible assets	**2,210**	-
Profit on disposal of investment (note 12)	**838**	-
Fair value movements on assets held at fair value through profit and loss (note 12) [1]	**(6,445)**	(4,068)
Gain arising on early termination of lease arrangement (note 18)	**5,213**	-
Gain arising on acquisition of Corby Power Limited (note 12)	**-**	28,805
Settlement on novation of tolling agreement (note 12)	**-**	12,203
Insurance proceeds [2]	**-**	9,036
Total	**35,108**	78,629

[1] The fair value movements in 2012 primarily relate to adjustments to the value of three investments in renewables enterprises held by Novusmodus. The fair value movement in 2011 primarily related to an investment in one company which went into liquidation during 2011 and was written down to €nil.

[2] Insurance proceeds in 2011 relate to settlement of a claim associated with a mechanical failure at a generation plant.

NOTES TO THE FINANCIAL STATEMENTS

5. OPERATING COSTS

	2012 € '000	Restated 2011 € '000
Employee costs (note 7)	**625,996**	474,719
Fuel costs	**810,931**	734,161
Other electricity related costs	**244,822**	216,435
Operations and maintenance	**485,314**	415,428
Depreciation and amortisation (notes 9/10)	**713,120**	685,172
Total	**2,880,183**	2,525,915

Included in fuel costs is a charge of €4.1 million (2011: charge of €3.5 million) relating to the fair valuing of fuel commodity swaps which have not been designated as accounting hedges.

Included in operations and maintenance costs above is a charge of €3.5 million (2011: €8.8 million) relating to ineffectiveness on certain cash flow hedges.

Operations and maintenance costs in 2011 have been restated to reflect a change in accounting for costs incurred by NIE Limited, on work performed under regulatory licence. These costs totalling €36.0 million were previously disclosed within other electricity related costs in 2011. Income is also recognised in relation to this work, within revenue.

6. NET FINANCE COST AND OTHER FINANCING CHARGES

	2012 € '000	2011 € '000
Interest payable on borrowings	**216,989**	177,628
Interest payable on finance leases	**3,938**	4,769
Interest payable	**220,927**	182,397
Less capitalised interest	**(27,852)**	(29,062)
Net interest on borrowings	**193,075**	153,335
Financing charges:		
- on defined benefit pension scheme (note 20)	**2,142**	738
- on liability for pension obligation (note 21)	**38,798**	39,947
- on employee related liabilities (note 21)	**4,034**	3,605
- on power station closure costs (note 24)	**8,643**	7,873
- on other provisions (note 24)	**1,787**	2,194
Total financing charges	**55,404**	54,357
Fair value (gains) / losses on financial instruments:		
- currency / interest rate swaps: cash flow hedges, transfer from OCI	**948**	4,371
- interest rate swaps and inflation linked swaps not qualifying for hedge accounting	**23,417**	204,273
- foreign exchange contracts not qualifying for hedge accounting	**(1,071)**	(452)
Total fair value losses on financial instruments	**23,294**	208,192
Finance cost	**271,773**	415,884
Finance income	**(2,434)**	(1,790)
Net finance cost	**269,339**	414,094

The financing charges on provisions are calculated in accordance with the policy for discounting of future payment obligations.

Fair value (gains) / losses on interest rate swaps and inflation linked interest rate swaps primarily relates to fair value movements on inflation linked interest rate swaps, which were acquired as part of the purchase of the NIE business in 2010. These swaps do not qualify for hedge accounting under IAS 39 and accordingly fair value movements following their acquisition are recognised in the income statement. Their fair value is affected by relative movements in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom.

In addition to the amounts transferred from the statement of comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a further €18.4 million (2011: €33.8 million) has been transferred from the cash flow hedge reserve to net finance cost and other financing charges during the year. However, this amount is fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEES

Group

(a) Average number of employees in year by business activity, including temporary employees:

	2012 Number	2011 Number
Electric Ireland	**351**	510
ESB Networks	**3,484**	3,538
ESB Energy International	**2,128**	2,187
NIE	**1,296**	1,240
Other	**733**	737
Total	**7,992**	8,212

(b) Employee costs in year	2012 € '000	2011 € '000
Current staff costs (excluding pension)		
Salaries	**494,970**	509,683
Overtime	**19,697**	27,171
Social welfare costs	**33,138**	30,484
Other payroll benefits [1]	**26,190**	31,999
Capitalised payroll	**(167,781)**	(179,278)
Net payroll cost for employees	**406,214**	420,059
(c) Pension and other employee benefit costs		
Exit costs [2]	**161,162**	714
NIE defined benefit charge [3]	**10,042**	8,096
Defined contribution pension charge [4]	**48,578**	45,850
	219,782	54,660
Total employee related costs charged to the income statement	**625,996**	474,719

[1] These benefits primarily include travel and subsistence expenses and accruals for holiday leave balances remaining at year end.

[2] During the year the company reached agreement with the Group of Unions (on behalf of employees) on proposals to reduce costs in the company. As part of this agreement, a voluntary severance programme was launched. This programme closed at the end of the year, with 528 employees leaving the Group.

The exit costs charged represent the discounted value of all future payments under the severance programme. A significant portion of these costs was paid during 2012. The remainder is included in the restructuring liability, and will be paid over the remaining life of the agreement (see note 21).

Further to this programme, during 2012 the Group revised its estimate of the present value of costs of closure of generating stations, based on the terms most recently agreed. This resulted in the release to exit costs in the income statement in 2012 of an element of that provision, as outlined in note 24.

[3] The defined benefit charge relates solely to the 'Focus' section of the Northern Ireland Electricity Pension Scheme ('the NIE Scheme') which is accounted for as a defined benefit scheme. See note 20 (c) for further details.

[4] The defined contribution charge includes contributions to the ESB Defined Contribution Pension Scheme, the ESB General Employees' Superannuation Scheme and the 'Options' section of the NIE Scheme.

Parent

(a) Average number of employees in year by business activity, including temporary employees:

	2012 Number	2011 Number
Electric Ireland	**280**	438
ESB Networks	**3,445**	3,496
ESB Energy International	**865**	892
Other	**722**	722
Total	**5,312**	5,548

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEES (continued)

Parent (continued)

(b) Employee costs in year	2012 €'000	2011 € '000
Current staff costs (excluding pension)		
Salaries	**350,673**	369,609
Overtime	**15,179**	22,459
Social welfare costs	**19,569**	18,937
Other payroll benefits [1]	**15,847**	22,194
Capitalised payroll	**(122,277)**	(139,575)
Net payroll cost for employees	**278,991**	293,624
(c) Pension and other employee benefit costs		
Exit costs [2]	**160,978**	-
Defined contribution pension charge [3]	**37,631**	36,464
	198,609	36,464
Total employee related costs charged to the income statement	**477,600**	330,088

[1] These benefits primarily include travel and subsistence expenses and accruals for holiday leave balances remaining at year end.

[2] During the year the company reached agreement with the Group of Unions (on behalf of employees) on proposals to reduce costs in the company. As part of this agreement, a voluntary severance programme was launched. This programme closed at the end of the year, with 528 employees leaving the Group.

The exit costs charged represent the discounted value of all future payments under the severance programme. A significant portion of these costs was paid during 2012. The remainder is included in the restructuring liability, and will be paid over the remaining life of the agreement (see note 21).

Further to this programme, during 2012 the Group revised its estimate of the present value of costs of closure of generating stations, based on the terms most recently agreed. This resulted in the release to exit costs in the income statement in 2012 of an element of that provision, as outlined in note 24.

[3] The defined contribution charge includes contributions to the ESB Defined Contribution Pension Scheme and the ESB General Employees' Superannuation Scheme.

8. PROFIT FOR THE FINANCIAL YEAR

	2012 €'000	2011 € '000
The profit for the financial year is stated after charging / (crediting):		
Depreciation and amortisation	**713,120**	685,172
Operating lease charges	**10,420**	13,963
Amortisation of deferred income	**(33,292)**	(32,653)
Profit on disposal of non-current assets	**(2,456)**	(4,759)
Auditor's remuneration:		
- Audit of individual and group accounts [1]	**320**	318
- Other assurance services	**391**	556
- Tax advisory services (Parent entity only)	**78**	40
- Other non-audit services	**111**	14
ESB (Parent) Board Members' remuneration:		
- Fees	**224**	243
- Other remuneration	**353**	689

[1] €180,000 (2011: €217,575) related to the Parent company

NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT & EQUIPMENT

(a) Group	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	**Total € '000**
Cost					
Balance at 1 January 2011	1,042,297	13,133,534	14,175,831	991,900	**15,167,731**
Additions	757	153,987	154,744	612,978	**767,722**
Acquisitions	-	111,509	111,509	-	**111,509**
Retirements / disposals	(37)	(17,494)	(17,531)	-	**(17,531)**
Transfers out of assets under construction	49,744	733,036	782,780	(782,780)	**-**
Transfers from intangible assets	100	-	100	-	**100**
Translation differences	(2,881)	92,398	89,517	7,039	**96,556**
Balance at 31 December 2011	1,089,980	14,206,970	15,296,950	829,137	**16,126,087**
Balance at 1 January 2012	1,089,980	14,206,970	15,296,950	829,137	**16,126,087**
Additions	1,531	164,151	165,682	551,091	**716,773**
Retirements / disposals	(747)	(11,403)	(12,150)	-	**(12,150)**
Transfers out of assets under construction	37,494	405,641	443,135	(443,135)	**-**
Transfers from / (to) intangible assets	588	(185)	403	(426)	**(23)**
Translation differences	3,227	80,856	84,083	2,092	**86,175**
Balance at 31 December 2012	1,132,073	14,846,030	15,978,103	938,759	**16,916,862**
Depreciation					
Balance at 1 January 2011	572,383	4,757,422	5,329,805	-	**5,329,805**
Charge for the year	21,254	609,345	630,599	-	**630,599**
Retirements / disposals	(63)	(14,863)	(14,926)	-	**(14,926)**
Translation differences	(49)	18,332	18,283	-	**18,283**
Balance at 31 December 2011	593,525	5,370,236	5,963,761	-	**5,963,761**
Balance at 1 January 2012	593,525	5,370,236	5,963,761	-	**5,963,761**
Charge for the year	22,736	629,587	652,323	-	**652,323**
Retirements / disposals	(393)	(10,339)	(10,732)	-	**(10,732)**
Translation differences	86	23,688	23,774	-	**23,774**
Balance at 31 December 2012	615,954	6,013,172	6,629,126	-	**6,629,126**
Net book value at 31 December 2012	**516,119**	**8,832,858**	**9,348,977**	**938,759**	**10,287,736**
Net book value at 31 December 2011	496,455	8,836,734	9,333,189	829,137	**10,162,326**
Net book value at 1 January 2011	469,914	8,376,112	8,846,026	991,900	**9,837,926**

During the year the Group capitalised interest of €27.9 million (2011: €29.1 million) in assets under construction, using an effective interest rate of 4.6% (2011: 4.2%).

The carrying value of non-depreciable assets at 31 December 2012 is €75.4 million (2011: €68.9 million).

Property, plant and equipment with a net book value of €nil at 31 December 2012 is included above at a cost of €2,494.3 million (2011: €2,149.6 million).

Retirements / disposals in both 2012 and 2011 primarily relate to the retirement of assets that have been fully depreciated.

Acquisitions of assets in 2011 related to the purchase of the remaining 50% of shares in Corby Power Limited, which had the impact of converting ESB's joint venture holding in the company to a 100% full subsidiary holding (see note 12 (c) - Group acquisitions for further details.

Finance leases

All finance leases are held by the Parent. The net book value of property, plant and equipment includes an amount of €20.0 million (2011: €30.0 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the year amounted to €10.0 million (2011: €10.0 million).

NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT & EQUIPMENT (continued)

(b) Parent	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	**Total € '000**
Cost					
Balance at 1 January 2011	1,010,256	10,405,318	11,415,574	742,638	**12,158,212**
Additions	697	59,120	59,817	505,287	**565,104**
Retirements / disposals	(54)	(15,140)	(15,194)	-	**(15,194)**
Transfers out of assets under construction	49,744	538,726	588,470	(588,470)	**-**
Transfers to intangible assets	134	31	165	7	**172**
Balance at 31 December 2011	1,060,777	10,988,055	12,048,832	659,462	**12,708,294**
Balance at 1 January 2012	1,060,777	10,988,055	12,048,832	659,462	**12,708,294**
Additions	1,166	57,900	59,066	332,315	**391,381**
Retirements / disposals	(183)	(9,850)	(10,033)	-	**(10,033)**
Transfers out of assets under construction	38,082	350,702	388,784	(388,784)	**-**
Balance at 31 December 2012	1,099,842	11,386,807	12,486,649	602,993	**13,089,642**
Depreciation					
Balance at 1 January 2011	571,563	4,644,608	5,216,171	-	**5,216,171**
Charge for the year	20,304	424,516	444,820	-	**444,820**
Retirements / disposals	(63)	(12,772)	(12,835)	-	**(12,835)**
Balance at 31 December 2011	591,804	5,056,352	5,648,156	-	**5,648,156**
Balance at 1 January 2012	591,804	5,056,352	5,648,156	-	**5,648,156**
Charge for the year	21,740	427,768	449,508	-	**449,508**
Retirements / disposals	(69)	(8,784)	(8,853)	-	**(8,853)**
Balance at 31 December 2012	613,475	5,475,336	6,088,811	-	**6,088,811**
Net book value at 31 December 2012	**486,367**	**5,911,471**	**6,397,838**	**602,993**	**7,000,831**
Net book value at 31 December 2011	468,973	5,931,703	6,400,676	659,462	**7,060,138**
Net book value at 1 January 2011	438,693	5,760,710	6,199,403	742,638	**6,942,041**

During the year the Parent capitalised interest of €19.6 million (2011: €24.4 million) in assets under construction, using an effective interest rate of 4.3% (2011: 4.2%).

The carrying value of non-depreciable assets at 31 December 2012 is €72.3 million (2011: €65.7 million).

Property, plant and equipment with a net book value of €nil at 31 December 2012 is included above at a cost of €2,328.5 million (2011: €2,026.7 million).

Retirements / disposals in both 2012 and 2011 primarily relates to the retirement of assets that have been fully depreciated.

Finance leases

The net book value of property, plant and equipment includes an amount of €20.0 million (2011: €30.0 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the year amounted to €10.0 million (2011: €10.0 million).

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS

(a) Group	Software and other intangible assets € '000	Emissions allowances € '000	Software under development € '000	**Total € '000**
Cost				
Balance at 1 January 2011	454,005	134,739	17,072	**605,816**
Software additions	2,582	-	37,993	**40,575**
Software disposals	(446)	-	-	**(446)**
Transfers out of software under development	21,545	-	(21,545)	**-**
Allocation of emissions allowances	-	135,161	-	**135,161**
Purchase of emissions allowances	-	12,080	-	**12,080**
Acquisitions	-	12,266	-	**12,266**
Settlement of emissions allowances	-	(126,653)	-	**(126,653)**
Transfers to property, plant and equipment	-	-	(100)	**(100)**
Translation differences	1,980	1,087	1,067	**4,134**
Balance at 31 December 2011	479,666	168,680	34,487	**682,833**
Balance at 1 January 2012	479,666	168,680	34,487	**682,833**
Software additions	7,979	-	24,496	**32,475**
Software disposals	(268)	-	-	**(268)**
Transfers out of software under development	51,624	-	(51,624)	**-**
Allocation of emissions allowances	-	69,438	-	**69,438**
Purchase of emissions allowances	-	7,185	-	**7,185**
Settlement of emissions allowances	-	(135,531)	-	**(135,531)**
Transfers from property, plant and equipment	23	-	-	**23**
Translation differences	2,831	568	594	**3,993**
Balance at 31 December 2012	541,855	110,340	7,953	**660,148**
Amortisation				
Balance at 1 January 2011	256,501	-	-	**256,501**
Charge for the year	54,573	-	-	**54,573**
Retirements / disposals	(416)	-	-	**(416)**
Translation differences	197	-	-	**197**
Balance at 31 December 2011	310,855	-	-	**310,855**
Balance at 1 January 2012	310,855	-	-	**310,855**
Charge for the year	60,797	-	-	**60,797**
Retirements / disposals	(268)	-	-	**(268)**
Translation differences	1,166	-	-	**1,166**
Balance at 31 December 2012	372,550	-	-	**372,550**
Net book value at 31 December 2012	**169,305**	**110,340**	**7,953**	**287,598**
Net book value at 31 December 2011	168,811	168,680	34,487	**371,978**
Net book value at 1 January 2011	197,504	134,739	17,072	**349,315**

Software costs include both internally developed and externally purchased assets. The majority of these costs however are represented by internally developed assets.

Other intangible assets include grid connections and other wind farm development assets.

Emissions allowances are not amortised as they are held for settlement in the following year. The emissions allowances disclosed as allocated above were received by way of government grant and are also included in deferred income, as shown in note 23.

The Group sold certain allowances with a carrying value of €59.0 million in April 2012, and simultaneously contracted to buy them back in February 2013 at a fixed price. A similar transaction was completed in April 2011, with a value of €145.0 million. These transactions have been treated as a financing arrangement and are detailed in note 18.

Amortisation of intangible assets is charged to the income statement as part of operating costs.

Acquisition of assets in 2011 related to the purchase of the remaining 50% of shares in Corby Power Limited, which had the impact of converting ESB's joint venture holding in the company to a 100% full subsidiary holding (see note 12 (c) - Group acquisitions for further details).

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS (continued)

(b) Parent	Software and other intangible assets € '000	Emissions allowances € '000	Software under development € '000	**Total € '000**
Cost				
Balance at 1 January 2011	338,191	101,421	17,144	**456,756**
Software additions	664	-	16,611	**17,275**
Software disposals	(188)	-	-	**(188)**
Transfers out of software under development	27,132	-	(27,132)	**-**
Allocation of emissions allowances	-	112,076	-	**112,076**
Purchase of emissions allowances	-	4,903	-	**4,903**
Settlement of emissions allowances	-	(96,799)	-	**(96,799)**
Transfers to property, plant and equipment	(175)	-	3	**(172)**
Balance at 31 December 2011	365,624	121,601	6,626	**493,851**
Balance at 1 January 2012	365,624	121,601	6,626	**493,851**
Software additions	7,706	-	7,354	**15,060**
Transfers out of software under development	8,689	-	(8,689)	**-**
Allocation of emissions allowances	-	57,629	-	**57,629**
Purchase of emissions allowances	-	3,274	-	**3,274**
Settlement of emissions allowances	-	(96,286)	-	**(96,286)**
Balance at 31 December 2012	382,019	86,218	5,291	**473,528**
Amortisation				
Balance at 1 January 2011	247,321	-	-	**247,321**
Charge for the year	34,044	-	-	**34,044**
Retirements / disposals	(188)	-	-	**(188)**
Balance at 31 December 2011	281,177	-	-	**281,177**
Balance at 1 January 2012	281,177	-	-	**281,177**
Charge for the year	30,491	-	-	**30,491**
Balance at 31 December 2012	311,668	-	-	**311,668**
Net book value at 31 December 2012	**70,351**	**86,218**	**5,291**	**161,860**
Net book value at 31 December 2011	84,447	121,601	6,626	**212,674**
Net book value at 1 January 2011	90,870	101,421	17,144	**209,435**

Software costs include both internally developed and externally purchased assets. The majority of these costs however are represented by internally developed assets.

Emissions allowances are not amortised as they are held for settlement in the following year. The emissions allowances disclosed as allocated above were received by way of government grant and are also included in deferred income, as shown in note 23.

The Parent sold certain allowances with a carrying value of €59.0 million in April 2012, and simultaneously contracted to buy them back in February 2013 at a fixed price. A similar transaction was completed in April 2011, with a value of €145.0 million. These transactions have been treated as a financing arrangement and are detailed in note 18.

Amortisation of intangible assets is charged to the income statement as part of operating costs.

NOTES TO THE FINANCIAL STATEMENTS

11. GOODWILL

	€ '000
Balance at 1 January 2011	176,293
Translation differences	5,371
Balance at 31 December 2011	181,664
Balance at 1 January 2012	181,664
Translation differences	4,274
Balance at 31 December 2012	**185,938**

Goodwill was recognised on the acquisition of NIE in December 2010, and relates to the fair value of the expected return on future investment in the Regulated Asset Base (RAB) of the NIE business. Goodwill is reviewed annually in December for impairment, by assessing the recoverable amount of the investment, based on its value in use.

The annual impairment test of goodwill was carried out at December 2012 in accordance with IAS 36. No reduction in the value of goodwill was deemed to be required, subsequent to the impairment test noted.

The Group calculates the value in use using a 20-year discounted cash flow model, and a terminal value based on RAB, corresponding to the expected useful life of the underlying asset base. The future cash flows are adjusted for risks specific to the investment and are discounted using a pre-tax discount rate of 6.0%.

The discount rate used is a key driver for valuation and the rate was determined by building up an appropriate Weighted Average Cost of Capital (WACC) for the NIE business and benchmarking relevant comparators. Other key drivers include inflation and regulatory assumptions. Long-term inflation rates used were sourced from the UK Office of Budget Responsibility, and are currently based on a long-term rate of 2.75%. Assumptions in relation to regulatory return are made by reference to previous regulatory decisions in the UK.

Key factors in assessing the value of goodwill are expectations of future levels of capital spend and the appropriateness of the allowed return on the RAB. Both are agreed with the Utility Regulator in Northern Ireland (NIAUR) as part of the Regulatory Price review. Management believes that at the date of the impairment test there were no reasonably possible changes in the key valuation drivers that would cause the carrying amount of the investment to exceed its recoverable amount.

NIAUR announced in October 2011 that the next price control programme (RP5) applicable to NIE would take effect from 1 October 2012 rather than 1 April 2012. NIAUR published its final determination for RP5 in October 2012. In November 2012 NIE advised the regulator that regrettably it was unable to accept the proposed terms for the RP5 price control, and it is expected that the regulator may now refer the matter to the UK Competition Commission. A final outcome is not expected until later in 2013.

Regulatory pricing decisions may have an impact on the value in use of the NIE business. To the extent that the method or level of regulatory recovery determined in RP5 is not consistent with the current programme, and similar programmes in the UK, this will need to be considered as part of the annual impairment review.

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL ASSET INVESTMENTS

(a) Group	Joint venture investments € '000	Financial assets at fair value through profit or loss € '000	**Total € '000**
Balance at 1 January 2011	55,117	20,184	**75,301**
Additions	-	24,684	**24,684**
Share of profit	23,912	-	**23,912**
Fair value movement on cash flow hedges	(7,397)	-	**(7,397)**
Fair value movement - transfer to income statement	-	(4,068)	**(4,068)**
Dividends received	(19,517)	-	**(19,517)**
Translation differences	51	26	**77**
Conversion of Corby Power Limited to a full subsidiary	(23,488)	-	**(23,488)**
Balance at 31 December 2011	28,678	40,826	**69,504**
Balance at 1 January 2012	28,678	40,826	**69,504**
Additions	143	15,357	**15,500**
Disposals	-	(921)	**(921)**
Share of profit	20,704	-	**20,704**
Fair value movement on cash flow hedges	(4,017)	-	**(4,017)**
Fair value movement - transfer to income statement	-	(6,445)	**(6,445)**
Dividends received	(15,339)	-	**(15,339)**
Translation differences	1,267	32	**1,299**
Balance at 31 December 2012	**31,436**	**48,849**	**80,285**

Joint venture investments

The conversion of Corby Power Limited to a full subsidiary undertaking in 2011 arose from the purchase of the remaining 50% of shares in Corby Power Limited, which had the impact of converting ESB's joint venture holding in the company to a 100% full subsidiary holding. The carrying value of the Group's investment in Corby Power Limited at the date of full acquisition was €23.5 million. The details of this acquisition are included in the disclosures in section (c) of this note.

The fair value movement on cash flow hedges relates to derivatives held in Bizkaia Energia SL and Marchwood Power Limited, which have been designated into cashflow hedging relationships in those entities.

Dividends received from joint ventures relate to Marchwood Power Limited €5.2 million (2011: €7.4 million) and Bizkaia Energia SL €10.1 million (2011: €7.4 million). The €4.7 million dividend received from Corby Power Limited in 2011 was prior to the acquisition of the remaining 50% shareholding.

Translation differences relate to Corby Power Limited and Marchwood Power Limited as these companies are located in the United Kingdom and have sterling functional currencies.

Interests in joint ventures

The following companies have been included in the ESB Group accounts as joint ventures using equity accounting:

Name of the company	Country	**Holding at 31 December 2012 % of share capital owned**	Holding at 31 December 2011 % of share capital owned
Bizkaia Energia SL	Spain	**50%**	50%
Marchwood Power Ltd	United Kingdom	**50%**	50%
Oweninny Power Ltd	Republic of Ireland	**50%**	50%
Emerald Bridge Fibres Ltd	Republic of Ireland	**50%**	50%

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL ASSET INVESTMENTS

(a) Group (continued)

The Group's aggregate share of the non-current assets, current assets, non-current liabilities, current liabilities, income and expenses related to its interests in these joint ventures are as follows:

Joint venture summary financial information

	2012 € '000	2011 € '000
Non-current assets	**380,295**	384,471
Current assets	**65,860**	66,467
Total assets	**446,155**	450,938
Equity	**71,516**	62,253
Cashflow hedging reserve	**(30,022)**	(25,647)
Total equity	**41,494**	36,606
Non-current assets	**167,142**	186,215
Current liabilities	**201,422**	196,196
Derivative liabilities	**36,097**	31,921
Total liabilities	**404,661**	414,332
Total equity and liabilities	**446,155**	450,938
Income	**86,178**	97,443
Expenses	**(39,513)**	(46,015)
Operating profit	**46,665**	51,428
Profit after interest and tax	**20,704**	23,912

The share of total equity of €41.5 million (2011: €36.6 million) above reflects the Group share of the individual balance sheets of the joint venture investments. The value of the joint venture investments in the Group balance sheet is €31.4 million (2011: €28.7 million). The difference of €10.1 million (2011: €7.9 million) is primarily attributable to a provision made at Group level against certain tax related balances recognised in respect of Bizkaia Energia SL.

Financial assets at fair value through profit or loss

The Group owns a venture capital business, Novusmodus, in which seed capital is invested into emerging technology entities. These investments are managed purely for an investment return and are consequently carried at fair value through the income statement. No financial assets held at fair value through profit or loss are controlled by ESB. Additions include investments in a number of clean energy and new technology companies and also additional investment in the VantagePoint clean energy fund. These investments have been fair valued at the year end and the movement transferred to the income statement. The fair value movements in 2012 primarily relate to adjustments to the value of three investments in renewables enterprises. The fair value movements in 2011 primarily relate to an investment in one company which went into liquidation during 2011 and was written down to €nil.

At 31 December 2012 the Group could be called upon by its partners in the VantagePoint fund to make a further €3.6 million investment in the fund (2011: €6.2 million). This potential further investment is included within capital commitments in note 26 of these financial statements. Further information on these investments is included in note 25.

During the year the Group disposed of its investment in Marine Current Turbines Limited ('MCT') and a gain on disposal of €0.8 million was recognised within other operating income (see note 4).

(b) Parent

	Subsidiary Undertakings € '000
Balance at 1 January 2012 and 31 December 2012	**72,832**

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL ASSET INVESTMENTS (continued)

(c) Group acquisitions

The Group had no material acquisitions in 2012.

On 4 May 2011 the Group completed the acquisition of the remaining 50% shareholding in Corby Power Limited, a UK-based power generation company. As part of the acquisition the Group also acquired the ownership of CPL Operations Limited, a wholly owned subsidiary of Corby Power Limited (together herein referred to as 'Corby'). The acquisition was completed in order to further the Group's presence in the United Kingdom energy market.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Recognised values on acquisition € '000
Property, plant and equipment	111,509
Intangible assets	12,266
Trade and other receivables	6,450
Other assets	4,465
Deferred tax liabilities	(31,391)
Trade and other payables	(10,875)
Power station closure provision	(1,136)
Net identifiable assets and liabilities	91,288
Consideration transferred:	
Cash consideration paid	(49,339)
Cash acquired	14,504
Settlement of a pre-existing relationship	(4,747)
Carrying value of previously held 50% interest in Corby	(23,488)
Revaluation gain on previously held 50% interest in Corby	(28,218)
Total consideration	(91,288)

The assets and liabilities acquired as set out above were reflected in the Group financial statements at their fair value on acquisition. Costs of €0.3 million incurred in connection with the purchase were included within operating costs in the income statement.

In order to account for the acquisition, the Group completed an exercise to fair value its 50% shareholding in Corby as at 4 May 2011, using a discounted future cashflow methodology in accordance with IFRS 3. The acquisition gave rise to a €28.8 million gain, which was included within other operating income (see note 4), comprising a revaluation gain of €28.2 million, as set out above, and €0.6 million, being the transfer to the income statement of translation movements on the previously held joint venture investment previously recognised within the translation reserve. The revaluation gain arose due to a longer expected useful life of the plant than previously assumed.

In addition to the transaction above, the Group received a payment of €12.2 million (Stg£11.0 million) on the novation to the Group of a tolling agreement to which Corby was a party. This was a separate transaction from the acquisition, and was accounted for as such, with the payment received recognised in other operating income (see note 4).

Corby had the following operating performance in the year ended 31 December 2011, and in the period from the acquisition date to the end of 2011:

	€ '000
Total revenue for the year ended 31 December 2011	27,267
Total loss after tax for the year ended 31 December 2011	(523)
Total revenue included in the consolidated income statement in 2011	15,136
Total loss after tax from the acquisition date to the end of 2011	(2,255)

13. INVENTORIES

	Group		Parent	
	2012 € '000	2011 € '000	**2012 € '000**	2011 € '000
Materials	**55,687**	53,483	**36,034**	35,581
Fuel	**77,329**	83,083	**68,851**	73,779
	133,016	136,566	**104,885**	109,360

Inventories consumed during the year ended 31 December 2012 totalled €183.5 million (2011: €129.9 million). There were no inventory impairments recognised by ESB (Group and Parent) during the year (2011: €nil).

The Group sold certain fuel inventories with a carrying value of €30.0 million in December 2012, and simultaneously contracted to buy them back in December 2015 at a fixed price. This transaction has been treated as a financing arrangement and is detailed in note 18.

NOTES TO THE FINANCIAL STATEMENTS

14. TRADE AND OTHER RECEIVABLES

	Group		Parent	
	2012 € '000	2011 € '000	**2012 € '000**	2011 € '000
Retail electricity receivables - billed	**91,352**	87,879	**78,239**	75,449
Retail electricity receivables - unbilled	**192,398**	165,311	**138,942**	114,413
Total retail electricity receivables	**283,750**	253,190	**217,181**	189,862
Single Electricity Market (SEM) pool related receivables	**99,093**	73,933	**69,427**	62,467
Use of System receivables (including unbilled)	**167,798**	139,193	**26,948**	30,701
Other electricity receivables	**78,140**	50,682	**75,699**	38,295
Total electricity receivables	**628,781**	516,998	**389,255**	321,325
Trade receivables - non-electricity	**45,149**	63,218	**-**	15,456
Amounts due from joint venture undertakings	**8,265**	6,247	**-**	-
Other receivables	**63,582**	30,078	**23,877**	14,856
Amounts due from subsidiary undertakings	**-**	-	**1,969,610**	1,583,620
Prepayments	**48,354**	27,169	**33,125**	11,293
	794,131	643,710	**2,415,867**	1,946,550

Wholesale and retail credit risk

Trade and other receivables can be divided into retail electricity customers (billed and unbilled), Single Electricity Market (SEM) pool related receivables, Use of System receivables, and other (non-electricity) receivables.

The maximum credit exposure of the Group at 31 December is set out below. Prepayments of €48.4 million (2011: €27.2 million) are excluded from the analysis as no credit exposure is perceived to exist in relation to these. In the case of the Parent, balances stated also exclude amounts due from subsidiary undertakings of €1,969.6 million (2011: €1,583.6 million).

	Group 2012			Group 2011		
	Gross amount receivable € '000	Impairment provisions € '000	Net amount receivable € '000	Gross amount receivable € '000	Impairment provisions € '000	Net amount receivable € '000
Not past due	659,038	-	659,038	514,082	-	514,082
Past due < 30 days	48,709	(1,354)	47,355	63,333	(1,588)	61,745
Past due 30 - 120 days	33,623	(2,387)	31,236	32,627	(4,571)	28,056
Past due > 120 days	23,132	(19,004)	4,128	22,735	(16,130)	6,605
Past due by more than one year	23,295	(19,275)	4,020	29,648	(23,595)	6,053
Total	**787,797**	**(42,020)**	**745,777**	662,425	(45,884)	616,541

	Parent 2012			Parent 2011		
	Gross amount receivable € '000	Impairment provisions € '000	Net amount receivable € '000	Gross amount receivable € '000	Impairment provisions € '000	Net amount receivable € '000
Not past due	368,235	-	368,235	301,684	-	301,684
Past due < 30 days	20,851	(672)	20,179	22,067	(1,409)	20,658
Past due 30 - 120 days	27,527	(2,317)	25,210	27,001	(3,348)	23,653
Past due > 120 days	18,259	(18,888)	(629)	18,130	(15,436)	2,694
Past due by more than one year	15,578	(15,441)	137	22,583	(19,635)	2,948
Total	**450,450**	**(37,318)**	**413,132**	391,465	(39,828)	351,637

Impairment provisions disclosed above relate primarily to billed retail electricity receivables. As explained overleaf overdue amounts, including amounts past due by more than one year, are impaired only to the extent that there is evidence that they are not ultimately recoverable. The majority of the impairment provision recognised is collective rather than specific in nature and is calculated based on the level of credit risk perceived in relation to the underlying balances. The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

NOTES TO THE FINANCIAL STATEMENTS

14. TRADE AND OTHER RECEIVABLES (continued)

	Group		Parent	
	2012 € '000	2011 € '000	**2012 € '000**	2011 € '000
Balance at 1 January	**45,884**	47,707	**39,828**	43,612
Impairment loss recognised	**23,050**	22,718	**22,721**	20,345
Provision utilised	**(26,914)**	(24,541)	**(25,231)**	(24,129)
Balance at 31 December	**42,020**	45,884	**37,318**	39,828

Retail electricity receivables
The credit risk on electricity accounts is managed through the ongoing monitoring of debtor days, putting in place appropriate collateral and a collection policy based on the credit worthiness, size and duration of debt. The concentration of risk in Electric Ireland is in relation to retail electricity accounts that have closed in arrears. In addition, given an increase in competition, certain customers may switch suppliers before they have settled their outstanding balances. The Commission for Energy Regulation (CER), in conjunction with all electricity supply companies, is attempting to agree a solution to this phenomenon (known as 'debt hopping'). These accounts are managed within the Group's debt collection policy by a combination of internal debt follow-up, the use of debt collection agencies and legal action where necessary including the publication of judgements. In June 2011, the CER established a debt flagging facility in respect of customers changing supplier in the electricity market, with the exception of Large Energy Users (LEUs).

The impairment provisioning policy in relation to retail electricity receivables is based on the historical experience of debts written off as updated for current market conditions. Provision may be made in respect of specific balances where there is evidence of a dispute or an inability to settle. An additional provision is made on a portfolio basis to cover incurred losses based on an analysis of previous losses experienced and an evaluation of the impact of economic conditions and particular industry issues. Provision is not made in cases where appropriate repayment arrangements are in place and there is evidence that balances are ultimately recoverable, notwithstanding that such balances may be seriously in arrears. Collateral is held in the form of security deposits on new customer accounts. The largest single billed retail balance outstanding at 31 December 2012 was €114,000 (2011: €270,000).

Unbilled electricity receivables represent estimates of consumption not yet invoiced. Controls around electricity receivables are focused on the full recovery of amounts invoiced. In 2012, electricity receivables were impaired to the value of €42.0 million (2011: €45.9 million). Of this, the single largest customer amount written off during the year was €95,000 (2011: €300,000) relating to a company that went in to liquidation. Retail electricity receivables arise largely in the Republic of Ireland, with 8% (2011: 7%) relating to Northern Ireland revenue.

SEM pool receivables
Credit risk in relation to SEM pool related receivables is managed by the Energy Trading and Risk functions (ET&R) within those business units engaged in electricity trading through the SEM pool. Each of these functions is ring-fenced from each other and segregation of responsibilities between the back office, middle office and front office functions is maintained in each case. The Trading Back Office function is responsible for invoicing customers and maintaining all accounts receivable. Payment terms for all trading balances relating to each of the SEM revenue streams are governed by the SEM settlement calendar. The SEM is an all-island market and SEM receivable amounts are not split geographically.

Use of System receivables
Use of System income in the Republic of Ireland comprises of Distribution Use of System (DUoS) income and Transmission Use of System (TUoS) income. The credit terms for DUoS are 10 business days and there are currently 14 suppliers. TUoS is collected by EirGrid, and the Transmission Asset Owner (TAO) allowed revenue is invoiced to EirGrid over 12 monthly instalments with each invoice due 36 business days after month end.

The credit risk in relation to DUoS is managed by the invocation of section 7 of the DUoS Framework Agreement approved by CER on 1 August 2002. Before a supplier can register as a customer they must sign up to the DUoS agreement. Section 7.2 states that all suppliers must provide security, thereby ensuring that financial loss is minimised in the event of supplier default. Collection procedures are outlined in section 6 of the DUoS Framework Agreement, and there is also ongoing monitoring of debtor days to keep these to a minimum.

Procedures for the payment by EirGrid of TUoS income due to ESB Networks as the TAO are governed by the Infrastructure Agreement between EirGrid and ESB. This is not a normal bilateral contract freely entered into by the parties, but an arrangement required by legislation and many of whose terms are specified in that legislation. Accordingly, the credit risk in relation to TUoS receivables is considered to be low. The amount due in respect of TUoS income at 31 December 2012 was €26.9 million (2011: €30.7 million), this is the largest use of system receivable balance in the Republic of Ireland

In respect of the Networks business in Northern Ireland acquired during 2010, revenue is derived principally from charges for use of the distribution system, Public Services Obligation (PSO) charges levied on electricity suppliers and charges for transmission services levied on SONI (System Operator for Northern Ireland). Credit risk in respect of Use of System receivables from electricity suppliers is mitigated by security received in the form of cash deposits, letters of credit or parent company guarantees. With the exception of public bodies, payments in relation to new connections or alterations are paid for in advance of the work being carried out. Normal credit terms and debtor days in respect of trade receivables from electricity suppliers are less than 30 days. The largest Use of System electricity receivable in Northern Ireland at 31 December 2012 is €13.0 million (2011: €12.9 million).

Other electricity receivables
Other electricity receivables include amounts in relation to PSO levy in addition to amounts relating to ancillary services and electricity trading in the UK market which is not included in the SEM.

Trade and other receivables - non-electricity
Trade receivables (non-electricity) relate to balances due in respect of the Group's non-electricity trading and other operations. It includes amounts due in respect of the Group's telecommunications, consultancy, facility management and other ancillary operations. Other receivables include prepayments of €48.4 million (2011: €27.2 million). Credit risk with regard to these balances is not considered to be significant. The largest single balance included within this category at 31 December 2012 is an amount of €4.5 million (2011: €3.7 million).

NOTES TO THE FINANCIAL STATEMENTS

15. CASH AND CASH EQUIVALENTS

	Group		Parent	
	2012 € '000	2011 € '000	**2012 € '000**	2011 € '000
Cash at bank and in hand	**159,405**	277,409	**47,990**	202,470

Bank deposits attract interest at prevailing deposit interest rates. The effective interest rate earned on cash balances at the balance sheet date was 0.8% (2011: 1.2%). Credit risk is discussed at note 25 (d).

16. EQUITY

(i) Capital stock

There are 1,979,881,855 units of capital stock in issue at a value of €1 each.

	2012 € '000	2011 € '000
Comprised as:		
Stock issued from converted reserves	**1,880,888**	1,880,888
Stock issued for subscription by ESOT	**98,994**	98,994
	1,979,882	1,979,882

In accordance with the Electricity (Supply) (Amendment) Act 2001, on 30 December 2001, the equity of ESB was converted to capital stock and issued to the Department of Finance. At the same time, ESB ESOP Trustee Limited, established to act as Trustee for an ESB employee shareholding scheme, subscribed for 5% of the stock. The principal rights attaching to each unit of capital stock include the rights to exercise a vote at annual meetings, entitlements to dividends from profits when declared and the rights to proportionate participation in a surplus on winding up.

The Energy (Miscellaneous Provisions) Act 2006 amended Section 2 of the 2001 Act to provide that 10% of issued capital stock in ESB now stands vested in the Minister for Communications, Energy and Natural Resources, with the Minister for Finance retaining 85% of ESB's capital stock and the ESOP retaining 5% of the stock.

The Ministers and Secretaries Amendment Act 2011, which came into force on 6 July 2011, established the office of the Minister for Public Expenditure and Reform. The 2011 Act has the effect of transferring ownership of the stock previously held by the Minister for Finance in ESB to the Minister for Public Expenditure and Reform as and from 6 July 2011.

(ii) Non controlling interest - Group

Non controlling interests at 31 December 2012 relate to the minority shareholdings in Crockahenny Wind Farm Limited, Mountain Lodge Power Limited and Airvolution Energy Limited.

(iii) Cash flow hedging, revaluation and other reserves - Group and Parent

The hedging reserve primarily represents the fair value of derivatives which are part of effective cash flow hedging relationships at year end. As the derivatives are held for hedging purposes as defined by IAS 39, their fair value movements are retained in OCI instead of being charged to the income statement during the year and will be charged to income in the same period as the corresponding hedged transaction.

Other reserves include the following:

- Revaluation reserves of €55.2 million (2011: €60.8 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009. This reserve is being amortised to retained earnings over the same term as the associated assets acquired;
- Non-distributable reserves of €5.0 million which was created on the sale of the Group's share in Ocean Communications Limited in 2001; and
- Actuarial movements on the NIE defined benefit scheme, net of the related deferred tax adjustments.

(iv) Dividends - Group and Parent

	2012 € '000	2011 € '000
Dividends on capital stock:		
Total dividend paid: 3.66 (2011: 3.89) cents per capital stock unit	**72,464**	77,017

Total dividends paid during 2012 comprised a final dividend of €72.5 million in respect of 2011.

NOTES TO THE FINANCIAL STATEMENTS

17. TAXATION

(a) Income tax expense / (credit)

	2012 € '000	2011 € '000
Current tax		
Current tax	**14,261**	1,470
Prior year under / (over) provision	**3,468**	(7,250)
Value of tax losses surrendered to joint ventures	**(3,184)**	(4,477)
	14,545	(10,257)
Deferred tax		
Origination and reversal of temporary differences	**19,883**	12,311
Effect of decrease in UK tax rate on opening deferred tax liability [2]	**(26,884)**	(29,148)
Prior year (over) / under provision	**(35,249)[1]**	5,813
	(42,250)	(11,024)
Total tax credit	**(27,705)**	(21,281)

Reconciliation of effective tax rate	2012 € '000	2011 € '000
Profit before tax	**166,402**	78,751
Less: after tax share of joint venture profit	**(20,704)**	(23,912)
Profit before tax (excluding joint venture profits)	**145,698**	54,839
Taxed at 12.5%	**18,212**	6,855
Expenses not deductible	**8,938**	4,410
Income not taxable	**-**	(3,500)
Tax effect of deferred tax asset not provided	**955**	29,142
Deferred tax asset not previously recognised [1]	**(28,800)**	-
Higher tax on chargeable gains	**439**	1,201
Higher / (lower) tax rates on overseas earnings	**869**	(25,091)
Prior year over provisions [3]	**(2,981)**	(1,437)
Impact of reduced rate of UK tax on deferred tax stated at Irish tax rate [2]	**(26,884)**	(33,379)
Other items	**1,547**	518
Income tax credit	**(27,705)**	(21,281)

[1] The deferred tax asset not recognised in 2011 related to operating losses driven by mark to market losses arising on inflation linked interest rate swaps (see note 19), which could not be surrendered in full to other UK Group companies in 2011. During 2012 this deferred tax asset was recognised based on agreement with HMRC that these derivative financial instruments will be taxed on a cash paid basis for UK tax purposes. The Group expects to earn sufficient future profits to absorb future payments represented by the current fair value of relevant derivatives.

The prior year under provision represents the amount of the fair value losses which were expected to be utilised, but due to the change in taxing basis were not deducted in 2011.

[2] The 2011 Budget for the UK, announced on 23 March 2011, included the provision that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively.

Reductions in this rate in 2012 were substantively enacted on 26 March 2012 (to 24%) and 3 July 2012 (to 23%, effective from 1 April 2013). This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2012 has been calculated based on the rate of 23% (2011: 25%) substantively enacted at the balance sheet date.

The 2012 Budget for the UK announced in March 2012, included the provision for a further reduction in this rate to 22% in 2014. It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax liability accordingly.

[3] Prior year over provisions in the reconciliation of the effective tax rate exclude the effects of the change in the taxing basis of the inflation linked interest rate swaps outlined in note 1 above.

NOTES TO THE FINANCIAL STATEMENTS

17. TAXATION (continued)

(b) Deferred tax assets and liabilities

(i) Group	2012 € '000	2011 € '000
Deferred tax assets		
Property, plant and equipment and intangible assets	**1,273**	2,475
Pension liability on defined benefit scheme	**31,282**	22,814
Liability for pension obligation	**101,623**	104,343
Provisions	**6,690**	16,203
Tax losses forward	**13,618**	7,234
Derivative financial instruments	**77,484**	27,983
Total	**231,970**	181,052
Deferred tax liabilities		
Property, plant and equipment and intangible assets	**797,197**	792,312
Provisions	**881**	128
Derivative financial instruments	**53,485**	69,683
Capital Gains Tax	**2,505**	2,560
Total	**854,068**	864,683
Net deferred tax liability	**(622,098)**	(683,631)

The movement in temporary differences for the Group were as follows:

2012	Balance at 1 January 2012 € '000	Recognised in income € '000	Recognised in OCI € '000	Translation reserves €'000	Balance at 31 December 2012 € '000
Assets					
Property, plant and equipment and intangible assets	2,475	(1,202)	-	-	**1,273**
Pension liability on defined benefit scheme	22,814	(1,789)	10,257	-	**31,282**
Liability for pension obligation	104,343	(2,720)	-	-	**101,623**
Provisions	16,203	(9,513)	-	-	**6,690**
Tax losses forward	7,234	6,384	-	-	**13,618**
Derivative financial instruments	27,983	50,421	(920)	-	**77,484**
Total deferred tax assets	181,052	41,581	9,337	-	**231,970**
Liabilities					
Property, plant and equipment and intangible assets	792,312	(1,367)	-	6,252	**797,197**
Provisions	128	753	-	-	**881**
Derivative financial instruments	69,683	-	(16,198)	-	**53,485**
Capital Gains Tax	2,560	(55)	-	-	**2,505**
Total deferred tax liabilities	864,683	(669)	(16,198)	6,252	**854,068**
Net deferred tax (liability) / asset for the year	(683,631)	42,250	25,535	(6,252)	**(622,098)**

NOTES TO THE FINANCIAL STATEMENTS

17. TAXATION (continued)

(b) Deferred tax assets and liabilities (continued)

(i) Group (continued)

2011 Assets	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Transferred in on acquisitions € '000	Balance at 31 December € '000
Property, plant and equipment and intangible assets	3,330	(855)	-	-	2,475
Pension liability on defined benefit scheme	-	(3,531)	26,345	-	22,814
Liability for pension obligation	112,087	(7,744)	-	-	104,343
Provisions	13,975	2,228	-	-	16,203
Tax losses forward	10,110	(2,876)	-	-	7,234
Derivative financial instruments	13,381	19,525	(4,923)	-	27,983
Total deferred tax assets	152,883	6,747	21,422	-	181,052
Liabilities					
Property, plant and equipment and intangible assets	757,713	(2,540)	5,748	31,391	792,312
Pension liability on defined benefit scheme	2,541	(2,541)	-	-	-
Provisions	844	(716)	-	-	128
Derivative financial instruments	81,039	-	(11,356)	-	69,683
Capital Gains Tax	1,180	1,380	-	-	2,560
Total deferred tax liabilities	843,317	(4,417)	(5,608)	31,391	864,683
Net deferred tax (liability) / asset for the year	(690,434)	11,164	27,030	(31,391)	(683,631)

The following deferred tax assets have not been recognised in the balance sheet as it is not probable that they will be realised for the foreseeable future:

	2012 € '000	2011 € '000
Operating losses	**955**	29,142

The asset not recognised in 2011 related to operating losses driven by mark to market losses arising on inflation linked interest rate swaps (see note 19), which could not be surrendered in full to other UK Group companies in 2011. During 2012 the majority of this deferred tax asset was recognised based on agreement with HMRC that these derivative financial instruments will be taxed on a cash paid basis for UK tax purposes.

Deferred tax has not been provided for in relation to unremitted reserves of the Group's overseas subsidiaries as there is no intention for these reserves to be distributed in the foreseeable future. Nor has deferred tax been provided for in relation to unremitted reserves of the Group's joint ventures as the Group has the ability to control the repatriation of these reserves to Ireland. Cumulative unremitted reserves of overseas subsidiaries, joint ventures and associates totalled €350.0 million (2011: €235.0 million).

There is no expiry date to when tax losses in the Group can be utilised.

(ii) Parent

	2012 € '000	2011 € '000
Deferred tax assets		
Liability for pension obligation	**101,623**	104,343
Provisions	**4,482**	12,176
Tax losses forward	**6,666**	505
Derivative financial instruments	**11,396**	5,902
Total	**124,167**	122,926
Deferred tax liabilities		
Property, plant and equipment	**418,707**	396,899
Capital Gains Tax	**1,180**	1,180
Total	**419,887**	398,079
Net deferred tax liability	**(295,720)**	(275,153)

NOTES TO THE FINANCIAL STATEMENTS

17. TAXATION (continued)

(b) Deferred tax assets and liabilities (continued)

(ii) Parent (continued)

The movement in temporary differences for the Parent were as follows:

2012	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Balance at 31 December € '000
Assets				
Liability for pension obligation	104,343	(2,720)	-	**101,623**
Provisions	12,176	(7,694)	-	**4,482**
Tax losses forward	505	6,161	-	**6,666**
Derivative financial instruments	5,902	-	5,494	**11,396**
Total deferred tax assets	122,926	(4,253)	5,494	**124,167**
Liabilities				
Property, plant and equipment	396,899	21,808	-	**418,707**
Capital Gains Tax	1,180	-	-	**1,180**
Total deferred tax liabilities	398,079	21,808	-	**419,887**
Net deferred tax (liability) / asset for the year	**(275,153)**	**(26,061)**	**5,494**	**(295,720)**

2011	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Balance at 31 December € '000
Assets				
Liability for pension obligation	112,087	(7,744)	-	104,343
Provisions	12,642	(466)	-	12,176
Tax losses forward	-	505	-	505
Derivative financial instruments	-	-	5,902	5,902
Total deferred tax assets	124,729	(7,705)	5,902	122,926
Liabilities				
Property, plant and equipment	368,934	27,965	-	396,899
Derivative financial instruments	510	-	(510)	-
Capital Gains Tax	1,180	-	-	1,180
	370,624	27,965	(510)	398,079
Net deferred tax (liability) / asset for the year	(245,895)	(35,670)	6,412	(275,153)

NOTES TO THE FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT

(a) Group	Finance leases € '000	Recourse borrowings € '000	Non-recourse borrowings € '000	**2012 Total € '000**	2011 Total € '000
Current borrowings					
- Repayable by instalments	55,728	62,583	2,449	**120,760**	73,747
- Repayable other than by instalments	-	328,486	-	**328,486**	159,562
Total current borrowings	55,728	391,069	2,449	**449,246**	233,309
Non-current borrowings					
- Repayable by instalments					
Between one and two years	-	78,738	1,873	**80,611**	116,848
Between two and five years	-	261,442	20,760	**282,202**	254,267
After five years	-	481,150	96,240	**577,390**	507,827
	-	821,330	118,873	**940,203**	878,942
- Repayable other than by instalments					
Between one and two years	-	168,373	-	**168,373**	273,045
Between two and five years	-	885,306	-	**885,306**	1,554,439
After five years	-	1,406,734	723,797	**2,130,531**	1,661,436
	-	2,460,413	723,797	**3,184,210**	3,488,920
Total non-current borrowings	-	3,281,743	842,670	**4,124,413**	4,367,862
Total borrowings outstanding	55,728	3,672,812	845,119	**4,573,659**	4,601,171

See section (d) for details of applicable interest rates.

Current borrowings by facility	Ref.	**2012 € '000**	2011 € '000
Emissions allowances financing arrangement	1	**60,515**	148,342
ESB stock		**10,304**	-
Long-term bank borrowings	6	**62,583**	58,649
Private placement borrowings	7	**257,667**	-
Non-recourse long-term project finance debt	3	**2,449**	1,716
Capital element of finance leases	8	**55,728**	24,602
		449,246	233,309

Non-current borrowings by facility		**2012 € '000**	2011 € '000
ESB stock		**-**	10,304
Fuel financing arrangement	4	**29,664**	-
Non-recourse long-term project finance debt	3	**118,873**	27,857
ESB Eurobonds	2	**1,427,884**	325,318
NIE Eurobonds	5	**723,797**	710,613
Long-term bank borrowings	6	**954,771**	2,095,102
Private placement borrowings	7	**869,424**	1,142,940
Capital element of finance leases	8	**-**	55,728
		4,124,413	4,367,862

With the exception of borrowings relating to finance leases and the non-recourse project finance debt, which is secured against specific assets, none of the borrowings are secured against the Group assets.

At 31 December 2012, ESB was rated BBB+ from Standard & Poor's and Fitch and Baa3 from Moody's respectively. The outlook on each of the three agencies at year end was negative, largely associated with the negative outlook placed on the Irish sovereign rating by each of the agencies. On 31 January 2013, Fitch revised ESB's credit rating from BBB+ (Negative outlook) to BBB+ (Stable outlook) and on 13 February 2013, Standard & Poor's also revised ESB's credit rating from BBB+ (Negative outlook) to BBB+ (Stable outlook).

1. Emissions allowances financing arrangement
In April 2011 the Group received €145.0 million from the sale of emissions allowances, and at the same date contracted to buy them back in April 2012 at a fixed price. In April 2012 the Group bought back these allowances, and completed a similar sale of emissions allowances with a carrying value of €59.0 million, contracting to buy them back in February 2013, at a fixed price (see note 10). These transactions have the effect of a financing arrangement, and are disclosed in current borrowings above.

2. ESB Eurobonds
In March 2010, ESB Finance Limited issued a Stg£275.0 million 10 year Eurobond with a fixed coupon of 6.5%.

In September 2012, ESB Finance Limited issued a €600.0 million 5 year Eurobond with a fixed coupon of 6.25%. The 3 year syndicated Stg£307.5 million facility signed in September 2011 was repaid from the proceeds of the bond issue.

In November 2012, ESB Finance Limited issued a €500.0 million 7 year Eurobond with a fixed coupon of 4.375%.

3. Non-recourse long-term project finance debt
In September 2012 Carrington Power Limited (CPL), a wholly owned subsidiary of ESB, completed the financial close of an 881MW Combined Cycle Gas Turbine (CCGT) power plant in Carrington, near Manchester. Finance was structured on a 70/30 debt/equity basis, with non-recourse project finance funding facilities of Stg£523.0 million being provided by a syndicate of banks, which incorporates export credit support from the Swiss Export Credit Agency, SERV. Borrowings of Stg£100.3 million were drawn at the year end. The plant is scheduled to be commissioned by 2016.

NOTES TO THE FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT (continued)

(a) Group (continued)

4. Fuel financing arrangement
In December 2012 the Group received €30.0 million from the sale of fuel inventories, and at the same date contracted to buy them back in December 2015 at a fixed price. This transaction has the effect of a financing arrangement, and is disclosed in non-current borrowings on the previous page.

5. NIE Eurobonds
As part of the acquisition of NIE, a Eurobond of Stg£175.0 million was also acquired at fair value at the acquisition date. This facility had a 6.875% fixed coupon rate and is repayable in 2018.

In June 2011, NIE Limited issued a Stg£400.0 million 15 year sterling bond with a fixed coupon of 6.375%.

6. Long-term bank borrowings
Long-term bank borrowings include (a) a revolving credit facility, refinanced in September 2010, which has been drawn down to the value of €85.0 million - this is floating rate euro debt which is available under this €1.5 billion facility until dates in 2014 and 2015[1], and any debt drawn thereunder is not required to be paid until these dates; and (b) €452.2 million of floating rate debt borrowed from bilateral and syndicated facilities, while the remainder is fixed interest debt.

In October 2011, the Group also agreed and drew down a €50.0 million 3 year bilateral facility, which is also included within long-term bank borrowings.

In November 2011, a new facility of €235.0 million was signed with the European Investment Bank ('EIB') to support Networks and ecars infrastructure of which €85.0 million was drawn in January 2012.

In December 2011, the Group signed a new bilateral Stg£59.6 million facility with an average term of 8.5 years to support expenditure on Irish and UK based windfarms, which was undrawn at year end.

7. Private placement borrowings
The first private placement senior unsecured notes were issued, to a range of institutional investors, in December 2003. These fixed rate notes were issued in US dollars and sterling and comprise US$951.5 million, maturing on dates between 2013 and 2023, and Stg£20.0 million, maturing on dates between 2018 and 2023.

The second private placement senior unsecured notes were issued in June 2009. These notes were issued in US dollars, sterling and euro and comprise US$301.0 million, maturing on dates between 2013 and 2019, Stg£85.0 million maturing on dates between 2017 and 2021 and €50.0 million maturing on dates between 2014 and 2019.

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants. To date ESB has been fully in compliance with all the covenant requirements associated with the private placement debt and other facilities.

8. Finance leases
The Group previously held a lease arrangement in connection with certain assets included within property, plant and equipment. Payment obligations on both sides of this arrangement were fulfilled immediately, such that the Group had no future net payment obligations under the terms of the arrangement and continued to have unrestricted use of the assets concerned. At all times during the lease the asset continued to be recognised in the financial statements. By mutual agreement, this lease was terminated in 2012, and a €5.2 million gain was recognised in other operating income (see note 4).

Future finance lease commitments for the Group and Parent are as follows:

	2012 Minimum Lease Payments € '000	**2012 Present value of Minimum Lease Payments € '000**	2011 Minimum Lease Payments € '000	2011 Present value of Minimum Lease Payments € '000
Amounts payable:				
Within one year	**59,025**	**55,728**	28,679	24,602
Between one and five years	**-**	**-**	59,025	55,728
	59,025	**55,728**	87,704	80,330
Less future lease charges	**(3,297)**		(7,374)	
Present value of lease obligations	**55,728**		80,330	

Hedge of net investment in foreign operations
Included in borrowings above are sterling denominated bank loans, which have been designated as a hedge of the Group's investment in a sterling denominated subsidiary in the United Kingdom, as outlined below.

Sterling denominated loans designated as a hedge of Group's investment in subsidiary	**2012 € '000**	2011 € '000
Value at 1 January	**102,727**	110,772
Repayments in year	**(11,795)**	(10,993)
(Gain) / loss on translation to Euro	**2,524**	2,948
Value at 31 December	**93,456**	102,727
Gain / (loss) on translation of intragroup Euro loan to subsidiary (taken to OCI)	**1,904**	2,292

[1] On 12 February 2013, the Group signed a new €1.35 billion credit facility with a syndicate of 13 banks, enabling the Group to draw down bank finance as required up to February 2018. This replaces the revolving credit facility in place at 31 December 2012.

NOTES TO THE FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT (continued)

(b) Parent	Finance leases € '000	Recourse borrowings € '000	**2012 Total € '000**	2011 Total € '000
Current borrowings				
- Repayable by instalments	55,728	50,736	**106,464**	60,184
- Repayable other than by instalments	-	328,486	**328,486**	159,562
Total current borrowings	55,728	379,222	**434,950**	219,746
Non-current borrowings				
- Repayable by instalments				
Between one and two years	-	66,891	**66,891**	103,285
Between two and five years	-	242,262	**242,262**	217,823
After five years	-	481,150	**481,150**	487,102
	-	790,303	**790,303**	808,210
- Repayable other than by instalments				
Between one and two years	-	168,421	**168,421**	273,045
Between two and five years	-	287,278	**287,278**	1,268,075
After five years	-	576,878	**576,878**	625,505
	-	1,032,577	**1,032,577**	2,166,625
Total non-current borrowings	-	1,822,880	**1,822,880**	2,974,835
Total borrowings outstanding	55,728	2,202,102	**2,257,830**	3,194,581

(c) Funding and liquidity management

The principal liquidity risks faced by the Group relate to cash flow requirements arising from day-to-day operations, maturing debt obligations and the funding of capital investment programmes. The Group's treasury function manages this risk through a combination of liquid investments, cash and cash equivalents and undrawn committed bank facilities. The Group negotiates facilities with relationship banks and debt capital markets to pre-fund any requirements arising from maturing debt and capital expenditure.

At 31 December 2012 the Group had €1,693.0 million immediately available in cash or cash equivalents and committed bank facilities, ensuring liquidity demands can be met as required. The committed bank facilities include a syndicated loan facility with a large number of well-rated financial institutions as well as facilities with the EIB. Included in the amount disclosed are facilities totalling €138.0 million which may only be drawn against certain scheduled capital expenditure.

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account the compatibility between funding costs and risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements.

The maturity profile of the carrying amount of the Group's borrowings, and the expiry of material undrawn committed bank borrowing facilities are as follows:

	Drawn Debt - Group		**Drawn Debt - Parent**		**Undrawn Facility - Group and Parent**	
Maturing	**2012 € '000**	2011 € '000	**2012 € '000**	2011 € '000	**2012 € '000**	2011 € '000
In one year or less	**449,246**	233,309	**434,950**	219,746	**-**	-
Between one and two years	**248,984**	389,893	**235,312**	376,330	**645,770**	-
Between two and five years	**1,167,508**	1,808,706	**529,540**	1,485,898	**750,000**	600,689
In more than five years	**2,707,921**	2,169,263	**1,058,028**	1,112,607	**237,984**	321,306
	4,573,659	4,601,171	**2,257,830**	3,194,581	**1,633,754**	921,995

The following table sets out the contractual maturities of Group borrowings, including the associated interest payments. Borrowings with a carrying value of €2,315.8 million (2011: €1,406.6 million) are included in the Group balances below, but do not comprise part of the Parent's liabilities.

	Carrying amount € '000	Contractual cash outflows/ (inflows) - net € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
31 December 2012						
Finance leases	55,728	59,025	59,025	-	-	-
Recourse borrowings	3,672,812	4,736,006	565,565	405,467	1,573,278	2,191,696
Non-recourse borrowings	845,119	1,379,029	48,261	48,303	165,341	1,117,124
Total borrowings	**4,573,659**	**6,174,060**	**672,851**	**453,770**	**1,738,619**	**3,308,820**
31 December 2011						
Finance leases	80,330	87,704	28,679	59,025	-	-
Recourse borrowings	3,780,655	4,514,292	315,557	453,781	2,059,898	1,685,056
Non-recourse borrowings	740,186	1,336,018	61,207	60,725	175,074	1,039,012
Total borrowings	4,601,171	5,938,014	405,443	573,531	2,234,972	2,724,068

NOTES TO THE FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT (continued)

(d) Interest Rate Risk Management

The Group's current interest rate policy is to have a minimum of 50% of the debt portfolio at fixed (or inflation linked) rates of interest, with a target of 75% at fixed (or inflation linked) rates of interest. This is achieved either by borrowing directly at fixed interest rates or via interest rate swaps. At 31 December 2012, 93% of the Group's debt was fixed to maturity or inflation linked (2011: 79%). The fair value of interest rate swaps can be seen in note 19.

In respect of income-earning financial liabilities, the following table indicates their effective interest rates at the balance sheet date taking into account the effect of interest rate swaps and cross currency swaps:

	Effective interest rate %	Total € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
Finance leases (fixed interest rate)	**6.1%**	55,728	55,728	-	-	-
Private placement borrowings (fixed interest rate)	**5.8%**	1,127,091	257,667	34,932	257,614	576,878
Non-recourse borrowings (fixed interest rate)	**6.8%**	845,119	2,449	1,873	20,760	820,037
Other long-term borrowings (fixed and variable interest rate)	**5.9%**	2,545,721	133,402	212,179	889,134	1,311,006

Included within other long-term borrowings in this analysis are floating rate liabilities of €318.3 million (2011: €836.9 million).

The effective interest rate on the private placement borrowings has been fixed through the use of cross currency swaps and interest rate swaps. The effective rate of non-recourse sterling borrowings of €121.3 million has been fixed using interest rate swaps. In the absence of these interest rate swaps, the floating rate on the underlying sterling and euro borrowings at 31 December 2012 would be 3.2%, in line with prevailing interest rates in those monetary areas on borrowings of a similar duration. Inflation linked swaps are included at equivalent nominal interest rate levels.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates will have an impact on consolidated earnings. It is estimated that a general increase of 50 basis points in interest rates (and corresponding real interest rates) at 31 December would have increased / (decreased) profit before taxation and increased / (decreased) equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant, including the assumption that there is no change in inflation rates.

	31 December 2012		31 December 2011	
	50 bp increase Gain / (loss) € '000	**50 bp decrease Gain / (loss) € '000**	50 bp increase Gain / (loss) € '000	50 bp decrease Gain / (loss) € '000
Profit before taxation				
Interest payable	**(3,941)**	**3,941**	(9,073)	9,073
Fair value movements on financial instruments	**64,823**	**(71,697)**	81,212	(89,602)
Other comprehensive income				
Fair value gains / (losses)	**18,168**	**(17,490)**	(303)	303

The following assumptions were made in respect of the sensitivity analysis above:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;

- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative;

- derivatives designated as cash flow hedges against movements in interest rates are assumed to be fully effective, recorded fully within equity with no impact on the income statement;

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only; and

- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Fair value by class of derivative financial instrument

The fair values of financial instruments, grouped by class of instrument, are as follows:

Group	2012 Non-current assets € '000	2012 Current assets € '000	2012 Non-current liabilities € '000	2012 Current liabilities € '000	**2012 Total € '000**
Interest rate swaps	-	-	(20,642)	-	**(20,642)**
Inflation linked interest rate swaps	-	-	(487,425)	(13,668)	**(501,093)**
Currency swaps	-	-	(81,578)	(27,225)	**(108,803)**
Foreign exchange contracts	3,546	5,326	(2,943)	(2,083)	**3,846**
Forward fuel price contracts	217,167	52,051	(5,164)	(28,187)	**235,867**
Forward electricity price contracts	133,243	26,949	-	-	**160,192**
	353,956	**84,326**	**(597,752)**	**(71,163)**	**(230,633)**

	2011 Non-current assets € '000	2011 Current assets € '000	2011 Non-current liabilities € '000	2011 Current liabilities € '000	2011 Total € '000
Interest rate swaps	-	-	(5,986)	-	(5,986)
Inflation linked interest rate swaps	-	-	(478,517)	(8,135)	(486,652)
Currency swaps	-	-	(68,279)	-	(68,279)
Foreign exchange contracts	2,149	8,347	-	(191)	10,305
Forward fuel price contracts	207,693	30,819	-	(10,401)	228,111
Forward electricity price contracts	217,890	35,858	(1,055)	(8,072)	244,621
	427,732	75,024	(553,837)	(26,799)	(77,880)

Parent	2012 Non-current assets € '000	2012 Current assets € '000	2012 Non-current liabilities € '000	2012 Current liabilities € '000	**2012 Total € '000**
Interest rate swaps	-	-	(131)	-	**(131)**
Currency swaps	-	-	(81,578)	(27,225)	**(108,803)**
Foreign exchange contracts	1,202	3,785	(1,081)	(1,726)	**2,180**
Forward fuel price contracts	122	384	(5,164)	(27,274)	**(31,932)**
	1,324	**4,169**	**(87,954)**	**(56,225)**	**(138,686)**

	2011 Non-current assets € '000	2011 Current assets € '000	2011 Non-current liabilities € '000	2011 Current liabilities € '000	2011 Total € '000
Interest rate swaps	-	-	(938)	-	(938)
Currency swaps	-	-	(68,279)	-	(68,279)
Foreign exchange contracts	2,149	4,853	-	(106)	6,896
Forward fuel price contracts	410	2,584	-	(10,401)	(7,407)
	2,559	7,437	(69,217)	(10,507)	(69,728)

Derivative financial instruments are carried at fair value. The fair value of a financial instrument is the amount it could be exchanged for in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. The method used to calculate the fair value of the Group's financial instruments is discounted cash flow analysis using a zero coupon discount rate. This method enables the Group to discount the cash flows at a rate equal to the prevailing market rate of interest taking into account maturity and credit margin.

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Fair value by class of derivative financial instrument (continued)

With the exception of inflation linked interest rate swaps, the great majority of the derivative balances shown in the tables on the previous page are designated as cash flow hedges of interest rate, currency or commodity risk arising from highly probable forecast interest, revenue, or other operating cost cash flows.

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

The interest rate used to discount future estimated cash flows was 1.1% (2011: 1.7%). The rate is based on the EURIBOR yield curve at the reporting date.

(i) Interest rate swaps

For interest rate swaps, the fair value takes into account the fixed, floating and market rates prevailing at the year end. As interest rate swaps are marked to market at the year end, their carrying value is equal to their fair value.

Total fair value losses of €25.2 million (2011: €2.9 million) were recognised during the year in relation to interest rate swaps, of which €10.7 million was recognised directly in finance costs in the income statement, with €14.5 million recognised in OCI (2011: losses of €2.9 million all recognised in finance costs).

Interest rate swaps of Stg£420.0 million were executed during 2012, which fixed the interest rate on project finance secured by Carrington Power Limited (CPL). These form part of an effective hedging relationship.

Further interest rate swaps of Stg£365.0 million were executed during 2012 in relation to fixed rate borrowings held by the Parent and ESB Finance Limited, as part of the Group's hedging strategy. Hedge accounting was not applied to these derivatives.

(ii) Inflation linked interest rate swaps

Inflation linked interest rate swaps with a fair value on acquisition of €272.5 million were acquired in December 2010 as part of the purchase of the NIE business. During 2012, negative fair value movements on these swaps of €12.7 million (2011: €202.3 million) were recognised within finance costs in the income statement, as hedge accounting was not available.

The inflation linked interest rate swaps did not qualify for hedge accounting under IAS 39 on acquisition of the NIE business. Their fair value is affected by relative movements in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom.

(iii) Currency swaps

The fair value of currency swaps is affected by movements in foreign exchange and interest rates. ESB's currency swaps are primarily classified as cash flow hedges and relate mainly to the cross currency swaps entered into in connection with the private placement debt, which is described in note 18. These cross currency swaps were entered into in order to swap US dollar and sterling interest and principal repayments on the underlying debt to euro, thereby hedging the risk on these payments over the periods to maturity from 2010 to 2023. Included in the income statement in 2012 is a loss of €18.4 million (2011: gain of €33.3 million) arising on cross currency swaps which is fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates (see note 6).

In addition to foreign currency forward contracts entered into in relation to the Group's borrowings, the Group has entered into foreign currency contracts in relation to pool purchases, fuel purchase requirements (which are in US dollar and pounds sterling) and in relation to power station projects (including Carrington Power Limited). These contracts have maturities extending until 2022. Total negative fair value movements of €7.3 million (2011: positive movements of €6.2 million) were recognised during the year in relation to such foreign exchange contracts, of which a negative fair value movement of €8.3 million (2011: positive movements of €6.0 million) was recognised through other comprehensive income and a positive fair value movement of €1.0 million (2011: €0.2 million) was recognised in the income statement.

(iv) Fair value hierarchy

Further information on the methods of valuing financial instruments is included in note 25.

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) Funding and liquidity management - maturity of derivative financial instruments

The following table sets out the contractual maturities of derivative financial instruments, including the associated undiscounted net cash flows attributable to them. These derivative financial instruments are expected to impact profit or loss over a time period similar to the cash outflows. Net derivative financial instrument liabilities of €91.9 million (2011: €8.2 million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities. See note 25 (b) for further analysis of Group and Parent financial assets and liabilities.

	Carrying amount € '000	Contractual cash outflows/ (inflows) - net € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
31 December 2012						
Currency swaps	108,803	77,517	27,227	(656)	21,689	29,257
Inflation linked interest rate swaps	501,093	720,398	13,286	13,302	149,568	544,242
Interest rate swaps	20,642	88,007	5,155	4,917	23,976	53,959
Forward fuel price contracts	33,351	33,362	28,205	5,157	-	-
Foreign exchange contracts	5,026	5,259	2,079	870	642	1,668
Total liabilities	**668,915**	**924,543**	**75,952**	**23,590**	**195,875**	**629,126**
Forward fuel price contracts	269,218	274,210	52,259	56,334	125,870	39,747
Forward electricity price contracts	160,192	164,368	26,991	24,755	65,604	47,018
Foreign exchange contracts	8,872	8,905	5,281	2,574	1,050	-
Total assets	**438,282**	**447,483**	**84,531**	**83,663**	**192,524**	**86,765**
Net derivative (assets) / liabilities	**230,633**	**477,060**	**(8,579)**	**(60,073)**	**3,351**	**542,361**
31 December 2011						
Currency swaps	68,279	53,346	1,205	21,075	13,531	17,535
Inflation linked interest rate swaps	486,652	786,404	8,135	9,151	149,815	619,303
Interest rate swaps	5,986	14,301	1,810	1,751	1,927	8,813
Forward fuel price contracts	10,401	10,401	10,401	-	-	-
Forward electricity price contracts	9,127	9,127	8,072	1,055	-	-
Foreign exchange contracts	191	191	191	-	-	-
Total liabilities	580,636	873,770	29,814	33,032	165,273	645,651
Forward fuel price contracts	238,512	251,817	27,776	46,957	90,337	86,747
Forward electricity price contracts	253,749	274,192	36,397	28,251	92,327	117,217
Foreign exchange contracts	10,495	8,347	8,347	-	-	-
Total assets	502,756	534,356	72,520	75,208	182,664	203,964
Net derivative (assets) / liabilities	77,880	339,414	(42,706)	(42,176)	(17,391)	441,687

NOTES TO THE FINANCIAL STATEMENTS

20. PENSION LIABILITIES

The Group operates a number of pension schemes for staff in both the Republic of Ireland and Northern Ireland. Pension arrangements in respect of staff in the Republic of Ireland including ESB employees seconded overseas are set out in sections (a) and (b) below. Pension arrangements in respect of staff in Northern Ireland are described in section (c).

(a) Parent and Group - Republic of Ireland

(i) Exceptional pension charge

As explained in paragraphs (ii) and (iii) below, a Pension Agreement ("the Agreement") was concluded between ESB and the members of the General Employees' Superannuation Scheme ('the Scheme') in July 2010, and formally ratified by the Board of ESB on 20 October 2010. The Agreement clarified the nature and scale of ESB's pension obligations, and provided additional information to inform the judgements required in determining the appropriate accounting treatment of the Scheme under IAS 19 Employee Benefits. Accordingly, a change in accounting treatment for the Scheme was implemented from the effective date of the Agreement (20 October 2010), giving rise to an exceptional pension charge in 2010.

(ii) Historic accounting treatment of ESB General Employees' Superannuation Scheme ('the Scheme')

Pensions for the majority of employees in the electricity business are funded through a contributory pension scheme called the ESB General Employees' Superannuation Scheme. The fund is vested in trustees nominated by ESB and its members for the sole benefit of employees and their dependants.

While the regulations governing the Scheme lay down in considerable detail the benefits that are to be provided, they also stipulate the contributions to be paid by both ESB and the contributing members. This does not conform to the normal 'balance of cost' defined benefit approach, where the employer is liable to pay the balance of contributions required to fund benefits. Moreover, historically the contributions of both ESB and members have been fixed by regulations for long periods. ESB's rate of contribution cannot be altered without the agreement of ESB.

These facts indicate that the Scheme is not, and has never been, typical of the defined benefit approach. Despite this fact, on transition to IFRS it was accounted for as a defined benefit scheme for the purposes of reporting under IAS 19. In making the judgement that it should be accounted for as such, the Board took the view that although the Scheme was not a typical balance of cost scheme, and that no legal obligation existed for ESB to increase contributions to maintain benefits in the event of a deficit, that a pre-existing constructive obligation within the meaning of IAS 19 existed based on historic practice in such circumstances.

During 2010 the company reached agreement with the ESB Group of Unions (on behalf of Scheme members), to amend pension arrangements within the company. The proposals agreed between the Company and the Group of Unions were approved by the members of the Scheme in July 2010. They were formally ratified by the Board of ESB on 20 October 2010, which may be regarded as the effective date of the Agreement.

The main features of the Agreement include the introduction of a Career Average Revalued Earnings (CARE) pension model for benefits earned after 1 January 2012, pension and pay freezes, the cessation of the historic link between salary and pension increases, and the application of a solvency test in relation to any future pension increases. The fixed contribution rates for the employer and for employees were not changed. Under the Agreement ESB will make a once off cash injection into the Scheme, with an agreed valuation for actuarial purposes as at 1 January 2010 of €591.0 million. As explained in note 21 below, the fair value of this capital contribution as calculated under the requirements of IAS 39 Financial Instruments: Recognition and Measurement was €638.4 million as at 20 October 2010. This will be paid over 10 years, and will facilitate the de-risking of Scheme assets. Under the Agreement membership of the Scheme has been closed to new joiners.

(iii) Change in accounting treatment

The Agreement clarified the nature and scale of ESB's pension obligations, and provided additional information to inform the judgements required in determining the appropriate accounting treatment of the Scheme under IAS 19. If a future actuarial valuation discloses a surplus, the Agreement specifies that this will be used to further de-risk the Scheme, in addition to the amounts contributed into the Scheme by ESB under the Agreement for this purpose. If an actuarial valuation discloses a deficit, ESB is required under the Scheme Regulations to consult with the Superannuation Committee, the Trustees and the Scheme Actuary to consider the necessity to amend the Scheme. Notwithstanding this requirement under the Regulations, ESB does not intend to make further payments to the Scheme to address future deficits, no matter what the circumstance, other than regular employer fixed rate contributions, as specified in the current Scheme Regulations, of up to 16.4% of pensionable salary.

As there is no legal or constructive obligation upon ESB to fund a deficit if it arose in the Scheme, beyond current commitments, the Board is of the view that from the date of ratification of the Agreement by all relevant parties (20 October 2010) that the Scheme should be accounted for as a defined contribution scheme under the meaning of IAS 19, rather than as a defined benefit scheme, as heretofore.

Accordingly the Scheme has been accounted for as a defined benefit scheme under the meaning of IAS 19 up until the effective date of the Agreement (20 October 2010), and as a defined contribution scheme thereafter. The accumulated defined benefit liability recognised up to and as at 20 October 2010, as set out below, was derecognised. At the same time the Group's liability arising from the Agreement was provided for. See note 21 for more information.

ESB's contribution to the Scheme during 2012 was €98.5 million (2011: €140.2 million), of which €39.7 million (2011: €38.5 million) related to current service and is disclosed as a defined contribution pension cost in note 7 of these financial statements, and €58.8 million (2011: €101.9 million) related to past service and represents the partial paydown of the liability for pension obligation as disclosed in note 21.

NOTES TO THE FINANCIAL STATEMENTS

20. PENSION LIABILITIES (continued)

(b) ESB Defined Contribution Pension Scheme - Republic of Ireland

ESB also operates an approved defined contribution scheme called ESB Defined Contribution Pension Scheme (formally ESB Subsidiary Companies Pension Scheme) for employees of ESB subsidiary companies (other than NIE) and, from 1 November 2010, new staff of the Parent. Contributions are paid by the members and the employer at fixed rates. The benefits secured at retirement reflect each employee's accumulated fund and the cost of purchasing benefits at that time. Death benefits are insured on a group basis and may be paid in the form of a lump sum and/or survivor's pension. The assets of the scheme are held in a separate trustee administered fund. The pension charge for the year represents the defined employer contribution and amounted to €6.4 million (2011: €5.8 million).

(c) Northern Ireland Electricity Pension Scheme

The majority of the employees in Northern Ireland Electricity Limited and subsidiaries ('NIE') are members of the Northern Ireland Electricity Pension Scheme ('the NIE Scheme'). This has two sections: 'Options', which is a money purchase arrangement whereby the employer generally matches the members' contributions up to a maximum of 6% of salary, and 'Focus' which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the NIE Scheme are held under trust and invested by the trustees on the advice of professional investment managers.

Financial assumptions

The valuation of the Focus section of the NIE Scheme by independent actuaries for the purpose of IAS 19 disclosures is based on the following assumptions:

	At 31 December 2012	At 31 December 2011	At 31 December 2010
Rate of interest applied to discount liabilities	**4.30%**	4.70%	5.60%
Price inflation (CPI in the United Kingdom)	**1.80%**	1.90%	2.45%
Rate of increase of pensionable salaries	**3.05%**	3.40%	3.85%
Rate of increase of pensions in payment	**1.80%**	1.90%	2.45%

The discount rate used in the calculation of the pension liability at 31 December 2012 was 4.3% (2011: 4.7%). This was determined by reference to market yields as at that date on high quality corporate bonds. The currency and term of the corporate bonds was consistent with the currency and estimated term of the post-employment benefit obligations.

Mortality assumptions

The assumptions relating to life expectancy at retirement for members are set out below. These assumptions are based on standard actuarial mortality tables and include an allowance for future improvements in life expectancy.

	At 31 December 2012		At 31 December 2011	
	Males Years	**Females Years**	Males Years	Females Years
Current pensioners at aged 60	**26.4**	**28.9**	26.3	28.8
Future pensioners currently aged 40 (life expectancy age 60)	**27.9**	**30.5**	27.9	30.4

Pension assets and liabilities

The assets and liabilities in the Focus section of the NIE Scheme, and the expected rates of return are:

	At 31 December 2012 €'000	**Expected rate of return %**	At 31 December 2011 €'000	Expected rate of return %	At 31 December 2010 €'000	Expected rate of return %
Equities	**359,933**	**7.6%**	331,554	7.6%	397,063	7.4%
Bonds	**769,261**	**3.7%**	731,720	3.5%	634,397	4.6%
Other	**3,264**	**2.7%**	2,522	2.8%	2,562	4.2%
Fair value of plan assets	**1,132,458**		1,065,796		1,034,022	
Present value of funded obligations	**(1,264,982)**		(1,157,012)		(1,021,324)	
Net (deficit) / surplus	**(132,524)**		(91,216)		12,698	

The expected rate of return on equities is based on the expected median returns over the long-term. The expected rate of return on bonds is measured directly from actual market yields for UK gilts and corporate bonds. Other assets include cash balances and other investments. The expected rate of return on these assets is measured directly from short-term market interest rates.

NOTES TO THE FINANCIAL STATEMENTS

20. PENSION LIABILITIES (continued)

(c) Northern Ireland Electricity Pension Scheme (continued)

History of experience gains and losses	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Difference between the expected and actual return on Scheme assets:		
Amount	**21,110**	(20,812)
Percentage of Scheme assets	**1.9%**	2.0%
Experience (losses) / gains on Scheme liabilities:		
Amount	**(22,876)**	6,476
Percentage of the present value of Scheme liabilities	**1.8%**	(0.6%)
Change in benefit obligation		
Benefit obligation at the beginning of the year	**1,157,012**	1,021,324
Movement in year:		
Current service cost	**9,689**	8,096
Interest cost	**57,589**	54,669
Plan members' contributions	**697**	634
Actuarial loss	**77,993**	91,966
Benefits paid	**(65,305)**	(57,580)
Reallocation of liabilities from Viridian to NIE	**-**	2,523
Curtailment cost	**353**	-
Translation difference on benefit obligation in the year	**26,954**	35,380
Benefit obligation at the end of the year	**1,264,982**	1,157,012
Change in plan assets		
Fair value of plan assets at the beginning of the year	**1,065,796**	1,034,022
Movement in year:		
Expected return on plan assets	**55,447**	53,931
Actuarial gains / (losses)	**21,110**	(20,812)
Employer contributions	**29,268**	21,903
Plan members' contributions	**697**	634
Other - Viridian payment / Reallocation to Viridian	**510**	2,178
Benefits paid	**(65,305)**	(57,580)
Translation difference on assets in the year	**24,935**	31,520
Fair value of plan assets at the end of the year	**1,132,458**	1,065,796
Actual return on plan assets for the year	**76,557**	33,119

Analysis of the amounts recognised in employee costs as part of employee benefits were as follows:

	2012 €'000	2011 €'000
Current service cost	**(9,689)**	(8,096)
Curtailment cost	**(353)**	-
Total defined benefit charge in year	**(10,042)**	(8,096)

Analysis of the amounts recognised in the finance costs, as net pension scheme interest:

Expected return on pension scheme assets	**55,447**	53,931
Interest on pension scheme liabilities	**(57,589)**	(54,669)
Net pension scheme interest	**(2,142)**	(738)

Analysis of the amounts recognised in the statement of comprehensive income:

Actuarial gain / (loss) on assets	**21,110**	(20,812)
Actuarial loss on liabilities	**(77,483)**	(92,310)
Net actuarial loss	**(56,373)**	(113,122)

NOTES TO THE FINANCIAL STATEMENTS

21. LIABILITY FOR PENSION OBLIGATION AND EMPLOYEE RELATED LIABILITIES

Group	Liability for pension obligation € '000	Employee related liabilities: Restructuring liabilities € '000	Employee related liabilities: Other € '000	Total € '000
Balance at 1 January 2011	**896,702**	110,109	47,293	**157,402**
Movements during the year:				
Charge to the income statement	**-**	-	37,611	**37,611**
Acquisitions	**-**	-	1,556	**1,556**
Utilised during the year	**(101,907)**	(27,746)	(30,746)	**(58,492)**
Financing charge	**39,947**	3,605	-	**3,605**
Translation differences	**-**	11	25	**36**
Balance at 31 December 2011	**834,742**	85,979	55,739	**141,718**
Balance at 1 January 2012	**834,742**	85,979	55,739	**141,718**
Movements during the year:				
Charge to the income statement	**-**	182,813	20,979	**203,792**
Utilised during the year	**(58,773)**	(90,132)	(46,285)	**(136,417)**
Financing charge	**38,798**	4,034	-	**4,034**
Translation differences	**-**	10	368	**378**
Balance at 31 December 2012	**814,767**	182,704	30,801	**213,505**
Analysed as follows:				
Non-current liabilities	**723,826**	146,415	-	**146,415**
Current liabilities	**90,941**	36,289	30,801	**67,090**
Total	**814,767**	**182,704**	**30,801**	**213,505**

Parent	Liability for pension obligation € '000	Employee related liabilities: Restructuring liabilities € '000	Employee related liabilities: Other € '000	Total € '000
Balance at 1 January 2011	**896,702**	109,592	39,952	**149,544**
Movements during the year:				
Charge to the income statement	**-**	-	30,231	**30,231**
Utilised during the year	**(101,907)**	(27,631)	(24,319)	**(51,950)**
Financing charge	**39,947**	3,605	-	**3,605**
Balance at 31 December 2011	**834,742**	85,566	45,864	**131,430**
Balance at 1 January 2012	**834,742**	85,566	45,864	**131,430**
Movements during the year:				
Charge to the income statement	**-**	182,813	15,431	**198,244**
Utilised during the year	**(58,773)**	(89,941)	(37,307)	**(127,248)**
Financing charge	**38,798**	4,034	-	**4,034**
Balance at 31 December 2012	**814,767**	182,472	23,988	**206,460**
Analysed as follows:				
Non-current liabilities	**723,826**	146,415	-	**146,415**
Current liabilities	**90,941**	36,057	23,988	**60,045**
Total	**814,767**	**182,472**	**23,988**	**206,460**

NOTES TO THE FINANCIAL STATEMENTS

21. LIABILITY FOR PENSION OBLIGATION AND EMPLOYEE RELATED LIABILITIES (continued)

Liability for pension obligation

During 2010 the company reached agreement with the ESB Group of Unions to amend pension arrangements within the company. As explained in note 20, the clarification in the Agreement of the company's commitments in respect of future funding of the ESB General Employees' Superannuation Scheme has given rise to a change in accounting treatment of the Scheme and the Agreement also confirmed certain company obligations which require separate provision.

Under the Agreement the company committed to making an exceptional cash injection into the Scheme, which will be paid over 10 years. The fair value of this cash injection as calculated under the terms of IAS 39 Financial Instruments: Recognition and Measurement, using an effective interest rate of 5.0%, was €638.4 million at the effective date of the Agreement (20 October 2010). In addition it was agreed that the rates of contribution to the Scheme for both the employer and employees will remain unchanged. The current rate of contribution by the employer includes a contribution towards past service. The fair value of future contributions to the Scheme in respect of past service as at the date of the Agreement (20 October 2010) was €206.8 million. This will be paid over the remaining service lives of existing active members of the Scheme. Finally, the company will continue to make pension contributions in respect of staff who have left the company under past voluntary severance initiatives, but who have not reached retirement age. The fair value of this future commitment by the company at 20 October 2010 was €51.9 million.

Restructuring liabilities

This provision represents the estimated cost of providing post employment payments to former employees, other than those amounts covered by the pension scheme. It includes liabilities for continuing payments to employees who left under past voluntary severance initiatives, which are expected to be materially discharged by 2027. Expected future cash flows are discounted to present value using long-term interest rates based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread.

Other

In accordance with the requirements of IAS 19 Employee Benefits, provision has been made for employee remuneration liabilities, including accrued holiday leave, bonuses and profit share arrangements.

22. TRADE AND OTHER PAYABLES

	Group		Parent	
	2012 € '000	2011 € '000	**2012 € '000**	2011 € '000
Current payables:				
Progress payments on work in progress	**34,917**	38,242	**-**	-
Trade payables	**307,378**	266,963	**210,488**	192,786
Other payables	**46,117**	61,568	**34,389**	55,432
Employment taxes	**18,154**	19,303	**16,362**	17,456
Value added tax	**46,035**	43,579	**29,800**	24,505
Accruals	**93,107**	95,592	**19,034**	20,348
Amounts owed to subsidiary undertakings	**-**	-	**1,760,599**	714,631
Accrued interest on borrowings	**69,379**	57,945	**12,868**	2,968
	615,087	583,192	**2,083,540**	1,028,126

	2012 € '000	2011 € '000	**2012 € '000**	2011 € '000
Non-current payables:				
Other payables	**7,813**	13,281	**-**	5,649

NOTES TO THE FINANCIAL STATEMENTS

23. DEFERRED INCOME AND GOVERNMENT GRANTS

(a) Group

	Emissions allowances € '000	Supply contributions and other € '000	**Total € '000**
Balance at 1 January 2011	6,751	699,216	**705,967**
Receivable	135,161	6,437	**141,598**
Released to the income statement	(127,746)	(42,451)	**(170,197)**
Translation differences	(161)	-	**(161)**
Balance at 31 December 2011	14,005	663,202	**677,207**
Balance at 1 January 2012	14,005	663,202	**677,207**
Receivable	69,438	4,476	**73,914**
Released to the income statement	(71,496)	(37,692)	**(109,188)**
Translation differences	150	-	**150**
Balance at 31 December 2012	12,097	629,986	**642,083**
Analysed as follows:			
Non-current liabilities	-	592,376	**592,376**
Current liabilities	12,097	37,610	**49,707**
Total	**12,097**	**629,986**	**642,083**

(b) Parent

	Emissions allowances € '000	Supply contributions and other € '000	**Total € '000**
Balance at 1 January 2011	6,752	687,198	**693,950**
Receivable	112,076	332	**112,408**
Released to the income statement	(104,963)	(32,180)	**(137,143)**
Balance at 31 December 2011	13,865	655,350	**669,215**
Balance at 1 January 2012	13,865	655,350	**669,215**
Receivable	57,629	1,118	**58,747**
Released to the income statement	(60,447)	(32,904)	**(93,351)**
Balance at 31 December 2012	11,047	623,564	**634,611**
Analysed as follows:			
Non-current liabilities	-	590,456	**590,456**
Current liabilities	11,047	33,108	**44,155**
Total	**11,047**	**623,564**	**634,611**

Emissions allowances received during the year are recorded as both intangible assets and deferred income. They are valued at market value on receipt and amortised to the income statement on the basis of actual emissions during the year.

To the extent that the value of the emissions allowances received during the year exceed the market value of carbon emissions, this surplus is recognised within deferred income, rather than being amortised to the income statement in the current year and is utilised against the cost of emissions acquired in future years.

Non-repayable supply contributions and capital grants received prior to July 2009 were recorded as deferred income and released to the income statement on a basis consistent with the depreciation policy of the relevant assets. Accounting for supply contributions post July 2009 have been described further in the statement of accounting policies in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

24. PROVISIONS

(a) Group

	Power station closure costs € '000	Emissions provisions € '000	Customer rebate and other provisions € '000	**Total € '000**
Balance at 1 January 2011	192,773	121,139	79,369	**393,281**
Charged / (credited) to the income statement				
- Emissions	-	131,568	-	**131,568**
- Legal and other	-	-	(24,242)	**(24,242)**
- Station closure	281	-	-	**281**
Acquisitions	1,136	-	-	**1,136**
Utilised in the year	(28,376)	(125,014)	(3,142)	**(156,532)**
Financing charge	7,873	-	2,194	**10,067**
Translation differences	157	435	363	**955**
Balance at 31 December 2011	173,844	128,128	54,542	**356,514**
Balance at 1 January 2012	173,844	128,128	54,542	**356,514**
Charged / (credited) to the income statement				
- Emissions	-	76,482	-	**76,482**
- Legal and other	-	-	3,736	**3,736**
- Station closure	(28,238)	-	-	**(28,238)**
Utilised in the year	(12,236)	(127,475)	(4,312)	**(144,023)**
Financing charge	8,643	-	1,787	**10,430**
Translation differences	51	80	285	**416**
Balance at 31 December 2012	142,064	77,215	56,038	**275,317**
Analysed as follows:				
Non-current liabilities	133,643	-	50,943	**184,586**
Current liabilities	8,421	77,215	5,095	**90,731**
Total	**142,064**	**77,215**	**56,038**	**275,317**

(b) Parent

	Power station closure costs € '000	Emissions provisions € '000	Customer rebate and other provisions € '000	**Total € '000**
Balance at 1 January 2011	190,242	92,893	68,239	**351,374**
Charged / (credited) to the income statement				
- Emissions	-	100,740	-	**100,740**
- Legal and other	-	-	(25,420)	**(25,420)**
Utilised in the year	(28,376)	(96,799)	(2,557)	**(127,732)**
Financing charge	7,873	-	2,194	**10,067**
Balance at 31 December 2011	169,739	96,834	42,456	**309,029**
Balance at 1 January 2012	169,739	96,834	42,456	**309,029**
Charged / (credited) to the income statement				
- Emissions	-	60,447	-	**60,447**
- Legal and other	-	-	3,296	**3,296**
- Station closure	(28,413)	-	-	**(28,413)**
Utilised in the year	(12,310)	(96,286)	(3,507)	**(112,103)**
Financing charge	8,643	-	1,787	**10,430**
Balance at 31 December 2012	137,659	60,995	44,032	**242,686**
Analysed as follows:				
Non-current liabilities	129,238	-	40,871	**170,109**
Current liabilities	8,421	60,995	3,161	**72,577**
Total	**137,659**	**60,995**	**44,032**	**242,686**

NOTES TO THE FINANCIAL STATEMENTS

24. PROVISIONS (continued)

Power station closure costs

The provision at 31 December 2012 of €142.1 million (2011: €173.8 million) for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2025. As the costs are provided on a discounted basis, a financing charge is included in the income statement and added to the provision each year. The power station closure provision is re-examined annually and the liability re-calculated in accordance with the current expected station closure dates. Closure costs include physical dismantling costs and costs associated with de-manning the stations on closure.

There are a number of uncertainties that affect the calculation of the provision for station closure, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, the impact of alternative technologies and changes in the discount rate. The Group has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision. Expected future cash flows are discounted to present value using long-term interest rates based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread.

Further to the voluntary severance programme completed during the year, the Group revised its estimate of the present value of costs of closure of generating stations, and released the remaining surplus to employee exit costs in the income statement in 2012.

Emissions provisions

In accordance with the provisions of the European CO_2 emissions trading scheme, a provision is recognised to cover the liability for actual emissions during the year. Under this scheme, emissions allowances covering a percentage of the expected emissions are granted at the beginning of each year by the relevant Authority (see note 10 intangible assets). These allowances, together with any additional allowances purchased during the year, are returned to the relevant Authority in charge of the scheme within four months from the end of that calendar year, in line with the actual emissions of CO_2 during the year. The year end provision represents the obligation to return emissions allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO_2 emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability.

Customer rebate and other provisions

A customer rebate provision of €300 million at 1 January 2009 related to a payment due from ESB to all Irish electricity customers, in order to mitigate the requirement for increased electricity tariffs in 2008 / 2009 due to volatility in fuel prices. This was substantially paid during 2009. The remaining balance, in addition to other provisions no longer required, was released to the income statement in 2011.

Other provisions represent prudent estimates of liabilities that may or may not arise, to third parties, in respect of claims notified or provided for at year end. In accordance with normal commercial practice, the year end provision includes an estimate for liabilities incurred but not yet notified.

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

(a) Overview of financial risk management

Risk environment

The main financial risks faced by the Group relate to liquidity, foreign exchange, interest rate, commodity (electricity and fuel) price movements and operational risk. Policies to protect the Group from these risks, and other risk areas, such as credit risk, are regularly reviewed, revised and approved by the Board as appropriate. Group Treasury is responsible for the day to day treasury activities of the Group. The Board Finance Committee is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the Committee for review.

Commodity price risk is managed by the front and middle office functions of the relevant business units: ESB Energy International and Electric Ireland. This is done in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit. The Group Trading Risk Management function ensures that the Group's market, credit and operational risks are managed in a way to protect the Group from loss, while respecting the ring-fencing obligations in place between the business units.

Contracts entered into in order to hedge exposures arising from the production and sale of electricity may be divided into forward fuel price contracts, forward electricity price contracts and foreign exchange contracts. Financial instruments are derecognised on settlement or sale.

Risk reporting structure

Through the Chief Executive, the Board has delegated to the Group Trading Committee (GTC) the broader responsibility of managing ESB's trading risk in a manner consistent with the Group's risk tolerance and business strategies. The GTC has established risk limits to manage and limit trading risk exposure at Group and business unit level. These limits are documented for each of the ESB businesses engaged in wholesale trading activities. Furthermore the Group Trading Risk Management Policy is applicable to each of these businesses.

Within each of these business units, a Trading Risk Management Committee has been established to serve as the primary overseer of trading risk at individual ring-fenced entity level. This committee includes the head of the front office function, the Trading Risk (Middle Office) Manager, a representative from Group Trading Risk Management, and the business unit Financial Controller. The Trading Risk Management Committees are responsible for formulating trading risk strategy in accordance with the Group Trading Risk Management Policy and ensuring compliance with same, trading risk limit management and ensuring that there is an effective control framework in place.

The Trading Risk Management Committees report to the GTC. The middle office function in each business unit maintains a separate reporting line to the Group Trading Risk Management function, which is responsible for ensuring that the Group's net exposure to movements in commodity or other price movements is adequately managed in accordance with Group Trading Risk Management Policy. The trading operations of the business units are subject to review by Group Internal Audit.

For further information on the Group's Risk Management policy and objectives see the Risk Management Report on pages 58 to 61.

Hedge accounting

ESB funds its operations using a combination of borrowings and finance leases, uses deposit instruments to invest surplus funds and uses interest rate and foreign currency instruments to manage interest rate and currency risks that arise in the normal course of operations from US dollar and sterling denominated borrowings, from its foreign currency subsidiaries, and from the use of foreign currency suppliers. Hedge accounting pursuant to IAS 39 is used both for hedges of foreign currency liabilities and interest rate risks from current and non-current liabilities.

In addition, the Group enters into certain commodity hedging transactions to fix fuel costs and to link electricity revenues more closely to fuel inputs, where possible. All of these arrangements are designated into hedge relationships, and in the great majority of cases meet the specific hedging accounting criteria of IAS 39. Where the IAS 39 hedge criteria are met in respect of cross currency swaps, interest rate swaps, foreign exchange contracts, forward fuel price contracts and forward electricity price contracts, all of these instruments are designated as cash flow hedges of highly probable forecast interest, revenue or other operating cost cash flows. Any derivatives on hand which are not specifically designated into hedge relationships from an accounting perspective are nevertheless regarded as valid economic hedges.

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Overview of financial assets and liabilities

Financial assets and liabilities, excluding provisions and employee related liabilities, at 31 December 2012, and at 31 December 2011 can be analysed as follows:

Group	Financial assets at fair value through profit or loss		Assets / (liabilities) held at amortised cost		Derivative financial instruments with hedging relationships		Derivative financial instruments with no hedging relationships		Total	
	2012 €'000	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000
ASSETS										
Non-current assets										
Financial asset investments	**48,849**	40,826	**-**	-	**-**	-	**-**	-	**48,849**	40,826
Derivative financial instruments	**-**	-	**-**	-	**353,628**	427,303	**328**	429	**353,956**	427,732
Total non-current financial assets	**48,849**	40,826	**-**	-	**353,628**	427,303	**328**	429	**402,805**	468,558
Current assets										
Trade and other receivables	**-**	-	**794,131**	643,710	**-**	-	**-**	-	**794,131**	643,710
Cash and cash equivalents	**-**	-	**159,405**	277,409	**-**	-	**-**	-	**159,405**	277,409
Derivative financial instruments	**-**	-	**-**	-	**81,966**	72,900	**2,360**	2,124	**84,326**	75,024
Total current financial assets	**-**	-	**953,536**	921,119	**81,966**	72,900	**2,360**	2,124	**1,037,862**	996,143
Total financial assets	**48,849**	40,826	**953,536**	921,119	**435,594**	500,203	**2,688**	2,553	**1,440,667**	1,464,701
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	**-**	-	**4,124,413**	4,367,862	**-**	-	**-**	-	**4,124,413**	4,367,862
Liability for pension obligation	**-**	-	**723,826**	732,835	**-**	-	**-**	-	**723,826**	732,835
Trade and other payables	**-**	-	**7,813**	13,281	**-**	-	**-**	-	**7,813**	13,281
Derivative financial instruments	**-**	-	**-**	-	**103,698**	74,382	**494,054**	479,455	**597,752**	553,837
Total non-current financial liabilities	**-**	-	**4,856,052**	5,113,978	**103,698**	74,382	**494,054**	479,455	**5,453,804**	5,667,815
Current liabilities										
Borrowings and other debt	**-**	-	**449,246**	233,309	**-**	-	**-**	-	**449,246**	233,309
Liability for pension obligation	**-**	-	**90,941**	101,907	**-**	-	**-**	-	**90,941**	101,907
Trade and other payables	**-**	-	**615,087**	583,192	**-**	-	**-**	-	**615,087**	583,192
Derivative financial instruments	**-**	-	**-**	-	**52,254**	17,608	**18,909**	9,191	**71,163**	26,799
Total current financial liabilities	**-**	-	**1,155,274**	918,408	**52,254**	17,608	**18,909**	9,191	**1,226,437**	945,207
Total financial liabilities	**-**	-	**6,011,326**	6,032,386	**155,952**	91,990	**512,963**	488,646	**6,680,241**	6,613,022
Parent										
ASSETS										
Non-current assets										
Investments in subsidiary undertakings	**-**	-	**72,832**	72,832	**-**	-	**-**	-	**72,832**	72,832
Derivative financial instruments	**-**	-	**-**	-	**996**	2,130	**328**	429	**1,324**	2,559
Total non-current financial assets	**-**	-	**72,832**	72,832	**996**	2,130	**328**	429	**74,156**	75,391
Current assets										
Trade and other receivables	**-**	-	**2,415,867**	1,946,550	**-**	-	**-**	-	**2,415,867**	1,946,550
Cash and cash equivalents	**-**	-	**47,990**	202,470	**-**	-	**-**	-	**47,990**	202,470
Derivative financial instruments	**-**	-	**-**	-	**2,171**	5,313	**1,998**	2,124	**4,169**	7,437
Total current financial assets	**-**	-	**2,463,857**	2,149,020	**2,171**	5,313	**1,998**	2,124	**2,468,026**	2,156,457
Total financial assets	**-**	-	**2,536,689**	2,221,852	**3,167**	7,443	**2,326**	2,553	**2,542,182**	2,231,848
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	**-**	-	**1,822,880**	2,974,835	**-**	-	**-**	-	**1,822,880**	2,974,835
Liability for pension obligation	**-**	-	**723,826**	732,835	**-**	-	**-**	-	**723,826**	732,835
Trade and other payables	**-**	-	**-**	5,649	**-**	-	**-**	-	**-**	5,649
Derivative financial instruments	**-**	-	**-**	-	**87,418**	68,279	**536**	938	**87,954**	69,217
Total non-current financial liabilities	**-**	-	**2,546,706**	3,713,319	**87,418**	68,279	**536**	938	**2,634,660**	3,782,536
Current liabilities										
Borrowings and other debt	**-**	-	**434,950**	219,746	**-**	-	**-**	-	**434,950**	219,746
Liability for pension obligation	**-**	-	**90,941**	101,907	**-**	-	**-**	-	**90,941**	101,907
Trade and other payables	**-**	-	**2,083,540**	1,028,126	**-**	-	**-**	-	**2,083,540**	1,028,126
Derivative financial instruments	**-**	-	**-**	-	**51,244**	9,451	**4,981**	1,056	**56,225**	10,507
Total current financial liabilities	**-**	-	**2,609,431**	1,349,779	**51,244**	9,451	**4,981**	1,056	**2,665,656**	1,360,286
Total financial liabilities	**-**	-	**5,156,137**	5,063,098	**138,662**	77,730	**5,517**	1,994	**5,300,316**	5,142,822

The Group's provisions and employee related liabilities are not analysed in the table above, or in the further analysis overleaf. The only exception to this is the liability for pension obligation of €814.8 million at 31 December 2012 (2011: €834.7 million). See notes 20, 21 and 23 for further information in relation to this and to the other provisions and employee related liabilities.

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Funding and liquidity management

The following table sets out the contractual maturities of financial liabilities (and assets of a similar nature), including the interest payments associated with borrowings, and the undiscounted net cash flows attributable to derivative financial instruments. Borrowings with a carrying value of €2,315.8 million (2011: €1,406.6 million), and net derivative financial instrument liabilities of €91.9 million (2011: €8.2 million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities. See notes 18, 19 and 25(b) for further analysis of Group and Parent financial assets and liabilities.

	Carrying amount € '000	Contractual cash outflows/ (inflows) - net € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
31 December 2012						
Borrowings	4,573,659	6,174,060	672,851	453,770	1,738,619	3,308,820
Trade and other payables (excluding interest and tax balances)	489,332	489,332	481,519	7,813	-	-
Financial instruments	668,915	924,543	75,952	23,590	195,875	629,126
Total liabilities	**5,731,906**	**7,587,935**	**1,230,322**	**485,173**	**1,934,494**	**3,937,946**
Financial instruments	438,282	447,483	84,531	83,663	192,524	86,765
Total assets	**438,282**	**447,483**	**84,531**	**83,663**	**192,524**	**86,765**
Net liabilities	**5,293,624**	**7,140,452**	**1,145,791**	**401,510**	**1,741,970**	**3,851,181**
31 December 2011						
Borrowings	4,601,171	5,938,014	405,443	573,531	2,234,972	2,724,068
Trade and other payables (excluding interest and tax balances)	475,646	475,646	462,365	13,281	-	-
Financial instruments	580,636	873,770	29,814	33,032	165,273	645,651
Total liabilities	5,657,453	7,287,430	897,622	619,844	2,400,245	3,369,719
Financial instruments	502,756	534,356	72,520	75,208	182,664	203,964
Total assets	502,756	534,356	72,520	75,208	182,664	203,964
Net liabilities	5,154,697	6,753,074	825,102	544,636	2,217,581	3,165,755

(d) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial assets	**2012**		**2011**	
	Group € '000	**Parent € '000**	Group € '000	Parent € '000
Trade and other receivables	**794,131**	**2,415,867**	643,710	1,946,550
Financial asset investments	**48,849**	**72,832**	40,826	72,832
Cash and cash equivalents	**159,405**	**47,990**	277,409	202,470
Derivative financial instruments	**438,282**	**5,493**	502,756	9,996
	1,440,667	**2,542,182**	1,464,701	2,231,848

Trade and other receivables

Wholesale and credit risk arising from trade and other receivables has been disclosed in note 14.

Financial asset investments

Credit risk arising on financial asset investments, including financial assets at fair value through profit or loss, is closely monitored and reflected in the carrying value at year end.

Treasury related credit risk (relating to cash and derivative instruments)

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts with in the financial markets. The Group's policy is to limit its exposure to each financial institution based on accepted credit ratings of not less than BBB or equivalent.

Trading in derivatives is performed to mitigate financial risks and is executed in compliance with the Specification and Requirements of the Minister for Finance issued under the aegis of the "Financial Transactions of Certain Companies and Other Bodies Act 1992". The Specification and Requirements outline the type of derivatives which ESB can transact and the associated requirements which ESB must satisfy regarding each derivative counterparty. Dealing activities are controlled by putting in place robust dealing mandates with counterparties. The Group does not hold or trade derivative instruments for speculative purposes. Exposures, related limits and compliance with the Minister's Specification and Requirements are subject to ongoing review and monitoring. The Group has not experienced any losses due to failure of such counterparties to deliver on their obligations.

Commodity credit risk (relating to derivatives)

The Group also has credit risk associated with commodity positions. These arise from derivative financial instruments that are entered into to hedge energy and fuel price risks and are managed in accordance with the Minister's Specification and Requirements ("Financial Transactions of Certain Companies and Other Bodies Act 1992"). The Group establishes counterparty credit risk limits to restrict uncollateralised exposure. Net exposures, collateral requirements and compliance are monitored on an ongoing basis. Collateral, in the form of bonds and guarantees, is required by ESB business units from various parties, specifically in the form of Letters of Credit from certain power Contract for Differences (CfD) counterparties. Total collateral held at year end was €173.7 million (2011: €208.9 million). Given the current economic environment, the Group is particularly cognisant of any changes in the creditworthiness of counterparties, and where such a change occurs all appropriate steps are taken to further secure the Group's position.

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) Foreign currency risk management

Foreign currency exposures arise mainly through the purchase of fuel and power, station overhaul costs required, other purchases denominated in foreign currencies, borrowings in foreign currencies (including the private placement as described in note 18) and investments outside the eurozone.

Foreign currency forward purchase contracts and cross currency swaps are used to reduce volatility arising from foreign currency exposures. The foreign currency forward purchase contracts in place at 31 December 2012 relate to forecast cash flows expected to occur up to 15 December 2023.

At year end, ESB's total debt portfolio amounted to €4.6 billion (2011: €4.6 billion), of which the Parent held €2.3 billion (2011: €3.2 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

Group	Before swaps		After swaps	
	2012 %	2011 %	2012 %	2011 %
Currency				
Euro	**46%**	37%	**67%**	59%
US Dollar	**20%**	21%	**0%**	0%
Sterling	**34%**	42%	**33%**	41%
Total	**100%**	100%	**100%**	100%

Parent	Before swaps		After swaps	
	2012 %	2011 %	2012 %	2011 %
Currency				
Euro	**56%**	52%	**81%**	83%
US Dollar	**24%**	30%	**0%**	0%
Sterling	**20%**	18%	**19%**	17%
Total	**100%**	100%	**100%**	100%

As shown above, the majority of the Parent debt portfolio is swapped to euro for both principal and interest, thereby reducing the foreign currency risk exposure in the Group. In managing its foreign operations, the Group is cognisant of borrowing in currencies that match the functional currency of the foreign operation. Therefore a substantial proportion of debt is sterling-denominated primarily as a result of the NIE acquisition.

A general increase of 10% in foreign currency exchange rates at 31 December would increase equity and profit before taxation by the amount set out below. This analysis assumes that all other variables remain constant, and includes the impact of the value of commodity swaps in place, all of which are in effective hedge relationships at 31 December 2012.

Group	31 December 2012		31 December 2011	
	Other comprehensive income Gain / (loss) € '000	**Profit before taxation Gain / (loss) € '000**	Other comprehensive income Gain / (loss) € '000	Profit before taxation Gain / (loss) € '000
10% Strengthening				
US Dollar	**(24,337)**	**-**	(24,974)	259
Sterling	**9,258**	**451**	(15,153)	(69)
Swiss Franc	**(1,959)**	**-**	(3,783)	(503)
10% Weakening				
US Dollar	**29,745**	**-**	30,524	(317)
Sterling	**(11,315)**	**(551)**	18,520	84
Swiss Franc	**2,394**	**-**	4,624	615

The following assumptions were made in respect of the sensitivity analysis above:

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only;
- changes in the carrying value of derivative financial instruments that are cash flow hedges impact other comprehensive income only;
- changes in the carrying value of derivative financial instruments designated as net investment hedges arising from movements in the euro to sterling exchange rate are recorded directly in equity, with no ineffectiveness assumed.

The impact on the Parent of such movements would be substantially the same as that on the Group.

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(f) Commodity price risk management

The volatility of the fuel prices required for the Group's electricity generation activities has been significant in recent years and the resulting exposures to fuel price movements are managed by the Group on a selective hedging basis. The Group has entered into forward commodity price contracts in relation to the purchase of gas and coal required for electricity generation activities - see note 19. Forward fuel price contracts are valued based on physical volumes contracted and outstanding, and on the forward prices of products of a similar nature, at the balance sheet date, discounted where necessary based on an appropriate forward interest curve.

A general increase of 10% in the price of gas and coal at 31 December would increase equity and profit before taxation by the amount set out below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant, and includes the impact of the value of commodity swaps in place, all of which are in effective cash flow hedge relationships at 31 December 2012. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remain constant.

Group	**31 December 2012**		31 December 2011	
	Other comprehensive income Gain / (loss) € '000	**Profit before taxation Gain / (loss) € '000**	Other comprehensive income Gain / (loss) € '000	Profit before taxation Gain / (loss) € '000
Gain due to 10% increase in gas and coal prices	**119,028**	**1,094**	122,153	2,502

Parent	**31 December 2012**		31 December 2011	
	Other comprehensive income Gain / (loss) € '000	**Profit before taxation Gain / (loss) € '000**	Other comprehensive income Gain / (loss) € '000	Profit before taxation Gain / (loss) € '000
Gain due to 10% increase in gas and coal prices	**20,596**	**1,094**	22,349	2,502

A general increase of 10% in the System Market Price (SMP) of the Single Electricity Market at 31 December would have decreased other comprehensive income and profit before taxation by the amounts set out below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant, and includes the impact on the value of commodity swaps in place. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remained constant.

Group	**31 December 2012**		31 December 2011	
	Other comprehensive income Gain / (loss) € '000	**Profit before taxation Gain / (loss) € '000**	Other comprehensive income Gain / (loss) € '000	Profit before taxation Gain / (loss) € '000
Loss due to 10% increase in the SMP	**(39,076)**	-	(61,684)	-

A 10% movement in the SMP at 31 December would have no significant impact on other comprehensive income, or profit before taxation, of the Parent in 2012 or 2011.

The sensitivity analysis provided above for the Group and Parent has been calculated as at 31 December using the following base commodity prices and foreign currency rates:

	2012	**2011**
Gas (Stg. p/therm)	**60.90**	62.75
SMP (€/ MWh)	**67.73**	71.88
Coal (US$ / tonne)	**90.10**	112.40
Foreign currency rate (US$ = €1)	**1.3194**	1.2939
Foreign currency rate (Stg£ = €1)	**0.8161**	0.8353

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(g) Fair value

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

	Group		Parent	
31 December 2012	Carrying value 2012 € '000	Fair value 2012 € '000	Carrying value 2012 € '000	Fair value 2012 € '000
Long-term debt	4,124,413	4,505,509	1,822,880	1,940,801
Short-term borrowings (includes finance leases)	449,246	482,995	434,950	467,526
Total borrowings	**4,573,659**	**4,988,504**	**2,257,830**	**2,408,327**
Derivative financial instruments - (assets) / liabilities	230,633	230,633	138,686	138,686
Financial assets at fair value through profit or loss	(48,849)	(48,849)	-	-
Liabilities for pension obligation	814,767	814,767	814,767	814,767
Trade and other payables (excluding bank overdrafts)	622,900	622,900	2,083,540	2,083,540
Trade and other receivables	(794,131)	(794,131)	(2,415,867)	(2,415,867)
Cash and cash equivalents	(159,405)	(159,405)	(47,990)	(47,990)
Net liabilities	**5,239,574**	**5,654,419**	**2,830,966**	**2,981,463**

	Group		Parent	
31 December 2011	Carrying value 2011 € '000	Fair value 2011 € '000	Carrying value 2011 € '000	Fair value 2011 € '000
Long-term debt	4,312,134	4,233,929	2,919,107	2,845,663
Long-term finance lease liabilities	55,728	56,560	55,728	56,560
Short-term borrowings (includes finance leases)	233,309	226,989	219,746	212,687
Total borrowings	**4,601,171**	**4,517,478**	**3,194,581**	**3,114,910**
Derivative financial instruments - (assets) / liabilities	77,880	77,880	69,728	69,728
Financial assets at fair value through profit or loss	(40,826)	(40,826)	-	-
Liabilities for pension obligation	834,742	834,742	834,742	834,742
Trade and other payables (excluding bank overdrafts)	596,473	596,473	1,033,775	1,033,775
Trade and other receivables	(643,710)	(643,710)	(1,946,550)	(1,946,550)
Cash and cash equivalents	(277,409)	(277,409)	(202,470)	(202,470)
Net liabilities	**5,148,321**	**5,064,628**	**2,983,806**	**2,904,135**

As trade and other receivables are all due within one year, and have been provided for where impaired, their carrying value is considered to be materially in line with their fair value.

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of trade and other payables is calculated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Fair value - discount rates

The interest rates used to discount future estimated cash flows, where applicable, are based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread, and were as follows:

	2012 %	2011 %
Leases	-	4.8%
Other loans and borrowings	**3.3%**	5.3%
Derivative financial instruments	**1.1%**	1.7%
Liability for pension obligation	**5.0%**	5.0%
Trade and other payables	**2.7%**	5.2%

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(h) Fair value hierarchy

The table below analyses financial assets and liabilities carried at fair value, by valuation method. The different levels relevant to financial assets and liabilities held by the Group have been defined as follows:

- Level 2: inputs, other than unadjusted quoted prices in active markets for identical assets and liabilities, 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).

31 December 2012 - Group

	Level 2 € '000	Level 3 € '000	**Total € '000**
Assets			
Derivative financial instruments			
Foreign exchange contracts	8,872	-	**8,872**
Forward fuel price contracts	505	268,713	**269,218**
Forward electricity price contracts	-	160,192	**160,192**
Financial assets at fair value through profit or loss	-	48,260	**48,260**
	9,377	**477,165**	**486,542**
Liabilities			
Derivative financial instruments			
Currency swaps	108,803	-	**108,803**
Interest rate swaps	20,642	-	**20,642**
Inflation linked interest rate swaps	-	501,093	**501,093**
Forward fuel price contracts	32,697	654	**33,351**
Forward electricity price contracts	-	-	**-**
Foreign exchange contracts	5,026	-	**5,026**
	167,168	**501,747**	**668,915**
Net (liability) / asset	**(157,791)**	**(24,582)**	**(182,373)**

31 December 2011 - Group

	Level 2 € '000	Level 3 € '000	Total € '000
Assets			
Derivative financial instruments			
Foreign exchange contracts	10,495	-	10,495
Forward fuel price contracts	-	238,512	238,512
Forward electricity price contracts	-	253,749	253,749
Financial assets at fair value through profit or loss	-	39,482	39,482
	10,495	531,743	542,238
Liabilities			
Derivative financial instruments			
Currency swaps	68,279	-	68,279
Interest rate swaps	5,986	-	5,986
Inflation linked interest rate swaps	-	486,652	486,652
Forward fuel price contracts	8,204	2,197	10,401
Forward electricity price contracts	-	9,127	9,127
Foreign exchange contracts	191	-	191
	82,660	497,976	580,636
Net (liability) / asset	**(72,165)**	**33,767**	**(38,398)**

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(h) Fair value hierarchy (continued)

31 December 2012 - Parent	Level 2 € '000	Level 3 € '000	**Total € '000**
Assets			
Derivative financial instruments			
Foreign exchange contracts	4,987	-	**4,987**
Forward fuel price contracts	506	-	**506**
	5,493	**-**	**5,493**
Liabilities			
Derivative financial instruments			
Currency swaps	108,803	-	**108,803**
Interest rate swaps	131	-	**131**
Forward fuel price contracts	32,438	-	**32,438**
Foreign exchange contracts	2,807	-	**2,807**
	144,179	**-**	**144,179**
Net liability	**(138,686)**	**-**	**(138,686)**

31 December 2011 - Parent	Level 2 € '000	Level 3 € '000	Total € '000
Assets			
Derivative financial instruments			
Foreign exchange contracts	7,002	-	7,002
Forward fuel price contracts	2,994	-	2,994
	9,996	-	9,996
Liabilities			
Derivative financial instruments			
Currency swaps	68,279	-	68,279
Interest rate swaps	938	-	938
Forward fuel price contracts	10,401	-	10,401
Foreign exchange contracts	106	-	106
	79,724	-	79,724
Net liability	(69,728)	-	(69,728)

The following table shows a reconciliation from opening balances at 1 January 2012 to the year end balances for fair value measurements in level 3 of the fair value hierarchy:

Group	Financial assets at fair value through profit or loss € '000	Forward electricity price contracts € '000	Forward fuel price contracts € '000	Inflation linked interest rate swaps € '000	**Total € '000**
Opening balance	39,482	244,622	236,315	(486,652)	**33,767**
Transferred in from Level 2	-	-	-	-	**-**
Purchases	15,223	-	-	-	**15,223**
Acquired during the year	-	-	-	-	**-**
Total gains or losses:					
in profit or loss	(6,445)	-	-	(12,660)	**(19,105)**
in OCI	-	(118,862)	(4,407)	-	**(123,269)**
Settlements	-	34,432	36,151	8,822	**79,405**
Translation movements	-	-	-	(10,603)	**(10,603)**
Closing balance - net	**48,260**	**160,192**	**268,059**	**(501,093)**	**(24,582)**

Financial assets at fair value through profit or loss are carried at fair value. Where applicable, the fair value is based on the most recent fund valuation statement available. In relation to stand alone investments, the valuation methodology used is in accordance with International Private Equity and Venture Capital Valuation Guidelines which have been developed by a number of international venture capital associations. As this requires the use of model based valuation techniques, with a number of unobservable inputs, all financial assets at fair value through profit or loss have been categorised as level 3 investments in the current year.

Forward fuel price contracts and forward electricity price contracts included at level 3 in the fair value hierarchy relate to long-term contracts whose valuations are based on a number of forward price assumptions, with some unobservable inputs, including assumed forward electricity, carbon and gas inputs for longer term periods. Settlements form part of revenue and fuel costs in the income statement.

(i) Capital management

The Group considers its capital to comprise equity, being capital stock, retained earnings and cash flow hedging, revaluation and other reserves. Movements in retained earnings and cash flow hedging and revaluation reserves during the year are disclosed in the Group statement of changes in equity in these financial statements. Any changes in the composition of capital stock need shareholder approval. The Group's objective is to maintain strong cash flow generation, interest cover and gearing ratios while funding the growth and capital investment levels targeted in its 2020 strategy.

NOTES TO THE FINANCIAL STATEMENTS

26. COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

Total commitments under non-cancellable operating leases were as follows:	**2012 € '000**	2011 € '000
Within one year	**14,794**	14,588
Between two and five years	**33,690**	41,129
After five years	**105,895**	114,778
Total payable	**154,379**	170,495

Operating leases payable by the Group generally relate to the rental of land and buildings. These lease costs are based on open market value and are generally subject to rent reviews, on average, every five years. There are no significant or unusual restrictions imposed on the Group by the terms of the operating leases.

(b) Capital commitments	**2012 € '000**	2011 € '000
Contracted for	**756,426**	215,489

Capital commitments have increased in 2012 mainly in relation to the project to construct an 881MW Combined Cycle Gas Turbine (CCGT) power plant in Carrington, near Manchester. This project reached financial close in September 2012, with the plant scheduled to be commissioned by 2016.

New long-term maintenance contracts were also agreed during 2012

Included in the 2012 capital commitments, is a commitment relating to the VantagePoint fund (see note 12). The Group could be called upon by its partners in this fund to make a further €3.6 million investment (2011: €6.2 million).

Share of joint venture capital commitments	**2012 € '000**	2011 € '000
Contracted for	**-**	88

The commitments in 2011 relate mainly to maintenance contracts which the Bizkaia Energia SL joint venture had entered into.

(c) Fuel contract commitments

There are a number of long-term gas supply arrangements in place for different periods up to 2020. These arrangements provide for pricing changes in line with changes in inbuilt energy market indicators. Where appropriate, embedded derivatives have been separated and valued in accordance with IAS 39.

(d) Other disclosures

A number of letters of claim have been received in relation to 2009 flooding in Cork (Ireland); one claimant has issued legal proceedings seeking to recover circa €19 million for property damage. There is a possibility of additional claims being brought in connection with the flooding, but ESB intends to strenuously defend all such claims. On the basis of advices obtained, ESB believes that it has a good defence to these claims, and accordingly, no provision has been made for such claims in the financial statements.

On 22 February 2012 the Irish Government announced that it had decided to pursue a proposal to dispose of some of ESB's non-strategic generation capacity.

Further to that decision, on 24 October 2012, the Government requested ESB to develop proposals for the sale of some non-strategic generation capacity, with the specific objective of delivering special dividends to the Government targeted at up to €400 million by the end of 2014. In making this request, the Government has reaffirmed its commitment that ESB will:

- remain as a vertically integrated utility (VIU) in State ownership;
- maintain its strong credit rating to ensure access to funding in order to deliver its investment in key infrastructure; and
- retain significant scale in Generation to compete in the all-islands (Ireland and UK) market, while continuing to move to an appropriate market share in Ireland.

As at 31 December 2012 no assets of the Group met the criteria of IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations requiring separate presentation and disclosure, but may meet those criteria in the forthcoming accounting period.

NOTES TO THE FINANCIAL STATEMENTS

27. RELATED PARTY TRANSACTIONS

Semi-state bodies
In common with many other entities, ESB deals in the normal course of business with other government sponsored bodies such as Bord Gáis and Bord na Móna. Long-term agreements are negotiated between ESB and Bord na Móna in relation to the purchase of peat for the Midland Stations.

Banks owned by the Irish state
In the normal course of business ESB transacts with certain Irish banks which have become wholly or partially controlled by the Irish Government. All of ESB's transactions with such banks are on normal commercial terms. ESB had no material concentration of borrowings with any such banks during the year or at 31 December 2012. A portion of the cash and cash equivalents as disclosed in note 15 was on deposit with such banks.

Board Members' interests
Other than agreed allocations under ESOP, Board Members had no beneficial interest in ESB or its subsidiaries at any time during the year.

Subsidiary undertakings
During the year ended 31 December 2012, ESB Parent purchased engineering, consulting and other services, including rental services, of €93.1 million (2011: €109.7 million) from its subsidiaries.

During the year, ESB Parent had sales of €75.0 million (2011: €69.7 million) to subsidiaries. These sales mainly relate to management services, as well as electricity charges including Use of System charges and sales of electricity.

During the year, ESB Parent received interest of €42.4 million (2011: €31.4 million) from subsidiaries and paid interest of €25.2 million (2011: €6.8 million) to subsidiaries on intercompany loans.

At 31 December 2012, ESB Parent had amounts payable of €1,760.6 million (2011: €714.6 million) to its subsidiaries. These payables mainly relate to amounts held on deposit for subsidiaries, borrowings raised by ESB Finance Limited and loaned to ESB Parent for working capital and capital expenditure requirements, as well as amounts due in respect of engineering and consulting services.

At 31 December 2012, ESB Parent had balances receivable of €1,969.6 million (2011: €1,583.6 million) from its subsidiaries. These receivables mainly relate to management services and loans to subsidiaries, as well as electricity charges including Use of System charges.

At 31 December 2012, ESB Parent had investments in subsidiaries, in relation to equity and capital contributions, of €72.8 million (2011: €72.8 million).

Joint ventures
ESB provided services during the year to Bizkaia Energia SL to the value of €6.7 million (2011: €6.5 million), to Oweninny Power Limited of €2.5 million (2011: €nil), and to Emerald Bridge Fibres Limited of €0.2 million. No services were provided to Marchwood Power Limited during 2012 (2011: €nil).

Capital funding of €1.5 million (2011: €nil) was advanced to Oweninny Power Limited, and €4.1 million (2011: €nil) to Emerald Bridge Fibres Limited. No capital was advanced during the year to Bizkaia Energia SL (2011: €nil) or Marchwood Power Limited (2011: €nil).

On 4 May 2011, Corby Power Limited converted from a joint venture to a full subsidiary of ESB Group, with the Group acquiring the remaining 50% equity share in the company. Prior to full acquisition of Corby Power Limited, ESB provided services to the value of €1.8 million to the company.

Key management compensation	**2012 € '000**	2011 € '000
Salaries and other short-term employee benefits	**2,731**	2,849
Post-employment benefits	**329**	361
Termination benefits	**200**	171
	3,260	3,381

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 Group. This includes the remuneration of Board Members and the executive team.

NOTES TO THE FINANCIAL STATEMENTS

28. ESTIMATES AND JUDGEMENTS

Preparation of consolidated financial statements requires a significant number of judgemental assumptions and estimates to be made. These impact on the income and expenses contained within the income statement and the valuation of the assets and liabilities in the balance sheet. 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.

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:

(a) The fair value, in accordance with IAS 36 Impairment of Assets, of long lived assets and associated goodwill, as described in note 11.

(b) Future costs required to settle current provisions and employee related liabilities, such as pension liabilities, the liability for pension obligation, power station closure costs and voluntary severance obligations. These liabilities are disclosed in notes 20, 21 and 24.

(c) The measurement of a number of assets, liabilities, income and costs at year end which require a high degree of estimation and judgement, including, the calculation of unbilled electricity income and trade and other receivables, the valuation of fuel stocks, the cost of fuel consumed, the useful lives of fixed assets and also accruals for goods received or work carried out for which supplier invoices have not yet been received. These items are estimated in accordance with the accounting policies of the Group and current International Financial Reporting Standards.

(d) As described in note 25 section (h), the valuation of certain financial instruments is based on a number of judgemental factors and assumptions which of necessity are not based on observable inputs. These have been classified as level 3 financial instruments, under the meaning of IFRS 7 Financial Instruments: Disclosures. In 2010, the Group acquired, as part of the acquisition of NIE, inflation linked interest rate swaps which have a duration of over 20 years, which have been added to the Group's existing portfolio of level 3 financial instruments.

(e) ESB provides services to around 1.5 million individuals and businesses, mainly on credit terms. It is known that certain debts due to ESB will not be paid through the default of some customers. Estimates based on historical experience as updated for current market conditions are used in determining the level of incurred losses. These estimates include such factors as the current state of the Irish economy and particular industry issues. See note 14 for further information in respect of the profile and ageing of trade and other receivables and in respect of the allowance for impairment of trade and other receivables.

29. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated by ESB during 2001, with a €1 investment, as trustee to the ESB Employee Share Ownership Trust (ESOT) and the ESB Approved Profit Sharing Scheme (APSS). Under the terms of the creation of ESB ESOP Trustee Limited, ESB has no ability or rights to exert control over the assets or management of the company. The trustee company is chaired by an independent professional trustee director with four trustee directors representing ESB employees and two trustee directors representing the Company. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the company exist. In accordance with IAS 27 Consolidated and Separate Financial Statements, the accounts for ESB ESOP Trustee Limited are not consolidated with the results of ESB.

30. SUBSEQUENT EVENTS

On 12 February 2013, the Group signed a new €1.35 billion credit facility with a syndicate of 13 banks, enabling the Group to draw down bank finance as required up to February 2018. This replaces the revolving credit facility in place at 31 December 2012 which was due to expire on dates in 2014 and 2015.

Further to the Irish Government's proposal that ESB would dispose of some non-strategic generation capacity (as disclosed in note 26), on 27 February 2013 ESB announced its intention to sell its 50% shareholding in each of its international tolling plants, namely Marchwood Power Limited in the UK and Bizkaia Energia SL in Spain.

31. APPROVAL OF ACCOUNTS

The Board approved the accounts on 27 February 2013.

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
Direct Subsidiary			
ESB Energy International Ltd.	1	100	Holding company
ESB International Ltd.	1	100	Holding company
ESB International Investments Ltd.	1	100	International investments
ESB Financial Enterprises Ltd.	1	100	Holding company
Menloe Two Ltd.	2	100	Finance leasing
ESB Networks Ltd.	2	100	Power distribution
ESBNI Ltd.	7	100	Holding company
ESB Finance Ltd.	2	100	Finance
ESB Electric Ireland Ltd.	2	100	Electricity sales
ESB Electric Ireland Ltd. (UK)	2	100	Electricity sales
Electric Ireland Ltd. (UK)	2	100	Electricity sales
Indirect Subsidiary			
ESBI Engineering and Facility Management Ltd.	1	100	Engineering
ESBI Contracting Ltd.	1	100	Contracting
ESBI Consultants Ltd.	1	100	Consultancy
ESBI Computing Ltd.	1	100	Computer services
Elfinance Ltd.	1	100	Customer credit
ESBI Contracts Engineering Ltd.	1	100	Contracting
ESB Independent Energy Ltd.	1	100	Electricity sales
ESB Independent Energy NI Ltd.	1	100	Electricity sales
ESB Contracts Ltd.	1	100	Contracting
ESB Power Generation Holding Company Ltd.	1	100	Holding company
Gort Windfarms Ltd.	1	100	Power generation
Crockahenny Wind Farm Ltd.	1	75	Power generation
Utilities O&M Services Ltd.	58 Upper Mount Street, Dublin 2	100	Operation & maintenance services
Hibernian Wind Power Ltd.	1	100	Power generation
ESB Retail Ltd.	1	100	Sale of electrical appliances
ESB Telecoms Ltd.	1	100	Telecommunications
Facility Management Espana S.L.	4	100	Facility management
ESBI Engineering UK Ltd.	5	100	Engineering and general consultancy
Electricity Supply Board Services B.V.	Symphony House Block D13 Jalan PJU 1A/46 43701 Petaling Jaya Malaysia	100	Facility management
Electricity Supply Board International Investments B.V.	Strawinskylaan 3105 7th Floor 1077 ZX Amsterdam The Netherlands	100	Holding company
Coolkeeragh ESB Ltd.	6	100	Power generation
ESBII UK Ltd.	5	100	Holding company
ESBI Luxembourg S.A.	65 Boulevard Grand Duchesse Charlotte L-1391 Luxembourg	100	Holding company
Power Generation Technology Snd. Bhd.	10th Floor Wisma Havela Thakardos No 1 Jalan Raja Laut 50350 Kuala Lumpur Malaysia	100	Power generation
Facility Management UK Ltd.	5	100	Facility management
ESBI Georgia Ltd.	39 Gamsakhurdia Ave Suite 42 Tbilisi Georgia	100	Transmission management
Marchwood Power Development Ltd.	5	100	Power generation

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Knottingly Power Ltd	5	100	Power generation
Asturias Generation de Electricidad S.L.	Calle Uria, No 50-4, Oviedo 33001, Asturias, Spain	100	Power generation
Mountainlodge Power Ltd.	1	85.9	Power generation
Tullynahaw Power Ltd.	1	100	Power generation
Boleywind Ltd.	1	100	Power generation
ESB Trading Ltd. (formerly Blackwind Ltd.)	1	100	Power generation
Kobai Ltd.	1	100	Power generation
Orliven Ltd.	1	100	Power generation
Cappawhite Ltd.	1	100	Power generation
Waterfern Ltd.	1	100	Power generation
Hunter's Hill Wind Farm Ltd	6	100	Power generation
ESB Wind Development Ltd	2	100	Power generation
ESB Wind Development UK Ltd	5	100	Power generation
ESB Commercial Properties Ltd.	1	100	Property management
Crockagarran Windfarm Ltd.	6	100	Power generation
West Durham Wind Farm Limited.	5	100	Power generation
West Durham Wind Farm Holdings Ltd.	5	100	Power generation
West Durham Wind Farm Holdings 2 Ltd.	5	100	Power generation
Devon Wind Power Ltd.	5	100	Power generation
Synergen Power Ltd.	Power Plant Pigeon House Road Ringsend Dublin 4	100	Power generation
ESB Novus Modus GP Ltd.	2	100	Clean technology investment
Airvolution Energy Ltd. (UK)	8	90	Power generation
Airvolution Energy (Ysgellog) Ltd	8	90	Power generation
Airvolution Energy (Garlenick) Ltd	8	90	Power generation
Airvolution Energy (Wythegill) Ltd	8	90	Power generation
Airvolution Energy (East Youlstone) Ltd	8	90	Power generation
Airvolution Energy (M1J18) Ltd	8	90	Power generation
Airvolution Energy (Mossmorran) Ltd	50 Lothian Road, Festival Square Edinburgh Scotland, EH3 9WJ	90	Power generation
Airvolution Energy (Potato Pot) Ltd	8	90	Power generation
Airvolution Energy (Demming) Ltd	8	90	Power generation
Airvolution Energy (Shotts) Ltd	8	90	Power generation
Airvolution Energy (Park Farm) Ltd	8	90	Power generation
Airvolution Energy (Hafod-Y-Dafal) Ltd	8	90	Power generation
Airvolution Energy (Crossrig) Ltd	8	90	Power generation
Airvolution Energy (Agney Farm) Ltd	8	90	Power generation
Airvolution Energy (Rawcliffe Bridge) Ltd	8	90	Power generation
Airvolution Energy (Thorpe) Ltd	8	90	Power generation
Airvolution Energy (Watsonhead) Ltd	8	90	Power generation
Airvolution Energy (New Rides Farm) Ltd	8	90	Power generation
Airvolution Energy (Junction 2A) Ltd	8	90	Power generation
Airvolution Energy (Biglis Farm) Ltd	8	90	Power generation
Airvolution Energy (Blaeduad) Ltd	8	90	Power generation
Airvolution Energy (Glenstockdale) Ltd	8	90	Power generation
Airvolution Energy (Muircleugh) Ltd	8	90	Power generation
Airvolution Energy (Scottow) Ltd	8	90	Power generation
Airvolution Energy (Pan Lane) Ltd	8	90	Power generation
Airvolution Energy (Park Hall) Ltd	8	90	Power generation
ESB 1927 Properties Ltd.	2	100	Property management
ESBI Carbon Solutions Ltd.	1	100	Carbon emission reduction
ESB Independent Generation Trading Ltd.	1	100	Electricity and gas trading
Carrington Power Ltd.	5	100	Power generation
Northern Ireland Electricity Ltd.	7	100	Power transmission and distribution

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
NIE Powerteam Ltd.	7	100	Infrastructure contracting
Capital Pensions Management Ltd.	7	100	Pension scheme administration
Powerteam Electrical Services Ltd.	7	100	Infrastructure contracting
Powerteam Electrical Services (UK) Ltd.	7	100	Infrastructure contracting
NIE Power Ltd.	7	100	Power generation
NIE Generation Ltd.	7	100	Power generation
NIE Enterprises	7	100	Power generation
Cambrian Renewable Energy Ltd	6	100	Power generation
EC02 Cambrian Ltd	5	100	Power generation
Curryfree Wind Farm Ltd	6	100	Power generation
Mount Eagle Wind Farm Ltd	1	100	Power generation
Garvagh Glebe Power Ltd.	1	100	Power generation
Corby Power Ltd.	3	100	Power generation
CPL Operations Ltd.	3	100	Facility management
NIE Finance Ltd	7	100	Finance
Non-controlled subsidiary undertaking			
ESB ESOP Trustee Ltd.	43 Merrion Square, Dublin 2	100	Staff Shareholding Scheme
Joint venture undertakings			
Bizkaia Energia S.L.	4	50	Power generation
Marchwood Power Ltd.	Oceanic Way, Marchwood Industrial Estate Marchwood Southampton Hampshire SO40 4BD	50	Power generation
Oweninny Power Ltd	1	50	Power generation
Emerald Bridge Fibres Ltd	1	50	Telecommunications
UNES Operation and Maintenance Inc.	Nispetiye Cad.Akmerkez E3 Blok K.13 Etiler/Besiktas, Turkey	50	Operation and maintenance services
Associate undertakings			
Pesaka Technologies	Level 1, Menara Yayasan, Tun Razak, Zoo, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia	30	Power generation

Note: ESB's principal place of business is 27 Lower Fitzwilliam Street, Dublin 2.

Notes:

1 Stephen Court, 18-21 St Stephen's Green, Dublin 2
2 27 Lower Fitzwilliam Street, Dublin 2
3 Mitchell Road, Phoenix Parkway, Corby, Northamptonshire N17 1Q7
4 Poligono Industrial de Boroa, Insula A. I-1, 48340 Amorebieta, Spain
5 Tricor Suite 52/54 Gracechurch Street, London EC3V OEH
6 2 Electra Road, Maydown, Derry BT47 6 UL
7 120 Malone Road Belfast BT9 5HT
8 Palladium House, 1-4 Argyll Street, London, United Kingdom, W1F 7TA

Report of Board Members on Compliance with the Prompt Payment of Accounts Act, 1997 and European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002)

Introduction

Payments terms during 2012 were governed by two items of legislation:
> The Prompt Payment of Accounts Act, 1997.
> European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002) to combat late payments in commercial transactions. These Regulations apply to contracts for goods and services supplied to ESB by EU-based suppliers.

Statement of payment practices including standard payment periods
ESB operates a policy of paying all undisputed supplier invoices within the agreed terms of payment. The standard terms specified in the standard purchase order are net monthly. Other payment terms may apply in cases where a separate contract is agreed with the supplier.

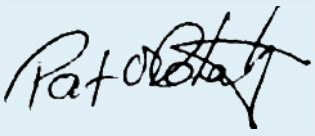
Compliance with the legislation
ESB complies with the requirements of the legislation in respect of external supplier payments within the EU in all material respects.

Procedures and controls in place
Appropriate internal financial controls have been implemented including clearly defined roles and responsibilities. These procedures provide reasonable but not absolute assurance against material non-compliance with the legislation.

Details of interest payments in respect of 2012
When ESB receives a request from the supplier, it is ESB's policy to pay interest due on late payments. One such payment amounting to €17,040 was made in respect of late payments during the year 2012 (2011 : nil).



Lochlann Quinn
Chairman



Pat O'Doherty
Chief Executive

27 February 2013

ENERGY FOR CONNECTING YOU



03:35
ENERGY FOR
RECHARGING BEFORE
A BUSY DAY



07:59
ENERGY FOR
ESTABLISHING
A GOOD START



20:25
ENERGY FOR
NURTURING
FAMILY TIME



18:04
ENERGY FOR DEVELOPING
NEW TALENT

24/7



10:14
ENERGY FOR FUELLING
YOUNG MINDS



15:35
ENERGY FOR
ENABLING BUSINESS



12:25
ENERGY FOR
DRIVING INNOVATION

With thanks to our customer Boston Scientific
for the use of their laboratory as a location.

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Energy for generations

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