



Energy for
generations

INNOVATION FOR GENERATIONS

Annual Report and Accounts 2013

esb.ie



ABOUT ESB

ESB was established in 1927 as a corporate body 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 and more. With a regulated asset base (RAB) of approximately €8.5 billion, 42% 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 and customer service. As at 31 December 2013, ESB Group employed approximately 7,490 people.

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ESB AT A GLANCE

Business segment	Description	Revenue	Operating profit *	Capital expenditure	Average employee numbers	Link to other sections in this report
ESB Generation and Wholesale Markets	ESB Generation and Wholesale Markets (G&WM) comprises ESB's generation, trading and asset development activities. This business segment operates power stations and wind farms in the Republic of Ireland, Northern Ireland and Great Britain.	€1,609M	€355M	€254M	1,009	ESB G&WM operational review, page 30
ESB Networks	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.	€927M	€294M	€421M	3,140	ESB Networks operational review, page 32
Northern Ireland Electricity (NIE)	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').	€280M	€77M	€98M	1,291	NIE operational review, page 34
Electric Ireland	Electric Ireland is a leading supplier of electricity to residential and commercial customers of Ireland. Revenues are derived from sales to electricity and gas customers.	€2,078M	€79M	€7M	322	Electric Ireland operational review, page 36
Other Segments	Other segments include ESB Innovation and our internal service providers. Its purpose is to lead collaboration across the ESB Group, to identify and develop emerging technologies as commercial business opportunities, for ESB and for external clients.	€320M	(€25M)	€45M	1,728	Other segments operational review, page 38

* Before interest and taxation

BUSINESS MODEL:

To be a strong, diversified vertically integrated utility (VIU)



GENERATION

- Wind
- Thermal
- Hydro
- Pumped storage
- Ocean

Creating cleaner power using sustainable generation



NETWORKS

- Smart grids
- Smart meters
- Power check apps

Building smarter networks that puts the customer in control of their energy



SUPPLY

- Supplier of electricity and gas
- Ecars
- Smart meters
- Fibre broadband
- Climote

Bringing sustainable and competitive energy solutions to all our customers

HIGHLIGHTS

FINANCIAL

- EBITDA of €1,437 million and operating profit of €780 million
- Operating cost savings of over €250 million achieved since 2010 under our cost reduction programme
- Over €2 billion contributed to the Irish economy
- Funding metrics well within covenant parameters

OPERATIONAL

- Continued capital investment of €519 million in Networks infrastructure
- Carrington project progressing well
- 1.4 TWH of electricity generated from renewable sources
- Circa 1,500 electric vehicle (EV) charge points installed

CUSTOMER AND MARKET

- Generation market share of 46% and Supply market share of 37%
- 1.5 million Electric Ireland customers
- National Customer Contact Centre (NCCC) accredited with the Customer Contact Association Global standard for the sixth year in a row
- Increased customer interaction via Social Media

CORPORATE SOCIAL RESPONSIBILITY

- Successful achievement of 2008 Sustainability Charter Commitments
- Launch of new Corporate Responsibility Strategy
- Safety Leadership Strategy Development Group established

KEY FACTS & FIGURES

OPERATING PROFIT*

€780m

2013	€780m	€365m	
2012	€415m	2011	€469m
2010	€9m	2009	€615m

* Stated after exceptional items. See Finance Review page 24

EBITDA

€1,437m

2013	€1,437m	€342m	
2012	€1,095m	2011	€1,121m
2010	€839m	2009	€814m

TOTAL ASSETS

€12,782m

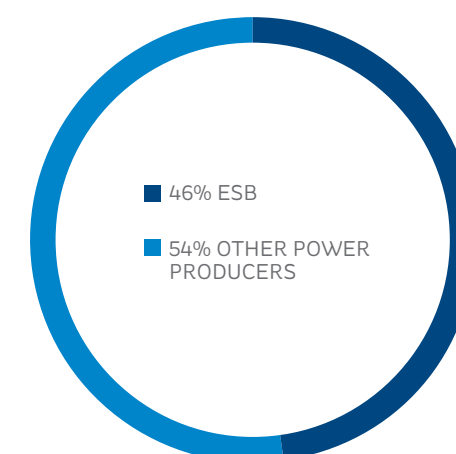
2013	€12,782m	€182m	
2012	€12,600m	2011	€12,539m
2010	€12,112m	2009	€9,567m

NET DEBT

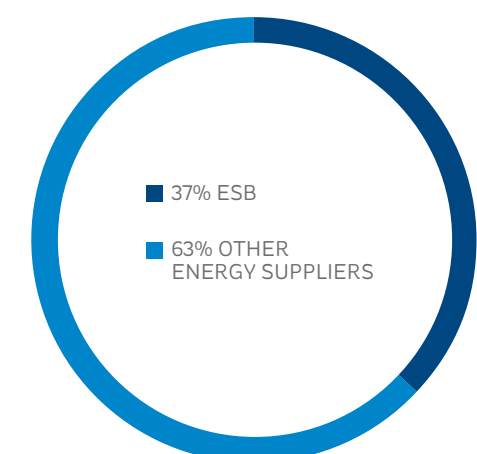
€4,144m

2013	€4,144m	(€270m)	
2012	€4,414m	2011	€4,324m
2010	€3,944m	2009	€2,231m

GENERATION all-island market share



SUPPLY all-island market share





01 BUSINESS OVERVIEW

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Knowledge is power. Smart Grid control centre oversees all, from bird's eye views to local detail

CHAIRMAN'S STATEMENT



Lochlann Quinn, Chairman

OVERVIEW

2013 was a good year for ESB. However, it was sadly overshadowed by the tragic deaths of two members of staff in January 2013. This was felt deeply throughout ESB, and reinforced our focus on safety as a top priority across all areas of our business.

GOVERNANCE AND THE BOARD

Good governance is essential to the sustainable growth of our business. Your Board is committed to the highest standards of corporate governance, and transparency and accountability are at the heart of this commitment.

Noreen O'Kelly joined the board during the year and is very welcome.

PEOPLE

I would like to thank ESB staff for their contribution to the business in 2013, particularly in the context of a significantly reduced workforce.

The exemplary performance by ESB Networks and NIE during the winter storms demonstrated ESB's commitment to its customers and I want to recognise this contribution.

STRATEGY

2013 was the first full year of our new Corporate Strategy to 2025. The strategy aims to maximise ESB's commitment to a low carbon future through the development of advanced networks and the expansion of our generation, trading and supply businesses in an integrated Irish/UK market.

The development of Carrington Power Station near Manchester will allow ESB to compete as a player of scale in the integrated all-islands market and at 881 MW it will be one of the largest plants in ESB's generation portfolio. Construction is now

FOR A DETAILED VIEW OF OUR STRATEGY REFER TO PAGE 15

well underway and the plant is on track to go into commercial operation in 2016.

On an all island basis, ESB's share of generation in 2013 was 46% and our share of the total supply market was 37%.

PROFITS

I am pleased to report a strong performance by ESB in 2013, with good progress across all areas of our business. Operating profit for the Group increased to €780 million (2012: €415 million). The results include an exceptional item (€95 million) relating to the sale of ESB's 50% share in Marchwood Power Limited (UK).

DIVIDEND

An interim dividend of €68.4 million (3.45 cents per unit of stock) was declared and paid in November in respect of 2013.

A dividend of €160.9 million (8.12 cents per unit of stock) arising from the sale of generation assets was declared by the Board in January 2014.

The Board is now recommending a final dividend of 1.46 per cent per unit of stock, or €28.8 million in aggregate. This brings the total dividends paid over the past decade to over €1,200 million.

During 2013 the Board adopted a revised dividend policy for the period to 2020. ESB will target a

dividend payout ratio of 40% of normalised profit after tax in the medium term subject to certain conditions.

OUTLOOK

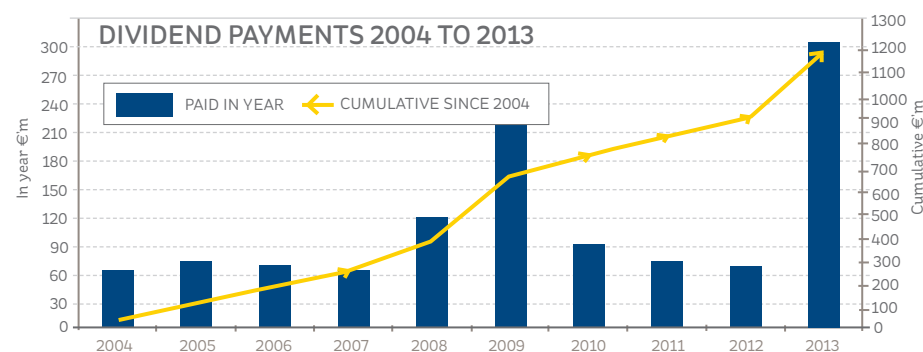
Although some signs of economic stability emerged during 2013, trading conditions remain difficult. Increasing interconnection with Britain, the construction of new generating plant by competitors in Ireland and the arrival of new players into the supply market are contributing to increased competitive pressures. I am happy to report that ESB Group continues to respond effectively to these challenges.

In the medium term, we will continue to drive the implementation of our Corporate Strategy to 2025 in order to deliver sustainable and competitive products and services to meet changing customer needs in the integrated Irish/UK market. We will also continue to prioritise safety, cost reduction and financial strength across all areas of our business.

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 2013.

Lochlann Quinn, Chairman



CHIEF EXECUTIVE'S REVIEW



Pat O'Doherty, Chief Executive

OVERVIEW

2013 was the first full year of implementation of our Corporate Strategy to 2025. The strategy provides a guiding framework for ESB to optimise growth and manage risk as we move towards a low carbon future in an increasingly interconnected EU energy market.

In line with the strategy, our core focus in 2013 was on the delivery of sustainable and competitive energy solutions to our customers in the integrated Irish/British market. Despite continuing economic challenges and increased competitive pressures, we made strong progress in achieving these objectives across all areas of our business.

SAFETY

Safety remains our biggest priority and throughout 2013, we continued to invest in the structures, supports and culture necessary to protect the safety of our staff, colleagues and members of the public.

Tragically, two of our colleagues lost their lives in 2013. Shane Conlan died while working at Finglas 38 kV substation and Oisín Crotty died in a car accident while travelling to work. A full internal investigation was carried out into the death of Shane Conlan and a new organisational structure has been put in place to bring a sustained focus to implementing the recommendations arising from it.

PEOPLE

The industrial relations pensions dispute that emerged in 2013 posed a serious business risk to ESB, its customers and the Irish economy. With the assistance of the Labour Relations Commission, and working with ESB unions, industrial action was averted. ESB regrets the uncertainty and concern that this dispute caused for all our stakeholders and customers.

COST REDUCTION PROGRAMME

During 2013, we continued to drive down operating costs under our Performance Improvement Programme. To date we have secured recurring annual savings of over €250 million. This has been a challenging process and I would like to acknowledge the contribution of staff in the ongoing implementation of the 2011-2015 Payroll Cost Base Reduction Agreement, which will deliver a €140 million or 20% reduction on our 2010 payroll bill (excluding NIE). We are on track to meet our target to reduce costs by €280 million by 2015, including €200 million in cumulative payroll savings since 2009.

CORPORATE SOCIAL RESPONSIBILITY

During 2013, ESB became one of just four companies to be recredited with the Business Working Responsibly Mark, Ireland's independently verified assessment of company sustainability and corporate responsibility performance. This external validation of our performance highlights the efforts by people throughout ESB who are making real changes, working more efficiently and really thinking through how they can contribute to a sustainable future for our company, our customers and the communities in which we operate.

ESB's new 'Energy for Generations' social impact fund which was launched during the year will see over €2 million disbursed annually across a range of community and issues-based initiatives. Approximately €1 million per year will be dedicated to addressing issues relating to education, homelessness and suicide prevention.

In the area of sustainability, we exceeded our five-year targets for CO₂ emissions, reducing internal emissions by 33% and emissions from our power plant portfolio in the Republic of Ireland by 34%. Over the same period, we reduced electricity consumption by 10% across ESB premises.

2013 HIGHLIGHTS

- 1 Continued to drive down costs under Performance Improvement Programme
- 2 Reaccredited with Business Working Responsibly Mark
- 3 Construction work on Carrington (CCGT) progressing well
- 4 Collaboration with technology and academic partners on a number of cross industry innovative initiatives.

ON TRACK TO REDUCE COSTS BY

€280 MILLION BY 2015

FOR A DETAILED VIEW OF CORPORATE SOCIAL RESPONSIBILITY REFER TO PAGE 40

PERFORMANCE

Advanced Networks

We continued to invest in energy infrastructure during the year, predominantly in upgrading and developing the Irish electricity network to meet demand and facilitate the integration of new renewable generation. Additional wind farms, and other renewable generation with a combined capacity of over 500 MW were connected to the electricity networks in 2013. Ireland is well on track to achieving the national target of 40% of electricity needs from renewable resources by 2020.

The exemplary performance by ESB Networks and NIE during the winter storms demonstrated our commitment to our customers.

In November, the UK Competition Commission published its provisional determination in relation to the NIE price control review. The final determination will be made by the end of April 2014.

Sustainable Generation

Two new wind farms were commissioned in 2013: Mynydd y Betws (35 MW) in Wales and Carrickatane (21 MW) in Northern Ireland. Construction also started at Woodhouse, a 20 MW wind farm in Co. Waterford. Our total portfolio of operational wind farms now totals 380 MW.

During the year, we sold our 50% shareholding in the combined cycle gas plant (CCGT) Marchwood Power Limited (UK) and a sales process in relation to our shareholding in Bizkaia Energia SL (also CCGT) (Spain) is underway. The proceeds from the sale of these assets are being used to fund a dividend.

Construction works at Carrington Power Station, ESB's new 881 MW CCGT near Manchester in the UK, progressed well during the year and the plant is on track for commercial operation in early 2016.

380 MW

TOTAL OPERATIONAL WIND PORTFOLIO

Energy Supply and Services

Despite growing competition our supply business Electric Ireland continued to win customers and the business returned to profitability during 2012 following three years of losses. Electric Ireland took the decision in September to freeze prices in the residential market to the end of 2013.

Innovation

A key part of our Corporate Strategy to 2025 is to leverage knowledge within ESB to advance the low carbon agenda through sustainable innovations. We are collaborating with technology and academic partners, including IBM, Intel and EPRI (Electricity Power Research Institute) on a number of cross industry initiatives in areas such as smart grids, electric vehicles and emerging generation technologies.

We are currently in discussions with a leading telecoms provider with a view to forming a joint venture to roll-out fibre broadband using our medium and low voltage electricity infrastructure. This project could deliver high speed broadband to 450,000 homes and businesses nationwide, and would support the government in meeting its national broadband targets. We are continuing to develop the technical and operational requirements to roll out this network.

OUTLOOK

As we look ahead to 2014, we will continue to focus on safety, cost reduction and the delivery of sustainable and competitive energy solutions to our customers and

LOOKING FORWARD TO 2014 AND BEYOND, OUR KEY PRIORITIES INCLUDE:

- 1 Continuing focus on safety as the primary value to the business
- 2 Positioning the business for the emerging regional electricity market
- 3 Customer service and maintaining the financial strength of ESB by meeting our cost reduction programme targets.

stakeholders. Increasingly, we are moving from being a large player in a small market to being a small but important player in a much larger market. To compete successfully and ensure the sustainability of our business, we need an engaged and agile workforce, committed to the future of ESB.

Finally, I would like to take this opportunity to acknowledge the contribution that ESB employees made to our business in 2013, particularly in the context of pay reductions and a significantly reduced workforce.



Pat O'Doherty, Chief Executive

OUR STRATEGY



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 three factors that will transform the context within which ESB will operate and that our strategy aims to address:

1. MARKET INTEGRATION THROUGH ESTABLISHMENT OF REGIONAL ENERGY MARKETS (REM)
2. EUROPEAN AND NATIONAL CLIMATE POLICY
3. CHALLENGING EUROPEAN AND IRISH ECONOMIC ENVIRONMENT

1. MARKET INTEGRATION THROUGH ESTABLISHMENT 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 policy to create a Single European Market across all sectors. This has been reflected in both a regulatory policy to enhance the ability to trade power and gas between different national market systems and in the construction of physical electricity and gas interconnection to allow this to happen.

European policy lays out the ambition to create a common Regional Energy Market (REM) encompassing Ireland, Britain and France by 2016. In addition, the East West Interconnector (EWIC) between Ireland and Britain was opened in 2012, which brings the total amount of rated interconnection between the two islands to approximately 1,000 MW. During the last year electricity regulators have

reiterated and progressed their efforts to achieve integration by 2016 through the Target Model process that will harmonise market rules so as to facilitate greater levels of trading between the SEM and the BETTA (British Electricity Trading Transmission Arrangements) in particular.

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 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 challenge, ESB aims to increase their scale, capabilities and cost competitiveness.

2. EUROPEAN AND NATIONAL CLIMATE POLICY

The long-term need to decarbonise European and global societies to address the threat of worldwide climate change will present an enduring challenge to the energy industry over future 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

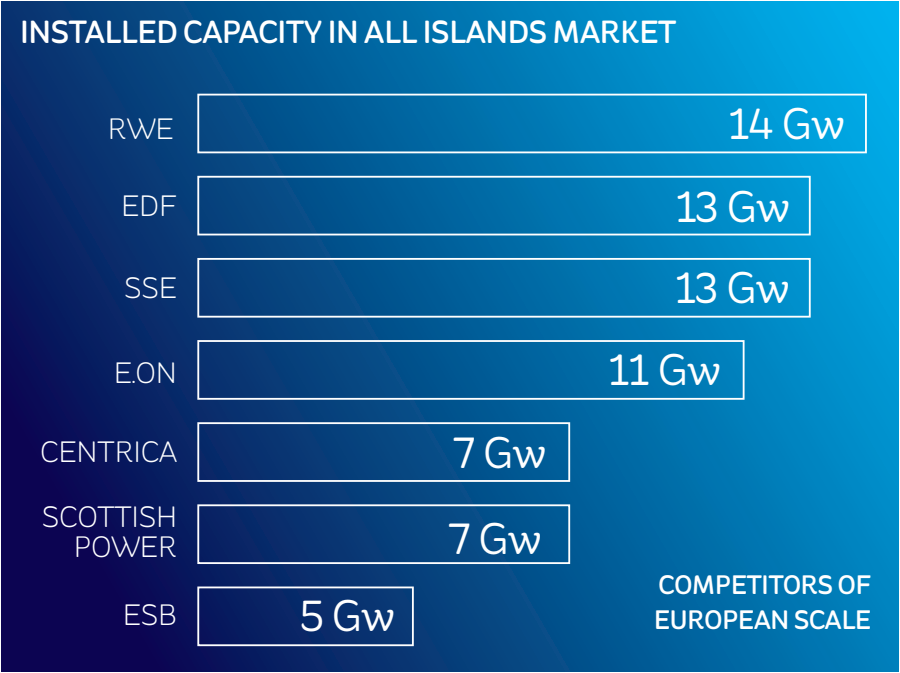


ESB aims to increase scale, capabilities and cost competitiveness

agreed by European leaders in 2007 as part of the EU Climate and Energy Targets.

Current EU policy is to reduce total 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. In early 2014, the European Commission announced its intention to extend this ambition to 2030 with a proposal to achieve a 40% reduction in greenhouse gas emissions by 2030.

The impact of these policies on 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-term, societal decarbonisation will require new



Source: ESB Analysis based on Annual Reports, Analyst assessments and Regulatory Filings

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 will invest in low carbon technologies. In 2008, ESB was one of the first utilities in Europe to commit itself to a net zero carbon generation portfolio and ESB's current corporate strategy continues that focus.

3. CHALLENGING EUROPEAN AND IRISH ECONOMIC ENVIRONMENT

Since 2007, the European and global economic and financial climate has been marked by 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 cost and availability of funding
- increased pressure on arrears and fuel poverty and affordability.

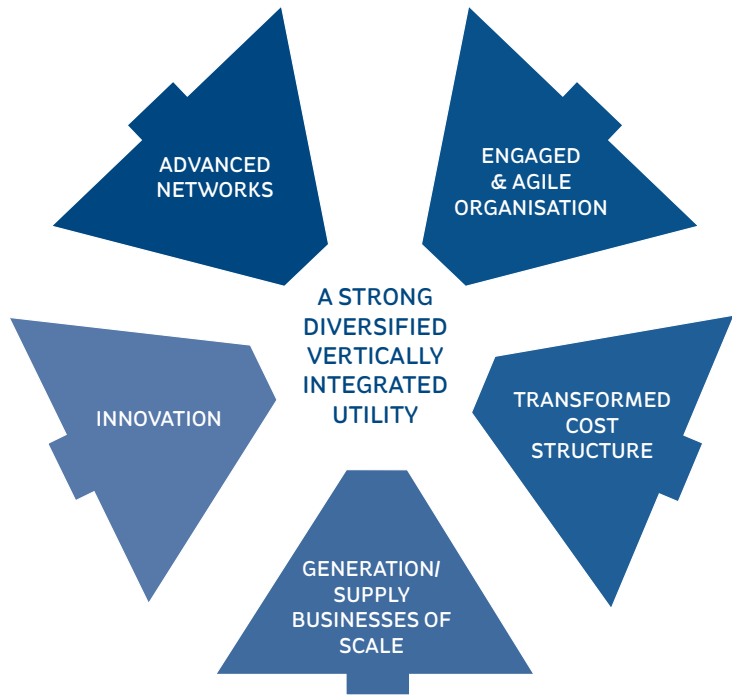
The past year has seen a significant stabilisation of the European and National economic and financing climate. However, the environment remains challenging. At the EU and national level, there has been increasing focus on cost competitiveness of the energy system over the past year as European and Irish firms must compete in a global context where energy costs have fallen due to the advent of Shale gas in the United States and elsewhere. For ESB, this new and uncertain context will necessitate greater cost efficiency so that we can deliver value to our customer and shareholders and maintain our financial strength to ensure access to funding. We must 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 and 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

The ESB Strategy also contains a set of ambitious objectives to be delivered in the period out to 2025. At a detailed level progress to achieving these aims is tracked through a set of over 60 Strategic Performance Indicators, consisting of metrics, milestones and key actions.

	2012 (commencement of strategy)	2013	2025
A STRONG DIVERSIFIED VIU			
Financial strength	BBB+ rating	BBB+ rating	A-rating
Total EBITDA	€1,095 million	€1,437 million	€2,400 million
1. GENERATION/SUPPLY BUSINESS OF SCALE			
Generation capacity	4,800 MW	4,800 MW	7,000 MW
All islands market share	5%	5%	7%
Renewable generation	12% capacity	12% capacity	26% capacity
2. ADVANCED NETWORKS			
Smart grids	Pilot	Smart Metering Project on target to install 2.2 million meters in the Republic of Ireland by 2020	Full implementation
Wind energy connected	2,100 MW	Over 500 MW of wind connected in 2013	3,500 MW- 4,000 MW
3. INNOVATION			
Emergent businesses	ESB International	Increase in External Revenue to €198 million	Double ESBI revenue
	Ecars	Over €40 million invested	Exploit new investment opportunities
	NovusModus		
	Fibre/Telecoms	Completion of tender process to create potential Fibre to the Building Joint Venture	
4. TRANSFORMED COST STRUCTURE			
Cost base	Performance Improvement Programme	Over €250 million in annual recurring cost savings achieved	Competitive cost structure
5. ENGAGED AND AGILE ORGANISATION			
Engagement		High levels of engagement and performance	
Change		Fast locally driven change	
Safety		Zero injuries or safety incidents	



02 OPERATING AND FINANCIAL REVIEW

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Northern Ireland Electricity (NIE) **34** Electric Ireland **36** Other Segments **38**

Warmth always waiting with climote remote heating control, harnessing cutting edge technology to create home comforts

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 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.

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

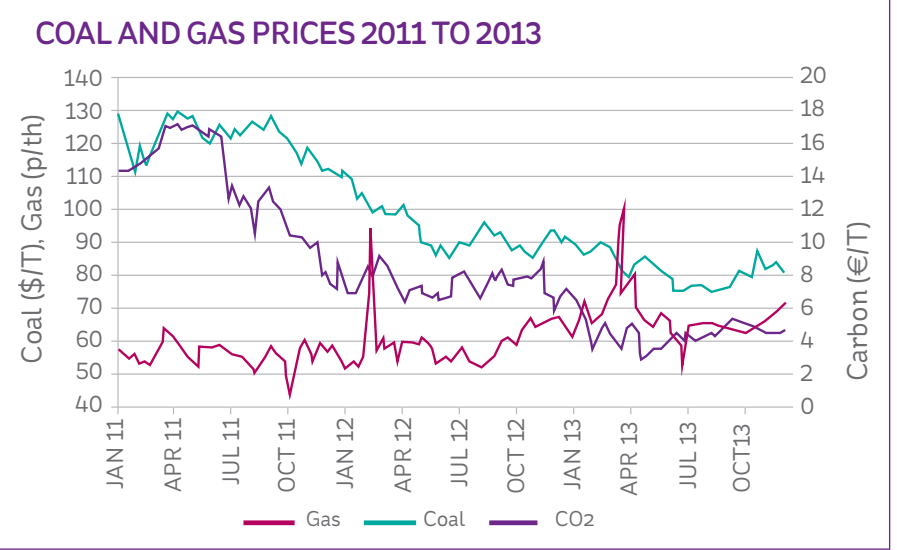
Global commodity prices were less volatile in 2013 compared to 2011 and 2012. The markets have continued to reflect the economics of a post-recession world, whilst incorporating major new factors, which will determine their course in future years.

Ireland's power prices are driven by commodity markets, which are determined by events on a global scale. The diversity of ESB's portfolio has helped to mitigate the impact of these market forces reflecting the benefits of a balanced fuel portfolio mix including coal, gas, peat, wind and hydro powered plant.

FALLING COAL AND CARBON PRICES

Coal fell from US\$130 per ton to US\$90 per ton between December 2010 and December 2012. Whilst the downward trend in price continued this year, with coal at circa US\$80 per ton at December 2013, the rate of price reduction has significantly slowed.

The growth in Shale gas in the US has led to the displacing of coal in the US fuel mix. This resulted in increased US coal exports at a time when Chinese and Indian demand growth was weak and Colombian supply was stable, leading to price weakness. However, the proximity of the current market price to the marginal cost of coal production in a number of major coal producing countries is expected to reduce the likelihood of further price falls. Carbon prices have also reduced, from €6.5 per ton at the start of the year to just below



Source: Spectron

€4.5 per ton at the end of the year. 2013 saw the introduction of the carbon price floor in the Great Britain (GB) market from April but as this did not apply in Northern Ireland it had no impact on the price of electricity in the Single Electricity Market.

RISING GAS PRICES

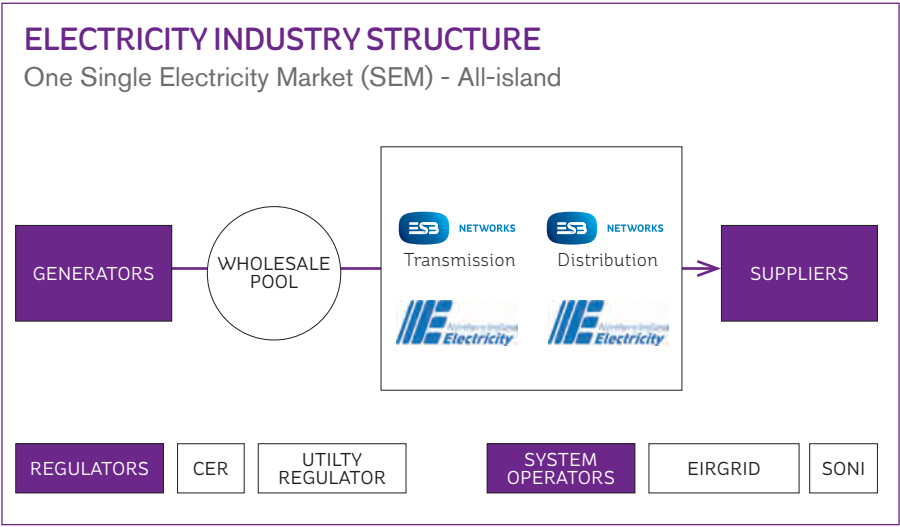
The fall in coal prices has seen a corresponding rise in gas prices. As coal fell from US\$130 per ton to circa US\$80 per ton from 2011 to 2013, gas increased from circa 60p per /th to circa 70p per /th during the same period. Gas prices climbed to over £1 per /th in March, as GB storage levels fell to particularly low levels during the cold spell in March and April.

The underlying driver in the gas market has been the March 2011 Tohoku earthquake in Japan and the subsequent closure of nuclear units in Japan. Currently, all 50 of Japan's remaining nuclear units, which produced 30% of Japan's electricity, are closed. This has led to Japan importing much higher levels of Liquefied Natural Gas (LNG), which has meant there was less available for power and gas markets in Western Europe increasing prices.

With sources of LNG tightening, market prices have become much more sensitive to threats to other sources of supply. This was brought into sharp focus in March when the lack of LNG and increased demand due to cold weather, led to some British gas storage facilities being completely emptied, providing further market anxiety.

With nearly 40% of power in the Single Electricity Market coming from gas-fired generation, the increase in gas prices has contributed to increased power prices, despite decreasing coal and carbon prices.

GB gas storage levels have now recovered, and moves to return Japan's nuclear units to production are underway, with 14 of the 50 reactors currently being reviewed by Japan's Nuclear Regulation Authority (NRA) and may be completed early next year. Nonetheless, and despite increasing momentum for the extraction of Shale gas in GB, recent events in Eastern Europe and Russia continue to raise the possibility of volatility and upwards pressure on European gas prices in the near to medium term future.



FINANCE REVIEW

FIGURE 1: FIVE-YEAR SUMMARY

	2013 €'m	2012 €'m	2011 €'m	2010 €'m	2009 €'m
Revenue and other operating income ¹	3,446	3,295	2,995	2,740	3,114
Operating profit before exceptional items ²	685	576	469	339	350
Adjusted profit before taxation	451	351	283	249	335
EBITDA ³	1,437	1,095	1,121	839	814
Capital expenditure ⁴	825	765	883	819	921
Net debt	4,144	4,414	4,324	3,944	2,231
Gearing (%) ⁵	48%	53%	52%	50%	35%
Total assets	12,782	12,600	12,539	12,112	9,567

¹ Excludes profit on asset disposal (€95 million).
² Stated before the following exceptional items: 2013: profit on asset disposal (€ 95 million) 2012: staff exit costs (€161 million). 2010: pension charge (€330 million). 2009: profit on asset disposal: €265 million.
³ Includes exceptional items (2013 profit on asset disposal €95 million; 2012 staff exit costs €161 million).
⁴ Excludes NIE acquisition in 2010 (€1.2 billion).
⁵ Excludes joint ventures.

This year has seen solid financial performance across our business with revenue and operating profit at €3.5 billion and €685 million respectively

FIGURE 2: SUMMARISED INCOME STATEMENT

	2013 €'m	2012 €'m
Revenue & other income	3,446	3,295
Operating costs	(2,761)	(2,719)
Operating profit	685	576
Exceptional items	95	(161)
Operating profit after exceptional items	780	415
Total finance costs	(275)	(269)
Joint venture profits	22	21
Profit before tax	527	166
Tax (charge)/credit	(16)	28
Profit after tax	510	194

REVENUE

Revenue and other operating income at €3,446 million has increased by €151 million compared to 2012 (€3,295 million).

This increase is driven by higher underlying commodity prices being reflected in Electric Ireland, an increase in regulated tariffs in ESB Networks and the exceptional gain from the profit arising on the disposal of ESB's 50% shareholding in Marchwood Power Limited.

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

FIGURE 3: OPERATING COSTS

	2013 €'m	2012 €'m
Fuel & other energy costs	1,144	1,056
Depreciation & amortisation	690	713
Employee costs ⁵	414	465
Operating & maintenance	513	485
	2,761	2,719

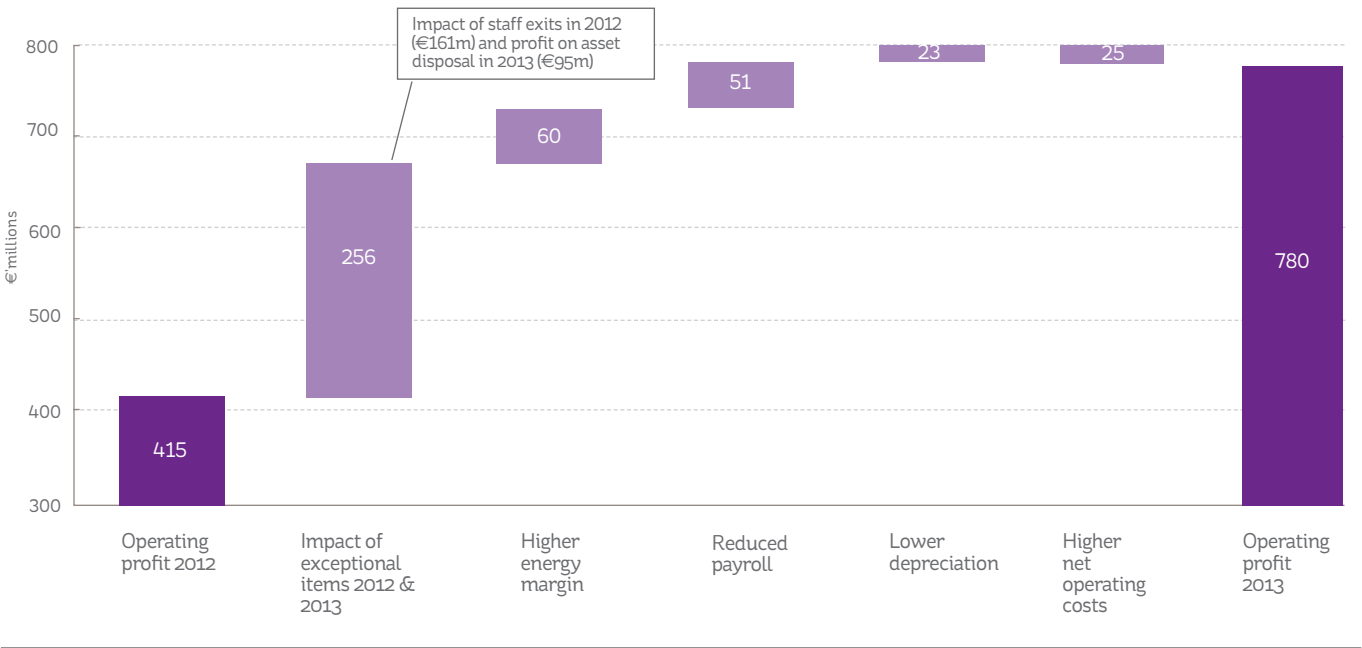
⁵ excludes exceptional staff exit costs in 2012 (€161 million).

OPERATING COSTS

Overall operating costs at €2,761 million have increased by €42 million year on year. Excluding the impact of fuel, other energy costs and depreciation, operating costs at €927 million are down €23 million on 2012. These variances are explained in more detail below:

Fuel and other energy costs have increased by €88 million on 2012 levels largely due to higher commodity prices and the loss of free carbon allowances. Depreciation at €690 million is down €23 million on 2012

FIGURE 4: RECONCILIATION OF OPERATING PROFIT 2012 TO 2013



primarily due to the higher depreciation in 2012 in NIE (arising from the write off of a legacy IT system).

Employee costs (excluding exceptional staff exit costs) at €414 million are down €51 million on 2012 reflecting the savings associated with staff exits that occurred in 2012. Operating and maintenance costs have increased by €28 million year on year due to movements on provisions, the timing of overhaul costs and increased storm related costs.

A detailed breakdown of our operating costs by business segment is provided in note 1 to the consolidated financial statements.

EXCEPTIONAL ITEMS

The 2013 exceptional gain relates to the profit on the sale of our 50% shareholding in the combined cycle gas plant (CCGT) Marchwood Power Limited (UK). The proceeds from the sale of these assets will

be used to fund part of the disposal-related dividends of €400 million agreed with the Government in 2013.

The 2012 exceptional charge relates to a voluntary severance scheme launched as part of the Performance Improvement Programme. From 2013, savings associated with staff exits are being realised through reduced payroll costs.

OPERATING PROFIT AND EBITDA

Operating profit before exceptional items (underlying operating profit) has increased by €109 million.

The increase in underlying operating profit is driven by two factors; reduced payroll costs due to lower employee numbers arising from staff exits that occurred in 2012 (€51 million) and higher energy margin (€60 million).

The main drivers of the higher energy margin was the increase in ESB Networks use of system income driven by regulated tariff increases and pricing that reflected movements in commodity prices in Electric Ireland. Increases in Generation margin due to higher revenue from wind generation plant have been negatively impacted by the loss of free carbon allowances and a reduction in output due to major overhauls taking place in 2013.

Further details of the increase in profit between 2012 and 2013 are set out in the 'Reconciliation of operating profit 2012 to 2013' in Figure 4.

EBITDA for 2013 at €1,437 million is €342 million higher than 2012. The items driving the operating profit increase of €109 million described above also drive the change in EBITDA and exclude the €23 million decrease in depreciation. In addition the movement in exceptional items of €256 million is reflected in the increase in EBITDA.

ADJUSTED PROFIT BEFORE TAXATION

Adjusted profit before taxation has increased by €100 million to €451million (2012: €351 million). This increase is driven primarily by higher underlying operating profit as described above.

FIGURE 5: RECONCILIATION OF ADJUSTED PROFIT BEFORE TAXATION

	2013 €'m	2012 €'m
Profit before taxation	527	166
Exceptional staff exit costs	–	161
Exceptional profit on asset disposal	(95)	–
Fair value movement on financial instruments	19	23
Adjusted profit before taxation	451	351

TOTAL FINANCE COSTS

Total finance costs for 2013 are €6 million higher than 2012 charges

FIGURE 6: TOTAL FINANCE COSTS

	2013 €'m	2012 €'m
Net interest on borrowings	208	193
Financing charges	51	55
Finance income	(3)	(2)
Net finance costs	256	246
Fair value movement on financial instruments	19	23
Total Finance costs	275	269

Higher external interest charges are due to an increased proportion of fixed rate debt (carrying a higher charge than floating rate debt). On average, 86% of the Group's debt (excluding swaps) was fixed in 2013 as compared to 76% in 2012 reflecting the rebalancing of the Group's debt profile to longer term debt. This increase is partly offset by an increase in capitalised interest relating to the construction of Carrington CCGT.

Fair value losses on financial instruments primarily relate to interest rate and inflation linked swaps. In 2013 fluctuations in interest rates and market expectations of future retail price indices resulted in a unfavourable non-cash movement of €19 million in the income statement (2012: €23 million).

TAXATION

The current tax charge of €31 million is offset by a deferred tax decrease (€15 million). The movement in deferred tax reflects a credit driven by the reduction in the UK effective tax rate from 23% to 20%.

SEGMENTAL PERFORMANCE

The Group is organised into five segments or strategic divisions, which are managed separately. Further details on the operational performance of the business segments are included in the business unit review sections.

The Group operating profit of €685 million is set out below on a segmental basis. The results discussed below exclude exceptional items:

- Generation and Wholesale Market's operating profit at €260 million is up €25 million on 2012 reflecting lower payroll costs due to staff exits and lower depreciation. These savings are offset by a lower energy margin primarily due to the loss of free carbon allowances and lower output driven by a number of overhauls taking place in 2013.
- ESB Networks' operating profit for 2013

FIGURE 7: SUMMARISED CASH FLOW STATEMENT

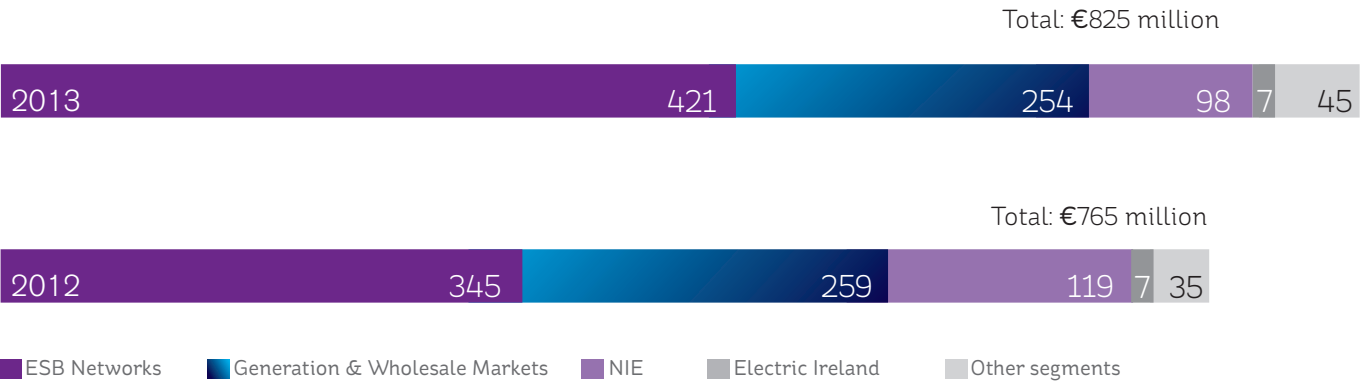
	2013 €'m	2012 €'m
EBITDA	1,437	1,095
Exceptional items	(95)	161
Provision utilisation and other movements	(159)	(296)
Interest and tax	(267)	(247)
Net cash inflow from operating activities	916	713
Sale proceeds	190	–
Capital expenditure	(745)	(758)
Other	22	26
Net cash outflow from investing activities	(533)	(732)
Net cash inflow / (outflow) from financing activities	(172)	(103)
Net increase/ (decrease) in cash	211	(122)

at €294 million is up €64 million on 2012. This increase is driven by regulated tariff increases, lower payroll costs offset by higher depreciation charges.

- NIE's operating profit for 2013 amounted to €77 million and is up €13 million on 2012 reflecting mainly lower depreciation costs in 2013.
- Electric Ireland reported an operating profit of €79 million for 2013, an increase of €34 million from 2012. The rise in profit is due to customer prices reflecting higher underlying

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

FIGURE 8: CAPITAL EXPENDITURE



commodity prices and on-going cost reduction initiatives.

- Other segments include ESB Innovation, Corporate and Business Service Centre activities which provide services to the main business segments above. This segment also includes most of the financing costs of the Group.

Further detail of the performance by business segment is provided in note 1 to the consolidated financial statements.

NET DEBT AND GEARING

Net debt of €4.1 billion in 2013 (2012: €4.4 billion) reflects operating cash flow and the receipt of funds relating to the sale of Marchwood in December 2013.

The gearing level of 48% is lower than 2012 reflecting lower net debt. During the year total assets increased to €12.8 billion from €12.6 billion, mainly reflecting the on going capital investment program in the business.

CAPITAL EXPENDITURE

Capital expenditure totalled €825 million in 2013, this is an increase of €60 million on 2012 investment levels.

Capital investment in the networks business continued in 2013 with €519 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.

Expenditure invested in 2013 also includes €153 million on the construction of the Carrington CCGT power station in Great Britain. This project is expected to reach commercial operation in 2016. A further €101 million has been invested in the generation business, of which €25 million relates primarily to the renewables projects and €30 million to plant overhauls.

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 Business Performance Committee of the

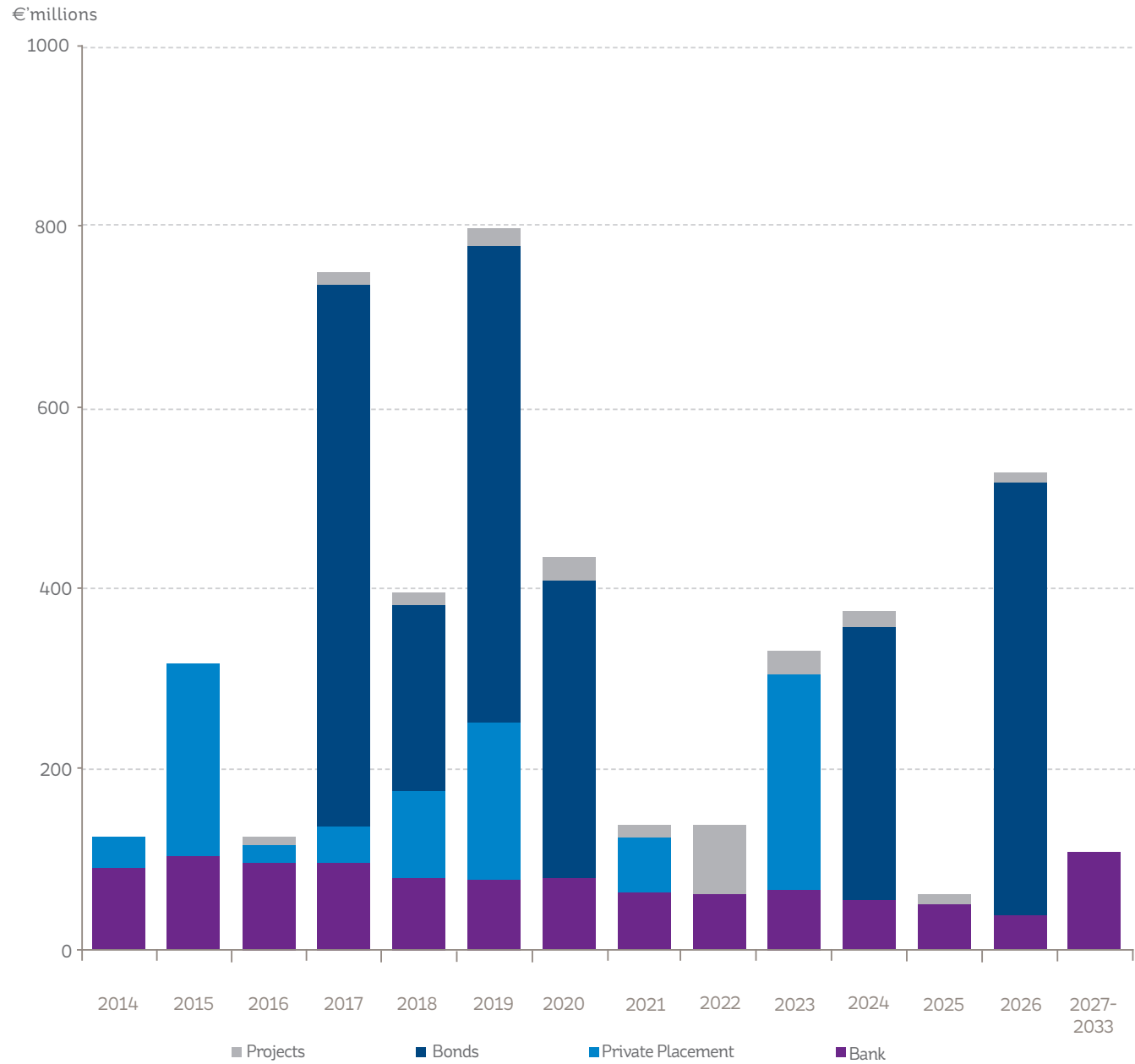
Board is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the Committee for review.

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 appropriate.

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 non-euro denominated fuel and other materials or services, non-euro 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

FIGURE 9: DEBT MATURITY PROFILE



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 2013 66% of ESB's debt was effectively denominated in euro, with the remaining 34% in sterling. The Group's current interest rate policy is to have a significant majority of its debt at fixed (or inflation linked) interest rate to maturity, with a minimum of 50% fixed (or inflation linked) at all times. At 31

December 2013, 95% of the Group's debt was fixed to maturity or inflation linked. **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

FIGURE 10: ESB GROUP BONDS ISSUED IN 2012 AND 2013

Issuer	Amount	Coupon	Maturity
ESB Finance	€600m	6.25%	2017
ESB Finance	€500m	4.375%	2019
ESB Finance	€300m	3.494%	2024

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** In addition to the large scale funding raised in 2012, ESB has continued to successfully raise new finance in 2013, including Eurobond funding of €300 million and a €100 million European Investment Bank loan. Coupled with this ESB negotiated a new €1.4 billion Revolving Credit Facility in 2013. This funding reflects ESB's financial strength and investment grade ratings from all three major agencies. ESB's debt maturity profile (figure 9) is very manageable considering its EBITDA of €1.4 billion and liquidity of €1.8 billion. The Group's funding operations are of strategic importance and support capital expenditure, the refinancing of maturing debt and 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. 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 52% in 2013. The series of successful transactions over recent years has also allowed the Group to significantly improve its debt maturity profile. 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 €1.8 billion 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. **COMMODITY PRICE RISK** The volatility of the fuel prices required for ESB's electricity generation activities has been significant in recent years and the resulting exposures to fuel price movements are managed by ESB on a selective hedging basis. ESB has entered into forward commodity price contracts in relation to the purchase of gas and coal required for electricity generation activities. **FUTURE OUTLOOK** The economic climate is expected to continue to pose challenges for our business into 2014. 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 Programme 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. **ESB's maturity profile is very manageable considering its EBITDA of €1.4 billion and liquidity of €1.8 billion.**

ESB GENERATION AND WHOLESALE MARKETS

ESB GENERATION AND WHOLESALE MARKETS PERFORMANCE IN 2013

OPERATING PROFIT

2013 €355 million
2012 €176 million

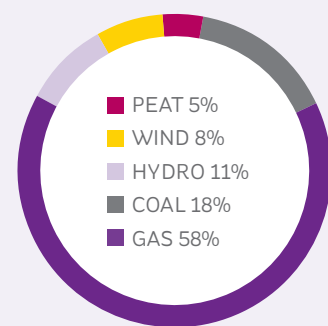
← €179 million

CAPITAL EXPENDITURE

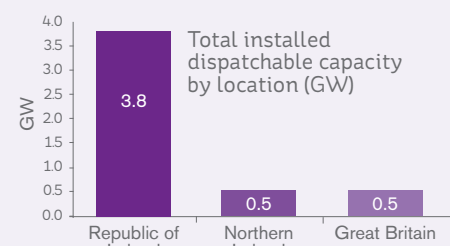
2013 €254 million
2012 €259 million

← (€5 million)

GENERATION FUEL MIX



GENERATION CAPACITY



OVERVIEW

The Generation and Wholesale Markets (G&WM) business develops, operates and trades ESB's electricity generation assets. This portfolio of assets includes circa 4,300 MW of generation in the Single Electricity Market (SEM) and circa 475 MW in Great Britain (GB). In addition, G&WM has a 50% share of a 755 MW gas generation plant with Bizkaia Energia SL (Spain).

OPERATING ENVIRONMENT

Following an aggregate reduction of 6.5% between 2008 and 2012, total SEM demand for electricity levelled off in 2013. Natural gas prices rose in 2013 whilst coal prices reduced. As a result, generation output fell from gas fired plants, which provide the majority of SEM capacity, and generation from coal increased. 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.

Licence changes were put in place by the SEM Regulatory Authorities, giving effect to their decision to allow the removal of ring-fences which had historically separated ESB's regulated and unregulated generation portfolios. This allowed organisational and systems changes to be

FOR FACTORS DRIVING THE GLOBAL ENERGY MARKETS REFER TO PAGE 23

implemented within G&WM, resulting in reduced costs and improved risk management capabilities.

Considerable progress has been made in response to the Government's 2012 announcement to progress the sale of non strategic generation assets in the context of ESB remaining a financially strong, vertically integrated utility. The sale of ESB's 50% shareholding in Marchwood Power Limited in England was completed in November 2013 and the process to sell ESB's 50% shareholding of a 755 MW gas generation plant with Bizkaia Energia SL in Spain is in progress. ESB also announced its intention to sell its two peat stations, West Offaly Power and Lough Ree Power during 2014.

INVESTMENT AND GROWTH

G&WM's Asset Development team are charged with identifying and developing opportunities to enhance and expand ESB's generation portfolio, consistent with the investment strategy of building a balanced low carbon generation portfolio of scale in the all islands market.

The implementation of this strategy advanced in 2013 as the construction of the 881 MW Carrington power plant near Manchester in England continued. The construction of this key project is progressing well and it is expected to reach commercial operation in early 2016.

ESB's pipeline of investment options was strengthened with the submission of planning

documentation for a gas fired power plant in Knottingley, Yorkshire, England with a potential capacity of up to 1,500 MW.

G&WM has been investing in renewable technologies for a number of years in line with the strategy of reducing the carbon intensity of the generation portfolio. 2013 saw the addition of 56 MW of new operating capacity to ESB's wind generation portfolio with the commissioning of Myndd y Betws wind farm (35 MW) in Wales and Carrickatane wind farm (21 MW) in Northern Ireland. This brings ESB's operational wind portfolio to over 380 MW.

G&WM continues to invest in existing generation assets with major overhauls successfully completed in 2013 at the Moneypoint and Coolkeeragh power stations. The long term hydro renewal programme continued with a major refurbishment of Erne unit 3 and further projects being initiated on Erne unit 2 and Ardnacrusha Hydro Plant.

There has been a significant focus and investment in core trading and business intelligence systems. A new trading system, together with organisation and process change, was delivered in 2013, directed at enhancing trading capabilities and improving risk management. This will be expanded to accommodate GB activities during 2014.

CUSTOMERS

ESB has worked hard to improve liquidity and

the availability of risk management products in the SEM, initiating the development of an 'Over the Counter' trading platform through which all generators and suppliers can trade power contracts. G&WM has increased the frequency and variety of traded contracts and offer these to all supply companies on a non-discriminatory basis.

These power contracts provide all suppliers with the opportunity to hedge their power purchases which, in turn, enables them to better manage risk and power price volatility for their retail customers – both residential and commercial.

PEOPLE

G&WM consists of Asset Development, Generation and Trading supported by Strategy and Regulation, Human Resources and Finance.

Staff numbers in G&WM at the end of 2013 were 16% lower than at the end of 2012 and, on average, 1,009 staff were employed within G&WM during 2013. Adjusting to the reduced numbers while maintaining the safe and

effective performance of the business was a key focus for 2013.

Significant safety initiatives included the 4You safety awareness programme which is rolling out to all staff in G&WM and the Process Safety Project.

The Trading team were awarded the Excellence Through People standard during 2013.

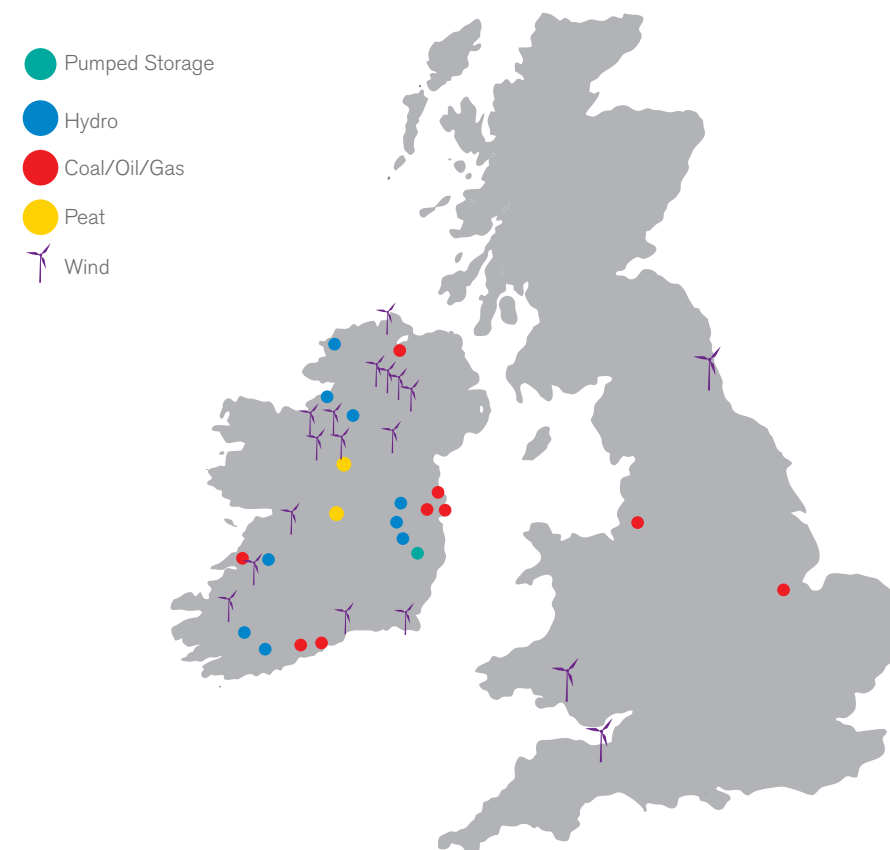
SUSTAINABILITY

G&WM operates its business with a focus on minimising environmental impact.

The absolute levels of CO₂ emissions from G&WM's SEM generation plants in 2013 were 34% less than in 2005. G&WM also measures the carbon intensity of generation – the CO₂ emitted per unit of electricity generated. The carbon intensity of ESB generation has reduced by over 15% during the same period.

An innovative project to increase the amount of electricity generated per unit of water flowing through Ardnacrusha Hydro Plant was designed and successfully implemented.

SEM AND GREAT BRITAIN GENERATION PORTFOLIO



46%
MARKET SHARE IN 2013

PRIORITIES FOR 2014

- Safety will remain a key priority of the business. G&WM is committed to maintaining a healthy and injury free work place by means of the 4You safety awareness programme, implementing the Process Safety Project and improving safety leadership.
- Continue to develop thermal and renewable growth options.
- Safely progress construction of the 881 MW Carrington power plant near Manchester, GB and the wind farm at Woodhouse in Waterford.
- Maintain strong operational performance through best practice operations and maintenance and timely completion of overhauls.
- Deliver major enhancements to our trading and risk management systems.
- Continue to drive the effective delivery of 2015 performance improvement targets.
- Progress the sale of ESB's 50% shareholding in Bizkaia Energia SL in Spain and of West Offaly Power and Lough Ree Power generation assets whilst maintaining the financial strength and scale to compete in the all islands market.

ESB NETWORKS

ESB NETWORKS PERFORMANCE IN 2013		
OPERATING PROFIT	CAPITAL EXPENDITURE	REGULATED ASSET BASE (RAB)
2013 €294 million	2013 €421 million	2013 €7.0 billion
2012 €155 million	2012 €345 million	2012 €6.8 billion
CUSTOMER MINUTES LOST (CMLS)	CHARTER DEFAULTS (NUMBER)	SUPPLIERS CALLS < 5 DAYS
2013 127 minutes	2013 1,063	2013 93
2012 105 minutes	2012 1,422	2012 94

OVERVIEW

ESB Networks is an infrastructure focused business. The total capital expenditure in 2013 was €421 million. The focus of this spend was the extension and reinforcement of the distribution and transmission system. ESB Networks has now connected 2,064 MW of renewable generation to the national electricity network.

OPERATING ENVIRONMENT

Tragically, two of our colleagues lost their lives in 2013. Shane Conlan died while working at Finglas 38kV sub station and Oisín Crotty died in a car accident on his way to work. A full internal investigation was carried out into the death of Shane Conlan and a new organisational structure has been put in place to bring a sustained focus to implementing the recommendations.

The total number of new connections completed during 2013 was 13,828, an 8% increase on 2012. This increase is mainly due to small unmetered business supplies.

CER has recently issued a consultation document on the Mid-Term Weighted Average Cost of Capital Review (WACC) which states that WACC of 5.2% is

appropriate for 2014 and 2015. This is a significant decrease on 2011–2013 WACC of 5.95%. This represents a significant challenge, as the business must absorb any reduction in income arising from a lower WACC, while still meeting its Distribution System Operator (DSO) licence conditions and the Transmission Maintenance Programme. In May 2013, the transmission arrangements between ESB and EirGrid were certified by the European Commission under Article 9(9) of Directive 2009/72/EC (the IME 3 Directive) and subsequently certified by the CER.

INVESTMENT AND GROWTH

Capital investment on the networks system in 2013 totalled €421 million and was focused on reinforcing the system to accommodate new wind generation that will be connected before the end of the decade.

ESB Networks also continued to invest in the distribution system, to improve reliability of supply and ensure the safety of the network. Specific achievements in 2013 included:

- completion of the three 110 kV connections for new data centres in Dublin.
- connection of over 500 MW of wind farm

- capacity and other renewable generation
- refurbishing of 144 km and upgrading of 222 km of transmission lines as part of the grid 2025 transmission reinforcement programme.
- commencement of construction on a €411 million project, including five new 220/110 kV stations in the south-west for transport of electricity generated by wind farms.

STRATEGIC AIMS

A number of milestones were achieved in 2013. Some of the highlights included:

Smart Meter Programme: ESB Networks provided input into CER consultations on time-of-use tariffs, information to the customer and pay-as-you-go meters. A final overall CER decision on the full roll-out of smart meters is expected in 2014.

Cost Efficiency/Performance

Improvement: Following the successful voluntary severance programme delivered in 2012, a successful realignment of business structures was implemented resulting in a lower payroll cost base. In addition, a number of process reviews were completed in 2013, including a review of

our Independent Power Producers (IPP) connection process, which will deliver improvements to 'Gate 3' connection applications.

CUSTOMERS

The number of new connection offers issued and accepted during 2013 have increased on recent years, indicating a marginal upswing in economic activity. 344 MW of additional wind farms were connected to the Irish electricity network in 2013. The amount of wind generation connected to the electricity network in Ireland exceeded 2,000 MW. This is a significant milestone and has been achieved through the collaborative effort of the CER, the Wind Industry and the two System Operators, EirGrid and SONI. Ireland is well on track to achieving the national target of 40% of electricity needs from Renewable Resources by 2020.

There has been significant movement in the number of generators accepting connection agreements, with a total of 2,852 MW now having accepted connection offers.

Customer satisfaction with ESB Networks' overall performance continues to be above target at 82.4%. Telephone response rates to customers in the National Customer Contact Centre (NCCC) continue to be at world-class levels and in 2013, the NCCC team successfully retained their accreditation to the Customer Contact Association –Global (CCA-Global).

The exemplary performance by ESB Networks during the winter storms demonstrated ESB's commitment to our customers.

OUR PEOPLE

The ongoing development of ESB Networks staff is crucial to the effective delivery of the strategy and in 2013, a Strategic Resource Plan up to 2020 was developed. This will ensure work programmes are adequately

resourced as ESB Networks moves into Price Review 4 (PR4).

INNOVATION

ESB Networks is collaborating with NIE, EirGrid and SONI on a smart infrastructure project known as the North Atlantic Green Zone (NAGZ). This zone (in the north-west of Ireland), is at the forefront in facing the challenges of renewables integration.

ESB Networks continued to build its reputation as a global leader in smart grid technologies and was recognised by IBM as the international exemplar utility. In 2013, ESB Networks received the EPRI Technology Transfer Award for its work in the area of smart grids.

SUSTAINABILITY

Following the installation of the Fleet Management System (FMS), fuel consumption of the Networks fleet dropped by approximately 7% on 2012. The Municipal Solid Waste (MSW) recycling rate in ESB Networks depots was 74%, representing a rise of 3% on 2012 year-end.

€421 million
TOTAL CAPITAL
EXPENDITURE
INVESTED IN 2013

PRIORITIES FOR 2014

- **Health & Safety:** ESB Networks is committed to ensuring the health and safety of our staff, contractors and the public. It understands that addressing its safety challenge will take considerable effort over a number of years.
- **Infrastructure Delivery:** The ESB Networks business is committed to delivering the critical infrastructure required to support the ongoing growth of the Irish economy.
- **Customer Service Excellence:** ESB Networks will deliver the customer service targets contained in the PR3 determination and will work closely with the CER to ensure that customers continue to enjoy a high quality, economical service.
- **Sustainable Networks:** ESB Networks aims to be a leader in energy and environmental sustainability and has developed an integrated Smart Networks Strategy to enable national targets to be met.
- **Business Performance and Value Growth:** ESB Networks business will strive to operate within the expenditure allowances set by the CER, delivering costs efficiencies and performance improvements in all parts of the business.
- **Performance through People:** The business strategy will focus on developing staff competencies, fostering a culture of innovation and learning, optimising resources and enhancing staff engagement.

NORTHERN IRELAND ELECTRICITY (NIE)

NIE PERFORMANCE IN 2013					
OPERATING PROFIT		CAPITAL EXPENDITURE		REGULATED ASSET BASED (RAB)	
2013	€77 million	2013	€98 million	2013	£1.2 billion
2012	€64 million	2012	€119 million	2012	£1.2 billion
CUSTOMER MINUTES LOST (FAULTS)		WIND GENERATION CONNECTED (>2MW)		STAGE 2 COMPLAINTS TO CONSUMER COUNCIL	
2013	56 minutes	2013	60	2013	3
2012	46 minutes	2012	71	2012	2

OVERVIEW

In 2013, NIE continued to invest in Northern Ireland's electricity infrastructure by replacing worn assets; servicing increased customer demand and facilitating connection of renewable generation whilst maintaining safety and security of supply.

In 2013, severe storms resulted in widespread damage to the network and the loss of supply to around 150,000 customers. NIE's rapid mobilisation of employees and external contractors, working in very difficult conditions, enabled electricity to be restored to 99% of affected customers, within 48 hours.

In September, NIE achieved the British Standards Institute's 'PAS 55' certification – an internationally recognised asset management standard.

OPERATING ENVIRONMENT

NIE is responsible for the planning, development, construction and maintenance of the transmission and distribution network and for the operation of the distribution network. In April 2013, the transmission arrangements between NIE and SONI were certified by the European Commission under Article 9(9) of Directive 2009/72/EC (the IME 3 Directive), subject to a number of conditions, including the transfer of the

transmission planning function to SONI, which is expected to be completed by April 2014.

As NIE was unable to accept the Utility Regulator's final determination for NIE's fifth five-year price control (RP5) (due to begin in April 2012), the Utility Regulator referred the price control to the UK Competition Commission for determination in April 2013. The UK Competition Commission published its provisional determination in November 2013 and will make its final determination before the end of April 2014.

STRATEGIC AIMS: INVESTMENT AND GROWTH

Capital expenditure in 2013 amounted to €98 million. The level of investment remained in line with the rate of investment during the RP4 price control period. There were circa 8,000 applications for customer demand connections. The rate of applications for the connection of small-scale renewable generation continued to increase and a total of 91 MW of renewable generation was connected to the network.

NIE's strategy is to continue 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 its business plan submission to the Utility Regulator for RP5, NIE proposed that the level of investment would need to increase significantly in order to: replace worn network assets installed during the 1950s and 1960s, meet an increasing need for large transmission projects and meet the requirements of new legislation.

CUSTOMERS

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, customer minutes lost remained well within target range and the number of customer complaints which the Consumer Council for Northern Ireland takes up on behalf of customers (Stage 2 complaints) remained very low.

NIE continues to maintain its emergency response capabilities during severe weather events in order to effectively restore supply to all customers. As noted above, the emergency plan was implemented successfully during the extreme weather conditions in 2013 following network damage caused by storm conditions.

NIE's website was developed to provide a more service-based experience. Customers can now

submit meter readings, apply for connections, report power outages and receive up to date fault information online from the website, including from their mobile devices. Customers can also communicate with NIE via Twitter.

During 2013, NIE continued its extensive campaigns to provide safety advice to farmers and agricultural contractors. It also focused on childrens safety through the NIE's 'Kidzsafe' programme, which raised safety awareness among primary school children to reduce incidences of vandalism and electricity-related injuries.

PEOPLE

NIE currently employs approximately 1,300 people. Safety remains the primary focus for the business. NIE promotes a positive and proactive health and safety culture and adheres to all necessary legislation and recognised safety standards, ultimately believing all incidents are preventable.

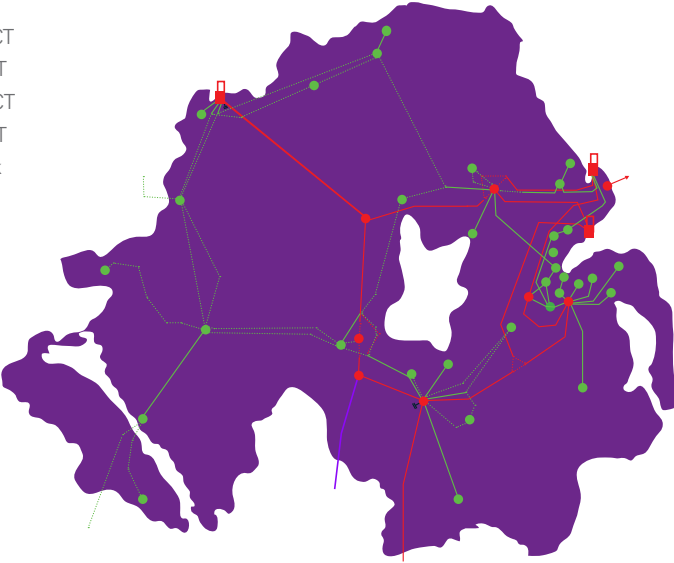
The high calibre and commitment of NIE's employees is essential in NIE continuing to meet customers' expectations and the demands of the business. Employees are encouraged to realise their maximum potential and to be appropriately challenged and engaged in the business by providing continuous opportunities for skills enhancement and personal development.

As part of NIE's partnership with Business in the Community, around 30 NIE employees were appointed to the Boards of local voluntary, community and social enterprise organisations during 2013.

During the period NIE further developed its educational outreach initiatives. It currently works with over 60 schools, most of the further educational colleges and local universities to increase awareness of opportunities from taking Science, Technology, Engineering and Maths ("STEM") subjects and to promote careers in the electricity industry, including: careers guidance, mentoring, work experience, research and development projects, electrical engineering

TRANSMISSION NETWORK

- 275KV Double CCT
- 275KV Single CCT
- 110KV Double CCT
- 110KV Single CCT
- Moyle HV DC Link
- Powerstation
- 275KV Substation
- 110KV Substation



scholarships, sponsoring electrical engineering students and sponsoring energy projects.

SUSTAINABILITY

NIE is committed to the highest levels of sustainability in all aspects of its operations.

During 2013 NIE installed 130 electric vehicle charge posts. There is now significant coverage for electric vehicle travel across Northern Ireland. There has been continued focus on waste management targets, with the recycling rate for all hazardous and non-hazardous waste (excluding excavation waste from roads and footpaths) at 97%. In the 2013 environmental survey conducted by ARENA Network in Northern Ireland, NIE achieved a first quintile position, outperforming both the NI average and the utilities sector average.

INNOVATION

During the year NIE's 'Shift & Save' Smart Grid trial continued. The trial, involving 200 homes, investigates how Smart meters and Smart grid technology could change homeowners' energy usage patterns, particularly at times of peak demand in the early evening to reduce and flatten demands on the network. Smart meters were installed in participants' homes and Smart monitoring equipment installed at the substations supplying these homes. Following an initial technology monitoring phase, customer behaviour is now being monitored via in-home displays and the application of a multi-rate 'shadow tariff'. Initial analysis suggests that customers are making changes to shift some of their energy use away from the peak period. The trial will run until June 2014.

PRIORITIES FOR 2014

- Safety: Ensuring the health and safety of employees, contractors and the general public will continue to be NIE's top priority.
- RP5 price control: Implementing the Competition Commission's final determination on RP5 and adopting the associated licence modifications.
- Customer service: Remaining committed to meeting all customer service expectations.
- Competitive cost base: Maintaining NIE as an efficient and highly competitive company requiring value for money in all its endeavours.
- People: Continuing investment in employees to enhance the organisation's capability, through: further employee development programmes, increased employee engagement and extended educational outreach initiatives.
- Stakeholders: Engaging effectively with key stakeholders including the regulators, renewables industry groups, CBI and large energy users.

ELECTRIC IRELAND

ELECTRIC IRELAND PERFORMANCE IN 2013					
REVENUE		OPERATING PROFIT		CUSTOMER NUMBERS	
2013	€2,078 million	2013	€79 million	2013	1.5 million
2012	€1,963 million	2012	€33 million	2012	1.5 million
ENERGY EFFICIENCY (GWH)		MARKET SHARE		RESIDENTIAL CUSTOMER SATISFACTION	
2013	227GWh	2013	37%	2013	89%
2012	119GWh	2012	36%	2012	83%

OVERVIEW

Electric Ireland is the retail arm of ESB, supplying competitive electricity, gas and energy services to all market segments. The Electric Ireland brand was launched in 2011 and is now one of the foremost retail brands on the island.

OPERATING ENVIRONMENT

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.

2013 saw Electric Ireland competing effectively in the residential and business markets with competitively priced products, resulting in over 80,000 residential electricity customers switching to Electric Ireland in 2013. During the year, Electric Ireland has also won over 50,000 residential gas customers bringing the total residential gas customers to 130,000 since our entry into the residential gas market.

A key factor in the success of the business is the capability, knowledge and flexibility of our staff in understanding our customer needs and providing innovative products and services to meet those needs.

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.

Progress made during 2013:

- Provided excellent products and customer service
- Proactively worked with our customers where debt repayment was an issue and developed products and payment solutions that met their needs
- Delivered our cost improvement targets
- Maintained Electric Ireland as the leading energy supply brand in Ireland.

CUSTOMERS

In a continuing drive to gain and retain residential customers, Electric Ireland continued to successfully launch and develop new and differentiated product and price offerings. These included competitive electricity price plans to grow market share in the electricity market and building market

share in the residential gas market.

Electric Ireland is aware that cost is a significant issue for all our customers. Electric Ireland competes effectively in the market as evidenced by the volumes of customers coming to Electric Ireland in 2013. In addition Electric Ireland also took the decision in September to freeze prices in the residential market to the end of 2013 and in doing so absorbed the Public Service Obligation (PSO) increase of 1.8% due from 1st October and other cost increases borne by Electric Ireland.

By the end of 2013, Electric Ireland had 1.27 million residential electricity customers and 130,000 dual fuel customers, with over 80,000 residential electricity customers switching to Electric Ireland in 2013 from competing suppliers.

Despite significantly increased competition, Electric Ireland continues to maintain its strong presence in the large business market sector in the Rol 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.

Electric Ireland continued to prioritise quality customer service and customer satisfaction remained high throughout 2013. This was reflected in the results of the annual energy retail market consumer survey published by the CER in July 2013, 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 2013 Electric Ireland's Customer Contact Centre achieved its service targets, retained its ISO 27001 accreditation and also retained its accreditation under the Customer Contact Centre Association Global Standard. In addition, we continue 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 210,000 Electric Ireland customers now receiving paperless billing (online). These customers can also view their account and payment history online.

With the increasing use of web, email and social media channels such as Twitter and Facebook, customers are engaging with Electric Ireland in new ways. Meeting customer needs through such channels and enabling customers to carry out more transactions using digital channels if they so choose, is one of Electric Ireland's top service priorities.

The current economic environment 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 circa 250,000 tailored payment arrangements with customers in 2013.
- 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.
- Proactively engaging with the society of 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.

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, which is 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 is on target to deliver over 220 GWh of energy efficiency savings cumulatively for 2011 through 2013, the equivalent of a reduction in electricity consumption of over 40,000 homes.

In 2013 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.

PRIORITIES FOR 2014

- Deliver new and innovative products and services that meet customer needs and provide value for money.
- Provide excellent customer service.
- Maintain Electric Ireland brand as the leading energy supply brand in Ireland.
- Earn a reasonable and sustainable level of profit and maintain the focus on further cost improvement and flexibility to ensure a competitive cost base.
- Continue to work proactively with our customers by offering payment options to facilitate debt repayment in the harsh economic climate.
- Deliver stretching energy efficiency targets by developing innovative solutions for homes and businesses to become more energy efficient.
- Work with the CER to ensure appropriate regulation of ESB's supply business in the context of an evolving market.

210,000
ELECTRIC IRELAND
CUSTOMERS NOW
RECEIVING PAPERLESS
BILLING (ONLINE)

OTHER SEGMENTS

OVERVIEW

Other Segments includes ESB Innovation and our internal service providers.

ESB INNOVATION

The scale of the challenges and opportunities facing the energy sector requires new thinking and innovative solutions. New technologies, increased competition and an increasingly sophisticated consumer mean that ESB must innovate faster to remain competitive and to deliver on our strategy and objectives. The dedicated Innovation Business Unit was established as a focal point to exploit new ideas that will drive growth opportunities and transformation across the ESB Group.

Our focus is on ensuring that the existing businesses within Innovation continue to perform well. 2013 has been a strong year for these businesses. ESB International (ESBI) is continuing to expand its international footprint and product offering, ESB Telecoms (ESBT) is competing strongly in the domestic fibre and towers markets, Novusmodus, our clean technology fund, is developing its portfolio of investments and Ecars is completing the roll-out of its charge point infrastructure and supporting IT and communications platforms.

OPERATING ENVIRONMENT

Our businesses operate in competitive environments, where the key requirement is the delivery of the highest quality expertise at a competitive price.

All of our operations have responded to changing market needs by shaping their offerings. In 2013 ESBI created a local joint venture in Turkey to meet the needs of its customers and ESBT responded to the changes in the domestic tower markets by connecting more towers with fibre, thereby increasing their value to operators.

STRATEGIC AIMS: INVESTMENT AND GROWTH

ESBI is developing new target markets and

ESB'S INNOVATION STRATEGY FOCUSES ON THREE MAIN PILLARS:

1 Emerging Energy Technologies
New low carbon technologies are emerging, but no single technology addresses the challenges of decarbonisation, energy affordability and security of supply. A selection of new technologies – together with new business models – will be required to meet these challenges. ESB Novusmodus, our clean-tech venture fund, gives us visibility in developments in the relevant sectors. A dedicated team was established in 2013 to evaluate the technologies and business models that are emerging and determine how they can be transformed into commercial products and services for ESB.

2 Fostering an Innovative Culture
An Innovation Forum was set up in 2013 to establish a more structured approach to innovation and to develop a culture where ideas are generated, supported and implemented. The group will also support the development and implementation of the Innovation Strategy and Road Map.

3 Collaboration and Strategic Partnerships
ESB views collaboration and partnerships with enterprises, representative groups, universities and other utilities as an important contributor to the development of future technologies, products and services. We are reviewing our current approach to collaboration and are planning to develop even stronger relationships with our partners to create new opportunities.

customer offerings. Its corporate target is to double its external revenue in five years.

ESBT will leverage the extensive national fibre and tower footprint already in place to ensure that our towers are capable of dealing with the increasing demands for speed and capacity from mobile data consumers.

Novusmodus is continuing its investment programme while also supporting its current investment portfolio (including Aveillant, Heliex Power and tenKsolar) as they develop new technologies and business models.

Given the potential of ocean energy we are now focussed on developing the West Clare Killard site earmarked for the pioneering Westwave demonstration project.

ESB Ecars is completing the roll-out of its national charge point infrastructure, with almost 800 public charge points installed and is now developing the communications and management technologies to support a large-scale customer roll-out. We are also supporting other international roll-outs, in conjunction with partners IBM.

The Fibre to the Building (FTTB) programme is continuing apace, with a preferred partner selected and work progressing on rolling-out the fibre broadband network, starting in 2014.

CUSTOMERS

ESBI continues to develop its international customer base, establishing operational bases in Saudi Arabia, Singapore, South Africa and Turkey in the last year.

ESBT has made significant developments in its customer base in 2013, winning significant new contracts with SSE Telecoms and Vodafone together with supporting the tower operators (Netshare and Mosaic) as they develop the required footprint for their towers infrastructure to support mobile operators.

PEOPLE

ESB has always been at the forefront of promoting engineering as an exciting and interesting career. In response to growing demand for engineering services from the international energy sector, ESBI has recently announced plans to recruit 80 new engineering and technical professionals, over the next five years.

New technologies and increased competition mean ESB must be innovative.

THE BUSINESS SERVICE CENTRE (BSC) IS THE INTERNAL PROVIDER OF BOTH BUSINESS AND STAFF SERVICES WITHIN ESB.

ESB has ambitious plans to be Ireland's foremost energy company competing successfully in the all islands market, by bringing sustainable and competitive energy solutions to all our customers. The BSC is key to enabling ESB to achieve these strategic objectives by providing sustainable and competitive support solutions to the business and our staff. The BSC works in partnership with our business units to ensure business needs are met in an efficient, sustainable and affordable way. The centralisation of services enables the BSC to provide a consistent level of customer service and increase the volume of self-service through the ESB intranet.

OUR SERVICES ARE:

HR Operations

- Recruitment and Staff Development
- Employee Wellbeing
- Safety and Sustainability
- Medical Provident Fund
- HR Information and Services

Finance Operations

- Requisition to Pay
- Accounting and Reporting
- Governance and Process Improvement
- Procurement and Vendor Management
- Group Tax
- Treasury Operations

ITS

- IT Governance and Strategy
- IT Service Delivery
- IT Project Delivery
- IT Service Support

Services

- Group Property
- Legal
- Insurance
- Customer Service Centre

Pensions

INNOVATION PRIORITIES FOR 2014

- Our existing businesses will continue to expand their product offerings and customer base, with ESBI continuing to provide world-class engineering solutions across the globe.
- ESBT will complete a roll-out of fibre to key sites in our extensive towers infrastructure and will increase our fibre network to offer customers a more complete end-to-end product.
- ESB Ecars will complete the national charge point infrastructure roll-out and will begin supporting larger scale customer use of the infrastructure.
- The Fibre to the Building (FTTB) project is expected to roll-out fibre to selected locations and begin commercial operations during 2014.
- Novusmodus will continue to expand its investment portfolio, focusing on investments in renewable energy generation, energy efficiency and related technologies/ business models.
- Our priority is to ensure that innovation is supported across ESB, in an effort to continue the innovation which has been at the centre of the company for generations. The Emerging Energy Technologies team will work on the Westwave project and develop new technologies pilot projects, while the Innovation Forum will support a more innovative and collaborative culture within ESB and with its partners, through an Innovation Strategy and Road Map.



03 CORPORATE SOCIAL RESPONSIBILITY

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Forces of nature, forces to be reckoned with: wind, waves and solar powering forward

CORPORATE SOCIAL RESPONSIBILITY



Pat Naughton, Executive Director,
Group People and Sustainability

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. Our vision is to be Ireland's foremost energy company, competing successfully in the all-islands market and underpinned by our aim of conducting all our business dealings with our customers, partners, stakeholders and the public with integrity and to the highest ethical standards.

Our sustainability strategy supports our corporate strategy, and reflects supporting our determination to build a successful business in the long-term as we move to decarbonise our generation activities by 2050, in line with other European utilities.

I am pleased to report that in 2013 we retained the Business Working Responsibly (BWR) Award for a further two-year period.

During 2013 we were selected as a National Champion at the European Business Awards in the category of Environmental and Corporate Sustainability, which recognise excellence, best practice and innovation in companies across the EU.

We will continue to build on this success 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.

At ESB, we recognise that our people are central to our success. Our Corporate Strategy to 2025 focuses on delivering high performance in business outcomes while also enhancing the employment experience of our people. We invest in both core and mandatory safety and technical training and also in personal development and education. We also invest in employee safety, health and well-being and in a positive working environment.

Pat Naughton

Pat Naughton
Executive Director,
Group People and Sustainability

SUSTAINABILITY

To underpin our commitment to being a sustainability organisation, ESB launched our new Sustainability Strategy, building on the success of the achievements of the first phase in our sustainability journey between 2008 and 2012. We have set ourselves 24 key objectives to underline our commitment to becoming exemplary in sustainability and to report on our progress. The new strategy is focused on embedding sustainability in our business and outlines how sustainability supports the Corporate Strategy across the five key pillars of our strategy, which are to:

- build a balanced low-carbon generation and supply business of scale in the all-islands market as we move to a low-carbon economy
- engage with our employees to enhance performance and with our customers, suppliers and the community as part of our broader responsibilities to society
- minimise our impact on the environment, deliver cost savings and use our resources in a cost efficient manner
- develop new low-carbon business opportunities as a source of competitive advantage towards 2050
- lead the development of Smart Networks and to facilitate renewables integration onto the network.



ENERGY USAGE 2013

In compliance with SI542/2009 (energy end use efficiency and energy services), ESB is disclosing its energy usage in 2013, the initiatives we undertook during the year to improve our energy performance and our commitment to further improve our energy performance for 2014.

Electricity generation accounts for over 90% of ESB's use of energy, but this falls outside the scope of the regulations. In 2013, ESB consumed 33,349 GWh of fossil fuel energy in generating electricity in the Republic of Ireland.

This comprised:

- 17,484 GWh of natural gas
- 11,285 GWh of coal
- 4,257 GWh of peat
- 323 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 (156 GWh in 2006). This consisted of:

- 67 GWh of electricity as PEE
- 1 GWh of natural gas
- 49 GWh of transport diesel
- 0.3 GWh of renewable energy in transport

ESB's generating plants are subject to the integrated pollution control licensing regime and are required to optimise energy efficiency. Generation efficiency is promoted because of the requirement to purchase emissions allowances under the EU's emissions trading scheme.

Our ESB Networks business continues to focus on reducing losses on the network through continued upgrade of the electricity

ENERGY SOURCE	2013 (GWh)	2006 (GWh)	CHANGE (GWh)
Electricity source	27	38	(11)
Electricity (PEE)*	67	96	(29)
FOSSIL FUELS			
- Natural gas	1	1	-
- Heating oil	-	-	-
- Diesel	49	59	(10)
TOTAL FOSSIL FUELS	50	60	(10)
RENEWABLE ENERGY	-	-	-
TOTAL (PEE)	117	156	(39)

*PEE is the primary energy equivalent

networks system and the conversion of the network from operating at 10 kV to 20 kV.

Since 2006 ESB has reduced energy usage in our buildings, in our fleet and in private cars used for business travel by 28% and we have reduced the energy used in our buildings by 30%. This is in line with the government objective for the public sector of a 33% improvement in energy efficiency by 2020.

STEPS TO DELIVER THIS TARGET IN ESB IN 2013 INCLUDED:

- installation of energy efficient lighting and advanced lighting controls in office buildings
- continued trial installations of electric pumps and other renewable energy

- technologies in our office buildings as part of the Better Energy Programme
- upgrading of boiler and heating controls
 - 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)
 - continued use of web-based meeting/communications facility to avoid the need for business travel and introducing work-place travel planning
 - promotion of sustainability to encourage behavioural change amongst staff with respect to using energy efficiently.

We will continue to deliver efficiency savings in all aspects of our business in 2014.

OUR PEOPLE

ESB has a highly trained and committed workforce operating in a very diverse high skill business.

ESB has recognised the role of managers in delivering engagement and agility in the workplace. We see our managers as key to creating the environment where people can perform at their best and maximise their contribution, while at the same time enjoying the health and well-being that comes from the positive experience of employee engagement. In 2013 we initiated a programme of development for our managers across the organisation and at all levels. The aim of this programme is to develop managers to enable high performance of their teams, through an understanding of the importance of motivation, engagement and communication in the workplace.

In 2013, we conducted an organisation-wide employee engagement survey, giving a voice to employees about the various aspects of their working environments. The data generated from this survey is now being used to inform our strategy on improving engagement in all our workplaces.

In 2014 we look forward to continuing to work with our people to find new and innovative ways of improving our business, driving down our cost base and making ESB an even better place to work.

EQUALITY AND DIVERSITY

ESB continues to create and promote a positive and inclusive work environment and to build awareness and understanding of the benefits of promoting equality and diversity. ESB's Equality and Diversity policies, practices and initiatives are encouraged for positive employee engagement and to support staff during times of organisational change. Our policies are regularly reviewed, in line with legislation and best practice, and aim to support a culture of respect and dignity for the individual in the workplace.

The values of diversity and inclusion play an increasingly important part in ESB's ability to attract, retain and enhance key talent. As a signature to Diversity Charter Ireland, ESB further demonstrates its commitment to promote the acceptance, appreciation and inclusion of diversity, promoting equality and preventing discrimination for all employees, customers, clients and contractors.

ESB's Traineeship Programme for People with Disabilities is now in its eighth year. In 2013, three ESB business units received a Willing Able Mentoring (WAM) Leader Awards for Employment of Graduates with Disabilities.

SAFETY

Safety is a core value in ESB and our overall approach is based on the belief that all unsafe incidents are preventable. This belief guides our approach to safety across all our business activities. We promote an open and proactive health and safety culture with the full involvement of all our people. This is reinforced through strong and visible leadership. ESB's commitment to health and safety is described in our ESB Group Policy and Framework Safety Statement. The overall Group objective is zero injuries. Achieving this requires the full understanding by everyone in the Group of their safety responsibilities and their commitment to fostering a proactive safety culture, based on a duty of care for themselves, their co-workers and members of the public. Responsibility for safety in ESB proceeds from the Board through the Chief Executive, to all senior management and in turn to each manager, supervisor, team leader, and each member of staff. The Board has in place a Committee on Health, Safety and Environment which considers and reports on matters of policy, strategy and performance in relation to health and safety.

We recognise that our people are central to our success, now and into the future

EQUALITY AND DIVERSITY INITIATIVES DURING 2013 INCLUDED:

- Women's learning and networking programme – events to promote and cultivate the growth and advancement of women in the organisation.
- ESB continues to be an active member on a number of external equality and diversity networking groups.
- Promotion of ESB's independent mediation services to resolve workplace conflicts.
- Joint Equality Council whose members are a cross-section of staff and union representatives and include disability and LGBT representatives.
- ESB's Disability Access Group introduced a Disability Awareness Challenge to help raise awareness of the issues facing people with disabilities in the workplace
- ESB continues year on year to exceed its 3% National Disability Authority (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
- Events to celebrate International Women's Day and International Men's Day – raising awareness of unconscious biases.

All ESB businesses have safety management systems in place. The majority of our safety management systems are certified to OHSAS 18001 standard or equivalent and are subject to annual independent audit. As part of each safety management system, each business of ESB Group provides the resources, systems and controls necessary to manage and conduct work activities in such a way as to ensure, so far as is reasonably practicable, the safety, health and welfare at work of all staff and any other persons at the work location. In addition, ESB is focussed on managing potential risk associated with particular aspects of its operations and has detailed programmes in place for addressing each risk area, including:

- public safety
- driving
- behavioural safety.
- contractors safety

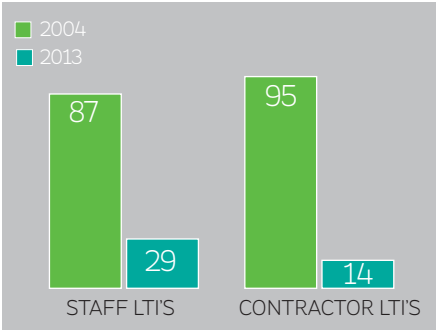
Our performance in 2013 has been overshadowed by the tragic fatality to a member of staff in our ESB Networks business. On 15 January 2013 Shane Conlan, an apprentice Network Technician (NT), was fatally injured while working on a 38 kV cubicle in Finglas substation in Dublin. The subsequent thorough investigation highlighted that there were a number of aspects of our safety management in ESB that needed a renewed focus and effort to ensure that such an incident could never happen again. The outcome of the thorough investigation of the incident was communicated throughout ESB. A new safety organisation has been put

in place in ESB Networks to deliver on the recommendations and these recommendations are being progressively implemented in the ESB Networks business with regular updates to the Executive Director Team.

There were no fatalities to contractors in 2013. While there were no work-related fatalities associated with road traffic collisions, regrettably Oisín Crotty, an apprentice NT was fatally injured while driving to work on 17 January 2013. In June, a member of the public was fatally injured while operating a pressure washer on a farm in Newcastlewest, County Limerick.

The number of staff Lost Time Injuries (LTIs) was 29 in 2013 compared to 23 in 2012, while contractor LTIs were 14 in 2013 against

NUMBER OF LOST TIME INJURIES (LTIS)



14 in 2012. The combined outcome of 43 is slightly higher than in 2012 (37). However all of these injuries were of low severity. The more prevalent causes continue to be slips and trips, handling and lifting and tools and equipment.

EMPLOYEE HEALTH & WELL-BEING

ESB is strongly committed to supporting staff in maintaining good health and well-being so that they can fulfil their role in the workplace and maintain a healthy and balanced life.

To this end ESB has introduced a Health and Well-being Programme which provides information and advice to staff to help them create and maintain a healthy lifestyle. In order to create a better understanding of the programme, we have created a new look and feel, 'Your Health & Well-being', with five icons representing different aspects of the programme, i.e. family, personal growth, mental health, physical health and financial health.

OUR FOCUS FOR THE YEAR HAS BEEN ON:

- encouraging staff to take responsibility for their own health and well-being
- promoting initiatives aimed at helping staff to maintain good physical and mental health
- extensive promotion of staff support services within ESB and externally.

We provide support to our staff through our well established services including Occupational Health Services, Employee Assistance and Equality and Diversity Programmes, which are all aimed at supporting staff.

EMPLOYEE ASSISTANCE PROGRAMME

ESB's in-house Employee Assistance Programme (EAP) provides professional and confidential support to individual staff members who are experiencing personal issues. The main areas of support include: bereavement, mental and physical health, family relationships and financial pressures.

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 an integral part of everyday life, the availability of active workplace stress awareness programmes are crucial to supporting staff in dealing with these challenges and minimising the impact on their well-being. Some of the programmes available to our staff during the year were:

- cardio-vascular health screening
- bowel cancer screening
- flu vaccination and smoking cessation programmes
- monthly bulletins on mental health, physical health, financial health and work-life balance.

LEARNING & DEVELOPMENT

ESB is determined to maintain and develop the necessary knowledge and skills for high levels of competitiveness both in the Irish market and abroad. To this end, ESB continues to refine strategic resource planning across all businesses and to

67%
THE IMPROVEMENT IN STAFF LTIS IN THE PAST 10 YEARS.



IN PROFILE

TERESA WILLIAMSON, MANAGER, SCHEDULE SUPPORT CENTRE, ESB NETWORKS

In 1979, I joined ESB in Cork as a Clerical Officer and worked across a number of business areas in this role. During this time I developed my organisational and people management skills. In the mid-1980s I moved to the Engineering Design Office where I was tasked with reviewing and implementing process improvements. This was something

that I found I had a flair for and really enjoyed. The culture in ESB is very supportive of those who want to develop their skills and knowledge.

In 2001, the Production Support Team, South West Division Cork was established. I joined the team and was subsequently promoted to the Production Support Supervisor role. This was the peak of the Celtic Tiger and it was really important to work efficiently and smarter in order to meet the demand for new electricity connections. In this role I managed a team, which implemented many best practice initiatives, which were subsequently implemented in other divisions. I also participated in and contributed to Working/Project Groups which aimed to improve delivery of services to our customers.

My current role is as Manager of the Schedule Support Centre in ESB Networks. Initially, this involved setting up the centre and recruiting and training staff. Alongside managing the team, building and maintaining

good relationships with key stakeholders is a key aspect to the role. I developed this unit from project status to go live and now operational status with the help of a small, efficient team of people.

ESB is really good at developing its staff and over the course of my career, I have participated in many development programmes. I did a Supervisory Development Programme early in my career and more recently I participated in an in-house Management Development Programme. External development is encouraged too and in 1990 I obtained a diploma in social studies from UCC.

For me, ESB has been a very good company to work in. I have been fortunate to have worked with many great people along the way who have recognised, fostered, nurtured and developed my skills which have helped me demonstrate my capabilities and achieve the success I have to date. In turn, I also try to foster the talents in my team and develop my staff.

CORPORATE RESPONSIBILITY

As a leading Irish organisation with deep roots in the community dating back to 1927, we are committed to playing a role in addressing some of the key social issues facing Ireland today. ESB has been supporting initiatives in the areas of suicide prevention and homelessness since 2005 through our Electric Aid Ireland Fund, and has invested over €7 million with voluntary organisations and charities who provide support in these areas over the past eight years.

ENERGY FOR GENERATIONS FUND LAUNCHED

In November 2013, we launched our new 'Energy for Generations' Fund, making a commitment to corporate responsibility investment which will see over €2 million per year disbursed across a range of community and issues-based initiatives in the areas of: education, homelessness, suicide prevention, wind farm community funds, fuel poverty programmes, support for a new staff volunteering initiative and the continuing provision of matching funding for our staff social justice fund, Electric Aid, which has been working to support social development issues in Ireland and overseas for over 25 years.

ELECTRIC AID

Electric Aid, ESB staff's overseas development and social justice fund, had a very satisfactory year in a difficult operating environment. Membership was stabilised at 2,450, after a 4% decline due to staff exits from ESB and general economic conditions. 2013 revenue is projected at €1.31 million – the same as 2012. Funding activity supported 144 separate projects worth €1.28 million in Ireland and in the developing world.

The end of the year was dominated by a highly successful Special Appeal for Syria and the Philippines. This raised approximately €110,000, due to the remarkable generosity of the entire ESB community.

ESB ELECTRIC AID IRELAND

ESB Electric Aid Ireland, ESB's CSR initiative focusing on suicide and homelessness in Ireland,



Participants at the Phoenix Park at the Pieta House Darkness into Light Walk

had another excellent year. It is on track to fully absorb the €1 million made available by ESB, funding a remarkable 159 different projects and services all over Ireland. In an exciting new development, Electric Aid Ireland is being integrated into ESB's new Energy for Generations Fund. The commitment of €1 million per annum has been reaffirmed until 2016, with an additional focus on education, literacy and numeracy.

GAA

Electric Ireland sponsors the GAA Football/Hurling All-Ireland Minor Championships. It aims to promote the Minor Championships, increase awareness and attendance at matches and support the GAA stars of the future. We provide a bursary of €10,000 for the winning county in both hurling and football to further develop the minor games in their respective counties.

POWERING KINDNESS

Electric Ireland's Powering Kindness Week is an initiative which encourages people to do a simple act of kindness and bank it in favour of one of three Irish charities, to help them share in Electric Ireland's €130,000 fund. This was the second year during which over 45,000 good deeds were banked through poweringkindness.ie, Facebook, Twitter, Instagram and by text messages. Running

from 2nd–8th November 2013, the campaign really captured the imagination of people around Ireland. Childline won the top prize of €60,000 for having the most deeds banked in their name, with Special Olympics Ireland and Breakthrough Cancer Research receiving €40,000 and €30,000, respectively.

PIETA HOUSE DARKNESS INTO LIGHT

Electric Ireland was proud to support the fifth year of Pieta House's Darkness Into Light fundraising walk. Darkness into Light is a unique event which begins at 4.00 a.m. as thousands of people gather in the darkness at 20 locations across Ireland and walk or run the 5 km route as dawn is breaking. It is the most vital component of the Pieta House (a suicide and self-harm crisis centre) fundraising calendar.

€7 MILLION
INVESTED IN VOLUNTARY ORGANISATIONS OVER THE PAST EIGHT YEARS

NEW PARTNERSHIPS IN EDUCATION

In common with many other Irish companies, we need access to staff with strong science, technology, maths and literacy skills and all of these are grounded in getting our young children off to the best educational start possible.

We were also conscious that our staff and our company have been the beneficiaries of historically high standards of education and we would like to acknowledge and repay that investment made in us.

In redeveloping our strategy we have therefore extended its remit to incorporate a focus on educational support.

TIME TO READ

Our first national educational partnership is with Business in the Community (BITC) on the Time to Read programme, a national literacy support programme, where staff volunteers commit to one-to-one reading with children in national schools. Over the next three years it is our ambition that Time to Read transitions from being a successful pilot to a significant national programme, supported by BITC member companies throughout the country.

For our part we will be encouraging more of our staff to join the volunteers already reading and working with BITC to promote the programme.

AN COSÁN - IRELAND'S VIRTUAL COMMUNITY UNIVERSITY

Our second national educational partnership supports learning at the other end of the spectrum – second chance adult education. An Cosán is Ireland's leading provider of adult and community education. The centre has developed a world-class academic programme for students that can be rolled out nationwide through community-based organisations.



ESB supporting one-to-one reading with children in national schools

ESB is supporting this innovative and exciting initiative by becoming a national partner for the project (along with Learnovate, Carlow IT and Accenture). This initiative has the potential to transform the educational experience for students and potential students throughout the country, both in terms of access and in terms of the quality of the programmes available to them.

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 which are 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.

Over the next three years, our ambition is that Time to Read transitions to a national programme



04 CORPORATE GOVERNANCE

In this section

Chairman's Corporate Governance Statement **52** The Board **54** Executive Team **56**
Board Members' Report **58** Risk Management Framework **68**

Clean, green and powering ahead: E-cars charging across the country

CORPORATE GOVERNANCE

Chairman's Corporate Governance Statement



Lochlann Quinn, Chairman

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 strongly believe that your Board in 2013 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 54 to 55.

The Code of Practice provides that the Chairman may engage with Government on succession and this provides an opportunity for ensuring an appropriate mix of skills and experience.

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 key decisions including 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 Board 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 60 to 62 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 WAY WE WORK

THE WAY WE ARE STRUCTURED

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

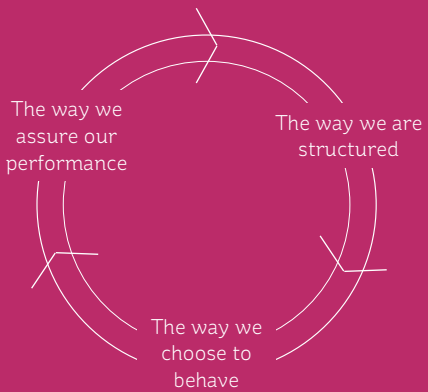
THE WAY WE CHOOSE TO BEHAVE

- 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.



KEY ROLES AND RESPONSIBILITIES

THE CHAIRMAN

Lochlann Quinn

- Leading the Board
- Determining the Board agenda
- Ensuring its effectiveness and facilitating full participation by each Board Member
- Ensuring effective communication with the Group's owners and stakeholders

THE SENIOR INDEPENDENT DIRECTOR

Brendan Byrne

- Act as a sounding board for the Chairman
- Serving as an intermediary for the other directors

THE CHIEF EXECUTIVE

Pat O'Doherty

- Management of the Group's business
- Development and implementation of the Company's strategies and policies
- Maintaining a close working relationship with the Chairman
- Leading the Executive Team

THE COMPANY SECRETARY

John Redmond

- Assists the Chairman in ensuring that all directors have full and timely access to all relevant information
- Is responsible for ensuring that correct Board procedures are followed and advises the Board on corporate governance matters
- Liaison between Board and Executive Team

Biographical details of the Chairman, Chief Executive and Senior Independent Director can be found on page 54
Biographical details of the Company Secretary can be found on page 56

THE BOARD



Board site visit to Turlough Hill

1 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 the Audit and Risk Committee and Chairman of the Remuneration and Management Development 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 (1997 - 2003) and of the National Gallery of Ireland (2002 - 2010).

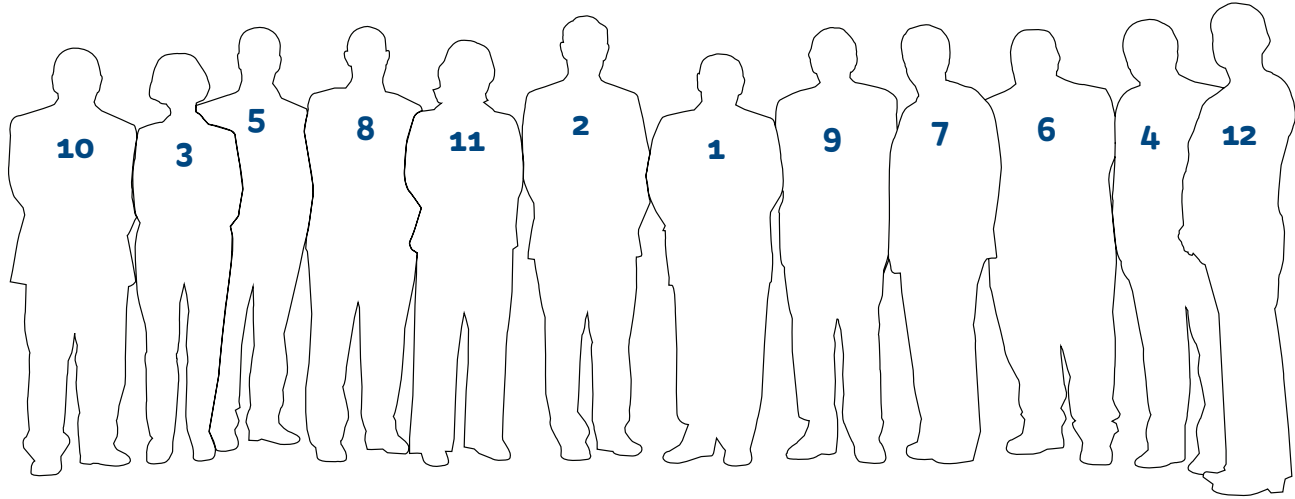
2 PAT O'DOHERTY
Appointment to the Board: January 2013 as Board member and December 2011 as Chief Executive.
Committee membership: Finance and Business Performance Committee and Health, Safety and Environment Committee
Career experience: Holds primary and masters degrees in Engineering from University College Dublin. Completed the Advanced Management Programme at Harvard Business School. Headed up each of ESB's main businesses as Executive Director ESB International, Managing Director ESB Networks and Executive Director ESB Power Generation.
External appointments: Trustee of The Conference Board of the United States and is a director of Energy UK.

3 ANNE BUTLER
Appointment to the Board: November 2012.
Committee membership: Audit and Risk Committee, Market and Customer Committee.
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/ advisory service.
External appointments: Served on a number of boards including the National Roads Authority (NRA), Ordnance Survey Ireland (OSI), Member of the Governing Body of the Dublin Institute of Technology.

4 BRENDAN BYRNE
Appointment to the Board: September 2004, Reappointed September 2009.
Committee membership: Chairman of the Audit and Risk Committee and member of Finance and Business Performance Committee and Market and Customer 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.

5 DAVE BYRNE
Appointment to the Board: January 2011 as a Worker Board Member.
Committee membership: Member of the Regulation Committee and the Finance and Business Performance Committee.
Career experience: Member of team that is now part of ESB's Business Service Centre organisation and previously worked in Customer Supply (now Electric Ireland).
External appointments: President of ESB Officers Association (ESBOA) until April 2010 and then appointed as the Group of Unions representative in Central Partnership.

6 JOHN COLEMAN
Appointment to the Board: January 2007 as a Worker Board Member and reappointed in January 2011.
Committee membership: Member of the Health, Safety and Environment Committee and the Marketing and Customer 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.



7 ELLVENA GRAHAM
Appointment to the Board: October 2010
Committee membership: Chairman of the Finance and Business Performance Committee, member of Remuneration and Management Development Committee and the Audit and Risk Committee.
Career experience: MD of SME Banking at Ulster Bank Group and Head of Ulster Bank Northern Ireland held other senior positions at the Bank including Chief Operating Officer Ulster Bank Group, Director of Business Services Ireland, Interim Director of Group Operations, Europe, Middle East & Africa (EMEA), Chief Operating Officer – Corporate Bank.
External appointments: Member of the Advisory Board of Women's Executive Network in Ireland, Board Member of the Northern Ireland Chamber of Commerce.

8 SEAN KELLY
Appointment to the Board: January 2011 as a Worker Board Member.
Committee membership: Chairman of the Market and Customer Committee and member of the Regulation Committee.
Career experience: Joined ESB as an apprentice in June 1997. Safety Champion for Newcastle West, Safety Representative 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).

9 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 Éireann and MP for Newry and Armagh at Westminster. 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 2011.
Committee membership: Chairman of the Health and Safety and Environment Committee and a member of the Finance and Business Performance 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 O'KELLY
Appointment to the Board: April 2013.
Committee membership: Member of the Audit and Risk Committee and the Market and Customer Committee.
Career experience: Chartered Accountant trained with KPMG and held a number of senior positions in Independent News and Media group including Head of Treasury and Group Secretary. In 2002, was appointed Company Secretary of C&C Group. Consultant on corporate governance.

12 NOREEN WRIGHT
Appointment to the Board: June 2011.
Committee membership: Chairman of the Regulation Committee, Member of the Health, Safety and Environment Committee and of the Remuneration and Management Development Committee.
Career experience: Called to the Bar of Northern Ireland in 1976. Worked in the in-house legal team in Northern Ireland Electricity (NIE). Held a number of 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.

EXECUTIVE TEAM



BRID HORAN

Brid Horan was appointed Deputy Chief Executive ESB in May 2013. Previously, she held the position of Executive Director ESB Services and Electric Ireland from 2006. Before joining ESB in 1997 as Group Pensions Manager she headed KPMG Pension & Actuarial Consulting. Brid was a Commissioner of the National Pensions Reserve Fund from 2001 to 2009 and a Board member of IDA Ireland from 1996 to 2006. Brid is an Actuary and a Chartered Director (IoD) and is a Non Executive Director of FBD Holdings plc.



DONAL FLYNN

Donal Flynn was appointed Group Finance Director in August 2010. Prior to joining ESB Donal worked in Airtricity 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.



PADDY HAYES

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.



JIM DOLLARD

Jim Dollard was appointed to the position of Executive Director for Business Service Centre and Electric Ireland in July 2013. Jim was previously the General Manager of Electric Ireland having taken up that role in January 2013. An accountant, Jim began his career at ESB in 1992 and has held a number of senior management positions throughout the company including most recently, Acting Group Financial Controller and Financial Controller ESB Energy International.



JERRY O'SULLIVAN

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

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 in Corporate Governance from Napier University Edinburgh and from University College Dublin. He became a Fellow of the Institute of Chartered Secretaries in 1997.



JOHN MCSWEENEY

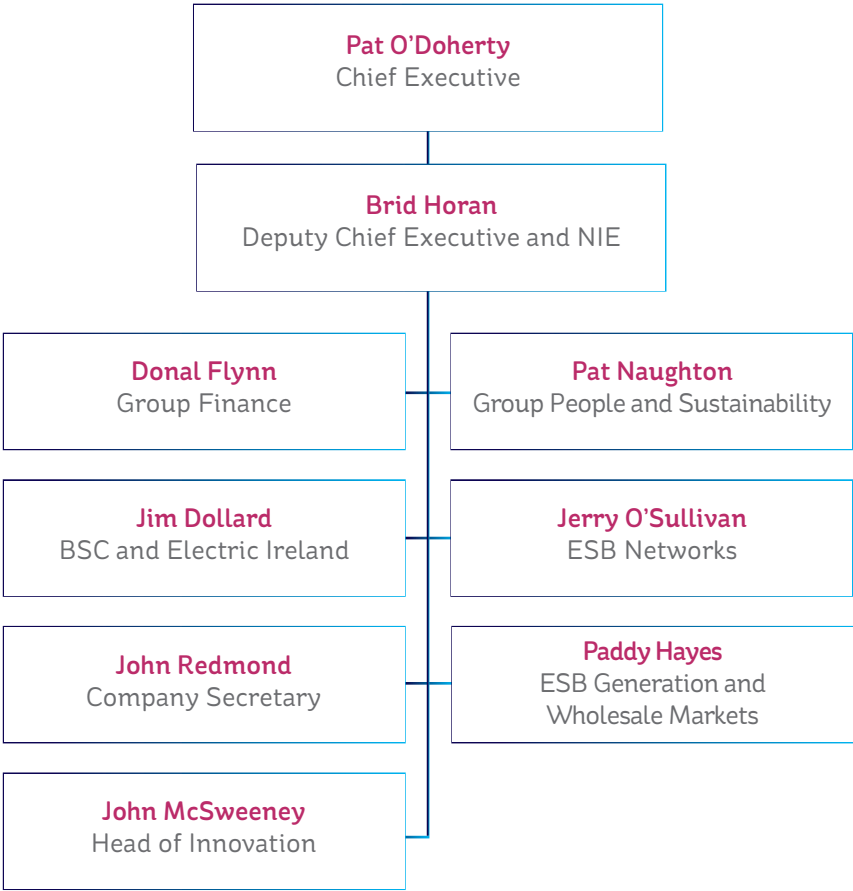
John McSweeney was appointed Head of Innovation in 2012. He previously held senior positions as acting Executive Director of ESB Energy International in 2011, Manager of ESB Asset Development, Manager of Engineering and Facility Management at ESB International and Manager of ESB IT Solutions and Telecoms. 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.



PAT NAUGHTON

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 of Hydro Stations, ESB Power Generation.

EXECUTIVE TEAM CHART



‘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.’

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 2013.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Commentaries on performance in the year ended 31 December 2013, including information on recent events and potential 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 unit within the Group.

RESULTS FOR THE YEAR

The financial results of the Group show a profit after tax of €510 million for the financial year 2013, compared with a profit of €194 million for 2012.

An interim dividend of €68.4 million (3.45 cents per unit of stock) was paid in November in respect of 2013.

A dividend payment of €160.9 million (8.12 cents per unit of stock) arising from the sale of generation assets was declared in January 2014.

The Board is now recommending a final dividend of 1.46 per cent per unit of stock, or €28.8 million in aggregate. This brings the total dividends paid over the past decade to over €1,200 million.

CORPORATE GOVERNANCE

ESB complies with the Code of Practice for the Governance of State Bodies, which 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”). The Corporate Governance Code was revised by the publication of the UK Corporate Governance Code 2012 in September 2012. The new code applies to financial years beginning on or after 1 October 2012. ESB supports the provisions of the new code and will voluntarily comply as far as possible with them. The Governance Code is available on the Financial Reporting Council's website.

ESB also complies with 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. As indicated above, 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 66 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.

PRINCIPLES OF GOOD GOVERNANCE

Attendance at Meetings in 2013

There were 11 General Board Meetings during 2013. The number opposite each name on page 59 represents the attendance by each Board Member during the year.

MEETINGS ATTENDED

Board Members 2013	Meetings Attended
Lochlann Quinn	11
Brendan Byrne*	11
Anne Butler*	10
Dave Byrne^	11
John Coleman ^	10
Ellvena Graham*	11
Sean Kelly ^	11
Seamus Mallon*	10
Tony Merriman^	11
Noreen O'Kelly* (appointed in April 2013)	7
Noreen Wright*	10
Pat O'Doherty	11
* Independent Board Members	
^ Worker Board Member	

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 2013 the Board comprised the Board Members in the table above of whom the Chairman and the independent directors were appointed by Government and the four worker Board members were appointed 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 above were independent during 2013. This determination took account of the relevant provisions of the Corporate Governance Code regarding directors' independence in character and judgement 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 above.

Notwithstanding that Mr Brendan Byrne has served as a Board Member for more than nine years (first appointed in September 2004) the Board considers that Mr Byrne is independent and will remain so until September 2014 when his term as a Board Member will expire.

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.

Board meetings

The Board meets monthly (with the exception of August) and also meets on other occasions as necessary. The Board is responsible for reviewing the operational and financial performance of the company and for ensuring effective internal control and risk management. The Board has a formal schedule of matters specifically reserved to it for decision. The matters reserved to the Board include:

- Approval of Group strategy, annual budgets together with annual and interim accounts;
- Approval of major capital expenditure;
- Appointment of the Chief Executive;
- Appointments to Senior Management on the recommendation of the Chief Executive
- 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.

Board evaluation

The Board conducts an annual evaluation of its own performance and that 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.

In 2013 the Board evaluation was externally facilitated by Mr. Karl Croke of Board Works who has no other current connection with the company. In the past he has provided certain management recruitment services to the company.

In addition the Chairman meets with Board Members including the Senior Independent Board Member for an open exchange among Board Members concerning the efficiency and effectiveness of the Board.

Board appointments

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 2013

Committees are established to assist the Board in the discharge of its responsibilities. The six committees are set out below.

1. AUDIT AND RISK COMMITTEE



Brendan Byrne,
Chairman,
Audit and Risk
Committee

KEY OBJECTIVE

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

RESPONSIBILITIES

- Reviewing of financial statements and monitoring compliance with relevant statutory requirements.
- Reporting to the Board on the appropriateness of our accounting policies and practices.
- Recommend to the Board on whether the Committee believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders/ stakeholders to assess the Company’s performance, business model and strategy.
- Overseeing the relationship with the external auditor.
- Ensuring effective risk management and internal control.
- Reviewing the scope, resources, results and effectiveness of the activity of the Group internal audit team.
- Considering and making recommendations

to the Board on the nature and extent of the significant risks the Group is willing to take in achieving its strategic objectives.

MAIN ACTIVITIES OF THE COMMITTEE DURING THE YEAR INCLUDE REVIEW OF:

External Audit

- The interim and annual financial statements
- The External Audit Plan, the scope of the audit as set out in the engagement letter and the effectiveness of the external audit
- 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.

Internal Audit

- The Group Internal Audit Plan, audit reports and regular implementation reports
- The effectiveness of the internal audit function.

Risk Management and Internal Control

- ESB’s Risk Policy, 2013 Risk Plan and regular risk reports
- The effectiveness of the company’s risk management and internal control systems
- Business continuity planning
- Corporate Governance compliance
- 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.

FINANCIAL REPORTING

The Audit and Risk Committee receives and considers statutory reports on financial performance from management as well as directing work of and receiving reports from the internal audit team and discussing the audit strategy and focus of the external auditor. Taking into account information from these activities, the Audit and Risk Committee determined the key risks of misstatement of the group’s financial statements related to the following:

- Pension Obligations
- Carrying value of assets
- Derivatives and hedging arrangements

These issues were discussed with management during the year; with the auditor at the time the committee reviewed and agreed the auditors’ group audit plan; when the auditor reviewed the half year interim financial statements in September 2013; and also at the conclusion of the audit of the financial statements.

PENSION OBLIGATIONS

During 2013 there was a legal and IR challenge in relation to the ESB General Employees’ Superannuation Scheme. The IR issue was resolved at the Labour Relations Commission in December 2013. The legal case was subsequently withdrawn by the four plaintiffs (all employees) and struck out. Given that both challenges related to ESB’s obligations to the Scheme, the Audit and Risk committee and the Board reviewed the accounting treatment of ESB’s obligations in relation to the Scheme. The process included meetings with the auditors and management as well as obtaining updated legal advice, and concluded that the accounting treatment, as reflected in the financial statements continues to be appropriate. This conclusion was based on the following key factors:

- The Scheme is registered as a Defined Benefit Scheme with the Pensions Board. The regulations governing the Scheme stipulate the benefits that are to be provided and the contributions to be

paid by both ESB and the contributing members.

- The scheme is not a typical “balance of costs” Defined Benefit Scheme (where the employer is liable to pay the balance of contributions required to fund benefits). The company does not intend that any further contributions, other than the normal on-going contributions and the balance of the company’s €591 million additional contribution (committed to under the 2010 Pensions Agreement), will be made.
- Should a deficit arise in the future, the company is obliged under the Scheme regulations to consult with the parties to the Scheme. However, ESB has no obligation to increase contributions to maintain benefits in the event of a deficit and ESB’s rate of contribution cannot be altered without the agreement of ESB and the approval of the Minister for Communications, Energy and Natural Resources.

The accounting for the obligations to be reflected in the financial statements requires the exercise of judgement. The Board is satisfied that the appropriate accounting treatment, determined in accordance with IAS 19 ‘Employee Benefits’, is to reflect its existing committed obligations, as set out in the notes to the financial statements.

CARRYING VALUE OF ASSETS

Irish and UK generation portfolio

Impairment reviews were performed on the Irish and UK generation portfolios to ensure the carrying values are supported by forecast future discounted cash flows. No impairment charge with respect to our generation business was necessary following this review.

ESB Networks transmission and distribution assets

ESB Networks is entering the fourth year of the current five year price control period (PR3). As at 31 December 2013, there were no indicators of impairment of the carrying value of the regulated asset base (€7 billion), which determines the future regulated income to be earned.

NIE

Goodwill recognised in the NIE business at 31 December 2013 amounted to €182 million. An annual impairment test of goodwill was carried out in accordance with IAS 36 and no reduction in the value of goodwill was required. The growth rate and appropriate discount rate used to carry out this test are significant judgements and these are explained more fully in the notes to the financial statements.

DERIVATIVES AND HEDGING ARRANGEMENTS

The Group uses derivative financial instruments

and non-derivative 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, currency swaps, foreign currency contracts and indexed swap contracts relating to the purchase of fuel and sale of electricity. Derivative contracts which are not designated as own use contracts are primarily accounted for as ‘cash flow’ hedges, which impact principally on equity rather than on the reported earnings of the Group.

On acquisition of Northern Ireland Electricity (NIE) in December 2010, the Group acquired inflation linked interest rate swaps (“RPI Swaps”) with a negative fair value of €272.5 million, which do not qualify for hedge accounting and therefore all fair value movements have an impact on profit for the year. The fair values of the RPI Swaps are sensitive to movements in the market expectations of LIBOR interest rates and the UK retail price index (RPI) and modest changes to these key assumptions would have a significant effect on the results of the Group. The RPI Swaps have various maturities through to 2036 and mandatory break clauses in December 2015.

The committee has considered the basis of valuation for derivatives and are satisfied that they are reasonable.

DISCUSSIONS WITH THE AUDITOR

The Audit and Risk Committee has received and discussed a report from the external auditor on the findings from the audit, including those relating to the risks noted above. The auditors reported to the committee any misstatements that they had found in the course of their work and no material amounts remain unadjusted.

After reviewing the presentations and reports from management and internal audit, and taking into account views expressed by the external auditor, the Audit and Risk Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures). The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

APPOINTMENT AND INDEPENDENCE

KPMG and its predecessor firms have been the Company’s external auditor since the

establishment of ESB in 1927. The Committee considers the reappointment of the external auditor every five years and this process is subject to public tender. The last tender process was completed in early 2012 and a three year contract was awarded with an option to extend for another two years. The Committee also assesses the auditors independence on an on-going basis. The external auditor is required to rotate the audit partner responsible for the Group audit every 5 years.

AUDIT QUALITY

To maintain audit quality and provide comfort on the integrity of financial reporting, the Committee reviews and challenges the proposed external audit plan to ensure that KPMG have identified all key risks and developed robust audit procedures. The committee also considers KPMG’s responses to accounting, financial control and audit issues as they arise, and meets with them at least annually without management present providing the external auditors with the opportunity to raise any matters in confidence.

NON-AUDIT SERVICES

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.

BOARD MEETINGS

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 7 meetings during 2013. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings attended
Brendan Byrne, Chairman	7
Anne Butler	6
Ellvena Graham (joined April 2013)	4
Noreen O’Kelly (joined June 2013)	3
Lochlan Quinn (member until March 2013)	3

In addition the Board Chairman attended a further three of the above meetings following the invitation of the Committee Chairman.

2. 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 5 meetings during 2013. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings attended
Tony Merriman, Chairman	5
John Coleman	5
Seamus Mallon	5
Noreen Wright (joined April 2013)	3
Pat O'Doherty	5

The Board Chairman attended the January 2013 meeting of this Committee.

4. 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 5 meetings during 2013. 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	4
Sean Kelly (joined April 2013)	4

3. MARKET AND CUSTOMER COMMITTEE

During 2013 the Market and Customer Committee was re-constituted. The Market and Customer Committee advises the Board on all aspects of strategic marketing and customer service. The Committee held 4 meetings during 2013. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings attended
Sean Kelly, Chairman	4
Anne Butler	4
Brendan Byrne	4
John Coleman (joined April 2013)	3
Noreen O'Kelly (joined June 2013)	3

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 2013, the Committee considered the remuneration and targets of the Chief Executive and the senior executives and appointments to the Senior Executive team. The Committee held 4 meetings during 2013 which was attended by all Committee Members.

Members	Meetings attended
Lochlan Quinn, Chairman	4
Ellvena Graham	4
Noreen Wright	4

6. FINANCE AND BUSINESS PERFORMANCE COMMITTEE

The purpose of the Finance and Business Performance Committee is to oversee strategy and policy on financial matters, to monitor the Company's performance improvement programmes and to advise the Board as appropriate. The Committee also reviews investment proposals aimed at ensuring the positioning of ESB for future success consistent with the strategy approved by the Board.

In April 2013, the Finance and Performance Improvement Committee and Investment Committees were combined and the title changed to Finance and Business Performance Committee.

The Investment Committee held two meetings before this change and meeting attendance is set out below:

Members	Meetings attended
Ellvena Graham, Chairman	2
John Coleman	2
Sean Kelly	2
Pat O'Doherty	2
Noreen Wright	1

The Board Chairman attended one of these two meetings.

The Finance and Performance Improvement Committee held three meetings before this change and the meetings attendance is set out below:

Members	Meetings attended
Brendan Byrne, Chairman	3
Dave Byrne	2
Ellvena Graham	3
Tony Merriman	3

The Board Chairman attended two of these three meetings.

The new Finance and Business Performance Committee held eight meetings during 2013 and attendance is set out below:

Members	Meetings attended
Ellvena Graham, Chairman	7
Dave Byrne	8
Brendan Byrne	8
Tony Merriman	8
Pat O'Doherty	8

The Board Chairman attended six of these eight meetings.

COSO Framework



ESB Internal Control Framework

- Key controls testing programme
- Enterprise Risk Reviews
- Internal and External Audit programme
- Clear Roles and Responsibilities
- Upward Reporting
- Comprehensive policies and procedures
- Business planning and budgeting process
- Comprehensive monthly reporting system
- Enterprise Risk Management
- Trading Risk Management
- Fraud Risk Assessment
- ESB Employee Code of Ethics
- Clearly defined organisation structure, authority levels and segregation of duties
- Compliance with Corporate Governance guidelines

The Group had benchmarked the integrated internal control framework as developed by Committee of Sponsoring Organisations of the Treadway Commission (COSO) as its basis for internal controls.

INTERNAL CONTROLS AND RISK MANAGEMENT

SUMMARY

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.

INTERNAL CONTROLS

ESB has in place a strong internal 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

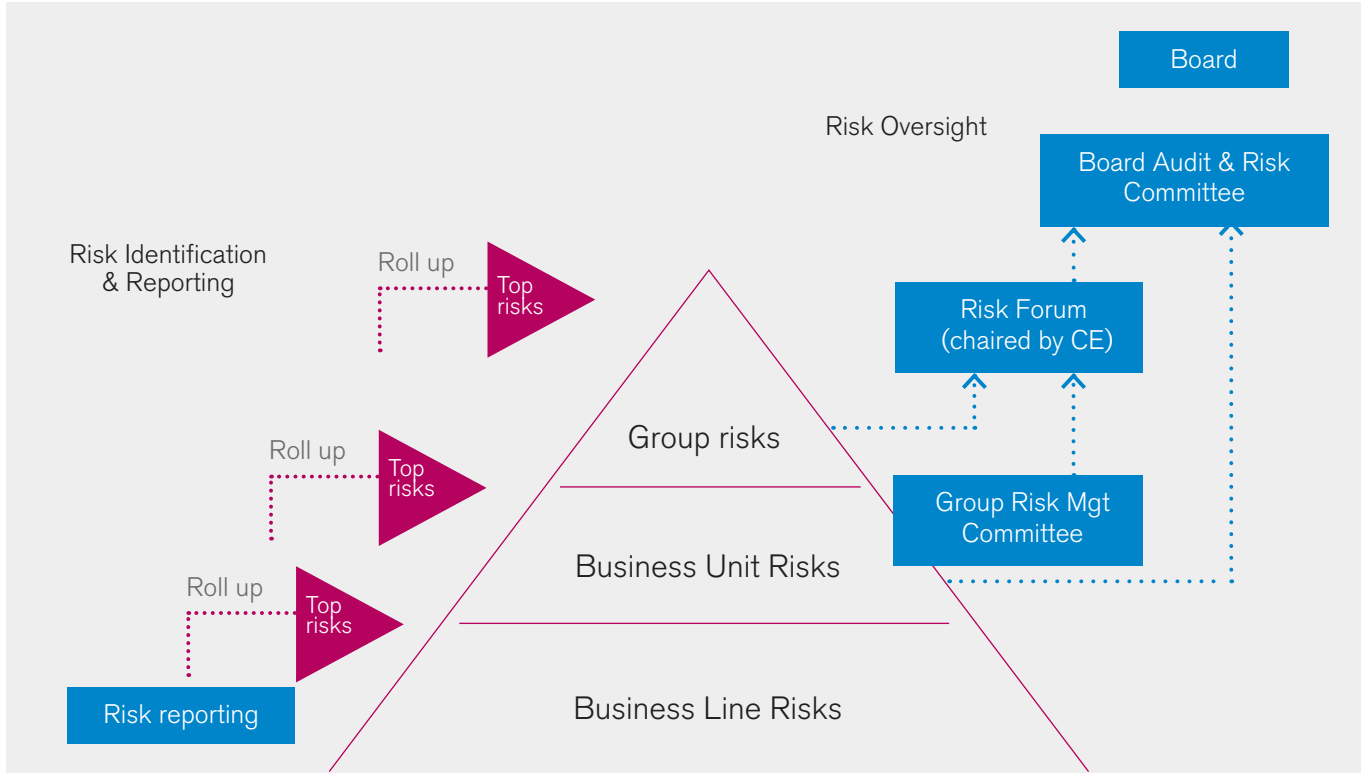
- A corporate governance framework which includes risk analysis, financial control review and formal annual governance compliance statements by the management of business lines. This is monitored by the Group Internal Audit department, which reports to the Audit and Risk Committee on an ongoing basis
- A comprehensive set of policies and procedures relating to operational and financial controls
- Large capital projects require the approval of the Board, and are closely monitored on an ongoing basis by the Finance and Business Performance 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 actual results are reported against budget and considered by the Board on a quarterly basis. Any significant changes and/or material adverse variances are questioned by the Board, and remedial action taken where appropriate
- 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:

- A designated risk management function in ESB
- 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
- A review of reports of the external auditor, KPMG, which contain details of any significant control issues identified, arising from its work as auditor.

ERM APPLIES TO ALL LEVELS OF ESB GROUP



RISK MANAGEMENT

Board's Risk Responsibilities

The Board has overall responsibility for the company's approach to risk. Specifically, the Board is responsible for:

- ensuring that an adequate process designed to identify the principal risks and uncertainties is in place.
- embedding an appropriate risk culture throughout the Group.
- oversight of the risk management and crisis management processes and
- assessment of the likely effectiveness of management's mitigation measures and controls.

The Board focusses primarily on those risks capable of undermining our strategy or which could adversely affect the long-term viability or reputation of the company.

The Board is also responsible for agreeing the Group's overall risk appetite and tolerance for individual risks. The process of considering the Group's exposure to risk and the changes to key risks has assisted the Board in its review of strategy and the operational challenges faced by the company.

ESB's enterprise-wide approach to risk management (ERM) is based on a consistent risk management framework and is implemented at all levels across the Group. The framework is continually updated and improved and further details are provided in the Risk Management Report.

The Board receives a comprehensive half year update on the Risk Report and

regular monthly risk reports from the Chief Executive, the Group Finance Director and members of the Executive Director Team.

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 ESB.

FOR FURTHER INFORMATION ON OUR RISK MANAGEMENT FRAMEWORK REFER TO PAGE 68



Risk Appetite

Risk is an inherent part of running any business. The Risk Appetite Statement has been developed to:

- provide high level direction on how the company should position itself to protect value and mitigate risk as it moves to implement strategy
- describe the key risk tolerances and core values ESB desires to operate within
- demonstrate ESB's competence in mitigating risk
- comply with the Code of Practice for Governance of State Bodies.

As a regulated, state owned utility ESB is highly prudent in the overall management of the business and has a limited appetite for and tolerance of risk. Some examples of the way in which appetite for risk is limited are:

- Energy trading – levels of exposure are strictly monitored through risk models and clear reporting limits
- Major project construction – the Company has in place a detailed governance and risk process for all its large capital projects
- Treasury and funding, there is a clear and prudent approach to liquidity levels, and a diversified debt portfolio
- Where available on acceptable terms insurances are in place for all relevant major risks, while maintaining an appropriate balance with self insurance.

Given the diverse nature of the business, it is appropriate that risk appetite vary between our different businesses and the company is open to considering additional risk where the risk is well understood, the returns meet clearly established investment criteria and the risks can be properly managed. In this regard, our approach in respect of economically-regulated businesses such as ESB Networks and NIE is more risk averse than is the case in other

market-based activities. In areas such as electricity generation or telecommunications, ESB might consider taking on additional risk. Risk appetite may also vary over time and the Board has explicitly considered the level of deviation from its stated appetite for risk that ESB is prepared to accept in respect of specific risks. The propensity to take risk is always balanced by our focus on exercising control. Our Risk Management Framework integrates risk appetite with the strong control culture in the organisation.

Where appropriate, the company insures against risks that can be cost effectively placed with the insurance market. In addition, Group Insurance monitors the market to identify new or emerging risks where insurance mitigation may be available.

Risk Culture

Risk culture describes the values, beliefs, knowledge and understanding about risk shared by everyone in the organisation. In ESB this is most clearly demonstrated in the Group values statement adopted by the company as part of the strategy development process. This statement emphasises the value placed by the Board

- on safety in all aspects of our operations and customer service
- on openness in communications
- a strong teamwork ethic and
- honesty and integrity in our dealings with each other and all our stakeholders.

ESB's culture supports a strong people focus while emphasising compliance in our approach to managing risk. The Risk Management Framework is designed to ensure that a sufficient diversity of perspectives, values and beliefs are taken into account in identifying and managing risk across the organisation. Our risk culture is also protected by a system of strong internal controls and by clearly allocating

responsibility for specific risks to members of the Executive Director Team.

The Board is very aware that it must lead by example in shaping and supporting the company values which underpin our approach to risk. The Board is also concerned to ensure that sufficient risk management skills and capabilities are available in the business and that the knowledge and experience of all the staff in ESB who understand the risks associated with our operations is utilised. Regular reporting has helped the Board to stay abreast of emerging risks and uncertainties.

The annual Staff Survey also provides valuable insights into staff awareness and understanding of the Board's strategy, the requirement for compliance, willingness to raise concerns with management and belief that concerns will be listened to – all of which are important indicators of the embedding of risk awareness across the business. The Board's Audit and Risk Committee is actively engaging with staff by visiting work locations to learn how risk management is being embedded across the Group.

BOARD MEMBER'S REMUNERATION		
	2013 €	2012 €
Chairman: Lochlann Quinn		
Fees	75,075	78,750
Pat O'Doherty		
	2013 €	2012 €
Salary	295,000	295,000
Taxable benefits	15,570	9,418
Pension contributions	48,380	48,380
	358,950	352,798

Non-Executive and Worker Board members fees		
	2013 €	2012 €
Brendan Byrne	15,750	15,750
Dave Byrne	15,750	15,750
John Coleman	15,750	15,750
Seán Conlan	-	12,794
Ellvena Graham	15,750	15,750
Garry Keegan	-	6,775
Sean Kelly	15,750	15,750
Seamus Mallon	15,750	15,750
Tony Merriman	15,750	15,750
Anne Butler	15,750	2,114 ¹
Noreen Wright	15,750	15,750
Noreen O'Kelly ²	-	-
	141,750	147,683

¹ Paid in 2013
² Ms O'Kelly has waived her Board fees

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 effective 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 Pension Scheme. In line with Government policy at this time, he did not receive any performance related payments in 2013.

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 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 revised 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 2013, the following amounts were reimbursed to, or paid on behalf of, the Chief Executive and Board Members: €49,428 for travel expenses, €21,783 for accommodation/subsistence, €4,009 for business entertainment and €19,223 for subscriptions to business relevant organisations and publications.

The above business and travel 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

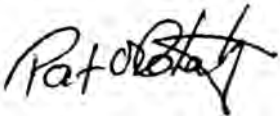
The Board made no political donations during the year.

CONCLUSION

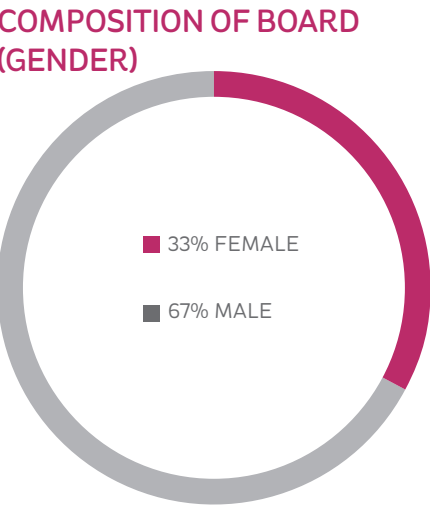
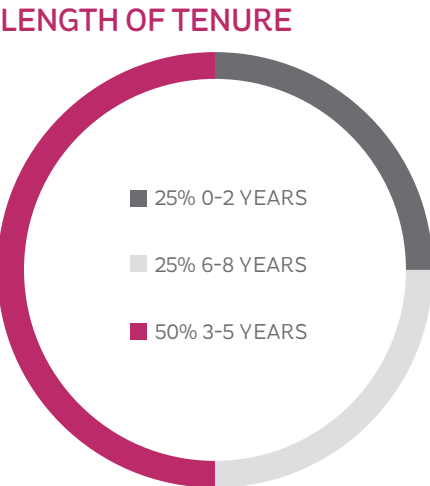
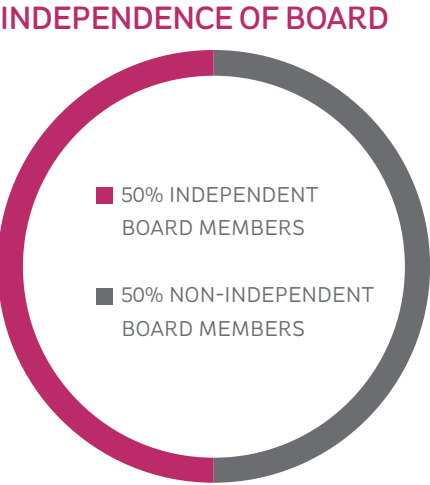
This report was approved by the Board on 5 March 2014 for submission to the Minister for Communications, Energy and Natural Resources.

On behalf of the Board


Lochlann Quinn, Chairman


Pat O'Doherty, Chief Executive
5 March 2014

Name	On committee since:
Audit and Risk Committee	
Brendan Byrne, Chairman	February 2005
Anne Butler	January 2013
Ellvena Graham	April 2013
Noreen O'Kelly	June 2013
Health, Safety and Environment Committee	
Tony Merriman, Chairman	February 2007
John Coleman	February 2007
Seamus Mallon	May 2006
Noreen Wright	April 2013
Pat O'Doherty	December 2011
Finance and Business Performance Committee	
Ellvena Graham, Chairman	April 2013
Dave Byrne	April 2013
Brendan Byrne	April 2013
Tony Merriman	April 2012
Sean Kelly	April 2013
Regulation Committee	
Noreen Wright, Chairman	January 2012
Dave Byrne	March 2012
Seamus Mallon	February 2007
Sean Kelly	April 2013
Remuneration and Management Development Committee	
Lochlann Quinn, Chairman	February 2008
Ellvena Graham	January 2012
Noreen Wright	January 2012
Market and Customer Committee	
Sean Kelly, Chairman	March 2013
Anne Butler	March 2013
Brendan Byrne	March 2013
John Coleman	April 2013
Noreen O'Kelly	June 2013



ESB’S RISK MANAGEMENT FRAMEWORK

INTRODUCTION

The Risk Management Framework sets out the risk strategy and risk appetite for the Group and establishes clear policies, processes and procedures to ensure a consistent approach to risk identification, evaluation and management across the Group. ESB’s Risk Management Framework meets the requirements for risk management 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 3100.

The Group’s approach to risk management aims to:

- Manage risk to a level acceptable to the Board.
- Align risk appetite and strategy.
- Embed a strong risk management culture across all levels of the Group.
- Identify and manage multiple and cross-Group risks.
- Maximise the chances of delivering 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 at all levels of the organisation over the risks associated with delivering ESB’s business objectives.
- Provide relevant information to shareholders, investors, staff and other stakeholders of the principal risks faced by the business and the mitigation actions being taken to mitigate principal risks.

RISK STRATEGY

The Group’s risk strategy is closely aligned to our business strategy and sets out the Group’s attitude and preference for risks to which we are exposed. It is not practical or cost effective to seek to

eliminate all risk in the business. However, the Group’s Risk Strategy seeks to identify risks where a reduction in that risk is possible through application of specific controls or pro-active avoidance and similarly to identify opportunities where there are rewards for taking additional risk. The Board reviewed the corporate strategy at its November 2013 meeting and as part of that review considered risks to achieving successful delivery of the strategy.

RISK POLICY

The Group Risk Management Policy sets out how risk is to be managed within the ESB Group. The Policy is reviewed on an annual basis to ensure that it remains up to date with the development of the business and the external environment in which we operate. The policy was reviewed in January 2013 to take account of the new corporate strategy and risk appetite statement.

A number of policy enhancements were brought forward in 2013. A new Outsourcing Risk Policy was developed by the Risk Management Team in conjunction with the businesses and approved by the Board in 2013. This policy supports the objectives of the Group Risk Management Policy by ensuring specific focus across the business on this particular aspect of our operations.

A full review of the Group Crisis Management Policy was undertaken and a new Crisis Management Action Plan was developed. The Plan is designed to ensure authoritative leadership from the outset in a crisis situation. Businesses are also required to take account of the requirements of the Group Policy in the development

of their own Crisis Management Plans. ESB Networks and NIE successfully deployed their respective crisis plans when responding to severe storm events during 2013. Crisis Communications are an integral part of effective crisis management. The benefits of social media have been harnessed to communicate more effectively with our customers in such crisis situations.

RISK REVIEW PROCESS

In line with the Risk Management Framework, all business lines performed detailed risk assessments to identify and assess their strategic, financial, project and operational risks and agreed responses to mitigate those risks. Risk assessments were fully debated and considered by the Executive Director and senior management team of each business and responsibility allocated to risk owners for managing each of the principal risks. A consolidated view of the Group risk profile was developed based on the inputs received from each business. The Risk Management Committee performed a full review and challenge of the principal risks and considered whether there were any new or emerging risks which should be taken into account. Due regard was had to external risk reports where appropriate. Their considered view of the principal risks was the basis of the 2013 Risk Report drafted by the Group Risk Manager. The Executive Risk Forum, led by the Chief Executive, held two special meetings to consider and discuss the Risk Report and following incorporation of their views, the final Report was submitted to the Audit and Risk Committee. The Board approved the Risk Report following a recommendation from the Audit and Risk Committee at the January Board meeting.

The Risk Management Framework provides for the Audit and Risk Committee to engage directly with the businesses to

inform themselves more closely of the nature and extent of risks facing the businesses.

A core principal of our risk management approach is that the businesses are primarily responsible for managing their risks. The table opposite illustrates how enterprise, trading and safety risk is managed and overseen at Group level.

RISK REPORTING

At mid-year and again at year end, all businesses updated their risk assessments as part of the risk review and reporting process. The reviews were discussed in detail with the Audit and Risk Committee.

Monthly reporting to the Board is a feature of the Risk Management Framework and ensures transparency and timely flow of information about key changes in the risk profile. The opportunity is also taken as part of this regular reporting to focus on one of the Principal Risks in more detail and in particular the effectiveness of the mitigation in place within the business.

PRINCIPAL RISKS

Several of our principal risks and uncertainties persisted from 2012 into 2013 and three new risks were proposed by the Executive Risk Forum to the Board. The new risks reflect the impact on reputation and public standing arising from public concerns about the economy and energy markets, a deterioration in the industrial relations environment in the company and the challenges of investing in new markets.

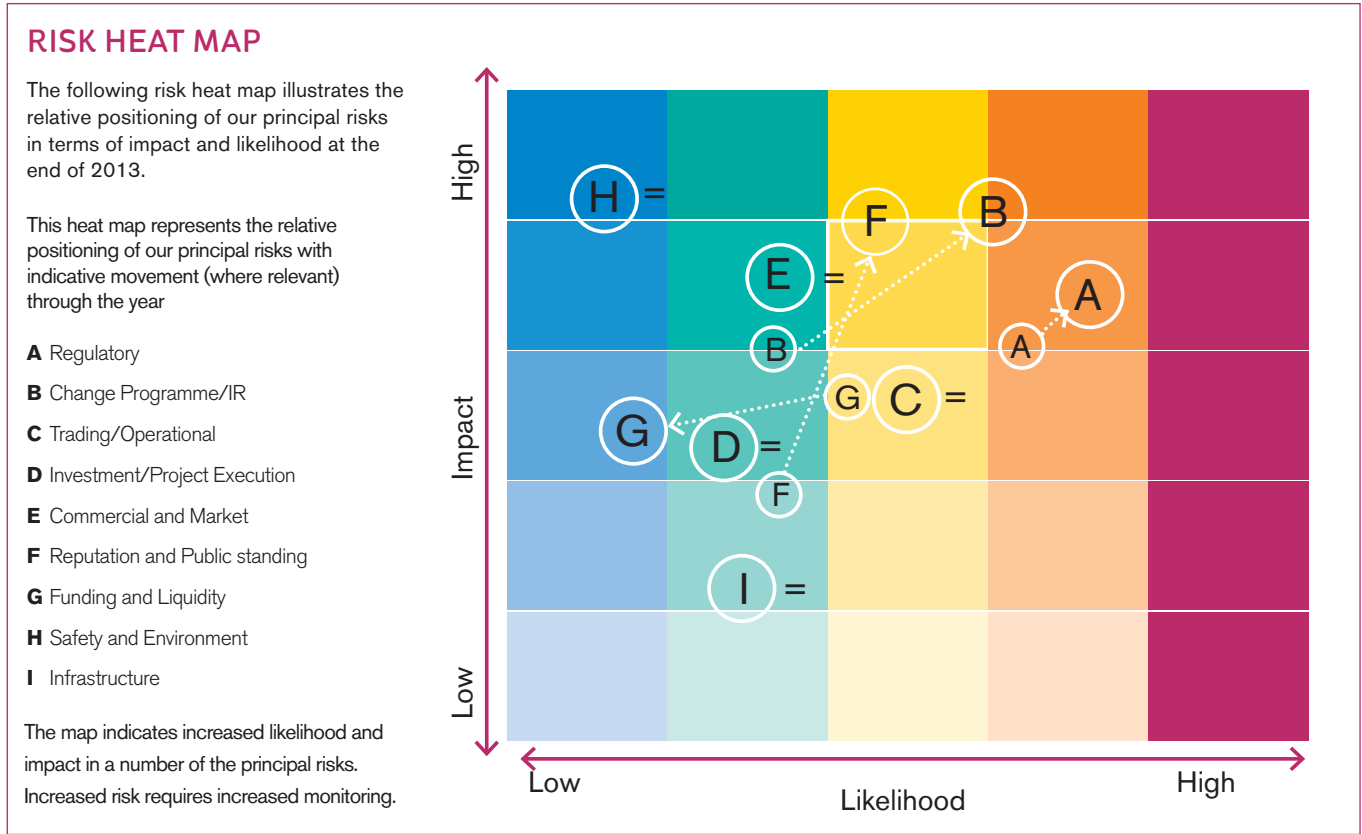
The Board approved the list of principal risks and included them in their risk appetite and mitigation discussions during the year.

HOW WE MANAGE RISK

ESB Board		
Audit and Risk Committee		
Enterprise Risk Management	Trading Risk Management	Health and Safety
Audit and Risk Committee	Finance Committee	Health, Safety and Environment (HSE) Committee
CE Risk Forum	Group Trading Committee	CE Health & Safety Committee
Group Internal Audit		
The Enterprise Risk Management Process takes an enterprise wide view of Group risk. Principal risks and uncertainties are identified for inclusion in our corporate risk register. The Board is ultimately responsible for risk management and oversight in the company	The management and mitigation of risk in our energy trading activities is the subject of specific ongoing monitoring and oversight led by the Finance Committee of the Board. Given the operational, market and credit risks associated with energy trading activities, dedicated risk management oversight is appropriate.	The management and mitigation of safety risk in the business is overseen by a discreet process led by the Board HSE Committee. We believe that all injuries are preventable and we are dedicated to ensuring the safety of our staff and the public at home and abroad.

BUSINESS CONTINUITY

Business continuity is a key aspect of our Risk Management Framework covering continuity of systems, services and processes. The Businesses have scheduled plans to test their continuity arrangements throughout the year. At a national level, ESB Networks participates in the All-Island Emergencies Group planning process.



CHANGES TO GROUP RISK PROFILE

Risks	2013	2012	Change	Description of Risk Change
A. Regulatory Risk	High	High	↑	Uncertainty related to market reforms in SEM and GB and downward pressure on regulated returns for networks businesses.
B. Change Programmes IR Risk	High	Medium	↑	A more difficult IR environment emerged during 2013 related to pension and impact of change programmes.
C. Trading/Operational risk	High	High	↔	Complex trading environment, new trading systems and new financial regulations contributed to elevated trading risks for the business in 2013.
D. Investment/ Project Execution Risk	Medium	N/A	↔	Risk associated with successful delivery of major new construction project and maintenance programmes for key assets required specific risk management attention.
E. Competitive and Economic Pressures	High	High	↔	New entrants, increased interconnection and low growth in electricity demand intensified competitive pressures.
F. Risk to Reputation and Public standing	High	N/A	↑	Public perception of utilities in general and concern about electricity prices contributed to brand risk.
G. Funding Risk	Medium	High	↓	Much improved market conditions and return to more normal funding conditions reduced this risk considerably.
H. Health & Safety Incident	High	High	↔	While the risk of a safety incident remains constant, review and implementation of new safety policies and procedures were designed to reduce this risk.
I. Failure of Infrastructure (IT, Plant, Technology)	Medium	N/A	↔	Increased dependency on IT systems and telecommunications to support business processes.

PRINCIPAL RISKS AND MITIGATION STRATEGIES
(INCLUDES HIGH IMPACT LOW PROBABILITY RISKS)

Risks	Description & 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. However, the death of a member of staff in ESB Networks has highlighted the ever present dangers associated with working with High Voltage electricity. The outcome of the thorough investigation of the incident was communicated through-out ESB. A new Safety and Organisation Transformation organisation has been put in place in ESB Networks to deliver on the recommendations and to lead a safety culture change, with the single aim of preventing a further tragedy and ensuring that our teams and contractors are safe. The recommendations are being progressively implemented in the ESB Networks business with regular updates to the Executive Director Team. In addition a Safety Leadership Strategy Development Group has been formed in order to develop a safety leadership strategy for ESB Group. 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 a low carbon economy, ESB is pursuing an ambitious sustainability strategy focussed on building a balanced low-carbon generation business of scale, reducing our environmental impacts, developing new innovative low-carbon products and services and developing Smart networks while ensuring that sustainability is firmly embedded in all of our activities.
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 sale of Bord Gais Energy and East-West Interconnection are closely monitored. ESB participates in all CER consultations process regarding further market deregulation and in line with CER approvals, has implemented new structures and systems appropriate to the competitive market. In 2014, the Company will continue to develop dynamic product and pricing strategies that will be responsive to changing market conditions while being conscious of the cost pressures being faced by our customers.
Economic & Market Conditions	The prevailing macroeconomic environment, uncertainty in financial markets and the increasing interconnectedness of the European energy markets present risks and challenges to the Group's profitability levels and potentially to delivery of the Group's investment and growth targets.	There is an increasing focus on the macro-economic and geo-political issues in the ongoing management of the business. 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 and SPI's 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 GB, 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 and GB. 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 and GB trading positions are fully understood and managed. Policies and procedures to protect the Group from trading risks are regularly reviewed, revised and approved by the Board as appropriate. Trading and hedging strategies for generation and supply are in place and on track for 2013/14 tariff year. The implementation of Phase 1 Future Trading Project allows the complete SEM portfolio to be managed and hedged in an integrated basis. 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.

PRINCIPAL RISKS AND MITIGATION STRATEGIES
(INCLUDES HIGH IMPACT LOW PROBABILITY RISKS)

Risks	Description & Impact	Mitigation Strategies
Funding & Liquidity.	The key financial risk areas facing the Group include exposure to foreign exchange, interest rates, funding, liquidity risk, and reliance on related financial and operational controls. This risk relates to securing adequate funding at an appropriate cost to finance planned investments and is to maintain ESB's liquidity sufficient to meet all commitments as they arise and to provide contingency against future shocks.	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 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. ESB has continued to successfully raise funds in 2013. ESB's liquidity risk was significantly reduced with the signing of a new €1.4 billion Bank facility in February. This replaced the previous €1.5 billion facility and extends to 2018. This provides access to a very substantial liquidity buffer which is committed for the next 4.5 years. Group Treasury continue to monitor the markets and further transactions will be considered in 2014. A strong credit rating is important in allowing access to capital markets at competitive rates. All three agencies which rate ESB improved their outlooks for the company from negative to stable in 2013 (now BBB+ Stable (S&P), BBB+ Stable (Fitch), Baa2 Positive (Moody's)). This helps reduce the risk that access will be limited and / or funding can only be achieved at expensive levels.
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.	ESB manages these risks through dedicated Regulatory Affairs teams within each of the licensed businesses. Key issues currently being addressed include: ▪ The draft decision of the UK Competition Commission in respect to NIE RP5 price control and ▪ G&WM is working to ensure that the DS3 regulatory framework addresses the key technical issues for thermal plant and provides sufficient remuneration for flexible generation. The Corporate Regulatory Affairs function which provides ongoing input to the development of regulatory strategy and also monitors compliance with the Group's regulatory and licence requirements. The Corporate Group is leading ESB's response to the Regulator's Project for the Implementation of the Target Model in electricity into SEM and ensures 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. Capital spending and maintenance/ refurbishment programmes are maintained at the appropriate level to prevent failure. The Group also has in place appropriate insurance contracts to protect against financial loss from outages arising from plant damage. Business Continuity Plans are in place and regularly tested. ESB agreed a new hot site contract during 2013 for the next 3 years.
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.	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 refine strategic resource planning and succession management across all businesses and to invest in staff training and development in new technologies such as smart metering, renewables, electric vehicles and smart grids. In particular there has been a major focus on people management skills. The Executive Team and Business Unit Managers completed a 5-day 'Leadership Communications' programme in 2013.

PRINCIPAL RISKS AND MITIGATION STRATEGIES
(INCLUDES HIGH IMPACT LOW PROBABILITY RISKS)

Risks	Description & Impact	Mitigation Strategies
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. During 2013 a new Outsourcing Policy was developed for the Group.
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. All major projects are subject to individual risk reviews.
Successful delivery of change/ IR issues	The ongoing volatility in financial markets, current economic conditions, and more stringent pension regulation continues to be challenging.	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 2013. ESB has communicated with staff and trade unions regarding pension arrangements.
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 business unit level as a reputational risk to the group are reported and escalated as necessary through our ERM risk reporting process. ESB is also implementing a programme of reputation improvement initiatives covering such areas as a brand refresh, digital media strategy and sponsorship strategy. 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.



05 FINANCIAL STATEMENTS

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A new generation power plant, constructed in line with best practices, with minimum environmental disruption, powering the future.

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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 2013 (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.

- In preparing each of the Group and Parent financial statements on pages 91 to 149 the Board Members are required to:
- Select suitable accounting policies and then apply them consistently;
 - Make judgements 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 the following:
- Keeping proper books of account which correctly record and explain the transactions of the Group and the Parent.
 - Disclosing 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.
 - Taking such steps that as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
 - Preparing a Board Members' Report that complies with the requirements of the Companies Acts.
 - The maintenance and integrity of the financial information included on the Group's website.

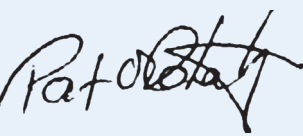
In accordance with the 2012 Corporate Governance Code, the Directors, having taken all relevant matters into consideration, confirm that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the Group's performance, business model and strategy.

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

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

OPINION AND CONCLUSIONS ARISING FROM OUR AUDIT

1. OPINION ON FINANCIAL STATEMENTS

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 financial statements of ESB for the year ended 31 December 2013 set out on pages 82 to 149 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent balance sheets, the Group and Parent statement of changes in equity, the Group and Parent cash flow statements, the statement of accounting policies and the related notes. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK and Ireland).

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 2013 and of its profit for the year then ended;
- the Parent 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 2013 and as applied by the Electricity (Supply) Acts 1927 to 2004, of the state of the Parent's affairs as at 31 December 2013; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013 as applied by the Electricity (Supply) Acts 1927 to 2004.

2. OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement,

had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks. In arriving at our audit opinion above on the Group financial statements the risks of material misstatement that had the greatest effect on our Group audit were as follows:

- Pensions - Liability for Pension Obligation: €766 million (2012: €814 million)
Refer to page 60 (Report of the Audit Committee), page 89 (accounting policy) and Note 21 to the financial statements

The Risk

Pension arrangements for the majority of ESB's employees are funded through the ESB General Employees' Superannuation Scheme (the "Scheme"). The regulations of the Scheme stipulate that benefits are to be provided to members of the Scheme according to an agreed formula, however these are not linked to the contributions required to be made by ESB under the scheme rules. Consequently ESB has no legal obligation to increase contributions to maintain benefits in the event of a deficit. Should a deficit arise in the future, ESB is obliged under the Scheme regulations to consult with the Superannuation Committee, the trustees and the Scheme actuary to consider the necessity of submitting an amending scheme for Ministerial approval. This does not conform to a typical 'balance of cost' defined benefit scheme where the employer is liable to pay the balance of contributions to fund deficits. However, historically, on a number of occasions, when a deficit was reported by the Scheme actuary and following consultation with the various affected parties, both ESB and employees

increased their contributions to the Scheme to address this.

In 2010 a new pensions agreement was reached between ESB and the Scheme members which included benefit and other actuarial changes to the Scheme which were borne by the Scheme members. The fixed contribution rates for ESB and members were not changed but ESB also agreed to pay a once off contribution of €591 million (the "Contribution") and the Scheme was closed to new joiners. In the 2010 financial statements, ESB stated that it did not intend to make any further contributions to the Scheme, other than the ongoing fixed contributions. This was stated explicitly in the 2010 financial statements and in subsequent periods, ESB has not made any contributions to the Scheme other than the agreed contributions. As a consequence, the accounting for the Scheme was amended in 2010 to only accrue for the Contribution within ESB's balance sheet, and to account for the ongoing fixed percentage of salary contributions relating to current service costs in the income statement as pensionable service is provided.

In late 2013, a dispute arose between ESB and its unions in relation to the pension scheme which ultimately resulted in a Labour Relations Commission brokered agreement between the parties. This agreement obliges ESB to accurately describe the pension scheme in its accounts, re-iterated the obligation on the parties to consult in the event of a deficit and noted that neither party had an intention to adjust the level of contributions to the Scheme at that time. This agreement has not changed the Board's views in relation to its accounting for the Scheme and the Board has further re-confirmed that it is not the Group's intention to make any further contributions to the Scheme. It consequently continues to be ESB's view that it has no legal or constructive obligation in this regard and that the accounting treatment adopted in 2010 continues to apply.

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

This is a significant judgement as the interpretation of the Scheme rules, whether ESB has a legal or constructive obligation to fund the Scheme, and the associated accounting are complex matters.

Our Response

Our audit procedures included obtaining an understanding of ESB's legal position from internal and external legal counsel. We received confirmation from the Board Members that the Group did not intend to make any further payments to the Scheme other than those provided for in the 2010 pension agreement and a fixed continuing contribution of Scheme members' salaries. We considered other documentation and internal briefing notes provided to us by the company in relation to the issue. We also had regard to the Group's actions in the period since 2010, particularly through a period of industrial unrest, during which no additional contributions were made to the Scheme and we considered a communication the Group subsequently made to all staff in which its intention that no additional contributions would be made, was re-iterated. We considered whether the accounting and disclosures made in the financial statements in respect of this significant judgemental matter were appropriate and in accordance with the relevant accounting guidance. We also reconsidered the appropriateness of the accounting in the context of the revised IAS 19 "Employee Benefits" standard which was issued and is effective for 2013 for the first time.

- Carrying value of Goodwill and long-lived assets: €10.6 billion (2012: €10.8 billion)
Refer to page 61 (Report of the Audit Committee), pages 84 to 85 (accounting policy) and Notes 9, 10, 11 and 12 to the financial statements

The Risk

ESB has long-lived assets with a carrying value of €10.6 billion on its balance sheet

at 31 December 2013 (€10.8 billion at 31 December 2012). The most significant of these assets are the ESB network assets in the Republic of Ireland ("ESB Networks") and the Group's power generation portfolio. Given the magnitude of these assets relative to ESB's balance sheet, any potential impairment could have a significant impact on the results of the Group. Management must review the carrying value of other significant long-lived assets for any indications of impairment on an annual basis.

Additionally, the acquisition of the electricity networks business in Northern Ireland (NIE) in December 2010 resulted in the recognition of €1.9 billion of property, plant and equipment and €178 million of goodwill. Goodwill is required to be assessed for impairment at least annually, irrespective of whether there is any indication that it may be impaired. Recoverability of these assets is based on forecasting and discounting cash flows, which is a judgemental process. The valuation of NIE is also sensitive to the outcome of the ongoing Regulatory Period 5 (RP5) consultation between NIE and the Northern Ireland Authority for Utility Regulation ("NIAUR") which was referred to the Competition Commission for final determination. The Competition Commission published Provisional Findings on 8 November 2013 and its Final Determination is expected in April 2014. Management have reviewed these terms and submitted a response, and are of the view that these do not result in any impairment of the NIE business; however this is judgemental given that the final determination has not yet been published and given the inherent uncertainty in estimating long term cash flows.

Our Response

In relation to long-lived assets, we audited the output, availability and profitability of the Group's Irish and UK power generation portfolio for the year ended 31 December 2013. We compared the Group's

assumptions on future projected cash flows, to externally derived data, where possible, and performed sensitivity analysis on the impact of the changes in the significant assumptions. We compared the Regulatory Asset Base of the ESB Networks transmission and distribution assets (on which future regulated income is determined) with the net book value of the assets in the financial statements. We also reviewed relevant correspondence between the Commission for Energy Regulation and ESB and considered the implications for the financial statements. Our audit procedures also included a full review of the ongoing RP5 consultation process documentation and the Competition Commission's findings in respect of NIE, to assess management's determination of the impact on the carrying value of the NIE assets. We also assessed the reasonableness of management's assumptions used in their impairment models (which are based on the draft RP5 determination from the Competition Commission), including the discount rate used. We compared management's assumptions, where possible, to third party data and performed sensitivity analysis on the key assumptions. We compared prices achieved for similar assets in market transactions to the estimated fair value established by management. We considered whether the disclosures made in respect of the risks, estimation uncertainty and the sensitivity of the impairment assessment to changes in key assumptions are adequate.

- Derivatives and hedging – Hedging arrangements: €243 million (2012: €230 million)
Refer to page 61 (Report of the Audit Committee), page 86 (accounting policy) and Note 20 to the financial statements

The Risk

The Group uses derivative and other contracts to hedge its exposure to foreign exchange, interest rate and commodity price risk arising from operational, financing and

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

investing activities. The principal derivatives used include inflation linked swaps, interest rate swaps, currency swaps, foreign currency contracts and indexed swap and other commercial contracts relating to the purchase of fuel and sale of electricity. These contracts are designated into a variety of cash-flow hedging relationships, with the exception of the Group's inflation linked swaps which did not qualify for hedge accounting. The hedge designations, and associated documentation requirements of the applicable accounting standards are complex and the valuation of all of these derivatives is judgemental and sensitive to movements in underlying variables (such as benchmark interest rate indices and commodity futures). Modest changes to these variables could have a significant impact on the financial position of the Group.

Our Response

Our audit procedures included the use of valuation specialists in assessing the valuation of the derivative contracts and comparing the Group's assumptions to externally derived data in assessing whether the assumptions used by the Group are reasonable. We obtained and assessed the Group's hedge accounting documentation and associated supporting calculations to ascertain whether hedge accounting was appropriate, correctly accounted for, documented and tested on a periodic basis. We assessed whether the disclosures reflected the risks inherent in the accounting for derivative financial instruments.

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality is a term used to describe the acceptable level of precision in financial statements. Auditing standards describe a misstatement or an omission as "material" if it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We

identify a monetary amount as "materiality for the financial statements as a whole" based on this criteria and apply the concept of materiality in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming our opinion on them.

The materiality for the Group financial statements as a whole was set at €22 million. This has been determined using a benchmark of profit before taxation, (excluding the exceptional item arising from the disposal of a joint venture business of €95 million which amounted to 18% of the reported profit before taxation for the year), which we have determined, in our professional judgement, to be the principal financial benchmark relevant to stockholders of the company in assessing and reporting financial performance. There were no circumstances during our audit that indicated a need to revise our approach with regard determining materiality.

We agreed with the ESB Audit and Risk Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of €1 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our Group audit scope focused on the Group's four key reportable segments, in addition to the head office function, which were subject to a full scope audit for the year ended 31 December 2013. Together these locations represent the principal business units of the Group and account for in excess of 95% of the Group's external revenue, profit after tax and total assets, as at and for the year ended 31 December 2013. Audits of these locations are primarily performed centrally by the Group engagement team and to materiality determined individually for each component. Statutory audits are performed

for all subsidiaries, which are not included in scope for Group reporting purposes but generally these are completed after the date of this report. Statutory audits are performed to statutory level materiality.

4. WE HAVE NOTHING TO REPORT IN RESPECT OF THE MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ISAs (UK and Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider the annual report is fair, balanced and understandable and provides information necessary for shareholders to assess the entity's performance, business model and strategy; or if
- the Audit and Risk Committee Report does not appropriately disclose those matters that we communicated to the committee.

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 58 to 66 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.

In accordance with the terms of our engagement letter, we review:

- the Board Members' statement, set out on page 58 to 66, in relation to going concern;

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

- the part of the Corporate Governance Statement on page 58 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; and
- the six specified elements of disclosures in the report to stockholders by the Board of Board Members' remuneration.

In addition, the Companies Acts 1963 to 2013 require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

5. OUR CONCLUSIONS ON OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY THE COMPANIES ACTS 1963 TO 2013 ARE SET OUT BELOW

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 is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.

Basis of our Report, Responsibilities and Restrictions on Use

As explained more fully in the Statement of Board Members' Responsibilities set out on page 77, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and

express an opinion on the Group and Parent financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK and Ireland) 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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing our audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK and Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct

significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of accounting and reporting.

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.

Patricia Carroll
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
Dublin, Ireland
5 March 2014

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 2013 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 2013. The Companies Acts 1963 to 2013 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 2013, except for IAS 36 – Recoverable amounts disclosures for non-financial assets which has been early adopted.

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 judgements, 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. Judgements 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 29 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 19 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 2013. 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.

STATEMENT OF ACCOUNTING POLICIES continued

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
The following standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) are effective for the first time in the current financial year and have been adopted with no significant impact on the Group’s result for the period or financial position:

New/Revised International Financial Reporting Standards	
Effective date ¹	
IAS 16 – Property, Plant and Equipment	1 January 2013
IAS 19R – Employee Benefits (2011) ²	1 January 2013
IAS 34 – Interim Financial Reporting	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
IFRS 1 – Government Loans	1 January 2013
IFRS 7 – Financial Instruments: Disclosures	1 January 2013
IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets ³	1 January 2014

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these consolidated financial statements. These are as follows:

New/Revised International Financial Reporting Standards	
Effective date ¹	
IAS 27 – Separate Financial Statements	1 January 2014
IAS 28 – Investments in Associates and Joint Ventures	1 January 2014
IAS 32 (Amendment) – Offsetting Financial Assets and Financial Liabilities	1 January 2014
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
Amendments to IFRS 10, IFRS 11 and IAS 27 – Investment Entities	1 January 2014*
IFRIC 21 – Levies	1 January 2014
IFRS 9 – Financial Instruments	1 January 2015*

STATEMENT OF ACCOUNTING POLICIES continued

¹ The effective dates are those applying to EU endorsed IFRS if later than the IASB effective dates and relate to periods beginning on or after those dates detailed above.
* Not EU endorsed at the time of approval of the financial statements.

² In June 2011, the IASB published an amended version of IAS 19 Employee Benefits which is required for annual periods beginning on or after January 2013. As a result of this change, the Group determines the net interest expense 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.

³ This is early adopted.

The change in accounting policy has been applied for the period ended 31 December 2013. It increased the defined benefit liability expense recognised in profit or loss and correspondingly increased the defined benefit plan re-measurement gain recognised in other comprehensive income by €6.8 million for the period ended 31 December 2013.

If applied in 2012, this amendment would have reduced the actuarial loss recognised for the year by €1.6 million, with a corresponding increase in expenses in profit or loss. The amendments to the standard require retrospective application, with the restatement of disclosures in the comparative period. The Group has determined that the adjustments required are not material to the values as previously disclosed and therefore no restatement has been made.

The change in accounting policy had no impact on net assets as at 31 December 2013 or 31 December 2012.

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.

STATEMENT OF ACCOUNTING POLICIES continued

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 presented with intangible assets. For the measurement of goodwill at initial recognition, see Note 11 to the financial statements.

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) Emissions allowances

Emissions allowances purchased by ESB are recorded as intangible assets at market value on the date of issue.

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 emissions allowances held, as well as the current market value of any additional allowances required to settle the obligation. These allowances 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 emissions liability in the following year.

For the year ended 2012, in accordance with the provisions of the European CO2 emissions trading scheme, emissions allowances covering a percentage of the expected emissions during the year were granted to ESB by the relevant government authority. These

allowances were recorded as a government grant in deferred income, at the same market value attributed to the intangible assets, and the government grant was amortised to the Income Statement on the basis of actual emissions during the year.

(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

STATEMENT OF ACCOUNTING POLICIES continued

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).

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 loss experience updated for 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 or 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 accounted for as executory contracts. 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

STATEMENT OF ACCOUNTING POLICIES continued

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 or 'fair value' 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 a 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 (15) 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 or equity.

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

STATEMENT OF ACCOUNTING POLICIES continued

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.

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. 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

STATEMENT OF ACCOUNTING POLICIES continued

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 these 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 when the Group has made an offer of voluntary redundancy and the offer has been accepted. Ordinary termination benefits not covered by the aforementioned agreement are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. Benefits falling due more than twelve months after the Balance Sheet date are discounted to present value. Future operating losses are not provided for.

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).

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. The Scheme is registered as a Defined Benefit (DB) Scheme with the Pensions Board.

The regulations governing the Scheme stipulate the benefits that are to be provided and the contributions to be paid by both ESB and the contributing members. Benefits payable are determined by reference to a Career Average Revalued Earnings (‘CARE’) pension model for benefits earned after 1 January 2012 (previously based on final salary). ESB has no legal obligation to increase contributions to maintain benefits in the event of a deficit and ESB’s rate of contribution cannot be altered without the agreement of ESB and approval of the Minister for Communications, Energy and Natural Resources. Should a deficit arise in the future, the company is obliged under the Scheme regulations to consult with the Superannuation Committee, the Trustees and the Scheme Actuary to consider the necessity of submitting an amending scheme for Ministerial approval.

Under the 2010 Pensions Agreement (approved by employees in July 2010 and formally ratified by the Board of ESB on 20 October 2010), ESB agreed to a once off cash injection into the Scheme, payable over a number of years, which had an agreed valuation for actuarial purposes as at 1 January 2010 of €591 million. The fixed contribution rates for the employer and for employees were not changed. Under the Agreement membership of the Scheme has been closed to new joiners.

The obligations to the Scheme reflected in ESB’s financial statements have been determined in accordance with IAS 19 ‘Employee Benefits’. Given that the scheme is not a typical “balance of costs” DB Scheme (where the employer is liable to pay the balance of contributions required to fund benefits), the obligations to be reflected in the financial statements require the exercise of judgement. Should a deficit arise in the future, the company, as noted above, is obliged to consult with the parties to the Scheme. However, ESB has no obligation to increase contributions to maintain benefits in the event of a deficit and the company does not intend that any further contributions, other than the normal on-going contributions and the balance of the company’s €591 million additional contribution (committed to as part of the 2010 Pensions Agreement), will be made. Therefore, ESB has concluded that the financial statements should reflect its obligations to the Scheme, which consist of:

- any remaining amounts to be paid in relation to the once-off contribution agreed pursuant to the 2010 Agreement (€591 million in 2010 money to be paid over a number of years)
- pre-existing commitments relating to past service (the present value of the agreed contributions that relates to service prior to October 2010), and
- Past Voluntary Severance (VS) Programmes – in 2010 the company

STATEMENT OF ACCOUNTING POLICIES continued

recognised a future commitment in respect of staff who have left the company under past Voluntary Severance programs. ESB will make pension contributions in respect of those staff and these are recognised at fair value.

Ongoing contributions (up to 16.4%) are recognised in the income statement as incurred. Any unpaid amounts at year end are recognised as liabilities on the balance sheet.

The ESB Defined Contribution Pension Scheme (formerly ESB Subsidiary Companies Pension Scheme) is a defined contribution scheme 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.

23. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

An asset or a disposal group is classified as held for sale if the following criteria are met:

- its carrying value will be recovered principally through sale rather than continuing use;
- it is available for immediate sale; and
- the sale is highly probable within the next twelve months.

When an asset (or disposal group) is initially classified as held for sale, it is measured at the lower of the carrying amount or fair value less costs to sell at the date of reclassification. Impairment losses subsequent to classification of such assets are recognised in the income statement. Increases in fair value less costs to sell of such assets that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative loss previously recognised in respect of the asset.

Where the above conditions cease to be met, the assets (or disposal group) are reclassified out of held for sale and included under the appropriate statement of financial position classifications.

GROUP INCOME STATEMENT

For the year ended 31 December 2013

	Notes	Excluding exceptional items € '000	2013 Exceptional items Note 3 € '000	Including exceptional items € '000	Excluding exceptional items € '000	2012 Exceptional items Note 3 € '000	Including exceptional items € '000
Revenue	1/2	3,422,484	-	3,422,484	3,260,112	-	3,260,112
Other operating income	3/4	22,449	95,475	117,924	35,108	-	35,108
Operating costs	5	(2,760,849)	-	(2,760,849)	(2,719,021)	(161,162)	(2,880,183)
Operating profit		684,084	95,475	779,559	576,199	(161,162)	415,037
Net interest on borrowings	6	(208,488)	-	(208,488)	(193,075)	-	(193,075)
Financing charges	6	(50,868)	-	(50,868)	(55,404)	-	(55,404)
Fair value losses on financial instruments	6	(18,714)	-	(18,714)	(23,294)	-	(23,294)
Finance income	6	2,632	-	2,632	2,434	-	2,434
Net finance cost		(275,438)	-	(275,438)	(269,339)	-	(269,339)
Share of joint ventures' profit	12 (a)	22,244	-	22,244	20,704	-	20,704
Profit before taxation		430,890	95,475	526,365	327,564	(161,162)	166,402
Income tax (expense) / credit	18	(15,981)	-	(15,981)	7,560	20,145	27,705
Profit after taxation		414,909	95,475	510,384	335,124	(141,017)	194,107
Attributable to:							
Equity holders of the Parent		414,717	95,475	510,192	335,047	(141,017)	194,030
Non-controlling interest		192	-	192	77	-	77
Profit for the financial year		414,909	95,475	510,384	335,124	(141,017)	194,107

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

Lochlann Quinn, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 € '000	2012 € '000
Profit for the financial year		510,384	194,107
Items that will never be reclassified subsequently to profit or loss:			
NIE pension scheme actuarial gains / (losses)	21 (c)	2,061	(56,373)
Tax on items that will never be reclassified to profit or loss		(3,507)	12,966
		(1,446)	(43,407)
Items that are or may be reclassified subsequently to profit or loss:			
Effective hedge of a net investment in foreign subsidiary		595	(620)
Translation differences on consolidation of foreign subsidiaries		(6,422)	9,868
Translation differences on equity accounting for joint ventures		(2,797)	1,267
Translation differences transferred to income statement for joint ventures		(2,317)	-
Fair value losses on cash flow hedges		(150,959)	(91,649)
Fair value gains / (losses) on cash flow hedges in joint ventures	12	6,078	(5,399)
Transferred to income statement on cash flow hedges		129,274	(20,862)
Transferred to income statement on cash flow hedges in joint ventures		13,322	-
Tax on items that are or may be reclassified subsequently to profit or loss		15,198	9,961
Tax on items that are or may be reclassified subsequently to profit or loss for joint ventures	12	(1,758)	1,382
Tax on items transferred from OCI		(19,375)	2,608
		(19,161)	(93,444)
Other comprehensive income for the financial year, net of tax		(20,607)	(136,851)
Total comprehensive income for the financial year		489,777	57,256
Attributable to:			
Equity holders of the parent		489,585	57,179
Non controlling interest		192	77
Total comprehensive income for the financial year		489,777	57,256

Lochlann Quinn, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

GROUP BALANCE SHEET

As at 31 December 2013

	Notes	2013 € '000	2012 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	9	10,156,963	10,287,736
Intangible assets	10	238,365	287,598
Goodwill	11	182,013	185,938
Investments in joint ventures	12	-	31,436
Financial asset investments	12	49,359	48,849
Derivative financial instruments	20	353,555	353,956
Deferred tax assets	18	179,722	231,970
Total non-current assets		11,159,977	11,427,483
Current assets			
Inventories	13	83,753	133,016
Derivative financial instruments	20	94,208	84,326
Current tax asset		3,106	1,380
Trade and other receivables	14	899,223	794,131
Cash and cash equivalents	15	370,848	159,405
Assets held for sale	16	170,558	-
Total current assets		1,621,696	1,172,258
Total assets		12,781,673	12,599,741
EQUITY			
Capital stock	17	1,979,882	1,979,882
Translation reserve		(17,893)	(6,952)
Cash flow hedging reserve		278,066	286,286
Other reserves		(89,878)	(82,889)
Retained earnings		1,970,275	1,601,343
Equity attributable to equity holders of the Parent		4,120,452	3,777,670
Non-controlling interest		2,037	1,845
Total equity		4,122,489	3,779,515
Liabilities			
Non-current liabilities			
Borrowings and other debt	19	4,393,404	4,124,413
Liability - NIE pension scheme	21	109,666	132,524
Liability - ESB pension scheme	22	693,717	723,826
Employee related liabilities	22	124,998	146,415
Trade and other payables	23	-	7,813
Deferred income and government grants	24	561,346	592,376
Provisions	25	184,180	184,586
Deferred tax liabilities	18	807,942	854,068
Derivative financial instruments	20	637,306	597,752
Total non-current liabilities		7,512,559	7,363,773
CURRENT LIABILITIES			
Borrowings and other debt	19	121,992	449,246
Liability - ESB pension scheme	22	72,511	90,941
Employee related liabilities	22	57,773	67,090
Trade and other payables	23	675,411	615,087
Deferred income and government grants	24	46,974	49,707
Provisions	25	75,558	90,731
Current tax liabilities		27,553	22,488
Derivative financial instruments	20	54,027	71,163
Liabilities associated with assets held for sale	16	14,826	-
Total current liabilities		1,146,625	1,456,453
Total liabilities		8,659,184	8,820,226
Total equity and liabilities		12,781,673	12,599,741

Lochlann Quinn, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

PARENT BALANCE SHEET

As at 31 December 2013

	Notes	2013 € '000	2012 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	9	6,868,112	7,000,831
Intangible assets	10	138,470	161,860
Investments in subsidiary undertakings	12	61,782	72,832
Derivative financial instruments	20	2,866	1,324
Deferred tax assets	18	116,120	124,167
Total non-current assets		7,187,350	7,361,014
Current assets			
Inventories	13	62,037	104,885
Derivative financial instruments	20	4,984	4,169
Current tax asset		-	384
Trade and other receivables	14	2,572,121	2,415,867
Cash and cash equivalents	15	239,436	47,990
Assets held for sale	16	168,760	-
Total current assets		3,047,338	2,573,295
Total assets		10,234,688	9,934,309
EQUITY			
Capital stock	17	1,979,882	1,979,882
Cash flow hedging reserve		(88,624)	(50,117)
Retained earnings		1,346,743	1,200,584
Equity attributable to equity holders of the Parent		3,238,001	3,130,349
Liabilities			
Non-current liabilities			
Borrowings and other debt	19	1,736,031	1,822,880
Liability - ESB pension scheme	22	693,717	723,826
Employee related liabilities	22	124,998	146,415
Deferred income and government grants	24	558,671	590,456
Provisions	25	169,489	170,109
Deferred tax liabilities	18	434,761	419,887
Derivative financial instruments	20	161,938	87,954
Total non-current liabilities		3,879,605	3,961,527
CURRENT LIABILITIES			
Borrowings and other debt	19	108,306	434,950
Liability - ESB pension scheme	22	72,511	90,941
Employee related liabilities	22	50,685	60,045
Trade and other payables	23	2,737,549	2,083,540
Deferred income and government grants	24	33,108	44,155
Provisions	25	63,211	72,577
Current tax liabilities		11,040	-
Derivative financial instruments	20	39,717	56,225
Liabilities associated with assets held for sale	16	955	-
Total current liabilities		3,117,082	2,842,433
Total liabilities		6,996,687	6,803,960
Total equity and liabilities		10,234,688	9,934,309

Lochlann Quinn, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

GROUP STATEMENT OF CHANGES IN EQUITY

As at 31 December 2013

	Capital stock € '000	Translation reserve € '000	Cash flow hedging reserve € '000	Other reserves ¹ € '000	Retained earnings € '000	Total € '000	Non- controlling interest € '000	Total equity € '000
Reconciliation of changes in equity								
Balance at 1 January 2012	1,979,882	(17,467)	387,579	(31,273)	1,474,234	3,792,955	1,832	3,794,787
Total comprehensive income / (loss) for the year								
Profit for the financial year	-	-	-	-	194,030	194,030	77	194,107
NIE pension 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 (interest)	-	-	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 gains for hedges in joint ventures	-	-	(5,399)	-	-	(5,399)	-	(5,399)
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	12,627	10,300	-	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	(101,293)	(51,616)	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)	286,286	(82,889)	1,601,343	3,777,670	1,845	3,779,515
Balance at 1 January 2013	1,979,882	(6,952)	286,286	(82,889)	1,601,343	3,777,670	1,845	3,779,515
Total comprehensive income / (loss) for the year								
Profit for the financial year	-	-	-	-	510,192	510,192	192	510,384
NIE pension scheme actuarial gains	-	-	-	2,061	-	2,061	-	2,061
Revaluation reserves on acquisition of Synergen Power Ltd.	-	-	-	(5,543)	5,543	-	-	-
Translation differences net of hedging	-	(8,624)	-	-	-	(8,624)	-	(8,624)
Cash flow hedges:								
- Net fair value losses	-	-	(150,959)	-	-	(150,959)	-	(150,959)
- Transfers to income statement								
- Finance cost (interest)	-	-	5,040	-	-	5,040	-	5,040
- Finance cost (foreign translation movements)	-	-	4,218	-	-	4,218	-	4,218
- Other operating expenses	-	-	120,016	-	-	120,016	-	120,016
- Fair value gains for hedges in joint ventures	-	-	6,078	-	-	6,078	-	6,078
- Transfers to income statement for joint ventures	-	(2,317)	13,322	-	-	11,005	-	11,005
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	15,198	(3,507)	-	11,691	-	11,691
Tax on items transferred to income statement	-	-	(19,375)	-	-	(19,375)	-	(19,375)
Tax on items taken directly to OCI for joint ventures	-	-	(1,758)	-	-	(1,758)	-	(1,758)
Total comprehensive income / (loss) for the year	-	(10,941)	(8,221)	(6,989)	515,735	489,585	192	489,777
Transactions with owners recognised directly in equity								
Dividends	-	-	-	-	(146,803)	(146,803)	-	(146,803)
Balance at 31 December 2013	1,979,882	(17,893)	278,066	(89,878)	1,970,275	4,120,452	2,037	4,122,489

¹ Other reserves comprises of (i) a €49.8 million revaluation reserve (2012: €55.3 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009 (see note 17); (ii) other reserves relating to the NIE pension scheme of (€133.6) million (2012: (€133.2) million) (see note 21) and (iii) a non-distributable reserve of €5.0 million which was created on the sale of the Group's share in Ocean Communications Limited in 2001.

PARENT STATEMENT OF CHANGES IN EQUITY

As at 31 December 2013

	Capital stock € '000	Cash flow hedging reserve € '000	Retained earnings € '000	Total equity € '000
Reconciliation of changes in equity				
Balance at 1 January 2012	1,979,882	(10,736)	1,122,518	3,091,664
Total comprehensive income / (loss) for the year				
Profit for the financial year	-	-	150,530	150,530
Cash flow hedges:				
- Net fair value losses	-	(70,184)	-	(70,184)
- Transfers to income statement				
- Finance cost (interest)	-	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
Balance at 1 January 2013	1,979,882	(50,117)	1,200,584	3,130,349
Total comprehensive income / (loss) for the year				
Profit for the financial year	-	-	292,962	292,962
Cash flow hedges:				
- Net fair value losses	-	(77,837)	-	(77,837)
- Transfers to income statement				
- Finance cost (interest)	-	2,123	-	2,123
- Finance cost (foreign translation movements)	-	4,693	-	4,693
- Other operating expenses	-	27,013	-	27,013
Tax on items taken directly to statement of comprehensive income (OCI)	-	9,730	-	9,730
Tax on items transferred to income statement	-	(4,229)	-	(4,229)
Total comprehensive income / (loss) for the year	-	(38,507)	292,962	254,455
Transactions with owners recognised directly in equity				
Dividends	-	-	(146,803)	(146,803)
Balance at 31 December 2013	1,979,882	(88,624)	1,346,743	3,238,001

GROUP CASH FLOW STATEMENT

For the year ended 31 December 2013

	Notes	2013 € '000	2012 € '000
Cash flows from operating activities			
Profit after taxation		510,384	194,107
Adjustments for:			
Depreciation and amortisation	5	689,685	713,120
Amortisation of supply contributions and other deferred income	24	(37,276)	(37,692)
Net emissions costs		23,669	-
Profit on disposal of non-current assets	8	(4,616)	(2,456)
Profit on disposal of investment in joint venture	8	(95,475)	-
Gain arising on early termination of lease arrangement	4	-	(5,213)
Net finance cost	6	275,438	269,339
Impact of fair value adjustments in operating costs		12,260	13,619
Profits from joint ventures	12	(22,244)	(20,704)
Dividend income from associate undertaking	4	(965)	-
Income tax expense / (credit)	18	15,981	(27,705)
Operating cash flows before changes in working capital and provisions		1,366,841	1,096,415
Charge / (credit) in relation to provisions		3,766	(11,444)
Charge in relation to employee related liabilities		36,750	213,834
Utilisation of provisions		(10,423)	(16,548)
Utilisation of employee related liabilities		(179,864)	(224,457)
(Increase) in trade and other receivables		(91,282)	(149,274)
Decrease in inventories		15,263	3,551
Increase in trade and other payables		40,754	52,121
Cash generated from operations		1,181,805	964,198
Current tax (paid) / refunded		(6,121)	10,118
Financing costs paid		(260,918)	(257,022)
Net cash inflow from operating activities		914,766	717,294
Cash flows from investing activities			
Purchase of property, plant and equipment		(702,587)	(703,861)
Purchase of intangible assets		(25,161)	(39,660)
Proceeds from sale of non-current assets		20,241	4,794
Proceeds from sale of Group undertakings		170,169	-
Purchase of financial assets		(16,884)	(15,500)
Dividends received from joint venture undertakings	12	18,835	15,339
Dividends received from associate undertaking		965	-
Interest received		2,632	2,434
Net cash outflow from investing activities		(531,790)	(736,454)
Cash flows from financing activities			
Dividends paid	17	(146,803)	(72,527)
Repayments of term debt facilities and finance leases		(475,038)	(516,711)
Proceeds from the issue of new debt		548,502	1,336,048
Decrease in other borrowings (net)		(85,190)	(841,083)
Payments on inflation linked interest rate swaps		(13,038)	(8,822)
Net cash outflow from financing activities		(171,567)	(103,095)
Net increase / (decrease) in cash and cash equivalents		211,409	(122,255)
Cash and cash equivalents at 1 January	15	159,405	277,409
Effect of exchange rate fluctuations on cash held		34	4,251
Cash and cash equivalents at 31 December	15	370,848	159,405

PARENT CASH FLOW STATEMENT

For the year ended 31 December 2013

	Notes	2013 € '000	2012 € '000
Cash flows from operating activities			
Profit after taxation		292,961	150,530
Adjustments for:			
Depreciation and amortisation		474,016	479,999
Amortisation of supply contributions and other deferred income	24	(32,521)	(32,904)
Net emissions cost		14,333	-
(Profit) / loss of non-current assets		(1,286)	591
Investment in subsidiary write-off		11,050	-
Gain arising on early termination of lease arrangement		-	(5,213)
Net finance cost		158,326	147,464
Impact of fair value movement on financial instruments in operating costs		3,989	6,494
Dividend receivable from subsidiary undertakings		(11,846)	(7,870)
Income tax expense / (credit)		41,706	17,647
Operating cash flows before changes in working capital and provisions		950,728	756,738
Charge / (credit) in relation to provisions		2,046	(25,117)
Charge in relation to employee related liabilities		21,296	198,244
Utilisation of provisions		(9,144)	(15,817)
Utilisation of employee related liabilities		(141,939)	(186,019)
Increase in trade and other receivables		(171,042)	(469,317)
Decrease in inventories		14,848	4,474
Decrease in trade and other payables		648,706	1,059,271
Cash generated from operations		1,315,499	1,322,457
Current tax (paid) / refunded		(5)	12,452
Financing costs paid		(181,879)	(145,123)
Net cash inflow from operating activities		1,133,615	1,189,786
Cash flows from investing activities			
Purchase of property, plant and equipment		(442,815)	(385,089)
Purchase of intangible assets		(20,229)	(18,334)
Proceeds from sale of non-current assets		1,686	589
Interest received		43,815	44,667
Dividends received from subsidiary undertakings		11,846	7,870
Net cash outflow from investing activities		(405,697)	(350,297)
Cash flows from financing activities			
Dividends paid		(146,802)	(72,464)
Repayments of term debt facilities and finance leases		(458,585)	(254,619)
Proceeds from the issue of new debt		153,990	110,134
Decrease in other borrowings (net)		(85,075)	(777,020)
Net cash outflow from financing activities		(536,472)	(993,969)
Net increase / (decrease) in cash and cash equivalents		191,446	(154,480)
Cash and cash equivalents at 1 January	15	47,990	202,470
Cash and cash equivalents at 31 December	15	239,436	47,990

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. Three further corporate divisions provide support and other services to the principal operating divisions of the Group and are combined as 'Other segments' in the information below.

In late 2012, the CODM announced a management restructure of certain parts of the Group. The main impact of this on key reportable segments was the renaming of ESB Energy International as ESB Generation and Wholesale Markets, and the realignment of certain activities. This principally included the transfer of the engineering consulting business from ESB Energy International, and aspects of the telecommunications business from ESB Networks, into Other segments. This change has been reflected in management reporting from 1 January 2013. The 2012 segmental results have been restated to reflect this change, which does not impact the 2012 consolidated results of the ESB Group.

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 Generation and Wholesale Markets comprises the generation 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 Great Britain.

(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 in Northern Ireland. 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 indirectly 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 the majority of the financing costs in the Group, as the majority of Treasury activity is conducted centrally. Debt finance costs are not recharged to other operating segments.

From 1 January 2013, ESB Innovation was established to co-ordinate and focus on emerging technology investment opportunities. This segment operates adjacent to the core operating segments of the Group. It is proposed that as business opportunities are identified and become viable, they will then be transferred to the relevant core operating segment. ESB Innovation is reported to CODM as a separate component within 'Other segments'.

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.

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. Assets and liabilities are reported on a Group wide basis (with the exception of capital expenditure) and therefore does not form part of the segmental reporting to the CODM.

Revenue by product

Reportable segments are split by type of product revenue earned. Electric Ireland revenues consist of sales to electricity customers. ESB Generation and Wholesale Markets revenue derives mainly from electricity generation. ESB Networks and NIE earn Use of System income in the Republic of Ireland and Northern Ireland respectively. Revenue included within 'Other segments' relates primarily to engineering services.

NOTES TO THE FINANCIAL STATEMENTS

1 SEGMENT REPORTING (continued)

(a) Income statement

	Electric Ireland € '000	ESB Networks € '000	ESB Generation and Wholesale Markets ¹ € '000	NIE ² € '000	Other segments € '000	Consolidation and eliminations € '000	Total € '000
(i) Segment revenue - 2013							
External revenues	2,073,959	477,028	416,754	256,615	198,128	-	3,422,484
Inter-segment revenue	3,724	449,690	1,192,357	22,938	121,919	(1,790,628)	-
Revenue	2,077,683	926,718	1,609,111	279,553	320,047	(1,790,628)	3,422,484
(ii) Segment operating costs - 2013							
Depreciation and amortisation	(9,038)	(349,230)	(202,620)	(116,466)	(12,331)	-	(689,685)
Other operating costs	(1,990,194)	(317,293)	(1,149,521)	(94,344)	(310,440)	1,790,628	(2,071,164)
(iii) Segment operating result - 2013							
Exceptional item: profit on disposal of investment in joint venture	-	-	95,475	-	-	-	95,475
Operating profit / (loss) (includes exceptional items)	78,676	293,677	355,167	77,498	(25,459)	-	779,559
Net finance cost	(682)	(1,883)	(31,906)	(49,244)	(191,723)	-	(275,438)
Share of joint ventures' profit	-	-	22,489	-	(245)	-	22,244
Profit / (loss) before taxation	77,994	291,794	345,750	28,254	(217,427)	-	526,365

	Electric Ireland € '000	ESB Networks € '000	ESB Generation and Wholesale Markets ¹ € '000	NIE ² € '000	Other segments € '000	Consolidation and eliminations € '000	Restated Total € '000
(i) Segment revenue - 2012							
External revenues	1,959,664	473,940	456,573	258,601	111,334	-	3,260,112
Inter-segment revenue ²	3,657	402,779	1,129,758	30,364	190,697	(1,757,255)	-
Revenue	1,963,321	876,719	1,586,331	288,965	302,031	(1,757,255)	3,260,112

(ii) Segment operating costs - 2012

Exceptional item: employee exit costs	(11,916)	(74,502)	(58,843)	-	(15,901)	-	(161,162)
Depreciation and amortisation	(12,967)	(340,242)	(209,921)	(136,120)	(13,870)	-	(713,120)
Other operating costs	(1,905,764)	(339,430)	(1,142,572)	(88,540)	(286,850)	1,757,255	(2,005,901)

(iii) Segment operating result - 2012

Operating profit / (loss)	32,674	154,960	175,833	64,305	(12,735)	-	415,037
Net finance cost	(998)	(1,338)	(42,532)	(47,881)	(176,590)	-	(269,339)
Share of joint ventures' profit	-	-	20,745	-	(41)	-	20,704
Profit / (loss) before taxation	31,676	153,622	154,046	16,424	(189,366)	-	166,402

¹ From 1 January 2013, in accordance with a revised structure for reporting to the CODM, ESB Energy International has been renamed as ESB Generation and Wholesale Markets and results now reflect the transfer of the engineering consulting business from ESB Energy International, and aspects of the telecommunications business from ESB Networks, into Other segments. The 2012 segmental results have been restated to reflect this change, which does not impact the 2012 consolidated results of the ESB Group.

² NIE segment includes depreciation on the fair value uplift recognised on acquisition of NIE.

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING (continued)

(b) Other disclosures

	2013 € '000	Restated 2012 € '000
Additions to non-current assets (excluding acquisitions)		
Electric Ireland	6,986	7,110
ESB Networks	421,332	345,486
ESB Generation and Wholesale Markets	253,362	258,726
NIE	97,842	118,356
Other segments	45,080	35,070
	824,602	764,748

Additions to non-current assets (excluding acquisitions) includes investment in property, plant and equipment, intangible assets (excluding emissions allowances) and financial assets.

2. GEOGRAPHIC INFORMATION

(a) Non-current assets by geographic market

	2013 € '000	2012 € '000
Ireland	7,392,541	7,697,727
UK including Northern Ireland	3,216,224	3,130,998
Rest of world	17,935	12,832
Total	10,626,700	10,841,557

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

	2013 € '000	2012 € '000
Ireland	2,803,304	2,716,749
UK including Northern Ireland	586,245	509,820
Rest of world	32,935	33,543
Total	3,422,484	3,260,112

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 in 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.

	2013 € '000	2012 € '000
Profit on disposal of investment in joint venture	95,475	-
Employee exit costs	-	(161,162)
Total	95,475	(161,162)

In February 2013, ESB announced its intention to sell its 50% shareholding in each of its international tolling plants, namely Marchwood Power Limited ('Marchwood') in the UK and Bizkaia Energia SL in Spain. This announcement arose from the Irish government's proposal in 2012 that ESB would dispose 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 November 2013 agreement was reached with MR Infrastructure Investment GmbH (MR) for the sale of ESB's shareholding in Marchwood. The profit on disposal of ESB's shareholding in Marchwood, being the proceeds received from MR less the carrying amount of the investment as at the sale date, together with direct selling expenses and associated translation reserve and cash flow hedge reserve amounts reclassified on disposal, was €95.5 million.

In 2012 the company reached agreement with the Group of Unions (on behalf of employees) on proposals to reduce payroll costs in the company. As part of this agreement, a voluntary severance programme was launched. This programme closed at the end of 2012, with 528 employees leaving the Group, as disclosed in note 7, resulting in a charge of €161.2 million.

NOTES TO THE FINANCIAL STATEMENTS

4. OTHER OPERATING INCOME / (EXPENSE)	2013 € '000	2012 € '000
Amortisation of supply contributions	32,199	33,292
Profit on disposal of property, plant and equipment and intangible assets	8,880	2,210
Profit on disposal of investment	-	838
Loss on disposal of subsidiary ¹	(4,264)	-
Fair value movements on assets held at fair value through profit and loss (note 12) ²	(15,331)	(6,445)
Gain arising on early termination of lease arrangement	-	5,213
Dividends received	965	-
Total	22,449	35,108

¹ The loss on disposal of subsidiary relates to a sale of ESB's investment in Powerteam Electrical Services Limited to Vinci Engineers United Kingdom PLC.

² The fair value movements in 2013 and 2012 relate to adjustments to the value of investments in renewables enterprises held by Novusmodus, as detailed in note 12.

5. OPERATING COSTS	2013 € '000	2012 € '000
Employee costs (note 7)	413,799	625,996
Fuel costs	875,107	810,931
Other electricity related costs	269,449	244,822
Operations and maintenance	512,809	485,314
Depreciation and amortisation (notes 9 / 10)	689,685	713,120
Total	2,760,849	2,880,183

Included in fuel costs is a credit of €2.5 million (2012: charge of €4.1 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 €1.7 million (2012: €3.5 million) relating to ineffectiveness on certain cash flow hedges.

6. NET FINANCE COST AND OTHER FINANCING CHARGES	2013 € '000	2012 € '000
Interest payable on borrowings	241,211	216,989
Interest payable on finance leases	2,274	3,938
Interest payable	243,485	220,927
Less capitalised interest	(34,997)	(27,852)
Net interest on borrowings	208,488	193,075
Financing charges:		
- on NIE pension scheme (note 21)	4,888	2,142
- on ESB pension scheme (note 22)	36,598	38,798
- on employee related liabilities (note 22)	4,729	4,034
- on power station closure costs (note 25)	3,542	8,643
- on other provisions (note 25)	1,111	1,787
Total financing charges	50,868	55,404
Fair value (gains) / losses on financial instruments:		
- currency / interest rate swaps: cash flow hedges, transfer from OCI	5,040	948
- interest rate swaps and inflation linked swaps not qualifying for hedge accounting	14,194	23,417
- foreign exchange contracts not qualifying for hedge accounting	(520)	(1,071)
Total fair value losses on financial instruments	18,714	23,294
Finance cost	278,070	271,773
Finance income	(2,632)	(2,434)
Net finance cost	275,438	269,339

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

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 €4.7 million (2012: €18.4 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 prevailing exchange rates.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEES

GROUP

(a) Average number of employees in year by business activity, including temporary employees:	2013 Number	Restated 2012 Number
Electric Ireland	322	351
ESB Networks	3,140	3,445
ESB Generation and Wholesale Markets	1,009	1,205
NIE	1,291	1,296
Other	1,728	1,695
Total	7,490	7,992
(b) Employee costs in year	2013 € '000	2012 € '000
Current staff costs (excluding pension)		
Salaries	443,565	494,970
Overtime	26,050	19,697
Social welfare costs	32,255	33,138
Other payroll benefits ¹	28,475	26,190
Capitalised payroll	(168,467)	(167,781)
Net payroll cost for employees	361,878	406,214
(c) Pension and other employee benefit costs		
Exit costs ²	-	161,162
NIE pension scheme charge ³	9,559	10,042
Pension charge - other schemes ⁴	42,362	48,578
	51,921	219,782
Total employee related costs charged to the income statement	413,799	625,996

Average employee numbers by operating segment in 2012 have been restated to reflect the organisation structure changes which took effect on 1 January 2013 (see note 1). Total numbers for 2012 are unchanged.

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

² In 2012 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 2012, with 528 employees leaving the Group.

³ The defined benefit charge relates solely to the 'Focus' section of the Northern Ireland Electricity Pension Scheme ('the NIE Scheme'). See note 21 (c) for further details.

⁴ The pension charge to other schemes includes contributions to the ESB Defined Contribution Pension Scheme, the ESB General Employees' Superannuation Scheme and the 'Options' section of the NIE Scheme.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEES (continued)

PARENT		
(a) Average number of employees in year by business activity, including temporary employees:		
	2013 Number	2012 Number
Electric Ireland	230	280
ESB Networks	3,140	3,445
ESB Generation and Wholesale Markets	659	865
Other	725	722
Total	4,754	5,312
(b) Employee costs in year	2013 € '000	2012 € '000
Current staff costs (excluding pension)		
Salaries	306,573	350,673
Overtime	20,027	15,179
Social welfare costs	17,943	19,569
Other payroll benefits ¹	17,142	15,847
Capitalised payroll	(121,049)	(122,277)
Net payroll cost for employees	240,636	278,991
(c) Pension and other employee benefit costs		
Exit costs ²	-	160,978
Pension charge ³	31,091	37,631
	31,091	198,609
Total employee related costs charged to the income statement	271,727	477,600

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

² In 2012 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 2012, with 528 employees leaving the Group.

³ The pension charge includes contributions to the ESB Defined Contribution Pension Scheme and the ESB General Employees' Superannuation Scheme.

8. PROFIT FOR THE FINANCIAL YEAR	2013 € '000	2012 € '000
The profit for the financial year is stated after charging / (crediting):		
Depreciation and amortisation	689,685	713,120
Operating lease charges	11,185	10,420
Amortisation of deferred income	(32,199)	(33,292)
Loss on disposal of subsidiary	4,264	-
Profit on disposal of property, plant and equipment and intangible assets	(8,880)	(2,456)
Profit on disposal of shareholding in Marchwood Power Limited	(95,475)	-
Auditor's remuneration:		
- Audit of individual and group accounts ¹	320	320
- Other assurance services	286	391
- Tax advisory services (Parent entity only)	31	78
- Other non-audit services	325	111
ESB (Parent) Board Members' remuneration:		
- Fees	217	224
- Other remuneration	359	353

¹ €180,000 (2012: €180,000) related to the Parent company

NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT & EQUIPMENT

	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
(a) GROUP					
Cost					
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
Balance at 1 January 2013	1,132,073	14,846,030	15,978,103	938,759	16,916,862
Additions	1,832	154,108	155,940	626,618	782,558
Retirements / disposals	(332)	(22,625)	(22,957)	(7,909)	(30,866)
Transfers to assets held for sale	(146)	(435,137)	(435,283)	-	(435,283)
Transfers out of assets under construction	28,131	392,117	420,248	(420,248)	-
Transfers to intangible assets	-	(8,733)	(8,733)	(2,478)	(11,211)
Translation differences	(35)	(79,163)	(79,198)	(5,632)	(84,830)
Balance at 31 December 2013	1,161,523	14,846,597	16,008,120	1,129,110	17,137,230
Depreciation					
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
Balance at 1 January 2013	615,954	6,013,172	6,629,126	-	6,629,126
Charge for the year	21,253	635,103	656,356	-	656,356
Retirements / disposals	(237)	(10,080)	(10,317)	-	(10,317)
Transfers to assets held for sale	(59)	(270,251)	(270,310)	-	(270,310)
Translation differences	(35)	(24,553)	(24,588)	-	(24,588)
Balance at 31 December 2013	636,876	6,343,391	6,980,267	-	6,980,267
Net book value at 31 December 2013	524,647	8,503,206	9,027,853	1,129,110	10,156,963
Net book value at 31 December 2012	516,119	8,832,858	9,348,977	938,759	10,287,736
Net book value at 1 January 2012	496,455	8,836,734	9,333,189	829,137	10,162,326

During the year the Group capitalised interest of €34.9 million (2012: €27.9 million) in assets under construction, using an effective interest rate of 5.1% (2012: 4.6%).

The carrying value of non-depreciable assets at 31 December 2013 is €75.8 million (2012: €75.4 million).

Property, plant and equipment with a net book value of €nil at 31 December 2013 is included above at a cost of €2,682.5 million (December 2012: €2,494.3 million).

Retirements / disposals in 2013 include the disposal of a subsidiary company while the value in 2012 primarily relates to the retirement of assets that have been fully depreciated.

NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT & EQUIPMENT (continued)

	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
(b) PARENT					
Cost					
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
Balance at 1 January 2013	1,099,842	11,386,807	12,486,649	602,993	13,089,642
Additions	735	59,705	60,440	435,441	495,881
Retirements / disposals	(302)	(6,864)	(7,166)	-	(7,166)
Transfers to assets held for sale	(146)	(435,137)	(435,283)	-	(435,283)
Transfers out of assets under construction	28,131	264,036	292,167	(292,167)	-
Transfers to intangible assets	-	(8,713)	(8,713)	(2,478)	(11,191)
Balance at 31 December 2013	1,128,260	11,259,834	12,388,094	743,789	13,131,883
Depreciation					
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
Balance at 1 January 2013	613,475	5,475,336	6,088,811	-	6,088,811
Charge for the year	20,292	431,742	452,034	-	452,034
Retirements / disposals	(231)	(6,533)	(6,764)	-	(6,764)
Transfers to assets held for sale	(59)	(270,251)	(270,310)	-	(270,310)
Balance at 31 December 2013	633,477	5,630,294	6,263,771	-	6,263,771
Net book value at 31 December 2013	494,783	5,629,540	6,124,323	743,789	6,868,112
Net book value at 31 December 2012	486,367	5,911,471	6,397,838	602,993	7,000,831
Net book value at 1 January 2012	468,973	5,931,703	6,400,676	659,462	7,060,138

During the year the Parent capitalised interest of €17.7 million (2012: €19.6 million) in assets under construction, using an effective interest rate of 4.6% (2012: 4.3%).

The carrying value of non-depreciable assets at 31 December 2013 is €73.2 million (2012: €72.3 million).

Property, plant and equipment with a net book value of €nil at 31 December 2013 are included above at a cost of €2,508.9 million (2012: €2,328.5 million).

Retirements / disposals in both 2013 and 2012 primarily relates to the retirement of assets that have been fully depreciated.

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS

	Software and other intangible assets € '000	Emissions allowances € '000	Software under development € '000	Total € '000
(a) GROUP				
Cost				
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
Balance at 1 January 2013	541,855	110,340	7,953	660,148
Software additions	6,093	-	19,067	25,160
Software disposals	(9,302)	-	-	(9,302)
Transfers out of software under development	6,737	-	(6,737)	-
Purchase of emissions allowances	-	31,312	-	31,312
Settlement of emissions allowances	-	(80,965)	-	(80,965)
Transfers from property, plant and equipment	8,733	-	2,478	11,211
Translation differences	(3,546)	(446)	22	(3,970)
Balance at 31 December 2013	550,570	60,241	22,783	633,594
Amortisation				
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
Balance at 1 January 2013	372,550	-	-	372,550
Charge for the year	33,329	-	-	33,329
Retirements / disposals	(9,068)	-	-	(9,068)
Translation differences	(1,582)	-	-	(1,582)
Balance at 31 December 2013	395,229	-	-	395,229
Net book value at 31 December 2013	155,341	60,241	22,783	238,365
Net book value at 31 December 2012	169,305	110,340	7,953	287,598
Net book value at 1 January 2012	168,811	168,680	34,487	371,978

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 24. Due to the cessation of the European CO₂ emissions trading scheme at the end of 2012, there were no further allocations in 2013.

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

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS (continued)

	Software and other intangible assets € '000	Emissions allowances € '000	Software under development € '000	Total € '000
(b) PARENT				
Cost				
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
Balance at 1 January 2013	382,019	86,218	5,291	473,528
Software additions	6,093	-	14,136	20,229
Software disposals	(928)	-	-	(928)
Transfers out of software under development	6,636	-	(6,636)	-
Allocation of emissions allowances	-	-	-	-
Purchase of emissions allowances	-	31,086	-	31,086
Settlement of emissions allowances	-	(63,914)	-	(63,914)
Transfers from property, plant and equipment	8,713	-	2,478	11,191
Balance at 31 December 2013	402,533	53,390	15,269	471,192
Amortisation				
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
Balance at 1 January 2013	311,668	-	-	311,668
Charge for the year	21,982	-	-	21,982
Retirements / disposals	(928)	-	-	(928)
Balance at 31 December 2013	332,722	-	-	332,722
Net book value at 31 December 2013	69,811	53,390	15,269	138,470
Net book value at 31 December 2012	70,351	86,218	5,291	161,860
Net book value at 1 January 2012	84,447	121,601	6,626	212,674

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 24. Due to the cessation of the European CO₂ emissions trading scheme at the end of 2012, there were no further allocations in 2013.

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. This transaction had the effect of a financing arrangement and was repaid in full as planned in 2013.

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 2012	181,664
Translation differences	4,274
Balance at 31 December 2012	185,938
Balance at 1 January 2013	185,938
Translation differences	(3,925)
Balance at 31 December 2013	182,013

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 2013 in accordance with IAS 36. No reduction in the value of goodwill was deemed to be required, subsequent to this impairment test.

The Group calculates the value in use using a 20 year discounted cash flow model, and a terminal value based on the RAB, corresponding to the expected useful life of the underlying asset base. The future cash flows are adjusted for risks specific to the investment. A pre-tax discount rate of 6.9% is applicable. The recoverable amount of the investment was determined to be higher than its carrying amount.

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 it to 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 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 it was unable to accept the proposed terms for the RP5 price control, and on 30 April 2013 the matter was referred to the UK Competition Commission.

On 8 November 2013, the UK Competition Commission published its provisional determination in respect of NIE's Transmission and Distribution price controls which will apply for the period to September 2017. On 29 November 2013, NIE submitted its response to the published provisional determination. The Competition Commission will be holding further hearings to discuss any responses and is expected to make its final determination before 30 April 2014. The final determination is not expected to have a material impact on the carrying value of goodwill associated with NIE.

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

	Joint venture investments € '000	Financial assets at fair value through profit or loss € '000	Total € '000
(a) GROUP			
Balance at 1 January 2012	28,678	40,826	69,504
Additions	143	15,357	15,500
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
Disposals	-	(921)	(921)
Balance at 31 December 2012	31,436	48,849	80,285
Balance at 1 January 2013	31,436	48,849	80,285
Additions	-	16,884	16,884
Transfers to other payables	1,576	-	1,576
Share of profit	22,244	-	22,244
Fair value movement on cash flow hedges	4,320	-	4,320
Fair value movement - transfer to income statement	-	(15,331)	(15,331)
Dividends received	(18,835)	-	(18,835)
Translation differences	(2,797)	(1,043)	(3,840)
Disposals	(51,409)	-	(51,409)
Transfers to assets and liabilities held for sale (note 16)	13,465	-	13,465
Balance at 31 December 2013	-	49,359	49,359

Joint venture investments

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

Dividends received from joint ventures relate to Marchwood Power Limited €8.6 million (2012: €5.2 million) and Bizkaia Energia SL €10.2 million (2012: €10.1 million).

Translation differences relate to Marchwood Power Limited as this company is located in the United Kingdom and has sterling functional currency.

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 2013 % of share capital owned	Holding at 31 December 2012 % of share capital owned
Bizkaia Energia SL	Spain	50% ¹	50%
Marchwood Power Limited	United Kingdom	0% ²	50%
Oweninny Power Limited	Republic of Ireland	50% ³	50%
Emerald Bridge Fibres Limited	Republic of Ireland	50% ³	50%

¹ At 31 December 2013, the investment in Bizkaia Energia SL met the criteria for assets held for sale as outlined in IFRS 5 and has been reclassified at the balance sheet date (see note 16).

² In November 2013, ESB reached an agreement for the sale of its investment in Marchwood Power Limited (see note 3).

³ At 31 December 2013, the investments in Oweninny Power Limited and Emerald Bridge Fibres Limited were held at €nil.

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL ASSET INVESTMENTS (continued)

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 both 2013 and 2012 primarily relate to adjustments to the value of certain investments in renewables enterprises.

At 31 December 2013 the Group could be called upon by its partners in the VantagePoint fund to make a further €2.2 million investment in the fund (2012: €3.6 million). This potential further investment is included within capital commitments in note 27 of these financial statements. Further information on these investments is included in note 26.

In 2012, 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 2013	72,832
Write-off of investment in subsidiary	(11,050)
Balance at 31 December 2013	61,782

During 2013, ESB’s investment in its dormant subsidiary ESB Retail Ltd, was written off and the company was dissolved.

13. INVENTORIES

	GROUP		PARENT	
	2013 € '000	2012 € '000	2013 € '000	2012 € '000
Materials	17,962	55,687	4,666	36,034
Fuel	65,791	77,329	57,371	68,851
	83,753	133,016	62,037	104,885

Inventories consumed during the year ended 31 December 2013 totalled €143.3 million (2012: €183.5 million). There were no inventory impairments recognised by ESB (Group and Parent) during the year (2012: €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 19.

NOTES TO THE FINANCIAL STATEMENTS

14. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2013 € '000	2012 € '000	2013 € '000	2012 € '000
Retail electricity receivables - billed	102,427	91,352	80,235	78,239
Retail electricity receivables - unbilled	214,129	192,398	156,373	138,942
Total retail electricity receivables	316,556	283,750	236,608	217,181
SEM pool related receivables	95,547	99,093	62,951	69,427
Use of System receivables (including unbilled)	180,408	167,798	31,975	26,948
Other electricity receivables	163,953	78,140	130,262	75,699
Total electricity receivables	756,464	628,781	461,796	389,255
Trade receivables - non-electricity	40,923	45,149	8,032	-
Amounts due from joint venture undertakings	4,846	8,265	-	-
Other receivables	71,205	63,582	18,943	23,877
Amounts due from subsidiary undertakings	-	-	2,071,867	1,969,610
Prepayments	25,785	48,354	11,483	33,125
	899,223	794,131	2,572,121	2,415,867

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 €25.8 million (2012: €48.4 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 €2,071.9 million (2012: €1,969.6 million).

	GROUP 2013			GROUP 2012		
	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	802,253	-	802,253	659,038	-	659,038
Past due < 30 days	36,616	(988)	35,628	48,709	(1,354)	47,355
Past due 30 - 120 days	27,054	(1,501)	25,553	33,623	(2,387)	31,236
Past due > 120 days	30,242	(25,747)	4,495	23,132	(19,004)	4,128
Past due by more than one year	28,700	(23,191)	5,509	23,295	(19,275)	4,020
Total	924,865	(51,427)	873,438	787,797	(42,020)	745,777

	PARENT 2013			PARENT 2012		
	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	450,031	-	450,031	368,235	-	368,235
Past due < 30 days	16,941	(306)	16,635	20,851	(672)	20,179
Past due 30 - 120 days	23,567	(1,501)	22,066	27,527	(2,317)	25,210
Past due > 120 days	25,045	(25,006)	39	18,259	(18,888)	(629)
Past due by more than one year	18,989	(18,989)	-	15,578	(15,441)	137
Total	534,573	(45,802)	488,771	450,450	(37,318)	413,132

Impairment provisions disclosed above relate primarily to billed retail electricity receivables. As explained below 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:

	GROUP		PARENT	
	2013 € '000	2012 € '000	2013 € '000	2012 € '000
Balance at 1 January	42,020	45,884	37,318	39,828
Impairment loss recognised	27,492	23,050	28,130	22,721
Provision utilised	(18,085)	(26,914)	(19,646)	(25,231)
Balance at 31 December	51,427	42,020	45,802	37,318

NOTES TO THE FINANCIAL STATEMENTS

14. TRADE AND OTHER RECEIVABLES (continued)

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 2013 was €353,000 (2012: €114,000).

Unbilled electricity receivables represent estimates of consumption not yet invoiced. Controls around electricity receivables are focused on the full recovery of amounts invoiced. In 2013, electricity receivables were impaired to the value of €51.4 million (2012: €42.0 million). Of this, the single largest customer amount written off during the year was €77,000 (2012: €95,000) relating to a company that went in to liquidation. Retail electricity receivables arise largely in the Republic of Ireland, with 7% (2012: 8%) 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 external 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 12 November 2009. 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 the risk of 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 2013 was €32.0 million (2012: €26.9 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 2013 is €12.0 million (2012: €13.0 million).

Other electricity receivables

Other electricity receivables include amounts in relation to the PSO levy in addition to amounts relating to ancillary services and electricity trading in the UK market which is separate to 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 €25.8 million (2012: €48.4 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 2013 is an amount of €7.4 million (2012: €4.5 million).

NOTES TO THE FINANCIAL STATEMENTS

15. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2013 € '000	2012 € '000	2013 € '000	2012 € '000
Cash at bank and in hand	370,848	159,405	239,436	47,990

16. ASSETS AND LIABILITIES HELD FOR SALE

	GROUP		PARENT	
	2013 € '000	2012 € '000	2013 € '000	2012 € '000
Non-current assets	164,975	-	164,975	-
Current assets	5,583	-	3,785	-
Total assets held for sale	170,558	-	168,760	-
Total liabilities associated with assets held for sale	(14,826)	-	(955)	-
Total assets held for sale - net	155,732	-	167,805	-

Further to the Irish Government's proposal in February 2012 that ESB would dispose of some non-strategic generation capacity, 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.

In October 2013, ESB announced its intention to sell its investment in its two peat-fired generation stations, namely West Offaly Power and Lough Ree Power.

The investment in Marchwood Power Limited was sold in November 2013 (see note 3). At 31 December 2013, ESB's investment in Bizkaia Energia SL and the associated company in Spain and the two peat stations, as outlined above, meet the criteria for assets held for sale as outlined in IFRS 5 and have been reclassified at the balance sheet date.

The assets and liabilities held for sale are reclassified at their carrying values, which are lower than their estimated fair values less costs to sell based on the Group's current expectations.

NOTES TO THE FINANCIAL STATEMENTS

17. EQUITY

(i) Capital stock

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

	2013 € '000	2012 € '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 2013 relate to the minority shareholdings in Crockahenny Wind Farm Limited, Mountain Lodge Power Limited and Airvolution Energy Limited.

(iii) Cash flow hedging - 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.

(iv) Other reserves - Group

- Revaluation reserves amounted to €49.8 million (2012: €55.2 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 useful economic life 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, totalling (€133.6) million (2012: (€133.2) million).

(v) Dividends - Group and Parent

	2013 € '000	2012 € '000
Dividends on capital stock:		
Total dividend paid: 7.41 (2012: 3.66) cents per capital stock unit	146,803	72,464

Total dividends paid during 2013 include a final dividend of €78.4 million (3.96 cents per unit of stock) in respect of 2012, and an interim dividend of €68.4 million (3.45 cents per unit of stock) paid in November in respect of 2013.

A dividend payment of €160.9 million (8.12 cents per unit of stock) arising from the sale of generation assets was approved in January 2014. The Board is now recommending a final dividend of 1.46 per cent per unit of stock, or €28.8 million in aggregate.

During 2013, the Board of ESB approved a revised dividend policy, which has been agreed with the Government and is intended to cover the period to at least the end of this decade. The key parameters of this policy are:

- The target dividend pay-out ratio will remain at 30% for 2013 and 2014, in addition to the targeted Special Dividends from the disposal of non-strategic generation capacity in 2013 - 2014 of €400.0 million.
- From 2015, the target pay-out ratio will be increased gradually.
- ESB will aim to pay an interim dividend within each financial year, with the balance to be paid as a final dividend post year-end.
- ESB has agreed with the Government that sustaining a minimum BBB+ credit rating is a key policy objective for the Company, and that this should be a priority consideration when considering dividend payments under the policy outlined above.

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION

(a) Income tax expense / (credit)	2013 € '000	2012 € '000
Current tax expense		
Current tax	31,381	14,261
Prior year (over) / under provision ³	(18,814)	3,468
Value of tax losses surrendered to joint ventures	-	(3,184)
	12,567	14,545
Deferred tax expense		
Origination and reversal of temporary differences	24,911	19,883
Effect of decrease in UK tax rate on opening deferred tax liability ⁴	(36,543)	(26,884)
Prior year under / (over) provision ³	15,046	(35,249)
	3,414	(42,250)
Total	15,981	(27,705)
Reconciliation of effective tax rate	2013 € '000	2012 € '000
Profit before tax	526,365	166,402
Less: after tax share of joint venture profit	(22,244)	(20,704)
Profit before tax (excluding joint venture profits)	504,121	145,698
Taxed at 12.5%	63,015	18,212
Expenses not deductible	8,510	8,938
Income not taxable ¹	(13,962)	-
Tax effect of deferred tax asset not provided	-	955
Deferred tax asset not previously recognised ²	-	(28,800)
Higher tax on chargeable gains	299	439
Higher tax rates on overseas earnings	(465)	869
Prior year over provisions ³	(3,768)	(2,981)
Impact of reduced rate of UK tax on deferred tax stated at Irish tax rate ⁴	(37,002)	(26,884)
Other items	(646)	1,547
Income tax expense	15,981	(27,705)

¹ Income not taxable in 2013 relates to the profit on sale of Marchwood Power Limited which qualified for the UK substantial shareholding relief.

² During 2012, a deferred tax asset was recognised relating to operating losses driven by fair value losses arising on inflation linked interest rate swaps (see note 20). Based on agreement with HMRC, 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.

³ The prior year over and under provision relates mainly to a change in tax treatment adopted by NIE in relation to inflation linked interest rate swaps. The proposed tax treatment for these contracts has been clarified with HMRC during the period, and the revised classification reflects the expected treatment. In 2012, 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.

⁴ The 2013 Budget for the UK included the provision that the UK corporation tax rate will reduce to 20% over a period up to 2015. The reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014), and further reductions to 20% (effective from 1 April 2015) were substantively enacted on 3 July 2013. This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2013 has been calculated based on the rate of 20% (2012: 23%) substantively enacted at the balance sheet date.

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 reduced the Group's future current tax charge accordingly.

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

(b) Deferred tax assets and liabilities	2013 € '000	2012 € '000
(i) GROUP		
Deferred tax assets		
Property, plant and equipment and intangible assets	551	1,273
Liability - NIE pension scheme	21,555	31,282
Liability - ESB pension scheme	96,079	101,623
Provisions	4,305	6,690
Tax losses forward	8,686	13,618
Derivative financial instruments	48,546	77,484
Total	179,722	231,970
Deferred tax liabilities		
Property, plant and equipment and intangible assets	748,351	797,197
Provisions	143	881
Derivative financial instruments	57,160	53,485
Capital gains tax	2,288	2,505
Total	807,942	854,068
Net deferred tax liability	(628,220)	(622,098)

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

2013	Balance at 1 January 2013 € '000	Recognised in income € '000	Recognised in OCI € '000	Transferred out on disposals € '000	Translation reserves € '000	Balance at 31 December 2013 € '000
Assets						
Property, plant and equipment and intangible assets	1,273	(722)	-	-	-	551
Liability - NIE pension scheme	31,282	(6,220)	(3,507)	-	-	21,555
Liability - ESB pension scheme	101,623	(5,544)	-	-	-	96,079
Provisions	6,690	(2,385)	-	-	-	4,305
Tax losses forward	13,618	(4,031)	-	(901)	-	8,686
Derivative financial instruments	77,484	(32,190)	2,302	-	950	48,546
Total deferred tax assets	231,970	(51,092)	(1,205)	(901)	950	179,722
Liabilities						
Property, plant and equipment and intangible assets	797,197	(46,723)	-	-	(2,123)	748,351
Provisions	881	(738)	-	-	-	143
Derivative financial instruments	53,485	-	6,479	(2,804)	-	57,160
Capital gains tax	2,505	(217)	-	-	-	2,288
Total deferred tax liabilities	854,068	(47,678)	6,479	(2,804)	(2,123)	807,942
Net deferred tax (liability) / asset for the year	(622,098)	(3,414)	(7,684)	1,903	3,073	(628,220)

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

(b) Deferred tax assets and liabilities (continued)

(i) GROUP (continued)

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
Liability - NIE pension scheme	22,814	(1,789)	10,257	-	31,282
Liability - ESB pension scheme	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)

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:

	2013 € '000	2012 € '000
Operating losses	267	955

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 €268.7 million (2012: €350.0 million).

There is no expiry date to when tax losses in the Group must be utilised.

(ii) PARENT

	2013 € '000	2012 € '000
Deferred tax assets		
Liability - ESB pension scheme	96,079	101,623
Provisions	3,144	4,482
Tax losses forward	-	6,666
Derivative financial instruments	16,897	11,396
Total	116,120	124,167
Deferred tax liabilities		
Property, plant and equipment	433,581	418,707
Capital gains tax	1,180	1,180
Total	434,761	419,887
Net deferred tax liability	(318,641)	(295,720)

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

(b) Deferred tax assets and liabilities (continued)

(ii) PARENT (continued)

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

2013	Balance at 1 January 2013 € '000	Recognised in income € '000	Recognised in OCI € '000	Balance at 31 December 2013 € '000
Assets				
Liability - ESB pension scheme	101,623	(5,544)	-	96,079
Pension liability	4,482	(1,338)	-	3,144
Provisions	6,666	(6,666)	-	-
Derivative financial instruments	11,396	-	5,501	16,897
Total deferred tax assets	124,167	(13,548)	5,501	116,120
Liabilities				
Property, plant and equipment	418,707	14,874	-	433,581
Capital gains tax	1,180	-	-	1,180
Total deferred tax liabilities	419,887	14,874	-	434,761
Net deferred tax (liability) / asset for the year	(295,720)	(28,422)	5,501	(318,641)

2012	Balance at 1 January 2012 € '000	Recognised in income € '000	Recognised in OCI € '000	Balance at 31 December 2012 € '000
Assets				
Liability - ESB pension scheme	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
	398,079	21,808	-	419,887
Net deferred tax (liability) / asset for the year	(275,153)	(26,061)	5,494	(295,720)

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT

(a) GROUP	Recourse borrowings € '000	Non-recourse borrowings € '000	2013 Total € '000	2012 Total € '000
Current borrowings				
- Repayable by instalments	88,816	1,839	90,655	120,760
- Repayable other than by instalments	31,337	-	31,337	328,486
Total current borrowings	120,153	1,839	121,992	449,246
Non-current borrowings				
- Repayable by instalments				
Between one and two years	101,754	1,839	103,593	80,611
Between two and five years	266,321	34,821	301,142	282,202
After five years	562,080	175,623	737,703	577,390
	930,155	212,283	1,142,438	940,203
- Repayable other than by instalments				
Between one and two years	210,359	-	210,359	168,373
Between two and five years	739,287	227,374	966,661	885,306
After five years	1,596,466	477,480	2,073,946	2,130,531
	2,546,112	704,854	3,250,966	3,184,210
Total non-current borrowings	3,476,267	917,137	4,393,404	4,124,413
Total borrowings outstanding	3,596,420	918,976	4,515,396	4,573,659

See section (d) for details of applicable interest rates.

Current borrowings by facility		2013 € '000	2012 € '000
Ref			
Emissions allowances financing arrangement	1	-	60,515
ESB stock		-	10,304
Long term bank borrowings	6	86,254	62,583
Private placement borrowings	7	33,899	257,667
Non-recourse long-term project finance debt	3	1,839	2,449
Capital element of finance leases	8	-	55,728
		121,992	449,246
Non-current borrowings by facility		2013 € '000	2012 € '000
Ref			
Fuel financing arrangement	4	29,793	29,664
Non-recourse long-term project finance debt	3	212,283	118,873
ESB Eurobonds	2	1,721,167	1,427,884
NIE Eurobonds	5	704,854	723,797
Long term bank borrowings	6	922,329	954,771
Private placement borrowings	7	802,978	869,424
		4,393,404	4,124,413

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 2013, 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 stable. On 22 January 2014, Moody's revised ESB's credit rating upwards to Baa2, and revised the outlook to positive. On 10 February 2014, Fitch affirmed ESB's credit rating at BBB+ (Stable outlook).

1. Emissions allowances financing arrangement

In April 2012 the Group received €59.0 million from the sale of emissions allowances, and at the same date contracted to buy them back in February 2013 at a fixed price (see note 10). This transaction had the effect of a financing arrangement and was repaid in full as planned in 2013.

2. ESB Eurobonds

The table below provides details of ESB Eurobonds included in borrowings at December 2013.

Issuer	Value	Date	Tenor	Coupon
ESB Finance Limited	Stg£275.0 million	March 2010	10 years	6.5%
ESB Finance Limited	€600.0 million	September 2012	5 years	6.25%
ESB Finance Limited	€500.0 million	November 2012	7 years	4.375%
ESB Finance Limited	€300.0 million	November 2013	10 years	3.494%

3. Non-recourse long-term project finance debt

In September 2012 Carrington Power Limited (CPL), a 100 per cent owned subsidiary of ESB, completed the financial close of an 881MW Combined Cycle Gas Turbine power plant in Carrington, near Manchester. Finance was structured on a 70/30 debt/equity basis, with the debt of Stg£523.0 million being provided by a syndicate of banks by way of non-recourse project finance, incorporating export credit support from the Swiss Export Credit Agency, SERV. Stg£181.7 million (2012: Stg£100.3 million) debt was drawn at the year end. The plant is scheduled to be commissioned by 2016, and the assets under construction are Stg£230.0 million at year end.

NOTES TO THE FINANCIAL STATEMENTS

19. 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 €408.8 million of floating rate debt borrowed on a bilateral basis, while the remainder is fixed interest debt. A new €1.4 billion credit facility was signed on 12 February 2013 with a syndicate of 14 banks, enabling the Group to draw down bank finance as required up to February 2018. This replaced the revolving credit facility in place at 31 December 2012. The facility is undrawn at December 2013.

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 €125.0 million was drawn at December 2013.

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, of which Stg£53.6 million was drawn at December 2013.

In December 2013, a new facility of €100.0 million was signed with the EIB to support renewable connections to the electricity network in the southwest of Ireland. The facility is undrawn at December 2013.

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 at December 2013 comprise US\$626.5 million, maturing on dates between 2015 and 2023, and Stg£20.0 million, maturing on dates between 2018 and 2023. US\$325.0 million of private placement debt was repaid in 2013.

The second private placement senior unsecured notes were issued in June 2009. These notes were issued in US dollars, sterling and euro and at December 2013 comprise US\$286.0 million, maturing on dates between 2014 and 2019, Stg£85.0 million maturing on dates between 2017 and 2021 and €50.0 million maturing on dates between 2014 and 2019. US\$15.0 million of this private placement debt was repaid in 2013.

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 complied with all the covenant requirements associated with the private placement debt and other facilities.

8. Finance Leases

Finance lease commitments were repaid in full by the Group in 2013.

Future finance lease commitments for the Group and Parent are as follows:

	2013 Minimum Lease Payments € '000	2013 Present value of Minimum Lease Payments € '000	2012 Minimum Lease Payments € '000	2012 Present value of Minimum Lease Payments € '000
Amounts payable:				
Within one year	-	-	59,025	55,728
Between one and five years	-	-	-	-
	-	-	59,025	55,728
Less future lease charges			(3,297)	
Present value of lease obligations	-		55,728	

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	2013 € '000	2012 € '000
Value at 1 January	93,456	102,727
Repayments in year	(11,025)	(11,795)
(Gain) / loss on translation to Euro	(2,390)	2,524
Value at 31 December	80,041	93,456
(Loss) / gain on translation of intragroup Euro loan to subsidiary (taken to OCI)	(1,795)	1,904

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

(b) PARENT	Recourse borrowings € '000	2013 Total € '000	2012 Total € '000
Current borrowings			
- Repayable by instalments	76,969	76,969	106,464
- Repayable other than by instalments	31,337	31,337	328,486
Total current borrowings	108,306	108,306	434,950
Non-current borrowings			
- Repayable by instalments			
Between one and two years	89,907	89,907	66,891
Between two and five years	258,988	258,988	242,262
After five years	562,080	562,080	481,150
	910,975	910,975	790,303
- Repayable other than by instalments			
Between one and two years	210,469	210,469	168,421
Between two and five years	140,840	140,840	287,278
After five years	473,747	473,747	576,878
	825,056	825,056	1,032,577
Total non-current borrowings	1,736,031	1,736,031	1,822,880
Total borrowings outstanding	1,844,337	1,844,337	2,257,830

(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 2013 the Group had €1,857.8 million 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 €100.0 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	2013 € '000	2012 € '000	2013 € '000	2012 € '000	2013 € '000	2012 € '000
In one year or less	121,992	449,246	108,306	434,950	-	-
Between one and two years	313,952	248,984	300,376	235,312	100,000	645,770
Between two and five years	1,267,803	1,167,508	399,828	529,540	1,387,000	750,000
In more than five years	2,811,649	2,707,921	1,035,827	1,058,028	-	237,984
	4,515,396	4,573,659	1,844,337	2,257,830	1,487,000	1,633,754

The following table sets out the contractual maturities of group borrowings, including the associated interest payments. Borrowings with a carrying value of €2,671.0 million (2012: €2,315.8 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 2013						
Recourse borrowings	3,596,420	4,655,289	284,755	487,791	1,419,101	2,463,642
Non-recourse borrowings	918,976	1,403,967	49,618	49,409	429,284	875,656
Total borrowings	4,515,396	6,059,256	334,373	537,200	1,848,385	3,339,298
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

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

(d) Interest rate risk management

The Group's interest rate policy was updated in 2013 and is to target to have a significant majority of its debt at fixed (or inflation linked) interest rate to maturity, with a minimum of 50% fixed (or inflation linked) at all times. This is achieved either by borrowing directly at fixed interest rates or via interest rate swaps. At 31 December 2013, 95% of the Group's debt was fixed to maturity or inflation linked (2012: 93%). The fair value of interest rate swaps is disclosed in note 20.

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
Private placement borrowings (fixed interest rate)	6.1%	836,876	33,899	185,828	143,402	473,747
Non-recourse borrowings (fixed interest rate)	6.3%	918,976	1,839	1,839	262,195	653,103
Other long term borrowings (fixed and variable interest rate)	6.2%	2,759,544	86,254	126,285	862,206	1,684,799

Included within other long-term borrowings in this analysis are floating rate liabilities of €240.5 million (2012: €318.3 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 £181.3 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 2013 would be 3.4%, 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 profit before taxation and reduced 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 2013 50 bp increase Gain / (loss) € '000		50 bp decrease Gain / (loss) € '000		31 December 2012 50 bp increase Gain / (loss) € '000		50 bp decrease Gain / (loss) € '000	
Profit before taxation								
Interest payable	(3,392)	3,392			(3,941)		3,941	
Fair value movements on financial instruments	60,593	(67,415)			64,823		(71,697)	
Other comprehensive income								
Fair value gains / (losses)	11,704	(11,704)			18,168		(17,490)	

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 instruments;
- 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

20. 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	Non-current	Current	2013	Current	Total
	assets	assets	Non-current	liabilities	
	€ '000	€ '000	liabilities	€ '000	€ '000
Interest rate swaps	23,934	-	(29,525)	-	(5,591)
Inflation linked interest rate swaps	-	-	(452,132)	(13,458)	(465,590)
Currency swaps	497	517	(130,213)	-	(129,199)
Foreign exchange contracts	6,818	7,264	(7,601)	(2,837)	3,644
Forward fuel price contracts	190,858	58,393	(17,835)	(37,732)	193,684
Forward electricity price contracts	131,448	28,034	-	-	159,482
	353,555	94,208	(637,306)	(54,027)	(243,570)

	Non-current	Current	2012	Current	Total
	assets	assets	Non-current	liabilities	€ '000
	€ '000	€ '000	liabilities	€ '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)

PARENT	Non-current	Current	2013	Current	Total
	assets	assets	Non-current	liabilities	
	€ '000	€ '000	liabilities	€ '000	€ '000
Interest rate swaps	-	-	(6,341)	-	(6,341)
Currency swaps	497	517	(130,213)	-	(129,199)
Foreign exchange contracts	1,293	3,319	(7,586)	(2,607)	(5,581)
Forward fuel price contracts	1,076	1,148	(17,798)	(37,110)	(52,684)
Forward electricity price contracts	-	-	-	-	-
	2,866	4,984	(161,938)	(39,717)	(193,805)

	Non-current	Current	2012	Current	Total
	assets	assets	Non-current	liabilities	€ '000
	€ '000	€ '000	liabilities	€ '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)

Derivative financial instruments are carried at fair value. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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

20. 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 1.8% (2012: 1.1%). 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 gains of €15.1 million (2012: losses of €25.2 million) were recognised during the year in relation to interest rate swaps, of which losses of €23.2 million were recognised directly in finance costs in the income statement, with gains of €38.3 million recognised in OCI (2012: losses of €10.7 million recognised in finance costs and losses of €14.5 million recognised in OCI).

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, to match the debt with the RPI interest rate swaps which hedge floating rate debt. 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 2013, positive fair value movements on these swaps of €10.2 million (2012: negative fair value movements of €12.7 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 19. 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 2013 is a loss of €4.7 million (2012: €18.4 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 electricity purchases, fuel purchase requirements (which are in US dollars 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 €0.2 million (2012: €7.3 million) were recognised during the year in relation to such foreign exchange contracts, of which a positive fair value movement of €0.6 million (2012: negative movements of €8.3 million) was recognised through other comprehensive income and a negative fair value movement of €0.8 million (2012: positive movements of €1.0 million) was recognised in the income statement.

(iv) Fair Value Hierarchy

Further information on the methods of valuing financial instruments is included in note 26.

NOTES TO THE FINANCIAL STATEMENTS

20. 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 €49.8 million (2012: €91.9 million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities. See note 26 (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 2013						
Interest rate swaps	29,525	127,950	9,272	12,260	39,104	67,314
Inflation linked interest rate swaps	465,590	632,401	11,076	109,150	1,513	510,662
Currency swaps	130,213	92,123	2,867	32,084	19,198	37,974
Foreign exchange contracts	10,438	10,492	2,819	7,673	-	-
Forward fuel price contracts	55,567	55,569	37,748	17,821	-	-
Total liabilities	691,333	918,535	63,782	178,988	59,815	615,950
Interest rate swaps	23,934	46,542	6,480	6,484	18,873	14,705
Currency swaps	1,014	1,146	620	526	-	-
Foreign exchange contracts	14,082	14,918	7,296	2,081	1,531	4,010
Forward fuel price contracts	249,251	254,318	58,640	55,825	126,408	13,445
Forward electricity price contracts	159,482	163,544	28,172	30,970	93,808	10,594
Total assets	447,763	480,468	101,208	95,886	240,620	42,754
Net derivative (assets) / liabilities	243,570	438,067	(37,426)	83,102	(180,805)	573,196
31 December 2012						
Interest rate swaps	20,642	88,007	5,155	4,917	23,976	53,959
Inflation linked interest rate swaps	501,093	720,398	13,286	13,302	149,568	544,242
Currency swaps	108,803	77,517	27,227	(656)	21,689	29,257
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
Foreign exchange contracts	8,872	8,905	5,281	2,574	1,050	-
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
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

NOTES TO THE FINANCIAL STATEMENTS

21. 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) 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. The Scheme is a defined benefit scheme and is registered as such with the Pensions Board. The regulations governing the Scheme stipulate the benefits that are to be provided and the contributions to be paid by both ESB and the contributing members. Notwithstanding the DB nature of the benefits, ESB has no legal obligation to increase contributions to maintain those benefits in the event of a deficit. ESB's rate of contribution cannot be altered without the agreement of ESB and approval of the Minister for Communications, Energy and Natural Resources. Should a deficit arise in the future, the company is obliged under the regulations to consult with the Superannuation Committee, the Trustees and the Scheme Actuary to consider the necessity of submitting an amending Scheme for Ministerial approval. This is different to the normal 'balance of cost' defined benefit approach, where the employer is liable to pay the balance of contributions required to fund benefits.

History

Historically the contributions of both ESB and members have been fixed by the Scheme regulations for long periods. On a number of occasions since the early 1980s, a deficit in the Scheme has been reported by the Scheme actuary. On each occasion ESB has, in accordance with its obligations under the Scheme rules, consulted with the committee, the trustees and the actuary. Following discussions with the unions, deficits were resolved by increasing contributions by both the company and pension Scheme members.

The 2010 Pensions Agreement followed a 31 December 2008 actuarial deficit of €1,957.0 million. It was recognised that it was not feasible to address such a deficit through increased contributions. Negotiations between the company and ESB Group of Unions (employee representatives) concluded with the landmark 2010 Pensions Agreement (approved by employees in July 2010 and formally ratified by the Board of ESB on 20 October 2010). The main features of the Agreement included 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 Scheme members were not changed. Under the Agreement ESB agreed to a once off cash injection into the Scheme, payable over a number of years, which had an agreed valuation for actuarial purposes as at 1 January 2010 of €591.0 million. Under the Agreement membership of the Scheme has been closed to new joiners. The changes brought about by the 2010 Pensions Agreement were subsequently approved by the Minister.

The Scheme does not have a deficit on an on-going actuarial basis. It would have a deficit in a wind-up situation (minimum funding standard) but a funding plan has been approved by the Pensions Board to resolve this deficit by 2018. This plan is on track and there are no plans to wind up the Scheme. The company does not intend that any further contributions, other than the normal on-going contributions (up to 16.4% of pensionable salary, in addition to employee contributions of up to 8.5%) and the balance of the company's €591.0 million additional contribution (committed to as part of the 2010 Agreement), will be made. Should a deficit arise in the future, the obligation on the company, as set out in the Scheme regulations, to consult with the parties to the Scheme remains unchanged.

Definitions

There are three different methods of assessing the financial status of the Scheme:

- Ongoing Actuarial Valuation.
- Minimum Funding Standard, under the Pensions Acts.
- Accounting, as set out in International Accounting Standard 19 (Revised), Employee Benefits.

Each of these methods assesses the Scheme from specific perspectives using assumptions and projections which may differ.

Ongoing actuarial valuation

This valuation method assumes that both the Scheme and the company continue in existence for the foreseeable future - it is not a wind-up valuation. The Scheme actuary confirmed in 2013 that the Scheme is in balance on an on-going actuarial basis, i.e. that based on the assumptions made, the Scheme is projected to be able to meet its obligations as they fall due.

Wind Up / MFS Valuation

The Pensions Act requires the Trustees of the Scheme to also assess whether it could meet a certain prescribed standard, known as the Minimum Funding Standard (MFS). This assesses whether, if the Scheme were wound up on a specified theoretical valuation date, it could secure the benefits on that date. It should be noted that ESB does not envisage the winding up of the Scheme.

The Scheme actuary reported at the end of 2011 that the Scheme did not satisfy the MFS requirements. To address this, the Scheme trustees, with the agreement of ESB, submitted a funding plan to the Pensions Board, which was approved in October 2012. This funding plan aims to resolve the MFS requirements by the end of 2018 and as at 31 December 2013 this Plan is on track to meet that objective based on existing contribution levels (including the €591.0 million commitment from the 2010 Pensions Agreement).

Accounting

IAS 19 (revised) 'Employee Benefits' is the relevant accounting standard to determine the way post-employment benefits should be reflected in ESB's financial statements.

The financial statements reflect the following obligations to the Scheme:

- Ongoing contributions - these are recognised in the income statement as incurred. Any unpaid amounts at year end are recognised as liabilities on the balance sheet.
- Obligations of €766.2 million to the scheme are also included on the balance sheet, made up of:
 - 2010 Pension Agreement Injection – the company committed to making an exceptional cash injection of €591.0 million (PV in 2010 money based on a rate of 6.25%) over a period of up to 12 years into the Scheme. Amounts yet to be paid to the Scheme under this part of the Pension Agreement are effectively subject to an annual financing charge and this is expensed in the income statement. €149.0 million has been paid into the Scheme to date.
 - Past service contributions – the on-going rate of contribution by ESB includes a contribution towards past service accrued in 2010. The present value of future contributions in respect of that past service are recognised on the balance sheet.
 - Past Voluntary Severance (VS) Programmes – in 2010 the company recognised a future fixed commitment in respect of staff who had left the company under previous VS programs. ESB will make pension contributions in respect of those staff and the fair value of those future contributions are also recognised on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

21. 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 €7.0 million (2012: €6.4 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.

In June 2011, the IASB published an amended version of IAS 19 Employee Benefits which is applicable for annual periods beginning on or after 1 January 2013. As a result of this change, the Group determines the net interest expense by applying the discount rate used to measure the pension obligation at the beginning of the annual period to the net liability.

The change in accounting policy has been applied for the period ended 31 December 2013. It increased the expense recognised in profit and loss and correspondingly increased the re-measurement gain recognised in other comprehensive income by €6.8 million for the year ended 31 December 2013. If applied in 2012, this amendment would have reduced the actuarial loss recognised for the year by €1.6 million, with a corresponding increase in expenses in profit or loss. The amendments to the standard require retrospective application, with the restatement of disclosures in the comparative period. The Group has determined that the adjustments required are not material to the values as previously disclosed and therefore no restatement has been made.

The change in accounting policy had no impact on net assets as at 31 December 2013 or 31 December 2012.

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 2013	At 31 December 2012	At 31 December 2011
Rate of interest applied to discount liabilities	4.40%	4.30%	4.70%
Price inflation (CPI in the United Kingdom)	2.30%	1.80%	1.90%
Rate of increase of pensionable salaries	3.55%	3.05%	3.40%
Rate of increase of pensions in payment	2.30%	1.80%	1.90%

The discount rate used in the calculation of the pension liability at 31 December 2013 was 4.4% (2012: 4.3%). 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 2013		At 31 December 2012	
	Males Years	Females Years	Males Years	Females Years
Current pensioners at aged 60	26.4	28.9	26.4	28.9
Future pensioners currently aged 40 (life expectancy age 60)	27.9	30.5	27.9	30.5

Pension assets and liabilities

The assets and liabilities in the Focus section of the NIE Scheme are:

	At 31 December 2013 €'000	At 31 December 2012 €'000	At 31 December 2011 €'000	At 31 December 2010 €'000
Equities	268,048	359,933	331,554	397,063
Bonds	435,629	769,261	731,720	634,397
Diversified growth	477,220	-	-	-
Other	8,832	3,264	2,522	2,562
Fair value of plan assets	1,189,729	1,132,458	1,065,796	1,034,022
Present value of funded obligations	(1,299,395)	(1,264,982)	(1,157,012)	(1,021,324)
Net (deficit) / surplus	(109,666)	(132,524)	(91,216)	12,698

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES (continued)

(c) Northern Ireland Electricity Pension Scheme (continued)

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000	9 months ended 31 December 2010 €'000
Change in benefit obligation				
Benefit obligation at the beginning of the year	1,264,982	1,157,012	1,021,324	928,745
Movement in year:				
Current service cost	9,524	9,689	8,096	7,191
Interest cost	50,964	57,589	54,669	40,319
Plan members' contributions	639	697	634	589
Actuarial (gain) / loss - impact of assumption changes	62,153	77,993	98,442	(85,472)
Actuarial (gain) / loss - experience loss	-	-	(6,476)	(26,054)
Benefits paid	(64,308)	(65,305)	(57,580)	(35,839)
Other	1,061	-	2,523	161,448
Curtailment cost	35	353	-	-
Translation difference on benefit obligation in the year	(25,655)	26,954	35,380	30,397
Benefit obligation at the end of the year	1,299,395	1,264,982	1,157,012	1,021,324

Change in plan assets				
Fair value of plan assets at the beginning of the year	1,132,458	1,065,796	1,034,022	809,071
Movement in year:				
Expected return on plan assets	-	55,447	53,931	36,547
Interest on plan assets	46,076	-	-	-
Actuarial gains / (losses)	64,214	21,110	(20,812)	17,094
Employer contributions	27,431	29,268	21,903	27,115
Plan members' contributions	639	697	634	589
Other	1,061	510	2,178	155,057
Benefits paid	(64,308)	(65,305)	(57,580)	(35,839)
Article 75 contribution	4,668	-	-	-
Translation difference on assets in the year	(22,510)	24,935	31,520	24,388
Fair value of plan assets at the end of the year	1,189,729	1,132,458	1,065,796	1,034,022
Actual return on plan assets for the year	110,338	76,557	33,119	53,641

Analysis of the amounts recognised in employee costs as part of employee benefits were as follows:

	2013 €'000	2012 €'000	2011 €'000
Current service cost	(9,524)	(9,689)	(8,096)
Curtailment cost	(35)	(353)	-
Total defined benefit charge in year	(9,559)	(10,042)	(8,096)

Analysis of the amounts recognised in finance costs, as net pension scheme interest:

	2013 €'000	2012 €'000	2011 €'000
Expected return on pension scheme assets	-	55,447	53,931
Interest on pension scheme assets	46,076	-	-
Interest on pension scheme liabilities	(50,964)	(57,589)	(54,669)
Net pension scheme interest	(4,888)	(2,142)	(738)

Analysis of the amounts recognised in the statement of comprehensive income:

	2013 €'000	2012 €'000	2011 €'000
Actuarial gain / (loss) on assets	-	21,110	(20,812)
Actual return on assets less interest	64,214	-	-
Actuarial loss on liabilities	(62,153)	(77,483)	(92,310)
Net actuarial gain / (loss)	2,061	(56,373)	(113,122)

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

31 December 2013	Pension liability €'000
Discount rate (0.1% movement)	17.0
Inflation rate (0.1% movement)	(16.3)
Future mortality (1 year)	(41.6)

Although the analysis does not take account of the full distribution of cashflows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

NOTES TO THE FINANCIAL STATEMENTS

22. LIABILITY - ESB PENSION SCHEME AND EMPLOYEE RELATED LIABILITIES

GROUP	Liability - ESB pension scheme € '000	Employee related liabilities		Total € '000
		Restructuring liabilities € '000	Other € '000	
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
Balance at 1 January 2013	814,767	182,704	30,801	213,505
Movements during the year:				
Charge to the income statement	-	-	27,191	27,191
Utilised during the year	(85,137)	(35,156)	(27,471)	(62,627)
Financing charge	36,598	4,729	-	4,729
Translation differences	-	(6)	(21)	(27)
Balance at 31 December 2013	766,228	152,271	30,500	182,771
Analysed as follows:				
Non-current liabilities	693,717	124,998	-	124,998
Current liabilities	72,511	27,273	30,500	57,773
Total	766,228	152,271	30,500	182,771

PARENT	Liability - ESB pension scheme € '000	Employee related liabilities		Total € '000
		Restructuring liabilities € '000	Other € '000	
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
Balance at 1 January 2013	814,767	182,472	23,988	206,460
Movements during the year:				
Charge to the income statement	-	-	21,296	21,296
Utilised during the year	(85,137)	(35,110)	(21,692)	(56,802)
Financing charge	36,598	4,729	-	4,729
Balance at 31 December 2013	766,228	152,091	23,592	175,683
Analysed as follows:				
Non-current liabilities	693,717	124,998	-	124,998
Current liabilities	72,511	27,093	23,592	50,685
Total	766,228	152,091	23,592	175,683

NOTES TO THE FINANCIAL STATEMENTS

22. LIABILITY - ESB PENSION SCHEME AND EMPLOYEE RELATED LIABILITIES (continued)

Liability - ESB pension scheme
See note 21 (a).

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 cashflows 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.

23. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2013 € '000	2012 € '000	2013 € '000	2012 € '000
Current payables:				
Progress payments on work in progress	49,825	34,917	-	-
Trade payables	354,301	307,378	231,599	210,488
Other payables	26,687	46,117	17,019	34,389
Employment taxes	16,559	18,154	14,815	16,362
Value added tax	50,395	46,035	29,883	29,800
Accruals	110,335	93,107	18,870	19,034
Amounts owed to subsidiary undertakings	-	-	2,415,627	1,760,599
Accrued interest on borrowings	67,309	69,379	9,736	12,868
	675,411	615,087	2,737,549	2,083,540
	2013 € '000	2012 € '000	2013 € '000	2012 € '000
Non-current payables:				
Other payables	-	7,813	-	-

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED INCOME AND GOVERNMENT GRANTS

(a) GROUP	Emissions allowances	Supply contributions and other	Total
	€ '000	€ '000	€'000
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
Balance at 1 January 2013	12,097	629,986	642,083
Receivable	-	15,608	15,608
Released to the income statement	(12,336)	(37,276)	(49,612)
Translation differences	239	2	241
Balance at 31 December 2013	-	608,320	608,320
Analysed as follows:			
Non-current liabilities	-	561,346	561,346
Current liabilities	-	46,974	46,974
Total	-	608,320	608,320

(b) PARENT	Emissions allowances	Supply contributions and other	Total
	€ '000	€ '000	€000
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
Balance at 1 January 2013	11,047	623,564	634,611
Receivable	-	736	736
Released to the income statement	(11,047)	(32,521)	(43,568)
Balance at 31 December 2013	-	591,779	591,779
Analysed as follows:			
Non-current liabilities	-	558,671	558,671
Current liabilities	-	33,108	33,108
Total	-	591,779	591,779

Up to year end 2012, in accordance with the European CO2 emissions trading scheme, emissions allowances covering a percentage of the expected emissions were granted at the beginning of each year by the relevant Authority. These emissions allowances received were recorded as both intangible assets and deferred income. They were 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

25. PROVISIONS

(a) GROUP	Power station closure costs	Emissions provisions	Other	Total
	€ '000	€ '000	€ '000	€ '000
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
Balance at 1 January 2013	142,064	77,215	56,038	275,317
Charged / (credited) to the income statement				
- Emissions	-	67,317	-	67,317
- Legal and other	-	-	3,623	3,623
- Station closure	143	-	-	143
Utilised in the year	(6,701)	(80,274)	(3,723)	(90,698)
Financing charge	3,542	-	1,111	4,653
Translation differences	(44)	(300)	(273)	(617)
Balance at 31 December 2013	139,004	63,958	56,776	259,738
Analysed as follows:				
Non-current liabilities	132,407	-	51,773	184,180
Current liabilities	6,597	63,958	5,003	75,558
Total	139,004	63,958	56,776	259,738

(b) PARENT	Power station closure costs	Emissions provisions	Other	Total
	€ '000	€ '000	€ '000	€ '000
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
Balance at 1 January 2013	137,659	60,995	44,032	242,686
Charged / (credited) to the income statement				
- Emissions	-	56,464	-	56,464
- Legal and other	-	-	2,046	2,046
Utilised in the year	(6,623)	(63,914)	(2,520)	(73,057)
Financing charge	3,451	-	1,110	4,561
Balance at 31 December 2013	134,487	53,545	44,668	232,700
Analysed as follows:				
Non-current liabilities	127,890	-	41,599	169,489
Current liabilities	6,597	53,545	3,069	63,211
Total	134,487	53,545	44,668	232,700

NOTES TO THE FINANCIAL STATEMENTS

25. PROVISIONS (continued)

Power station closure costs

The provision at 31 December 2013 of €139.0 million (2012: €142.1 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. The estimated value of future closure costs at the balance sheet date include physical dismantling, site remediation, de-manning and associated costs.

Utilisation of this provision during the year, and during the previous financial year, mainly comprised the cost of ongoing contractual obligations due to former employees of generating stations closed or sold in the normal course of business in previous years.

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 cashflows 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 in 2012, 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 CO2 emissions trading scheme, a provision is recognised to cover the liability for actual emissions during the year. Up to year end 31 December 2012, under this scheme, emissions allowances covering a percentage of the expected emissions were 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 CO2 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 CO2 emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability.

Other provisions

Other provisions represent prudent estimates of liabilities 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

26. 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 and Business Performance 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 Generation and Wholesale Markets 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 68 to 73.

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

26. 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 2013, and at 31 December 2012 can be analysed as follows:

	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	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
GROUP										
Assets										
Non-current assets										
Financial asset investments	49,359	48,849	-	-	-	-	-	-	49,359	48,849
Derivative financial instruments	-	-	-	-	353,137	353,628	418	328	353,555	353,956
Total non-current financial assets	49,359	48,849	-	-	353,137	353,628	418	328	402,914	402,805
Current assets										
Trade and other receivables	-	-	899,223	794,131	-	-	-	-	899,223	794,131
Cash and cash equivalents	-	-	370,848	159,405	-	-	-	-	370,848	159,405
Derivative financial instruments	-	-	-	-	91,740	81,966	2,468	2,360	94,208	84,326
Total current financial assets	-	-	1,270,071	953,536	91,740	81,966	2,468	2,360	1,364,279	1,037,862
Total financial assets	49,359	48,849	1,270,071	953,536	444,877	435,594	2,886	2,688	1,767,193	1,440,667
Liabilities										
Non-current liabilities										
Borrowings and other debt	-	-	4,393,404	4,124,413	-	-	-	-	4,393,404	4,124,413
Trade and other payables	-	-	-	7,813	-	-	-	-	-	7,813
Derivative financial instruments	-	-	-	-	155,585	103,698	481,721	494,054	637,306	597,752
Total non-current financial liabilities	-	-	4,393,404	4,132,226	155,585	103,698	481,721	494,054	5,030,710	4,729,978
Current liabilities										
Borrowings and other debt	-	-	121,992	449,246	-	-	-	-	121,992	449,246
Trade and other payables	-	-	675,411	615,087	-	-	-	-	675,411	615,087
Derivative financial instruments	-	-	-	-	39,909	52,254	14,118	18,909	54,027	71,163
Total current financial liabilities	-	-	797,403	1,064,333	39,909	52,254	14,118	18,909	851,430	1,135,496
Total financial liabilities	-	-	5,190,807	5,196,559	195,494	155,952	495,839	512,963	5,882,140	5,865,474
PARENT										
Assets										
Non-current assets										
Investments in subsidiary undertakings	-	-	61,782	72,832	-	-	-	-	61,782	72,832
Derivative financial instruments	-	-	-	-	2,452	996	414	328	2,866	1,324
Total non-current financial assets	-	-	61,782	72,832	2,452	996	414	328	64,648	74,156
Current assets										
Trade and other receivables	-	-	2,572,121	2,415,867	-	-	-	-	2,572,121	2,415,867
Cash and cash equivalents	-	-	239,436	47,990	-	-	-	-	239,436	47,990
Derivative financial instruments	-	-	-	-	3,536	2,171	1,448	1,998	4,984	4,169
Total current financial assets	-	-	2,811,557	2,463,857	3,536	2,171	1,448	1,998	2,816,541	2,468,026
Total financial assets	-	-	2,873,339	2,536,689	5,988	3,167	1,862	2,326	2,881,189	2,542,182
Liabilities										
Non-current liabilities										
Borrowings and other debt	-	-	1,736,031	1,822,880	-	-	-	-	1,736,031	1,822,880
Trade and other payables	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	155,532	87,418	6,406	536	161,938	87,954
Total non-current financial liabilities	-	-	1,736,031	1,822,880	155,532	87,418	6,406	536	1,897,969	1,910,834
Current liabilities										
Borrowings and other debt	-	-	108,306	434,950	-	-	-	-	108,306	434,950
Trade and other payables	-	-	2,737,549	2,083,540	-	-	-	-	2,737,549	2,083,540
Derivative financial instruments	-	-	-	-	39,056	51,244	661	4,981	39,717	56,225
Total current financial liabilities	-	-	2,845,855	2,518,490	39,056	51,244	661	4,981	2,885,572	2,574,715
Total financial liabilities	-	-	4,581,886	4,341,370	194,588	138,662	7,067	5,517	4,783,541	4,485,549

The Group's provisions and employee related liabilities are not analysed in the table above, or in the further analysis below. The only exception to this is the liability for ESB pension of €766.2 million at 31 December 2013 (2012: €814.8 million). See notes 21, 22 and 25 for further information in relation to this and to the other provisions and employee related liabilities.

NOTES TO THE FINANCIAL STATEMENTS

26. 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 €2,671.0 million (2012: €2,315.8 million), and net derivative financial instrument liabilities of €49.7 million (2012: €91.9 million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities. See notes 19, 20 and 26(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 2013						
Borrowings	4,515,396	6,059,256	334,373	537,200	1,848,385	3,339,298
Trade and other payables (excluding tax balances)	541,148	541,148	541,148	-	-	-
Derivative financial liability	691,333	941,172	63,781	178,988	62,423	635,980
Total liabilities	5,747,877	7,541,576	939,302	716,188	1,910,808	3,975,278
Derivative financial asset	447,763	480,468	101,208	95,886	240,620	42,754
Total assets	447,763	480,468	101,208	95,886	240,620	42,754
Net liabilities	5,300,114	7,061,108	838,094	620,302	1,670,188	3,932,524
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 tax balances)	489,332	489,332	481,519	7,813	-	-
Derivative financial liability	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
Derivative financial asset	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

(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

	2013		2012	
	Group € '000	Parent € '000	Group € '000	Parent € '000
Trade and other receivables	899,223	2,572,121	794,131	2,415,867
Financial asset investments	49,359	61,782	48,849	72,832
Cash and cash equivalents	370,848	239,436	159,405	47,990
Derivative financial instruments	447,763	7,850	438,282	5,493
	1,767,193	2,881,189	1,440,667	2,542,182

Trade and other receivables

Wholesale and credit risk arising from trade and other receivables is 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 €258.1 million (2012: €173.7 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

26. 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 19) 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 2013 relate to forecast cash flows expected to occur up to 15 December 2023.

At year end, ESB's total debt portfolio amounted to €4.5 billion (2012: €4.6 billion), of which the Parent held €1.8 billion (2012: €2.3 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

GROUP	Before swaps		After swaps	
	2013 (%)	2012 (%)	2013 (%)	2012 (%)
Currency				
Euro	50%	46%	66%	67%
US Dollar	15%	20%	0%	0%
Sterling	35%	34%	34%	33%
Total	100%	100%	100%	100%
PARENT	Before swaps		After swaps	
	2013 (%)	2012 (%)	2013 (%)	2012 (%)
Currency				
Euro	59%	56%	78%	81%
US Dollar	18%	24%	0%	0%
Sterling	23%	20%	22%	19%
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 2013.

GROUP	31 December 2013		31 December 2012	
	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	(40,706)	-	(24,337)	-
Sterling	28,534	(1,853)	9,258	451
Swiss Franc	(1,691)	-	(1,959)	-
10% Weakening				
US Dollar	33,304	-	29,745	-
Sterling	(23,346)	1,516	(11,315)	(551)
Swiss Franc	1,384	-	2,394	-

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

26. 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 20. 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 decrease 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 2013. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remain constant.

GROUP	31 December 2013		31 December 2012	
	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	110,329	(414)	119,028	1,094
PARENT	31 December 2013		31 December 2012	
	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	27,891	(414)	20,596	1,094

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 2013		31 December 2012	
	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	(51,230)	-	(39,076)	-

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 2013 or 2012.

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:

	2013	2012
Gas (Stg. p/therm)	64.77	60.90
SMP (€ / MWh)	64.20	67.73
Coal (US\$ / tonne)	84.96	90.10
Foreign currency rate (US\$ = €1)	1.3791	1.3194
Foreign currency rate (Stg£ = €1)	0.8337	0.8161

NOTES TO THE FINANCIAL STATEMENTS

26. 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	
	Carrying value 2013	Fair value 2013	Carrying value 2013	Fair value 2013
31 December 2013	€ '000	€ '000	€ '000	€ '000
Long term debt	4,393,404	4,811,684	1,736,031	1,867,711
Short term borrowings	121,992	135,471	108,306	118,702
Total borrowings	4,515,396	4,947,155	1,844,337	1,986,413
Trade and other payables	675,411	675,411 ¹	2,737,549	2,737,549
Trade and other receivables	(899,223)	(899,223) ¹	(2,572,121)	(2,572,121)
Cash and cash equivalents	(370,848)	(370,848)	(239,436)	(239,436)
Net liabilities	3,920,736	4,352,495	1,770,329	1,912,405

	GROUP		PARENT	
	Carrying value 2012	Fair value 2012	Carrying value 2012	Fair value 2012
31 December 2012	€ '000	€ '000	€ '000	€ '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
Trade and other payables	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	4,243,023	4,657,868	1,877,513	2,028,010

¹ 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. 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.

Borrowings and other debt are Level 2 fair values. The valuation technique used for borrowings and other debt is a comparison of debt stock to the marginal cost of debt (from main funding markets) in addition to discounting using the zero coupon discount curve of the relevant currency.

Fair Value - Discount Rates

The interest rates used to discount future estimated cash flows, where applicable, are based on the EURIBOR yield curve at the reporting date plus an appropriate constant credit spread, and were as follows:

	2013	2012
	%	%
Other loans and borrowings	3.3%	3.3%
Derivative financial instruments	1.8%	1.1%
Trade and other payables	2.0%	2.7%

NOTES TO THE FINANCIAL STATEMENTS

26. 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 2013 - GROUP	Level 2 € '000	Level 3 € '000	Total € '000
Assets			
Derivative financial instruments			
Currency swaps	1,014	-	1,014
Foreign exchange contracts	14,082	-	14,082
Forward fuel price contracts	2,224	247,027	249,251
Forward electricity price contracts	916	158,566	159,482
Interest rate swaps	23,934	-	23,934
Financial assets at fair value through profit or loss	-	48,791	48,791
	42,170	454,384	496,554
Liabilities			
Derivative financial instruments			
Currency swaps	130,213	-	130,213
Foreign exchange contracts	10,438	-	10,438
Forward fuel price contracts	54,908	659	55,567
Interest rate swaps	29,525	-	29,525
Inflation linked interest rate swaps	465,590	-	465,590
	690,674	659	691,333
Net (liability) / asset	(648,504)	453,725	(194,779)

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
Foreign exchange contracts	5,026	-	5,026
Forward fuel price contracts	32,697	654	33,351
Interest rate swaps	20,642	-	20,642
Inflation linked interest rate swaps	501,093	-	501,093
	668,261	654	668,915
Net (liability) / asset	(658,884)	476,511	(182,373)

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.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(h) Fair value hierarchy (continued)

31 December 2013 - PARENT	Level 2 € '000	Level 3 € '000	Total € '000
Assets			
Derivative financial instruments			
Currency swaps	1,014	-	1,014
Foreign exchange contracts	4,612	-	4,612
Forward fuel price contracts	2,224	-	2,224
	7,850	-	7,850
Liabilities			
Derivative financial instruments			
Currency swaps	130,213	-	130,213
Foreign exchange contracts	10,193	-	10,193
Forward fuel price contracts	54,908	-	54,908
Interest rate swaps	6,341	-	6,341
	201,655	-	201,655
Net liability	(193,805)	-	(193,805)

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
Foreign exchange contracts	2,807	-	2,807
Forward fuel price contracts	32,438	-	32,438
Interest rate swaps	131	-	131
	144,179	-	144,179
Net liability	(138,686)	-	(138,686)

Measurement of fair values - Valuation techniques and significant unobservable inputs

The following tables show the valuation technique used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs
Forward exchange contracts and interest rate swaps	Level 2 - Present valuation of future contracted foreign exchange cashflows using constructed zero-coupon discount curve.	
	The zero-coupon curve is constructed using the interest yield curve of the relevant currency.	
Forward fuel and electricity price contracts	Level 2 - The fair value of forward fuel and electricity contracts is determined by reference to forward gas, coal and carbon prices with the resulting value discounted to present values.	System Marginal Price (SMP)
	Level 3 - The fair value of some specific forward fuel and electricity contracts are determined by reference to forward electricity prices which are unobservable.	
Inflation linked interest rate swaps	Level 2 - Independent valuations are used and validated using the present valuation of expected cashflows using constructed zerocoupon discount curve.	
	The zero-coupon curve is constructed using the interest rate yield curve of the relevant currency.	
	Future cashflows are estimated using expected RPI benchmark levels as well as expected Labor rate sets.	
Financial assets at fair value through profit or loss	Discounted cash flows: The valuation model considers the present value of expected future cashflows. The expected payment is determined by considering the possible scenarios of forecast revenue and gross margin, future cashflows under each scenario and the probability of each scenario.	Forecast annual revenue growth rate; Forecast gross margin
	Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee and the expected gross margin of the investee.	

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(h) Fair value hierarchy (continued)

The following table shows a reconciliation from opening balances at 1 January 2013 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	Total € '000
Opening balance	48,260	160,192	268,059	476,511
Transferred in from Level 2				-
Purchases	16,884	-	-	16,884
Total gains or losses:				
in profit or loss	(15,331)	-	-	(15,331)
in OCI	-	(34,569)	(78,760)	(113,329)
Settlements	-	32,942	57,069	90,011
Translation movements	(1,022)	-	-	(1,022)
Closing balance - net	48,791	158,565	246,368	453,724

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.

Sensitivity analysis - Level 3 fair values

For the fair values of forward fuel and electricity price contracts, financial assets at fair value through profit or loss and inflation linked interest rate swaps, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

GROUP	31 December 2013	
	Other comprehensive income Gain / (loss) € '000	Profit before taxation Gain / (loss) € '000
Gain due to 10% increase in gas and coal prices	82,437	-
Loss due to 10% increase in the SMP	(51,230)	-

(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

27 COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

Total commitments under non-cancellable operating leases were as follows:	2013 € '000	2012 € '000
Within one year	11,641	14,794
Between two and five years	30,059	33,690
After five years	104,442	105,895
Total payable	146,142	154,379

Operating leases payable by the Group generally relate to the rental of land and buildings. These lease costs are based on open market value at date of inception 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	2013 € '000	2012 € '000
Contracted for	598,065	756,426

Capital commitments in 2013 relate mainly to a project to construct a 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 2013 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 €2.2 million investment (2012: €3.6 million).

(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 property damage 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.

28. 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 Mona. Long-term agreements are negotiated between ESB and Bord na Mona 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 2013. 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.

NOTES TO THE FINANCIAL STATEMENTS

28. RELATED PARTY TRANSACTIONS (continued)

Subsidiary undertakings

During the year ended 31 December 2013, ESB Parent purchased engineering, consulting and other services, including rental services, of €111.8 million (2012: €93.1 million) from its subsidiaries.

During the year, ESB Parent had sales of €78.2 million (2012: €75.0 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 €42.5 million (2012: €42.4 million) from subsidiaries and paid interest of €61.8 million (2012: €25.2 million) to subsidiaries on intercompany loans.

At 31 December 2013, ESB Parent had amounts payable of €2,415.6 million (2012: €1,760.6 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 2013, ESB Parent had balances receivable of €2,071.9 million (2012: €1,969.6 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 2013, ESB Parent had balances receivable from its subsidiaries, in relation to equity and capital contributions of €61.8 million (2012: €72.8 million).

Joint ventures

ESB provided services during the year to Bizkaia Energia SL to the value of €6.7 million (2012: €6.7 million), to Oweninny Power Limited of €0.9 million (2012: €2.5 million), and to Emerald Bridge Fibres Limited of €0.2 million (2012: €0.2 million). No services were provided to Marchwood Power Limited during 2013 (2012: €nil).

Capital funding of €1.8 million (2012: €1.5 million) was advanced to Oweninny Power Limited, and €4.1 million (2012: €4.1 million) to Emerald Bridge Fibres Limited. No capital was advanced during the year to Bizkaia Energia SL (2012: €nil) or Marchwood Power Limited (2012: €nil).

Interest on borrowings receivable from Emerald Bridge Fibres Limited amounted to €0.4 million for 2013 (2012: €nil).

Key management compensation	2013 € '000	2012 € '000
Salaries and other short-term employee benefits	2,676	2,731
Post-employment benefits	321	329
Termination benefits	-	200
	2,997	3,260

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.

29. ESTIMATES AND JUDGEMENTS

Preparation of consolidated financial statements requires a significant number of judgmental 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 accounting for the ESB - pension liability requires the exercise of judgement. The Board is satisfied that the appropriate accounting treatment, determined in accordance with IAS 19 Employee Benefits, is to reflect its existing committed obligations, as set out in the notes to the financial statements.

(b) The value in use, in accordance with IAS 36 Impairment of Assets, of long lived assets and associated goodwill, as described in note 11.

(c) As described in note 26 section (g), the valuation of certain financial instruments is based on a number of judgmental factors and assumptions which of necessity are not based on observable inputs. These have been classified as level 2 financial instruments, under the meaning of IFRS 13 Fair Value Measurement. 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 2 financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

29. ESTIMATES AND JUDGEMENTS (continued)

- (d) Future costs required to settle current provisions and employee related liabilities, such as the power station closure costs and voluntary severance obligations. These liabilities are disclosed in notes 21, 22, 23 and 25.
- (e) 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 non-current 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.
- (f) 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.

30. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated by ESB during 2001, with a €1 investment, as trustee to the ESB Employee 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 with four directors representing ESB employees and two 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 the ESB Group.

31. APPROVAL OF ACCOUNTS

The Board approved the accounts on 05 March 2014.

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
ESB Networks Ltd.	2	100	Power distribution
ESBNI Ltd.	6	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 Telecoms Ltd.	1	100	Telecommunications
ESBI Facility Management Espana S.L.	4	100	Facility management
Electricity Supply Board Services B.V.	Symphony House Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 43701 Petaling Jaya, Malaysia	100	Facility management
Electricity Supply Board International Investments B.V.	Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam Zuidoost, 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
Knottingley Power Ltd.	5	100	Power generation
Asturias Generacian 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
Woodhouse Wind Farm (formerly Bolewind 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

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
Cappawhite Wind 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 Asset Development UK Ltd. (formerly ESB Wind Development UK Ltd.)	5	100	Power generation
ESB Commercial Properties Ltd.	1	100	Property management
Crockagarran Wind Farm Ltd.	6	100	Power generation
West Durham Wind Farm Ltd.	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 Novusmodus GP Ltd.	2	100	Clean technology investment
Airvolution Energy (UK) Ltd.	8	90	Power generation
Airvolution Energy (Garlenick) Ltd.	8	90	Power generation
Airvolution Energy (Wythegill) Ltd.	8	90	Power generation
Airvolution Energy (East Youstone) 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 (Agney Farm) Ltd.	8	90	Power generation
Airvolution Energy (Rawcliffe Bridge) 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 (Blaeduard) 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
Airvolution Energy (Church Farm House) Ltd.	8	90	Power generation
Airvolution Energy (Washpit Drove) Ltd.	8	90	Power generation
Airvolution Energy (Wilton) Ltd.	8	90	Power generation
Airvolution Energy (Plas Bodewryd) Ltd.	8	90	Power generation
Airvolution Energy (Swan Valley) Ltd.	8	90	Power generation
ESB 1927 Ltd. (formerly 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
NIE Networks Services Ltd. (formerly NIE Powerteam Ltd.)	7	100	Infrastructure contracting
Capital Pensions Management Ltd.	7	100	Pension scheme administration
NIE Ltd.	7	100	Holding company
NIE Power Ltd.	7	100	Holding company
NIE Generation Ltd.	7	100	Holding company

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
NIE Enterprises Ltd.	7	100	Holding company
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 PLC	7	100	Finance
Kerry Wind Power Ltd.	2	100	Power generation
Raheenleagh Power Ltd.	2	100	Power generation
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
Oweninny Power Ltd.	1	50	Power generation
Emerald Bridge Fibres Ltd.	1	50	Telecommunications
UNES Energy Operation and Maintenance A.S.	Nispetiye Cad.Akmerkez E3 Blok K.13 Etiler/Besiktas, Turkey	50	Operation & maintenance services
Associate undertakings			
Pesaka Technologies	Level 1, Menara Yayasan, Tun Razak, Zoo, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia	30	Power generation
Subsidiary undertakings dissolved during the year			
ESB Retail Ltd.	1	100	Sale of electrical appliances
Menloe Two Ltd.	2	100	Finance leasing
ESBI Engineering UK Ltd.	5	100	Engineering and general
Airvolution Energy (Ysgellog) Ltd.	8	90	Power generation
Airvolution Energy (Crossrig) Ltd.	8	90	Power generation
Airvolution Energy (Thorpe) Ltd.	8	90	Power generation
Airvolution Energy (Watsonhead) Ltd.	8	90	Power generation consultancy
Subsidiaries disposed of during of the year			
Powerteam Electrical Services Ltd.	1	100	Infrastructure contracting
Powerteam Electrical Services (UK) Ltd.	Unit 6, Sydenham Business Park, 9 Heron Avenue, Belfast BT3 9LF	100	Infrastructure contracting
Joint venture undertakings disposed of during the year			
Marchwood Power Ltd.	Oceanic Way, Marchwood Industrial Estate, Marchwood, Southampton, Hampshire SO40 4BD	50	Power generation

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 2013 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 2013

When ESB receives a request from the supplier, it is ESB's policy to pay interest due on late payments. No such payments were made in respect of late payments during the year 2013 (2012: €17,040).

Lochlann Quinn
Chairman

Pat O'Doherty
Chief Executive

05 March 2014

GLOSSARY

Appliance calculator: The Appliance Calculator is an online calculator which estimates how much your home electrical appliances and lights cost to run and compares the cost of using appliances in different ways (e.g. washing clothes at 40 °C versus 60 °C).

Better Energy Programme (BER): This programme was launched under the Government's Jobs Initiative, the 'Better Energy – The National Upgrade Programme' in 11 May 2011. Its objective is to deliver a major increase in sustainable energy investments in upgrading existing buildings and facilities.

Business in the Community (BIC): Business in the Community works with the largest companies in Ireland to help them develop, manage and measure their corporate social responsibility (CSR) and sustainability strategies.

Business Working Responsibly Mark: This is Ireland's only certification for responsible and sustainable business practices. Launched in 2011, the Business Working Responsibly Mark is the premier standard for companies in this area.

Carbon Capture and Storage (CCS): This is also called carbon capture and sequestration and is the process of separating and removing carbon dioxide from the flue gas of combustion plant. The carbon dioxide is then transported and injected, typically into underground geological formations, where it is permanently trapped and stored. This technology has the potential to play a key role in the reduction of greenhouse gas emissions from the electricity sector.

Commission for Energy Regulation (CER): The Commission for Energy Regulation (CER) is the independent body responsible for overseeing the liberalisation of Ireland's energy sector.

Contracts for Difference (CfDs): A contract for difference (or CfD) is a contract between two parties, a buyer and a seller, stipulating that the buyer will pay to the seller the difference between the current value of an asset and its value at contract time.

Customer Contact Association Global Standard: Customer Contact Association key principles and guidelines that reflect the latest customer focused approach being taken by today's contact centre operators.

EBITDA: Operating profit before interest, taxation, depreciation and amortisation

Energy Wizard: The Energy Wizard is Electric Ireland's online home energy efficiency audit tool. The Energy Wizard develops Energy Saving recommendations personalised to each home, using a series of questions.

ISO 27001: ISO 27001 is the international standard which is recognised globally for managing risks to the security of information held.

Fleet Management System: Fleet Management System (Incorporating GPS technology) is installed in each fleet vehicle and it uses modern technology to collect information from the vehicle to facilitate ongoing improvement in safe driving

behaviours, the management and utilisation of the fleet and improving business efficiency.

4You Safety: 4You Safety programme is an ESB initiative, focusing on behavioural change, which aims to enhance the health and safety culture of the organisation and to support staff in the development of non-technical skills for safety. 4You tools available include safety culture assessments, safety leadership behaviour questionnaires, safety leadership and workforce programmes and workshops, and 4You safety coaching.

Gate 3: The Gate 3 Offer Project refers to the third round of connection offers that are currently being issued to generators under the Group Processing Approach (GPA). The GPA allows for strategic processing of generation applications for grid connection and was introduced by the Commission for Energy Regulation (CER) in 2004. It allows applications to be processed by the System Operators (EirGrid and ESB Networks) in groups or batches known as 'Gates'.

Independent Power Producers Connection Process: The connection process for renewable generators (>500kW) is on a CER approved Group Processing Approach basis, with generators grouped into discrete tranches termed 'Gates'.

Fibre to the Building: The Fibre-to-the-Building Project is a nationwide project, which will install a super-fast fibre network on ESB's electricity infrastructure and run directly into homes and businesses. ESB is in the process of forming a joint venture company to develop this network.

GLOSSARY

Joint Equality Council: The organisation was set up in 1991. The primary role of the Equality Council was to act as advisor to the Equal Opportunities Manager.

Lost Time Injuries (LTI): A work related injury causing an absence for one or more working days, counting from the day after the injury, before the person returns to normal or restricted work.

Ocean energy: Ocean Energy is the energy carried by ocean waves which can be harnessed to generate electricity.

OHSAS 18001: An externally accredited quality system to support the management of safety in the company.

Over the counter auctions on a trading platform: Financial instruments (specifically electricity price contracts) which enable participants in the SEM to reduce their risk (and therefore electricity price volatility for their customers) by trading these products directly ('over the counter') with each other, rather than via an intermediary or through an exchange, in order to hedge their exposure to movements in the wholesale price of electricity.

PAS 55: PAS 55 is an international standard for excellence in the management of infrastructure. It provides clear definitions and requirements specification for establishing and verifying a joined-up, optimised and whole-life management system for all types of physical assets.

Performance Improvement Programme (PIP): The Performance Improvement Programme, which was launched during 2009, is designed to reduce the ESB cost base by €280 million, on a controllable cost base of €1.1 billion, by 2015, including a 20% reduction in payroll costs.

PR3: Regulatory periods are of 5 years' duration and the Price Control Review (PR3) covers the period 2011 to 2015 and sets out the total regulated allowed revenues over that period as determined by the Commission for Regulation.

PR4: Regulatory periods are of 5 years' duration and the Price Control Review (PR4) covers the period 2016 to 2020 and sets out the total regulated allowed revenues over that period as determined by the Commission for Regulation.

RP4: Regulatory Period 4 (RP4) are regulatory periods of 5 years' duration for price control covering the period 1 April 2007 to 31 March 2012 as determined by the Utility Regulator.

RP5: Regulatory Period 5 (RP5) are regulatory periods of 5 years' duration for price control covering the period 1 April 2012 to 31 March 2017 as determined by the Utility Regulator.

Single Electricity Market (SEM): The Single Electricity Market (SEM) is a wholesale pool-based electricity market operating north and south of the Irish border.

Solar PV (Solar Photo Voltaic): This is the term for technology used to convert the sun's radiation directly into electricity. The basis of the technology is the solar cell, which consists of layers of a semi-conductor material which generates electric current when irradiated with the sun's energy. Solar PV is a clean renewable energy source.

Sustainable Energy Authority of Ireland (SEAI): The Sustainable Energy Authority of Ireland (SEAI), formerly the Irish Energy Centre was set up by the government in 2002 as Ireland's national energy authority.

SONI: SONI is the System Operator for Northern Ireland and ensures the safe, secure and economic operation of the high voltage electricity grid in Northern Ireland and in co-operation with EirGrid colleagues is also responsible for running the all-island wholesale market for electricity.

UK Competition Commission: The UK Competition Commission is an independent public body which helps to ensure healthy competition between companies in the UK for the ultimate benefit of consumers and the economy.

Vertically Integrated Utility: The Vertically Integrated Utility (VIU) refers to ESB's presence within and ownership of, assets across all of the elements of the electricity value chain including the generation, trading, transmission, distribution and supply of power to our customers.

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