Energy for generations

90

CONNECTING TO OUR FUTURE

Annual Report and Financial Statements 2017

ESB ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

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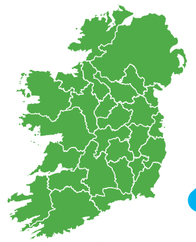
TIMELINE TO 2017

90 years bringing light and energy to the people we serve

1925
Shannon Scheme Commenced



1927
ESB Established under the Electricity (Supply) Act

1975
ESB International Established

1992
Entered the GB Generation Market

2015
SIRO launched

2011
Electric Ireland Established

2017
Entered the GB Supply Market

CONNECTING TO OUR FUTURE

ESB is making a stand for Ireland's future, a future powered by clean, sustainable electricity. ESB is committed to leading the transition to a reliable, affordable, low-carbon energy future, a future that protects its customers and the economy by maintaining the security and affordability of energy. ESB is investing in low-carbon generation, it is expanding and enhancing the grid to accommodate more distributed energy resources and empowering customers to take more control of their energy use.

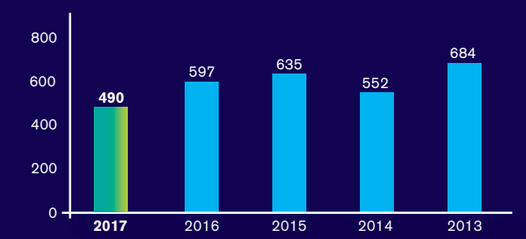
1946
Rural Electrification

1998
First Wind Farm

2010
Acquired Northern Ireland Electricity Networks (NIE Networks)
ecars Launched

KEY FACTS AND FIGURES

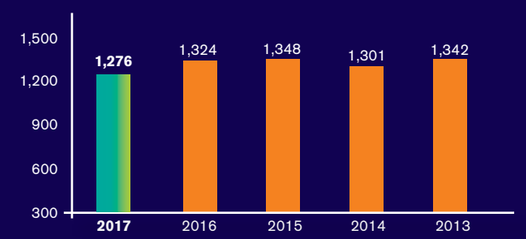
OPERATING PROFIT* €'M



(€107 million)

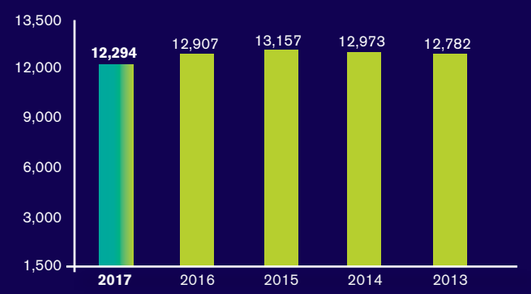
* Before exceptional items. See Financial Review page xx.

EBITDA* €'M



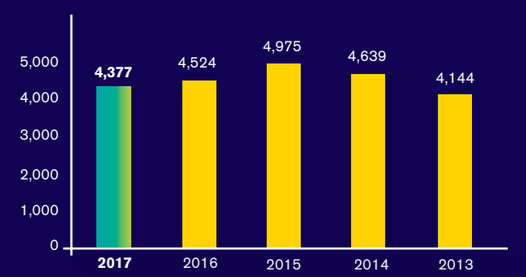
(€48 million)

TOTAL ASSETS €'M



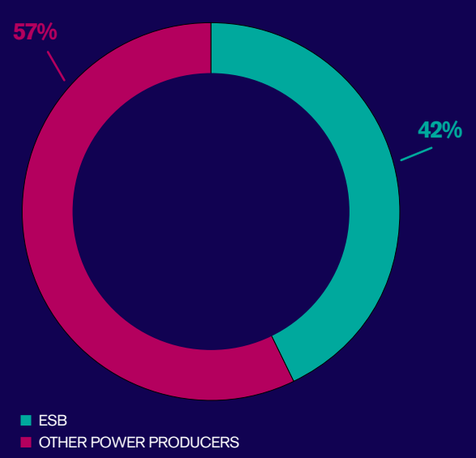
(€613 million)

NET DEBT €'M

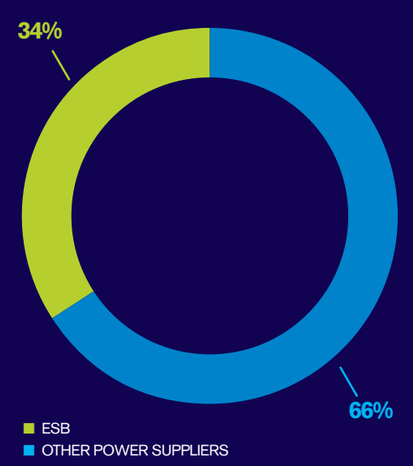


(€147 million)

GENERATION ALL-ISLAND MARKET SHARE



SUPPLY ALL-ISLAND MARKET SHARE



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In 1927, ESB's first managing director, Thomas McLaughlin, had the foresight to understand the far-reaching consequences of a national hydroelectric scheme for our fledgling nation. Thus, Ardnacrusha was born, which paved the way, in 1946, for the rural electrification of 400,000 rural homes in Ireland and the transformation of the country into a strong, vibrant economy.

Use of peat brought employment and investment to the Midlands in the 1950s and 1960s, while the development of Moneypoint station in 1987 – Ireland's only coal-based power station – helped to reduce the nation's growing dependency on oil as a source of electricity generation. As ESB embarks on its most ambitious programme to date – transitioning to a carbon-free energy supply by 2050 – we celebrate the courage and drive embodied by McLaughlin and all who supported his vision, as we strive to create a more sustainable Ireland for all.

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CHAIRMAN'S STATEMENT

I am delighted as Chairman to present the Annual Report and Financial Statements for ESB for 2017 – our 90th anniversary year.

ESB delivered a satisfactory performance in challenging market conditions, with operating profit and profit after tax (before exceptional items) of €490 million and €209 million respectively.

The Integrated Single Electricity Market (I-SEM) - a new wholesale electricity market for the Republic of Ireland (ROI) and Northern Ireland (NI) - will introduce a number of fundamental market changes, including an anticipated reduction in revenue for ESB. This reduction, in addition to other energy margin pressures, has resulted in an exceptional impairment charge for ESB's generation asset base in 2017 – as more fully described in notes 4 and 10 to the financial statements.

DIVIDEND

In line with ESB's dividend policy, the Board is recommending a final dividend of €4.6 million for 2017, which will bring the total amount of dividends for 2017 to €60 million and to over €1.4 billion over the last decade. Our dividend policy provides for a dividend target of 40% of adjusted profit after tax each year from 2017.

Ellvena Graham OBE
Chairman

90TH ANNIVERSARY YEAR

Our 90th year was a good opportunity to look back with pride and forward with confidence. At a stakeholder event, in the National Gallery of Ireland to mark our anniversary, An Taoiseach, Leo Varadkar, TD said the success of ESB "reminds us of all that can be achieved when the State and public enterprise work together". As we look to the future, that spirit of public service and social responsibility informs ESB's 2030 Strategy. An agent of social and economic transformation since 1927, ESB today is committed to leading the transition to reliable, affordable, low-carbon energy for our customers and the communities we serve.

ESB STRATEGY AND OPERATIONAL PERFORMANCE

In 2017 we made good progress on our strategic objectives. Our networks businesses (ESB Networks and NIE Networks) met their reliability targets. Their respective workforces responded magnificently to Storm Ophelia in October when they restored power to 442,000 customers with speed and dedication.

Electric Ireland became the first supplier in ROI to apply enduring long-term savings of up to 8.5% (now enjoyed by almost one million of our customers). In addition, in late 2017, when wholesale energy costs made a price rise unavoidable, most suppliers increased prices promptly. However, Electric Ireland, conscious of the cost pressures facing customers through the winter period, deferred the price rise until February 2018.

At the centre of our 2030 Strategy is meeting the enormous challenge of climate change. Our objective is to generate a minimum of 40% of our electricity from zero-carbon sources by 2030 and, through new technologies and plant renewal, to greatly reduce the carbon intensity of our remaining thermal generation portfolio.

CAPITAL INVESTMENT

A good financial performance and strong financial metrics are essential to support our ambitious capital investment programme to 2030. In 2017 we invested €867 million across all our businesses – mostly in regulated assets and electricity infrastructures for the benefit of all.

HEAD OFFICE REDEVELOPMENT

One significant capital project is the redevelopment of the Fitzwilliam Street Head Office complex which commenced in 2017. The new development will set a standard for modern, sustainable office space in Dublin city with a design that is both sensitive to its surroundings and representative of its time.

BUSINESS ENVIRONMENT

In our generation and supply businesses we operate in the very competitive ROI / United Kingdom (UK) markets with a 42% generation market share and a 34% supply market share in the all-island market. ESB responds to this competition by putting customers first in all we do and by putting trust and transparency at the heart of our relationship with our customers.

We are carefully considering the implications for our business of the UK decision to leave the European Union, given the benefits of the all-island energy market and the importance of a regulatory environment in the UK that remains open and competitive.

UPHOLDING STANDARDS IN CORPORATE GOVERNANCE

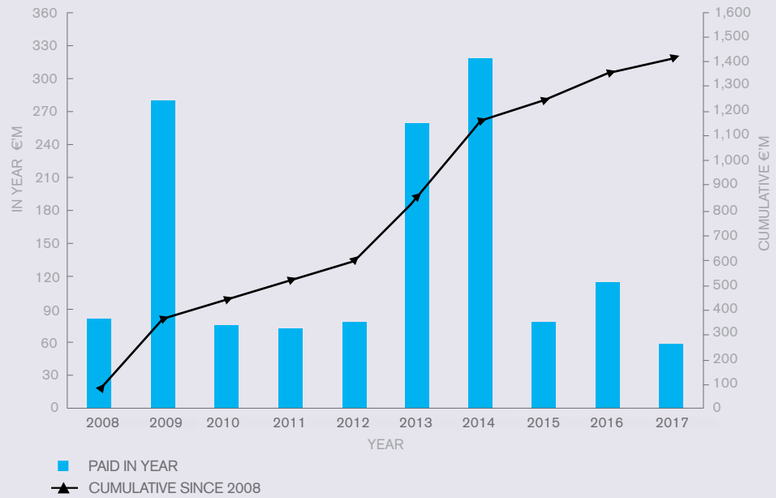
The Board is committed to the highest standards of corporate governance to manage risk and support sustainability and growth. ESB has put in place measures to comply with the Code of Practice for the Governance of State Bodies (2016). In addition, ESB complies, on a voluntary basis to the maximum extent possible, as a statutory corporation, with the UK Corporate Governance Code 2016 and the Irish Corporate Governance Annex.

The Board formally reviews the Group's principal risks annually, as part of ongoing review of risk, to ensure that appropriate controls are in place and that risks are being proactively managed.

STRONG SAFETY PERFORMANCE

ESB's strong safety performance in 2017 was underpinned by ongoing investment in safety processes, systems and capability and an emphasis on developing an incident and injury-free culture across the organisation. ESB is fully committed to the goal of an incident and injury-free workplace. To that end, comprehensive safety plans and processes are in place throughout the Group supported by the necessary safety management information systems.

DIVIDEND PAYMENTS 2008 TO 2017



ESB VALUES

In our 90th year the Board, management and staff remain committed to those enduring values which have characterised ESB since 1927. We articulate those values today in terms of being courageous, caring, driven and trusted. I want to acknowledge the contribution of all our staff, who throughout 2017, have lived out those values in an impressive way.

CONCLUSION

In accordance with the provision of the Electricity (Supply) Acts 1927-2004, the Board presents the Annual Report and Financial Statements for the year ended 31 December 2017.

Ellvena Graham OBE, Chairman
1 March 2018

CHIEF EXECUTIVE'S REVIEW

Leading the transition to reliable, affordable, low-carbon energy.
ESB's Chief Executive, Pat O'Doherty, answers questions on the 2017 results and on ESB's 2030 Strategy.

Pat O'Doherty
Chief Executive

WHAT WERE THE MAIN ACHIEVEMENTS AND ISSUES IN 2017?

A There were a number of significant achievements across the Group in 2017 - which was our 90th Anniversary year. In our generation business Carrington Power, our combined cycle gas turbine (CCGT) plant near Manchester, which was commissioned in 2016, performed strongly in its first full year of operation and our programme of investment in renewable energy saw the commissioning of four new wind farms totalling 95 MW. We also significantly advanced the construction of Tilbury Green Power, a 40 MW biomass plant being developed on a joint venture basis near London, with commercial operations expected in Q1 2018.

That said it has also been a challenging year for our generation business which has taken impairments on a number of its generating units. This is as a result of expected significant changes in how the all-island wholesale electricity market will operate, as well as continued downward pressure on energy margins.

ESB Networks and Northern Ireland Electricity Networks (NIE Networks) put in an excellent performance in 2017 for their combined 3.1 million customers, most notably during Storm Ophelia in October when power was restored to 385,000 homes and businesses in the Republic of Ireland (ROI) and to 57,000 homes and businesses in Northern Ireland (NI). Both ESB Networks and NIE Networks continued to develop, operate and maintain their networks while at the same time facilitate new connections in line with their Licence obligations. Renewable connections now total almost 4GW in ROI and 1.4GW in NI. For NIE Networks, a very significant development was the finalisation of the new regulatory price determination for the period October 2017 to March 2024.

In July 2017 Electric Ireland, ESB's retail arm, automatically applied enduring long-term savings of up to 8.5% to nearly 1 million of its ROI customers. Electric Ireland also delayed the introduction of unavoidable price increases until February 2018 (after the winter period).

In 2017 ESB also achieved a satisfactory financial performance given the challenging energy market conditions, with an EBITDA and Operating Profit of €1,276 million and €490 million respectively (pre-exceptional items). During 2017 ESB invested €867 million and the dividend for 2017 amounted to €60 million, bringing total dividends paid over the past decade to over €1.4 billion.

WHAT FOR YOU ARE THE MAIN FEATURES OF ESB'S STRATEGY TO 2030 (STRATEGY 2030) AS RECENTLY APPROVED BY THE BOARD?

A I believe that ESB must be a dynamic agent of change and progress in society, creating a brighter future for the customers and communities we serve. It was with this purpose that we were established 90 years ago in 1927 and it remains thus. Today we will fulfil this by leading the transition to reliable, affordable, low-carbon energy based on clean energy. Strategy 2030 highlights the importance of being adaptable in a time of unprecedented change, of having a presence of scale across the utility value chain and of maintaining the financial strength of ESB. Strategy 2030 sets out five strategic objectives:

1. Put customers' current and future needs at the centre of all our activities
2. Produce, connect and deliver clean, secure and affordable energy
3. Develop energy services to meet evolving market needs
4. Grow the business while maintaining ESB's financial strength
5. Deliver a high performance culture that supports innovation and collaboration

Through our diverse businesses across the ROI, NI and Great Britain (GB) we aim to meet customer energy needs by bringing the best of our capabilities together to deliver innovative and value-driven solutions for a low-carbon world.

WHAT IS THE SCALE OF INVESTMENT NEEDED TO DELIVER THIS AMBITIOUS STRATEGY?

A In 2017 our capital investment was over €850 million. ESB expects to continue significant capital investment, in the order of €1 billion on average each year, to deliver Strategy 2030. This level of investment in our networks, our generation fleet and in our customer offerings will ensure we can lead the transition to a low-carbon energy future.

THERE IS A GREAT DEAL OF POLITICAL AND REGULATORY UNCERTAINTY. HOW DOES ESB ADAPT TO THESE DEVELOPMENTS?

A ESB, like many other energy companies, is facing a number of strategic challenges including political and regulatory uncertainty. These include:

- the introduction of the new Integrated Single Electricity Market (I-SEM) in ROI and NI that comes into operation in May 2018. I-SEM will introduce significant market changes including a new capacity remuneration mechanism, which has contributed to the requirement for ESB to impair some of its generation assets in 2017, as described more fully in note 4 and 10 to the financial statements; and
- increased uncertainty in our macro environment triggered by events such as Brexit and other global socio-political developments.

These developments also present opportunities for ESB and we are taking the appropriate steps to adapt. Preparations for I-SEM continued throughout the year and we are prepared for the new market structure that will come into operation in May 2018. In relation to Brexit, we continue to monitor the current and emerging impacts as they become apparent.

Given ESB's position as ROI's leading energy utility with diverse businesses across the energy value chain, its stable business profile, consistently solid financial performance, credit ratings and our core capabilities, ESB is well positioned to avail of these opportunities and address these challenges and uncertainties.

HOW WILL ESB BE POSITIONED TO MEET THE CHALLENGES OF NEW AND DISRUPTIVE TECHNOLOGIES THAT ARE AFFECTING ALL BIG UTILITIES?

A A key objective of Strategy 2030 is to ensure that ESB is well positioned to meet the challenges of new and disruptive technologies. Strategy 2030 sets out our planned response to these, including a clear roadmap to grow the scale of our business while maintaining our financial strength. By embracing these disruptive technologies - through investing in smart networks, in modern low carbon and renewable generation and in customer offerings focussed on distributed energy and digital technologies - we will enable a low carbon energy future and develop new areas of value creation. A key component of our Strategy 2030 is that our investment across the value chain will also enable the widespread electrification of heating and transport thereby placing low-carbon electricity at the heart of a low-carbon society.

Of course the capabilities of ESB employees are critical to achieving this ambition. In 2017, ESB continued to invest in training and development and targeted recruitment to build the capabilities and skills necessary to position ESB to successfully deliver Strategy 2030.

IN RECENT YEARS, ESB HAS REDOUBLED ITS COMMITMENT TO SAFETY WITH A FOCUS ON STRENGTHENING AND DEVELOPING ESB'S SAFETY CULTURE. HOW IS THIS PROGRESSING?

A Safety is central to everything we do in ESB – safety of staff, of customers and the public. ESB's Safety Leadership Framework sets the highest standards for safety in all our work processes and we monitor compliance with those standards on a constant basis. Comprehensive Safety Improvement Plans are in place across all areas of our business and are regularly reviewed. Our Stay Safe, Stay Clear Campaign in 2017 was very successful in raising public awareness of electricity network safety issues.

DID ESB MAINTAIN ITS CORPORATE RESPONSIBILITY PROGRAMME IN 2017?

A Over the past decade, ESB has awarded over €10 million to community-based projects in the areas of suicide prevention, educational disadvantage and homelessness through our Energy for Generations Fund. In 2017, we developed new strategic partnerships with Aware on their Beat the Blues Programme and with Dublin Institute of Technology's (DIT) Access to Apprenticeship Programme. We also invested in communities through our sponsorship programme which prioritises support for STEAM (science, technology, engineering, art and maths), sport and cultural initiatives.

LOOKING AHEAD TO 2018 AND BEYOND, WHAT DO YOU SEE AS THE MAJOR CHALLENGE?

A The operating environment for ESB will remain challenging in 2018 and beyond, with competition, disruptive innovation, volatility in energy margins and market integration all putting pressure on traditional revenue streams. However, these developments are also presenting opportunities for ESB, particularly in the development of new services, where we can bring value-driven solutions to our customers, grow new revenues and enable the transition to reliable, affordable, low-carbon energy. Strategy 2030 is designed to achieve growth in this challenging environment.

Pat O'Doherty, Chief Executive
1 March, 2018

ESB AT A GLANCE

BUSINESS SEGMENT	Generation and Wholesale Markets (G&WM)	ESB Networks	Northern Ireland Electricity Networks (NIE Networks)	Electric Ireland	Other Segments
REVENUE	€1,406M	€1,058M	€272M	€1,734M	€297M
OPERATING PROFIT*	€121M	€317M	€35M	€68M	(€51M)
CAPITAL EXPENDITURE	€128M	€501M	€143M	€9M	€86M
AVERAGE EMPLOYEE NUMBERS	1,005	3,347	1,288	386	1,764
LINK TO OTHER SECTIONS IN THE REPORT	See page 54 G&WM Operational Review	See page 56 ESB Networks Operational Review	See page 58 NIE Networks Operational Review	See page 60 Electric Ireland Operational Review	See page 62 Innovation Operational Review

SEE NOTE 2 (SEGMENT REPORTING) IN THE FINANCIAL STATEMENTS FOR FURTHER DETAIL

* - BEFORE EXCEPTIONAL ITEMS (SEE NOTE 4 IN THE FINANCIAL STATEMENTS FOR FURTHER DETAIL)

HIGHLIGHTS

SHAREHOLDERS

DIVIDEND OF €60 MILLION FOR 2017

RETURN ON CAPITAL EMPLOYED OF 4.6%

CUSTOMERS

AVERAGE SAVINGS OF UP TO 8.5% FOR RESIDENTIAL ROI CUSTOMERS

DELAY OF REQUIRED ELECTRICITY PRICE INCREASES UNTIL AFTER THE WINTER BILLS

RECONNECTED 442,000 CUSTOMERS IN THE AFTERMATH OF STORM OPHELIA

CUSTOMER SATISFACTION OF 95%

IRISH ECONOMY

ESB INVESTED €867 MILLION IN ENERGY INFRASTRUCTURE AND OTHER INVESTMENTS DURING 2017

OVER 7,700 EMPLOYEES

ESB CONTRIBUTES ALMOST €2 BILLION ANNUALLY TO THE IRISH ECONOMY

OVER €3 MILLION WAS DISBURSED ACROSS A RANGE OF COMMUNITY INITIATIVES

STRATEGY, BUSINESS MODEL, RISK REPORT AND KEY PERFORMANCE INDICATORS (KPIs)

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STRATEGY

STRATEGY REVIEW

During 2017, the Board undertook a review of ESB's strategy to test and validate the underlying assumptions, reaffirm the overall strategic direction of the Group and extend the planning horizon out to 2030.

STRATEGY 2030

ESB's Strategy to 2030 (Strategy 2030) follows on from Strategy 2025 and is anchored in ESB's ambition to create a brighter future by leading the transition to reliable, affordable, low-carbon energy. It sets out a path to achieve this ambition in a way that will also ensure that ESB continues to grow as a successful business and maintains the financial strength to invest in a low-carbon future at the necessary pace and scale. It also recognises the potential for new business growth arising from the transition.

Strategy 2030 highlights the importance of being adaptable, responsible and opportunistic in an era of unprecedented uncertainty and of having a presence of scale across the utility value chain, with a mix of regulated and unregulated businesses, while maintaining a strong investment grade credit rating.

Since its establishment in 1927, ESB has been characterised by a commitment to driving society forward and creating opportunities for the communities it serves. This has generated a deep well of support and has positioned ESB as a leader to action the transition to reliable, affordable, low-carbon energy. In doing so, ESB sees opportunities to serve its customers better and achieve sustainable growth.

ESB'S VALUES

ESB's values of being courageous, caring, driven and trusted are deeply rooted in the organisation and encapsulate the integrity and ambition that ESB stands for. They are integral to the development and delivery of Strategy 2030 - informing ESB's day to day behaviours and decisions, and underpinning the unique trust that customers and communities place in ESB.

STRATEGIC FRAMEWORK

The Strategic Framework for Strategy 2030 ensures that the strategic initiatives undertaken are consistent with ESB's overarching purpose and values and are commercially driven, as outlined on page 20.

In implementing Strategy 2030, ESB will be guided by its Strategy Statement which articulates ESB's geographic focus, business focus and ESB's commitment to customer centricity, collaboration and innovation.

STRATEGY STATEMENT

Through our diverse businesses across the Republic of Ireland, Northern Ireland and Great Britain we aim to meet the customer energy needs by bringing the best of our capabilities together to deliver innovative and value-driven solutions for a low-carbon world.

STRATEGIC OBJECTIVES

Strategy 2030 sets out the following five Strategic Objectives (which are described in further detail on page 21):

1. Put customers' current and future needs at the centre of all our activities
2. Produce, connect and deliver clean, secure and affordable energy
3. Develop energy services to meet evolving market needs
4. Grow the business while maintaining ESB's financial strength
5. Deliver a high-performance culture that supports innovation and collaboration

ESB'S BUSINESS ENVIRONMENT

A summary of the key business environment factors that significantly impact on Strategy 2030 are set out below:

1. Climate and energy policy
2. Advances in technology
3. Changing customer preferences
4. Emergence of new business models
5. Brexit (the decision by the United Kingdom (UK) to exit the European Union (EU))

1. CLIMATE AND ENERGY POLICY

Climate change is one of the biggest challenges facing humanity and there is a critical need to reduce global greenhouse gas (GHG) emissions to protect current and future generations. This is acknowledged in a range of international agreements and national policies that set ambitious targets to curtail global warming.

In the near term, under the EU 2020 framework, there are legally binding targets at national level to decrease carbon emissions for sectors such as transport, agriculture and buildings. The Republic of Ireland (ROI) and the UK also set targets for the proportion of electricity to be produced from renewable sources of 40% and 30% respectively.

Current EU policy is to reduce total GHG emissions by 80-95% by 2050. ROI is committed to the long-term, progressive decarbonisation of its energy system, 80% reduction by 2050 and 100% reduction by 2100. This is in addition to its 2050 target of carbon neutrality between agriculture and other land use such as forestry. The UK Government set a similar national target of an 80% reduction in GHG emissions by 2050, independently of the EU targets.

A pan-European Emissions Trading Scheme (ETS) imposes quotas on the quantity of permissible emissions from large installations including electricity generation stations. These quotas are being progressively lowered each year to drive the technological innovation necessary to achieve full decarbonisation by 2050. The legal and market structures of the ETS make individual companies, rather than governments, liable for reducing emissions. The electricity sector, which accounts for 20% of emissions in ROI, is on track to achieve the targets that have been set. This is illustrated in Figure 1 on page 18 which sets out the progress already made in ROI in reducing the carbon content of the electricity sector and the projected further progress.

In contrast to the ETS, the responsibility and associated compliance costs of reducing emissions from agriculture, transport and buildings rests with each national government. Together, these sectors account for over 75% of national emissions, significantly more than those from the electricity sector as illustrated in Figure 2 on page18. Government policy in both ROI and the UK now explicitly recognises that removing carbon from transport and heat is key to meeting national emissions targets and addressing climate change. There are a number of technology options available

and emerging to mitigate emissions through increased electrification in the heat and transport sector.

ESB, with Poyry, recently published a comprehensive report – "Ireland's Low-Carbon Future – dimensions of a solution" which sets out a technically feasible and practical pathway for Ireland to meet its carbon reduction targets as part of ESB's contribution to the national debate. The report is available to download from ESB's website (www.esb.ie) and has informed Strategy 2030.

2. ADVANCES IN TECHNOLOGY

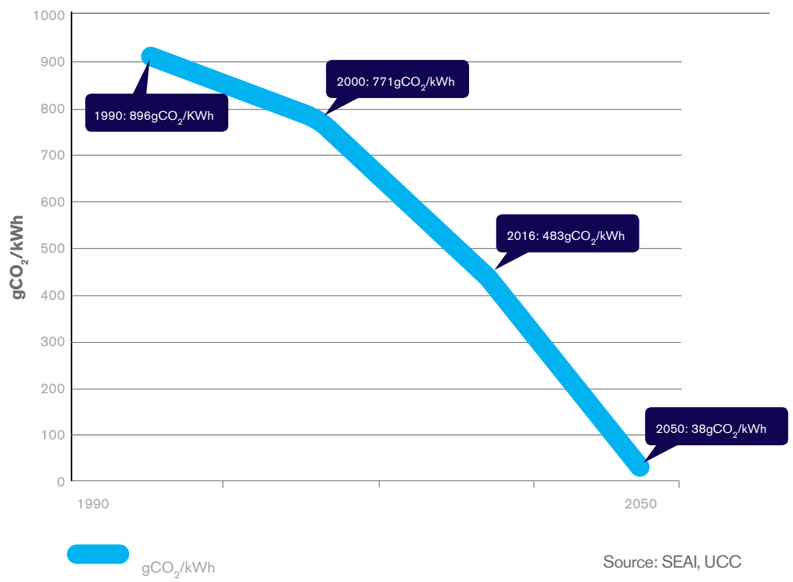
Rapid advancements in technology have impacted the cost and pace of change in the utilities sector across the value chain. The EU Clean Energy package cites an 80% reduction in solar-photovoltaic costs between 2009 and 2015 and a 30-40% reduction in wind generation costs (both onshore and offshore) over the same period. In the medium to long term, there are choices to be made to cover intermittent sources of electricity generation and the best technologies to deliver the end result are not yet obvious - there is a range of options but no single solution.

The application of communications and digital technologies such as data analytics, the integration of business IT systems with operational technology systems, cloud computing and artificial intelligence all have the potential to drive significant change in the design and operation of electricity networks. Technological advances will also enable a greater level of electricity production, storage and control, either directly by customers, or by service providers controlling and managing energy demand on their behalf.

3. CHANGING CUSTOMER PREFERENCES

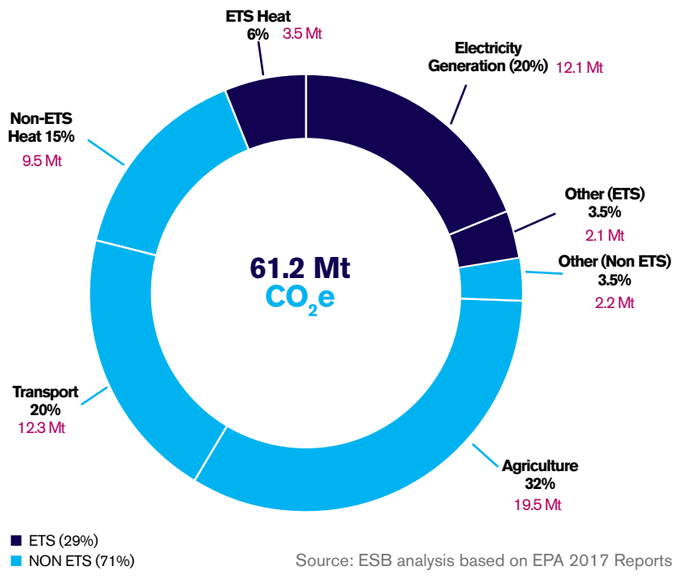
Emerging technologies are presenting a range of new options for customers to engage with the electricity system in different ways. This is creating a shift in the energy landscape. The willingness and ability of people to adapt their lifestyles and adopt new technologies will be at the heart of the transition to a low-carbon future. Customer expectations are increasingly influenced by their experiences beyond the utility sector – such as digitally-based service offerings including real-time

FIGURE 1: CARBON INTENSITY OF ELECTRICITY IN ROI - HISTORIC AND PROJECTED



Source: SEAI, UCC

FIGURE 2: ROI GREENHOUSE GAS EMISSIONS IN 2016



Source: ESB analysis based on EPA 2017 Reports

responses. These changing preferences are all in addition to, not instead of, customers' ongoing expectations of secure, affordable and increasingly low-carbon energy.

4. EMERGENCE OF NEW BUSINESS MODELS

ESB sees advances in technology, energy and regulatory policy, combined with changing customer preferences, giving rise to a range of new business models. These business models create an increasingly competitive landscape, creating both challenges and opportunities for traditional utilities. ESB anticipates that this new landscape will see an increased focus on services both at a customer "energy as a service" level and at a wholesale level for the system to complement energy delivery. ESB also anticipates that the traditional distinction between generation, supply and network assets will become less easily defined as business models seek to extract value from technologies such as storage or demand response.

5. BREXIT

The UK has voted to leave the EU and this is scheduled to take place by 29 March 2019. Phase Two of the negotiations in early 2018 will include a specific strand in recognition of the unique situation of the island of Ireland. There is much uncertainty about the form and phasing of the UK's exit and the full consequences will play out over years rather than months.

ESB's investments in the UK have been guided by the strategic objective to have a diversified presence of scale across the value chain in both regulated and unregulated businesses where diversity is key to balancing risks and returns. ESB has adopted a range of prudent financial management policies to manage the associated financial risks.

ESB's investment in Northern Ireland Electricity Networks (NIE Networks) increases the scale of its regulated asset base, and irrespective of Brexit, ESB expects to operate within a stable system of regulation that encourages investment in Northern Ireland (NI).

Strategy 2030 seeks to grow ESB's Generation-Trading-Supply (GTS) business in ROI, NI and GB. As ROI, NI and GB maintain their commitment to the decarbonisation of electricity generation, ESB continues to see opportunities for investment in energy assets as older and more carbon intense generation is replaced. The decarbonisation of heat, transport and agriculture by means of electrification should grow these opportunities further.

Subsequent to the Brexit vote the Regulatory Authorities in ROI and NI jointly reaffirmed their commitment to the Integrated Single Electricity Market (I-SEM) project, which maintains a single, harmonised, wholesale all-island market. GB remains the closest and only electrically connected market to ROI and NI, so the ability to trade energy freely has an important value, not only for ESB but for these economies.

In summary, notwithstanding the uncertainty related to Brexit, the UK energy sector continues to provide a pipeline of growth opportunities in proximate and interconnected markets. ESB will continue to monitor and manage the current and emerging Brexit related impacts.

STRATEGIC FRAMEWORK

OUR PURPOSE

ESB's purpose is to create a brighter future for the customers and communities we serve and we will do this by leading the transition to reliable, affordable, low-carbon energy

OUR VALUES

WE'RE COURAGEOUS

Every one of us has a responsibility and the opportunity to shape ESB into a business we can all be proud of

WE'RE TRUSTED

Trust is precious we must continue to earn and be worthy of it

WE'RE CARING

We want to look the next generation in the eye knowing that we have done all we can to leave a positive legacy and have built a brighter future for everyone

WE'RE DRIVEN

We do our very best to make a genuine difference for our customers, our colleagues and our communities, continuously looking for ways in which we can improve our services to them

STRATEGY STATEMENT

Through our diverse businesses across the Republic of Ireland, Northern Ireland and Great Britain we aim to meet customer energy needs by bringing the best of our capabilities together to deliver innovative and value-driven solutions for a low-carbon world

STRATEGIC OBJECTIVES

PUT CUSTOMERS' CURRENT AND FUTURE NEEDS AT THE CENTRE OF ALL OUR ACTIVITIES

PRODUCE, CONNECT AND DELIVER CLEAN, SECURE AND AFFORDABLE ENERGY

DEVELOP ENERGY SERVICES TO MEET EVOLVING MARKET NEEDS

GROW THE BUSINESS WHILE MAINTAINING ESB'S FINANCIAL STRENGTH

DELIVER A HIGH-PERFORMANCE CULTURE THAT SUPPORTS INNOVATION AND COLLABORATION

STRATEGIC OBJECTIVES

2017 BUSINESS ENVIRONMENT

■ Climate and Energy Policy ■ Advances in Technology ■ Changing Customer Preferences ■ Emergence of New Business Models ■ Brexit

Put customers' current and future needs at the centre of all our activities	Produce, connect and deliver clean, secure and affordable energy	Develop energy services to meet evolving market needs	Grow the business while maintaining ESB's financial strength	Deliver a high performance culture that supports innovation and collaboration
■ ESB will adopt a customer centric culture across all of its business activities which will not only build on our reputation for customer service and trust, but proactively look beyond traditional services to develop new and innovative insight-driven solutions to meet diverse customer needs	■ ESB's unique position as a player of scale in both Networks and Generation Markets enables it to take a leading role in the decarbonisation of society ■ We will strengthen and adapt our traditional business models, and actively encourage and adopt new business models which leverage existing and new generation and networks assets to develop other products and services	■ The transition away from fossil fuels and the development of new technologies is creating a demand for new services to both balance the grid and give customers more control over their energy use ■ This presents an opportunity for ESB to capture value in this rapidly-growing market – both in terms of system services for the grid and energy services for supply customers	■ Maintaining a strong financial performance is key to ESB's strategy as it will determine our ability to raise capital to invest in the transition to a low-carbon future ■ ESB will continue to ensure activities are aligned to upholding its strong investment grade credit rating target (BBB+ on a stand-alone basis) ■ It will seek to maximise the value of its existing assets in order to maintain acceptable levels of financial headroom	■ Our ambition to lead the transition to a low-carbon future will depend on our ability to harness the talents, creativity and intrinsic motivation of our people to deliver on our strategy ■ ESB will cultivate a high-performing, innovative and customer-focused culture that encourages collaboration to share knowledge and insights on industry developments

STRATEGY IN ACTION - SEE PAGES 54 TO 63 FOR DETAILS OF PROGRESS ON STRATEGIC OBJECTIVES BY BUSINESS UNIT

STRATEGIC PERFORMANCE INDICATORS (SPIs)

INDICATOR	METRIC	2017	2030 TARGET
Scale Across the Value Chain	EBITDA* €Ms	€1.3BN	>€1.9BN
Market Shares	%	42% of SEM Generation 34% of SEM Supply 43% SEM System Services	>30% SEM Generation c.40% SEM Supply ≥40% SEM System Services
Carbon Intensity of the Electricity ESB Produce	gCO_2/kWh	513g CO_2/kWh	≤200g CO_2/kWh
Scale of Low-Carbon Energy Connected to our Networks	MW of Renewables Connected	3.8 GW in ROI 1.4 GW in NI	5GW in ROI 2GW in NI
Strong Investment Grade Credit Rating	Rating Equivalents	Credit ratings of A- or equivalent and BBB+ on a stand-alone basis	BBB+ on a stand-alone basis
Return on Capital Employed	ROCE (%)	4.6%	ROCE >WACC
Staff Engagement	Staff Survey Response Rate (%)	62%	75%
Safety Culture	Lost Time Incidents (LTIs)	29 employee LTIs	0 LTIs

See page 54 to 63 for short to medium-term priorities in the business unit sections.
*Earnings before interest, taxation, depreciation, impairment, amortisation (including amortisation of supply contributions) and exceptional items.

BUSINESS MODEL

Our Purpose 'Create a Brighter Future for the customers and communities we serve, by leading the transition to reliable, affordable, low-carbon energy.'

Capital Inputs

Manufactured
- 5,822 MW of generation capacity
- Over 229,000 kms of network across ROI and NI

Financial
- BBB+ credit rating (stand-alone)
- Total net assets €3.7 billion
- Liquidity of €1.9 billion

Intellectual Capital
- Promotion of innovation
- Corporate governance structure

Human Capital
- 7,790 employees
- Employee development programmes
- Safety Leadership Strategy

Social and Relationship Capital
- Over 1.25 million customers
- Over 400,000 hours recorded on volunteering programmes

Natural Capital
- 739 MW of renewable generation

Generate

ESB develops, operates and trades the output of ESB's electricity generation assets. The portfolio consists of 5,822 MW of thermal and renewable generation assets across ROI, NI and GB, with a further 173 MW under construction

See page 54 for further detail

MARKET BASED

Transmit

ESB builds, manages and maintains the transmission and distribution network in ROI and NI. Over 229,000 KM of Network.

See page 56 and 58 for further detail

REGULATED

Supply

Supplying electricity, gas and energy services to customers in ROI, NI and GB.

See page 60 for further detail

MARKET BASED

Outputs

Customers
- Customer satisfaction 95%
- 34% residential market share
- Average residential customer savings of 8.5%
- 42% generation market share
- Reconnected 442,000 customers after Storm Ophelia

Shareholder
- Dividend of over €1.4 billion over the last decade
- Return on capital employed 4.6%
- €1.3 billion EBITDA

Irish Economy
- Invested €867 million
- Contributes €2 billion to economy
- Over €10 million disbursed over a range of community based initiatives over the last decade

Underpinned by Our Values

- WE'RE COURAGEOUS
- WE'RE TRUSTED
- WE'RE CARING
- WE'RE DRIVEN

Driving the Delivery of our Objectives

- PUT CUSTOMERS' CURRENT AND FUTURE NEEDS AT THE CENTRE OF ALL OUR ACTIVITIES
- PRODUCE, CONNECT AND DELIVER CLEAN, SECURE AND AFFORDABLE ENERGY
- DEVELOP ENERGY SERVICES TO MEET EVOLVING MARKET NEEDS
- GROW THE BUSINESS WHILE MAINTAINING ESB'S FINANCIAL STRENGTH
- DELIVER A HIGH-PERFORMANCE CULTURE THAT SUPPORTS INNOVATION AND COLLABORATION

RISK REPORT

APPROACH TO RISK MANAGEMENT

The effective management of risks and opportunities supports the development of ESB's strategy while protecting the interests of its stakeholders.

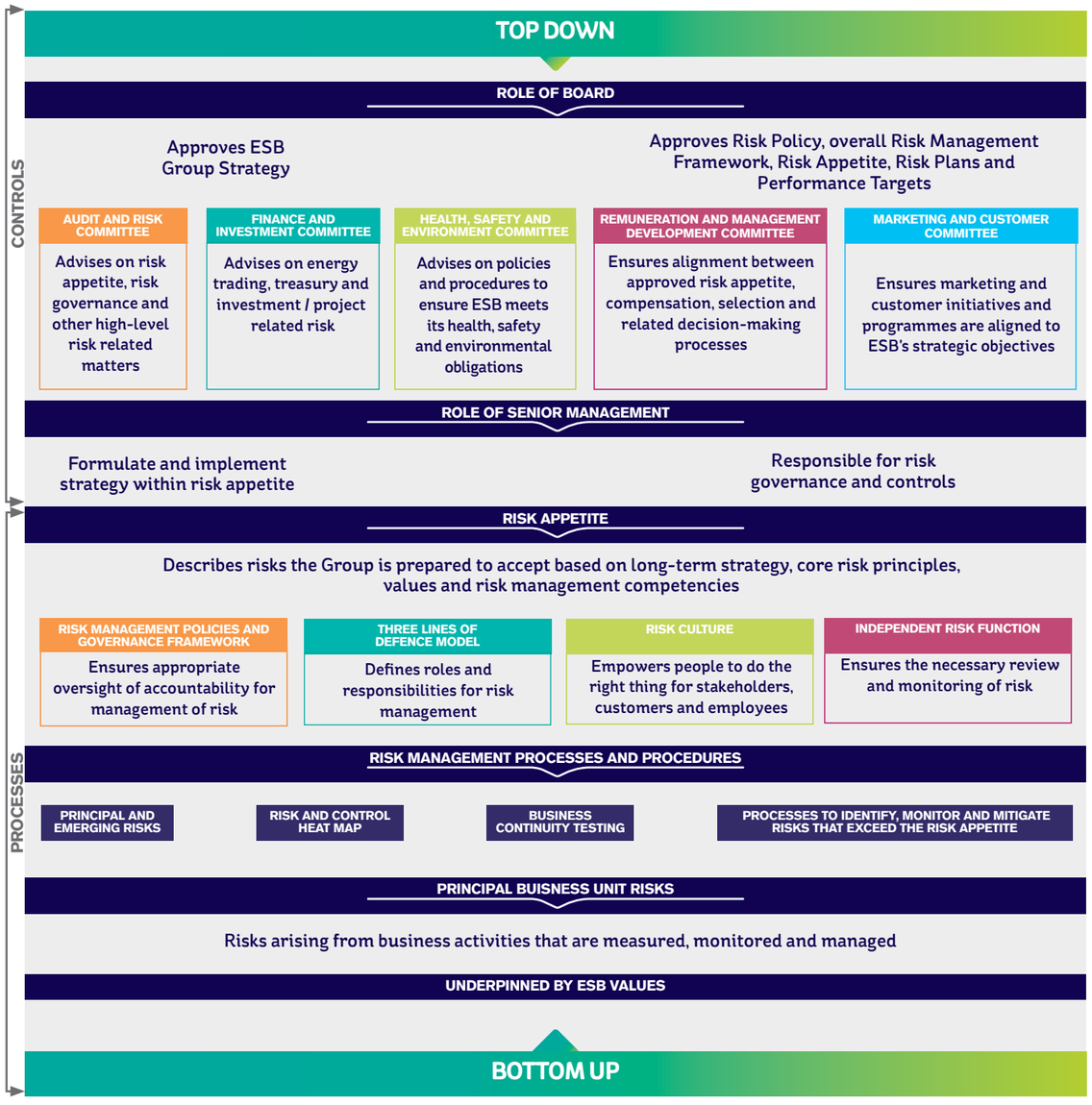
ESB is exposed to a number of risks and opportunities which could have a material impact on performance and long-term development. The effective identification, management and mitigation of these risks is a core focus of the Group.

HOW ESB MANAGE RISK

The Board has overall responsibility for risk management and internal control. The Board ensures that the Group's risk exposure remains proportional to the pursuit of its strategic objectives and longer-term shareholder value. It has adopted a Risk Management Policy and Governance Framework to support its oversight of risk throughout the Group.

The Board is supported in its oversight of ESB's principal risks by its Board Committees in accordance with Committees' Terms of Reference and their respective areas of expertise. The Committee Chairs report to the full Board on key developments and matters requiring further discussion and consideration. The Audit and Risk Committee has overall responsibility for supporting the Board in ensuring that enterprise risks and opportunities are properly identified, assessed, reported and controlled on behalf of the Board and advises the Board in its consideration of the overall risk appetite, risk tolerance and risk strategy of the Group.

RISK MANAGEMENT FRAMEWORK



The details of the activities undertaken by the Board and the Audit and Risk Committee during 2017 in respect of their risk responsibilities are outlined on page 86. Following detailed consideration by and a recommendation from the Audit and Risk Committee, the Group Risk Plan is submitted for annual approval by the Board.

ESB's approach combines a top-down strategic assessment of risk and risk appetite, with a bottom-up operational identification and reporting process.

FOCUS DURING 2017

ESB's Risk Management Policy and Governance Framework was further enhanced during 2017. The revised policy incorporates a number of process improvements, including identification of risk connectivity or interdependence, new procedures to increase visibility of joint venture / subsidiary risk management processes and increased integration of IT cyber incident response arrangements into the overall risk governance framework.

Risk and governance approaches have been strengthened across the Group. Group Risk, Internal Audit and Group Finance functions meet quarterly to review internal control and risk reporting. This ensures alignment between the functions, better information sharing and opportunities to identify areas for improvement.

Risk Reporting was further developed in 2017. Quarterly risk updates to the Audit and Risk Committee incorporating key risk indicator dashboards were developed, while a new Quarterly Environmental Incidents and Information Requests Report is being provided to the Health, Safety and Environment Committee. Comprehensive reporting ensures clearer communication of any changes in risk profile and progress in mitigation actions.

With cyber security representing an increasing and evolving risk for ESB and the industry as a whole, the Board focused this year on understanding these risks and examined the measures being taken to address potential areas of vulnerability.

CASE STUDY - CYBER SECURITY STRATEGY

Information security is the responsibility of everyone in ESB. As a critical national infrastructure provider, cyber security is a key priority and ESB reviews its security strategy on a continuous basis:

No. 1 Risk Management: Identification and understanding of the risks is key to the management of cyber security. A specialist IT Security Team works with the Business to identify threats.

No. 2 Protection: Once risks are identified, ESB focuses on protecting itself against both physical and digital risks.

No. 3 Detection: Security alerts are raised in response to suspicious activity.

No. 4 Action and Response: ESB has protocols in place to react to incidents quickly. Business Continuity Plans and Disaster Recovery Plans are tested with key personnel.

No. 5 Education: Protecting ESB businesses, colleagues and customers is a priority. Educating employees and customers about the critical risks, increases awareness and helps to prevent incidents and business interruption. ESB's key message to colleagues is - "Information Security is the responsibility of all our people."

No. 6 Oversight: The Audit and Risk Committee and the Board receive updates as part of the Quarterly Risk Report on cyber risks. Specialist input from experts in the field is also provided.

RISK APPETITE

ESB's risk appetite is a statement of the Board's willingness to take risk or pursue opportunities to achieve its strategic objectives. It both informs strategy and is informed by strategy. It is a statement of intent, used to indicate future direction. It sets boundaries to risk taking and provides an aid to decision making. It is also used as a tool to monitor risk and facilitates discussions around risk acceptability.

CURRENT RISK APPETITE

RISK CULTURE

The Board is ultimately responsible for setting the tone at the top of the organisation. It encourages an environment where people can feel comfortable in raising issues and where management treat concerns seriously and professionally. Decision making is supported by having clear authority levels in place and the completion of rigorous risk analysis. This approach ensures that risks and uncertainties are highlighted at an early stage so that prompt action can be taken to minimise any impact on stakeholders.

CASE STUDY - RISK MANAGEMENT IN ESB NETWORKS

In July, the Audit and Risk Committee visited the management and employees of ESB Networks Meter and Data Services. The Board members got first-hand experience and appreciation of the metering business and the central role it plays in the operation of the Retail Electricity Market in the Republic of Ireland (ROI). The importance of good governance, controls and proactive risk management was emphasised as a key cornerstone of the business. The Committee gained an understanding of the impact smart metering will have on operations in coming years.

The Committee were briefed on work done since December 2016 to successfully replace 27,000 potentially faulty digital meters nationwide and how risk management approaches helped to effectively mitigate the risk. This involved agreeing a risk mitigation plan appropriate to the scale of the risk and in line with ESB's low reputational risk appetite.

PRINCIPAL RISKS

ESB's principal risks and opportunities remained largely unchanged from 2016 into 2017, although with some movement on the relative ranking of risks and some changes to the risk drivers. The Board approved the principal risks and the detailed Group Risk Plan in January 2017 following consideration and recommendation by the Audit and Risk Committee. The principal risks were included in the Board's risk appetite and mitigation discussions during the year. ESB's principal risks and opportunities are set out on pages 28 to 37.

There may be other potential risks and opportunities that are not yet sufficiently clear to us or not yet known and the principal risks and opportunities will change if these assume greater importance. Some of the current principal risks and opportunities may be removed from the Group Level Risk Register as mitigating plans are implemented or if changes in the operating environment occur.

FINANCIAL RISKS

The main financial risks faced by the Group relate to liquidity, foreign exchange, interest rates, 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 (and the details are outlined in note 26 of the financial statements).

EMERGING RISKS

The risk management framework enables the Group to identify, analyse and manage emerging risks to help highlight exposures as soon as possible. This is managed as part of the same process that identifies the principal risks. These are monitored and reviewed in conjunction with principal risks.

BUSINESS CONTINUITY

ESB is responsible for the provision of critical infrastructure. Disruptions to certain services and operations are potentially damaging to the economy, to society and to ESB's business. Therefore, ESB has in place a robust set of business continuity plans and processes to ensure that our responses are well managed and executed. The exercising and testing of these plans is key to ensuring ESB's preparedness. The following case study illustrates the approach to testing across the Group.

CASE STUDY - PANDEMIC PREPAREDNESS TEST

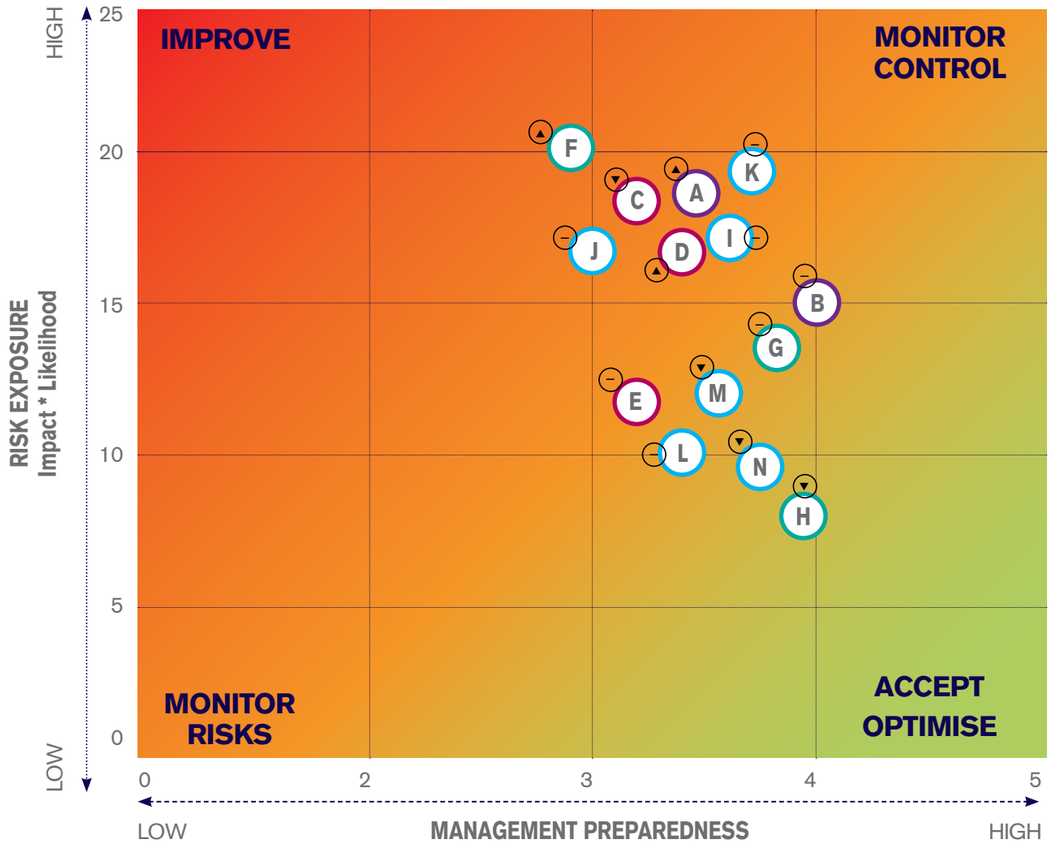
One of the ESB's High Impact Low Probability (HILP) risks is the onset of a pandemic. The Group has a Pandemic Strategic Response Plan which details ESB's priorities in the event of a pandemic, and the structures to support delivery of these priorities. During 2017, a test of this plan was completed with the assistance of external support. The exercise commenced with a review of critical processes and skills required to ensure delivery of business line priorities and ultimately culminated with a desktop scenario test involving the Executive Team as the Group Pandemic Response Team, supported by the Pandemic Response Support Team.

The aim of the session was to test ESB's pandemic response to a health emergency from initial warning to a closeout eighteen months later. The exercise highlighted restrictions imposed by a predictable pandemic. The exercise was structured around a number of milestones along the timeline, where the pandemic status, and consequently priorities and responses, evolved.

The Executive Team debated key decisions, including what measures were appropriate to minimising exposure of staff / contractors, how resources should be allocated to maintain essential services, interdependence of key decisions and critical engagements with internal and external stakeholders.

A lessons learned review validated the arrangements in place and highlighted a number of additional aspects to be considered.

RISK AND CONTROL HEAT MAP



FINANCIAL:
- **A** Financial Performance
- **B** Energy Trading

OPERATIONAL:
- **C** Health, Safety and Environment
- **D** IT Failure
- **E** Infrastructure Risk

REGULATORY:
- **F** Regulatory Outcomes
- **G** Brand / Reputation
- **H** Co-Location of Electricity / Broadband Networks

STRATEGIC:
- **I** Disruptive Market / Technology and Competitive Pressures
- **J** Technology Advances / Policy Imperatives
- **K** Generation / Supply Strategy
- **L** Breach of Law or Regulation
- **M** Organisational Capability
- **N** Industrial Relations Environment

Risk Climate

▲ INCREASE ⊖ UNCHANGED ▼ DECREASE

PRINCIPAL RISKS AND OPPORTUNITES

The principal risks and opportunities that have the potential to have a significant impact upon the Group's strategic objectives are set out below, together with an indication of the strategic objective to which they relate, any change in the risk climate during the year, who is responsible for monitoring the risk, the principal mitigations, developments in relation to the risk during 2017 and areas of focus for 2018.

FINANCIAL

A FINANCIAL PERFORMANCE

Risk Climate ↑

Oversight: ESB BOARD

Potential Impact

Failure to deliver operating performance would endanger the long-term viability of ESB. This is required to ensure that ESB can continue to have the ability to raise debt competitively, to invest and grow to achieve its strategic objectives and meet its credit ratings metrics and Shareholder targets.

Mitigations

To prevent the risk materialising:

- Carry out business planning target setting from the top down, focused on ESB's Strategy to 2030 (Strategy 2030) delivery and protecting financial strength
- Use business and / or technology specific hurdle rates in business investment decisions
- Continue to seek cost efficiencies
- Innovation tasked with identifying new businesses / technologies to drive future growth opportunities
- Keep capital allocation under review across the Group
- Funding Strategy to ensure adequate funding to mitigate fundamental risks (e.g. United Kingdom (UK) investment funded with sterling debt and repaid from sterling earnings)

If the risk materialises:

- Amend Strategy 2030 in order to protect financial strength
- Address regulatory challenges through direct engagement with regulatory authorities

Developments in 2017

- Finalisation of price review contract for Northern Ireland Electricity Networks (NIE Networks)
- Credit rating agencies affirmed ESB's existing credit ratings and in one instance upgraded
- Volatility in energy prices resulting in lower margins in Generation and Wholesale Markets (G&WM) in the Single Electricity Market (SEM) and Great Britain (GB) Market
- Significant changes in the energy sector driven by new technology and decarbonisation objectives
- Implications of the Integrated Single Electricity Market (I-SEM) for revenue streams remain under review

2018 Areas of Focus

- Significant focus on ensuring the financial capability to enable delivery of Strategy 2030
- Continued monitoring of returns available in energy markets in SEM and GB and mitigating as appropriate
- Significant focus on the delivery of I-SEM

B ENERGY TRADING

Risk Climate ↔

Oversight: Finance And Investment Committee

Potential Impact

ESB is exposed to fluctuations in the physical volume and price of certain commodities including electricity, gas and CO_2 emissions permits. A significant proportion of ESB's profitability, including return on investment on electricity generation assets and the ability to price competitively in the retail market, depends on the successful management of these exposures. Sub-optimal management of the energy portfolio could lead to significant financial loss and a reduction in customer numbers.

Mitigations

To prevent the risk materialising:

- Market risk is managed through implementation of appropriate trading and risk management strategies and initiatives to increase access to energy markets
- Credit risk is managed by trading with sufficiently rated entities and ensuring acceptable forms of collateral are in place
- Operational risk is managed through continued operation of a trading governance framework

If the risk materialises:

- Undertake investigation into any trading incident
- Carry out lessons learned reviews
- Amend risk appetite and the Trading and Risk Management Strategy in light of market developments

Developments in 2017

- Power prices in the SEM and the GB Market, and fuel prices paid by ESB in connection with its electricity generating activities, continue to experience the volatility seen in recent years
- The upcoming introduction of I-SEM in May 2018 constrained the ability to hedge during 2017
- The implications of evolving financial regulations were considered by ESB

2018 Area of Focus

- Continued focus on developing and embedding capabilities required for trading in I-SEM
- Focus on continued identification and assessment of opportunities to optimise trading revenues

OPERATIONAL

C HEALTH, SAFETY AND ENVIRONMENT

Risk Climate ↓

Oversight: Health, Safety And Environment Committee

Potential Impact

By the nature of its operations the Group faces a number of significant safety and environmental risks. Unsafe working practices, equipment and inadequate training may lead to accidents or incidents involving employees, contractors, members of the public, plant and equipment. ESB's activities, by their nature, impact on the environment.

Mitigations

To prevent the risk materialising:

- Regularly review and update risk assessments
- Maintain management system accreditation to OHSAS 18001 (for Health and Safety) and ISO 14001 (for Environment)
- Implement agreed health, safety and environment projects
- Plan and test for foreseeable emergencies
- Investigate serious incidents and close gaps to prevent repeat incidents
- Maintain, audit and inspect processes to monitor systems, controls, plant and equipment
- Drive and maintain mandatory training programmes
- Maintain and repair public electricity network
- Implement public safety awareness campaigns

If the risk materialises:

- Secure and make safe the incident location
- Treat individuals (if required)
- Communicate incident details to relevant stakeholders and the authorities
- Commence an incident investigation
- Implement preventive and corrective actions
- Track progress of actions to completion

Developments in 2017

Safety

- Improvements noted in the number of serious safety incidents
- Improvements also noted in performance indicators including on time closure of actions from serious investigations and good catches
- Public safety awareness of electricity improved and the dangers associated with electricity networks further minimised
- Implementation of ESB's Safety Strategy remains a priority and is progressing as planned
- Group Flu Pandemic Plan updated and tested
- Continued incidents of third party interference and theft of electricity assets

Environment

- EPA prosecution in relation to non-compliances at Moneypoint power station. As a result of this, a full review of all licence conditions and related business risks has been completed in every G&WM location and improvement plans have been developed as necessary

2018 Areas of Focus

Safety

- Improve leading indicators of performance
- Deploy Safety Culture Transformation across ESB Networks, G&WM and Innovation
- Commence Group Health and Safety Compliance Audit Process
- Embed Personal Occupational Wellbeing Resource (POWR)
- Maintain OHSAS 18001 accreditation
- Drive completion of Business Unit Specific Safety Improvement Plans and Centres of Competency Action Plans - a cross business unit strategic group that addresses gaps in compliance.

Environment

- Maintain ISO 14001 accreditation
- Implementation of environmental improvement plans

PUT CUSTOMERS' CURRENT AND FUTURE NEEDS AT THE CENTRE OF ALL OUR ACTIVITIES

PRODUCE, CONNECT AND DELIVER CLEAN, SECURE AND AFFORDABLE ENERGY

DEVELOP ENERGY SERVICES TO MEET EVOLVING MARKET NEEDS

GROW THE BUSINESS WHILE MAINTAINING ESB'S FINANCIAL STRENGTH

DELIVER A HIGH-PERFORMANCE CULTURE THAT SUPPORTS INNOVATION AND COLLABORATION

D IT FAILURE

Risk Climate ↑

Oversight: Audit And Risk Committee

Potential Impact

ESB is reliant on a number of key IT systems to support ongoing operations and cash flow. In particular, the customer systems, the main energy trading support systems and real-time network management systems are critical. A loss of any of these systems could be caused by a malicious cyber-attack, software or hardware issues, including telecoms network, connectivity and power supply issues to data centres, or poor operational performance.

Mitigations

To prevent the risk materialising:

- Ongoing monitoring / support of technical performance / reliability
- Timely upgrade of key IT systems and increased built-in resilience, including backup and recovery facilities
- Maintenance of a secure IT infrastructure
- Strong IT policy and procedures, in line with best practice industry standards
- Annual independent security reviews of ESB's IT security
- Security Awareness and Communications Programme
- Security infrastructure in place with a dedicated IT Security Team
- Preparations for the General Data Protection Regulation (GDPR) are underway
- Crisis Management Plans in place

If the risk materialises:

- Activate crisis management plans
- Implement lock-down
- Activate plans to re-start business processes in an orderly fashion
- Activate communications plans for key stakeholders
- Respond to new threats through active industry participation and information sharing groups
- Implementation of a Data Breach Action Plan in the case of the loss of personal data

Developments in 2017

- Ongoing testing of business continuity arrangements for key systems, including site switches
- Continued rollout of security awareness training programme for employees, including monitoring of completion rates
- Completion of an external review of cyber security to ensure adherence with industry standard best practice

2018 Areas of Focus

- Specific focus on preparations for the Network Information Security Directive, the first piece of EU-wide legislation on cybersecurity
- Finalisation of GDPR preparations
- Continued focus on a trajectory to best practice cyber security arrangements

E INFRASTRUCTURE RISK

Risk Climate ↔

Oversight: ESB Board

Potential Impact

A significant number of large demand data centre customers have sought an electrical connection in Dublin. The scale of this data centre load requirement is the equivalent of an expected 30-year load growth in the Dublin area being compressed into 3-5 years. This potentially results in a strain on delivery of resources and erodes the traditional reserve capacity available for normal organic growth.

Mitigations

To prevent the risk materialising:

- ESB Networks (Distribution System Operator (DSO)) and EirGrid (Transmission System Operator (TSO)) jointly prepare 10-year rolling development plans which are then reviewed on a 5-year cycle aligned to the price review contract periods, including specific provisions in relation to data centres
- A well-established application / connection offer process is in place
- Reprioritisation of work programme to facilitate data centres

If the risk materialises:

- Consider temporary solutions to meet demand
- Consider turnkey projects for delivery - from design through permitting, constructing and finally commissioning

Developments in 2017

- Specific projects underway to address current and anticipated capacity requirements, including 2 new 220 / 110kV stations (Inchicore and Balgriffin) and replacement of a faulty 220kV transformer in Inchicore
- Additional resources appointed in the delivery organisation to ensure capability to deliver on requirements in Dublin

2018 Area of Focus

- Ongoing monitoring and tracking of new point load requirements, facilitated by ongoing engagements with the Industrial Development Authority (IDA) and customers

REGULATORY

F REGULATORY OUTCOMES

Risk Climate ↑

Oversight: ESB Board

Potential Impact

The markets in which ESB operates are subject to a high degree of regulatory and legislative intervention at both domestic and EU level.
Changes can have a significant effect on the profitability of ESB's asset base. Any ongoing ambiguity on market structure and the regulatory and policy framework can make sustainable, long-term strategy planning more challenging and effect investor confidence.

Mitigations

To prevent the risk materialising:

- Participate in regulator led consultation processes on DS3 - an innovative proposal to support increased renewables on the electricity system
- I-SEM project team in place to develop ESB positions on regulatory, market and structural issues and to prepare for the transition to a new market design
- Monitor impact of potential price cap introduction on GB supply market entry
- Regulatory developments considered as part of the annual review of Strategy 2030
- Monitor licence and regulation compliance and report to regulatory authorities to demonstrate ongoing compliance

If the risk materialises:

- Amend capital and operating cost plans to align with regulatory outcomes
- Re-evaluate scale and scope of GB Supply Market Entry
- Report regulatory non-compliance and implement actions to resolve any issues
- Activate communications plans to deal with any issues that may arise

Developments in 2017

- The impact of I-SEM on the wholesale market design remains under review
- Ongoing consideration of options for Moneypoint power station and the Midland stations at Lough Rea and West Offaly
- Key regulatory directions issued by the Commission for Regulation of Utilities (CRU) in relation to the delivery strategy (phased delivery) for smart metering
- Discussion initiated by the Northern Ireland Utility Regulator regarding de-harmonisation of the retail market
- The G&WM team engaged in assessments to establish the DS3 services required to facilitate increased levels of renewables on the Republic of Ireland (ROI) and Northern Ireland (NI) networks and the appropriate contracting arrangements to deliver those services

2018 Areas of Focus

- Significant focus on the delivery of I-SEM and smart metering commitments
- Engagements with Regulatory Authorities on retention of the harmonised retail market

G BRAND / REPUTATION

Risk Climate ↔

Oversight: Marketing And Customer Committee

Potential Impact	Mitigations		Developments in 2017	2018 Areas of Focus
A materialisation of any of the principal risks could damage ESB's reputation and brand, causing stakeholders to lose trust in ESB, which could undermine support for ESB's strategy, challenge ESB's ability to secure finance at acceptable rates, compromising ESB's capability to deliver on capital investment programmes and result in a significant loss of customers.	**To prevent the risk materialising:** ■ Proactively manage principal risks ■ Ongoing engagement with stakeholders to facilitate open and clear communication ■ Preparation and implementation of Stakeholder Management Plans ■ Ongoing engagement between regulated businesses and regulatory authorities	**If the risk materialises:** ■ Activate Crisis and Stakeholder Management Plans, as appropriate ■ Participate in lessons learned reviews	■ New visitor centre at Ardnacrusha positively received by media and public ■ Positive engagement with stakeholders around 90th anniversary celebrations ■ Positive media and public response in relation to ESB's performance during Storm Ophelia ■ Lack of public acceptance of infrastructure development continues to be evident ■ Ongoing market concerns regarding energy price levels	■ Corporate brand campaign planned to prepare the way for investment programme and development of new services ■ New sponsorship strategy to commence focusing on promoting science, technology, engineering, art and maths (STEAM) and innovation ■ Continue to engage with relevant stakeholders in relation to all principal and emerging risks

H CO-LOCATION OF ELECTRICITY / BROADBAND NETWORKS

Risk Climate ↓

Oversight: Finance And Investment Committee

Potential Impact	Mitigations		Developments in 2017	2018 Area of Focus
The use of the electricity network to facilitate access for broadband roll-out presents significant safety, financial, technical, legal / regulatory challenges to the ESB Networks business.	**To prevent the risk materialising:** ■ Ensure appropriate expertise is available to develop technical standards, access processes, commercial terms and price products ■ Research into experiences in other jurisdictions, including technical trials ■ Appropriate internal structures established to manage the process end-to-end ■ Engagement with key stakeholders	**If the risk materialises:** ■ Engage with relevant stakeholders on specific aspect of risk that has materialised ■ Defend any challenges brought by third parties, if appropriate	■ ESB has established a position regarding third party access ■ Ongoing focus on development of required processes and documentation, including practical trials	■ Continued engagement with interested parties and relevant stakeholders and rollout of preferred solution for third party access

STRATEGIC

I DISRUPTIVE MARKET / TECHNOLOGY AND COMPETITIVE PRESSURES

Risk Climate ↔

Oversight: Marketing And Customer Committee

Potential Impact	Mitigations		Developments in 2017	2018 Areas of Focus
ESB must continually adapt to industry developments, technology innovations and changing customer needs. Inability / delay in identifying step changes in the industry sectors and reacting could adversely affect service levels to customers and reduce ESB's market share.	**To prevent the risk materialising:** ■ Deliver competitive price offerings and innovative products to the market to defend market share, build customer loyalty and differentiate customer propositions through brand and service ■ Investment in capabilities and systems to enhance customer focus and service ■ Implement a Digital Strategy ■ Increased flexibility through outsource partners to adapt quickly to changing customer needs ■ Expand NI residential market as potential to broaden customer base ■ Organic market entry strategy in GB ■ Provide customers with greater visibility and control over their energy use through continued development of smart and connected home solutions ■ Continued investment in brand / loyalty programmes to build and maintain loyalty	**If the risk materialises:** ■ Amend Strategy 2030 and formulate a decision on whether to enter new markets, acquire new businesses or consider any additional investment needs ■ Renew focus on competitively priced products and strong customer service ■ Respond to new product offering or price structure of competitors ■ Restructure business to reduce costs and be viable on a smaller scale	■ ESB Networks Innovation Strategy launched including Dingle Project ■ Electric Ireland implemented second phase of the Stay Happy Campaign – automatically applying enduring long-term savings to all eligible residential customers ■ Commitment to market that Electric Ireland will deliver the lowest average residential price across a rolling 3 year period ■ ESB were an active participant in the Global Utility Accelerator Programme "Free Electrons" with seven other utilities worldwide supporting start-ups to develop commercial relationships with utilities, exposing them to new markets, local ecosystems and strategic partnerships ■ ESB Energy launched, organic entry to GB residential market ■ Planet 9 launched UK's first cloud based energy supplier offering energy brokers and industrial and commercial clients direct online access to the UK wholesale energy market	■ Deliver projects set out under the Networks Innovation Strategy ■ Deliver improvements to Electric Ireland's online portals, enhancing our self-serve capabilities for customers across a range of functions and transactions ■ Growth in GB Market through ESB Energy, Planet 9, Smart Energy Services (SES) and ecars

J TECHNOLOGY ADVANCES / POLICY IMPERATIVES

Risk Climate ⟷

Oversight: Audit And Risk Committee

Potential Impact

The Paris Agreement's central aim is to strengthen the global response to the threat of climate change. Opportunities for electrification arise as fossil fuels for transport and heating become more expensive and concerns about the emission of greenhouse gases grow. Increased electrification of transport and heating could have profound implications for energy policy and the power sector.

Mitigations

To prevent the risk materialising:

- Implement Innovation Strategy Roadmaps
- Development of a portfolio of innovation / new business opportunities, including external collaborations
- Establishment of X_Site at Dogpatch Labs in Dublin (innovation hub) and new business concept evaluation processes
- Successful establishment of new businesses e.g. SES
- Investment decisions subject to rigorous approval based on defined criteria
- Development of group-wide forums to ensure knowledge transfer from all innovation initiatives
- Increased engagement with stakeholders on key initiatives to electrify transport and heat

If the risk materialises:

- Reposition Innovation Strategy and Roadmaps based on experience, learning and changing innovation landscape
- Re-assess Strategy 2030
- Re-organise the businesses and divert and accelerate investment to alternatives (technologies or business models)
- Review individual investments, considering implementation of revised strategy including cost reduction programmes to maximise return
- Review structures and arrangements for knowledge sharing

Developments in 2017

- During 2017 Electric Ireland has worked with EirGrid as part of its residential demand response programme which aims to help customers manage their consumption levels
- ecars has made significant progress in developing a competitive position in GB with the successful award of the Transport for London (TfL) framework and a number of sites in the Greater London area
- SIRO's (a Joint Venture (JV) with Vodafone) roll-out of high speed broadband has now passed over 120,000 premises
- ESB / Poyry Report published: "Ireland's Low-Carbon Future – dimensions of a solution", which outlines choices and a credible roadmap for decarbonisation of the energy sector including transport and heat
- ESB Innovation and Electric Ireland collaborated with Durkan Residential for the launch of Ireland's largest All Electric Passive Home Development - 59 passive homes in an affordable price range using air-source heat pumps, with Electric Vehicle charging points, Smart Pay As You Go metering solutions and a first of its kind Zero Night Rate Tariff
- ESB Networks worked on solutions to accommodate significant increased numbers of electric vehicles and electric heating at minimum additional cost to customers

2018 Areas of Focus

- Electric Ireland will continue to lead the market in delivery of energy efficiency targets
- ecars will continue to investigate the options for commercialisation of its existing all-island national charge point infrastructure while continuing to expand its services in GB
- SES will expand its offering and continue to grow its customer base in both ROI and the UK

K GENERATION / SUPPLY STRATEGY

Risk Climate ⟷

Oversight: ESB Board

Potential Impact

Failure to deliver a generation and supply business of adequate scale, will result in an imbalance between regulated and unregulated businesses, limiting diversity in terms of business risk management and earnings potential.

Mitigations

To prevent the risk materialising:

- Robust governance and oversight arrangements established involving Board and Executive Team
- Detailed annual review of external business environment, combined with ongoing monitoring of achievement of key milestones and strategic targets
- Extensive review meetings implemented
- Offsite Board days as part of challenge process
- Corporate planning process aligned to strategy, ensuring appropriate allocation / prioritisation of Group capital through annual planning process

If the risk materialises:

- Complete a root cause analysis of the failure to achieve agreed strategy
- Complete a full strategy review, including priorities and targets
- Reallocate resources including consideration of divestment / closure options if required

Developments in 2017

- In developing Strategy 2030 detailed assessments were completed on specific aspects of the strategy to further clarify strategic objectives and strategic actions

2018 Area of Focus

- Ensure capability to deliver the strategy

L BREACH OF LAW OR REGULATION

Risk Climate ⟷

Oversight: Audit & Risk Committee

Potential Impact

Changes to the legal and compliance framework arising from the introduction of new or revised legislation, or due to evolving interpretation and legal precedent, can lead to additional or amended compliance obligations and reporting requirements. Any such changes may require amendments to policies, procedures and operating practices. Any breach of law or failure to maintain compliance could result in regulatory action, damage to reputation, financial costs (including fines) and adverse impact on operations.

Mitigations

To prevent the risk materialising:

- Ongoing monitoring of legal and compliance requirements
- Appropriately skilled and experienced legal team in place
- On-going training e.g. competition law manual launched in 2017 and briefing to subsidiary company directors on statutory obligations under the Companies Act 2014 and Market Abuse Regulations
- Regulatory Compliance Risk is managed through Group Regulatory Compliance
- Appropriate policies in place to raise awareness of legal obligations

If the risk materialises:

- Consideration of impact on a case-by-case basis
- Activate communications plans to update key stakeholders
- Review the adequacy of current policies and procedures
- Review the adequacy of current monitoring arrangements
- Roll-out additional awareness training if required
- Review incidents and ensure actions identified are implemented
- Share learning across the organisation

Developments in 2017

- Continued to monitor compliance with legislative and regulatory obligations
- Ongoing training provided to ESB and ESB subsidiary company directors

2018 Areas of Focus

- Continued steps to be taken to ensure that ESB will be in a position to comply with new legislation e.g. GDPR, new financial regulations, Network Information Security Directive etc.
- Ongoing review of compliance procedures
- Ongoing training to drive compliance

M ORGANISATIONAL CAPABILITY

Risk Climate ↓

Oversight: Remuneration and Management Development Committee

Potential Impact

ESB's employees play a major part in its continued success. Ensuring that recruitment / development opportunities reach as many potential candidates as possible has become increasingly important due to increased competition for skilled individuals, both within the energy sector and from other industries. If ESB cannot retain, attract and develop diverse talent and leadership, it will adversely affect the development plans for the business and the continuity of existing operations.

Mitigations

To prevent the risk materialising:

- Deliver the agreed HR Strategy
- Effective communication of ESB Employee Value Proposition to existing and prospective employees
- Graduate Development and Networks Apprenticeship Programmes to meet future skills needed
- Complete and implement the Strategic Resource Plan (SRP) for key skill sets
- Deliver on the Management Development Framework
- Implement succession planning
- Ensure adequate levels of cross training and knowledge transfer

If the risk materialises:

- Review options for short-term resourcing for critical capabilities or skillsets
- Review options for short-term redeployment of resources to key vacancies based on key skillsets from previous roles and, in parallel, fast track training of replacements for the critical roles within the businesses
- Review options for short-term resourcing
- Revisit the long-term HR strategy and update as necessary

Developments in 2017

- Successful Graduate Development, ESB Networks Apprenticeship and IT Recruitment Programmes completed
- Ongoing focus on strengthening of strategic resource planning processes and governance frameworks to ensure skills and competencies requirements are identified and sourced in a timely manner
- Additional leadership and communication skills programmes developed and rolled out to the management teams

2018 Areas of Focus

- Continue to implement the 2017 - 2022 HR Strategy
- Continued refinement of strategic resource planning approaches
- Ongoing rollout of development programmes
- Review of organisational design over 2018 to deliver efficiency and effectiveness

N INDUSTRIAL RELATIONS ENVIRONMENT

Risk Climate ↓

Oversight: Audit and Risk Committee

Potential Impact

Inability to maintain a positive industrial relations climate could impact on growth in the business and the ability to execute Strategy 2030 within required timelines.

Mitigations

To prevent the risk materialising:

- Implement the payroll model
- Ongoing open engagement between management, employees and Group of Unions
- Communications initiatives for all employees to build awareness of ESB purpose and values
- Maintain the focus on improving overall cost competitiveness
- Revise the HR strategy

If the risk materialises:

- Use internal resolution mechanisms and procedures to address specific issues
- Initiate crisis management and contingency planning arrangements
- If required, initiate external intervention using instruments of state e.g. Labour Court

Developments in 2017

- Continued staff engagement and communication efforts, focusing in 2017 on the 90 year history of ESB, the fundamental values and purpose of ESB, including the Brighter Future Vision for ESB going forward
- Continued implementation of agreed payroll models, including establishment of appropriate oversight bodies to facilitate rollout and open engagement

2018 Areas of Focus

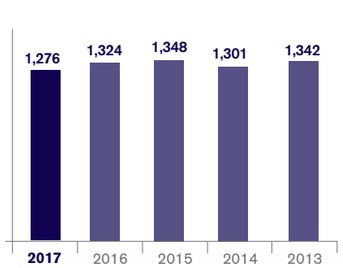
- Focused staff engagement on ESB's fundamental values, the purpose of ESB and on Strategy 2030
- Continued focus on the quarterly Executive Director Team / Group of Unions forum to openly share perspectives on significant business challenges
- Implement the agreement on Pay, Conditions and Integration (PC&I), including support for the Joint (Company / Union) Oversight Group
- Engage and conclude pay talks as set out in the PC&I agreement

KEY PERFORMANCE INDICATORS (KPI's)

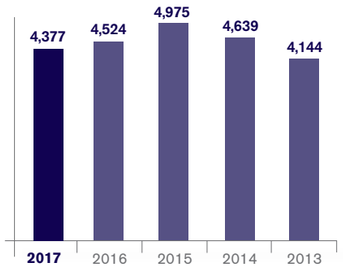
ESB employs financial and non-financial key performance indicators (KPI's), which signify progress towards the achievement of ESB's Strategy to 2030 (Strategy 2030). Each business unit has their own KPIs, which are in direct alignment with those of the Group and are included in the business units section on pages 54 to 63.

FINANCIAL

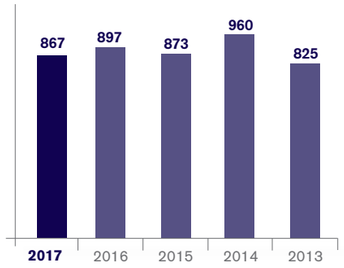
EBITDA €'m



Net Debt €'m



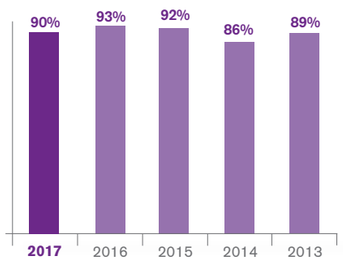
Capital Expenditure €'m



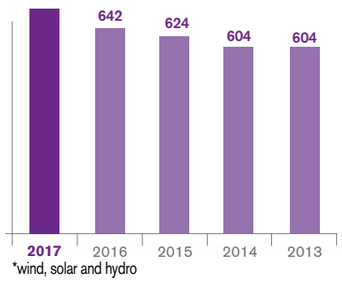
KPI	DEFINITION	STRATEGIC RELEVANCE	PERFORMANCE	STRATEGIC PRIORITY
EBITDA	Earnings before interest, taxation, depreciation, impairment, amortisation (including amortisation of supply contributions) and exceptional items.	EBITDA is a key measure of the cash generated in the Group during the year which is then available for strategic investments, repayment of debt and dividend payments.	The decrease in EBITDA is driven by factors impacting on operating profit. For further detail, see financial review on page 50.	
Net Debt	Borrowings and other net debt of cash and cash equivalents.	Net debt is a measure of how leveraged the Group is and if it is in line with its key covenants. Net debt will continue to grow as ESB partly funds its capital investment programmes with borrowings.	Net debt has decreased reflecting positive EBITDA and the weakening of GBP offset by continued capital investment, finance costs, dividends and tax payments. For further detail see financial review on page 51.	
Capital Expenditure	Additions for property, plant and equipment, intangible assets and financial asset investments.	ESB is in a period of significant capital investment for both its networks businesses and Generation and Wholesale Markets (G&WM). This is so that ESB can develop the electricity network and compete within the all-islands environment.	The decrease in capital expenditure relates to the inclusion in 2016 of the remaining spend on Carrington and significant overhauls. For further detail see financial review on page 51.	

OPERATIONAL

Plant Availability %

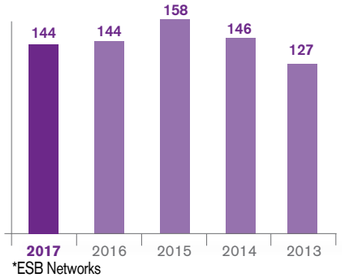


MW Renewable Operational*



*wind, solar and hydro

Customer Minutes Lost (CMLs)*

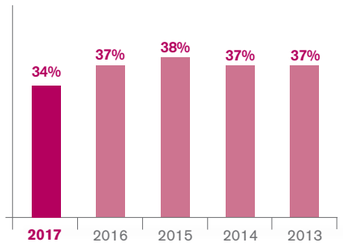


*ESB Networks

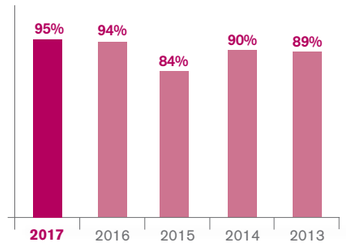
KPI	DEFINITION	STRATEGIC RELEVANCE	PERFORMANCE	STRATEGIC PRIORITY
Plant Availability	Percentage of the time in the year that generation plant was available to produce electricity, whether they generated or not.	Delivering strong operational performance across ESB's generation plant through best practice operations and maintenance and timely completion of overhauls is critical to ESB's commercial performance.	While availability remained strong at 90% the decrease related to extended outages at Turlough Hill, Synergen and Poolbeg generation stations. For further detail see G&WM business unit section page 54.	
MW Renewable Operational	Total MWs of renewable generation where the assets have reached their commercial operation date.	Renewable generation is key to ESB's objective to reduce the carbon intensity of its generation fleet.	The increase of 97 MW relates mainly to the four wind farms, at Moneypoint, Cappawhite, Crockdun and Eglish totalling 95 MW. For further detail see G&WM business unit section on page 54.	
Customer Minutes Lost (CMLs) ESB Networks	The average duration of interruptions (planned and fault) for all customers during the year.	The reliability of the grid and minimising interruptions to customers is of key importance to ESB.	ESB Networks remain committed to reducing the occurrence and duration of customer interruptions. The level in 2017 remained in line with the improved level in 2016. For further detail see ESB Networks business unit section on page 56.	

CUSTOMER AND MARKET

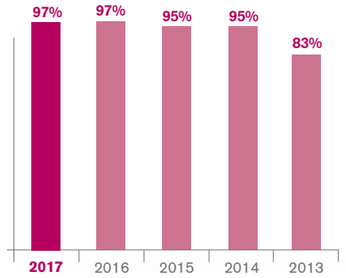
Retail Market Share %



Residential Customer Satisfaction %



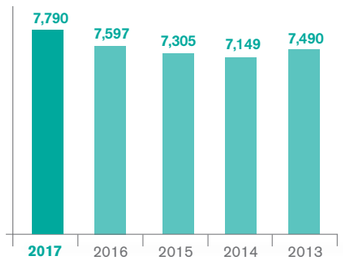
Brand Awareness %



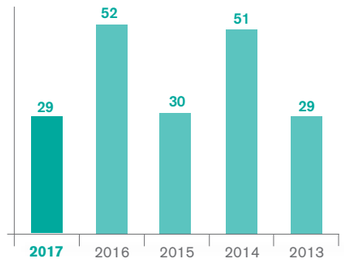
KPI	DEFINITION	STRATEGIC RELEVANCE	PERFORMANCE	STRATEGIC PRIORITY
Retail Market Share	Total Single Electricity Market (SEM) all-island market share.	Retention and growth of market share is key to ESB so that it can compete within the all-island competitive environment.	Overall market share decreased by 3% during 2017 primarily as a result of customer losses in the industrial and commercial market sectors. For further detail, see Electric Ireland business unit on page 60.	
Residential Customer Satisfaction	Provides a measure of residential customer satisfaction (Source: Research Perspective Monthly Survey Results).	ESB strive to provide excellent customer service and introduce new initiatives to improve the customer experience in order to retain market share.	Residential customer satisfaction improved in 2017 as a result of enduring savings of 8.5%, the delay in required price increases until after the winter period and new and innovative products in the market. For further detail, see Electric Ireland business unit section on page 60.	
Brand Awareness	Awareness of Electric Ireland as an Energy Supplier (Source: IPSOS Mori Customer Survey Results).	Maintain the Electric Ireland brand as the leading energy supply brand in Ireland.	Brand awareness remained strong at 97% owing to enhanced marketing, sponsorship and promotional campaigns. For further detail, see Electric Ireland business unit section on page 60.	

PEOPLE

Headcount No.



Employee Lost Time Injuries (LTIs) No.



KPI	DEFINITION	STRATEGIC RELEVANCE	PERFORMANCE	STRATEGIC PRIORITY
Headcount	Average number of employees in the year including temporary employees employed by ESB.	The delivery of the strategy will require an organisation that is of a certain scale and is flexible, highly motivated and adaptable.	Headcount has increased in 2017 as a result of recruitment for new business lines along with apprentice and graduate recruitment. For further detail, see note 8 of the financial statements.	
Employee LTIs	Employee LTIs are work-related injuries that involve an absence of at least one day (not including the day the injury occurred).	Safety is at the centre of everything we do. ESB continues to focus on reducing risks in the business that gives rise to injurious incidents. For further detail, see safety on page 66.	The reduction in LTIs is linked to improvement plans, projects, training and auditing programmes where the focus is on injury prevention.	

PUT CUSTOMERS' CURRENT AND FUTURE NEEDS AT THE CENTRE OF ALL OUR ACTIVITIES

PRODUCE, CONNECT AND DELIVER CLEAN, SECURE AND AFFORDABLE ENERGY

DEVELOP ENERGY SERVICES TO MEET EVOLVING MARKET NEEDS

GROW THE BUSINESS WHILE MAINTAINING ESB'S FINANCIAL STRENGTH

DELIVER A HIGH-PERFORMANCE CULTURE THAT SUPPORTS INNOVATION AND COLLABORATION

OPERATING AND FINANCIAL REVIEW

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EXECUTIVE TEAM

The Executive Team focuses on the execution of the ESB Strategy to 2030 (Strategy 2030), technological and commercial developments, programme execution, financial and competitive performance, people development, governance, organisational development and Group-wide policies.

Pat O'Doherty Chief Executive

Appointed: December 2011
Career Experience: Pat joined ESB in 1981. Prior to his current role, Pat headed up ESB's largest businesses as Executive Director of ESB International, Managing Director of ESB Networks DAC and Executive Director of ESB Power Generation. Pat holds both primary and master's degrees in engineering from University College Dublin. He completed the Advanced Management Programme at Harvard Business School. He is a trustee of The Conference Board of the United States, a Director of Energy UK and Chair of the Apprenticeship Council of Ireland.

Jerry O'Sullivan
Deputy Chief Executive

Appointed: October 2014
Career Experience: Prior to his current role, Jerry was Managing Director of ESB Networks DAC. 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 primary degree in civil engineering from University College Cork and is a Fellow of Engineers Ireland.

Pat Fenlon
Executive Director Group Finance and Commercial

Appointed: July 2016
Career Experience: Prior to his current role, Pat held a number of senior financial, commercial and general management positions across ESB including Group Finance and Commercial Manager, Group Treasurer, General Manager of Electric Ireland and Corporate Change Manager. He is a Fellow of Chartered Accountants Ireland and worked with PwC in Dublin before joining ESB in 1993.

Paddy Hayes
Executive Director Generation and Wholesale Markets (G&WM)

Appointed: June 2012
Career Experience: Prior to his current role, Paddy held various senior management positions in ESB including Head of Independent Generation. Prior to joining ESB in 1999, Paddy worked with British Steel. A chartered engineer, he holds both primary and master's degrees in engineering from University College Dublin and an MBA from the University of Warwick.

Marguerite Sayers
Managing Director ESB Networks DAC

Appointed: November 2014
Career Experience: Marguerite joined ESB in 1991 and holds a primary degree in electrical engineering from University College Cork. Previously, she was Head of Asset Management for ESB Networks and Customer Service Manager for Dublin South, and has had roles in HR, Network Planning, Operations and Construction. Marguerite was also Manager of ESB Generation where she was responsible for ESB's 5,500 MW generation portfolio in Ireland and the UK. She is currently a Vice President of Engineers Ireland and is a member of the National Paediatric Hospital Development Board.

Jim Dollard
Executive Director Business Service Centre (BSC) and Electric Ireland

Appointed: July 2013
Career Experience: A chartered management accountant, Jim began his career at ESB in 1992 and has held a number of senior management positions throughout the Group. Jim holds both a primary degree in commerce and a master's degree in business studies from University College Dublin. He completed the Advanced Management Programme at Harvard Business School during 2017.

Pat Naughton
Executive Director Group People and Sustainability

Appointed: June 2012
Career Experience: A mechanical engineer, Pat has worked in a variety of roles since joining the Group in 1978. He previously held senior positions as HR Manager in ESB Energy International, Manager Strategy and Portfolio Development, ESB Energy International and Manager of Hydro Stations, ESB Power Generation.

Paul Mulvaney
Executive Director Innovation

Appointed: October 2014
Career Experience: Paul joined ESB in 1985 and has held a number of senior management positions, including Manager of Great Island and Moneypoint Generation Stations, Group Manager of Coal / Oil / Gas Stations, Asset Manager Power Generation and Programme Manager, Corporate Change. He was appointed Managing Director of ecars in 2009 and Head of Distribution and Customer Service, ESB Networks in 2012. Paul holds a primary degree in mechanical engineering and has completed the advanced management programme at the Institute de Estudios Superiores de la Empresa (IESE) Business School in the University of Navarra, Spain.

John Redmond
Company Secretary

Appointed: October 2002
Career Experience: Prior to his current role, John was Assistant Secretary and then Group Secretary and Senior Vice President Corporate affairs of GPA Group plc. / AerFi Group plc. and subsequently Company Secretary of Debis AirFinance BV. From 1980 to 1988, he worked in the Department of Foreign Affairs and the Department of Finance. John holds a primary degree in Philosophy from Maynooth University and holds postgraduate 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.

MARKET STRUCTURE AND OPERATING ENVIRONMENT 2017

1. OVERVIEW OF THE ELECTRICITY MARKETS STRUCTURE IN THE REPUBLIC OF IRELAND (ROI), NORTHERN IRELAND (NI) AND GREAT BRITAIN (GB)

The structure of the electricity market in ROI, NI and GB can be divided into four segments: generation, transmission, distribution and supply. Electricity generation and supply are open to full competition throughout ROI, NI and GB. Electricity transmission and distribution are regulated monopolies in ROI, NI and GB, with the respective regulator determining the allowed revenue for the price review period.

ENERGY POLICY AND REGULATION

Energy policies are set by the Minister for Communications, Climate Action and Environment in ROI, the Minister for the Economy in NI and the Minister for Business Energy and Industrial Strategy in GB. Energy policy and regulation are heavily influenced by European Union (EU) law.

The Commission for Regulation of Utilities (CRU) is the independent regulator of the energy market in ROI. The Northern Ireland Authority for Utility Regulation (NIAUR) is the independent regulator of the energy market in NI. The Office of Gas and Electricity Markets (OFGEM) is the regulator of the energy market in GB.

SINGLE ELECTRICITY MARKET (SEM)

The SEM is the single wholesale market (pool) for electricity in ROI and NI. It is a mandatory gross pool, so all generators are required to sell and suppliers are required to buy power through the pool. 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 who enter into fixed financial contracts (contracts for differences).

BRITISH ELECTRICITY TRADING AND TRANSMISSION ARRANGEMENTS (BETTA)

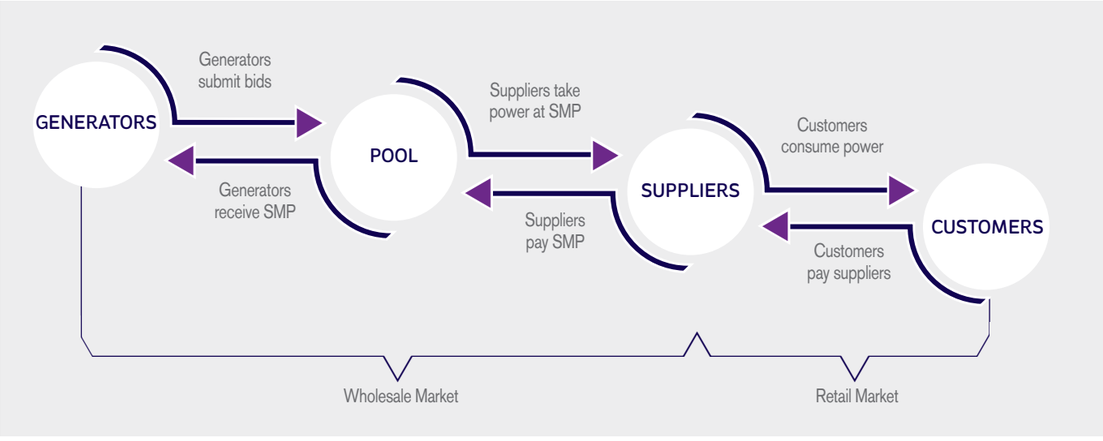
BETTA is the wholesale electricity market operating in GB. Unlike the SEM, trading can take place between generators and suppliers either bilaterally or through exchanges. Both physical and financial contracts can be struck to manage price volatility, for timescales ranging from several years ahead to on-the-day trading markets. As part of its Electricity Market Reform (EMR) initiative to incentivise investment in low-carbon electricity and improve the security of supply and affordability, the British Government operates a capacity remuneration scheme. Under the scheme, generators are awarded capacity contracts (based on the outcome of an auction) that enable them to receive payments for the provision of generation capacity while also receiving penalties for non-delivery during scarcity events.

INTEGRATED SINGLE ELECTRICITY MARKET (I-SEM)

I-SEM is a new electricity market for ROI and NI which will replace SEM in May 2018. The drivers for I-SEM came from the requirement to implement the European Union (EU) Target Model, which is a set of harmonised arrangements for cross-border trading of wholesale energy and balancing services across Europe. It includes a new capacity remuneration mechanism that complies with latest EU state aid guidelines. ESB has established I-SEM programmes to ensure that the business is ready for the new market arrangements that are scheduled to go live on 23 May 2018.

The process of moving towards I-SEM go-live passed several important milestones in 2017, including the approval of the capacity mechanism under state aid guidelines from the European Commission. This cleared the way for the auction of I-SEM capacity contracts known as Reliability Options in December 2017. The process for remunerating capacity in I-SEM differs significantly from the existing SEM capacity scheme, where generators receive payments based on availability. The new mechanism not only introduces an element of competition for capacity contracts via the auction process but also imposes reliability penalties on the holders of the said contracts (if they are called to deliver capacity and are unable to do so). The first I-SEM capacity auction allowed generators to compete for Reliability Options for 1 year ahead (T-1), but subsequent auctions will feature timeframes of 4 years out (T-4) as well as an adjustment auction for the year ahead. The auction was held by the Transmission System Operator (TSO) in December 2017. 7,774 MW of the 9,014 MW capacity offered were awarded capacity contracts. The auction clearing price was €41.8/kW. 3,280 MW / 91% of ESB's Generation and Wholesale Market's (G&WM) plant secured contracts out of 3,580 MW of capacity offered.

SINGLE ELECTRICITY MARKET (SEM)



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 38kV / medium / low voltage networks. In ROI, ESB owns the transmission and distribution system network and operates the electricity distribution system network, while EirGrid operates the transmission system network. In NI, Northern Ireland Electricity Networks (NIE Networks) owns the electricity transmission and distribution system network and operates the electricity distribution system network while the System Operator for Northern Ireland (SONI) operates the transmission system network.

INTERCONNECTION

For geographical reasons, the electricity transmission systems on the island of Ireland are relatively isolated compared to systems in mainland Europe and GB. The East-West Interconnector links the electricity transmission system in ROI to the electricity transmission system in Wales, enabling two-way transmission of electricity. The East-West Interconnector runs between Deeside in north Wales and Woodland, County Meath in ROI. Approximately 260 kilometres in length, the underground and undersea links can transport 530 MW.

The Moyle Interconnector links the electricity grids of NI and Scotland through submarine cables running between converter stations in NI and Scotland. This link has a capacity of 500 MW. However, from 10 November 2017 there has been a hard constraint of 80 MW imposed on exports (west to east flow). This constraint is being driven by technical issues on the Scottish side and is expected to stay in place until 1 December 2019. The availability of the Moyle Interconnector was restricted to half capacity from 18 February 2017 to 1 October 2017 due to maintenance works.

In 2017, during the winter gas period there was a net import (from GB to SEM) flow on both interconnectors but once the gas capacity charges fell off (in the summer gas period) the opposite trend occurred. ESB is an active participant in the interconnector market and was responsible for 24% of total imports and 2% of total exports during 2017. See figures 1 and 2 for further detail.

ELECTRICITY GENERATION

The SEM generation sector comprises approximately 15,291MW of capacity connected to the system on an all-island basis, up from 13,446 MW in 2016. 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 resources including hydro, wind, peat and biomass.

SEM has 3,320 MW of wind installed, which is key to the Irish Government's target of 40% of electricity to be generated from renewable resources by 2020. Wind contributed 22% of generation in 2017, up from 18% in 2016, with a maximum wind output of 3,143 MW being recorded on 6 December 2017. ESB was responsible for 42% of generation in SEM in 2017, slightly down from 2016.

2017 saw 96% availability of baseload thermal generation in SEM, with gas and coal continuing to be the dominant fuels in the market.

ELECTRICITY TRADING

The electricity and gas markets in ROI, NI and GB are linked in two ways, through gas being used for electricity generation and through the physical interconnection of electricity and gas networks. In common with a number of other companies in the Irish market, ESB is active in both Irish and GB markets in gas and electricity.

In addition to ESB's generation interests, ESB is active in all sectors of the gas market from residential to large commercial and is one of the biggest gas shippers in ROI. ESB is continuing to grow in the electricity and gas markets in GB and key developments in 2017 included the entry into the GB supply market and the examination, assessment and development of generation opportunities in

FIGURE 1: IMPORT OF ELECTRICITY MARKET SHARE

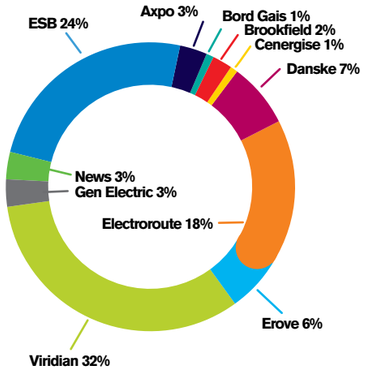
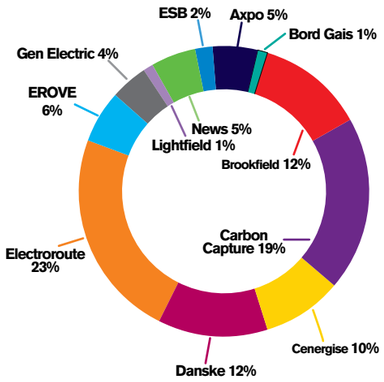


FIGURE 2: EXPORT OF ELECTRICITY MARKET SHARE



GB. Supporting ESB's GB operations, ESB Trading has a full trading capability up to real time with a 24-hour trading presence in the gas and electricity market.

2. OPERATING ENVIRONMENT

THE GLOBAL ENERGY MARKETS

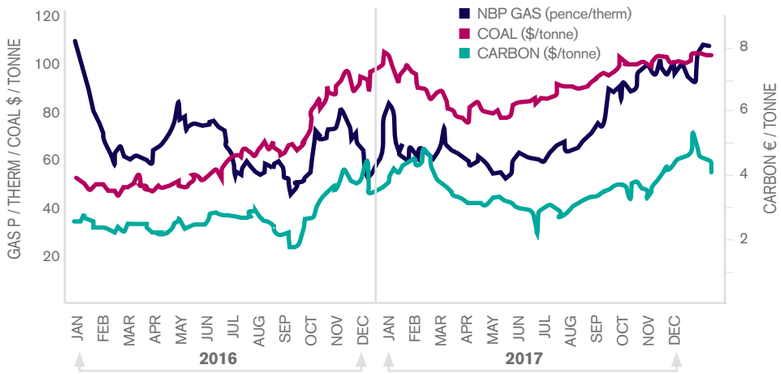
GAS PRICES

Power sector demand growth in gas has played a major role in driving gas demand in Europe this year. The switch from coal to gas fired generation that began in 2016 gained momentum in 2017 responding to higher coal prices. Average gas prices for 2017 have been on an upward trend, in contrast to price movements in 2015 and 2016. This pattern of increases has been driven by supply side issues in the UK. The monthly average gas price in January was 53.11 pence/therm, rising to a monthly average of 57.80 pence/therm in December. The annual average gas price for 2017 was 44.74 pence/therm, up from 34.59 pence/therm in 2016.

COAL PRICES

Although there was a decrease in coal prices at the end of Q1 and into Q2, prices began to rise by mid-year with the trend continuing through to year end. This upward movement has been driven by an increase in the demand for coal, particularly in China, coupled with closures by the Chinese authorities of some domestic mines which reduced supply. The annual average coal price for 2017 was $84.41/tonne, up from $59.97/tonne in 2016.

FIGURE 3: GAS, COAL AND CARBON PRICES



CARBON PRICES

The monthly average carbon price in January was €5.25/tonne and this steadily increased throughout the year, ending the year with a monthly average of €7.63/tonne in December. The annual average carbon price for 2017 was €5.84/tonne up from €5.38/tonne in 2016. Carbon price movements are linked to policy decisions and implementation at an EU level. The increase in carbon price in 2017 is linked to a provisional agreement in November between the European Parliament and European Council to revise the EU Emissions Trading Scheme post 2020. This revision is aimed at reducing greenhouse gas emissions by at least 40% by 2030.

FIGURE 4: ELECTRICITY GENERATION IN SEM BY FUEL TYPE

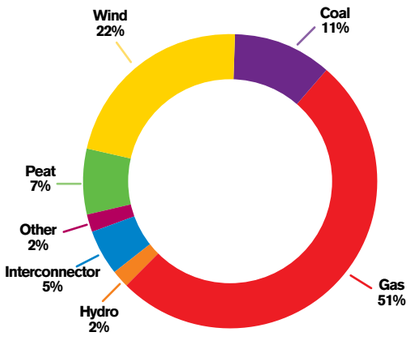
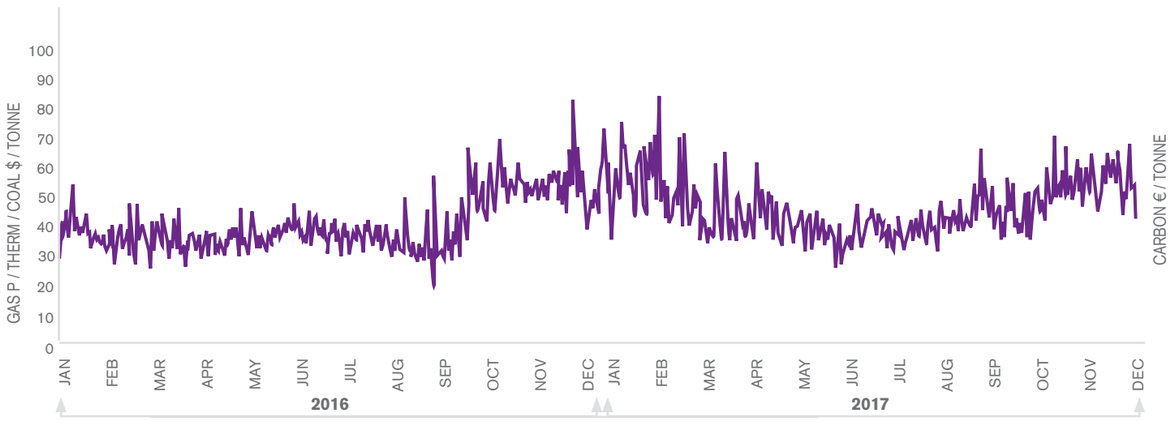


FIGURE 5: SMP (€/MWH)



SEM WHOLESALE ELECTRICITY PRICES

The SMP in SEM is made up of two components:

- the short-run marginal cost of production (SRMC) which is the cost of fuel; and
- the uplift element of SMP, which is the recovery of start-up and no-load costs - these are fixed costs which do not vary with the level of output.

In 2017, 69% of generation was met by fossil fuels, predominately gas and coal. With CCGT units being the most efficient units on the system, SMP has been very closely linked with the wholesale gas price. Year on year, the 2017 SMP has increased by 13.5% to an annual average value of €47.48/MWh, up from €41.82/MWh in 2016, driven primarily by increased gas prices. Prices in SEM were also influenced in 2017 by both the Moyle Interconnector operating at 50% capacity for 8 months and a maintenance outage at the Synergen Plant.

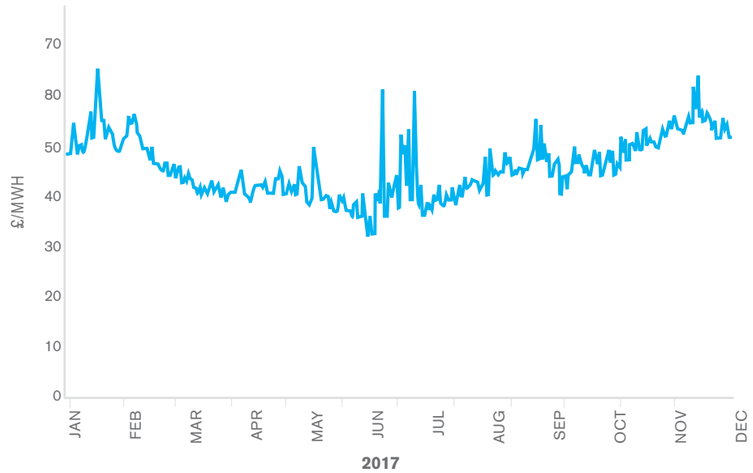
The year started off with a monthly average SMP in January of €57.51/MWh. The year closed out with a monthly average price of €56.88/MWh in December, compared to €54.47/MWh in December 2016.

Uplift (the element of the electricity price that covers start-up costs and fixed operating costs) has been on a downward trend since a regulatory change to the uplift calculation was introduced on 1 January 2015. In 2014, uplift on average was 29% of SMP, with steady decreases leading to a 2017 average figure of 15% of SMP, level with 2016.

GB ELECTRICITY MARKET AND PRICES

2017 was Carrington Power Station's first full year of commercial operation in the evolving British electricity market. Support for new onshore wind and solar generation came to an end during 2017. Deployment of these renewables in early 2017 to meet the subsidy gate closure included substantial levels of solar, which now exceeds 12 GW of installed capacity. This additional solar generation has had a considerable effect on the overall system operation over the summer period, causing day time wholesale energy market prices to be suppressed. The highest ever system solar peak generation was recorded on 26th May 2017 at 9.34 GW with prices falling accordingly across the early summer period before staging a recovery from late summer

FIGURE 6: GB BASELOAD (£/MWh)



onwards and averaging £45.42/MWh for the year. The second round of the auction process for renewable contracts for difference (CFDs) was announced in September, with a total of 3.34 GW of renewable generation procured, including 3.2 GW of offshore wind due to be commissioned in phases starting in delivery years 2021 / 22 and 2022 / 23.

Coal generation volumes continue to drop, with lower volumes in 2017 compared to 2016. This is driven by increasing coal pricing and the UK's Carbon Price Support Mechanism which makes coal generation economics substantially less favourable compared to gas. On the 21st of April it was announced by National Grid that the UK had experienced its first full day without coal generation since 1882. The British Government has reaffirmed its commitment to the closure of coal stations, by signalling intent to keep the total price of carbon similar to levels presented in its Autumn Statement, and confirming the 2025 latest closure date for unabated coal generation.

3.6 GW of generation plant exited National Grid's final Strategic Balancing Reserve Scheme in October 2017, including ESB's 350 MW Corby CCGT plant, which is now participating in the wholesale electricity market. This capacity, alongside 1.2 GW of new build peaking generation and demand side response, has led to greater system margin in the fourth quarter in 2017. Winter 2017 also saw the start of the first Capacity Market, in which both Carrington and Corby were successful participants. (The Capacity Market Auction is the competitive process to award Capacity Market Agreements to meet the target capacity for the relevant Delivery Year).

FINANCIAL REVIEW

Pat Fenlon
Executive Director, Group Finance and Commercial

> **"The results for 2017 - the 90th anniversary of the establishment of ESB - reflect a satisfactory performance across ESB Group in challenging market conditions. ESB continues to focus on delivering long term value and investing in critical long term electricity infrastructure to lead the transition to reliable, affordable, low-carbon energy for the benefit of our customers, shareholders and the wider Irish economy and this is enabled by maintaining a strong financial position."**

Q How would you describe financial performance in 2017?

In 2017 we delivered a satisfactory performance resulting in another year of consistent underlying financial performance with Earnings before Interest, Tax, Depreciation, Impairment, Amortisation and Exceptional Items (EBITDA) of €1.3 billion, Operating Profit before exceptional items of €490 million, capital investment of €867 million and gearing of 52%. In 2017, ESB, Ireland's leading energy utility, retained its stable business profile with approximately two thirds of its earnings, assets and capital investment accounted for by regulated electricity networks in Ireland under established and transparent regulatory frameworks.

This performance reflects:

- In Generation & Wholesale Markets (G&WM), a successful first full year of operation of the Carrington 885 MW plant and continued growth in our renewable assets portfolio and strong availability across the generation portfolio, but with increased competition and downward pressure on energy margins;
- ESB Networks and NIE Networks continuing to deliver smart reliable networks with significant capital and maintenance programmes in accordance with their regulatory contracts, as well as an excellent customer focused response to Storm Ophelia. A price review was agreed for NIE Networks in 2017 which provides regulatory and financial visibility out to 2024; and
- Electric Ireland continuing to innovate and create value for customers, including the application of enduring long-term savings to almost 1 million of its residential electricity and gas customers during the year.

2017 profit levels are down on 2016, primarily reflecting the challenging market conditions with increased competition and downward pressure on energy margins, as well as the impact of the non-recurring exceptional charges in 2017. The introduction of the new Integrated Single Electricity Market (I-SEM) which is due to go live in May 2018, together with a forecast continuation of lower energy margins are expected to put downward pressure on projected generation revenues. It is in this context ESB has made an exceptional non-recurring impairment charge of €276 million of its generation asset portfolio in 2017. This represents 2% of ESB total asset base at the end of 2017.

Notwithstanding this exceptional non-recurring impairment charge, as outlined above, ESB has delivered a satisfactory underlying financial performance in 2017, with Group EBITDA at €1.28 billion, a strong liquidity position of €1.9 billion and credit ratings of A- or equivalent with Standard & Poor's and Moody's (BBB+ standalone).

Q What role does finance have in delivering ESB's Strategy to 2030 (Strategy 2030)?

One of the five key strategic objectives is to 'grow the business whilst maintaining ESB's financial strength'. Finance plays a key role in supporting strategy delivery while protecting the financial strength and integrity of ESB. Working together with the business we do this by:

- Ensuring there is a comprehensive performance management reporting system in place;
- Implementing an effective system of internal controls;
- Providing commercial support and challenge so as to optimise the allocation of capital across ESB's portfolio of investment opportunities so as to enable strategy delivery;
- Proactively managing key financial risks such as foreign currency and interest rate exposures; and
- Ensuring ESB is in a strong position to access the funding markets. This is clearly demonstrated by ESB's credit ratings of A- or equivalent (BBB+ standalone) with Standard & Poor's and Moody's and ESB's successful placement of a 12 year, €500m 1.75% fixed-rate bond during 2017.

Q What are the principal challenges and opportunities ESB Group faces in the next three years from a financial perspective?

ESB, like many other companies, is facing a number of strategic financial challenges. Over the next three years these include:

- Increased volatility and downward pressure in generation energy margins in both I-SEM and Great Britain (GB);
- Increased regulatory challenge of our networks businesses including the requirement to deliver stretching targets under their respective regulatory contracts;
- Increased and intense retail competition in both the Republic of Ireland (ROI) and the United Kingdom (UK); and
- Increased uncertainty in our macro environment triggered by events such as Brexit and other global socio-political developments.

However, these developments are also presenting opportunities for ESB, particularly in the delivery of smart reliable electricity networks that enable more connection of renewable generation and support the electrification of heat and transport, transitioning to a balanced low-carbon generation portfolio of scale in ROI and the UK and the development of services, where we can bring value-driven solutions to our customers and enable the transition to reliable, affordable low-carbon energy.

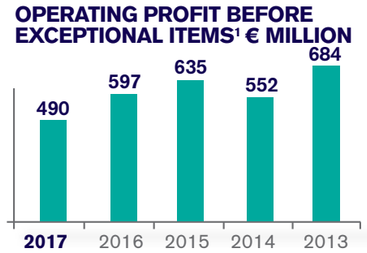
We carefully and continuously monitor all of these strategic financial opportunities and challenges and take prudent financial actions, including management of the significant capital programme, as appropriate, so as to enable the delivery of Strategy 2030 while maintaining ESB's financial strength.

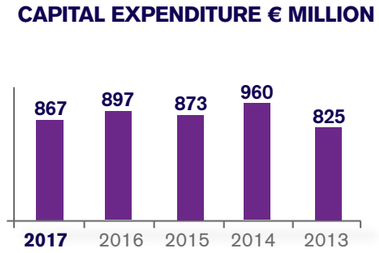
Given ESB's position as Ireland's leading energy utility with diverse businesses across the energy value chain, its stable business profile, consistently solid financial performance and stable credit ratings, ESB is well positioned to avail of these opportunities and address these challenges to enable the delivery of its strategy.

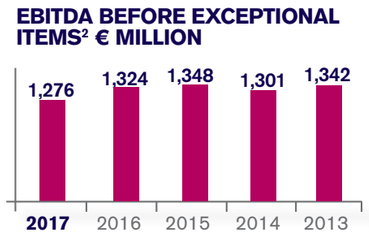
HIGHLIGHTS

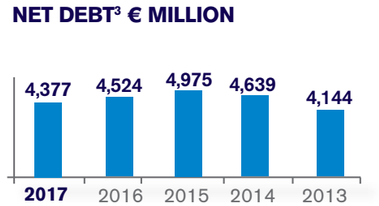
EBITDA EXCLUDING EXCEPTIONAL ITEMS	GEARING	OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS	PROFIT AFTER TAX BEFORE EXCEPTIONAL ITEMS	CAPITAL EXPENDITURE	2017 DIVIDENDS	RETURN ON CAPITAL EMPLOYED
€1,276 MILLION	52%	€490 MILLION	€209 MILLION	€867 MILLION	€60 MILLION	4.6%

FIGURE 1: FIVE-YEAR SUMMARY - CONSISTENT FINANCIAL PERFORMANCE









[1] Before the following exceptional items: 2017: impairment change (€276 million) 2015 : impairment change (€104 million) 2014: profit on asset disposal (€38 million) and non-cash gain (€94 million) 2013: profit on asset disposal (€95 million)
[2] Before the following exceptional items: 2014: profit on asset disposal (€38 million) and non-cash gain (€94 million) 2013: profit on asset disposal (€95 million)
[3] Net debt divided by the sum of net assets and debt (excluding joint ventures)

FIGURE 2: SUMMARISED INCOME STATEMENT

	2017	2016
	€'m	€'m
Revenue and other operating income	3,262	3,247
Operating costs	(2,772)	(2,650)
Operating profit	**490**	**597**
Exceptional items	(276)	-
Operating profit after exceptional items	**214**	**597**
Total finance costs	(211)	(198)
Fair value movements on financial instruments	(5)	(190)
Share of equity accounted investees loss	(8)	(15)
Profit/(loss) before tax	**(10)**	**194**
Tax charge	(22)	(8)
Profit/(loss) after tax	**(32)**	**186**

REVENUE

Revenue and other operating income before exceptional items at €3,262 million has increased by €15 million compared to 2016 (€3,247 million).

The increase is driven by higher revenue in Generation and Wholesale Markets (G&WM) due to a full year of running at Carrington Combined Cycle Gas Turbine (CCGT) Plant in Great Britain (GB) and increased regulated income in ESB Networks offset by lower revenues in Electric Ireland as a result of lower volumes and price reductions.

OPERATING COSTS

Overall operating costs before exceptional items at €2,772 million have increased by €122 million.

- Fuel and other energy costs have increased by €56 million on 2016 relating to higher gas costs due to a full year of running at Carrington CCGT offset by lower coal costs relating to lower running in Moneypoint.
- Depreciation is up by €55 million on 2016 due to an increase in asset retirement provisions in 2016 in G&WM and a full year of depreciation charge for Carrington CCGT.
- Employee costs are in line with 2016 with higher costs related to increased headcount and overtime in ESB Networks during Storm Ophelia being offset by higher capitalised payroll in ESB Networks and the release of a restructuring provision no longer required.
- Operating and maintenance costs have increased by €9 million due to higher operating costs in ESB Networks associated with Storm Ophelia and higher costs associated with new business activities in 2017.

A breakdown of the operating costs by business segment is provided in note 2 to the financial statements.

EXCEPTIONAL ITEM

Following impairment reviews of the generation assets ESB recognised an exceptional impairment charge of €276 million in relation to Moneypoint (€142 million), Aghada Unit 2 (€69 million), Synergen (€30 million), Poolbeg (€21 million), Marina (€1 million) power stations and €13 million across five wind farms. These impairment charges reflect the anticipated changes associated with I-SEM, which is due to go live in May 2018 and other pressures on energy margins. This exceptional non-recurring, non-cash, generation asset impairment represents 2% of ESB's total assets at the end of 2017. See note 4 and 10 in the financial statements for more detail.

FIGURE 3: OPERATING COSTS (EXCLUDING EXCEPTIONAL ITEMS)

	2017	2016
	€'m	€'m
Fuel and other energy related costs	956	900
Depreciation and amortisation	815	760
Employee costs	467	464
Operating and maintenance costs	530	521
Impairment (excluding exceptional item in 2017)	4	5
	2,772	**2,650**

OPERATING PROFIT

Operating profit before exceptional items has decreased by €107 million. The decrease is driven by the following:

- Higher depreciation of €55 million - see operating costs for further detail.
- Lower energy margin of €20 million due to lower margin in G&WM and Electric Ireland due to pressure on energy margins, partially offset by higher margin in ESB Networks due to regulated tariff increases.
- Lower other income of €20 million due to negative fair value movements on investments.
- Higher operating and maintenance costs of €9 million and higher employee costs of €3 million - see operating costs for further detail.

The movement in operating profit between 2016 and 2017 is set out in the reconciliation of operating profit in Figure 4.

EBITDA

EBITDA excluding exceptional items for 2017 at €1,276 million is €48 million lower than 2016. This decrease is driven by factors impacting on operating profit (excluding depreciation) as described above.

ADJUSTED PROFIT BEFORE TAXATION

Adjusted profit before taxation for 2017 is €262 million (2016: €382 million). The variance relates to the lower energy margin, higher operating costs and higher depreciation as described above and higher interest costs, see figure 5.

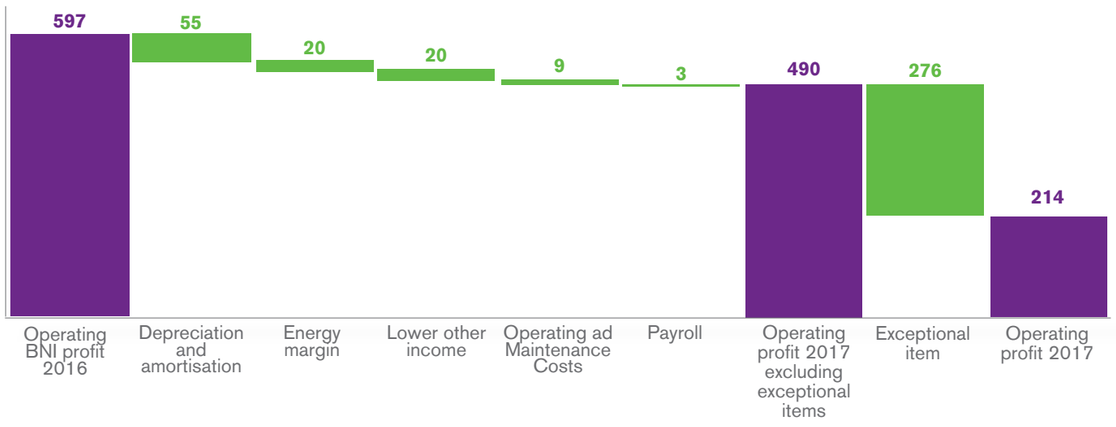
TOTAL FINANCE COSTS

Total finance costs for 2017 are €172 million lower than 2016 costs.

The increase in net interest on borrowings relates to a decrease in capitalised interest with Carrington finishing construction in 2016. The decrease in financing charges relates to the decrease in the outstanding liability relating to the ESB pension scheme with €140 million being repaid during the year.

The movement on the inflation linked interest rate swaps is outlined on page 51. Further detail is included in note 20 to the financial statements.

FIGURE 4: RECONCILIATION OF OPERATING PROFIT 2016 - 2017



TAXATION

The higher tax charge of €22 million is primarily due to movements in asset retirement obligation provisions, negative fair value movements on investments that were not tax deductible, higher tax on overseas profits, and the reduction to the tax charge in 2016 relating to the negative fair value movement on the RPI linked interest rate swaps. Further detail is included in note 18 to the financial statements.

SEGMENTAL PERFORMANCE

The Group is organised into five main reportable segments or strategic divisions, which are managed separately. Details on the financial performance of the business segments are included in the business unit review sections pages 54 to 63 and in note 2 to the financial statements.

NET DEBT AND GEARING

The decrease in net debt to €4.4 billion in 2017 from €4.5 billion in 2016 reflects positive EBITDA and the impact of weakening GBP offset by continued capital investment, finance costs, tax and dividend payments in 2017.

The gearing level of 52% is marginally (1%) higher than 2016.

CAPITAL EXPENDITURE

Capital expenditure totalled €867 million in 2017. This is a decrease of €30 million on 2016 investment levels.

Capital investment in the networks businesses continued in 2017 with €644 million (74% of total capital investment) invested in the networks infrastructure in ROI and Northern Ireland (NI). This expenditure is based on the capital expenditure programmes agreed with the respective regulators in ROI and NI. Included in the spend for 2017 is a €66 million capitalised asset retirement obligation relating to the retirement and destruction of network creosote poles by ESB Networks.

Expenditure in G&WM in 2017 amounted to €128 million (2016: €262 million). This expenditure includes €93 million investment in renewables and an increase in the asset retirement obligations capitalised of €25 million set out in note 25 to the financial statements.

Capital investment of €95 million in other segments includes the progression of other strategic projects for the Group including the redevelopment of the Fitzwilliam Street Head Office and preparation for I-SEM.

FIGURE 5: RECONCILIATION OF ADJUSTED PROFIT BEFORE TAXATION

	2017	2016
	€'m	€'m
Profit/(loss) before taxation	(10)	194
Exceptional items	276	-
Fair value movement on RPI linked interest rate swaps	(4)	188
Adjusted profit before taxation	**262**	**382**

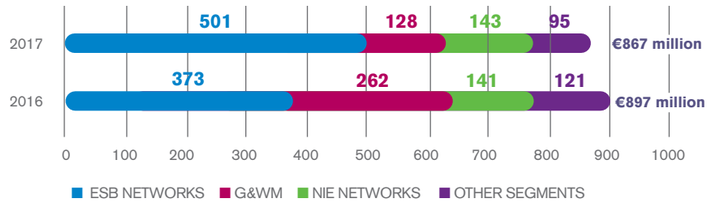
FIGURE 6: TOTAL FINANCE COSTS

	2017	2016
	€'m	€'m
Net interest on borrowings	188	170
Financing charges	29	37
Finance income	(6)	(9)
Net finance costs	**211**	**198**
Inflation linked interest rate swaps	(4)	188
Fair value losses on financial instruments	9	2
Total finance costs	**216**	**388**

FIGURE 7: SUMMARISED CASH FLOW STATEMENT

	2017	2016
	€'m	€'m
EBITDA (excluding exceptional items)	1,276	1,324
Provision utilisation and other movements	(139)	(74)
Interest and tax	(221)	(239)
Net cash inflow from operating activities	**916**	**1,011**
Sale proceeds	31	9
Capital expenditure and loans to equity accounted investees	(843)	(770)
Other	4	2
Net cash outflow from investing activities	**(808)**	**(759)**
Net cash outflow from financing activities	**(90)**	**(14)**
Net increase/(decrease) in cash	**18**	**238**

FIGURE 8: CAPITAL EXPENDITURE



TREASURY MANAGEMENT FRAMEWORK FOR TREASURY AND TRADING OPERATIONS

The main financial risks faced by the Group are:

- Liquidity availability and maintenance of access to the debt markets
- Foreign exchange volatility
- Interest rate movements on the Group's existing and projected future debt portfolio
- Commodity price movements
- Counterparty credit exposure
- Operational risk, including exposure to fraud and error

Group Treasury is responsible for the day-to-day treasury activities of the Group, and therefore for the management, in whole or in part, of each of these financial risks. Some of these risks can be mitigated through the use of derivative financial instruments. When used, such instruments are executed in compliance with the specifications of the Minister for Finance issued under the Financial Transactions of Certain Companies and Other Bodies Act 1992. This Act enables ESB to enter into derivative contracts to eliminate or reduce the risk of loss arising from changes in interest rates, currency, commodity prices or other factors similar in nature. IAS 39 cash flow hedge accounting is applied to the Group's derivative positions where appropriate. The Finance and Investment Committee of the Board is updated on an ongoing basis on key treasury matters. Group Treasury's approach to the management of the key financial risks of ESB is set out in note 26 to the financial statements.

LIQUIDITY AND FUNDING ACTIVITIES

Group Treasury's funding activities are of strategic importance to the Group supporting ESB's capital expenditure programme, the refinancing of maturing debt and the maintenance of an appropriate liquidity buffer to guard against future economic shocks. During 2017, ESB once again proactively managed its liquidity position through a number of important funding transactions.

ESB's €1.44 billion Revolving Credit Facility, provided by 14 relationship banks and which is the Group's main source of standby liquidity, currently extends out to January 2022. This strong liquidity position was further strengthened in January 2017 when ESB issued a 12 year, €500 million fixed-rate bond at a coupon of 1.75%. This was the lowest coupon on any of the bonds issued to date under ESB's Eurobond programme and provided the Group with the majority of its funding requirements for 2017. The proceeds were used largely to repay debt maturing later in 2017, notably a 6.25% bond raised in September 2012 and which was repaid in September 2017.

ESB has been active in the debt capital markets in recent years, 2017 being the third year in a row during which ESB issued a benchmark (€500 million or larger) bond. The Group gearing (net debt divided by the sum of net assets and debt (excluding joint ventures)) has increased slightly in the period from approximately 51% at the end of 2016 to 52% at the end of 2017. The majority of funding raised was used to refinance maturing debt.

The Group's funding and liquidity strategy targets the maintenance of a strong liquidity position, a debt portfolio with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate.

The low interest rate achieved on the bond issued in January 2017 contributed to a reduction in the weighted average interest rate on Group borrowings, which was 3.9% at the end of 2017 (December 2016: 4.3%). In addition, through the issue of a 12-year bond the average duration of the Group's debt portfolio has increased such that the substantial majority of the Group's borrowings are repayable in five years or more, greatly reducing any medium-term funding risk.

FIGURE 9 – INTEREST RATE MANAGEMENT

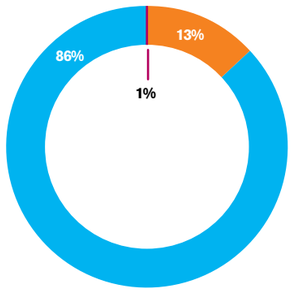


FIGURE 10: AVAILABLE LIQUIDITY

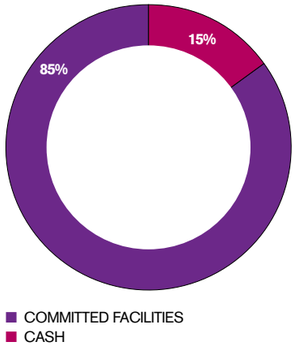


FIGURE 11: GROUP DEBT TYPE

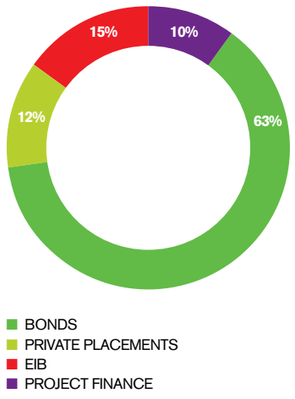
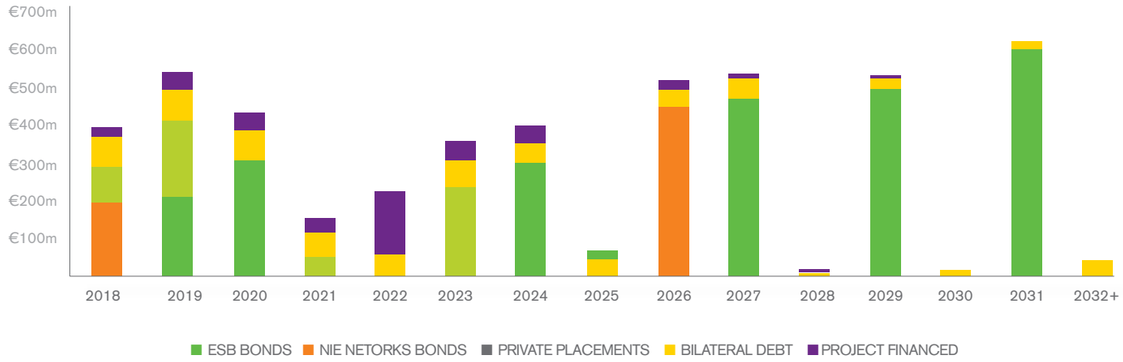


FIGURE 12: ESB DEBT MATURITY PROFILE AS AT 31 DECEMBER 2017



ESB's funding and liquidity position reflects its underlying financial strength and strong credit ratings of A- by Standard & Poor's and A3 by Moody's. In the context of ESB's ongoing EBITDA performance - averaging approximately €1.3 billion per annum in recent years - and liquidity of €1.9 billion (between cash and undrawn committed facilities) at 31 December 2017, ESB believes that its debt maturity profile does not pose significant risks to the Group. The Group continues to proactively manage its borrowings repayment profile and maintains its ability to fund in the future through close ongoing engagement with its banks, debt investors and credit rating agencies.

FOREIGN EXCHANGE AND INTEREST RATE RISK MANAGEMENT

The vast majority of the Group's business is located in ROI and the UK. Accordingly, the majority of operating and investing cash flows are denominated in euro or sterling. The main exceptions to this are coal purchases, which are generally denominated in US dollars. ESB's policy is to hedge any material foreign currency exposures as they arise using currency derivatives such as forward purchase contracts.

The Group's policy is to finance its euro denominated business by borrowing directly in euro or to convert any foreign currency borrowing to euro through the use of derivative instruments. Investments in the UK (including NIE Networks) are generally funded by sterling-denominated debt. At 31 December 2017 approximately 64% of ESB's debt is denominated in euro, with the remaining 36% in sterling.

The Group's interest rate policy is to maintain a significant majority of its debt at fixed interest rates, with a minimum of 50% fixed at all times. At 31 December 2017, 86% of the Group's debt was fixed to maturity and another 13% was inflation linked.

COMMODITY PRICE RISK

Fuel and carbon prices paid by ESB in connection with its electricity generation activities can exhibit some volatility, depending on market conditions. The resulting exposures to fuel price movements on future earnings are managed by ESB on a selective-hedging basis. ESB has entered into forward commodity price contracts in relation to gas, coal and carbon emissions allowances for up to three years ahead in order to reduce the Group's exposure to movements in wholesale electricity prices arising from such commodity price fluctuations. The Group's supply business, Electric Ireland, provides a natural hedge in this regard.

COUNTERPARTY CREDIT RISK

The Group is exposed to credit risk from the counterparties with which it holds its bank accounts and transacts with in financial and commodity markets. The Group's policy is to limit exposure to counterparties based on assessments of credit risk. Exposures and related limits are subject to ongoing review and monitoring in each business unit, and on a Group-wide basis, by the Group Trading Committee (GTC). Dealing activities are controlled by establishing dealing mandates with counterparties. In general, counterparty credit limits set by the GTC are closely linked to the credit rating of each counterparty as determined by the leading credit rating agencies, although other factors, including security provided and the legal structure of the transaction, may also be taken into account. The limit set for a counterparty is the amount by which the sum of the settlement amount, the mark to market value and the potential future exposure may not be exceeded, and these limits are reviewed on an ongoing basis.

OUTLOOK

ESB's position as Ireland's leading energy utility, its stable business profile and its solid financial position ensures it is well positioned to meet the challenges that lie ahead and to support its strategic ambition to lead the transition to reliable, affordable low-carbon energy for the benefit of its customers.

GENERATION AND WHOLESALE MARKETS (G&WM)

Paddy Hayes
Executive Director Generation and Wholesale Markets

Q What are the key achievements in 2017 for G&WM?

G&WM continues to implement the strategy of delivering a balanced portfolio of thermal and renewable generation in the all-islands market. Development efforts are focused on accelerating investment in renewable energy in order to reduce the carbon intensity of the portfolio, supporting the transition to reliable, affordable, low-carbon energy. During 2017 the business focused on growth in renewable assets while continuing to deliver solid generation and strong trading commercial performance. Solid availability, (90%), safely delivered across the generation fleet, was a credit to the operations, maintenance and technical teams. However, the timing of key outages in Q3 and Q4 had a significant impact on volumes and revenues this year.

G&WM commissioned four wind farms in 2017, Moneypoint and Cappawhite in the Republic of Ireland (ROI) together with Crockdun and Eglish in Northern Ireland (NI) bringing an additional 95 MW into ESB's growing renewing portfolio.

OVERVIEW

The G&WM business develops, operates and trades the output of ESB's electricity generation assets. The portfolio consists of 5,822 MW of generation assets across the Single Electricity Market (SEM) and Great Britain (GB), with a further 173 MW under construction. With a strong focus on safety, G&WM delivers value by:

- Providing wholesale and traded products to meet market and customer needs;
- Offering system services to support a robust electricity grid and facilitate the integration of renewables;
- Optimising the operation of the ESB generation portfolio;
- Delivering new energy assets to support the transition to low-carbon energy; and
- Acting positively in communities close to construction projects and operating assets.

OPERATING PROFIT

2017 €121* million
2016 €231 million
(€110 million)

CAPITAL EXPENDITURE

2017 €128 million
2016 €262 million
(€134 million)

* Before exceptional impairment charge of €276 million (2016 : Nil)

FINANCIAL PERFORMANCE

G&WM's operating profit before exceptional items at €121 million is down €110 million on 2016. This primarily reflects lower wholesale energy margins in both SEM and GB, with coal moving down the merit order, as well as a higher depreciation charge in 2017. In addition, plant availability, although solid, was lower than the excellent level delivered in the past two years, with a corresponding impact on volume and revenues.

G&WM expects that the new Integrated Single Electricity Market (I-SEM), which will replace SEM in May 2018, coupled with downward pressure on energy margin, will result in very significant downward pressure on revenues. These two issues triggered an impairment review of ESB's generation assets, leading to a total impairment charge of €276 million in 2017, comprising a charge of €263 million for thermal assets and €13 million for renewable assets.

A major project is already underway to address business model and cost base changes required in response to the impact of the expected loss of revenues resulting from I-SEM.

Capital expenditure at €128 million was €134 million down on 2016, primarily due to delays in the delivery of a number of planned onshore renewable projects and higher expenditure in 2016 relating to Carrington and major plant overhauls.

OPERATING ENVIRONMENT

The operating environment for generation in both SEM and GB has been challenging. Increases in fuel prices led to reduced running and revenues from coal generation. While gas running picked up, spark spreads remained subdued throughout the year in both markets. In GB, 2017 saw the first full year of market running for ESB's Carrington Plant, which had strong availability throughout the year.

The Integrated Single Electricity Market (I-SEM), a new market to replace SEM, is due to go live in May 2018 and has impacted on forward hedging capabilities for generators and suppliers. The new market will change how electricity is traded and available revenues.

As part of the preparation for I-SEM, the G&WM operating model is under review in anticipation of significant market and revenue changes. While G&WM will continue to earn a significant element of its energy margin in I-SEM from capacity payments and quasi-regulated supports for its renewables portfolio, capacity revenues will be lower. However, there will be opportunities, for higher revenues from the ancillary services required to support a robust electricity system with more intermittent renewable generation. The expectation is that total revenues for generation will be under pressure in the early years of the market. A review of the expected extent of revenue reductions indicated a requirement for an exceptional impairment of G&WM's generation assets in I-SEM totalling €276 million. ESB has a diversified generation plant portfolio mix and a strong trading capability and is well positioned to respond to the I-SEM market changes.

The first capacity auction was held by the Transmission System Operator (TSO) in December 2017 for I-SEM capacity contracts for the period from May 2018 to September 2019. The auction clearing price was €41.8/kW. 3,280 MW or 91% of ESB G&WM's plant were awarded contracts out of 3,580 MW of capacity offered. Capacity contracts were not accepted for ESB's open-cycle gas unit at Marina and the conventional steam unit at Aghada and, after many years of excellent performance and service to electricity customers, once I-SEM starts in May, there will be no commercial basis for the continued operation of these units. ESB is very mindful of the personal impact of this for individuals and is committed to working through this together with those involved.

PROGRESS ON STRATEGIC OBJECTIVES

G&WM is responsible for growing a balanced, low-carbon energy portfolio operating across I-SEM and GB, producing secure and affordable energy and supporting the transition to a low-carbon future. G&WM has made significant progress on this objective during 2017 by:

Asset Delivery

- ESB's renewable generation portfolio increased by 95 MW as four wind farms, at Moneypoint, Cappawhite, Crockdun, and Eglish, entered commercial operation;

Asset Development

Biomass

- Completion of construction on the 40 MW renewable waste wood to energy plant at Tilbury (a joint venture with the Green Investment Group), with commissioning underway through year end and commercial operations are expected in Q1 2018;
- Continued development work on a number of potential waste-to-energy facilities in GB;

Onshore Wind

- Completion of construction at the 35 MW windfarm at Castlepook, a joint venture with Coillte, with commissioning underway, it is scheduled to enter commercial operation early in 2018;
- Construction started on the 114 MW wind farm at Grousemount in Kerry;
- Final development work on Oweninny Phase 1 (43.5 MW), a joint venture with Bord na Móna, with project financing expected to be in place early in 2018;
- Continuing development of up to 700 MW of wind generation in Scotland, in conjunction with Coriolis and with REG Holdings;

Solar

- Continuing development of potential solar projects, in conjunction with Terrasolar and by means of joint ventures with Bord na Móna and Kingspan (Funded Solar);

Offshore Wind

- Early stage development and due-diligence work on various offshore opportunities off the coast of ROI, NI and GB;

Gas

- Development of potential flexible gas engine plants at Carrington;
- Development of a potential combined cycle gas turbine at Knottingley; and

Investment in existing assets

- G&WM continued to make significant investments (to the value of €55 million) in the existing generation portfolio during 2017, with overhauls in Aghada, Lough Ree, Turlough Hill and Synergen stations, and the completion of a fleet-wide hydro refurbishment programme.

G&WM CUSTOMERS

G&WM continues to offer a variety of traded contracts to all supply companies in the SEM on a non-discriminatory basis via an over-the-counter trading platform. These contracts provide suppliers with the opportunity to hedge their power purchases, to better mitigate against power price volatility risk for their residential and commercial customers. ESB worked closely with regulators and counterparties to agree new streamlined, market standard contracts to facilitate continued trading in the I-SEM market, and the first trades under these contracts were executed during Q4 2017. During 2017 G&WM provided trading support as ESB established supply positions in GB through ESB Energy and Planet 9.

PEOPLE

At 1,005, employee numbers in G&WM have risen slightly due to increased activity in Asset Development and the I-SEM readiness project.
The I-SEM and GB capacity auction processes bring uncertainty to some existing generation plants and those that operate them. Once I-SEM starts in May 2018, there will be no commercial basis for the continued operation of Aghada Unit 1 and Marina. ESB is very mindful of the personal impact of this for individuals and ESB is committed to working through this together with those involved.

Health, safety and wellbeing is of fundamental importance and G&WM's safety improvement programme during 2017 was directed at the process safety programme, maintaining the focus on behavioural safety, and the promotion of health and wellbeing. Successful pilots of a Safety Culture Change Programme were completed at Aghada, Marina and Synergen stations.

All locations within G&WM are covered by an externally-audited OHSAS-certified safety management system for which accreditation was maintained in 2017. G&WM retained its Excellence through People accreditations and the team at Carrington retained their Investors in People accreditation.

SUSTAINABILITY

G&WM operates its business with a focus on minimising environmental impact, aiming to significantly increase renewable generation and reduce the overall carbon intensity of generation. CO2 emissions from G&WM's generation plants remain lower than 2005 (reference date) by approximately 30% and the carbon intensity dropped by nearly a quarter to 513 g/kWh in the same period.

G&WM continues to invest in its Fisheries Conservation Programmes, which deliver clear environmental benefits in terms of improving fish stocks and natural river habitats.

UPDATE ON 2017 PRIORITIES AND PRIORITIES FOR 2018

2017 Priority	2017 Progress	2018 Priority
OPERATIONAL		
Continuing to maintain a healthy and injury-free workplace. Further embedding process safety. Continuing to improve safety assurance.	■ Phase 1 of the Process Safety Programme was completed and embedded. ■ Incident and injury free Safety Culture Change pilot programmes were completed at Aghada, Marina and Synergen stations.	■ Continuing to maintain a healthy and injury-free workplace. ■ Continuing to improve safety assurance. ■ Commencing rollout of the Safety Culture Change Programme across G&WM.
Safely complete the construction of Tilbury Green Power and the portfolio of wind projects.	■ Four windfarms with a combined capacity of 95 MW were safely completed and entered commercial operation. ■ Tilbury (40 MW) and Castlepook wind farm (35 MW) are in the final stages of commissioning.	■ Commission the Tilbury and Castlepook projects. ■ Safely build out the Grousemount and Oweninny Wind projects.
Maintain a high level of performance in both generation and trading Prepare for I-SEM.	■ Annual availability of the generation fleet was solid at 90% despite a number of forced outages in Q3 and Q4. ■ Trading performance remained satisfactory against a backdrop of difficult market conditions. ■ Preparation for I-SEM continued with the first auction for Capacity taking place in December 2017.	■ Maintain a high level of performance in both generation and trading. ■ Commence operations in I-SEM in May 2018.
STRATEGIC		
Construct additional renewable projects, while continuing to develop diverse renewable and transition growth opportunities.	■ 95 MW of additional renewable generation projects were completed, with a further173 MW in construction.	■ Increase the number of opportunities for investment in low-carbon generation including solar and offshore wind. ■ Review options to move forward with the plans for biomass conversion of the midlands stations and develop options for the transition away from coal generation at Moneypoint.
Progress trading and operational capability in readiness for the I-SEM market.	■ Good progress was made on operational readiness for I-SEM. ■ New contracts to facilitate continued trading in the I-SEM market were developed.	■ Address the business model and cost base changes required in response to the expected significant reductions in I-SEM revenues.

CONNECTING TO OUR FUTURE

G&WM are working on a range of activities to transition along the path to a low-carbon future. The Tilbury biomass plant is one of those projects – it will help reduce the carbon intensity of ESB's generation and increase the renewable energy available to customers. It is being built on a brownfield site at the Port of Tilbury, UK. The plant is ideally situated near the London catchment area, so transportation is optimised, minimising the overall carbon footprint. The 40 MW facility will convert waste wood to energy, generating enough green electricity to power almost 100,000 homes. The fuel is waste wood that would otherwise be sent to landfill, and it is collected locally. Tilbury started construction in May 2015 and is currently being commissioned, with commercial operations expected in Q1 2018. Tilbury is a joint venture between ESB and the Green Investment Group. The plant is being constructed and operated by a consortium between Burmeister Wain & Scandinavian Co a/s and Aalborg Energie Technic a/s who also have a minority shareholding in the project. Stobart Biomass will provide the waste wood for fuel.

ESB NETWORKS

Marguerite Sayers
Managing Director
ESB Networks DAC

Q What are the key achievements in 2017 for ESB Networks?

In 2017, ESB Networks launched its Innovation Strategy which sets out how the business will meet the challenges of Ireland's changing energy landscape and facilitate the transition to a reliable, affordable, low-carbon energy. ESB Networks will be central to successfully implementing this transition ensuring that our customers and all energy stakeholders are best served into the future. As part of this strategy, a significant "smart electricity" trial has been launched on the Dingle Peninsula that aims to define a view of the energy landscape in 2030. The trials will be based on collaboration with customers, communities and society and will seek to improve service and allow affordable, reliable and trustworthy energy platforms to be built.

As the economy has picked up, so too has the number of new connections to the system and in 2017, we connected 25,000 (2016: 20,000) new homes and businesses. 443 MW (2016: 540 MW) of new renewables were also connected, resulting in almost 4 GW of renewable generators now being connected to the transmission and distribution systems in Ireland.

All of the above connections required significant reinforcement and extensions to the electricity network, in addition to considerable maintenance, vegetation management and refurbishment programmes for the established network.

The Smart Metering Project Team proposed a revised phased approach for the delivery of the Smart Metering Project to the Commission for Regulation of Utilities (CRU) in Q1 2017 and subsequently received formal regulatory approval and funding approval of €304 million to complete phase one of the Project by 2020. This involves the safe installation of 250,000 meters by 2020 and the delivery of two Central Market System releases. All procurements to purchase the end-to-end solution are now in progress and the High Level Design phase of the Project is now complete.

On the 16th October 2017, Ireland felt the full force of 190 kmph winds from Storm Ophelia. At its peak, 385,000 customers were without supply and the network was severally damaged. ESB Networks deployed 2,500 staff, 1,000 contractors and enlisted the assistance of the Defence Forces and 400 utility workers from Northern Ireland Electricity Networks (NIE Networks) and the United Kingdom (UK) / French companies to reconnect and restore power to all homes and businesses and make the network safe again. This required close working co-operation with the National Emergency Coordination Group for Severe Weather, Government Departments, Met Eireann, the Defence Forces and national media. ESB Networks would like to thank all of those agencies for their help during the storm period, and also to sincerely thank our customers for their patience during the restoration effort after this unprecedented event.

OPERATING PROFIT

2017	€317 million
2016	€314 million
	€3 million

CAPITAL EXPENDITURE

2017	€501 million
2016	€373 million
	€128 million

REGULATED ASSET BASE (RAB)

2017	€7.7 billion
2016	€7.5 billion
	€0.2 billion

OVERVIEW

ESB Networks builds, manages and maintains a transmission and distribution network of over 180,000 kilometres in the Republic of Ireland (ROI). The business holds both ISO 55001 and OHSAS 18001 certifications which covers asset management and occupational health and safety management. These certifications are important in providing assurance that the business is being run consistently to high external benchmarks.

The business invested €501 million (net of capital contributions) in reinforcement and constructing new networks in 2017 whilst €128 million was spent on maintaining the existing network.

2017 was the second year of PR4 and ESB Networks has made good progress on the approved investment and maintenance programmes demonstrating its commitment towards a safe and reliable network.

FINANCIAL PERFORMANCE

ESB Networks operating profit for 2017 at €317 million is in line with 2016. Capital expenditure (net of capital contributions) at €501 million is up by €128 million on 2016. The increase is related to the inclusion of an asset retirement provision for the retirement and destruction of creosote poles (a non-cash accounting adjustment) and higher spend on both transmission and distribution assets. Gross capital expenditure (before capital contributions and asset retirement obligations) in 2017 was €504 million (2016: €473 million).

OPERATING ENVIRONMENT

Economic recovery has continued during 2017 in both the house building and business sectors with both experiencing increased volumes of new connections, up 22% on 2016. Further modest growth is expected in 2018. The amount of renewables connected to the electricity network in ROI has exceeded 3,700 MW. Ireland is on track to achieving the national target of providing 40% of its electricity needs from renewable resources by 2020.

PROGRESS ON STRATEGIC OBJECTIVES

Put customers' current and future needs at the centre of all our activities

The focus of the 2017 investment in the transmission network was on continuing the reinforcement of the system to facilitate the connection of new renewable electricity generation. ESB Networks also continued to invest in the electricity distribution network to improve reliability of supply and ensure the safety of the network.

Develop energy services to meet evolving market needs

ESB Networks has developed an Innovation Framework to help it deliver its vision of the future. The framework builds on its history of innovation while incorporating the drivers for change. The ESB Networks' Innovation Strategy will continually evolve over time to reflect the rapidly changing energy landscape. Engagement with partners will be an ongoing feature of the strategy implementation.

Grow the business while maintaining ESB finance strength

ESB Networks will optimise its cost base by driving efficiency and create customer and shareholder benefit. ESB Networks' aim is to increase financial and resource flexibility to adjust to levels of expenditure allowed under future regulatory determinations.

Safety

ESB Networks is fully committed to protecting the safety, health and wellbeing of its employees, contractors, customers, members of the public and others who may be affected by its activities. The current safety strategy places Leadership, Competence, Compliance and Engagement at its core. Recent external independent audits reinforce that the safety performance of ESB Networks compares well with similar businesses. However, there is no room for complacency in this critical area and 2018 will see additional planned projects being progressed to further enhance our safety performance.

ESB NETWORKS' CUSTOMERS

ESB Networks is continually developing new channels to provide information to its customers and to make it easy for them to make contact or to receive the information that they require. The Customer Care Centre deals with 1.6 million contacts per year and achieves high customer service ratings of over 81% satisfaction across a range of performance indicators.

During 2017, two new on-line services were developed – 'Pay an Invoice' and 'Log a Fault' - which are available on the ESB Networks website. In addition, enhanced customer information on restoration times has been introduced via the 1850 number and the website. Social media presence continues to be enhanced and this year ESB Networks created a Facebook account in addition to its Twitter and Instagram accounts.

When Storm Ophelia was forecast, ESB Networks activated its Crisis Management Plan. Customer communications is critical during large-scale outages and two additional call centres were set up for the duration of the restoration effort, one of which was resourced by ESB volunteers. All of the media channels were used extensively to communicate and engage with customers during this extreme event. The three contact centres handled up to 52,000 contacts from customers each day and ESB Networks received 8 million page impressions across its social media channels. The Powercheck (available on App or website) received almost 1 million hits in the first 24 hours.

Despite these severe weather events, and a very extensive network due to our dispersed population, electricity customers in Ireland have secure and reliable networks. During 2017, customers in Ireland experienced 144 minutes without power each year. ESB Networks is continuing to invest in new technology and smarter networks to improve the reliability of this service even further. The ESB Networks Innovation Strategy will include investment in state of the art technology such as self-healing networks which will further reduce outage times for customers.

ESB Networks is constantly developing new ways of raising awareness on how to stay safe around electricity and currently runs safety awareness campaigns on TV, radio, online, through social media and with schools and agricultural colleges. One of the great successes last year was ESB Networks Schools Safety Programme. There were over 4,000 entries to the safety competition and ESB employees visited over 200 primary schools to educate the children about electricity. There were also further visits by staff to schools to distribute hi-vis vests to junior infants classes in a joint venture with the Royal Sun Alliance (RSA).

PEOPLE

At 3,347 ESB Networks' employees are central to successfully implementing its business strategy and continue to display the highest levels of craftsmanship. During 2017, a number of ESB Networks employees were awarded industry standards, including the Electrical Installations Discipline in the World Skills Competition in Abu Dhabi and winning the Fleet Transport Association Apprentice Mechanic of the Year. These were in addition to ESB's own Apprentice of the Year competition (Shane Conlon Perpetual Award).

Similar to other years, ESB Networks' apprenticeship recruitment campaign was significantly over-subscribed. This year's recruitment drive, attracted over 5,650 applicants for up to 60 places, which is a 70% increase on 2016 and also resulted in a fourfold increase in female applicants.

SUSTAINABILITY

ESB Networks is committed to facilitating the Irish Government in achieving its target of 40% of energy consumption coming from renewable sources by 2020. A total of 443 MW of renewables were connected in 2017, bringing total renewable MW connected to the grid to almost 4 GW. Plans are in place to connect a further 470 MW of renewable energy in 2018.

CONNECTING TO OUR FUTURE

ESB Networks is committed to enabling the electrification of transport and heat. Since 2010 ESB Networks has worked to identify and assess innovative technologies and solutions to increase network capacity without huge cost or unduly disrupting customers. Cost-effective electrical designs have been produced that ensure that new housing constructed today has additional capacity for electric heat and electric vehicle charging from the outset. A Low Voltage Design Handbook is also being produced, to ensure consistent design approaches for existing low voltage networks to support the economic integration of customers' low-carbon technology.

Dingle Strategy

As part of ESB Networks' Innovation Strategy, a significant 'smart electricity' trial has been launched on the Dingle Peninsula that aims to define a view of the energy landscape in 2030 based on collaboration with consumers, communities and society.

UPDATE ON 2017 PRIORITIES AND PRIORITIES FOR 2018

2017 Priority	2017 Progress	2018 Priority
OPERATIONAL		
The safety journey will continue to ensure ESB Networks protect the health and safety of employees, contractors and the public.	■ Safety is essential to everything ESB Networks do. Recent external independent audits (carried out by the National Standards Authority of Ireland on behalf of OHSAS) confirm that both safety standards and culture within ESB Networks have progressed in 2017.	■ The safety journey will continue to ensure ESB Networks protects the health and safety of employees, contractors and the public.
Continue to examine emerging trends in electricity networks across Europe and develop strategic plans accordingly. Deliver projects set out under the Innovation Strategy.	■ ESB has advanced a number of projects as part if its ESB Networks Innovation Strategy. In particular the Dingle Strategy was launched in September 2017.	■ Continue to examine emerging trends in electricity networks across Europe and develop strategic plans accordingly. ■ Deliver projects set out under the Networks' Innovation Strategy.
STRATEGIC		
Continue to deliver and monitor performance of PR4 capital and operational programmes.	■ Continue to make progress on the delivery of capital and maintenance programmes as set out in PR4. ■ A framework for monitoring PR4 performance is now established.	■ Continue to deliver and monitor performance of PR4 capital and operational programmes.
In line with PR4 contract, efficiently deliver transmission and distribution capital and maintenance projects.	■ Good progress on transmission and distribution projects in 2017.	■ In line with PR4 contract, efficiently deliver transmission and distribution capital and maintenance projects.
Continue to examine emerging trends in electricity networks across Europe and develop strategic plans accordingly. Deliver projects set out under the Innovation Strategy.	■ ESB Networks launched its Networks' Innovation Strategy in September 2017. ■ Received formal regulatory approval and funding of €304 million to complete phase one of the Smart Metering Project by 2020. ■ High Level Design phase of the Smart Metering Project is now complete.	■ Deliver the Networks' Innovation Strategy. ■ Progress procurement for deployment contractor and initiate internal preparations for deployment of meters.

NORTHERN IRELAND ELECTRICITY NETWORKS (NIE NETWORKS)

Jerry O'Sullivan
Deputy Chief Executive

Q What are the key achievements in 2017 for NIE Networks?

The regulatory price control, which governed NIE Networks' expenditure over a five and a half year period (RP5), concluded on 30 September 2017. NIE Networks successfully delivered the outputs required in RP5 with total expenditure incurred in line with allowances.

In June 2017 the Northern Ireland Authority for Utility Regulation (NIAUR) published the RP6 Final Determination (FD) providing regulatory and financial visibility until March 2024.

The six and a half year price control commenced on 1 October 2017 and sets allowances for capital investment of €0.8 billion and €0.5 billion in respect of operating costs (2017-18 prices). The allowances in respect of major transmission load growth projects will be considered on a case by case basis, for example, the North-South Interconnector. The allowances will be adjusted to reflect 50% of the difference between the allowances and actual costs.

Significant progress has been made in 2017 delivering the generation connections pipeline due to the closure of the Northern Ireland Renewables Obligation (NIRO) scheme. More than 1.4 GW of renewable generation is now connected to the network. In light of further significant changes to the connections market in Northern Ireland (NI), NIE Networks has also been focused on preparing for the phased introduction of full market opening to competition in customer connections on 28 March 2018.

OPERATING PROFIT

2017	€35 million
2016	€35 million

–

CAPITAL EXPENDITURE

2017	€143 million
2016	€141 million

€2 million

REGULATED ASSET BASE (RAB)

2017	£1.5 billion
2016	£1.4 billion

£.0.1 billion

OVERVIEW

NIE Networks is responsible for the transmission and distribution of electricity from generators to every home, farm and business in NI. NIE Networks' employees plan, build, repair and develop the electricity network and operate the distribution network to keep the lights on for customers. NIE Networks is also responsible for metering activities, providing meters and metering information to all electricity suppliers. NIE Networks develops and reconfigures the electricity network to facilitate the connection of further renewable generation.
As required under its regulatory licences, NIE Networks is an independent business within ESB with its own Board of Directors, management and employees.

FINANCIAL PERFORMANCE

NIE Networks' operating profit for 2017 at €35 million is in line with 2016. Higher regulated tariff and connections income has been offset by the impact of weakening GBP against the euro.

Capital expenditure at €143 million is in line with 2016 and related to expenditure associated with the completion of the RP5 programme.

OPERATING ENVIRONMENT

In 2017 NIE Networks delivered its RP5 investment plan and outputs despite the challenging programme of work and a peak in demand for renewable connections to the network. Against this backdrop, lost time incidents, customer complaints and customer minutes lost remained largely in line with the previous year.

PROGRESS ON STRATEGIC OBJECTIVES

NIE Networks has successfully delivered against its key strategic objective for RP5, being the completion of the programme of work under its network investment plan and delivery of the associated outputs required, to achieve reliability of supply and ensure the safety of the network for customers. Investment continued during 2017 to facilitate the connection of additional renewable generation and to replace customers' meters, with the installation of 101,000 meters during 2017.

NIE NETWORKS' CUSTOMERS

To meet customers' expectations NIE Networks has continued to manage outages in order to minimise the length of time that customers are off supply. The average number of customer minutes lost due to planned outages was 62 (2016: 65). The average number of minutes lost due to faults in the distribution network was 57 (2016: 56). There were 2 complaints taken up by the Consumer Council for NI (CCNI) on behalf of customers during the year, an increase of 2 from the previous year. As outlined in its plans for RP6, NIE Networks is committed to a multichannel approach to communication and during 2017 it continued to see a significant level of engagement with its customers via social media most notably during Storm Ophelia.

PEOPLE

Ensuring the safety of employees, contractors and the general public continued to be at the centre of all NIE Networks' operations. The aim is to provide a zero-harm working environment where risks to health and safety are assessed and controlled and NIE Networks had 1 lost time incident during the year (2016:1), showing the commitment of employees to maintaining the highest standards of safety. In recognition of its strong safety focus, NIE Networks won two National Irish Safety awards during 2017.

NIE Networks won the 2017 UK Chartered Institute of Personnel and Development award for Employee Engagement Strategy in recognition of its efforts in engaging with its 1,288 employees. In addition, NIE Networks has also been accredited at gold level following assessment in 2017 against the Investors in People Sixth-Generation Standard.

In recognition of employee efforts, NIE Networks introduced a number of new employee awards during the year to include, a Think Customer award for excellence in customer service, an Innovation Ambassador and Innovation Champion awards, a Mentor award and a Health and Wellbeing Champion award.

SUSTAINABILITY

During the year, 287 MW of large-scale wind farms, 71 MW of small-scale renewable generation projects and 3 MW of micro-generation were connected to the network, together providing an additional 361 MW of renewable generation. By the end of the year, there was a total of 1,447 MW of renewable generation connected.

CONNECTING TO OUR FUTURE

NIE Networks' preparations for a low-carbon future involve trialling technologies that can reduce costs to customers in the long term. Five main projects have been identified: smart asset monitoring, demand side response, low-voltage active network management, voltage management and facilitation of energy storage services. These projects will help to facilitate the connection of low-carbon technologies to the network and to release network headroom at a lower cost than conventional reinforcement. Plans for innovation will focus on integrating suitably advanced smart solutions into business as usual. In addition, some forward investment in the communications network is planned to enable a wider roll-out of smart solutions in future price control periods.

UPDATE ON 2017 PRIORITIES AND PRIORITIES FOR 2018

2017 Priority	2017 Progress	2018 Priority
OPERATIONAL		
Ensure the health and safety of employees, contractors and the general public and achieve a zero-harm work environment through implementation of injury and accident-free initiatives.	■ 1 lost time incident. ■ Retained ISO and OHSAS accreditations. ■ Won 2 National Irish Safety awards.	■ Ensure the health and safety of employees, contractors and the general public and achieve a zero-harm work environment through implementation of injury and accident-free initiatives.
Consistently provide high standards in network performance and customer service while delivering an intensive investment programme and high level of generation connections.	■ Significant progress in connection of 361 MW renewable generation. ■ High customer satisfaction survey score following roll-out of Think Customer initiative. ■ Continued management of outages.	■ Consistently provide high standards in network performance and customer service while delivering the RP6 investment programme and the high level of generation connections.
Delivery of full market opening for connections.	■ Significant level of preparation undertaken in move towards full market opening in 2018.	■ Delivery of full market opening for connections on 28 March 2018.
Deliver all remaining requirements of the RP5 network investment programme and continue to deliver cost efficiencies and performance improvements where possible including maintaining employee costs in line with appropriate benchmarks.	■ Substantial capital investment (€143 million) and full delivery of the RP5 programme by 30 September 2017 with total expenditure incurred in line with allowances.	■ Deliver RP6 programme whilst maintaining a safe and secure network. ■ Deliver total expenditure in line with RP6 allowances.
STRATEGIC		
Invest in employees through effective employee development and increased employee engagement with focus on encouraging continuous improvement.	■ Employee engagement survey scores above industry average. ■ UK Chartered Institute of Personnel and Development Award for Employee Engagement Strategy. ■ Leadership capability across all levels enhanced through a variety of training and development initiatives.	■ Invest in employees through effective employee development and increased employee engagement with focus on encouraging continuous improvement.
Effective engagement with key stakeholders.	■ Significant engagement undertaken with customers and other stakeholders following RP6 determination.	■ Effective engagement with key stakeholders.
Achievement of satisfactory outcome to the RP6 price control.	■ RP6 Final Determination received 30 June 2017 and effective from 1 October 2017.	■ Access finance at optimal cost to fund the RP6 programme of work and refinance expiring bond.

ELECTRIC IRELAND

Jim Dollard
Executive Director for Business Service Centre and Electric Ireland

Q What were the key achievements for Electric Ireland in 2017?

During 2017, Electric Ireland continued to deliver value to its customers, offering improved customer experience through enhanced digital service capability and innovative products.

In July Electric Ireland became the first Single Electricity Market (SEM) supplier to automatically apply enduring long-term savings to its residential electricity and gas customers. All Republic of Ireland (ROI) Electric Ireland residential customers can benefit from savings of up to 8.5% based on certain behaviours such as online billing and direct debit. Electric Ireland now has almost one million customers enjoying these savings. As part of its ongoing commitment to its customers, Electric Ireland has delayed the introduction of required price increases until February 2018. This has postponed the impact of the increase until after the winter period, when bills are at their highest.

At the same time, Electric Ireland has progressed the development of its product offerings through the introduction of residential solar power and the further development of smart and connected home offerings, which it will launch in early 2018. In addition a new online store has been developed which facilitates a completely digital end-to-end purchasing experience for customers.

REVENUE

2017	€1.7 billion
2016	€1.9 billion
	(€0.2 billion)

OPERATING PROFIT

2017	€68 million
2016	€72 million
	(€4 million)

In 2017 Electric Ireland established its position in Northern Ireland (NI) capturing an 8% share (c.69,000 customers) of the residential market. ESB has entered the GB domestic market organically through the establishment of ESB Energy in 2017.

OVERVIEW

Electric Ireland is the retail arm of ESB, supplying electricity, gas and energy services to customers across the island of Ireland. With over 1.25 million customers and an electricity all-island market share of 34%, Electric Ireland serves all market segments, from domestic households to large industrial and commercial businesses, in both ROI and NI. With a strong focus on customer service, providing value for all customers and contributing to communities across the country, Electric Ireland is recognised as a leading retail brand by Irish consumers and businesses.

FINANCIAL PERFORMANCE

Revenue in Electric Ireland in 2017 was €1.7 billion, a decrease of 9% compared to 2016 which was driven by reduced unit rates for residential electricity and gas customers in addition to a reduction in market share. Electric Ireland's overall market share decreased by 3% during 2017 to 34% primarily as a result of customer losses in the industrial and commercial market sectors.

Electric Ireland reported an operating profit of €68 million, which represents an operating profit margin of 3.7% (excluding non-cash mark to market accounting adjustments). This is a €4 million decrease on 2016's financial performance.

In 2017 an ongoing drive focusing on operating costs has allowed Electric Ireland to continue to offer the best prices in the market and accommodate significant increases in wholesale energy and regulatory costs.

OPERATING ENVIRONMENT

In ROI, Electric Ireland operates in one of the most dynamic and competitive markets in Europe, evidenced by the number of new suppliers who entered the market in recent years and the high level of customer switching. Electric Ireland has continued to compete effectively in this environment through continued focus on competitive pricing and innovative offerings. Electric Ireland has passed on significant savings to customers in the last number of years when fuel prices have fallen and has accommodated the fuel price increases of 2017 without applying any price increases during the year.

PROGRESS ON STRATEGIC OBJECTIVES

Electric Ireland has taken significant steps in 2017 to deliver on its strategic objective to put customers' current and future needs at the centre of all its activities. The implementation of the second phase of the Stay Happy retention campaign was launched in June and implemented over the summer months. This strategy of rewarding loyalty is an innovative approach to delivering long-term value to residential customers in a market dominated by short-term value propositions. This innovative approach aims to deliver a leading and stable residential market share in the core market. In 2017 Electric Ireland also expanded Stay Happy to all customers who pay on time including those who do not pay by direct debit.

The business has progressed the development of its smart and connected home offering which will be ready to launch in Q1 2018.

During 2017 Electric Ireland further established its brand in the NI market with sponsorship of the Irish Football Association (IFA) women's football.

In 2017 ESB has entered the GB domestic market organically through the establishment of ESB Energy. ESB Energy competes in the domestic market throughout England, Scotland and Wales in both electricity and gas.

ELECTRIC IRELAND'S CUSTOMERS

The customer is central to everything that Electric Ireland does. In addition to launching new and innovative products, Electric Ireland continues to deliver customer service improvements to simplify and improve its excellent customer experience.

With continued focus on a quality customer service offering Electric Ireland maintained its high level of customer satisfaction. Electric Ireland won the CX Excellence Award for the Utilities sector in 2017's Customer Experience Index Report. This report ranks all of the main brands in Ireland based on customers' experience. Electric Ireland has moved up the overall rankings significantly this year, and now ranks at no. 73 in the Top 100, up from 95 last year, and is the top ranked Utility in the survey. In addition Which? Magazine ranked Electric Ireland as the top electricity supplier in NI in February 2017.

Maintaining the focus on customer empowerment and self-service, Electric Ireland further developed its digital service capability during 2017 across all stages of the customer journey with the introduction of:

- A new online store which facilitates an end-to-end purchasing experience which allows customers to browse product details and options, book installations and buy online;
- A significant upgrade to the digital residential portal which has added functionality and features to empower our customers and improve our self-service capability (80% of customer transactions can now be completed digitally);
- Business Online for SMEs has been upgraded and now offers market leading functionality to our business customers; and
- A webchat facility for residential service and sales is now available on the Electric Ireland website.

PEOPLE

A key element in the successful delivery of Electric Ireland's strategic and operational priorities is the capability, knowledge and performance of employees. In early 2017 Electric Ireland became accredited as a Great Place To Work. A continued strong focus on employee development and targeted recruitment across a range of disciplines and activities will ensure that Electric Ireland continues to provide competitive offerings, excellent customer service and new and innovative products to meet its customers' needs.

In 2017, Electric Ireland recruited more than 60 new employees with a range of skills and experience, including digital analytics, digital expertise and marketing, to support the business in the delivery of its strategic objectives across its existing business bringing total employee numbers to 386.

SUSTAINABILITY

Electric Ireland is conscious of operating its business in a sustainable and environmentally responsible way and is certified to ISO 14001 standard. Electric Ireland actively works with customers to assist them in improving the sustainability of their homes and businesses through the efficient use of the energy provided to them.

CONNECTING TO OUR FUTURE

Electric Ireland is rewarding customers who undertake measures to improve the energy efficiency of their homes through its Energy Efficiency Incentive Scheme, which gives customers additional discounts on their bills. Electric Ireland has pioneered the introduction of Smart Heating Controls, offered as part of price plans to assist customers in managing their energy requirements.

Electric Ireland also delivers energy savings as part of the National Energy Efficiency Obligation Programme. In 2017, Electric Ireland assisted local authorities and housing associations around the country to improve the energy efficiency of social housing through a variety of measures including attic and wall insulation, heating system improvements and heating control upgrades.

UPDATE ON 2017 PRIORITIES AND PRIORITIES FOR 2018

2017 Priority	2017 Progress	2018 Priority
OPERATIONAL		
Continue to innovate for the benefit of customers through the delivery of new smart and innovative products and services.	■ Implemented second phase of the Stay Happy campaign – automatically applying enduring long-term savings to all eligible residential customers.	■ Formally launch the Smart Home solution to all customers.
Deliver new residential and business online portals, enhancing its self-serve capabilities for customers across a range of functions and transactions.	■ New residential and business online portals delivered in 2017. These portals empower Electric Ireland's customers and offer improved self service capability.	■ Deliver additional improvements to the online portals, improving the customer journey experience and further empowering Electric Ireland's customers.
To continue to focus on the management of energy and operating costs to deliver Electric Ireland customers the best value products in the market.	■ Commitment to the market that Electric Ireland will deliver the lowest average residential price across a rolling 3 year period. ■ On-going focus on operating costs by management has allowed Electric Ireland to hold prices in 2017 despite significant increases in wholesale energy costs.	■ Deliver performance improvements across the cost base to ensure Electric Ireland's market commitments on price will be delivered.
Effective credit management and control. Continued communication with the Money Advice and Budgeting Service (MABS) and the Society of St. Vincent de Paul (SVP) to deliver solutions for vulnerable customers.	■ Range of products and payment plans in place coupled with proactive early interaction with customers. ■ Disconnections continued to fall in 2017 – less than 25 per 10,000 customers.	■ Continue to deliver a customer focused but effective credit management strategy and ensure vulnerable customers are protected.
STRATEGIC		
Ongoing focus on customer convenience, empowerment and control through continued development of the digital service capability across the entire customer experience journey.	■ Significant developments in its digital service capability in 2017 including the introduction of a new online store, webchat facility and upgrades to the digital residential portal and Business Online for SMEs.	■ Ongoing focus on customer convenience, empowerment and control through continued development of the digital service capability across the entire customer experience journey.
Play an active role in delivering ESB Group's decarbonisation objective by continuing to lead the market in delivery of energy efficiency targets.	■ Electric Ireland is on track to achieve its energy efficiency targets. ■ Electric Ireland collaborated with Durkan Residential to launch Ireland's All Electric Passive Home Development. ■ During 2017 Electric Ireland worked with EirGrid as part of its residential demand response programme which aims to help customers manage their consumption levels.	■ Continue to focus on the delivery of increasing efficiency targets. ■ Electric Ireland will start offering specific electrification tariffs in 2018.
Ensure Electric Ireland is prepared for transition to the Integrated Single Electricity Market (I-SEM).	■ Electric Ireland has maintained the customer interests at the forefront when responding to I-SEM market design consultations to ensure the customer sees the benefits of the Irish electricity market integrating with the EU energy target model. ■ Electric Ireland has put in place all resources required to ensure it is fully prepared for the transition to I-SEM.	■ Ensure Electric Ireland operates and trades successfully within the new wholesale electricity market arrangements.
Continued growth of residential market share in NI by offering cost competitive solutions for customers.	■ Electric Ireland has continued to focus on delivering market share and build brand awareness.	■ Electric Ireland will continue to develop the brand and increase market share in NI and GB.

INNOVATION

Paul Mulvaney,
Executive Director Innovation

Q What were the key achievements for Innovation in 2017?

Innovation is focused on identifying and delivering new winning customer propositions in a changing energy landscape. A key focus for Innovation in 2017 was the development of the Smart Energy Services (SES) business.

SES has become a trusted energy partner for large energy users in the Republic of Ireland (ROI), Northern Ireland (NI) and Great Britain (GB), offering market-leading expertise in energy management together with the ability to support the selection and deployment of energy solutions. The key services offered by SES are Energy Management Services as well as delivery of customer solutions in lighting, energy efficiency, low-carbon heat, solar, storage and demand management.

2017 was also very significant for the ecars business, winning a place on the Transport for London framework and beginning the installation of rapid charging facilities at sites across London. ESB Telecoms and ESB International have also won a number of significant new long-term contracts for the provision of telecoms and utility management services, respectively.

The Technology Innovation Unit and External Collaboration Team have continued to develop new opportunities and relationships for ESB with the success of the Free Electrons programme (a global energy start-up accelerator) being particularly noteworthy.

OVERVIEW

Innovation continues to work with partners internally and externally to deliver new products and services to support ESB's aim to lead the transition to reliable, affordable low-carbon energy. Innovation is continuing to invest in and develop new business opportunities which will deliver benefits for customers and provide growth opportunities for ESB such as the Planet9 Energy business and the Smart Stop solution for bus shelters.

Innovation is promoting new thinking on energy solutions through the development of strategic roadmaps, workshops focused on ideation and new product development as well as collaboration with start-ups and other companies. Innovation's financial performance is included as part of Other Segments, see note 2 in the financial statements.

OPERATING ENVIRONMENT

The markets for the Innovation businesses remain competitive.

ESB International is a well-regarded international consultant to the global power sector and continues to adapt its customer offering to incorporate new technologies, winning multi-year contracts in both existing and new markets. The Irish fibre and towers wholesale market in which ESB Telecoms operates continues to see further competitive pressure with ongoing price pressure on its products and customer consolidation. ESB Telecoms is responding to this challenge by continuing to work with its customers to build long-term relationships to provide their essential network services, utilising its national tower infrastructure integrated with a national fibre network. As a result of this engagement with customers, ESB Telecoms signed a number of important long-term contracts in 2017.

The ESB Novusmodus Fund is heavily focused on the realisation of its portfolio companies with the disposal of the interest in SELC (Smart Efficient Light Control) and the realisation of the Airvolution investment among the most significant developments in the year. During 2017 a review was carried out of the expected proceeds from the fund and as a result, the carrying value of the fund was decreased by €34 million. This adjustment reflects the challenges and pace of change in this area.

ecars continues to work with a range of stakeholders across the island of Ireland to encourage electric vehicle adoption – against the backdrop of electrification of transport becoming increasingly important in achieving reductions in national carbon emissions (not to mention air quality improvements). ecars is developing its electric vehicle (EV) solutions business in GB, the fastest-growing market internationally for electric vehicles, with its primary focus on the public rapid charging sector in large GB cities. The most advanced of these options is the Transport for London framework and ecars has already had considerable success acquiring sites and installing rapid chargers in Greater London under this process. During 2017 the Irish Commission for Regulation of Utilities (CRU) issued a decision paper in relation to ecars which concluded that the ecars infrastructure in ROI could not be included as part of the regulatory asset base. The basis of this decision and the commercial implications are under review and ESB has decided to impair the carrying value of its investment in this infrastructure by €4 million.

SIRO (a Joint Venture (JV) with Vodafone) has continued its national Fibre-to-the-Building network rollout with services now available to over 120,000 premises.

PROGRESS ON STRATEGIC OBJECTIVES

SES is at the forefront of developing energy services to meet customers' needs - aligning with similar efforts of other business units in ESB. ESB is also keenly aware of the technology changes happening now in the energy industry and the changing demands from energy customers. The Technology Innovation Unit is a dedicated team working with other teams across ESB to develop the solutions which will meet those needs into the future. This team has coordinated the development of strategic roadmaps for a number of key areas across ESB, which informs new areas of business opportunities.
New collaborations are being developed to support expansion into new areas and grow revenue streams, deepening Innovation's commercial offering. Some examples include:

- X_Site, ESB's Innovation hub located at Dogpatch Labs in Dublin provides the right environment and support for ESB teams and external start-ups to quickly incubate and develop ideas that have potential to become new businesses, such as new energy product offerings and services which are focused on customers' requirements for greater engagement and transparency. A number of other opportunities are currently being investigated at the X_Site facility including Digital Analytics as a Service, Hot Water as a Service, a subsea cable repair service offering and Smart Stop, a collaboration with an Irish start-up, to retrofit bus shelters using energy efficient lighting panels.
- During 2017, ESB Innovation embarked on a Global Utility Accelerator Programme, "Free Electrons", with seven other utilities worldwide. Through the Free Electrons programme Innovation is accelerating the pace of change by supporting start-ups to develop commercial relationships with utilities, exposing them to new markets, local ecosystems and strategic partnerships.
- Planet9 Energy is developing a new digital electricity supply offering for large energy users in GB. Planet9 Energy gives energy brokers and industrial and commercial clients direct online access to the GB wholesale energy market offering 100% cost pass through of both energy and non-energy costs. Planet9 Energy is GB's first cloud based energy supplier for half-hourly metered customers with a unique business proposition.

INNOVATION'S CUSTOMERS

ESB Telecoms recognises the challenges that its customers face from competition and consolidation and is striving to build long-term commercial relationships which meet those needs, as evidenced by the long-term agreement concluded this year to provide fibre connectivity to over 100 tower sites for 3 Ireland. In 2017, ESB International secured significant contracts with the Millennium Challenge Corporation (MCC) to assist with the infrastructure development in Liberia and Ghana while continuing to secure new contracts in existing markets.

SES already has significant contracts in place and the business continues to actively bid for new business in ROI, NI and GB with a range of tailored product offerings including supporting business projects meeting Energy Efficiency Obligation Scheme (EEOS) requirements.

PEOPLE

ESB remains committed to supporting its people in bringing new thinking to the organisation. With the development and expansion of a number of new business lines and the increasing focus on development and delivery of strategic roadmaps, Innovation has continued to add new resources to the team with skills and expertise needed to support the delivery of changing business requirements with employee numbers now at 935.

CONNECTING TO OUR FUTURE

ESB's Innovation team and Electric Ireland collaborated with Durkan Residential in 2017 for the launch of Ireland's largest All Electric Passive Home Development which consists of 59 passive homes in an affordable price range. A passive home is a building standard that is energy efficient, comfortable, economic and ecological.

All homes have air-source heat pumps as their primary space and hot water heating system, meeting the Building Regulations (Part L) and Passive House Standard without the need for rooftop Solar PV; they have also been pre-wired for EV charging points with Electric Ireland offering a Smart Pay As You Go solution combined with a first of its kind Zero Night Rate Tariff.

INNOVATION BUSINESS LINES

ESB International
- Offers a full range of engineering, operations and maintenance solutions, as well as consultancy services to the global energy market

Novusmodus
- Clean technology and renewable energy fund that invests in renewable energy and energy efficiency sectors

Telecoms
- Owns fibre-optic broadband network and a network of independent mobile phone towers
- SIRO, fibre-to-the-building JV with Vodafone

Technology Innovation Unit
- Supports development of a range of technologies and business models to meet changing energy customer and market needs

ecars
- Operates the national charging infrastructure for electric vehicles and provides commercial services in the electromobility sector internationally

Smart Energy Services
- Provides energy management services to large energy users in ROI, NI and GB

UPDATE ON 2017 PRIORITIES AND PRIORITIES FOR 2018

2017 Priority	2017 Progress	2018 Priority
OPERATIONAL		
ESB International and ESB Telecoms will continue to support their external customers and seek to increase their revenues by developing new products for existing customers.	■ ESB International has secured significant contracts with the Millennium Challenge Corporation (MCC) to assist with the infrastructure development in Liberia and Ghana while continuing to secure new contracts in existing markets. ■ ESB Telecoms concluded a multi-year agreement with Vodafone and won a bid for the connectivity of fibre to over 100 sites for 3 Ireland.	■ ESB International will expand its utility advisory services as well as supporting existing customers. ■ ESB International will focus on delivering the engineering support required to deliver ESB's strategic objectives. ■ ESB Telecoms will continue to develop new product offerings in areas adjacent to existing services.
Novusmodus will focus on realising value in its investment portfolio as well as supporting the development of new business options for ESB.	■ Working with some of the Novusmodus investees has supported the growth of the SES business and a number of other collaborative initiatives.	■ Novusmodus will continue to realise its investment portfolio and seek to develop opportunities for collaboration between portfolio companies and ESB.
ecars will begin the implementation of a commercial offering in its national charge point infrastructure while expanding its services in GB subject to regulatory decisions.	■ ecars has been engaged in an extensive process with stakeholders to support electric vehicle adoption in Ireland. ■ The commercial implications of the Commission for Regulation of Utilities (CRU) decision that the ecars infrastructure cannot be included in the regulated asset base are currently under review. ■ ecars has made significant progress on developing a competitive position in GB by the successful award of a place on the Transport for London (TfL) framework and have secured a number of sites in the Greater London area.	■ ecars will continue to investigate the options for commercialisation of the Irish national charge point infrastructure. ■ ecars will build on its engagement with TfL to expand its services in GB.
STRATEGIC		
SES will expand its offering in both ROI and the UK. New products and services will continue to be launched to support changing customer requirements.	■ SES continues to grow its customer base and product offerings. ■ A number of new initiatives are actively being investigated in the X_Site facility.	■ SES will continue to grow its customer base in ROI, NI and GB. ■ SES will deliver new products based on customer requirements – including in the fast-growing area of battery storage.
SIRO will continue to accelerate its unique product roll-out. SIRO will evaluate opportunities to participate in the National Broadband Plan (NBP).	■ Over 120,000 premises already passed. ■ SIRO has withdrawn from the NBP process following an extensive review of the commercial business case.	■ SIRO will accelerate its unique product roll-out across more areas of the country.
To continue collaboration with external partners.	■ X_Site was established and collaboration is ongoing. ■ The External Collaboration team actively searched for opportunities to partner with start-ups, utilities and universities on initiatives which may be relevant to ESB. ■ ESB were an active participant in the Global Utility Accelerator Programme "Free Electrons" with eight worldwide utilities.	■ Roll out "Free Electrons" 2018 programme Build pipeline of opportunities for new activities – both internally generated and with external partners.

RESPONSIBLE BUSINESS REPORT

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OVERVIEW

Pat Naughton
Executive Director, Group People and Sustainability

"2017, our 90th year, has been an important moment for ESB. It has given us the opportunity to reflect on everything we have stood for and believe as an organisation. Having a clear sense of purpose and a strong value set, which can guide our behaviours, we embark on 2018 with a workforce in a stronger position to navigate a rapidly evolving energy industry."

2017 marked the 90th year since ESB's foundation. We celebrated this milestone by reflecting on what this organisation has achieved over our 90 years and reminding ourselves what it means to be ESB. ESB employees have always taken great pride in our heritage. We understand the role ESB has played in the development of Ireland and the legacy that each generation of ESB employee works to achieve. I wish to thank all those employees, past and present, for the contribution they have made over the generations and the impact they have enabled ESB to have on those we serve. Their efforts and innovations over 90 years, have ensured energy that is affordable and reliable while becoming increasingly sustainable over time.

As we move forward in a radically changing energy industry, we believe it is important that we remain true to the values that have shaped ESB over 90 years and the strong sense of purpose that has always driven us forward. What we believe and stand for as an organisation has always been implicit in everything we do. Our unspoken values have driven our behaviours and defined the organisation we are today.

In 2017, we chose to makes these values explicit, articulating them through a value set. Along with our purpose, we will use our values to help us navigate a different future, ensuring our behaviours as individuals and as an organisation remain true to our beliefs and see us continue to create a brighter energy future for our customers, communities and society.

In 2017, we brought our senior managers through the first phase of a new leadership development programme. The objective of this programme is to better enable our senior leaders to motivate and engage their people. We positioned this leadership behaviour programme around our values, to enforce the principle of values-driven leader behaviour.

In 2018, we will focus on engaging our people on ESB's future. Our senior managers will motivate and engage their people around our strategy to lead the transition to reliable, affordable, low-carbon energy by talking about what we have always stood for and believed, and where that strong sense of purpose now takes us. We understand how critical it is for our employees to feel part of ESB's journey and to feel committed and engaged in our future. We also know how important it is for future generations of ESB employees to want to be a part of an organisation that makes a real difference. We have a proud past and an exciting future, and by bringing both together we will engage this generation of ESB people to deliver a changed energy future.

Increasingly, we are focused on ensuring inclusive and respectful work places where our employees can thrive. We are committed to ensuring this through employee development and engagement initiatives, and through comprehensive Health and Wellbeing initiatives to support the physical and mental wellbeing of our people.

Our strategy is built around a vision for a post-carbon world. We are committed to the highest standards of environmental management and to proactively evolving our business to address the challenges of climate change. Our innovation activities are focussed on the development of new, environmentally driven products and services and in promoting energy and resource efficiency across our operations.

Pat Naughton,
Executive Director.
Group People and Sustainability

SAFETY

OVERVIEW

ESB's Board, management and employees are committed to protecting the health and safety of employees, customers, contractors and the people it serves, their safety is always considered first in business actions and activities. ESB believes that all operational processes can be designed and operated in a safe manner. This belief guides its approach to safety across all business activities and is reinforced through strong and visible leadership throughout the Group.

The Chief Executive has overall responsibility for the management of health, safety and wellbeing in ESB. The ESB Group Safety Statement, as approved by the Board, sets out the overall policy and general arrangements in ensuring the health, safety and wellbeing of all employees. Functional responsibility is shared with all senior management and, in turn, with each manager, supervisor, team leader and employee. The Health, Safety and Environment Committee supports the Board's monitoring and governance of health, safety and wellbeing. Further details of the Health, Safety and Environment Committee are outlined on page 96.

SAFETY PERFORMANCE IN 2017

The number of lost time injuries (LTIs) in 2017 was 63 (29 employee and 34 contractors) compared to 72 in 2016 and 58 in 2015. While the majority of these injuries were of low severity, ESB continues to focus on reducing risks in the business that give rise to injurious incidents. The most common causes of LTIs are slips and trips, handling, lifting and the use of tools and equipment. Reducing LTIs continues to be a key focus for the Group. Improvement plans, projects, training and auditing programmes, with a focus on injury prevention, are maintained.

In addition to focusing on LTIs, ESB categorises all injurious incidents and near misses with a particular focus on high potential incidents that could lead to more serious outcomes. In 2017, 177 high potential incidents were recorded. Although this is a high number, the rate at which these incidents are occurring is lower compared to 2016 and 2015. All high potential incidents and LTIs are investigated to determine their root causes. The most significant safety risks arising from high potential incidents for ESB are; electricity, driving and transport, working at height and using tools and equipment.

SAFETY STRATEGY

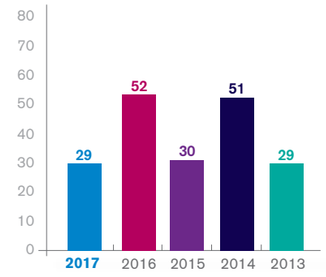
The safety programme in 2017 continued to focus on the implementation of the Safety Leadership Strategy based on the four pillars of Leadership, Competence, Compliance and Engagement. Each business area models its annual health and safety programmes and annual safety improvement plans on these four pillars. Health, safety and wellbeing performance is managed through a key performance indicator process.

KEY INITIATIVES AND PROGRAMMES IMPLEMENTED OR CONTINUED IN 2017

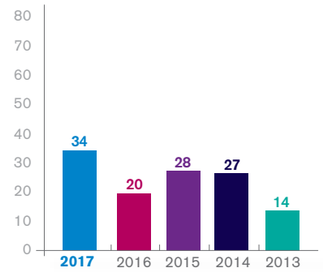
- All ESB business units have health and safety management systems in place, many of which are externally verified and certified to the International OHSAS 18001 standard or equivalent. In 2017, no major non-conformances were recorded by external 18001 audits at ESB.
- ESB is focused on embedding good catch reporting throughout the organisation. A good catch is when a person positively intervenes after seeing something unsafe. Good catches are a key element in helping ESB achieve world class performance. In 2017, the Good Catch target was exceeded. This is the second year in a row that the target was exceeded. This approach will continue in 2018 to drive less incidents and improve safety awareness and engagement.
- ESB extended the monthly senior manager safety conversations to the next level of management in 2017. These risk focused conversations are in place to demonstrate to employees senior leadership's commitment to safety. In 2017, the target was not achieved, however there was an improvement on the 2016 performance from 62% to 74% against a target of 80%. This approach will continue in 2018 to demonstrate senior leadership commitment to safety and improve safety awareness and engagement.
- ESB completed a pilot of a new programme designed to drive a renewed commitment to the elimination of all incidents and injuries in ESB. The Safety Culture Transformation Programme was initially implemented in the higher risk businesses of ESB Networks and Generation and Wholesale Markets (G&WM). Because of its success, this programme will now be implemented across all of ESB. The implementation process will take over 2 years to cover all the high risk areas.
- ESB continued to make progress in 2017 on improving its safety performance through delivery of key improvement projects in ESB Networks and G&WM. In 2017, ESBN closed all 18 agreed projects while G&WM closed 6 from 7 agreed projects.
- ESB simplified and harmonised its approach to group safety policies to better serve and support ESB in their compliance with relevant legislation.
- In recognition of the diversity of employees and their wellbeing needs, ESB continued to provide a range of health and wellbeing programmes to employees. ESB also launched a new online health and wellbeing tool called POWR (Positive Occupational Wellbeing Resource). The main benefit to POWR is that it reaches out to a wider audience. By the end of 2017, there were over 1,000 staff registered on POWR. This is a great achievement and this will continue through 2018 with a target of having 2,000 registered users on POWR.
- A consolidated safety and health law register and compliance tool has been implemented for all ESB businesses.
- Work has been completed on the establishment of eight centres of competence to maintain compliance with relevant legislation and introduce best practice where possible across the key business areas. These include; Road Safety, Electrical Safety, Safe Work at Height, Health and Wellbeing, Workplace Safety, Contractor Safety, Process Safety and Public Safety.
- Public safety actions during 2017 focused on TV, radio and social media campaigns to raise public awareness of the dangers of fallen wires and underground cables for the general public, farming and construction sectors, and those involved in leisure activities with potential for accidental contact with electricity wires. These campaigns were repeated throughout the duration of Storm Ophelia. The existing farmer stakeholder arrangement with the Irish Farmers Journal was augmented with a partnership with the Construction Industry Federation (CIF).

ESB LOST TIME INJURIES

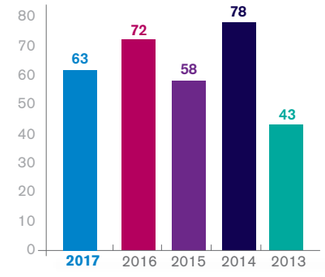
Employee LTIs



Contractor LTIs



Total LTIs



PEOPLE

ESB PEOPLE STRATEGY

The capabilities and commitment of ESB's employees helps to set ESB apart. In 2017, the ESB People Strategy continued to provide the focus and direction for many human resource initiatives and actions. The strategy is designed to support the overall ESB Strategy to 2030 (Strategy 2030) objective of delivering a high performance culture that supports innovation and collaboration. To achieve this objective the following four areas are focused on:

- Developing people
- Employee health and wellbeing
- Diversity and inclusion
- Employee engagement

DEVELOPING PEOPLE

There are a number of integrated human resource processes embedded in the organisation which ensures that ESB delivers its Strategy 2030:

Resource Planning

Strategic resource planning in ESB is aligned to Strategy 2030 and financial budgets with the aim of defining future resource requirements. The process identifies the resource numbers, skills and capabilities necessary for the successful delivery of Strategy 2030. During the process any gaps between the current numbers and capability and future requirements are identified, and future-facing resourcing strategies are agreed and implemented.

Employee and Manager Development

ESB is committed to the ongoing development of its employees and managers. Developing employee and managers capability is strategically important as ESB continues to meet the opportunities and challenges of operating in complex and different business environments. People are at the core of Strategy 2030, and ESB is committed to providing opportunities for rewarding careers linked to the delivery of Strategy 2030. ESB's Performance and Development Process is focused on building capability and a high performance culture, and provides a platform for the identification and delivery of targeted learning and development solutions. As part of our Employee Value Proposition we have developed a Career Hub for use by all employees across ESB. The Hub supports employees in identifying the skills and competencies needed across a range of functions and ensures that their career development aligns with the current and future business needs of the organisation.

Key initiatives in 2017 included:

- Continual evolution and improvement of the **Management Development Framework.**
- The **Future Leaders** programme, which equips managers to be capable and inspiring leaders, was rolled out across ESB.
- A new pan ESB **Career Framework** has been developed, underpinned by a new digital Career Hub.
- The **Human Resource Management for Line Managers Programme**, fully accredited by the Chartered Institute of Personnel and Development (CIPD) for 15 years, continues to be a highly successful manager development initiative.
- Programmes to empower Managers to engage and motivate employees in Strategy 2030 and newly articulated Values were delivered.

ESB continues to support employees and managers with coaching, continual professional development (CPD), external accreditation and external programmes in business schools in Ireland and abroad.

Graduate and Apprentice Recruitment and Development

70 new recruits, from a variety of disciplines, began a graduate programme in 2017. The development programme includes a centrally managed induction event, work assignments, off-the job business specific training, personal skills development and mandatory training, supported by a mentoring relationship. ESB also recruited 60 new apprentices in 2017 as part of its strategic goal to add at least 300 apprentices to the Group between 2015 and 2020.

EMPLOYEE HEALTH AND WELLBEING

ESB is committed to proactively supporting its employees in maintaining good health and wellbeing. ESB's Health and Wellbeing team helps its employees to reach their full potential in the workplace by providing proactive, preventative and early intervention health and wellbeing services. It provides information and advice to employees to help them to create and maintain a healthy lifestyle. The programme provides effective support as employees face ill health and other personal life challenges through an occupational health medical service, an Employee Assistance Programme (EAP), an independent counselling service and through a range of other support measures.

ESB's employee health and wellbeing focus for the year has been on:

- The launch of POWR (Positive Occupational Wellbeing Resource) an everyday online health and wellbeing tool.
- An audiometry programme offered to staff exposed to noise on a three-yearly cycle which is aimed at protecting workers from the potential risk to their hearing.
- The launch of an online occupational health client referral portal.
- Extending the suite of available proactive health programmes which includes seminars and workshops on maintaining healthy sleep patterns, managing shift work and understanding the nutritional information on food labels.

Employee Assistance Programme (EAP)

EAP officers have provided support and information via their confidential service to more than 1,000 employees during the year.

Proactive Health Programme

ESB's proactive programmes are focused on prevention and keeping employees well by providing opportunities for them to lead healthier and more active lives. While it is recognised that stress may be an integral part of everyday life, the availability of active workplace resilience programmes are crucial to supporting employees in being psychologically strong enough to deal with these challenges while minimising the impact on their wellbeing. Some of the programmes and initiatives available to ESB employees during the year were:

- Seminars and workshops on positive mental health for teams, eating for energy, back care and financial management.
- Cardio-vascular screening which was offered to all employees.
- An Elevation Programme for the provision of local proactive initiatives by ESB Health Champions.

DIVERSITY AND INCLUSION

ESB's firm commitment to working towards a more consciously inclusive workplace continues. Having a diverse and inclusive work environment plays an increasingly important part in ESB's ability to attract, retain and develop key skills and talent. ESB's diversity and inclusive policies are regularly reviewed, in line with legislation and best practice and aim to support a culture of inclusion, respect and dignity for the individual in the workplace and for the customers it serves.

Key initiatives in 2017 included:

- Proud winners of the Chartered Institute of Personnel and Development (CIPD) Excellence in Diversity Award for ESB's inspiring and empowering Female Talent Programme.
- Continued roll-out and growth of Managing Successful Parenting Transitions Programme which aims to support all working parents and their line managers.
- Continued roll-out and growth of BeMe@ESB, ESB's lesbian, gay, bisexual and transgender (LGBT+) Employees and Allies Employee Network.
- Continuing to exceed the 3% National Disability Authority (NDA) target of employment of employees with disabilities - 4%.
- Promoting science, technology, engineering, art and maths (STEAM) career options for young females in partnership with Engineers Ireland and supported through internal and external awareness raising programmes and events.
- Celebrating diversity of cultures in the workplace with employees from over 35 different countries.
- ESB's Joint Equality Council, which represents all Business Units and Group of Unions, reconvened and continues to raise awareness to ensure our workplaces are inclusive, where equality of opportunity exists for all and where the diversity of our people drives innovation and creative problem solving to better serve ESB's customers.

EMPLOYEE ENGAGEMENT

ESB views employee engagement as a strategic imperative to inspire and motivate employees to be and give their best at work. ESB's Employee Engagement Strategy focuses on these key areas; strategic narrative, integrity, employee voice and engaging managers, and these key initiatives were delivered in 2017:

- **Strategic narrative** – a programme to engage and connect employees with Strategy 2030 started its rollout.
- **Integrity** – ESB's newly articulated core organisational Values - of being caring, courageous, trusted and driven – were developed in consultation with employees, and are resonating strongly with people.
- **Employee voice** – This is extremely important in ESB, and through various channels, ESB employees have the opportunity to provide their opinions and engage in conversations. ESB's new digital workplace, the Hub, together with a vibrant internal social network, has created a safe space for employees to share stories of great projects, initiatives, social activities and opinions openly. The annual Employee Survey gives every employee an opportunity to have an individual and collective voice, which helps to create a dynamic workplace that is stimulating and engaging.
- **Engage managers** – ESB's managers play a central role in engaging and motivating employees and strategic programmes are being created to equip and empower Managers to do this effectively.

	2017	2016
Average Number of Employees	**7,790**	7,597
Female	**23%**	22%
Management Level Female	**21%**	19%
Full Time	**93%**	94%
Employees with Disabilities	**4%**	5%

Average number of employees by business unit is included in note 8 of the financial statements.

SUSTAINABILITY

2017 brought the publication of a new ESB strategy to 2030 (Strategy 2030), centred around ESB's purpose to create a brighter future for the customers and communities we serve by leading the transition to reliable, affordable, low carbon energy.
ESB prepares an annual sustainability report, available from the ESB website (www.esb.ie) in line with the Global Reporting Initiative (GRI) global sustainability reporting guidelines.

STRATEGIC FOCUS STRATEGIC OBJECTIVES	PROGRESS DURING 2017
Put customers' current and future needs at the centre of all our activities	■ RealValue project - Engaging 500 homes and businesses across Ireland to appreciate the ability of the existing electrical system to accommodate mass electrification of devices in a coordinated fashion. This has allowed ESB to understand the architecture and structure needed to facilitate future market structures. ■ RESERVE project: – Aims to gain an appreciation of the active role technologies can have participating in grid operations and balancing. A number of trial sites across the country using Solar, Electrified heating and battery storage have been established. ESB has got an insight into the future flexibility which demand could have in the system. ■ As part of the Energy Efficiency Incentive Scheme, energy efficiency projects were delivered to 28,000 homes across the Republic of Ireland (ROI) in 2017. ■ Electric Ireland continuously engages with their customers who are having difficulty paying their energy bills. Electric Ireland is committed to early intervention in helping our customers to responsibly manage their arrears over a realistic time frame. ■ Electric Ireland offers a prepayment solution and agreed 125,000 tailored payment arrangements with customers throughout 2017. The disconnection of supply continues to be an action of last resort and disconnection rates equate to less than 25 per 10,000 customers.
Produce, connect and deliver clean, secure and affordable energy	■ 95 MW of renewables entered commercial operation during 2017, with 173 MW under construction. ■ A total of 1.715 TWh of renewables was generated by ESB in 2017.
Develop energy services to meet evolving market needs	■ A total of 156 GWh Primary Energy Equivalent (PEE) in energy savings were delivered in the non-residential sector and 40 GWh in the residential sector. ■ Through the Smart Energy Service (SES) business the first large scale meter battery storage system was installed at a customer's site in Scotland, reducing customer demand during peak tariff periods and enabling ESB to earn revenue through providing grid services to National Grid UK. ■ ecars have installed 20 fast EV chargers, as part of Transport for London's program to electrify the city's taxi fleet, making ESB the largest provider of Rapid Electric Vehicle Charging in London.
Grow the business while maintaining ESB's financial strength	■ ESB continues to pursue new business models and market opportunities with a view to delivering new, innovative and low carbon revenue opportunities. ■ SES delivered projects to 200 customers to the value of €55 million during its first full year in operation.
Deliver a high performance culture that supports innovation and collaboration	■ ESB continues to cultivate a high performing, innovative and customer focused culture that encourages collaboration and empowerment to navigate the changing industry environment.

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOAL (SDGs)

Adopted in September 2015, the SDGs comprise 17 goals and 169 associated indicators that address the world's most pressing socio-economic and environmental challenges and offer an opportunity to put the world on a sustainable path. Business has an important role to play in achieving the SDGs and ESB's activities contribute in some way to each of the 17 goals. Based on the nature of ESB's business and strategic focus, ESB have identified a number of SDGs that most closely align with ESB's priority issues and areas of long-standing commitment;

ESB is on a pathway to deliver a low carbon generation portfolio, whilst seeking to maintain energy affordability and security of supply for customers.

ESB is committed to a diverse and inclusive workplace and investing in and valuing the people working in it. ESB seek to support and promote access to education, numeracy and literacy and the pursuit of STEAM (Science, Technology, Engineering, Art and Maths) based subjects to develop and broaden the talent pool. ESB's people strategy focuses on capability development for existing staff and recruiting and retaining staff including new graduate and apprentice recruitment programmes.

As well as facilitating renewable connections, ESB's network businesses seek to design in resilience and adaptation measures into asset design and development. ESB continues to pursue efficiency improvements in operational energy, fuel and natural resource usage. The development and launch of "Ireland's Low Carbon Future - Dimensions of an Answer" Report.

ENERGY USAGE IN 2017

The (EU Energy Efficiency) Regulations 2014 (S.I. No. 426 of 2014) requires ESB to disclose its annual energy usage and outline the initiatives being undertaken to improve energy performance. ESB monitors and reports on energy consumption against its baseline (2005 for generation, 2006 - 2008 average for business operations) and is committed to continuing the drive towards improved energy performance, including delivering a minimum 33% improvement in energy efficiency from operations by end 2020.

Generation

Electricity generation accounts for over 90% of ESB's use of energy. In 2017, ESB consumed 36,625 GWh of fossil fuel energy in generating electricity in the Republic of Ireland (ROI) and United Kingdom (UK) . Carbon emissions from generation in 2017 totalled 9.8 million tonnes (provisional pending final sign off with external verifier).

Business Operations

In relation to the remaining energy use, the amount of energy used by ESB in its buildings constitutes the most significant portion, followed by that used in its fleet and in private cars in carrying out ESB's business. The bulk of the energy used is attributable to space heating. Internal use accounted for 121.5 GWh primary energy equivalent (PEE) in non-generation activities (baseline 167 GWh).

Against the baseline consumption, ESB has delivered a 25.4% improvement in its PEE consumption. This is in line with the Government objective for the public sector of a 33% improvement in energy efficiency by 2020.

During 2017, ESB Smart Energy Services (SES) took on the role of coordinating energy management activities across the ESB property portfolio. The deployment of sub metering, the establishment of an energy management hub and process to establish an LED retrofit framework and prioritise a retrofit programme for high consuming premises are central to the continued improvement in energy performance across the portfolio. To facilitate the redevelopment of the Lower Fitzwilliam Street premises, some 1,700 employees were relocated from 2 locations to more energy efficient premises. This temporary relocation and ultimate return to the redeveloped Fitzwilliam offices will have a significant bearing on future energy performance.

GENERATION ENERGY USAGE 2017

ENERGY SOURCE	2017* (GWh)	2016 (GWh)
Coal	**10,091**	12,807
Natural Gas	**21,981**	18,839
Peat	**4,253**	4,629
Oil	**300**	553
Total	**36,625**	36,828

BUSINESS OPERATIONS ENERGY USAGE 2017

ENERGY SOURCE	2006 - 2008 Avg.* (GWh)	2017 (GWh)	CHANGE (GWh)
Electricity	39	29.8	(9.2)
Electricity Primary Energy Equivalent	96	64.6	(30.4)
Fossil Fuels			
- Natural Gas	1	2.8	1.8
- Heating Oil	-	-	-
- Diesel	70	54.1	(15.9)
Total Fossil Fuels	71	56.9	(14.1)
Renewable Energy	-	-	-
Total Primary Energy Equivalent	167	121.5	(45.5)
Energy Performance Indicator	30,414 kWh/FTE	22,692 kWh/FTE	(7,722) kWh/FTE

*Baseline reflects calculations for compliance with Sustainable Energy Authority of Ireland (SEAI) Public Sector Monitoring and Reporting. 2017 figures for PEE as reported in Annual Report 2017 on Public Sector Energy Efficiency Performance.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Since its foundation in 1927, ESB has always had a strong sense of corporate social responsibility (CSR). It has always supported communities and programmes that enhance the economic and social fabric, helping to bring light and energy to the people it serves, allowing individuals and communities to fulfil their potential in every walk of life.

ENERGY FOR GENERATIONS FUND

ESB is committed to playing a role in addressing some of the key social issues facing the country today. ESB has been involved in formal funding since it established its Electric Aid Ireland Fund in July 2005. In 2014 the Electric Aid Ireland Fund was rebranded to the Energy for Generations Fund. The aim of the Energy for Generations Fund is to maximise the impact of the investment by taking a more strategic approach to drive change.

In 2017, over €3 million was disbursed across a range of community and issues-based initiatives. Nearly €1 million of this was direct funding through a quarterly fund, managed by a cross-ESB committee, to 135 charities working in the areas of suicide, homelessness and education access and support. These projects are rooted in communities across Ireland and aim to improve the quality of life for those living in the community.

The table below provides the locations of projects across the island of Ireland that have received funding.

Education Matters

ESB, in common with many other Irish companies, need access to employees with strong science, technology, maths and literacy skills and all of these are based on getting young children off to the best educational start possible. The support of programmes such as Time to Read, MAKESHOP and TechSpace allows ESB to do this, while also providing employees with a meaningful volunteering opportunity.

ESB is pleased to continue to support An Cosán's Virtual Community College, Ireland's first virtual adult education platform, which aims to increase access to further and higher education nationwide and address social inequality through online and mobile technology.

In 2017 ESB committed its support to DIT's Access to Apprenticeship programme which aims to address the current obstacles faced by young people from areas of socio-economic disadvantage in securing an apprenticeship. In its pilot phase, the programme will recruit 48 young people aged 16-24 from communities in Dublin's inner city. ESB's support will provide local youth with essential skills and knowledge they need to begin a rewarding career through an apprenticeship.

Suicide Prevention

One of the key areas of work in the past decade has been in suicide prevention and support. To reflect this, ESB has given over €6.5 million towards suicide services over the past 12 years. Suicide is a very serious issue that has touched every community in the country, and ESB has identified the need to support robust, resilient services and capacity building in this sector. By aligning CSR efforts with national policy, ESB is committed to playing a key role in contributing to the broader improvement of Irish society.

ESB joined forces with Aware in a 3-year partnership to support the nationwide roll-out of their Life Skills for Schools programme for Transition Year students. This 4-week intensive programme aims to teach young people how to manage their feelings, anger and irritation, and how to deal with many challenges that may come during adolescence, to improve their wellbeing.

In 2017 ESB committed its support to Jigsaw's MyWorld Survey 2, the largest research study of its kind ever undertaken in Ireland, aimed at mapping today's youth mental health landscape. The study will improve the collective knowledge in the area of youth mental health so that it is possible to see the world through the eyes of young people and identify how best to offer them support.

ENERGY FOR GENERATIONS FUND

90 for 90 Challenge

2017 saw ESB celebrate 90 years of ESB and ESB decided to use our 90th celebrations to make a positive difference in its communities and to our health. Through ESB's Energy for Generations Fund, ESB employees were given the opportunity to vote for the charity they most wanted ESB to support. Votes were earned by clocking up 90 kilometres by getting active. ESB events such as Power Challenge and the 90th Anniversary Road Cycle all helped employees reach 90 kilometres, as well as non-ESB events such as mini marathons, marathons and local Park Runs. Six charities – Aware, Simon Communities of Ireland, ElectricAid, An Cosán Virtual Community College, Aware Northern Ireland and Irish Red Cross - all received a share of €90,000 at the end of the Challenge.

Employee Volunteering Support

ESB recognises that funding is only part of the story and ESB need to leverage the skills and knowledge that are within ESB to bring about more sustainable and positive outcomes. ESB encourages volunteerism by its employees and local community support and the Energy for Generation Fund runs a comprehensive volunteering programme and provides support to ESB employees who volunteer in their communities. Any employee who volunteers for over 20 hours with a charity can request that ESB donates €250 to that organisation. There has been a good response to this initiative, with donations being made to a wide range of charities including Alone, COPE Foundation, Scouting Ireland, Special Olympics Ireland and St Vincent de Paul (SVP). Over 40,000 volunteered hours were recorded by employees in 2017.

WIND FARM COMMUNITY FUND

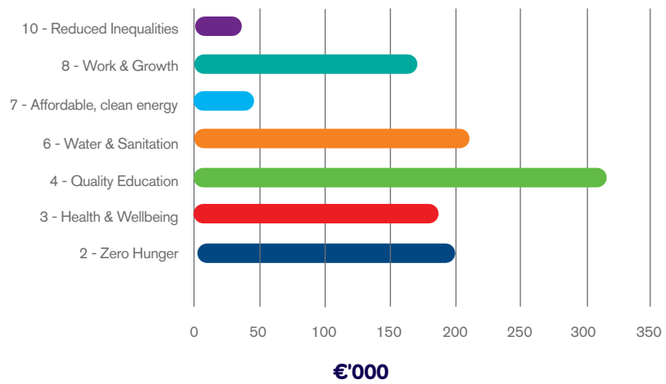
ESB is committed to being a good neighbour and supporting the communities in which it operates. This is part of ESB's commitment to ensure clear and lasting benefits in the communities which surround its wind farms. In making over €1.1 million available to groups close to wind farms across Republic of Ireland (ROI), Northern Ireland (NI) and Great Britain (GB), ESB is contributing to the development of essential infrastructure and services, and the creation of a brighter future the residents of its neighbouring rural communities.

SPONSORSHIP

The Group manages an active sponsorship portfolio includes the following:

- Promoting young people in sport through the Electric Ireland GAA All-Ireland minor championship, and Ireland's under-20s rugby
- Proud supporter and sponsor to the Pieta House Darkness into Light annual event
- Supporting the arts and music through sponsorships of Feis Ceoil, Electric Picnic and the National Gallery of Ireland
- Supporting the development of skills in science, technology engineering, art and maths (STEAM) through partnerships with Web Summit, Science Gallery Dublin, City Spectacular and Engineers Ireland
- Supporting the SVP National Youth Development Programme, which aims to change the negative perceptions of young people and develop pride in the positive impact young people have in Irish society

FIGURE 1: ELECTRIC AID 2017 FUNDING BY SDG



INBUSINESS RECOGNITION AWARD – SPECIAL MERIT

ESB won the Special Merit Award at the 2017 InBusiness Recognition Awards. ESB claimed the top honours in recognition of our comprehensive and consistent activities in CSR, and for our ongoing dedication to community engagement and responsible business practice.

INTERNATIONAL CSR

ElectricAid is the social justice and development charity of ESB (and EirGrid) employees and pensioners. ElectricAid is controlled by its 2,650 contributing members and receives strong and consistent support from ESB, in the form of 2:3 matching contributions, up to an annual ceiling of €250,000. ElectricAid is a 30-year success story and is the premier occupationally based charity in the country.

In 2017, ElectricAid supported 150 development and relief projects with funding of almost €1.2 million. Funding was made available in Ireland and in 37 different developing countries in Asia and Sub-Sharan Africa. ElectricAid's funding impact on the Sustainable Development Goals is shown in the table below.

ElectricAid committed €121,000 to emergency responses in 2017 – primarily responses to the East African Food Crisis and the 2017 South Asia floods. This response was facilitated by a successful Specials Appeal to our members and supporters.

A copy of the ElectricAid Annual Report is available from the ElectricAid website – www.electricaid.ie.

Figure 1 details the funding by United Nations Sustainable Development Goals (SDGs) made in 2017.

USING OUR PROFITS IN A SUSTAINABLE WAY

INVESTMENT
Investing almost €1 billion per annum to facilitate a more sustainable energy environment as well as supporting economic growth through providing, safe and reliable electricity supply to homes and businesses

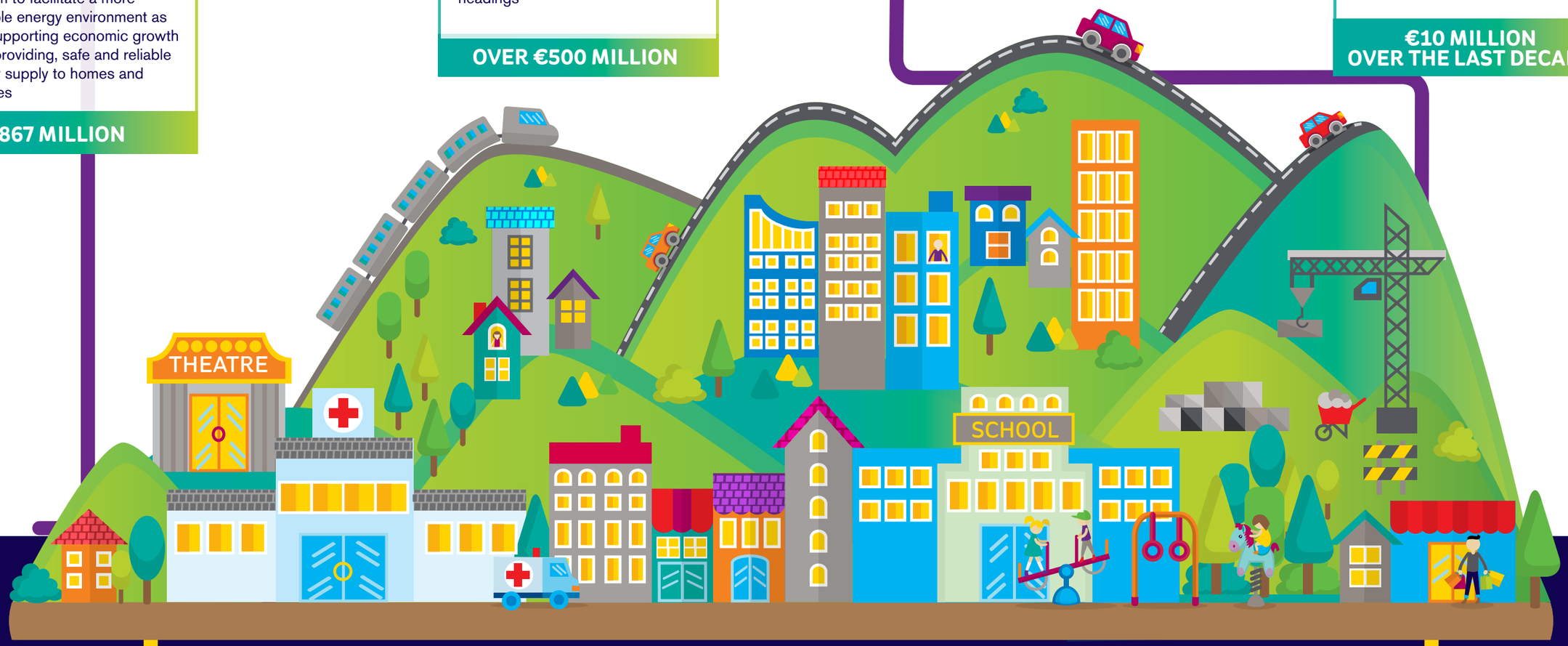
€867 MILLION

TAXES
Annual Payments across various headings

OVER €500 MILLION

SUPPORTING COMMUNITIES
Seek to empower and enrich the lives of individuals and communities through the corporate social responsibility programme

€10 MILLION OVER THE LAST DECADE



EMPLOYMENT
Making a long-term commitment to employees, giving them the time to build their skills and the opportunity to advance their careers.
Supporting jobs through contractor and supplier service contracts

130 APPRENTICES AND GRADUATES RECRUITED IN 2017

RETURN TO THE SHAREHOLDER
ESB targets an annual dividend of 40% of adjusted profits after tax

€60 MILLION FOR 2017

DEBT INVESTORS
Annual interest and repayments

€650 MILLION

RESIDENTIAL CUSTOMER SATISFACTION
Developing new and innovative products and services for customers aimed at improving customer experience and empowerment

95%

Over the past 90 years,

ranging from the electrification of Ireland to the roll out of broadband, ESB has helped to maintain energy security, equity and affordability within the energy system, delivered significant dividends for the nation and enabled citizens to prosper and thrive.

ESB's passion to serve society, our ability to deliver on our promises and the values underpinning our work have helped to build a deep well of support for ESB and drive our unique reputation as a responsible, committed and trusted leader. They have also enabled ESB to remain relevant and financially strong in an increasingly competitive energy landscape.

Today, the biggest challenge facing not just Irish citizens but humanity in general is the threat of climate change. The effects of this are already evident with increasingly extreme weather patterns, rising sea levels and human displacement. For Ireland, climate change is already impacting on society through storms, flooding, water shortages and the disruption of plants, animals and fisheries.

ESB is uniquely positioned to take action and leadership in reducing Ireland's carbon emissions and in doing so, we have an opportunity to serve our customers better and achieve sustainable growth.

THE BOARD IN 2017

The Board provides leadership and direction to the business and is responsible for the long-term success of ESB. Decisions are made only after all appropriate information has been made available to Board members and following due consideration of the risks identified through the risk management process. The Board constructively challenges and helps develop proposals on strategy, which are then reviewed and approved by the Board.

ELLVENA GRAHAM OBE

Chairman

Appointment to the Board: October 2010 and appointed as Chairman with effect from July 2015.
Tenure: Seven years and three months (Two years and five months as Chairman).
Career experience: Ellvena has over 30 years' experience in banking, most recently at Executive Management level within Ulster Bank, where she was Head of Ulster Bank in Northern Ireland (NI) and Managing Director of SME Banking across the island of Ireland. Ellvena has global experience within the wider Royal Bank of Scotland (RBS) Group, having managed large-scale operations in Europe, the Middle East and Africa. Fellow of the Institute of Banking.
External appointments: Chairman of the Economic Advisory Group (EAG) in NI. President of the Northern Ireland Chamber of Commerce and Industry and Chair of the new Belfast Waterfront and Ulster Hall Ltd. Board.

PAT O'DOHERTY

Chief Executive

Appointment to the Board: January 2013 as Board member and December 2011 as Chief Executive.
Tenure: Five years as Board member.
Career experience: Holds primary and master's degrees in engineering from University College Dublin. Prior to his current role, Pat headed up ESB's largest businesses as Executive Director, ESB International, Managing Director, ESB Networks and Executive Director, ESB Power Generation. He completed the Advanced Management Programme at Harvard Business School.
External appointments: Trustee of The Conference Board of the United States, Director of Energy UK and Chair of the Apprenticeship Council of Ireland.

ANNE BUTLER

Independent Board Member

Appointment to the Board: November 2012.
Tenure: Five years and two months.
Career experience: Chartered engineer. Worked in engineering consultancy, for Dublin local authorities and was a founding Director (Executive) of the Environmental Protection Agency. Former President of the Institution of Engineers and a member of the Irish Academy of Engineering.
External appointments: Served on a number of boards including the National Roads Authority (NRA) and Ordinance Survey Ireland (OSI) and Dublin Institute of Technology (DIT) and currently serves on REPAK and the National Paediatric Hospital Development Board.

DAVE BYRNE

Worker Board Member

Appointment to the Board: January 2011 under the Worker Participation (State Enterprises) Act 1977.
Tenure: Seven years.
Career experience: Member of a 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.

ANDREW HASTINGS

Independent Board Member

Appointment to the Board: July 2015.
Tenure: Two years and six months.
Career experience: Business Consultant and Independent Non-Executive Director following a 30-year career in banking and financial services. A Chartered Director, Chartered Banker and Certified Bank Director, held CEO position of Barclays Bank Ireland plc until March 2015, which included responsibility for NI. Previously he was CEO of BNP Paribas Ireland from 2007 to 2011.
External appointments: Director of Elavon Financial Services DAC, the Dublin-based subsidiary of US Bancorp, Pepper Finance Corporation (Ireland) DAC and a Director of Carrick Laurel Consulting Limited. Partner with AP Partners and consultant to London-based Valuation Consulting LLP. Chairman of the Independent Non-Executive Director Forum at the Banking & Payments Federation Ireland.

SEÁN KELLY

Worker Board Member

Appointment to the Board: January 2011 under the Worker Participation (State Enterprises) Act 1977.
Tenure: Seven years.
Career experience: A 20-year career in ESB Networks, currently in the field of Safety and Technical Services. Holds an honours degree in business from University College Dublin and a higher diploma in mediation and conflict resolution from Maynooth University. He holds certificates in health and safety from University College Dublin and in company directorship from the Institute of Directors in Ireland.
External appointments: Former chairperson and current member of the ESB Defined Benefit Superannuation Committee, Chairperson of the Networks National Safety Committee and Training Officer for the National Worker Directors Group. He is a member of the Mediators' Institute of Ireland.

PAUL LYNAM

Independent Board Member

Appointment to the Board: October 2016
Tenure: One year and three months.
Career experience: Holds a BSc in analytical science from DCU, a postgraduate diploma in business studies from UCD and an MBA from City University Seattle, which he completed while working in Germany. He has a total of 25 years' experience in business and is CEO of the Whitfield Clinic in Waterford, an independent private hospital. Prior to this, he spent 5 years as CEO of Siemens Limited Ireland and was also CFO of Siemens Limited Ireland in the period 2008 to 2010. Before his 10 years with Siemens, Paul spent 14 years in Germany in various management roles in both the Smurfit Group and Kappa Packaging.
External appointments: Served as a Director of Siemens Limited Ireland between 2008 and 2015 and is currently Director of Whitfield Clinic associated companies.

TONY MERRIMAN

Worker Board Member

Appointment to the Board: January 2007 under the Worker Participation (State Enterprises) Act 1977.
Tenure: Eleven years.
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 and Chairman of the National Worker Directors Group.

NOREEN O'KELLY

Independent Board Member

Appointment to the Board: April 2013.
Tenure: Four years and eight months.
Career experience: A Chartered Accountant, who trained with KPMG. Held a number of senior positions in Independent News and Media Group including Head of Treasury and Group Secretary and was also Company Secretary of C&C Group. Currently works as a consultant on corporate governance.
External appointments: Director, Vice Chair and Chair of Audit Committee of Rehab and external member of the Audit Committee of the Institute of Technology, Sligo.

PETER O'SULLIVAN

Worker Board Member

Appointment to the Board: January 2015 under the Worker Participation (State Enterprises) Act 1977.
Tenure: Three years.
Career experience: Joined ESB as a network technician in 1980. He was formerly the Safety Representative in Kerry / West Cork.
External appointments: Former President of Network Technicians' Association, negotiation member of Group of Unions. Board member of ESOP Trustee Limited.

ALF SMIDDY

Independent Board Member

Appointment to the Board: October 2016.
Tenure: One year and three months.
Career experience: A Chartered Accountant, who trained with PwC. Chairman and Managing Director of Cork headquartered Beamish & Crawford plc for over 12 years and on the Board of its parent company, Scottish & Newcastle (UK) Ltd. Member of the National Executive Council of IBEC, Director of Cork Chamber of Commerce, Chairman of the Cork Local Government Committee and served on the Board of Cork Airport Authority. Fellow of the Irish Marketing Institute.
External appointments: Senior Independent Non-Executive Director of The Dalata Hotel Group Plc, Chairman of Quintas (Accountancy, Taxation and Corporate Finance) and a Director of the Government-backed Social Innovation Fund Ireland.

NOREEN WRIGHT

Senior Independent Board Member

Appointment to the Board: June 2011.
Tenure: Six years and six months.
Career experience: Called to the Bar of NI in 1976. Worked in the electricity industry for 25 years and held a number of senior management posts in both Northern Ireland Electricity plc and Viridian Group plc, including Company Secretary and Head of Legal Services.
External appointments: Lay Magistrate, member of both the Industrial and Fair Employment Tribunals of Northern Ireland and the Northern Ireland Valuation Tribunal. Director of Camerata Ireland.

KEY TO COMMITTEE MEMBERSHIP

AUDIT AND RISK COMMITTEE	PAGE 89
HEALTH, SAFETY AND ENVIRONMENT COMMITTEE	PAGE 96
MARKETING AND CUSTOMER COMMITTEE	PAGE 96
REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE	PAGE 97
FINANCE AND INVESTMENT COMMITTEE	PAGE 97

CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

Good governance provides the foundation for long-term value creation and is a core focus for the ESB Board and for me as Chairman. In this regard, and in line with the UK Corporate Governance Code 2016 (the UK Code), we see our duties as including responsibility for the long-term success of the Group, providing leadership and direction for the business as a whole, and supporting and challenging management to get the best outcomes for ESB and its stakeholders.

Management has the knowledge and expertise for the operational requirements of the business. It is not the role of the Board to duplicate that. However, we do challenge and support management in the light of ESB's values and strategic direction. In our view, the best decisions are made through this dynamic interaction between Board and management.

GOVERNANCE

ESB, in pursuit of its governance objectives complies with the Code of Practice for the Governance of State Bodies 2016 (the State Code). ESB also complies on a voluntary basis, to the maximum extent possible, given ESB is a statutory corporation, with the UK Code and with the Irish Corporate Governance Annex. In this way, ESB adheres as closely as possible to listed company governance standards.

The Department of Public Expenditure and Reform (DPER) issued a revised State Code in August 2016. In November 2017, DPER issued A Guide to the Implications for the Annual Financial Statements and the Annual Report in order to clarify the definition and location of certain additional disclosures. The 2016 State Code applies to ESB for the first time for the financial year to 31 December 2017. ESB has put in place the appropriate measures to comply with the State Code, which sets out the governance framework established by the Government for the internal management and the internal and external reporting relationships of State Bodies. ESB continuously reviews and updates its policies and procedures to ensure compliance with the State Code and a report on such compliance is made annually to the Audit and Risk Committee. The Board is satisfied that ESB has complied with the requirements of the State Code. A report is issued annually to the Minister for Communications, Climate Action and Environment which confirms compliance with the requirements of the State Code.

The Board is satisfied that appropriate steps have been undertaken to ensure ESB's Irish subsidiaries are compliant with the applicable requirements of the Companies Act 2014.

ESB has adopted its own Code of Ethics, which sets out our approach to responsible and ethical business behaviour. The underlying principle of the Code of Ethics is that employees best serve ESB by adhering to the highest standards of integrity, loyalty, fairness and confidentiality and by meeting all legal and regulatory requirements. The Code of Ethics is reviewed annually by the Board and published on the ESB intranet. Group Internal Audit investigates any reported breaches and updates the Audit and Risk Committee.

A detailed description of our governance compliance framework is set out on pages 81 to 88.

BOARD EFFECTIVENESS

The board continually strives to improve its effectiveness. We do this on an informal, ongoing basis by discussion amongst board members with feedback to the Chairman and Company Secretary. A formal evaluation is carried out annually, but every third year this is done independently by an external evaluator. One such independently facilitated evaluation took place in early 2017 and was carried out by the Institute of Chartered Secretaries and Administrators (ICSA) Board Evaluation, which has no other connection with ESB. The purpose of the evaluation was to review the Board's performance as a whole and identify any potential areas for improvement. The results confirmed that the board is operating effectively and a full description of the process and its results are set out on page 84.

BOARD AND COMMITTEE CHANGES

There has been no changes to the Board this year as the Group continues to benefit from the experience and diversity of current members. A new Committee was formed in 2017 known as the Marketing and Customer Committee. The purpose of this Committee is to support Board oversight for the ESB Group of the vital strategic areas of competition, customer relations, reputation, marketing and sales.

There were changes in Committee membership during the year and details of the revised Committees and their activities during the year are set out on pages 89 to 97.

RISK MANAGEMENT

Risk management and reporting continues to be a key area of focus for both the Board and the Audit and Risk Committee, with ESB's approach to managing risk being defined by the ESB Risk Policy and a strong internal control framework. While the Board has overall responsibility for the Group's approach to risk, the responsibility for supporting the Board's review of the effectiveness of internal control and risk management has been delegated to the Audit and Risk Committee who played a key role in 2017 in ensuring that appropriate governance and challenge around risk and assurance were embedded across the Group. The approach to risk is set out in the Risk Report on pages 24 to 37.

BOARD DIVERSITY

The Board, both for itself and the Group as a whole, is fully committed to diversity as a key value, as this is seen as important to achieving ESB's business objectives. The Board remains committed to achieving the optimal balance of skills, experience and diversity among its members. Board member details are set out on pages 78 to 79.

CULTURE

Good governance is good business and is built on competency, transparency and accountability. In pursuit of our goals the Board and management remain committed to achieving competency, transparency and accountability in all we do. In my role as Chairman, I am responsible for making sure that the Board operates effectively by facilitating the full participation of each Board member and ensuring effective communication with ESB's owners and stakeholders.

CONCLUSION

In the following pages, we outline in detail how the Board and its Committees have fulfilled their responsibilities during the year to ensure that robust governance practices are embedded across the Group.

Ellvena Graham, OBE
Chairman
1 March 2018

THE BOARD'S GOVERNANCE REPORT

PRINCIPLES OF GOVERNANCE

ESB, in pursuit of its governance objectives, complies with the Code of Practice for the Governance of State Bodies 2016 (the State Code) and to the maximum extent possible with the UK Corporate Governance Code 2016 (the UK Code) and the Irish Corporate Governance Annex (the Irish Annex). A copy of the State Code can be obtained from the Department of Public Expenditure and Reform website www.per.gov.ie, a copy of the UK Code can be obtained from the Financial Reporting Council's website www.frc.org.uk and a copy of the Irish Annex is available at www.ise.ie.

The UK Code sets out five key principles of governance: Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. The Board's Governance Report is structured accordingly.

1 LEADERSHIP

THE BOARD

The Board provides the leadership of the Group and, either directly or through the operation of Committees, applies independent judgement on matters of strategy, performance, resources and governance. During 2017, the Board comprised of the Board members detailed on pages 78 to 79 of whom the Chairman, the Chief Executive and the Independent Board members were appointed by Government and the four Worker Board members were appointed pursuant to the Worker Participation (State Enterprises) Act 1977. The Board size and structure is governed by the Electricity Supply Acts 1927 - 2004 and by the Worker Participation (State Enterprises) Acts. The role of the Chairman and Chief Executive are not exercised by the same individual.

BOARD MEMBERSHIP

The ESB Board in 2017 brought diverse experience, independence and challenge to support effective decision-making. The range of Board members' experience in engineering / technical, finance, legal, marketing and in ESB's operations is set out in their biographies on pages 78 to 79. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a Board member.

The Board's primary role is to exercise objective and informed judgement in constructively challenging and helping to develop and approve the ESB Group Strategy, to ensure there is a strong management team in place to execute the strategy and drive business performance and to maintain a framework of prudent and effective controls to mitigate risk. The State Code provides that the Chairman may engage with the Government on Board succession and this provides an opportunity for ensuring an appropriate mix of skills and experience on the Board.

Two critical factors determine how the Board is equipped to fulfil those duties and obligations successfully:

- A diverse and deep range of skills and experiences around the boardroom table
- Processes to ensure that all of the Board members develop a good understanding of the Group's operations and external environment and are therefore well placed to make informed decisions. See page 84 for further detail on the induction process.

SENIOR INDEPENDENT BOARD MEMBER

The Board appoints one of the Independent Board members to be the Senior Independent Board Member to provide a sounding board for the Chairman and to serve as an intermediary for the other Board members when necessary.

INDEPENDENT PROFESSIONAL ADVICE

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.

2 EFFECTIVENESS

BOARD MEETINGS

The Board met monthly in 2017 (with the exception of August) and meets on other occasions as necessary. The Board is responsible for reviewing the operational and financial performance of the Group 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 are described on page 82.

The Board has delegated authority to management for decisions in the normal course of business subject to specified limits and thresholds. Oversight of decisions, which are delegated by the Board, is retained through a robust reporting framework, central to which are effective relations with the Board Committees, Chief Executive, Executive Director Group Finance and Commercial and the Executive Team.

There is ongoing financial and operational reporting to the Board and papers are sent to each Board member electronically in advance to allow sufficient time to review and consider matters for discussion / decision. The Board papers include the minutes of Board Committee meetings.

The intention at the Board meetings is to achieve the right balance of oversight of people, strategy, operations, finance and governance and risk management matters. This is monitored through the Board Evaluation and informal feedback to ensure adequate time is devoted to each matter to maintain the required balance. The Board is satisfied that the Chairman and each of the Board members committed sufficient time during the year to enable them to fulfil their duties as Board members of ESB.

The Board's focus for 2018 will be on the execution of the new Strategy to 2030: leading the transition to reliable, affordable, low-carbon energy. The Board will also continue to monitor:

- developments in the Integrated Single Electricity Market (I-SEM)
- the emerging Brexit process in order to continue to manage and monitor the challenges and opportunities which investing in Northern Ireland (NI) and Great Britain (GB) provide.

THE WAY WE ARE STRUCTURED

The organisation is structured to allow for effective and efficient decision-making with clear accountability.

ROLE OF THE BOARD

The Board provides leadership and direction to the business as a whole and is responsible for the long-term success of ESB. Decisions are made only after all appropriate information has been made available to Board members and following due consideration of the risks identified through the risk management process. The Board constructively challenges and helps develop proposals on strategy, which are then reviewed and approved by the Board. The Board has reserved the following key decisions for its own consideration:

- Approval of ESB Group Strategy, annual budgets and annual and interim financial statements including dividends
- Review of operational and financial performance
- Approval of major capital expenditure, borrowings and treasury policies
- Overall review of Group health and safety performance
- Appointment of the Chief Executive
- Appointments to the Executive Team on the recommendation of the Chief Executive
- Appointment of the Company Secretary
- Major acquisitions, disposals or retirements of assets
- Assessment and approval of the Group governance financials, internal controls and risk management
- Residential Tariffs
- Key regulatory, legal, industrial relations, accounting and policy matters

Chairman - Ellvena Graham OBE

- 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

BOARD

Chairman, six independent Board members, four worker Board members and the Chief Executive

- Responsible for the long-term success of ESB and for its overall judgement on matters of strategy, performance, resources and governance

Chief Executive - Pat O'Doherty

- Executive leadership of the Group's business
- Implementation of the Group's strategies and policies
- Maintaining a close working relationship with the Chairman
- Leading the Executive Team

Senior Independent Board Member - Noreen Wright

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

Company Secretary - John Redmond

- Assists the Chairman in ensuring that all Board members have access to all relevant information and in facilitating Board induction / professional development
- Is responsible for ensuring that correct Board procedures are followed and advises the Board on corporate governance matters
- Liaison between Board and Executive Team

Audit & Risk Committee

Chairman - Noreen O'Kelly

- To assist the Board with its responsibilities in relation to:
  - Financial reporting
  - Internal control and risk management
  - Compliance, whistle-blowing and fraud
  - External and internal auditors

Health, Safety & Environment Committee

Chairman - Anne Butler

- To advise the Board on health, safety and environmental matters
- Monitor progress against agreed health safety and key environment performance indicators and risk management in these areas

Remuneration & Management Development Committee

Chairman - Ellvena Graham

- Setting the remuneration of (i) the Chief Executive and (ii) the Executive Team following consultation with the Chief Executive
- To monitor the development of current and future leaders of ESB

Finance & Investment Committee

Chairman - Andrew Hastings

- Review capital raising and capital expenditure proposals
- Review treasury and energy trading policies and procedures
- Review investment and divestment proposals aimed at ensuring the positioning of ESB for future success, consistent with the strategy approved by the Board

Marketing & Customer Committee

Chairman - Alf Smiddy

- Alignment of marketing and customer initiatives and programmes with company strategic objectives
- New products and services and associated revenue projections
- Engagement with major customers
- Advertising and sponsorship programmes and assessment of their impact

EXECUTIVE TEAM

Leadership and Control of the Group

Biographical details of the Chairman, Chief Executive and Senior Independent Director can be found on pages 78 to 79.
Biographical details of the Board Members can be found on pages 78 to 79.
Biographical details of the Company Secretary can be found on page 43.
Biographical details of the Executive Team can be found on page 42 to 43.

BOARD COMMITTEES

Five Committees of the Board assist in the discharge 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, financial and governance issues and they report to the Board with any necessary recommendations. The Committees have access to adequate resources to carry out their duties. The Committees and their membership are set out on pages 89, 96 and 97 of this report.

BOARD APPOINTMENTS

As Board appointments are a matter for Government or for election by employees, ESB does not undertake an evaluation of individual Board members. However, the Chairman does engage with Government in advance of the Board appointment process about the specific skills that are required on the Board. The Department of Public Expenditure and Reform in November 2014 published guidelines on appointments to State Boards and these guidelines apply to appointments to the Board of ESB. Board members are normally appointed for terms of five years or four years in the case of Worker Board members and therefore are not subject to re-election to the Board at lesser intervals. The Chief Executive and Independent Board members may be re-appointed to the Board by Government and any reappointment of Worker Board Members is pursuant to the Worker Participation (State Enterprises) Act 1977.

EXAMPLES OF MATTERS CONSIDERED AND/OR APPROVED BY THE BOARD IN 2017

PEOPLE

- Employee engagement survey results
- Group Health, Safety and Wellbeing Report
- Composition of the Board and its Committees
- Group People Strategy

OPERATIONS

- Chief Executive operations reports
- Health and safety reports
- Energy trading updates
- Plant investment overhauls programme
- Capital investment evaluations
- Performance of Novusmodus Fund
- Joint venture reports
- Regulated business updates
- Updates on ESB head office redevelopment
- ESB International consultancy controls
- ESB ecars

STRATEGY

- Strategy review and update
- Energy policy and market updates
- Competitor activity and utility sector trends
- I-SEM commercial enablement programme and I-SEM capacity auction
- ESB Networks connections projections
- NIE Networks
- UK Strategy
- Smart Metering
- National Broadband
- Renewables including offshore wind

GOVERNANCE AND RISK MANAGEMENT

- Group Risk Appetite Statement and Group Risk Plan
- Effectiveness of risk management and internal control
- Internal audit plan for the year
- Independent Board evaluation and implementation plan
- Committees Terms of Reference
- ESB Board Code of Ethics
- Code of Practice for the Governance of State Bodies (2016) implementation report
- Effectiveness of internal control and risk management
- UK Modern Slavery Act Statement for publication on the ESB website
- Group Treasury policies
- Policy on engagement of ESB external auditors on non-audit services
- Group authority levels and Group Trading authority levels
- ESB Group's Risk Policy and Governance Framework
- Cyber security

FINANCE

- Annual and half-yearly published results
- Quarterly financial performance and forecasts
- Monthly Key Performance Indicators (KPIs)
- Annual budget and five-year business plan
- Interim and final dividend
- Capital markets funding
- Cost of capital and hurdle rates for new investments
- ESB Group's tax policy
- ESB regulatory accounts

ATTENDANCE AT MEETINGS IN 2017

There were 11 General Board meetings during 2017. The attendance by each Board member during the year is set out below.

BOARD MEMBERS 2017	MEETINGS ATTENDED
Ellvena Graham OBE	10
Anne Butler*	11
Dave Byrne^	11
Andrew Hastings*	11
Sean Kelly^	10
Paul Lynam*	11
Tony Merriman^	11
Noreen O'Kelly*	11
Peter O'Sullivan^	10
Alf Smiddy*	11
Noreen Wright*	11
Pat O'Doherty	11

* Independent Board member
^ Worker Board member

In addition to the Board members and Company Secretary, a number of senior managers attend relevant sections of Board meetings, by invitation.

BOARD EFFECTIVENESS

The Board conducts an annual evaluation of its own performance and that of its Committees. This evaluation is undertaken in order to comply with the State Code and, so far as possible, with the UK Code. The evaluation relates to the Board's and Committees' 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 the Chairman can make suggestions to Government for consideration when making appointments.

The evaluation provides assurance that the Board is committed to the highest standards of governance. The evaluation is led by the Chairman and supported by the Company Secretary. The annual evaluation consists of a questionnaire and based on Board members' replies, a report is made to the Board on the outcomes with proposed actions to address the issues raised. Implementation is reviewed at mid-year. An independent evaluation based on one-to-one interviews between Board members and the external facilitator is conducted every three years and one such independently facilitated evaluation took place in early 2017 by the Institute of Chartered Secretaries and Administrators (ICSA) Board Evaluation (who have no connection with the Group). An overview of the evaluation process and details of the findings are set out above.

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.

RECOMMENDATIONS FROM 2017 EXTERNAL BOARD EVALUATION

2017 RECOMMENDATIONS	ACTIONS TAKEN IN 2017
Meeting Administration Consideration should be given to re-schedule as far as practicable main Board Committee meetings, so that there is appropriate time for the deliberations / recommendations of Committees to be considered by the Board.	The number of Board meetings will be reduced from eleven in 2017 to nine for 2018. Committee meetings are scheduled where possible to meet this recommendation.
Board Engagement Agendas to allocate more time to the general discussion of risks that are material to the business.	There is formal risk reporting on a quarterly basis to the Audit and Risk Committee and individual risks are allocated as appropriate to individual Board Committees. Formal reporting to the Board on risk is supplemented by regular updates in the Chief Executive's report.
Board Development Board development to include briefings on stakeholder and industry issues to enable Board members enhance their knowledge of ESB's business.	During 2017, industry presentations to the Board included: an external view of the evolving utility landscape; national broadband; electric vehicles; ESB International business overview; ESB Networks connections challenges; solar energy; SMART metering; update on the GB electricity market; cyber security; and offshore wind.

INFORMATION AND BRIEFINGS

To maintain and enhance the effectiveness of the Board, it is essential that Board members are kept up to date with key business developments. The details of the Board's activities in 2017 are outlined on page 83. The Board receives regular updates on the regulatory environment, the market and operations including monthly Key Performance Indicator Reports.

Site visits are arranged for individuals and groups of Board members to allow a greater understanding of the ESB business. During 2017 there was a visit to ESB Networks, Meter and Data Services, South Lotts Road, Dublin.

Board meetings were also scheduled outside the head office location in 2017 including one at Tilbury Green Power, a waste wood to energy plant at Tilbury Port, UK.

INDEPENDENCE

The Board has determined that those Board members (details on pages 78 to 79) were independent during 2017. This determination took account of the relevant provisions of the UK Code regarding Board members' independence in character and judgement and the absence of relationships or circumstances which could compromise Board members' independence. In light of these factors, the Board is satisfied of the independence of the Board members identified above.

CONFLICTS OF INTEREST

Board members make annual disclosures of any potential or actual conflicts of interest. Board members are responsible for notifying the Company Secretary on an ongoing basis should they become aware of any change in their circumstances regarding conflicts of interest.

Biographical details for all the Board members, including details of their external appointments are set out on pages 78 to 79.

INDUCTION

An induction programme is in place to familiarise new Board members with the operations of the Group. The programme is tailored to the experience, background and the requirements of the individual. Key elements are meeting the Executives, visiting sites and receiving a briefing on the ESB Group Strategy and on individual businesses.

ONGOING TRAINING AND DEVELOPMENT

A continuing development programme is in place for all Board members. The Chairman and Company Secretary liaise with Board members for their specific needs.

Teach-ins, updates and briefings are also provided to cover relevant areas to the Group. These include presentations on macro-economic, political and regulatory developments and training in corporate matters.

3 ACCOUNTABILITY

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

ESB complies with the State Code, which sets out the principles of corporate governance, which the Boards of State Bodies are required to observe. ESB also complies with the corporate governance guidelines and other obligations imposed by the Ethics in Public Office Act, 1995, the Standards in Public Office Act, 2001 and the Regulation of Lobbying Act, 2015.

ESB complies as far as possible and on a voluntary basis to the UK Code and the Irish Annex.

The UK 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 and comply with the provisions of the UK Code and the related Irish Annex and to provide an explanation in the event of non-compliance.

ESB is a statutory corporation established under the Electricity (Supply) Act 1927 (as amended) and is not obliged to comply with the UK Code or the Irish Annex. As stated above, ESB supports the principles and provisions of the UK Code and the Irish Annex and voluntarily complies with them subject to the following exceptions:

- Appointments to the Board are a matter for the Government and accordingly ESB does not have a Nominations Committee.
- Board members are appointed for terms of five years or four years in the case of Worker Board members and therefore are not subject to re-election to the Board at lesser intervals.
- 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 88 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 Board fees.
- The Board evaluation process has not to date evaluated the individual performance of Board members as the Board does not have a formal role in determining its own composition. This matter is kept under review.
- The Board Chairman is also Chairman of the Remuneration and Management Development Committee, given the importance of compliance by ESB with Government policy in this area and the role of the Chairman as the primary interface with Government.
- The Independent Board members do not meet without the Chairman present to appraise the Chairman's performance as the appointment of the Chairman is a matter for the Government.

FINANCIAL AND BUSINESS REPORTING

The Board recognises its responsibility in preparing the Annual Report and Financial Statements and in presenting a fair, balanced and understandable assessment of the Group's position and prospects. The Board members' responsibilities regarding financial statements and going concern are set out on page 103.

PROCUREMENT

ESB is in compliance with all applicable procurement rules and guidelines as set out in the Utilities Directive and ESB's Procurement Procedures.

INTERNAL CONTROL

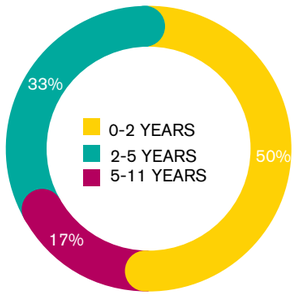
The Board has overall responsibility for the Group's system of internal control and for monitoring its effectiveness. The system of internal control is designed to provide reasonable but not absolute assurance regarding the achievement of the following objectives:

- Effectiveness and efficiency of operations and safeguarding of the organisations' assets against loss
- Reliability of reporting for internal and external use
- Compliance with applicable laws and regulations

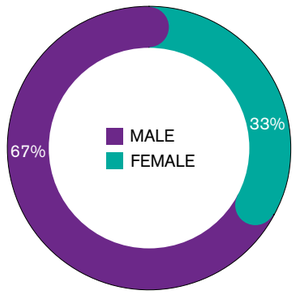
In order to discharge their responsibilities in a manner which ensures compliance with legislation and regulations, the Board has established an organisational structure with clear operating and reporting procedures, lines of responsibility, authorisation limits, segregation of duties and delegated authority.

The Group uses the integrated internal control framework as developed by the Committee of Sponsoring Organisations of the Treadway

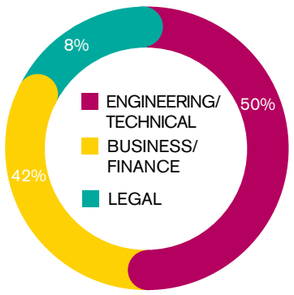
LENGTH OF TENURE



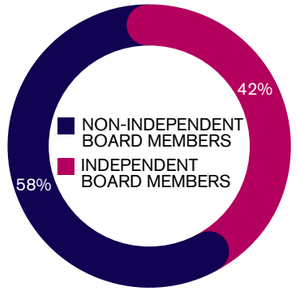
COMPOSITION OF BOARD (GENDER)



BOARD EXPERIENCE



INDEPENDENCE OF BOARD



COSO FRAMEWORK

ESB INTERNAL CONTROL FRAMEWORK

Control Environment
1. Demonstrates commitment to control and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment
6. Specifies suitable objectives
7. Identifies and analyses risk
8. Assesses fraud risk
9. Identifies and analyses significant change

Control Activities
10. Selects and develops control activities
11. Selects and develops general controls over activities
12. Deploys through policies and procedures

Information and Communication
13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities
16. Conducts ongoing and / or separate evaluations
17. Evaluates and communicates deficiencies

Commission (COSO) as guidance for designing, implementing and conducting internal control and assessing its effectiveness. The COSO framework was first released in 1992 and updated in 2013.

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
- A clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board, which support the maintenance of a strong control environment
- A corporate governance framework which includes risk analysis, financial control review and formal annual governance compliance statements by the management of business lines and joint ventures (JVs)
- 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 Investment Committee and they are also 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 and key performance indicators are reported against budget and considered by the Board on a regular basis
- A helpline service to provide employees with a confidential and if required, anonymous means to report any fraud or ethical concerns

These controls are reviewed systematically by Group Internal Audit. In these reviews, emphasis is placed on areas of greater risk as identified by risk analysis. Where weaknesses in the internal control system have been identified through the monitoring framework above, plans for strengthening them are put in place and action plans are regularly monitored until completed.

RISK MANAGEMENT

Effective risk management is critical to the achievement of ESB's strategic objectives and the long-term sustainable growth of its business. The rapid changes taking place in ESB makes it all the more important to continuously reassess risks and have clear strategies to manage them. The Board has overall responsibility for the Group'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
- Overseeing that an appropriate risk culture is embedded throughout the Group
- Oversight of the risk management and crisis management processes
- Assessment of the likely effectiveness of management's mitigation measures and controls

The Board has carried out a robust assessment of the principal risks facing the Group, including those that might threaten its business model, future performance, solvency and liquidity. A cyclical review process for identifying, assessing and managing its significant risks has been in place for the year under review and up to the date of approval of this Annual Report. The principal risks and uncertainties facing the Group and the mitigating strategies are set out on pages 28 to 37.

The Board is aware that it must lead by example in shaping and supporting the updated Group values that underpin the approach to risk. It also seeks to ensure that sufficient risk management skills and capabilities are available in the business and that the knowledge and experience of all the employees in ESB who understand the risks associated with operations is utilised. Regular reporting has facilitated the Board to stay abreast of emerging risks and uncertainties.

Risk appetite may also vary over time and the Board has explicitly considered the level of this appetite and any deviation from its stated appetite for risk that the Group is prepared to accept in respect of specific risks. The propensity to take risk is always balanced by a focus on exercising control.

THE 2017 REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL AND RISK MANAGEMENT

The Board retains the overall responsibility for internal control and risk management. During 2017, the Board has directly and through the delegated authority to the Audit and Risk Committee, reviewed the effectiveness of the Group's system of internal control covering financial, operational and compliance controls and risk management systems for 2017 and will ensure a similar review is performed in 2018.

The process used by the Board and the Audit and Risk Committee to review the effectiveness of the system of internal control includes:

ACTIVITIES UNDERTAKEN BY THE BOARD AND THE AUDIT AND RISK COMMITTEE DURING 2017 IN RESPECT OF ITS RISK RESPONSIBILITIES INCLUDED:

ACTIVITY	DETAIL
Group Risk Plan and Risk Appetite Statement	The Audit and Risk Committee reviewed and challenged the 2017 Group Risk Plan and the updated Risk Appetite Statement, and recommended both to the Board for approval.
Business Continuity Planning (BCP) and Crisis Management Review	Review of the report submitted to the Audit and Risk Committee on the effectiveness of BCP plans and resilience testing arrangements across the Group including a lessons learned review based on the experiences over 2017.
Review of ESB Group's Risk Policy and Governance Framework	Annual review by the Audit and Risk Committee of ESB Group's Risk Policy and Governance Framework.
Mid-Year Risk Review	The Audit and Risk Committee considered and noted to the Board any changes to the Group principal risks and emerging risks as approved at the start of the year, including a review of material changes to risk profile.
Quarterly Risk Reports	The Audit and Risk Committee reviewed changes to the status of the principal risks on a quarterly basis, including the effectiveness of operation of controls and status of mitigating actions.
Cyber Risk	A review of cyber risk and the operational defences within ESB, including the areas most at risk, was presented to the Audit and Risk Committee. An external review of the maturity of the Group's IT Security arrangements was completed and a programme of actions to transition to leading practice was presented to the Audit and Risk Committee. An update was provided on requirements under the new Network and Information Security (NIS) Directive as well as an update on cyber security developments.
Talent/Skills Risk	An update was provided regarding the processes in place to ensure availability of the resources and skills required to deliver the ESB Group Strategy, including an assessment of the status of the risk.
General Data Protection Regulation (GDPR)	An update was provided to the Audit and Risk Committee on the Group's preparations for the imminent implementation of GDPR.
Site Visit	The Audit and Risk Committee visited the ESB Networks Metering facilities during the year which provided insights into the specific risks and challenges facing the metering function and provided assurance to the Committee on the risk management processes within the business.
Financial Reporting Council (FRC) Risk Guidance	Report on substantial compliance with FRC guidance on risk was provided to the Audit and Risk Committee.

- 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 operating in ESB (the last review was carried out in 2015)
- Review and consideration of certification from management of satisfactory and effective operation of systems of internal control, 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 implementation of recommendations raised previously from their own reports and reports from the external auditors
- Independent assessment of the effectiveness of the internal audit function (this is carried out every five years the last one was carried out in 2016)
- A review of reports of the external auditors which contain details of work carried out on the key audit risks

On the basis of this review, the Board confirms the following for 2017:

- There is an ongoing process for identifying, evaluating and managing the principal risks of the Group
- Systems of internal control have been in place for the year under review and up to the date of approval of this Annual Report
- The systems substantially comply with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting
- No significant failings or weaknesses were identified in the review and where areas of improvement were identified, processes are in place to ensure necessary action is taken and progress is monitored until completed

Through its ongoing involvement and overview of internal control and risk management activities, the Board is satisfied that internal control and risk management processes are effective.

GOING CONCERN

The Group's performance, business model, strategy and principal risks and uncertainties and how these are managed are set out in the strategy and performance report on pages 1 to 75.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 48 to 53.

Note 26 to the financial statements includes an overview of financial risk management, details of its financial instruments and hedging activities and its exposure to credit and liquidity risks.

The Group has considerable financial resources and the Board believe that the Group is well placed to manage its risks successfully. After making appropriate enquiries, the Board is satisfied that ESB has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continue to adopt the going concern basis in preparing the Group's financial statements.

VIABILITY STATEMENT

In accordance with the UK Code, the Board members have assessed the prospects of the Group over a longer period than that required in adopting the going concern basis of accounting.

The Group's assessment has been made over a five-year period, which is consistent with the time frame of the Group's business planning process. The assessment is based on consideration of ESB's current position and prospects, maintenance

of its financial strength (page 48 to 53), progress against ESB 2030 Strategy (page 21), risk appetite (page 25), principal risks (page 28 to 37) and how these are managed.

The Board believe that a five-year assessment is most appropriate as it aligns with the business planning process completed annually and is underpinned by regular Board briefings provided by business units along with strategic performance indicators (SPIs) to measure progress. The projections in the business plan consider the Group's cash flows, committed funding and liquidity positions and examine future funding requirements and banking covenants, and other key financial ratios including those relevant to maintaining investment grade credit ratings. The metrics in the business plan are subject to sensitivity analysis, which involves flexing a number of the main assumptions underlying the plan to assess key financial metrics, such as Net Debt and EBITDA. Where appropriate, this analysis is carried out to evaluate the potential impact of the Group's principal risks actually occurring. Sensitivity analysis is focused on the economic environment, regulatory compliance and commodity prices, among others.

The Board recognises the significance of ESB's strong balance sheet. The Group's funding operations are of strategic importance and support capital expenditure, the refinancing of maturing debt and the maintenance of adequate liquidity. The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. The Group's revolving credit facility of €1.44 billion provides ESB with a substantial level of standby liquidity for the next five years. ESB's funding position reflects its underlying financial strength and at least BBB+ (or equivalent) credit ratings from all three major agencies. Further details on debt maturity are set out on page 53.

The Board has carried out a robust risk assessment of the principal and emerging risks facing the Group. In addition, business continuity and disaster recovery testing is conducted annually to assess scenarios that could adversely impact the organisation and to what degree these risks can be mitigated. These risks and the way they are being managed and mitigated are outlined on pages 28 to 37.

Based on the results of the above analysis, the Board members have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

4 REMUNERATION

CHIEF EXECUTIVE'S REMUNERATION

The Chief Executive's remuneration is set within a range determined by the Minister for Public Expenditure and Reform and the Minister for Communications, Climate Action and Environment. Pat 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, a company car and employer pension contribution. He is a member of the ESB Pension Scheme. In line with Government policy that the Chief Executive of State companies should not receive performance related payments, he did not receive any performance related payments in 2017.

WORKER BOARD MEMBERS' REMUNERATION

Worker Board members appointed under the Worker Participation (State Enterprises) Act 1977 are remunerated as employees of ESB. They are members of the ESB Pension Scheme.

INDEPENDENT BOARD MEMBERS' REMUNERATION

The remuneration of the Independent Board members (including the Chairman) is determined by the Minister for Public Expenditure and Reform and the Minister for Communications, Climate Action and Environment and they do not receive pensions or any other remuneration. The terms and conditions are set out in their letter of appointment and this is available on request from the Company Secretary.

BOARD MEMBERS' EXPENSES

In compliance with the State Code, disclosure is required of the expenses paid to Board members. During 2017, €67,512 was reimbursed to, or paid on behalf of, Board members for travel expenses, accommodation and other related expenses. The above expenses do not include those of the Chief Executive or the Worker Board members in respect of their executive or employee duties.

BOARD MEMBERS' REMUNERATION

CHAIRMAN

	2017 €	2016 €
Ellvena Graham OBE	31,500	31,500

CHIEF EXECUTIVE

	2017 €	2016 €
Salary	295,000	295,000
Taxable benefits	15,570	15,570
Pension contributions	48,380	48,380
	358,950	358,950

INDEPENDENT/WORKER BOARD MEMBERS

	2017 €	2016 €
Anne Butler	15,750	15,750
Dave Byrne	15,750	15,750
Andrew Hastings	15,750	15,750
Seán Kelly	15,750	15,750
Paul Lynam	15,750	3,810
Séamus Mallon	-	5,335
Tony Merriman	15,750	15,750
Noreen O'Kelly[1]	-	-
Peter O'Sullivan	15,750	15,750
Alf Smiddy	15,750	3,810
Noreen Wright	15,750	15,750
	141,750	123,205

[1]Ms O'Kelly waived her Board fees in 2017 and 2016

5 RELATIONS WITH SHAREHOLDERS

DIALOGUE WITH SHAREHOLDERS

ESB is owned 95.2% by the Irish Government and 4.8% by the Trustee of the Employee Share Ownership Plan (ESOP). ESB engages in active and ongoing consultation with the Government on key polices and strategic issues as required by legislation and the State Code. It also provides detail on the annual budget and five-year plan and quarterly updates on its financial performance. ESB also regularly engages and consults with the Trustee of the ESB Employee Scheme Ownership Plan (ESOP).

ANNUAL GENERAL MEETING (AGM)

ESB holds an AGM each year, no later than 15 months after the last AGM. The requisite notice is given to all shareholders. Board members including the Chairman of the Audit and Risk Committee are invited to attend. The Chairman gives an overview of the year and invites shareholders to make any comments they may have. The external auditors attend the AGM.

AUDIT AND RISK COMMITTEE REPORT

CHAIRMAN'S INTRODUCTION

On behalf of the Audit and Risk Committee, I am pleased to introduce the Audit and Risk Committee Report for the year ended 31 December 2017. The purpose of the report is to provide an insight into the workings of the Audit and Risk Committee over the last 12 months. I confirm that the Audit and Risk Committee satisfied its responsibilities as set out in its Terms of Reference and under the UK Corporate Governance Code 2016 (the UK Code).

Under the UK Code, the Board has a responsibility to confirm that the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders / stakeholders to assess the Group's performance, business model and strategy.

The Audit and Risk Committee has reviewed the annual report and financial statements and is satisfied that it meets these criteria and has recommended them to the Board for approval. The Audit and Risk Committee also considered the significant issues in relation to the financial statements and how these issues were addressed. This work is summarised on pages 91 to 92.

The Audit and Risk Committee will keep its activities under review to ensure that future developments relating to the work of the Audit and Risk Committee are fully considered. The responsibilities of the Audit and Risk Committee are summarised on page 90 and are set out in full in its Terms of Reference. The Audit and Risk Committee currently consists of four Independent Board members whose biographical details are set out on pages 78 and 79. The members bring a broad range of experience and expertise from a wide range of industries, which is vital to supporting effective governance. The Board has confirmed that each member of the Audit and Risk Committee is independent and that the membership meets the requirements of the UK Code in terms of recent and relevant financial experience and competence relevant to the sector in which the Group operates.

The key areas of focus in 2018 by the Audit and Risk Committee will include the following:

- Review the Group's preparation and impact of new accounting standards effective over the next number of years – IFRS 9 Financial Instruments (effective 1 January 2018), IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018) and IFRS 16 Leases (effective 1 January 2019)
- Oversight of the external audit transition to PwC
- Monitor upcoming legislative / regulatory developments and other legal exposures
- Continued focus on cyber and emerging risks and General Data Protection Regulation (GDPR) readiness
- Continued focus on improving communications between management, the Audit and Risk Committee and the Board

THE AUDIT AND RISK COMMITTEE HELD 8 MEETINGS DURING 2017. THE MEMBERS OF THE COMMITTEE, LENGTH OF SERVICE AND THE NUMBER OF MEETINGS ATTENDED ARE SET OUT BELOW:

MEMBERS	DESIGNATION	LENGTH OF SERVICE	MEETINGS ATTENDED
Noreen O'Kelly, Chairman[1]	Independent Board Member	4 years and 6 months	8
Andrew Hastings	Independent Board Member	2 years and 3 months	8
Alf Smiddy[1]	Independent Board Member	1 year	8
Noreen Wright[2]	Independent Board Member	2 years and 3 months	8

[1] Fellow of Chartered Accountants Ireland
[2] Energy sector experience through previous roles in Northern Ireland Electricity Networks (NIE Networks).

KEY OBJECTIVES

The role of the Audit and Risk Committee is set out in its Terms of Reference, a copy of which can be found on the ESB website, www.esb.ie. The Terms of Reference sets out the duties of the Audit and Risk Committee under the following headings:

- Financial Reporting
- Internal Control and Risk Management
- Compliance, Whistle-Blowing and Fraud
- Internal Audit
- External Audit

DUTY	ACTIVITIES CARRIED OUT IN 2017
Financial Reporting Review the Annual Report and Financial Statements to ensure that when taken as a whole, they are fair, balanced and understandable and that appropriate accounting standards, estimates and judgements have been applied	■ Reviewed the clarity and completeness of the disclosures in the Annual Report and Financial Statements and the material information presented within them ■ Reviewed whether the Group had applied appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors ■ Reviewed the interim results which consist of financial statements and explanatory notes ■ Reviewed and considered the key messages for the financial result publications ■ Reviewed and approved the ESB regulatory financial statements ■ Considered and challenged the methods used to account for significant or unusual transactions and how these were presented and disclosed in the financial statements ■ Reviewed and recommended final and interim dividend to the Board
Internal Control and Risk Management Review the effectiveness of internal control and risk management	■ Reviewed and monitored the effectiveness of the Group's system of internal control ■ Reviewed the arrangements for business continuity planning and crisis management ■ Reviewed ESB's Risk Management Policy and Governance Framework, Risk Plan, Risk Appetite and regular Risk Reports and recommended them to the Board for approval ■ Considered deep dives for cyber security and reviewed digital capability in Electric Ireland ■ Considered external review of ESB IT Security ■ Reviewed update on the implementation of the 2016 Code of Practice for the Governance of State Bodies (the State Code)
Compliance, Whistle-Blowing and Fraud Review the adequacy and security of the arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters	■ Reviewed the controls and procedures in place to provide assurance of compliance with statutory obligations ■ Reviewed the procedures and policies for preventing and detecting fraud and were informed of any instances of fraud ■ Reviewed the adequacy and security of the arrangements for raising concerns confidentially about possible wrongdoing in financial reporting or other matters ■ Considered ESB Code of Ethics ■ Approved the statement on the UK Modern Slavery Act ■ Received an update on GDPR in advance of implementation in 2018
Internal Audit Monitor and assess the role and effectiveness of the internal audit function	■ Reviewed the internal audit plan and monitored progress against this plan to assess the effectiveness of the function ■ Reviewed reports detailing the results of key audits, management's response and the timeliness of resolution of actions (76% of recommendations implemented within the recommended time) ■ Met with the Head of Internal Audit without management being present ■ Reviewed internal audit key performance indicators ■ Approved revised internal audit charter
External Audit Monitor and review the objectivity, independence and quality of the external auditors and review the findings of the audit with the external auditors	■ Oversaw the transition to PwC as external auditors and the process undertaken to ensure they are independent ■ Received an update from PwC on audit transition, engagement and interim review plan ■ Reviewed and challenged the proposed external audit plan to ensure that PwC had identified all key risks and developed robust audit procedures ■ Reviewed the report from PwC on its audit of the financial statements and their comments on accounting, financial control and other audit issues ■ Considered and approved a revised policy on the engagement of the external auditors for non-audit services in line with the EU Audit Regulation and Directive and received a briefing on non-audit services to ensure compliance with policy ■ Met with the external auditors without management being present, giving PwC the opportunity to raise any matters in confidence

FINANCIAL REPORTING

The Audit and Risk Committee receives and considers the interim and year-end financial statements from management as well as receiving reports from the internal audit team and discussing the audit strategy and focus of the external auditors. Taking into account information from these activities, the Audit and Risk Committee determined the key areas of judgement in the Group's financial statements related to the following:

- Carrying value of long-lived assets and goodwill
- Pension obligations
- Derivatives and hedging arrangements
- Legal contingent liabilities and disclosures
- Asset Retirement Provision

These issues were discussed with management during the year, with the auditors at the time the Audit and Risk Committee reviewed and agreed the auditors' Group audit plan, as part of the auditors' review of the half-year interim financial statements and at the conclusion of the audit of the year-end financial statements.

SIGNIFICANT ISSUES CONSIDERED	HOW ISSUES WERE ADDRESSED BY THE AUDIT AND RISK COMMITTEE
CARRYING VALUE OF LONG-LIVED ASSETS AND GOODWILL **Republic of Ireland (ROI) and United Kingdom (UK) Generation Portfolio** Impairment reviews were performed on the ROI and UK generation portfolios to ensure the carrying values are supported by forecast future discounted cash flows. An impairment charge of €276 million with respect to generation assets was necessary following this review. Further details (including details on the assumptions used) are in Note 4 and Note 10 of the financial statements. **Networks Transmission and Distribution Long-Lived Assets** As at 31 December 2017, there were no indicators of impairment of the carrying value of the asset base of ESB Networks (€7.7 billion), which determines the future regulated income to be earned. **Northern Ireland Electricity Networks Limited (NIE Networks) Long-Lived Asset and Goodwill** As at 31 December 2017, there were no indicators of impairment of the carrying value of the asset base of NIE Networks (£1.5 billion), which determines the future regulated income to be earned. Goodwill recognised in the NIE Networks business as at 31 December 2017 amounted to €171 million. Consequently an annual impairment test of the carrying value of NIE Networks was carried out in accordance with IAS 36 and no reduction in the value of goodwill was required. The significant judgements used to carry out this test are explained further in note 12 to the financial statements.	The Audit and Risk Committee recognises that the impairment reviews for the carrying value of assets involve a range of judgemental decisions largely related to the assumptions used to assess the value-in-use of the assets being tested. To assist with their decision on the level of impairment charge the Audit and Risk Committee carried out the following: ■ Considered detailed papers prepared and presented by the Executive Director, Group Finance and Commercial, including details of the methodologies and assumptions applied in determining the recoverable values including the discount rates and market and tariff assumptions used ■ Constructively challenged the assumptions and projections presented in the papers ■ Considered the sensitivity analysis provided including scenarios with different discount rates and market and tariff assumptions ■ Considered the detailed reporting from, and findings of the external auditors Following the review above, the Audit and Risk Committee is satisfied with the impairment review approach, key assumptions used and that the exceptional impairment charge of €276 million for generation assets is appropriate.
PENSION OBLIGATIONS - ESB DEFINED BENEFIT PENSION SCHEME (THE SCHEME) In accordance with IAS 19 Employee Benefits, ESB continues to reflect its existing committed obligations on the balance sheet as set out in note 21 to the financial statements. This treatment is based on the following key factors, none of which changed for the year ended 31 December 2017. ■ The Scheme is registered as a Defined Benefit Scheme with the Pensions Authority. The regulations governing the Scheme stipulate the benefits that are to be provided and they also stipulate 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). ESB does not intend that any further contributions, other than the normal ongoing contributions and the remaining balance of ESB's €591 million additional contribution (committed to under the 2010 Pensions Agreement and indexed at 6.25%), will be made. ■ Should a deficit arise in the future, ESB 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 its rate of contribution cannot be altered without the agreement of ESB and the approval of the Minister for Communications, Climate Action and Environment.	The accounting for the obligations to be reflected in the financial statements requires the exercise of judgement. The Audit and Risk Committee remains 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.

SIGNIFICANT ISSUES CONSIDERED	HOW ISSUES WERE ADDRESSED BY THE AUDIT AND RISK COMMITTEE
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, Retail Price Index (RPI) swap contracts and commodity swaps and future contracts relating to the purchase of fuel and sale of electricity. Future purchase contracts which are not designated as own-use contracts are primarily accounted for as cash flow hedges, where they meet cash flow hedge accounting criteria under IAS 39 and consequent fair value movement impacts principally on equity rather than on the reported earnings of the Group. Derivative financial instruments include the Northern Ireland Retail Price Index (RPI) linked interest rate swaps. As part of the acquisition of NIE Networks in 2010, ESB acquired the RPI swaps. The purpose of these swaps is to manage NIE Networks' risk and reduce exposure to movements in inflation and interest rates. The RPI swaps do not qualify for hedge accounting (as they did not meet the criteria to qualify for hedge accounting under IAS 39 when acquired by ESB) and therefore all fair value movements in the RPI swaps are recorded in the income statement.	The Audit and Risk Committee recognises the inherent complexities around the accounting for derivatives and hedging arrangements and that a significant level of judgement is required in arriving at the appropriate accounting treatment. To assist with their decision on the reasonableness of the accounting treatment (in particular the assumptions used in the valuation models) they carried out the following work: ■ Discussed valuation models with management ■ Considered hedging policy, risks being hedged and accounting for such hedges ■ Relied on the third party processes in relation to the valuation of certain derivatives ■ Considered the results of the work of the external auditors in relation to derivatives Based on its work, the Audit and Risk Committee is satisfied that the valuation of and accounting treatment for derivatives is appropriate.
LEGAL CONTINGENT LIABILITIES AND DISCLOSURES Following flooding in Cork in November 2009, Aviva as UCC's insurer pursued a legal action against ESB in the High Court seeking recovery of €19 million for property damage. On 5 October 2015, the High Court delivered its judgement in the case and found ESB 60% liable for the damage caused and UCC 40% contributory negligent. Based on legal advice received, ESB appealed the decision to the Court of Appeal and the appeal was heard in November 2017. A decision is expected in Q1 2018. Pending the decision, no hearing on quantum (i.e. the actual amount of damages payable in respect of UCC's losses) will take place and the High Court has stayed its order on costs. In addition to the UCC claim, ESB has since the judgement in the UCC case, been served with 387 sets of proceedings relating to the flooding in Cork in November 2009. Details of amounts claimed in relation to these proceedings have not yet been received and therefore it is not possible to make a reliable estimate of their cost (should the Court of Appeal find against ESB) at this time. However, ESB does not anticipate that the total amount of damages awarded, if any, and related costs for all of the actions, including the Aviva / UCC action, would exceed its applicable insurance cover. On the basis of the internal and external legal advice received, ESB believes that it is more probable than not that the appeal will be successful and accordingly, no provision has been made for such claims in the financial statements. See note 27 for further detail.	The Audit and Risk Committee recognise that in relation to legal claims, judgement is necessary on the appropriate level of disclosure and provisioning. To assist with the decision on the classification of the claim as a contingent liability, the Audit and Risk Committee carried out the following work: ■ Considered both the internal and external legal advice in relation to the case ■ Challenged the views taken by management where necessary Based on this work, the Audit and Risk Committee is satisfied that the claim represents a contingent liability and it is appropriate not to make a provision in relation to the UCC case and other related outstanding cases.
ASSET RETIREMENT PROVISION There are a number of uncertainties that affect the calculation of the provision for the closure and dismantling of assets, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, the impact of alternative technologies and changes in discount rates. 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 these assumptions could materially impact on the calculation of the provision. The adequacy of this provision is assessed annually.	The Audit and Risk Committee recognises that the assessment of the level of provision for asset retirements involves a range of judgemental decisions. To assist with their decision on the level of provision the Audit and Risk Committee carried out the following: ■ Considered detailed papers prepared and presented by the Executive Director, Group Finance and Commercial including details of the assumptions applied in determining the level of provision, interpretation of legal obligations and events during the year ■ Considered the detailed reporting from, and findings of the external auditors Following the review above, the Audit and Risk Committee is satisfied that the provision of €261 million is appropriate to cover these obligations.

The above description of significant issues considered should be read in conjunction with the Independent Auditors' Report on pages 104 to 110 and the statement of accounting policies disclosed in note 1 of the financial statements on page 119.

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Audit and Risk Committee has considered whether, in its opinion, the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders / stakeholders to assess the Group's performance, business model and strategy. Consideration is also given to whether the information is presented in a clear and concise format, avoids the use of jargon and is easily understood by the reader.

To assist in the process of supporting the fair, balanced and understandable assessment statement, management prepared a report to the Audit and Risk Committee setting out the key considerations in arriving at the statement and to assist in its challenge and testing of a fair, balanced and understandable assessment.

In reaching their conclusion, the Audit and Risk Committee considered the following:

- All Board members received copies of the Annual Report and Financial Statements to review early in the reporting cycle to ensure the key messages in the Annual Report were aligned with the Group's position, performance and strategy and the narrative sections of the Annual Report were consistent with the financial statements
- That a robust process was put in place by management for the preparation of the Annual Report and Financial Statements for the year ended 31 December 2017, including early planning, taking into consideration regulatory changes and best practice
- Clear linkages to the strategic objectives are provided throughout the report
- That the key performance indicators (KPIs) used and reported in the Annual Report are consistent with those provided by management to the Board throughout the year
- Review of data and information included in the Annual Report by internal audit
- Review of the external auditors' report
- That all key events and issues reported to the Board during the year, both positive and negative, have been adequately referenced or reflected in the Annual Report

Following its review, the Audit and Risk Committee is of the opinion that the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders / stakeholders to assess the Group's performance, business model and strategy.

AUDIT AND RISK COMMITTEE EFFECTIVENESS

As part of the Board evaluation process, the operation of the Audit and Risk Committee is also evaluated. The process was externally facilitated in 2017 by the Institute of Chartered Secretaries and Administrators (ICSA) Board Evaluation, who has no connection with the Group. An overview of the evaluation process and details of the findings are set out on page 84. The conclusion from the process was that the Audit and Risk Committee is operating effectively and has met its terms of reference. Recommendations in the ICSA Board Evaluation report have been addressed.

During 2017, the Committee Chairman, Company Secretary and Executive Director Group Finance and Commercial undertook a review of the Audit and Risk Committee papers and agreed a number of initiatives to improve their clarity and brevity.

EXTERNAL AUDIT

External Auditors' Appointment and Transition

PwC were appointed as external auditors following a formal tender process carried out in 2016 for the financial year commencing from 1 January 2017 for up to three years (i.e. 2017, 2018 and 2019 financial years) with an option to extend for a further two years. The Audit and Risk Committee considers the reappointment of the external auditors every five years and this process is subject to public tender. The Audit and Risk Committee oversees the relationship with the external auditors including the selection process for the audit tender.

The lead time from appointment provided a smooth handover process from KPMG, the previous external auditors, and allowed PwC to shadow KPMG through areas of the 2016 year-end process, giving them a good understanding of the business. The Audit and Risk Committee monitored the transition process and is satisfied that a robust, independent audit was carried out.

PwC underwent a thorough induction process to enhance their understanding of the Group and this included the following:

- Meetings with the Executive Team and senior management across the Group, to understand the processes and controls in place for all business units
- Review of the files of KPMG, the previous external auditors
- A walkthrough of all key processes
- Unrestricted access to management and key documents
- Attendance at the Audit and Risk Committee meetings since December 2016

PwC provided an update to the Audit and Risk Committee on the ongoing transition in July 2017

Audit Quality

To maintain audit quality and provide comfort on the integrity of financial reporting, the Audit and Risk Committee reviews and challenges the proposed external audit plan, including its scope and materiality prior to approval, to ensure that the external auditors have identified the key audit risks and developed a robust approach. The Audit and Risk Committee considers the external auditors' response to accounting, financial control and audit issues as they arise and meets with them at least once annually without management present, providing the

external auditors with the opportunity to raise any matters in confidence. The Audit and Risk Committee met with PwC privately in February 2018.

Discussions with External Auditors

The Audit and Risk Committee has received and discussed a report from the external auditors on the findings from the audit, including those relating to the judgemental areas noted on pages 91 to 92.

After reviewing the presentations and reports from management and internal audit, and taking into account views expressed by the external auditors, the Audit and Risk Committee is satisfied that the financial statements appropriately address critical judgements and key estimates. The Audit and Risk 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.

Throughout the year, ESB and PwC were engaged in ongoing, open communication on current matters as and when they arose.

Independence

The Audit and Risk Committee assesses the auditors' independence on an ongoing basis. The Committee considers the reappointment of the external auditors every five years and this process is subject to public tender. The last tender process was completed in 2016.

Auditor independence and objectivity is safeguarded by a number of control measures, including:

- Limiting the nature and value of non-audit services performed by the external auditors as covered under the policy for non-audit services
- Monitoring the changes in legislation related to auditor objectivity and independence
- PwC confirming that they have appropriate internal safeguards in place that are consistent with applicable standards
- Rotating the audit partner every five years
- Providing opportunities to meet with the Audit and Risk Committee privately
- Reviewing annually the effectiveness of the external auditors
- Annual confirmation of independence by the external auditors

The Audit and Risk Committee is satisfied that the auditors, PwC, are both independent and objective.

Auditor Effectiveness

The effectiveness of the external auditors is reviewed annually, taking into account feedback from a questionnaire on the evaluation of the external auditors by the Audit and Risk Committee. The evaluation focuses on such areas as the robustness of the audit process, audit team, communications and governance.

Overall, the Audit and Risk Committee is satisfied with the effectiveness of the external audit based on the quality of presentations received, management's assessment of the audit process, technical knowledge of PwC and their robust understanding of ESB's business.

However as PwC are in the first year of their appointment as external auditors to ESB following their appointment in 2016, the review of the effectiveness of the external process will be formally conducted in early 2018. A detailed review of all the key areas of the audit process will be carried out to ensure any year one audit learnings are implemented and the overall efficiency and effectiveness of the statutory audit process is developed further in 2018. Any areas identified for development will be shared with PwC for consideration in their future audit plans, as appropriate.

Non-Audit Services

The Audit and Risk Committee considered and approved a revised policy on the engagement of ESB's external auditors for non-audit services to take account of the implementation of the EU Audit Regulation and Directive on non-audit services in compliance with Statutory Instrument No 312/2016 - European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No. 537/2014) Regulations 2016 in Ireland and with the Ethical Standard for Auditors issued in April 2017 by the Irish Auditing and Accounting Supervisory Authority (IAASA).

The policy outlines the governance arrangements that apply to the provision of non-audit services. The key changes made were to update the list of prohibited services, outline the governance arrangements that apply to the provision of such services and set out the transition arrangements for permitted non-audit services commenced prior to appointment of PwC. The revised policy includes a defined approval process and is in compliance with ESB procurement procedures and Group authority levels.

Fees earned by ESB's external auditors in respect of non-audit services in any financial year, excluding permitted non-audit services under the transitional arrangements, shall not exceed the annual audit fee for that year. An update on the nature of PwC non-audit services provided and the value of such services is presented to the Audit and Risk Committee bi-annually to demonstrate that the services are in compliance with the policy and the value is within the cap.

PwC became subject to the non-audit service policy on the provision of non-audit services from December 2016 save for a derogation under transitional arrangements, in relation to an existing contract with PwC for the provision of change management support sevices.

A summary of the audit and non-audit fees paid to the external auditors is set out in note 9 to the financial statements. The primary non-audit related services provided by the external auditors during the year were in respect of the Integrated Single Electricity Market (I-SEM) programme and permitted tax advice. PwC also provided administrative assistance directly to the ESOP in relation to the ESOP process.

The Audit and Risk Committee are satisfied that the fees paid in 2017 did not compromise the independence or integrity of the external auditors. The Committee will continue to monitor the type and level of services provided to prevent any perceived or actual impact on auditors' independence.

MEETINGS

The internal and external auditors have full and unrestricted access to the Audit and Risk Committee. The Audit and Risk Committee Chairman reports the outcome of its meetings to the Board. Meetings, or part thereof, are routinely attended by the Board Chairman, Chief Executive and / or Deputy Chief Executive, Executive Director Group Finance and Commercial, Head of Group Internal Audit, Group Risk Manager and representatives of the external auditors. Committee-only sessions are arranged at the beginning / end of meetings, as determined by the Audit and Risk Committee Chairman.

On behalf of the Audit and Risk Committee

Noreen O'Kelly,
Chairman,
Audit and Risk Committee
1 March 2018

THE BOARD COMMITTEES IN 2017

Anne Butler
Chairman

Role
The Health, Safety and Environment Committee's responsibilities are set out in its Terms of Reference. The Committee Chairman meets as required with the Chairman of the Audit and Risk Committee to agree and update as appropriate the specific risk responsibilities of the Health, Safety and Environment Committee.

See pages 66 to 67 for further information on Health, Safety and Environment in 2017 as set out in the Responsible Business Report.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

Committee Meetings

The Committee held 5 meetings during 2017. The members of the Committee, length of service and the number of meetings attended are set out below:

MEMBERS	DESIGNATION	LENGTH OF SERVICE	MEETINGS ATTENDED
Anne Butler, (Chairman from January 2017)	Independent Board Member	2 years and 3 months	5
Paul Lynam (from January 2017)	Independent Board Member	1 year	5
Pat O'Doherty	Chief Executive	6 years and 1 month	5
Peter O'Sullivan	Worker Board Member	2 years and 3 months	5

KEY ACTIVITIES OF THE HEALTH, SAFETY AND ENVIRONMENT COMMITTE IN 2017

Duty	Activity
Monitor the development of health, safety and environmental strategy and translation of the strategy into policies and programmes	Reviewed and considered: ■ Group safety KPIs ■ The ESB Networks Safety Programme ■ The G&WM Safety Programme ■ The Energy Efficiency Audit Programme ■ The 2016 Annual Sustainability Report
Review and consider information on key health, safety and environmental trends in Ireland, Europe and elsewhere, where relevant	Reviewed and considered: ■ Key safety risk updates including lost time injuries, high potential incidents, near-misses and good catches
Review and consider reports on compliance with all applicable health, safety and environmental legislation	Reviewed, considered and suggested actions in respect of: ■ Reports on incidents / non-compliance ■ Prosecution by Environmental Protection Agency (EPA) ■ Annual environment reports from stations to EPA ■ Environment law developments and challenges ■ Annual Fisheries Report
Support the Board in carrying out Board responsibilities in ensuring that health, safety and environmental risks are properly identified , assessed, reported and controlled	Considered the risks in the following areas: ■ Road Safety ■ Electrical Safety ■ Health and Wellbeing ■ Contractor Safety ■ Workplace Safety ■ Public Safety

Alf Smiddy,
Chairman

Role
The Marketing and Customer Committee's responsibilities are set out in its Terms of Reference.

MARKETING AND CUSTOMER COMMITTEE

Committee Meetings

The Marketing and Customer Committee was established in January 2017. The Committee held 3 meetings during 2017. The members of the Committee, length of service and the number of meetings attended are set out below:

MEMBERS	DESIGNATION	LENGTH OF SERVICE	MEETINGS ATTENDED
Alf Smiddy, (Chairman from January 2017)	Independent Board Member	1 year	3
Anne Butler (from January 2017)	Independent Board Member	1 year	3
Tony Merriman (from January 2017)	Worker Board Member	1 year	2
Pat O'Doherty (from January 2017)	Chief Executive	1 year	2

KEY ACTIVITIES OF THE MARKETING AND CUSTOMER COMMITTEE IN 2017

Duty	Activity
Review and consider marketing and customer initiatives and programmes and ensure they are aligned with ESB's strategic objectives	Reviewed and considered: ■ ESB Networks customer update ■ Electric Ireland customer update ■ The launch of the ESB Networks Customer Services Improvement Plan
Review and consider new products and services and associated revenue projections	Received an update on: ■ The GB market entry ■ Smart Home Launch
Review and consider proposed advertising and sponsorship programmes and the assessment of their potential impact	Reviewed and considered: ■ ESB Networks public safety campaign

Ellvena Graham, OBE,
Chairman

Role
The Remuneration and Management Development Committee's responsibilities are set out in its Term of Reference.

REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE

Committee Meetings

The Committee held 4 meetings during 2017. The members of the Committee, length of service and the number of meetings attended are set out below:

MEMBERS	DESIGNATION	LENGTH OF SERVICE	MEETINGS ATTENDED
Ellvena Graham OBE	Chairman	6 years	4
Andrew Hastings	Independent Board Member	2 years and 3 months	4
Noreen Wright	Independent Board Member	6 years	4

KEY ACTIVITIES OF THE REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE IN 2017

Duty	Activity
Keep under review senior management succession and development plans	■ Review of succession planning and leadership competencies
Agree with the Chief Executive his specific annual performance targets	■ Reviewed performance against 2016 targets ■ Set 2017 targets
Determine the remuneration packages for ESB's Executive Team	■ Review and approve remuneration packages for the Executive Team

Andrew Hastings,
Chairman

Role
The Finance and Investment Committee's responsibilities are set out in its Term of Reference.

FINANCE AND INVESTMENT COMMITTEE

Committee Meetings

The Committee held 10 meetings during 2017. The members of the Committee, length of service and the number of meetings attended are set out below:

MEMBERS	DESIGNATION	LENGTH OF SERVICE	MEETINGS ATTENDED
Andrew Hastings, (Chairman from January 2017)	Independent Board Member	2 years and 3 months	10
Dave Byrne	Worker Board Member	4 years and 9 months	10
Ellvena Graham OBE (up to January 2017)	Chairman	3 years and 9 months	1[1]
Seán Kelly	Worker Board Member	2 years and 3 months	8
Paul Lynam (from January 2017)	Independent Board Member	1 year	10
Pat O'Doherty	Chief Executive	4 years and 9 months	10
Noreen O'Kelly	Independent Board Member	2 years and 3 months	10

KEY ACTIVITIES OF THE FINANCE AND INVESTMENT COMMITTEE IN 2017

Duty	Activity
Review annual capital budgets prior to submission to the Board	Reviewed and recommended to the Board (where applicable): ■ 2018 Budget and the five-year business plan ■ Quarterly financial and capital expenditure reports ■ Quarterly loans, swaps and bonds report
Examine major business proposals for investment and capital expenditure	Reviewed and recommended to the Board (where applicable): ■ Renewables investments ■ Integrated Single Electricity Market (I-SEM) programme expenditure ■ Participation in the I-SEM capacity auction ■ ESB Head Office Project – business case and capital expenditure ■ Generation assets investment and overhaul programme 2018-2020 ■ Quarterly report on Consultancy services ■ ecars programme operation update ■ Novusmodus Fund performance
Examine key policy issues concerning the financial requirements of ESB including credit ratings, borrowings, financial instruments and debt management	Reviewed and recommended to the Board (where applicable): ■ Capital markets funding ■ Increase in (Euro Medium Term Note) programme size to €5 billion ■ Investment decision hurdle rates ■ Interest Rate Risk Management Policy ■ Treasury market update ■ Credit rating update
Review the energy trading policies and procedures of the Group	Reviewed and considered: ■ ESB Trading Risk Position (market, credit and operational) ■ Potential impacts of I-SEM

Each Board Committee has its Terms of Reference reviewed and approved by the Board annually. These are available upon request from the Company Secretary.

1. The Board Chairman is a member of one committee - The Remuneration and Management Development Committee - but regularly attends meetings of the Finance and Investments Committee and the Audit and Risk Committee.

BOARD MEMBERS' REPORT

The Board members present their report together with the audited financial statements of ESB and of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the generation, transmission, distribution and supply of electricity in the Republic of Ireland (ROI) and Northern Ireland (NI). The Group also operates internationally, in generation and supply in Great Britain (GB) and is involved in a number of consultancy projects in Asia and Africa.

BUSINESS REVIEW

Commentaries on performance in the year ended 31 December 2017, 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 and the principal risks faced by the Group are reflected in the reviews for each major business unit pages 54 to 63, the Financial Review pages 48 to 53 and the Risk Report pages 24 to 37.

RESULTS AND DIVIDEND FOR THE YEAR

The financial results of the Group show a profit after tax before exceptional items of €209 million for the financial year 2017, compared with a profit of €186 million for 2016. Loss after tax and exceptional items is €32 million (2016: profit of €186 million). The dividend policy agreed with the Government in 2013 provides for targeted dividends of adjusted profit after tax of 40% in 2017 and thereafter (38% in 2016). An interim dividend for 2017 of €55.4 million (2.80 cent per unit of stock) was declared and paid in November, 2017. The Board is now recommending a final dividend for 2017 of 0.23 per cent per unit of stock, or €4.6 million which brings the total dividends for 2017 to €60 million. This would bring the total dividends paid over the past decade to over €1.4 billion.

SHARE CAPITAL

An Employee Share Ownership Plan (ESOP) market liquidity proposal was approved at the Board meeting in May 2015. The objective of the proposal is to improve liquidity in the ESOP market where the ESOP Trustee is committing to spend €25 million of funds to acquire capital stock in the ESOP internal market. ESB agreed to match the expenditure committed by the ESOP Trustee in the period 2014-2018. Acquisition of the capital stock by ESB commenced in September 2017 with €5.6 million being spent and the acquired stock being cancelled. Further details are outlined in notes 17 and 30. Details of the Group's share capital are outlined in note 17 to the financial statements.

FUTURE DEVELOPMENTS

ESB is a strong diversified, vertically integrated utility operating right across the electricity market: from generation, through transmission and distribution to supply of customers, with an expanding presence in the GB market. The Strategy to 2030 ensures that ESB continues to grow as a successful business while maintaining the financial strength to invest in a low-carbon future at the necessary scale and pace. See pages 17 to 21 for more information.

PRINCIPAL RISKS AND UNCERTAINTIES

A description of the principal risks and uncertainties facing the Group is set out in the Risk Report on pages 28 to 37.

FINANCIAL INSTRUMENTS

The financial risk management objectives and policies of the group along with a description of the use of financial instruments is set out in note 26 to the financial statements.

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 Two Gateway, East Wall Road, Dublin 3.

REPORT UNDER SECTION 22 OF THE PROTECTED DISCLOSURES ACT 2014

Section 22 of the Protected Disclosures Act 2014 requires ESB to publish an Annual Report relating to protected disclosures made under the Protected Disclosures Act 2014. In accordance with this requirement, ESB confirms that there were no protected disclosures made during the full year ending 31 December 2017.

REGULATION OF LOBBYING ACT 2015

In accordance with the requirements of the Regulation of Lobbying Act, ESB is registered on the Lobbying Register at www.lobbying.ie and has made the required return for the period 1 January to 31 December 2017.

MODERN SLAVERY ACT

Modern slavery is a criminal offence under the UK Modern Slavery Act 2015. The Act imposes obligations on organisations of a certain size, which carry on a business in the United Kingdom. Modern slavery can occur in various forms, including servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another in order to exploit them for personal or commercial gain. As the parent of a number of subsidiary companies with significant operations in the UK, ESB has adopted a Policy on Modern Slavery with the aim of preventing opportunities for modern slavery occurring within its business and supply chains. In accordance with the Act, ESB publishes an Annual Statement setting out the steps that ESB has taken during the previous financial year to ensure that slavery and human trafficking is not operating within either its own business or its supply chains. The first such statement was published by ESB on 27 April 2017.

SUSTAINABILITY

Sustainability and corporate social responsibility (CSR) concepts are embedded in all ESB operations and activities. Information on the Group's approach to sustainability and CSR is set out on pages 66 to 75 and are described in more detail in the independently verified annual sustainability report, which is available on the Group's website.

ELECTORAL ACT, 1997

The Board made no political donations during the year.

PRINCIPAL SUBSIDIARY, JOINT VENTURE AND ASSOCIATED UNDERTAKINGS

Details of the principal subsidiary, joint venture and associated undertakings are outlined in note 33 to the financial statements.

PROMPT PAYMENTS REGULATION

The Board acknowledges its responsibility for ensuring compliance, in all material respects, with the provisions of the Prompt Payment of Accounts Act, 1997 and European Communities (Late Payments in Commercial Transactions) Regulations, 2012 (S.I. No. 580 of 2012) as amended by European Communities (Late Payment in Commercial Transactions) (Amendment) Regulations 2016 (S.I. No. 281 of 2016) 2002. The Board is satisfied that ESB has complied with the requirements of the Regulations.

RELATED PARTY TRANSACTIONS

Related party transactions are set out in note 28 to the financial statements.

RESEARCH AND DEVELOPMENT

ESB's business is involved in innovative projects and programmes to develop the energy sector. A number of these projects and programmes are referred to in the Strategy and Performance Section on pages 1 to 63.

STATEMENT UNDER SECTION 330 OF THE COMPANIES ACT 2014

The ESB Regulations require ESB to observe the provisions of the Companies Act 2014 applying to a Companies Act entity in regard to audit and / or auditors. This requires the Board members to make a statement in the form required by Section 330 of the 2014 Act. In compliance with this requirement, the Board confirms that it applies the standards in Section 330 of the Companies Act 2014 and in this regard, each of the Board members confirms that:

- so far as the Board member is aware, there is no relevant audit information of which ESB's statutory auditors are unaware
- each Board member has taken all the steps that he or she ought to have taken as a Board member in order to make himself or herself aware of any relevant audit information and to establish that ESB's auditors are aware of that information (within the meaning of Section 330).

AUDIT COMMITTEE

ESB has an Audit Committee, the members of which are set out on page 89.

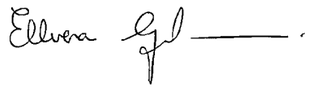
AUDITORS

It is expected that the appointment of PwC as ESB's auditors for the 2018 financial year will, in accordance with Section 7(2) of the Electricity (Supply) Act 1927 (as amended), be confirmed at the AGM of the company.

At the AGM, the shareholders will be asked (i) to authorise the directors to fix the remuneration of the auditors in respect of the year ended 31 December 2017 and (ii) to appoint PwC as auditors for the 2018 financial year (in accordance with the applicable provisions of section 7(2) of the Act, which provides that the auditors are appointed annually).

APPROVAL OF THE 2017 ANNUAL REPORT AND FINANCIAL STATEMENTS

The Board is satisfied, after taking into account the recommendation of the Audit and Risk Committee, that the annual report and financial statements taken as a whole, is fair, balanced and understandable.



Ellvena Graham, OBE
Chairman

Pat O'Doherty,
Chief Executive

1 March 2018

Strategy 2030 is anchored in our ambition to create a brighter future by leading the transition to reliable, affordable, low-carbon energy. It sets out a path to achieve our ambition in a way that will also ensure ESB continues to grow as a successful business and maintains the financial strength to invest in a low-carbon future at the necessary pace and scale. **It also recognises the potential for new business growth arising from the transition.**

The Strategy highlights

the importance of being adaptable, responsible and opportunistic in an era of unprecedented uncertainty and to have a presence of scale across the utility value chain, with a mix of regulated and unregulated businesses, while maintaining a strong investment grade credit rating.

We are investing in exciting energy solutions that harness the power of solar, wind, wave and storage to provide a cleaner future. This, in turn, allows customers to take control of their energy in a way that was never possible before, enabling them to turn from user to producer.

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STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

The Board members are responsible for preparing the Annual Report, incorporating financial statements for ESB (the Parent) and for ESB Group comprising ESB and its subsidaries ("the Group").

Under ESB's governing regulations, adopted pursuant to the Electricity (Supply) Acts 1927 to 2004, ("the ESB Regulations"), the Board is required to prepare financial statements as are required by companies established under the Companies Act 2014.

ESB is also required, to furnish its Annual Report, which incorporates the financial statements, to the Minister for Communications, Energy and Natural Resources in accordance with corporate governance guidelines and to meet its obligations under Section 32 of the Electricity (Supply) Act 1927 (as amended), to make to the Minister a report of its proceedings during the preceding year.

The Board has elected to prepare ESB's financial statements in accordance with IFRS as adopted by the European Union and as applied in accordance with the applicable provisions of the Companies Act 2014 and ESB Regulations.

The Board members must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and of ESB and of the Group's profit or loss for that year.

In preparing the financial statements the Board members are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRS as adopted by the European Union, and as regards ESB, as applied in accordance with the Companies Act 2014; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and ESB will continue in business.

The Board members are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of ESB, and which enable them to ensure that the financial statements of ESB and the Group are prepared in accordance with applicable IFRS as adopted by the European Union and as applied in accordance with applicable provisions of the Companies Act 2014 and ESB Regulations.

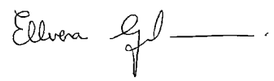
The Board members are also responsible for safeguarding the assets of ESB and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

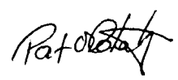
Each of the Board members, confirm that, to the best of each person's knowledge and belief:

- The Group financial statements, prepared in accordance with IFRS as adopted by the European Union and ESB's financial statements prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014 and as applied by the ESB Regulations, give a true and fair view of the assets, liabilities, financial position of the Group and of ESB at 31 December 2017 and of the loss of the Group for the year then ended 31 December 2017;
- The Board members' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and ESB, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, provides the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable and provides the information necessary for shareholders to assess ESB's position and performance, business model and strategy.

On behalf of the Board



Ellvena Graham OBE, Chairman



Pat O'Doherty, Chief Executive

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, ESB's Group financial statements and Parent financial statements (the "financial statements"):

- give a true and fair view of the Group's and the Parent's assets, liabilities and financial position as at 31 December 2017 and of the Group's loss and the Group's and the Parent's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Parent's financial statements, as applied in accordance with the provisions of the Companies Act 2014; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014, as applied by the Electricity (Supply) Acts 1927 to 2004.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise:

- the Group and Parent Balance Sheets as at 31 December 2017;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group and Parent Cash Flow Statements for the year then ended;
- the Group and Parent Statements of Changes in Equity for the year then ended; and
- the Notes to the financial statements, which include a description of the significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

OUR AUDIT APPROACH

Materiality

- €13 million - Group financial statements

Based on c. 5% of profit before tax and exceptional items. We consider this to be an appropriate benchmark as the Group is profit orientated and the exceptional items are significant non-recurring items which are not reflective of the Group's trading activity.

- €13 million - Parent financial statements

Based on materiality applied to the Group financial statements and the level of trading activity in the Parent, we considered it appropriate to apply Group materiality of €13 million to the audit of the Parent financial statements.

Audit scope

We conducted our work across the four reportable segments and the head office function. Our audit work covered in excess of 95% of Group revenues, profit before taxation and exceptional items, total assets and total liabilities.

Key audit matters

- Carrying value of Long Lived Assets
- Valuation of financial instruments and hedge designation
- Completeness of pension obligations
- Completeness and valuation of asset retirement obligations
- Revenue recognition – unbilled Electric Ireland revenue

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

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Board members made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Board members that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Carrying value of Long Lived Assets ***Refer to page 91 (Report of the Audit & Risk Committee), note 1(v), (vii) and (viii) (Statement of Accounting Policies) and notes 4, 10, 11 and 12 to the financial statements*** The carrying value of ESB's property, plant and equipment, intangible assets and goodwill is €10.4 billion, most of which are long-lived assets designed to deliver a return over 20+ years. The Group is required to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group is required to perform impairment testing. The carrying value of the Group's property, plant and equipment, intangible assets and goodwill assets includes €2 billion in respect of NIE Networks of which €171 million is goodwill. As this Cash Generating Unit (CGU) includes goodwill, the Group tests the long lived assets and goodwill of NIE Networks for impairment annually. The Group's assessment of the carrying value of property plant and equipment, intangible assets and goodwill involves significant judgement in estimating the inputs to discounted cash flow models used to assess the recoverable amount of these assets. In respect of the Group's power generation portfolio, this includes assumptions in respect of future electricity and fuel costs, volumes, discount rates and other capacity and ancillary revenues under the new Integrated Single Electricity Market (I-SEM). In respect of NIE Networks the key assumptions include the terminal value of the Regulated Asset Base, long term inflation rate, capital expenditure budgets and the long term return on the Regulated Asset Base. We focused on this area and, in particular, on those long lived assets within the Group's generation portfolio given the scale of the assets and the increased risk of impairment as at 31 December 2017. The increased risk reflects the impending changes to the market associated with the I-SEM which will impact on the market going forward and other pressures on energy margins. We also focused on the NIE Networks Assets, given the Regulatory Pricing Decision in the Northern Ireland market which concluded in 2017 for a six and a half year period to March 2024	We considered the Group's assessment of whether there were any indications that an asset may be impaired, thereby requiring an impairment test to be performed. We focused our audit effort on those Power Generation Assets where there was a risk of impairment, based on our consideration of the net book value of the individual assets and the discounted cash flow forecasts, including consideration of the assumptions within the forecasts, and on those Power Generation Assets where management had identified and recorded an impairment based on the impairment test performed. We evaluated management's assessment of those Power Generation Assets which were pote ntially impaired by evaluating the critical assumptions in the future cash flow forecasts and considering the overall level of headroom and carrying value of the individual cash generating units. The key assumptions used in the preparation of budgets and forecasts for Power Generation Assets, include the energy margin, future fuel prices, expected plant running (load factors), discount rates, inflation and plant closure dates. For Power Generation Assets, we obtained an understanding of management's approach in determining the key assumptions in the impairment models, including comparing them to the latest Board approved budgets. Where there was independent source data we compared this to the inputs in the models and understood management's basis for the judgements made in the models. For inputs with no observable data we considered these and challenged management's assumption in the context of available internal data, including historical data and budget information. For the NIE Networks Assets, we obtained an understanding of the key assumptions made in the impairment model and compared the underlying cashflows to the latest Board approved budgets. For cashflow assumptions for the period until March 2024, being the period covered by the most recent regulatory price review, we compared these to the Price Determination issued by the Utility Regulator. For the subsequent period, we understood and challenged management's assumptions around inflation rates, capital expenditure budgets and the allowed return of the Regulated Asset Base (RAB) by reference to available external data and the most recent regulatory price review. We understood and challenged management's determination of the terminal value and, in particular, the expected premium on the terminal RAB in the context of available external data. We considered the appropriateness of the discount rates used in the impairment models by assessing the assumptions used in the weighted average cost of capital against external benchmarks. We also performed sensitivity analysis to changes in key assumptions and we considered the likelihood of such changes arising. We considered the disclosures in the financial statements in relation to these matters. Based on our procedures we were satisfied that the impairment charge reflected in the financial statements is appropriate.

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

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments and hedge designation ***Refer to page 92 (Report of the Audit & Risk Committee), note 1 (xi) (b) (Statement of Accounting Policies) and note 20 and 26 to the financial statements*** The Group uses derivative financial instruments and non-derivative financial instruments to hedge its exposure to commodity price risk, foreign exchange risk and interest rate risk arising from operational, financing and investing activities. The majority of these derivative financial instruments are designated as cashflow hedges with the effective part of any gain or loss being recognised directly in other comprehensive income. The hedging rules under IAS 39 are complex and the documentation and testing requirements are onerous. The valuation of the derivative financial instruments can require significant judgement. In particular, for Level 3 financial instrument valuations one or more significant data inputs are unobservable and, as such, not possible to verify with reference to independent third party sources. These inputs are estimated by ESB, introducing subjectivity to the valuation process. We focused on this area given the level of judgement in the accounting for and the valuation of the derivative financial instruments held and because a change in the hedge designation or the inputs to the valuation could have a material impact on the Group's income statement.	We evaluated the documentation in place for cashflow hedges and the Group's testing of hedge effectiveness for compliance with IAS 39. We tested the valuation of derivative financial instruments at year end. Our audit procedures included assessing the reasonableness of the inputs to the valuation models. The fair value of some specific forward fuel and electricity contracts includes inputs in respect of forward electricity prices which are unobservable. In respect of these Level 3 financial instrument valuations, we tested observable inputs used in the valuation models, such as prices for gas, coal and carbon, by comparing them to third party market data. For other assumptions in the valuation models for which there is no observable data, we challenged the key assumptions made by reference to alternative estimates by sources independent of ESB. To allow us to assess the reasonableness of the unobservable assumptions, ESB reconstructed the valuation model using alternative assumptions from external sources. We also assessed the reasonableness of the valuation of certain specific contracts by reference to key valuation drivers (i.e. year-end energy versus gas spark spreads) and valuation changes from the prior year. In respect of Level 2 financial instrument valuations, we tested the reasonableness of the inputs to the valuation by reference to independent sources. We also considered the disclosures in respect of derivative financial instruments. We concluded that the assumptions and methodologies adopted by management to calculate the fair value of financial instruments were reasonable.
Completeness of pension obligations ***Refer to page 91 (Report of the Audit & Risk Committee), note 1 (xxii) (Statement of Accounting Policies) and note 21 to the financial statements*** As set out in Note 21 to the financial statements, the regulations governing the "ESB Defined Benefit Scheme" stipulate the benefits that are to be provided and the contributions to be paid by both ESB and the contributing members. ESB has determined that its legal and/or constructive obligations in respect of contributions payable by it to the ESB Defined Benefit Scheme Fund are limited to the amounts provided for in the Scheme Rules, namely, the normal ongoing contributions and the balance of the €591 million contribution which was committed by ESB under the 2010 Pensions agreement. We focused on this area as there has been a high level of complexity and judgement involved in the interpretation of the Scheme rules and the determination of the related accounting and adequacy of disclosures in the financial statements.	As this was our first year as auditors to ESB, we obtained a full understanding of ESB's assessment of their obligations in respect of the ESB Defined Benefit Scheme. We read and considered relevant documentation provided to us by ESB in relation to the nature of the pension scheme and ESB's obligations including legal advice, the 2010 Pensions agreement and other relevant information. We also considered the appropriateness of the accounting treatment in the context of IAS 19 'Employee Benefits'. We made enquiries of senior management and internal legal counsel and read the board minutes for the year to confirm that there had been no significant changes made to pension arrangements since 31 December 2016. We received a representation from the Board that ESB do not intend to make any further payments to the Scheme other than the balance of the €591 million contribution which was committed by ESB under the 2010 Pensions agreement, and fixed continuing ongoing contributions of scheme members' salaries. ESB has informed us that the Defined Benefit Pension Scheme is not a typical "balance of costs" scheme where the employer is liable to pay the balance of contributions required to fund benefits. The accounting treatment in the financial statements reflects this position.

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

Key audit matter	How our audit addressed the key audit matter
Completeness and valuation of asset retirement obligations ***Refer to page 92 (Report of the Audit & Risk Committee), note 1 (xv) (Statement of Accounting Policies) and note 25 to the financial statements*** ESB has obligations in respect of the retirement and decommissioning of certain assets. The estimation of the asset retirement obligations requires judgement and estimation, including estimating the quantum of costs and timing of asset retirement and decommissioning. In certain instances it also involves interpretation of legislation and the resulting obligations arising under EU and Irish Law. We focused on this area because this was our first year as auditors of ESB and the nature and scale of the Group's assets are such that they give rise to asset retirement obligations involving judgement and estimations in determining the level of provision required in respect of meeting the Group's obligations. We also focused on the assumptions in respect of station closure dates and remaining lives of network assets which impact on the period over which the asset retirement obligations are charged to the income statement.	We evaluated the Group's assessment of the completeness of the provisions for asset retirement obligations by reference to its underlying asset base. Our evaluation included discussions with management and internal legal counsel to understand ESB's legal obligations in respect of retirement and decommissioning of assets. We evaluated the appropriateness of provisions held at 31 December 2017, in respect of station closure costs, by reference to the external and internal expert reports commissioned by management in respect of power station closures. We assessed the competence, capability and objectivity of those external experts. We also considered the expertise and experience of internal experts. We challenged the assumptions made in respect of the timing of station closures by reference to the underlying asset lives, budgets and forecasts. We assessed the estimates of asset retirement costs in respect of network assets including considering the quantum and nature of costs by critically assessing management's cost estimates in this regard including considering current procurement activity. We assessed management's determination of and the timing of the expected cash outflows for network assets by reference to their useful lives and the ageing of the relevant assets. We challenged the inflation rates and discount rates used by recalculating an acceptable range using observable inputs from independent external sources. We also considered the disclosures in the financial statements in relation to these matters. The Group describes the asset retirement obligations in detail in Note 25. We concluded that the assumptions and methodologies adopted by management to calculate the Group's asset retirement obligations were reasonable.
Revenue Recognition - unbilled Electric Ireland revenue ***Note 1 (xvii) (Statement of Accounting Policies) and note 15 to the financial statements*** Unbilled revenue refers to the revenue from energy supplied to the customer between the date of their last bill and the year end date, which in the absence of an actual meter reading at the year end requires estimation. The accuracy of unbilled revenue is subject to estimation uncertainty, covering volumes, which are dependent on complex methodologies in determining the estimated volumes consumed by customers up to the year end date. In Electric Ireland, given the size of the customer base, estimates are also used in determining the values attributable to these volumes. We focused on this area given that this is our first year as auditors of ESB and there is complexity and estimates involved in determining the unbilled revenue at year end.	We assessed the IT general controls, system application configuration and the business process controls in relation to revenue estimation and billing systems. We evaluated the integrity of the model used by the Group in calculating unbilled revenue. We challenged the appropriateness of the estimates used in the model by reference to historical data and current pricing. Our work included reconciling certain relevant inputs to the model to the underlying source data. We also considered the outturn from retrospective reviews of previous estimates made in comparison to actual billing data as part of our consideration of the Group's estimation techniques. We concluded that the assumptions and methodologies adopted by management to calculate the unbilled revenue at the year end were reasonable.

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

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

As this was our first year as auditors, our planning procedures included a review of the predecessor auditor work papers to obtain an understanding of the work performed on the opening balances. These procedures assisted us in determining the type of work that needed to be performed on individual financial statement line items, taking into account our risk assessment and materiality.

The Group is structured across four key reportable segments and the head office function. The Group audit team performed a full scope audit of the three key reportable segments and the head office function.

Under instruction from the Group team, our network firm in Northern Ireland performed an audit of the NIE Networks segment. We determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We had regular communications and discussions with our Northern Ireland team throughout the audit process. We received a detailed memorandum of examination on work performed and relevant findings in addition to an audit report which supplemented our understanding of the segment.

Our audit work covered in excess of 95% of Group revenues, profit before taxation and exceptional items, total assets and total liabilities.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent financial statements
Overall materiality	€13 million.	€13 million.
How we determined it	c. 5% of profit before tax and exceptional items.	c. 5% of Group profit before tax and exceptional items.
Rationale for benchmark applied	We consider that profit before tax and exceptional items is an appropriate benchmark as the Group is profit orientated and the exceptional items are significant non-recurring items which are not reflective of the Group's trading activity.	Based on materiality applied to the Group financial statements and the level of trading activity in the Parent, we considered it appropriate to apply Group materiality of €13 million to the audit of the Parent financial statements.

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above €500,000 in respect of the Group and Parent audit as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
In accordance with ISAs (Ireland) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Board members' statement in the financial statements about whether the Board members considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Board members' identification of any material uncertainties to the Group's or the Parent's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or the Parent's ability to continue as a going concern.

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

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Board members are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Board Members' Report, we also considered whether the disclosures required by the Regulations of ESB have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 (CA14), which is made applicable to the audit of the financial statements of ESB by the Regulations of ESB adopted pursuant to the Electricity Supply Acts 1927 to 2004, require us to also report certain opinions and matters as described below (required by ISAs (Ireland) unless otherwise stated).

Board Members' Report

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Board Members' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements. (CA14)
- Based on our knowledge and understanding of the Group and Parent and their environment obtained in the course of the audit, we did not identify any material misstatements in the Board Members' Report. (CA14)

Code of Practice for the Governance of State Bodies (the "Code")

Under the Code of Practice for the Governance of State Bodies (the "Code") we are required to report to you if the statement regarding the system of internal control included in the Board Governance Report on pages 81 to 88 does not reflect the Group's compliance with paragraph 1.9(iv) 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. We have nothing to report in respect of this responsibility.

The Board members' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the Board members' voluntary reporting on how they have applied the UK Corporate Governance Code (the "UK Code"), under ISAs (Ireland) we are required to report to you if we have anything material to add or to draw attention to regarding:

- The Board members' confirmation on page 86 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Board members' explanation on page 87 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Other UK Code provisions

As a result of the Board members' voluntary reporting on how they have applied the UK Code, we are required to report to you if, in our opinion:

- The statement given by the Board members' on page 85 that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for the members to assess the Group's and Parent's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent obtained in the course of performing our audit.
- The section of the Annual Report on page 90 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have nothing to report in respect of this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the Board members for the financial statements
As explained more fully in the Statement of Board Members' Responsibilities set out on page 103, the Board members are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The Board members are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board members are responsible for assessing the Group's and the Parent's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Board members either intend to liquidate the Group or the Parent or to cease operations, or have no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:
https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf
This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Stockholders of ESB as a body in accordance with section 391 of the Companies Act 2014, made applicable to ESB by the Regulations adopted pursuant to the Electricity Supply Acts 1927 to 2004, and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Parent were sufficient to permit the Parent financial statements to be readily and properly audited.
- The Parent Balance Sheet is in agreement with the accounting records.

Companies Act 2014 exception reporting

Board Members' remuneration and transactions
Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of board members' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Mary Cleary
For and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

1 March 2018

GROUP INCOME STATEMENT

For the year ended 31 December 2017

		2017			2016		
	Notes	**Excluding exceptional items € '000**	**Exceptional items note 4 € '000**	**Total € '000**	Excluding exceptional items € '000	Exceptional items note 4 € '000	Total € '000
Revenue	2	**3,229,022**	**-**	**3,229,022**	3,211,751	-	3,211,751
Other operating income	5	**32,560**	**-**	**32,560**	35,524	-	35,524
Operating costs	4/6	**(2,772,019)**	**(275,579)**	**(3,047,598)**	(2,649,949)	-	(2,649,949)
Operating profit		**489,563**	**(275,579)**	**213,984**	597,326	-	597,326
Net interest on borrowings	7	**(188,102)**	**-**	**(188,102)**	(170,487)	-	(170,487)
Financing charges	7	**(29,206)**	**-**	**(29,206)**	(36,823)	-	(36,823)
Fair value movement on financial instruments	7	**(4,910)**	**-**	**(4,910)**	(190,162)	-	(190,162)
Finance income	7	**6,595**	**-**	**6,595**	9,048	-	9,048
Net finance cost		**(215,623)**	**-**	**(215,623)**	(388,424)	-	(388,424)
Share of equity accounted investees loss, net of tax	13	**(8,293)**	**-**	**(8,293)**	(15,257)	-	(15,257)
Profit / (loss) before taxation		**265,647**	**(275,579)**	**(9,932)**	193,645	-	193,645
Income tax (expense) / credit	18	**(56,673)**	**34,695**	**(21,978)**	(7,454)	-	(7,454)
Profit / (loss) after taxation		**208,974**	**(240,884)**	**(31,910)**	186,191	-	186,191
Attributable to:							
Equity holders of the Parent		**209,011**	**(240,884)**	**(31,873)**	187,848	-	187,848
Non-controlling interest		**(37)**	-	**(37)**	(1,657)	-	(1,657)
Profit / (loss) for the financial year		**208,974**	**(240,884)**	**(31,910)**	186,191	-	186,191

Notes 1 to 33 form an integral part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 € '000	2016 € '000
(Loss) / profit for the financial year	**(31,910)**	186,191
Items that will not be reclassified subsequently to profit or loss:		
NIE Networks pension scheme actuarial gains / (losses)	**9,347**	(66,520)
Tax on items that will not be reclassified to profit or loss	**(1,589)**	9,839
	7,758	(56,681)
Items that are or may be reclassified subsequently to profit or loss:		
Effective hedge of a net investment in foreign subsidiary	**413**	3,004
Translation differences on consolidation of foreign subsidiaries	**(3,735)**	(48,318)
Fair value (losses) / gains on cash flow hedges	**(39,262)**	91,530
Fair value losses on cash flow hedges in equity accounted investees	**(22)**	(3,845)
Transferred to income statement on cash flow hedges	**(35,158)**	(3,052)
Tax on items that are or may be reclassified subsequently to profit or loss	**4,978**	(10,831)
Tax on items that are or may be reclassified subsequently to profit or loss for equity accounted investees	**35**	587
Tax on items transferred to income statement	**3,930**	(69)
	(68,821)	29,006
Other comprehensive expense for the financial year, net of tax	**(61,063)**	(27,675)
Total comprehensive (expense) / income for the financial year	**(92,973)**	158,516
Attributable to:		
Equity holders of the Parent	**(92,936)**	160,173
Non-controlling interest (NCI)	**(37)**	(1,657)
Total comprehensive (expense) / income for the financial year	**(92,973)**	158,516

GROUP BALANCE SHEET

As at 31 December 2017

	Notes	2017 € '000	2016 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**10,004,980**	10,438,562
Intangible assets	11	**275,652**	273,221
Goodwill	12	**171,039**	177,242
Investments in equity accounted investees	13	**68,334**	80,990
Financial asset investments	13	**22,165**	56,502
Trade and other receivables	15	**74,936**	69,995
Derivative financial instruments	20	**85,077**	183,999
Deferred tax assets	18	**178,660**	200,741
Total non-current assets		**10,880,843**	11,481,252
Current assets			
Inventories	14	**121,985**	73,172
Derivative financial instruments	20	**117,367**	203,192
Current tax asset		**9,185**	15,338
Trade and other receivables	15	**783,981**	770,081
Cash and cash equivalents	16	**380,405**	363,624
Total current assets		**1,412,923**	1,425,407
Total assets		**12,293,766**	12,906,659
EQUITY			
Capital stock	17	**1,975,182**	1,979,882
Capital redemption reserve		**4,700**	-
Translation reserve		**2,740**	6,062
Cash flow hedging reserve		**58,620**	124,119
Other reserves		**(242,604)**	(220,322)
Retained earnings		**1,917,619**	2,037,459
Equity attributable to equity holders of the Parent		**3,716,257**	3,927,200
Non-controlling interest		**(3,738)**	(3,531)
Total equity		**3,712,519**	3,923,669
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	19	**4,369,705**	4,398,113
Liability – ESB pension scheme	22	**100,190**	370,308
Liability – NIE Networks pension scheme	21	**143,056**	170,543
Employee related liabilities	22	**46,107**	78,396
Deferred income	24	**460,975**	486,531
Provisions	25	**305,525**	237,153
Deferred tax liabilities	18	**677,853**	709,442
Derivative financial instruments	20	**637,825**	753,968
Total non-current liabilities		**6,741,236**	7,204,454
Current liabilities			
Borrowings and other debt	19	**388,073**	489,330
Liability – ESB pension scheme	22	**294,130**	154,504
Employee related liabilities	22	**65,881**	64,305
Trade and other payables	23	**797,822**	835,018
Deferred income	24	**49,142**	50,021
Provisions	25	**108,435**	84,822
Current tax liabilities		**-**	750
Derivative financial instruments	20	**136,528**	99,786
Total current liabilities		**1,840,011**	1,778,536
Total liabilities		**8,581,247**	8,982,990
Total equity and liabilities		**12,293,766**	12,906,659

Ellvena Graham, Chairman

Pat O'Doherty, Chief Executive

Pat Fenlon, Executive Director, Group Finance and Commercial

PARENT BALANCE SHEET

As at 31 December 2017

	Notes	2017 € '000	2016 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**6,826,015**	7,084,170
Intangible assets	11	**219,559**	206,832
Investments in equity accounted investee	13	**100,000**	100,000
Investments in subsidiary undertakings	13	**61,782**	61,782
Derivative financial instruments	20	**29,604**	82,174
Deferred tax assets	18	**74,574**	67,960
Total non-current assets		**7,311,534**	7,602,918
Current assets			
Inventories	14	**76,964**	43,176
Derivative financial instruments	20	**58,594**	138,642
Current tax asset		**9,362**	5,897
Trade and other receivables	15	**2,666,001**	3,091,981
Cash and cash equivalents	16	**208,499**	235,991
Total current assets		**3,019,420**	3,515,687
Total assets		**10,330,954**	11,118,605
EQUITY			
Capital stock	17	**1,975,182**	1,979,882
Capital redemption reserve		**4,700**	-
Cash flow hedging and other reserves		**(11,954)**	28,959
Retained earnings		**1,397,519**	1,774,267
Equity attributable to equity holders of the Parent		**3,365,447**	3,783,108
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	19	**1,160,208**	1,409,367
Liability – ESB pension scheme	22	**100,190**	370,308
Employee related liabilities	22	**45,936**	78,197
Deferred income	24	**433,892**	468,556
Provisions	25	**267,787**	222,234
Deferred tax liabilities	18	**444,160**	468,373
Derivative financial instruments	20	**40,757**	21,033
Total non-current liabilities		**2,492,930**	3,038,068
Current liabilities			
Borrowings and other debt	19	**170,370**	132,858
Liability – ESB pension scheme	22	**294,130**	154,504
Employee related liabilities	22	**54,759**	56,095
Trade and other payables	23	**3,799,315**	3,789,195
Deferred income	24	**35,719**	33,108
Provisions	25	**79,394**	66,540
Derivative financial instruments	20	**38,890**	65,129
Total current liabilities		**4,472,577**	4,297,429
Total liabilities		**6,965,507**	7,335,497
Total equity and liabilities		**10,330,954**	11,118,605

Parent profit after tax excluding exceptional items for the financial year ended 31 December 2017 amounted to €302.5 million (2016: profit of €235.6 million). Parent loss after tax including exceptional items for the financial year ended 31 December 2017 amounted to (€261.1) million (2016: profit of €235.6 million).

Ellvena Graham, Chairman

Pat O'Doherty, Chief Executive

Pat Fenlon, Executive Director, Group Finance and Commercial

GROUP STATEMENT OF CHANGES IN EQUITY

As at 31 December 2017

Reconciliation of changes in equity	Capital stock € '000	Translation reserve € '000	Capital redemption reserve € '000	Cash flow hedging reserve € '000	Other reserves[1] € '000	Retained earnings € '000	Total € '000	Non-controlling interest € '000	**Total equity € '000**
Balance at 1 January 2016	1,979,882	51,376	-	49,799	(151,098)	1,930,558	3,860,517	(1,874)	3,858,643
Total comprehensive income / (expense) for the year									
Profit for the financial year	-	-	-	-	-	187,848	187,848	(1,657)	186,191
NIE Networks pension scheme actuarial losses		-	-	-	(66,520)	-	(66,520)	-	(66,520)
Reserve on acquisition of Synergen Power Ltd.	-	-	-	-	(5,543)	5,543	-	-	-
Translation differences net of hedging	-	(45,314)	-	-	-	-	(45,314)	-	(45,314)
Cash flow hedges:									
- Net fair value gains	-	-	-	91,530	-	-	91,530	-	91,530
- Transfers to income statement									
- Finance cost (interest)	-	-	-	6,274	-	-	6,274	-	6,274
- Finance cost (foreign translation movements)	-	-	-	(10,414)	-	-	(10,414)	-	(10,414)
- Other operating expenses	-	-	-	1,088	-	-	1,088	-	1,088
- Fair value losses for hedges in equity accounted investees	-	-	-	(3,845)	-	-	(3,845)	-	(3,845)
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	-	(10,831)	9,839	-	(992)	-	(992)
Tax on items transferred to income statement	-	-	-	(69)	-	-	(69)	-	(69)
Tax on items taken directly to OCI for equity accounted investees	-	-	-	587	-	-	587	-	587
Total comprehensive income / (expense) for the year	-	(45,314)	-	74,320	(62,224)	193,391	160,173	(1,657)	158,516
Transactions with owners recognised directly in equity									
Dividends	-	-	-	-	-	(86,490)	(86,490)	-	(86,490)
ESOP repurchase provision	-	-	-	-	(7,000)	-	(7,000)	-	(7,000)
Balance at 31 December 2016	1,979,882	6,062	-	124,119	(220,322)	2,037,459	3,927,200	(3,531)	3,923,669
Balance at 1 January 2017	**1,979,882**	**6,062**	**-**	**124,119**	**(220,322)**	**2,037,459**	**3,927,200**	**(3,531)**	**3,923,669**
Total comprehensive income / (expense) for the year									
Loss for the financial year	-	-	-	-	-	(31,873)	(31,873)	(37)	**(31,910)**
NIE Networks pension scheme actuarial gain	-	-	-	-	9,347	-	9,347	-	**9,347**
Reserve on acquisition of Synergen Power Ltd.	-	-	-	-	(33,258)	33,258	-	-	**-**
Translation differences net of hedging	-	(3,322)	-	-	-	-	(3,322)	-	**(3,322)**
Cash flow hedges									
- Net fair value losses	-	-	-	(39,262)	-	-	(39,262)	-	**(39,262)**
- Transfers to income statement									
- Finance cost (interest)	-	-	-	7,844	-	-	7,844	-	**7,844**
- Finance cost (foreign translation movements)	-	-	-	68,854	-	-	68,854	-	**68,854**
- Other operating expenses	-	-	-	(111,856)	-	-	(111,856)	-	**(111,856)**
- Fair value losses for hedges in equity accounted investees	-	-	-	(22)	-	-	(22)	-	**(22)**
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	-	4,978	(1,589)	-	3,389	-	**3,389**
Tax on items transferred to income statement	-	-	-	3,930	-	-	3,930	-	**3,930**
Tax on items taken directly to OCI for equity accounted investees	-	-	-	35	-	-	35	-	**35**
Total comprehensive income / (expense) for the year	-	(3,322)	-	**(65,499)**	**(25,500)**	**1,385**	**(92,936)**	**(37)**	**(92,973)**
Transactions with owners recognised directly in equity									
Dividends	-	-	-	-	-	(115,624)	(115,624)	(170)	**(115,794)**
Repurchase of own shares[2]	(4,700)	-	4,700	-	-	(5,601)	(5,601)	-	**(5,601)**
ESOP repurchase provision[3]	-	-	-	-	3,218	-	3,218	-	**3,218**
Balance at 31 December 2017	**1,975,182**	**2,740**	**4,700**	**58,620**	**(242,604)**	**1,917,619**	**3,716,257**	**(3,738)**	**3,712,519**

[1] Other reserves comprises of (i) a €nil reserve (2016: €33.2 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009 which was transferred to retained earnings during the year; (ii) other reserves relating to the Northern Ireland Electricity Networks Limited (NIE Networks) pension scheme of (€220.9) million (2016: (€228.6) million); (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; and (iv) an ESOP repurchase provision which relates to the amount that ESB has committed to date to purchase from the ESOP internal market (€15.9) million (2016: (€19.1) million). Refer to note 17 for further details on other reserves and note 30 for information on the ESOP repurchase.

[2] A capital redemption reserve of €4.7 million (2016: €nil) arose from the purchase and cancellation of the 4.7 million ESOP share capital for a consideration of €5.6 million and represents the nominal amount of the share capital cancelled.

[3] During 2017 the ESOP provision was increased by €2.4 million and this was recognised in other reserves. ESB also commenced the repurchase of the ESOP shares for a consideration of €5.6 million resulting in a net movement of €3.2 million in other reserves.

PARENT STATEMENT OF CHANGES IN EQUITY

As at 31 December 2017

Reconciliation of changes in equity	Capital stock € '000	Capital redemption reserve[2] € '000	Cash flow hedging and other reserves € '000	Retained earnings € '000	**Total € '000**
Balance at 1 January 2016	1,979,882	-	(35,883)	1,625,100	3,569,099
Total comprehensive income / (expense) for the year					
Profit for the financial year	-	-	-	235,657	235,657
Cash flow hedges:					
- Net fair value gains	-	-	68,575	-	68,575
- Transfers to income statement					
- Finance cost (interest)	-	-	(4,364)	-	(4,364)
- Finance cost (foreign translation movements)	-	-	(10,414)	-	(10,414)
- Other operating expenses	-	-	28,304	-	28,304
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	(8,568)	-	(8,568)
Tax on items transferred to income statement	-	-	(1,691)	-	(1,691)
Total comprehensive income / (expense) for the year	-	-	71,842	235,657	307,499
Transactions with owners recognised directly in equity					
Dividends	-	-	-	(86,490)	(86,490)
ESOP repurchase provision[1]	-	-	(7,000)	-	(7,000)
Balance at 31 December 2016	1,979,882	-	28,959	1,774,267	3,783,108
Balance at 1 January 2017	**1,979,882**	**-**	**28,959**	**1,774,267**	**3,783,108**
Total comprehensive income / (expense) for the year					
Loss for the financial year	-	-	-	(261,124)	**(261,124)**
Cash flow hedges:					
- Net fair value losses	-	-	(56,180)	-	**(56,180)**
- Transfers to income statement					
- Finance cost (interest)	-	-	(1,881)	-	**(1,881)**
- Finance cost (foreign translation movements)	-	-	68,854	-	**68,854**
- Other operating expenses	-	-	(61,228)	-	**(61,228)**
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	7,022	-	**7,022**
Tax on items transferred to income statement	-	-	(718)	-	**(718)**
Total comprehensive income / (expense) for the year	-	-	**(44,131)**	**(261,124)**	**(305,255)**
Transactions with owners recognised directly in equity					
Dividends	-	-	-	(115,624)	**(115,624)**
Repurchase of own shares	(4,700)	4,700	-	-	**-**
ESOP repurchase provision[1]	-	-	3,218	-	**3,218**
Balance at 31 December 2017	**1,975,182**	**4,700**	**(11,954)**	**1,397,519**	**3,365,447**

[1] During the year ended 2015 ESB entered into an agreement to support the acquisition of capital stock in future ESOP internal markets. An ESOP repurchase provision (€2.4 million) was recognised in other reserves in 2017 (2016: (€7.0) million) relating to the amount ESB committed to repurchase from the ESOP internal market. During 2017, ESB commenced the repurchase of 4.7 million shares of this capital stock for a consideration of €5.6 million (2016: €nil) which was recognised in other reserves.

[2] A capital redemption reserve of €4.7 million (2016: €nil) arose from the purchase and cancellation of the 4.7 million ESOP share capital and represents the nominal amount of the share capital cancelled.

GROUP CASH FLOW STATEMENT

For the year ended 31 December 2017

	Notes	**2017 € '000**	2016 € '000
Cash flows from operating activities			
(Loss) / profit after taxation		**(31,910)**	186,191
Adjustments for:			
Depreciation and amortisation	6	**815,690**	760,409
Amortisation of supply contributions and other deferred income	24	**(70,462)**	(58,548)
Net emissions costs		**37,101**	(27,348)
Profit on disposal of non-current assets	5	**(1,381)**	(926)
Profit on disposal of subsidiaries and equity accounted investees	5	**(21,998)**	(9,383)
Profit on disposal of investments	5	**(2,122)**	-
Write off of intangible assets	11	**2,946**	-
Net finance cost	7	**215,623**	388,424
Impact of fair value adjustments in operating costs		**38,947**	10,395
Losses from equity accounted investees	13	**8,293**	15,257
Income tax expense	18	**21,978**	7,454
Dividend received	5	**(3,026)**	(1,139)
Impairment charge	4/6	**279,356**	4,970
Operating cash flows before changes in working capital and provisions		**1,289,035**	1,275,756
Charge / (credit) in relation to provisions		**9,192**	(1,170)
Charge in relation to employee related liabilities		**38,159**	51,446
Utilisation of provisions		**(9,739)**	(19,484)
Payments in respect of employee related liabilities		**(238,788)**	(227,821)
Deferred income received		**42,182**	38,994
Decrease / (increase) in trade and other receivables		**42,050**	(35,735)
(Increase) / decrease in inventories		**(19,234)**	22,301
(Increase) / decrease in trade and other payables		**(14,634)**	146,385
Cash generated from operations		**1,138,223**	1,250,672
Current tax paid		**(17,786)**	(27,974)
Financing costs paid		**(203,813)**	(211,480)
Net cash inflow from operating activities		**916,624**	1,011,218
Cash flows from investing activities			
Purchase of property, plant and equipment		**(734,494)**	(721,437)
Purchase of intangible assets		**(54,020)**	(39,188)
Proceeds from sale of non-current assets		**3,056**	3,132
Proceeds from sale of investments		**4,390**	-
Proceeds from sale of subsidiaries		**23,189**	6,831
Amounts advanced to equity accounted investees as shareholder loans		**(52,250)**	-
Dividends received from associate undertaking		**3,776**	1,139
Purchase of financial assets		**(2,565)**	(10,066)
Interest received		**682**	662
Net cash outflow from investing activities		**(808,236)**	(758,927)
Dividends paid	17	**(115,794)**	(86,490)
Repayments of term debt facilities		**(461,496)**	(84,424)
Proceeds from the issue of new debt		**509,511**	401,121
Repurchase of ESOP shares		**(5,601)**	-
Decrease in other borrowings		**-**	(228,847)
Payments on inflation linked interest rate swaps		**(16,783)**	(15,926)
Net cash outflow from financing activities		**(90,163)**	(14,566)
Net increase in cash and cash equivalents		**18,225**	237,725
Cash and cash equivalents at 1 January	16	**363,624**	133,863
Effect of exchange rate fluctuations on cash held		**(1,444)**	(7,964)
Cash and cash equivalents at 31 December	16	**380,405**	363,624

PARENT CASH FLOW STATEMENT

For the year ended 31 December 2017

	Notes	2017 € '000	2016 € '000
Cash flows from operating activities			
(Loss) / profit after taxation		**(261,124)**	235,657
Adjustments for:			
Depreciation and amortisation		**556,311**	512,999
Amortisation of supply contributions and other deferred income	24	**(35,002)**	(33,118)
Net emissions cost		**27,051**	(31,288)
(Profit) / loss on disposal of non-current assets		**(562)**	729
Net finance cost		**97,091**	93,232
Impact of fair value movement on financial instruments in operating costs		**6,763**	559
Dividend received from subsidiary undertakings		**(9,380)**	(8,680)
Income tax expense		**3,811**	44,726
Provision for amounts due from related undertakings		**330,871**	-
Impairment charge	10	**236,572**	-
Operating cash flows before changes in working capital and provisions		**952,402**	814,816
Charge in relation to provisions		**8,678**	2,379
Charge in relation to employee related liabilities	22	**16,292**	35,318
Utilisation of provisions		**(9,148)**	(6,395)
Payments in respect of employee related liabilities	22	**(203,407)**	(192,123)
Deferred income received		**69**	1,239
Decrease / (increase) in trade and other receivables		**89,690**	(96,484)
(Increase) / decrease in inventories		**(13,045)**	22,470
Decrease in trade and other payables		**33,934**	517,970
Cash generated from operations		**875,465**	1,099,190
Current tax paid		**(22,276)**	(19,287)
Interest paid		**(127,873)**	(134,785)
Net cash inflow from operating activities		**725,316**	945,118
Cash flows from investing activities			
Purchase of property, plant and equipment		**(458,402)**	(399,600)
Purchase of intangible assets		**(48,866)**	(33,122)
Proceeds from the sale of non-current assets		**918**	1,863
Amounts advanced to equity accounted investees as shareholder loans		**(48,000)**	-
Interest received		**41,271**	46,290
Dividends received from subsidiary undertakings		**9,380**	8,680
Net cash outflow from investing activities		**(503,699)**	(375,889)
Cash flows from financing activities			
Dividends paid		**(115,624)**	(86,490)
Repayments of term debt facilities		**(133,485)**	(12,739)
Decrease in other borrowings		**-**	(251,211)
Net cash outflow from financing activities		**(249,109)**	(350,440)
Net (decrease) / increase in cash and cash equivalents		**(27,492)**	218,789
Cash and cash equivalents at 1 January	16	**235,991**	17,202
Cash and cash equivalents at 31 December	16	**208,499**	235,991

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

(I) 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 2017 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) as applied in accordance with the Companies Act 2014. The Companies Act 2014 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 Act. The financial statements of the Parent and Group have been prepared in accordance with those IFRS standards and IFRIC (International Financial Reporting Interpretations Committee) interpretations issued and effective for accounting periods ending on or before 31 December 2017. 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 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 causing 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 all Group entities – with the exception of adoption of new standards as set out below.

The Group has considerable financial resources and the Board believes that the Group is well placed to manage its risks successfully. After making appropriate enquiries the Board is satisfied that ESB has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. The financial statements are prepared on the going concern basis of accounting. Further details of the Group's liquidity position are provided in note 19 of the financial statements.

(II) 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 2017. 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. ESB Parent has availed of the exemption in section 304(2) of the Companies Act 2014 not to present its individual income statement and related notes that form part of the approved Parent financial statements.

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.

Acquisitions on or after 1 January 2010

The Group accounts for business combinations under IFRS 3 Business Combinations, the Group measures goodwill at the acquisition date as:

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

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

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

Acquisitions between 1 January 2004 and 1 January 2010

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

Acquisitions prior to 1 January 2004 (date of transition to IFRS)

As part of its transition to IFRS, the Group elected to restate only those business combinations that occurred on or after 1 January 2003 in accordance with policy elections made by the Group at the time. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, Irish / UK GAAP.

IFRS 10 — Consolidated Financial Statements

The IFRS 10 control model focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 requires the Group to consolidate investees that it controls on the basis of de facto control.

In accordance with IFRS 10, the Group's assessment of control is performed on a continuous basis and the Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of the control model.

Subsidiaries

Subsidiaries are entities controlled by ESB (control exists when ESB is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity). 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.

IFRS 11 - Joint arrangements

Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure and legal form of the arrangements, the contractual terms of the arrangement agreed by the parties and when relevant, other facts and circumstances.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Joint operations
Joint operations are those undertakings in which ESB is deemed to have joint control of the arrangement and has rights to the assets and obligations for the liabilities of the arrangement. Accordingly, the Group's share of assets, liabilities, revenues, expenses and other comprehensive income are recognised in the respective categories within the consolidated accounts.

Joint ventures
Joint venture undertakings (joint ventures) are those undertakings over which ESB exercises contractual control jointly with another party, whereby the Group has rights to net assets of the arrangement rather than rights to its assets and obligations for its liabilities.

Joint ventures are accounted for using the equity method of accounting. Under the equity method, the Group's share of the profits or losses 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 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, acquisition costs, the Group's share of post acquisition retained income and expenses less any impairment provision. Net liabilities are only recognised to the extent that ESB has incurred legal or constructive obligations or made payments on behalf of joint ventures.

The amounts included in the consolidated financial statements in respect of post acquisition results of joint ventures are taken from their latest financial information 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.

The Group assesses if a change in the facts and circumstances requires reassessment of whether joint control still exists. The Group has evaluated its involvement in joint arrangements and has confirmed that these investments meet the criteria of joint ventures which continue to be accounted for using the equity method.

Associates
Entities other than joint arrangements 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 but not control or joint control, 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.

(III) NEW STANDARDS AND INTERPRETATIONS

A number of new Standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these consolidated financial statements. The Standards and interpretations that may have relevance to the Group are as follows:

New / Revised International Financial Reporting Standards	Effective date[1]
IFRS 15: Revenue from Contracts with Customers	1 January 2018
IFRS 9: Financial Instruments	1 January 2018
Clarifications to IFRS 15: Revenue from Contracts with Customers	1 January 2018
IFRS 16: Leases	1 January 2019

[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.

Standards, interpretations and amendments to published standards that are not yet effective
The Group has not applied certain Standards, amendments and interpretations to existing Standards that have been issued but are not yet effective. The most significant of which are as follows:

IFRS 9: Financial Instruments (effective date: ESB financial year beginning 1 January 2018)
This Standard is designed to replace IAS 39 Financial Instruments: Recognition and Measurement and has been completed in a number of phases with the final version issued by the IASB in July 2014. The Standard includes requirements for recognition, measurement, impairment and de-recognition of financial instruments and general hedge accounting. The Group will apply IFRS 9 from its effective date.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships may be eligible for hedge accounting, as the Standard introduces a more principles-based approach. The Group has performed an initial assessment on the impact of IFRS 9, and it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

There is a potential impact to operating expenses due to the new impairment considerations in the new Standard. The approximate financial impact of the Standard is still being assessed but it is not expected to be material.

Our initial assessment of the impact of IFRS 9 is that the adoption of this new Standard due to the changes to the treatment of liability management transactions will have a material impact on the Group's consolidated financial statements as follows:

The Group expects to adopt IFRS 9 by applying the retrospective application outlined by the standard for any previous liability management transactions. The Group refinanced bonds worth €500.0 million and €600.0 million in 2015 and 2016 respectively and these transactions will be subject to retrospective adjustment. The Group has calculated a reduction to the opening reserves and an increase to external borrowings on 1 January 2018 of €72.0 million.

The new Standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the first year of adoption of the new Standard.

IFRS 15: Revenue from Contracts with Customers (effective date: ESB financial year beginning 1 January 2018)
This Standard will replace IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Group has chosen to adopt IFRS 15 using the modified retrospective transition method.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Revenue is recognised when a customer obtains control of a good or service and therefore has the ability to direct the use and obtain the benefits from the good or service. To recognise revenue, IFRS 15 defines a five-step process that includes: identifying the contract(s) with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price and recognising revenue when a performance obligation is satisfied.

The Group will apply IFRS 15 from its effective date. The work performed by the Group to date has identified that, for the majority of the Group's revenue, the application of IFRS 15 will have no material impact on the current revenue recognition under current revenue standards and interpretations. Additionally, as the business develops new product offerings, the IFRS 15 implications of these will also need to be reviewed.

IFRS 16: Leases (effective date: ESB financial year beginning 1 January 2019).
This Standard will replace IAS 17 Leases. The changes under IFRS 16 are significant and will predominantly affect lessees, the accounting for which is substantially reformed. The lessor accounting requirements contained in IFRS 16's predecessor, IAS 17 will remain largely unchanged. The main impact on lessees is that almost all leases will be recognised in the balance sheet as the distinction between operating and finance leases is removed for lessees. Instead, under IFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions are short-term and low-value leases. The Standard introduces new estimates and judgemental thresholds that affect the identification, classification and measurement of lease transactions. More extensive disclosures, both qualitative and quantitative, are also required. The Group will apply IFRS 16 from its effective date. The Group is currently assessing the impact of IFRS 16 on the Group's financial statements.

Other changes to IFRS have been issued but are not yet effective for the Group. However, they are either not expected to have a material effect on the consolidated financial statements or they are not currently relevant for the Group.

(IV) FOREIGN CURRENCIES

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

(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro which is ESB's functional and presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

(c) Group companies
The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(V) 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 and an appropriate portion of relevant overheads.

Under IFRIC 18, supply contributions are capitalised to property, plant and equipment in line with the associated capitalised costs.

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. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

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

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 cost of the item can be measured reliably.

All other repairs and maintenance costs 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.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(VI) 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 asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term. 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.

(VII) INTANGIBLE ASSETS AND GOODWILL

(a) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented separately on the balance sheet.

Subsequent measurement

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

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

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

(b) Emission allowances

Emission allowances purchased by ESB are recorded as intangible assets at cost.

As emissions arise, a charge is recorded in the income statement to reflect the amount required to settle the liability to the relevant Authority. This provision includes the carrying value of the emission allowances held, as well as the current market value of any additional allowances required to settle the obligation. These allowances 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 CO_2 during that year. Emission allowances held at cost as intangible assets are therefore not amortised as they are held for settlement of the emission liability in the following year.

(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 assets 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

Development costs that are directly associated with the production of identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell
- the software is available
- the expenditure attributable to the software during its development can be reliably measured.

Direct costs include the costs of software development, employees and an appropriate portion of relevant overheads. These assets 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.

(d) Research and development

Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(VIII) IMPAIRMENT OF NON-CURRENT ASSETS OTHER THAN GOODWILL

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets not yet in use are tested annually for impairment. 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).

For power generation assets, value in use is based on the estimated cash flows expected to be generated by the asset and is based on estimates of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of operating costs and capital expenditure. These cash flows are discounted to their present value using a pre-tax discount rate that reflects the current markets assessment of the time value of money and the risks specific to the asset.

(IX) 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. The capitalisation rate applied equates to the average cost of ESB's outstanding debt and where applicable, a project specific rate is applied. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(X) 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.

Construction work in progress is stated at the lower of cost and net realisable value.

(XI) 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 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

Cash and cash equivalents include 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. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

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 and balances with 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 or current liabilities 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 balances are included within trade and other receivables or trade and other payables 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 or liabilities 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.

(b) Derivative financial instruments and other hedging instruments

The Group uses derivative financial instruments and non-derivative financial instruments to hedge its exposure to commodity price, foreign exchange and interest rate 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.

Commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised in accordance with IAS 39 as cash flow hedges 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 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 financial statements. Where claims are probable, the provisions policy (15) is applied.

(XII) 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 capitalised to property, plant and equipment in line with the associated capitalised costs.

(XIII) 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 Communications, Climate Action and Environment and the ESB ESOP Trustee Limited.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(XIV) 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.

(a) Current tax

Current tax is provided at current rates and is calculated on the basis of results for the year. 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.

(b) Deferred tax

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

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

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

(XV) 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 asset retirement obligations

The provision for retirement and decommissioning of mainly generating stations, wind farms and ESB Networks creosote treated wood poles 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 and other asset retirement obligations 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 or other assets to which they relate unless the related asset has reached the end of its useful life. Subsequent changes in the liability in respect of assets that have reached the end of their useful life are recognised in the income statement as they occur. 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 those assets to the extent that the assets are still in use. 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 the 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 or other assets. The actual expenditure is set against the provision as stations are closed or other obligations are met.

The provision for generating station closure costs and other asset retirement obligations is included within current or non-current provisions as appropriate on the balance sheet.

(XVI) OPERATING SEGMENTS – IFRS 8

ESB have voluntarily applied the disclosure requirements of IFRS 8 Operating Segments 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 Executive Team and the Board, collectively the Chief Operating Decision Maker (CODM), in order to make decisions about allocating resources and assessing performance has been presented in note 2 to the financial statements.

(XVII) REVENUE

(a) Electricity and gas revenue

Sales comprise the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Sales are presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Electricity revenue is based on the consumption of electricity. Electricity revenue includes the value of units supplied to customers between the date of the last meter reading and the year end, this estimate is included in trade and other receivables in the balance sheet as unbilled consumption.

Revenue comprise the sales value derived from the following:

- Electric Ireland revenues consist of sales to electricity and gas customers.
- Generation and Wholesale Markets revenue derives mainly from electricity generation.
- ESB Networks and NIE Networks earn Use of System income in the Republic of Ireland and Northern Ireland respectively.

(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.

(XVIII) OTHER OPERATING INCOME

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

(XIX) COSTS

(a) Employee costs

Salaries, overtime, expenses, bonuses, social welfare contributions (PRSI), National Insurance, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by the employees of the Group.

(b) 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.

(c) 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.

(d) Finance income and finance costs

Finance income comprises interest income on bank deposits, which attract interest at prevailing deposit interest rates in addition to interest income on loans.

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

(XX) 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

NOTES TO THE FINANCIAL STATEMENTS

1. 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. Further details of the Group's exceptional items are provided in note 4 of the financial statements.

(XXI) EMPLOYEE RELATED LIABILITIES

(a) Restructuring liabilities

Voluntary termination benefits are payable under various collective agreements between the Board of ESB and Union Staff 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. Ordinary termination benefits not covered by the aforementioned agreement are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits or when the Group begins to implement the restructuring plan. Benefits expected to be settled more than twelve months after the balance sheet date are discounted to present value. Future operating losses are not provided for.

(b) Other short-term employee related liabilities

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

(XXII) 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.

Pension schemes in the Republic of Ireland

The Group operates two pension schemes, which are called the ESB Defined Benefit Pension Scheme and the ESB Defined Contribution Pension Scheme.

Pensions for the majority of employees in the electricity business are funded through a contributory pension scheme called the ESB Defined Benefit Pension 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 Scheme with the Pensions Authority.

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, Climate Action and Environment. 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 €591.0 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 ongoing contributions and the balance of the Company's €591.0 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:

(a) any remaining amounts to be paid in relation to the once-off contribution agreed pursuant to the 2010 Agreement (€591.0 million in 2010 money to be paid over a number of years);

(b) pre-existing commitments relating to past service (the present value of the agreed contributions that relates to service prior to October 2010); and

(c) Past Voluntary Severance (VS) Programmes – in 2010 the Company recognised a future commitment in respect of staff who have left the Company under past VS programmes. 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 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 Networks Limited (NIE Networks), operates a defined benefit scheme in respect of all eligible employees. The defined benefit obligation of NIE Networks 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 including curtailment losses are recognised in the income statement in the period they occur. The interest income from pension scheme assets and the interest expense on pension scheme liabilities are included within net finance cost.

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT REPORTING

The Group has applied 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.

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

(a) Electric Ireland is a leading supplier of electricity and gas to domestic customers on the island of Ireland and during 2017 entered the Great Britain (GB) domestic market through the establishment of ESB Energy. Electric Ireland also has a substantial market share in the non-domestic sector in both the Republic of Ireland (ROI) and Northern Ireland (NI). Revenues are primarily derived from sales to electricity and gas 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 ROI. 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 by regulation from the Group's generation and supply business.

(c) ESB Generation and Wholesale Markets comprises the generation and international investment business across the Group. Within this business segment, the Group operates power stations and wind farms in ROI, NI and GB.

(d) NIE Networks is principally concerned with the ownership and operation of the electricity distribution network and the ownership of the electricity transmission network in NI. NIE Networks derives its revenue principally from charges for the use of the distribution systems levied on electricity suppliers and from charges on transmission services collected by the System Operator for Northern Ireland (SONI).

(e) Other Segments include the results of internal service providers, which supply the main business units of the Group with support services. These segments are governed by regulation, and service level agreements are designed to ensure that transactions between operating segments are on an arm's length basis similar to transactions with third parties. This segment also includes most finance costs in the Group, as the majority of Treasury activity is conducted centrally. Finance costs incurred centrally are not recharged to other operating segments.

A separate business unit, Innovation was established to co-ordinate and focus on new investment opportunities to develop and grow business in the context of a changing environment. This segment operates adjacent to the core operating segments of the Group. As business opportunities are identified and become viable, they will then be transferred to the relevant core operating segment. Innovation is reported to the CODM as a separate component within Other Segments. The Innovation business unit includes ESB International, a provider of consultancy and engineering services and ESB Telecoms.

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 not reported by segment to the CODM.

Revenue by product

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

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT REPORTING (continued)

(a) Income statement

(i) Segment revenue - 2017

	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE Networks[1] € '000	Other Segments € '000	Consolidation and eliminations € '000	**Total €€€ '000**
External revenues	1,729,523	493,052	689,747	252,158	64,542	-	**3,229,022**
Inter-segment revenue	4,674	564,485	716,687	19,644	232,194	(1,537,684)	-
Revenue	1,734,197	1,057,537	1,406,434	271,802	296,736	(1,537,684)	**3,229,022**

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

(ii) Segment operating costs - 2017

Depreciation and amortisation	(5,718)	(386,167)	(257,035)	(137,682)	(29,088)	-	**(815,690)**
Other operating costs	(1,660,450)	(392,475)	(1,032,838)	(99,527)	(304,946)	1,537,684	**(1,952,552)**
Impairment charge (including exceptional items)	-	-	(275,579)	-	(3,777)	-	**(279,356)**

(iii) Operating result - 2017

Operating profit / (loss) - including exceptional items	68,029	317,379	(155,177)	34,593	(50,840)	-	**213,984**
Net finance cost	(87)	(360)	(19,459)	(47,135)	(148,582)	-	**(215,623)**
Share of equity accounted investees' profit / (loss)	-	-	4,108	-	(12,401)	-	**(8,293)**
Profit / (loss) before taxation	67,942	317,019	(170,528)	(12,542)	(211,823)	-	**(9,932)**

(i) Segment revenue - 2016

	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE Networks[1] € '000	Other Segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	1,890,601	474,103	521,055	256,935	69,057	-	3,211,751
Inter-segment revenue	4,392	544,818	806,290	15,345	209,266	(1,580,111)	-
Revenue	1,894,993	1,018,921	1,327,345	272,280	278,323	(1,580,111)	3,211,751

All Inter-segment revenues are eliminated upon consolidation and are reflected in the eliminations column above.

(ii) Segment operating costs - 2016

Depreciation and amortisation	(9,009)	(379,747)	(202,218)	(141,409)	(28,026)	-	(760,409)
Other operating costs	(1,813,606)	(357,544)	(896,882)	(95,573)	(306,046)	1,580,111	(1,889,540)

(iii) Operating result - 2016

Operating profit / (loss)	72,378	314,216	230,836	35,298	(55,402)	-	597,326
Net finance cost	(136)	(289)	(9,726)	(50,255)	(328,018)	-	(388,424)
Share of equity accounted investees' profit / (loss)	-	-	91	-	(15,348)	-	(15,257)
Profit / (loss) before taxation	72,242	313,927	221,201	(14,957)	(398,768)	-	193,645

[1] NIE Networks segment includes depreciation on fair value uplifts recognised on the acquisition of NIE Networks.

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT REPORTING (continued)

(b) Other disclosures

	2017 € '000	2016 € '000
Additions to non-current assets (excluding acquisitions)		
Electric Ireland	**9,325**	7,569
ESB Networks	**501,043**	373,260
Generation and Wholesale Markets	**128,179**	262,403
NIE Networks	**142,791**	141,230
Other Segments	**86,101**	113,153
Total	**867,439**	897,615

Additions to non-current assets (excluding acquisitions) includes investments in property, plant and equipment, intangible assets (excluding emission allowances), financial assets and equity accounted investees.

3. GEOGRAPHIC INFORMATION

(a) Non-current assets by geographic location

	2017 € '000	2016 € '000
Ireland	**7,550,000**	7,812,557
UK including Northern Ireland	**3,062,906**	3,273,549
Rest of world	**4,200**	10,406
Total	**10,617,106**	11,096,512

Non-current assets for this purpose consist of property, plant and equipment, intangible assets, goodwill, investments in equity accounted investees, financial asset investments and trade and other receivables. Derivative financial instruments and deferred tax assets are excluded.

(b) External revenue by geographic market

	2017 € '000	2016 € '000
Ireland	**2,396,156**	2,744,816
UK including Northern Ireland	**806,817**	449,251
Rest of world	**26,049**	17,684
Total	**3,229,022**	3,211,751

4. 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.

	2017 € '000	2016 € '000
Impairment charges	**275,579**	-

Impairment charges
International Accounting Standard 36 - Impairment of Assets stipulates that an impairment loss is the amount by which the carrying value of an asset exceeds its recoverable amount. Recoverable amount is the higher of its fair value less costs of disposal and its value in use. Value in use is calculated by taking the Net Present Value (NPV) of expected future cash flows from the asset discounted at an appropriate discount rate. Entities are required to conduct impairment tests where there is an indication of impairment of an asset. The following indicators have prompted impairment reviews on the Group's generation assets at 31 December 2017.

- The impact of the introduction of the new Integrated Single Electricity Market (I-SEM) in May 2018 on projected revenues, in particular capacity revenue for generation plant in the Republic of Ireland (ROI) and Northern Ireland (NI).
- Increases in coal prices relative to gas resulting in lower margins earned at Moneypoint power station.
- Lower wholesale electricity margins in ROI (spark spreads and system marginal price (SMP) impacting all operational gas fired plants in SEM).

Moneypoint is an 885 MW coal fired power plant located close to Kilrush in Co. Clare. It was commissioned between 1985 and 1987 and in 2008 a major environmental equipment upgrade was completed at the plant to ensure it complies with strict environmental requirements for flue gas desulphurisation and selective catalytic reduction.

An impairment charge of €141.7 million was recorded in operating costs in 2017 (note 6) in respect of Moneypoint in the Generation and Wholesale Markets (G&WM) segment, reflecting projected reduction in capacity revenue based on the clearing price in the December 2017 I-SEM capacity auction and market forecasts for future auctions and market based forecasts for coal spreads in I-SEM.

NOTES TO THE FINANCIAL STATEMENTS

4. EXCEPTIONAL ITEMS (continued)

Impairment charges (continued)
Aghada Unit Two (435 MW), Synergen (410 MW) and Poolbeg (463 MW) are Combined Cycle Gas Turbines (CCGT's) based in Cork and Dublin respectively. Aghada's construction commenced in October 2007 and it reached commercial operations in May 2010, Synergen has been commercially operating since August 2002 and Poolbeg since 1971, first as an oil-fired plant and later converted to a CCGT in 2000. An impairment charge of €69.1 million was recognised for Aghada, €30.0 million for Synergen and €20.9m for Poolbeg in 2017. The impairments arose as a result of projected reduction in capacity revenue earned by the generation plants following the introduction of the new I-SEM market in May 2018 and the impact of lower forecasted wholesale electricity margins in ROI. The real discount rate applied to the cash flows to determine the NPV was a pre-tax rate of 6.82%.

Marina power station is located in Cork City Docklands on the River Lee. The station has gone through several different running regimes since it opened and in 2009 the unit was converted to open cycle operation with an output of 85 MW. An impairment charge of €1.1 million has been recognised due to the plant being unsuccessful in the 2017 I-SEM capacity auction. The real discount rate applied to the cash flows to determine the NPV was a pre-tax rate of 6.82%

ESB has an installed operational wind farm portfolio totalling 522 MW of capacity, comprising twenty wind farms in the Single Electricity Market (SEM) (fourteen in ROI and six in NI), with a further three wind farms located in Great Britain (GB). An impairment review has been performed which resulted in an impairment charge of €12.8 million, being recognised in the current year in the G&WM segment. The real discount rate applied to the cash flows to determine the NPV was a pre-tax rate of 4.4% (ROI) and 3.8% (NI). The impairment charge arose as a result of a projected reduction in market based revenues.

All cash inflows for each generation plant and wind farm are based on the forecasted running profiles for the plants, forward prices for electricity, gas and carbon. The cash outflows for operating and capital expenditure are based on the Board approved five-year business plans, and thereafter, on long-term production and cash flow forecasts.

5. OTHER OPERATING INCOME / (EXPENSES)

	2017 € '000	2016 € '000
Profit on disposal of property, plant and equipment and intangible assets	**1,381**	926
Profit on disposal of investments (note 13)	**2,122**	-
Profit on disposal of subsidiaries[1]	**21,998**	9,383
Amortisation of supply contributions	**32,772**	33,138
Dividends received	**3,026**	1,139
Fair value movements on assets held at fair value through profit and loss[2]	**(33,884)**	(9,062)
Other operating income	**5,145**	-
Total	**32,560**	35,524

[1] The profit on disposal of subsidiaries relates to the sale of windfarm subsidiaries in 2017 and 2016.
[2] These fair value movements relate to adjustments to the value of investments in renewables enterprises held by Novusmodus, a subsidiary, as detailed in note 13.

6. OPERATING COSTS

	2017 € '000	2016 € '000
Employee costs (note 8)	**466,368**	463,750
Fuel costs[1]	**717,290**	596,367
Other electricity related costs	**239,042**	303,818
Operations and maintenance[2]	**529,852**	520,635
Impairment charges[3]	**279,356**	4,970
Depreciation and amortisation (notes 10 / 11)	**815,690**	760,409
Total	**3,047,598**	2,649,949

[1] Included in fuel costs is a charge of €15.3 million (2016: €1.5 million) relating to the fair value movements of fuel commodity swaps which have not been designated as accounting hedges.

[2] Included in operations and maintenance is a foreign exchange retranslation loss of €10.8 million (2016: €26.0 million loss) on sterling denominated intercompany positions.

[3] Impairment charges of €279.4 million (2016: €4.9 million) have been recognised in 2017, €275.6 million of which have been disclosed as exceptional items in the income statement which relate to the generation portfolio (see note 4). The remaining €3.8 million relates to other impairments (see note 10).

NOTES TO THE FINANCIAL STATEMENTS

7. NET FINANCE COST AND OTHER FINANCING CHARGES

	2017 € '000	2016 € '000
Interest payable on borrowings	**211,558**	219,722
Less capitalised interest	**(23,456)**	(49,235)
Net interest on borrowings	**188,102**	170,487
Financing charges:		
- on NIE Networks pension scheme (note 21)	**4,113**	4,312
- on ESB pension scheme (note 22)	**22,515**	29,657
- on employee related liabilities (note 22)	**511**	835
- on asset retirement costs (note 25)	**1,611**	1,482
- on other provisions (note 25)	**456**	537
Total financing charges	**29,206**	36,823
Fair value (gains) / losses on financial instruments:		
- currency / interest rate swaps: cash flow hedges, transfer from OCI	**7,844**	6,274
- interest rate swaps and inflation linked swaps not qualifying for hedge accounting	**(2,985)**	183,863
- foreign exchange contracts not qualifying for hedge accounting	**51**	25
Total fair value losses on financial instruments	**4,910**	190,162
Finance cost	**222,218**	397,472
Finance income	**(6,595)**	(9,048)
Net finance cost	**215,623**	388,424

The financing charges on provisions are calculated in accordance with the policy for discounting of future payment obligations as disclosed in the accounting polices - see note 1.

In addition to the amounts transferred from other comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a loss of €68.9 million (2016: gain of €10.4 million) has been transferred from the cash flow hedge reserve to net finance cost and other financing charges during the year. However, these amounts are fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates.

Included in finance income is interest on borrowings receivable from Tilbury Green Power Holdings Limited €5.9 million (2016: €8.4 million) - see note 13 for further details.

Positive fair value movements of €3.7 million arose on the inflation linked swaps in 2017 (2016: negative fair value movements of €187.6 million) reflecting lower interest rates and a lower Retail Price Index (RPI) in the UK. These have been recognised within finance costs in the income statement, as hedge accounting is not available for these instruments.

NOTES TO THE FINANCIAL STATEMENTS

8. EMPLOYEES

GROUP

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

	2017 Number	2016 Number
Electric Ireland	**386**	365
ESB Networks	**3,347**	3,289
Generation and Wholesale Markets	**1,005**	981
NIE Networks	**1,288**	1,261
Other Segments	**1,764**	1,701
Total	**7,790**	7,597

(b) Employee costs in year

	2017 € '000	2016 € '000
Current staff costs (excluding pension)		
Salaries	**523,474**	507,776
Overtime	**41,627**	35,360
Social welfare costs (PRSI and national insurance)	**38,934**	34,576
Other payroll benefits[1]	**35,243**	34,140
Payroll cost for employees	**639,278**	611,852
(c) Pension and other employee benefit costs		
Pensions charge – other schemes[2]	**47,156**	45,374
NIE Networks pension scheme charge[3]	**11,212**	8,037
Release of restructuring provision[4]	**(21,115)**	-
	676,531	665,263
Capitalised payroll	**(210,163)**	(201,513)
Total employee related costs charged to the income statement	**466,368**	463,750

[1] These benefits primarily include travel and subsistence expenses.

[2] The pension charge for other schemes include contributions to the ESB Defined Contribution Scheme, the ESB Defined Benefit Pension Scheme, the Options section of the NIE Networks Pension Scheme (NIE Networks Scheme) and the stakeholder pension scheme for GB employees (FMUK Pension Scheme). See note 21 for further details.

[3] The NIE Networks pension scheme charge relates solely to the Focus section of the Northern Ireland Electricity Networks Scheme (the NIE Networks Scheme). See note 21 for further details.

[4] A review of the restructuring provision was completed during the year and €21.1 million has been credited to the income statement (note 22) in respect of Parent.

NOTES TO THE FINANCIAL STATEMENTS

8. EMPLOYEES (continued)

PARENT

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

	2017 Number	2016 Number
Electric Ireland	**310**	286
ESB Networks	**3,338**	3,289
Generation and Wholesale Markets	**626**	619
Other Segments	**939**	940
Total	**5,213**	5,134

(b) Employee costs in year

	2017 € '000	2016 € '000
Current staff costs (excluding pension)		
Salaries	**372,293**	362,075
Overtime	**33,784**	26,948
Social welfare costs (PRSI)	**24,878**	22,367
Other payroll benefits[1]	**23,170**	22,216
Payroll cost for employees	**454,125**	433,606
(c) Pension and other employee benefit costs		
Pension charge[2]	**33,468**	32,334
Release of restructuring provision [3]	**(21,115)**	-
	466,478	465,940
Capitalised payroll	**(153,655)**	(143,959)
Total employee related costs charged to the income statement	**312,823**	321,981

[1] These benefits primarily include travel and subsistence expenses.

[2] The pension charge includes contributions to the ESB Defined Contribution Scheme, and the ESB Defined Benefit Pension Scheme. See note 21 for further details.

[3] A review of the restructuring provision was completed during the year and €21.1 million has been credited to the income statement (note 22).

9. (LOSS) / PROFIT FOR THE FINANCIAL YEAR

	2017 € '000	2016 € '000
The (loss) / profit for the financial year is stated after charging / (crediting):		
Depreciation and amortisation	**815,690**	760,409
Impairment charge (note 10)	**279,356**	4,970
Operating lease charges	**21,719**	18,596
Amortisation of supply contributions[1]	**(32,772)**	(33,138)
Profit on disposal of property, plant and equipment and intangible assets	**(1,381)**	(926)
Profit on disposal of investments	**(2,122)**	-
Profit on disposal of subsidiaries	**(21,998)**	(9,383)
Auditor's remuneration:		
- Audit of individual and Group financial statements[2]	**638**	320
- Other assurance services	**118**	315
- Tax advisory services (Parent and NIE Networks entities only)	**112**	9
- Other non-audit services[3]	**1,714**	156
ESB (Parent) Board members' remuneration:		
- Emoluments	**484**	466
- Pension contributions	**48**	48

The details of Board members remuneration do not include amounts paid to four Worker Board members as employees of ESB (as such pay is neither increased nor decreased because of their membership of the Board), but does include amounts paid to them by way of Board fees.

[1] Included within note 24 deferred income is amortisation of supply contributions €32.7 million (2016: €33.1 million) and other deferred income €37.7 million (2016: €25.4 million).

[2] €410,000 (2016: €180,000) related to the audit of Parent company. Additionally €67,000 is payable to PwC Belfast in respect of the 2017 audit of NIE Networks. The audit of individual and Group financial statements in 2017 includes the audit of subsidiary companies. Subsidiary company audit fees in 2016 are included in other assurance services.

[3] Included in other non-audit services for financial year ended 2017 is €1.6 million in respect of permitted services under a contract awarded to PwC prior to their appointment as auditors.

NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT & EQUIPMENT

GROUP	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
Cost					
Balance at 1 January 2016	1,201,419	16,944,704	18,146,123	1,682,110	**19,828,233**
Additions	57,565	203,578	261,143	585,647	**846,790**
Retirements / disposals	(3,307)	(12,218)	(15,525)	(21,127)	**(36,652)**
Transfers out of assets under construction	27,368	981,619	1,008,987	(1,008,987)	**-**
Transfers to intangible assets	-	-	-	(28,022)	**(28,022)**
Translation differences	(1,366)	(659,816)	(661,182)	(115,077)	**(776,259)**
Balance at 31 December 2016	1,281,679	17,457,867	18,739,546	1,094,544	**19,834,090**
Balance at 1 January 2017	1,281,679	17,457,867	18,739,546	1,094,544	**19,834,090**
Additions	711	392,361	393,072	414,400	**807,472**
Retirements / disposals	(94)	(68,112)	(68,206)	(1,420)	**(69,626)**
Transfers out of assets under construction	32,443	567,723	600,166	(600,166)	**-**
Transfers from / (to) intangible assets	-	(276)	(276)	(22,955)	**(23,231)**
Translation differences	(294)	(156,772)	(157,066)	(3,851)	**(160,917)**
Balance at 31 December 2017	1,314,445	18,192,791	19,507,236	880,552	**20,387,788**
Depreciation					
Balance at 1 January 2016	681,045	8,274,352	8,955,397	-	**8,955,397**
Charge for the year	31,051	686,289	717,340	-	**717,340**
Retirements / disposals	(1,608)	(11,813)	(13,421)	-	**(13,421)**
Impairment	-	4,970	4,970	-	**4,970**
Translation differences	(341)	(268,417)	(268,758)	-	**(268,758)**
Balance at 31 December 2016	710,147	8,685,381	9,395,528	-	**9,395,528**
Balance at 1 January 2017	710,147	8,685,381	9,395,528	-	**9,395,528**
Charge for the year	34,594	741,234	775,828	-	**775,828**
Retirements / disposals	(87)	(6,254)	(6,341)	-	**(6,341)**
Transfers from / (to) intangible assets	-	(268)	(268)	-	**(268)**
Impairment	24,764	254,592	279,356	-	**279,356**
Translation differences	(67)	(61,228)	(61,295)	-	**(61,295)**
Balance at 31 December 2017	769,351	9,613,457	10,382,808	-	**10,382,808**
Net book value at 31 December 2017	**545,094**	**8,579,334**	**9,124,428**	**880,552**	**10,004,980**
Net book value at 31 December 2016	571,532	8,772,486	9,344,018	1,094,544	**10,438,562**
Net book value at 1 January 2016	520,374	8,670,352	9,190,726	1,682,110	**10,872,836**

During the year the Group capitalised interest of €23.5 million (2016: €49.2 million) in assets under construction, using an effective interest rate of 4.0% (2016: 4.3%).

The carrying value of non-depreciable assets (land) at 31 December 2017 is €91.9 million (2016: €87.4 million).

Property, plant and equipment with a net book value of €nil at 31 December 2017 is included above at a cost of €4,087.9 million (2016: €3,885.6 million).

Retirements / disposals in both 2017 and 2016 primarily relate to the retirement of assets that have been fully depreciated in addition to the disposal of developmental wind farms.

Included within additions in 2017 is the capitalisation of an increase in the asset retirement provision for Generation and Wholesale Markets and ESB Networks for €90.7 million (2016: €56.9 million). See note 25 for further details.

Under IFRIC 18, supply contributions are recognised in full upon completion of services rendered in property, plant and equipment in line with the associated capitalised costs.

Impairment
2017
An impairment review has been carried out on assets displaying indications of impairment by comparing the net present value of future cash flows to their net book value as at 31 December 2017 resulting in a charge of €279.4 million (2016: €4.9 million).

The impairment reviews completed on ESB's generation portfolio as part of the year end process have concluded that a number of material impairments are required in 2017 to a total value of €275.6 million, refer to note 4 for further details on these exceptional impairment items.

Other impairments of €3.8 million have also been recognised during the year in relation to property, plant and equipment assets.

2016
An impairment review has been carried out on assets displaying indications of impairment by comparing the net present value of future cash flows to their net book value as at 31 December 2016. A review of the Hunters Hill 20 MW wind farm in Co. Tyrone, Northern Ireland was undertaken at year end. An impairment loss of €4.9 million has been recognised in the income statement in respect of this wind farm. This impairment has arisen as a result of a reduction in load factor.

NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT & EQUIPMENT (continued)

PARENT	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
Cost					
Balance at 1 January 2016	1,166,455	12,534,427	13,700,882	857,190	**14,558,072**
Additions	54,165	61,274	115,439	365,789	**481,228**
Retirements / disposals	(3,324)	(12,122)	(15,446)	-	**(15,446)**
Transfers out of assets under construction	27,336	222,116	249,452	(249,452)	**-**
Transfers to intangible assets	-	-	-	(17,133)	**(17,133)**
Balance at 31 December 2016	1,244,632	12,805,695	14,050,327	956,394	**15,006,721**
Balance at 1 January 2017	1,244,632	12,805,695	14,050,327	956,394	**15,006,721**
Additions	57	254,455	254,512	274,490	**529,002**
Retirements / disposals	(94)	(6,578)	(6,672)	-	**(6,672)**
Transfers out of assets under construction	11,255	363,889	375,144	(375,144)	**-**
Transfers to intangible assets	-	(268)	(268)	(24,283)	**(24,551)**
Balance at 31 December 2017	1,255,850	13,417,193	14,673,043	831,457	**15,504,500**
Depreciation					
Balance at 1 January 2016	671,636	6,784,180	7,455,816	-	**7,455,816**
Charge for the year	18,634	461,428	480,062	-	**480,062**
Retirements / disposals	(1,610)	(11,717)	(13,327)	-	**(13,327)**
Balance at 31 December 2016	688,660	7,233,891	7,922,551	-	**7,922,551**
Balance at 1 January 2017	688,660	7,233,891	7,922,551	-	**7,922,551**
Charge for the year	29,392	496,553	525,945	-	**525,945**
Retirements / disposals	(87)	(6,228)	(6,315)	-	**(6,315)**
Transfers to intangible assets	-	(268)	(268)	-	**(268)**
Impairment	24,764	211,808	236,572	-	**236,572**
Balance at 31 December 2017	742,729	7,935,756	8,678,485	-	**8,678,485**
Net book value at 31 December 2017	**513,121**	**5,481,437**	**5,994,558**	**831,457**	**6,826,015**
Net book value at 31 December 2016	555,972	5,571,804	6,127,776	956,394	**7,084,170**
Net book value at 1 January 2016	494,819	5,750,247	6,245,066	857,190	**7,102,256**

During the year the Parent capitalised interest of €21.7 million (2016: €29.3 million) in assets under construction, using an effective interest rate of 4.6% (2016: 4.0%).

The carrying value of non-depreciable assets (land) at 31 December 2017 is €86.3 million (2016: €82.4 million).

Property, plant and equipment with a net book value of €nil at 31 December 2017 are included above at a cost of €3,199.4 million (2016: €3,184.8 million).

Retirements / disposals in both 2017 and 2016 primarily relate to the retirement of assets that have been fully depreciated.

Included within additions in 2017 is the capitalisation of an increase in the asset retirement provision for Generation and Wholesale Markets and ESB Networks for €66.6 million (2016: €53.5 million). See note 25 for further details.

Under IFRIC 18, supply contributions are recognised in full upon completion of services rendered in property, plant and equipment in line with the associated capitalised costs.

Impairment
2017
An impairment review has been carried out on assets displaying indications of impairment by comparing the net present value of future cash flows to their net book value as at 31 December 2017 resulting in a charge of €236.6 million (2016: €nil).

The impairment reviews completed on ESB's generation portfolio as part of the year end process have concluded that a number of material impairments are required in 2017 to a total value of €232.8 million, refer to note 4 for further details on these exceptional impairment items.

Other impairments of €3.8 million have also been recognised during the year in relation to property, plant and equipment assets.

NOTES TO THE FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS

GROUP	Software and other intangible assets € '000	Emission allowances € '000	Software under development € '000	Total € '000
Cost				
Balance at 1 January 2016	661,932	31,963	33,753	**727,648**
Software additions	4,395	-	36,364	**40,759**
Purchase of emission allowances	-	91,614	-	**91,614**
Software disposals	(2,923)	-	-	**(2,923)**
Software write off	(859)	-	-	**(859)**
Settlement of emission allowances	-	(61,154)	-	**(61,154)**
Transfers out of software under development	14,024	-	(14,024)	**-**
Transfers from property, plant and equipment	28,022	-	-	**28,022**
Translation differences	(28,184)	-	(30)	**(28,214)**
Balance at 31 December 2016	676,407	62,423	56,063	**794,893**
Balance at 1 January 2017	676,407	62,423	56,063	**794,893**
Software additions	1,068	-	56,334	**57,402**
Purchase of emission allowances	-	31,795	-	**31,795**
Software write off	(2,946)	-	-	**(2,946)**
Settlement of emission allowances	-	(65,232)	-	**(65,232)**
Transfers out of software under development	14,031	-	(14,031)	**-**
Transfers from / (to) property, plant and equipment	24,898	-	(1,667)	**23,231**
Translation differences	(6,330)	-	(27)	**(6,357)**
Balance at 31 December 2017	707,128	28,986	96,672	**832,786**
Amortisation				
Balance at 1 January 2016	499,908	-	-	**499,908**
Charge for the year	43,069	-	-	**43,069**
Retirements / disposals	(1,020)	-	-	**(1,020)**
Translation differences	(20,285)	-	-	**(20,285)**
Balance at 31 December 2016	521,672	-	-	**521,672**
Balance at 1 January 2017	521,672	-	-	**521,672**
Charge for the year	39,862	-	-	**39,862**
Transfers from property, plant and equipment	268	-	-	**268**
Translation differences	(4,668)	-	-	**(4,668)**
Balance at 31 December 2017	557,134	-	-	**557,134**
Net book value at 31 December 2017	**149,994**	**28,986**	**96,672**	**275,652**
Net book value at 31 December 2016	154,735	62,423	56,063	**273,221**
Net book value at 1 January 2016	162,024	31,963	33,753	**227,740**

Software assets include both internally developed and externally purchased assets with the majority being represented by internally developed assets.

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

Emission allowances are not amortised as they are held for settlement in the following year.

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

NOTES TO THE FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS (continued)

PARENT	Software and other intangible assets € '000	Emission allowances € '000	Software under development € '000	Total € '000
Cost				
Balance at 1 January 2016	475,924	32,045	31,241	**539,210**
Software additions	3,950	-	30,743	**34,693**
Purchase of emission allowances	-	77,447	-	**77,447**
Software disposals	(2,923)	-	-	**(2,923)**
Settlement of emission allowances	-	(46,987)	-	**(46,987)**
Transfers out of software under development	13,693	-	(13,693)	**-**
Transfers from property, plant and equipment	17,133	-	-	**17,133**
Balance at 31 December 2016	507,777	62,505	48,291	**618,573**
Balance at 1 January 2017	507,777	62,505	48,291	**618,573**
Software additions	80	-	52,167	**52,247**
Purchase of emission allowances	-	13,262	-	**13,262**
Settlement of emission allowances	-	(46,699)	-	**(46,699)**
Transfers out of software under development	13,029	-	(13,029)	**-**
Transfers from / (to) property, plant and equipment	24,606	-	(55)	**24,551**
Balance at 31 December 2017	545,492	29,068	87,374	**661,934**
Amortisation				
Balance at 1 January 2016	379,824	-	-	**379,824**
Charge for the year	32,937	-	-	**32,937**
Retirements / disposals	(1,020)	-	-	**(1,020)**
Balance at 31 December 2016	411,741	-	-	**411,741**
Balance at 1 January 2017	411,741	-	-	**411,741**
Charge for the year	30,366	-	-	**30,366**
Transfers from property, plant and equipment	268	-	-	**268**
Balance at 31 December 2017	442,375	-	-	**442,375**
Net book value at 31 December 2017	**103,117**	**29,068**	**87,374**	**219,559**
Net book value at 31 December 2016	96,036	62,505	48,291	**206,832**
Net book value at 1 January 2016	96,100	32,045	31,241	**159,386**

Software assets include both internally developed and externally purchased assets with the majority being represented by internally developed assets.

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

Emission allowances are not amortised as they are held for settlement in the following year.

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

NOTES TO THE FINANCIAL STATEMENTS

12. GOODWILL

	€ '000
Balance at 1 January 2016	206,759
Translation differences	(29,517)
Balance at 31 December 2016	177,242
Balance at 1 January 2017	**177,242**
Translation differences	**(6,203)**
Balance at 31 December 2017	**171,039**

Goodwill was recognised on the acquisition of Northern Ireland Electricity Networks (NIE Networks) in December 2010. 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 in December 2017 in accordance with IAS 36. No reduction in the value of goodwill was deemed to be required.

The Group calculates the value in use using a 20-year discounted cash flow model and a terminal value based on the Regulated Asset Base (RAB), corresponding to the expected useful life of the underlying asset base. The future cash flows are adjusted for risks specific to the investment and are discounted using a post-tax discount rate of 5.6% (2016: 6.0%).

Key drivers of the discounted cash flow include inflation and regulatory assumptions. Inflation rates used were sourced from the UK Office of Budget Responsibility and Bloomberg and a long-term rate of 3.0% was applied. Assumptions in relation to regulatory return and capital expenditure are made by reference to previous regulatory decisions for NIE Networks. The discount rate used is also a key driver for valuation and the rate was determined by building up an appropriate Weighted Average Cost of Capital (WACC) for the NIE Networks business.

Key drivers also include expectations of future levels of capital spend and the allowed return on the RAB. Both are agreed with the Utility Regulator in Northern Ireland (NIAUR) as part of the Regulatory Price Reviews, the most recent of which, RP6, was published on 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

13. FINANCIAL ASSET INVESTMENTS

GROUP	Equity accounted investments € '000	Financial assets at fair value through profit or loss € '000	**Total € '000**
Balance at 1 January 2016	94,850	62,563	**157,413**
Additions	3,950	6,116	**10,066**
Transfer to other payables	1,121	-	**1,121**
Share of loss	(15,257)	-	**(15,257)**
Fair value movement on cash flow hedges	(3,258)	-	**(3,258)**
Fair value movement – transfer to income statement (note 5)	-	(9,062)	**(9,062)**
Translation differences	(416)	(1,849)	**(2,265)**
Proceeds received on disposal	-	(1,266)	**(1,266)**
Balance at 31 December 2016	80,990	56,502	**137,492**
Balance at 1 January 2017	80,990	56,502	**137,492**
Additions	-	2,565	**2,565**
Disposal of investments	-	(2,268)	**(2,268)**
Transfer from other payables	(3,427)	-	**(3,427)**
Share of loss	(8,293)	-	**(8,293)**
Fair value movement on cash flow hedges	13	-	**13**
Fair value movement – transfer to income statement (note 5)	-	(33,884)	**(33,884)**
Dividends received	(750)	-	**(750)**
Translation differences	(199)	(750)	**(949)**
Balance at 31 December 2017	**68,334**	**22,165**	**90,499**

Equity accounted investees investments
The fair value movement on cash flow hedges for equity accounted investees relates to derivatives held in Raheenleagh Power DAC, Castlepook Power DAC and Tilbury Green Power Holdings Limited which have been designated as cash flow hedging relationships in these entities.

Translation differences for equity accounted investees relate to Tilbury Green Power Holdings Limited as this company's functional currency is sterling.

Name of the company	Country	**Holding 31 December 2017 % of share capital owned**	Holding 31 December 2016 % of share capital owned
SIRO Limited	Republic of Ireland	**50**	50
Raheenleagh Power DAC	Republic of Ireland	**50**	50
Castlepook Power DAC	Republic of Ireland	**50**	50
Oweninny Power DAC	Republic of Ireland	**50**	50
Emerald Bridge Fibres DAC	Republic of Ireland	**50**	50
Kingspan ESB Limited	Great Britain	**50**	50
Tilbury Green Power Holdings Limited	Great Britain	**47**	47
Terra Solar Limited	Republic of Ireland	**25**	25

SIRO Limited (SIRO)
SIRO is an unlisted joint arrangement in which the Group has joint control and a 50% ownership interest. SIRO was founded by the Group with Vodafone Ireland Limited acquiring a 50% stake in November 2014.

Vodafone's acquisition of shares in SIRO was pursuant to a Joint Venture Arrangement (JVA) concluded between both parties.

SIRO is structured as a separate vehicle, is jointly controlled by the Group and Vodafone Ireland Limited and the Group has a residual interest in the net assets of the Company. Accordingly, the Group has classified its interest in SIRO as an equity accounted investee. ESB has committed to provide capital funding to SIRO of €85.0 million, of which €48.0 million has been advanced as a short-term shareholder loan during the year. The Group's share of capital commitments at 31 December 2017 amounts to €35.4 million.

NOTES TO THE FINANCIAL STATEMENTS

13. FINANCIAL ASSET INVESTMENTS (continued)

Raheenleagh Power DAC (Raheenleagh)
The Group is a 50% partner in Raheenleagh, a joint arrangement formed with Coillte Teoranta. The purpose of this joint arrangement is to construct and operate a 35 MW wind farm in Co. Wicklow. The amount invested in Raheenleagh to date amounts to €6.9 million of which €3.1 million was advanced as equity and €3.8 million as shareholder loans.

Raheenleagh is legally separated from the parties and the legal form and the contractual arrangement do not give the parties direct rights to the assets and liabilities of the vehicle. Accordingly, the Group has classified its interest in Raheenleagh as an equity accounted investee as both parties have a residual interest in the net assets of the arrangement.

The Group has entered into a 15 year arrangement with Raheenleagh to purchase physical power from the wind farm. Payments made under this contract are based upon actual production.

Raheenleagh reached commercial operation in 2016.

Castlepook Power DAC (Castlepook)
The Group previously held a 100% interest in Castlepook and accounted for this interest as a fully consolidated subsidiary. During the year ended 31 December 2016, the Group entered into a joint arrangement with Coillte Teoranta and a loss of control event occurred for ESB. The purpose of this joint arrangement is to construct and operate a 33.1 MW wind farm in Co. Cork. In 2016, the Group recorded its remaining 50% equity investment at fair value. No gain or loss arose on the loss of control of subsidiary in 2016. The Group has classified its interest as an equity accounted investee. The Group's share of capital commitments at 31 December 2017 amounts to €9.7 million.

As at 31 December 2017 the amount invested in Castlepook as a shareholder loan to date amounts to €6.9 million.

Oweninny Power DAC (Oweninny)
The Group is a 50% partner in Oweninny, a joint arrangement formed with Bord na Móna. The purpose of this joint arrangement is to develop a 172 MW wind farm located in Bellacorrick, Co. Mayo. As at 31 December 2017 the amount invested in Oweninny as a shareholder loan amounts to €10.8 million. Interest on borrowings receivable to date from Oweninny amounts to €0.7 million (2016: €0.4 million). The Group's share of capital commitments at 31 December 2017 amounts to €16.0 million.

Investment in Oweninny was held at €nil at 31 December 2017.

Emerald Bridge Fibres DAC (EBFD)
The Group is a 50% partner in EBFD, a joint arrangement with ZAYO Group. The purpose of this joint arrangement is the development and provision of telecommunication infrastructure between Ireland and the United Kingdom in the form of a subsea fibre optic cable network. The amount invested in EBFD to date amounts to €4.7 million of which €1.0 million was advanced as equity and €3.7 million as shareholder loans. Interest on borrowings receivable to date from EBFD amounts to €1.8 million (2016: €1.4 million). Loans to EBFD were impaired by €3.9 million at 31 December 2017 (2016: €nil) in relation to EBFD outstanding loans and accrued interest.

Investment in EBFD was held at €nil at 31 December 2017.

Tilbury Green Power Holdings Limited (Tilbury)
The Group is a 47% partner in Tilbury, a joint arrangement formed with Green Investment Bank (47%) and Scandinavian equipment suppliers BWSC and AET (6%). The purpose of this joint arrangement is to construct and operate a waste wood to energy plant in Great Britain.

The amount invested in Tilbury to date amounts to €39.4 million, €2.4 million was advanced as equity and €37.0 million as shareholder loans. Interest on borrowings receivable to date from Tilbury amount to €13.8 million (2016: €8.4 million).

Tilbury is legally separated from the parties and the legal form and the contractual arrangement do not give the parties direct rights to the assets and liabilities of the vehicle. Accordingly, the Group has classified its interest in Tilbury as an equity accounted investee as both parties have a residual interest in the net assets of the arrangement.

The Group has entered into a 15-year arrangement with Tilbury to purchase physical power, renewable obligation certificates and levy exemption certificates from the plant. Payments made under this contract are contingent upon actual production.

Terra Solar Limited
During the year ended 31 December 2016, the Group invested in Terra Solar Limited €2.5 million for a 25% equity shareholding in the company. Terra Solar Limited is a developer of ground mounted solar parks. This investment is classified as an associate and is accounted for using the equity method.

Please refer to note 28 for further information regarding transactions with equity accounted investees for the year ended 31 December 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

13. FINANCIAL ASSET INVESTMENTS (continued)

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

	SIRO Limited		Tilbury Green Power Holdings Limited		Other equity accounted investees[1]	
Summarised income statement	**2017 €'000**	2016 €'000	**2017 €'000**	2016 €'000	**2017 €'000**	2016 €'000
Revenue	**3,172**	409	**-**	-	**10,176**	-
Total (loss) / gain	**(27,861)**	(28,942)	**1,826**	395	**2,645**	(2,010)
Group share of (loss) / gain	**(13,931)**	(14,471)	**858**	186	**4,780**	(972)
Group share of fair value movement on cash flow hedges	**-**	-	**(593)**	(1,956)	**606**	(1,302)
Total comprehensive (loss) / gain	**(13,931)**	(14,471)	**265**	(1,770)	**5,386**	(2,274)
Summarised balance sheet	**2017 €'000**	2016 €'000	**2017 €'000**	2016 €'000	**2017 €'000**	2016 €'000
Cash	**11,787**	10,558	**25,891**	13,744	**11,139**	11,694
Current assets	**7,937**	4,090	**5,569**	2,439	**6,303**	2,332
Non-current assets	**236,530**	168,647	**199,792**	176,362	**111,958**	81,682
Current liabilities	**(129,191)**	(29,133)	**(3,261)**	(3,202)	**(2,750)**	(413)
Non-current liabilities	**(760)**	-	**(226,192)**	(187,803)	**(118,759)**	(90,005)
Net assets	**126,303**	154,162	**1,799**	1,540	**7,891**	5,290

Reconciliation of the above amounts to the investment recognised in the consolidated statement of financial position.

Group equity interest	**50%**	50%	**47%**	47%		
Net assets	**126,303**	154,162	**1,799**	1,540	**7,891**	5,290
Group share	**63,151**	77,081	**845**	724	**3,153**	1,909
Other adjustments	**(454)**	(454)	**-**	-	**1,639**	1,730
Carrying value of Group's equity interest	**62,697**	76,627	**845**	724	**4,792**	3,639

[1] Other equity accounted investees' includes ESB's 50% share in Emerald Bridge Fibres DAC, Kingspan ESB Limited, Raheenleagh Power DAC, Oweninny Power DAC, Castlepook Power DAC and 25% share in Terra Solar Limited.

Interest in financial assets held at fair value through profit and loss

The Group owns a venture capital fund, 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 an investment in VantagePoint clean energy fund. These investments have been fair valued at the year end and the movement is reflected in the income statement. The fair value movements in both 2017 and 2016 primarily relate to adjustments to the value of certain investments in the fund.

At 31 December 2017, the Group could be called upon by its partners in the VantagePoint fund to make a further €0.5 million (2016: €0.5 million) investment in the fund.

PARENT	**Equity accounted investments[2] € '000**	**Subsidiary undertakings € '000**
Balance at 1 January 2016	100,000	61,782
Balance at 31 December 2016	100,000	61,782
Balance at 1 January 2017	**100,000**	**61,782**
Balance at 31 December 2017	**100,000**	**61,782**

[2] The amounts included reflect the Group's investment in the share capital of equity accounted investments, other amounts due from equity accounted investees are included in trade and other receivables (note 15).

NOTES TO THE FINANCIAL STATEMENTS

14. INVENTORIES

	GROUP		PARENT	
	2017 € '000	2016 € '000	**2017 € '000**	2016 € '000
Materials	**50,319**	31,665	**25,016**	8,878
Fuel	**58,821**	41,507	**51,948**	34,298
Construction work in progress	**12,845**	-	**-**	-
Total	**121,985**	73,172	**76,964**	43,176

Inventories consumed during the year ended 31 December 2017 totalled €145.6 million (2016: €115.9 million). There were no inventory impairments recognised during the year (2016: €nil).

Construction work in progress includes property assets which are being constructed for resale and stated at the lower of cost and net realisable value.

15. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2017 € '000	2016 € '000	**2017 € '000**	2016 € '000
Current receivables:				
Retail electricity receivables - billed	**54,902**	69,990	**43,093**	50,728
Retail electricity receivables - unbilled	**187,600**	182,968	**139,777**	131,352
Total retail electricity receivables	**242,502**	252,958	**182,870**	182,080
SEM pool related receivables	**72,304**	69,633	**47,039**	44,181
Use of System receivables (including unbilled)	**252,158**	238,386	**40,528**	40,426
Other electricity receivables	**18,230**	24,030	**2,935**	3,439
Total electricity receivables	**585,194**	585,007	**273,372**	270,126
Trade receivables - non-electricity	**56,388**	59,428	**12,585**	11,485
Amounts due from equity accounted investees	**68,278**	4,751	**55,935**	4,751
Other receivables	**34,753**	82,575	**12,645**	10,762
Amounts due from subsidiary undertakings	**-**	-	**2,284,311**	2,766,885
Prepayments	**39,368**	38,320	**27,153**	27,972
Total	**783,981**	770,081	**2,666,001**	3,091,981

	GROUP		PARENT	
	2017 € '000	2016 € '000	**2017 € '000**	2016 € '000
Non-current receivables:				
Trade receivables - non-electricity	**196**	196	**-**	-
Amounts due from equity accounted investees	**74,740**	69,799	**-**	-
Total	**74,936**	69,995	**-**	-

Wholesale and retail credit risk

Trade and other receivables can be divided into final retail electricity customers (billed and unbilled), SEM pool related receivables, Use of System receivables, other (non-electricity) receivables and equity accounted investees.

The maximum credit exposure of the Group at 31 December is set out on the following page. Prepayments of €39.4 million (2016: €38.3 million) are excluded from the analysis as no credit exposure is perceived in relation to these. In the case of the Parent, balances stated in the following table also exclude amounts due from subsidiary undertakings of €2,284.3 million (2016: €2,766.9 million). A credit risk analysis was carried out during the year on amounts due from subsidiary undertakings and an impairment provision of €330.9 million was recognised for the year end 31 December 2017 (2016: €nil).

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES (continued)

GROUP	2017 Gross amount receivable € '000	2017 Impairment provisions € '000	2017 Net amount receivable € '000	2016 Gross amount receivable € '000	2016 Impairment provisions € '000	2016 Net amount receivable € '000
Not past due	**751,994**	**(2,058)**	**749,936**	732,547	(653)	731,894
Past due < 30 days	**34,821**	**(3,339)**	**31,482**	44,780	(1,380)	43,400
Past due 30 - 120 days	**17,539**	**(5,272)**	**12,267**	15,662	(2,154)	13,508
Past due > 120 days	**24,725**	**(10,711)**	**14,014**	23,918	(16,781)	7,137
Past due by more than one year	**29,364**	**(17,514)**	**11,850**	29,955	(24,138)	5,817
Total	**858,443**	**(38,894)**	**819,549**	846,862	(45,106)	801,756

PARENT	2017 Gross amount receivable € '000	2017 Impairment provisions € '000	2017 Net amount receivable € '000	2016 Gross amount receivable € '000	2016 Impairment provisions € '000	2016 Net amount receivable € '000
Not past due	**310,176**	**(1,729)**	**308,447**	251,607	(653)	250,954
Past due < 30 days	**30,768**	**(3,339)**	**27,429**	34,668	(702)	33,966
Past due 30 - 120 days	**8,181**	**(3,684)**	**4,497**	9,547	(1,094)	8,453
Past due > 120 days	**21,772**	**(10,711)**	**11,061**	19,176	(15,985)	3,191
Past due by more than one year	**15,650**	**(12,547)**	**3,103**	18,286	(17,726)	560
Total	**386,547**	**(32,010)**	**354,537**	333,284	(36,160)	297,124

Management does not expect any significant losses of receivables that have not been provided for as shown above. 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 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 2017 € '000	GROUP 2016 € '000	PARENT 2017 € '000	PARENT 2016 € '000
Balance at 1 January	**45,106**	55,537	**36,160**	45,245
Impairment loss recognised (net)	**8,259**	14,439	**10,179**	14,706
Provision utilised	**(14,454)**	(24,498)	**(14,329)**	(23,791)
Translation differences	**(17)**	(372)	**-**	-
Balance at 31 December	**38,894**	45,106	**32,010**	36,160

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. 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 obtaining of publication of judgements.

The impairment provisioning policy in relation to retail electricity receivables is based on the historical experience of debts written off. 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 additional anticipated 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 not on direct debit arrangements. The largest single billed retail balance outstanding at 31 December 2017 was €112,000 (2016: €135,000).

Controls around electricity receivables are focused on the full recovery of amounts invoiced. In 2017, electricity receivables to the value of €38.8 million (2016: €45.1 million) were provided for at year end. The single largest customer amount written off during the year was €36,000 (2016: €48,000) relating to a customer that went into liquidation. Retail electricity receivables arise largely in the Republic of Ireland (ROI), with 5% (2016: 4%) relating to Northern Ireland (NI) revenue.

Unbilled electricity receivables represent estimates of consumption not yet invoiced.

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES (continued)

Single electricity market (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.

Use of System receivables

Use of System income in ROI comprises of Distribution Use of System (DUoS) income, Transmission Use of System (TUoS) income and operation and maintenance (O&M) charges for generators connected to the Distribution System. The credit terms for DUoS are 10 business days and there are currently 35 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. Invoices were issued in respect of 172 generators during 2017 for operation and maintenance charges. 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. The credit terms for these invoices are 30 business days. Included in amounts due from subsidiary undertakings in Parent are amounts billed and collected through Networks DAC, a subsidiary of the Parent in respect of Use of System receivables €65.2 million (2016: €70.4 million).

The credit risk in relation to DUoS is managed by the invocation of section 7 of the DUoS Framework Agreement approved by CRU on 1 August 2002. This section provides for the provision of security by each supplier. Before a supplier can register a customer they must sign up to the DUoS agreement. All suppliers must provide security in accordance with section 7.2. The DUoS credit risk is also managed through the timely collection procedures in place which are in line with what is outlined in section 6 of the DUoS Framework Agreement and the monitoring of debtor days to keep these to a minimum. In the event of a supplier defaulting in line with section 7 of the DUoS Framework Agreement there is security cover in place for all suppliers.

TUoS credit risk is managed through the timely collection procedures in place and the monitoring of debtor days to keep these to a minimum. Procedures for the payment by EirGrid of TUoS income due to ESB Networks as TAO are governed by the Infrastructure Agreement between EirGrid and ESB. This is not a normal bilateral contract freely entered into by the will of 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 2017 was €40.5 million (2016: €40.4 million), which is the largest Use of System receivable balance in ROI.

In respect of the Networks business in NI, revenue is derived principally from charges for use of the distribution system, PSO charges levied on electricity suppliers and charges for transmission services levied on SONI. 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 NI at 31 December 2017 is €9.6 million (2016: €10.4 million).

Other electricity receivables

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

Trade and other receivables - non-electricity

Trade receivables (non-electricity) relate to balances due in respect of the Group's non-electricity trading and other operations. It includes amounts due in respect of the Group's telecommunications, consultancy, facility management and other ancillary operations. Credit risk with regard to these balances is not considered to be significant. The largest single balance included within this category at 31 December 2017 is an amount of €3.4 million (2016: €6.0 million) due from an external company.

16. CASH AND CASH EQUIVALENTS

	GROUP 2017 € '000	GROUP 2016 € '000	PARENT 2017 € '000	PARENT 2016 € '000
Cash at bank and in hand	**380,405**	363,624	**208,499**	235,991

NOTES TO THE FINANCIAL STATEMENTS

17. CHANGES IN EQUITY

(i) Capital stock

There are 1,975,181,852 units of capital stock in issue at a par value of €1.00 each (2016: 1,979,881,855 units).

	2017 € '000	2016 € '000
Comprised as:		
Stock issued from converted reserves	**1,880,888**	1,880,888
Stock issued for subscription by ESOT	**94,294**	98,994
Total	**1,975,182**	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, Climate Action and Environment, 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, establishes 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) Capital redemption reserve

In May 2015, the ESB Board approved an ESOP market liquidity proposal. The objective of the proposal is to improve liquidity in the Employee Share Ownership Plan (ESOP) market whereby the ESOP Trustee is committing to spend €25.0 million of funds to acquire capital stock in the ESOP internal market. ESB will match the expenditure committed by the ESOP Trustee in the period 2014–2018.

During 2017, ESB commenced the repurchase of the ESOP capital stock and consequently a capital redemption reserve arose from the purchase and cancellation of own share capital (€4.7 million) for a consideration of €5.6 million and represents the nominal amount of the share capital cancelled (note 30).

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

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

(iv) Other reserves

Group other reserves include the following:

- Reserve of €nil (2016: €33.2 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009 which was fully transferred to retained earnings during the year;
- Non-distributable reserves of (€5.0) million which was created on the sale of the Group's share in Ocean Communications Limited in 2001;
- Actuarial movements on the NIE Networks defined benefit scheme, net of the related deferred tax adjustments, totalling (€220.9) million (2016: (€228.6) million); and
- ESOP repurchase provision of (€15.9) million (2016: (€19.1) million) which relates to the amount that ESB has committed at 31 December 2017 to repurchase from the ESOP internal market.

Parent other reserves include the following:

ESOP repurchase provision of (€15.9) million (2016: (€19.1) million) which relates to the amount that ESB has committed at 31 December 2017 to repurchase from the ESOP internal market.

(v) Non-controlling interest - Group

Non-controlling interests at 31 December 2017 relate to the minority shareholdings in Crockahenny Wind Farm DAC, Mountain Lodge Power DAC, Airvolution Energy Limited and wind farms associated with Coriolis Energy.

(vi) Dividends

GROUP	2017 € '000	2016 € '000
Dividends on capital stock:		
Total dividend paid 5.85 (2016: 4.37) cents per capital stock unit	**115,624**	86,490
Dividend to non-controlling interest	**170**	-
Total	**115,794**	86,490

PARENT	2017 € '000	2016 € '000
Dividends on capital stock:		
Total dividend paid 5.85 (2016: 4.37) cents per capital stock unit	**115,624**	86,490
Total	**115,624**	86,490

Total dividends paid during 2017 amounted to €115.6 million and include a final dividend of €60.2 million (3.05 cent per unit of stock) in respect of 2016 and an interim dividend, declared and paid, of €55.4 million (2.80 cent per unit of stock).

The Board is now recommending that a final dividend of 0.23 cent per unit of capital stock, or €4.6 million in aggregate, in accordance with the dividend policy of 40% of adjusted profit after tax agreed with the government.

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION

(a) Income tax expense	2017 € '000	2016 € '000
Current tax expense		
Current tax	**25,777**	25,544
Prior year over provision	**(2,571)**	(7,472)
Value of tax losses surrendered to equity accounted investees	**2,568**	168
	25,774	18,240
Deferred tax expense		
Origination and reversal of temporary differences	**(9,634)**	(8,467)
Reduction in tax rate[3]	**-**	(9,268)
Prior year under provision	**5,838**	6,949
	(3,796)	(10,786)
Total	**21,978**	7,454

Reconciliation of effective tax rate	2017 € '000	2016 € '000
(Loss) / profit before tax	**(9,932)**	193,645
Plus: after tax share of equity accounted investees	**8,293**	15,257
(Loss) / profit before tax (excluding equity accounted investees loss)	**(1,639)**	208,902
Taxed at 12.5%	**(205)**	26,113
Expenses not deductible	**18,702**	6,031
Deferred tax asset on IDC previously unrecognised[1]	**-**	(6,005)
Income not taxable[2]	**(3,212)**	(1,656)
Capital gains on development land	**271**	-
Income taxed at higher rate of corporation tax	**129**	603
Higher tax rates on overseas profits / (losses)	**3,026**	(11,655)
Impact of reduced rate of UK tax on deferred tax[3]	**-**	(5,240)
Revisions to prior year estimates	**3,267**	(523)
Other items	**-**	(214)
Income tax expense	**21,978**	7,454

[1] This relates to a deduction on interest during construction (IDC) in respect of property, plant and equipment previously not recognised.

[2] This relates to disposals of shares in wind farm companies in the UK that qualified for substantial shareholding relief.

[3] The 2016 Budget for the UK included the provision that the UK corporation tax rate will reduce to 17% over a period up to 2020. The reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 15 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2017 has been calculated based on the rate of 17% (2016: 17%) substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

(b) Deferred tax assets and liabilities

GROUP	2017 € '000	2016 € '000
Deferred tax assets		
Property, plant and equipment and intangible assets	**2,176**	1,703
Liability – NIE Networks pension scheme	**24,330**	28,904
Liability – ESB pension scheme	**49,290**	65,601
Provisions	**1,985**	3,136
Tax losses forward	**6,191**	9,415
Derivative financial instruments	**94,688**	91,982
Total deferred tax assets	**178,660**	200,741
Deferred tax liabilities		
Property, plant and equipment and intangible assets	**645,987**	680,132
Provisions	**6,703**	796
Derivative financial instruments	**23,983**	27,334
Capital gains tax	**1,180**	1,180
Total deferred tax liabilities	**677,853**	709,442
Net deferred tax liability	**(499,193)**	(508,701)

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

2017	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Translation differences € '000	**Balance at 31 December € '000**
ASSETS					
Property, plant and equipment and intangible assets	1,703	473	-	-	**2,176**
Liability – NIE Networks pension scheme	28,904	(2,985)	(1,589)	-	**24,330**
Liability – ESB pension scheme	65,601	(16,311)	-	-	**49,290**
Provisions	3,136	(1,151)	-	-	**1,985**
Tax losses forward	9,415	(3,224)	-	-	**6,191**
Derivative financial instruments	91,982	(212)	5,553	(2,635)	**94,688**
Total deferred tax assets	200,741	(23,410)	3,964	(2,635)	**178,660**
LIABILITIES					
Property, plant and equipment and intangible assets	680,132	(36,698)	-	2,553	**645,987**
Provisions	796	5,907	-	-	**6,703**
Derivative financial instruments	27,334	3,586	(3,355)	(3,582)	**23,983**
Capital gains tax	1,180	-	-	-	**1,180**
Total deferred tax liabilities	709,442	(27,205)	(3,355)	(1,029)	**677,853**
Net deferred tax (liability) / asset	**(508,701)**	**3,795**	**7,319**	**(1,606)**	**(499,193)**

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

(b) Deferred tax assets and liabilities (continued)

GROUP (continued)

2016	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Translation differences € '000	Balance at 31 December € '000
ASSETS					
Property, plant and equipment and intangible assets	1,753	(50)	-	-	1,703
Liability – NIE Networks pension scheme	25,556	(6,491)	9,839	-	28,904
Liability – ESB pension scheme	87,266	(21,665)	-	-	65,601
Provisions	3,663	(527)	-	-	3,136
Tax losses forward	6,151	3,264	-	-	9,415
Derivative financial instruments	82,857	22,658	(1,866)	(11,667)	91,982
Total deferred tax assets	207,246	(2,811)	7,973	(11,667)	200,741
LIABILITIES					
Property, plant and equipment and intangible assets	731,414	(30,846)	-	(20,436)	680,132
Provisions	166	630	-	-	796
Derivative financial instruments	18,322	16,619	9,034	(16,641)	27,334
Capital gains tax	1,180	-	-	-	1,180
Total deferred tax liabilities	751,082	(13,597)	9,034	(37,077)	709,442
Net deferred tax (liability) / asset	(543,836)	10,786	(1,061)	25,410	(508,701)

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

Deferred tax has not been provided for in relation to unremitted reserves of the Group's overseas subsidiaries for two reasons; either there is no commitment for these reserves to be distributed in the foreseeable future or it has been established that no tax would arise on the remittance. Deferred tax has not been provided for in relation to unremitted reserves of the Group's overseas joint ventures as the Group has the ability to control the repatriation of these reserves to the Republic of Ireland. Cumulative unremitted reserves of overseas subsidiaries and joint ventures totalled €538.0 million (2016: €546.0 million) as at 31 December 2017.

PARENT	2017 € '000	2016 € '000
Deferred tax assets		
Liability – ESB pension scheme	**49,291**	65,602
Provisions	**17,870**	2,358
Derivative financial instruments	**7,413**	-
Total deferred tax assets	**74,574**	67,960
Deferred tax liabilities		
Property, plant and equipment	**439,247**	464,569
Derivative financial instruments	**3,733**	2,624
Capital gains tax	**1,180**	1,180
Total deferred tax liabilities	**444,160**	468,373
Net deferred tax liability	**(369,586)**	(400,413)

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

(b) Deferred tax assets and liabilities (continued)

PARENT (continued)

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

2017	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	**Balance 31 December € '000**
ASSETS				
Liability – ESB pension scheme	65,602	(16,311)	-	**49,291**
Provisions	2,358	15,512	-	**17,870**
Derivative financial instruments	-	-	7,413	**7,413**
Total deferred tax assets	67,960	(799)	7,413	**74,574**
LIABILITIES				
Property, plant and equipment	464,569	(25,322)	-	**439,247**
Derivative financial instruments	2,624	-	1,109	**3,733**
Capital gains tax	1,180	-	-	**1,180**
Total deferred tax liabilities	468,373	(25,322)	1,109	**444,160**
Net deferred tax (liability) / asset	**(400,413)**	**24,523**	**6,304**	**(369,586)**

2016	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Balance at 31 December € '000
ASSETS				
Liability – ESB pension scheme	87,267	(21,665)	-	65,602
Provisions	2,684	(326)	-	2,358
Derivative financial instruments	7,635	-	(7,635)	-
Total deferred tax assets	97,586	(21,991)	(7,635)	67,960
LIABILITIES				
Property, plant and equipment	457,649	6,920	-	464,569
Derivative financial instruments	-	-	2,624	2,624
Capital gains tax	1,180	-	-	1,180
Total deferred tax liabilities	458,829	6,920	2,624	468,373
Net deferred tax (liability) / asset	(361,243)	(28,911)	(10,259)	(400,413)

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT

GROUP	Recourse borrowings € '000	Non-recourse borrowings € '000	**2017 Total € '000**	2016 Total € '000
Current borrowings				
- Repayable by instalments	78,665	18,094	**96,759**	117,003
- Repayable other than by instalments	91,705	199,609	**291,314**	372,327
Total current borrowings	170,370	217,703	**388,073**	489,330
Non-current borrowings				
- Repayable by instalments				
Between one and two years	76,019	43,617	**119,636**	100,147
Between two and five years	204,588	237,668	**442,256**	349,964
After five years	355,687	145,297	**500,984**	738,559
	636,294	426,582	**1,062,876**	1,188,670
- Repayable other than by instalments				
Between one and two years	432,485	-	**432,485**	303,430
Between two and five years	349,259	-	**349,259**	825,237
After five years	2,076,243	448,842	**2,525,085**	2,080,776
	2,857,987	448,842	**3,306,829**	3,209,443
Total non-current borrowings	3,494,281	875,424	**4,369,705**	4,398,113
Total borrowings outstanding	3,664,651	1,093,127	**4,757,778**	4,887,443

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

Current borrowings by facility	**Ref**	**2017 € '000**	2016 € '000
ESB Eurobonds	1	**-**	299,854
Non-recourse long-term project finance debt	2	**18,094**	28,721
Non-recourse NIE Networks Eurobonds	3	**199,609**	-
Long-term bank borrowings	4	**78,665**	86,182
Private placement borrowings	5	**91,705**	40,860
Non-recourse short-term project finance debt (Airvolution)	6	**-**	33,713
		388,073	489,330

Non-current borrowings by facility	**Ref**	**2017 € '000**	2016 € '000
ESB Eurobonds	1	**2,334,037**	1,844,868
Non-recourse long-term project finance debt	2	**426,582**	459,845
Non-recourse NIE Networks Eurobonds	3	**448,842**	677,718
Long-term bank borrowings	4	**636,294**	728,825
Private placement borrowings	5	**523,950**	686,857
		4,369,705	4,398,113

With the exception of borrowings relating to non-recourse project finance debt, which is secured against specific assets, none of the borrowings are secured against the Group assets.

ESB was rated A- from Standard & Poor's (outlook stable), BBB+ from Fitch (outlook stable) and A3 (equivalent to BBB+) from Moody's (outlook stable).

1. ESB Eurobonds

The table below provides details of ESB Eurobonds included in borrowings at 31 December 2017:

Issuer	Value	Issue Date	Tenor	Coupon
ESB Finance DAC	Stg£275.0 million	March 2010	10 years	6.500%
ESB Finance DAC	Euro €215.2 million	November 2012	7 years	4.375%
ESB Finance DAC	Euro €300.0 million	November 2013	10 years	3.494%
ESB Finance DAC	Euro €500.0 million	June 2015	12 years	2.125%
ESB Finance DAC	Euro €600.0 million	June 2016	15 years	1.875%
ESB Finance DAC	Euro €500.0 million	January 2017	12 years	1.750%

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

2. Non-recourse long-term project finance debt
In September 2012 Carrington Power Limited (CPL), a 100% owned subsidiary of ESB, completed the financial close of an 885 MW 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£396.0 million (2016: Stg£420.1 million) debt was drawn at the year end. The plant entered commercial operation in September 2016 marking the end of construction. The remainder of this debt is in relation to a wind farm in Great Britain (GB).

3. Non-recourse NIE Networks Eurobonds
As part of the acquisition of NIE Networks, 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 Finance PLC, a subsidiary company of Northern Ireland Electricity Networks Limited issued a Stg£400.0 million 15 year sterling bond with a fixed coupon of 6.375%.

4. Long-term bank borrowings
Long-term bank borrowings include €35.2 million (2016: €113.2 million) of floating rate debt borrowed on a bilateral basis, while the remainder is fixed interest debt.

A €1.44 billion revolving credit facility with a syndicate of 14 banks to draw down bank finance as required up to February 2022 is available to the Group. This facility is undrawn at 31 December 2017.

The facility signed in December 2013 with the European Investment Bank (EIB) to support renewable connections to the electricity network in the southwest of Ireland was increased by a further €100.0 million in October 2014, bringing the total value of the facility up to €200.0 million dependent on the completion of certain specified capital expenditure. At 31 December 2017, €100.0 million of the EIB facility has been drawn down.

5. 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 31 December 2017 comprise US$370.0 million, maturing on dates between 2018 and 2023, and Stg£20.0 million, maturing on dates between 2018 and 2023.

The second private placement senior unsecured notes were issued in June 2009. These notes were issued in US dollars, sterling and euro and at 31 December 2017 comprise US$226.0 million, maturing in 2019, Stg£50.0 million maturing in 2021 and €40.0 million maturing in 2019. Stg£35.0 million of this debt was repaid in June 2017 as scheduled.

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants. At 31 December 2017 ESB is fully in compliance with all the covenant requirements associated with the private placement debt and other facilities.

6. Non-recourse short-term project finance debt
Short-term non-recourse project funding of Stg£33.7 million at 31 December 2016 was repaid during the year. This was in relation to the financing of certain Airvolution projects.

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 (UK), as outlined below:

Sterling denominated loans designated as a hedge of Group's investment in subsidiary	2017 € '000	2016 € '000
Value at 1 January	**44,563**	64,981
Repayments in year	**(10,872)**	(11,892)
Gain on translation to euro	**(1,437)**	(8,526)
Value at 31 December	**32,254**	44,563
Loss on translation of intragroup euro loan to subsidiary (taken to OCI)	**(1,024)**	(5,522)

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

PARENT	Recourse borrowings 2017 Total € '000	2016 Total € '000
Current borrowings		
- Repayable by instalments	**78,665**	94,097
- Repayable other than by instalments	**91,705**	38,761
Total current borrowings	**170,370**	132,858
Non-current borrowings		
- Repayable by instalments		
Between one and two years	**76,019**	81,432
Between two and five years	**204,588**	225,576
After five years	**355,687**	421,816
	636,294	728,824
- Repayable other than by instalments		
Between one and two years	**228,370**	101,080
Between two and five years	**56,337**	308,458
After five years	**239,207**	271,005
	523,914	680,543
Total non-current borrowings	**1,160,208**	1,409,367
Total borrowings outstanding	**1,330,578**	1,542,225

(a) 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, or pre-hedge, any funding requirements arising from maturing debt, capital expenditure and general business requirements.

At 31 December 2017 the Group had over €1.9 billion 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 €83.0 million (which may be increased to €100.0 million) and can only be drawn against certain specified 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 both 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:

Maturing	Drawn Debt - Group 2017 € '000	2016 € '000	Drawn Debt - Parent 2017 € '000	2016 € '000	Undrawn Facility - Group and Parent 2017 € '000	2016 € '000
In one year or less	**388,073**	489,330	**170,370**	132,858	**83,000**	68,000
Between one and two years	**552,121**	403,577	**304,389**	182,512	**-**	-
Between two and five years	**791,515**	1,175,201	**260,914**	534,034	**1,440,000**	1,440,000
In more than five years	**3,026,069**	2,819,335	**594,905**	692,821	**-**	-
	4,757,778	4,887,443	**1,330,578**	1,542,225	**1,523,000**	1,508,000

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

(a) Funding and liquidity management (continued)

The following table sets out the contractual maturities of Group borrowings, including the associated interest payments. Borrowings with a carrying value of €3,427.2 million (2016: €3,345.2 million) are included in the Group balances below.

	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 2017						
Recourse borrowings	3,664,651	4,521,673	301,975	633,290	798,694	2,787,714
Non-recourse borrowings	1,093,127	1,457,536	279,576	87,741	362,354	727,865
Total borrowings	**4,757,778**	**5,979,209**	**581,551**	**721,031**	**1,161,048**	**3,515,579**
31 December 2016						
Recourse borrowings	3,687,446	4,604,196	578,658	311,442	1,330,971	2,383,125
Non-recourse borrowings	1,199,997	1,585,898	115,081	273,342	240,911	956,564
Total borrowings	4,887,443	6,190,094	693,739	584,784	1,571,882	3,339,689

(b) Interest rate risk management

The Group's interest rate policy was updated in 2017 and the target 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. This is achieved either by borrowing directly at fixed interest rates or via interest rate swaps. At 31 December 2017, 99.3% of the Group's debt was fixed to maturity or inflation linked (2016: 96%). The fair value of interest rate swaps is disclosed in note 20.

In respect of interest bearing 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)	**6.4**	**615,655**	91,705	228,370	56,337	239,243
Non-recourse borrowings (fixed interest rate)	**5.6**	**1,093,127**	217,703	43,617	237,668	594,139
Other long-term borrowings (fixed and variable interest rate)	**3.1**	**3,048,996**	78,665	280,134	497,510	2,192,687

Included within other long-term borrowings in this analysis are floating rate liabilities of €35.2 million (2016: €113.2 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 Stg£412.2 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 2017 would be 2.3%, 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.

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

(b) Interest rate risk management (continued)

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 2017		31 December 2016	
	50 bp increase gain / (loss) € '000	50 bp decrease gain / (loss) € '000	50 bp increase gain / (loss) € '000	50 bp decrease gain / (loss) € '000
(Loss) / Profit before taxation				
Interest payable	**(1,031)**	**845**	(566)	566
Fair value movements on financial instruments	**64,415**	**(69,087)**	64,808	(62,624)
Other comprehensive income				
Fair value gains / (losses)	**10,498**	**(10,498)**	12,680	(12,680)

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 financial 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.

(c) Reconciliation of external borrowings

GROUP

2017 **Debt Facilities**	Balance at 1 January € '000	Cash flows € '000	Disposal of subsidiary € '000	Effects of foreign exchange € '000	Other € '000	**Balance at 31 December € '000**
ESB Eurobonds	2,144,722	191,253	-	(11,233)	9,295	**2,334,037**
Non-recourse long-term project finance debt	488,566	(28,013)	-	(18,895)	3,018	**444,676**
Non-recourse NIE Networks Eurobonds	677,718	-	-	(23,488)	(5,779)	**648,451**
Long-term bank borrowings	815,007	(93,682)	-	(7,658)	1,292	**714,959**
Private placement borrowings	727,717	(39,803)	-	(72,389)	130	**615,655**
Non-recourse short-term project finance debt (Airvolution)	33,713	18,260	(54,270)	(1,979)	4,276	-
Total	**4,887,443**	**48,015**	**(54,270)**	**(135,642)**	**12,232**	**4,757,778**

PARENT

2017 **Debt Facilities**	Balance at 1 January € '000	Cash flows € '000	Disposal of subsidiary € '000	Effects of foreign exchange € '000	Other € '000	**Balance at 31 December € '000**
Long-term bank borrowings	814,508	(93,682)	-	(7,658)	1,755	**714,923**
Private placement borrowings	727,717	(39,803)	-	(72,389)	130	**615,655**
Total	**1,542,225**	**(133,485)**	-	**(80,047)**	**1,885**	**1,330,578**

NOTES TO THE FINANCIAL STATEMENTS

20. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Fair value by class of derivative financial instrument

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 and reflecting counterparty credit risk. 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.

The fair values of financial instruments, grouped by class of instrument, are as follows:

			2017		
GROUP	Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	**Total € '000**
Interest rate swaps	10,296	-	(31,699)	(8,021)	**(29,424)**
Inflation linked interest rate swaps	-	-	(563,571)	(89,605)	**(653,176)**
Currency swaps	24,066	10	(37,508)	(5,749)	**(19,181)**
Foreign exchange contracts	8,472	5,799	(180)	(2,030)	**12,061**
Forward fuel price contracts	2,860	57,608	(4,867)	(31,123)	**24,478**
Forward electricity price contracts	39,383	53,950	-	-	**93,333**
	85,077	**117,367**	**(637,825)**	**(136,528)**	**(571,909)**

			2016		
	Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	Total € '000
Interest rate swaps	15,240	661	(40,533)	(9,127)	(33,759)
Inflation linked interest rate swaps	-	-	(681,981)	(16,491)	(698,472)
Currency swaps	61,289	-	(10,270)	-	51,019
Foreign exchange contracts	9,969	7,715	(619)	(16,185)	880
Forward fuel price contracts	27,042	104,343	(10,236)	(47,633)	73,516
Forward electricity price contracts	70,459	90,473	(10,329)	(10,350)	140,253
	183,999	203,192	(753,968)	(99,786)	(466,563)

			2017		
PARENT	Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	**Total € '000**
Interest rate swaps	1,857	-	-	-	**1,857**
Currency swaps	24,066	10	(37,508)	(5,749)	**(19,181)**
Foreign exchange contracts	1,018	4,401	(180)	(2,018)	**3,221**
Forward fuel price contracts	2,663	54,183	(3,069)	(31,123)	**22,654**
	29,604	**58,594**	**(40,757)**	**(38,890)**	**8,551**

			2016		
	Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	Total € '000
Interest rate swaps	2,738	90	-	-	2,828
Currency swaps	61,289	-	(10,270)	-	51,019
Foreign exchange contracts	4,379	7,590	(619)	(16,185)	(4,835)
Forward fuel price contracts	13,768	92,281	(10,144)	(46,783)	49,122
Forward electricity price contracts	-	38,681	-	(2,161)	36,520
	82,174	138,642	(21,033)	(65,129)	134,654

With the exception of inflation linked interest rate swaps, the majority of the derivative balances shown in the tables above 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.

NOTES TO THE FINANCIAL STATEMENTS

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Fair value by class of derivative financial instrument (continued)

(i) Interest rate swaps

The Group has executed interest rate swaps of Stg£780.7 million in connection with certain of its borrowings, including project finance debt secured by Carrington Power Limited and West Durham Wind Farm Limited, fixed rate borrowings held by the Parent and ESB Finance DAC and debt held in other wind farms assets within the Group. These have all been classified as cash flow hedges.

For interest rate swaps, the fair value takes into account the fixed, floating and market rates prevailing at the balance sheet date. As interest rate swaps are marked to market at 31 December 2017, their carrying value is equal to their fair value.

Total movements (inclusive of receipts, payments and fair value movements) of €4.3 million gain (2016: losses of €6.2 million) were recognised during the year in relation to interest rate swaps, of which a loss of €3.0 million was recognised directly in finance costs in the income statement, with a gain of €7.3 million recognised in other comprehensive income (OCI) (2016: gains of €8.2 million recognised in finance costs and losses of €14.4 million recognised in OCI).

(ii) Inflation linked interest rate swaps

Inflation linked interest rate swaps with a fair value liability on acquisition of €272.5 million were acquired in December 2010 as part of the purchase of the NIE Networks business. The inflation linked interest rate swaps did not qualify for hedge accounting under IAS 39 on acquisition of the NIE Networks business. The fair value of the inflation linked interest rate swaps is affected by relative movements in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom (UK).

Arising from movements in forward interest rates, UK RPI forward prices, foreign currency exchange rates and payments during the year, fair value reduced by €45.3 million on these swaps in the year ended 31 December 2017 (2016: fair value decrease of €64.4 million). Positive fair value movements in the underlying swaps of €3.7 million (2016: negative movement €187.6 million), reflected in finance costs in the income statement (note 7), which includes payments of €16.8 million (2016: €15.9 million) arising under the swaps during the year. In addition positive translation movements of €41.6 million (2016: €123.2 million) during the year on translation of the swaps from sterling to euro are reflected in the OCI.

(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.

Ineffectiveness under the meaning of IAS 39 arose on the currency swaps during the year resulting in the recognition of a charge of €0.1 million (2016: charge €0.5 million) within finance costs in the income statement. Separately included in the income statement for the year ended 31 December 2017 is a loss of €68.9 million (2016: loss of €10.4 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 7).

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 energy costs, fuel purchase requirements (which are in US dollar and sterling) and in relation to power station projects (including Carrington Power Limited). These contracts have maturities extending until 2022. Total positive fair value movements of €11.2 million (2016: positive movements of €19.9 million) were recognised during the year in relation to such foreign exchange contracts, of which a positive fair value movement of €3.1 million (2016: positive movements of €13.6 million) was recognised through OCI and a positive fair value movement of €8.1 million (2016: positive movement of €6.3 million) was recognised in the income statement.

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 €580.5 million (2016: €601.2 million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities as they are not held directly by the Parent. 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 2017						
Interest rate swaps	10,296	10,437	3,254	2,289	4,894	-
Currency swaps	24,076	25,188	2,378	22,810	-	-
Foreign exchange contracts	14,271	17,389	7,846	1,945	7,598	-
Forward fuel price contracts	60,468	60,960	58,054	2,639	267	-
Forward electricity price contracts	93,333	93,086	53,783	38,638	665	-
Total assets	**202,444**	**207,060**	**125,315**	**68,321**	**13,424**	**-**
Interest rate swaps	(39,720)	(42,858)	(9,122)	(7,427)	(15,119)	(11,190)
Inflation linked interest rate swaps	(653,176)	(718,130)	(90,071)	(15,157)	(44,322)	(568,580)
Currency swaps	(43,257)	(47,037)	(5,976)	(659)	(4,156)	(36,246)
Foreign exchange contracts	(2,210)	(4,529)	(4,325)	(204)	-	-
Forward fuel price contracts	(35,990)	(36,524)	(31,607)	(4,663)	(254)	-
Total liabilities	**(774,353)**	**(849,078)**	**(141,101)**	**(28,110)**	**(63,851)**	**(616,016)**
Net derivative assets / (liabilities)	**(571,909)**	**(642,018)**	**(15,786)**	**40,211**	**(50,427)**	**(616,016)**
31 December 2016						
Interest rate swaps	15,901	16,710	3,724	3,595	9,183	208
Currency swaps	61,289	118,528	6,900	17,384	60,922	33,322
Foreign exchange contracts	17,684	17,685	7,706	4,368	1,394	4,217
Forward fuel price contracts	131,385	131,677	104,491	25,944	1,242	-
Forward electricity price contracts	160,932	158,367	88,111	51,322	18,934	-
Total assets	387,191	442,967	210,932	102,613	91,675	37,747
Interest rate swaps	(49,660)	(122,726)	(5,263)	(14,352)	(28,929)	(74,182)
Inflation linked interest rate swaps	(698,472)	(769,639)	(14,900)	(11,935)	(104,776)	(638,028)
Currency swaps	(10,270)	(3,136)	(136)	(2,852)	(108)	(40)
Foreign exchange contracts	(16,804)	(16,804)	(16,185)	(609)	(10)	-
Forward fuel price contracts	(57,869)	(57,933)	(47,691)	(9,770)	(472)	-
Forward electricity price contracts	(20,679)	(20,620)	(10,091)	(10,282)	(247)	-
Total liabilities	(853,754)	(990,858)	(94,266)	(49,800)	(134,542)	(712,250)
Net derivative assets / (liabilities)	(466,563)	(547,891)	116,666	52,813	(42,867)	(674,503)

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES

The Group operates a number of pension Schemes for staff in both the Republic of Ireland, Northern Ireland and the United Kingdom (UK). Pension arrangements in respect of staff in the Republic of Ireland including ESB employees seconded overseas are set out in section (a) below. Pension arrangements in respect of staff in the United Kingdom (UK) and Northern Ireland are described in section (b) and (c).

(a) Parent and Group - Republic of Ireland

(i) ESB Defined Benefit Pension Scheme (The Scheme)

Pensions for the majority of employees in the electricity business are funded through a contributory pension Scheme called the ESB Defined Benefit Pension 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 Authority.

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 defined benefit 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, Climate Action and Environment. 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 Authority to resolve this deficit by 2018. According to the last Minimum Funding Standard review in 2015 this plan was 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 Act.
- Accounting, as set out in International Accounting Standard 19, 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 2017 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 / Minimum Funding Standard 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. 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 Minimum Funding Standard requirements. To address this, the Scheme Trustees, with the agreement of ESB, submitted a funding plan to the Pensions Authority, which was approved in October 2012. This funding plan aims to resolve the Minimum Funding Standard requirements by the end of 2018 and during 2017 the Scheme Actuary confirmed that this Plan was on track to meet that objective based on existing contribution levels (including the €591.0 million commitment from the 2010 Pensions Agreement).

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES (continued)

(a) Parent and Group - Republic of Ireland (continued)

(i) ESB Defined Benefit Pension Scheme (The Scheme) (continued)

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 €394.3 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 an agreed period of time 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. €583.7 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.

(ii) ESB Defined Contribution Pension Scheme
ESB also operates an approved defined contribution Scheme called ESB Defined Contribution Pension Scheme for employees of ESB subsidiary companies (other than NIE Networks) 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 €10.7 million (2016: €9.7 million).

(b) FM United Kingdom Stakeholder Scheme
In addition, the company operates a stakeholder pension scheme in the UK for all its GB employees. 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 this Scheme are held in individual stakeholder accounts managed by Legal & General. The pension charge for the year represents the defined employer contribution and amounted to €0.7 million (2016: €0.7 million).

(c) Northern Ireland Electricity Networks (NIE Networks) Pension Scheme
The majority of the employees in NIE Networks are members of the NIE Networks Pension Scheme (the NIE Networks 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 7% of salary, and Focus which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the NIE Networks Scheme are held under trust and invested by the Trustees on the advice of professional investment managers.

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Focus section of the Scheme was carried out by a qualified actuary as at 31 March 2014 and showed a deficit of €124.8 million. The Company is paying deficit contributions of €19.1 million per annum (increasing in line with inflation) from 1 April 2015. The Company also pays contributions of 36.6% of pensionable salaries in respect of current accrual, with active members paying a further 6% of pensionable salaries. The formal valuation as at 31 March 2017 is currently on-going.

Profile of the Scheme
The net liability includes benefits for current employees, former employees and current pensioners. Broadly, about 21% of the liabilities are attributable to current employees, 5% to former employees and 74% to current pensioners. The Scheme duration is an indication of the weighted average time until benefit payments are made. For the NIE Networks Scheme, the duration is around 13 years (2016: 13 years) based on the last funding valuation.

Financial assumptions
The valuation of the Focus section of the NIE Networks Scheme by independent actuaries for the purpose of IAS 19 disclosures is based on the following assumptions:

	% at 31 December 2017	% at 31 December 2016
Rate of interest applied to discount liabilities	**2.50**	2.70
Price inflation (CPI in the United Kingdom)	**2.10**	2.10
Rate of increase of pensionable salaries	**3.20**	3.20
Rate of increase of pensions in payment	**2.10**	2.10

The discount rate used in the calculation of the pension liability at 31 December 2017 was 2.5% (2016: 2.7%). This was determined by reference to market yields as at that date on high quality corporate bonds. The currency and term of the corporate bonds was consistent with the currency and estimated term of the post-employment benefit obligations.

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES (continued)

(c) Northern Ireland Electricity Networks (NIE Networks) Pension Scheme (continued)

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 2017		At 31 December 2016	
	Males Years	**Females Years**	Males Years	Females Years
Current pensioners at aged 60	**27.4**	**29.9**	27.3	29.8
Future pensioners currently aged 40 (life expectancy age 60)	**29.3**	**31.9**	29.2	31.8

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

	At 31 December 2017 €'000	At 31 December 2016 €'000
Equities – quoted	**312,546**	276,927
Bonds – quoted	**255,064**	295,498
Multi-asset credit investments	**245,032**	249,830
Diversified growth – quoted	**463,127**	464,855
Other	**10,596**	6,316
Fair value of plan assets	**1,286,365**	1,293,426
Present value of funded obligations	**(1,429,421)**	(1,463,969)
Net deficit	**(143,056)**	(170,543)

NIE Networks has a deficit repair plan in place to address this deficit.

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES (continued)

(c) Northern Ireland Electricity Networks (NIE Networks) Pension Scheme (continued)

	At 31 December 2017 €'000	At 31 December 2016 €'000
Change in benefit obligation		
Benefit obligation at the beginning of the year	**1,463,969**	1,494,343
Movement during the year:		
Current service cost	**9,203**	7,859
Interest cost	**37,577**	49,537
Plan members' contributions	**435**	496
Actuarial loss - impact of financial assumption changes	**37,552**	212,470
Actuarial loss - impact of demographic assumption changes	**-**	-
Actuarial loss / (gain) - experience loss	**6,350**	(8,744)
Benefits paid	**(76,231)**	(70,561)
Curtailment cost	**2,009**	178
Translation difference on benefit obligation in the year	**(51,443)**	(221,609)
Benefit obligation at the end of the year	**1,429,421**	1,463,969
Change in plan assets		
Fair value of plan assets at the beginning of the year	**1,293,426**	1,352,274
Movement during the year:		
Interest on plan assets	**33,464**	45,225
Actual returns on assets less interest	**53,249**	137,206
Employer contributions	**27,641**	27,902
Plan members' contributions	**435**	496
Benefits paid	**(76,231)**	(70,561)
Translation difference on assets in the year	**(45,619)**	(199,116)
Fair value of plan assets at the end of the year	**1,286,365**	1,293,426
Actual return on plan assets for the year	**86,713**	182,431

The curtailment loss arising in 2017 reflects the past service costs associated with employees who left the company by voluntary exit restructuring programme. The Group expects to make contributions of €26.6million to Focus in 2018.

Analysis of the amounts recognised in the employee costs as part of the employee benefit charge were as follows:	2017 €'000	2016 €'000
Current service cost	**(9,203)**	(7,859)
Curtailment cost	**(2,009)**	(178)
Total defined benefit charge in year	**(11,212)**	(8,037)

Analysis of the amounts recognised in the finance costs, as net pension scheme interest:	2017 €'000	2016 €'000
Interest on pension scheme assets	**33,464**	45,225
Interest on pension scheme liabilities	**(37,577)**	(49,537)
Net pension scheme charge	**(4,113)**	(4,312)

Analysis of the amounts recognised in the statement of comprehensive income (excluding translation)	2017 €'000	2016 €'000
Actual returns on assets less interest	**53,249**	137,206
Actuarial loss on liabilities	**(43,902)**	(203,726)
Net actuarial gain / (loss)	**9,347**	(66,520)

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.

	Impact on scheme liabilities (increase) / decrease	
Pension liability	2017 € m	2016 € m
Discount rate (0.1% increase)	**19.0**	18.5
Inflation rate (0.1% increase)	**(14.3)**	(16.1)
Future mortality (1 year increase)	**(49.0)**	(49.6)

Although the analysis does not take account of the full distribution of cash flows 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

		Employee related liabilities		
GROUP	Liability - ESB pension scheme € '000	Restructuring liabilities € '000	Other € '000	Total € '000
Balance at 1 January 2016	**648,129**	111,726	33,684	**145,410**
Movements during the year:				
Charge to the income statement	**-**	-	43,409	**43,409**
Utilised during the year	**(152,974)**	(16,906)	(30,039)	**(46,945)**
Financing charge	**29,657**	835	-	**835**
Translation differences	**-**	(8)	-	**(8)**
Balance at 31 December 2016	**524,812**	95,647	47,054	**142,701**
Balance at 1 January 2017	**524,812**	95,647	47,054	**142,701**
Movements during the year:				
(Release) / charge to the income statement	**-**	(19,107)	46,054	**26,947**
Utilised during the year	**(153,007)**	(15,828)	(42,312)	**(58,140)**
Financing charge	**22,515**	511	-	**511**
Translation differences	**-**	(10)	(21)	**(31)**
Balance at 31 December 2017	**394,320**	61,213	50,775	**111,988**
Analysed as follows:				
Non-current liabilities	**100,190**	46,107	-	**46,107**
Current liabilities	**294,130**	15,106	50,775	**65,881**
Total	**394,320**	**61,213**	**50,775**	**111,988**

		Employee related liabilities		
PARENT	Liability - ESB pension scheme € '000	Restructuring liabilities € '000	Other € '000	Total € '000
Balance at 1 January 2016	**648,129**	111,425	25,864	**137,289**
Movements during the year:				
Charge to the income statement	**-**	-	35,318	**35,318**
Utilised during the year	**(152,974)**	(16,812)	(22,338)	**(39,150)**
Financing charge	**29,657**	835	-	**835**
Balance at 31 December 2016	**524,812**	95,448	38,844	**134,292**
Balance at 1 January 2017	**524,812**	95,448	38,844	**134,292**
Movements during the year:				
(Release) / charge to the income statement	**-**	(21,115)	37,407	**16,292**
Utilised during the year	**(153,007)**	(14,795)	(35,605)	**(50,400)**
Financing charge	**22,515**	511	-	**511**
Balance at 31 December 2017	**394,320**	60,049	40,646	**100,695**
Analysed as follows:				
Non-current liabilities	**100,190**	45,936	-	**45,936**
Current liabilities	**294,130**	14,113	40,646	**54,759**
Total	**394,320**	**60,049**	**40,646**	**100,695**

NOTES TO THE FINANCIAL STATEMENTS

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

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

Restructuring liabilities
This provision represents the estimated cost of providing post employment payments to former employees, other than those amounts covered by the pension scheme. It includes liabilities for continuing payments to employees who left under past voluntary severance initiatives, which are expected to be materially discharged by 2027. Expected future cash flows are discounted to present value using long-term interest rates based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread.

A review of the restructuring provision was completed during the year ended 31 December 2017 and €21.1 million (2016: €nil) was released to the income statement (note 8).

Other
In accordance with the requirements of IAS 19 Employee Benefits, provision has been made for employee remuneration liabilities, including accrued holiday leave and performance related payments.

23. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2017 € '000	2016 € '000	**2017 € '000**	2016 € '000
Current payables:				
Trade payables	**316,260**	358,392	**185,966**	200,526
Capital creditors	**68,235**	76,473	**43,675**	37,299
Progress payments on work in progress	**78,722**	80,220	**41,695**	1,462
Other payables	**49,988**	65,966	**30,662**	36,764
Payroll taxes	**14,059**	13,554	**13,049**	12,646
Pay related social insurance	**5,222**	4,996	**4,329**	4,083
Value added tax	**42,747**	43,337	**17,147**	19,917
Accruals	**142,909**	114,122	**53,773**	25,448
Amounts owed to subsidiary undertakings	**-**	-	**3,369,107**	3,415,444
Accrued interest on borrowings	**79,680**	77,958	**39,912**	35,606
Total	**797,822**	835,018	**3,799,315**	3,789,195

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED INCOME

GROUP	**Supply contributions and others €'000**
Balance at 1 January 2016	**558,284**
Receivable	**38,994**
Released to the income statement	**(58,548)**
Translation differences	**(2,178)**
Balance at 31 December 2016	**536,552**
Balance at 1 January 2017	**536,552**
Receivable	**44,912**
Released to the income statement	**(70,462)**
Translation differences	**(885)**
Balance at 31 December 2017	**510,117**
Analysed as follows:	
Non-current liabilities	**460,975**
Current liabilities	**49,142**
Total	**510,117**

PARENT	**Supply contributions and others €'000**
Balance at 1 January 2016	**533,542**
Receivable	**1,240**
Released to the income statement	**(33,118)**
Balance at 31 December 2016	**501,664**
Balance at 1 January 2017	**501,664**
Receivable	**2,949**
Released to the income statement	**(35,002)**
Balance at 31 December 2017	**469,611**
Analysed as follows:	
Non-current liabilities	**433,892**
Current liabilities	**35,719**
Total	**469,611**

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.

Included in the above Group closing balance are supply contributions €466.8 million (2016: €499.6 million), deferred income €43.3 million (2016: €35.4 million) and government grants of €nil (2016: €1.5 million).

NOTES TO THE FINANCIAL STATEMENTS

25. PROVISIONS

GROUP	Asset retirement provision € '000	Emissions provision € '000	Other € '000	Total € '000
Balance at 1 January 2016	131,707	62,132	81,592	**275,431**
Charged / (credited) to the income statement				
- Emission allowances	-	64,266	-	**64,266**
- Legal and other	-	-	4,530	**4,530**
- Asset retirement	(5,700)	-	-	**(5,700)**
Asset retirement provision capitalised in the year	56,900	-	-	**56,900**
ESOP provision (note 30)	-	-	7,000	**7,000**
Utilised in the year	(3,623)	(61,154)	(15,860)	**(80,637)**
Financing charge	1,482	-	537	**2,019**
Translation differences	(465)	159	(1,528)	**(1,834)**
Balance at 31 December 2016	180,301	65,403	76,271	**321,975**
Balance at 1 January 2017	180,301	65,403	76,271	**321,975**
Charged / (credited) to the income statement				
- Emission allowances	-	68,896	-	**68,896**
- Legal and other	-	-	18,247	**18,247**
- Asset retirement	(9,055)	-	-	**(9,055)**
Asset retirement provision capitalised in the year	90,721	-	-	**90,721**
ESOP provision (note 30)	-	-	2,384	**2,384**
Utilised in the year	(2,604)	(65,232)	(12,735)	**(80,571)**
Financing charge	1,611	-	456	**2,067**
Translation differences	(242)	(138)	(324)	**(704)**
Balance at 31 December 2017	260,732	68,929	84,299	**413,960**
Analysed as follows:				
Non-current liabilities	254,655	-	50,870	**305,525**
Current liabilities	6,077	68,929	33,429	**108,435**
Total	**260,732**	**68,929**	**84,299**	**413,960**

PARENT	Asset retirement provision € '000	Emissions provision € '000	Other € '000	Total € '000
Balance at 1 January 2016	125,965	48,296	57,048	**231,309**
Charged / (credited) to the income statement				
- Emission allowances	-	46,159	-	**46,159**
- Legal and other	-	-	8,079	**8,079**
- Asset retirement	(5,700)	-	-	**(5,700)**
Asset retirement provision capitalised in the year	53,500	-	-	**53,500**
ESOP provision (note 30)	-	-	7,000	**7,000**
Utilised in the year	(3,623)	(46,987)	(2,772)	**(53,382)**
Financing charge	1,272	-	537	**1,809**
Balance at 31 December 2016	171,414	47,468	69,892	**288,774**
Balance at 1 January 2017	171,414	47,468	69,892	**288,774**
Charged / (credited) to the income statement				
- Emission allowances	-	40,314	-	**40,314**
- Legal and other	-	-	17,733	**17,733**
- Asset retirement	(9,055)	-	-	**(9,055)**
Asset retirement provision capitalised in the year	66,615	-	-	**66,615**
ESOP provision (note 30)	-	-	2,384	**2,384**
Utilised in the year	(2,604)	(46,699)	(12,145)	**(61,448)**
Financing charge	1,408	-	456	**1,864**
Balance at 31 December 2017	227,778	41,083	78,320	**347,181**
Analysed as follows:				
Non-current liabilities	221,700	-	46,087	**267,787**
Current liabilities	6,078	41,083	32,233	**79,394**
Total	**227,778**	**41,083**	**78,320**	**347,181**

NOTES TO THE FINANCIAL STATEMENTS

25. PROVISIONS (continued)

Asset retirement provision (previously named power station closure costs)
The Group provision at 31 December 2017 of €260.7 million (2016: €180.3 million) for asset retirement represents the present value of the current estimate of the costs arising from certain obligations in relation to the retirement and decommission of mainly generating stations, windfarms and ESB Networks creosote treated wood poles at the end of their useful economic lives.

The expected closure dates of generating stations are up to 2040. As the costs are provided on a discounted basis, a financing charge is included in the income statement and credited to the provision each year. The asset retirement provision is re-examined annually and the liability re-calculated in accordance with the most recent expected estimate.

Due to changes in estimates regarding environmental costs and decommissioning during the year ended 31 December 2017 the asset retirement provision increased by €90.7 million (2016: €56.9 million increase). The estimated value of future retirement costs at the balance sheet date include physical dismantling, site remediation and associated costs.

There are a number of uncertainties that affect the calculation of the provision for asset retirement obligations, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, the impact of alternative technologies and changes in the discount rate. The Group has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision. Expected future cash flows are discounted to present value using long-term interest rates based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread.

Emission provisions
In accordance with the provisions of the European CO_2 emissions trading scheme, a provision is recognised to cover the liability for actual emissions during the year. Allowances purchased during the year are returned to the relevant Authority in charge of the scheme within four months from the end of that calendar year, in line with the actual emissions of CO_2 during the year. The provision represents the obligation to return emission allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO_2 emission allowances, in addition to the market value of any additional allowances required to settle the year end liability.

Other provisions
Other provisions represent estimates of liabilities to third parties, in respect of claims notified or provided for at year end. The year end provision includes an estimate for liabilities incurred but not yet reported.

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 foreign exchange (particularly movements in the value of the euro relative to sterling and the US dollar) and commodity (electricity and fuel) price movements. Liquidity risk, and exposure to interest rate volatility, are key long-term and financial risks also, but have been substantially addressed in the short-run. 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. During 2017 the Board reviewed and approved the Group's interest rate and funding policy. Group Treasury is responsible for the day-to-day treasury activities of the Group. The Finance and Investment Committee is regularly updated on key treasury matters, risk and associated mitigants.

Commodity price risk is managed by the front and middle office functions of the relevant business units: ESB Trading (within 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 and it is the responsibility of the Trading Risk Management Committees (overseen by the Group Trading Committee (GTC)) to ensure that internal audit findings and recommendations are adequately addressed. The Group Trading Risk Management function ensures that the Group's market, credit and operational risks (including new and emerging risks arising from I-SEM) are managed in a way designed 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 GTC the broader responsibility of managing ESB's trading risk in a manner consistent with the Group's risk tolerances 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.

In both Generation & Wholesale Markets and Electric Ireland, separate Trading Risk Management Committees meet on a monthly basis (or more frequently as required), and serve as the primary overseer of trading risk at individual ring-fenced entity level. These committees 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 for ensuring that an effective control framework is 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.

Hedge accounting

ESB funds its operations using borrowings and uses deposit instruments to invest surplus funds. ESB also 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 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, these instruments are designated as cash flow hedges of highly probable forecast interest, revenue or other operating cost cash flows. Any derivatives held 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 2017 and at 31 December 2016 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	
GROUP	**2017 € '000**	2016 € '000	**2017 € '000**	2016 € '000	**2017 € '000**	2016 € '000	**2017 € '000**	2016 € '000	**2017 € '000**	2016 € '000
ASSETS										
Non-current assets										
Trade and other receivables	**-**	-	**74,936**	69,995	**-**	-	**-**	-	**74,936**	69,995
Financial asset investments	**22,165**	56,502	**-**	-	**-**	-	**-**	-	**22,165**	56,502
Derivative financial instruments	**-**	-	**-**	-	**71,820**	161,545	**13,257**	22,454	**85,077**	183,999
Total non-current financial assets	**22,165**	56,502	**74,936**	69,995	**71,820**	161,545	**13,257**	22,454	**182,178**	310,496
Current assets										
Trade and other receivables*	**-**	-	**744,613**	731,761	**-**	-	**-**	-	**744,613**	731,761
Cash and cash equivalents	**-**	-	**380,405**	363,624	**-**	-	**-**	-	**380,405**	363,624
Derivative financial instruments	**-**	-	**-**	-	**86,481**	131,647	**30,886**	71,545	**117,367**	203,192
Total current financial assets	**-**	-	**1,125,018**	1,095,385	**86,481**	131,647	**30,886**	71,545	**1,242,385**	1,298,577
Total financial assets	**22,165**	56,502	**1,199,954**	1,165,380	**158,301**	293,192	**44,143**	93,999	**1,424,563**	1,609,073
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	**-**	-	**4,369,705**	4,398,113	**-**	-	**-**	-	**4,369,705**	4,398,113
Derivative financial instruments	**-**	-	**-**	-	**61,501**	53,496	**576,324**	700,472	**637,825**	753,968
Total non-current financial liabilities	**-**	-	**4,369,705**	4,398,113	**61,501**	53,496	**576,324**	700,472	**5,007,530**	5,152,081
Current liabilities										
Borrowings and other debt	**-**	-	**388,073**	489,330	**-**	-	**-**	-	**388,073**	489,330
Trade and other payables**	**-**	-	**735,794**	773,131	**-**	-	**-**	-	**735,794**	773,131
Derivative financial instruments	**-**	-	**-**	-	**14,596**	27,903	**121,932**	71,883	**136,528**	99,786
Total current financial liabilities	**-**	-	**1,123,867**	1,262,461	**14,596**	27,903	**121,932**	71,883	**1,260,395**	1,362,247
Total financial liabilities	**-**	-	**5,493,572**	5,660,574	**76,097**	81,399	**698,256**	772,355	**6,267,925**	6,514,328

* Prepayments have been excluded as they are not classified as a financial asset. Comparative amounts have been restated where necessary to ensure consistency in the two years being presented.
** VAT and employment taxes have been excluded as these are statutory liabilities. Comparative amounts have been restated where necessary to ensure consistency in the two years being presented.

The Group's provisions and employee related liabilities are not analysed in the table above, or in the further analysis on the following page. This includes the liability for pension obligation of €394.3 million at 31 December 2017 (2016: €524.8 million). See notes 21, 22 and 25 in relation to this and to the other provisions and employee related liabilities

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Overview of financial assets and liabilities (continued)

	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	
PARENT	**2017 € '000**	2016 € '000	**2017 € '000**	2016 € '000	**2017 € '000**	2016 € '000	**2017 € '000**	2016 € '000	**2017 € '000**	2016 € '000
ASSETS										
Non-current assets										
Derivative financial instruments	**-**	-	**-**	-	**24,787**	74,428	**4,817**	7,746	**29,604**	82,174
Total non-current financial assets	**-**	-	**-**	-	**24,787**	74,428	**4,817**	7,746	**29,604**	82,174
Current assets										
Trade and other receivables*	**-**	-	**2,638,848**	3,064,009	**-**	-	**-**	-	**2,638,848**	3,064,009
Cash and cash equivalents	**-**	-	**208,499**	235,991	**-**	-	**-**	-	**208,499**	235,991
Derivative financial instruments	**-**	-	**-**	-	**27,724**	73,368	**30,870**	65,274	**58,594**	138,642
Total current financial assets	**-**	-	**2,847,347**	3,300,000	**27,724**	73,368	**30,870**	65,274	**2,905,941**	3,438,642
Total financial assets	**-**	-	**2,847,347**	3,300,000	**52,511**	147,796	**35,687**	73,020	**2,935,545**	3,520,816
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	**-**	-	**1,160,208**	1,409,367	**-**	-	**-**	-	**1,160,208**	1,409,367
Derivative financial instruments	**-**	-	**-**	-	**37,758**	6,778	**2,999**	14,255	**40,757**	21,033
Total non-current financial liabilities	**-**	-	**1,160,208**	1,409,367	**37,758**	6,778	**2,999**	14,255	**1,200,965**	1,430,400
Current liabilities										
Borrowings and other debt	**-**	-	**170,370**	132,858	**-**	-	**-**	-	**170,370**	132,858
Trade and other payables**	**-**	-	**3,764,790**	3,752,549	**-**	-	**-**	-	**3,764,790**	3,752,549
Derivative financial instruments	**-**	-	**-**	-	**8,439**	14,657	**30,451**	50,472	**38,890**	65,129
Total current financial liabilities	**-**	-	**3,935,160**	3,885,407	**8,439**	14,657	**30,451**	50,472	**3,974,050**	3,950,536
Total financial liabilities	**-**	-	**5,095,368**	5,294,774	**46,197**	21,435	**33,450**	64,727	**5,175,015**	5,380,936

* Prepayments have been excluded as they are not classified as a financial asset. Comparative amounts have been restated where necessary to ensure consistency in the two years being presented.
** VAT and employment taxes have been excluded as these are statutory liabilities. Comparative amounts have been restated where necessary to ensure consistency in the two years being presented.

The Group's provisions and employee related liabilities are not analysed in the table above, or in the further analysis below. This includes the liability for pension obligation of €394.3 million at 31 December 2017 (2016: €524.8 million). See Notes 21, 22 and 25 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 €3,427.2 million (2016: €3,345.2 million) and net derivative financial instrument liabilities of €580.5 million (2016: €601.2 million) are included in the Group balances below but do not comprise part of the Parent's assets and liabilities as they are not held directly by the Parent. See notes 19, 20 and 23 for further analysis of Group and Parent financial assets and liabilities.

GROUP	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 2017						
Borrowings	4,757,778	5,987,029	584,064	723,597	1,162,412	3,516,956
Trade and other payables (excluding tax balances and accrued interest on borrowings)	656,114	656,114	656,114	-	-	-
Derivative financial instruments	774,353	849,078	141,101	28,110	63,851	616,016
Total liabilities	**6,188,245**	**7,492,221**	**1,381,279**	**751,707**	**1,226,263**	**4,132,972**
Derivative financial instruments	202,444	207,060	125,315	68,321	13,424	-
Total assets	**202,444**	**207,060**	**125,315**	**68,321**	**13,424**	**-**
Net liabilities	**5,985,801**	**7,285,161**	**1,255,964**	**683,386**	**1,212,839**	**4,132,972**
31 December 2016						
Borrowings	4,887,443	6,190,094	693,739	584,784	1,571,882	3,339,689
Trade and other payables (excluding tax balances and accrued interest on borrowings)	695,173	695,173	695,173	-	-	-
Derivative financial instruments	853,754	990,858	94,266	49,800	134,542	712,250
Total liabilities	6,436,370	7,876,125	1,483,178	634,584	1,706,424	4,051,939
Derivative financial instruments	387,191	442,967	210,932	102,613	91,675	37,747
Total assets	387,191	442,967	210,932	102,613	91,675	37,747
Net liabilities	6,049,179	7,433,158	1,272,246	531,971	1,614,749	4,014,192

PARENT	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 2017						
Borrowings	1,330,578	1,581,981	233,651	349,804	346,128	652,398
Trade and other payables (excluding tax balances and accrued interest on borrowings)	3,724,878	3,724,878	3,724,878	-	-	-
Derivative financial instruments	79,647	86,286	41,905	3,725	4,410	36,246
Total liabilities	**5,135,103**	**5,393,145**	**4,000,434**	**353,529**	**350,538**	**688,644**
Derivative financial instruments	88,198	92,895	64,144	27,609	1,142	-
Total assets	**88,198**	**92,895**	**64,144**	**27,609**	**1,142**	**-**
Net liabilities	**5,046,905**	**5,300,250**	**3,936,290**	**325,920**	**349,396**	**688,644**
31 December 2016						
Borrowings	1,542,225	1,811,598	181,490	237,868	626,468	765,772
Trade and other payables (excluding tax balances and accrued interest on borrowings)	3,716,943	3,716,943	3,716,943	-	-	-
Derivative financial instruments	86,162	79,071	65,075	13,366	590	40
Total liabilities	5,345,330	5,607,612	3,963,508	251,234	627,058	765,812
Derivative financial instruments	220,816	276,264	144,316	35,950	62,594	33,404
Total assets	220,816	276,264	144,316	35,950	62,594	33,404
Net liabilities	5,124,514	5,331,348	3,819,192	215,284	564,464	732,408

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivative Association (ISDA) master netting agreements. The ISDA agreements do not meet the criteria for offsetting in the consolidated balance sheet. This is because the Group does not have any current legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

GROUP	Gross amount of financial instruments in the statement of financial position € '000	Amounts not offset on the balance sheet € '000	Net amount € '000
31 December 2017			
Financial assets			
Interest rate swaps	10,296	(5,662)	4,634
Currency swaps	24,076	(7,555)	16,521
Foreign exchange contracts	14,271	(13,815)	456
Forward fuel price contracts	60,468	(24,016)	36,452
Forward electricity price contracts	93,333	(572)	92,761
	202,444	**(51,620)**	**150,824**
Financial liabilities			
Interest rate swaps	(39,720)	9,428	(30,292)
Inflation linked interest rate swaps	(653,176)	-	(653,176)
Currency swaps	(43,257)	19,415	(23,842)
Foreign exchange contracts	(2,210)	2,074	(136)
Forward fuel price contracts	(35,990)	20,703	(15,287)
	(774,353)	**51,620**	**(722,733)**
31 December 2016			
Financial assets			
Interest rate swaps	15,901	(11,340)	4,561
Currency swaps	61,289	(7,964)	53,325
Foreign exchange contracts	17,684	(14,369)	3,315
Forward fuel price contracts	131,385	(43,661)	87,724
Forward electricity price contracts	160,932	(18,426)	142,506
	387,191	(95,760)	291,431
Financial liabilities			
Interest rate swaps	(49,660)	14,099	(35,561)
Inflation linked interest rate swaps	(698,472)	-	(698,472)
Currency swaps	(10,270)	9,885	(385)
Foreign exchange contracts	(16,804)	13,978	(2,826)
Forward fuel price contracts	(57,869)	56,596	(1,273)
Forward electricity price contracts	(20,679)	1,202	(19,477)
	(853,754)	95,760	(757,994)

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Master netting or similar agreements (continued)

PARENT	Gross amount of financial instruments in the statement of financial position € '000	Amounts not offset on the balance sheet € '000	Net amount € '000
31 December 2017			
Financial assets			
Interest rate swaps	1,857	(1,033)	824
Currency swaps	24,076	(7,555)	16,521
Foreign exchange contracts	5,419	(4,977)	442
Forward fuel price contracts	56,846	(24,947)	31,899
	88,198	**(38,512)**	**49,686**
Financial liabilities			
Currency swaps	(43,257)	15,225	(28,032)
Foreign exchange contracts	(2,198)	1,528	(670)
Forward fuel price contracts	(34,192)	21,759	(12,433)
	(79,647)	**38,512**	**(41,135)**
31 December 2016			
Financial assets			
Interest rate swaps	2,828	(1,570)	1,258
Currency swaps	61,289	(4,120)	57,169
Foreign exchange contracts	11,969	(6,593)	5,376
Forward fuel price contracts	106,049	(43,053)	62,996
Forward electricity price contracts	38,681	(4,036)	34,645
	220,816	(59,372)	161,444
Financial liabilities			
Currency swaps	(10,270)	6,720	(3,550)
Foreign exchange contracts	(16,804)	10,169	(6,635)
Forward fuel price contracts	(56,927)	42,224	(14,703)
Forward electricity price contracts	(2,161)	259	(1,902)
	(86,162)	59,372	(26,790)

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) 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 amount due for equity accounted investees, outstanding receivables and committed transactions.

	2017		2016	
Financial assets	**GROUP € '000**	**PARENT € '000**	GROUP € '000	PARENT € '000
Trade and other receivables*	**819,549**	**2,638,848**	801,756	3,064,009
Cash and cash equivalents	**380,405**	**208,499**	363,624	235,991
Derivative financial instruments	**202,444**	**88,198**	387,191	220,816
	1,402,398	**2,935,545**	1,552,571	3,520,816

*Prepayments have been excluded as they are not classified as a financial asset. Comparative amounts have been restated where necessary to ensure consistency in the two years being presented.

Trade and other receivables

Wholesale and credit risk arising from trade and other receivables has been disclosed in note 15. Trade and other receivables in Parent include amounts due from subsidiary undertakings.

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, most recently in December 2017. 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 31 December 2017 was €47.7 million (2016: €45.0 million). The Group is cognisant of any changes in the creditworthiness of counterparties, and all appropriate steps are taken to further secure the Group's position, both by negotiating adequate protections in advance in the underpinning contractual master agreements and active management of any exposures particularly where indications exists of a deterioration in the financial standing of counterparties.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(f) Foreign currency risk management

Foreign currency exposures arise mainly through the purchase of fuel and power, station overhaul costs, 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 2017 relate to forecast cash flows expected to occur up to 2028.

At year end, ESB's total debt portfolio amounted to €4.8 billion (2016: €4.9 billion), of which the Parent held €1.3 billion (2016: €1.5 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

	Before swaps		After swaps	
GROUP	**2017 (%)**	2016 (%)	**2017 (%)**	2016 (%)
Currency				
Euro	**55**	50	**64**	62
US dollar	**10**	11	**-**	-
Sterling	**35**	39	**36**	38
Total	**100**	100	**100**	100

	Before swaps		After swaps	
PARENT	**2017 (%)**	2016 (%)	**2017 (%)**	2016 (%)
Currency				
Euro	**42**	37	**76**	76
US dollar	**37**	39	**-**	-
Sterling	**21**	24	**24**	24
Total	**100**	100	**100**	100

As shown above, the majority of the debt portfolio is either denominated in or swapped into 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 proportion of debt is sterling-denominated primarily as a result of the NIE Networks acquisition and the operation of Carrington Power Limited.

A general increase of 10% in foreign currency exchange rates at 31 December 2017 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 2017.

	31 December 2017		31 December 2016	
GROUP	**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	**(7,020)**	**1,550**	(13,454)	41
Sterling	**61,009**	**(3,643)**	5,812	(301)
Swiss franc	**(124)**	**-**	(544)	-
Japanese yen	**(95)**	**-**	-	-
10% weakening				
US dollar	**8,580**	**(1,895)**	16,444	(922)
Sterling	**(72,690)**	**2,575**	(7,104)	246
Swiss franc	**152**	**-**	664	-
Japanese yen	**117**	**-**	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(g) 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, refer to note 20 for further details. 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 2017 would impact equity and profit before taxation by the amount set out below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant, and includes the impact of the value of commodity swaps in place, all of which are in effective hedge relationships at 31 December 2017. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remain constant.

GROUP	31 December 2017 Other comprehensive income gain / (loss) € '000	31 December 2017 Profit before taxation gain / (loss) € '000	31 December 2016 Other comprehensive income gain / (loss) € '000	31 December 2016 Profit before taxation gain / (loss) € '000
(Loss) due to 10% increase in gas and coal prices	**(24,722)**	**(1,025)**	(38,660)	(52)

PARENT	31 December 2017 Other comprehensive income gain / (loss) € '000	31 December 2017 Profit before taxation gain / (loss) € '000	31 December 2016 Other comprehensive income gain / (loss) € '000	31 December 2016 Profit before taxation gain / (loss) € '000
(Loss) due to 10% increase in gas and coal prices	**(10,557)**	**(1,025)**	(16,384)	(52)

A general increase of 10% in the system marginal price (SMP) of the Single Electricity Market at 31 December 2017 would have increased 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 2017 Other comprehensive income gain / (loss) € '000	31 December 2017 Profit before taxation gain / (loss) € '000	31 December 2016 Other comprehensive income gain / (loss) € '000	31 December 2016 Profit before taxation gain / (loss) € '000
Gain due to 10% increase in the SMP	**12,625**	**-**	26,311	-

PARENT	31 December 2017 Other comprehensive income gain / (loss) € '000	31 December 2017 Profit before taxation gain / (loss) € '000	31 December 2016 Other comprehensive income gain / (loss) € '000	31 December 2016 Profit before taxation gain / (loss) € '000
Gain / (loss) due to 10% increase in the SMP	**-**	**-**	-	-

The sensitivity analysis provided above for the Group and Parent has been calculated as at 31 December 2017 using the following base commodity prices and foreign currency rates:

	2017	2016
Gas (Stg. p/therm)	**48.03**	49.20
SMP (€/MWh)	**48.77**	53.01
Coal (US$/tonne)	**90.50**	69.50
Foreign currency rate (US$ = €1)	**1.20**	1.05
Foreign currency rate (Stg£ = €1)	**0.8872**	0.8562

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(h) Fair value

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

	GROUP Carrying value 2017 € '000	GROUP Fair value 2017 € '000	PARENT Carrying value 2017 € '000	PARENT Fair value 2017 € '000
31 December 2017				
Long-term debt	4,369,705	5,615,889	1,160,208	1,217,120
Short-term borrowings	388,073	400,078	170,370	179,402
Total borrowings	**4,757,778**	**6,015,967**	**1,330,578**	**1,396,522**
Current trade and other payables*	735,794	735,794	3,764,790	3,764,790
Non-current trade and other receivables	(74,936)	(79,374)	-	-
Current trade and other receivables**	(744,613)	(744,613)	(2,638,848)	(2,638,848)
Cash and cash equivalents	(380,405)	(380,405)	(208,499)	(208,499)
Net liabilities	**4,293,618**	**5,547,369**	**2,248,021**	**2,313,965**

	GROUP Carrying value 2016 € '000	GROUP Fair value 2016 € '000	PARENT Carrying value 2016 € '000	PARENT Fair value 2016 € '000
31 December 2016				
Long-term debt	4,398,113	5,507,281	1,409,367	1,775,307
Short-term borrowings	489,330	530,046	132,858	62,803
Total borrowings	4,887,443	6,037,327	1,542,225	1,838,110
Current trade and other payables*	773,131	773,131	3,752,549	3,752,549
Non-current trade and other receivables	(69,995)	(125,180)	-	-
Current trade and other receivables**	(731,761)	(731,761)	(3,064,009)	(3,064,009)
Cash and cash equivalents	(363,624)	(363,624)	(235,991)	(235,991)
Net liabilities	4,495,194	5,589,893	1,994,774	2,290,659

* VAT and employment taxes have been excluded as these are statutory liabilities. Comparative amounts have been restated where necessary to ensure consistency in the two years being presented.
** Prepayments have been excluded as they are not classified as a financial asset. Comparative amounts have been restated where necessary to ensure consistency in the two years being presented.

Current trade and other receivables and trade and other payables 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 non-current trade and other receivables is calculated based on the present value of future cash flows, discounted at the market rate interest rate or where applicable a specific interest rate has been applied.

ESB and NIE Networks Eurobonds are regarded Level 1 fair values. The fair value of Eurobonds is derived from observation of the most recent traded values for these bonds in liquid markets at the balance sheet date. Other borrowings and debt are Level 2 fair values. The primary valuation technique used for borrowings and other debt classified as Level 2 fair values is discounting of the future associated cash flows 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 applicable EURIBOR or LIBOR yield curve at the reporting date plus an appropriate constant credit spread, and were as follows:

	2017 %	2016 %
Other loans and borrowings	**1.7**	1.7
Derivative financial instruments	**0.5**	0.7
Trade and other payables	**0.6**	0.8

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) 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).

GROUP	Level 2 € '000	Level 3 € '000	**Total € '000**
31 December 2017			
ASSETS			
Derivative financial instruments			
- Interest rate swaps	10,296	-	**10,296**
- Currency swaps	24,076	-	**24,076**
- Foreign exchange contracts	14,271	-	**14,271**
- Forward fuel price contracts	56,847	3,621	**60,468**
- Forward electricity price contracts	15	93,318	**93,333**
Financial assets at fair value through profit or loss	-	22,165	**22,165**
	105,505	**119,104**	**224,609**
LIABILITIES			
Derivative financial instruments			
- Interest rate swaps	(39,720)	-	**(39,720)**
- Currency swaps	(43,257)	-	**(43,257)**
- Foreign exchange contracts	(2,210)	-	**(2,210)**
- Forward fuel price contracts	(34,192)	(1,798)	**(35,990)**
- Inflation linked interest rate swaps	(653,176)	-	**(653,176)**
	(772,555)	(1,798)	**(774,353)**
Net (liability) / asset	**(667,050)**	**117,306**	**(549,744)**

	Level 2 € '000	Level 3 € '000	Total € '000
31 December 2016			
ASSETS			
Derivative financial instruments			
- Interest rate swaps	15,901	-	15,901
- Currency swaps	61,289	-	61,289
- Foreign exchange contracts	17,684	-	17,684
- Forward fuel price contracts	106,048	25,337	131,385
- Forward electricity price contracts	-	160,932	160,932
Financial assets at fair value through profit or loss	-	55,932	55,932
	200,922	242,201	443,123
LIABILITIES			
Derivative financial instruments			
- Interest rate swaps	(49,660)	-	(49,660)
- Currency swaps	(10,270)	-	(10,270)
- Foreign exchange contracts	(16,804)	-	(16,804)
- Forward fuel price contracts	(56,926)	(943)	(57,869)
- Forward electricity price contracts	-	(20,679)	(20,679)
- Inflation linked interest rate swaps	(698,472)	-	(698,472)
	(832,132)	(21,622)	(853,754)
Net (liability) / asset	(631,210)	220,579	(410,631)

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying 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)

(i) Fair value hierarchy (continued)

PARENT	Level 2 € '000	Level 3 € '000	**Total € '000**
31 December 2017			
ASSETS			
Derivative financial instruments			
- Interest rate swaps	1,857	-	**1,857**
- Currency swaps	24,076	-	**24,076**
- Foreign exchange contracts	5,419	-	**5,419**
- Forward fuel price contracts	56,846	-	**56,846**
	88,198	**-**	**88,198**
LIABILITIES			
Derivative financial instruments			
- Currency swaps	(43,257)	-	**(43,257)**
- Foreign exchange contracts	(2,198)	-	**(2,198)**
- Forward fuel price contracts	(34,192)	-	**(34,192)**
	(79,647)	**-**	**(79,647)**
Net asset	**8,551**	**-**	**8,551**

	Level 2 € '000	Level 3 € '000	Total € '000
31 December 2016			
ASSETS			
Derivative financial instruments			
- Interest rate swaps	2,828	-	2,828
- Currency swaps	61,289	-	61,289
- Foreign exchange contracts	11,969	-	11,969
- Forward electricity price contracts	-	38,681	38,681
- Forward fuel price contracts	106,049	-	106,049
	182,135	38,681	220,816
LIABILITIES			
Derivative financial instruments			
- Currency swaps	(10,270)	-	(10,270)
- Foreign exchange contracts	(16,804)	-	(16,804)
- Forward fuel price contracts	(56,927)	-	(56,927)
- Forward electricity price contracts	-	(2,161)	(2,161)
	(84,001)	(2,161)	(86,162)
Net asset	98,134	36,520	134,654

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) Fair value hierarchy (continued)

Measurement of fair values - valuation techniques and significant unobservable inputs

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

Type	Valuation techniques	Significant unobservable inputs	Inter relationship between significant unobservable inputs and fair value measurement
Currency swaps, foreign exchange contracts and interest rate swaps	Level 2 - Present valuation of future contracted foreign exchange cash flows using constructed zero-coupon discount curve. The zero-coupon curve is based on 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 electricity, gas, coal and carbon prices with the resulting value discounted to present values. Level 3 - The fair value of some specific forward fuel and electricity contracts are determined by reference to forward electricity prices which are unobservable.	System marginal price (SMP)	The estimated fair value would increase / (decrease) if: SMP was lower / (higher). Generally a change in gas prices is accompanied by a directionally similar change in SMP.
Inflation linked interest rate swaps	Level 2 - Independent valuations are used and validated using the present valuation of expected cash flows using constructed zero-coupon discount curve. The zero-coupon curve is based on the interest rate yield curve of the relevant currency. Future cash flows are estimated using expected RPI benchmark levels as well as expected LIBOR rate sets.		
Financial assets at fair value through profit or loss	**Discount cash flows:** The valuation model considers the present value of expected cash flows. The expected payment is determined by considering the possible scenarios of forecast revenue and gross margin, future cash flows under each scenario and the probability of each scenario. **Market comparison technique:** The valuation model is based on market multiples derived from quoted prices of companies to the investee and the expected gross margin of the investee.	Forecast annual revenue growth rate; Forecast gross margin	Novusmodus typically assess the value of investments based on its expectations of the proceeds which could be realised in a disposal. This value will usually be driven by a number of inputs including the ability of the investee to grow its revenue and associated margins leading to higher EBITDA thus higher values.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) Fair value hierarchy (continued)

The following table shows a reconciliation from opening balances at 1 January 2016 to the year ended 31 December 2017 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**
Balance at 1 January 2016	61,993	296,208	(95,674)	262,527
Additions	6,116	-	-	6,116
Disposals	(1,266)	-	-	(1,266)
Total gains / (losses):				
- in profit or loss	(9,062)	-	-	(9,062)
- in OCI	-	(82,017)	72,233	(9,784)
Settlements	-	(73,938)	47,835	(26,103)
Translation movements	(1,849)	-	-	(1,849)
Balance 31 December 2016 - net	55,932	140,253	24,394	220,579
Balance 1 January 2017	55,932	140,253	24,394	**220,579**
Additions	2,565	-	-	**2,565**
Disposals	(2,268)	-	-	**(2,268)**
Total gains / (losses):				
- in profit or loss	(33,884)	-	-	**(33,884)**
- in OCI	-	47,496	(29,429)	**18,067**
Settlements	-	(94,431)	6,858	**(87,573)**
Translation movements	(180)	-	-	**(180)**
Balance 31 December 2017 - net	**22,165**	**93,318**	**1,823**	**117,306**

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 adjusted for a liquidity discount. 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.

Sensitivity analysis - Level 3 fair values

For the fair values of forward fuel and electricity price contracts, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	31 December 2017		31 December 2016	
GROUP	**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	**(14,165)**	**-**	(22,276)	-
Loss due to 10% increase in the SMP	**12,625**	**-**	26,311	-

NOTES TO THE FINANCIAL STATEMENTS

27. COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

Total commitments under non-cancellable operating leases are due as follows:	2017 € '000	2016 € '000
Within one year	**17,172**	16,631
Between two and five years	**55,075**	54,110
After five years	**149,475**	136,148
Total payable	**221,722**	206,889

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 the 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

	2017 € '000	2016 € '000
Contracted for	**342,432**	248,364

Share of equity accounted investees commitments	2017 € '000	2016 € '000
Contracted for	**61,130**	20,414

(c) Fuel contract commitments

There are a number of long-term gas supply arrangements in place for different periods up to 2019. 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

Following on from flooding in Cork in November 2009, Aviva as University College Cork's (UCC) insurer pursued a legal action against ESB in the High Court seeking recovery of €19 million for property damage. On 5 October 2015 the High Court delivered its judgement in the case and found ESB 60% liable for the damage caused and UCC 40% contributorily negligent.

Based on legal advices received, ESB has appealed the decision to the Court of Appeal and the appeal was heard in November 2017. A decision is expected in 2018. Pending the decision, no hearing on quantum (i.e. the actual amount of damages payable in respect of UCC's losses) will take place and the High Court has stayed its order on costs.

In addition to the UCC claim ESB has, since the judgement in the UCC case, been served with 387 sets of proceedings relating to the flooding in Cork in November 2009. Details of amounts claimed in relation to these proceedings have not yet been received and therefore it is not possible to make a reliable estimate of their cost (should the Court of Appeal find against ESB) at this time. However, ESB does not anticipate that the total amount of damages awarded, if any, and related costs for all of the actions, including the Aviva / UCC action, would exceed its applicable insurance cover.

On the basis of the internal and external legal advice received, ESB believes that it is more probable than not that the appeal will be successful and accordingly, no provision has been made for such claims in the financial statements.

Other than as disclosed above, a number of other lawsuits, claims and disputes with third parties have arisen in the normal course of business. While any litigation or dispute has an element of uncertainty, the Board members believe that there were no contingent liabilities which would have a material adverse effect on the Group's financial position.

NOTES TO 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 EirGrid, Ervia, Bord na Móna and Coillte Teoranta. Long-term agreements are negotiated between ESB and Bord na Móna in relation to the purchase of peat for the Midland stations.

Banks owned by the Irish state
In the normal course of business ESB transacts with certain Irish banks which have become wholly or partially controlled by the Irish Government. All of ESB's transactions with such banks are on normal commercial terms. ESB had no material concentration of borrowings with any such banks during the year or at 31 December 2017. A portion of the cash and cash equivalents as disclosed in note 16 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.

ESOP repurchase
Please refer to note 30 for details of ESOP repurchase.

Subsidiary undertakings
During the year ended 31 December 2017, ESB Parent purchased engineering, consulting and other services, including rental services of €302.3 million (2016: €362.2 million) from its subsidiaries.

During the year, ESB Parent had sales of €195.0 million (2016: €181.2 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 and accrued interest of €41.1 million (2016: €46.2 million) from subsidiaries and paid and accrued interest of €71.8 million (2016: €70.1 million) to subsidiaries on inter-company loans.

At 31 December 2017, ESB Parent had amounts payable of €3,369.1 million (2016: €3,415.4 million) to its subsidiaries. These payables mainly relate to amounts held on deposit for subsidiaries, borrowings raised by ESB Finance DAC and loaned to ESB Parent, as well as amounts due in respect of engineering and consulting services.

At 31 December 2017, ESB Parent had balances receivable of €2,284.3 million (2016: €2,766.9 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. The total impairment provision in respect of amounts owed by subsidiary undertakings at 31 December 2017 was €330.9 million (2016: €nil).

At 31 December 2017, ESB Parent investments in subsidiary undertakings amounted to €61.8 million (2016: €61.8 million). See note 13 for further details.

Equity accounted investees

	Sale of goods / services[1]		Purchase of goods / services[2]		Amounts owed (to) / from as at 31 December[3]		Equity advanced during the year	
GROUP	2017 € '000	2016 € '000	2017 € '000	2016 € '000	2017 € '000	2016 € '000	2017 € '000	2016 € '000
Raheenleagh DAC	**343**	3,000	**9,773**	1,800	**3,769**	3,800	**-**	1,400
Oweninny DAC	**1,927**	100	**-**	-	**12,051**	6,900	**-**	-
Castlepook DAC	**1,681**	5,200	**-**	-	**7,229**	6,900	**-**	-
Emerald Bridge Fibres DAC	**5**	300	**-**	100	**1,433**	5,100	**-**	-
Tilbury Green Power Holdings Ltd	**1,458**	1,000	**721**	-	**51,094**	46,800	**-**	-
Kingspan ESB DAC	**108**	100	**474**	-	**300**	300	**-**	-
SIRO Ltd	**9,499**	11,900	**3,400**	1,900	**67,142**	4,750	**-**	-
Terra Solar Ltd	**-**	100	**-**	-	**-**	-	**-**	2,500
Total	**15,021**	21,700	**14,368**	3,800	**143,018**	74,550	**-**	3,900

[1] ESB provided electricity sales, management and other professional services during the year to equity accounted investees as set out in the above table.

[2] ESB has purchased power and services in relation to telecoms and maintenance during the year from equity accounted investees as set out in the above table.

[3] Amounts owed (to) / from equity accounted investees include shareholder loans, interest on these loans and trade receivable and payable balances. Interest receivable on borrowings relates to Tilbury Green Power Holdings Ltd €13.8 million (2016: €8.4 million) and Emerald Bridge Fibres DAC €1.8 million (2016: €1.4 million).

ESB has committed to provide capital funding to SIRO Ltd of €85.0 million, of which €48.0 million has been advanced as a short-term shareholder loan as included in the table above.

Terms and conditions
Sales to and purchases from equity accounted investees and associates are conducted in the ordinary course of business. The outstanding balances included in receivables and payables as at the balance sheet date in respect of transactions with equity accounted investees and associates are unsecured and settlement arises in cash. No guarantees have been either requested or provided in relation to related party receivables and payables.

NOTES TO THE FINANCIAL STATEMENTS

28. RELATED PARTY TRANSACTIONS (continued)

Key management compensation	2017 € '000	2016 € '000
Salaries and other short-term employee benefits	**2,838**	2,567
Post-employment benefits	**329**	374
	3,167	2,941

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. These include the remuneration of senior executives.

29. ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires a significant number of judgemental assumptions and estimates to be made. These impact on the income and expenses contained within the income statement and the carrying value 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 (see note 21).

(b) The employees in NIE Networks are entitled to membership of the NIE Networks Scheme which has both defined benefit and defined contribution arrangements. The estimation of and accounting for retirement benefit obligations involves judgements made in conjunction with independent actuaries. These include the life expectancy of Scheme members, future salary and pension increases and inflation as well as discount rates. The assumptions used by the Group and a sensitivity analysis of a change in these assumptions are described in note 21.

(c) The value in use, in accordance with IAS 36 Impairment of Assets, of long lived assets and associated goodwill, as described in note 12 and as described below:

For power generation assets, value in use is based on the estimated cash flows expected to be generated by the asset and is based on an external review of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of operating costs and capital expenditure. These cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. The estimation of forecasted revenues and the timing of expenditure requires judgement and is dependent on the economic factors associated with these assets.

(d) As described in note 26 section (i), 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 3 financial instruments, under the meaning of IFRS 13 Fair Value Measurement.

(e) Future costs required to settle current provisions, such as the asset retirement costs and voluntary severance obligations. These liabilities are disclosed in notes 21, 22 and 25.

(f) 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 unbilled trade and other receivables, the useful lives of property, plant and equipment and intangible assets. These items are estimated in accordance with the accounting policies of the Group and current International Financial Reporting Standards.

(g) ESB provide services to around 1.4 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 a small number of customers. Estimates, based on historical experience are used in determining the level of debts that is believed will not be collected. These estimates include such factors as the current state of the Irish economy and particular industry issues (see note 15).

(h) Further details of estimates and judgements regarding ongoing legal claims are described in note 27.

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 ESB. 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 IFRS 10 Consolidated Financial Statements, the financial statements for ESB ESOP Trustee Limited are not consolidated with the results of the ESB Group.

During the year ended 31 December 2015, ESB entered into an agreement to support the acquisition of capital stock in future ESOP internal markets. As part of the agreement ESB committed to match the acquisitions made by the ESOP Trustees up to a value of €25.0 million. An ESOP provision of €2.4 million (2016: €7.0 million) was recognised in the 2017 financial statements in relation to the capital stock repurchase by the ESOP Trustee. During 2017, ESB also commenced the repurchase of the ESOP capital stock and consequently a capital redemption reserve of €4.7 million representing the nominal amount of the share capital cancelled (2016: €nil) arose from the purchase and cancellation of the 4.7 million ESOP share capital for a consideration of €5.6 million. The repurchase reduced the ESOP repurchase provision by €5.6 million and at 31 December 2017, the ESOP repurchase provision (note 25) recognised in other reserves amounted to €15.9 million (2016: €19.1 million).

31. POST BALANCE SHEET EVENTS

Details of dividend declared since the year end are set out in note 17.

There are no other post balance sheet events since the year end that the directors believe require adjustment to or disclosure in the financial statements.

32. APPROVAL OF FINANCIAL STATEMENTS

The Board approved the financial statements on 27 February 2018.

NOTES TO THE FINANCIAL STATEMENTS

33. SUBSIDIARY, EQUITY ACCOUNTED INVESTEES AND ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
Direct subsidiary			
ESB Energy International Ltd.	2	100	Holding company
ESB Electric Ireland Ltd. (UK)	4	100	Electricity sales
ESB Finance DAC.	2	100	Finance
ESB Financial Enterprises Ltd.	2	100	Holding company
ESB International Investments Ltd.	2	100	International investments
ESB International Ltd.	2	100	Holding company
ESB Networks DAC.	8	100	Power distribution
ESBNI Ltd.	5	100	Holding company
Indirect subsidiary			
Airvolution Energy (Agney Farm) Ltd.	7	100	Power generation
Airvolution Energy (Car Ban Wind Farm) Ltd.	7	100	Power generation
Airvolution Energy (Hafod-Y-Dafal) Ltd.	7	100	Power generation
Airvolution Energy (Hartwood Hill) Ltd.	7	100	Power generation
Airvolution Energy (Shotts 2) Ltd.	7	100	Power generation
Airvolution Energy (Tarvie) Ltd.	7	100	Power generation
Airvolution Energy (Washpit Drove) Ltd.	7	100	Power generation
Airvolution Energy (West Scales) Ltd.	7	100	Power generation
Airvolution Energy Ltd. (UK)	7	100	Power generation
Blarghour Wind Farm Ltd.	9	8	Power generation
Cambrian Renewable Energy Ltd.	4	100	Power generation
Capital Pensions Management Ltd.	6	100	Pension scheme administration
Cappawhite Wind Ltd.	2	100	Power generation
Carrington Power Ltd.	4	100	Power generation
Chirmorie Wind Farm Ltd.	9	8	Power generation
Coolkeeragh ESB Ltd.	5	100	Power generation
Corby Power Ltd.	3	100	Power generation
Corvoderry Wind Farm Ltd.	2	100	Power generation
Crockagarran Windfarm Ltd.	5	100	Power generation
Crockahenny Wind Farm DAC.	2	75	Power generation
Crockdun Windfarm (NI) Ltd.	5	100	Power generation
Curryfree Wind Farm Ltd.	5	100	Power generation
Dell Wind Farm Ltd.	9	8	Power generation
Devon Wind Power Ltd.	4	100	Power generation
EC02 Cambrian Ltd.	4	100	Holding company
Electric Ireland Ltd. (UK)	4	100	Dormant
Electricity Supply Board Services B.V.	12	100	Facility management
ESB 1927 Ltd.	2	100	Property management
ESB Asset Development (UK) Ltd.	4	100	Business development
ESB Commercial Properties Ltd.	2	100	Property management
ESB Energy Ltd.	4	100	Supply company
ESB Electric Ireland Ltd.	4	100	Dormant
ESB Independent Energy (NI) Ltd.	2	100	Electricity sales

NOTES TO THE FINANCIAL STATEMENTS

33. SUBSIDIARY, EQUITY ACCOUNTED INVESTEES AND ASSOCIATE UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Indirect subsidiary (continued)			
ESB Independent Energy Ltd.	2	100	Electricity sales
ESB Independent Generation Trading Ltd.	2	100	Electricity and gas trading
ESB Innovation UK Ltd.	4	100	Provision of energy and electromobility services
ESB Innovation ROI Ltd.	2	100	Provision of energy and electromobility services
ESB Novus Modus GP Ltd.	2	100	Clean technology investment
ESB Power Generation Holding Company Ltd.	2	100	Holding company
ESB Services BV (Holland).	12	100	Operations and maintenance services
ESB Solar (IRE) Ltd.	2	100	Business and management consultancy activities
ESB Solar (NI) Ltd.	5	100	Business and management consultancy activities
ESB Telecoms Ltd.	2	100	Telecommunications
ESB Trading Ltd.	2	100	Management and operation services
ESB Wind Development Ltd.	2	100	Business development
ESBI Carbon Solutions Ltd.	2	100	Carbon emission reduction
ESBI Computing Ltd.	2	100	Computer services
ESBI Consultants Ltd.	1	100	Consultancy
ESBI Contracting Ltd.	2	100	Business development
ESBI Eng & FM (Botswana) (Proprietary) Ltd.	11	100	Engineering and consultancy
ESBI Engineering and Facility Management Ltd.	1	100	Engineering
ESBII UK Ltd.	4	100	Holding company
ESBI Luxembourg S.A.	32	100	Electricity generating assets investment
Facility Management UK Ltd.	4	100	Facility management
Garvagh Glebe Power Ltd.	2	100	Power generation
Garvary Wind Farm Ltd.	9	8	Power generation
Geothermal International Ltd.	10	82.1	Power generation
Geothermal International Hrvatska (Croatia) d.o.o.	31	10	Power generation
Geothermal International Italia SRL.	29	20	Power generation
Geothermal International Magyarorszag Korlatolt Felelossegu Tarsasag.	28	40	Power generation
Geothermal International Polska Sp Zoo (Spolka Z Organiczona Odpowiedzialnoscia).	30	89	Power generation
GI Holdings North America Inc.	26	100	Holding company
Glendye Wind Farm Ltd.	9	8	Power generation
Gort Windfarms Ltd.	2	100	Power generation
Greengate Energy Recovery Ltd.	4	100	Power generation
Hibernian Wind Power Ltd.	2	100	Power generation
Hunter's Hill Wind Farm Ltd.	5	100	Power generation
Kerry Wind Power Ltd.	2	100	Power generation
Kirk Hill Wind Farm Ltd.	9	8	Power generation
Knottingly Power Ltd.	4	100	Power generation
Mount Eagle Wind Farm Ltd.	2	100	Power generation
Mountainlodge Power DAC.	2	85.9	Power generation
NIE Finance PLC.	6	100	Finance
NIE Ltd.	6	100	Dormant
NIE Network Services Ltd.	6	100	Non-trading
Northern Ireland Electricity Ltd.	6	100	Dormant
Northern Ireland Electricity Networks Ltd.	6	100	Power transmission and distribution
Orliven Ltd.	2	100	Power generation

NOTES TO THE FINANCIAL STATEMENTS

33. SUBSIDIARY, EQUITY ACCOUNTED INVESTEES AND ASSOCIATE UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Indirect subsidiary (continued)			
Planet 9 Energy Ltd.	4	100	Supply company
REG Greenburn Ltd.	33	10	Power generation
REG Knockodhar Ltd.	33	10	Power generation
Silahertane Energy Project Two Ltd.	2	100	Power generation
Synergen Power Ltd.	14	100	Power generation
Power Generation Technology Snd. Bhd.	18	100	Power generation
Tullynahaw Power Ltd.	2	100	Power generation
Turnalt Wind Farm Ltd.	9	8	Power generation
Utility Operation & Maintenance Services Ltd.	14	100	Operations and maintenance services
Waterfern Ltd.	2	100	Power generation
West Durham Wind Farm (Holdings) 2 Ltd.	4	100	Holding company
West Durham Wind Farm (Holdings) Ltd.	4	100	Holding company
West Durham Wind Farm Ltd.	4	100	Power generation
Woodhouse Wind Farm Ltd.	2	100	Power generation
Equity accounted investees			
Castlepook Power DAC.	2	50	Power generation
Emerald Bridge Fibres DAC.	2	50	Telecommunications
Kingspan ESB DAC.	2	50	Business and management consultancy activities
Oweninny Power DAC.	2	50	Power generation
Raheenleagh Power DAC.	2	50	Power generation
SIRO Ltd.	2	50	Fibre to the building
Tilbury Green Power Holdings Ltd.	4	47	Holding company
Tilbury Green Power Ltd.	4	47	Power generation
Associate undertakings			
Terra Solar Ltd.	27	25	Power generation
Investments			
Cylon Controls Ltd.	20	36.2	Clean technology investment
Endeco Technologies Ltd.	21	22	Clean technology investment
Heliex Power Ltd.	22	34.3	Clean technology investment
Nualight Ltd.	23	41	Clean technology investment
Pesaka Technologies.	17	30	Power generation
Rousch Pakistan Power.	13	7	Power generation
TenKsolar Inc.	25	4	Clean technology investment
UNES Operation and Maintenance Inc.	16	50	Operations and maintenance services
VantagePoint Cleantech Partners II, L.P.	24	4.5	Clean technology investment
Other			
ESB ESOP Trustee Ltd.	15	100	Staff shareholding scheme

NOTES TO THE FINANCIAL STATEMENTS

33. SUBSIDIARY, EQUITY ACCOUNTED INVESTEES AND ASSOCIATE UNDERTAKINGS (continued)

ESB's principal place of business is Two Gateway, East Wall Road, Dublin 3, D03 A995

Notes:

1 ESB International, One, Dublin Airport Central, Dublin Airport, Cloghran, Co. Dublin
2 Two Gateway, East Wall Road, Dublin 3, D03 A995
3 Mitchell Road, Phoenix Parkway, Corby, Northamptonshire MN17 1Q7
4 Tricor Services Europe LLP, 4th Floor, 50 Mark Lane, London, EC3R 7QR
5 2 Electra Road, Maydown, Derry, BT47 6 UL
6 120 Malone Road, Belfast BT9 5HT
7 Palladium House, 1-4 Argyll Street, London, W1F 7TA
8 Clanwilliam House, Clanwilliam Place, Dublin 2
9 22-24 King Street, Maidenhead, SL6IEF
10 Shellingwood House, Westwood Way, Westwood Business Park, Coventry, CV48J2
11 Deloitte House, First Floor, Plot, 64518, Fairgrounds Office Park, Gaborne, Botswana
12 22nd Floor, Menara, EON Bank, Lala Raja Laut, 50350, Kuala Lumpur, Malaysia
13 94-W, 3rd Floor, AAMIR Plaza, Jinnah Avenue, Blue Area, Islambad, Pakistan
14 ESB Dublin Bay, Pigeon House Road, Ringsend, Dublin 4, D04 Y5N2
15 43 Merrion Square, Dublin 2
16 Nispetiye Cad Akmerkez E3 Blok K, 13Etiler/Beskiktas, Turkey
17 Level 1, Menara Yavasan, Tun Razak, Zoo, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia
18 10th Floor, Wisma Havela, Thakardos, No 1 Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia
19 C/O Staffords Cpc1 Capital Park, Fulbourn, Cambridge, United Kingdom, CB21 5XE
20 Clonshaugh Business and Technology Park, Clonshaugh, Dublin 17
21 3015, Lake Drive, Citywest Business Park, Dublin 24
22 Kelvin Building Bramah Avenue, East Kilbride, Glasgow, G75 0RD
23 Cork Business and Technology Park, Model Farm Road, Cork
24 C/O Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O Box 2681, Grand Cayman, KY1-1111, Cayman Islands
25 9231 Penn Avenue South, Minneapolis, Minnesota, 55431
26 134 N LaSalle St, Suite 510, Chicago, IL 60602
27 57 Hollybank Avenue Lower, Ranelagh, Dublin 6
28 H-1015 Budapest, Batthyány utca 56, Hungary
29 Trezzano Sul Naviglio - Viale C.Colombo, 8
30 Geothermal International Polska, Parkova 21 lok 7, 00-759 Warszawa, Poland
31 ZagrebaCka 94, 42000 VaraZdin
32 6, Rue Eugene Ruppert, L-2453, Luxembourg
33 2nd Floor Edgeborough House, Edgeborough Road, Guildford, Surrey, GU1 2BJ

Report of Board Members on Compliance with the Prompt Payment of Accounts Act, 1997 and European Communities (Late Payments in Commercial Transactions) Regulations, 2012 (S.I. No. 580 of 2012) as amended by European Communities (Late Payments in Commercial Transactions) (Amendment) Regulations 2016 (S.I. No. 281 of 2016)

Introduction
Payments terms during 2017 were governed by three items of legislation:
- The Prompt Payment of Accounts Act, 1997.
- European Communities (Late Payment in Commercial Transactions) Regulations 2012 (S.I. No. 580 of 2012) as amended by European Communities (Late Payment in Commercial Transactions) (Amendment) Regulations 2016 (S.I. No. 281 of 2016) to combat late payments in commercial transactions. These Regulations apply to contracts for goods and services supplied to ESB.
- Construction Contracts Act 2013. This Act applies to construction operations and ancillary services over €10,000.

Statement of payment practices
ESB is committed to paying all undisputed supplier invoices within their agreed terms of payment.

Procedures and controls in place
Appropriate internal financial controls have been implemented including clearly defined roles and responsibilities. These procedures provide assurance against material non-compliance with the legislation.

Prompt Payment Code of Conduct
In 2015, the Government launched the Prompt Payment Code of Conduct, which can be found at www.promptpayment.ie. ESB are signatories to this code and undertake to pay suppliers on time, give clear guidance to suppliers on payment procedures and encourage the adoption of the Code by ESB suppliers within their own supply chains.

Construction Contracts Act 2013
This Act came into effect on 25 July 2016. ESB have reviewed their responsibilities under this Act and have communicated these responsibilities to all impacted staff.

Details of late payment interest in respect of 2017
When ESB validates a late payment request from a supplier, it is ESB's policy to pay interest due on such late payments. Two payments amounting to €7,542 were made in respect of late payments during the year 2017 (2016: €nil).

Ellvena Graham OBE
Chairman

Pat O'Doherty
Chief Executive

1 March 2018

GLOSSARY

1. British Electricity Trading and Transmission Arrangements (BETTA)
British Electricity Trading and Transmission Arrangements (BETTA) is the wholesale electricity market operating in Great Britain (GB).

2. Brexit
Brexit is the potential departure of the United Kingdom (UK) from the European Union (EU).

3. Commission for Regulation of Utilities, Water and Energy (CRU)
The Commission for Regulation of Utilities, Water and Energy (CRU) is the independent regulator of water and energy in the Republic of Ireland (ROI).

4. Contract for Difference (CfD)
A contract for difference (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. If the difference is negative, the seller pays instead of the buyer.

5. Dark Spread
The difference between the price of a unit of electricity and the cost of the coal used to generate it.

6. EBITDA Excluding Exceptional Items
Operating profit before interest, taxation, depreciation, impairment, amortisation (including amortisation of supply contributions) and exceptional items.

7. Electricity Market Reform (EMR)
Electricity Market Reform (EMR) is a UK Government policy to incentivise investment in secure, low-carbon electricity, improve the security of GB's electricity supply and improve affordability for consumers.

8. Energy for Generations Fund
In November 2013, ESB launched the Energy for Generations Fund, a corporate responsibility investment which will see over €2 million per year disbursed across a range of community and issues-based initiatives.

9. Environmental Protection Agency (EPA)
The Environmental Protection Agency is an independent public body established under the Environmental Protection Agency Act, 1992. It is at the front line of environmental protection and policing.

10. Gigabit (Gb/s)
Gigabit (Gb/s) is a unit of data transfer rate equal to: 1,000 megabits per second.

11. Gigawatt (GW)
Gigawatt (GW), being the amount of power equal to 1 billion watts.

12. Gigawatt Hours (GWh)
Gigawatt Hours (GWh), being the amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

13. Great Britain (GB)
England, Wales and Scotland.

14. Impairment
An impairment charge is determined when the carrying value (book value) of assets exceeds its recoverable amount.

15. Integrated Single Electricity Market (I-SEM)
This European Target Model is a development flowing from the Third Energy Package and is an umbrella term for a detailed list of new common EU guidelines, procedures and codes to be put in place to enable a single EU-wide wholesale electricity market. The implementation of these common EU guidelines, procedures and codes across the EU will allow electricity and gas to be traded freely across the Union.

16. Joint Venture (JV)
A company or other entity which is controlled jointly with other parties.

17. Liquefied Natural Gas (LNG)
Liquefied natural gas, a clear, colourless, non-toxic liquid that forms when natural gas is cooled to -162°C (-260°F).

18. Lost Time Injuries (LTIs)
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.

19. Megawatt (MW)
Megawatt (MW), being the amount of power equal to 1 million watts.

20. Megawatt Hours (MWh)
Megawatt hours (MWh), being the amount of energy equivalent to delivering 1 million watts of power for a period of one hour.

21. Novusmodus Fund
The Novusmodus Fund is a venture capital fund in which seed capital is invested into emerging technologies.

22. OHSAS 18001
OHSAS 18001 Occupational, Health and Safety Management Certification is an international standard which provides a framework to identify, control and decrease the risks associated with health and safety within companies.

23. Over the Counter 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.

24. Pay As You Go
Pay As You Go products allows users to control electricity usage and track usage from a monitor to enable them to know how much they are spending on electricity at all times.

25. Price Control Review 4 (PR4)
Regulatory periods are of 5 years' duration and the Price Control Review 4 (PR4) covers the period 2016 to 2020 and sets out the total regulated allowed revenues over that period as determined by the CRU.

26. Regulatory Period 5 (RP5)
Regulatory Period 5 (RP5), is a regulatory period of 5 years' duration for price control, covering the period 1 April 2012 to 31 March 2017, determined by the Utility Regulator in Northern Ireland (NI).

27. Regulatory Period 6 (RP6)
Regulatory Period 6 (RP6), is a regulatory period for price control, covering the period 1 October 2017 to 31 March 2024, determined by the Utility Regulator in NI.

28. Return on Capital Employed (ROCE)
The Return on Capital Employed (ROCE) shows the overall return on capital provided by both debt and equity.

29. Single Electricity Market (SEM)
The Single Electricity Market (SEM) is a wholesale pool-based electricity market operating north and south of the Irish Border.

30. Single Electricity Market Operator (SEMO)
The SEM is operated by the Single Electricity Market Operator (SEMO), a joint venture between EirGrid and the System Operator for Northern Ireland (SONI), the transmission system operators in ROI and NI respectively.

31. SIRO
A joint venture with Vodafone, which will bring 1 gigabit per second (Gb/s) broadband to 500,000 customers in fifty towns across Ireland using the existing distribution network.

32. Smart Energy Services (SES)
Smart Energy Services (SES) is a complete energy management solution that brings all of the skills and experience of a global energy innovator to businesses.

33. Smart Grid
A transformed electricity transmission and distribution network or grid that uses robust two-way communications, advanced sensors and distributed computers to improve the efficiency, reliability and safety of power delivery and use.

34. Smart Meter Programme
The smart meter programme is the next generation of energy meter. They will replace the traditional electricity and gas meters removing the need for a home visit to read the meter and

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will eliminate the need to use estimates whenever a meter cannot be read.

35. Safety Leadership Strategy
A framework that shows a clear and simple way of articulating the safety responsibilities, obligations and expectations that everyone in ESB has in order to maintain a safe environment.

36. Spark Spread
The difference between the price of a unit of electricity and the cost of the gas used to generate it.

37. Start-up Costs
Start-up Costs are costs a generator faces if it needs to be turned on after a period of inactivity.

38. Stay Safe, Stay Clear
The core objective of the campaign is to educate people to be mindful of electricity wires while they are outdoors and to always stay safe and stay clear of electricity wires.

39. Sustainable Energy Authority of Ireland (SEAI)
The Sustainable Energy Authority of Ireland (SEAI) was established as Ireland's national energy authority under the Sustainable Energy Act 2002.

40. System Operator for Northern Ireland (SONI)
The System Operator for Northern Ireland (SONI) ensures the safe, secure and economic operation of the high voltage electricity grid in NI and in co-operation with EirGrid colleagues is also responsible for running the all-island wholesale market for electricity.

41. System Marginal Price (SMP)
The wholesale price of electricity for each half hour period.

42. United Kingdom (UK)
England, Wales, Scotland and Northern Ireland.

43. Utility Regulator (UR)
The independent non-ministerial government department set-up to ensure the effective regulation of the electricity, gas and water and sewerage industries in NI.

44. Vertically Integrated Utility (VIU)
The Vertically Integrated Utility (VIU) refers to 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 customers.

45. X_Site
ESB's first innovation hub, X_Site is a place where new business ideas and start-ups are incubated.