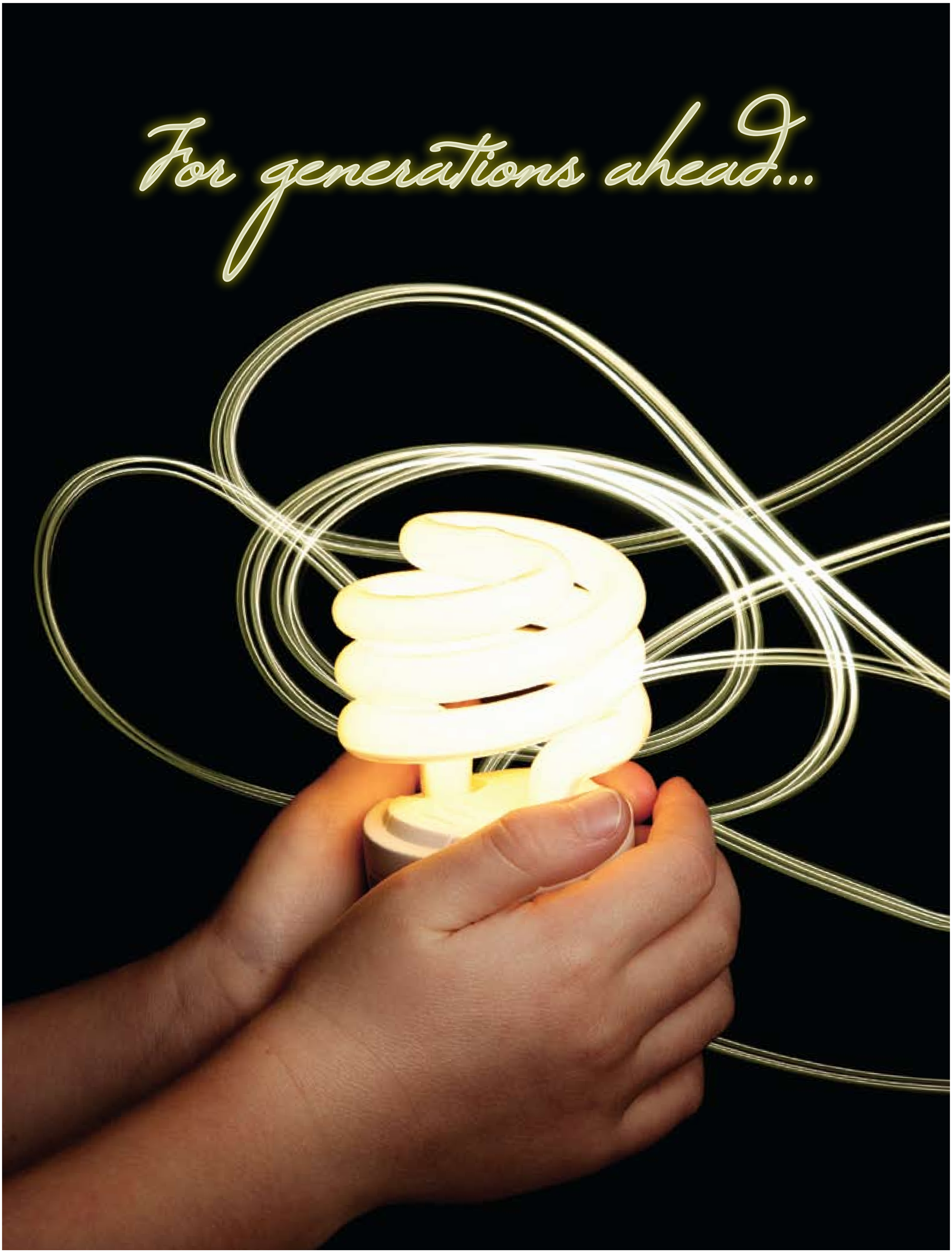


www.esb.ie

ESB

Financial Highlights

€339m

Adjusted operating profit: €339m
-3% on prior year

52%

Gearing: 52%
+11% on prior year

€12,112m

Total Assets: €12,112m
+27% on prior year

6,911

Employee Numbers: 6,911*
-8% on prior year

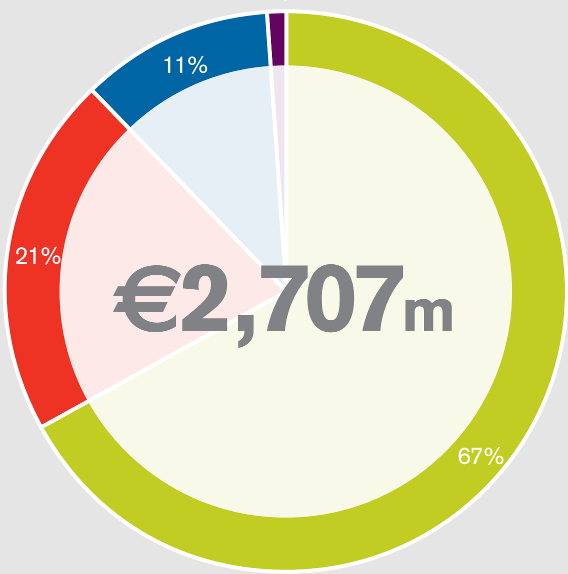
42%

Supply all-island market share: 42%
-8% on prior year

47%

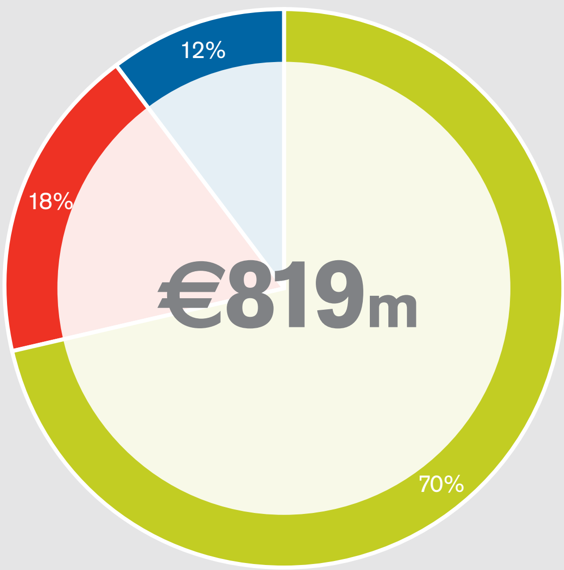
Generation all-island market share: 47%
+5% on prior year

Revenue by segment



ESB Electric Ireland **67%**
ESB Energy International **11%**
ESB Networks **21%**
Other segments **1%**

Capital expenditure by segment*



ESB Networks **70%**
Renewables **18%**
Energy International and other **12%**

* Excludes NIE

CONTENTS

Our plan reaffirms our ambition to be a world-leading, commercially successful and environmentally responsible utility.

01
BUSINESS OVERVIEW

In this section

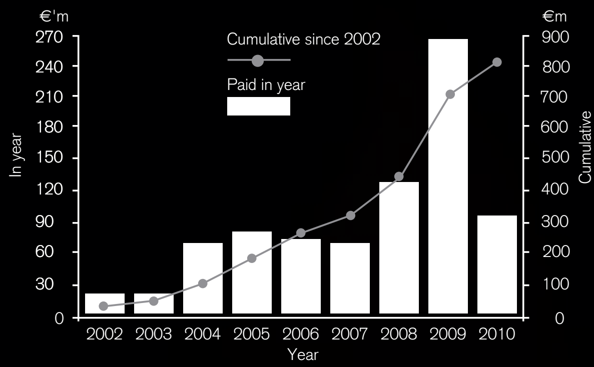
OVERVIEW
ESB delivered a strong performance in 2010 in a very challenging business environment. In this section Chairman Lochlann Quinn and Chief Executive Padraig McManus discuss the key events that shaped 2010 and outline the priorities for the business in 2011 and beyond.

Chairman’s Statement

Once again ESB delivered a strong performance in 2010 in a very challenging business environment.

The financial statements show an operating profit of €339 million (2009: €350 million) before exceptional items. The exceptional item relates to the Pension Agreement reached with staff to resolve the €2 billion actuarial deficit in ESB’s pension scheme. Allowing for this exceptional item, there is an operating profit of €9 million.

Dividend payments 2002 to 2010



I wish to compliment management and staff who, through ESB’s partnership process, achieved such a beneficial pension outcome for all involved.

The Board is recommending a final dividend of 3.89 cent per unit stock or €77 million in aggregate.

The economic recession has led to a reduction in electricity demand. Competition has increased with the arrival in the Irish market of major UK and European utilities. ESB’s share of the generation market on an all-island basis is now 47%. Our share of the supply market on an all-island basis is 42%.

ESB has responded to this more challenging environment by launching a cost reduction programme across the Group. Our aim is to take €280 million out of our cost base by 2015 – including a 20% reduction in payroll costs.

We continue to focus on growth. Capital expenditure was over €2 billion in 2010 of which €1.2 billion relates to the acquisition of NIE, the electricity network in Northern Ireland. This strategic investment will provide real benefits to ESB, to NIE and to our customers in the years and decades ahead, including supporting the delivery of an all-island smart electricity network in line with ESB strategy.

Over the last decade ESB has grown annual revenues to some €3 billion, has made capital investments averaging €1 billion a year and has contributed almost €1.2 billion in dividends and subsidies to the Exchequer. This growth and investment has allowed ESB to continue to make a very significant contribution to the Irish economy in difficult times.

During 2010 Georgina Kenny, Bobby Yeates and John Nugent completed their terms on the Board. In early 2011 Eoin Fahy completed his term of office after ten years as a Board member. I would like to thank them for their contribution to ESB.

Padraig McManus, our Chief Executive since 2002, has recently announced his intention to retire when a replacement is appointed. Padraig has an extraordinary record of achievement as Chief Executive and I look forward to working with him during 2011 as we continue to build on that success.

I would like to pay a special tribute to ESB staff who have shown their loyalty and commitment as we address the challenges of a changing industry and a difficult economic environment.

In accordance with the provisions of the Electricity (Supply) Acts 1927 to 2004 the Board presents the Annual Report and Accounts for the year ended 31 December 2010.

Lochlann Quinn
Chairman

Chief Executive's Review

HIGHLIGHTS

- → Completed the acquisition of Northern Ireland Electricity (NIE)
- → Landmark agreement to resolve the €2 billion pension deficit
- → Commercial freedom in the residential market from April 2011

In spite of the extremely difficult economic climate prevailing through 2010, ESB performed strongly, marking the year with a €1 billion investment in vital infrastructure, finalising the acquisition of Northern Ireland Electricity and resolving its pension deficit.

As a strong, innovative Irish energy company, ESB continued to make a major contribution to the economy, delivering a dependable and secure electricity service and offering the best possible service to customers. The company contributed approximately €2.2 billion to the Irish economy through purchases from Irish suppliers, wages, taxes, rates and dividends.

Abroad, ESB International continued to grow expanding its interests in Tanzania, Bahrain, Romania and Southern Africa.

Q What were ESB's key achievements in 2010?

A ESB's acquisition of Northern Ireland Electricity (NIE) in December 2010 for €1.2 billion represented a strategic alignment of the Transmission and Distribution systems across the island of Ireland. NIE owns the regulated electricity networks in Northern Ireland and is responsible for planning, development, construction and maintenance of the entire network. It also acts as operator of the Distribution network.

NIE has a long history of strong and stable financial performance, with enormous potential for growth and synergies of skill and expertise between the two businesses. The acquisition also supports the delivery of an all-island Smart Grid which will be reinforced with the construction of planned inter-connection.

ESB regards the acquisition as a natural extension of our core businesses and we are fully committed to making the investment required to help deliver Northern Ireland's strategic energy framework subject to continuing regulatory support.

ESB also reached a landmark agreement with staff to resolve a €2 billion actuarial pension deficit. This agreement allows the company to meet its commitments to the pension scheme on a sustainable basis. The scheme protects the income of pensioners while securing future pensions of existing staff.

Q How did ESB respond to deregulation requirements and their impact on customers?

A Dedication to customer care is always the primary focus of ESB's business through the delivery of the best possible service, at every level. We are all aware of how difficult 2010 was for business and for the individual customer; accordingly, we embarked on major adjustments to accommodate change and develop services to assist their needs.

In line with regulatory requirements, ESB prepared for a smooth transition from regulation to commercial freedom when the company could compete in the deregulated residential market. ESB's market share in this sector fell to 60% through 2010.

The company proceeded with the rebranding of its supply business – to be known as "ESB Electric Ireland" on an interim basis and "Electric Ireland" from 2012 – and also prepared for entry to the gas market in 2011.

The impending arrival of full competition in the electricity market meant the development of a competitive strategy involving a range of special value electricity and gas tariffs for customers.

In a time when savings were never as important for customers, ESB Electric Ireland also launched a number of energy efficiency initiatives, including the countrywide insulation and retrofit HALO Programmes.

Q What actions did ESB take in 2010 as part of its sustainable development?

A A strong electricity infrastructure lies at the heart of any economy and ESB has effectively rebuilt its Networks since 2002 to make it one of the most robust and safe in the world. It is now in the process of extending the potential of the Networks to underpin a whole range of future development from greater wind capacity to Smart Metering to powering our transport fleet.

In 2010 ESB invested almost €600 million through ongoing renewal and extension of the Transmission and Distribution grids and connecting wind generators to the Network. In excess of 1700 MWs of wind is now connected to the network.

By international standards, ESB, working with the Department of Communications, Energy and Natural Resources and the Commission for Energy Regulation (CER), is well ahead in advancing the introduction of smart metering, a system that can potentially overhaul the way we consume or save electricity. In 2010, the Smart Metering project and customer behaviour trials were completed. These will inform the cost-benefit analysis and technical aspect of the national roll-out of Smart Metering.

For more details see
Financial Review P13

We are working towards being a world leading, commercially successful and environmentally responsible utility.

Further developments also took place in 2010 to realise the prospect of common electric vehicle usage in Ireland within a realistic timeframe. ESB began work on the installation of the first of its 2000 domestic EV charge points, as well as 1500 on-street chargers – and signed four Memoranda of Understanding with the Government and car manufacturers to assist the flow of electric vehicles into the Irish market.

In short – the ESB strategy for Sustainable Networks centred on:

- Delivery of an infrastructure to support economic growth and sustainability targets.
- Take a leadership role in Smart Networks implementation.
- Promote Smart Metering for eventual national roll-out.
- Begin the building of electric charging network.

ESB accounted for 47% of power generation in Ireland (all-island) in 2010 – reflecting the degree of competition from other energy companies, both Irish and European.

We continued to modernise our generation portfolio through the sale or closure of old thermal stations, the construction of new base load plant at Aghada, Cork, that commenced commercial operation in April 2010, and the completion of the Environmental Retrofit Project at Moneypoint, Clare.

In its conventional electricity generation, ESB continued to develop a sustainable portfolio to the highest environmental standards while expanding its wind generation capacity. During 2010 we added 90MW of new operating capacity, bringing our wind generation portfolio to 235 MW. A further 96MW was under construction with a potential 800 MW in the pipeline.

As we press ahead with our strategy to become carbon-neutral by 2035, it is worth noting the pattern of ESB's decreasing CO_2 emissions from its power stations; levels fell from 14.1 million tonnes in 2005 to 9.7 million tonnes in 2010.

Meanwhile, ESB and the regulatory authorities continued their discussions around the issue of re-integrating the company's generation, trading and supply businesses in line with competitors.

Q What are ESB's main priorities for the future?

A We are living through turbulent financial times but, after almost 85 years growing in tandem with the State, ESB continues to be a major contributor to the economy, playing a lead role in the provision of critical infrastructure and service.

We are acutely aware of the extremely difficult financial constraints facing the public as well as our own business and are taking major steps to cut our cost base and to deal with customer concerns.

ESB remains well capitalised with a highly-skilled and innovative workforce and we strongly support the research and development of sustainable energy technologies. Our mandate is to deliver public service at its best while leading change in our sector through long-term planning and prudent spending.

High standards of care permeate all aspects of our business and, as a utility dealing in electricity, we must remain forever vigilant about safety. This is always a priority and we are making progress each year as we work toward achieving our zero injury target.

I am very optimistic for the future of ESB, notwithstanding the many challenges. The company is focussed, resilient and strong with a pragmatic strategy for development and growth in the years ahead while maintaining the financial strength of the company.

Q What plans do you have for reducing costs?

A We launched a Performance Improvement Programme throughout the company designed to reduce our cost base by €280 million by 2015. Achievement of this target is essential in our response to strong and growing competition in our home market and to maintaining our ambitious capital investment programme.

This programme is on target with the achievement of close to €100 million ongoing savings in 2010 and a focus on reducing our payroll costs by 20%.

Q How confident are you that these ambitious targets can be achieved?

A Over the last decade we have worked in partnership with our staff to tackle major change issues. I am confident that working together we can continue to succeed in delivering our strategic objectives.

Once again in 2010 our dedicated staff have delivered a very strong outcome for ESB. Continually improving our safety performance and delivering our targets in a very competitive market we have placed ESB in a position to continue to grow and succeed in the future.

Padraig McManus
Chief Executive

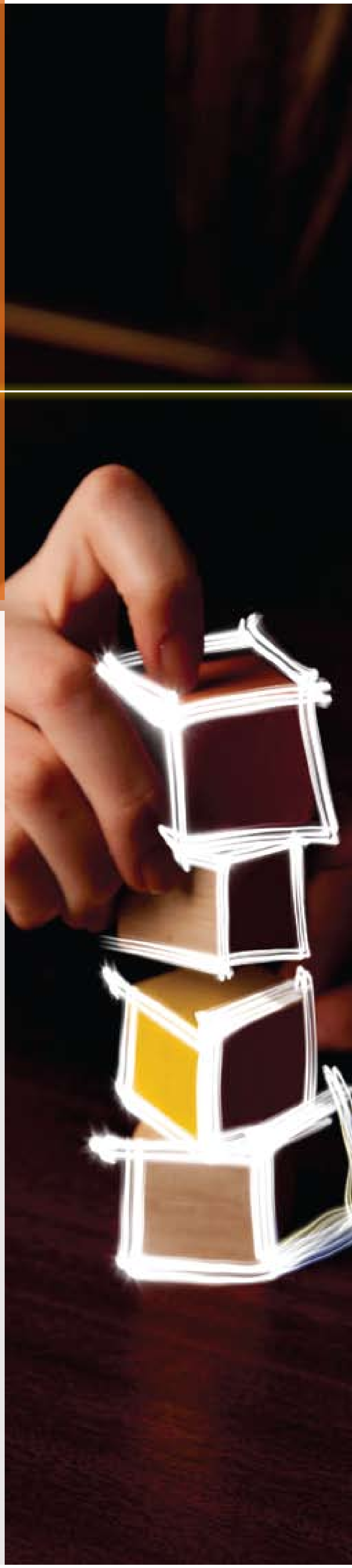
02 OPERATING & FINANCIAL REVIEW

OVERVIEW

ESB's core mission is to meet the energy and energy services needs of our customers, generate returns for our shareholders and remain financially strong. We are also committed to creating a safe and attractive work place for our employees. The following section outlines our strategy to achieve this mission, provides a detailed financial review of 2010 and includes detailed business unit performance information for the Group's three strategic divisions, ESB Networks, ESB Electric Ireland and ESB Energy International.

Year-on-year financial performance	2010 (€m)	2009 (€m)
Adjusted operating profit*	339	350
Cash generated from operations	858	646
Capital expenditure	819	921
NIE Acquisition	1,223	-
Net debt	(3,944)	(2,231)
Total assets	12,112	9,567

*Adjusted operating profit excludes the impact of an exceptional pension charge in 2010 (€330 million) and a one-off gain in relation to the sale of generation assets in 2009 (€265 million).



OUTLOOK

The current economic climate is expected to continue to pose significant challenges for our business into 2011. Looking forward, key priorities for the Group include:

- Continued focus on funding and liquidity;
- Continuing to successfully deliver the significant capital expenditure programmes on time, on budget and to the Groups high standards;
- Maintaining focus on the performance improvement programme in order to deliver sustained growth in shareholder value especially in the context of the economic downturn and an increasingly competitive environment;
- Management of the trading risk arising from the SEM and GB markets while continuing with effective fuel procurement strategies to mitigate the volatility in customer prices;
- Ensuring our Supply businesses compete successfully in the unregulated retail electricity market.

In this section

OPERATING & FINANCIAL REVIEW
STRATEGY

Strategy and Objectives

ESB's core objective is to meet the energy needs of our customers, generate returns for our shareholders, and ensure a safe and sustainable working environment for the benefit of our employees, suppliers, customers and society at large. We recognise that the electricity sector has changed profoundly over recent years and will change at an even greater pace into the future. Our vision therefore is for ESB to be a world-leading, commercially successful and environmentally responsible utility capable of adapting to the changing markets in which we operate.

ESB's strategy is built around responding to what we see as the long-term challenges in our markets. These challenges include:

- Long-term Security of Supply
- Decarbonisation and Sustainability
- Greater Competition – both within Ireland and also through the emergence of the Regional Electricity Market across Ireland and Great Britain
- Cost Reduction – driven by the need to deliver competitive and cost-effective energy services for our customers.

These challenges need to be addressed against a backdrop of significant uncertainties and risks facing the energy sector more generally across Europe. In responding to these challenges we will retain our fundamental financial strength through prudent management of a robust and diversified portfolio of regulated and competitive businesses combined with a strong balance sheet.

Strategic Framework to 2020

In 2008 the Board approved The Strategic Framework to 2020 which challenges ESB to be a world-leading, commercially successful and environmentally responsible utility. The Strategic Framework to 2020 is built on five main areas of focus:

1. A Renewable Business of Scale
2. Best Practice Sustainable Generation Portfolio
3. World-Class Sustainable Networks
4. Customer Focussed Supply Business
5. Significant International Presence

Based on this Strategic Framework, our core objectives are to:

- Decarbonise our Generation Business in Ireland by 2035.
- Develop an integrated Generation Trading and Supply portfolio that will compete successfully as the increasingly competitive market in Ireland integrates with the energy market in Great Britain under the direction of the EU's Regional Electricity Market initiative.
- Lead the development of Smart Grid and Smart Metering across our Transmission and Distribution networks to enable optimum penetration and integration of renewable generation, deployment of distributed generation, rollout of demand management programmes and enable transport electrification.
- Develop an Energy Services Business, to complement our supply business, focussed on delivering energy efficiency measures to meet emerging customer needs.

To deliver on this strategy, ESB derives income and profit from:

- Regulated networks businesses earning an allowed return on the Regulated Asset Base (RAB) through Use of System charges payable by electricity generators and suppliers;
- Generation and sale of electricity spread over a diverse range of fuels and technologies;
- Supply of electricity; and
- Other energy related activities driven by energy efficiency.

OPERATING & FINANCIAL REVIEW
FINANCIAL REVIEW

Five year summary

	2010 (€m)	2009 (€m)	2008 (€m)	2007 (€m)	2006 (€m)
Revenue and other operating income	2,740	3,114	3,515	3,493	3,128
Adjusted operating profit*	339	350	340	523	337
Profit/ (loss) after tax	(84)	580	273	432	223
Cash generated from operations	858	646	872	1,005	595
Capital expenditure**	819	921	1,094	903	831
Net debt	(3,944)	(2,231)	(2,088)	(1,797)	(1,960)
Gearing (%)	52%	41%	44%	41%	47%
Total assets	12,112	9,567	8,645	7,707	7,295

*Adjusted operating profit excludes the impact of an exceptional pension charge in 2010 (€330 million) and a one-off gain in relation to the sale of generation assets in 2009 (€265 million).
** Excludes NIE.

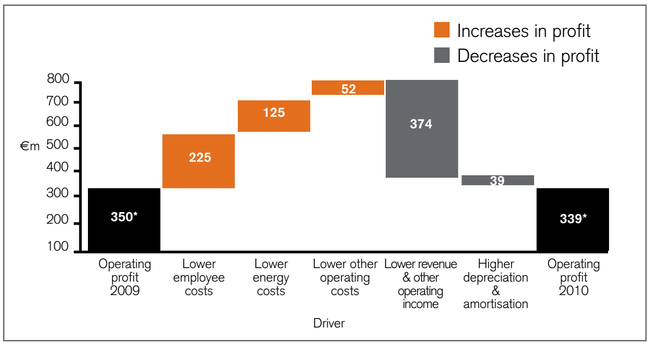
Financial Overview 2010

ESB Group results for 2010 reflect the challenging economic and market environment which is continuing to put pressure on electricity revenue and profit margins. Continued regulation of ESB's prices for residential customers in the Republic of Ireland during 2010 has seen a significant loss of customers, with market share for these customers falling to just over 60% at year end from 99% at the start of 2009. The Commission for Energy Regulation (CER) has confirmed that the regulation of tariffs for the residential market ends from April 2011. However, the Performance Improvement Programme launched during 2009 has successfully delivered lower operating costs in 2010, and so operating profit before exceptional items (adjusted operating profit) has been sustained in line with the previous year.

The financial statements show an adjusted operating profit of €339 million (2009: €350 million). The exceptional item in 2010 relates to a Pension Agreement reached with staff to resolve an estimated €2 billion actuarial deficit in ESB's main Pension Scheme, and the resulting change in accounting treatment to reflect this. Allowing for this exceptional item, there is an operating profit of €9 million. Cash from operations remains strong, increasing to €858 million in 2010 (2009: €646 million).

The significant capital programme underpinning ESB's business strategy continued during 2010, with capital expenditure of over €2.0 billion, of which €1.2 billion was accounted for by the acquisition of the regulated electricity networks business in Northern Ireland (NIE).

Reconciliation of operating profit 2009 to 2010



Almost €570 million was invested in the Networks infrastructure in the Republic of Ireland, which forms part of the five year capital expenditure programme agreed with the Commission for Energy Regulation (CER). An additional €151 million was invested by the Renewables business during 2010, which brings the overall spend on Renewables projects to over €400 million during the past 3 years.

Net debt at €3.9 billion increased by €1.7 billion on 2009 driven by the acquisition of NIE and ESB's continued investment in capital projects. The gearing level has increased to 52% in 2010, reflecting increased debt to finance the NIE acquisition, but remains well within acceptable parameters.

More details on the 2010 income statement and balance sheet are as follows:

Income Statement 2010

Revenue

Revenue including other operating income at €2,740 million decreased by €374 million compared to 2009. This decrease is primarily driven by reduced prices in the supply business and a significant volume of customer losses arising from increased competition in the domestic market in 2010. Offsetting this, is the recovery in the Networks business during 2010 of reductions given to all electricity customers in 2009 as part of initiatives agreed with the CER.

Operating Costs

Operating costs at €2.4 billion are €363 million less than in 2009. This reduction is driven by lower energy costs, lower pension charges (excluding exceptional pension charge) and other reduced operating costs arising from the performance improvement programme. Other operating cost savings of close to €100 million have been delivered, a significant element of which comes from reduced payroll costs reflecting a reduction of 669 in average employee numbers since 2008. Average employee numbers for 2010 was 7,201 with the actual numbers, excluding NIE, having reduced to 6,911 by the year end.

The Corporate Performance Improvement Programme, which was launched during 2009, is designed to reduce ESB's cost base by €280 million, on a controllable cost base of €1.1 billion, by 2015, including a 20% reduction in payroll costs. ESB is fully committed to delivering this target as it is essential to the delivery of its strategic plans and for responding to competitive pressures.

Operating Profit

The underlying operating profit before exceptional items at €339 million is €11 million below the 2009 level. However taking the impact of both the exceptional pension item in 2010 (€330 million) and the profit on sale in 2009 of generation assets to Endesa (€265 million) into account, operating profit for 2010 at €9 million shows a significant reduction from €615 million in 2009.

Joint Ventures

Synergen Power Limited became a full subsidiary in September 2009 so its profit is now included in operation profit. One-off gains arising on this acquisition were included in 2009 operating profit.

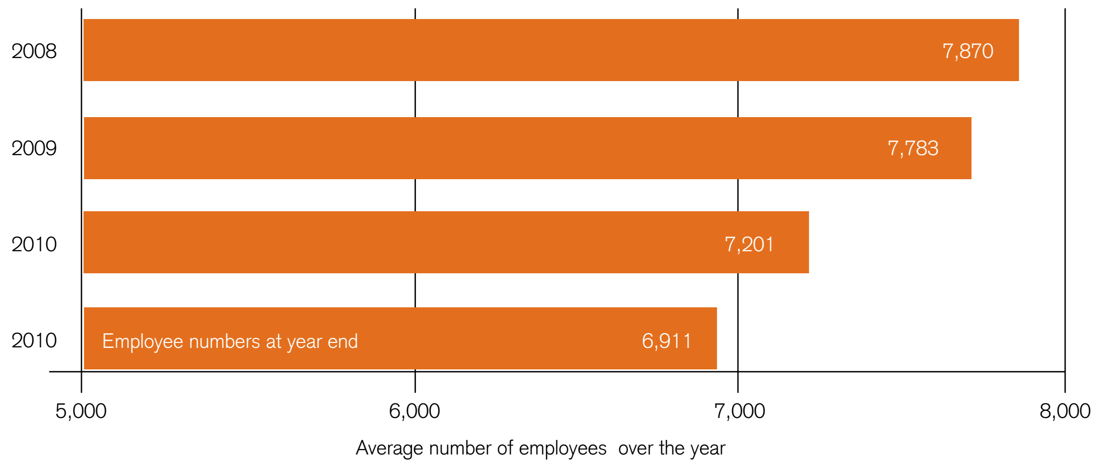
Taxation

The Group tax charge for 2010 was a credit of €5 million (2009: charge of €20 million), reflecting the loss before tax recorded in 2010.

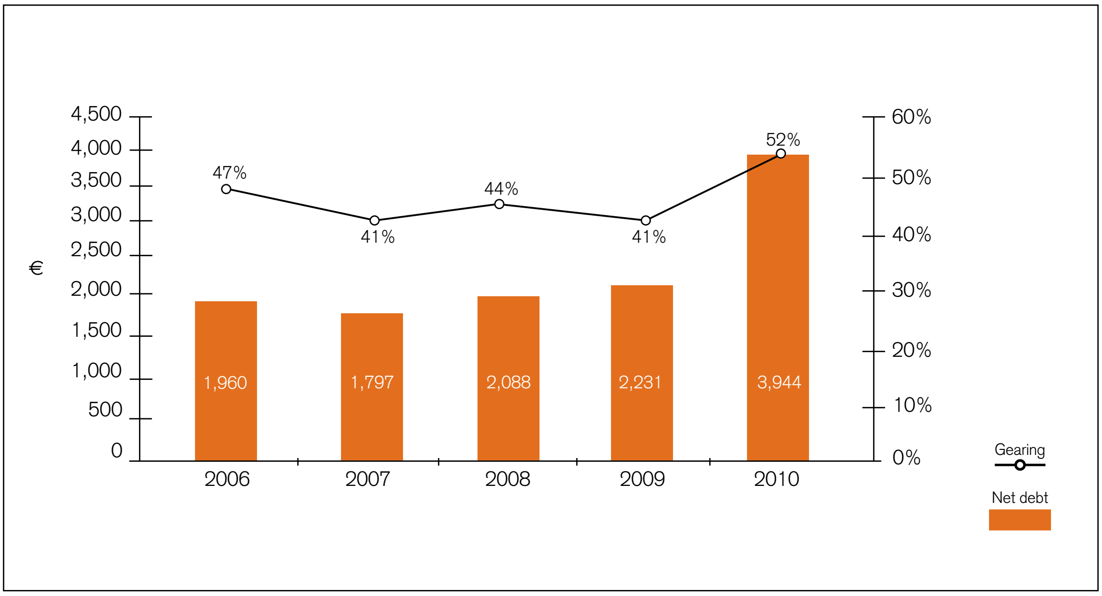
Business Unit Performance

The Group was organised for the majority of the year into three main reportable segments, being the Group's strategic divisions, which are managed separately. The Group operating profit of €9 million consists of:

Reduction in Number of Employees (Excluding NIE which was acquired in December 2010)



Net Debt and Gearing



- An exceptional charge relating to the Liability for Pension Obligation of €330 million which arose as a result of the Pension Agreement concluded during 2010 and the related change in accounting treatment (see Pension Agreement on page 16).

- ESB Energy International operating profits of €154 million in 2010 have decreased from 2009 levels (€776 million) as 2009 included the profit arising on disposal of generation assets (€265 million) and gains arising on the Synergen acquisition. The business also experienced a tightening in its energy margin as the gap between sales prices and costs narrowed although this reduction is partly offset by lower operating costs.

- ESB Networks profits increased by €363 million from a loss of €25 million in 2009 to a profit of €338 million in 2010. This is primarily due to the recovery in 2010 of income deferred in the prior year due to an initiative agreed with the CER in 2009 to reduce electricity prices for all customers. Profitability was also enhanced by lower operating costs, particularly a year-on-year reduction in staff rationalisation costs.

- Losses in ESB Electric Ireland of €43 million in 2010 reflect the impact of lower prices and continued customer losses. During the year, the business delivered operating costs savings, although the impact of this was offset by an increase in the bad debt provision reflecting current economic conditions.

- Other segments include the Services area which provides support services to the main business segments.

Balance Sheet 2010

NIE Acquisition

The acquisition of NIE was completed on 21 December 2010 at a cost of STG£1 billion (€1.2 billion). NIE owns the regulated electricity transmission and distribution networks in Northern Ireland and is responsible for the planning, development, construction and maintenance of the entire network, as well as operation of the distribution network. The acquisition of NIE, a well run regulated company, represented a unique opportunity to increase the scale of ESB without unduly increasing its risk profile. The business has a history of strong and stable financial performance, with the potential for further growth. The acquisition also supports the ultimate delivery of an all-island smart network.

Goodwill on the transaction amounted to approximately €178 million, calculated in accordance with IFRS 3 Business Combinations (2008). As the acquisition was completed on 21 December 2010 it had an immaterial impact on the Group Income Statement.

Capital Expenditure

The Group continued its significant capital investment programme in 2010 with spend of over €2 billion, of which more than half (€1.2 billion) was accounted for by the acquisition of NIE. In addition to NIE, the main areas of capital spend in 2010 were as follows:

→ €569 million in Networks on the Distribution and Transmission Infrastructure;

→ €151 million invested by ESB Energy International in renewables;

→ In addition to the above, a further €79 million was invested by ESB Energy International, primarily on power station refurbishments, overhauls and new business development.

CASH FROM OPERATIONS REMAINS STRONG, INCREASING TO

€858m

IN 2010

OPERATING COSTS AT €2.4 BILLION ARE

€363m

LESS THAN IN 2009

Net Debt and Gearing

Net debt at €3.9 billion increased by €1.7 billion on 2009 driven by the acquisition of NIE and ESB's continued investment in capital projects. Gearing of 52% has increased as a result of the NIE acquisition but remains well within acceptable parameters. During 2009 and 2010 the Group succeeded in placing almost €700 million in long-term fixed rate borrowings, and successfully renegotiated a substantially increased Revolving Credit Facility to: (1) Provide standby liquidity for 4-5 years and (2) Provide short term finance for the NIE acquisition. At year end 65% of Group borrowings were fixed to maturity or inflation linked, which provides a level of certainty at a time of heightened market volatility.

Pension Agreement

During the year the negotiations between the company and employee representatives to address the actuarial deficit in the ESB General Employees' Superannuation Scheme, the main Group pension scheme in the Republic of Ireland, were successfully concluded. The Agreement substantially closes a €2 billion actuarial deficit on the ESB General Employees' Superannuation Scheme.

A key feature of the Agreement is the reduction of future pension benefits in order to address the deficit issue through the introduction of Career Average Revalued Earnings (CARE) for service from January 2012, a pension and pay freeze to 2014 and 2012 respectively, and the capping of any future increases in pensions at 4% per annum. All future increases in pensions paid will also be dependant on the solvency status of the Scheme. In order to allow the Scheme to de-risk by investing in lower risk assets in the future, a once-off capital injection of €591 million (present actuarial value at 1 January 2010) will also be made by ESB over a 12 year period to facilitate this transition.

The Pension Agreement has clarified the Company's obligations in relation to the Scheme, such that, under IAS 19 Employee Benefits the Scheme is now accounted for as a defined contribution scheme. The change in accounting treatment has given rise to a once-off exceptional charge in the current year of €330 million. The main cashflows associated with this will occur over a 12 year period.

Further details are included in notes 21 and 22 of Financial Statements.

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A Corporate Performance Improvement Programme was launched during 2009 and forms part of ESB's Strategic Framework which was set out in 2008.

Regulation

Under the Single Electricity Market (SEM), the wholesale price of electricity is market driven, with virtually all electricity generated sold into a market pool overseen jointly by the Commission for Energy Regulation (CER) and the Northern Ireland Utility Regulator. ESB Energy International participates in the electricity market on a basis similar to all other generators.

Regulated tariffs for ESB Networks, and, up until full commercial freedom was granted from April 2011, ESB Customer Supply, are set in advance, usually annually, by the CER based on a forecast of both customer demand and relevant costs. As with any forecast, there is almost always a difference with the actual outturn for the period which results in either an under or over recovery of revenue in any given year. Any such under or over recovery of allowed revenue is usually included by the CER in setting the price determinations for the subsequent period, but recovery may be deferred to future periods. Such timing differences can cause material variations in the annual profits earned by the affected businesses and cause distortions in reviewing the year-on-year performance of these businesses.

Financial Risk Management Framework for Treasury and Trading Operations

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

Commodity price and counterparty credit risks are managed by the relevant business units (ESB Energy International and ESB Electric Ireland) in the context of an overall Group trading risk management framework. These efforts are co-ordinated by Group Trading Risk Management, which works to ensure that the Group's market, credit and operational risks are managed in a way to protect the company from loss, while respecting the regulatory ring-fencing obligations in place between the business units. Treasury and trading risk management activities are reviewed regularly by Group Internal Audit.

Derivative instruments are used to mitigate financial risks and are executed in compliance with the Specification of the Minister for Finance issued under the aegis of the 'Financial Transactions of Certain Companies and Other Bodies Act 1992'. Hedge accounting pursuant to IAS 39 is used primarily for hedges of foreign currency liabilities and interest rate risks from non-current liabilities. It also covers certain commodity and foreign exchange hedges.

OVER
€400m
INVESTED ON RENEWABLES OVER THE PAST 3 YEARS

"

The main financial risks faced by the Group relate to liquidity, foreign exchange, interest rates, commodity (electricity and fuel) price movements, counterparty credit and operational risk.

Foreign Exchange and Interest Rate Risk Management

The majority of the Group's business is transacted within the eurozone. Operating and investing cash flows are mainly denominated in euro. Foreign currency exposures arise from purchasing fuel and other materials or services, foreign currency denominated debt and from business that is carried on outside the eurozone. The majority of fuel related currency exposures are managed using currency derivatives such as forward purchase contracts. The Group's policy is to borrow directly in euro or to convert any foreign currency borrowing to euro through the use of derivative instruments. There are specific instances where foreign currency denominated debt is matched by a foreign currency denominated asset or net revenue flow. Consequently a substantial proportion of Group debt is now sterling denominated following the NIE acquisition in December 2010. At the end of 2010, 58% of ESB's debt was effectively denominated in euro with the remaining 42% in sterling.

The Group's current interest rate policy is to have a minimum of 50% of the debt portfolio at fixed (or inflation linked) rates of interest, with a target of up to 75% at fixed (or inflation linked) rates of interest. At 31 December 2010, 65% of the Group's debt was fixed to maturity or inflation linked.

Funding and Liquidity Management

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

To this end ESB listed a €3 billion Euro Medium Term Note (EMTN) programme in February 2010 on the Irish Stock Exchange and in March 2010 ESB issued a STG£275 milllion 10 year Eurobond with a fixed coupon of 6.5% under this programme. This bond required ESB to obtain an investment grade rating. In January 2011 ESB received investment grade ratings from Standard & Poors, Moodys and Fitch of BBB+, Baa1 and BBB+ respectively.

In September 2010 ESB's revolving credit facility was refinanced. A €1.5 billion facility was put in place with €750 million tranches maturing in each of 2014 and 2015. A one year STG£810 million bridging facility with an optional one year extension was raised to finance the acquisition of NIE, which was completed in December 2010. NIE's Eurobond of STG£175 million was also acquired as part of the acquisition.

65%

OF THE GROUP'S DEBT WAS FIXED TO MATURITY OR INFLATION LINKED

> At year end, the Group had almost €930 million in cash and undrawn committed facilities (the majority of these facilities do not mature before 2014).

ESB has adequate undrawn committed borrowing facilities in place to ensure that liquidity demands can be met as required. At year end, the Group had almost €930 million in cash and undrawn committed facilities (the majority of these facilities do not mature before 2014). The Group continues to monitor markets where opportunities exist to access longer term funding facilities which complement the Group's investment strategy and resultant borrowing requirements.

Counterparty Credit Risk

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

Detailed Business Unit Performance (ESB Networks) follows

For detailed financial statements please refer to P72 – P79

Future Outlook

The current economic climate is expected to continue to pose significant challenges for our business into 2011. Looking forward, key priorities for the Group include:

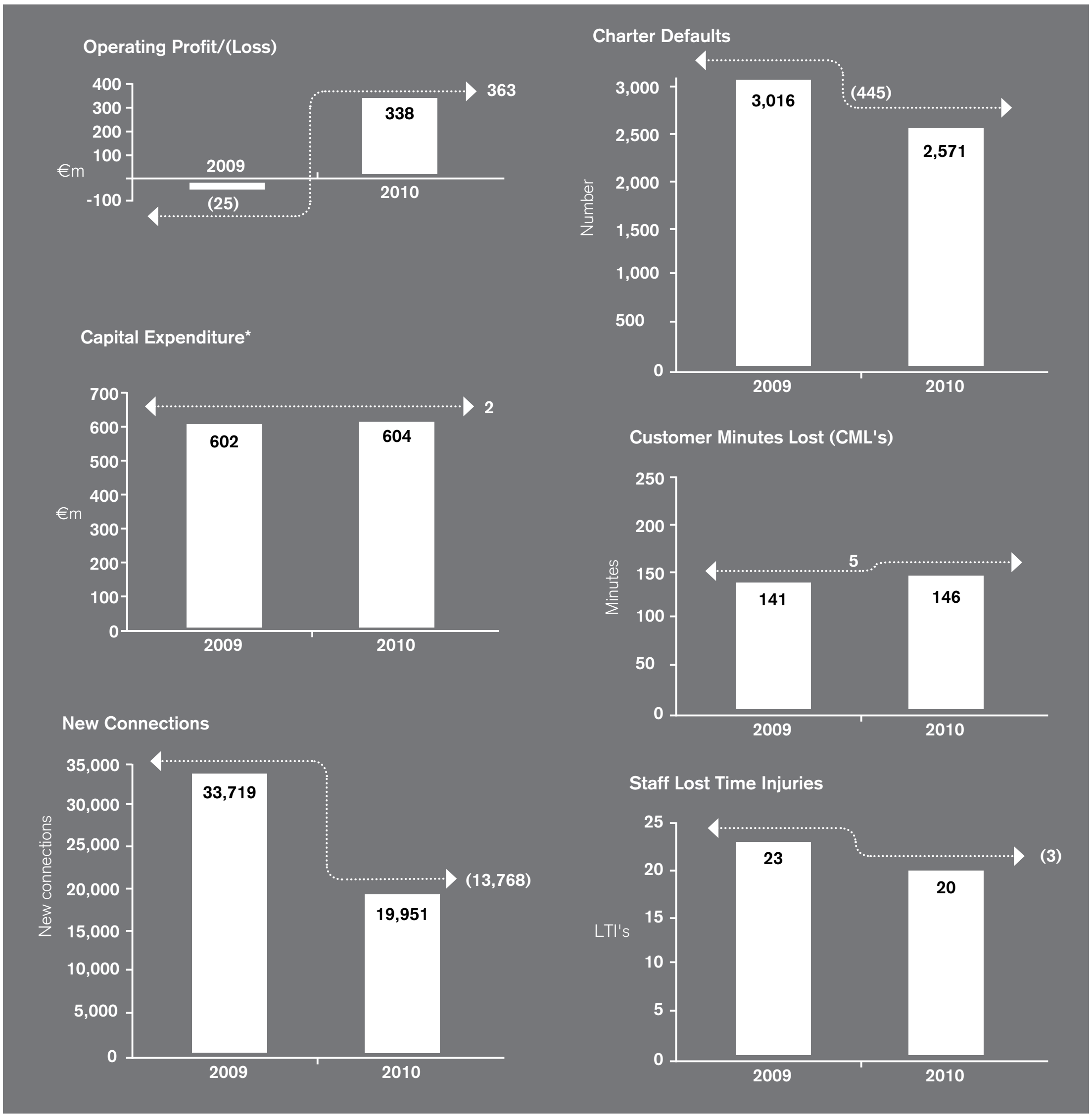
1. Continued focus on funding and liquidity;
2. Continuing to successfully deliver the significant capital expenditure programmes on time, on budget and to the Groups high standards;
3. Maintaining focus on the performance improvement programme in order to deliver sustained growth in shareholder value especially in the context of the economic downturn and an increasingly competitive environment;
4. Management of the trading risk arising from the SEM and GB markets while continuing with effective fuel procurement strategies to mitigate the volatility in customer prices;
5. Ensuring our Supply businesses compete successfully in the unregulated retail electricity market.

OPERATING & FINANCIAL REVIEW
BUSINESS UNITS

ESB NETWORKS

ESB Networks' vision is to become a world-class sustainable networks business.

ESB Networks' performance against key performance indicators



Capital expenditure is stated before the impact of IFRIC 18 *Transfer of assets from customers*, which changed the treatment of non-refundable customer supply contributions received after 1 July 2009. Capital expenditure after the impact of IFRIC 18 is €569 million in 2010 (2009: €586million).

Overview

2010 was a challenging year for ESB Networks. The severe weather conditions at the beginning and end of the year disrupted the normal operations of the business and tested the robustness of the distribution and transmission networks. The fact that weather-related customer disruption was kept to a minimum, is testament to the commitment of everyone working in the business, as well as the quality of the asset investments made in recent years.

In terms of operating activities, the number of new customer connections continued to decline, which required the business to refocus its planned work programmes across the entire country. This successful change process demonstrated the flexibility of the business and its responsiveness to changes in the environment.

2010 was also the last year of the Price Control Review (PR2) period covering 2006 to 2010 and the year in which the programmes for the next Price Control Review period (for 2011 to 2015) were agreed with the Regulator. This process, which required a considerable effort by many people within the business and within the Regulator's office, was finally concluded by the autumn of 2010.

Electricity usage remained static year-on-year, with no overall growth. This was in contrast to the steady rise in electricity consumption in the decades leading up to 2009, when usage dropped by over 5%.

"

The number of new connections completed was 19,951 in 2010 compared to 33,719 in 2009. This reduction in load-related work allowed for the ramp-up in replacement of old plant.

Operating environment and financial outcome

ESB Networks made an operating profit of €338 million in 2010, an improvement on the €25 million loss made in 2009. However, profit after interest and tax in 2010 was €8 million (2009: loss after interest and tax of €97 million). The favourable change year-on-year reflected a number of factors, such as the significant financial support to the electricity market in 2009 (which included a deferral of income into 2010) as well as one-off pension and staff exit costs in 2009.

Capital expenditure of €604 million was invested in the distribution and transmission networks, with €174 million of this spent on the high voltage transmission system. The replacement or reinforcement of distribution system assets amounted to €424 million.

Work continued in 2010 on the cost improvement programmes implemented by the business in previous years. These focused initiatives, which drove improvements in programme planning, transport costs, work processes and overhead costs, continued to reduce the cost base of the business during the year.

Regulation

ESB Networks is subject to economic regulation through a Price Control Review that occurs every five years and which sets the regulated index-linked revenues that the business can earn through charges levied on the users of the networks.

During 2010 there was a successful conclusion to the ESB Networks 5 Year Price Review for 2011 to 2015 (PR3) with the Commission for Energy Regulation (CER) which defined the scope and scale of the investment proposed. This agreement will help to secure an infrastructure which is fit to meet Ireland's future needs.

The PR3 programme provides for investment of €4.2 billion over the five years, at a rate of return (pre-tax WACC) agreed with the Regulator of 5.95%, to be reviewed at mid-term. There is a substantial level of approved investment to further develop the distribution network and to replace old plant. In addition, there is a further provision for the Smart Metering project. There is also a considerable ramp-up in transmission spend proposed from €470 million in PR2 (2006 to 2010) to €1.4 billion in PR3 in line with the National Grid Development Strategy (Grid 25) published by EirGrid plc.

The new regulatory agreement poses considerable challenges for ESB Networks in terms of operating cost efficiencies, which the business is committed to meeting. Work is underway to build on the cost efficiency programmes implemented in previous years and to identify and realise further cost efficiencies in the future. The regulatory agreement also contains a

CAPITAL EXPENDITURE OF

€604m

WAS INVESTED IN THE DISTRIBUTION AND TRANSMISSION NETWORKS

number of stretching performance targets in relation to continuity of supply, Contact Centre response, meter readings, line losses, renewable generation and delivery of the capital programme.

The Gate 3 process (3,900 MW) – which now allows distribution-connected parties to opt for contestable offers is well underway, with the first contestable offers to distribution-connected customers issued and accepted.

Investment and growth

The €604 million invested in 2010, brings the total investment in the national electricity infrastructure, including IT supporting systems and assets for the PR2 regulatory term, to €3 billion. This investment involved a substantial renewal and extension of the distribution and transmission systems, providing Ireland with an improved and robust electricity network. The expenditure facilitated economic development throughout the country, as well as helping to significantly reduce the number and duration of power supply interruptions for customers.

There was a continued decline in new customer connections in 2010. The number of new connections completed was 19,951 in 2010 compared to 33,719 in 2009. This reduction in load-related work, allowed for the ramp-up in replacement of old plant. There was also a significant increase in investment in the transmission network, up to €174 million in 2010 from €141 million in 2009.

Strategy and responding to change

The ESB Networks Strategy “Sustainable Networks Strategy Towards 2020”, defines the vision for ESB Networks to become a world-class sustainable networks business. In 2010 ESB Networks progressed this objective by taking a central role in defining the networks of the future; formulating and delivering key research initiatives and participation in national and international collaborative alignments. ESB Networks continued to deliver on sustainability targets.

SAFETY

continues to be a primary value of the business and will remain so into the future.

Key achievements

→ The ESB Networks Smart Grid project was recommended by the Electrical Power Research Institute (EPRI), a U.S. based research institute for the POWERGRID International magazine’s Smart Grid Project of the Year Award in the Renewables Integration Category. The Award was presented to ESB Networks at the DistribuTECH 2011 conference in San Diego.

→ In addition to membership and substantial collaboration within EPRI, ESB Networks worked closely with the Electricity Research Centre (ERC) in UCD, with EirGrid, with SEAI and other academic and international business entities to define a focused research project on Sustainable Electrical Energy Systems, and to secure funding from the Science Foundation Ireland for this world-leading undertaking.

→ Under the Smart Meter Project established by the Commission for Energy Regulation, Customer Behaviour and Technology Trials were successfully concluded by the end of 2010. The preliminary results from the customer behaviour trials are positive. The results of both trials are currently being analysed and are providing the basis of the cost benefit analysis being carried out by the CER for the full roll-out.

→ By the end of 2010, over 40,000km of network was converted from 10kV to 20kV operation, resulting in 75% loss savings and 173,000 tonnes of CO_2 savings.

→ In addition to the important research projects put in place to manage wind generation on the network, pilot projects were initiated to demonstrate increased network intelligence, resulting in increased efficiency and shorter customer outages, paving the way for the networks of the future. A Self Healing Network has been put in operation in Kerry during 2010 and the remaining elements of this project will be initiated in 2011.

→ Through 2010 ESB Networks' continued the package of support to promote micro-generation. By the end of 2010, over 400 micro-generators had been connected to the network, contributing to the initial goals of the incentive.

→ A key component of ESB Networks commitment to sustainability is a focus on the efficiency with which it carries out its internal business activities. Two-thirds of the ESB Group’s internal CO_2 reduction target will be delivered by ESB Networks, requiring a culture shift for everyone in the business and the introduction of new technologies. Significant steps were taken in 2010 to deliver on this commitment, particularly in relation to the Networks buildings, fleet and environmental issues. An Environmental Management System was implemented successfully, to ISO 14001 standard. To date, a 14% reduction in the Networks carbon footprint has been achieved against the 2006 baseline.

A New Year's Solution

On New Year's Eve, a line came down in the Cavan Area. This resulted in loss of supply to approximately 200 customers. Temperatures were well below zero and as a consequence, the loads on our networks were higher than normal. Three of our Cavan based network technicians were assigned the task of restoring supply. The staff involved worked from 7.30 pm until 2.00 am, in cold and icy conditions, until supply had been restored to all customers. Working in sub-zero conditions, in the dark, is not how anyone would choose to ring in the New Year, however, our frontline staff are committed to responding to our customers needs whenever our services are required.

40,000km

The length of network converted from 10kV to 20kV operation by the end of 2010

This resulted in 75% loss savings and 173,000 tonnes of CO_2 savings.

For a detailed view of ESB Networks' financial performance see P81

Efficient customer service delivery

The ESB Networks Customer Service Improvement Plan provided the focus in 2010 for achieving a further improvement in the standards of customer service delivery. During 2010 a "Back to Basics" initiative was implemented involving all staff across the business. This resulted in the achievement of improvements in the delivery of construction and maintenance work programmes which, in turn, helped to minimise the impact of such work on customers' continuity of supply.

In 2010 the overall continuity performance achieved was again satisfactory. However, due to the harsh weather conditions during November and December, the final outcome was marginally lower (down 3.5%) in comparison to the 2009 outcome. In order to assist business customers who may be adversely affected by the present economic downturn, a scheme was introduced early in 2010 which facilitates customers who request a reduction in their levels of contracted connection capacity (MIC), thereby reducing their ongoing charges.

The 2010 customer satisfaction survey, which measures all aspects of ESB Networks' services, returned a figure in excess of 78% (overall average satisfaction across all service areas), which is the highest ever achieved since the survey commenced. Telephone response rates to customers in the National Customer Contact Centre (NCCC) continue to be at world-class levels.

"The fact that weather-related customer disruption was kept to a minimum is testament to the commitment of everyone working in the business, as well as the quality of the asset investments made in recent years."

Our people

The success of the ESB Networks strategy will be achieved by everyone working together to deliver its various elements.

The Human Resources strategy of the business is aligned with the overall business strategy, and supports the business in driving performance. The growth and development of all ESB Networks staff will be crucial to the implementation of the strategy. During 2010 the business worked hard to equip all staff with the competencies and skills they need to contribute effectively.

ESB Networks has a goal to achieve zero injuries across all business operations and activities, based on the belief that all unsafe acts and incidents are preventable. A safety leadership programme has been implemented across the business and this requires both staff and contracting partners to maintain the same high level of safety standards across all areas of activity.

Detailed Business Unit Performance (ESB Electric Ireland) follows-

THE VISION

for ESB Networks is to become a world class sustainable networks business.

Priorities for 2011

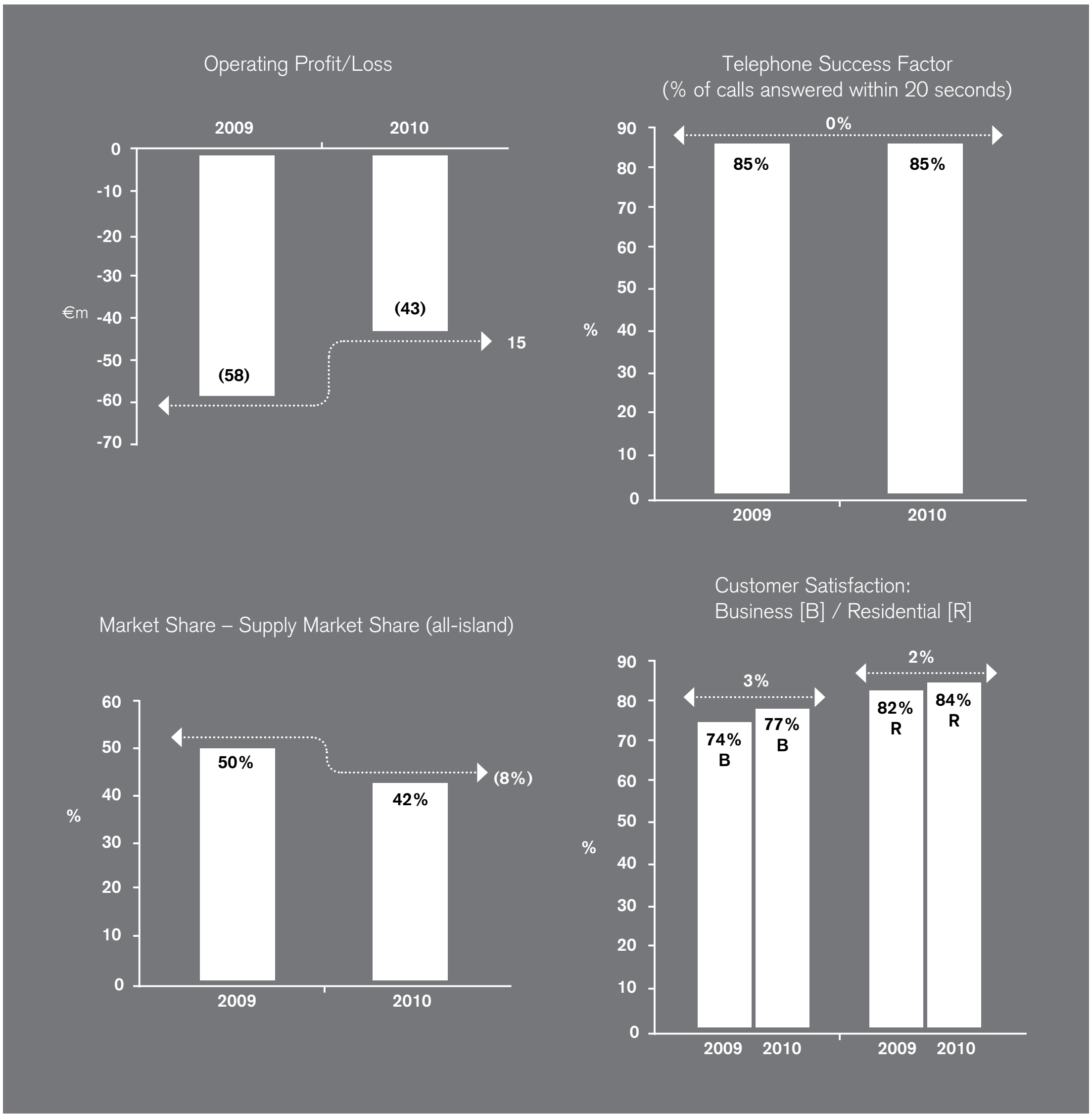
Looking forward to 2011 and beyond, five of the key priorities include:

1. **Safety**. This continues as a primary value of the business and will remain so into the future.
2. **Customer service**. Excellent service to customers will remain a key business objective for the years ahead.
3. **Financial health**. In the current economic climate, a healthy financial position is essential in order to meet the many challenges facing the business. This will require the achievement of the regulatory targets for the years 2011 to 2015 inclusive, as agreed with the CER and the maintenance of an effective culture around cost efficiency.
4. **Efficient investment**. The financial health and long-term viability of the business will be best protected by efficiently delivering the capital investment programme agreed with the Regulator. This will benefit all electricity customers, as well as provide the country with a long-term asset required for economic recovery.
5. **Sustainable networks**. In 2011, ESB Networks will continue the implementation of a wide range of programmes, including the Smart Metering project, a range of Smart Networks initiatives, a programme to further reduce the internal carbon footprint of the business and the connection of further wind generators to the electricity networks.

ESB ELECTRIC IRELAND

From April 2011, Ireland has a new energy with the launch of ESB Electric Ireland, now enabled to offer competitive, unregulated tariffs to all residential gas and electricity users in the Republic of Ireland and all business users, North and South.

ESB Electric Ireland's performance against key performance indicators



Overview

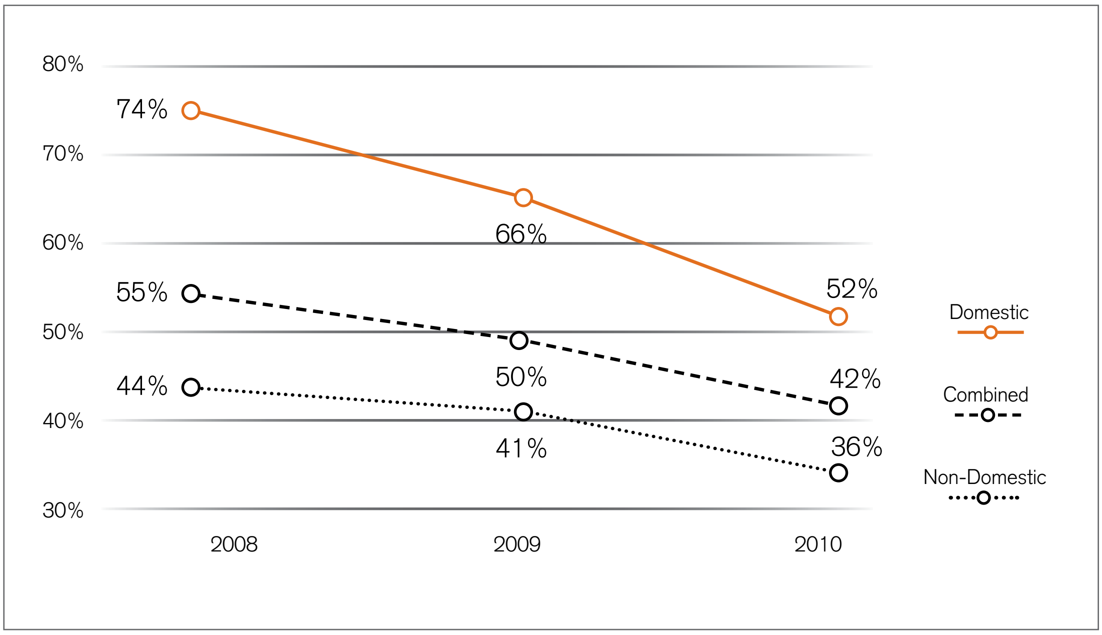
ESB Electric Ireland was established in 2010 as ESB's single supply business and comprises the previously separated ESB Independent Energy (ESBIE), Customer Supply and Energy Services. Ring-fencing restrictions between ESBIE and Customer Supply were lifted by the Commission for Energy Regulation (CER) following full business market deregulation in October 2010. ESB Electric Ireland continues to be ring-fenced from ESB Power Generation and from ESB Networks.

Although the electricity retail market in the Republic of Ireland was open to competition since 2000 (business) and 2005 (residential), conditions changed dramatically in 2009 with the entry of Bord Gáis Energy and Airtricity into the residential market. More than 700,000 customers had switched supplier by the end of 2010. ESB's residential market share has now fallen to below 60%. Based on this and ESB's commitment to rebranding its supply business, CER has confirmed that tariffs for the residential market will no longer be regulated from 4 April 2011. This is a significant milestone for ESB, and ESB Electric Ireland looks forward to operating in a fully competitive market, to the benefit of all energy customers.

Rebranding of ESB's supply businesses was one of a number of conditions for ESB to receive regulatory freedom to compete in the residential market.

ESB Electric Ireland replaces the brands, ESB Customer Supply and ESB Independent Energy. The ESB Group, ESB Networks and ESB Energy International will retain their current brand names and identities.

ESB Electric Ireland Market Share - all Island



"Electric Ireland" captures ESB's heritage and communicates the positive energy which will drive our business to maintain our position as the leading supplier in Irish energy markets. The new brand was launched in April 2011 and will be presented as a dual ESB Electric Ireland brand until December 2011.

Under this new brand name, ESB Electric Ireland will continue to deliver the service quality to which ESB customers are accustomed. It will build on ESB's heritage as a reliable and professional energy provider and will continue to deliver innovative energy solutions to customers, offering great choice and value.

Operating environment and financial outcome

The combined ESB Electric Ireland business incurred an operating loss of €43 million in 2010, a reduction of €15 million on the 2009 loss. These losses in the last two years were largely caused by the significant and rapid reduction in market share from early 2009 which reduced gross margin. ESB Electric Ireland incurred financial losses on hedges put in place for the purchase of wholesale electricity. The 2010 loss also includes higher bad debt costs than previous years and business restructuring costs. Continued cost reduction and performance improvement is a key priority for the business to return to profitability.

The economic downturn has presented significant challenges for the business particularly in terms of debt collection. While proactively working to ensure that debt is collected in this difficult economic environment, ESB Electric Ireland has also actively engaged with St Vincent de Paul, the Money Advice and Budgeting Service (MABS) and other agencies to support customers experiencing energy affordability issues and those with special requirements. Support provided includes debt repayment programmes, information on budgeting for electricity costs and advice on how to use energy more efficiently.

Customer service and product offerings

During 2010, ESB Electric Ireland has continued to prioritise excellent customer service, in particular recognising the pressures on our customers because of the economic situation in Ireland.

> Under this new brand name, ESB Electric Ireland will continue to deliver the service quality to which ESB customers are accustomed.

Our strategy

1 ESB Electric Ireland's strategic objective is to be the leading supplier in the Irish market of energy and related services. We will achieve this by delivering products and services that meet customer needs and provide value for money and excel at customer service.

2 We look forward to competing in the electricity residential market on an open and equitable basis to deliver benefits to customers in competitive prices, product innovation and quality energy services.

3 ESB Electric Ireland entered the residential gas market in April 2011 and will offer a range of competitive electricity and dual fuel tariffs. We will also continue to develop our range of energy efficiency products and services.

2010 has also been about preparing the business for April 2011 when we were allowed to compete in the residential electricity market and for our entry into the residential gas market. The key drivers of our competitive strategy are customer service, value for money and financial performance.

From October 2010, ESB Electric Ireland launched new price plans for the deregulated Republic of Ireland business market primarily targeted to the small business sector. ESB Electric Ireland provides price offerings and professional advice to best suit the business needs of smaller enterprises.

ESB Electric Ireland continues to maintain its strong presence in the large business market sector in Republic of Ireland and Northern Ireland markets despite significantly increased competition. This market segment consists of predominantly high-load customers to whom we continue to provide tailored customer service supported by a range of energy efficiency solutions.

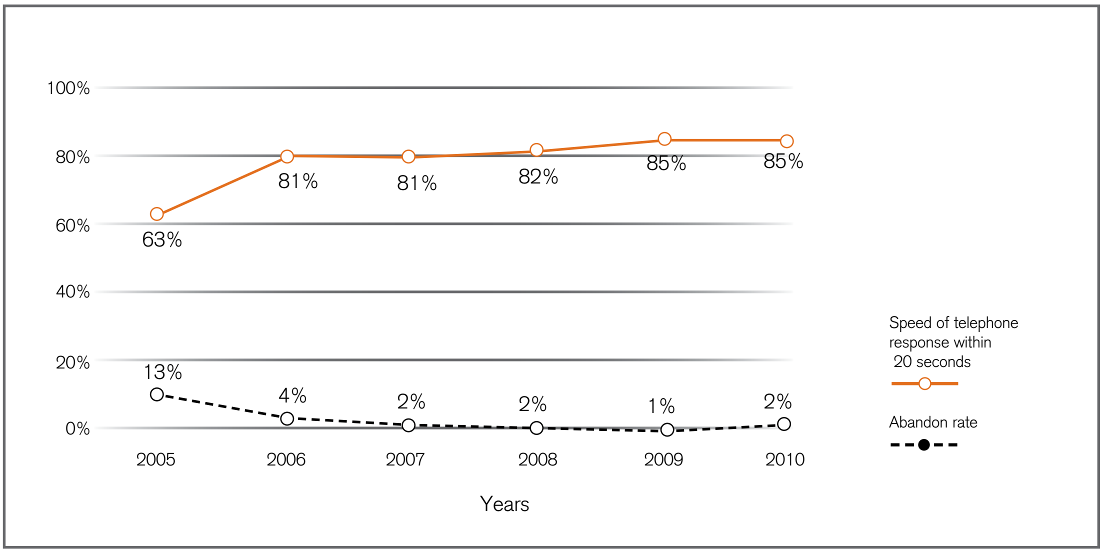
In addition to competitive electricity price offerings, three new energy efficiency products were launched in 2010:

- ESB Electric Ireland is now offering a "one-stop shop", the HALO Installation Service, to householders. We not only provide advice and a quotation for a range of energy efficiency and micro-renewable measures, but can also carry out the full range of installations covering all grant-assisted measures such as home insulation, gas boiler upgrades, heat pumps and solar panels.

- ESB Electric Ireland launched a new online home energy efficiency audit tool, the Energy Wizard. Through a series of questions, the Energy Wizard develops energy saving recommendations personalised to each home. These recommendations indicate costs, grants available and savings. The Energy Wizard has been widely recognised as an innovative and user-friendly tool and won a bronze award in the 2011 Digital Award for "Best User Experience".

- Our new online store (www.esbstore.ie) provides a range of energy efficiency products. We have worked with leading manufacturers and suppliers to bring a range of practical, energy saving products to our customers. Products include Warm Home, Safety at Home, Energy Saving Lighting, Garden and Outdoor, Insulation and Alternative and Cool Products.

National Customer Contact Centre exceeding targets



Providing quality customer service continues to be ESB Electric Ireland's number one priority. The National Customer Contact Centre again exceeded its service targets and also retained accreditation under the Customer Contact Centre Association Global Standard. In addition, we continued to deliver service levels in line with our Customer Charter and Customer Service Codes of Practice as shown above.

Community support

ESB Electric Ireland is engaged in a number of sponsorships which support the community and promote important activities such as music and sport. Highlights in 2010 included ESB GAA Minor Football/Hurling Championships, Feis Ceoil, Electric Picnic, Macra na Feirme Know Your Neighbour Weekend, Ireland Under 20's Rugby Home Series and Women's and Girl's Hockey.

ESB Electric Ireland also works closely with the charity Age Action and sponsors Positive Ageing Week.

Sustainability initiatives

ESB Electric Ireland has worked with customers for many

150GWh

The amount of electricity ESB Electric Ireland helped customers to save in 2010, which was equivalent to a reduction in CO_2 emissions of 80,000 tonnes.

Hi Dolores,
Thank you so much for your reply. I can't apologise enough for the delays in my payments and I sincerely appreciate your understanding and flexibility on the matter.
With regards to my March bill, I haven't received it yet, I have signed up to esb.ie to make it easier to keep on top of my bills and as soon as I have all payments clear I will set up a direct debit to pay future bills automatically.
The meter reading as of this morning is 23949.0 so I am unsure of how much extra is due to yourselves. As I said, I am due to be paid on the 12th of April and I can guarantee that I can pay the overdue amount of €108 and whatever charges are incurred in my March bill. Again, I want to thank you for your offer of setting up a payment plan but as I only get paid by the month the instalments for a payment plan would have to be monthly and on my next pay day (12th of April) I will clear the balance and should not need a payment plan.
Just on a side note, I would appreciate if you could bring this to the attention of your supervisor or manager. I am blown away at both your level of customer care and efficiency when dealing with my query. I am only too aware of the difficulties working in customer service and I feel that people are not half as eager to highlight positive experiences as they may be the negative ones. Like half the country I was considering switching my electricity provider in order to get a cheaper rate but after this experience I will not only remain with ESB but I will be thoroughly recommending your service.

Thanks again
Joanne, Limerick

Customer letter thanking Dolores Horan, National Customer Contact Centre

years to help them reduce electricity usage and get better value from their electricity consumption. This continued during 2010 with ESB Electric Ireland helping customers to save more than 150 GWh of electricity, equivalent to a reduction in CO_2 emissions of 80,000 tonnes. These savings were achieved through the promotion of energy efficient products and awareness campaigns on electricity usage. These campaigns included lighting promotions, energy efficiency advice, ESB's new on-line store and web based tools including "The Appliance Calculator" and the new "Energy Wizard" home auditing tool.

ESB is the proud sponsor of Cúl Green, a sustainability programme for Croke Park. The goal is to make the stadium carbon neutral by 2014. The environmental improvement programme for energy, waste and water led to the certification of the stadium under ISO 14001 in 2009. In 2010, Croke Park became the first stadium in the world to achieve the BS8901 certification. Croke Park won the sustainability award for the Cúl Green initiative at the Stadium Business Awards in June 2010 – "for leading the way on environmental management of stadiums globally."

The planned introduction of Smart Metering will enable electricity users to manage their electricity consumption more efficiently, resulting in cost and environmental benefits. ESB Electric Ireland is playing a lead role in the assessment and rollout of this innovative technology to maximise the benefits for our customers. During 2010, Smart Metering behaviour trials were completed with over 4,000 customers participating. Customer behaviour was tested with a range of time-of-use tariffs. This provided enhanced and more frequent information on electricity usage and costs, with some customers receiving an in-home usage display. The results will now be analysed and considered by the CER.

Safety review

ESB Electric Ireland continues to prioritise safety and health, in order to achieve our goal of an injury-free workplace. There were no Lost Time Injuries (LTI) in the business in 2010, whereas there were three in 2009.

During 2010, a significant Health and Safety Improvement programme was implemented including formal Occupational Health and Safety Assessment Series (OHSAS) assessments, a comprehensive auditing programme and regular reviews of performance. An increased focus was placed on health and well-being of staff during 2010.

Detailed Business Unit Performance (ESB Energy International) follows

For a detailed view of ESB Electric Ireland's financial performance see P81

Looking ahead

ESB Electric Ireland is facing exciting and challenging times as the electricity market becomes fully deregulated. We look forward to being able to compete fully in residential markets from April 2011, bringing greater choice and value to customers. We also recognise our key role in continuing to contribute solutions to the challenges posed by climate change.

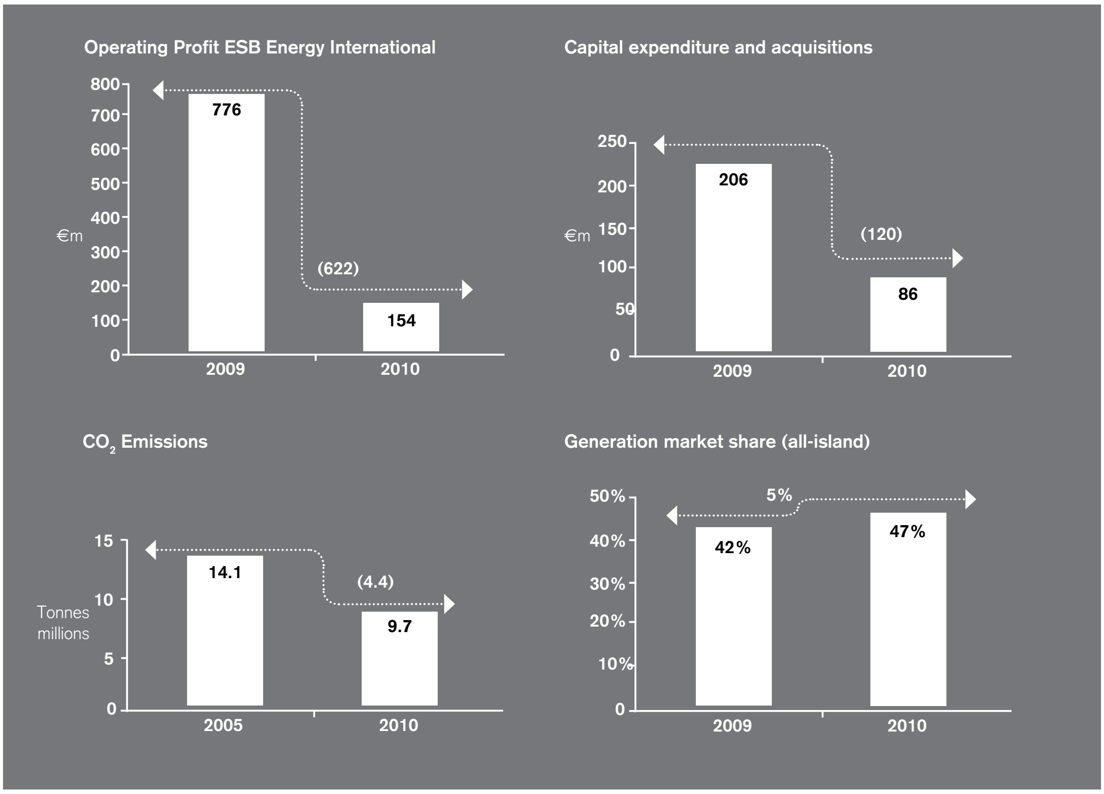
The top seven priorities for 2011 for ESB Electric Ireland are to:

1. Respond effectively to residential and business market deregulation.
2. Continue to provide excellent customer service and to launch new product offerings including gas, thereby meeting our customers needs.
3. Successfully build the ESB Electric Ireland brand as the leading energy supply brand in Ireland.
4. Continue to focus on cost improvement, to ensure ESB Electric Ireland has a competitive cost base in light of our significantly reduced market share.
5. Continue to work with customers to manage debt repayment in the current economic climate.
6. Develop new ways of contributing to Ireland's energy efficiency targets which will help homes and businesses to become more energy efficient.
7. Work towards the lifting of current ring-fencing restrictions between supply and generation so that ESB can operate on a level playing field with its competitors.

ESB ENERGY INTERNATIONAL

With a mission of building a strong portfolio of energy assets for the future, ESB Energy International strives to shape market, regulatory, and competitive environments underpinned by best-in-class engineering, project management, safety and technical risk management capability.

ESB Energy International's performance against key performance indicators



Overview

As part of an overall reorganisation, ESB combined its three generation-related businesses together (ESB Power Generation, ESB International and ESB Renewables) into one single business unit, named ESB Energy International (ESBEI). This division now comprises ESB's Generation and Engineering Services businesses.

The Generation business invests in, manages and operates ESB's power generation portfolio. ESB currently has 5.6GW of generation spread over a diverse range of fuels and technologies of which 4.5GW is in the Single Electricity Market (SEM). Approximately 76% of the SEM portfolio is regulated and is required to be managed separately to the unregulated (ESB Independent Generation) business.

ESB International Engineering Solutions, ESBEI's engineering services arm, provides engineering, consulting and asset management services to ESB Group and other customers, both in Ireland and internationally.

Operating environment and financial outcome

Generation – Operations

ESBEI's operating performance in 2010 was in the context of a challenging operating environment of continued recession both in Ireland and abroad. The impact of the recession has led to reduction in electricity demand across the SEM which, coupled with weak commodity prices and increased generation capacity and competition in the generation market, has led to falling margins.

Despite the difficult operating environment ESBEI's generation portfolio continued to trade effectively. In total – taking account of both the regulated and unregulated portfolios - ESB had 47% of the generation market volume in 2010.

Key events in 2010 include:

Regulated Portfolio

- → The Moneypoint Environmental Retrofit Project was completed. This project will provide a significant reduction in emissions of Nitrogen Oxide (NOx), Sulphur Dioxide (SOx) and dust from the plant.
- → The new 430MW Aghada Combined Cycle Generation plant in Cork commenced commercial activities in April of 2010.
- → The 510MW Poolbeg Thermal plant ceased generating after almost forty years of operation.
- → The Regulated Portfolio sold 1.4TWhs of Contracts for Difference (CfDs) to eligible suppliers in the wholesale market as directed by the Commission for Energy Regulation (CER).
- → In separate processes, a further 3.3TWh of Non-Directed CfDs were auctioned and 2.7TWh of Public Service Obligation (PSO) backed contracts were also sold.
- → The total CfDs sold had the effect of offering a substantial volume of fixed price power to other players in the market.

Unregulated Portfolio

- → The Unregulated Portfolio benefited from investments made in recent years with the addition of 90MW of new wind capacity in 2010, bringing the overall ESB wind portfolio to 235MW.
- → 2010 was the first full year of operation of Marchwood Power, a 842MW Combined Cycle Gas Turbine (CCGT) plant situated in Southampton, United Kingdom. The plant is fully contracted for both gas supply and power offtake under a tolling agreement with ESB's joint venture partner, Scottish & Southern Energy. The plant had an excellent year, achieving an average availability of 95%. ESBEI's other tolling assets (Amorebieta, Spain and Corby, England) had equally successful years.
- → ESB continued to develop its trading and risk management capability with the commencement of a gas and electricity trading business to support its planned entry into the British electricity generation market.

ESB International Engineering Solutions – Operations

Despite the continuing difficult economic climate both nationally and globally, Engineering Solutions maintained a strong performance in 2010.

Engineering and project management support for ESB's wind development strategy continued with construction starting on four new windfarms during the year. The business also provided critical support to generation capital projects in Aghada and Moneypoint, site enabling works and contract preparation for the proposed new 860MW CCGT plant at Carrington near Manchester, United Kingdom, and to several major plant overhauls. Support was also provided on an extensive range

ESBI Engineering Solutions - Global Operations since 2000

of transmission and distribution projects to complete the 2006-2010 network investment programme, including the second phase of the Cork harbour transmission reinforcement scheme.

The external consulting business includes both home-based and overseas clients. While the business environment has become more challenging, significant overseas projects are currently underway in Bahrain, Tanzania, Vietnam and Romania.

ESB International Engineering Solutions Operation and Maintenance Division had another very successful year with individual plant availability and efficiency remaining strong. The business had over 5,700MW of capacity worldwide under management in 2010.

Our strategy

ESBEI's mission is to provide Energy Solutions for a Sustainable World. Our aim is to be a leading player in the competitive energy markets within which we operate and to provide value to our shareholders and customers. Our strategy to deliver this aim is to:

1 Drive operational performance through optimising the return and performance of our asset portfolio and generating further efficiencies in the way we run our business.

2 Continue to grow and invest in our portfolio, in particular through developing our growing business in Ireland and the United Kingdom.

3 Deliver a balanced low-carbon generation portfolio. Our aim is to build our renewable energy business to comprise 33% of our generation portfolio and help ESB deliver a 50% reduction in carbon emissions in the SEM by 2020.

4 Deliver quality, cost-effective Engineering Solutions and Services to both internal and external clients.

Investment and Growth

Renewables

ESBEI is committed to delivering a low-carbon balanced generation portfolio and has been investing significantly in renewable technologies for a number of years. 2010 saw the addition of 90MW of new operating capacity to our wind generation portfolio, with the commissioning of Garvagh Glebe (26MW), Tullynahaw (22MW), Crockagarren (15MW) and Hunters Hill (20MW), and the acquisition of the 7MW Mount Eagle windfarm. ESBEI now has an operational wind portfolio of 235MW.

A further 96MW of wind capacity was under construction at year end. ESBEI also acquired the rights to the Mynydd y Betws development project in Carmarthenshire, South Wales (44MW) and continues to progress a number of early stage projects.

In the ocean energy sector, ESB Energy International's Ocean Energy team is engaged in identifying promising ocean energy sites around the island of Ireland with a view to utilising these, once wave technology becomes viable. It is also partnering with a number of diverse companies to seek NER300 funding to further promote ocean technologies.

International

Following successful delivery of the Marchwood CCGT project at Southampton in the UK in 2009, ESBEI is continuing to focus on opportunities in the UK. The 860MW CCGT Carrington development near Manchester is in receipt of all its key permits and licenses and tendering for key elements of the build is now in progress.

ESBEI also reached agreement in 2010 to enter into a joint venture arrangement with Energa, a Polish state utility, to develop an 860MW tolled CCGT plant in Poland. The project is in the early stages of development with an expected commercial operations date in 2016.

ESBEI Carbon Solutions made its first equity investment in 2010 on successful conclusion of negotiations to develop an 11.5MW hydro project in Malaysia. Once operational, ESBEI will be entitled to a significant proportion of the Certified Emission Reductions (CERs) that are generated by the project.

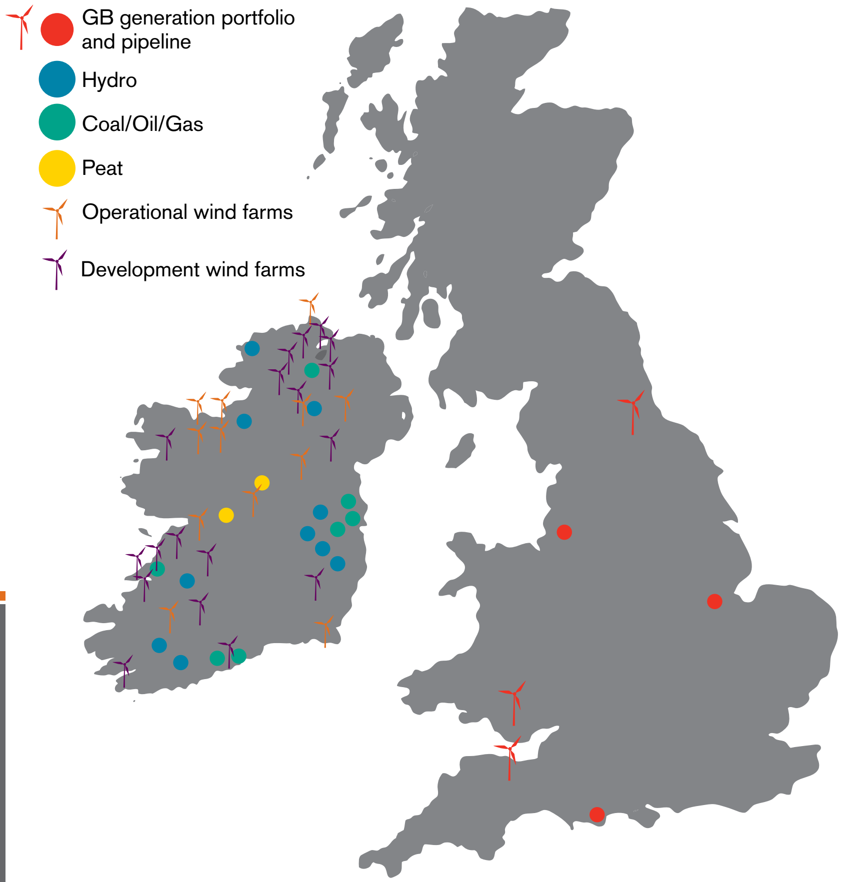
ESBEI took significant pride in winning the Large Company Category at the Engineers Ireland CPD Company of the Year Awards 2010.

Noel Lafferty
Civil Engineer, Overhead Lines Design, ESBI Engineering and participant on 2010 Graduate Trainee Programme.

"The Graduate Trainee Programme provided me with an excellent platform for beginning a successful career in ESB Energy International. With its structured introduction, it allowed graduates to develop an understanding of the many departments and work processes within the company while presenting the opportunity to make friends. The knowledge gained is useful for everyday situations from time and project management, to the adherence to quality standards."

ESB Energy International aims to seek out and nourish young talent. We foster staff development through our Graduate Trainee Programme. This introductory course gives new employees an overview of the company, the sectors in which we operate, our principal clients, the services we provide and the technologies we utilise. It is provided predominantly by internal experts and delivered using a mix of classroom learning and site visits.

SEM and Great Britain Generation Portfolio and Pipeline



Responding to change

The environment within which ESBEI operates has changed dramatically over the last decade, through both market opening, the advent of the SEM and changing competitive and economic circumstances.

ESBEI has responded to these changes by:

Actions

- → Investing in and upgrading our generation portfolio to support our business model and position the company for a more competitive environment;
- → Migrating efficiently into the SEM;
- → Increasing investment in renewable generation in line with long-term market trends and our carbon reduction strategy;
- → Focussing on increasing efficiencies in the way we run our business, through reorganising and simplifying business structures; and
- → Developing our growing business in the UK in line with our strategic ambitions.

For a detailed view of ESB Energy International's financial performance see P81

Our people

ESBEI is committed to the welfare and safety of our staff, customers and the wider public.

Safety

Safety is a core value of ESBEI and we strive to keep our staff and the public safe in everything we do. Specific safety initiatives undertaken during the year led to a significant improvement in our safety performance, with ESBEI incurring 16 Lost Time Injuries (2009: 39), 7 of which were to staff and 9 to contractors. Our target is to reduce this number further in 2011.

People

ESBEI sees its staff as key to the future success of the company. At the end of 2010 we had 2,100 staff members.

We encourage change and innovation and actively seek to engage our employees. We have placed significant effort in 2010 in developing our staff to respond to the changes that increasing competition and the difficult economic environment are bringing. We are committed to regular communication, a policy of inclusiveness and to encouraging diversity. In 2010 we held our first Equality and Diversity week, which will be an annual event going forward.

We aim to seek out and nourish young talent and run graduate traineeship programmes in both engineering and accounting. In 2010 we hired 23 staff on these programmes. We also provide summer work placements for transition year and college students.

ESBEI took significant pride in winning the Large Company Category at the Engineers Ireland CPD Company of the Year Awards 2010.

Outlook for 2011

ESB Energy International expects to see continuing challenges during 2011 in both its Irish and overseas markets. In this context, the key objectives of the business for 2011 are:

1. To continue to focus on improvements in safety, aimed at creating and sustaining a healthy and injury free workplace.
2. To deliver further environmental performance improvements and undertake other sustainability initiatives including identifying opportunities to develop and utilise new and emerging technologies.
3. To meet our regulatory targets with respect to market share.
4. To deliver substantial cost reductions through the Corporate Performance Improvement Programme.
5. To deliver high levels of plant performance through best practice operations and maintenance and timely completion of overhauls on our Poolbeg and Turlough Hill plant.
6. To continue to invest in our SEM and GB portfolios, with an emphasis on further increasing our renewable generation portfolio towards achieving ESB's longer-term goal of net carbon neutrality.
7. To further enhance our GB market trading capability.
8. To continue providing competitive engineering services and expertise to ESB Group and external clients, and to operate our overseas assets to the highest standards.

03
CORPORATE SOCIAL RESPONSIBILITY

OVERVIEW

ESB supports sustainable development in society by managing the balance between secure energy supply and its environmental and social consequences in a responsible way. The guiding principle is that meeting the needs of the present must never compromise the ability of future generations to meet theirs. The following section discloses the energy usage for the Group in 2010, the initiatives the Group undertook during the year to improve our energy performance and our commitment to further improving our energy performance in 2011.

30%

ESB HAS COMMITTED TO REDUCING EMISSIONS FROM GENERATION BY 30% BY 2012, BY 50% BY 2020 AND TO CARBON NEUTRAL BY 2035

AT THE END OF 2010 WE HAD SUCCESSFULLY REDUCED EMISSIONS FROM GENERATION BY 30%

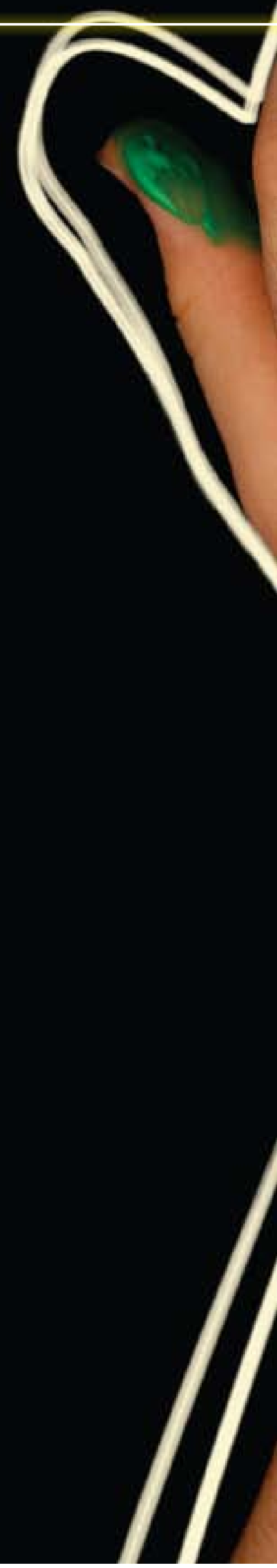
30%

THE TARGETED REDUCTION IN CARBON EMISSIONS FROM OUR INTERNAL BUSINESS ACTIVITIES BY 2012 IS 30%

AT THE END OF 2010 ESB'S INTERNAL CARBON FOOTPRINT HAD REDUCED BY 19%, AGAINST A 2006 BASELINE. THIS PUTS US ON COURSE TO ACHIEVE THE 2012 TARGET.

OUTLOOK

ESB is striving to be part of the solution to the sustainability challenges we face today. We are reducing the carbon emissions from our generation activities to meet our interim targets in 2012 and 2020, and our long-term goal of carbon neutral generation. By using the latest technology and offering our customers energy efficient products and services, we are protecting the environment, enhancing reliability and helping our customers save energy and money.



In this section

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

Introduction

ESB contributes to the sustainable development of our society by managing the balance between energy security, the environmental and social consequences of energy transformation, supply and use in a responsible way. The guiding principle is that meeting the needs of the present must never compromise the ability of future generations to meet theirs.

Our strategy and activities are based on building long-term business success through integrating our commercial development with customer insights, environmental constraints and our stakeholder relationships.

Sustainability

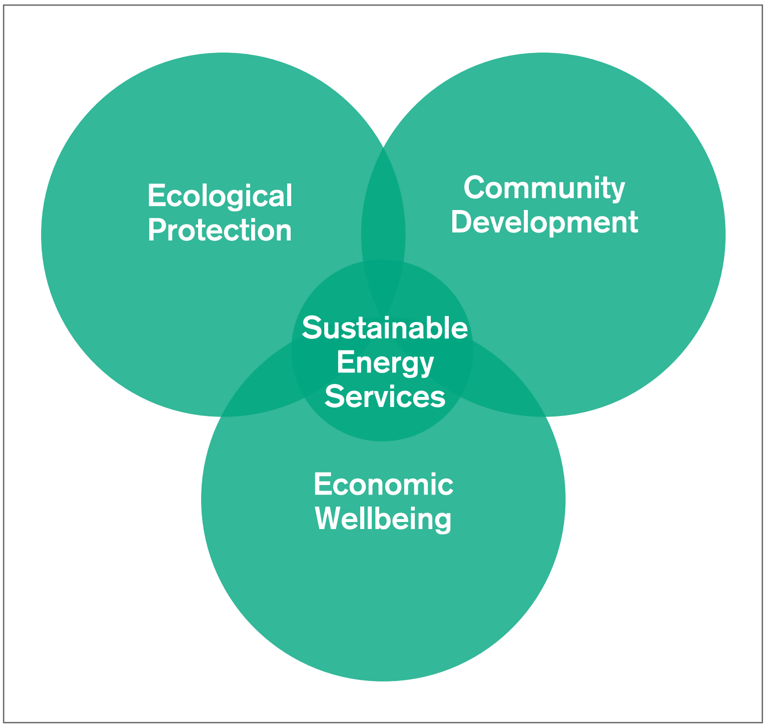
Goals

- → Ensure that we use physical resources as efficiently as possible and without damage to human health or the environment;
- → Develop a strong sustainability culture within the organisation to guide and shape our strategies, investments and operational activities;
- → Support the long-term profitability of the business;
- → Report our actions in a transparent and open manner and respond to the feedback received.

In 2009, ESB published its first comprehensive Sustainability Report and we intend to continue reporting our sustainability performance publicly on an annual basis. The 2010 Sustainability Report will complement this Annual Report and provide a detailed account of our performance against our sustainability targets in 2010. Our reports are accessible at www.esb.ie.

Download 2009 Sustainability Report from www.esb.ie

Creating a Sustainable Future for Generations Ahead



“ ”

ESB is striving to be part of the solution to the challenges we face today and is committed to meeting energy and environmental challenges, through a combination of energy efficiency programmes and new technologies.

Sustainability Charter

ESB is committed to meeting energy and environmental challenges, through a combination of energy efficiency programmes and the application of new techniques. New techniques allow us to generate electricity and provide energy services in a more sustainable manner, while technologies that we are developing offer customers the ability to manage and control their energy use sustainably. We are expanding our energy services to provide energy efficiency programmes to customers that will provide additional choices and better management of their energy costs.

ESB is striving to be part of the solution to the challenges we face today. We are reducing the carbon emissions from our generation activities to meet our interim targets in 2012 and 2020 and our long-term goal of carbon neutral generation. We are working to phase in the installation of Smart Meters that will help customers track and manage their electricity use. We are also transforming our fleet to more environmentally friendly technologies, and we are working to develop a smart grid that will improve reliability. By using the latest technology and offering our customers energy efficiency options, we are protecting the environment, enhancing reliability and helping our customers save energy and money.

Sustainability Charter

Charter commitments	Progress
Reduce emissions from generation by 30% by 2012; 50% by 2020 and carbon neutral by 2035.	At the end of 2010, we had reduced emissions from generation by 30%.
Adopting a target of a 30% reduction in carbon emissions from our internal business activities by 2012, in addition to our targets for the performance of Network and Generation assets.	At the end of 2010 ESB's internal carbon footprint had been reduced by 19% against a 2006 baseline. This puts us on course to achieve the 2012 target.
Committing to leadership in Sustainability through partnership at all levels in the organisation.	Central and local partnership groups have been actively involved in our efforts. We also have over 180 local sustainability champions throughout the company, including our overseas locations in the UK, Spain and the Far East.
Reducing our impact on the environment to a practicable minimum through the prevention of pollution, reduction of waste and the efficient use of energy, water and other resources.	Formal Environmental Management Systems to ISO 14001 have been in place in our power stations for many years. In December 2010, ESB Networks achieved certification to ISO 14001, which was a significant milestone for a geographically dispersed organisation. Targets for waste reduction and energy efficiency have been set for all business units for 2011.
Identification and dissemination of best practice in Sustainability throughout ESB, including our international operations.	Knowledge management and collaboration tools have been deployed throughout the company based on Microsoft Sharepoint. Last year, we initiated a Sustainability Awards Scheme, which attracted 200 entries from across the company.
Integrating sustainability considerations into our procurement activities, as well as in our investment and expenditure decisions.	ESB procurement policy requires that procurement specifications should take into account best practice environmental/sustainability standards.
Actively and effectively communicating and involving staff and contractors in identifying and implementing performance improvements.	A new process for Sustainability Improvement Plans has been put in place in all ESB locations in Ireland. This was extended to our overseas locations in 2010.
Adopting appropriate management structures, management systems and targets.	Sustainability is overseen by an Executive Director, together with a central programme and cross-company steering group. Sustainability targets are set for all ESB directors and business units.
Assessing the impact of our operations on bio-diversity and implementing opportunities for enhancement.	A major bio-diversity review was completed in December 2010.
Openly reporting on our environmental performance in a verifiable way.	All ESB generation station emissions are reported and verified to the EPA under the EU ETS scheme. ESB produced its first Sustainability Report in 2010. We plan to issue this report annually.

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ESB will undertake a pilot roll-out of infrastructure designed to support the introduction of ecars to Ireland from 2011.

Energy Usage 2010

In compliance with S.I. 542/2009, ESB is disclosing the energy usage for the Group in 2010, the initiatives the Group undertook during the year to improve our energy performance and our commitment to further improve our energy performance for 2011. Electricity generation, which accounts for over 99% of ESB's use of energy, is not within the scope of this reporting requirement.

Our transport fleet accounts for most of our internal energy use followed by space heating. ESB is cognisant of the requirement under the EU's Energy Services Directive and National Regulations that the public sector act as an exemplar in terms of energy efficiency.

ESB places the reduction in Greenhouse Gases (primarily CO_2 emissions from energy use) as our overarching strategic objective. In this context, we have used our carbon footprint as the metric for measuring our energy efficiency improvement target taking 2006 as the base year.

A wide range of actions and initiatives were pursued in 2009 and 2010 to achieve these savings.

Building Energy Use

- → Energy audits have been completed at all ESB locations to determine potential savings. The identified measures are being implemented progressively based on cost efficiency.

The measures implemented include:

  - → Insulation, boiler, heating systems and heating control upgrades;
  - → Installation of low energy lighting systems and advanced lighting controls; and
  - → Energy use awareness campaigns;

- → A standard for the sustainable and energy efficient design and construction of new buildings has been adopted.
- → A guideline on the retrofit of existing buildings has been developed.

ENERGY SOURCE	2010 GWh	2006 GWh	Change GWh
Electricity	32.3	32.3	-
Electricity (PEE*)	**80.8**	**95.6**	**(14.8)**
Fossil Fuels			
- Natural Gas	1.4	1.0	0.4
- Heating Oil	-	-	-
- Diesel	55.0	58.6	(3.6)
Renewable Energy	**0.4**	**-**	**0.4**
TOTAL (PEE)	**137.6**	**155.2**	**(17.6)**

* PEE is the Primary Energy Equivalent

Transport Fleet

- → A reduction in the number of vehicles in our fleet;
- → Introduction of a limited number of electric vehicles;
- → An improved work planning system; and
- → A research programme (in cooperation with the University of Limerick) on the use of biodiesel at 5%, 30% and 100% mixtures.

We will intensify these measures in 2011 to ensure we deliver our target to reduce by 30% our carbon footprint by 2012 compared to 2006.

Concerning ESB's generating plants, these are subject to the EPA's integrated pollution control licensing regime which has a requirement to optimise energy efficiency. Generation efficiency is also promoted as a result of the requirement to purchase emissions allowances under the EU's emissions trading scheme and the application of the Carbon Revenue Levy.

Ecars

In February 2010, ESB ecars entered into a definitive agreement with Renault-Nissan and the Department of Communications, Energy and National Resources (DCENR). Under the terms of this agreement, the car companies will make ecars available for sale in Ireland ahead of other countries. DCENR will support ESB in the establishment and maintenance of a nationwide infrastructure and provide financial support by way of a €5,000 grant and zero VRT for ecar drivers. ESB will undertake a pilot roll-out of infrastructure designed to support the introduction of ecars to Ireland from 2011. As part of this agreement, ESB is committed to installing 1,500 publicly accessible charge points, domestic charge points equal to the number of Electric Vehicles (EVs) and 29 fast-charge points. The first on-street commercial and domestic charge points have already been installed.

ESB ecar and charge point in the Science Gallery as part of the Green Machines exhibition in Trinity College.

Sustainability and the Community

ESB operates a significant sponsorship portfolio supporting sporting, community and cultural activity throughout the country.

ESB ElectricAID Ireland

Over the last five years, ESB ElectricAID Ireland has spent €5 million on 'a journey of hope' all over the island of Ireland. As chosen in a staff vote, these resources have been committed to the fight against two social problems – homelessness and suicide.

Greener days ahead thanks to ESB HALO Schools Programme

Eight schools across the country are now on a greener learning path as a result of works carried out through the ESB HALO Schools Programme.


Pupils from St. Michael's Infant School in Limerick enjoy a cosier learning environment thanks to the ESB HALO Schools Programme.

ESB's HALO Schools Programme facilitated a free energy survey for all eight schools, followed by the recommended remedial works, with 30% of the project costs being supported through the Sustainable Energy Authority of Ireland's Energy Efficiency Fund.

ESB's Sustainability Team also developed and delivered a training DVD for primary schools, which can be used as a resource tool to engage students on issues relating to climate change and renewable energy.

Copies of the training DVD are available by e-mailing www.schoolssustainability@esb.ie

ESB GAA Minor Football and Hurling Championships


Positive energy surge at the 2010 ESB GAA Minor Championships Launch.

ESB Electric Ireland's sponsorship of the 2010 GAA Minor Football and Hurling Championships commenced on April 19th in Croke Park with 'Positive Energy' as the core theme. The programme, which continued throughout the 2010 ESB Minor Championship, was designed to enhance the experience of, and provide support for players participating in the championship. This was supported by a stand alone support website, 'ESB Exam Pass' that acted as a support tool for young players who were studying whilst also engaged in a strict training schedule.

Macra Na Feirme – Know Your Neighbour

Know your Neighbour Weekend is organised by Macra na Feirme and proudly sponsored by ESB. It is a national initiative, aimed at encouraging people to organise or participate in a locally held event or activity in an effort to get to know people in their neighbourhood.

Age Action Positive Ageing Week

ESB is proud to support Age Action for the sixth year in the celebration of Positive Ageing Week. In addition to over 850 individual events which took place in 2010 across Ireland, fifteen Positive Ageing Week towns ran a series of events throughout the week.

The Irish Guide Dogs for the Blind

The Irish Guide Dogs for the Blind is dedicated to helping persons who are blind or visually impaired to lead independent lives. In 2005, they introduced the Assistance Dog Programme to assist families of children with autism. This scheme is the very first of its kind in Europe and ESB is very proud to support the invaluable work carried out by this organisation.

ElectricAID Project in Ghana

This project was started in 2007 to mark the 80th anniversary of ESB and supports the construction and rehabilitation of schools in Ghana. In September 2010, 32 ESB volunteers travelled to Kaneshie in Accra, Ghana's capital city, for two weeks to help build public schools for 700 children.

Our People

Safety and Health in ESB during 2010

Safety is a core value of ESB and safe operations are at the heart of our culture. We continually focus on activities that promote best practice among our employees and contractors.

Our goal is zero injuries and we have made very considerable progress in this direction. We are committed to implementing OHSAS 18001, an externally accredited quality system to support the management of safety in the company. Over 40% of ESB staff operated within business areas that had achieved OHSAS registration in 2010, and our aim is to have all activities included within the scope of this system by the end of 2012.

2010 was a particularly significant year regarding improvements in staff safety and health at work.
28 Lost Time Injuries (LTIs) to staff occurred against a target of no more than 30. 15 LTIs were reported by our contractors against a target of no more than 28 during the year. This exceptional performance is muted however, by the death in May of a timber cutting contractor working on behalf of ESB Networks. This was the first contractor fatality since 2005.

In relation to public safety, one member of the public died in an incident involving the illegal removal of copper from an ESB substation. Two members of the public were also fatally injured having made contact with electricity.

"Overall staff and contractor lost time injuries are down 45% on 2009 and down 26% on target."

> In 2009 and 2010 we recruited 100 new electrical apprentices per year, 50 above our required number.

Learning and Development

Learning and Development programmes continue to provide core skills, including mandatory technical and safety training, personal development and competence in emerging areas. We continue to encourage continuous professional development and work with accrediting professional bodies such as Engineers Ireland to support this.

ESB continues to fund the provision of additional places in Cork Institute of Technology, to facilitate the entry of additional qualified electricians into a Level 7 Engineering degree programme.

In 2009 and 2010 we recruited 100 new electrical apprentices per uear, 50 above our required number. The additional 50 will be routed into funded third level Engineering degree programmes.

Equality and Diversity

The ESB Equality and Diversity Office focuses on promoting five key areas throughout ESB Group - Equality, Diversity, Respect and Dignity, Disability and Work-Life Balance. In 2010, the Office organised a very successful Equality and Diversity Week to raise people's awareness around these issues.

ESB's implementation of the provisions of the Official Languages Act (2003)

ESB agreed a language scheme in March 2008, under Section 11 of the Official Languages Act 2003. It is one of the functions of the Language Commissioner under Section 21 of the Official Languages Act 2003 to monitor compliance with the provisions of the Act. As part of that remit a review/ audit of the implementation of the scheme was conducted, which found that ESB has made substantial progress in the implementation of the scheme. There is currently a panel of Irish speakers available within ESB Electric Ireland to deal with customers seeking service through Irish.

Launching the new 'ESB Cultural Diversity Policy'. Brid Horan, Executive Director Services and Electric Ireland, Joyce Farrell, Manager, Equality and Diversity and Meena Purushothaman.

04

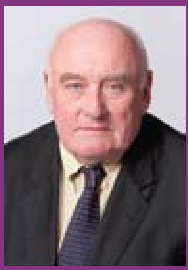
CORPORATE GOVERNANCE

OVERVIEW

ESB complies with the Code of Practice for the Governance of State Bodies. The Code sets out principles of corporate governance which the Boards of State Bodies are required to observe. The Group also complies with the corporate governance and other obligations imposed by the Ethics in Public Office Act, 1995 and the Standards in Public Office Act, 2001. ESB also conforms, as far as possible, and on a voluntary basis to the UK Corporate Governance Code. Risk is an active element of the environment within which ESB operates and ESB is committed to successfully managing the Group's exposure to risk and to minimising its impact on the achievement of business objectives. This section introduces the ESB Board and presents their report for the year ended 31 December 2010. It also includes a Risk Management Report which describes the operation of the risk identification process, highlighting the key risks and main mitigation strategies deployed.

In this section

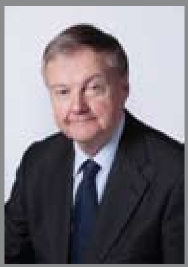
BOARD MEMBERS



Lochlann Quinn was appointed Chairman and Board member of ESB in January 2008. Mr. Quinn, a Chartered Accountant, was a partner with Arthur Andersen & Co. and is a former Chairman of Allied Irish Banks plc. and of the National Gallery of Ireland. He was Deputy Chairman of Glen Dimplex. Mr. Quinn is a member of the Board of Smurfit Graduate School at University College Dublin. In 2010 Mr. Quinn was also Chairman of the Remuneration and Management Development Committee and Chairman of the Finance Committee.

Padraig McManus was appointed Chief Executive and member of the Board in July 2002. Following Board and Ministerial approval during 2008, Mr. McManus' term as Chief Executive was extended for a further three years until 2012. He joined ESB in 1973 and spent fifteen years in the Company's international businesses and later became Managing Director, ESB International and Commercial Director, ESB. He is a Board member of the Irish Management Institute and a Trustee of the Conference Board of the United States. During 2010 Mr. McManus was a member of the Health, Safety and Environment Committee and the Business Development and International Committee.

Brendan Byrne was appointed to the Board in September 2004. Mr. Byrne is a director of a number of companies in the aviation industry, specialising in the areas of Air Cargo and Information Technology. He is also Managing Partner of ClearVision Consulting which provides financial and strategic planning services to a range of airline clients. Mr. Byrne previously held a number of senior management positions in Aer Lingus and has worked extensively in the field of change management. He is a Chartered Accountant. During 2010 Mr. Byrne was Chairman of the Audit Committee and a member of the Finance Committee.



John Nugent was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB as an Executive Officer in 1967. He was a member of the ESB's Joint Industrial Council from 1991 to 2003. He was President of the Electricity Supply Board Officers' Association (ESBOA) from 2002 to 2006 and is currently a Board member of ESB ESOP Trustee Limited. In 2010 Mr. Nugent was Chairman of the Regulation Committee and a member of the Finance Committee. His term of office on the Board expired on 31 December 2010.

John Coleman was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB in 1979 as a Day Worker in Ferbane Generating Station. He is the secretary of the ATGWU Day Workers Association. He is the current chairman of the ATGWU ESB Branch. In 2010 Mr. Coleman served as a member of the Business Development and International Committee and the Health, Safety and Environment Committee.

Seán Conlan was appointed to the Board in October 2007. An Electrical Engineer, he worked in a variety of engineering roles in Africa, Ireland and several countries in Europe. He was Chief Executive of Excellence Ireland (the national independent quality association) from 1994 to 2003. He also served as President of European Organisation for Quality (EOQ). Other roles include Trustee of the Irish National Hygiene Partnership, a former Board member of the Irish National Accreditation Board, and a member of the Consultative Council of the Food Safety Authority of Ireland. He is currently lecturing in the Institute of Technology in Sligo. In 2010 Mr. Conlan served as a member of the Audit Committee and of the Market and Customer Committee. Mr. Conlan was appointed Senior Independent Board Member in October 2010.

Eoin Fahy was appointed to the Board in January 2001 and reappointed in February 2006. He is Chief Economist with Kleinwort Benson Investors and was appointed to be a member of the Commission on Taxation in 2008. In 2010 Mr. Fahy was a member of the Remuneration and Management Development Committee, the Business Development and International Committee and of the Audit Committee. Mr. Fahy completed his term as a Board Member in February 2011.

Georgina Kenny was appointed to the Board in April 2000 and was reappointed in May 2005. A solicitor, Ms. Kenny is Managing Director of Shannon Dry Cleaners. Ms. Kenny was Chairman of the Business Development and International Committee and a member of the Remuneration and Management Development Committee up to the expiry of her term of office on the Board in May 2010. She was also the Senior Independent Board member.

Ellvena Graham was appointed to the Board of ESB on 5 October 2010. Ms. Graham is Executive Director of Business Services in Ulster Bank. She has held other senior positions at the Bank including Chief Operating Officer - Corporate Bank, Head of Operations and also Executive Director Group Operations EMEA. She is a member of the Advisory Board of Womens' Executive Network in Ireland and serves on the Barretstown Board which supports children with serious illnesses.

Garry Keegan was appointed to the Board in June 2007. He is a Director of Acumen, a company specialising in the provision of public consultation services for urban design and infrastructural projects. Mr. Keegan has served as a Board member of a number of organisations, including: Temple Bar Properties, Dublin City Enterprise Board, Hugh Lane Gallery, St. James's, Hume St. and Holles St. hospitals. He also served as a Council Member on the Dublin Docklands Development Authority. In May 2007 he was appointed as a member of the Expert Group of Future Skills Needs by the Minister of Enterprise, Trade and Employment. In 2010 Mr. Keegan served as Chairman of the Market and Customer Committee and a member of the Regulation Committee.

Seamus Mallon was appointed to the Board in February 2006. He was elected to Armagh District Council in 1973, to the then Northern Ireland Assembly (1973-74) and to the Northern Ireland Convention (1975-76). He was a member of Seanad Éireann in 1981. From 1986 to 2005 he was MP for Newry and Armagh at Westminster. He was Deputy Leader of the SDLP and, subsequent to the signing of the Good Friday Agreement in April 1998, Deputy First Minister of Northern Ireland. During 2010 Mr. Mallon served as a member of the Health, Safety and Environment Committee and of the Regulation Committee.

Tony Merriman was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB in 1979 as a Network Technician. He has served as an officer with the ESB Group of Unions. Mr. Merriman was Chairman of the Health, Safety and Environment Committee and a member of the Regulation Committee. During 2010 Mr. Merriman was also a Board member of ESB ESOP Trustee Limited.

Bobby Yeates was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB in 1967 and has worked on a range of ESB activities starting in Service Repair and as a Network Technician. During 2010 he was an Executive Member Trustee of the TEEU and also a member of the ESB Superannuation Committee. In 2010 Mr. Yeates was a member of the Business Development and International Committee and the Market and Customer Committee. His term of office on the Board expired on 31 December 2010.

To read the **Board Members** report please see P52

THE EXECUTIVE TEAM

Padraig McManus
Chief Executive

John Shine
Deputy Chief Executive

John Campion
Sustainability

Jerry O'Sullivan
ESB Networks

Donal Flynn
Group Finance and Commercial Director

John Redmond
Company Secretary

Bríd Horan
Services and Electric Ireland

Human Resources Director

Pat O'Doherty
ESB Energy International

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

JOHN CAMPION was appointed Executive Director, Sustainability in March 2008. Previously he had held the position of Executive Director, Human Resources and Corporate Affairs since November 2002. A Civil Engineer by profession, John joined ESB in 1978 and has worked in various roles connected with industrial relations and personnel management, including Manager Human Resources in Power Generation. He also worked as a regional manager in both Sligo and Dublin. Prior to his appointment as Executive Director, he was Head of Network Projects.

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

BRID HORAN was appointed Executive Director Services and Electric Ireland in 2010. Previously, she held the position of Executive Director ESB, Energy Solutions from November 2009 and ESB Customer Supply and Group Services since December 2006. She joined ESB in 1997 as Group Pensions Manager. She was a Commissioner of the National Pensions Reserve Fund from its establishment in 2001 to 2009 and was a Board Member of IDA Ireland from 1996 to 2006. Before joining ESB she headed KPMG Pension and Actuarial Consulting.

PAT O'DOHERTY was appointed Executive Director, ESB Energy International in February 2010. Previously he held the position of Executive Director, ESB Networks since November 2009 and Executive Director ESB Power Generation since July 2005. He joined ESB in 1981 and has worked in various customer service, project management and general management roles. Prior to his appointment as Executive Director, Power Generation, he held the position of General Manager, Synergen. He has also held senior positions in ESB Networks.

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

JOHN REDMOND was appointed Company Secretary in 2002. He was previously group company secretary and senior vice president corporate affairs of GPA Group plc and subsequently company secretary of debis AirFinance BV (an associate company of Daimler/Chrysler) and of the SEC registered Airplanes Limited. From 1980 to 1988 he worked in the diplomatic service and the Department of Finance. He is a graduate of NUI Maynooth and of Napier University Edinburgh. He is a Fellow of the Institute of Chartered Secretaries.

LUKE SHINNORS, Executive Director of Human Resources passed away on 4 March 2011 to the great regret of all in ESB. Prior to his appointment as Executive Director of Human Resources in March 2008, he was Group Manager, Power Generation. He also held other senior management positions across ESB including Manager, Corporate Change and Human Resources, Manager of Networks. He joined ESB in 1973 and obtained an Electrical Engineering degree form UCD and an MBS in HR Strategies from DCU.

BOARD MEMBERS' REPORT

The Board Members present their report together with the audited financial statements of the Parent and of the Group for the year ended 31 December 2010.

Principal activities

The principal activities of the ESB Group are the generation, transmission, distribution and supply of electricity in the Republic of Ireland and from December 2010, the transmission and distribution of electricity in Northern Ireland. The Group also operates internationally, in related activities including in the United Kingdom, mainland Europe and a number of projects in Asia.

Business review

Commentaries on performance in the year ended 31 December 2010, including information on recent events and likely future developments, are contained in the Chairman's Statement and the Chief Executive's Review. The performance of the business and its financial position together with the principal risks faced by the Group are reflected in the Financial Review as well as the reviews for each major business line within the Group.

Results for the year

The financial results of the Group show a loss for the financial year, amounting to €84 million compared with a profit of €580 million for 2009.

The Board Members are recommending that a final dividend of 3.89 cent per unit of capital stock amounting to €77 million in aggregate be paid in 2011 in respect of 2010. A final dividend per unit of capital stock of 4.77 cent, amounting to €94.4 million in aggregate was paid in 2010 in respect of 2009. Further details of the results for the year and results for the prior year are set out in the Group income statement and related notes.

Corporate governance

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

ESB conforms as far as possible, and on a voluntary basis, to the UK Corporate Governance Code (the "Corporate Governance Code"). Companies listed on the Irish Stock Exchange are required, as part of the listing rules, to describe how they apply the Corporate Governance Code's principles and either to confirm that they comply with the Code's provisions or provide an explanation of non-compliance. ESB is a statutory corporation established under the Electricity (Supply) Act, 1927 as amended and, accordingly, is not obliged to comply with the Corporate Governance Code. However, ESB supports the principles and provisions of the Corporate Governance Code and voluntarily complies with them subject to the following exceptions:

(i) Appointments to the Board are a matter for Government and accordingly ESB does not have a nomination committee.

(ii) Board Members are appointed for terms of up to four or five years and therefore are not subject to re-election to the Board at intervals not exceeding three years.

(iii) ESB's policies and disclosures in relation to remuneration of Executive Board Members (i.e. the Chief Executive) are in accordance with applicable

State Body Guidelines issued by the Department of Finance. The details of Board Members' remuneration on page 58 do not include amounts paid to the four Worker Board Members as employees of ESB, but does include amounts paid to them by way of fees.

(iv) The Board evaluation process does not evaluate the individual performance of Board Members.

(v) The Board Chairman is also Chairman of the Remuneration and Management Development Committee.

(vi) During 2010 one independent Board Member was an employee of a company which itself, or through a Group company, provides credit and other financial services to ESB but this is not viewed as compromising the independence of the Board Member concerned. During the year two independent Board Members, Ms. Kenny and Mr. Fahy, were in their tenth year in office. These Board Members were appointed to the Board by the Government for two terms not exceeding five years each. The additional year of service over and above the nine year limit recommended in the Corporate Governance Code in respect of Board Members' independence, is not regarded by the Board as having compromised the independence of these two Board members. Ms. Kenny's term expired in May 2010. Mr. Fahy's term expired in February 2011. Having considered all of the other factors relevant to Board Members' independence as outlined in the Corporate Governance Code, the Board is satisfied that the Board Members concerned remained independent in 2010.

Principles of good governance

Attendance at Meetings in 2010

There were 11 General Board Meetings and one Special Board Meeting during 2010. The number opposite each name, represents the attendance by each Board Member at the General Board Meetings, and at the Special Board Meeting, during the year.

Board Members 2010	Meetings Attended
Lochlann Quinn	10, 1
Brendan Byrne*	10, 1
John Coleman	11, 1
Seán Conlan*	11, 1
Ellvena Graham*^	3, 0
Eoin Fahy*	9, 1
Garry Keegan*	10, 1
Georgina Kenny*^	4, 1
Seamus Mallon*	11, 0
Padraig McManus	11, 1
Tony Merriman	11, 1
John Nugent^	11, 1
Bobby Yeates^	11, 1

* Independent Board Members
^ Ellvena Graham – appointed to Board 5 October 2010
^ Georgina Kenny – term expired 17 May 2010
^ John Nugent – term expired 31 December 2010
^ Bobby Yeates – term expired 31 December 2010

The Board

While day-to-day responsibility for the leadership and control of the company is delegated to the Chief Executive and his Senior Management Team, within pre-defined authority limits, the Board is ultimately responsible for the performance of the company. Eight Board Members have been appointed by the Government for terms of up to five years and four Worker Board Members are appointed by the Minister for Communications, Energy and Natural Resources for a four year term pursuant to the Worker Participation (State Enterprises) Acts. The Chief Executive has been appointed a Board Member for a period not exceeding his term as Chief Executive.

The Board has determined that the Board Members identified above were independent during 2010. The Chief Executive and the four Worker Board Members are employees of ESB.

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

Seán Conlan is the Senior Independent Non-Executive Director.

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

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

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

The Board Members, in the furtherance of their duties, may take independent professional advice as required, at the expense of ESB. All Board Members have access to the advice and services of the Company Secretary. Insurance cover is in place to protect Board Members and Officers against liability arising from legal actions taken against them in the course of their duties. An induction programme is in place to familiarise new Board Members with the operations of the Group. The Board Members receive monthly financial statements for the Group and full Board Papers are sent to each member on a timely basis before the Board Meetings. The Board Papers include the minutes of Board Committee Meetings.

The Chairman conducted the performance evaluation of the Board and of its Committees. This evaluation was undertaken in order to comply, so far as possible, with the Corporate Governance Code. The evaluation related to the Board's collective performance and not to the individual performance of Board Members.

BOARD COMMITTEES IN 2010

Committees are established to assist the Board in the discharge of its responsibilities. The committees are as follows:

Audit Committee

The Audit Committee is a formally constituted committee of the Board with written terms of reference. The purpose of the Audit Committee is to oversee the financial reporting process and internal control system of ESB. The Company Secretary acts as Secretary of the Committee. In January 2011 this Committee was renamed the Audit and Risk Committee.

During 2010 the Committee reviewed:

- The 2010 risk plan and regular risk reports;
- The internal audit plan and regular implementation reports;
- The effectiveness of the internal audit function;
- The external audit plan, the scope of the audit as set out in the engagement letter and the effectiveness of the external audit;
- The effectiveness of the company's risk management and internal control systems;
- The interim and annual financial statements;
- Corporate Governance compliance;
- A report from the external auditor on its audit of the financial statements and the recommendations made by the auditor in its management letter and management's response; and
- The Committee's own terms of reference to ensure they remained relevant and up to date.

The Committee has developed a policy regarding the provision of non-audit services by the external auditor, whereby, other than as notified to the Committee, such services should be limited to advice in relation to accounting, taxation and compliance issues. The fees payable for non-audit services in any financial year should not exceed audit fees for that year. The internal and external auditors have full and unrestricted access to the Audit Committee. The Committee Chairman reports the outcome of its meetings to the Board. The Board is satisfied that at all times during the year at least one member of the Committee had recent and relevant financial experience. The Committee held five meetings during 2010. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings Attended
Brendan Byrne, Chairman	5
Seán Conlan	4
Eoin Fahy	5

Business Development and International Committee
The purpose of the Business Development and International Committee is to review investment proposals aimed at ensuring the positioning of ESB for future success consistent with the strategy approved by the Board. In January 2011 this Committee was renamed the Investment Committee. The Committee held ten meetings during 2010. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings Attended
Georgina Kenny^, Chairman (part of year)	3
Eoin Fahy, Chairman (part of year)	8
John Coleman	10
Padraig McManus	9
Bobby Yeates	9

^ Term expired May 2010

Health, Safety and Environment Committee
The purpose of the Health, Safety and Environment Committee is to advise the Board on health, safety and environmental matters. The Committee held four meetings during 2010. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings Attended
Tony Merriman, Chairman	3
John Coleman	4
Seamus Mallon	4
Padraig McManus	2

Finance Committee
The purpose of the Finance Committee is to oversee strategy and policy on financial matters and to advise the Board as appropriate. In January 2011 this Committee was renamed the Finance and Performance Improvement Committee. The Committee held eight meetings during 2010. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings Attended
Lochlann Quinn, Chairman	7
Brendan Byrne	7
John Nugent	5

Regulation Committee
The purpose of this Committee is to monitor evolving legislation and regulatory matters and to oversee compliance with regulatory requirements. The Committee held five meetings during 2010. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings Attended
John Nugent, Chairman	5
Garry Keegan	5
Seamus Mallon	5
Tony Merriman	4

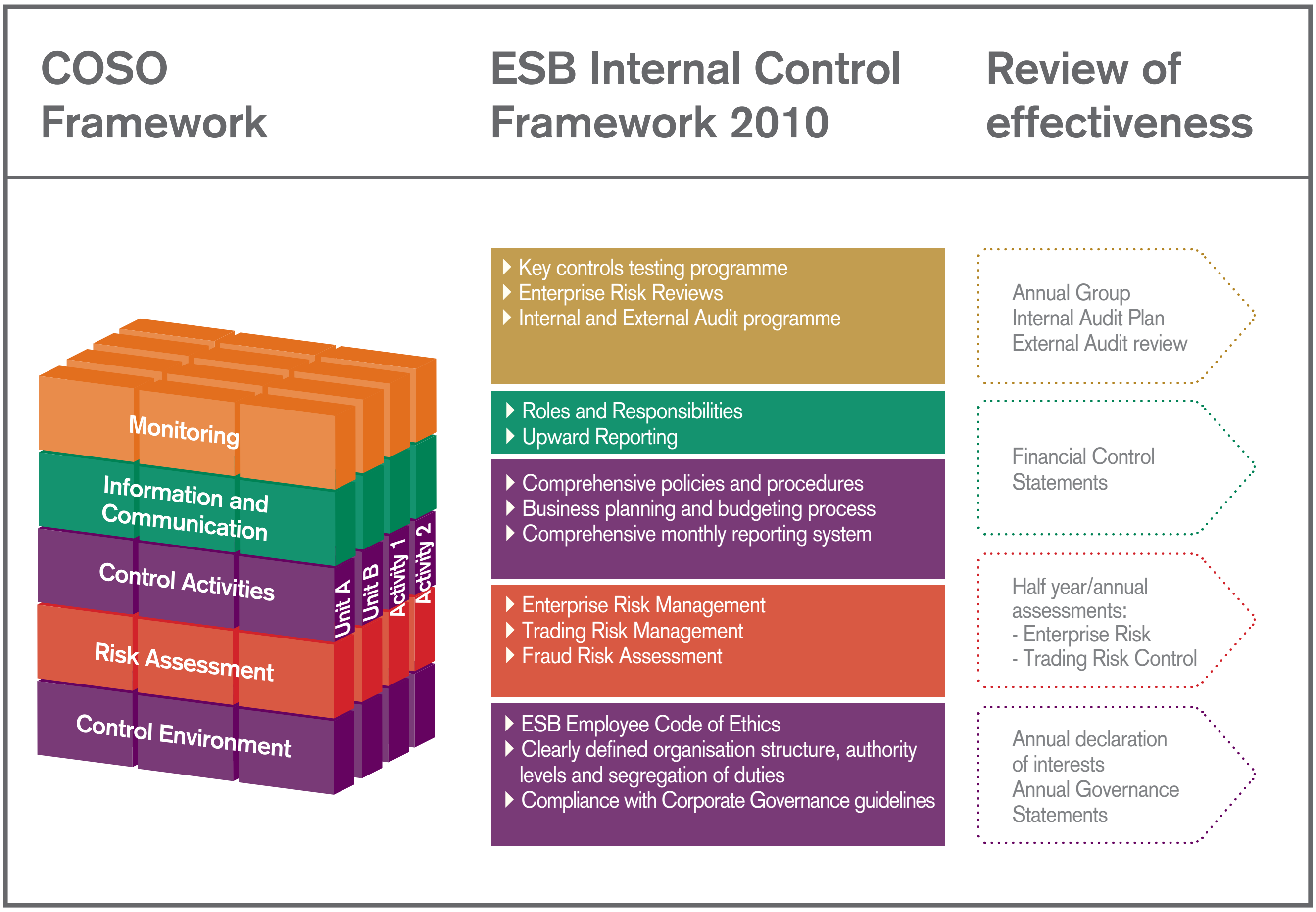
Remuneration and Management Development Committee
The purpose of the Remuneration and Management Development Committee is to advise the Board on all aspects of the remuneration of the Chief Executive, to approve any changes to the remuneration of Worker Board Members, to set the remuneration of the executive management group following consultation with the Chief Executive and to monitor the development of current and future leaders of ESB. During 2010, the Committee considered the remuneration and targets of the Chief Executive and the senior executives and the developmental needs of the Group’s Senior Managers. The Committee held two meetings during 2010 which were attended by all Committee Members as set out below:

Members	Meetings Attended
Lochlann Quinn, Chairman	2
Eoin Fahy	2
Georgina Kenny	2

Market and Customer Committee
The Market and Customer Committee advises the Board on all aspects of customer service. The Committee held three meetings during 2010. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings Attended
Garry Keegan, Chairman	3
Seán Conlan	3
Bobby Yeates	3

Group's system of internal controls



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

INTERNAL CONTROLS

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

The Board has reviewed the effectiveness of the Group's system of internal control covering financial, operational and compliance controls and risk management systems. ESB has a strong internal control framework in place, which includes the following:

- A code of ethics that requires all Board Members and employees to maintain the highest ethical standards in conducting business;
- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board which support the maintenance of a strong control environment;
- A corporate governance framework which includes risk analysis, financial control review and formal annual governance statements by the management of business lines and at Group level. This is monitored by the Group Internal Audit department,

which reports to the Audit Committee on an ongoing basis;
- A comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require the approval of the Board, and are closely monitored on an ongoing basis by the Business Development and International Committee of the Board. 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 monthly actual results are reported against budget and considered by the Board on a monthly basis. Any significant changes and adverse variances are questioned by the Board, and remedial action taken where appropriate; and
- Consideration of operational and financial issues by Board Committees as described on pages 53 to 55.

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

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

THE BOARD'S ENTERPRISE RISK MANAGEMENT (ERM) PROCESS

Risk management is an integral part of all business activity and is managed in a consistent manner across the business units. To achieve this, ESB has adopted an enterprise-wide approach to risk management since 2005.

Across ESB Group, a consistent framework for the identification, assessment, management and reporting of risk applies.

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

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

The Group Internal Auditor is independent of the risk management process and has provided independent assurance to the Audit Committee on the adequacy of the risk management arrangements in place in the Group.

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

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

For more information on the established risk management framework, including some of the Group's most significant risks, see the Risk Management Report on pages 60 to 61.

BOARD MEMBERS' REMUNERATION 2010

	2010	2009
Chairman	€	€
Lochlann Quinn		
Fees	78,750	70,309
Chief Executive		
Padraig McManus		
Salary	420,993	432,689
Performance related pay:		
- Annual bonus	-	105,410
- Long term incentive	-	103,906
Taxable benefits	23,100	23,342
Pension contributions	69,043	70,961
Fees	15,750	16,260
	528,886	752,568
Non-Executive Board Members		
Brendan Byrne	15,750	15,915
John Coleman *	15,750	16,260
Seán Conlan	15,750	16,260
Ellvena Graham^	3,797	-
Garry Keegan	15,750	16,260
Eoin Fahy	15,750	16,260
Seamus Mallon	15,750	16,260
Georgina Kenny^	5,911	16,260
Tony Merriman *	15,750	16,260
John Nugent *	15,750	16,260
Bobby Yeates *	15,750	16,260
	151,458	162,255

^ Ellvena Graham – appointed to Board 5 October 2010
^ Georgina Kenny – term expired 17 May 2010

In 2009 Board fees were reduced by 10%.
* In addition to their Board fees, the four Worker Board Members were paid as employees of ESB.
Effective 1 April 2009 the Chief Executive accepted a voluntary reduction in salary of 10%.

EXECUTIVE BOARD MEMBERS' REMUNERATION

The only executive Board Member is the Chief Executive, Mr. Padraig McManus. The Chief Executive's remuneration is set within a range determined by the Ministers for Finance and for Communications, Energy and Natural Resources. It is determined annually, within this range, by the Remuneration and Management Development Committee, which comprises three Non-Executive Board Members, and is approved by the Board.

The remuneration of the Chief Executive consists of basic salary, a company car and performance related bonus scheme which provides for up to 35% of annual salary, on condition that of this a minimum of 10% of salary should be applied to a three year bonus scheme related to multi-annual objectives, subject to the overall maximum of 35% of salary per year over the period. In his role as a Board Member, the Chief Executive also receives a fee as determined by the Minister for Communications, Energy and Natural Resources.

NON-EXECUTIVE BOARD MEMBERS' REMUNERATION

Board Members appointed under the Worker Participation (State Enterprises) Acts are remunerated as employees of ESB. They participate in the ESB superannuation scheme. The remuneration of the Non-Executive Board Members (including the Chairman) is determined by the Minister for Communications, Energy and Natural Resources and they do not receive pensions.

BOARD MEMBERS' EXPENSES

In compliance with the revised Code of Practice for the Governance of State Bodies, disclosure is required of the expenses paid to the Board Members, broken down by category. During 2010, the following amounts were reimbursed to, or paid on behalf of, Board Members: €1,524 for telephone expenses, €66,907 for travel expenses, €36,983 for subsistence, €6,741 for entertainment, €13,292 for conferences and €3,675 for subscriptions.

The above expenses include those of the Chief Executive, both in his capacity as Chief Executive and as a Board Member.

GOING CONCERN

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

ACCOUNTING RECORDS

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

ELECTORAL ACT, 1997

The Board made no political donations during the year.

CONCLUSION

This report was approved by the Board on 23 March 2011 for submission to the Minister for Communications, Energy and Natural Resources.

On behalf of the Board

Lochlann Quinn
Chairman

Padraig McManus
Chief Executive

23 March 2011

RISK MANAGEMENT REPORT

Enterprise Approach

The risk oversight performed by the Board is contained in the Board Members' Report. The table below describes the operation of the risk identification process, highlighting the key risks and the main mitigation strategies deployed.

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

Risk Management Framework

ESB has put a risk management framework in place, which comprises the following components:

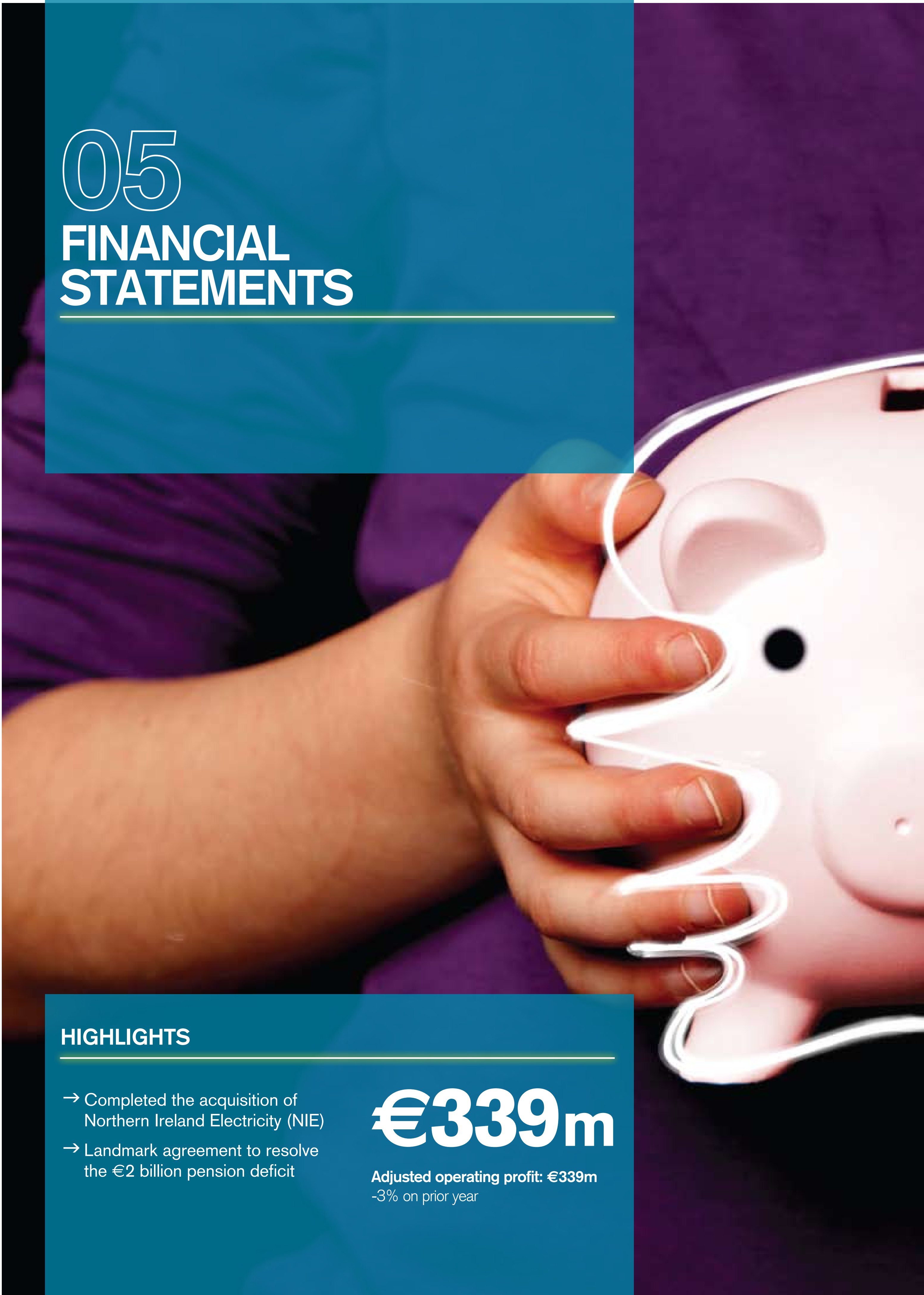
- Processes for identifying and prioritising the Group's risks for Management and Board attention;
- Monitoring mechanisms to ensure proper execution of mitigation plans and strategies;
- Ongoing assessments to highlight trends and to identify new and emerging risk areas; and
- Maintenance of a Group perspective on risk through a process of consolidating and aligning the various views of risk across the Group.

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

Principal Risks and Mitigation Strategies

Risks	Description of Risks	Mitigation Strategies
SAFETY AND ENVIRONMENT RISKS		
Injury to staff, contractors and the general public	As a major energy utility, ESB is committed to the highest possible safety standards to protect against the risk of injury to staff, contractors and the general public.	ESB rigorously enforces its safety policies and standards to achieve its ultimate target of zero injuries. An extensive safety leadership programme, fully supported by the Board and Management, is in place throughout ESB to address key safety issues. Staff and Management at all levels are involved in undertaking safety audits and reviews. In relation to public safety, ongoing media and direct marketing campaigns are run to increase public awareness of the risks and dangers. ESB has a strategic partnership with the Health and Safety Authority to improve electrical safety in the construction and agricultural sectors.
Environment and Climate Change	Many ESB activities have potential for significant environmental impact and are regulated by relevant national and EU laws.	Strong control and regular compliance auditing are a feature of ESB's environmental protection systems. The Group commits significant resources towards ensuring compliance with applicable planning and environmental laws/ regulations and works closely with all relevant authorities. To address the challenges of climate change, ESB is pursuing an ambitious carbon reduction strategy and investing strongly in renewable energy and environmentally friendly technology.
COMMERCIAL AND MARKET RISKS		
Competitor Action	The Group faces strong competition in all of its markets. The level of competitor activity in the domestic supply sector during 2010 has fundamentally altered the nature of this market.	ESB continues to adapt to increased competition, aggressive new entrants and significant loss of market share. ESB has participated in the CER consultation process for further market deregulation in light of ESB's reduced market share/ increased competition. During 2010, ESB progressed its transition to a new organisation structure to further improve its competitiveness and cost base. In line with appropriate CER approvals, ESB is preparing new pricing and service offerings for when it will be allowed to compete in the domestic supply market.
Impact of Economic Downturn	The current economic downturn, reduced business activity generally and consequent reduction in energy demand, present risks and challenges to the Group's profitability levels and potentially to delivery of the Group's investment and growth targets.	ESB is addressing the various risks and uncertainty associated with the current economic climate. Our risk management process has helped to identify and manage the increased financial risks. Performance risks specific to each business are identified in individual risk plans, where specific mitigation actions are planned and assigned. As part of this process, new organisational structures have been established to deliver the Group's strategy, adjust to new cost structures and to meet the challenges of the current economic environment.

Risks	Description of Risks	Mitigation Strategies
Single Electricity Market (SEM) Trading Risk	Power prices in the SEM, and fuel prices paid by the Group in connection with its electricity generating activities, have shown significant volatility in recent years. ESB's profits can be materially affected by changes in power prices, fuel and CO_2 prices, and by relative movements between prices of different fuel types.	ESB has adopted an appropriate trading and hedging strategy to manage potential price volatility and uncertainty in the SEM. Financial contracts are entered into and trading decisions are taken in line with this strategy. Business Units have strengthened their traditional energy trading functions to ensure the full extent of ongoing SEM trading positions is fully understood and managed. In line with regulatory ring-fencing requirements, Business Units participating in the SEM market maintain the appropriate trading capability, structures and systems for effective management of risk in the SEM. The embedded risk management and controls covering trading activities that apply in the relevant Business Units, are subject to a strict governance and reporting regime, including regular review by Group Internal Audit.
FINANCIAL RISKS		
Treasury Risks	The key financial risk areas facing the Group include exposure to commodity (electricity and fuel) price movements, foreign exchange, interest rates, financial and commodity counterparties, liquidity risk, and reliance on related financial and operational controls.	Group Treasury is responsible for the day-to-day treasury activities of the Group, including the trading of specific derivative instruments to mitigate these risks. Policies and procedures to protect the Group from the treasury/financial risks are regularly reviewed, revised and approved by the Board as appropriate. In relation to the availability and cost of funding for key investments, ESB maintains an overall financing strategy that takes account of market conditions and is appropriate to ESB's strategic plan and targets. There is a firmly established process of ongoing monitoring, reporting, and sensitivity analysis in these areas.
Pension Risk	The actuarial deficit of approximately €2 billion that had arisen in ESB's main pension scheme, which covers most of its employees, has been the subject of discussion between Management and Unions during 2010.	A comprehensive set of proposals to address the scheme's financial position was agreed between ESB Management and staff representatives in 2010. The scheme actuary has confirmed to the Trustees that the proposals address the deficit. In particular, various de-risking proposals (including the Career Average Revalued Earnings – CARE), will allow the Trustees to reduce investment risk in the portfolio over a number of years.
REGULATORY RISKS		
Compliance and Market Changes	The principal regulatory risks faced by the Group originate from licence compliance, ring-fencing requirements, the impact of price control reviews, and an evolving EU regulatory framework.	ESB manages these risks through a dedicated Regulatory Affairs team which provides ongoing input to the development of the regulatory, trading and pricing regimes, and also monitors compliance with the Group's regulatory and licence requirements. ESB maintains a proactive and structured approach to consultations with regulatory authorities on market developments.
OPERATIONAL RISKS		
Plant Performance Risk	Failure to achieve the targeted performance and availability of existing generation plant through damage to ESB plant, incidents and breakdowns.	Such plant risks are minimised through ESB's well established plant safety and maintenance regimes, operating and technical procedures, and staff training. The Group also has appropriate insurance contracts in place to protect against financial loss from outages, arising from plant damage.
Knowledge and Skills	ESB has a high dependency on the technical competence and credibility of its management and staff. The Group especially needs to maintain high standards of competence in new and developing areas of the business.	ESB is determined to maintain the necessary knowledge and skills for high levels of competitiveness both in the Irish market and abroad. To this end, ESB continues to invest in staff training and development, and in ongoing performance improvement, particularly in the context of new technologies such as Smart Metering, Renewables, Electric Vehicles, and Smart Grids.
Business Processes and IT Systems	ESB's Enterprise Risk processes identify and address (escalating where appropriate) operational risks that could lead to losses or reputational damage from mistakes or shortcomings in the Group's business processes and IT systems.	Each business unit is responsible for limiting and managing operational risks within its area of responsibility by ensuring that well documented procedures, reliable IT systems and satisfactory internal controls are in place. The internal control framework is subject to internal and external audit. The planning of the Group's internal audit programme takes account of the potential operational risks identified by the risk management framework.



05 FINANCIAL STATEMENTS

HIGHLIGHTS

- → Completed the acquisition of Northern Ireland Electricity (NIE)
- → Landmark agreement to resolve the €2 billion pension deficit

€339m

Adjusted operating profit: €339m
-3% on prior year

FINANCIAL STATEMENTS - CONTENTS

STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

The Board Members are responsible for preparing the Annual Report and the Group and Parent financial statements.

The Electricity Supply Acts, 1927 to 2004, require the Board Members to prepare Group and Parent financial statements in accordance with applicable laws and regulations for each financial year. Under ESB's governing regulations (the "Regulations"), adopted pursuant to the Electricity Supply Acts, 1927 to 2004, the Board is required to prepare financial statements and reports as required by, and in accordance with, the Companies Acts, 1963 to 2009 (the "Companies Acts"), in the same manner as a company established under the Companies Acts. Further, the Board Members have elected to prepare the financial statements of the Parent and the Group in accordance with IFRS as adopted by the EU, and as applied in accordance with the Companies Acts.
The Group financial statements are required by law to present a true and fair view of the state of affairs of the Parent and the Group as at the end of the financial year, and of the profit and/or loss of the Parent and the Group for the financial year. Pursuant to IFRS as adopted by the EU, the financial statements are required to present fairly the financial position and performance of the Group and the Parent.

In preparing each of the Group and Parent financial statements on pages 72 to 138, the Board Members are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRS as adopted by the EU and as applied in accordance with the Companies Act, 1963 to 2009; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent will continue in business.

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

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

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

On behalf of the Board

Lochlann Quinn
Chairman

Padraig McManus
Chief Executive

23 March 2011

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

As the auditor appointed by the Minister for Communications, Energy and Natural Resources with the consent of the Minister for Finance, under Section 7 of the Electricity (Supply) Act 1927, we have audited the Group and Parent financial statements (the "financial statements") of ESB for the year ended 31 December 2010 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent balance sheets, the Group and Parent statement of changes in equity, the Group and Parent cash flow statements, the statement of accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the stockholders of ESB, as a body, in accordance with section 193 of the Companies Act 1990, made applicable to ESB by virtue of the Regulations adopted by it as its governing regulations under the Electricity (Supply) Act, 1927, as amended by the Electricity (Supply) (Amendment) Act 2004. Our audit work has been undertaken so that we might state to the stockholders of ESB those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than ESB and its stockholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Board Members and the Auditor

The Board Members' responsibilities for preparing the Annual Report and the financial statements in accordance with the provisions of the Companies Acts 1963 to 2009, as applied by the Electricity (Supply) Acts 1927 to 2004 and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Board Members' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and in the case of the Parent as applied in accordance with the Companies Acts 1963 to 2009 as applied by the Electricity (Supply) Acts 1927 to 2004, and have been properly prepared in accordance with the provisions of those Acts. We also report to you whether, in our opinion, proper books of account have been kept by the Parent; and whether the information in the Board Members' report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Parent's balance sheet is in agreement with the books of account.

We review, at the request of Board Members, whether (1) the voluntary statement on pages 52 to 59 reflects the Board's compliance with the nine provisions of the UK Corporate Governance Code specified for review by auditors and (2) the statement on the system of internal controls on page 56 and 57 reflects the Board's compliance with the provisions of The Code of Best Practice for the Governance of State Bodies that is specified for review by auditors, and we report if those statements do not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information, including the corporate governance statement, contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Board Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Parent's circumstances, consistently applies and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2010 and of its loss for the year then ended;
- The Parent financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts 1963 to 2009 as applied by the Electricity (Supply) Acts 1927 to 2004, of the state of the Parent's affairs as at 31 December 2010; and
- The financial statements have been properly prepared in accordance with the provisions of the Companies Acts 1963 to 2009 as applied by the Electricity (Supply) Acts 1927 to 2004.

We have obtained all the information and explanations which we considered necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Parent. The Parent balance sheet is in agreement with the books of account.

In our opinion the information given in the Board Members' report is consistent with the financial statements.

23 March 2011

KPMG

Chartered Accountants
Registered Auditor

1 Stokes Place,
St. Stephen's Green, Dublin 2

STATEMENT OF ACCOUNTING POLICIES

1. BASIS OF PREPARATION

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 2010 comprise the Parent and its subsidiaries (together referred to as "ESB" or "the Group") and the Group's interests in associates and jointly controlled entities.

The Parent and consolidated financial statements are prepared under IFRS (International Financial Reporting Standards) as adopted by the EU (EU IFRS) and, in the case of the Parent, as applied in accordance with the Companies Acts 1963 to 2009. The Companies Acts 1963 to 2009 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 form part of the Parent financial statements prepared and approved in accordance with the Acts. The financial statements of the Parent and Group have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective for accounting periods ending on or before 31 December 2010.

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, except where otherwise stated. All financial information presented in euro has been rounded to the nearest thousand.

The preparation of financial statements in conformity with EU IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Judgments made by management in the application of EU IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 28 to the financial statements.

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

2. NEW STANDARDS AND INTERPRETATIONS

Operating segments

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

Accounting for business combinations

From 1 January 2010 the Group has applied IFRS *3 Business Combinations (2008)* in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on reported earnings. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

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 (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the 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 on or after 1 January 2010

For acquisitions on or after 1 January 2010, 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 (generally 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.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised 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. Any contingent consideration payable is recognised at fair value at the acquisition date.

Acquisitions prior to 1 January 2004 (date of transition to IFRS)

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

New Standards and Interpretations not yet adopted

The adoption of the other new standards (as set out in the 2009 Annual Report) that became effective for the Group's financial statements for the year ended 31 December 2010 did not have any significant impact on the Group financial statements.

STATEMENT OF ACCOUNTING POLICIES

A number of new standards, amendments to standards, and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements. These new standards, amendments and interpretations are either not expected to have a material impact on the consolidated financial statements once applied or are still under assessment:

- Amendment to IFRS 3 – Business Combinations (1 July 2010)
- Amendment to IFRS 7 – Financial Instruments: Disclosures (1 January 2011 and 1 July 2011)
- IFRS 9 – Financial Instruments: Classification and Measurement (1 January 2013)
- Amendment to IAS 1 – Presentation of Financial Statements (1 January 2011)
- Amendment to IAS 24 – Related Party Disclosures (1 January 2011)
- Amendment to IAS 27 - Consolidated and Separate Financial Statements (1 July 2010)
- Amendment to IAS 32 – Financial Instruments: Presentation (1 February 2010)
- Amendment to IAS 34 – Interim Financial Reporting (1 January 2011)
- IFRIC Interpretation 14 – Amendments to IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (1 January 2011)
- IFRIC Interpretation 19 - Extinguishing Financial Liabilities with Equity Instruments (1 July 2010)

3. BASIS OF CONSOLIDATION

The Group's financial statements consolidate the financial statements of the Parent and of all subsidiary undertakings made up to 31 December 2010. 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.

Subsidiaries

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

Joint Ventures

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

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

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

Associates

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

4. FOREIGN CURRENCIES

These financial statements are prepared in euro, which is the Parent's functional currency. Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. The resulting monetary assets and liabilities are translated at the rate ruling at the balance sheet date and the exchange differences are dealt with in the income statement. Non monetary assets and liabilities are carried at historical cost and are not subsequently retranslated.

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

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

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

5. INTANGIBLE ASSETS

(a) Emission Allowances

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

Emission allowances issued to ESB are recorded as intangible assets at market value on the date of issue. At that date, the allowances are recorded as a government grant in deferred income, at the same market value attributed to the intangible assets, and are amortised to the income statement on the basis of actual emissions during the year.

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

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

(b) Software Costs and Other Intangible Assets

Acquired computer software licenses and other intangible assets including grid connections and other acquired rights, are capitalised on the basis of the costs incurred to acquire and bring the specific asset into use. These costs are amortised over their estimated useful lives on a straight line basis.

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

6. PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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.

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. Major asset classifications and their allotted life spans are:

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

Depreciation is provided:

- on the straight-line method for transmission, distribution and general assets;
- on a projected plant usage basis for generating units; and
- on all assets from date of commissioning.

Reviews of depreciation rates and residual values are conducted annually. No depreciation is provided on freehold land or on assets in the course of construction.

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

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

7. BORROWING COSTS

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

8. IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

9. LEASED ASSETS

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

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

10. INVENTORIES

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

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

STATEMENT OF ACCOUNTING POLICIES

11. FINANCIAL ASSETS AND LIABILITIES

(a) Non-Derivative Financial Assets and Liabilities

Trade and Other Receivables
Trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost using the effective interest method less provision made for doubtful receivables.

Provisions are made specifically where there is objective evidence of a dispute or an inability to pay. An additional provision is made on a portfolio basis to cover additional incurred losses based on an analysis of previous losses experienced.

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

Trade and Other Payables
Trade and other payables are initially recorded at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost using the effective interest rate method. Certain short-term overdrafts are also included in this caption within the balance sheet.

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

Financial Assets or Liabilities at Fair Value through Profit or Loss
Financial instruments classified as assets or liabilities at fair value through the profit or loss are financial instruments either held for trading or categorised as such at inception.

Financial assets that the Group designates on initial recognition as being at fair value through profit or loss 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 financial assets that are designated at fair value through profit or loss are recognised in the income statement as they arise.

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

(b) Derivative Financial Instruments

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

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

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value are 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 remeasured to fair value at the balance sheet date. The majority of 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 remeasurement 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 not part of effective hedging relationships are treated as if held for trading, with all fair value movements being recorded through the income statement.

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

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

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

with any ineffective portion recognised immediately in the income statement.

(c) Interest bearing borrowings

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

(d) Insurance contracts

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

12. NON-REPAYABLE SUPPLY CONTRIBUTIONS AND CAPITAL GRANTS

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

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

13. CAPITAL STOCK

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

14. INCOME TAX

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. Current tax is provided at current rates and is calculated on the basis of results for the period, taking account of manufacturing relief, where appropriate. 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 line on the face of the income statement for profits from joint ventures.

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. Deferred tax is charged or credited to the income statement, except where it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

15. PROVISIONS FOR GENERATING STATION CLOSURE

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

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

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

16. REVENUE

(a) Electricity Revenue

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

(b) Contract Revenue

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

17. OTHER OPERATING INCOME

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

18. COSTS

(a) Energy Costs

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

(b) Operating and Other Maintenance Costs

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

STATEMENT OF ACCOUNTING POLICIES

19. PENSION OBLIGATIONS

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

Pension Schemes in Republic of Ireland

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

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

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

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

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

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

Pension Scheme in Northern Ireland

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

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

20. EMPLOYEE RELATED LIABILITIES

Restructuring Liabilities – Republic of Ireland

Voluntary termination benefits are payable under a tripartite agreement between the Board of ESB, the Group of Unions and Government when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to providing termination benefits as a result of an offer of voluntary redundancy made to employees and accepted by those employees. Benefits falling due more than twelve months after the balance sheet date are discounted to present value.

Other Short-Term Employee Related Liabilities

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

GROUP INCOME STATEMENT

For the year ended 31 December 2010

	Notes	2010 € '000	2009 € '000
Revenue	1/2	**2,706,654**	3,014,985
Other operating income	4	**32,864**	99,054
Operating costs excluding exceptional pension charge	5	**(2,400,808)**	(2,763,935)
Operating profit before exceptional pension charge		**338,710**	350,104
Exceptional pension charge	7	**(329,518)**	-
Operating profit after exceptional pension charge		**9,192**	350,104
Profit on disposal of generation assets	3	**-**	265,004
Operating profit before net finance cost		**9,192**	615,108
Finance cost	6	**(114,432)**	(79,738)
Finance income	6	**1,449**	2,680
Net finance cost		**(112,983)**	(77,058)
Share of joint ventures' profit	12	**14,576**	61,729
(Loss) / profit before taxation		**(89,215)**	599,779
Income tax credit/(expense)	8	**5,099**	(19,761)
(Loss) / profit after taxation		**(84,116)**	580,018
Attributable to:			
Equity holders of the Parent		**(84,103)**	579,898
Non-controlling interest		**(13)**	120
(Loss) / profit for the financial year		**(84,116)**	580,018

Notes 1 to 31 form an integral part of these financial statements.

Lochlann Quinn
Chairman

Padraig McManus
Chief Executive

Donal Flynn
Group Finance and Commercial Director

23 March 2011

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 € '000	2009 € '000
(Loss) / profit for the financial year	**(84,116)**	580,018
Other Comprehensive Income ('OCI')		
Effective hedge of a net investment in foreign subsidiary	**(727)**	(1,242)
Translation differences on consolidation of foreign subsidiaries	**(3,349)**	(176)
Translation differences on consolidation of joint ventures	**3,417**	1,984
Fair value gains on cash flow hedges	**96,658**	492,891
Fair value (losses)/gains on cash flow hedges in joint ventures	**(4,849)**	1,571
Tax on items taken directly to statement of comprehensive income ('OCI')	**(3,424)**	(62,157)
Transferred to Income Statement on cash flow hedges	**(77,318)**	(15,535)
Tax on items taken directly to/transferred from OCI for joint ventures	**1,358**	(285)
Tax on items transferred from OCI	**9,790**	2,743
Revaluation reserves on acquisition	**-**	73,199
Total other comprehensive income	**21,556**	492,993
Total comprehensive income for the financial year	**(62,560)**	1,073,011
Attributable to:		
Equity holders of the parent	**(62,357)**	1,072,891
Non controlling interest	**(203)**	120
Total comprehensive income for the financial year	**(62,560)**	1,073,011

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Chairman

Padraig McManus
Chief Executive

Donal Flynn
Group Finance and Commercial Director

23 March 2011

GROUP BALANCE SHEET

As at 31 December 2010

	Notes	2010 € '000	2009 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**9,837,926**	7,628,787
Intangible assets and goodwill	11	**525,608**	330,152
Investments in joint ventures	12	**55,117**	18,650
Financial asset investments	12	**20,184**	7,775
Derivative financial instruments	19 (g)	**497,666**	548,049
Defined benefit pension asset	21 (c)	**12,698**	-
Deferred tax assets	20	**152,883**	112,567
Total non-current assets		**11,102,082**	8,645,980
Current assets			
Inventories	13	**103,934**	145,739
Derivative financial instruments	19 (g)	**79,769**	90,628
Current tax asset	14	**6,983**	441
Trade and other receivables	15	**619,339**	684,292
Cash and cash equivalents	16	**199,585**	-
Total current assets		**1,009,610**	921,100
Total assets		**12,111,692**	9,567,080
EQUITY			
Capital stock	17	**1,979,882**	1,979,882
Translation reserve		**(18,904)**	(18,245)
Cash flow hedging, revaluation and other reserves		**468,238**	451,085
Retained earnings		**1,445,947**	1,619,428
Equity attributable to equity holders of the Parent		**3,875,163**	4,032,150
Non-controlling interest	17	**1,542**	1,745
Total equity		**3,876,705**	4,033,895
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	18	**3,361,211**	2,094,900
Liability for pension obligation	22	**808,231**	-
Defined benefit pension liabilities	21	**-**	515,707
Employee related liabilities	22	**81,899**	87,810
Trade and other payables	23	**14,820**	10,706
Deferred income and government grants	24	**666,634**	692,578
Provisions	25	**241,468**	241,219
Deferred tax liabilities	20	**843,317**	458,507
Derivative financial instruments	19 (g)	**435,940**	296,965
Total non-current liabilities		**6,453,520**	4,398,392
Current liabilities			
Borrowings and other debt	18	**781,989**	128,928
Liability for pension obligation	22	**88,471**	-
Employee related liabilities	22	**75,503**	109,520
Trade and other payables	23	**617,669**	630,139
Deferred income and government grants	24	**39,333**	38,584
Provisions	25	**151,813**	178,693
Current tax liabilities	14	**7,978**	-
Derivative financial instruments	19 (g)	**18,711**	48,929
Total current liabilities		**1,781,467**	1,134,793
Total liabilities		**8,234,987**	5,533,185
Total equity and liabilities		**12,111,692**	9,567,080

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Chairman

Padraig McManus
Chief Executive

Donal Flynn
Group Finance and Commercial Director

23 March 2011

PARENT BALANCE SHEET

As at 31 December 2010

	Notes	2010 € '000	2009 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**6,942,041**	6,774,261
Intangible assets	11	**209,435**	235,274
Investments in subsidiary undertakings	12(b)	**72,832**	72,832
Deferred tax assets	20	**124,729**	85,832
Total non-current assets		**7,349,037**	7,168,199
Current assets			
Inventories	13	**82,750**	132,483
Derivative financial instruments	19 (g)	**13,288**	997
Current tax asset	14	**6,600**	2,590
Trade and other receivables	15	**1,944,374**	1,088,731
Cash and cash equivalents	16	**140,902**	-
Total current assets		**2,187,914**	1,224,801
Total assets		**9,536,951**	8,393,000
EQUITY			
Capital stock	17	**1,979,882**	1,979,882
Cash flow hedging and other reserves		**20,309**	(22,605)
Retained earnings		**998,146**	1,202,326
Equity attributable to equity holders of the Parent		**2,998,337**	3,159,603
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	18	**2,731,590**	1,975,149
Liability for pension obligation	22	**808,231**	-
Defined benefit pension liabilities	21	**-**	515,707
Employee related liabilities	22	**81,899**	87,810
Trade and other payables	23	**7,414**	9,124
Deferred income and government grants	24	**661,465**	686,130
Provisions	25	**228,353**	238,869
Deferred tax liabilities	20	**370,624**	334,788
Derivative financial instruments	19 (g)	**69,004**	180,813
Total non-current liabilities		**4,958,580**	4,028,390
Current liabilities			
Borrowings and other debt	18	**106,326**	110,172
Liability for pension obligation	22	**88,471**	-
Employee related liabilities	22	**67,645**	100,065
Trade and other payables	23	**1,159,538**	809,224
Deferred income and government grants	24	**32,485**	33,485
Provisions	25	**123,021**	145,652
Derivative financial instruments	19 (g)	**2,548**	6,409
Total current liabilities		**1,580,034**	1,205,007
Total liabilities		**6,538,614**	5,233,397
Total equity and liabilities		**9,536,951**	8,393,000

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Chief Executive

Donal Flynn
Group Finance and Commercial Director

23 March 2011

GROUP STATEMENT OF CHANGES IN EQUITY

As at 31 December 2010

Reconciliation of changes in equity	Capital Stock € '000	Translation Reserve € '000	Cash Flow Hedging & Other Reserves € '000	Retained Earnings € '000	Total € '000	Non-Controlling Interest € '000	Total Equity € '000
Balance at 1 January 2009	**1,979,882**	**(18,811)**	**(41,342)**	**1,306,814**	**3,226,543**	**1,861**	**3,228,404**
Total comprehensive income for the year							
Income for the year	-	-	-	579,898	579,898	120	580,018
Dividends to minority interest	-	-	-	-	-	(236)	(236)
Revaluation reserves on acquisition	-	-	73,199	-	73,199	-	73,199
Translation differences net of hedging	-	566	-	-	566	-	566
Cash flow hedges:							
Net fair value gains	-	-	492,891	-	492,891	-	492,891
Transfers to income statement							
- Finance cost (interest)	-	-	6,689	-	6,689	-	6,689
- Finance cost (foreign translation movements)	-	-	(27,840)	-	(27,840)	-	(27,840)
- Other operating expenses	-	-	5,616	-	5,616	-	5,616
Fair value gains for hedges in joint ventures	-	-	1,571	-	1,571	-	1,571
Tax on items taken directly to statement of comprehensive income ('OCI')	-	-	(62,157)	-	(62,157)	-	(62,157)
Tax on items transferred to income statement	-	-	2,743	-	2,743	-	2,743
Tax on items taken directly to OCI for joint ventures	-	-	(285)	-	(285)	-	(285)
Total comprehensive income for the year	**-**	**566**	**492,427**	**579,898**	**1,072,891**	**(116)**	**1,072,775**
Transactions with owners recognised directly in equity							
Dividends	-	-	-	(267,284)	(267,284)	-	(267,284)
Balance at 31 December 2009	**1,979,882**	**(18,245)**	**451,085**	**1,619,428**	**4,032,150**	**1,745**	**4,033,895**
Balance at 1 January 2010	**1,979,882**	**(18,245)**	**451,085**	**1,619,428**	**4,032,150**	**1,745**	**4,033,895**
Total comprehensive income for the year							
Income for the year	-	-	-	(84,103)	(84,103)	(13)	(84,116)
Dividends to minority interest	-	-	-	-	-	(190)	(190)
Transfers to retained earnings	-	-	(5,062)	5,062	-	-	-
Translation differences net of hedging	-	(659)	-	-	(659)	-	(659)
Cash flow hedges:							
Net fair value gains	-	-	96,658	-	96,658	-	96,658
Transfers to income statement							
- Finance cost (interest)	-	-	1,044	-	1,044	-	1,044
- Finance cost (foreign translation movements)	-	-	(75,671)	-	(75,671)	-	(75,671)
- Other operating expenses	-	-	(2,691)	-	(2,691)	-	(2,691)
Fair value gains for hedges in joint ventures	-	-	(4,849)	-	(4,849)	-	(4,849)
Tax on items taken directly to statement of comprehensive income ('OCI')	-	-	(3,424)	-	(3,424)	-	(3,424)
Tax on items transferred to income statement	-	-	9,790	-	9,790	-	9,790
Tax on items taken directly to OCI for joint ventures	-	-	1,358	-	1,358	-	1,358
Total comprehensive income for the year	**-**	**(659)**	***17,153**	**(79,041)**	**(62,547)**	**(203)**	**(62,750)**
Transactions with owners recognised directly in equity							
Dividends	-	-	-	(94,440)	(94,440)	-	(94,440)
Balance at 31 December 2010	**1,979,882**	**(18,904)**	**468,238**	**1,445,947**	**3,875,163**	**1,542**	**3,876,705**

*The cash flow hedging and other reserves comprises of (i) a €66.3 million revaluation reserve (2009: €73.2 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009 and (ii) cash flow hedge reserve of €401.9 million (2009: €377.9 million).

PARENT STATEMENT OF CHANGES IN EQUITY

As at 31 December 2010

Reconciliation of changes in equity	Capital Stock € '000	Cash Flow Hedging Reserve € '000	Retained Earnings € '000	Total € '000
Balance at 1 January 2009	1,979,882	(22,700)	1,408,845	3,366,027
Total comprehensive income for the year				
Income for the year	-	-	60,765	60,765
Cash flow hedges:				
Net fair value gains	-	22,055	-	22,055
Transfers to income statement				-
- Finance cost (interest)	-	5,929	-	5,929
- Finance cost (foreign translation movements)	-	(27,840)	-	(27,840)
- Other operating expenses	-	(35)	-	(35)
Tax on items taken directly to OCI	-	(2,757)	-	(2,757)
Tax on items transferred to income statement	-	2,743	-	2,743
Total comprehensive income for the year	**-**	**95**	**60,765**	**60,860**
Transactions with owners recognised directly in equity				
Dividends	-	-	(267,284)	(267,284)
Balance at 31 December 2009	**1,979,882**	**(22,605)**	**1,202,326**	**3,159,603**
Balance at 1 January 2010	1,979,882	(22,605)	1,202,326	3,159,603
Income for the year	-	-	(109,740)	(109,740)
Cash flow hedges:				
Net fair value gains	-	117,156	-	117,156
Transfers to income statement				
- Finance cost (interest)	-	1,044	-	1,044
- Finance cost (foreign translation movements)	-	(75,671)	-	(75,671)
- Other operating expenses	-	(3,215)	-	(3,215)
Tax on items taken directly to OCI	-	(6,131)	-	(6,131)
Tax on items transferred to income statement	-	9,731	-	9,731
Total comprehensive income for the year	**-**	**42,914**	**(109,740)**	**(66,826)**
Transactions with owners recognised directly in equity				
Dividends	-	-	(94,440)	(94,440)
Balance at 31 December 2010	**1,979,882**	**20,309**	**998,146**	**2,998,337**

GROUP CASH FLOW STATEMENT

For the year ended 31 December 2010

	Notes	2010 € '000	2009 € '000
Cash flows from operating activities			
(Loss)/profit before taxation		**(89,215)**	599,779
Adjustments for:			
Depreciation and amortisation	5	**533,580**	494,272
Amortisation of supply contributions and other deferred income	4	**(32,864)**	(30,199)
Exceptional pension charge	21(a)	**329,518**	-
(Profit) on disposal of generation assets	9	**-**	(265,004)
(Profit) on disposal of property, plant and equipment	9	**(2,101)**	(4,250)
(Profit) on disposal of intangible assets	9	**(3,102)**	-
Negative goodwill arising on acquisition	4	**-**	(68,855)
Net finance cost	6	**112,983**	77,058
Impact of fair value adjustments on financial instruments		**(10,955)**	(30,458)
Profits from associates and joint ventures	12(a)	**(14,576)**	(61,729)
Operating cash flows before changes in working capital and provisions		**823,268**	710,614
Charge in relation to provisions		**10,487**	(20,896)
Charge in relation to employee related liabilities		**223,328**	459,283
Utilisation of provisions		**(22,234)**	(323,177)
Utilisation of employee related liabilities		**(221,389)**	(244,242)
Decrease in trade and other receivables		**125,401**	111,926
Decrease in inventories		**48,710**	7,197
(Decrease) in trade and other payables		**(129,172)**	(54,661)
Cash generated from operations		**858,399**	646,044
Current tax paid		**(15,142)**	(27,748)
Interest paid		**(95,605)**	(92,597)
Net cash inflow from operating activities		**747,652**	525,699
Cash flows from investing activities			
Purchase of property, plant and equipment		**(741,940)**	(872,426)
Purchase of intangible assets		**(33,308)**	(68,742)
Proceeds from sale of generation assets		**-**	440,000
Proceeds from sale of property, plant and equipment		**4,468**	13,839
Proceeds from sale of intangible assets		**3,102**	1,493
Payments in relation to financial asset transactions	12 (a)	**(10,919)**	(5,139)
Payments in relation to acquisitions net of cash acquired	12 (c)	**(1,244,072)**	91,174
Supply contributions and other deferred income received		**-**	73,928
Dividends received from joint venture undertakings	12(a)	**20,625**	14,713
Interest received		**1,449**	2,680
Net cash outflow from investing activities		**(2,000,595)**	(308,480)
Cash flows from financing activities			
Dividends paid		**(94,440)**	(267,284)
(Repayments) of term debt facilities		**(109,138)**	-
Proceeds of term debt issued		**473,325**	354,651
Increase/(decrease) in loans and finance leases (net)		**1,193,986**	(390,454)
Interest element of finance lease payments		**(5,329)**	(5,831)
Net cash inflow/(outflow) from financing activities		**1,458,404**	(308,918)
Net increase/(decrease) in cash and cash equivalents		**205,461**	(91,699)
(Bank overdraft)/cash and cash equivalents at 1 January	23/16	**(6,876)**	83,210
Effect of exchange rate fluctuations on cash held		**1,001**	1,613
Cash and cash equivalents at 31 December	16 /23	**199,586**	(6,876)

PARENT CASH FLOW STATEMENT

For the year ended 31 December 2010

	Notes	2010 € '000	2009 € '000
Cash flows from operating activities			
(Loss)/profit before taxation		**(122,998)**	67,285
Adjustments for:			
Depreciation and amortisation		**463,857**	452,481
Amortisation of supply contributions and other deferred income	24	**(32,417)**	(29,789)
Exceptional pension charge	21(a)	**329,518**	-
(Profit) on disposal of property, plant and equipment		**(2,087)**	(3,862)
(Profit) on disposal of intangible assets		**(3,102)**	-
Net finance cost		**77,146**	70,357
Impact of fair value movement on financial instruments		**(2,788)**	(35,363)
Operating cash flows before changes in working capital and provisions		**707,129**	521,109
Charge in relation to provisions		**2,618**	(27,340)
Charge in relation to employee related liabilities		**223,118**	450,358
Utilisation of provisions		**(22,233)**	(323,125)
Utilisation of employee related liabilities		**(219,065)**	(234,561)
(Increase)/decrease in trade and other receivables		**(855,436)**	400,834
Decrease in inventories		**49,732**	8,847
Increase in trade and other payables		**384,113**	120,153
Cash generated from operations		**269,976**	916,275
Current tax paid		**(250)**	(10,418)
Interest paid		**(99,050)**	(93,696)
Net cash inflow from operating activities		**170,676**	812,161
Cash flows from investing activities			
Purchase of property, plant and equipment		**(588,191)**	(634,427)
Purchase of intangible assets		**(20,566)**	(58,302)
Proceeds from sale of property, plant and equipment		**4,295**	7,750
Proceeds from sale of intangible assets		**3,102**	-
Supply contributions and other deferred income received		**-**	78,353
Interest received		**12,985**	12,143
Net cash outflow from investing activities		**(588,375)**	(594,483)
Cash flows from financing activities			
Dividends paid		**(94,440)**	(267,284)
(Repayments) of term debt facilities		**(81,090)**	-
Proceeds of term debt issued		**173,392**	354,651
Increase/(decrease) in loans and finance leases (net)		**584,622**	(380,052)
Interest element of finance lease payments		**(5,329)**	(5,831)
Net cash inflow/(outflow) from financing activities		**577,155**	(298,516)
Net increase/(decrease) in cash and cash equivalents		**159,456**	(80,838)
(Bank overdraft)/cash and cash equivalents at 1 January	23/16	**(18,554)**	62,284
Cash and cash equivalents at 31 December	16/23	**140,902**	(18,554)

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING

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

For management purposes, the Group was organised for the majority of the year into three key reportable segments, being the Group's strategic divisions which are managed separately and in respect of which internal management information is supplied to Executive Management and to the Board being collectively the 'Chief Operating Decision Maker' ('CODM') of the Group. Two further corporate divisions provide support services to the principal operating divisions of the Group and are combined as 'other segments' in the information below. Northern Ireland Electricity ('NIE') was acquired by ESB Group on 21 December 2010, and has been disclosed as a separate segment based on information supplied to the CODM.

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

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

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

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

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

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

Although IFRS 8 is being applied for the first time, there have been no changes to the basis of segmentation or to the basis of operating profit in compiling the consolidated financial statements in respect of the year ended 31 December 2010.

Services provided to the main business units by the support services of the Group are governed by regulation and service level agreements are in place to ensure that transactions between operating segments are on an arm's length basis similar to transactions with third parties.

(a) Income statement

(i) Segment Revenue	ESB Electric Ireland 2010 € '000	2009 € '000	ESB Networks 2010 € '000	2009 € '000	ESB Energy International 2010 € '000	2009 € '000	NIE 2010 € '000	2009 € '000	Other Segments 2010 € '000	2009 € '000	Consolidation and eliminations 2010 € '000	2009 € '000	Total 2010 € '000	2009 € '000
External revenues	**1,820,555**	2,375,286	**567,843**	396,293	**299,003**	234,245	**6,860**	-	**12,393**	9,161	**-**	-	**2,706,654**	3,014,985
Inter-segment revenue	**(4,933)**	12,040	**440,137**	403,150	**1,179,543**	1,393,682	**-**	-	**160,023**	164,678	**(1,774,770)**	(1,973,550)	**-**	-
Revenue	**1,815,622**	2,387,326	**1,007,980**	799,443	**1,478,546**	1,627,927	**6,860**	-	**172,416**	173,839	**(1,774,770)**	(1,973,550)	**2,706,654**	3,014,985

All Inter-segment revenues are eliminated upon consolidation and are reflected in the eliminations column above.

(ii) Operating Costs	ESB Electric Ireland 2010 € '000	2009 € '000	ESB Networks 2010 € '000	2009 € '000	ESB Energy International 2010 € '000	2009 € '000	NIE 2010 € '000	2009 € '000	Other Segments 2010 € '000	2009 € '000	Consolidation and eliminations 2010 € '000	2009 € '000	Total 2010 € '000	2009 € '000
Depreciation and amortisation	**(8,605)**	(19,445)	**(314,993)**	(306,846)	**(192,531)**	(153,584)	**(1,169)**	-	**(16,282)**	(14,397)	**-**	-	**(533,580)**	(494,272)
Other operating costs	**(1,849,658)**	(2,425,521)	**(387,848)**	(547,687)	**(1,131,635)**	(1,032,650)	**(3,460)**	-	**(269,397)**	(237,355)	**1,774,770**	1,973,550	**(1,867,228)**	(2,269,663)
(iii) Segment Result														
Operating profit/(loss) before exceptional pension charge	**(42,640)**	(57,640)	**338,004**	(24,891)	**154,381**	510,548	**2,232**	-	**(113,267)**	(77,913)	**-**	-	**338,710**	350,104
Exceptional pension charge	**-**	-	**-**	-	**-**	-	**-**	-	**(329,518)**	-	**-**	-	**(329,518)**	-
Operating profit/(loss) after exceptional pension charge	**(42,640)**	(57,640)	**338,004**	(24,891)	**154,381**	510,548	**2,232**	-	**(442,785)**	(77,913)	**-**	-	**9,192**	350,104
Profit on disposal of generation assets	**-**	-	**-**	-	**-**	265,004	**-**	-	**-**	-	**-**	-	**-**	265,004
Operating profit/(loss) before net finance cost	**(42,640)**	(57,640)	**338,004**	(24,891)	**154,381**	775,552	**2,232**	-	**(442,785)**	(77,913)	**-**	-	**9,192**	615,108
Net finance cost	**(678)**	(706)	**(1,542)**	(1,754)	**(21,818)**	(18,453)	**(7,960)**	-	**(80,985)**	(56,145)	**-**	-	**(112,983)**	(77,058)
Share of joint ventures' profit	**-**	-	**-**	-	**14,576**	61,729	**-**	-	**-**	-	**-**	-	**14,576**	61,729
Profit before taxation	**(43,318)**	(58,346)	**336,462**	(26,645)	**147,139**	818,828	**(5,728)**	-	**(523,770)**	(134,058)	**-**	-	**(89,215)**	599,779

(b) Balance Sheet

Segment Assets	ESB Electric Ireland 2010 € '000	2009 € '000	ESB Networks 2010 € '000	2009 € '000	ESB Energy International 2010 € '000	2009 € '000	NIE 2010 € '000	2009 € '000	Other Segments 2010 € '000	2009 € '000	Consolidation and eliminations 2010 € '000	2009 € '000	Total 2010 € '000	2009 € '000
Share of Assets	**325,197**	389,643	**6,229,812**	5,923,865	**4,518,695**	4,580,053	**2,194,881**	-	**2,625,796**	1,073,505	**(3,782,689)**	(2,399,986)	**12,111,692**	9,567,080

Consolidations and eliminations largely comprise intra business unit receivable balances in respect of electricity sales, internal services and internal financing. Segment liabilities are not reported to the CODM as the majority of liabilities are accounted for in Corporate Centre.

(c) Other Disclosures

	ESB Electric Ireland 2010 € '000	2009 € '000	ESB Networks 2010 € '000	2009 € '000	ESB Energy International 2010 € '000	2009 € '000	NIE 2010 € '000	2009 € '000	Other Segments 2010 € '000	2009 € '000	Consolidation and eliminations 2010 € '000	2009 € '000	Total 2010 € '000	2009 € '000
Capital expenditure (excluding acquisitions)	**14,661**	6,343	**569,081**	585,563	**86,124**	148,375	**-**	-	**127,694**	150,577	**-**	-	**797,560**	890,858

Capital expenditure (excluding acquisitions) consists of additions, other than through business combinations, during the year to property, plant and equipment, intangible assets and financial assets.

NOTES TO THE FINANCIAL STATEMENTS

2. GEOGRAPHIC INFORMATION

(a) Non-current assets by geographic location

	2010 € '000	2009 € '000
Ireland	**7,699,794**	7,520,782
UK and Europe (including Northern Ireland)	**2,727,827**	460,214
Other	**11,214**	4,368
Total	**10,438,835**	7,985,364

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

(b) Revenue by geographic market

	2010 € '000	2009 € '000
Ireland	**2,508,410**	2,829,373
UK and Europe (including Northern Ireland)	**169,222**	152,811
Other	**29,022**	32,801
Total	**2,706,654**	3,014,985

3. PROFIT ON DISPOSAL OF GENERATION ASSETS

	2010 € '000	2009 € '000
Profit on disposal of generation assets	**-**	265,004

The profit on disposal of generation assets in 2009 related to assets sold to Endesa S.A. in January 2009. The disposed assets comprised of power generation assets at Tarbert, Co. Kerry; Great Island, Co. Wexford; Tawnaghmore, Co. Mayo; and Rhode, Co. Offaly as well as sites at Shannonbridge, Co. Offaly and Lanesboro, Co. Longford, together with associated trading and inventory balances and emission allowances.

4. OTHER OPERATING INCOME

	2010 € '000	2009 € '000
Amortisation of supply contributions and other deferred income (Note 24)	**32,864**	30,199
Negative goodwill arising on acquisition of Synergen Power Limited (Note 12)	**-**	68,855
Total	**32,864**	99,054

5. OPERATING COSTS

	2010 € '000	2009 € '000
Employee costs (excluding exceptional pension charge) (Note 7)	**632,803**	857,732
Fuel costs	**663,435**	523,605
Other electricity related costs	**223,761**	488,536
Operations and maintenance	**347,229**	399,790
Depreciation and amortisation (Notes 9/10/11)	**533,580**	494,272
Total	**2,400,808**	2,763,935

Included in fuel costs is a credit of €2.7 million (2009: credit of €35.9 million) relating to the fair valuing of fuel commodity swaps which have not been designated as accounting hedges.

Other electricity related costs above include net emissions revenue/expense of €nil (2009: net emissions revenue €1.6 million) which excludes the impact of the carbon levy introduced on 1 July 2010. Included also is a gain of €3.1 million (2009: €nil) on the sale of emission allowances classified within intangible assets. A reduction in other electricity related costs occurred during the year due to a reduced requirement on the part of the Group to purchase electricity through the Single Electricity Market ('SEM') pool mechanism. This was because the Group's own generation capacity was generally sufficient to supply the electricity required for sale to third parties.

Included in operations and maintenance costs above is a credit of €1.5 million (2009: charge of €5.9 million) relating to ineffectiveness on certain cash flow hedges and to fair value movements on assets held at fair value through profit and loss.

Operations and maintenance costs also include fees and expenses of €19.5 million (2009: €nil) relating to the acquisition of the NIE electricity networks business, and a number of other acquisitions during the year (see Note 12). These mainly comprise stamp duty and professional fees associated with the acquisition, which have been recognised as an expense in the current year in accordance with IFRS 3 *Business Combinations* (2008).

6. NET FINANCE COST AND OTHER FINANCING CHARGES

	2010 € '000	2009 € '000
Interest payable on borrowings	**113,076**	83,742
Interest payable on finance leases	**5,227**	5,738
Interest payable	**118,303**	89,480
Less: capitalised interest	**(29,788)**	(30,735)
	88,515	58,745
Financing charges:		
- on provision for pension obligation (Note 22)	**6,000**	-
- on employee related liabilities (Note 22)	**3,092**	5,144
- on power station closure costs (Note 25)	**5,803**	9,916
- on other provisions (Note 25)	**1,784**	2,498
Fair value losses/(gains) on financial instruments:		
- currency/interest rate swaps: cash flow hedges, transfer from OCI	**1,044**	6,689
- interest rate swaps and inflation linked swaps not qualifying for hedge accounting	**8,167**	-
- foreign exchange contracts not qualifying for hedge accounting	**27**	(3,254)
	9,238	3,435
Finance cost	**114,432**	79,738
Finance income	**(1,449)**	(2,680)
Net finance cost	**112,983**	77,058

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

Fair value losses on interest rate swaps and inflation linked interest rate swaps primarily relate to fair value movements on inflation linked interest rate swaps, which were acquired as part of the purchase of the NIE business during the year. As these swaps had a fair value at the acquisition date, they do not qualify for cash flow hedge accounting under IAS 39 and accordingly fair value movements following their acquisition are recognised in the Income Statement.

In addition to the amounts transferred from the statement of comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a further €75.7 million (2009: €27.8 million) has been transferred from the cash flow hedge reserve to net finance cost and other financing charges during the year. However, this amount is fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEES

GROUP

(a) Average number of employees in year by business activity, including temporary employees:	2010 Number	2009 Number
ESB Energy International	**2,224**	2,394
ESB Electric Ireland	**624**	847
ESB Networks	**3,558**	3,714
Other	**795**	828
Total	**7,201**	7,783

The average number of employees in 2009 by business activity has been reclassified to ensure consistency with the current organisational structure.

(b) Employee costs in year	2010 € '000	2009 € '000
Current staff costs (excluding pension)		
Salaries	**493,810**	546,003
Overtime	**33,119**	41,882
Social welfare costs (PRSI)	**27,346**	27,756
Other payroll benefits *	**33,110**	35,964
Capitalised payroll	**(159,494)**	(169,245)
Net payroll cost for employees	**427,891**	482,360
(c) Pension and other employee benefit costs		
Exit costs	**9,777**	20,607
Defined benefit charge (to 20 October 2010) (Note 21)	**178,722**	349,808
Defined contribution pension charge ** (Note 21)	**16,413**	4,957
Pension and retirement benefit costs before exceptional item	**204,912**	375,372
Exceptional pension charge *** (Note 21)	**329,518**	-
Pension and retirement benefit costs after exceptional item	**534,430**	375,372
Total employee related costs charged to the Income Statement before exceptional item	**632,803**	857,732
Total employee related costs charged to the Income Statement after exceptional item	**962,321**	857,732

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

** For periods up to 20 October 2010 this relates entirely to employer's contribution to the ESB Subsidiary Companies Pension Scheme, a defined contribution scheme. As explained in Notes 21 and 22 from October the ESB General Employees' Superannuation Scheme, which up until that date is accounted for as a defined benefit scheme under the meaning of IAS 19, is now accounted for as a defined contribution scheme and employer's contributions to this scheme after 20 October 2010 (which total €9.2 million) are included within the defined contribution pension charge also.

*** The exceptional pension charge in the current year relates to a charge arising on a change in the accounting treatment of the main ESB pension scheme on foot of an agreement concluded during the year between ESB and the members of the scheme, together with the cost of future pension commitments incorporated in that agreement. See Notes 21 and 22 for more information.

7. EMPLOYEES (continued)

PARENT

(a) Average number of employees in year by business activity, including temporary employees:	2010 Number	2009 Number
ESB Energy International	**979**	1,124
ESB Electric Ireland	**550**	777
ESB Networks	**3,517**	3,678
Other	**710**	734
Total	**5,756**	6,313

The average number of employees in 2009 by business activity has been reclassified to ensure consistency with the current organisational structure.

(b) Employee costs in year	2010 € '000	2009 € '000
Current staff costs (excluding pension)		
Salaries	**391,746**	435,245
Overtime	**31,666**	40,398
Social welfare costs (PRSI)	**20,280**	21,029
Other payroll benefits *	**26,201**	29,411
Capitalised payroll	**(155,645)**	(167,218)
Net payroll cost for employees	**314,248**	358,865
(c) Pension and other employee benefit costs		
Exit costs	**9,777**	20,607
Defined benefit charge (to 20 October 2010) (Note 21)	**178,722**	349,808
Defined contribution pension charge ** (Note 21)	**9,184**	-
Pension and retirement benefit costs before exceptional item	**197,683**	370,415
Exceptional pension charge *** (Note 21)	**329,518**	-
Pension and retirement benefit costs after exceptional item	**527,201**	370,415
Total employee related costs charged to the Income Statement before exceptional item	**511,931**	729,280
Total employee related costs charged to the Income Statement after exceptional item	**841,449**	729,280

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

** For periods up to 20 October 2010 this relates entirely to employer's contribution to the ESB Subsidiary Companies Pension Scheme, a defined contribution scheme. As explained in Notes 21 and 22 from October the ESB General Employees' Superannuation Scheme, which up until that date is accounted for as a defined benefit scheme under the meaning of IAS 19, is now accounted for as a defined contribution scheme and employer's contributions to this scheme after 20 October 2010 (which total €9.2 million) are included within the defined contribution pension charge also.

*** The exceptional pension charge in the current year relates to a charge arising on a change in the accounting treatment of the main ESB pension scheme on foot of an agreement concluded during the year between ESB and the members of the scheme, together with the cost of future pension commitments incorporated in that agreement. See Notes 21 and 22 for more information.

NOTES TO THE FINANCIAL STATEMENTS

8. INCOME TAX (CREDIT) / EXPENSE

	2010	2009
	€ '000	€ '000
Current tax (credit) / expense		
Current tax	**19,629**	39,068
Prior year (over) / under provision	**(7,957)**	(4,996)
	11,672	34,072
Deferred tax (credit) / expense		
Origination and reversal of temporary differences	**(23,679)**	(15,435)
Prior year under/(over) provision	**6,908**	1,124
	(16,771)	(14,311)
Total (credit) / charge	**(5,099)**	19,761

Reconciliation of effective tax rate	**2010**	2009
in thousands of euro	€ '000	€ '000
(Loss) / Profit before tax	**(89,215)**	599,779
Less: After tax share of joint venture profit	**(14,576)**	(61,729)
(Loss) / Profit before tax (excluding joint venture profits)	**(103,791)**	538,050
Taxed at 12.5% (2009: 12.5%)	**(12,974)**	67,256
Expenses not deductible	**7,498**	6,601
Tax effect of losses forward previously not provided	**(1,016)**	(8,254)
Tax benefit on investment in renewable energy	**(1,188)**	-
Income not taxable	**-**	(43,129)
Higher tax on chargeable gains	**118**	84
Income taxed at higher rate	**(1,201)**	1,091
Manufacturing relief	**(16)**	(1,424)
Higher tax rates on overseas earnings	**4,760**	1,969
Prior year (over) / under provisions	**(1,049)**	(3,872)
Other items	**(31)**	(561)
Income tax (credit) / expense	**(5,099)**	19,761

9. LOSS / (PROFIT) FOR THE FINANCIAL YEAR

	2010 € '000	2009 € '000
The loss / (profit) for the financial year is stated after charging/(crediting):		
Depreciation and amortisation	**533,580**	494,272
Operating lease charges	**9,580**	10,221
Amortisation of deferred income	**(32,864)**	(30,199)
Loss on disposal of property, plant and equipment	**-**	881
(Profit) on disposal of property, plant and equipment and intangible assets	**(5,203)**	(5,131)
(Profit) on disposal of generation assets	**-**	(265,004)
Negative goodwill arising on acquisition of Synergen Power Limited	**-**	(68,855)
Auditor's remuneration:		
- audit of individual and group accounts *	**312**	314
- other assurance services	**511**	473
- tax advisory services (Parent entity only)	**39**	27
- other non-audit services (Parent entity only)	**-**	57
ESB (Parent) Board Members' remuneration:		
- fees	**246**	249
- other remuneration	**513**	736

*€212,000 (2009: €214,000) related to the parent company.

NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
Cost					
Balance at 1 January 2009	932,119	9,238,023	10,170,142	1,283,655	**11,453,797**
Additions	4,750	98,933	103,683	725,815	**829,498**
Retirements/disposals	(39)	(20,542)	(20,581)	-	**(20,581)**
Transfer of assets held for resale	700	-	700	-	**700**
Transfers out of assets under construction	34,691	600,719	635,410	(635,410)	**-**
Transfers to Intangible assets	-	(671)	(671)	-	**(671)**
Acquisitions	-	262,455	262,455	-	**262,455**
Translation difference	(87)	14,900	14,813	(1,163)	**13,650**
Balance at 31 December 2009	972,134	10,193,817	11,165,951	1,372,897	**12,538,848**
Additions	4,570	132,421	136,991	619,932	**756,923**
Acquisitions	4,557	1,900,960	1,905,517	64,509	**1,970,026**
Retirements/disposals	(2,053)	(78,740)	(80,793)	(50)	**(80,843)**
Transfers out of assets under construction	63,083	1,000,766	1,063,849	(1,063,849)	**-**
Other transfers	24	1,588	1,612	(2,509)	**(897)**
Translation difference	(18)	(17,278)	(17,296)	970	**(16,326)**
Balance at 31 December 2010	1,042,297	13,133,534	14,175,831	991,900	**15,167,731**
Depreciation					
Balance at 1 January 2009	516,212	3,959,201	4,475,413	-	**4,475,413**
Charge for the year	27,965	413,792	441,757	-	**441,757**
Retirements/disposals	(32)	(11,661)	(11,693)	-	**(11,693)**
Other transfers	-	(380)	(380)	-	**(380)**
Translation difference	-	4,964	4,964	-	**4,964**
Balance at 31 December 2009	544,145	4,365,916	4,910,061	-	**4,910,061**
Charge for the year	29,586	465,865	495,451	-	**495,451**
Retirements/disposals	(1,348)	(77,129)	(78,477)	-	**(78,477)**
Translation difference	-	2,770	2,770	-	**2,770**
Balance at 31 December 2010	572,383	4,757,422	5,329,805	-	**5,329,805**
Net book value at 31 December 2010	**469,914**	**8,376,112**	**8,846,026**	**991,900**	**9,837,926**
Net book value at 31 December 2009	427,989	5,827,901	6,255,890	1,372,897	**7,628,787**
Net book value at 1 January 2009	415,907	5,278,822	5,694,729	1,283,655	**6,978,384**

During the year the group capitalised interest of €29.8 million (2009: €30.7 million) in assets under construction, using an effective interest rate of 4.67% (2009: 4.25%).

The carrying value of non-depreciable assets at 31 December 2010 is €52.2 million (2009: €47.8 million).

Property, plant and equipment with a net book value of nil at 31 December 2010 is included above at a cost of €1,952.2 million (December 2009: €1,291.2 million).

Acquisition of assets during 2010 relates primarily to the acquisition of NIE electricity networks business. Acquisitions of assets in 2009 related primarily to the purchase of the remaining 30% of shares in Synergen Power Limited, which had the impact of converting ESB's joint venture holding in the company to a 100% subsidiary. See Note 12 (c) - Group Acquisitions for further details.

Retirements/disposals in 2010 primarily relates to the retirement of assets that have been fully depreciated.

Finance leases

All finance leases are held by the Parent. The net book value of property, plant and equipment includes an amount of €40.0 million (2009: €50.0 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the year amounted to €10.0 million (2009: €10.0 million).

10. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) PARENT	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
Cost					
Balance at 1 January 2009	948,180	8,932,650	9,880,830	1,194,593	**11,075,423**
Additions	4,266	46,156	50,422	576,622	**627,044**
Retirements/disposals	(39)	(14,351)	(14,390)	-	**(14,390)**
Transfer of assets held for resale	700	-	700	-	**700**
Transfers out of assets under construction	34,691	600,645	635,336	(635,336)	**-**
Other transfers	(43,184)	(9,848)	(53,032)	-	**(53,032)**
Balance at 31 December 2009	944,614	9,555,252	10,499,866	1,135,879	**11,635,745**
Additions	4,570	114,916	119,486	483,220	**602,706**
Retirements/disposals	(2,053)	(77,236)	(79,289)	(50)	**(79,339)**
Transfers out of assets under construction	63,083	810,807	873,890	(873,890)	**-**
Other transfers	42	1,579	1,621	(2,521)	**(900)**
Balance at 31 December 2010	1,010,256	10,405,318	11,415,574	742,638	**12,158,212**
Depreciation					
Balance at 1 January 2009	534,996	3,955,000	4,489,996	-	**4,489,996**
Charge for the year	27,474	375,641	403,115	-	**403,115**
Retirements/disposals	(32)	(10,471)	(10,503)	-	**(10,503)**
Other transfers	(18,276)	(2,848)	(21,124)	-	**(21,124)**
Balance at 31 December 2009	544,162	4,317,322	4,861,484	-	**4,861,484**
Charge for the year	28,749	403,069	431,818	-	**431,818**
Retirements/disposals	(1,348)	(75,783)	(77,131)	-	**(77,131)**
Balance at 31 December 2010	571,563	4,644,608	5,216,171	-	**5,216,171**
Net book value at 31 December 2010	**438,693**	**5,760,710**	**6,199,403**	**742,638**	**6,942,041**
Net book value at 31 December 2009	400,452	5,237,930	5,638,382	1,135,879	**6,774,261**
Net book value at 1 January 2009	413,184	4,977,650	5,390,834	1,194,593	**6,585,427**

During the year the Parent capitalised interest of €27.5 million (2009: €29.5 million) in assets under construction, using an effective interest rate of 4.67% (2009: 4.25%).

The carrying value of non-depreciable assets at 31 December 2010 is €50.4 million (2009: €42.4 million)

Property, plant and equipment with a net book value of nil at 31 December 2010 is included above at a cost of €1,833.9 million (2009: €1,282.3 million).

Other transfers during 2010 relate to transfers to Intangible assets. Other transfers in 2009 include the sale of property to a subsidiary company during the year (net book value €31.0 million) and transfers to Intangible assets (net book value €0.9 million).

Retirements/disposals in 2010 primarily relates to the retirement of assets that have been fully depreciated.

Finance leases
All finance leases are held by the Parent. The net book value of property, plant and equipment includes an amount of €40.0 million (2009: €50.0 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the period amounted to €10.0 million (2009: €10.0 million).

NOTES TO THE FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS

(a) GROUP

	Goodwill € '000	Software and other intangible assets € '000	Emission allowances € '000	Software under development € '000	Total € '000
Cost					
Balance at 1 January 2009	-	276,900	186,443	22,767	**486,110**
Software additions	-	6,714	-	49,506	**56,220**
Allocation of emissions allowances	-	-	132,784	-	**132,784**
Purchase of emissions	-	-	12,891	-	**12,891**
Acquisitions	-	38,794	20,431	-	**59,225**
Software disposals	-	(2,174)	-	-	**(2,174)**
Settlement of emission allowances	-	-	(196,775)	-	**(196,775)**
Transfers out of software under development	-	42,707	-	(42,707)	**-**
Transfers from property, plant and equipment	-	671	-	-	**671**
Translation difference	-	-	2,335	-	**2,335**
Balance at 31 December 2009	-	363,612	158,109	29,566	**551,287**
Software additions	-	8,168	-	21,550	**29,718**
Allocation of emission allowances	-	-	120,189	-	**120,189**
Purchase of emissions	-	-	3,590	-	**3,590**
Acquisitions (Note 12(c))	177,540	49,327	-	-	**226,867**
Software disposals	-	(2,734)	-	-	**(2,734)**
Settlement of emission allowances	-	-	(147,935)	-	**(147,935)**
Transfers out of software under development	-	34,678	-	(34,678)	**-**
Transfers from property, plant and equipment	-	263	-	634	**897**
Translation difference	(1,247)	691	786	-	**230**
Balance at 31 December 2010	176,293	454,005	134,739	17,072	**782,109**
Amortisation					
Balance at 1 January 2009	-	168,932	-	-	**168,932**
Charge for the year	-	52,515	-	-	**52,515**
Other transfers	-	380	-	-	**380**
Retirements/disposals	-	(692)	-	-	**(692)**
Balance at 31 December 2009	-	221,135	-	-	**221,135**
Charge for the year	-	38,129	-	-	**38,129**
Retirements/disposals	-	(2,734)	-	-	**(2,734)**
Translation difference	-	(29)	-	-	**(29)**
Balance at 31 December 2010	-	256,501	-	-	**256,501**
Net book value at 31 December 2010	**176,293**	**197,504**	**134,739**	**17,072**	**525,608**
Net book value at 31 December 2009	-	142,477	158,109	29,566	**330,152**
Net book value at 1 January 2009	-	107,968	186,443	22,767	**317,178**

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

Emission allowances are not amortised as they are held for settlement. The emission allowances included above, were received by way of Government grant and are also included in deferred income, as shown in Note 24.

Acquisition of assets during 2010 relates primarily to the acquisition of the NIE electricity networks business during the year. See Note 12(c) - Group Acquisitions for further details.

Acquisition of assets in 2009 relates to the purchase of an operating wind farm and the purchase of the remaining 30% of shares in Synergen Power Limited, which has the impact of converting ESB's joint venture holding in the company to a 100% full subsidiary holding.

Goodwill of €176.3 million has been recognised at 31 December 2010 (2009: €nil) arising on the NIE acquisition. Goodwill relates to the fair value of the expected return on the future investment in the Regulated Asset Base of the NIE business, in addition to deferred tax and other movements arising. Goodwill has been reviewed for impairment at 31 December 2010 and will be reviewed on at least an annual basis into the future.

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

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

11. INTANGIBLE ASSETS (continued)

(b) PARENT

	Software and other intangible assets € '000	Emission allowances € '000	Software under development € '000	Total € '000
Cost				
Balance at 1 January 2009	261,660	167,191	19,208	**448,059**
Software additions	2,548	-	49,746	**52,294**
Allocation of emission allowances	-	122,012	-	**122,012**
Purchase of emissions	-	5,435	-	**5,435**
Software disposals	(189)	-	-	**(189)**
Settlement of emission allowances	-	(175,491)	-	**(175,491)**
Transfers out of software under development	39,077	-	(39,077)	**-**
Other transfers	1,191	-	(239)	**952**
Balance at 31 December 2009	304,287	119,147	29,638	**453,072**
Software additions	1,742	-	21,550	**23,292**
Allocation of emission allowances	-	100,085	-	**100,085**
Disposal of emissions	-	(3,359)	-	**(3,359)**
Software disposals	(2,516)	-	-	**(2,516)**
Settlement of emission allowances	-	(114,452)	-	**(114,452)**
Transfers out of software under development	34,678	-	(34,678)	**-**
Other transfers	-	-	634	**634**
Balance at 31 December 2010	338,191	101,421	17,144	**456,756**
Amortisation				
Balance at 1 January 2009	168,241	-	-	**168,241**
Charge for the year	49,366	-	-	**49,366**
Other transfers	380	-	-	**380**
Retirements/disposals	(189)	-	-	**(189)**
Balance at 31 December 2009	217,798	-	-	**217,798**
Charge for the year	32,039	-	-	**32,039**
Retirements/disposals	(2,516)	-	-	**(2,516)**
Balance at 31 December 2010	247,321	-	-	**247,321**
Net book value at 31 December 2010	**90,870**	**101,421**	**17,144**	**209,435**
Net book value at 31 December 2009	86,489	119,147	29,638	**235,274**
Net book value at 1 January 2009	93,419	167,191	19,208	**279,818**

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

Other transfers in 2010 relate to transfers from property, plant and equipment (net book value €0.3 million) and transfer of software under development from the Parent to a subsidiary company (€0.3 million).

Other transfers in 2009 relate to transfers from property, plant and equipment (net book value €0.9 million) and transfer of software under development from the Parent to a subsidiary company (€0.2 million).

Emission allowances are not amortised as they are held for settlement. The emission allowances included above, were received by way of government grant and are also included in deferred income, as shown in Note 24.

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

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL ASSET INVESTMENTS

(a) GROUP

	Joint venture investments €'000	Financial assets at fair value through profit or loss € '000	Other investments €'000	**Total €'000**
Balance at 1 January 2009	117,118	-	7,030	**124,148**
Additions	-	5,140	-	**5,140**
Conversion of Synergen Power Limited to full subsidiary undertaking	(148,754)	-	-	**(148,754)**
Transfers	-	2,282	(2,282)	**-**
Share of profit	61,729	-	-	**61,729**
Fair value movement on cash flow hedges	1,286	-	-	**1,286**
Dividends received	(14,713)	-	-	**(14,713)**
Translation difference	1,984	-	-	**1,984**
Fair value movement - transferred to income statement	-	(593)	(3,802)	**(4,395)**
Balance at 31 December 2009	18,650	6,829	946	**26,425**
Balance at 1 January 2010	18,650	6,829	946	**26,425**
Additions	-	10,547	372	**10,919**
Conversion of receivable balance into equity investment	42,590	-	-	**42,590**
Share of profit	14,576	-	-	**14,576**
Fair value movement on cash flow hedges	(3,491)	-	-	**(3,491)**
Dividends received	(20,625)	-	-	**(20,625)**
Translation difference	3,417	-	-	**3,417**
Fair value movement - transferred to income statement	-	1,490	-	**1,490**
Balance at 31 December 2010	**55,117**	**18,866**	**1,318**	**75,301**

Joint venture investments
The conversion of Synergen to a full subsidiary undertaking (€148.8 million) in 2009 arose from the purchase of the remaining 30% of shares in Synergen Power Limited, which had the impact of converting ESB's joint venture holding in the company to a 100% full subsidiary holding. The remaining 50% of shares in Garvagh Glebe Power Limited was acquired during 2010. The carrying value of the Group's investment in Garvagh Glebe Power Limited at the date of full acquisition was nil. The details of this acquisition are included in the disclosures in section (c) below.

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

During the year a receivable balance of €42.6 million with Marchwood Power Limited was converted into an equity investment in accordance with the shareholders' agreement. A similar matching amount was converted on equity investment by the Group's joint venture partner.

Dividends received from joint ventures relate to Marchwood Power Limited €17.6 million (2009: nil) and Corby Power Limited €3.0 million (2009: €2.7 million). In 2009 dividends were also received from Synergen Power Limited (€1.4 million) and Bizkaia Energia SL (€10.6 million).

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

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

Name of the company	Country	**Holding 31 December 2010 % of share capital owned**	Holding 31 December 2009 % of share capital owned
Bizkaia Energia SL	Spain	**50%**	50%
Corby Power Limited	United Kingdom	**50%**	50%
Marchwood Power Limited	United Kingdom	**50%**	50%
Garvagh Glebe Power Limited*	Ireland	**100%**	50%

*Garvagh Glebe Power Limited became a wholly owned subsidiary from 14 December 2010 and its results up to that date are reflected in the following table.

12. FINANCIAL ASSET INVESTMENTS (continued)

Joint venture summary financial information	2010 € '000	2009 € '000
Non current assets	**448,157**	466,874
Current assets	**63,819**	70,045
Total assets	**511,976**	536,919
Equity	**81,990**	45,617
Cash flow hedging reserve	**(18,242)**	(14,751)
Total equity	**63,748**	30,866
Non current liabilities	**198,605**	350,238
Current liabilities	**227,735**	138,659
Derivative liabilities	**21,888**	17,156
Total liabilities	**448,228**	506,053
Total equity and liabilities	**511,976**	536,919
Income	**88,712**	205,759
Expenses	**(48,841)**	(125,713)
Operating profit	**39,871**	80,046
Profit after interest and tax	**14,576**	61,729

The share of total equity of €63.7 million above reflects the individual balance sheets of the joint venture investments. The value of the joint venture investments in the Group balance sheet is €55.5 million. The difference of €8.2 million is primarily attributable to a provision made at group level against certain tax related balances recognised in respect of Bizkaia Energia SL.

Financial assets at fair value through profit or loss
The Group owns a venture capital business, Novusmodus, in which seed capital investments are made 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 or significantly influenced by ESB. Transfers in 2009 related to the value of investments reclassified from available for sale financial assets transferred into financial assets at fair value through the profit during the year. Additions in 2010 include investments in a number of clean energy and new technology companies and also additional investment in the VantagePoint clean energy fund. These investments have been fair valued at the year end and the movement transferred to the income statement.

At 31 December 2010 the Group could be called upon by its partners in the VantagePoint fund to make a further €7.2 million investment in the fund (2009: €9.3 million). This potential further investment is included within Capital Commitments in Note 26 of these financial statements. Further information on these investments is included in Note 19.

Other investments of €1.3 million (2009: €0.9 million) relate primarily to historic investments carried at cost. In the view of the Board, their carrying value is not significantly different to their fair value.

(b) PARENT

	Subsidiary Undertakings € '000
Balance at 1 January 2010 and 31 December 2010	72,832

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL ASSET INVESTMENTS (continued)

(c) GROUP ACQUISITIONS

During the year the Group completed the acquisition of the electricity networks business in Northern Ireland ('NIE') from Viridian Group. ESB entered into a conditional share purchase agreement to acquire NIE on 6 July 2010. The conditions precedent for the acquisition were satisfied on 21 December 2010, at which point the consideration was paid and control over 100% of the voting rights over the NIE business passed to the Group. As part of the acquisition, ESB has also acquired certain associated companies of NIE, including NIE Powerteam Limited and Powerteam Electrical Services (UK) Limited, which provide electrical construction and maintenance services. All of these entities are considered components of the overall NIE acquisition.

This acquisition is a unique growth opportunity for the Group, in acquiring the regulated networks transmission system owner and distribution system owner and operator for Northern Ireland. The acquisition of a regulated monopoly with a history of strong and stable financial performance materially increases the scale of ESB, while supporting the Group's strategic objective of the delivery of an all island smart network.

The assets acquired and liabilities assumed are recognised at fair value at the date of acquisition. Goodwill arising on acquisition mainly reflects the expected return to the Group from future investment in the acquired asset base. The goodwill is not deductible for tax purposes.

Costs of €19.3 million related to the acquisition are included within operating costs in accordance with IFRS 3 *Business Combinations (2008)*.

In addition, and separately from the NIE transaction, during the year the Group acquired one operating wind farm and one development wind farm, and also completed the full acquisition of Garvagh Glebe Power Limited (previously a 50% joint venture), in each case by acquiring 100% of the share capital of the entities involved. All of these have been disclosed as part of the wind farm acquisitions which are managed in a discrete portfolio. Full details of all of ESB's subsidiary undertakings at 31 December 2010 are given in Note 31. Costs of €0.2 million relating to these acquisitions are included within operating costs.

Acquisitions in the year ended 31 December 2010 - Recognised values on acquisition	NIE € '000	Wind farm acquisitions* € '000	**Total recognised values on acquisitions € '000**
Property, plant and equipment	1,897,069	72,957	**1,970,026**
Intangible assets	47,750	1,577	**49,327**
Pension asset	12,854	-	**12,854**
Other assets	67,472	6,521	**73,993**
Loans and borrowings	(233,934)	(54,432)	**(288,366)**
Derivative financial instruments	(272,505)	-	**(272,505)**
Deferred tax liabilities	(359,144)	(447)	**(359,591)**
Other liabilities	(114,575)	(4,630)	**(119,205)**
Net identifiable assets and liabilities	1,044,987	21,545	**1,066,532**
Less cash paid for acquisitions	(1,234,405)	(22,154)	**(1,256,559)**
Fair value of other consideration exchanged	11,878	609	**12,487**
Net consideration paid	(1,222,527)	(21,545)	**(1,244,072)**
Goodwill arising on acquisition	177,540	-	**177,540**

Fair value of other consideration exchanged comprises borrowings repaid net of cash received together with the fair value of any pre-existing investments in the acquired entities. There was no contingent consideration on acquisitions in the current year.

On acquisition there was no fair value uplift on the previous 50% shareholding in Garvagh Glebe.

Goodwill on the acquisition of NIE arises on the fair value of the expected return on future investment in Regulated Asset Base of the business.

If the acquisitions set out above had occurred on 1 January 2010, the revenue and profit amounts below would have been recognised in the Group results in respect of the companies acquired:

	NIE* € '000	Wind farm acquisitions** € '000	**Total acquisitions € '000**
Total revenue for the year	291,845	1,903	**293,748**
Total profit / (loss) after tax for the year	48,092	(17)	**48,075**
The companies acquired have had the following operating performance since the acquisition date:			
Total revenue included in the consolidated income statement	6,860	1,257	**8,117**
Total profit / (loss) included in the consolidated income statement	(1,624)	(161)	**(1,785)**

* Unaudited management account information for disclosure purposes only

** Includes Garvagh Glebe Power Limited (previously a joint venture)

12. FINANCIAL ASSET INVESTMENTS (continued)

Acquisitions in the year ended 31 December 2009 - recognised values on acquisitions

During 2009, the Group completed the acquisitions of Synergen Power Limited and an operating wind farm by acquiring 100% of the entities involved. The acquisitions had the following effect on ESB's assets and liabilities at the acquisition date:

	Total recognised values on acquisitions
	€ '000
Property, plant and equipment	262,455
Intangible assets	59,225
Other assets	71,819
Loans and borrowings	(116,400)
Deferred tax liabilities	(42,577)
Trade and other payables	(34,888)
Net identifiable assets and liabilities	199,634
Less cash paid for acquisitions	(57,943)
Fair value of other consideration exchanged	149,117
Net consideration	91,174
Less amounts previously recognised as joint ventures	(148,754)
Negative goodwill arising on acquisition	142,054
Recognised:	
- in income statement (Note 4)	68,855
- as revaluation of previously held interest ('OCI')	73,199
	142,054

13. INVENTORIES

	GROUP		PARENT	
	2010	2009	**2010**	2009
	€ '000	€ '000	**€ '000**	€ '000
Materials	**58,067**	33,806	**45,132**	28,285
Fuel	**45,867**	111,933	**37,618**	104,198
	103,934	145,739	**82,750**	132,483

Inventories consumed during the year ended 31 December 2010 totalled €117.9 million (2009: €184.2 million). There were no inventory impairments recognised by ESB (Group and Parent) during the year (2009: €3.4 million).

14. CURRENT TAX ASSET AND LIABILITY

	GROUP		PARENT	
	2010	2009	**2010**	2009
	€ '000	€ '000	**€ '000**	€ '000
Current Tax - Asset	**6,983**	441	**6,600**	2,590
Current Tax - Liability	**7,978**	-	**-**	-

The current tax asset and liability represent the amount of corporation tax paid in respect of current and prior periods that exceed amounts payable. Balances are shown net where there is a legal right of offset.

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2010	2009	**2010**	2009
	€ '000	€ '000	**€ '000**	€ '000
Trade receivables	**211,316**	205,646	**114,714**	140,235
Unbilled consumption	**295,034**	271,505	**187,359**	187,955
Amounts owed by subsidiary undertakings	**-**	-	**1,582,542**	628,224
Amounts owed by joint venture undertakings	**537**	66,319	**-**	23,033
Prepayments	**16,716**	27,685	**9,187**	27,685
Other receivables	**95,736**	113,137	**50,572**	81,599
	619,339	684,292	**1,944,374**	1,088,731

Further analysis of these receivables, and impairment allowances thereon, can be found in Note 19, section (c).

16. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2010	2009	**2010**	2009
	€ '000	€ '000	**€ '000**	€ '000
Cash at bank and in hand	**199,585**	-	**140,902**	-

Bank deposits attract interest at prevailing deposit interest rates.
There was a net bank overdraft on hand in both Group and Parent at 31 December 2009, which was included in Trade and other payables (note 23).

17. CHANGES IN EQUITY

(i) Capital stock

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

	2010
Comprised as:	€ '000
Stock issued from converted reserves	1,880,888
Stock issued for subscription by ESOT	98,994
	1,979,882

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

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

(ii) Non controlling interest - Group

Non controlling interests at 31 December 2010 relate to the minority shareholdings in Crockahenny Wind Farm Limited, Mountain Lodge Power Limited and Carrington Power Limited.

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

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

Other reserves include revaluation reserves of €66.3 million (2009: €73.2 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009. This reserve is being amortised to retained earnings over the same term as the associated assets acquired.

Other reserves also include €5.0 million which was created on the sale of the Group's share in Ocean Communications Limited in 2001. This reserve is non-distributable.

(iv) Dividends - Group and Parent

	2010	2009
Dividends on capital stock:	**'000**	€ '000
Total dividend paid 4.77 (2009: 13.50) cents per capital stock unit	**94,440**	267,284

Total dividends paid during 2010 comprised a final dividend of €94.4 million in respect of 2009.

The Board Members are recommending that a final dividend of 3.89 cent per unit of capital stock amounting to €77 million in aggregate be paid in 2011 in respect of 2010.

18. BORROWINGS AND OTHER DEBT

(a) GROUP

	Finance Leases € '000	Recourse Borrowings € '000	Non-Recourse Borrowings € '000	2010 Total € '000	2009 Total € '000
*** Current borrowings**					
- Repayable by instalments	8,941	40,909	1,796	**51,646**	54,920
- Repayable other than by instalments	-	730,343	-	**730,343**	74,008
Total current borrowings	8,941	771,252	1,796	**781,989**	128,928
Non-current borrowings					
- Repayable by instalments					
Between one and two years	13,382	58,311	1,665	**73,358**	56,725
Between two and five years	55,728	218,829	5,126	**279,683**	271,751
After five years	-	393,853	21,907	**415,760**	338,010
	69,110	670,993	28,698	**768,801**	666,486
- Repayable other than by instalments					
Between one and two years	11,220	-	-	**11,220**	-
Between two and five years	-	1,407,745	-	**1,407,745**	660,393
After five years	-	942,351	231,094	**1,173,445**	768,021
	11,220	2,350,096	231,094	**2,592,410**	1,428,414
Total non-current borrowings	80,330	3,021,089	259,792	**3,361,211**	2,094,900
Total borrowings outstanding	**89,271**	**3,792,341**	**261,588**	**4,143,200**	**2,223,828**

See Note 19 sections (d) and (e) for details of applicable interest rates.

* In 2009 there was also a short term overdraft facility of €6.9 million, included in Trade and other payables (Note 23) which formed part of the overall Group debt.

Current borrowings by facility

	2010 € '000	2009 € '000
Capital element of finance leases	**8,941**	8,140
Private placement borrowings	**-**	34,014
Bridging facility	**730,343**	-
Other long term bank borrowings	**40,909**	79,859
Non-recourse long-term project finance debt	**1,796**	6,915
	781,989	128,928

Short term debt of €730.3 million has been drawn down under a one year STG£810.0 million bridging facility agreed in September 2010. The Group has an option to extend this facility for a further year.

Non-current borrowings by facility

	2010 € '000	2009 € '000
ESB Stock	**10,304**	10,304
Capital element of finance leases	**80,330**	89,271
Private placement borrowings	**1,108,219**	1,036,062
Other long term bank borrowings	**1,587,460**	906,086
Non-recourse long-term project finance debt	**28,698**	53,177
NIE Eurobond (acquired December 2010)	**231,094**	-
ESB Eurobond (issued March 2010)	**315,106**	-
	3,361,211	2,094,900

The Group acquired a STG£175.0 million Eurobond as part of the NIE transaction, which is recognised at fair value at the acquisition date (€231.1 million). In March 2010, ESB issued a STG£275.0 million 10 year Eurobond with a fixed coupon of 6.5%. This bond required ESB to obtain an investment grade rating. In January 2011 ESB received ratings from Standard & Poor's, Moodys and Fitch of BBB+, Baa1 and BBB+ respectively.

As a result of issuing publicly traded debt, the Group comes within the scope of IFRS 8 Operating Segments, and has made the appropriate disclosures in these financial statements. See Note 1 for further information.

NOTES TO THE FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT (continued)

The first private placement senior unsecured notes were issued, to a range of institutional investors, in December 2003. These fixed rate notes were issued in US dollars and sterling and comprise US$951.5 million, maturing on dates between 2013 and 2023, and Stg£20.0 million, maturing on dates between 2018 and 2023.

The second private placement senior unsecured notes were issued in June 2009. These notes were issued in US dollars, sterling and euro and comprise US$301.0 million, maturing on dates between 2013 and 2019, Stg£85.0 million maturing on dates between 2017 and 2021 and €50.0 million maturing on dates between 2014 and 2019.

Long-term bank borrowings include (a) a revolving credit facility, refinanced in September 2010, which has been drawn down to the value of €926.8 million - this is floating rate euro debt which is available under this €1.5 billion facility until dates in 2014 and 2015, and any debt drawn thereunder is not required to be paid until these dates; and (b) €416.8 million of floating rate debt and €243.9 million of fixed rate debt which has been drawn down from another lender. €99.7 million of this is sterling debt at a fixed interest rate, while the remainder is euro fixed interest debt.

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants. To date ESB has been fully in compliance with all the covenant requirements associated with the private placement debt and other facilities.

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. The carrying amount of the loans at December 2010 was €110.8 million (2009: €118.1 million). A loss of €3.9 million (2009: €8.9 million) arose during the year on the translation of the loans to euro. Separately recognised in the translation reserve is a gain of €3.2m (2009: €7.6 million) on the translation of a euro denominated intragroup loan to the same sterling denominated subsidiary entity, which has been designated as part of the Group's investment in the subsidiary, and has accordingly been transferred to the statement of comprehensive income.

With the exception of borrowings relating to finance leases and the non-recourse project finance debt relating to certain wind farm assets, which are secured against those specific assets, none of the borrowings are secured against the Group assets. Non-recourse project finance borrowings of €25.6 million were refinanced by other borrowings during the year.

The Group has entered into a lease arrangement in connection with certain assets included within property, plant and equipment. Payment obligations on both sides of this arrangement were fulfilled immediately, such that the Group has no future net payment obligations under the terms of the arrangement and continues to have unrestricted use of the assets concerned. Accordingly, the asset continues to be recognised in the financial statements and there is no corresponding lease obligation.

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18. BORROWINGS AND OTHER DEBT (continued)

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

	2010 Minimum Lease Payments € '000	2010 Present Value of Minimum Lease Payments € '000	2009 Minimum Lease Payments € '000	2009 Present Value of Minimum Lease Payments € '000
Amounts payable:				
Within one year	**13,823**	**8,941**	13,469	8,140
Between one and five years	**87,704**	**80,330**	101,527	89,271
	101,527	**89,271**	114,996	97,411
Less future lease charges	**(12,256)**		(17,585)	
Present value of lease obligations	**89,271**		97,411	

(b) PARENT

	Finance Leases € '000	Recourse Borrowings € '000	2010 Total € '000	2009 Total € '000
*** Current borrowings**				
- Repayable by instalments	8,941	29,062	**38,003**	36,159
- Repayable other than by instalments	-	68,323	**68,323**	74,013
Total current borrowings	8,941	97,385	**106,326**	110,172
Non-current borrowings				
- Repayable by instalments				
Between one and two years	13,382	46,464	**59,846**	37,662
Between two and five years	55,728	183,288	**239,016**	220,099
After five years	-	386,519	**386,519**	288,979
	69,110	616,271	**685,381**	546,740
- Repayable other than by instalments				
Between one and two years	11,220	-	**11,220**	-
Between two and five years	-	1,407,745	**1,407,745**	660,393
After five years	-	627,244	**627,244**	768,016
	11,220	2,034,989	**2,046,209**	1,428,409
Total non-current borrowings	80,330	2,651,260	**2,731,590**	1,975,149
Total borrowings outstanding	**89,271**	**2,748,645**	**2,837,916**	2,085,321

* In 2009 there was also a short-term overdraft facility of €18.6 million, included in Trade and other payables (Note 23) which formed part of the overall Group debt.

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

(a) Overview of Financial Risk Management

Risk environment
The main financial risks faced by the Group relate to liquidity, foreign exchange, interest rate, commodity (electricity and fuel) price movements and operational risk. Policies to protect the Group from these risks, and other risk areas, such as credit risk, are regularly reviewed, revised and approved by the Board as appropriate. Group Treasury is responsible for the day to day treasury activities of the Group. The Board Finance Committee is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the Committee for review.

Commodity price risk is managed by the front and middle office functions of the relevant business units: ESB Energy International and ESB Electric Ireland. This is done in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit. The Group Trading Risk Management function ensures that the Group's market, credit and operational risks are managed in a way to protect the Group from loss, while respecting the ring-fencing obligations in place between the business units.

Contracts entered into in order to hedge exposures arising from the production and sale of electricity may be divided into forward fuel price contracts, forward electricity price contracts and foreign exchange contracts. Financial instruments are derecognised on settlement or sale.

Risk reporting structure
Through the Chief Executive, the Board has delegated to the Group Trading Committee (GTC) the broader responsibility of managing ESB's trading risk in a manner consistent with the Group's risk 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.

Within each of these business units, a Trading Risk Management Committee has been established to serve as the primary overseer of trading risk at individual ring-fenced entity level. This committee includes the head of the front office function, the Trading Risk (Middle Office) Manager, a representative from Group Trading Risk Management, and the business unit Financial Controller. The Trading Risk Management Committees are responsible for formulating trading risk strategy in accordance with the Group Trading Risk Management Policy and ensuring compliance with same, trading risk limit management and ensuring that there is an effective control framework in place.

The Trading Risk Management Committees report to the GTC. The middle office function in each business unit maintains a separate reporting line to the Group Trading Risk Management function, which is responsible for ensuring that the Group's net exposure to movements in commodity or other price movements is adequately managed in accordance with Group Trading Risk Management Policy. The trading operations of the business units are subject to review by Group Internal Audit.

For further information on the Group's Risk Management policy and objectives see the Risk Management Report on pages 60 to 61.

Hedge accounting
ESB funds its operations using a combination of borrowings and finance leases, uses deposit instruments to invest surplus funds and uses interest rate and foreign currency instruments to manage interest rate and currency risks that arise in the normal course of operations from US dollar and sterling denominated borrowings, from its foreign currency subsidiaries, and from the use of foreign currency suppliers. Hedge accounting pursuant to IAS 39 is used both for hedges of foreign currency liabilities and interest rate risks from current and non-current liabilities.

In addition, the Group enters into certain commodity hedging transactions to fix fuel costs and to link electricity revenues more closely to fuel inputs, where possible. All of these arrangements are designated into hedging relationships, and in the great majority of cases meet the specific hedge accounting criteria of IAS 39. Where the IAS 39 hedge criteria are met in respect of cross currency swaps, interest rate swaps, foreign exchange contracts, forward fuel price contracts and forward electricity price contracts, all of these instruments are designated as cash flow hedges of highly probable forecast interest, revenue or other operating cost cash flows. Any derivatives on hand which are not specifically designated into hedge relationships from an accounting perspective are nevertheless regarded as valid economic hedges.

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Financial assets and liabilities, excluding provisions and employee related liabilities, at 31 December 2010, and at 31 December 2009 can be analysed as follows:

GROUP	Financial assets at fair value through profit or loss		Assets / (liabilities) held at amortised cost		Derivative financial instruments with hedging relationships		Derivative financial instruments with no hedging relationships		Total	
	2010 € '000	2009 € '000	2010 € '000	2009 € '000	2010 € '000	2009 € '000	2010 € '000	2009 € '000	2010 € '000	2009 € '000
ASSETS										
Non-current assets										
Financial asset investments	**18,866**	6,829	**1,318**	946	**-**	-	**-**	-	**20,184**	7,775
Derivative financial instruments	**-**	-	**-**	-	**497,666**	548,049	**-**	-	**497,666**	548,049
Total non-current financial assets	**18,866**	6,829	**1,318**	946	**497,666**	548,049	**-**	-	**517,850**	555,824
Current assets										
Trade and other receivables	**-**	-	**619,339**	684,292	**-**	-	**-**	-	**619,339**	684,292
Cash and cash equivalents	**-**	-	**199,585**	-	**-**	-	**-**	-	**199,585**	-
Derivative financial instruments	**-**	-	**-**	-	**76,244**	89,835	**3,525**	793	**79,769**	90,628
Total current financial assets	**-**	-	**818,924**	684,292	**76,244**	89,835	**3,525**	793	**898,693**	774,920
Total financial assets	**18,866**	6,829	**820,242**	685,238	**573,910**	637,884	**3,525**	793	**1,416,543**	1,330,744
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	**-**	-	**3,361,211**	2,094,900	**-**	-	**-**	-	**3,361,211**	2,094,900
Trade and other payables	**-**	-	**14,820**	10,706	**-**	-	**-**	-	**14,820**	10,706
Derivative financial instruments	**-**	-	**-**	-	**167,802**	296,965	**268,138**	-	**435,940**	296,965
Total non-current financial liabilities	**-**	-	**3,376,031**	2,105,606	**167,802**	296,965	**268,138**	-	**3,811,971**	2,402,571
Current liabilities										
Borrowings and other debt	**-**	-	**781,989**	128,928	**-**	-	**-**	-	**781,989**	128,928
Trade and other payables	**-**	-	**617,669**	630,139	**-**	-	**-**	-	**617,669**	630,139
Derivative financial instruments	**-**	-	**-**	-	**10,595**	48,929	**8,116**	-	**18,711**	48,929
Total current financial liabilities	**-**	-	**1,399,658**	759,067	**10,595**	48,929	**8,116**	-	**1,418,369**	807,996
Total financial liabilities	**-**	-	**4,775,689**	2,864,673	**178,397**	345,894	**276,254**	-	**5,230,340**	3,210,567
PARENT										
ASSETS										
Non-current assets										
Investments in subsidiary undertakings	**-**	-	**72,832**	72,832	**-**	-	**-**	-	**72,832**	72,832
Derivative financial instruments	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total non-current financial assets	**-**	-	**72,832**	72,832	**-**	-	**-**	-	**72,832**	72,832
Current assets										
Trade and other receivables	**-**	-	**1,944,374**	1,088,731	**-**	-	**-**	-	**1,944,374**	1,088,731
Cash and cash equivalents	**-**	-	**140,902**	-	**-**	-	**-**	-	**140,902**	-
Derivative financial instruments	**-**	-	**-**	-	**9,763**	204	**3,525**	793	**13,288**	997
Total current financial assets	**-**	-	**2,085,276**	1,088,731	**9,763**	204	**3,525**	793	**2,098,564**	1,089,728
Total financial assets	**-**	-	**2,158,108**	1,161,563	**9,763**	204	**3,525**	793	**2,171,396**	1,162,560
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	**-**	-	**2,731,590**	1,975,149	**-**	-	**-**	-	**2,731,590**	1,975,149
Trade and other payables	**-**	-	**7,414**	9,124	**-**	-	**-**	-	**7,414**	9,124
Derivative financial instruments	**-**	-	**-**	-	**69,004**	180,813	**-**	-	**69,004**	180,813
Total non-current financial liabilities	**-**	-	**2,739,004**	1,984,273	**69,004**	180,813	**-**	-	**2,808,008**	2,165,086
Current liabilities										
Borrowings and other debt	**-**	-	**106,326**	110,172	**-**	-	**-**	-	**106,326**	110,172
Trade and other payables	**-**	-	**1,159,538**	809,224	**-**	-	**-**	-	**1,159,538**	809,224
Derivative financial instruments	**-**	-	**-**	-	**2,548**	6,409	**-**	-	**2,548**	6,409
Total current financial liabilities	**-**	-	**1,265,864**	919,396	**2,548**	6,409	**-**	-	**1,268,412**	925,805
Total financial liabilities	**-**	-	**4,004,868**	2,903,669	**71,552**	187,222	**-**	-	**4,076,420**	3,090,891

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 €896.7 million at 31 December 2010. As explained in Note 22, this liability has been valued in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. See Notes 22, 24 and 25 for further information in relation to this and to the other provisions and employee related liabilities.

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(b) 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.

At 31 December 2010 the Group had almost €900.0 million available in liquid investments, 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 European Investment Bank ('EIB').

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

The maturity profile of the carrying amount of the Group's borrowings, and the expiry of material undrawn committed bank borrowing facilities are as follows:

	Drawn Debt - Group		Drawn Debt - Parent		Undrawn Facility - Group and Parent	
	2010 € M	2009 € M	**2010 € M**	2009 € M	**2010 € M**	2009 € M
Maturing						
In one year or less	**782.0**	128.9	**106.3**	110.2	**208.0**	-
Between one and two years	**84.6**	56.7	**71.1**	37.7	**-**	-
Between two and five years	**1,687.4**	932.2	**1,646.7**	880.4	**499.7**	589.0
In more than five years	**1,589.2**	1,106.0	**1,013.8**	1,057.0	**40.0**	375.0
	4,143.2	2,223.8	**2,837.9**	2,085.3	**747.7**	964.0

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 €607.2 million (2009: €138.5 million), and net derivative financial instrument assets of €181.0 million (2009: €479.0 million) are included in the Group balances overleaf, but do not comprise part of the Parent's assets and liabilities. See section (g) in this note for further analysis of Group and Parent financial assets and liabilities.

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

	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 2010						
Finance leases	89,271	101,527	13,823	28,679	59,025	-
Recourse borrowings	3,792,341	4,719,334	894,021	191,095	1,963,426	1,670,792
Non-recourse borrowings	261,588	353,472	17,405	17,186	51,144	267,737
Total borrowings	4,143,200	5,174,333	925,249	236,960	2,073,595	1,938,529
Trade and other payables (excluding tax balances and bank overdrafts)	583,741	583,741	568,922	4,234	10,585	-
Currency swaps	69,004	92,641	1,834	2,271	53,955	34,581
Inflation linked interest rate swaps	276,254	613,611	8,320	4,462	86,012	514,817
Interest rate swaps	3,050	8,837	1,005	952	2,502	4,378
Forward electricity price contracts	103,019	130,055	6,462	(24,446)	18,495	129,544
Foreign exchange contracts	3,324	3,337	3,337	-	-	-
Total liabilities	5,181,592	6,606,555	1,515,129	224,433	2,245,144	2,621,849
Forward fuel price contracts	545,021	630,083	48,845	34,418	181,633	365,187
Forward electricity price contracts	25,882	26,074	26,074	-	-	-
Foreign exchange contracts	6,532	6,711	2,364	3,082	1,265	-
Total assets	577,435	662,868	77,283	37,500	182,898	365,187
Net liabilities	4,604,157	5,943,687	1,437,846	186,933	2,062,246	2,256,662
31 December 2009						
Finance leases	97,411	114,996	13,469	13,823	87,704	-
Recourse borrowings	2,066,325	2,446,542	19,948	105,054	1,006,166	1,315,374
Non-recourse borrowings	60,092	65,872	7,983	8,127	18,078	31,684
Total borrowings	2,223,828	2,627,410	41,400	127,004	1,111,948	1,347,058
Bank overdraft	6,876	6,876	6,876	-	-	-
Trade and other payables (excluding tax balances)	583,919	583,919	573,213	2,207	5,754	2,745
Currency swaps	180,813	204,128	13,266	5,855	63,465	121,542
Interest rate swaps	2,634	2,680	3,692	1,213	(1,069)	(1,156)
Forward electricity price contracts	142,706	170,653	29,448	458	31,196	109,551
Forward fuel price contracts	15,010	15,010	14,879	131	-	-
Foreign exchange contracts	4,731	4,731	4,731	-	-	-
Total liabilities	3,160,517	3,615,407	687,505	136,868	1,211,294	1,579,740
Forward fuel price contracts	609,573	717,395	72,220	60,014	191,291	393,870
Forward electricity price contracts	28,109	28,109	28,109	-	-	-
Foreign exchange contracts	995	1,103	132	295	676	-
Total assets	638,677	746,607	100,461	60,309	191,967	393,870
Net liabilities	2,521,840	2,868,800	587,044	76,559	1,019,327	1,185,870

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(c) Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial assets

	2010		2009	
	Group	Parent	Group	Parent
	€ '000	€ '000	€ '000	€ '000
Financial asset investments	**20,184**	**72,832**	7,775	72,832
Cash and cash equivalents	**199,585**	**140,902**	-	-
Derivative financial instruments	**577,435**	**13,288**	638,677	997
Trade and other receivables	**619,339**	**1,944,374**	684,292	1,088,731
	1,416,543	**2,171,396**	1,330,744	1,162,560

Financial asset investments
Credit risk arising on financial asset investments, including financial assets at fair value through profit or loss, is closely monitored and reflected in the carrying value at year end.

Treasury related credit risk (relating to cash and derivative instruments)
The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts with in the financial markets. The Group's policy is to limit its exposure to each financial institution based on accepted credit ratings of not less than BBB or equivalent.

Trading in derivatives is performed to mitigate financial risks and is executed in compliance with the Specification and Requirements of the Minister for Finance issued under the aegis of the "Financial Transactions of Certain Companies and Other Bodies Act 1992". The Specification and Requirements outline the type of derivatives which ESB can transact and the associated requirements which ESB must satisfy regarding each derivative counterparty. Dealing activities are controlled by putting in place robust dealing mandates with counterparties. The Group does not hold or trade derivative instruments for speculative purposes. Exposures, related limits and compliance with the Minister's Specification and Requirements are subject to ongoing review and monitoring. The Group has not experienced any losses due to failure of such counterparties to deliver on their obligations.

Commodity credit risk (relating to derivatives)
The Group also has credit risk associated with commodity positions. These arise from derivative financial instruments that are entered into to hedge energy and fuel price risks and are managed in accordance with the Minister's Specification and Requirements ("Financial Transactions of Certain Companies and Other Bodies Act 1992"). The Group establishes counterparty credit risk limits to restrict uncollateralised exposure. Net exposures, collateral requirements and compliance are monitored on an ongoing basis. Collateral, in the form of bonds and guarantees, is required by ESB business units from various parties, specifically in the form of Letters of Credit from certain power Contract for Differences ('CfD') counterparties. Total collateral held at year end was €192.0 million (2009: €244.0 million). Given the current economic environment, the Group is particularly cognisant of any changes in the creditworthiness of counterparties, and where such a change occurs all appropriate steps are taken to further secure the Group's position.

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Wholesale and retail credit risk (relating to trade and other receivables)

Trade and other receivables can be divided into final retail electricity customers (billed and unbilled), SEM pool related receivables, use of system receivables, and other (non-electricity) receivables.

	2010		2009	
	Group	Parent	Group	Parent
	€ '000	€ '000	€ '000	€ '000
Retail electricity receivables - billed	**74,812**	**63,194**	91,176	85,096
Retail electricity receivables - unbilled	**189,219**	**145,823**	205,780	163,145
Total retail electricity receivables	**264,031**	**209,017**	296,956	248,241
SEM pool related receivables	**90,231**	**66,363**	115,245	95,781
Use of System receivables (including unbilled)	**135,295**	**26,692**	88,239	25,208
Other electricity receivables	**35,440**	**30,100**	-	-
Total electricity receivables	**524,997**	**332,172**	500,440	369,230
Trade receivables - non-electricity	**28,930**	**-**	23,130	-
Amounts due from joint venture undertakings	**537**	**-**	66,319	23,033
Other receivables	**48,159**	**20,473**	66,718	40,559
Amounts due from related undertakings	**-**	**1,582,542**	-	628,224
Prepayments	**16,716**	**9,187**	27,685	27,685
	619,339	**1,944,374**	684,292	1,088,731

The maximum credit exposure of the Group at 31 December is set out below. Prepayments of €16.7 million (2009: €27.7 million) are excluded from the analysis as no credit exposure is perceived in relation to these. In the case of the Parent, balances stated also exclude amounts due from subsidiary undertakings of €1,582.5 million (2009: €628.2 million).

GROUP

	2010			2009		
	Gross amount receivable	Impairment provisions	Net amount receivable	Gross amount receivable	Impairment provisions	Net amount receivable
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Not past due	**500,178**	**-**	500,178	526,008	-	526,008
Past due < 30 days	**48,273**	**(1,693)**	46,580	52,135	(3,172)	48,963
Past due 30 - 120 days	**39,747**	**(3,640)**	36,107	46,337	(3,408)	42,929
Past due > 120 days	**29,535**	**(18,096)**	11,439	41,482	(17,565)	23,917
Past due by more than one year	**32,597**	**(24,278)**	8,319	27,947	(13,138)	14,809
Total	**650,330**	**(47,707)**	602,623	693,909	(37,283)	656,626

PARENT

	2010			2009		
	Gross amount receivable	Impairment provisions	Net amount receivable	Gross amount receivable	Impairment provisions	Net amount receivable
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Not past due	**286,195**	**-**	286,195	330,922	-	330,922
Past due < 30 days	**22,877**	**(1,239)**	21,638	30,477	(2,534)	27,943
Past due 30 - 120 days	**32,146**	**(2,851)**	29,295	44,176	(3,408)	40,768
Past due > 120 days	**27,810**	**(17,146)**	10,664	38,263	(16,536)	21,727
Past due by more than one year	**27,230**	**(22,376)**	4,854	22,750	(11,288)	11,462
Total	**396,258**	**(43,612)**	352,646	466,588	(33,766)	432,822

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Management does not expect any significant losses of receivables that have not been provided for as shown on the previous page. 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		PARENT	
	2010	2009	**2010**	2009
	€ '000	€ '000	**€ '000**	€ '000
Balance at 1 January	**37,283**	23,513	**33,766**	21,323
Impairment loss recognised	**32,858**	31,220	**32,090**	29,053
Provision utilised	**(22,434)**	(17,450)	**(22,244)**	(16,610)
Balance at 31 December	**47,707**	37,283	**43,612**	33,766

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 ESB Electric Ireland is in relation to retail electricity accounts that have closed in arrears. In addition, given an increase in competition, certain customers may switch suppliers before they have settled their outstanding balances. The CER, in conjunction with all electricity supply companies, is attempting to agree a solution to this phenomenon (known as 'debt hopping'). These accounts are managed within the Group's debt collection policy by a combination of internal debt follow-up, the use of debt collection agencies and legal action where necessary including the publication of judgements.

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. The largest single billed retail balance outstanding at 31 December 2010 was €965,000 (2009: €801,700).

Unbilled electricity receivables represent estimates of consumption not yet invoiced. Controls around electricity receivables are focused on the full recovery of amounts invoiced. In 2010, electricity receivables were impaired to the value of €47.7 million. Of this, the single largest customer amount written off during the year was €138,000 relating to a customer that went into liquidation during the year. Retail electricity receivables arise largely in the Republic of Ireland, with 7% relating to Northern Ireland revenue.

SEM pool receivables
Credit risk in relation to SEM pool related receivables is managed by the Energy Trading and Risk functions ('ET&R') within those business units engaged in electricity trading through the SEM pool. Each of these functions is ring-fenced from each other and segregation of responsibilities between the back office, middle office and front office functions is maintained in each case. The Trading Back Office function is responsible for invoicing customers and maintaining all accounts receivable. Payment terms for all trading balances relating to each of the SEM revenue streams are governed by the SEM settlement calendar.

Use of System receivables
Use of System income in the Republic of Ireland 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 13 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 67 generators during 2010 for operation and maintenance charges. The credit terms for these invoices are 20 business days.

The credit risk in relation to DUoS is managed by the invocation of section 7 of the DUoS Framework Agreement approved by CER on 1 August 2002. 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 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.

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

The 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 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 2010 was €26.7 million (2009: €30.0 million), which is the largest use of system receivable balance in the Republic of Ireland.

In respect of the Networks business in Northern Ireland acquired during the year, 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 (System Operator for Northern Ireland). Credit risk in respect of use of system receivables from electricity suppliers is mitigated by security received in the form of cash deposits, letters of credit or parent company guarantees. With the exception of public bodies, payments in relation to new connections or alterations are paid for in advance of the work being carried out. Normal credit terms and debtor days in respect of trade receivables from electricity suppliers are less than 30 days. The largest use of system electricity receivable in Northern Ireland at 31 December 2010 is €27.4 million.

Trade and other receivables - non-electricity

Trade receivables (non-electricity) relate to balances due in respect of the Group’s non-electricity trading and other operations. It includes amounts due in respect of the Group’s telecommunications, consultancy, facility management and other ancillary operations. Other receivables include prepayments of €16.7 million (2009: €27.7 million). Credit risk with regard to these balances is not considered to be significant. The largest single balance included within this category at 31 December 2010 is an amount of €1.8 million due from an external company. The largest single balance included within this category at 31 December 2009 was an amount of €39.1 million due from a joint venture undertaking. As explained in Note 12, this balance was converted into equity during the year.

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(d) Foreign Currency Risk Management

Foreign currency exposures arise mainly through the purchase of fuel and power, station overhaul costs required, other purchases denominated in foreign currencies, borrowings in foreign currencies (including the private placement as described in Note 18) and investments outside the eurozone.

Foreign currency forward purchase contracts and cross currency swaps are used to reduce volatility arising from foreign currency exposures. The foreign currency forward purchase contracts in place at 31 December 2010 relate to forecast cash flows expected to occur up to 15 December 2023.

There was a positive fair value movement on foreign currency contracts of €5.0 million in 2010 (2009: positive movement of €12.0 million) of which a net positive movement of €0.2 million (2009: positive movement of €25.5 million) was recognised in the income statement and a net negative movement of €5.2 million (2009: positive movement of €37.5 million) was recognised directly in other comprehensive income. The positive amount recognised in the income statement in 2010 is inclusive of a gain of €75.7 million (2009: loss of €27.8 million) arising on cross currency swaps which is fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates (see Note 6). There was no material ineffectiveness recognised in relation to foreign exchange contracts in 2009 or 2010.

At year end, ESB's total debt portfolio amounted to €4.1 billion (2009: €2.2 billion), of which the Parent held €3.5 billion (2009: €2.1 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

GROUP

	Before swaps		After swaps	
	2010 %	2009 %	**2010 %**	2009 %
Currency				
Euro	**33%**	46%	**58%**	89%
US Dollar	**24%**	41%	**0%**	0%
Sterling	**43%**	13%	**42%**	11%
Total	**100%**	100%	**100%**	100%

PARENT

	Before swaps		After swaps	
	2010 %	2009 %	**2010 %**	2009 %
Currency				
Euro	**47%**	45%	**83%**	90%
US Dollar	**34%**	43%	**0%**	0%
Sterling	**19%**	12%	**17%**	10%
Total	**100%**	100%	**100%**	100%

As shown above, the majority of the Parent debt portfolio is swapped to euro for both principal and interest, thereby reducing the foreign currency risk exposure in the Group. In managing its foreign operations, the Group is cognisant of borrowing in currencies that match the functional currency of the foreign operation. Therefore a substantial proportion of debt is sterling denominated as a result of the NIE acquisition.

A 10% strengthening of the euro against the following currencies at 31 December would have decreased other equity and impacted on profit before taxation by the amounts set out overleaf. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10% weakening of the euro against the same currencies would have had a similar but opposite effect, on the basis that all other variables remain constant. The analysis is performed on the same basis for 2009.

19. **DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

GROUP	**31 December 2010**		31 December 2009	
	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	**(4,774)**	**1,174**	(4,960)	1,239
Sterling	**(11,330)**	**(655)**	(18,521)	901
Swiss Franc	**(4,877)**	**29**	(1,712)	-
10% Weakening				
US Dollar	**5,835**	**(1,434)**	6,063	(1,514)
Sterling	**13,847**	**800**	22,637	(1,101)
Swiss Franc	**5,961**	**(35)**	2,093	-

The following assumptions were made in respect of the sensitivity analysis above:

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only;
- changes in the carrying value of derivative financial instruments that are cash flow hedges impact other comprehensive income only;
- changes in the carrying value of derivative financial instruments designated as net investment hedges arising from movements in the euro to sterling exchange rate are recorded directly in equity, with no ineffectiveness assumed.

The impact on the Parent of such movements would be substantially the same as that on the Group.

(e) Interest Rate Risk Management

The Group's current interest rate policy is to have a minimum of 50% of the debt portfolio at fixed (or inflation linked) rates of interest, with a target of 75% at fixed (or inflation linked) rates of interest. This is achieved either by borrowing directly at fixed interest rates or via interest rate swaps. At 31 December 2010, 65% of the Group's debt was fixed to maturity or inflation linked (2009: 69%). The fair value of interest rate swaps can be seen in paragraph (g).

In respect of income-earning financial assets and financial liabilities, the following table indicates their effective interest rates at the balance sheet date taking into account the effect of interest rate swaps and cross currency swaps:

	Effective interest rate %	Total € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
Finance leases (fixed interest rate)	5.6%	89,271	8,941	24,602	55,728	-
Private placement borrowings (fixed interest rate)	5.7%	1,188,193	-	-	531,610	656,583
Non-recourse borrowings (fixed interest rate)	6.6%	261,590	1,796	1,665	5,126	253,003
Other long term borrowings (fixed and variable interest rate)	3.8%	2,604,149	771,252	58,311	1,094,965	679,621

Included within other long term borrowings above are floating rate liabilities of €2,092.0 million (2009: €720.6 million). The principal floating rate facility is in place until dates in 2014 and 2015.

The effective interest rate on the private placement borrowings has been fixed through the use of cross currency swaps. The effective interest rate on non-recourse borrowings has been fixed through the use of interest rate swaps. In the absence of these interest rate swaps, the floating rate on the underlying sterling and euro borrowings at 31 December 2010 would be 2.0%, 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. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL 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 at 31 December would have reduced equity and profit before taxation by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009. In 2009 the net sensitivity in the Parent is substantially in line with that of the Group. The net sensitivity calculation for 2010 figures includes inflation linked interest rate swaps which are not related to Parent debt.

	Profit before taxation		**Other comprehensive income**	
	50 bp increase gain / (loss) € '000	50 bp decrease gain / (loss) € '000	50 bp increase gain / (loss) € '000	50 bp decrease gain / (loss) € '000
31 December 2010				
Interest rate swaps including inflation linked interest rate swaps	6,948	(7,638)	1,848	(1,848)
31 December 2009				
Interest rate swaps	2,430	(2,430)	6,158	(6,158)

The following assumptions were made in respect of the sensitivity analysis above:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;

- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;

- derivatives designated as cash flow hedges against movements in interest rates are assumed to be fully effective, recorded fully within equity with no impact on the income statement;

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only; and

- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

19. **DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

(f) Commodity Price Risk Management

The volatility of the fuel prices required for the Group's electricity generation activities has been significant in recent years and the resulting exposures to fuel price movements are managed by the Group on a selective hedging basis. The Group has entered into forward commodity price contracts in relation to the purchase of gas and coal required for electricity generation activities - see paragraph (g) overleaf. Forward fuel price contracts are valued based on physical volumes contracted and outstanding, and on the forward prices of products of a similar nature, at the balance sheet date, discounted where necessary based on an appropriate forward interest curve.

A general increase of 10% in the price of gas and coal at 31 December would increase equity and profit before taxation by the amounts 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 2010. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remain constant.

GROUP	31 December 2010		31 December 2009	
	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	**84,915**	-	91,435	-

PARENT	31 December 2010		31 December 2009	
	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	**5,622**	-	4,856	-

A general increase of 10% in the System Market Price ('SMP') of the Single Electricity Market at 31 December would have decreased other comprehensive income and profit before taxation by the amount 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 2010		31 December 2009	
	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000
(Loss) due to 10% increase in the SMP	**(39,397)**	-	(51,656)	-

A 10% movement in the SMP at 31 December would have no significant impact on other comprehensive income, or profit before taxation, of the Parent in 2010 or 2009.

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(g) Fair Value

The fair value of a financial instrument is the amount it could be exchanged for in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. The method used to calculate the fair value of the Group's financial instruments is discounted cash flow analysis, using a zero coupon discount rate 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.

In the case of interest rate swaps, as the same notional principal is used by the paying and receiving sides, the fair value takes into account the fixed and floating rate margins and the market rate prevailing at year end.

For trade receivables and payables with a remaining life of less than six months, the notional amount is deemed to reflect the fair value.

The fair values together with the carrying amounts shown in the balance sheet are as follows:

31 December 2010	GROUP			PARENT		
	Nominal value € '000	Carrying value € '000	Fair value € '000	Nominal value € '000	Carrying value € '000	Fair value € '000
Long-term debt held to maturity		3,280,881	3,213,496		2,651,260	2,596,464
Long-term finance lease liabilities		80,330	81,821		80,330	81,821
Short-term borrowings (includes finance leases)		781,989	772,120		106,326	96,921
Sub total borrowings		4,143,200	4,067,437		2,837,916	2,775,206
Interest rate swaps (cash flow hedges):						
- Non-current liabilities	16,631	2,003	2,003	-	-	-
- Current liabilities	8,693	1,047	1,047	-	-	-
Inflation linked interest rate swaps (cash flow hedges):						
- Non-current liabilities	620,206	268,138	268,138	-	-	-
- Current liabilities	18,772	8,116	8,116	-	-	-
Currency swaps (cash flow hedges):						
- Non-current liabilities	1,081,660	69,004	69,004	1,081,660	69,004	69,004
Foreign exchange contracts (non SEM trading related):						
- Current assets		(6,532)	(6,532)		(1,831)	(1,831)
- Current liabilities		566	566		-	-
Foreign exchange contracts (SEM trading related):						
- Non-current liabilities		183	183		-	-
- Current liabilities		2,575	2,575		2,548	2,548
Forward fuel price contracts:						
- Non-current assets		(497,666)	(497,666)		-	-
- Current assets		(47,355)	(47,355)		(11,457)	(11,457)
Forward electricity price contracts:						
- Current assets		(25,882)	(25,882)		-	-
- Non-current liabilities		96,612	96,612		-	-
- Current liabilities		6,407	6,407		-	-
Financial assets at fair value through profit or loss		(18,866)	(18,866)		-	-
Liabilities for pension obligation		896,702	896,702		896,702	896,702
Trade and other payables (excluding bank overdrafts)		632,489	630,041		1,165,776	1,166,952
Trade and other receivables		(619,339)	(619,339)		(1,944,374)	(1,944,374)
		4,911,402	**4,833,191**		**3,014,284**	**2,951,574**

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Fair value (continued)

	GROUP			PARENT		
31 December 2009	Nominal value € '000	Carrying value € '000	Fair value € '000	Nominal value € '000	Carrying value € '000	Fair value € '000
Long-term debt held to maturity		2,005,629	2,035,124		1,885,878	1,907,151
Long-term finance lease liabilities		89,271	93,629		89,271	93,629
Short-term borrowings (includes finance leases)		128,928	134,137		110,172	115,090
Sub total borrowings		2,223,828	2,262,890		2,085,321	2,115,870
Bank overdrafts		6,876	6,876		18,554	18,554
Interest rate swaps (cash flow hedges):						
- Non-current liabilities	42,737	2,634	2,634	-	-	-
Currency swaps (cash flow hedges):						
- Non-current liabilities	1,081,660	180,813	180,813	1,081,660	180,813	180,813
Foreign exchange contracts (non SEM trading related):						
- Non-current assets		(863)	(863)		-	-
- Current assets		(132)	(132)		-	-
- Current liabilities		656	656		251	251
Foreign exchange contracts (SEM trading related):						
- Current liabilities		4,075	4,075		4,075	4,075
Forward fuel price contracts						
- Non-current assets		(537,746)	(537,746)		-	-
- Current assets		(71,827)	(71,827)		(997)	(997)
- Non-current liabilities		131	131		-	-
- Current liabilities		14,879	14,879		2,083	2,083
Forward electricity price contracts						
- Non-current assets		(9,440)	(9,440)		-	-
- Current assets		(18,669)	(18,669)		-	-
- Non-current liabilities		113,387	113,387		-	-
- Current liabilities		29,319	29,319		-	-
Financial assets at fair value through profit or loss		(6,829)	(6,829)		-	-
Other investments		(946)	(946)		-	-
Trade and other payables (excluding bank overdrafts)		633,969	632,531		799,794	798,500
Trade and other receivables		(684,292)	(684,292)		(1,088,731)	(1,088,731)
		1,879,823	**1,917,447**		**2,001,163**	**2,030,418**

With the exception of inflation linked interest rate swaps, the great 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. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of trade and other payables and of trade and other receivables is calculated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date. The nominal value in the table above is applicable only to the derivative financial instruments outstanding at year end. The level of the nominal value enables estimates to be made regarding the use of derivatives in mitigating the risks to which the Group and Parent are exposed.

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Fair Value - Discount Rates

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

	2010 %	2009 %
Leases	**4.6%**	3.9%
Other loans and borrowings	**6.1%**	4.7%
Derivative financial instruments	**2.9%**	3.3%
Liability for pension obligation	**5.9%**	-
Trade and other payables	**4.6%**	4.2%

As trade and other receivables are all due within one year, and have been provided for where impaired, their carrying value is considered to be materially in line with their fair value.

(i) Interest rate swaps
For interest rate swaps, the fair value takes into account the fixed rate and floating rate margins and market rate prevailing at the year end. As interest rate swaps are marked to market at the year end, reflecting counterparty interest risk, their carrying value is equal to their fair value.

Total fair value losses of €1.0 million (2009: losses of €2.3 million) were recognised during the year in relation to interest rate swaps, all of which was recognised directly in finance costs in the income statement (2009: all recognised in equity). An interest rate swap with a negative fair value of €0.4 million was settled during the year.

ESB's interest rate swaps are part of effective hedging relationships. The purpose of these hedges is to fix the interest rate payments on the debt over its lifetime.

(ii) Inflation linked interest rate swaps
Interest rate swaps with a fair value on acquisition of €272.5 million were acquired during the year as part of the purchase of the NIE business. Subsequent to the acquisition, negative fair value movements of €7.1 million were recognised within finance costs in the income statement.

Inflation linked interest rate swaps do not qualify for hedge accounting under IAS 39. Their fair value is affected by relative movements in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom.

(iii) Currency swaps
The fair value of currency swaps is affected by movements in foreign exchange and interest rates. ESB's currency swaps are primarily classified as cash flow hedges and relate mainly to the cross currency swaps entered into in connection with the private placement debt, which is described in Note 18. These cross currency swaps were entered into in order to swap US dollar and sterling interest and principal repayments on the underlying debt to euro, thereby hedging the risk on these payments over the periods to maturity from 2010 to 2023.

In addition to foreign currency forward contracts entered into in relation to the Group's borrowings, the Group has entered into foreign currency contracts in relation to pool purchases and fuel purchase requirements (which are in US dollar and pounds sterling) and in relation to future power station overhaul costs (which are in Swiss francs). These contracts have maturities extending until 2015. Total positive fair value movements of €6.9 million (2009: positive movements of €7.2 million) were recognised during the year in relation to such foreign exchange contracts, of which €6.4 million (2009: €4.0 million) was recognised directly in equity and €0.5 million (2009: €3.2 million) was recognised in the income statement.

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(h) Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels relevant to financial instruments 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 - 31 December 2010

	Level 2 € '000	Level 3 € '000	**Total € '000**
Assets			
Derivative financial instruments			
Foreign exchange contracts	6,532	-	**6,532**
Forward fuel price contracts	11,457	533,564	**545,021**
Forward electricity price contracts	-	25,882	**25,882**
Financial assets at fair value through profit or loss	-	18,866	**18,866**
	17,989	578,312	**596,301**
Liabilities			
Derivative financial instruments			
Currency swaps	69,004	-	**69,004**
Interest rate swaps	3,050	-	**3,050**
Inflation linked interest rate swaps	-	276,254	**276,254**
Forward electricity price contracts	-	103,019	**103,019**
Foreign exchange contracts	3,324	-	**3,324**
	75,378	379,273	**454,651**
Net (liability) / asset	**(57,389)**	**199,039**	**141,650**

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(h) Fair Value Hierarchy (continued)

GROUP - 31 December 2009

	Level 2 € '000	Level 3 € '000	**Total € '000**
Assets			
Derivative Financial Instruments			
Forward electricity price contracts	-	28,109	**28,109**
Foreign exchange contracts	995	-	**995**
Forward fuel price contracts	996	608,577	**609,573**
Financial assets at fair value through profit or loss	4,329	2,500	**6,829**
	6,320	639,186	**645,506**
Liabilities			
Derivative Financial Instruments			
Currency swaps	180,813	-	**180,813**
Interest rate swaps	2,634	-	**2,634**
Forward electricity price contracts	-	142,706	**142,706**
Foreign exchange contracts	4,731	-	**4,731**
Forward fuel price contracts	2,308	12,702	**15,010**
	190,486	155,408	**345,894**
Net (liability) / asset	**(184,166)**	**483,778**	**299,612**

PARENT - 31 December 2010	Level 2 € '000	Level 3 € '000	**Total € '000**
Assets			
Derivative Financial Instruments			
Foreign exchange contracts	1,831	-	**1,831**
Forward fuel price contracts	11,457	-	**11,457**
	13,288	-	**13,288**
Liabilities			
Derivative Financial Instruments			
Currency swaps	69,004	-	**69,004**
Foreign exchange contracts	2,548	-	**2,548**
	71,552	-	**71,552**
Net (liability)	(58,264)	-	**(58,264)**

PARENT - 31 December 2009	Level 2 € '000	Level 3 € '000	**Total € '000**
Assets			
Derivative financial instruments			
Forward fuel price contracts	997	-	**997**
Liabilities			
Derivative financial instruments			
Currency swaps	180,813	-	**180,813**
Foreign exchange contracts	4,326	-	**4,326**
Forward fuel price contracts	2,083	-	**2,083**
	187,222	-	**187,222**
Net (liability)	**(186,225)**	**-**	**(186,225)**

19. **DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

(h) Fair Value Hierarchy (continued)

The following table shows a reconciliation from opening balances at 1 January 2010 to the year end balances for fair value measurements in Level 3 of the fair value hierarchy:

GROUP	Financial assets at fair value through profit or loss €'000	Forward electricity price contracts €'000	Forward fuel price contracts €'000	Inflation linked interest rate swaps €'000	**Total €'000**
Opening balance	2,500	(114,597)	595,875	-	**483,778**
Transferred in from level 2	4,329	-	-	-	**4,329**
Purchases	10,547	-	-	-	**10,547**
Acquired during the year	-	-	-	(272,505)	**(272,505)**
Total gains or losses:					
in profit or loss	1,490	-	-	(7,121)	**(5,631)**
in equity	-	78,360	(140,138)	-	**(61,778)**
Settlements	-	(40,900)	77,827	-	**36,927**
Translation movements	-	-	-	3,372	**3,372**
Closing balance - net	18,866	(77,137)	533,564	(276,254)	**199,039**

Financial assets at fair value through profit or loss are carried at fair value. Where applicable, the fair value is based on the most recent fund valuation statement available. In relation to stand alone investments, the valuation methodology used is in accordance with International Private Equity and Venture Capital Valuation Guidelines which have been developed by a number of international venture capital associations. As this requires the use of model based valuation techniques, with a number of unobservable inputs, all financial assets at fair value through profit or loss have been categorised as level 3 investments in the current year. A number of investments which were previously categorised as level 2 investments have been reclassified to level 3 in 2010, having taken the level of unobservable inputs involved in their valuation, including assumptions concerning future performance, into account.

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.

(i) Long Term Payables

Long term payables of €14.8 million (2009: €10.7 million) form part of the long term financing of the Group.

(j) Capital Management

The Group considers its capital to comprise equity, being capital stock, retained earnings and cash flow hedging, revaluation and other reserves. Movements in retained earnings and cash flow hedging and revaluation reserves during the year are disclosed in the Group Statement of changes in equity in these financial statements. Any changes in the composition of capital stock need shareholder approval. The Group's objective is to maintain strong cash flow generation, interest cover and gearing ratios while funding the growth and capital investment levels targeted in its 2020 strategy.

NOTES TO THE FINANCIAL STATEMENTS

20. DEFERRED TAX ASSETS AND LIABILITIES

GROUP

	2010 € '000	2009 € '000
Deferred tax assets		
Property, plant and equipment and intangible assets	**3,330**	2,681
Liability for pension obligation	**112,087**	-
Pension liability	**-**	64,463
Provisions	**13,975**	16,332
Tax losses forward	**10,110**	3,959
Derivative financial instruments	**13,381**	25,132
Total	**152,883**	112,567
Deferred tax liabilities		
Property, plant and equipment	**760,254**	370,902
Provisions	**844**	-
Derivative financial instruments	**81,039**	86,425
Capital gains tax	**1,180**	1,180
Total	**843,317**	458,507
Net deferred tax liability	**(690,434)**	(345,940)

20. **DEFERRED TAX ASSETS AND LIABILITIES (continued)**

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

	Balance at 1 January 2009 € '000	Recognised in income 2009 € '000	Recognised in equity 2009 € '000	Transferred in on acquisitions € '000	Balance at 31 December 2009 € '000	Recognised in income 2010 € '000	Recognised in equity 2010 € '000	Transferred in on acquisitions € '000	Balance at 31 December 2010 € '000
Assets									
Property, plant and equipment and intangible assets	462	2,219	-	-	2,681	**649**	**-**	**-**	**3,330**
Liability for pension obligation	-	-	-	-	-	**112,087**	**-**	**-**	**112,087**
Pension liability	38,375	26,088	-	-	64,463	**(64,463)**	**-**	**-**	**-**
Provisions	19,589	(3,257)	-	-	16,332	**(2,357)**	**-**	**-**	**13,975**
Tax losses forward	2,853	1,106	-	-	3,959	**6,151**	**-**	**-**	**10,110**
Derivative financial instruments	15,919	-	9,213	-	25,132	**-**	**(11,751)**	**-**	**13,381**
Total deferred tax assets	77,198	26,156	9,213	-	112,567	**52,067**	**(11,751)**	**-**	**152,883**
Liabilities									
Property, plant and equipment and intangible assets	323,119	15,181	21,436	11,167	370,903	**34,452**	**-**	**354,899**	**760,254**
Employee benefits	2,981	(2,981)	-	-	-	**-**	**-**	**-**	**-**
Provisions	354	(354)	-	-	-	**844**	**-**	**-**	**844**
Derivative financial instruments	13,861	-	68,626	3,937	86,424	**-**	**(5,385)**	**-**	**81,039**
Capital gains tax	1,180	-	-	-	1,180	**-**	**-**	**-**	**1,180**
Total deferred tax liabilities	341,495	11,846	90,062	15,104	458,507	**35,296**	**(5,385)**	**354,899**	**843,317**
Net deferred tax (liability) / asset for the year	(264,297)	14,310	(80,849)	(15,104)	(345,940)	**16,771**	**(6,366)**	**(354,899)**	**(690,434)**

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

	2010 € '000	2009 € '000
Capital losses realised	**1,453**	963
Capital losses unrealised	**5,834**	7,156

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 as there is no intention for these reserves to be distributed in the foreseeable future. Nor has deferred tax been provided for in relation to unremitted reserves of the Group's joint ventures, as there is no current intention to distribute those reserves. Cumulative unremitted reserves of overseas subsidiaries, joint ventures and associates totalled €82.6 million (2009: €164.4 million).

NOTES TO THE FINANCIAL STATEMENTS

20. DEFERRED TAX ASSETS AND LIABILITIES (continued)

PARENT	2010 € '000	2009 € '000
Deferred tax assets		
Pension liability	**-**	64,464
Liability for pension obligation	**112,087**	-
Provisions	**12,642**	15,747
Derivative financial instruments	**-**	5,621
Total	**124,729**	85,832
Deferred tax liabilities		
Property, plant & equipment	**368,934**	333,608
Derivative financial instruments	**510**	-
Capital gains tax	**1,180**	1,180
Total	**370,624**	334,788
Net deferred tax liability	**(245,895)**	(248,956)

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

	Balance 1 January 2009 € '000	Recognised in income 2009 € '000	Recognised in equity 2009 € '000	Deferred Tax balances written in respect of disposals € '000	Balance at 31 December 2009 € '000	Recognised in income 2010 € '000	Recognised in equity 2010 € '000	Deferred Tax balances written of in respect of disposals € '000	Balance at 31 December 2010 € '000
Assets									
Liability for pension obligation	-	-	-	-	-	**112,087**	**-**	**-**	**112,087**
Pension liability	38,375	26,089	-	-	64,464	**(64,464)**	**-**	**-**	**-**
Provisions	19,678	(3,931)	-	-	15,747	**(3,105)**	**-**	**-**	**12,642**
Derivative financial instruments	5,635	-	(14)	-	5,621	**-**	**(5,621)**	**-**	**-**
Total deferred tax assets	63,688	22,158	(14)	-	85,832	**44,518**	**(5,621)**	**-**	**124,729**
Liabilities									
Property, plant and equipment	319,624	13,984	-	-	333,608	**35,326**	**-**	**-**	**368,934**
Derivative financial instruments	-	-	-	-	-	**-**	**510**	**-**	**510**
Retirement benefits	2,981	(2,981)	-	-	-	**-**	**-**	**-**	**-**
Capital gains tax	1,180	-	-	-	1,180	**-**	**-**	**-**	**1,180**
Total deferred tax liabilities	323,785	11,003	-	-	334,788	**35,326**	**510**	**-**	**370,624**
Net deferred tax (liability) / asset for the year	(260,097)	11,155	(14)	-	(248,956)	**9,192**	**(6,131)**	**-**	**(245,895)**

21. PENSION LIABILITIES

The Group operates a number of pension schemes for staff in both the Republic of Ireland and, following the acquisition of the NIE business in December 2010, in Northern Ireland. Pension arrangements in respect of staff in the Republic of Ireland including ESB employees seconded overseas are set out in sections (a) and (b) below. Pension arrangements in respect of staff in Northern Ireland are described in section (c) below.

(a) Parent and Group - Republic of Ireland

(i) Exceptional Pension Charge

As explained in paragraphs (iii) and (iv) below, a Pension Agreement ('the Agreement') was concluded between ESB and the members of the General Employees' Superannuation Scheme ('the Scheme') in July 2010, and formally ratified by the Board of ESB on 20 October 2010. The Agreement clarified the nature and scale of ESB's pension obligations, and provided additional information to inform the judgements required in determining the appropriate accounting treatment of the Scheme under IAS 19 *Employee Benefits*. Accordingly, a change in accounting treatment for the Scheme was implemented from the effective date of the Agreement (20 October 2010), giving rise to an exceptional pension charge in the current year.

	2010 € '000	2009 € '000
Unrecognised net actuarial losses to 20 October 2010	**1,649,383**	-
Derecognition of defined benefit liability	**(2,217,000)**	-
Net impact of reversal of defined benefit obligation at 20 October 2010	**(567,617)**	-
Provision for future pension contributions committed by the company under the 2010 Pension Agreement (Note 22)	**897,135**	-
Total exceptional pension charge (Note 7)	**329,518**	-

(ii) Historic Accounting Treatment of ESB General Employees' Superannuation Scheme ('the Scheme')

Pensions for the majority of employees in the electricity business are funded through a contributory pension scheme called the ESB General Employees' Superannuation Scheme. The fund is vested in trustees nominated by ESB and its members for the sole benefit of employees and their dependants.

While the regulations governing the Scheme lay down in considerable detail the benefits that are to be provided they also stipulate the contributions to be paid by both ESB and the contributing members. This does not conform to the normal 'balance of cost' defined benefit approach, where the employer is liable to pay the balance of contributions required to fund benefits. Moreover, historically the contributions of both ESB and members have been fixed by regulations for long periods. ESB's rate of contribution cannot be altered without the agreement of ESB.

These facts indicate that the Scheme is not, and has never been, typical of the defined benefit approach. Despite this fact, on transition to IFRS it was accounted for as a defined benefit scheme for the purposes of reporting under IAS 19. In making the judgement that it should be accounted for as such, the Board took the view that although the Scheme was not a typical balance of cost scheme, and that no legal obligation existed for ESB to increase contributions to maintain benefits in the event of a deficit, that a pre-existing constructive obligation within the meaning of IAS 19 existed based on historic practice in such circumstances.

In preparing an opening balance sheet at 1 January 2004 on transition to IFRS, the Group availed of the 'corridor approach' under IAS 19 whereby actuarial gains and losses may be deferred and recognised in the income statement progressively over the weighted average remaining working life of the active members of the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

21 PENSION LIABILITIES (continued)

(iii) Pension Agreement 2010 ('the Agreement')

The latest actuarial valuation of the Scheme was completed as at 31 December 2008. At the date of that actuarial valuation, the Scheme's liabilities exceeded the value of its assets by €1,957 million. Scheme Regulations provide that in the event of a deficit being reported on foot of an actuarial valuation, ESB shall consult with the Actuary, the Trustees and the Superannuation Committee of the Scheme. Arising from this process, negotiations between the company and employee representatives commenced during 2009 and concluded in 2010, with a view to securing the financial position of the Scheme.

During the year the company reached agreement with the ESB Group of Unions (on behalf of Scheme members), to amend pension arrangements within the company. The proposals agreed between the company and the Group of Unions were approved by the members of the Scheme in July 2010. They were formally ratified by the Board of ESB on 20 October 2010, which may be regarded as the effective date of the Agreement.

The Agreement is designed to enhance the financial position of the Scheme, primarily by addressing and reducing Scheme liabilities, and also through a gradual increase in the proportion of Scheme assets held in lower risk investments, so as to reduce the risk of a fall in Scheme assets of the type experienced in 2008 (when there was an actuarial loss on Scheme assets of €1.6 billion), which gave rise to the actuarial deficit reported at 31 December 2008.

The main features of the Agreement include the introduction of a Career Average Revalued Earnings ('CARE') pension model for benefits earned after 1 January 2012, pension and pay freezes, the cessation of the historic link between salary and pension increases, and the application of a solvency test in relation to any future pension increases. The fixed contribution rates for the employer and for employees were not changed. Under the Agreement ESB will make a once off cash injection into the Scheme, with an agreed valuation for actuarial purposes as at 1 January 2010 of €591.0 million. As explained in Note 22 below, the fair value of this capital contribution as calculated under the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* was €638.4 million as at 20 October 2010. This will be paid over 12 years, and will facilitate the de-risking of Scheme assets. Under the Agreement membership of the Scheme has been closed to new joiners.

(iv) Change in accounting treatment

The Agreement clarified the nature and scale of ESB's pension obligations, and provided additional information to inform the judgements required in determining the appropriate accounting treatment of the Scheme under IAS 19. If a future actuarial valuation discloses a surplus, the Agreement specifies that this will be used to further de-risk the Scheme, in addition to the amounts contributed into the Scheme by ESB under the Agreement for this purpose. If an actuarial valuation discloses a deficit, as noted in (iii) above ESB is required under the Scheme Regulations to consult with the Superannuation Committee, the Trustees and the Scheme Actuary to consider the necessity to amend the Scheme. Notwithstanding this requirement under the Regulations, ESB does not intend to make further payments to the Scheme to address future deficits, no matter what the circumstance, other than regular employer fixed rate contributions, as specified in the current Scheme Regulations, of up to 16.4% of pensionable salary.

As there is no legal or constructive obligation upon ESB to fund a deficit if it arose in the Scheme, beyond current commitments, the Board is of the view that from the date of ratification of the Agreement by all relevant parties (20 October 2010) that the Scheme should be accounted for as a defined contribution scheme under the meaning of IAS 19, rather than as a defined benefit scheme, as heretofore.

Accordingly the Scheme has been accounted for as a defined benefit scheme under the meaning of IAS 19 up until the effective date of the Agreement (20 October 2010), and as a defined contribution scheme thereafter. The accumulated defined benefit liability recognised up to and as at 20 October 2010, as set out below, was derecognised. At the same time the Group's liability arising from the Agreement was provided for. See note 22 for more information.

ESB's contribution to the Scheme in the period from 20 October 2010 to 31 December 2010 was €13.5 million, of which €9.2 million related to current service and is disclosed as a defined contribution pension cost in note 7 of these financial statements, and €4.3 million related to past service and represents the partial paydown of the liability for pension obligation disclosed in Note 22.

(v) Financial Assumptions

The principal assumptions used to calculate the IAS 19 liabilities at 20 October 2010 and 31 December 2009 were:

	20 October 2010	31 December 2009
Rate of interest applied to discount liabilities	**4.55%**	5.80%
Price inflation	**2.00%**	2.00%
Rate of increase of pensionable salaries	**3.00%**	3.00%
Rate of increase of pensions in payment	**1.90%**	3.00%
Expected return on plan assets	**7.50%**	7.50%

The discount rate used in the calculation of the pension liability at the effective date of the Agreement was 4.55% (31 December 2009: 5.8%). 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.

21 **PENSION LIABILITIES (continued)**

Mortality Assumptions

The assumptions relating to life expectancy at retirement are set out below. These assumptions are based on standard actuarial mortality tables and include an allowance for future improvements in life expectancy.

	20 October 2010		31 December 2009	
	Males	Females	Males	Females
	Years	Years	Years	Years
Future pensioners currently aged 45 (life expectancy at 65)	**22.8**	**24.8**	22.8	24.8
Current pensioners currently aged 65	**21.6**	**23.7**	21.6	23.7

Plan Assets

The plan asset allocations at 20 October 2010 and 31 December 2009 were as follows:

Asset Category	20 October 2010	31 December 2009
Equities	**72%**	71%
Bonds	**10%**	11%
Real estate and infrastructure	**12%**	12%
Cash and other	**6%**	6%
	100%	100%

The strategic long term target asset allocation for equities is 65%.

To develop the expected long-term rate of return on assets assumption, the Board considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the long term target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in a 7.5% long term rate of return at 20 October 2010 (31 December 2009: 7.5%).

The amounts recognised in the balance sheet as part of long term employee benefits are determined as follows:

	20 October 2010 € '000	31 December 2009 € '000	31 December 2008 € '000	31 December 2007 € '000	31 December 2006 € '000
Present value of funded obligations	**5,206,000**	5,008,691	5,004,681	5,182,466	5,416,310
Fair value of plan assets	**(2,989,000)**	(2,824,000)	(2,438,000)	(3,830,027)	(3,784,262)
Deficit for funded plan	**2,217,000**	2,184,691	2,566,681	1,352,439	1,632,048
Unrecognised net actuarial losses	**(1,649,383)**	(1,668,984)	(2,259,676)	(1,026,746)	(1,304,286)
Net liability	**567,617**	515,707	307,005	325,693	327,762

History of experience gains and losses	2010	2009	2008	2007	2006
Difference between the expected and actual return on Scheme assets:					
Amount (€ '000)	**30,700**	240,237	(1,624,769)	(154,377)	230,832
Percentage of Scheme assets	**1.0%**	8.5%	(66.6%)	(4.0%)	6.1%
Experience gains/(losses) on Scheme liabilities:					
Amount (€ '000)	**(800,000)**	378,732	(140,092)	144,027	(181,920)
Percentage of the present value of Scheme liabilities	**15.4%**	(7.6%)	2.8%	(2.8%)	3.4%

NOTES TO THE FINANCIAL STATEMENTS

21 **PENSION LIABILITIES (continued)**

	20 October 2010 € '000	31 December 2009 € '000
Change in benefit obligation		
Benefit obligation at beginning of the year	**5,008,691**	5,004,681
Movement in period/year:		
Current service cost	**21,287**	29,844
Interest cost	**213,138**	289,744
Plan members' contributions	**21,691**	32,224
Actuarial (gain) / loss - impact of assumption changes	**(730,501)**	145,557
Actuarial (gain) / loss - experience (gain) / loss	**800,000**	(378,732)
Benefits paid	**(169,512)**	(217,943)
Curtailment cost	**26,252**	74,313
Past service cost	**14,954**	29,003
Benefit obligation at 20 October 2010 / 31 December 2009	**5,206,000**	5,008,691
Change in plan assets		
Fair value of plan assets at beginning of the year	**2,824,000**	2,438,000
Movement in period/year:		
Expected return on plan assets	**155,314**	190,376
Actuarial gains/(losses)	**30,695**	240,237
Employer contributions	**126,812**	141,106
Plan members contributions	**21,691**	32,224
Benefits paid	**(169,512)**	(217,943)
Fair value of plan assets at 20 October 2010 / 31 December 2009	**2,989,000**	2,824,000
Actual return on plan assets for the period ended 20 October 2010 / year ended 31 December 2009	**(32,309)**	381,990

Analysis of the amounts recognised in the income statement, as part of the employee benefit charge were as follows:

	20 October 2010 € '000	31 December 2009 € '000
Current service cost	**21,287**	29,844
Curtailment cost	**26,252**	74,313
Past service cost	**14,954**	29,002
Actuarial losses recognised in the period / year	**58,406**	117,281
Expected return on pension scheme assets	**(155,314)**	(190,376)
Interest on pension scheme liabilities	**213,137**	289,744
Total defined benefit charge to 20 October 2010 / 31 December 2009 (Note 7)	**178,722**	349,808

21 PENSION LIABILITIES (continued)

(b) ESB Defined Contribution Pension Scheme - Republic of Ireland

ESB also operates an approved defined contribution scheme called ESB Defined Contribution Pension Scheme (formally ESB Subsidiary Companies Pension Scheme) for employees of ESB subsidiary companies (other than NIE) and, from 1 November 2010, new staff of the parent. Contributions are paid by the members and the employer at fixed rates. The benefits secured at retirement reflect each employee's accumulated fund and the cost of purchasing benefits at that time. Death benefits are insured on a group basis and may be paid in the form of a lump sum and/or survivor's pension. The assets of the scheme are held in a separate trustee administered fund. The pension charge for the year represents the defined employer contribution and amounted to €7.2 million (2009: €5.0 million).

(c) Northern Ireland Electricity Pension Scheme

The majority of the employees in Northern Ireland Electricity Limited and subsidiaries ('NIE') are members of the Northern Ireland Electricity Pension Scheme ('the NIE Scheme'). This has two sections: 'Options', which is a money purchase arrangement whereby the employer generally matches the members' contributions up to a maximum of 6% of salary, and 'Focus' which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the NIE Scheme are held under trust and invested by the trustees on the advice of professional investment managers.

Financial Assumptions

The valuation of the NIE Scheme by independent actuaries for the purpose of IAS 19 disclosures is based on the following assumptions:

	At 31 December 2010
Rate of interest applied to discount liabilities	5.60%
Price inflation (CPI in the United Kingdom)	2.45%
Rate of increase of pensionable salaries	3.85%
Rate of increase of pensions in payment	2.45%

The discount rate used in the calculation of the pension liability at 31 December 2010 was 5.6%. This was determined by reference to market yields as at that date on high quality corporate bonds. The currency and term of the corporate bonds was consistent with the currency and estimated term of the post-employment benefit obligations.

Mortality Assumptions

The assumptions relating to life expectancy at retirement for members are set out below. These assumptions are based on standard actuarial mortality tables and include an allowance for future improvements in life expectancy.

	At 31 December 2010	
	Males	Females
	Years	Years
Current pensioners at aged 60	25.0	27.7
Future pensioners currently aged 40 (life expectancy at age 65)	26.7	29.4

NOTES TO THE FINANCIAL STATEMENTS

21. **PENSION LIABILITIES (continued)**

Pension assets and liabilities

The assets and liabilities in the Focus section of the NIE Scheme, and the expected rates of return are:

	At 31 December 2010 € '000	Expected rate of return %
Equities	**397,063**	7.40%
Bonds	**634,397**	4.60%
Other	**2,562**	4.20%
Fair value of plan assets	**1,034,022**	
Present value of funded obligations	**(1,021,324)**	
Net Surplus	**12,698**	

The expected rate of return on equities is based on the expected median returns over the long term. The expected rate of return on bonds is measured directly from actual market yields for UK gilts and corporate bonds. Other assets include cash balances and other investments. The expected rate of return on these assets is measured directly from short-term market interest rates.

The pension surplus at 31 December 2010 is considered to have been materially in line with the position at 21 December 2010 (the date the NIE business was acquired by the Group). The difference between the carrying value of the surplus at 31 December 2010 as set out above and the value of the surplus at 21 December 2010 as disclosed in Note 12 (c) is entirely attributable to movement in foreign exchange rates. For this reason no period costs have been recognised in respect of the period since the acquisition of the NIE business as these accrued prior to its acquisition by ESB. The pension surplus qualifies to be recognised as an asset in accordance with IAS 19 and IFRIC *14 Limit on a defined benefit asset, minimum funding requirements and their interaction.*

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22. LIABILITY FOR PENSION OBLIGATION AND EMPLOYEE RELATED LIABILITIES

	Liability for pension obligation €000	Restructuring liabilities €'000	Other € '000	Total employee related liabilities € '000
GROUP				
Balance at 1 January 2010	-	141,150	56,180	**197,330**
Movements during the year:				
Charge to the income statement	897,135	23,398	21,208	**44,606**
Acquisitions	-	517	-	**517**
Utilised during the year	(6,433)	(58,048)	(30,095)	**(88,143)**
Financing charge	6,000	3,092	-	**3,092**
Balance at 31 December 2010	**896,702**	110,109	47,293	**157,402**
Analysed as follows:				
Non-current liabilities	808,231	81,899	-	**81,899**
Current liabilities	88,471	28,210	47,293	**75,503**
Total	**896,702**	110,109	47,293	**157,402**
PARENT				
Balance at 1 January 2010	-	141,150	46,725	**187,875**
Movements during the year:				
Charge to the income statement	897,135	23,398	20,998	**44,396**
Utilised during the year	(6,433)	(58,048)	(27,771)	**(85,819)**
Financing charge	6,000	3,092	-	**3,092**
Balance at 31 December 2010	**896,702**	109,592	39,952	**149,544**
Analysed as follows:				
Non-current liabilities	808,231	81,899	-	**81,899**
Current liabilities	88,471	27,693	39,952	**67,645**
Total	**896,702**	109,592	39,952	**149,544**

Liability for pension obligation

During the year the company reached agreement with the ESB Group of Unions to amend pension arrangements within the company. As explained in note 21, the clarification in the Agreement of the company's commitments in respect of future funding of the ESB General Employees' Superannuation Scheme has given rise to a change in accounting treatment of the Scheme. The Agreement also confirmed certain company obligations which require separate provision.

Under the Agreement the company committed to making an exceptional cash injection into the Scheme, which will be paid over 12 years. The fair value of this cash injection as calculated under the terms of IAS 39 *Financial Instruments: Recognition and Measurement* was €638.4 million at the effective date of the Agreement (20 October 2010). In addition it was agreed that the rates of contribution to the Scheme for both the employer and employees will remain unchanged. The current rate of contribution by the employer includes a contribution towards past service. The fair value of future contributions to the Scheme in respect of past service as at the date of the Agreement (20 October 2010) was €206.8 million. This will be paid over the remaining service lives of existing active members of the Scheme. Finally, the company will continue to make pension contributions in respect of staff who have left the company under past voluntary severance initiatives, but who have not reached retirement age. The fair value of this future commitment by the company at 20 October 2010 was €51.9 million.

Restructuring liabilities

This provision represents the estimated cost of providing post employment payments to former employees, other than those amounts covered by the pension scheme. It includes liabilities for continuing payments to employees who left under past voluntary severance initiatives, as well as liabilities in respect of former employees which may arise as part of other potential legal or constructive post retirement obligations. These liabilities are expected to be materially discharged by 2021.

Other

In accordance with the requirements of IAS 19, provision has been made for employee remuneration liabilities, including accrued holiday leave, bonuses and profit share arrangements.

NOTES TO THE FINANCIAL STATEMENTS

23. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2010	2009	**2010**	2009
	€ '000	€ '000	**€ '000**	€ '000
Current payables:				
Bank overdraft	**-**	6,876	**-**	18,554
Progress payments on work in progress	**40,845**	3,129	**49**	-
Trade payables	**336,906**	309,462	**244,617**	251,213
Other payables	**32,013**	192,224	**23,033**	179,893
Employment taxes	**17,998**	20,876	**15,552**	20,924
Value added tax	**30,750**	29,174	**18,880**	16,030
Accruals	**128,616**	56,373	**36,540**	14,075
Amounts owed to subsidiary undertakings	**-**	-	**819,812**	304,345
Accrued interest on borrowings	**30,541**	12,025	**1,055**	4,190
	617,669	630,139	**1,159,538**	809,224

	2010	2009	**2010**	2009
	€ '000	€ '000	**€ '000**	€ '000
Non-current payables:				
Other payables	**14,820**	10,706	**7,414**	9,124

24. DEFERRED INCOME AND GOVERNMENT GRANTS

(a) GROUP

	Emissions Allowances € '000	Supply Contributions & Other € '000	Total € '000
Balance at 1 January 2009	-	687,433	**687,433**
Receivable	132,784	73,928	**206,712**
Acquisitions	3,844	-	**3,844**
Amortised to the income statement	(137,373)	(30,199)	**(167,572)**
Translation differences	745	-	**745**
Balance at 31 December 2009	-	731,162	**731,162**
Balance at 1 January 2010	-	731,162	**731,162**
Receivable	120,189	918	**121,107**
Amortised to the income statement	(113,743)	(32,864)	**(146,607)**
Translation differences	305	-	**305**
Balance at 31 December 2010	6,751	699,216	**705,967**
Analysed as follows:			
Non-current liabilities	6,751	659,883	**666,634**
Current liabilities	-	39,333	**39,333**
Total	6,751	699,216	**705,967**

(b) PARENT

	Emissions Allowances € '000	Supply Contributions & Other € '000	Total € '000
Balance at 1 January 2009	-	671,051	**671,051**
Receivable	122,012	78,353	**200,365**
Amortised to the income statement	(122,012)	(29,789)	**(151,801)**
Balance at 31 December 2009	-	719,615	**719,615**
Balance at 1 January 2010	-	719,615	**719,615**
Receivable	100,085	-	**100,085**
Amortised to the income statement	(93,333)	(32,417)	**(125,750)**
Balance at 31 December 2010	6,752	687,198	**693,950**
Analysed as follows:			
Non-current liabilities	6,752	654,713	**661,465**
Current liabilities	-	32,485	**32,485**
Total	6,752	687,198	**693,950**

Emissions allowances received during the year are recorded as both intangible assets and deferred income. They are valued at market value on receipt and amortised to the income statement on the basis of actual emissions during the year. Emissions allowances received during 2009 in relation to a plant under construction amounted to €2.8 million in both Parent and Group and were credited against the cost of property, plant and equipment, rather than being amortised to the income statement.

To the extent that the value of the emission allowances received during the year exceed the market value of carbon emissions, this surplus is recognised within deferred income, rather than being amortised to the income statement in the current year and is utilised against the cost of emission allowances acquired in future years.

Non-repayable supply contributions 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 received from 1 July 2009 are recognised in full, upon completion of services rendered, in the income statement as revenue.

NOTES TO THE FINANCIAL STATEMENTS

25. PROVISIONS

(a) GROUP

	Power Station closure costs € '000	Emissions provisions € '000	Customer rebate and other provisions € '000	Total € '000
Balance at 1 January 2009	252,154	198,624	345,305	**796,083**
Charged to the income statement				
- Emissions	-	132,987	-	**132,987**
- Legal	-	-	1,139	**1,139**
- Station closure	8,117	-	-	**8,117**
Transferred to pension liability	(25,766)	-	-	**(25,766)**
Acquisitions	1,720	11,472	-	**13,192**
Utilised in the year	(27,597)	(196,775)	(295,580)	**(519,952)**
Financing charge	9,916	-	2,498	**12,414**
Translation differences	59	1,639	-	**1,698**
Balance at 31 December 2009	218,603	147,947	53,362	**419,912**
Balance at 1 January 2010	218,603	147,947	53,362	**419,912**
Charged to the income statement				
- Emissions	-	120,635	-	**120,635**
- Legal	-	-	2,984	**2,984**
- Station closure	1,380	-	-	**1,380**
Transferred to pension liability	(15,035)	-	-	**(15,035)**
Transferred from trade and other payables	-	-	14,265	**14,265**
Acquisitions	-	-	11,130	**11,130**
Utilised in the year	(18,079)	(147,935)	(4,156)	**(170,170)**
Financing charge	5,803	-	1,784	**7,587**
Translation differences	101	492	-	**593**
Balance at 31 December 2010	192,773	121,139	79,369	**393,281**
Analysed as follows:				
Non-current liabilities	188,471	-	52,997	**241,468**
Current liabilities	4,302	121,139	26,372	**151,813**
Total	192,773	121,139	79,369	**393,281**

25. PROVISIONS (CONTINUED)

(b) PARENT

	Power Station closure costs € '000	Emissions provisions € '000	Customer rebate and other provisions € '000	**Total € '000**
Balance at 1 January 2009	251,762	178,997	345,291	**776,050**
Charged to the income statement				
- Emissions	-	111,401	-	**111,401**
- Legal	-	-	1,101	**1,101**
- Station closure	7,937	-	-	**7,937**
Transferred to pension liability	(25,766)	-	-	**(25,766)**
Utilised in the year	(27,597)	(175,491)	(295,528)	**(498,616)**
Financing charge	9,916	-	2,498	**12,414**
Balance at 31 December 2009	216,252	114,907	53,362	**384,521**
Balance at 1 January 2010	216,252	114,907	53,362	**384,521**
Charged to the income statement				
- Emissions	-	92,439	-	**92,439**
- Legal	-	-	2,984	**2,984**
- Station closure	1,300	-	-	**1,300**
Transferred to pension liability	(15,035)	-	-	**(15,035)**
Transferred from trade and other payables	-	-	14,265	**14,265**
Utilised in the year	(18,078)	(114,453)	(4,156)	**(136,687)**
Financing charge	5,803	-	1,784	**7,587**
Balance at 31 December 2010	190,242	92,893	68,239	**351,374**
Analysed as follows:				
Non-current liabilities	185,940	-	42,413	**228,353**
Current liabilities	4,302	92,893	25,826	**123,021**
Total	190,242	92,893	68,239	**351,374**

Power station closure costs

The provision at 31 December 2010 of €192.8 million (2009: €218.6 million) for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2026. As the costs are provided on a discounted basis, a financing charge is included in the income statement and added to the provision each year. The power station closure provision is re-examined annually and the liability re-calculated in accordance with the current expected station closure dates. Closure costs include physical dismantling costs and costs associated with de-manning the stations on closure. There are a number of uncertainties that affect the calculation of the provision for station closure, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, the impact of alternative technologies and changes in the discount rate. The Group has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision.

Emissions provisions

In accordance with the provisions of the European CO_2 emissions trading scheme, a provision is recognised to cover the liability for actual emissions during the year. Under this scheme, emissions allowances covering a percentage of the expected emissions are granted at the beginning of each year by the relevant Authority (See Note 11 Intangible Assets). These allowances, together with any additional allowances purchased during the year, are returned to the relevant Authority in charge of the scheme within four months from the end of that calendar year, in line with the actual emissions of CO_2 during the year. The year end provision represents the obligation to return emissions allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO_2 emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability.

Customer rebate and other provisions

A customer rebate provision of €300 million at 1 January 2009 related to a payment due from ESB to all Irish electricity customers, in order to mitigate the requirement for increased electricity tariffs in 2008 / 2009 due to volatility in fuel prices. This was substantially paid during 2009.

Other provisions represent prudent estimates of liabilities that may or may not arise to third parties in respect of claims notified or provided for at year end. In accordance with normal commercial practice, the year end provision includes an estimate for liabilities incurred but not yet notified.

NOTES TO THE FINANCIAL STATEMENTS

26. COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

Total commitments under non-cancellable operating leases were as follows:	2010	2009
	€ '000	€ '000
Within one year	**11,525**	9,742
After one but within five years	**35,687**	32,895
After five years	**111,457**	82,532
Total payable	**158,669**	125,169

Operating leases payable by the Group generally relate to the rental of land and buildings. These lease costs are based on open market value and are generally subject to rent reviews, on average every five years. There are no significant or unusual restrictions imposed on the Group by the terms of the operating leases.

(b) Capital commitments

	2010	2009
	€ '000	€ '000
Contracted for	**276,580**	235,776

Included in the 2010 capital commitments above, is a commitment relating to the VantagePoint fund. The Group could be called upon by its partners in the VantagePoint fund to make a further €7.2 million investment in the fund (2009: €9.3 million).

Share of joint venture capital commitments	2010	2009
	€ '000	€ '000
Contracted for	**472**	4,839

These contracts relate mainly to commitments under a turnkey construction contract, various interconnection contracts, long-term maintenance contracts and a number of consultancy contracts which the Marchwood Power Limited has entered into.

(c) Fuel contract commitments

There are a number of long term gas supply arrangements in place for different periods up to 2020. These arrangements provide for pricing changes in line with changes in inbuilt energy market indicators. Where appropriate, embedded derivatives have been separated and valued in accordance with IAS 39.

27. RELATED PARTY TRANSACTIONS

Semi-State Bodies
In common with many other entities, ESB deals in the normal course of business with other government sponsored bodies such as Bord Gáis and Bord na Móna. Long term agreements are negotiated between ESB and Bord na Móna in relation to the purchase of peat for the Midland Stations.

Banks owned by the Irish state
In the normal course of business ESB transacts with certain Irish banks which have become wholly or partially controlled by the Irish government. All of ESB's transactions with such banks are on normal commercial terms. ESB had no material concentration of borrowings with any such banks during the year or at 31 December 2010. The majority 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.

Subsidiary undertakings
During the year ended 31 December 2010, ESB Parent purchased engineering, consulting and other services including rental services, of €88.2 million (2009: €98.2 million) from its subsidiaries.

During the year, ESB Parent had sales of €71.1 million (2009: €60.7 million) to subsidiaries. These sales mainly relate to management services, as well as electricity charges such as Use of System charges and sales of electricity. During the year, ESB Parent had no sales of property (2009: sales with a net book value €24.1 million) or plant and machinery (2009: sales with a net book value €7.0 million) to subsidiaries.

During the year, ESB Parent received interest of €12.1 million (2009: €9.9 million) from subsidiaries and paid interest of €7.3 million (2009: €1.4 million) to subsidiaries on intercompany loans.

At 31 December 2010, ESB Parent had amounts payable of €818.9 million (2009: €304.3 million) to its subsidiaries. These payables mainly relate to amounts held on deposit for subsidiaries, debt raised by ESB Finance Limited loaned back to ESB Parent for working capital and capital expenditure requirements, as well as amounts due in respect of engineering and consulting services.

At 31 December 2010, ESB Parent had balances receivable of €1,582.5 million (2009: €628.2 million) from its subsidiaries. These receivables mainly relate to management services and loans to subsidiaries, including loans relating to the NIE acquisition, as well as electricity charges such as Use of System charges.

At 31 December 2010, ESB Parent had balances receivable from its subsidiaries in relation to equity and capital contributions of €72.8 million (2009: €72.8 million).

On 21 December 2010, the Group completed the acquisition of the electricity networks business in Northern Ireland ('NIE') (see note 12). During the period to 21 December 2010, ESB Group companies made purchases amounting to €37.1 million from the NIE companies acquired. These primarily related to Use of System charges and grid connections charges. All pre-acquisition transactions between ESB Group and the NIE entities acquired in 2010 were at an arm's length basis and were unrelated to the acquisition.

Joint ventures
During the year the Group provided services to Garvagh Glebe Power Limited and to two of its remaining joint ventures, Bizkaia Energia SL and Corby Power Limited.

ESB provided services to Bizkaia Energia SL during the year to the value of €6.0 million (2009: €6.2 million).

Services to the value of €3.9 million (2009: €3.9 million) were provided to Corby Power Limited. No services were provided to Marchwood Power Limited (2009: €0.2 million). Additional capital funding to the value of €0.7 million (2009: €5.9 million) was provided to Marchwood Power Limited during the year, which together with financing costs of €2.8 million (2009: nil), brings the total capital funding from the Group to Marchwood Power Limited to €42.6 million (2009: €39.1 million). During the year, this capital funding was converted to an equity investment in the company (see Note 12: Financial Asset Investments).

On 14 December 2010, Garvagh Glebe Power Limited converted from a joint venture to a full subsidiary of ESB Group, with the Group acquiring the remaining 50% equity share in the company.

Prior to the full acquisition of Garvagh Glebe Power Limited, ESB provided services to the value of €2.8 million (2009: €2.7 million) to Garvagh Glebe Power Limited.

Key management compensation	**2010** **€ '000**	2009 € '000
Salaries and other short-term employee benefits	**3,385**	3,934
Post-employment benefits	**354**	550
	3,739	4,484

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 Board Members and senior executives.

NOTES TO THE FINANCIAL STATEMENTS

28. ESTIMATES AND JUDGEMENTS

Preparation of consolidated financial statements requires a significant number of judgemental assumptions and estimates to be made. These impact on the income and expenses contained within the income statement and the valuation of the assets and liabilities in the balance sheet. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation.

It should be noted that the impact of variation in some assumptions and estimates can have a particularly material impact on the reported results. These include but are not limited to:

(a) The fair value, in accordance with IFRS 3 *Business Combinations*, of acquisitions and any associated goodwill, as described in Note 12.

(b) Future costs required to settle current provisions and employee related liabilities, such as the liability for pension obligation, power station closure costs and post employment obligations. These liabilities are disclosed in Notes 22 and 25.

(c) The measurement of a number of assets, liabilities, income and costs at year end which require a high degree of estimation and judgement including, the calculation of unbilled electricity income and trade and other receivables, the valuation of fuel stocks, the cost of fuel consumed, the useful lives of fixed assets and also accruals for goods received or work carried out for which supplier invoices have not yet been received. These items are estimated in accordance with the accounting policies of the Group and current International Financial Reporting Standards.

(d) As described in note 19 section (h), 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 7 *Financial Instruments: Disclosures.* During the year, the Group acquired, as part of the acquisition of NIE, inflation linked interest rate swaps which have a duration of over 20 years, which have been added to the Group's existing portfolio of level 3 financial instruments.

(e) ESB provides services to around 1.3 million individuals and businesses, mainly on credit terms. It is known that certain debts due to ESB will not be paid through the default of some customers. Estimates, based on historical experience 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 19 section (c) for further information in respect of the profile and aging of trade and other receivables and in respect of the allowance for impairment of trade and other receivables.

29. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated by ESB during 2001, with a €1 investment, as trustee to the ESB Employee Share Ownership Trust (ESOT) and the ESB Approved Profit Sharing Scheme (APSS). Under the terms of the creation of ESB ESOP Trustee Limited, ESB has no ability or rights to exert control over the assets or management of the company. The trustee company is chaired by an independent professional trustee with four directors representing ESB employees and two directors representing the Company. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the company exist. In accordance with IAS 27 *Consolidated and Separate Financial Statements,* the accounts for ESB ESOP Trustee Limited are not consolidated with the results of the ESB Group.

30. APPROVAL OF FINANCIAL STATEMENTS

The Board approved the financial statements on 23 March 2011

31. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
ESB Energy International Ltd. (formerly ESB International Ltd.)	*	100	Holding company
ESBI Engineering and Facility Management Ltd.	*	100	Engineering
ESBI Engineering Overseas Ltd.	*	100	Engineering
ESBI Contracting Ltd.	*	100	Contracting
ESBI Consultants Ltd.	*	100	Consultancy
ESBI Computing Ltd.	*	100	Computer services
ESB International Ltd. (formerly ESB Ireland Holding Ltd.)	*	100	Holding company
ESBII Technology and Construction Ltd.	*	100	Power generation
Elfinance Ltd.	*	100	Customer credit
ESB International Investments Ltd.	*	100	International investments
ESBI Contracts Engineering Ltd.	*	100	Contracting
ESB Financial Enterprises Ltd.	*	100	Holding company
ESB Independent Energy Ltd.	*	100	Electricity sales
ESB Independent Energy NI Ltd.	*	100	Electricity sales
ESB Contracts Ltd.	*	100	Contracting
Canal Construction Ltd	**	100	Construction
ESB Power Generation Holding Company Ltd.	*	100	Holding company
Gort Windfarms Ltd.	*	100	Wind power generation
Crockahenny Wind Farm Ltd.	*	75	Wind power generation
Utilities O&M Services Ltd.	58 Upper Mount Street, Dublin 2	100	Operation & maintenance services
Hibernian Wind Power Ltd.	*	100	Wind power generation
ESB Retail Ltd.	*	100	Sale of electrical appliances
ESB Telecoms Ltd.	*	100	Telecommunications
Facility Management Espana S.L.	****	100	Facility management
ESBI Engineering UK Ltd.	*****	100	Engineering and general consultancy
Electricity Supply Board Services B.V.	Symphony House Block D13 Pusat Dagangan Dana 1 Jalan PJU 1A/46 43701 Petaling Jaya Malaysia	100	Facility management
Electricity Supply Board International Investments B.V.	Strawinskylaan 3105 7th Floor 1077 ZX Amsterdam The Netherlands	100	Holding company
Coolkeeragh ESB Ltd.	2 Electra Road Maydown Derry, BT47 6 UL	100	Power generation

NOTES TO THE FINANCIAL STATEMENTS

31. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS (Continued)

Company name	Registered office	Group share %	Nature of business
ESBII UK Ltd.	*****	100	Holding company
ESBI Luxembourg S.A.	65 Boulevard Grand Duchesse Charlotte L-1391 Luxembourg	100	Holding company
Power Generation Technology Snd. Bhd.	10th Floor Wisma Havela Thakardos No 1 Jalan Raja Laut 50350 Kuala Lumpur Malaysia	100	Power generation
Facility Management UK Ltd.	*****	100	Facility management
ESBI Georgia Ltd.	39 Gamsakhurdia Ave Suite 42 Tbilisi Georgia	100	Transmission management
Marchwood Power Development Ltd.	*****	100	Power generation
Menloe Two Ltd.	**	100	Finance leasing
Menloe Investments Ltd.	**	100	Finance leasing
Centrum Power Ltd.	*****	100	Power generation
Asturias Generation de Electricidad S.L.	Calle Uria, No 50-4, Oviedo 33001, Asturias, Spain	100	Power generation
Mountain Lodge Power Ltd.	*	85.9	Power generation
Tullynahaw Power Ltd.	*	100	Power generation
Boleywind Ltd.	*	100	Power generation
Blackwind Ltd.	*	100	Power generation
Kobai Ltd.	*	100	Power generation
Orliven Ltd.	*	100	Power generation
Cappawhite Ltd.	*	100	Power generation
Waterfern Ltd.	*	100	Power generation
Seltan One Ltd.	*	100	Power generation
Hunter's Hill Wind Farm Ltd.	******	100	Power generation
ESB Wind Development Ltd.	**	100	Power generation
ESB Wind Development UK Ltd.	*****	100	Power generation
ESB Commercial Properties Ltd.	*	100	Property management
Crockagarran Windfarm Ltd.	******	100	Power generation
West Durham Wind Farm Ltd.	*****	100	Power generation
West Durham Wind Farm Holdings Ltd.	*****	100	Power generation
West Durham Wind Farm Holdings 2 Ltd.	*****	100	Power generation
Devon Wind Power Ltd.	*****	100	Power generation
Synergen Power Ltd.	Power Plant Pigeon House Road Ringsend Dublin 4	100	Power generation
ESB Novusmodus GP Ltd	**	100	Clean technology investment

31. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS (Continued)

Company name	Registered office	Group share %	Nature of business
Airvolution Energy Ltd. (UK)	58 Coinagehall Street, Helston, Cornwall, TR13 BEL	90	Power generation
ESB Networks Ltd	**	100	Power distribution
ESB 1927 Properties Ltd.	**	100	Property management
ESBI Carbon Solutions Ltd.	*	100	Carbon emission reduction
ESB Independent Generation Trading Ltd	*	100	Electricity and gas trading
ESBI Energía España S.L.	****	100	Business development
Carrington Power Ltd.	*****	85	Power generation
ESB NI Ltd	*******	100	Power distribution
Northern Ireland Electricity Ltd	*******	100	Power distribution
NIE Powerteam Ltd	*******	100	Engineering
Capital Pensions Management Ltd	*******	100	Insurance and pension fund
Powerteam Electrical Services Ltd	*******	100	Engineering
Powerteam Electrical Services (UK) Ltd	*******	100	Engineering
ESB Finance Ltd	**	100	Finance
Cambrian Renewable Energy Ltd	*****	100	Power generation
EC02 Cambrian Ltd	*****	100	Power generation
Curryfree Wind Farm Ltd	******	100	Power generation
Mount Eagle Wind Farm Ltd	*	100	Power generation
Garvagh Glebe Power Ltd.	*	100	Power generation
Non-controlled subsidiary undertaking			
ESB ESOP Trustee Ltd.	43 Merrion Square Dublin 2	100	Staff Shareholding Scheme
Subsidiary undertaking of Corby Power Ltd.			
CPL Operations Ltd.	***	50	Facility management
Joint venture undertakings			
Corby Power Ltd.	***	50	Power generation
Bizkaia Energia S.L.	****	50	Power generation
Marchwood Power Ltd.	Oceanic Way, Marchwood Industrial Estate Marchwood Southampton Hampshire SO40 4BD	50	Power generation

* Stephen Court, 18-21 St Stephen's Green, Dublin 2
** 27 Lower Fitzwilliam Street, Dublin 2
*** Mitchell Road, Phoenix Parkway, Corby, Northamptonshire N17 1Q7
**** Poligono Industrial de Boroa , Insula A. I-1, 48340 Amorebieta, Spain
***** Tricor Suite 52/54 Gracechurch Street, London EC3V OEH
****** 2 Electra Road, Maydown, Derry BT47 6 UL
******* 120 Malone Road, Belfast, BT9 5HT

ESB's principal place of business is 27 Lower Fitzwilliam Street, Dublin 2.

Report of Board Members on Compliance with the Prompt Payment of Accounts Act, 1997 and European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002)

Introduction

Payments terms during 2010 were governed by two items of legislation:

- The Prompt Payment of Accounts Act, 1997.
- European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002) to combat late payments in commercial transactions. These Regulations apply to contracts for goods and services supplied to ESB by EU-based suppliers.

Statement of payment practices including standard payment periods
ESB operates a policy of paying all undisputed supplier invoices within the agreed terms of payment. The standard terms specified in the standard purchase order are net monthly. Other payment terms may apply in cases where a separate contract is agreed with the supplier.

Compliance with the legislation
ESB complies with the requirements of the legislation in respect of external supplier payments within the EU in all material respects.

Procedures and controls in place
Appropriate internal financial controls have been implemented including clearly defined roles and responsibilities. These procedures provide reasonable but not absolute assurance against material non-compliance with the legislation.

Details of interest payments in respect of 2010
When ESB receives a request from the supplier, it is ESB's policy to pay interest due on late payments. Two such payments were made in respect of late payments during the year amounting to €5,500 (2009: €nil).

Lochlann Quinn
Chairman

Padraig McManus
Chief Executive

23 March 2011

GLOSSARY

Career Average Revalued Earnings (CARE): A career average revalued earnings (CARE) scheme is a type of pension arrangement. A CARE scheme matches each year's benefit accrual to earnings in each year rather than the final years' earnings. The earnings figure will be updated in line with CPI rather than the actual increase in earnings. In ESB's case, pension entitlements for service rendered from 1 January 2012 will be valued in line with CARE. Accumulated pension entitlements earned up until 31 December 2011 will be linked to actual pensionable salary as at that date (subsequently updated in line with CPI).

Certified Emission Reductions (CERs): Certified Emission Reductions (CERs) are instruments issued under the United Nations Clean Development Mechanism for approved and verified emission reduction and sequestration projects undertaken in developing countries for greenhouse gases. The Kyoto Protocol allows national and corporate reduction goals for greenhouse gases to be met through the use of CERs.

Contracted connection capacity (MIC): The capacity of a connection is the total electrical loading for which a connection is designed. Capacity is measured in kilovolt-amps (kVA). A kilovolt-amp is similar to a kilowatt. The capacity level for customers is described as the Maximum Import Capacity (MIC). ESB designs our network to provide customers with an electricity supply that is in accordance with a specified MIC. Business customers agree a level with ESB Networks according to their specific requirements.

Contracts for Difference (CfDs): A contract for difference (or CfD) is a contract between two parties, a buyer and a seller, stipulating that the buyer will pay to the seller the difference between the current value of an asset and its value at contract time. If the difference is negative, then the seller pays the buyer. In the context of ESB, contracts for differences are typically entered into in respect of electricity sales into and purchases from the wholesale electricity pool mechanism of the Single Electricity Market (SEM) in Ireland. This enables the buyers and sellers of wholesale electricity via the SEM pool to fix, in advance, the income/cost associated with this electricity. Such CfDs may be Non-Directed, that is freely entered into by ESB in the normal course of business in order to fix the price of wholesale electricity purchases or sales made via the SEM, or Directed/PSO backed.

Cúl Green initiative: The Cúl Green plan sets ambitious environmental targets for Croke Park, dramatically reducing the carbon footprint at Ireland's most popular sporting venue over the next six years.

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

Distribution system assets: This consists of the low, medium and 38k voltage networks used typically to distribute electricity from the transmission grid to small and medium customers' premises. This network is owned and operated by ESB Networks.

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

EPA: The Environmental Protection Agency (EPA) has responsibilities for a wide range of licensing, enforcement, monitoring and assessment activities associated with environmental protection.

ESB Electric Ireland: ESB Electric Ireland is ESB's single retail business and comprises the previously separated ESB Independent Energy (ESBIE) Customer Supply and Energy Solutions.

ESB HALO Schools Programme/ ESB HALO Programme: HALO is the total one-stop solution to home energy needs, from insulating your walls to installing solar panels on your roof, even replacing your light bulbs with energy efficient ones. HALO is available nationwide, to all customers of ESB.

EU ETS Scheme: The European Union Emissions Trading Scheme (EU ETS), also known as the European Union Emissions Trading System, is the largest multi-national emissions trading scheme in the world. It was launched in 2005 and is a major pillar of EU climate policy. The EU ETS currently covers more than 10,000 large scale installations in the energy and industrial sectors which are collectively responsible for close to half of the EU's emissions of CO_2 and 40% of its total greenhouse gas emissions.

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

Green Schools Energy Programme: Green Schools are an international environmental education programme and award scheme that promotes and acknowledges long-term, whole-school action for the environment.

High voltage transmission system: The transmission grid consists of the high voltage Network to transmit the electricity in bulk form from large generator plants across the country to very large customers or the local distribution network. This network is operated by EirGrid, but owned by ESB Networks.

International Financial Reporting Standards (IFRS): The principles-based Standards, Interpretations and the Framework adopted by the International Accounting Standards Board (IASB).

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

Mircosoft SharePoint: A popular web platform developed by Microsoft. It allows for managing of intranet portals and websites, document management and file management, collaboration spaces, social networking tools, enterprise search, business intelligence tooling, process/information integration and third-party developed solutions.

Moneypoint Environmental Retrofit Project: A capital investment project in Moneypoint coal station to reduce Nitrous Oxide (NOx) and Sulphurous Oxide (SOx) emissions to meet new EU regulations.

National Grid Development Strategy (Grid 25): Grid25 is EirGrid's plan to develop and upgrade the electricity transmission network from now until 2025 and will enable Ireland to achieve its 40% renewables target by 2020. It involves extensive work throughout the country which includes building 1,150km of new power lines and upgrading 2,300 km of existing lines which will double the size of today's electricity Grid.

NER300 Funding: Funding provided by the EU Commission which aims to encourage private sector investors and EU Member States to invest in commercial low-carbon demonstration projects.

Ocean Energy: Ocean Energy is the energy carried by ocean waves which can be harnessed to generate electricity.

OHSAS 18001: An externally accredited quality system to support the management of safety in the company.

Price Control Review (PR2) period: Regulatory periods are of 5 years' duration and the Price Control Review (PR2) covers the period 2006 to 2010 and sets out the total regulated allowed revenues over that period as determined by the Commission for Regulation (CER).

Public Service Obligation (PSO): Backed contracts are contracts for differences which the Commission for Energy Regulation (CER) directs ESB Power Generation to offer for sale to eligible suppliers in order to allow these suppliers access, should they require it, to a significant volume of fixed price wholesale electricity purchases. Any gains or losses experienced by ESB Power Generation on settlement of these contracts each year are ultimately recoverable through the PSO.

S.I 542: European Communities (Energy End-use Efficiency and Energy Services) Regulations 2009.

Integrated pollution control licensing regime: A licensing system that is applied to certain large-scale industrial and agricultural activities under the Environmental Protection Agency Act, 1992, giving effect to EU legislation regarding the control of potentially polluting activities.

Single Electricity Market: The Single Electricity Market (SEM) is a wholesale pool-based electricity market operating north and south of the Irish border.

Smart Metering Behaviour trials: Selection of over 4,000 customers to take part in the largest Smart Metering behavioural trials internationally. These customers have smart meters installed which provide more frequent information on electricity usage and costs.

Sustainable Energy Authority: The Sustainable Energy Authority of Ireland (SEAI), formerly the Irish Energy Centre, was set up by the government in 2002 as Ireland's national energy authority.

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

The PR3 Programme: Regulatory periods are of 5 years' duration and the Price Control Review (PR3) covers the period 2011 to 2015 and sets out the total regulated allowed revenues over that period as determined by the Commission for Regulation.

'The Roadmap to Deregulation': The Commission for Energy Regulation set out its decision with regard to the deregulation of the Irish retail electricity market, and an end to the regulation of retail prices for customers in all three business markets, Large Energy Users, Medium and Small Sized Business and the conditions for de-regulation of the residential market.

Unregulated Portfolio: The Unregulated Portfolio comprises electricity generation stations and wind farms operated by ESB Independent Generation. It consists of the Dublin Bay Power (Synergen) and Coolkeeragh power stations, which operate in the Single Electricity Market, 235 MW of wind generation in both the SEM and UK and ESB's shareholdings in Marchwood CCGT and Corby CCGT, United Kingdom, Amorebieta CCGT, Spain and Rousch CCGT, Pakistan.

Wave Technology: Generation technologies which harness the energy provided by ocean waves and use it to generate electricity.

NOTES

ESB Head Office
27 Lr Fitzwilliam St
Dublin 2
Ireland
t: + 353 (0)1 676 5831
www.esb.ie

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