

# Powering You



# FINANCIAL HIGHLIGHTS

## €469m

**Operating profit:** €469 million  
+ 38% on 2010 (€339 million)

## €1,121m

**EBITDA:** €1,121 million  
+ 34% on 2010 (€839 million)

## €12,539m

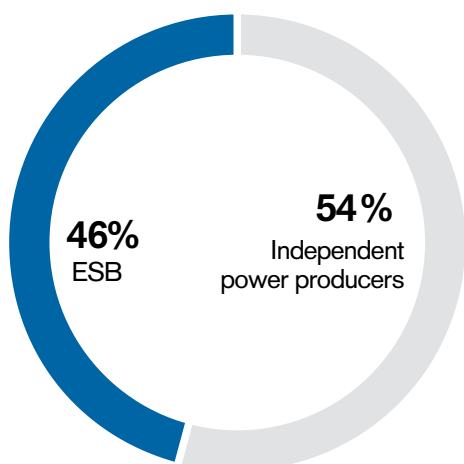
**Total assets:** €12,539 million  
+ 4% on 2010 (€12,112 million)

## €4,324m

**Net debt:** €4,324 million  
+ 10% on 2010 (€3,944 million)

### GENERATION all-island market share

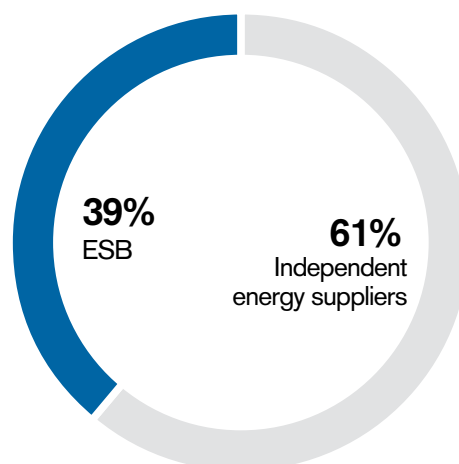
2011: ESB share 46%



2010: ESB share 48%  
Independent power producers 52%

### SUPPLY all-island market share

2011: ESB share 39%



2010: ESB share 39%\*  
Independent energy suppliers 61%

\* 2010 market share restated to reflect annualised market share position.

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ESB has played a vital role in powering our country and our customers for the past 84 years. In everything we do, our people are working together to deliver you a reliable, value for money energy service. We are also very proud of the contribution we have made to Ireland's economic development. Our infrastructure continues to deliver power to you, in your home, your community and your workplace. Our focus is on ensuring that we manage every element of that process in a safe, environmentally responsible and efficient way – for the next 84 years and beyond.







ECOLOGICAL PROTECTION  
Economic Wellbeing  
COMMUNITY DEVELOPMENT



Smart Meter

Insulation

electric Ireland



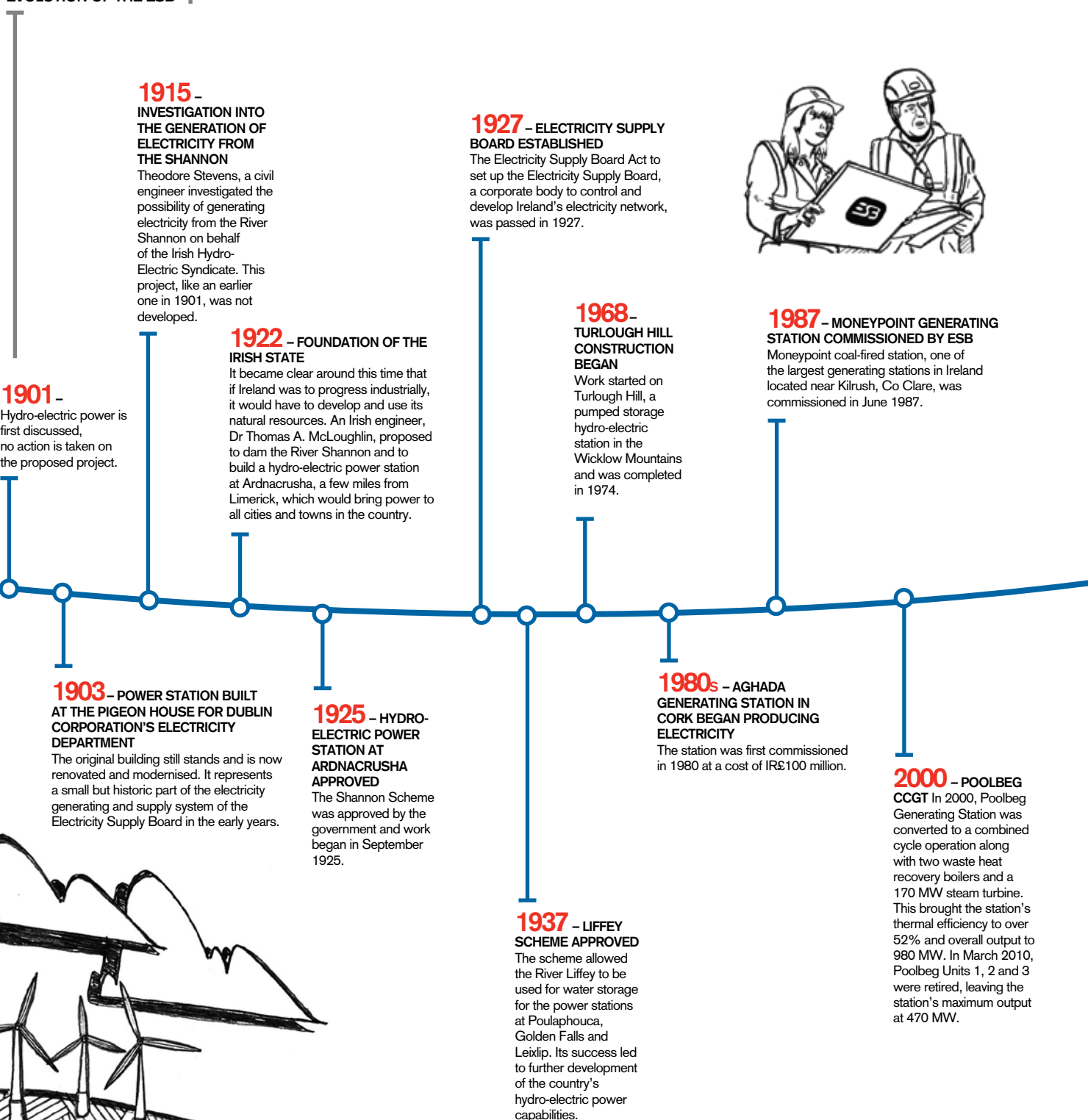
# TIMELINE

## HISTORY OF THE ESB

### ELECTRICITY IN IRELAND

In the nineteenth century, the electrical revolution which was sweeping the rest of the developed world looked set to by-pass Ireland. Only a few selected locations around the country had direct access to this incredible new power source. But thanks to the determination of a handful of far-sighted people, electricity was soon to become a ubiquitous and indispensable power source in Ireland.

### EVOLUTION OF THE ESB



**1901** – Hydro-electric power is first discussed, no action is taken on the proposed project.

**1915** – INVESTIGATION INTO THE GENERATION OF ELECTRICITY FROM THE SHANNON  
Theodore Stevens, a civil engineer investigated the possibility of generating electricity from the River Shannon on behalf of the Irish Hydro-Electric Syndicate. This project, like an earlier one in 1901, was not developed.

**1922** – FOUNDATION OF THE IRISH STATE  
It became clear around this time that if Ireland was to progress industrially, it would have to develop and use its natural resources. An Irish engineer, Dr Thomas A. McLoughlin, proposed to dam the River Shannon and to build a hydro-electric power station at Ardnacrusha, a few miles from Limerick, which would bring power to all cities and towns in the country.

**1903** – POWER STATION BUILT AT THE PIGEON HOUSE FOR DUBLIN CORPORATION'S ELECTRICITY DEPARTMENT  
The original building still stands and is now renovated and modernised. It represents a small but historic part of the electricity generating and supply system of the Electricity Supply Board in the early years.

**1925** – HYDRO-ELECTRIC POWER STATION AT ARDNACRUSHA APPROVED  
The Shannon Scheme was approved by the government and work began in September 1925.

**1937** – LIFFEY SCHEME APPROVED  
The scheme allowed the River Liffey to be used for water storage for the power stations at Poulaphouca, Golden Falls and Leixlip. Its success led to further development of the country's hydro-electric power capabilities.

**1927** – ELECTRICITY SUPPLY BOARD ESTABLISHED  
The Electricity Supply Board Act to set up the Electricity Supply Board, a corporate body to control and develop Ireland's electricity network, was passed in 1927.

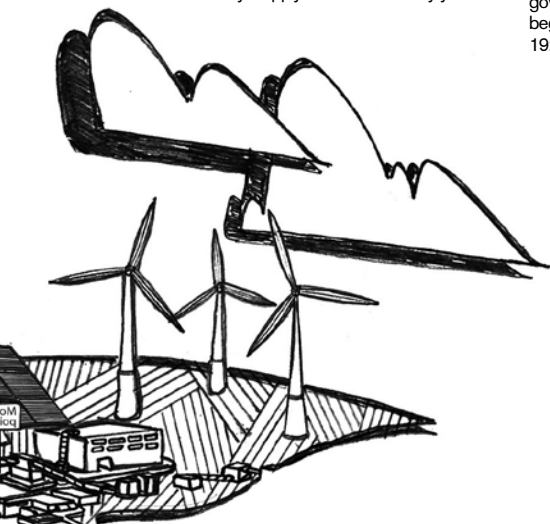


**1968** – TURLOUGH HILL CONSTRUCTION BEGAN  
Work started on Turlough Hill, a pumped storage hydro-electric station in the Wicklow Mountains and was completed in 1974.

**1987** – MONEYPPOINT GENERATING STATION COMMISSIONED BY ESB  
Moneypoint coal-fired station, one of the largest generating stations in Ireland located near Kilrush, Co Clare, was commissioned in June 1987.

**1980s** – AGHADA GENERATING STATION IN CORK BEGAN PRODUCING ELECTRICITY  
The station was first commissioned in 1980 at a cost of IR£100 million.

**2000** – POOLBEG CCGT  
In 2000, Poolbeg Generating Station was converted to a combined cycle operation along with two waste heat recovery boilers and a 170 MW steam turbine. This brought the station's thermal efficiency to over 52% and overall output to 980 MW. In March 2010, Poolbeg Units 1, 2 and 3 were retired, leaving the station's maximum output at 470 MW.



**2002 – COMMENCEMENT OF A MAJOR NETWORK INVESTMENT PROGRAMME**  
to rebuild the core distribution network. This €800 million project (60,000 km of network) was delivered by ESB Networks within budget over four years.

**2004 – LOUGH REE POWER**  
2004 saw the addition of a new 100 MW milled peat burning station to ESB's generating portfolio. Lough Ree Power, located at Lanesborough in Co. Longford, comprises a circulating fluidised bed boiler and turbine, and is the third largest peat-fired power station in the country. The station has a 15-year contract to burn peat supplied by Bord na Mona.

**2004 – WEST OFFALY POWER**  
In the same year, West Offaly Power was also added to the ESB's generating fleet. This station, located at Shannonbridge in Co. Offaly, also uses modern fluidised bed technology to burn peat and has an output of 150 MW.

**2008 – ESB ANNOUNCES SIGNIFICANT SPEND IN RENEWABLES FUTURE**  
The Board of ESB approved a Strategic Framework to 2020 that will see major company investment in renewable energy, the development of smart grid and smart metering across the transmission and distribution networks, the halving of its carbon emissions within 12 years and the achievement of carbon net-zero by 2035.

**2008 – ESB AND ENDESA AGREEMENT**  
ESB and the Spanish power company, Endesa, entered into an agreement in respect to the sale of two power stations, two peaking plants and two sites.

**2007 – ESB ENTERS THE SINGLE ELECTRICITY MARKET (SEM)**  
On 1 November 2007, ESB entered the Single Electricity Market (SEM) which replaces the electricity markets in the Republic and the North. In the SEM, electricity on the island is bought and sold through a pool system at prices set by the market. Previously, the Regulator set the wholesale price of electricity.

**2010 – MONEYPOINT RETROFIT**  
After operating for over a decade, ESB made a major investment in emissions abatement equipment at its 915 MW coal-fired station at Moneypoint in Co. Clare. This new technology has resulted in substantial reductions of up to 85% in nitrogen oxides (NOx) and 90% in sulphur oxides (SOx) emission.

**2010 – AGHADA**  
In April 2010, the capacity of Aghada Power Station increased to 963 MW when a new state-of-the-art 435 MW CCGT entered commercial operation. The gas-fired plant is one of the most efficient and cleanest plants in Europe and can generate 8% of power demand in the Single Electricity Market. Aghada Generating Station is also the only power station which serves all three market segments of baseload, mid-merit and peaking demand.

**2009 – ESB TO BUILD INFRASTRUCTURE REQUIRED IN IRELAND FOR ELECTRIC VEHICLES**  
ESB announces a commitment to providing infrastructure for public use of electric vehicles in Ireland. In April 2009, a significant and new collaboration between government, ESB and the car manufacturers Renault-Nissan was agreed to ensure electric vehicles will be on the road within two years.

**2010 – ESB ACQUIRES NIE**  
On 21 December 2010, ESB concluded the acquisition of NIE, the Northern Ireland electricity networks business, from Viridian Group for Stg£1.2 billion. NIE is responsible for the planning, development, construction and maintenance of the transmission and distribution network and for the operation of the distribution network.

**2011 – ELECTRIC IRELAND TO BRING A NEW ENERGY TO IRISH MARKET**  
On 4 April 2011, ESB Electric Ireland becomes an unregulated business and is now permitted to operate freely in a fully competitive market.



# 01 BUSINESS OVERVIEW



## 2011 HIGHLIGHTS

- > Cost reductions of €165 million achieved by the end of 2011.
- > Dividend of €72.5 million has been recommended.
- > €1.3 billion has been raised in the debt market which enables us to fund our ambitious investment programme.

Lochlann Quinn, Chairman

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€1.9bn

ESB's contribution to the Irish economy

## CHAIRMAN'S STATEMENT

The financial statements show an operating profit of €469 million (2010: €339 million before exceptional items).

This is a strong performance in a difficult economic environment. ESB is meeting the challenge by focusing on reducing costs and maintaining the strength of our balance sheet, which is crucial for future investment and growth. We have set a target of €280 million reduction in our annual cost base by 2015. By the end of 2011 cost reductions of €165 million had been achieved. Achieving further reductions will be a major priority in 2012.

The Board is recommending a final dividend of 3.66 cent per unit of stock or €72.5 million in aggregate, bringing total dividends to the exchequer over the last decade of close to €1 billion.

Notwithstanding difficulties nationally and internationally, ESB raised a total of €1.3 billion in the debt markets in 2011 which enables us to fund our ambitious investment programme of almost €1 billion per annum, most of it in Ireland.

2011 also marked the first year of ESB's ownership of NIE, Northern Ireland's transmission and distribution network. This strategic investment is well set to deliver enhanced efficiency and service for all of ESB's and NIE's customers.





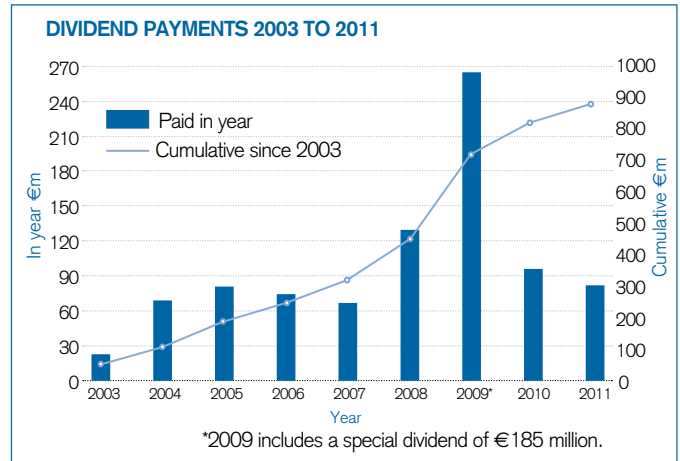
During 2011 Eoin Fahy completed 10 years on the Board. Eoin made a highly valued contribution to ESB. Noreen Wright joined the Board and Seamus Mallon was reappointed.

In November 2011 Pdraig McManus retired after 37 years with ESB and almost ten years as Chief Executive and was succeeded by Pat O'Doherty. I have paid tribute to Pdraig on a number of occasions, including in last year's annual report. Pdraig gave inspired leadership to ESB during his term as Chief Executive. I wish him every happiness in his retirement.

Pat O'Doherty was appointed Chief Executive with effect from 1 December 2011. He brings a deep knowledge of the industry and wide experience of ESB. He has the full confidence of the Board and we wish him every success in his new role.

For 2012 our focus will continue to be on cost reduction, financial strength, customer service and on ensuring safety for employees, contractors and the public.

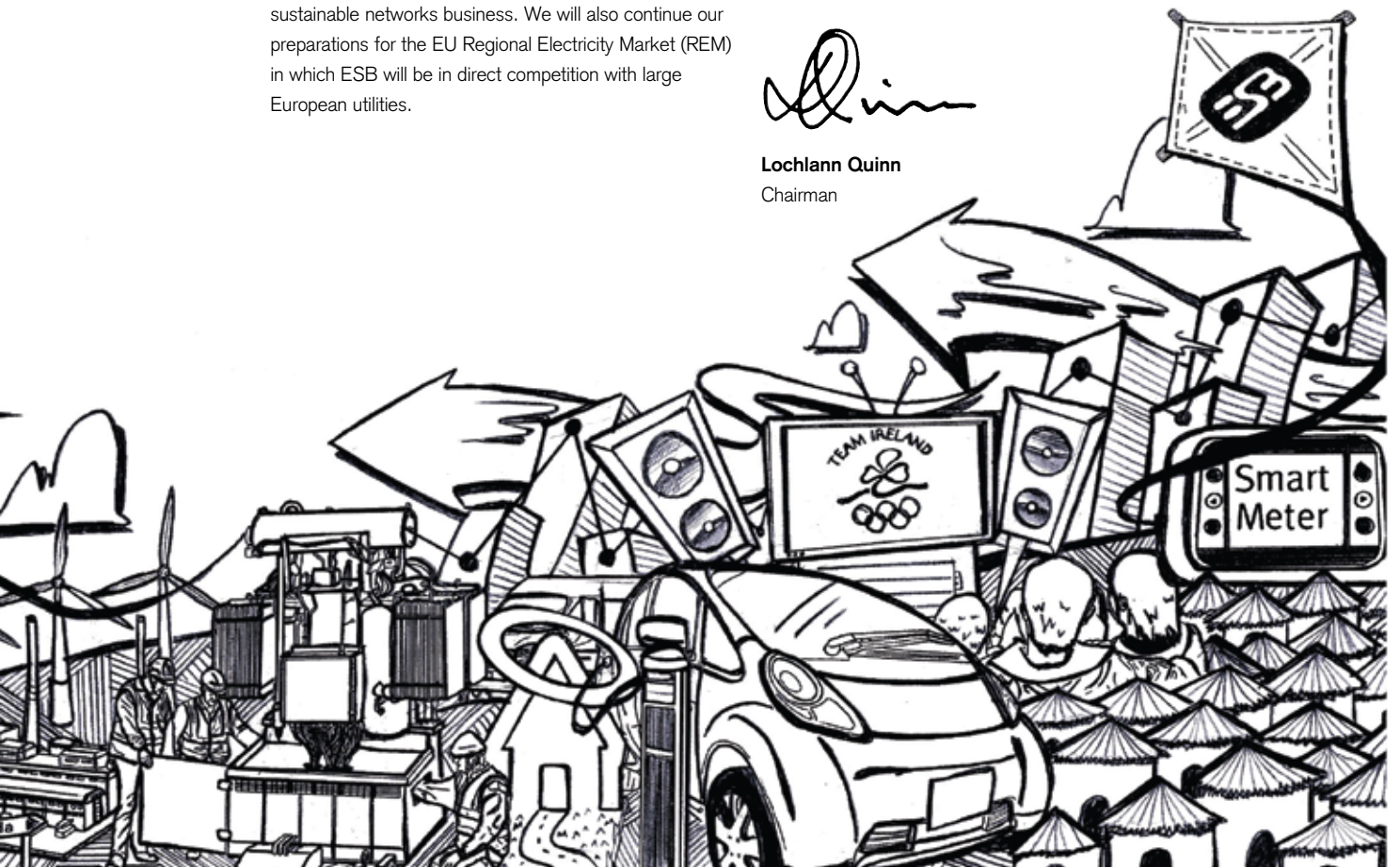
For the medium-term we will continue to improve customer service and develop sustainable generation and sustainable networks business. We will also continue our preparations for the EU Regional Electricity Market (REM) in which ESB will be in direct competition with large European utilities.



The performance of ESB has been, and continues to be, extremely impressive in difficult economic circumstances and on behalf of the Board I would like to acknowledge the work and commitment of ESB management and staff.

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 2011.

**Lochlann Quinn**  
Chairman



# CHIEF EXECUTIVE REVIEW



## 2011 HIGHLIGHTS

- > Continued commitment to maintaining ESB as a vertically integrated utility.
- > Launch of the Electric Ireland brand and successfully competing in the residential energy market.
- > Successful performance of NIE, during its first year under ESB ownership.

Pat O'Doherty, Chief Executive

## OVERVIEW

ESB's financial performance in 2011 was resilient in a challenging economic and business climate which saw a 3% fall in demand for electricity and a sharp rise in the number of customers experiencing financial difficulty.

In spite of these challenges, EBITDA of €1,121 million, represented an increase of 34% on the 2010 outturn of €839 million. Operating profit has increased 38% to €469 million (2010: €339 million), while year end net debt was €4,324 million compared to €3,944 million in 2010, representing a gearing level of 52%.

Notable achievements in 2011 included:

- > The achievement during 2011 of €70 million cost reductions under the Performance Improvement Programme, bringing the total cost reductions delivered to date under this programme to €165 million. We have now secured almost 60% of the overall cost reduction target of €280 million to be delivered by the end of 2015.
- > In extremely difficult financial markets the Group raised €1.3 billion of new debt to finance our ambitious investment programme; this was a clear signal of confidence from the markets in the Group.
- > The launch of the Electric Ireland brand and successfully competing in residential energy markets following the ending of the regulation of our residential supply business by the Commission for Energy Regulation (CER) in April 2011.
- > The successful performance, in line with projections, of NIE, the Northern Ireland networks company, during its first year under ESB ownership.

## DELIVERY AGAINST OUR STRATEGIC OBJECTIVES

### Efficient Generation Portfolio

In a difficult economic environment ESB's 4.1 GW of thermal plant in Ireland, NI and ROI, continued to trade profitably with overall plant availability levels, at 84%, in line with expectations. Our 1.9 GW of thermal plants in Great Britain and Spain performed well.

In pursuit of a diversified and lower carbon generation portfolio 96 MW of new wind generating capacity was added to our portfolio in 2011 bringing our operational wind portfolio to 328 MW.

### Customer Focussed Supply Business

The CER removed the regulation of tariffs for the residential market from 4th April 2011, when ESB satisfied the conditions prescribed for regulatory freedom. These included the reduction of ESB's residential market share to 60% and the rebranding of ESB's supply business, with a view to enabling new market entrants to increase their market share and thereby increase customer choice and competition.

Electric Ireland rebranded the supply business and successfully responded to the removal of the regulation of tariffs by launching new customer product offerings which has enabled them to meet and beat the offerings of its competitors, to stem the inevitable customer losses which occurred during the period of transition and indeed to win back significant numbers of customers. Over 100,000 customers returned to Electric Ireland in 2011.

Electric Ireland made good progress in developing a Home Services "one-stop shop" for households and for businesses for energy efficiency products and services.

### Sustainable Networks

In the Republic of Ireland over €510 million was invested during the year in the transmission and distribution network bringing the total investment in the network over the last decade to €6 billion. A key benefit of this major investment in our networks is that in 2011 we reached the milestone of 1,600 MW of renewable generation on the system.

NIE, our distribution and transmission business in Northern Ireland invested over Stg£125 million to meet primarily the growth in customer demand and facilitate connections of renewable generation.

Customer service metrics are good and are getting better in both our networks businesses and reflect the continuing improvements in the resilience of our networks as a result of our investment programmes over the last decade.

### International Growth

ESB International (ESBI) has a very strong reputation around the world which has been built up over 35 years in over 100 hundred countries. This success continued during 2011 with consultancy contracts being awarded or continuing in our key markets of Europe, the Middle East, South East Asia and Africa. ESBI's Operation and Maintenance Division was also successful in agreeing an extension to a major contract in Pakistan.



ESB continued to progress its Great Britain growth strategy in 2011 in preparation for an integrated British/Irish electricity market and in May of this year ESB acquired the remaining 50% shareholding in the Corby power plant in Great Britain. This investment, in combination with the Marchwood power plant commissioned in 2009, has given us a strong position in the Great Britain market and the opportunity to develop our trading capabilities. We will continue to look at developing investment opportunities to position ourselves in relation to the Regional Electricity Market.

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

**SAFETY PERFORMANCE**

We remain focused on achieving zero injuries to staff, contractors and sub-contractors and on maintaining high levels of safety awareness among customers and the public at large. Regrettably the number of staff injuries increased in 2011 compared to 2010, though the total number of days staff were absent due to injuries decreased. Contractor safety performance improved again year-on-year.

To our great regret, our colleague, Manohar Singh, died in a traffic collision in Bahrain while working as an engineer with ESB International. We extend our deepest sympathy to his wife and family.

**CORPORATE SOCIAL RESPONSIBILITY**

Our corporate responsibility report is set out on page 28. ESB continues to deliver on its commitment to work sustainably and to contribute to meeting Ireland's social and economic challenges. The disability traineeship programme is just one example from the range of activities which we support which continues to have a really positive impact not only on the 66 participants in the programme, but on all staff.

Our commitment to sustainability is set out in the sustainability charter which we adopted in 2008 and our performance against target is on track as described more fully on page 30.

As I begin my term as Chief Executive I want to thank the Board for the confidence they have placed in me. Given the commitment and professionalism of ESB's staff I know that ESB will continue to deliver for our customers, for ESB's owners and for the wider community in the years ahead.

**KEY PRIORITIES FOR 2012**

Together with the Chairman and Board, I have initiated a review of our overall strategy to take account of the changed economic environment and the increased competition in our generation and supply businesses.

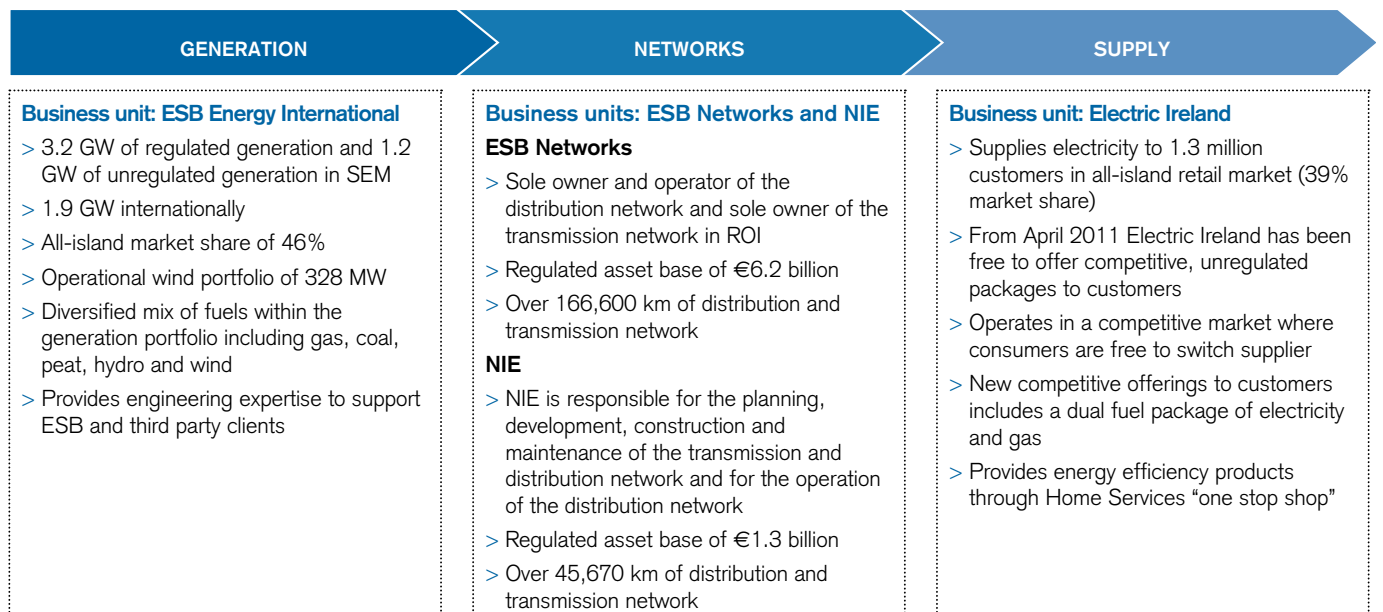
In refocusing our strategy the following are of critical importance:

- > maintaining the financial strength of ESB by meeting our challenging but critical cost reduction and performance improvement targets and by aligning capital expenditure with conditions in the financial markets;
- > progress on removing the remaining regulatory ring-fencing restrictions to the integration of our generation and supply businesses; these remaining restrictions involve duplication of personnel and organisational structures, increased costs and risk;
- > positioning the business for the emerging regional electricity market by developing our generation portfolio in Britain.



**Pat O'Doherty**  
Chief Executive

**ESB - A VERTICALLY INTEGRATED UTILITY**



Businesses are ring-fenced in accordance with licence obligations.

# OUR STRATEGY & BUSINESS MODEL

ESB's core mission is to meet the energy and energy services needs of our customers, generate returns for our shareholders and retain the financial strength to invest against the strategic and sustainability needs of our markets. We are also committed to creating a safe and attractive place to work for our employees.

To deliver this mission, we envision ESB as a world-leading, commercially successful and environmentally responsible utility business.

## STRATEGY AND OBJECTIVES

ESB's strategy to achieve this mission is based on responding to the long-term challenges and trends in our markets. These include:

- > long-term security of supply
- > greater competition – including increased interconnection between Ireland and other energy markets
- > decarbonisation and other sustainability challenges
- > the need to deliver cost-effective energy and energy services for our customers.

## ESB 2020 STRATEGY

3 MAJOR DRIVERS

### EUROPE 2020

Climate action ★

1

Adapting to EU and national decarbonisation and renewables targets



2

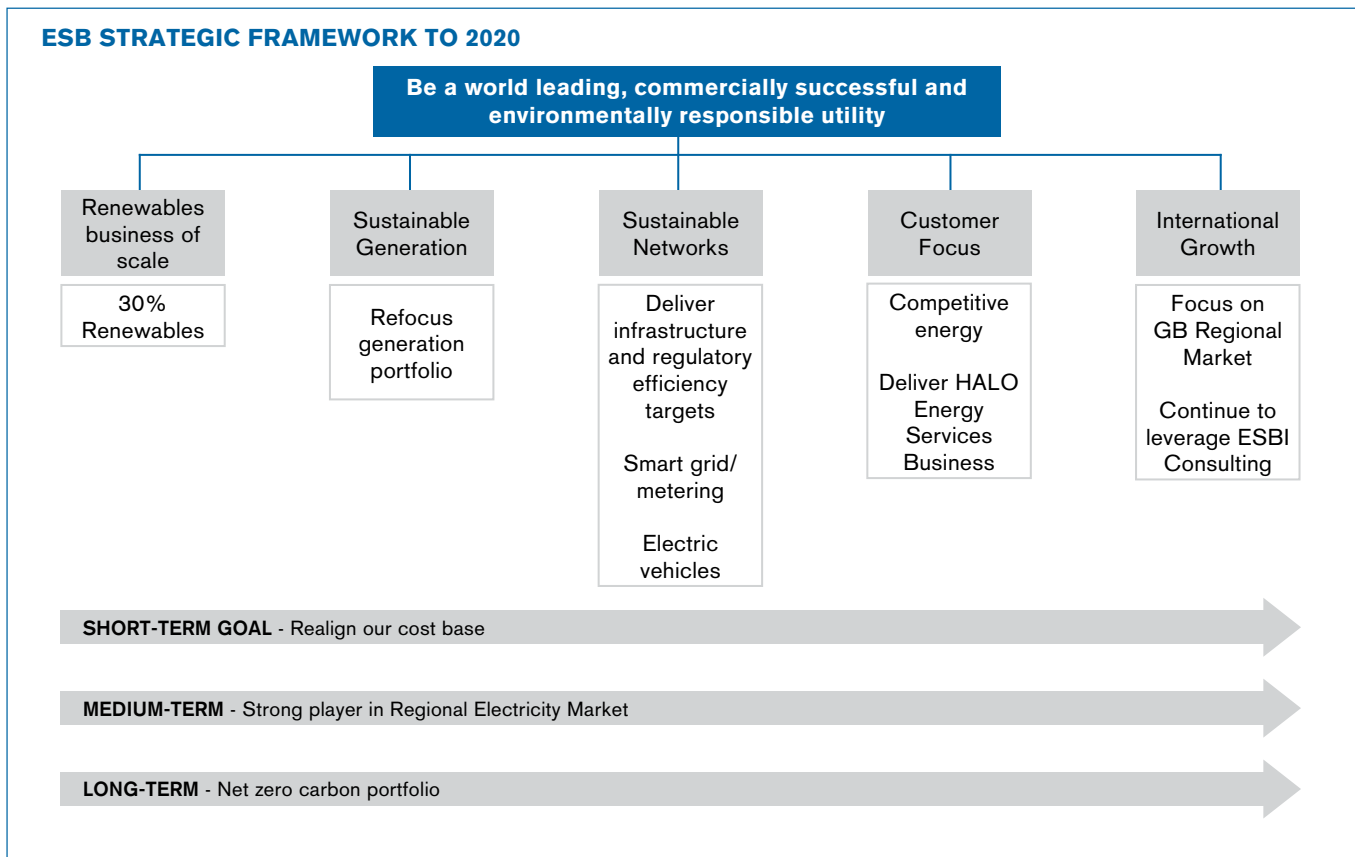
Preparing for completion of the EU's regional electricity market



3

Maintaining financial strength to invest in critical infrastructure and compete





In developing responses to these forces, we will retain our fundamental financial strength – including a robust and diversified portfolio of regulated and competitive businesses, combined with a strong balance sheet.

This financial strength will secure our long-term access to the capital needed to fund the investments needed by our customers. In addition, we have committed to ensuring that our cost base is fit for purpose in the context of an increasingly competitive environment – and have launched an ambitious change programme to that end.

ESB's long-term strategic framework to 2020 is built on five main areas of focus:

- > a renewables business of scale
- > best practice generation portfolio
- > world class sustainable networks
- > customer focussed supply business
- > significant international presence.

**THE BUSINESS MODEL**

To deliver this strategy, ESB has structured itself as a vertically integrated utility company – with a presence across the value chain – including the generation, transmission and distribution of electricity, as well as the sale of power, gas and energy services that our customers need. We believe that this structure, which is consistent with the best standard operating model of other European utilities, gives us the scale, operating capabilities, risk management tools and knowledge that we need in order to deliver value for our shareholders, customers and other stakeholders.

Consistent with this model, we also aim to retain a balanced portfolio encompassing a robust mix of regulated and unregulated assets as well as a diversified fuel mix. This approach gives us the flexibility and resilience to respond to a world and sector that faces large-scale uncertainty.

**PROGRESS AGAINST OBJECTIVES**

Since the launch of ESB's 2020 Strategy in 2008, we have made significant progress in achieving the objectives that it embodies. Among the keystone achievements are:

- > the successful launch of the Electric Ireland brand and Halo energy services offerings to enhance our supply business
- > a significant program of investments in renewable energy in Ireland and Great Britain
- > the successful disposal of 1,500 MW of capacity in order to renew and reposition our generation portfolio
- > continued investment in networks infrastructure.

In addition, we are currently ahead of target according to the timetable for decarbonising our business that we set in 2008.

Based on this strategic framework, our core objectives are that by 2020 we will have:

- > decarbonised our business in line with or, ahead of, national and European targets
- > developed an integrated generation trading and supply generation portfolio that can compete and win in the emerging all-islands integrated electricity market.

# 02 OPERATING & FINANCIAL REVIEW



## 2011 HIGHLIGHTS

- > Group revenue and other income has increased by 9% to €3 billion.
- > Operating profit for 2011 has increased by 38% from €339 million to €469 million.
- > Delivery of our capital investment programme continued during 2011, with capital expenditure of close to €1 billion.

Donal Flynn, Group Finance and Commercial Director

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## FIGURE 1: FIVE-YEAR SUMMARY

	2011 €'m	2010 €'m	2009 €'m	2008 €'m	2007 €'m
Revenue and other operating income	2,995	2,740	3,114	3,515	3,493
Operating profit <sup>1</sup>	469	339	350	340	523
Adjusted profit before taxation <sup>2</sup>	283	249	-	-	-
EBITDA	1,121	839	814	753	927
Capital expenditure <sup>3</sup>	883	819	921	1,094	903
Net debt	(4,324)	(3,944)	(2,231)	(2,088)	(1,797)
Gearing (%) <sup>4</sup>	52	50	35	40	38
Total assets	12,539	12,112	9,567	8,645	7,707

<sup>1</sup>2010 excludes the impact of an exceptional pension charge (€330 million). 2009 excludes the impact of an exceptional profit on disposal (€265 million).

<sup>2</sup>See figure 3 on page 16

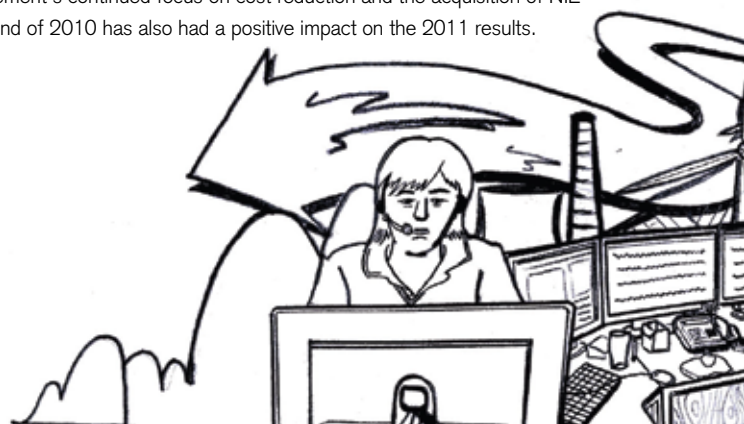
<sup>3</sup>Excludes NIE acquisition in 2010 (€1.2 billion)

<sup>4</sup>Excludes joint ventures

## OPERATING ENVIRONMENT IN 2011

Market conditions during 2011 continued to be challenging for power and utility companies, with electricity demand slow to recover to pre-crisis levels, continuing high commodity prices and continued volatility in the availability of funding from capital markets. Despite this, ESB has had a strong performance in 2011.

Demand on the all-island market of Ireland contracted by a further 3% during 2011, and commodity prices and in particular gas remain at elevated levels. The impact of these factors on our results was mitigated to some extent by ESB's business model: a vertically integrated utility with a balanced generation portfolio including coal, gas, peat, hydro and increasingly wind generation. Management's continued focus on cost reduction and the acquisition of NIE at the end of 2010 has also had a positive impact on the 2011 results.





**2011 FINANCIAL REVIEW**

The key financial metrics used to monitor ESB's financial strength are set out in figure 1.

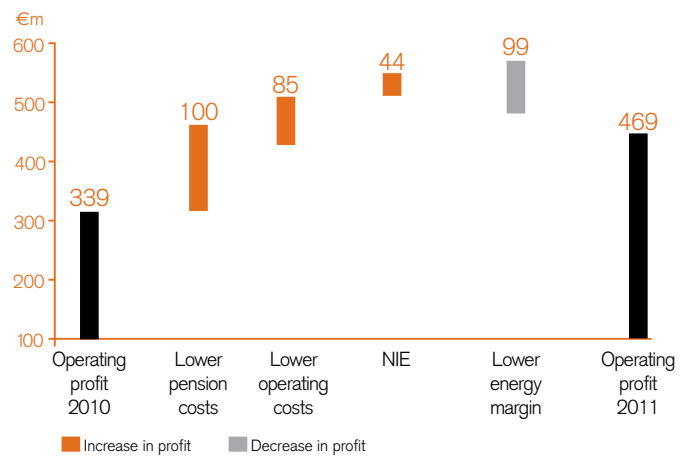
Group revenue and other income has increased by 9% to €3 billion (2010:€2.7 billion). The increase in revenue primarily reflects the inclusion of NIE for the full year 2011, offset by the unfavourable impact of lower prices in Networks and lower customer numbers in Electric Ireland.

Operating profit and adjusted profit before taxation are used to assess the underlying performance of the business, as they eliminate the volatility arising from exceptional items, including any non-cash movements arising on financial instruments. A reconciliation between the profit before taxation included in the financial statements and the adjusted profit before taxation is included in Figure 3.

The operating profit for 2011 has increased by 38%, from €339 million to €469 million. This increase is driven mainly by:

- > the change in the accounting treatment for the ESB defined benefit pension scheme during 2010 (note 18 to the financial statements)
- > cost reductions arising from the performance improvement programme
- > increased profits following the acquisition of NIE
- > a generation portfolio mix which includes coal, hydro and increasing wind generation which offsets the full impact of increasing gas prices and falling market demand.

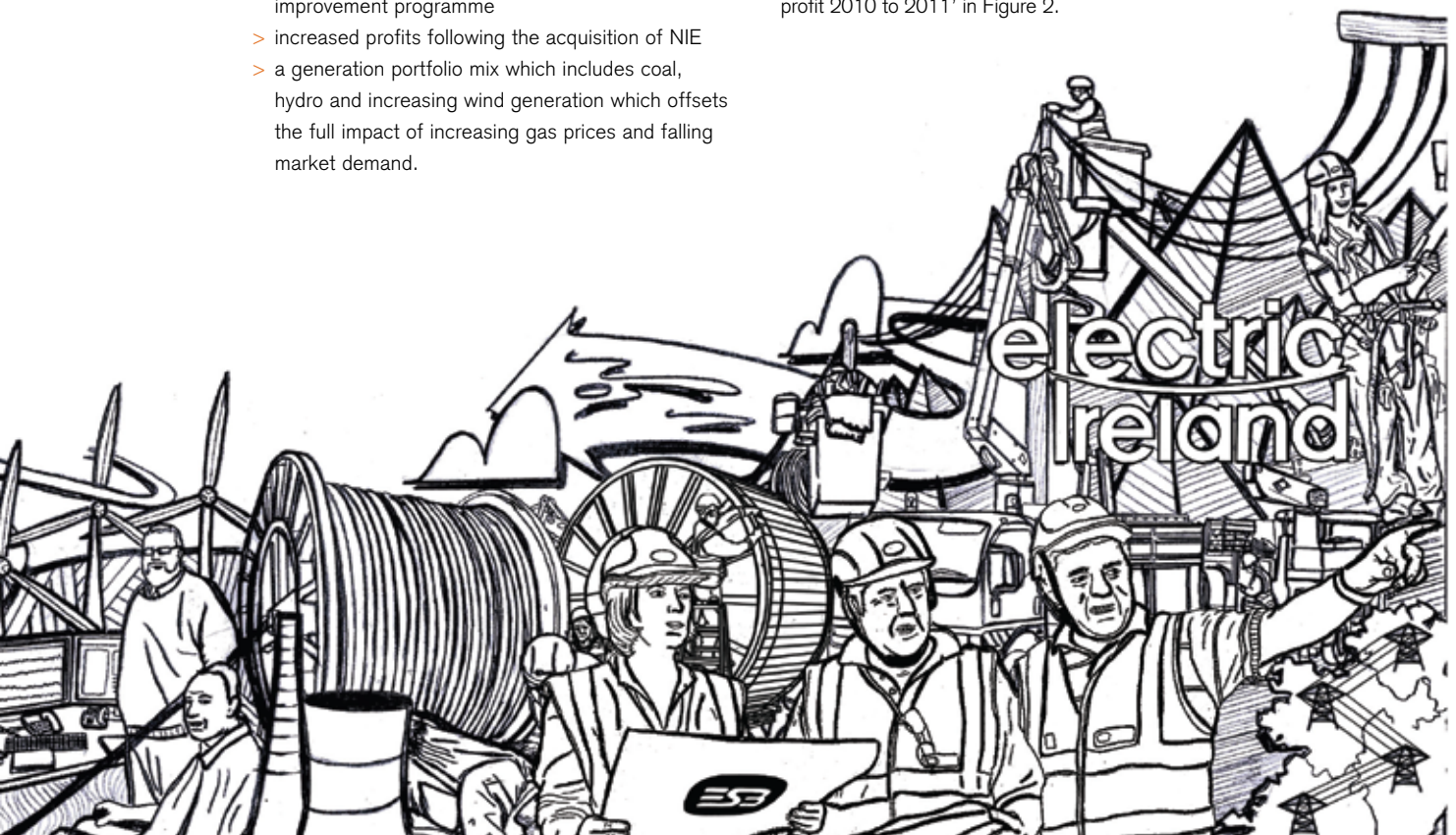
Figure 2 - Reconciliation of operating profit 2010 to 2011



Factors which constrained profits mainly relate to the level of energy margin earned and include:

- > a reduction in the prices of electricity units distributed for the first year of the new regulatory price control 2011 for the ROI networks business
- > the full year impact of the carbon levy which was introduced during 2010
- > a reduction in customer numbers in Electric Ireland.

Further details of the increase in profit between 2010 and 2011 are set out in the 'Reconciliation of operating profit 2010 to 2011' in Figure 2.



**Figure 3: Reconciliation of adjusted profit before taxation**

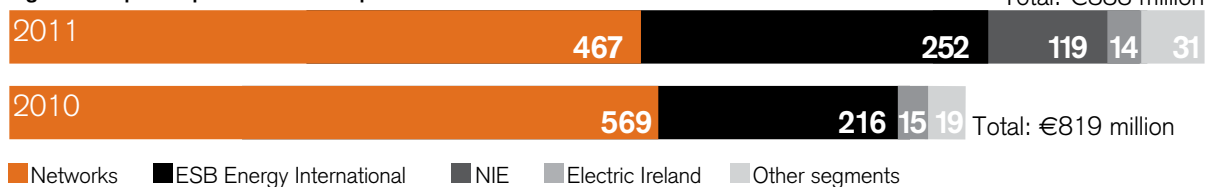
	2011 €m	2010 €m
Profit / (loss) before taxation	79	(89)
Exceptional pension item	-	330
Marked to market movement on inflation linked RPI swaps	204	8
Adjusted profit before taxation	<b>283</b>	<b>249</b>

Adjusted profit before taxation has increased by €34 million to €283 million (2010: €249 million). This increase is driven by the increases in operating profits as outlined on page 15, offset by higher finance costs, due primarily to higher average debt for the year (funding of NIE acquisition occurred at the end of 2010).

Cash generated from operations of €0.9 billion (2010: €0.9 billion), reflects the positive impact of NIE and reduced operating costs offset by a lower energy margin. We continue to maintain a strong cash position.

Delivery of our investment programme continued during 2011, with capital expenditure of close to €0.9 billion (2010: €0.8 billion). Expenditure of €0.6 billion on the networks infrastructure in the Republic of Ireland and Northern Ireland is based on the five-year capital expenditure programmes agreed with the respective regulators. A further €0.25 billion has been invested in the generation business, of which €90 million relates to renewable energy which now accounts for 7% (in GWh terms) of our generation portfolio.

Net debt of €4.3 billion in 2011 (2010: €3.9 billion) reflects foreign exchange revaluations as a result of a weakening euro and ongoing funding of the investment programme (see figure 5). Over €1.3 billion debt was successfully placed during 2011 and this facilitated the replacement of shorter term debt. The gearing level of 52% is consistent with 2010 and is being maintained well within acceptable parameters. During the year total assets increased to €12.5 billion from €12.1 billion reflecting the capital investment programme.

**Figure 4: Capital expenditure and acquisitions****OTHER INCOME STATEMENT ITEMS****OPERATING COSTS**

Operating costs of €2.5 billion have increased by 5% on 2010, with corresponding revenue and other income increasing by 9%. This reflects the positive profit impact of new acquisitions such as NIE and the change in pension accounting adopted in 2010, which has reduced the charge to the income statement in 2011 by almost €100 million.

In addition, underlying cost savings arising from the performance improvement programme has resulted in total cost savings during 2011 of close to €70 million (operating cost savings of €55 million), bringing total cost savings under this programme to €165 million.

The performance improvement programme, which was launched during 2009, is designed to reduce ESB's cost base by €280 million, against 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.

A new voluntary severance programme will be launched during 2012, which targets further reductions in staff numbers.

**NET FINANCE COSTS**

Net finance costs of €414 million are €301 million higher than in 2010. During the year, fair value movements on indexed linked swaps resulted in a non-cash charge of €204 million in the income statement. These movements primarily relate to inflation linked swaps, used to hedge regulated revenue, which were acquired as part of the purchase of the NIE business in 2010. Their fair value is affected by relative changes in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom.

A further increase in finance costs is driven by a higher overall level of borrowings in the Group, mainly reflecting the financing of the NIE acquisition.

**TAXATION**

An income taxation credit of €21 million arose in 2011. A significant factor is the impact of proposed reductions in the UK corporation tax rates on the company's future tax charges and hence reduces the deferred taxation liability (note 15 to the financial statements).

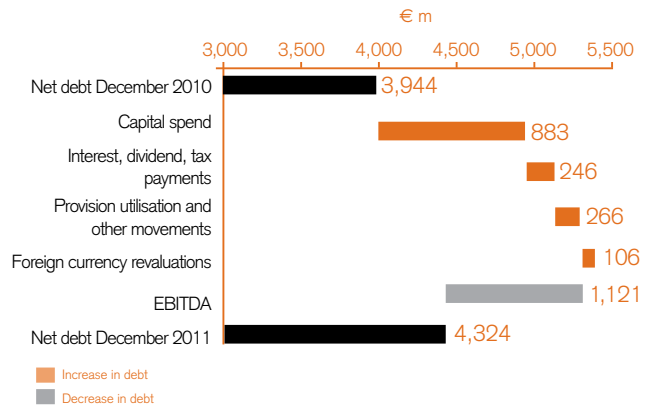
**SEGMENTAL PERFORMANCE**

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

The Group operating profit (before exceptional items) of €469 million is set out below on a segmental basis:

- > ESB Networks' operating profit for 2011 at €254 million is down €84 million on 2010. This is primarily due to the negative impact of a reduction in the prices of electricity units distributed for the first year of the new regulatory price control 2011 and higher depreciation related to the capital investment programme. There was also a decrease in operating costs, including a reduction in staff costs.
- > ESB Energy International, which includes the generation activity, had an operating profit for 2011 of €223 million (€72 million higher than 2010). Profits increased due to a reduction in operating costs and a gain arising on the acquisition of the Corby power plant. The carbon levy introduced during 2010 partly offset these increases.
- > The results for Electric Ireland, showed an operating loss for 2011 of €38 million, an improvement of €5 million on 2010. This is driven by a significant management focus on cost reduction, which was offset by a lower energy margin due to customer losses. Full commercial freedom for this business was granted by the regulator in April 2011 and so customer losses arose in the earlier part of 2011 due to competitor activity. Since then, losses have been stabilised with the launch of the Electric Ireland brand and competitive pricing.
- > NIE's operating profit for 2011 amounted to €114 million. After taking into account consolidation adjustments arising from the acquisition of NIE, the consolidated operating profit for NIE is €44 million for 2011.
- > Other segments include Corporate and Business Service Centre activities which provide support services to the main business segments. Included in this segment were pension costs of close to €100 million in 2010 which do not arise in 2011 or future years as a result of a change in pension accounting (note 18 to the financial statements).

**Figure 5: Group net debt movements - 2011**



**FOR THE FINANCIAL PERFORMANCE OF BUSINESS SEGMENTS REFER TO PAGE 67**

**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 Authority for Utility Regulation (NIAUR). ESB Energy International participates in the electricity market on the same basis as all other generators.

Regulated tariffs for ESB Networks and NIE are set in advance, usually annually, by the respective regulator, based on a forecast of both customer demand and relevant costs. Forecasts usually predict a difference in 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 adjusted by the CER and NIAUR 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.

Full commercial freedom was granted by the CER to ESB's regulated supply business from April 2011, and this now allows Electric Ireland to set its own electricity prices on a commercial rather than regulatory basis.



## 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 and performance improvement committee of the Board is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the committee for review.

Commodity price and counterparty credit risks are managed by the relevant business units (ESB Energy International and 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 that protects the company from loss, while respecting the ring-fencing regulatory 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'. IAS 39 hedge accounting is applied to the Group's derivatives' positions where available.

### FOREIGN EXCHANGE AND INTEREST RATE RISK MANAGEMENT

The majority of the Group's business is transacted within the Eurozone. Operating and investing cash flows are mainly denominated in euro. Foreign currency exposures arise from purchasing fuel and other materials or services, foreign currency denominated debt and from business that is carried on outside the Eurozone. The majority of fuel related currency exposures are managed using currency derivatives such as forward purchase contracts. The Group's policy is to 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 acquisition of NIE in December 2010. At the end of 2011 59% of ESB's debt was effectively denominated in euro, with the remaining 41% 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 2011, 79% of the Group's debt was fixed to maturity or inflation linked.

### COUNTERPARTY CREDIT RISK

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

### FUNDING AND LIQUIDITY MANAGEMENT

The Group's funding operations are of strategic importance and allow:

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

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account the compatibility between funding costs and risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements and Group treasury maintains diversity in ESB's lender base in order to achieve a strategic spread of risk. Despite the recent difficult funding environment, the Group has raised a total of over €4.6 billion since 2009.

To enable a greater level of funding, ESB listed a €3 billion euro medium-term note (EMTN) programme in February 2010 on the Irish stock exchange.

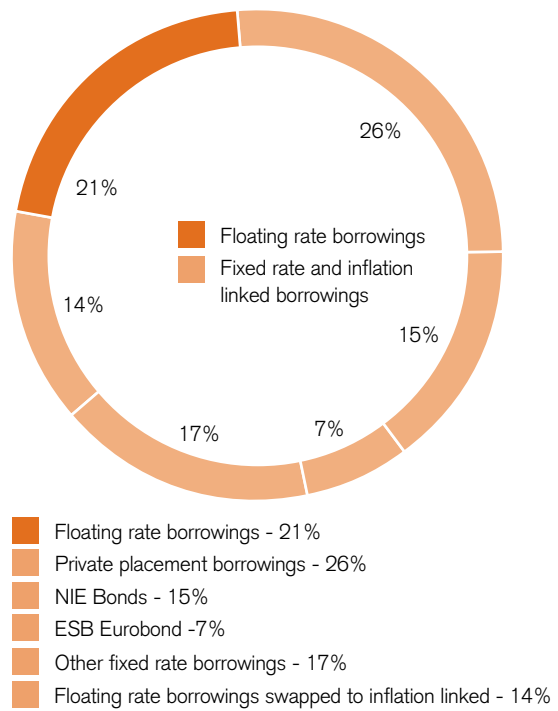
In March 2010, ESB issued a Stg£275 million 10-year Eurobond with a fixed coupon of 6.5% under this programme. This bond required ESB to obtain an investment grade rating. In January 2011, ESB received investment grade ratings from Standard & Poor's, Moody's and Fitch of BBB+, Baa1 and BBB+, respectively. On 14 July 2011, Moody's issued a revision of the rating to Baa3, largely as a result of their downgrade of the Irish sovereign credit rating. The outlook on each of the three ratings is currently negative, largely associated with the negative outlook placed on the Irish sovereign rating by each of the agencies.

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. In June 2011, NIE issued a Stg£400million 15 year bond with a fixed coupon of 6.375%. The proceeds of this issue were mostly used to repay intercompany loans to ESB, which in turn, facilitated the repayment of half of the Stg£810 million bridging facility. The balance of this facility was repaid mainly by the draw-down of a syndicated Stg£307.5 million 3-year banking facility, agreed in September 2011. Furthermore in November 2011, a new facility of €235 million was signed with EIB to support Networks and Ecars infrastructure.

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 €1,200 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.

ALMOST  
**€1,200m**  
 IN CASH AND UNDRAWN COMMITTED FACILITIES AT YEAR END

Figure 6: Group borrowings by facility as December 2011

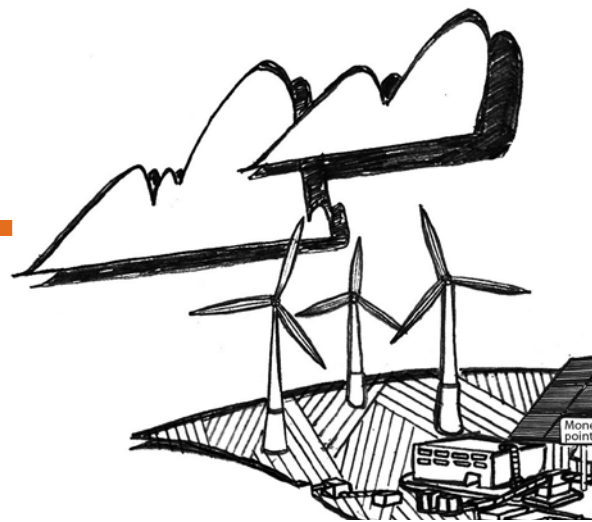


**FUTURE OUTLOOK**

The current economic climate is expected to continue to pose significant challenges for our business into 2012. However, the Group has a strong liquidity position as a result of debt facilities agreed in 2010 and 2011. In addition, further progress in the performance improvement initiative will lower costs, maintain competitiveness and preserve strong financial metrics.

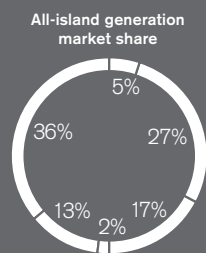
This should enable the Group to deliver significant capital expenditure programmes and ensure the supply business competes successfully in the unregulated retail electricity market. Finally, focus will be maintained on the management of the trading risk arising from the SEM and related markets, while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

# ESB ENERGY INTERNATIONAL

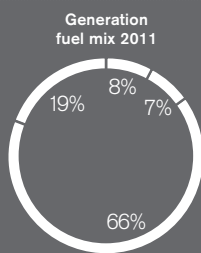


ESB Energy International (ESBEI) had a strong performance in 2011, profitably trading its diversified portfolio of generation assets and its engineering expertise to support ESB and third party clients. Priorities for 2012 include driving delivery of performance improvement targets and progressing capital investment plans in wind and Great Britain generation plant.

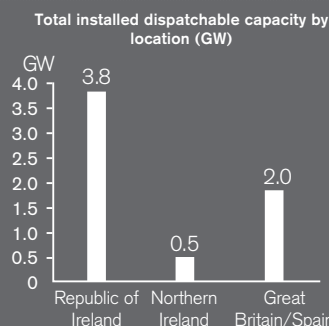
## ESB Energy International performance in 2011



2% - ESB Wind  
27% - ESB regulated generation  
17% - ESB unregulated generation  
5% - Interconnector  
13% - Other independent wind producers  
36% - Independent power producers



8% - Peat  
7% - Renewables  
66% - Gas  
19% - Coal



### OVERVIEW

ESB Energy International (ESBEI) comprises ESB's regulated and unregulated generation activities and ESB International (ESBI) the engineering consultancy business.

The generation businesses invest in, manage and operate ESB's power generation portfolio at home and abroad. The portfolio comprises 3.2 GW of regulated generation and 1.2 GW of unregulated generation in the SEM, as well as 1.9 GW internationally.

The Engineering Services business serves internal ESB requirements and third party clients in Ireland and internationally through the provision of engineering, consulting and asset management services.

### OPERATING ENVIRONMENT

Total SEM demand declined in 2011 by approximately 3%, in line with similar declines in 2009 and 2010. Pressure on energy margins in the market continued due to high commodity prices, reducing capacity payments and the introduction of the carbon levy in July 2010. Despite these pressures, ESB plant continued to trade profitably in the market, benefiting from its diverse range of fuel sources and increased running hours during 2011.

ESB welcomed the decision by the Regulatory Authorities in the SEM which provides for the removal of ringfences, separating our regulated and unregulated generation portfolios, effective 1 October 2012. When realised, this will allow significant savings by avoiding duplication and improving risk management.

ESBEI has historically offered fixed power contracts (Directed and Non Directed Contracts) to the market to reduce volatility of energy margin. These contracts are also of value to suppliers who similarly benefit from certainty of energy purchase costs. In 2011, ESBEI continued to lead the development of a contracts market by introducing an Over the Counter trading platform to improve the frequency and variety of traded contracts.

ESBEI experienced a strong performance in 2011, despite the backdrop of a challenging economic environment. ESBEI provided engineering expertise to a number of key areas in ESB, supporting the expanded renewable portfolio, plant overhauls, renewal of distribution and transmission infrastructure, and project development in the SEM and Great Britain. Overseas, ESBEI Engineering was awarded a number of new engineering consultancy contracts in key markets such as Bahrain, Malaysia and South Africa, while significant projects continued successfully in Romania, Tanzania and Vietnam. ESBEI's Operation and Maintenance division was also successful in agreeing an extension to a major contract in Pakistan.

### INVESTMENT AND GROWTH

ESBEI aims to build a renewable portfolio of scale, maintaining existing thermal capacity in the SEM, while seeking opportunities for expansion in Great Britain.

In line with ESBEI's commitment to move towards a balanced low carbon generation portfolio, 96 MW of new wind generating capacity was added to our portfolio in 2011 with the commissioning of Fullbrook (66 MW) in Devon, Great Britain, Curryfree (15 MW) in Co. Derry and Grouselodge (15 MW) in Co. Limerick. This brings our total operational wind portfolio to 328 MW, which is now greater than our hydroelectric generation capacity [See figure 7].



# €75m

OUR SAVINGS TARGET PER ANNUM BY 2015

In 2011 ESBEI Carbon Solutions partnered with the private sector lending arm of the World Bank and the International Finance Corporation (IFC) to purchase Certified Emission Reductions (CERs) from investments made by the IFC. In addition they signed three contracts which give the Group an option to purchase CERs from two wind projects, and one biomass project in South Africa and the Philippines, respectively.

Major overhauls were completed in 2011 at the Poolbeg, West Offaly, and Lee power stations, while significant progress was made on overhauls in Turlough Hill and Erne. These investments will ensure continued efficient and responsive generation capacity in the SEM.

ESB continued to develop its Great Britain growth strategy in 2011 and in May of this year it acquired the remaining 50% shareholding in the Corby power plant. This investment, in combination with the Marchwood power plant commissioned in 2009, has given ESBEI a strong position in the Great Britain market and the opportunity to develop its trading capabilities. We expect to successfully go on and develop the Carrington power plant.

### STRATEGIC AIMS AND RESPONSE TO CHANGE

The development of a Regional Energy Market (REM), from the merging of the SEM, Great Britain and French markets, will be the key development that will shape the future of the generation business. The commissioning of the East-West interconnector in 2012 will be an important milestone towards realising the REM.

ESBEI has actively engaged in regulatory reform initiatives in the SEM and Great Britain to understand and influence future

developments. ESBEI is positioned to be a strong player in the expanded REM through the Marchwood and Corby investments, as well as the Carrington investment currently under development.


In line with overall cost reduction initiatives in ESB, in 2011 ESBEI identified a savings target for the business of €75 million per annum by 2015 and good progress has been made during the year. Delivery of this target is essential in order to allow ESB to compete in very difficult operating conditions.

### OUR PEOPLE

We are proud of our strong safety culture. A dedication to safe work practices continues to yield results. ESBEI successfully developed and delivered a pilot safety leadership programme, Safety 4You. The objectives of the programme are to reinforce a safety culture and safe behaviour, instil leadership around safety and provide communication tools. This programme will be rolled out widely through 2012.

**FOR SAFETY AND HEALTH IN ESB DURING 2011 REFER TO PAGE 34**

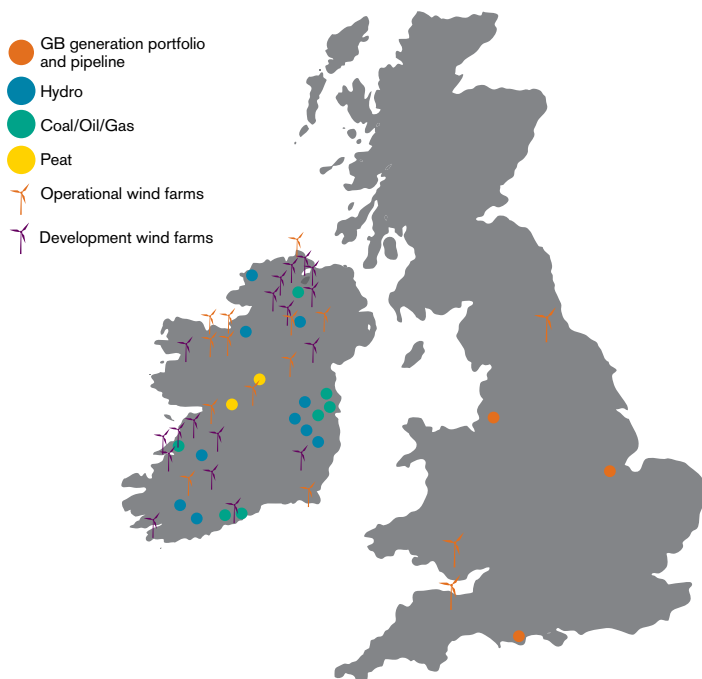
The calibre of engineering resources available to ESB through ESBEI is a significant competitive advantage to the company. In 2011, an ESBEI engineer Louise Connolly, was named Chartered Engineer of the Year by Engineers Ireland.



# 328MW

THE TOTAL SIZE OF OUR WIND PORTFOLIO

Figure 7: SEM and Great Britain generation portfolio and Pipeline



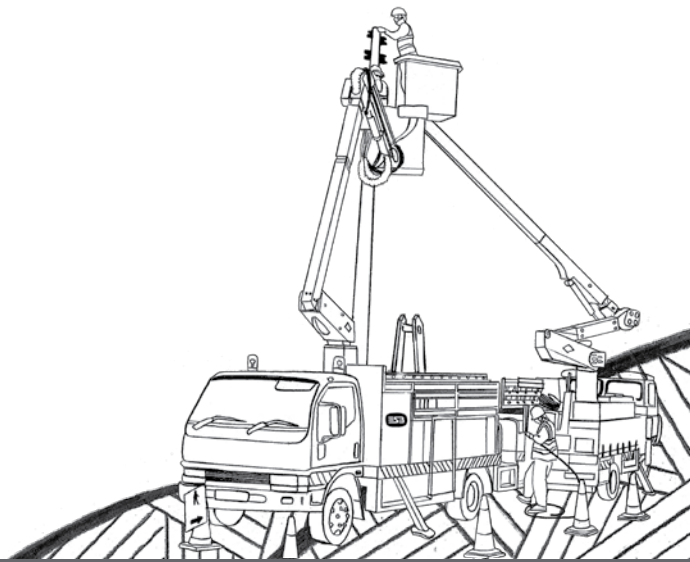
### PRIORITIES FOR 2012

Our priorities for 2012 include:

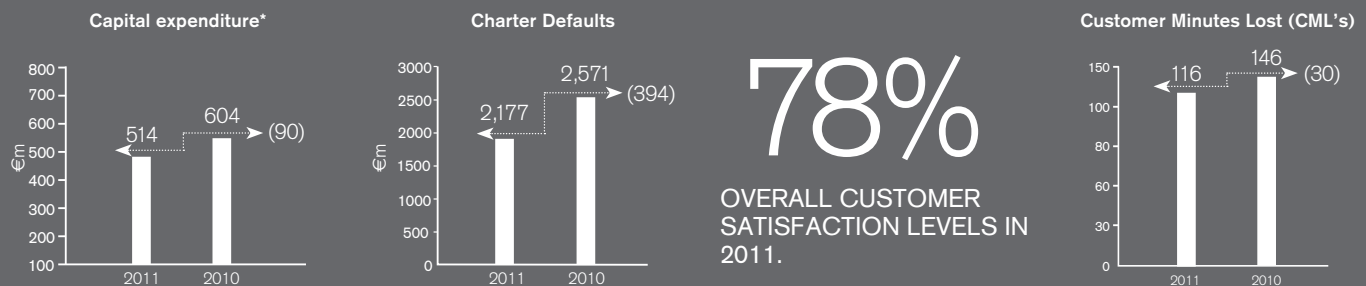
- > To drive the effective delivery of 2015 performance improvement targets.
- > To successfully combine the previously regulated and unregulated generation portfolios into a single horizontally integrated generation business.
- > To start construction of the 870 MW Carrington project, near Manchester, Great Britain.
- > The construction of a further 57 MW of wind capacity with projects at Myndd y Betwys in Wales, Carrickatane in Co. Derry, and an extension to our Crockagarran wind farm in Co. Tyrone.

# ESB NETWORKS

Our investment activities in 2011 focused on renewing and extending the distribution and transmission system. ESB Networks has now connected over 1,600 MW of renewable generation to the national distribution network. Priorities for 2012 are safety, customer service, strong financial performance, efficient investment and the development of sustainable networks.



## ESB Networks' performance in 2011



\* 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 €467 million in 2011 (€569 million in 2010).

### INVESTMENT AND GROWTH

As part of an overall investment programme worth €4 billion, €510 million was invested in national electricity infrastructure. Electricity distribution and transmission systems were renewed and extended, providing Ireland with an improved electricity network. ESB Networks was successful in 2011 in securing re-accreditation against PAS 55, the international standard for excellence in the management of infrastructure.

Key network enhancements in 2011 included:

- > 500 MVA additional capacity
- > completion of 400 km of High Tension Low Sag (HTLS), a new technology, to provide additional capacity on the transmission system
- > extension of the Rural Automation Schemes to improve network performance.

Substantial progress was made in converting the rural network from 10 kV to 20 kV (resulting in double the capacity and a 75% reduction in losses) so by the year end approximately half of the rural network was operating at 20 kV.

The number of new connections completed in 2011 was 15,121 (19,951 in 2010). The relatively low volume of load-related work resulted in a shift in investment activities to replacing the old plant and renewing the low voltage network. In addition, €186 million was invested in the transmission network in 2011 (€174 million in 2010).

### STRATEGIC AIMS AND RESPONSE TO CHANGE

The ESB Networks strategy "Sustainable Networks Strategy Towards 2020", defines the vision for ESB Networks of becoming a world class sustainable networks business. In 2011, ESB Networks continued to work towards achieving this objective, while also adapting to changing business circumstances.

Some of the 2011 highlights are as follows:

- > The Smart Meter Trials, which were completed during the year, resulted in a fall in residential electrical energy consumption by 2.5% on average and enabled load shifting to reduce peak loading by up to 11%. These results are encouraging and the Commission for Energy Regulation (CER) is currently considering a full roll out of the scheme to every customer in ROI.
- > R&D Projects: The delivery of appropriate R&D projects continued in 2011 with the completion of key phases of collaborative research projects. During the year ESB Networks won the "2011 International Project of the Year Award" in the Renewables Integration Category. The projects were described by Powergrid as being "innovative, comprehensive and deeply relevant as wind penetration increases".
- > Prepayment Meter Project: A new keypad prepayment meter system which allows customers to purchase electricity on a "pay as you go" basis was introduced during 2011. These meters enable supply companies to help customers with financial difficulties to avoid accruing electricity debt.
- > Market Harmonisation Project: In 2010 CER and NIAUR approved a collaborative project between ESB Networks and NIE transmission and distribution on a single markets interface for changing supplier process in both markets. In 2011 the final baseline design was completed and signed off by all market participants, with full implementation planned for September 2012.

- > ESB Telecoms continue to deliver high quality telecommunications infrastructure and services to enable remote control and management of the transmission and distribution network and enabling wind generators and other sustainable energy solutions to be grid connected and managed in an effective way. 2011 saw ESB Telecoms Ltd continue to leverage ESB assets to grow their offering of broadband and data services at the wholesale level.

**EFFICIENT CUSTOMER SERVICE DELIVERY**

In 2011 overall continuity performance was impressive, showing a significant improvement on performance in 2010.

Customer satisfaction surveys of ESB Networks' services carried out in 2011 again returned an average figure in excess of 78% overall satisfaction across all service areas equalling the highest level achieved since surveying began. Telephone response to customers in the National Customer Contact Centre (NCCC) continues to be at class leading levels.

A new optimised scheduling system for organising the delivery of services requested by customers and suppliers was introduced in 2011. With the support of the newly established centralised Schedule Support Centre, this new system facilitates more efficient delivery of meter works and related services.

We continue to operate a scheme which facilitates our business customers to reduce their levels of contracted connection capacity (MIC) to lower their electricity bills.

**OUR PEOPLE**

The success of ESB Networks depends on a team effort to deliver its various elements. The human resources strategy, which is part of the overall business strategy, supports the business in driving its performance.

The growth and development of ESB Networks staff is crucial to effective implementation of the strategy, and during 2011 the business worked to equip all staff with the competencies and skills they need to contribute effectively.

ESB Networks aims to achieve zero injuries across all business operations and activities, based on the premise that all unsafe acts and incidents are preventable. In order to maintain the high level of safety standards across the business a number of new safety guidelines were developed and implemented during 2011. Plans are in place to extend OHSAS accreditation to all

ESB Networks by 30 June 2012. In addition, ESB Networks achieved EMS (Environment Management Systems) accreditation to ISO14001.

**SUSTAINABILITY**

In 2011 ESB Networks continued its effort to deliver the sustainable network of the future by supporting and enabling change across the entire energy sector.

ESB Networks has now connected over 1,600 MW of renewable generation, over half of this to the national distribution network. In co-operation with EirGrid it has issued offers for connecting a further 4,000 MW of generation as part of the Gate 3 connection process.

Delivery on our internal carbon reduction targets, particularly on ESB Networks buildings and "Green fleet", continued apace. This included installation of heat pumps and other forms of electric heating and energy efficient lighting and controls in five ESB Network locations. To date, a 20% reduction in our carbon footprint has been achieved against the 2006 baseline.

**PRIORITIES FOR 2012**

Our priorities for 2012 include:

- > Safety: This will remain a primary concern of the business, and will remain so both now and into the future.
- > Customer service: Excellent service to customers is a key business objective.
- > Financial performance: Strong financial performance is essential in order to meet the many challenges facing the business, particularly in our current difficult economic climate. ESB Networks aims to achieve the regulatory targets for the years 2012–2015, as agreed with the CER, with increasing focus on cost efficiency and value for money.
- > 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 CER. This will benefit all electricity customers, as well as providing the country with a long-term asset, which is essential for our economic recovery.
- > Sustainable networks: In 2012, ESB Networks will continue to implement a wide range of programmes, including the Smart Metering project, a range of Smart Network initiatives and the connection of additional wind generators to the electricity networks.

**€510m**  
 INVESTED IN NATIONAL ELECTRICITY INFRASTRUCTURE AS PART OF AN OVERALL INVESTMENT PROGRAMME WORTH €4BN

**11%**  
 REDUCTION IN PEAK LOADING IDENTIFIED AS ACHIEVABLE DURING SMART METER TRIALS

**FOR SAFETY AND HEALTH IN ESB DURING 2011 REFER TO PAGE 34**

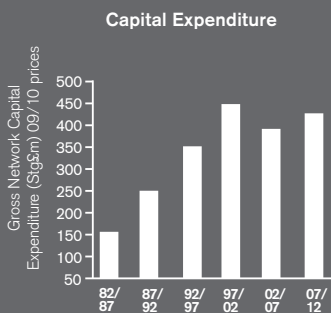


# NIE

Northern Ireland Electricity (NIE) is responsible for the planning, development, construction and maintenance of the transmission and distribution network and for the operation of the distribution network. In 2011 it had a successful first year under ESB ownership, with overall returns for the business in line with expectations. In 2012 NIE will focus on maintaining its strong safety record and customer standards and securing a successful outcome to the regulatory price review.



## NIE - Performance to date



**£120m**  
THE AMOUNT THAT NIE CONTRIBUTED TO NORTHERN IRELAND'S ECONOMY

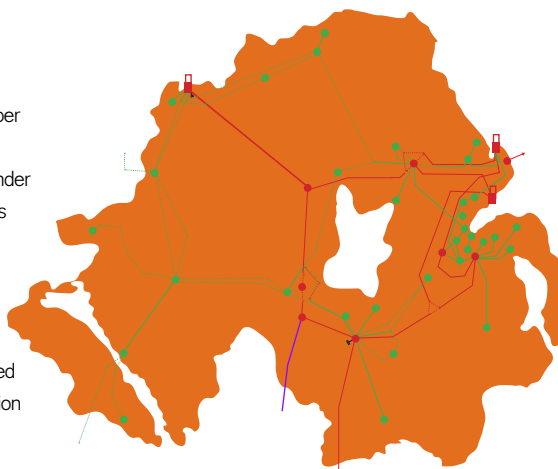


**1,275**  
THE ACTUAL NUMBER OF PEOPLE EMPLOYED BY NIE

## OVERVIEW

Following its acquisition in December 2010, Northern Ireland Electricity (NIE) had a successful first year under ESB ownership. Key achievements during the year included:

- > substantial investment in Northern Ireland's electricity infrastructure to service increased customer demand, the connection of renewable generation and to maintain safety and security of supply
- > significant progress in IT systems which will facilitate increased competition in the electricity market for residential consumers wishing to change electricity supplier
- > overall returns for the business in line with expectations
- > change in capital structure including successfully raising Stg£400 million in bond financing to align the capital structure with the asset investment profile
- > successful emergency response to restore supply to all customers in severe weather conditions
- > significant effort made by NIE to support its RP5 price control review
- > contribution of approximately Stg£120 million into Northern Ireland's economy through employment and contracts with local businesses



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

## OPERATING ENVIRONMENT

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

NIE is subject to a price control, defined in a formula set out in the company's licence, which limits the revenue it may earn and the prices it may charge. The principles of price regulation in the licence conditions reflect the general duties of the Northern Ireland Authority for Utility Regulation (NIAUR) and the Department of Enterprise, Trade and Investment (DET) under the relevant legislation. These include ensuring that NIE can finance its authorised activities.

NIE's fifth five-year price control (RP5) was due to start in April 2012. The NIAUR has announced that RP5 will now be introduced from 1 October 2012 and that an extension of the current price control will be in place from April to September 2012.

## INVESTMENT AND GROWTH

Since its privatisation in 1993, NIE has made significant investment in network infrastructure as illustrated in NIE's performance to date.

The focus of investment is increasingly driven by the need to replace worn network assets installed as part of significant network development during the 1950s and 1960s. In addition, NIE's gross capital expenditure of Stg£125 million during 2011 included investment required to meet growth in customer demand, connection of renewable generation and investment in IT billing systems, to facilitate increased competition in the electricity retail market.

Over 7,500 new connections were made to the network in 2011, down 17% on 2010, reflecting the current economic downturn.

## STRATEGIC AIMS AND RESPONSE TO CHANGE

NIE aims to continue to grow and maintain a secure and sustainable electricity network to meet the demands of the NI electricity market, including facilitating development of renewable generation connection and supporting DETI in reaching its target of 40% of electricity consumption from renewable sources by 2020. In order to further strengthen the interconnection of the electricity networks of NI and the Republic of Ireland, NIE will continue to work jointly with EirGrid on the development of the 400 kV Tyrone-Cavan interconnector. NIE's strategy in meeting these objectives will include maintaining a healthy financial position with access to financial resources and ensuring the business is adequately resourced with qualified personnel to meet its obligations.

## CUSTOMER SERVICE

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

NIE continues to incrementally improve its emergency response capabilities during severe weather events in order to effectively restore supply to all customers. The significant commitment of its frontline staff helps to ensure that NIE effectively manages this very important aspect of its business.

The average number of minutes lost per consumer per annum through distribution fault interruptions has shown a significant improvement since privatisation as illustrated in NIE's performance to date.

## OUR PEOPLE

NIE (including NIE Powerteam Limited) currently employs 1,275 people and views employees as the most important asset in the business. It encourages its employees to realise their maximum potential and to be appropriately challenged and engaged in the business by providing continuous opportunities for skills enhancement and personal development. During 2011 NIE achieved re-accreditation of the Investors In People (IIP) award.

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

An employee health and well-being policy is in place, with specific policies on stress management, mental health, alcohol and drug related problems, smoking and first aid. NIE believes that the proactive management of illness and absenteeism benefits both the business and its employees.

**FOR SAFETY AND HEALTH IN  
ESB DURING 2011 REFER TO  
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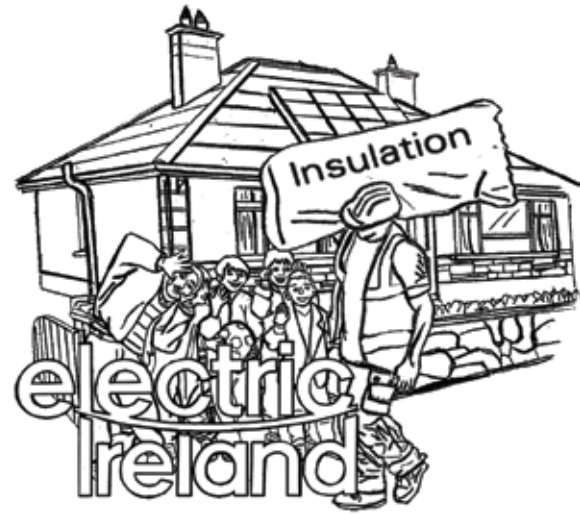
## PRIORITIES FOR 2012

Our priorities for 2012 include:

- > Safety – Ensuring the health and safety of employees, contractors and the general public will continue to be NIE's top priority.
- > Securing a successful RP5 outcome – Maintaining and developing a secure and sustainable electricity network and maintaining the financial health of the business.
- > Customer service – We strive to deliver excellent service to customers and maintain NIE as a frontier company with respect to customer service.
- > We aim to successfully implement a new IT billing system to facilitate increased competition in the NI residential electricity market.
- > Cost base – Maintaining the competitive cost base and continuing to successfully deliver capital investment programmes.
- > Human resources – Continued investment in employees to ensure adequate resources to meet business obligations and promoting a working environment that actively encourages employees to realise their full potential.

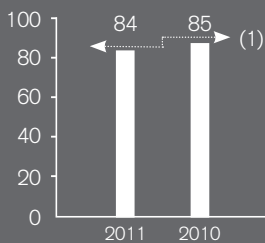
# ELECTRIC IRELAND

As the leading energy supplier in the Irish market, we continue to provide excellent customer service and products and services to meet customer needs and offer value for money.

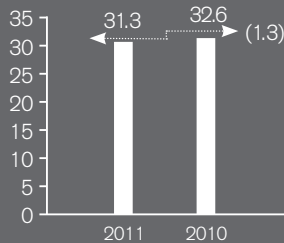


## Electric Ireland's performance in 2011

Telephone success factor  
(% of calls answered within 20 seconds)



Day's sales outstanding



**1.3m**  
CUSTOMER NUMBERS  
(RESIDENTIAL ELECTRICITY  
ONLY) 2010 AND 2011

**39%**  
MARKET SHARE  
(ANNUALISED BASIS) IN  
2010 AND 2011

## OVERVIEW

Electric Ireland was launched in 2010 as a new brand for ESB supply and energy services activities; which includes: ESB Independent Energy (ESBIE), ESB Customer Supply and ESB Energy Services.

While the electricity retail market in the Republic of Ireland has been open to competition since 2000 (for business customers) and 2005 (for residential customers), conditions did not change dramatically until 2009, when two new suppliers (Bord Gáis Energy and Airtricity) entered the residential market. By the end of 2010, more than 700,000 customers had switched from ESB to one of these suppliers. In October 2010, the CER lifted remaining restrictions in the SME market and on 4 April 2011 the CER removed tariff regulation for the residential market. Full price deregulation of ESB's residential market was achieved once ESB's residential market share reduced to 60% and the Electric Ireland brand was launched.

The new brand for ESB supply's business is "Electric Ireland" reflecting ESB's heritage as Ireland's leading energy supplier.

## OPERATING ENVIRONMENT

The ending of regulation by the CER on 4 April 2011 represented a significant milestone for ESB, and facilitated Electric Ireland to operate on a commercial basis in a newly competitive market.

With the entry of Electric Ireland into the competitive electricity/gas markets, competition intensified throughout 2011, offering customers a wide choice of suppliers and competitive price plans. Aggressive levels of competition in the market and the economic downturn have presented significant challenges for our business in terms of debt management.

## STRATEGIC AIMS AND RESPONSE TO CHANGE

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

During 2011, we have made significant progress towards achieving our objectives including:

- > effectively responding to market price deregulation
- > launching new products (i.e. gas) and continuing to provide excellent customer service
- > rebranding the supply business as Electric Ireland
- > continuing our focus on improving our costs to ensure we have a competitive and flexible cost base
- > working proactively with customers to manage debt repayment in the current economic climate.

## CUSTOMER BASE

In a major drive to retain and win back residential customers, Electric Ireland successfully launched its new customer product offerings in the newly deregulated Irish market in April 2011. These included the introduction of competitive electricity price plans, and entry into the residential gas market. The residential sales campaign has been successful, with customer losses reduced from an

average of 24,000 per month in 2010, to net growth in residential electricity customers since April 2011. By the end of 2011, Electric Ireland had 1.27 million electricity customers and 30,000 dual electricity and gas customers. In the nine month period from April to December 2011, over 100,000 customers returned to Electric Ireland from competing suppliers.

During 2011, Electric Ireland also launched new price plans for the business market, primarily targeted at the small business sector.

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

In addition to competitive electricity price offerings, Electric Ireland made good progress in selling energy efficiency products through our Home Services "one-stop shop for households". A full installation service including home insulation, gas boiler upgrades, heat pumps, solar panels and a gas boiler service/repair service is provided.

Providing quality customer service continues to be a key priority. In 2011 the Customer Contact Centre again exceeded its service targets and also retained its accreditation under the Customer Contract Centre association global standard. In addition, service levels were delivered in line with our Customer Charter and Codes Of Practice.

Electric Ireland has incurred significant bad debts since the start of the economic downturn. Reflecting the fact that many of our customers are experiencing serious hardship, Electric Ireland has facilitated easier payment arrangements for our customers and in 2011 we have 300,000 customers with such arrangements. We are also promoting the installation of pay-as-you-go meters for those in most difficulty.

**OUR PEOPLE**

During 2011 there was significant progress made in integrating the staff from the three businesses into a single supply business. As part of this restructuring, a more flexible and cost-effective service delivery model was implemented to support the entry of Electric Ireland into the competitive marketplace.

**SUSTAINABILITY**

Electric Ireland has consistently worked with its customers to help them reduce their electricity usage and get better value from their electricity consumption. This was achieved through the promotion of energy efficient products and electricity consumption awareness campaigns. These

campaigns included energy efficiency advice, ESB's new online store and web-based tools including the "Appliance Calculator" and the "Energy Wizard" home auditing tool, which are also available as an app.

ESB sponsors Cúl Green, a sustainability programme for Croke Park Stadium, which aims to make it 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.

The Better Energy Programme is a key component of the National Plan to deliver the EU target of 20% improvement in national energy efficiency by 2020. The Sustainable Energy Authority of Ireland (SEAI) administers the Better Energy Programme. In 2012, energy suppliers including Electric Ireland and the SEAI will enter into a voluntary agreement which commits suppliers to delivering better energy efficiency savings, proportionate to their market share.

**PRIORITIES FOR 2012**

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

We will strive to maintain our position as the leading supplier in the Irish energy market, and play our role in meeting the challenges posed by climate change.

**PRIORITIES FOR 2012**  
 Our priorities for 2012 include:

- > Provide excellent customer service and to deliver products and services that meet customer needs, provide value for money and are profitable.
- > Focus on further cost improvement and flexibility to ensure a competitive cost base.
- > Successfully promote the Electric Ireland brand as the leading energy supply brand in Ireland.
- > Respond to our customers by offering payment options to facilitate debt repayment in the current harsh economic climate.
- > Develop new ways of contributing to Ireland's energy efficiency targets under the Better Energy Programme, by helping homes and businesses to become more energy efficient.
- > Work towards the lifting of current restrictions on Electric Ireland and ESB's generation portfolio to ensure that Electric Ireland operates on a level playing field with its competitors.



# 03 SUSTAINABILITY AND CORPORATE RESPONSIBILITY



**Message from John Campion, Sustainability and Human Resources Executive Director**

In ESB we are committed to being sustainable and to acting responsibly across all of our environmental, social and economic activities. Our sustainability agenda encompasses the full span of corporate responsibility issues as they impact on our staff, our marketplace, our communities and our environment.

ESB is committed to meeting society's need for energy in a resource efficient and sustainable manner and we have set ourselves the challenge of becoming exemplars in sustainability and corporate responsibility. Becoming one of the first four companies in Ireland to receive accreditation to the newly developed Business Working Responsibly Mark was a significant milestone for us in 2011. We want to build on this success, by continuing to encourage our staff to think in innovative ways about advancing our sustainable working agenda and by continuing to strengthen and deepen our links with customers and communities throughout the country.

John Campion, Sustainability and Human Resources Executive Director

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## SUSTAINABILITY

Our strategy for long-term business success is to integrate our commercial development and our stakeholder relationships, taking account of customer insights and environmental constraints. The continuing difficult economic circumstances in Europe, and in particular Ireland, are creating a challenging business environment for all electricity utility businesses and their customers. ESB views this as an opportunity to further embed sustainability within the organisation. Adopting new technologies and searching for, and applying, innovative solutions, is reducing our use of resources, resulting in efficiency gains and cost savings. These actions have allowed us make progress in delivering on the goals and targets contained in our 2008 "Strategic Framework to 2020" document. It is prudent at this stage to re-examine our strategic direction and priorities, given the continuing economic challenges at domestic and EU level and new initiatives in respect of electricity market integration. This exercise has already started and will be completed early in 2012.

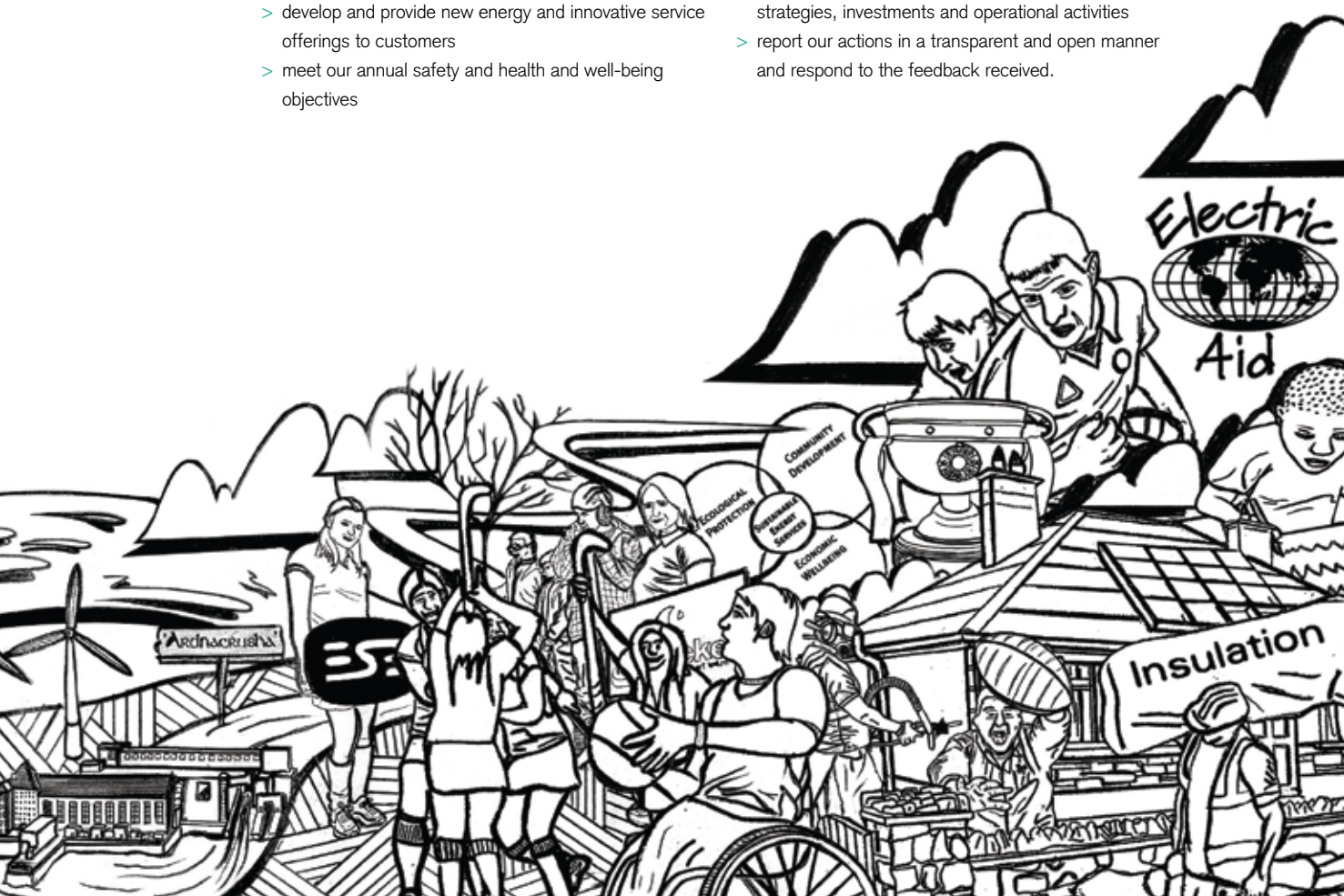




**Sustainability Goals**

Our goals are to:

- > maintain ESB's financial strength through a robust cost reduction programme
- > maximise the benefits of our status as a vertically integrated, generation, transmission and supply business
- > maintain the programme of investment in Networks and Renewable Generation
- > develop and provide new energy and innovative service offerings to customers
- > meet our annual safety and health and well-being objectives
- > deliver emissions reduction, energy efficiency, waste reduction and water conservation targets
- > ensure we use physical resources as efficiently as possible
- > promote the role of electricity in decarbonising the economy and develop a strong sustainability culture within the organisation to guide and shape our strategies, investments and operational activities
- > report our actions in a transparent and open manner and respond to the feedback received.



# SUSTAINABILITY CHARTER

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

CHARTER COMMITMENTS:	PROGRESS IN 2010	PROGRESS IN 2011
Reduce CO <sub>2</sub> emissions from generation by 30% by 2012; 50% by 2020 and become carbon neutral by 2035 (reductions based on 2005 baseline).	Emissions from generation reduced by 30%.	We have achieved our 2012 goal of reducing emissions by 30% and we are well on our way to achieving our 2020 target.
Adopting a target of a 30% reduction in our carbon footprint from our internal business activities by 2012, in addition to our targets for the performance of Network and Generation assets.	ESB's internal carbon footprint was reduced by 19% against a 2006 baseline.	At the end of 2011 ESB's internal carbon footprint had been reduced by 25% against the baseline set in 2006.
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 UK, Spain and the Far East.	In 2011, staff surveys show an ongoing strong commitment to sustainability (over 90% of staff support the Sustainability Programme).
Reducing our impact on the environment to a practicable minimum by the prevention of pollution, reduction of waste and the efficient use of energy, water and other resources.	Formal environmental management systems to ISO 14001 are in place in all our power stations and in our nationwide ESB Networks organisation.	In 2011 remote electronic water monitoring was installed in all of our major locations.
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. In 2010 we initiated a Sustainability Awards Scheme which attracted 200 entries from across the company.	In 2011 we extended our Sustainability Awards Scheme to our international operations and introduced bi-monthly awards. Our overall sustainability award for 2011 was won by our team in Roush, Pakistan. By the end of 2011, 50% of ESB staff have completed foundation level training in sustainability – now embedded as a core competency within the company. The training is delivered in an online format.
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 and sustainability standards.	Our procurement policy continues to require that procurement specifications should take into account best-practice environmental and sustainability standards.
Actively and effectively communicating and involving staff and contractors in identifying and implementing performance improvements.	Sustainability Improvement Plans are in place in all ESB locations in Ireland and overseas.	In the 2011 staff survey, 74% of staff confirmed they are adequately informed how to be sustainable at work and 71% reported improvements in sustainability in the past year.
Adopting appropriate management structures, management systems and targets.	Sustainability is driven by an Executive Director, a central programme and cross-company steering group. Our performance is overseen by the Health, Safety and Environment Committee of the Board. Sustainability targets are included for all ESB directors and business units.	Sustainability continues to be a key target for all ESB directors and business units.
Assessing the impact of our operations on biodiversity and implementing opportunities for enhancement.	A major Biodiversity Review was completed in December 2010.	A new Biodiversity Policy was approved in 2011; the plans will be managed through our Environmental Management Systems (EMS) process.
Openly reporting on our environmental performance in a verifiable way.	All ESB generation emissions are reported and verified to the relevant environmental authorities under the Integrated Pollution Prevention and Control licensing regime and EU ETS scheme. ESB produced its first Sustainability Report in 2010.	Our 2011 Sustainability Report was aligned to the Global Reporting Initiative (GRI). In Oct 2011 ESB was one of 4 companies in Ireland to be accredited to the new Business Working Responsibly Standard (BWR).

OUR COMMITMENT



HOW WE'RE DOING



OVER 180 LOCAL SUSTAINABILITY CHAMPIONS THROUGHOUT THE COMPANY INCLUDING OUR OVERSEAS LOCATIONS IN UK, SPAIN AND THE FAR EAST



## ESB – A BUSINESS WORKING RESPONSIBLY

Drawing on its experience advising Ireland's top companies, Business in the Community Ireland developed the Business Working Responsibly Mark (BWR), which gives an organisation the opportunity to evaluate, certify and benchmark its sustainable and responsible practices across its operations.

This helps businesses to consider a range of opportunities and risks that are vital to business success such as:

- > having a robust environmental and sustainability strategy and being the kind of company that attracts and retains top employees
- > engaging positively with customers and all stakeholders
- > demanding high standards of its suppliers
- > supporting a healthy physical environment
- > the value to the business of operating in a vibrant local community.

## ESB was among the first recipients of the BWR mark in Ireland in October 2011

### ECARS

During 2011, ESB has continued with the rollout of electric vehicle (EV) charging infrastructure across Ireland. By year end, total orders had been placed for approximately 500 charge points and installations have been completed across the country in on-street locations and retail parks, transport and travel hubs and car parks. In addition, as part of ESB's commitment to provide home charging points for the first 2,000 orders, home charging points have been installed for every purchaser of an electric vehicle during 2011. Throughout the year, ESB has continued its involvement with a number of EU EV projects, as well as partnering with the Northern Ireland Plugged in Places Programme.

## ENERGY USAGE 2011

In compliance with S.I 542/2009, ESB is disclosing the energy usage for the Group in 2011, the initiatives the Group undertook during the year to improve our energy performance and our commitment to further improve our energy performance for 2012.

Electricity generation accounts for over 99% of ESB's use of energy, however this falls outside the scope of the regulations. In 2011 ESB consumed 27,462 GWh of fossil fuel energy in generating electricity in the Republic of Ireland. This comprised:

- > 12,945 GWh of natural gas,
- > 10,619 GWh of coal,
- > 3,610 GWh of peat and
- > 289 GWh of oil.

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

Internal use accounted for 129 GWh Primary Energy Equivalent (PEE) in our non-generation activities (155 GWh in 2006). This amount consisted of:

- > 74 GWh of electricity as PEE
- > 1 GWh of natural gas
- > 54 GWh transport diesel and
- > 0.3 GWh of renewable energy in transport.

ENERGY SOURCE	2011 GWh	2006 GWh	Change GWh
Electricity	30	38	(9)
Electricity (PEE)*	74	96	(22)
<b>Fossil Fuels</b>			
- Natural Gas	1	1	-
- Heating Oil	-	-	-
- Diesel	54	59	(5)
	55	60	(5)
Renewable Energy	0.3	-	0.3
<b>TOTAL (PEE)</b>	<b>129</b>	<b>156</b>	<b>(27)</b>

\* PEE is the Primary Energy Equivalent

### Actions undertaken in 2011 to reduce energy usage

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

In 2008 ESB adopted a target of a 30% improvement in non-generation energy efficiency by 2012, against a 2006 baseline in the context of a government objective for the public sector of a 33% improvement by 2020.

Steps to deliver this target in ESB continued in 2011, including:

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

We will intensify these measures in 2012 to ensure our target is delivered.



# OUR COMMUNITY



## OUR COMMUNITY

ESB's status as a state company, our role in the social and economic development of Ireland and our extension to every household gives us a unique connection to the communities in which we operate in Ireland. We provide support and sponsorship to these communities directly as a company and through the activities of our staff.

### ESB ElectricAid Ireland

Over the last five years, the company-funded charity ElectricAid Ireland has spent over €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. A further €970,000 was allocated to 130 projects in 2011.

Over  
**€5m**

on 'a journey of hope' all over the island of Ireland

### ElectricAid

ElectricAid is a staff-led charity with almost 2,750 contributing members. One hundred and sixty new projects were supported in 2011. The total fund disbursed amounted to €1.25 million. In addition, staff contributed to the Horn of Africa Appeal in July 2011. The money raised by ESB staff was used to fund Concern's relief effort in Somalia.

ESB staff and the company continued their support for ESB's 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 September 2011, 27 ESB volunteers travelled to Accra to work for two weeks on the refurbishment of a school.

**€1.25m**

The total fund disbursed by ElectricAid amounted to

### Age Action Positive Ageing Week

ESB supported Positive Ageing Week for the seventh year in 2011. This nationwide event is organised by Age Action to highlight the value of older people to society and the positive benefits of ageing. In addition to over 800 individual events which took place in 2011 across Ireland, fifteen towns ran a series of events throughout the week.

### Olympics - Team Ireland

Electric Ireland announced a new sponsorship in September 2011. Electric Ireland is Official Energy Partner to Team Ireland supporting Irish athletes in their quest for Olympic glory at the 2012 London Olympics. Electric Ireland's sponsorship supports the Olympics Council of Ireland in providing the necessary funding to support Irish athletes. In addition, Electric Ireland implements marketing programmes to increase the profile of the athletes and help generate interest and support in Team Ireland.

### ESB ElectricAid Ireland supports Depaul Ireland

A recent grant of €28,000 for the fitting-out of new long-stay supported accommodation at Depaul Ireland's Back Lane Hostel in Dublin 8 has been very well received. The money was spent on furniture, beds, bed linen, curtains and TVs.

Depaul commented that "this will be the difference between just bricks and mortar, and creating a home." Money well spent and a job well done!

### Electric Picnic

Electric Ireland is the Official Energy Partner to Electric Picnic - Ireland's leading sustainability festival, featuring the best in music, comedy and food. Electric Ireland provides 6 km of energy efficient lighting to support the event, in addition to marketing and promotional activity to encourage people to participate.

### Electric Ireland €1 Million Winter Charity Programme

In December 2011 Electric Ireland launched its €1 million Winter Charity Programme to support two important Irish charities – St. Vincent de Paul and Alone.

ESB has a long tradition of working with St Vincent de Paul and supported them with a significant cash donation in December 2011.

ESB also supported Alone by carrying out energy efficiency retrofit work on Alone properties and donating additional funds to support its fuel affordability programme.

### Feis Ceoil

Electric Ireland supports Ireland's longest running classical music festival, where over 5,000 classical musicians aged 18–30 compete each year for the annual Feis Ceoil. Last year a gala concert was held at the Convention Centre featuring the main prizewinners from the 2011 Feis.

### Cúl Green

ESB continued to sponsor the Cúl Green initiative, the 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.

Over 35,000 people have pledged their support for the Cúl Green initiative by making energy efficiency savings to offset overall carbon emissions at Croke Park

# EQUALITY AND DIVERSITY

There is a clear connection between employee engagement and employee well-being. During times of organisational change, there is an increased focus on employee engagement, resilience and well-being. To this end, ESB continues to create and promote a positive and inclusive work environment. ESB's equality and diversity policies and practices are leveraged to positively engage with and support staff. Our policies are regularly reviewed to ensure that they are robust and compliant with employment legislation and best practice. Our policies support a culture of respect and dignity for the individual in workplace, fairness and equality of opportunity.

## Initiatives to promote a positive and inclusive work environment:

- > The introduction of Women's Learning and Networking Events – to promote and cultivate the growth and advancement of women in the organisation.
- > The establishment of a Joint Equality Council whose members are a cross-section of staff and union representatives and include a disability and LGBT representative.
- > The promotion of a Disability Traineeship Programme – which has been hugely successful, not only for 66 participants that have completed the traineeship to date, but also in raising awareness about inclusiveness of people with disabilities in the work-place.
- > Recruitment policies – ESB continues year-on-year to exceed the 3% NDA target of recruiting employees with disabilities.
- > The establishment of Business Units Diversity Groups – to raise awareness by integrating equality and diversity practices for staff and customers.
- > Work-life balance, work flexibility, respect and dignity have a positive impact on employee engagement and this is reflected in the staff survey results.

## ESB workforce at a glance

The organisation is predominantly a male workforce. 23% are female, with two females at ESB board level. 20% of our people at management levels are female.

# 23%

Female workforce

# 20%

at management levels are female



# OUR PEOPLE

## SAFETY AND HEALTH IN ESB DURING 2011

2011 was a significant year for safety and health in ESB. The number of staff lost time injuries (LTIs) at 37 represented an increase on the previous year. This was the first time since 1997 that an annual reduction in staff injuries was not achieved. Sadly, one staff member was fatally injured in a road traffic collision in Bahrain in November. This was the first staff fatality since 2003. Despite the increases in the number of staff injuries, we remain resolute that our goal is zero injuries.

Many parts of ESB maintained another injury-free year. The injury severity outcomes of staff LTIs was lower than previous years, with an average of 9.8 days lost per injury, compared to 13.5 in 2010.

Our contractor safety performance continues to improve with no fatalities during 2011. Eight contractor LTIs occurred, which is almost half that reported for 2010. Regrettably two members of the public were fatally injured from contact with electricity on the customers' side of the meter.

Driving and road use remains a significant hazard for ESB. In 2011 we completed a Safe Driving Programme which provided over 1,500 advanced driver qualifications for ESB staff and achieved a reduction in road traffic collisions of one-third of the 2008 outcome.

ESB is committed to establishing and maintaining appropriate safety competence in the organisation. Since establishing a dedicated Certificate in Safety and Health at Work with UCD, a total of 349 ESB staff and managers have successfully completed the course.



## EMPLOYEE WELL-BEING

ESB is committed to promoting the health and well-being of our employees. The work-place has become a major factor in an individual's health and well-being as time spent at work is such a huge part of modern life. People's experiences at work affect how they feel about themselves, how they interact with their families and friends, how they use their leisure time and how anxious they are about the future.

Our well-being policies underpin this and support employees to balance their work and personal responsibilities. We have a well-established health service, which is aimed at increasing awareness among staff of the health benefits associated with a balanced diet, a good exercise plan and a healthy mind. The Employee Assistance Programme is aimed at the early intervention, identification and resolution of problems that may adversely affect our people. We encourage our staff to deal actively with the challenges of modern life by cultivating a good social network. While there is no 'one size fits all' solution to building an effective work environment, we regularly review our policies and programmes to ensure that they are relevant and effective in today's challenging environment.

People want to learn and excel in their jobs and they commit to companies that help them do these things. We at ESB will continue to build an effective work environment and the challenge for the future is that while employees understand the need to address economic conditions in a changing environment, we must ensure that our business and people decisions continue to be thoughtful, balanced and fair.



**LEARNING AND DEVELOPMENT**

Learning and Development programmes continue to deliver core skills including mandatory technical and safety training, personal development and competence in emerging areas. We continue to encourage personal and continuous professional development to ensure that staff in ESB have the skills and the competence required for individual and organisational success. We work closely with relevant accrediting professional bodies such as Engineers Ireland, professional accounting bodies (ACA, ACCA & CIMA) and the Chartered Institute of Personnel and Development (CIPD) to support this. For example we have a number of accredited in-house programmes in place:

- > HR Management for Line Managers – to date 130 Line Managers and HR Staff have participated in this programme which is accredited by CIPD. The focus of the programme is to enhance People and Performance Management in ESB.
- > Trainee Accountant Programmes - developed in 2009, ESB has selected between three and six graduates each year to participate in this programme. On successful completion of the programmes, individual graduates become qualified accountants accredited to one of the following professional accounting bodies: ACCA, CIMA or ACA.

In addition to developing its own staff, ESB is participating in the Government's National Internship Scheme JobBridge which provides individuals who have been on the live register with the opportunity to undertake a quality internship for a six to nine month period.

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

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

**Health services provided the following services in 2011 to staff, and in some cases partners:**

- > Health screening which is provided on a rolling 3-year cycle to 1,500 people. 35% of staff availed of this service.
- > Bowel screening offered to 4,000 staff over 40 years of age. 30% of staff availed of this service.
- > Flu vaccinations offered to all staff. 19% of staff availed of this service.
- > Lunch time talks on health and fitness throughout the year, including provision of local support for Wellbeing Champions in their locations.
- > Regular intranet based advertisements to staff on health topics.
- > 370 smoking cessation patches dispensed.
- > Development and delivery of pre-retirement courses with external speakers.
- > Employee Assistance Programme (EAP) provides professional and confidential support to staff in resolving difficult personal problems/issues.





# 04 CORPORATE GOVERNANCE



## 2011 HIGHLIGHTS

- > ESB complies with the Code of Practice for the Governance of State Bodies.
- > The Group conforms as far as possible, on a voluntary basis, to the UK Corporate Governance Code and to the Irish Corporate Governance Annex.
- > ESB is committed to successfully managing the Group's exposure to risk and to minimising its impact on the achievement of business objectives.

Lochlann Quinn, Chairman

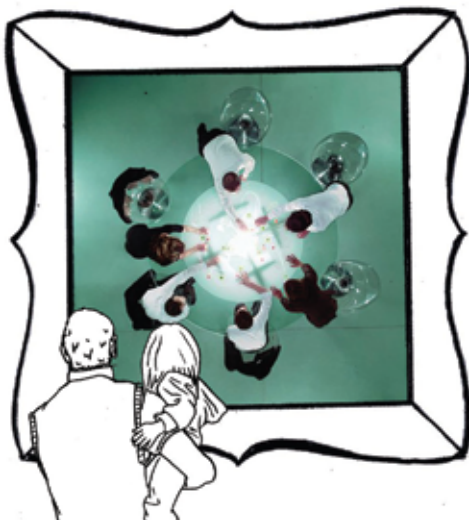
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## CHAIRMAN'S FOREWORD

There are many definitions of corporate governance but, at its simplest, it is about integrity, transparency and keeping promises to owners, customers and stakeholders. These basic values have been part of ESB since its foundation as a state company in 1927 and our Board is committed to ensuring these values are upheld in how we operate.

With that in mind, I am pleased to introduce the Corporate Governance Report for 2011. It explains our approach to corporate governance in detail by describing how the Board works, Board Committees in place, internal control framework and enterprise risk management process.



In discharging its responsibilities, the Board met 12 times during 2011. It was supported in its work by the seven Board Committees described on pages 43 and 44. The ongoing business issues considered by the Board and the Board Committees in 2011 included:

1. Monthly reports from the Chief Executive;
2. Monthly, quarterly and annual financial information;
3. All major business issues such as:
  - > safety performance
  - > review of strategy
  - > major capital expenditure proposals
  - > credit rating and funding issues
  - > the Performance Improvement Programme
  - > progress following the acquisition of NIE
  - > the 2011 Budget
  - > the Five Year Corporate Plan
  - > Fuel Trading Strategies
  - > Electricity Pricing Strategy
  - > the Annual Risk Policy and Plan
  - > Equality and Diversity Report
  - > the Group Internal Audit Plan
  - > the Internal Control Framework

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

The Board conducted its work through the seven Board Committees:

- > Audit and Risk
- > Finance and Performance Improvement
- > Investment
- > Market and Customer
- > Regulation
- > Health, Safety and Environment
- > Remuneration and Management Development

Reports on the work of the Committees are made to each Board meeting.

In addition a special Board Committee was established to assist the Board in the selection of a new Chief Executive.

During 2011 the Board undertook a detailed self-evaluation which identified great strengths in the Board process but also a number of areas for improvement which we will follow up in 2012 to ensure the corporate governance framework in ESB continues to operate successfully.



**Lochlann Quinn**  
Chairman



# BOARD MEMBERS



## BOARD MEMBERS

**1. 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 2011 Mr Quinn was Chairman of the Remuneration and Management Development Committee. As Chairman, he is an ex-officio member of all Board Committees except the Audit and Risk Committee which he attends by invitation of that committee.

**2. BRENDAN BYRNE**, a Chartered Accountant, 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. Mr Byrne previously held a number of senior management positions in Aer Lingus and has worked extensively in the field of change management. During 2011 Mr Byrne was Chairman of the Audit and Risk Committee and of the Finance and Performance Improvement Committee.

**3. DAVE BYRNE** is from Dublin and joined ESB in February 1981. For most of his career he was part of the team that is now Services Organisation but worked for a period in Customer Supply in Fleet Street. Mr Byrne held a number of positions in the ESBOA before serving as President, completing his term in April 2010. He was then appointed as the Group of Unions representative in Central Partnership before being elected as Worker Board Member. Mr Byrne took up his position on the Board in January 2011. During 2011, Mr Byrne served as member of the Regulation Committee and the Finance and Performance Improvement Committee.

**4. 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 2011 Mr Coleman served as member of the Investment Committee and the Health, Safety and Environment Committee.

**5. 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 EOQ (European Organisation for Quality). Other roles included 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 and lectures at the Institute of Technology in Sligo. In 2011 Mr Conlan served as a member of the Audit and Risk Committee and of the Market and Customer Committee. He was also the Senior Independent Board Member.

**6. ELLVENA GRAHAM** was appointed to the Board of ESB in October 2010. Ms Graham is Chief Operating Officer in Ulster Bank. She has held other senior positions at the Bank including Director of Business Services, Chief Operating Officer - Corporate Bank, Head of Operations and also Executive Director Group Operations EMEA. She is a member of the Advisory Board of Women's Executive Network in Ireland and serves on the Barretstown Board which supports children with serious illnesses. During 2011, Ms Graham was Chairman of the Investment Committee and served as a member of the Remuneration and Management Development Committee and the Finance and Performance Improvement Committee.





**7. 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 2011 Mr Keegan served as Chairman of the Market and Customer Committee and a member of the Audit and Risk Committee.

**8. SEAN KELLY** joined ESB as an apprentice in Limerick in June 1997 and on successful completion of his apprenticeship was appointed to Newcastle West in 2001 where he went on-call in 2002. Mr Kelly served as the local shop steward from 2007 to 2011. He was the Safety Champion for Newcastle West from 2004 to 2011. Mr Kelly was appointed as a Safety Rep. for the Mid-Western Division in 2010 and continues in that role. He has served as a branch official in the Limerick No.2 Branch of the T.E.E.U. since 2002 and has been the Branch Organiser since 2009. He is currently

the Chairperson of the Mid-Western Local Implementation Group (L.I.G.). Following a successful election he took up duty as Worker Board Member in January 2011. In 2011 Mr Kelly was a member of the Investment Committee and the Market and Customer Committee.

**9. SEAMUS MALLON** was appointed to the Board in February 2006 and was reappointed in May 2011. 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 2011 Mr Mallon served as a member of the Health, Safety and Environment Committee and of the Regulation Committee.

**10. 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. In 2011 Mr Merriman was Chairman of the Health, Safety and Environment Committee and a member of the Regulation Committee.

During 2011 Mr Merriman was also a Board member of ESB ESOP Trustee Limited.

**11. NOREEN WRIGHT** was appointed to the Board on 28 June 2011. Ms Wright, was called to the Bar of Northern Ireland in 1976, joined Northern Ireland Electricity's (NIE) in-house legal team in September 1976 and remained with NIE/Viridian until 2001. She held a number of senior management posts in the company, including that of Company Secretary and Head of Legal Services during privatisation and beyond. Ms Wright holds a number of public appointments in Northern Ireland including Member of the Industrial and Fair Employment Tribunals, Lay Magistrate and Member of the Northern Ireland Valuation Tribunal. She is also a Director of Springvale Training Ltd and Co-operation Ireland Ltd and is a Trustee of Garfield Weston Trust, University of Ulster. Previously she has served as Commissioner for the Equality Commission for Northern Ireland, as a Council Member of the University of Ulster and as a Trustee of the Bytes project. During 2011 Ms Wright served on the Investment Committee and the Regulation Committee.



# EXECUTIVE TEAM



## EXECUTIVE TEAM

**1. PAT O'DOHERTY** was appointed Chief Executive in November 2011. Previously he held the position of Executive Director, ESB Energy International since February 2010, 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.

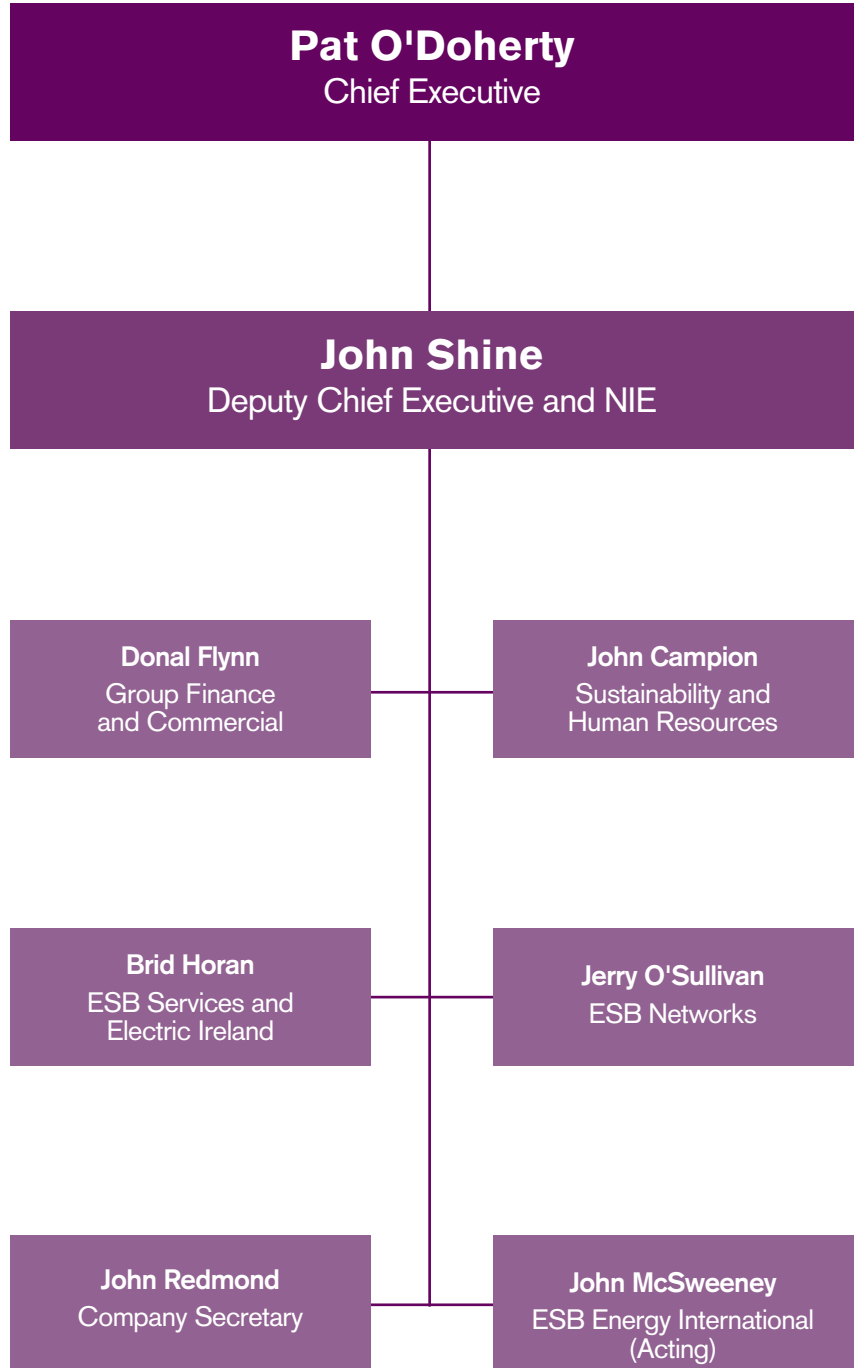
**2. JOHN SHINE** was appointed Deputy Chief Executive in November 2009. He joined ESB in 1978 and has held a number of senior positions in Networks, Marketing, and Business Development. He left ESB in 1998 to develop a successful international services business. He rejoined ESB in November 2002 when 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.

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

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

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

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



**7. JOHN CAMPION** was appointed Executive Director, Sustainability in 2008. Previously he had held the position of Executive Director, Human Resources and Corporate Affairs since November 2002. A civil engineer by profession, Mr Campion 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. Mr Campion is currently Executive Director, Sustainability and Human Resources.

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

# 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 2011.

## PRINCIPAL ACTIVITIES

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

## BUSINESS REVIEW

Commentaries on performance in the year ended 31 December 2011, including information on recent events and likely future developments, are contained in the Chairman's Statement and the Chief Executive's Review. The performance of the business and its financial position together with the principal risks faced by the Group are reflected in the Financial Review as well as the reviews for each major business line within the Group.

## RESULTS FOR THE YEAR

The financial results of the Group show a profit after tax of €100 million for the financial year, compared with a loss of €84 million for 2010.

The Board is recommending a dividend of 3.66 cent per unit of stock of €72.5 million in aggregate.

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

## CORPORATE GOVERNANCE

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

ESB conforms as far as possible, and on a voluntary basis, to the UK Corporate Governance Code (the "Corporate Governance Code") and to the Irish Corporate Governance Annex ('the Irish Annex').

Companies listed on the Irish Stock Exchange are required, as part of the listing rules, to describe how they apply the principles of the Corporate Governance Code and the related Irish Annex and either to confirm that they comply with the principles 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 or the Irish Annex. However, ESB supports the principles and provisions of the Corporate Governance Code and the Irish Annex and voluntarily complies with them subject to the following exceptions:

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

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

(iii) ESB's policies and disclosures in relation to remuneration of Executive Board Members (i.e. the Chief Executive) are in accordance with applicable Government guidelines. The details of Board Members' remuneration on page 46 do not include amounts paid to the four Worker Board Members as employees of ESB, but do include amounts paid to them by way of fees.

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

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

## PRINCIPLES OF GOOD GOVERNANCE

### ATTENDANCE AT MEETINGS IN 2011

There were 11 General Board Meetings and 1 Special Board Meeting during 2011. The number below 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 2011	Meetings Attended
Lochlann Quinn	11,1
Brendan Byrne*	11,1
Dave Byrne	11,1
John Coleman	11,1
Seán Conlan*	10,1
Eoin Fahy*^	2,0
Ellvena Graham*	10,0
Garry Keegan*	10,1
Sean Kelly	10,1
Seamus Mallon*^	9,1
Padraig McManus ^	10,1
Tony Merriman	11,1
Noreen Wright* ^	5,1

\*Independent Board Members

^ Eoin Fahy completed his second term on the Board on 20 February 2011

^ Seamus Mallon completed his first term on the Board on 20 February 2011 and he was re-appointed on 3 May 2011

^ Padraig McManus – retired 30 November 2011

^ Noreen Wright – appointed to Board 26 June 2011

## 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 Board size and structure is governed by the Electricity Supply Acts 1927 - 2004 and by the Worker Participation (State Enterprises) Acts.

The Board has determined that the Board Members identified on page 42 were independent during 2011. This determination took account of the relevant provisions of the Corporate Governance Code regarding directors' independence in character and judgment and the absence of relationships or circumstances which could compromise directors' independence. In the light of these factors the Board is satisfied of the independence of the directors identified as such on page 42.

There are up to 12 Board Members, 5 are normally employees of the company, namely the Chief Executive and four worker Board Members, as determined by the Minister pursuant to the provisions of the Worker Participation (State Enterprises) Acts, 1977 to 2001.

The remaining 7 of the 12 Board Members during 2011 were non-executive and the Company regards this number as sufficient to bring the necessary range of skills, knowledge and independence to the Board's work and the work of its Committees. The specific skills, expertise and experience of the Board are harnessed by matching these skill sets to (a) the Board's consideration of major strategic and operational issues where individual Board members bring their specific competencies to bear and (b) the requirements of specific Board Committees and the determination of the membership of those Committees.

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, for Public Enterprise and Employment 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;
- > 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. There is ongoing financial and operational reporting to the Board and Board Papers are sent to each member on a timely basis before the Board Meetings. The Board Papers include the minutes of Board Committee Meetings.

The Chairman conducts an annual performance evaluation of the Board and of its Committees. This evaluation 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. The purpose of the evaluation was to review the Board's own operation and to identify ways to improve its effectiveness. It also helps to identify specific skills required or desirable in Board members and this can be advised to the Government for consideration when making appointments.

The methodology applied involves the completion by Board members of a detailed questionnaire and separate meetings by the Chairman with executive and non-executive Board members. The questionnaire facilitated a structured, robust and objective review of the whole range of the Board's duties, processes, competencies and effectiveness. The meetings with the Chairman provide a forum for an open exchange among Board members concerning the efficiency and effectiveness of the Board. For future evaluations it is the intention of the Board that its evaluation should be externally facilitated at least every three years.

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

### BOARD COMMITTEES IN 2011

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

### AUDIT AND RISK COMMITTEE

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

During 2011 the Committee reviewed:

- > ESB's Risk Policy and 2011 Risk Plan and regular risk reports;
- > The Group Internal Audit Plan, audit reports and regular implementation reports;
- > The effectiveness of the internal audit function;
- > The External Audit Plan, the scope of the audit as set out in the engagement letter and the effectiveness of the external audit;
- > The effectiveness of the company's risk management and internal control systems;
- > 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;
- > The Committee's own terms of reference to ensure they remained relevant and up to date; and
- > The appointment of External Auditors following an open and transparent procurement process.

The appointment of auditors is subject to public tender every five years. ESB completed a public tender for audit services in January 2012 which resulted in the re-appointment of KPMG as auditors subject to government approval. After detailed consideration the Board was satisfied that the re-appointment of the existing auditors did not affect auditor independence given in particular the rotation of audit partners and other auditor personnel.

The Committee has developed a policy regarding the provision of non-audit services by the external auditor, whereby, other than as notified to the



# BOARD MEMBERS' REPORT

Committee, such services should be limited to advice in relation to accounting, taxation and compliance issues. The fees payable for non-audit services in any financial year should not exceed audit fees for that year.

The internal and external auditors have full and unrestricted access to the Audit and Risk Committee. The Committee Chairman reports the outcome of its meetings to the Board. The Board is satisfied that at all times during the year at least one member of the Committee had recent and relevant financial experience. The Committee held six meetings during 2011. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings Attended
Brendan Byrne, Chairman	6
Seán Conlan	5
Garry Keegan (as from February 2011)	5
Eoin Fahy (until February 2011)	1

The Board Chairman Lochlann Quinn attended four meetings of this committee during 2011.

## INVESTMENT COMMITTEE

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

Members	Meetings Attended
Ellvena Graham, Chairman (as from April 2011)	8
John Coleman	9
Sean Kelly (as from February 2011)	9
Noreen Wright (as from September 2011)	3
Padraig McManus (until November 2011)	6
Eoin Fahy (until February 2011)	2

The Board Chairman Lochlann Quinn attended seven meetings of this committee during 2011.

## 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 five meetings during 2011. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings Attended
Tony Merriman, Chairman	5
John Coleman	5
Seamus Mallon ^	4
Padraig McManus (until November 2011)	4

^Mr Mallon's first term on the Board was completed on 20 February 2011 and he was re-appointed as of 3 May 2011.

## FINANCE AND PERFORMANCE IMPROVEMENT COMMITTEE

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

Members	Meetings Attended
Brendan Byrne, Chairman	10
Dave Byrne (as from February 2011)	9
Ellvena Graham (as from February 2011)	7
Lochlann Quinn (until February 2011)	1

The Board Chairman Lochlann Quinn attended a further five meetings of this committee during 2011.

## 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 four meetings during 2011. The members of the Committee and the number of meetings attended are set out in the following table:

Members	Meetings Attended
Tony Merriman, Chairman	4
Seamus Mallon ^	3
Dave Byrne (as from February 2011)	4

^Mr Mallon's first term on the Board was completed on 20 February 2011 and he was re-appointed as of 3 May 2011.

## 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 2011, 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 one meeting during 2011 which was attended by all Committee Members

Members	Meetings Attended
Lochlann Quinn, Chairman	1
Ellvena Graham	1

## MARKET AND CUSTOMER COMMITTEE

The Market and Customer Committee advises the Board on all aspects of customer service including business preparation for the competitive market in the residential supply business, on brand issues and on customer service metrics. The Committee held four meetings during 2011. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings Attended
Garry Keegan, Chairman	4
Seán Conlan	4
Sean Kelly (as from April 2011)	3

### AD-HOC SELECTION COMMITTEE

During 2011 the Board established a Committee comprising the Chairman Mr Lochlann Quinn and Board members Mr Brendan Byrne and Mr Seán Conlan to oversee the selection process for a new Chief Executive. This process concluded in October 2011 when the Board approved the appointment of Mr Pat O'Doherty as the Chief Executive to succeed Mr Pádraig McManus.

### INTERNAL CONTROLS

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

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

- > A code of ethics that requires all Board Members and employees to maintain the highest ethical standards in conducting business;
- > Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board which support the maintenance of a strong control environment;
- > A corporate governance framework which includes risk analysis, financial control review and formal annual governance statements by the management of business lines and in the Corporate Centre. This is monitored by the Group Internal Audit department, which reports to the Audit and Risk Committee on an ongoing basis;
- > A comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require the approval of the Board, and are closely monitored on an ongoing basis by the Investment Committee of the Board. They can also be subject to post completion audits;
- > Comprehensive budgeting systems with an annual budget approved by the Board;
- > A comprehensive system of financial reporting. Cumulative monthly actual results are reported

against budget 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

- > A confidential helpline service to provide staff with a confidential, and if required, anonymous means to report fraud or ethical concerns.
- > Consideration of operational and financial issues by Board Committees as described on pages 37.

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

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

### THE BOARD'S ENTERPRISE RISK MANAGEMENT (ERM) PROCESS

Risk management is an integral part of all business activity and is managed in a consistent manner across the Business Units. To achieve this, ESB has adopted since 2005 an enterprise-wide approach to risk management. Across 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 and Risk Committee, and implemented by management at all levels of the Group.

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

The Group Internal Auditor is independent of the risk management process and has provided independent assurance to the Board Audit and Risk Committee on the adequacy of the risk management arrangements in place in the Group. During 2011 the Enterprise Risk Management process was reviewed and strengthened as outlined in the Risk Management Report.

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 48 to 49.

# BOARD MEMBERS' REPORT

## Board Members' Remuneration 2011:

	2011	2010
	€	€
<b>Chairman: Lochlann Quinn</b>		
Fees	78,750	78,750
<b>Chief Executive: Padraig McManus</b> (to 30 November 2011)		
Salary	373,452	420,993
Performance related pay (in respect of 2009)	84,199	-
Taxable benefits	16,231	23,100
Pension contributions	87,127	69,043
Payment in lieu of notice	99,401	-
Fees (11 months)	14,477	15,750
	<b>674,887</b>	<b>528,886</b>

## Pat O'Doherty (from 1 December 2011)

	2011	2010
	€	€
Salary	24,583	-
Pension contributions	4,028	-
	<b>28,611</b>	

In line with Government and Board policy, Mr McManus received no bonus in respect of 2010 and 2011. The last bonus paid to him was €84,199 which was in respect of 2009 (and was paid in February 2011). On 1 April 2009, Mr McManus accepted a voluntary salary reduction of 10% and a further reduction of 5% as of April 2011 giving an overall reduction of 15% on his contractual salary. The salary numbers given above reflect these voluntary reductions. The total amount of salary forgone by Mr McManus came to €140,459 and Mr McManus gave effect to the voluntary reductions by a waiver in favour of the Minister for Finance. Mr McManus retired on 30 November 2011 and, by agreement with the company, received a payment of €99,401 in lieu of notice (equivalent to three month's salary) in full and final discharge of his contractual entitlement to six months' notice.

Mr Pat O'Doherty was appointed Chief Executive on 1 December 2011. The Remuneration and Management Development Committee have approved a salary of €295,000 for Mr O'Doherty.

## Non-Executive Board Members Remuneration 2011:

	2011	2010
	€	€
Brendan Byrne	15,750	15,750
Dave Byrne	15,750	-
John Coleman	15,750	15,750
Seán Conlan	15,750	15,750
Ellvena Graham	15,750	3,797
Garry Keegan	15,750	15,750
Sean Kelly	15,750	-
Georgina Kenny	-	5,911
Eoin Fahy	2,701	15,750
Seamus Mallon	12,686	15,750
Tony Merriman	15,750	15,750
John Nugent	-	15,750
Bobby Yeates	-	15,750
Noreen Wright	8,069	-
	<b>149,456</b>	<b>151,458</b>

## EXECUTIVE BOARD MEMBERS' REMUNERATION

The only executive Board Member during 2011 was the Chief Executive, Mr Padraig McManus who retired on 30 November 2011. The Chief Executive's remuneration is set within a range determined by the Ministers for Public Expenditure and Reform and for Communications, Energy and Natural Resources. Mr McManus voluntarily accepted a 15% reduction on his contractual salary as set out above.

## 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 2011, the following amounts were reimbursed to, or paid on behalf of, Board Members: €44,922 for travel expenses, €25,279 for subsistence, €11,483 for entertainment, €19,608 for conferences and €3,536 for subscriptions.

The above expenses include those of the former 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 5 April 2012 for submission to the Minister for Communications, Energy and Natural Resources.

On behalf of the Board



Lochlann Quinn Chairman



Brendan Byrne, Chairman, Audit & Risk Committee

5 April 2012

**COMMITTEE MEMBERSHIP AND LENGTH OF SERVICE**

Name On Committee since:

**Audit & Risk Committee**

Brendan Byrne	February 2005
Seán Conlan	February 2008
Garry Keegan	February 2011

**Investment Committee**

Ellvena Graham	April 2011
John Coleman	February 2007
Sean Kelly	February 2011
Noreen Wright	September 2011

**Health, Safety & Environment Committee**

Tony Merriman	February 2007
John Coleman	February 2007
Seamus Mallon	May 2006

**Finance & Performance Improvement Committee**

Brendan Byrne	March 2008
Dave Byrne	February 2011
Ellvena Graham	February 2011

**Regulation Committee**

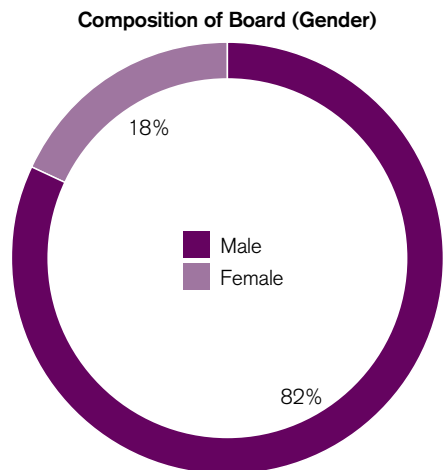
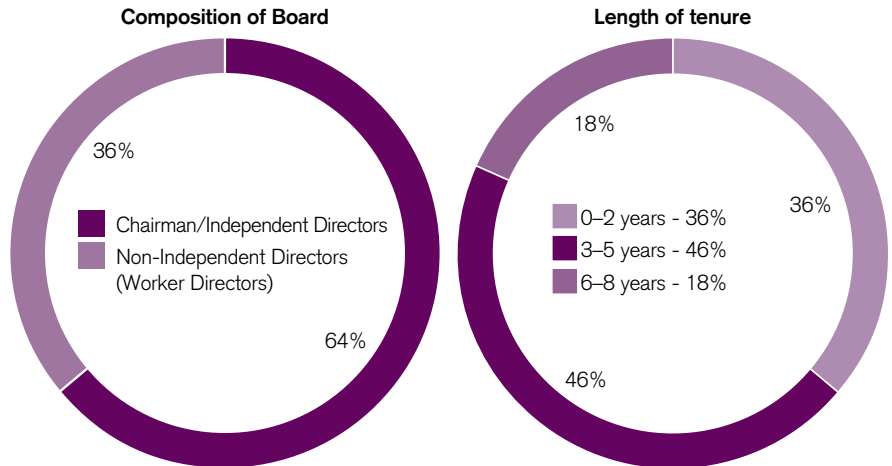
Tony Merriman	February 2007
Seamus Mallon	February 2007
Dave Byrne	March 2011

**Remuneration and Management Development Committee**

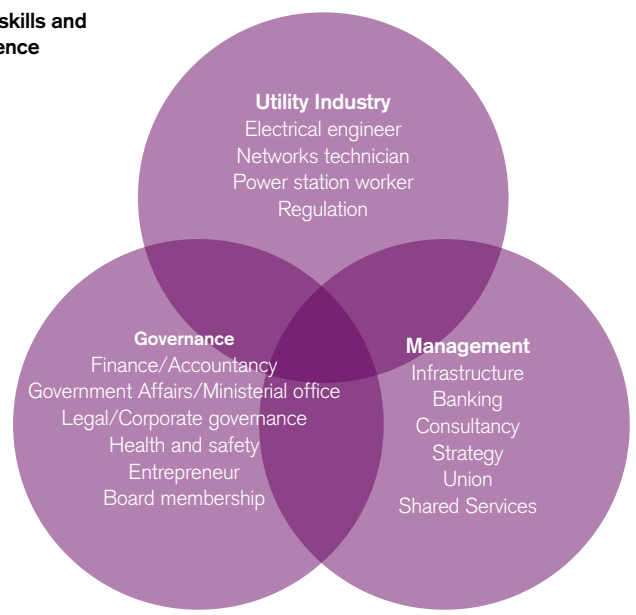
Lochlann Quinn	February 2008
Ellvena Graham	January 2011

**Market & Customer Committee**

Garry Keegan	February 2008
Seán Conlan	February 2008
Sean Kelly	April 2011



**Board skills and experience**





# RISK MANAGEMENT REPORT

## ENTERPRISE APPROACH

The risk oversight performed by the Board is contained in page 43 of the Board Members' Report. The section 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 established a risk management framework comprising of 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
- > 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, adopted in 2005. ERM provides an integrated approach to risk and has become established practice in ESB for managing uncertainty and minimising threats.

ESB strictly monitors the ongoing effectiveness of its risk management framework in the light of emerging challenges to the company. During 2011, the Group risk policy was reviewed and updated, and its risk framework was extended to include formal structures for increased consideration of strategic risk. A new risk reporting regime will apply from 2012 in response to increased risk oversight duties recommended by the Audit and Risk Committee.

## Principal Risks and Mitigation Strategies

RISKS	IMPACT	MITIGATION STRATEGIES
<b>SAFETY &amp; ENVIRONMENT RISKS</b>		
<b>Injury to Staff, Contractors and the General Public</b>	As a major energy utility company, 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.
<b>Environment and Climate Change</b>	Many ESB activities have potential for significant environmental impact and are regulated by relevant national and EU laws.	Strong control and regular compliance auditing are a feature of ESB's environmental protection systems. The Group commits significant resources towards ensuring compliance with applicable planning and environmental laws/regulations and works closely with all relevant authorities. To address the challenges of climate change, ESB is pursuing an ambitious carbon reductions strategy and investing strongly in renewable energy and environmentally friendly technology.
<b>COMMERCIAL &amp; MARKET RISKS</b>		
<b>Competitor Action</b>	The Group faces strong competition in all its markets. The level of competitor activity in the domestic supply sector has fundamentally altered the nature of this market.	ESB continues to adapt to increased competition, aggressive new entrants and significant loss of market share. ESB has participated in the CER consultation process for further market deregulation in the light of ESB's reduced market share/increased competition. During 2011, ESB established the Electric Ireland brand, progressed its transition to a new organisation structure to further improve its competitiveness/cost base and received commercial freedom from CER to fully compete in the residential sector. ESB is building on its entry to the gas market in 2011 and is developing further pricing and service offerings for its customers.
<b>Economic and Market Conditions</b>	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. The company is implementing a cost reduction programme across the Group with the aim of taking €280 million out of the cost base by 2015.

<b>Trading Risk</b>	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 <sub>2</sub> 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.
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**FINANCIAL RISKS**

<b>Funding and Liquidity</b>	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 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 maintains a strong credit rating and 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.
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**REGULATORY RISKS**

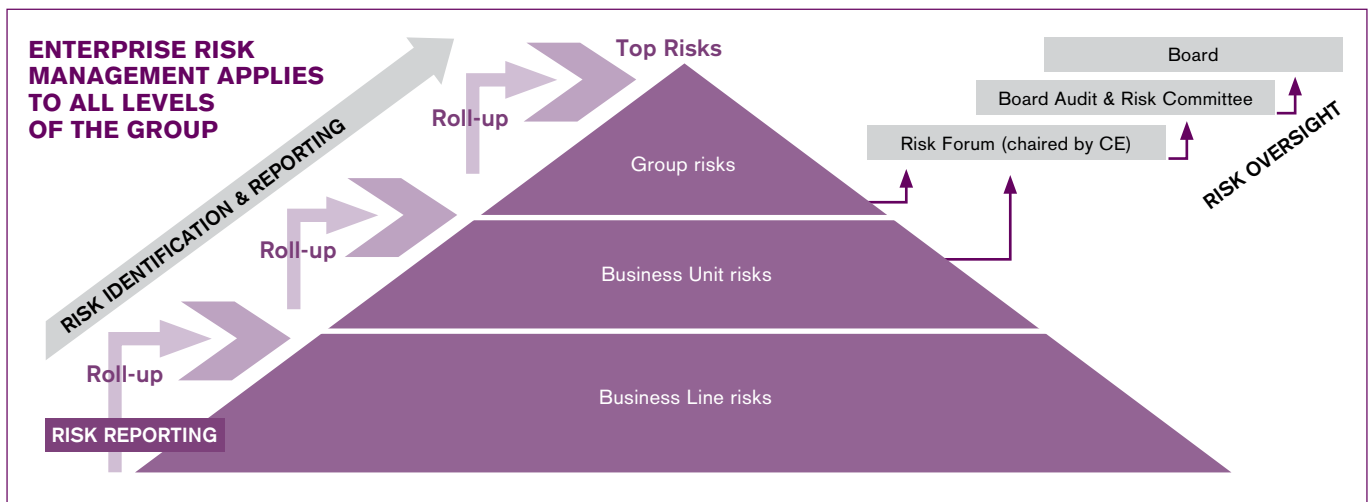
<b>Compliance and Market Changes</b>	The principal regulatory risks faced by the Group originate from licence compliance, ring-fencing requirements, the impact of price control reviews, and an evolving EU regulatory framework.	ESB manages these risks through a dedicated Regulatory Affairs team which provides ongoing input into 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.
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**OPERATIONAL RISKS**

<b>Plant Performance Risk</b>	Failure to achieve the targeted performance and availability of existing generation plant through damage to ESB plant, incidents and breakdowns.	Such plant risks are minimised through ESB's well established plant safety and maintenance regimes, operating and technical procedures, and staff training. The Group also has in place appropriate insurance contracts to protect against financial loss from outages arising from plant damage.
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<b>Knowledge and Skills</b>	ESB depends on the technical competence and credibility of its management/staff. The Group 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. It 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, smart grids, etc.
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<b>Business Processes and IT Systems</b>	ESB's Enterprise Risk processes identify and address (escalating where appropriate) operational risks that could lead to losses or reputational damage from mistakes or shortcomings in the Group's business processes and IT systems.	Each business unit is responsible for limiting and managing operational risks within its area of responsibility, by ensuring that well-documented routines, reliable IT systems and satisfactory internal controls are in place. From a Group perspective, the Chief Information Officer is responsible for ESB's overall IT strategy, including governance arrangements for the security/reliability of IT infrastructure and systems. Internal controls, including IT governance, are subject to internal and external audit. The planning of the Group's internal audit programme takes account of potential operational risks identified by the risk management framework
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# FINANCIAL STATEMENTS

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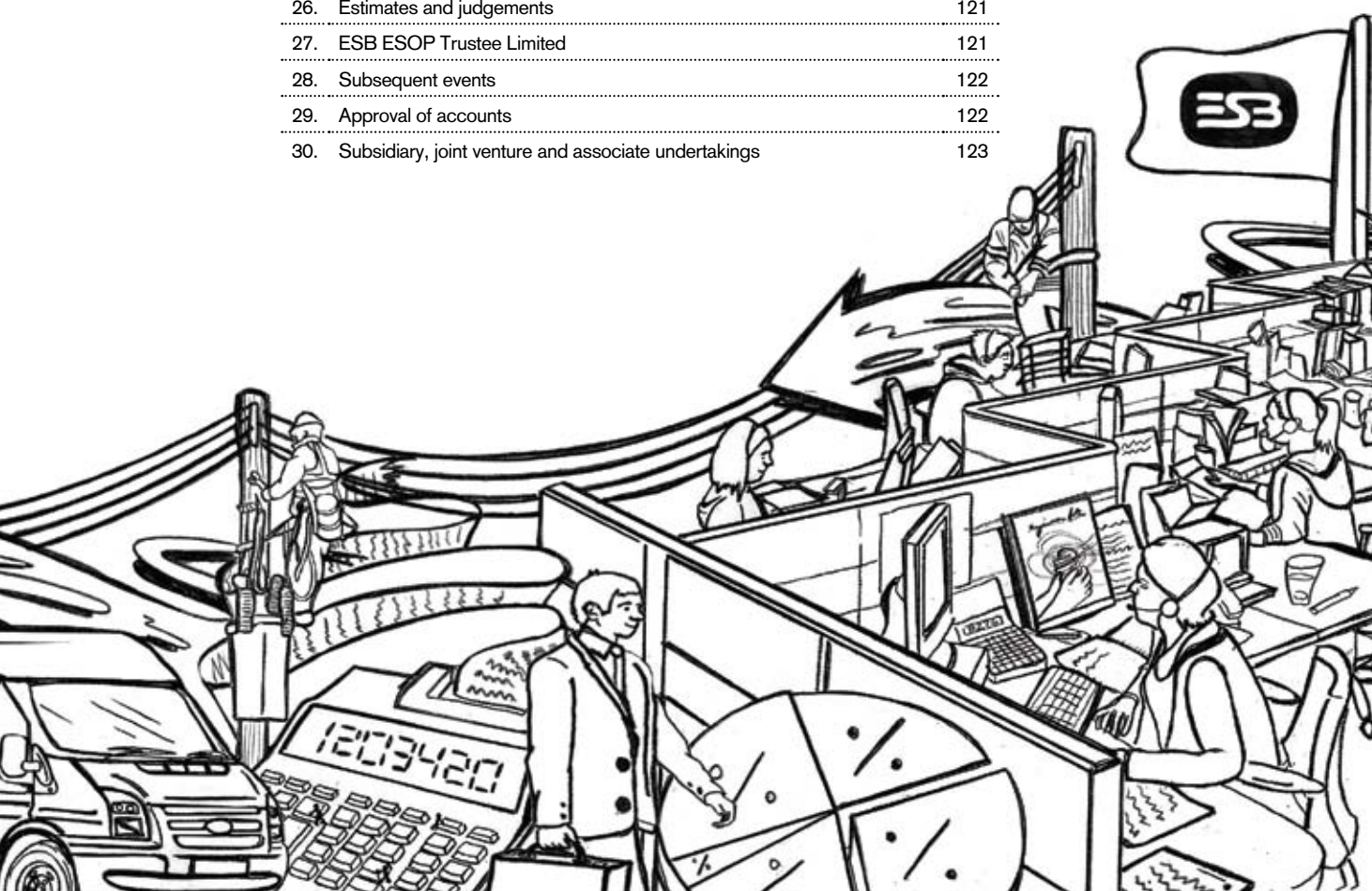
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# STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

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

The Electricity Supply Acts 1927 to 2004 require the Board Members to prepare Group and Parent financial statements for each financial year. Under ESB's governing regulations (the "Regulations"), adopted pursuant to the Electricity Supply Acts 1927 to 2004, the Board is required to prepare financial statements and reports as required by, and in accordance with, the Companies Acts 1963 to 2009 (the "Companies Acts"), in the same manner as a company established under the Companies Acts. Further, the Board Members have prepared the financial statements of the Parent and the Group in accordance with IFRS as adopted by the EU, and as applied in accordance with the Companies Acts.

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

In preparing each of the Group and Parent financial statements on pages 59 to 125, the Board Members are required to:

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

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

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

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

On behalf of the Board



**Lochlann Quinn** Chairman



**Brendan Byrne**, Chairman Audit & Risk Committee

5 April 2012

# 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 2011 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent balance sheets, the Group and Parent statements of changes in equity, the Group and Parent cash flow statements, the statement of accounting policies and the related notes. 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 have been properly prepared in accordance with the Companies Acts 1963 to 2009 as applied by the Electricity (Supply) Acts 1927 to 2004 and, in the case of the Group financial statements, Article 4 of the IAS Regulation. 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 also report to you if, in our opinion, any information specified by the Companies Acts 1963 to 2009 as applied by the Electricity (Supply) Acts 1927 to 2004 or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We are required by law to report to you our opinion as to whether the description of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated Group financial statements, set out in the annual corporate governance statement is consistent with the consolidated financial statements. In addition, we review, at the request of Board members, whether (1) the voluntary statement on pages 42 to 46 reflects the Board's compliance with the nine provisions of the UK Corporate Governance Code and two provisions of the Irish Corporate Governance Annex specified for our review by the Listing Rules of the Irish Stock Exchange, and (2) the statement on the system of internal controls on page 45 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 misstatements 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 applied

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 2011 and of its profit for the year then ended;
- > the Parent financial statements give a true and fair view in accordance with IFRSs as adopted by the EU, as applied in accordance with the provisions of the Companies Acts 1963 to 2009, as applied by the Electricity (Supply) Acts 1927 to 2004, of the state of the Parent's affairs as at 31 December 2011;
- > the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation; 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 and the description in the annual corporate governance statement of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated Group financial statements is consistent with the financial statements.

Kevin O'Donovan

For and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm

Dublin, Ireland

5 April 2012

## 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 2011 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 that a Parent company presents its individual financial statements together with its consolidated financial statements with an exemption from publishing the Parent income statement and statement of comprehensive income which forms part of the Parent financial statements prepared and approved in accordance with the Acts. The financial statements of the Parent and Group have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective for accounting periods ending on or before 31 December 2011.

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 26 to the financial statements.

The policies set out below have been consistently applied to all years presented in these consolidated financial statements and have been applied consistently by Group entities – with the exception of (i) adoption of new standards as set out below, and (ii) non-repayable supply contributions (see section 11 below).

The Board members consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis. Further details of the Group's liquidity position are provided in note 16 of the financial statements.

### 2. BASIS OF CONSOLIDATION

The Group's financial statements consolidate the financial statements of the Parent and of all subsidiary undertakings together with the Group's share of the results and net assets of associates and joint ventures made up to 31 December 2011. The results of subsidiary undertakings acquired or disposed of in the year are included in the Group income statement from the date of acquisition or up to the date of disposal.

#### Accounting for business combinations

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

#### Acquisitions on or after 1 January 2010

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

- > the fair value of the consideration transferred; plus
- > the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- > the net recognised amount (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 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 prior to 1 January 2004 (date of transition to IFRSs)

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

### Subsidiaries

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

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

### Joint ventures

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

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

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

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

### Associates

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

### Transactions eliminated on consolidation

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

### New standards and interpretations not yet adopted

The adoption of the other new standards (as set out in the 2010 Annual Report) that became effective for the Group's financial statements for the year ended 31 December 2011 did not have any significant impact on the Group financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements. These new standards, amendments and interpretations are still under assessment:

Accounting standard/interpretation	Effective date
IFRS 7 (Amendment) – Financial Instruments: Disclosures	1 July 2011
IFRS 9 – Financial Instruments Classification and Measurement	1 January 2015
IFRS 10 – Consolidated Financial Statements	1 January 2013
IFRS 11 – Joint Arrangements	1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
IAS 1 (Amendment) – Presentation of Financial Statements	1 July 2012
IAS 12 (Amendment) – Income taxes	1 January 2012
IAS 19 (Amendment) – Employee Benefits	1 January 2013
IAS 27 (Amendment) – Consolidated and Separate Financial Statements	1 January 2013
IAS 28 (Amendment) – Investments in Associates and Joint Ventures	1 January 2013
IAS 32 (Amendment) – Financial Instruments Presentation	1 January 2014

### 3. FOREIGN CURRENCIES

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

#### Foreign currency transactions

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

#### Net investments in foreign operations

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured accordingly in that currency. In the consolidated financial statements, the Group's net investments in overseas subsidiary undertakings, joint ventures, associates and

related goodwill are translated at the rate ruling at the balance sheet date. Where an intergroup loan is made for the long term and its settlement is neither planned nor foreseen, it is accounted for as part of the net investment in a foreign operation. The profits, losses and cash flows of overseas subsidiary undertakings, joint ventures and associates are translated at average rates for the period, where that represents a reasonable approximation of the actual rates.

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

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

### 4. PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

#### Recognition and measurement

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

#### Depreciation

The charge for depreciation is calculated to write down the cost of property, plant and equipment to its estimated residual value over its expected useful life using methods appropriate to the nature of the Group's business and to the character and extent of its property, plant and equipment. Major asset classifications and their allotted life spans are:

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

Depreciation is provided on all assets from the date of commissioning:

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

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

#### Subsequent expenditure

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

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

### 5. LEASED ASSETS

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

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

### 6. INTANGIBLE ASSETS AND GOODWILL

#### (a) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented within intangible assets. For the measurement of goodwill at initial recognition, see accounting policy 2: Basis of consolidation.

#### Subsequent measurement

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

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

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

#### (b) Emission allowances

In accordance with the provisions of the European CO<sub>2</sub> emissions trading scheme, emissions allowances covering a percentage of the expected emissions during the year are granted to ESB at the beginning of each year by the relevant Government Authority.



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

As emissions arise, a provision is recorded in the income statement to reflect the amount required to settle the liability to the Authority. This provision includes the carrying value of the emission allowances held, as well as the current market value of any additional allowances required to settle the obligation. These allowances, together with any additional allowances purchased during the year, are returned to the relevant Authority in charge of the scheme within four months of the end of that calendar year, in order to cover the liability for actual emissions of CO<sub>2</sub> during that year. Emissions allowances held at cost as intangible assets are not amortised as they are held for settlement of the emissions liability in the following year.

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

### (c) Software costs and other intangible assets

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

Major asset classifications and their allotted life spans are:

Software	3/5 years
Other intangibles	20 years

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

## 7. IMPAIRMENT OF ASSETS OTHER THAN GOODWILL

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by

which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

## 8. 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.

## 9. 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.

## 10. FINANCIAL ASSETS AND LIABILITIES

### (a) Non-derivative financial assets and liabilities Trade and other receivables

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

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

### Cash and cash equivalents

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

### Trade and other payables

Trade and other payables are initially recorded at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost using the effective interest rate method. 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 income statement are financial instruments either held for trading or categorised as such at inception.

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

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

### (b) Derivative financial instruments and other hedge 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 will be recognised in accordance with IAS 39 as 'cash flow' hedges or 'fair value' hedges.

Derivative financial instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are re-measured to fair value at the balance sheet date.

The majority of these derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on subsequent re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge.

Derivatives 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 as insurance contracts. Where it is expected that no

claims will be made on these contracts, no provision is made in the Parent financial statements where claims are probable, the provisions policy (14) is applied.

#### 11. 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.

#### 12. CAPITAL STOCK

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

#### 13. INCOME TAX

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income.

##### Current tax

Current tax is provided at current rates and is calculated on the basis of results for the period, 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

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.

#### 14. PROVISIONS

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

##### Provision for generating station closure

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

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

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

#### 15. OPERATING SEGMENTS – IFRS 8

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

#### 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 of 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.

#### (c) Finance income and finance costs

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

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

### 19. PENSION OBLIGATIONS

#### Pension obligations

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

#### Pension schemes in the Republic of Ireland

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

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

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

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

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

The ESB Defined Contribution Pension Scheme (formerly ESB Subsidiary Companies Pension Scheme) is a defined contribution scheme and contributions to the scheme are accounted for on a defined contribution basis with the employer's 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

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 2011

	Notes	2011 € '000	2010 € '000
Revenue	1/2	2,916,219	2,706,654
Other operating income	3	78,629	32,864
Operating costs	4	(2,525,915)	(2,400,808)
Operating profit before exceptional pension charge		468,933	338,710
Exceptional pension charge	6	-	(329,518)
Operating profit before net finance cost		468,933	9,192
Finance cost	5	(415,884)	(114,432)
Finance income	5	1,790	1,449
Net finance cost		(414,094)	(112,983)
Share of joint ventures' profit	10	23,912	14,576
Profit / (loss) before taxation		78,751	(89,215)
Income tax credit	15	21,281	5,099
Profit / (loss) after taxation		100,032	(84,116)
<b>Attributable to:</b>			
Equity holders of the Parent		99,742	(84,103)
Non-controlling interest		290	(13)
<b>Profit / (loss) for the financial year</b>		<b>100,032</b>	<b>(84,116)</b>

Notes 1 to 30 form an integral part of these financial statements.

**Lochlann Quinn**  
Chairman

**Brendan Byrne**  
Chairman, Audit and Risk Committee

**Pat O'Doherty**  
Chief Executive

**Donal Flynn**  
Executive Director, Group Finance and Commercial

5 April 2012



## GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 € '000	2010 € '000
<b>Profit / (loss) for the financial year</b>		<b>100,032</b>	<b>(84,116)</b>
<b>Other comprehensive income ('OCI')</b>			
Effective hedge of a net investment in foreign subsidiary		(656)	(727)
Translation differences on consolidation of foreign subsidiaries		1,409	(3,349)
Translation differences on consolidation of joint ventures		51	3,417
Defined benefit pension scheme actuarial losses	18(c)	(113,122)	-
Fair value gains on cash flow hedges		18,707	96,658
Fair value losses on cash flow hedges in joint ventures	10	(10,094)	(4,849)
Transferred to income statement on cash flow hedges		(33,209)	(77,318)
Tax on items taken directly to statement of comprehensive income (OCI)		28,521	(3,424)
Tax on items taken directly to OCI for joint ventures	10	2,697	1,358
Tax on items transferred from OCI		760	9,790
<b>Total other comprehensive (loss) / income</b>		<b>(104,936)</b>	<b>21,556</b>
<b>Total comprehensive (loss) for the financial year</b>		<b>(4,904)</b>	<b>(62,560)</b>
<b>Attributable to:</b>			
Equity holders of the Parent		(5,194)	(62,357)
Non-controlling interest		290	(203)
<b>Total comprehensive (loss) for the financial year</b>		<b>(4,904)</b>	<b>(62,560)</b>

**Lochlann Quinn**  
Chairman

**Brendan Byrne**  
Chairman, Audit and Risk Committee

**Pat O'Doherty**  
Chief Executive

**Donal Flynn**  
Executive Director, Group Finance and Commercial

5 April 2012

# GROUP BALANCE SHEET

As at 31 December 2011

	Notes	2011 € '000	2010 € '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	10,162,326	9,837,926
Intangible assets and goodwill	9	553,642	525,608
Investments in joint ventures	10	28,678	55,117
Financial asset investments	10	40,826	20,184
Derivative financial instruments	23	427,732	497,666
Defined benefit pension asset	18	-	12,698
Deferred tax assets	15	181,052	152,883
<b>Total non-current assets</b>		<b>11,394,256</b>	<b>11,102,082</b>
<b>Current assets</b>			
Inventories	11	136,566	103,934
Derivative financial instruments	23	75,024	79,769
Current tax asset		12,182	6,983
Trade and other receivables	12	643,710	619,339
Cash and cash equivalents	13	277,409	199,585
<b>Total current assets</b>		<b>1,144,891</b>	<b>1,009,610</b>
<b>Total assets</b>		<b>12,539,147</b>	<b>12,111,692</b>
<b>EQUITY</b>			
Capital stock	14	1,979,882	1,979,882
Translation reserve		(17,467)	(18,904)
Cash flow hedging, revaluation and other reserves		356,306	468,238
Retained earnings		1,474,234	1,445,947
<b>Equity attributable to equity holders of the Parent</b>		<b>3,792,955</b>	<b>3,875,163</b>
Non-controlling interest	14	1,832	1,542
<b>Total equity</b>		<b>3,794,787</b>	<b>3,876,705</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings and other debt	16	4,367,862	3,361,211
Liability for pension obligation	19	732,835	808,231
Defined benefit pension liabilities	18	91,216	-
Employee related liabilities	19	62,574	81,899
Trade and other payables	20	13,281	14,820
Deferred income and government grants	21	620,020	666,634
Provisions	22	219,121	241,468
Deferred tax liabilities	15	864,683	843,317
Derivative financial instruments	23	553,837	435,940
<b>Total non-current liabilities</b>		<b>7,525,429</b>	<b>6,453,520</b>
<b>Current liabilities</b>			
Borrowings and other debt	16	233,309	781,989
Liability for pension obligation	19	101,907	88,471
Employee related liabilities	19	79,144	75,503
Trade and other payables	20	583,192	617,669
Deferred income and government grants	21	57,187	39,333
Provisions	22	137,393	151,813
Current tax liabilities		-	7,978
Derivative financial instruments	23	26,799	18,711
<b>Total current liabilities</b>		<b>1,218,931</b>	<b>1,781,467</b>
<b>Total liabilities</b>		<b>8,744,360</b>	<b>8,234,987</b>
<b>Total equity and liabilities</b>		<b>12,539,147</b>	<b>12,111,692</b>

Lochlan Quinn  
Chairman

Donal Flynn  
Executive Director, Group Finance and Commercial

Brendan Byrne  
Chairman, Audit and Risk Committee

5 April 2012

Pat O'Doherty  
Chief Executive

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## PARENT BALANCE SHEET

As at 31 December 2011

	Notes	2011 € '000	2010 € '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	7,060,138	6,942,041
Intangible assets	9	212,674	209,435
Investments in subsidiary undertakings	10	72,832	72,832
Derivative financial instruments	23	2,559	-
Deferred tax assets	15	122,926	124,729
<b>Total non-current assets</b>		<b>7,471,129</b>	<b>7,349,037</b>
<b>Current assets</b>			
Inventories	11	109,360	82,750
Derivative financial instruments	23	7,437	13,288
Current tax asset		6,968	6,600
Trade and other receivables	12	1,946,550	1,944,374
Cash and cash equivalents	13	202,470	140,902
<b>Total current assets</b>		<b>2,272,785</b>	<b>2,187,914</b>
<b>Total assets</b>		<b>9,743,914</b>	<b>9,536,951</b>
<b>EQUITY</b>			
Capital stock	14	1,979,882	1,979,882
Cash flow hedging and other reserves		(10,736)	20,309
Retained earnings		1,122,518	998,146
<b>Equity attributable to equity holders of the Parent</b>		<b>3,091,664</b>	<b>2,998,337</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings and other debt	16	2,974,835	2,731,590
Liability for pension obligation	19	732,835	808,231
Employee related liabilities	19	62,574	81,899
Trade and other payables	20	5,649	7,414
Deferred income and government grants	21	619,861	661,465
Provisions	22	205,042	228,353
Deferred tax liabilities	15	398,079	370,624
Derivative financial instruments	23	69,217	69,004
<b>Total non-current liabilities</b>		<b>5,068,092</b>	<b>4,958,580</b>
<b>Current liabilities</b>			
Borrowings and other debt	16	219,746	106,326
Liability for pension obligation	19	101,907	88,471
Employee related liabilities	19	68,856	67,645
Trade and other payables	20	1,028,126	1,159,538
Deferred income and government grants	21	49,354	32,485
Provisions	22	103,987	123,021
Current tax liabilities		1,675	-
Derivative financial instruments	23	10,507	2,548
<b>Total current liabilities</b>		<b>1,584,158</b>	<b>1,580,034</b>
<b>Total liabilities</b>		<b>6,652,250</b>	<b>6,538,614</b>
<b>Total equity and liabilities</b>		<b>9,743,914</b>	<b>9,536,951</b>

Lochlan Quinn  
Chairman

Donal Flynn  
Executive Director, Group Finance and Commercial

Brendan Byrne  
Chairman, Audit and Risk Committee

5 April 2012

Pat O'Doherty  
Chief Executive

# GROUP STATEMENT OF CHANGES IN EQUITY

As at 31 December 2011

	Capital stock	Translation reserve	Cash flow* hedging & other reserves	Retained earnings	Total	Non-controlling interest	Total equity
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
<b>Reconciliation of changes in equity</b>							
<b>Balance at 1 January 2010</b>	<b>1,979,882</b>	<b>(18,245)</b>	<b>451,085</b>	<b>1,619,428</b>	<b>4,032,150</b>	<b>1,745</b>	<b>4,033,895</b>
Total comprehensive income for the year							
Loss for the year	-	-	-	(84,103)	(84,103)	(13)	(84,116)
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/(losses) 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
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>(659)</b>	<b>17,153</b>	<b>(79,041)</b>	<b>(62,547)</b>	<b>(13)</b>	<b>(62,560)</b>
<b>Transactions with owners recognised directly in equity</b>							
Dividends	-	-	-	(94,440)	(94,440)	(190)	(94,630)
<b>Balance at 31 December 2010</b>	<b>1,979,882</b>	<b>(18,904)</b>	<b>468,238</b>	<b>1,445,947</b>	<b>3,875,163</b>	<b>1,542</b>	<b>3,876,705</b>
<b>Balance at 1 January 2011</b>	<b>1,979,882</b>	<b>(18,904)</b>	<b>468,238</b>	<b>1,445,947</b>	<b>3,875,163</b>	<b>1,542</b>	<b>3,876,705</b>
<b>Total comprehensive income for the year</b>							
Income for the year	-	587	-	99,155	99,742	290	100,032
Defined benefit scheme actuarial losses	-	-	(113,122)	-	(113,122)	-	(113,122)
Transfers to retained earnings	-	-	(5,562)	5,562	-	-	-
Translation differences net of hedging	-	850	(630)	587	807	-	807
Cash flow hedges:							
- Net fair value gains	-	-	18,707	-	18,707	-	18,707
- Transfers to income statement							
- Finance cost (interest)	-	-	4,372	-	4,372	-	4,372
- Finance cost (foreign translation movements)	-	-	(33,767)	-	(33,767)	-	(33,767)
- Other operating expenses	-	-	(3,814)	-	(3,814)	-	(3,814)
- Fair value gains/(losses) for hedges in joint ventures	-	-	(10,094)	-	(10,094)	-	(10,094)
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	28,521	-	28,521	-	28,521
Tax on items transferred to income statement	-	-	760	-	760	-	760
Tax on items taken directly to OCI for joint ventures	-	-	2,697	-	2,697	-	2,697
<b>Total comprehensive income/ (loss) for the year</b>	<b>-</b>	<b>1,437</b>	<b>(111,932)</b>	<b>105,304</b>	<b>(5,191)</b>	<b>290</b>	<b>(4,901)</b>
<b>Transactions with owners recognised directly in equity</b>							
Dividends	-	-	-	(77,017)	(77,017)	-	(77,017)
<b>Balance at 31 December 2011</b>	<b>1,979,882</b>	<b>(17,467)</b>	<b>356,306</b>	<b>1,474,234</b>	<b>3,792,955</b>	<b>1,832</b>	<b>3,794,787</b>

\*The cash flow hedging and other reserves comprises of (i) a €60.8 million (2010: €66.3 million) revaluation reserve which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009 and (ii) cash flow hedge reserve of €295.5 million (2010: €401.9 million).



## PARENT STATEMENT OF CHANGES IN EQUITY

As at 31 December 2011

Reconciliation of changes in equity	Capital stock € '000	Cash flow hedging reserve € '000	Retained earnings € '000	Total € '000
<b>Balance at 1 January 2010</b>	<b>1,979,882</b>	<b>(22,605)</b>	<b>1,202,326</b>	<b>3,159,603</b>
<b>Total comprehensive income for the year</b>				
(Loss) 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 statement of comprehensive income (OCI)	-	(6,131)	-	(6,131)
Tax on items transferred to income statement	-	9,731	-	9,731
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>42,914</b>	<b>(109,740)</b>	<b>(66,826)</b>
<b>Transactions with owners recognised directly in equity</b>				
Dividends	-	-	(94,440)	(94,440)
<b>Balance at 31 December 2010</b>	<b>1,979,882</b>	<b>20,309</b>	<b>998,146</b>	<b>2,998,337</b>
<b>Balance at 1 January 2011</b>	<b>1,979,882</b>	<b>20,309</b>	<b>998,146</b>	<b>2,998,337</b>
<b>Total comprehensive income for the year</b>				
Income for the year	-	-	201,389	201,389
Cash flow hedges:				
- Net fair value (losses)	-	(2,795)	-	(2,795)
- Transfers to income statement				
- Finance cost (interest)	-	3,391	-	3,391
- Finance cost (foreign translation movements)	-	(33,767)	-	(33,767)
- Other operating expenses	-	(3,468)	-	(3,468)
Tax on items taken directly to statement of comprehensive income (OCI)	-	4,834	-	4,834
Tax on items transferred to income statement	-	760	-	760
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(31,045)</b>	<b>201,389</b>	<b>170,344</b>
<b>Transactions with owners recognised directly in equity</b>				
Dividends	-	-	(77,017)	(77,017)
<b>Balance at 31 December 2011</b>	<b>1,979,882</b>	<b>(10,736)</b>	<b>1,122,518</b>	<b>3,091,664</b>

# GROUP CASH FLOW STATEMENT

For the year ended 31 December 2011

	Notes	2011 € '000	2010 € '000
<b>Cash flows from operating activities</b>			
Profit / (loss) before taxation		78,751	(89,215)
Adjustments for:			
Depreciation and amortisation	4	685,172	533,580
Amortisation of supply contributions and other deferred income	3	(32,653)	(32,864)
Exceptional pension charge	6	-	329,518
(Profit) on disposal of property, plant and equipment and intangible assets		(4,759)	(5,203)
(Gain) relating to acquisition of Corby Power Limited		(28,805)	-
Net finance cost	5	414,094	112,983
Impact of fair value adjustments on financial instruments in operating costs		8,760	(10,955)
(Profits) from joint ventures	10	(23,912)	(14,576)
<b>Operating cash flows before changes in working capital and provisions</b>		<b>1,096,648</b>	<b>823,268</b>
(Credit) / charge in relation to provisions		(20,139)	10,487
Charge in relation to employee related liabilities		45,707	223,328
Utilisation of provisions		(31,518)	(22,234)
Utilisation of employee related liabilities		(182,302)	(221,389)
(Increase) / decrease in trade and other receivables		(17,919)	125,401
(Increase) / decrease in inventories		(28,168)	48,710
(Decrease) in trade and other payables		(11,784)	(129,173)
<b>Cash generated from operations</b>		<b>850,525</b>	<b>858,398</b>
Current tax paid		(14,849)	(15,142)
Interest paid		(154,595)	(95,605)
<b>Net cash inflow from operating activities</b>		<b>681,081</b>	<b>747,651</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(771,871)	(741,940)
Purchase of intangible assets		(52,655)	(33,308)
Proceeds from sale of property, plant and equipment and intangible assets		7,364	7,570
Purchase of financial assets	10	(24,684)	(10,919)
Payments in relation to acquisitions net of cash acquired		(34,835)	(1,244,072)
Supply contributions and other deferred income received		(3,360)	-
Dividends received from joint venture undertakings	10	19,517	20,625
Interest received		1,790	1,449
<b>Net cash outflow from investing activities</b>		<b>(858,734)</b>	<b>(2,000,595)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	14	(77,017)	(94,440)
(Repayments) of term debt facilities		(23,621)	(109,138)
Proceeds from the issue of new debt		1,177,993	473,325
(Decrease) / increase in loans and finance leases (net)		(812,741)	1,193,986
Interest element of finance lease payments		(4,883)	(5,329)
Net settlement on inflation linked interest rate swaps		(8,918)	-
<b>Net cash inflow from financing activities</b>		<b>250,813</b>	<b>1,458,404</b>
<b>Net increase in cash and cash equivalents</b>		<b>73,160</b>	<b>205,460</b>
<b>Cash and cash equivalents at 1 January</b>	13	<b>199,585</b>	<b>(6,876)</b>
<b>Effect of exchange rate fluctuations on cash held</b>		<b>4,664</b>	<b>1,001</b>
<b>Cash and cash equivalents at 31 December</b>	13	<b>277,409</b>	<b>199,585</b>

## PARENT CASH FLOW STATEMENT

For the year ended 31 December 2011

	Notes	2011 € '000	2010 € '000
<b>Cash flows from operating activities</b>			
Profit / (loss) before taxation		227,618	(122,998)
Adjustments for:			
Depreciation and amortisation		478,864	463,857
Amortisation of supply contributions and other deferred income	21	(32,180)	(32,417)
Exceptional pension charge	6	-	329,518
(Profit) on disposal of property, plant and equipment and intangible assets		(12)	(5,189)
Net finance cost		130,583	77,146
Impact of fair value adjustments on financial instruments in operating costs		8,760	(2,788)
Dividend received from subsidiary undertakings		(17,221)	-
<b>Operating cash flows before changes in working capital and provisions</b>		<b>796,412</b>	<b>707,129</b>
(Credit)/charge in relation to provisions		(29,643)	2,618
Charge in relation to employee related liabilities		30,231	223,118
Utilisation of provisions		(30,933)	(22,233)
Utilisation of employee related liabilities		(153,860)	(219,065)
(Increase) in trade and other receivables		(2,425)	(855,436)
(Increase)/decrease in inventories		(26,609)	49,732
(Decrease)/increase in trade and other payables		(116,698)	384,113
<b>Cash generated from operations</b>		<b>466,475</b>	<b>269,976</b>
Current tax paid		-	(250)
Interest paid		(129,707)	(99,050)
<b>Net cash inflow from operating activities</b>		<b>336,768</b>	<b>170,676</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(549,863)	(588,191)
Purchase of intangible assets		(22,006)	(20,566)
Proceeds from sale of property, plant and equipment and intangible assets		2,370	7,397
Deferred income received		332	-
Interest received		35,748	12,985
Dividends received from subsidiary undertakings		17,221	-
<b>Net cash outflow from investing activities</b>		<b>(516,198)</b>	<b>(588,375)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(77,017)	(94,440)
(Repayments) of term debt facilities		(8,939)	(81,090)
Proceeds from the issue of new debt		477,293	173,392
(Decrease)/increase in loans and finance leases (net)		(145,456)	584,622
Interest element of finance lease payments		(4,883)	(5,329)
<b>Net cash inflow from financing activities</b>		<b>240,998</b>	<b>577,155</b>
<b>Net increase in cash and cash equivalents</b>		<b>61,568</b>	<b>159,456</b>
<b>Cash and cash equivalents at 1 January</b>	13	<b>140,902</b>	<b>(18,554)</b>
<b>Cash and cash equivalents at 31 December</b>	13	<b>202,470</b>	<b>140,902</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SEGMENT REPORTING

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

For management purposes, the Group is organised into four key reportable segments, being the Group's strategic divisions which are managed separately and in respect of which internal management information is supplied to Executive Management and to the Board being collectively the 'Chief Operating Decision Maker' (CODM) of the Group. Two further corporate divisions provide support services to the principal operating divisions of the Group and are combined as 'other segments' in the information below. Corby Power Limited (Corby) was acquired by ESB Energy International on 4 May 2011. Northern Ireland Electricity (NIE) was acquired by ESB Group on 21 December 2010.

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

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

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

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

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

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.

### Revenue by product

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

### (a) Income statement

(i) Segment revenue - 2011	Electric Ireland	ESB Networks	ESB Energy International*	NIE**	Other segments*	Consolidation and eliminations	Total
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
External revenues	1,695,413	492,011	505,103	216,611	7,081	-	2,916,219
Inter-segment revenue	6,473	390,555	1,045,730	24,877	144,890	(1,612,525)	-
<b>Revenue</b>	<b>1,701,886</b>	<b>882,566</b>	<b>1,550,833</b>	<b>241,488</b>	<b>151,971</b>	<b>(1,612,525)</b>	<b>2,916,219</b>
All inter-segment revenues are eliminated upon consolidation and are reflected in the eliminations column above.							
(ii) Segment operating costs - 2011							
Depreciation and amortisation	(11,971)	(330,214)	(213,282)	(118,482)	(11,223)	-	(685,172)
Other operating costs	(1,727,638)	(331,399)	(1,164,496)	(78,913)	(150,822)	1,612,525	(1,840,743)
(iii) Segment operating result - 2011							
Operating profit / (loss)	(37,723)	253,607	223,097	44,092	(14,140)	-	468,933
Net finance cost	(736)	(1,470)	(29,218)	(49,760)	(332,910)	-	(414,094)
Share of joint ventures' profit	-	-	23,912	-	-	-	23,912
<b>Profit / (loss) before taxation</b>	<b>(38,459)</b>	<b>252,137</b>	<b>217,791</b>	<b>(5,668)</b>	<b>(347,050)</b>	<b>-</b>	<b>78,751</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 1. SEGMENT REPORTING (continued)

(i) Segment revenue - 2010	Electric Ireland	ESB Networks	ESB Energy International*	NIE**	Other segments*	Consolidation and eliminations	Total
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
External revenues	1,820,555	567,843	302,354	6,860	9,042	-	2,706,654
Inter-segment revenue	(4,933)	440,137	1,182,240	-	157,326	(1,774,770)	-
Revenue	1,815,622	1,007,980	1,484,594	6,860	166,368	(1,774,770)	2,706,654

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

### (ii) Segment operating costs - 2010

Depreciation and amortisation	(8,605)	(314,993)	(194,949)	(1,169)	(13,864)	-	(533,580)
Other operating costs	(1,849,658)	(387,848)	(1,138,535)	(3,460)	(262,497)	1,774,770	(1,867,228)

### (iii) Segment operating result - 2010

Operating profit/(loss) before exceptional pension charge	(42,640)	338,004	151,111	2,232	(109,997)	-	338,710
Exceptional pension charge	-	-	-	-	(329,518)	-	(329,518)
Operating profit/(loss) after exceptional pension charge	(42,640)	338,004	151,111	2,232	(439,515)	-	9,192
Net finance cost	(678)	(1,542)	(22,673)	(7,960)	(80,130)	-	(112,983)
Share of joint ventures' profit	-	-	14,576	-	-	-	14,576
Profit / (loss) before taxation	(43,318)	336,462	143,014	(5,728)	(519,645)	-	(89,215)

\* From 1 January 2011, in accordance with a revised structure for reporting to the CODM, the ESB Wind Development Group is reported as part of the ESB Energy International Group for internal management purposes (in 2010, ESB Wind Development Group was included in other segments). The 2010 segment results have been restated to reflect this change, which does not impact the 2010 consolidated results of the ESB Group.

\*\* NIE segment includes amortisation on fair value uplift recognised on acquisition of NIE.

### (b) Balance sheet

	2011	2010
Segment assets	€ '000	€ '000
Electric Ireland	344,727	325,197
ESB Networks	6,308,672	6,229,812
ESB Energy International*	5,040,343	4,855,197
NIE	2,003,562	2,194,881
Other segments*	3,120,346	2,289,294
Consolidation and eliminations	(4,278,503)	(3,782,689)
<b>Total</b>	<b>12,539,147</b>	<b>12,111,692</b>

Consolidations and eliminations largely comprise intra-business unit receivable balances in respect of electricity sales, internal services and internal financing.

### (c) Other disclosures

	2011	2010
Capital expenditure (excluding acquisitions)	€ '000	€ '000
Electric Ireland	14,202	14,661
ESB Networks	467,499	569,081
ESB Energy International*	202,086	195,804
NIE	117,875	-
Other segments*	31,319	18,014
<b>Total</b>	<b>832,981</b>	<b>797,560</b>

\*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	2011 € '000	2010 € '000
Ireland	7,785,799	7,699,794
UK including Northern Ireland	2,988,687	2,736,983
Rest of world	10,987	2,058
<b>Total</b>	<b>10,785,473</b>	<b>10,438,835</b>

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) External revenue by geographic market	2011 € '000	2010 € '000
Ireland	2,425,972	2,508,410
UK including Northern Ireland	460,713	163,262
Rest of world	29,534	34,982
<b>Total</b>	<b>2,916,219</b>	<b>2,706,654</b>

### 3. OTHER OPERATING INCOME / (EXPENSE)

	2011 € '000	2010 € '000
Amortisation of supply contributions and other deferred income	32,653	32,864
Fair value movements on assets held at fair value through profit and loss <sup>1</sup>	(4,068)	-
Gain arising on acquisition of Corby Power Limited (Note 10)	28,805	-
Settlement on novation of tolling agreement (Note 10)	12,203	-
Insurance proceeds <sup>2</sup>	9,036	-
<b>Total</b>	<b>78,629</b>	<b>32,864</b>

<sup>1</sup> The fair value movement in 2011 primarily relates to an investment in one company which went into liquidation during 2011 and was written down to €nil.

<sup>2</sup> Insurance proceeds relate to settlement of a claim associated with a mechanical failure at a generation plant.

### 4. OPERATING COSTS

	2011 € '000	2010 € '000
Employee costs (excluding exceptional pension charge) (Note 6)	474,719	632,803
Fuel costs	734,161	663,435
Other electricity related costs	252,737	223,761
Operations and maintenance	379,126	347,229
Depreciation and amortisation (Notes 8/9)	685,172	533,580
<b>Total</b>	<b>2,525,915</b>	<b>2,400,808</b>

Included in fuel costs is a charge of €3.5 million (2010: credit of €2.7 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 expense of €1.0 million (2010: €nil) which excludes the impact of the carbon levy introduced on 1 July 2010. Included also is a gain of €5.1 million (2010: gain of €3.1 million) on the sale of emission allowances classified within intangible assets.

The increase in other electricity related costs during the year arising mainly due to the full year's impact of the carbon levy cost noted above.

Included in operations and maintenance costs above is a charge of €8.8 million (2010: credit of €1.5 million) relating to ineffectiveness on certain cash flow hedges.

Operations and maintenance costs also include fees and expenses of €0.3 million (2010: €19.5 million) relating to the acquisitions detailed in Note 10 (c). These mainly comprise stamp duty and professional fees associated with the acquisitions, which have been recognised as an expense in the relevant year, in accordance with IFRS 3 (Revised) Business Combinations (2008).

## NOTES TO THE FINANCIAL STATEMENTS

### 5. NET FINANCE COST AND OTHER FINANCING CHARGES

	2011	2010
	€ '000	€ '000
Interest payable on borrowings	177,628	113,076
Interest payable on finance leases	4,769	5,227
Interest payable	182,397	118,303
Less capitalised interest	(29,062)	(29,788)
	<b>153,335</b>	88,515
<b>Financing charges:</b>		
- on defined benefit pension scheme (note 18 (c))	738	-
- on liability for pension obligation (note 19)	39,947	6,000
- on employee related liabilities (note 19)	3,605	3,092
- on power station closure costs (note 22)	7,873	5,803
- on other provisions (note 22)	2,194	1,784
<b>Fair value (gains) / losses on financial instruments:</b>		
- currency/interest rate swaps: cash flow hedges, transfer from OCI	4,371	1,044
- interest rate swaps and inflation linked swaps not qualifying for hedge accounting	204,273	8,167
- foreign exchange contracts not qualifying for hedge accounting	(452)	27
	<b>208,192</b>	9,238
<b>Finance cost</b>	<b>415,884</b>	114,432
<b>Finance income</b>	<b>(1,790)</b>	(1,449)
<b>Net finance cost</b>	<b>414,094</b>	112,983

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

In addition to the amounts transferred from the statement of comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a further €33.3 million (2010: €75.7 million) has been transferred from the cash flow hedge reserve to net finance cost and other financing charges during the year. However, these amounts are fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates.

# NOTES TO THE FINANCIAL STATEMENTS

## 6. EMPLOYEES

### GROUP

	2011	2010
<b>(a) Average number of employees in year by business activity, including temporary employees:</b>	<b>Number</b>	<b>Number</b>
Electric Ireland	510	624
ESB Networks	3,538	3,558
ESB Energy International	2,187	2,224
NIE	1,240	-
Other	737	795
<b>Total</b>	<b>8,212</b>	<b>7,201</b>
<b>(b) Employee costs in year</b>	<b>€ '000</b>	<b>€ '000</b>
<b>Current staff costs (excluding pension)</b>		
Salaries	509,683	493,810
Overtime	27,171	33,119
Social welfare costs	30,484	27,346
Other payroll benefits <sup>1</sup>	31,999	33,110
Capitalised payroll	(179,278)	(159,494)
<b>Net payroll cost for employees</b>	<b>420,059</b>	<b>427,891</b>
<b>(c) Pension and other employee benefit costs</b>	<b>€ '000</b>	<b>€ '000</b>
Exit costs	714	9,777
ROI defined benefit charge <sup>2</sup>	-	178,722
NIE defined benefit charge <sup>3</sup>	8,096	-
Defined contribution pension charge	45,850	16,413
<b>Pension and other employee benefit costs before exceptional item</b>	<b>54,660</b>	<b>204,912</b>
Exceptional pension charge <sup>4</sup>	-	329,518
<b>Pension and other employee benefit costs after exceptional item</b>	<b>54,660</b>	<b>534,430</b>
<b>Total employee related costs charged to the income statement before exceptional item</b>	<b>474,719</b>	<b>632,803</b>
<b>Total employee related costs charged to the income statement after exceptional item</b>	<b>474,719</b>	<b>962,321</b>

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

<sup>2</sup> The defined benefit charge for 2010 relates to the ESB General Employees' Superannuation Scheme (the Scheme), which was accounted for as a defined benefit scheme under IAS 19 until 20 October 2010. From that date, following agreement by all relevant parties (as disclosed in note 18(a)), ESB's contributions to the Scheme are accounted for on a defined contribution basis. Contributions to the Scheme for the year ended 31 December 2011 are included in the defined contribution pension charge line above.

<sup>3</sup> The defined benefit charge in 2011 relates entirely to the 'Focus' section of the Northern Ireland Electricity Pension Scheme (the NIE Scheme) which is accounted for as a defined benefit scheme. See note 18 (c) for further details.

<sup>4</sup> The exceptional pension charge in 2010 relates to a charge arising on a change in the accounting treatment of ESB's contributions to the Scheme on foot of the agreement noted above between ESB and the members of the Scheme, together with the cost of future pension commitments incorporated in that agreement (see note 18).



## NOTES TO THE FINANCIAL STATEMENTS

### 6. EMPLOYEES (continued)

#### PARENT

	2011	2010
(a) <b>Average number of employees in year by business activity, including temporary employees:</b>	<b>Number</b>	<b>Number</b>
Electric Ireland	438	550
ESB Networks	3,496	3,517
ESB Energy International	892	979
Other	722	710
<b>Total</b>	<b>5,548</b>	<b>5,756</b>
(b) <b>Employee costs in year</b>	<b>€ '000</b>	<b>€ '000</b>
<b>Current staff costs (excluding pension)</b>		
Salaries	369,609	391,746
Overtime	22,459	31,666
Social welfare costs	18,937	20,280
Other payroll benefits <sup>1</sup>	22,194	26,201
Capitalised payroll	(139,575)	(155,645)
<b>Net payroll cost for employees</b>	<b>293,624</b>	<b>314,248</b>
(c) <b>Pension and other employee benefit costs</b>	<b>€ '000</b>	<b>€ '000</b>
Exit costs	-	9,777
ROI defined benefit charge <sup>2</sup>	-	178,722
Defined contribution pension charge	36,464	9,184
<b>Pension and other employee benefit costs before exceptional item</b>	<b>36,464</b>	<b>197,683</b>
Exceptional pension charge <sup>3</sup>	-	329,518
<b>Pension and other employee benefit costs after exceptional item</b>	<b>36,464</b>	<b>527,201</b>
<b>Total employee related costs charged to the income statement before exceptional item</b>	<b>330,088</b>	<b>511,931</b>
<b>Total employee related costs charged to the income statement after exceptional item</b>	<b>330,088</b>	<b>841,449</b>

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

<sup>2</sup> The defined benefit charge for 2010 relates to the ESB General Employees' Superannuation Scheme (the Scheme), which was accounted for as a defined benefit scheme under IAS 19 until 20 October 2010. From that date, following agreement by all relevant parties (as disclosed in note 18(a)), ESB's contributions to the Scheme are accounted for on a defined contribution basis. Contributions to the Scheme for the year ended 31 December 2011 are included in the defined contribution pension charge line above.

<sup>3</sup> The exceptional pension charge in 2010 relates to a charge arising on a change in the accounting treatment of ESB's contributions to the Scheme on foot of the agreement noted above between ESB and the members of the Scheme, together with the cost of future pension commitments incorporated in that agreement (see note 18).

## NOTES TO THE FINANCIAL STATEMENTS

### 7. PROFIT FOR THE FINANCIAL YEAR

	2011 € '000	2010 € '000
<b>The profit for the financial year is stated after charging / (crediting):</b>		
Depreciation and amortisation	685,172	533,580
Operating lease charges	13,963	9,580
Amortisation of deferred income	(32,653)	(32,864)
(Profit) on disposal of property, plant and equipment and intangible assets	(4,759)	(5,203)
<b>Auditor's remuneration:</b>		
- Audit of individual and group accounts *	318	312
- Other assurance services	556	511
- Tax advisory services (Parent entity only)	40	39
- Other non-audit services (Parent entity only)	14	-
<b>ESB (Parent) Board Members' remuneration:</b>		
- Fees	243	246
- Other remuneration	689	513

\* €217,575 (2010: €212,000) related to the Parent company

## NOTES TO THE FINANCIAL STATEMENTS

### 8. 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
<b>Cost</b>					
<b>Balance at 1 January 2010</b>	972,134	10,193,817	11,165,951	1,372,897	<b>12,538,848</b>
Additions	4,570	132,421	136,991	619,932	<b>756,923</b>
Acquisitions	4,557	1,900,960	1,905,517	64,509	<b>1,970,026</b>
Retirements/disposals	(2,053)	(78,740)	(80,793)	(50)	<b>(80,843)</b>
Transfers out of assets under construction	63,083	1,000,766	1,063,849	(1,063,849)	-
Transfers to intangible assets	24	1,588	1,612	(2,509)	<b>(897)</b>
Translation difference	(18)	(17,278)	(17,296)	970	<b>(16,326)</b>
<b>Balance at 31 December 2010</b>	<b>1,042,297</b>	<b>13,133,534</b>	<b>14,175,831</b>	<b>991,900</b>	<b>15,167,731</b>
<b>Balance at 1 January 2011</b>	<b>1,042,297</b>	<b>13,133,534</b>	<b>14,175,831</b>	<b>991,900</b>	<b>15,167,731</b>
Additions	757	153,987	154,744	612,978	<b>767,722</b>
Acquisitions	-	111,509	111,509	-	<b>111,509</b>
Retirements/disposals	(37)	(17,494)	(17,531)	-	<b>(17,531)</b>
Transfers out of assets under construction	49,744	733,036	782,780	(782,780)	-
Transfers from intangible assets	100	-	100	-	<b>100</b>
Translation difference	(2,881)	92,398	89,517	7,039	<b>96,556</b>
<b>Balance at 31 December 2011</b>	<b>1,089,980</b>	<b>14,206,970</b>	<b>15,296,950</b>	<b>829,137</b>	<b>16,126,087</b>
<b>Depreciation</b>					
<b>Balance at 1 January 2010</b>	544,145	4,365,916	4,910,061	-	<b>4,910,061</b>
Charge for the year	29,586	465,865	495,451	-	<b>495,451</b>
Retirements/disposals	(1,348)	(77,129)	(78,477)	-	<b>(78,477)</b>
Translation difference	-	2,770	2,770	-	<b>2,770</b>
<b>Balance at 31 December 2010</b>	<b>572,383</b>	<b>4,757,422</b>	<b>5,329,805</b>	-	<b>5,329,805</b>
<b>Balance at 1 January 2011</b>	<b>572,383</b>	<b>4,757,422</b>	<b>5,329,805</b>	-	<b>5,329,805</b>
Charge for the year	21,151	609,448	630,599	-	<b>630,599</b>
Retirements/disposals	(63)	(14,863)	(14,926)	-	<b>(14,926)</b>
Other transfers	103	(103)	-	-	-
Translation difference	(49)	18,332	18,283	-	<b>18,283</b>
<b>Balance at 31 December 2011</b>	<b>593,525</b>	<b>5,370,236</b>	<b>5,963,761</b>	-	<b>5,963,761</b>
<b>Net book value at 31 December 2011</b>	<b>496,455</b>	<b>8,836,734</b>	<b>9,333,189</b>	<b>829,137</b>	<b>10,162,326</b>
<b>Net book value at 31 December 2010</b>	<b>469,914</b>	<b>8,376,112</b>	<b>8,846,026</b>	<b>991,900</b>	<b>9,837,926</b>
<b>Net book value at 1 January 2010</b>	<b>427,989</b>	<b>5,827,901</b>	<b>6,255,890</b>	<b>1,372,897</b>	<b>7,628,787</b>

During the year the Group capitalised interest of €29.1 million (2010: €29.8 million) in assets under construction, using an effective interest rate of 4.2% (2010: 4.7%).

The carrying value of non-depreciable assets at 31 December 2011 is €157.6 million (2010: €52.2 million).

Property, plant and equipment with a net book value of €nil at 31 December 2011 is included above at a cost of €2,206.2 million (December 2010: €1,952.2 million).

Acquisition of assets in 2011 relates to the purchase of the remaining 50% of shares in Corby Power Limited, which has the impact of converting ESB's joint venture holding in the company to a 100% full subsidiary holding (See Note 10 (c) - Group acquisitions for further details). Acquisition of assets during 2010 relates primarily to the acquisition of NIE electricity networks business.

Retirements/disposals in both 2011 and 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 €30.0 million (2010: €40.0 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the year amounted to €10.0 million (2010: €10.0 million).

## NOTES TO THE FINANCIAL STATEMENTS

### 8. 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
<b>Cost</b>					
<b>Balance at 1 January 2010</b>	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)	-
Transfers to intangible assets	42	1,579	1,621	(2,521)	(900)
<b>Balance at 31 December 2010</b>	1,010,256	10,405,318	11,415,574	742,638	12,158,212
<b>Balance at 1 January 2011</b>	1,010,256	10,405,318	11,415,574	742,638	12,158,212
Additions	697	59,120	59,817	505,287	565,104
Retirements/disposals	(54)	(15,140)	(15,194)	-	(15,194)
Transfers out of assets under construction	49,744	538,726	588,470	(588,470)	-
Transfers from intangible assets	134	31	165	7	172
<b>Balance at 31 December 2011</b>	1,060,777	10,988,055	12,048,832	659,462	12,708,294
<b>Depreciation</b>					
<b>Balance at 1 January 2010</b>	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)
<b>Balance at 31 December 2010</b>	571,563	4,644,608	5,216,171	-	5,216,171
<b>Balance at 1 January 2011</b>	571,563	4,644,608	5,216,171	-	5,216,171
Charge for the year	20,201	424,619	444,820	-	444,820
Retirements/disposals	(63)	(12,772)	(12,835)	-	(12,835)
Other transfers	103	(103)	-	-	-
<b>Balance at 31 December 2011</b>	591,804	5,056,352	5,648,156	-	5,648,156
<b>Net book value at 31 December 2011</b>	<b>468,973</b>	<b>5,931,703</b>	<b>6,400,676</b>	<b>659,462</b>	<b>7,060,138</b>
<b>Net book value at 31 December 2010</b>	438,693	5,760,710	6,199,403	742,638	6,942,041
<b>Net book value at 1 January 2010</b>	400,452	5,237,930	5,638,382	1,135,879	6,774,261

During the year the Parent capitalised interest of €24.4 million (2010: €27.5 million) in assets under construction, using an effective interest rate of 4.2% (2010: 4.7%).

The carrying value of non-depreciable assets at 31 December 2011 is €65.7 million (2010: €50.4 million).

Property, plant and equipment with a net book value of €nil at 31 December 2011 is included above at a cost of €2,083.3 million (2010: €1,833.9 million).

Retirements/disposals in 2011 and 2010 primarily relate to the retirement of assets that have been fully depreciated.

#### Finance leases

The net book value of property, plant and equipment includes an amount of €30.0 million (2010: €40.0 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the period amounted to €10.0 million (2010: €10.0 million).



## NOTES TO THE FINANCIAL STATEMENTS

### 9. INTANGIBLE ASSETS

(a) GROUP	Software and other intangible assets				Total € '000
	Goodwill € '000	assets € '000	Emissions allowances € '000	Software under development € '000	
<b>Cost</b>					
<b>Balance at 1 January 2010</b>	-	363,612	158,109	29,566	<b>551,287</b>
Software additions	-	8,168	-	21,550	<b>29,718</b>
Allocation of emissions allowances	-	-	120,189	-	<b>120,189</b>
Purchase of emissions allowances	-	-	3,590	-	<b>3,590</b>
Acquisitions	177,540	49,327	-	-	<b>226,867</b>
Software disposals	-	(2,734)	-	-	<b>(2,734)</b>
Settlement of emissions allowances	-	-	(147,935)	-	<b>(147,935)</b>
Transfers out of software under development	-	34,678	-	(34,678)	-
Transfers from property, plant and equipment	-	263	-	634	<b>897</b>
Translation differences	(1,247)	691	786	-	<b>230</b>
<b>Balance at 31 December 2010</b>	<b>176,293</b>	<b>454,005</b>	<b>134,739</b>	<b>17,072</b>	<b>782,109</b>
<b>Balance at 1 January 2011</b>	<b>176,293</b>	<b>454,005</b>	<b>134,739</b>	<b>17,072</b>	<b>782,109</b>
Software additions	-	2,582	-	37,993	<b>40,575</b>
Allocation of emissions allowances	-	-	135,161	-	<b>135,161</b>
Purchase of emissions allowances	-	-	12,080	-	<b>12,080</b>
Acquisitions	-	-	12,266	-	<b>12,266</b>
Software disposals	-	(446)	-	-	<b>(446)</b>
Settlement of emission allowances	-	-	(126,653)	-	<b>(126,653)</b>
Transfers out of software under development	-	21,545	-	(21,545)	-
Transfers to property, plant and equipment	-	-	-	(100)	<b>(100)</b>
Translation differences	5,371	1,980	1,087	1,067	<b>9,505</b>
<b>Balance at 31 December 2011</b>	<b>181,664</b>	<b>479,666</b>	<b>168,680</b>	<b>34,487</b>	<b>864,497</b>
<b>Amortisation</b>					
<b>Balance at 1 January 2010</b>	-	221,135	-	-	<b>221,135</b>
Charge for the year	-	38,129	-	-	<b>38,129</b>
Translation differences	-	(29)	-	-	<b>(29)</b>
Retirements/disposals	-	(2,734)	-	-	<b>(2,734)</b>
<b>Balance at 31 December 2010</b>	-	<b>256,501</b>	-	-	<b>256,501</b>
<b>Balance at 1 January 2011</b>	-	<b>256,501</b>	-	-	<b>256,501</b>
Charge for the year	-	54,573	-	-	<b>54,573</b>
Retirements/disposals	-	(416)	-	-	<b>(416)</b>
Translation differences	-	197	-	-	<b>197</b>
<b>Balance at 31 December 2011</b>	-	<b>310,855</b>	-	-	<b>310,855</b>
<b>Net book value at 31 December 2011</b>	<b>181,664</b>	<b>168,811</b>	<b>168,680</b>	<b>34,487</b>	<b>553,642</b>
<b>Net book value at 31 December 2010</b>	<b>176,293</b>	<b>197,504</b>	<b>134,739</b>	<b>17,072</b>	<b>525,608</b>
<b>Net book value at 1 January 2010</b>	-	<b>142,477</b>	<b>158,109</b>	<b>29,566</b>	<b>330,152</b>

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

Emissions allowances are not amortised as they are held for settlement in the following year. The emissions allowances included above were received by way of government grant and are also included in deferred income, as shown in note 21. The Group sold certain allowances with a carrying value of €145 million on 13 April 2011, and simultaneously contracted to buy them back in March 2012 at a fixed price. This transaction has been treated as a financing arrangement and is detailed in note 16.

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.

Acquisition of assets in 2011 relates to the purchase of the remaining 50% of shares in Corby Power Limited, which has the impact of converting ESB's joint venture holding in the company to a 100% full subsidiary holding (See note 10 (c) - Group acquisitions for further details). Acquisition of assets during 2010 relates primarily to the acquisition of the NIE electricity networks business.

## NOTES TO THE FINANCIAL STATEMENTS

### 9. INTANGIBLE ASSETS - GROUP (continued)

#### Goodwill

Goodwill of €176.3 million was recognised at 31 December 2010 arising on the NIE acquisition.

Goodwill relates to the fair value of the expected return on future investment in the Regulated Asset Base of the NIE business. Goodwill has been reviewed for impairment at December 2011 and will be reviewed on at least an annual basis into the future. No reduction in the value of goodwill was deemed to be required, subsequent to the impairment test noted.

In assessing whether goodwill has been impaired, the carrying amount of the investment in NIE was compared to its recoverable amount. The recoverable amount is the higher of value in use and fair value less costs of disposal. The recoverable amount of the NIE investment is based on value in use.

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

The discount rate used is a key driver for valuation and the rate was determined by building up an appropriate weighted average cost of capital (WACC) for the NIE business and benchmarking relevant comparators. Other key drivers include inflation and regulatory assumptions.

Management believes that at the date of the impairment test there were no reasonably possible changes in the key valuation drivers that would cause the carrying amount of the investment to exceed its recoverable amount.

(b) PARENT	Software and other intangible assets € '000	Emissions allowances € '000	Software under development € '000	Total € '000
<b>Cost</b>				
<b>Balance at 1 January 2010</b>	304,287	119,147	29,638	453,072
Software additions	1,742	-	21,550	23,292
Allocation of emissions allowances	-	100,085	-	100,085
Purchase of emissions allowances	-	(3,358)	-	(3,358)
Software disposals	(2,516)	-	-	(2,516)
Settlement of emissions allowances	-	(114,453)	-	(114,453)
Transfers out of software under development	34,678	-	(34,678)	-
Transfers from property, plant and equipment	-	-	634	634
<b>Balance at 31 December 2010</b>	338,191	101,421	17,144	456,756
<b>Balance at 1 January 2011</b>	338,191	101,421	17,144	456,756
Software additions	664	-	16,611	17,275
Allocation of emissions allowances	-	112,076	-	112,076
Purchase of emissions allowances	-	4,903	-	4,903
Software disposals	(188)	-	-	(188)
Settlement of emission allowances	-	(96,799)	-	(96,799)
Transfers out of software under development	27,132	-	(27,132)	-
Transfers to property, plant and equipment	(175)	-	3	(172)
<b>Balance at 31 December 2011</b>	365,624	121,601	6,626	493,851
<b>Amortisation</b>				
<b>Balance at 1 January 2010</b>	217,798	-	-	217,798
Charge for the year	32,039	-	-	32,039
Retirements/disposals	(2,516)	-	-	(2,516)
<b>Balance at 31 December 2010</b>	247,321	-	-	247,321
<b>Balance at 1 January 2011</b>	247,321	-	-	247,321
Charge for the year	34,044	-	-	34,044
Retirements/disposals	(188)	-	-	(188)
<b>Balance at 31 December 2011</b>	281,177	-	-	281,177
<b>Net book value at 31 December 2011</b>	84,447	121,601	6,626	212,674
<b>Net book value at 31 December 2010</b>	90,870	101,421	17,144	209,435
<b>Net book value at 1 January 2010</b>	86,489	119,147	29,638	235,274

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

Emissions allowances are not amortised as they are held for settlement. The emissions allowances included above were received by way of government grant and are also included in deferred income, as shown in note 21. During 2011 the Group received €145.0 million from the sale of emissions allowances, and at the same date contracted to buy them back in March 2012 at a fixed price. This transaction has the effect of a financing arrangement, and is disclosed in note 16.

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

## NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL ASSET INVESTMENTS	Joint venture investments € '000	Financial assets at fair value through profit or loss € '000	Other investments € '000	Total € '000
(a) GROUP				
<b>Balance at 1 January 2010</b>	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 differences	3,417	-	-	3,417
Fair value movement - transferred to income statement	-	1,490	-	1,490
<b>Balance at 31 December 2010</b>	55,117	18,866	1,318	75,301
<b>Balance at 1 January 2011</b>	55,117	18,866	1,318	75,301
Additions	-	24,684	-	24,684
Share of profit	23,912	-	-	23,912
Fair value movement on cash flow hedges	(7,397)	-	-	(7,397)
Fair value movement - transfer to income statement	-	(4,068)	-	(4,068)
Dividends received	(19,517)	-	-	(19,517)
Translation difference	51	-	26	77
Conversion of Corby Power Limited to a full subsidiary	(23,488)	-	-	(23,488)
<b>Balance at 31 December 2011</b>	28,678	39,482	1,344	69,504

### Joint venture investments

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

The remaining 50% of shares in Garvagh Glebe Power Limited was acquired in 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) also.

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

During 2010 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 into an equity investment by the Group's joint venture partner.

Dividends received from joint ventures relate to Marchwood Power Limited €7.4 million (2010: €17.6 million), Corby Power Limited €4.7 million (2010: €3.0 million) and Bizkaia Energia SL €7.4 million (2010: €nil). The dividend received from Corby Power Limited was received prior to the acquisition of the remaining 50% shareholding on 4 May 2011.

Translation differences relate to Corby Power Limited and Marchwood Power Limited as these companies are located in the United Kingdom and are 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 company	Country	Holding 31 December 2011 % of share capital owned	Holding 31 December 2010 % of share capital owned
Bizkaia Energia SL	Spain	50%	50%
Corby Power Ltd <sup>1</sup>	United Kingdom	100%	50%
Marchwood Power Ltd	United Kingdom	50%	50%
Oweninny Power Ltd	Republic of Ireland	50%	-
Emerald Bridge Fibres Ltd	Republic of Ireland	50%	-

<sup>1</sup>Corby Power Limited became a wholly owned subsidiary on 4 May 2011, and was accounted for on a fully consolidated basis from that date.

## NOTES TO THE FINANCIAL STATEMENTS

### 10. FINANCIAL ASSET INVESTMENTS - GROUP (continued)

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

Joint venture summary financial information	2011 €'000	2010 €'000
Non-current assets	384,471	448,157
Current assets	66,467	63,819
<b>Total assets</b>	<b>450,938</b>	<b>511,976</b>
Equity	62,253	81,990
Cashflow hedging reserve	(25,647)	(18,242)
<b>Total equity</b>	<b>36,606</b>	<b>63,748</b>
Non-current liabilities	186,215	198,605
Current liabilities	196,196	227,735
Derivative liabilities	31,921	21,888
<b>Total liabilities</b>	<b>414,332</b>	<b>448,228</b>
<b>Total equity and liabilities</b>	<b>450,938</b>	<b>511,976</b>
Income	97,443	88,712
Expenses	(46,015)	(48,841)
<b>Operating profit</b>	<b>51,428</b>	<b>39,871</b>
<b>Profit after interest and tax</b>	<b>23,912</b>	<b>14,576</b>

The share of total equity of €36.6 million (2010: €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 €28.7 million (2010: €55.1 million). The difference of €7.9 million (2010: €8.6 million) is primarily attributable to a provision made at group level against certain tax related balances recognised in respect of Bizkaia Energia SL.

#### Financial assets at fair value through profit or loss

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

At 31 December 2011 the Group could be called upon by its partners in the VantagePoint fund to make a further €6.2 million investment in the fund (2010: €7.2 million). This potential further investment is included within capital commitments in note 24 of these financial statements. Further information on these investments is included in note 23.

#### Other investments

Other investments of €1.3 million (2010: €1.3 million) relate primarily to historic investments carried at cost. In the view of the Board, their carrying value is not significantly different from their fair value.

### (b) PARENT

	Subsidiary Undertakings €'000
<b>Balance at 1 January 2011 and 31 December 2011</b>	<b>72,832</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 10. FINANCIAL ASSET INVESTMENTS (continued)

#### (c) GROUP ACQUISITIONS

On 4 May 2011 the Group completed the acquisition of the remaining 50% shareholding in Corby Power Limited, a UK-based power generation company. As part of the acquisition the Group also acquired the ownership of CPL Operations Limited, a wholly owned subsidiary of Corby Power Limited (together herein referred to as "Corby").

The acquisition was completed in order to further the Group's presence in the United Kingdom energy market.

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

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

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

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

In addition to the transaction above, the Group received a payment of €12.2 million (Stg£11 million) on the novation to the Group of a tolling agreement to which Corby was a party. This was a separate transaction from the acquisition, and has been accounted for as such, with the payment received recognised in other operating income (see note 3).

Corby had the following operating performance in the year ended 31 December 2011, and in the period since the acquisition date:

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

#### Acquisitions in the year ended 31 December 2010

During 2010 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 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 10. FINANCIAL ASSET INVESTMENTS (continued)

#### (c) GROUP ACQUISITIONS (continued)

The acquisition was 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 increased 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 were 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 were included within operating costs in accordance with IFRS 3 Business Combinations (2008).

In addition, and separately from the NIE transaction, during 2010 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 were disclosed as part of the wind farm acquisitions which are managed in a discrete portfolio. Costs of €0.2 million relating to these acquisitions were included within operating costs. Full details of all of ESB's subsidiary undertakings at 31 December 2011 are given in note 30.

#### 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	6,520	73,992
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 these acquisitions.

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 the 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 had the following operating performance from the acquisition date to the end of 2010:

Total revenue included in the consolidated income statement	6,860	1,257	8,117
Total 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)

## NOTES TO THE FINANCIAL STATEMENTS

11. INVENTORIES	GROUP		PARENT	
	2011 € '000	2010 € '000	2011 € '000	2010 € '000
Materials	53,483	58,067	35,581	45,132
Fuel	83,083	45,867	73,779	37,618
	<b>136,566</b>	103,934	<b>109,360</b>	82,750

Inventories consumed during the year ended 31 December 2011 totalled €129.9 million (2010: €117.9 million). There were no inventory impairments recognised by ESB (Group and Parent) during the year (2010: €nil).

12. TRADE AND OTHER RECEIVABLES	GROUP		PARENT	
	2011 € '000	2010 € '000	2011 € '000	2010 € '000
Retail electricity receivables - billed	87,879	74,812	75,449	63,194
Retail electricity receivables - unbilled	165,311	189,219	114,413	145,823
Total retail electricity receivables	253,190	264,031	189,862	209,017
Single Electricity Market (SEM) pool related receivables	73,933	90,231	62,467	66,363
Use of System receivables (including unbilled)	139,193	135,295	30,701	26,692
Other electricity receivables	50,682	35,440	38,295	30,100
Total electricity receivables	516,998	524,997	321,325	332,172
Trade receivables - non-electricity	63,218	28,930	15,456	-
Amounts due from joint venture undertakings	6,247	537	-	-
Other receivables	30,078	48,159	14,856	20,473
Amounts due from subsidiary undertakings	-	-	1,583,620	1,582,542
Prepayments	27,169	16,716	11,293	9,187
	<b>643,710</b>	619,339	<b>1,946,550</b>	1,944,374

### Wholesale and retail credit risk

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

The maximum credit exposure of the Group at 31 December is set out below. Prepayments of €27.2 million (2010: €16.7 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 €1,583.6 million (2010: €1,582.5 million).

	GROUP 2011			GROUP 2010		
	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	514,082	-	514,082	500,178	-	500,178
Past due < 30 days	63,333	(1,588)	61,745	48,273	(1,693)	46,580
Past due 30 - 120 days	32,627	(4,571)	28,056	39,747	(3,640)	36,107
Past due > 120 days	22,735	(16,130)	6,605	29,535	(18,096)	11,439
Past due by more than one year	29,648	(23,595)	6,053	32,597	(24,278)	8,319
<b>Total</b>	<b>662,425</b>	<b>(45,884)</b>	<b>616,541</b>	<b>650,330</b>	<b>(47,707)</b>	<b>602,623</b>

	PARENT 2011			PARENT 2010		
	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	301,684	-	301,684	286,195	-	286,195
Past due < 30 days	22,067	(1,409)	20,658	22,877	(1,239)	21,638
Past due 30 - 120 days	27,001	(3,348)	23,653	32,146	(2,851)	29,295
Past due > 120 days	18,130	(15,436)	2,694	27,810	(17,146)	10,664
Past due by more than one year	22,583	(19,635)	2,948	27,230	(22,376)	4,854
<b>Total</b>	<b>391,465</b>	<b>(39,828)</b>	<b>351,637</b>	<b>396,258</b>	<b>(43,612)</b>	<b>352,646</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### 12. TRADE AND OTHER RECEIVABLES (continued)

	GROUP		PARENT	
	2011 € '000	2010 € '000	2011 € '000	2010 € '000
Balance at 1 January	47,707	37,283	43,612	33,766
Impairment loss recognised	22,718	32,858	20,345	32,090
Provision utilised	(24,541)	(22,434)	(24,129)	(22,244)
Balance at 31 December	45,884	47,707	39,828	43,612

#### Retail electricity receivables

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

The impairment provisioning policy in relation to retail electricity receivables is based on the historical experience of debts written off as updated for current market conditions. Provision may be made in respect of specific balances where there is evidence of a dispute or an inability to settle. An additional provision is made on a portfolio basis to cover incurred losses based on an analysis of previous losses experienced and an evaluation of the impact of economic conditions and particular industry issues. Provision is not made in cases where appropriate repayment arrangements are in place and there is evidence that balances are ultimately recoverable, notwithstanding that such balances may be seriously in arrears. Collateral is held in the form of security deposits on new customer accounts. The largest single billed retail balance outstanding at 31 December 2011 was €270,000 (2010: €965,000).

Unbilled electricity receivables represent estimates of consumption not yet invoiced. Controls around electricity receivables are focused on the full recovery of amounts invoiced. In 2011, electricity receivables were impaired to the value of €45.9 million (2010: €47.7 million). Of this, the single largest customer amount written off during the year was €300,000 (2010: €138,000) relating to a company that went into liquidation. Retail electricity receivables arise largely in the Republic of Ireland, with 7% (2010: 7%) relating to Northern Ireland revenue.

#### SEM pool receivables

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

#### Use of System receivables

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

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

Procedures for the payment by EirGrid of TUoS income due to ESB Networks as the TAO are governed by the Infrastructure Agreement between EirGrid and ESB. This is not a normal bilateral contract freely entered into by the parties, but an arrangement required by legislation and many of whose terms are specified in that legislation. Accordingly, the credit risk in relation to TUoS receivables is considered to be low. The amount due in respect of TUoS income at 31 December 2011 was €30.7 million (2010: €26.7 million), this is the largest use of system receivable balance in the Republic of Ireland.

In respect of the Networks business in Northern Ireland acquired during 2010, revenue is derived principally from charges for use of the distribution system, Public Service Obligation (PSO) charges levied on electricity suppliers and charges for transmission services levied on System Operator for Northern Ireland (SONI). Credit risk in respect of use of system receivables from electricity suppliers is mitigated by security received in the form of cash deposits, letters of credit or parent company guarantees. With the exception of public bodies, payments in relation to new connections or alterations are paid for in advance of the work being carried out. Normal credit terms and debtor days in respect of trade receivables from electricity suppliers are less than 30 days. The largest use of system electricity receivable in Northern Ireland at 31 December 2011 is €12.9 million (2010: €27.4 million).



## NOTES TO THE FINANCIAL STATEMENTS

### 12. TRADE AND OTHER RECEIVABLES (continued)

#### Other electricity receivables

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

#### Trade and other receivables - non-electricity

Trade receivables (non-electricity) relates 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 €27.1 million (2010: €16.7 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 2011 is an amount of €3.7 million (2010: €1.8 million) due from an external agency.

### 13. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2011	2010	2011	2010
	€ '000	€ '000	€ '000	€ '000
Cash at bank and in hand	277,409	199,585	202,470	140,902

Bank deposits attract interest at prevailing deposit interest rates. The effective interest rate earned on cash balances at the balance sheet date was 1.2% (2010: 1.2%). Credit risk as discussed in note 23 (c).

### 14. CHANGES IN EQUITY

#### (i) Capital stock

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

	2011	2010
	€ '000	€ '000
<b>Comprised as:</b>		
Stock issued from converted reserves	1,880,888	1,880,888
Stock issued for subscription by ESOT	98,994	98,994
	<b>1,979,882</b>	1,979,882

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 14. CHANGES IN EQUITY (continued)

#### (ii) Non controlling interest - Group

Non controlling interests at 31 December 2011 relate to the minority shareholdings in Crockahenny Wind Farm Limited, Mountainlodge Power Limited and Carrington Power Limited and Airvolution Energy Limited.

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

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

Other reserves include revaluation reserves of €60.8 million (2010: €66.3 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

	2011	2010
	€ '000	€ '000
<b>Dividends on capital stock:</b>		
Total dividend paid 3.89 (2010: 4.77) cents per capital stock unit	<b>77,017</b>	94,400

Total dividends paid during 2011 comprised a final dividend of €77.1 million in respect of 2010.

## NOTES TO THE FINANCIAL STATEMENTS

### 15. TAXATION

(a) Income tax credit	2011 € '000	2010 € '000
<b>Current tax</b>		
Current tax	1,470	19,629
Prior year over provision <sup>1</sup>	(7,250)	(7,957)
Value of tax losses surrendered to joint ventures	(4,477)	-
	(10,257)	11,672
<b>Deferred tax</b>		
Origination and reversal of temporary differences	12,311	(23,679)
Effect of decrease in UK tax rate on opening deferred tax liability <sup>2</sup>	(29,148)	-
Prior year under provision <sup>1</sup>	5,813	6,908
	(11,024)	(16,771)
<b>Total tax credit</b>	(21,281)	(5,099)
	2011 € '000	2010 € '000
<b>Reconciliation of effective tax rate</b>		
<b>Profit / (loss) before tax</b>	78,751	(89,215)
Less: After tax share of joint venture profit	(23,912)	(14,576)
Profit / (loss) before tax (excluding joint venture profits)	54,839	(103,791)
Taxed at 12.5% (2010: 12.5%)	6,855	(12,974)
Expenses not deductible	4,410	7,498
Income not taxable	(3,500)	-
Tax effect of losses forward not previously recognised	-	(1,016)
Tax effect of deferred tax asset not provided	29,142	-
Tax benefit on investment in renewable energy	-	(1,188)
Higher tax on chargeable gains	1,201	118
Income taxed at higher rate of corporation tax	-	(1,201)
Manufacturing relief	-	(16)
(Lower) / higher tax rates on overseas earnings	(25,091)	4,760
Prior year over provisions	(1,437)	(1,049)
Impact of reduced rate of UK tax on deferred tax stated at Irish tax rate <sup>2</sup>	(33,379)	(31)
Other items	518	-
<b>Income tax credit</b>	(21,281)	(5,099)

<sup>1</sup> The current tax prior year overprovision largely relates to the fact that losses reflected as deferred tax assets at 31 December 2010 were surrendered to other Group companies when the tax returns for the year were filed. This is also reflected in the prior year underprovision adjustment in the current year deferred tax charge.

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

This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2011 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly.

## NOTES TO THE FINANCIAL STATEMENTS

### 15. TAXATION (continued)

#### (b) Deferred tax assets and liabilities

(i) GROUP	2011 € '000	2010 € '000
<b>Deferred tax assets</b>		
Property, plant and equipment and intangible assets	2,475	3,330
Pension liability on defined benefit scheme	22,814	-
Liability for pension obligation	104,343	112,087
Provisions	16,203	13,975
Tax losses forward	7,234	10,110
Derivative financial instruments	27,983	13,381
<b>Total</b>	<b>181,052</b>	<b>152,883</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment and intangible assets	792,312	757,713
Pension liability on defined benefit scheme	-	2,541
Provisions	128	844
Derivative financial instruments	69,683	81,039
Capital Gains Tax	2,560	1,180
<b>Total</b>	<b>864,683</b>	<b>843,317</b>
<b>Net deferred tax liability</b>	<b>(683,631)</b>	<b>(690,434)</b>

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 15. TAXATION (continued)

#### (i) GROUP (continued)

2010	Balance at 1 January 2010 € '000	Recognised in income € '000	Recognised in OCI € '000	Transferred in on acquisitions € '000	Balance at 31 December 2010 € '000
<b>Assets</b>					
Property, plant and equipment and intangible assets	2,681	649	-	-	3,330
Liability for pension obligation	-	112,087	-	-	112,087
Pension liability	64,463	(64,463)	-	-	-
Provisions	16,332	(2,357)	-	-	13,975
Tax losses forward	3,959	6,151	-	-	10,110
Derivative financial instruments	25,132	-	(11,751)	-	13,381
<b>Total deferred tax assets</b>	<b>112,567</b>	<b>52,067</b>	<b>(11,751)</b>	<b>-</b>	<b>152,883</b>
<b>Liabilities</b>					
Property, plant and equipment and intangible assets	370,903	34,452	-	352,358	757,713
Pension liability on defined benefit scheme	-	-	-	2,541	2,541
Provisions	-	844	-	-	844
Derivative financial instruments	86,424	-	(5,385)	-	81,039
Capital Gains Tax	1,180	-	-	-	1,180
<b>Total deferred tax liabilities</b>	<b>458,507</b>	<b>35,296</b>	<b>(5,385)</b>	<b>354,899</b>	<b>843,317</b>
<b>Net deferred tax (liability) / asset for the year</b>	<b>(345,940)</b>	<b>16,771</b>	<b>(6,366)</b>	<b>(354,899)</b>	<b>(690,434)</b>

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:

	2011 € '000	2010 € '000
Operating losses	29,142	-
Capital losses realised*	-	1,453
Capital losses unrealised*	-	5,834

The deferred tax asset not recognised relating to operating losses relates mainly to the element of the mark to market loss arising on the RPI swap in 2011 which could not be surrendered to other UK Group companies in 2011. The deferred tax asset on the losses is not recognised as there is no certainty that the mark to market will reverse in the future.

\* The company has now taken the view that the realised and unrealised capital losses do not give rise to any deferred tax asset. There is no expiry date as 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 the Group has the ability to control the repatriation of these reserves to Ireland. Cumulative unremitted reserves of overseas subsidiaries, joint ventures and associates totalled €235.0 million (2010: €82.6 million).

#### (ii) PARENT

	2011 € '000	2010 € '000
<b>Deferred tax assets</b>		
Liability for pension obligation	104,343	112,087
Provisions	12,176	-
Tax losses forward	505	12,642
Derivative financial instruments	5,902	-
<b>Total</b>	<b>122,926</b>	<b>124,729</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	396,899	368,934
Derivative financial instruments	-	510
Capital Gains Tax	1,180	1,180
<b>Total</b>	<b>398,079</b>	<b>370,624</b>
<b>Net deferred tax liability</b>	<b>(275,153)</b>	<b>(245,895)</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 15. TAXATION (continued)

#### (ii) PARENT (continued)

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

2011	Balance at 1 January 2011 € '000	Recognised in income € '000	Recognised in OCI € '000	Balance at 31 December 2011 € '000
<b>Assets</b>				
Liability for pension obligation	112,087	(7,744)	-	104,343
Provisions	12,642	(466)	-	12,176
Tax losses forward	-	505	-	505
Derivative financial instruments	-	-	5,902	5,902
<b>Total deferred tax assets</b>	<b>124,729</b>	<b>(7,705)</b>	<b>5,902</b>	<b>122,926</b>
<b>Liabilities</b>				
Property, plant and equipment	368,934	27,965	-	396,899
Derivative financial instruments	510	-	(510)	-
Capital Gains Tax	1,180	-	-	1,180
<b>Total deferred tax liabilities</b>	<b>370,624</b>	<b>27,965</b>	<b>(510)</b>	<b>398,079</b>
<b>Net deferred tax (liability) / asset for the year</b>	<b>(245,895)</b>	<b>(35,670)</b>	<b>6,412</b>	<b>(275,153)</b>
<b>2010</b>				
	Balance at 1 January 2010 € '000	Recognised in income € '000	Recognised in OCI € '000	Balance at 31 December 2010 € '000
<b>Assets</b>				
Liability for pension obligation	-	112,087	-	112,087
Pension liability	64,464	(64,464)	-	-
Provisions	15,747	(3,105)	-	12,642
Derivative financial instruments	5,621	-	(5,621)	-
<b>Total deferred tax assets</b>	<b>85,832</b>	<b>44,518</b>	<b>(5,621)</b>	<b>124,729</b>
<b>Liabilities</b>				
Property, plant and equipment	333,608	35,326	-	368,934
Derivative financial instruments	-	-	510	510
Capital Gains Tax	1,180	-	-	1,180
<b>Total deferred tax liabilities</b>	<b>334,788</b>	<b>35,326</b>	<b>510</b>	<b>370,624</b>
<b>Net deferred tax (liability) / asset for the year</b>	<b>(248,956)</b>	<b>9,192</b>	<b>(6,131)</b>	<b>(245,895)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 16. BORROWINGS AND OTHER DEBT

(a) GROUP	Finance	Recourse	Non-	2011	2010
	leases	borrowings	recourse		
	€'000	€'000	borrowings	Total	Total
	€'000	€'000	€'000	€'000	€'000
<b>Current borrowings</b>					
- Repayable by instalments	13,382	58,649	1,716	<b>73,747</b>	51,646
- Repayable other than by instalments	11,220	148,342	-	<b>159,562</b>	730,343
<b>Total current borrowings</b>	<b>24,602</b>	<b>206,991</b>	<b>1,716</b>	<b>233,309</b>	<b>781,989</b>
<b>Non-current borrowings</b>					
- Repayable by instalments					
Between one and two years	55,728	59,404	1,716	<b>116,848</b>	73,358
Between two and five years	-	248,850	5,417	<b>254,267</b>	279,683
After five years	-	487,103	20,724	<b>507,827</b>	415,760
	55,728	795,357	27,857	<b>878,942</b>	768,801
- Repayable other than by instalments					
Between one and two years	-	273,045	-	<b>273,045</b>	11,220
Between two and five years	-	1,554,439	-	<b>1,554,439</b>	1,407,745
After five years	-	950,823	710,613	<b>1,661,436</b>	1,173,445
	-	2,778,307	710,613	<b>3,488,920</b>	2,592,410
<b>Total non-current borrowings</b>	<b>55,728</b>	<b>3,573,664</b>	<b>738,470</b>	<b>4,367,862</b>	<b>3,361,211</b>
<b>Total borrowings outstanding</b>	<b>80,330</b>	<b>3,780,655</b>	<b>740,186</b>	<b>4,601,171</b>	<b>4,143,200</b>

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

Current borrowings by facility	2011	2010
	€'000	€'000
Emissions allowances financing arrangement	<b>148,342</b>	-
Bridging facility	-	730,343
Long-term bank borrowings	<b>58,649</b>	40,909
Non-recourse long-term project finance debt	<b>1,716</b>	1,796
Capital element of finance leases	<b>24,602</b>	8,941
<b>Total current borrowings</b>	<b>233,309</b>	<b>781,989</b>
Non-current borrowings by facility	2011	2010
	€'000	€'000
ESB Stock	<b>10,304</b>	10,304
Non-recourse long-term project finance debt	<b>27,857</b>	28,698
ESB Eurobond (issued March 2010)	<b>325,318</b>	315,106
NIE Eurobond (acquired December 2010)	<b>234,339</b>	231,094
NIE Eurobond (issued June 2011)	<b>476,274</b>	-
Long-term bank borrowings	<b>2,095,102</b>	1,587,460
Private placement borrowings	<b>1,142,940</b>	1,108,219
Capital element of finance leases	<b>55,728</b>	80,330
<b>Total non-current borrowings</b>	<b>4,367,862</b>	<b>3,361,211</b>

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.

On 13 April 2011 the Group received €145.0 million from the sale of emissions allowances, and at the same date contracted to buy them back in March 2012 at a fixed price. This transaction has the effect of a financing arrangement, and has been disclosed in current borrowings above. The Group has the option to extend this facility for a further year.

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 credit rating. In January 2011, ESB received ratings from Standard & Poor's, Moodys and Fitch of BBB+, Baa1 and BBB+ respectively. On 14 July 2011, Moody's issued a revision of the rating to Baa3, largely as a result of their downgrade of the Irish sovereign credit rating. The outlook on each of the three ratings is currently negative, largely associated with the negative outlook placed on the Irish sovereign rating by each of the agencies. The credit rating change had no impact on the fixed coupon of 6.5%.

## NOTES TO THE FINANCIAL STATEMENTS

### 16. BORROWINGS AND OTHER DEBT (continued)

#### (a) Group (continued)

As part of the acquisition of NIE, a Eurobond of Stg£175.0 million was also acquired at fair value at the acquisition date. This facility had a 6.875% fixed coupon rate and is repayable in 2018.

In June 2011, NIE issued a Stg£400.0 million 15 year bond with a fixed coupon of 6.375%. The proceeds of this issue were mostly used to repay intercompany loans to ESB, which in turn, facilitated the repayment of half of the Stg£810 million bridging facility. The balance of this bridging facility was repaid on drawdown of a syndicated Stg£307.5 million 3 year banking facility, agreed in September 2011, which is included within long term bank borrowings on previous page.

In October 2011, the Group drew down a new €50.0 million 3 year bilateral facility, which is also included within long term bank borrowings above.

Long-term bank borrowings include (a) a revolving credit facility, refinanced in September 2010, which has been drawn down to the value of €899.3 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) €836.9 million of floating rate debt borrowed from bilateral and syndicated facilities, while the remainder is fixed interest debt.

In November 2011, a new facility of €235.0 million was signed with the European Investment Bank ('EIB') to support Networks and Ecars infrastructure. This facility remained undrawn at the year end.

In December 2011, the Group signed a new bilateral Stg£59.6 million facility with an average term of 8.5 years to support expenditure on Irish and UK based windfarms, which was also undrawn at year end.

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

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

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

#### Finance leases

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 assets continue to be recognised in the financial statements and there is no corresponding lease obligation.

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

	2011 Minimum lease payments €'000	2011 Present value of minimum lease payments €'000	2010 Minimum lease payments €'000	2010 Present value of minimum lease payments €'000
<b>Amounts payable:</b>				
Within one year	28,679	24,602	13,823	8,941
Between one and five years	59,025	55,728	87,704	80,330
	87,704	80,330	101,527	89,271
Less future lease charges	(7,374)		(12,256)	
Present value of lease obligations	80,330		89,271	

## NOTES TO THE FINANCIAL STATEMENTS

### 16. BORROWINGS AND OTHER DEBT - GROUP (continued)

#### (a) Hedge of net investment in foreign operations

Included in borrowings above are sterling denominated bank loans, which have been designated as a hedge of the Group's investment in a sterling denominated subsidiary in the United Kingdom, as outlined below.

	2011 €'000	2010 €'000
<b>Sterling denominated loans designated as a hedge of Group's investment in subsidiary</b>		
Value at 1 January	110,772	118,100
Repayments in year	(10,993)	(11,216)
(Gain) / loss on translation to Euro (OCI)	2,948	3,888
<b>Value at 31 December</b>	<b>102,727</b>	110,772
Gain / (loss) on translation of net investment in subsidiary (OCI)	2,292	3,161

(b) PARENT	Finance leases €'000	Recourse borrowings €'000	2011 Total €'000	2010 Total €'000
<b>Current borrowings</b>				
- Repayable by instalments	13,382	46,802	60,184	38,003
- Repayable other than by instalments	11,220	148,342	159,562	68,323
<b>Total current borrowings</b>	<b>24,602</b>	<b>195,144</b>	<b>219,746</b>	106,326
<b>Non-current borrowings</b>				
- Repayable by instalments				
Between one and two years	55,728	47,557	103,285	59,846
Between two and five years	-	217,823	217,823	239,016
After five years	-	487,102	487,102	386,519
	55,728	752,482	808,210	685,381
- Repayable other than by instalments				
Between one and two years	-	273,045	273,045	11,220
Between two and five years	-	1,268,075	1,268,075	1,407,745
After five years	-	625,505	625,505	627,244
	-	2,166,625	2,166,625	2,046,209
<b>Total non-current borrowings</b>	<b>55,728</b>	<b>2,919,107</b>	<b>2,974,835</b>	2,731,590
<b>Total borrowings outstanding</b>	<b>80,330</b>	<b>3,114,251</b>	<b>3,194,581</b>	2,837,916

#### (c) Funding and liquidity management

The principal liquidity risks faced by the Group relate to cash flow requirements arising from day-to-day operations, maturing debt obligations and the funding of capital investment programmes. The Group's treasury function manages this risk through a combination of liquid investments, cash and cash equivalents and undrawn committed bank facilities. The Group negotiates facilities with relationship banks and debt capital markets to pre-fund any requirements arising from maturing debt and capital expenditure.

At 31 December 2011 the Group had over €1,199 million available in cash or cash equivalents and committed bank facilities, ensuring liquidity demands can be met as required. The committed bank facilities include a syndicated loan facility with a large number of well-rated financial institutions as well as facilities with the EIB. Included in the amount disclosed are facilities totalling €235 million which may only be drawn against certain investing activity.

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 16. BORROWINGS AND OTHER DEBT (continued)

#### (c) Funding and liquidity management (continued)

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

Maturing	Drawn debt - Group		Drawn debt - Parent		Undrawn facility - Group and Parent	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000
In one year or less	233,309	781,989	219,746	106,326	-	208,000
Between one and two years	389,893	84,578	376,330	71,066	-	-
Between two and five years	1,808,706	1,687,428	1,485,898	1,646,761	600,689	499,665
In more than five years	2,169,263	1,589,205	1,112,607	1,013,763	321,306	40,000
	<b>4,601,171</b>	<b>4,143,200</b>	<b>3,194,581</b>	<b>2,837,916</b>	<b>921,995</b>	<b>747,665</b>

The following table sets out the contractual maturities of group borrowings, including the associated interest payments. Borrowings with a carrying value of €1,406.6 million (2010: €1,305.3 million) are included in the Group balances below, but do not comprise part of the Parent's liabilities.

	Carrying amount €'000	Contractual cash outflows/ (inflows) - net €'000	Within 1 year €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000
<b>31 December 2011</b>						
Finance leases	80,330	87,704	28,679	59,025	-	-
Recourse borrowings	3,780,655	4,514,292	315,557	453,781	2,059,898	1,685,056
Non recourse borrowings	740,186	1,336,018	61,207	60,725	175,074	1,039,012
<b>Total borrowings</b>	<b>4,601,171</b>	<b>5,938,014</b>	<b>405,443</b>	<b>573,531</b>	<b>2,234,972</b>	<b>2,724,068</b>
<b>31 December 2010</b>						
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
<b>Total borrowings</b>	<b>4,143,200</b>	<b>5,174,333</b>	<b>925,249</b>	<b>236,960</b>	<b>2,073,595</b>	<b>1,938,529</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 16. BORROWINGS AND OTHER DEBT (continued)

#### (d) Interest rate risk management

The Group's current interest rate policy is to have a minimum of 50% of the debt portfolio at fixed (or inflation linked) rates of interest, with a target of 75% at fixed (or inflation linked) rates of interest. This is achieved either by borrowing directly at fixed interest rates or via interest rate swaps. At 31 December 2011, 79% of the Group's debt was fixed to maturity or inflation linked (2010: 65%). The fair value of interest rate swaps can be seen in note 17.

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

	Effective interest rate %	Total €'000	Within 1 year €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000
Finance leases (fixed interest rate)	5.6%	80,330	24,602	55,728	-	-
Private placement borrowings (fixed interest rate)	5.8%	1,142,940	-	262,741	254,463	625,736
Non-recourse borrowings (fixed interest rate)	6.3%	740,186	1,716	1,716	5,417	731,337
Other long term borrowings (fixed and variable interest rate)	4.8%	2,637,715	206,991	69,708	1,548,826	812,190

Included within other long term borrowings above are floating rate liabilities of €836.9 million (2010: €2,092.0 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 and interest rate swaps. The effective rate of non-recourse sterling borrowings of Stg£25.5m has been fixed using interest rate swaps. In the absence of these interest rate swaps, the floating rate on the underlying sterling and euro borrowings at 31 December 2011 would be 2.9%, in line with prevailing interest rates in those monetary areas on borrowings of a similar duration. Inflation linked swaps are included at equivalent nominal interest rate levels.

In managing interest rate risk, the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates will have an impact on consolidated earnings. It is estimated that a general increase of 50 basis points in interest rates (and corresponding real interest rates) at 31 December would have increased profit before taxation and reduced equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant, including the assumption that there is no change in inflation rates.

	Profit before taxation		Other comprehensive income	
	50 bp increase	50 bp decrease	50 bp increase	50 bp decrease
	Gain / (loss)	Gain / (loss)	Gain / (loss)	Gain / (loss)
	€'000	€'000	€'000	€'000
<b>31 December 2011</b>				
Interest rate swaps including inflation linked interest rate swaps	72,139	(80,529)	(303)	303
<b>31 December 2010</b>				
Interest rate swaps including inflation linked interest rate swaps	69,479	(76,383)	1,848	(1,848)

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

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative financial instruments;
- derivatives financial instruments designated as cash flow hedges against movements in interest rates are assumed to be fully effective, recorded fully within equity with no impact on the income statement;
- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

## NOTES TO THE FINANCIAL STATEMENTS

### 17. DERIVATIVE FINANCIAL INSTRUMENTS

#### (a) Fair value by class of derivative financial instrument

Derivative financial instruments are carried at fair value. The fair value of a financial instrument is the 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.

The fair values of financial instruments, grouped by class of instrument, are as follows:

	GROUP		PARENT	
	2011 € '000	2010 € '000	2011 € '000	2010 € '000
<b>Interest rate swaps (cash flow hedges):</b>				
- Non-current liabilities	5,986	2,003	938	-
- Current liabilities	-	1,047	-	-
<b>Inflation linked interest rate swaps (cash flow hedges):</b>				
- Non-current liabilities	478,517	268,138	-	-
- Current liabilities	8,135	8,116	-	-
<b>Currency swaps (cash flow hedges):</b>				
- Non-current liabilities	68,279	69,004	68,279	69,004
<b>Foreign exchange contracts (non SEM trading related):</b>				
- Non-current assets	(1,942)	-	(1,942)	-
- Current assets	(3,579)	(6,532)	(429)	(1,831)
- Current liabilities	85	566	-	-
<b>Foreign exchange contracts (SEM trading related):</b>				
- Non-current assets	(207)	-	(207)	-
- Current assets	(4,768)	-	(4,424)	-
- Non-current liabilities	-	183	-	-
- Current liabilities	106	2,575	106	2,548
<b>Forward fuel price contracts:</b>				
- Non-current assets	(207,693)	(497,666)	(410)	-
- Current assets	(30,819)	(47,355)	(2,584)	(11,457)
- Current liabilities	10,401	-	10,401	-
<b>Forward electricity price contracts:</b>				
- Non-current assets	(217,890)	-	-	-
- Current assets	(35,858)	(25,882)	-	-
- Non-current liabilities	1,055	96,612	-	-
- Current liabilities	8,072	6,407	-	-
	<b>77,880</b>	<b>(122,784)</b>	<b>69,728</b>	<b>58,264</b>

With the exception of inflation linked interest rate swaps, the great majority of the derivative balances shown in the table 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 interest rate used to discount future estimated cash flows was 1.7% (2010: 2.9%). The rate is based on the EURIBOR yield curve at the reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

### 17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

#### (a) Fair value by class of derivative financial instrument (continued)

##### (i) Interest rate swaps

For interest rate swaps, the fair value takes into account the fixed, floating and market rates prevailing at the year end. As interest rate swaps are marked to market at the year end, their carrying value is equal to their fair value. Total fair value losses of €2.9 million (2010: losses of €1.0 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 (2010: losses of €1 million recognised in finance costs).

A short-term interest rate swap hedging €100 million was entered into during the year with a fair value loss of €2.9 million from all interest rate swaps recognised within finance costs in the income statement during the year (2010: swaps with a negative fair value of €0.4 million).

The majority of 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

Inflation linked interest rate swaps with a fair value on acquisition of €272.5 million were acquired in December 2010 as part of the purchase of the NIE business. During 2011, negative fair value movements on these swaps of €202.3 million (2010: €7.1 million) were recognised within finance costs in the income statement, as hedge accounting was not available.

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

##### (iii) Currency swaps

The fair value of currency swaps is affected by movements in foreign exchange and interest rates. ESB's currency swaps are primarily classified as cash flow hedges and relate mainly to the cross currency swaps entered into in connection with the private placement debt, which is described in note 16. 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 €6.2 million (2010: positive movements of €6.9 million) were recognised during the year in relation to such foreign exchange contracts, of which €6.0 million (2010: €6.4 million) was recognised directly in OCI and €0.2 million (2010: €0.5 million) was recognised in the income statement.

##### (iv) Fair value hierarchy

Further information on the methods of valuing financial instruments is included in note 23 (h).

## NOTES TO THE FINANCIAL STATEMENTS

### 17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

#### (b) Funding and liquidity management – maturity of derivative financial instruments

The following table sets out the contractual maturities of derivative financial instruments, including the associated undiscounted net cash flows attributable to them. These derivative financial instruments are expected to impact profit or loss over a time period similar to the cash outflows. Net derivative financial instrument liabilities of €8.2 million (2010: €181.0 million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities. See note 23 (b) for further analysis of Group and Parent financial assets and liabilities.

	Notional amount € '000	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
<b>31 December 2011</b>							
Currency swaps	1,026,202	68,279	53,346	1,205	21,075	13,531	17,535
Inflation linked interest rate swaps	658,446	486,652	786,404	8,135	9,151	149,815	619,303
Interest rate swaps	123,483	5,986	14,301	1,810	1,751	1,927	8,813
Forward fuel price contracts		10,401	10,401	10,401	-	-	-
Forward electricity price contracts		9,127	9,127	8,072	1,055	-	-
Foreign exchange contracts		191	191	191	-	-	-
<b>Total liabilities</b>		<b>580,636</b>	<b>873,770</b>	<b>29,814</b>	<b>33,032</b>	<b>165,273</b>	<b>645,651</b>
Forward fuel price contracts		238,512	251,817	27,776	46,957	90,337	86,747
Forward electricity price contracts		253,749	274,192	36,397	28,251	92,327	117,217
Foreign exchange contracts		10,495	8,347	8,347	-	-	-
<b>Total assets</b>		<b>502,756</b>	<b>534,356</b>	<b>72,520</b>	<b>75,208</b>	<b>182,664</b>	<b>203,964</b>
<b>Net derivative (assets) / liabilities</b>		<b>77,880</b>	<b>339,414</b>	<b>(42,706)</b>	<b>(42,176)</b>	<b>(17,391)</b>	<b>441,687</b>
<b>31 December 2010</b>							
Currency swaps	1,081,660	69,004	92,641	1,834	2,271	53,955	34,581
Inflation linked interest rate swaps	638,978	276,254	613,611	8,320	4,462	86,012	514,817
Interest rate swaps	25,324	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	-	-	-
<b>Total liabilities</b>		<b>454,651</b>	<b>848,481</b>	<b>20,958</b>	<b>(16,761)</b>	<b>160,964</b>	<b>683,320</b>
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	-
<b>Total assets</b>		<b>577,435</b>	<b>662,868</b>	<b>77,283</b>	<b>37,500</b>	<b>182,898</b>	<b>365,187</b>
<b>Net derivative (assets) / liabilities</b>		<b>(122,784)</b>	<b>185,613</b>	<b>(56,325)</b>	<b>(54,261)</b>	<b>(21,934)</b>	<b>318,133</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 18. 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).

#### (a) Parent and Group - Republic of Ireland

##### (i) Exceptional pension charge

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

	2010 € '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 19)	897,135
Total exceptional pension charge (note 6)	329,518

##### (ii) Historic accounting

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

### 18. PENSION LIABILITIES (continued)

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

The 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 19 below, the fair value of this capital contribution as calculated under the requirements of IAS 39 Financial Instruments: Recognition and Measurement was €638.4 million as at 20 October 2010. This will be paid over 10 years (timing of payment agreed in 2011), 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, 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 19 for more information.

ESB's contribution to the Scheme during 2011 was €140.2 million (period from 20 October 2010 to 31 December 2010: €13.5 million), of which €38.5 million (2010: €9.2 million) related to current service and is disclosed as a defined contribution pension cost in note 6 of these financial statements, and €101.9 million (2010: €4.3 million) related to past service and represents the partial paydown of the liability for pension obligation disclosed in note 19.

#### (v) Financial assumptions

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 18. PENSION LIABILITIES (continued)

#### (v) Financial assumptions (continued)

The discount rate used in the calculation of the pension liability at the effective date of the Agreement was 4.55%. 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 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	
	Males Years	Females Years
Future pensioners at age 45 (life expectancy at 65)	22.8	24.8
Current pensioners at age 65 (current life expectancy)	21.6	23.7

#### Plan assets

The plan asset allocations at 20 October 2010 were as follows:

Asset category	20 October 2010
Equities	72%
Bonds	10%
Real estate and infrastructure	12%
Cash and other	6%
	100%

The strategic long-term target asset allocation for equities is 65%.

To develop the expected long-term rate of return on assets assumptions, 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 assumptions for the portfolio. This resulted in a 7.5% long-term rate of return at 20 October 2010.

The amounts recognised in the balance sheet as part of long-term employee benefits in relation to the Scheme were 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 (gains)/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

	2010	2009	2008	2007	2006
<b>History of experience gains and losses</b>					
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

### 18. PENSION LIABILITIES (continued)

#### (v) Financial assumptions (continued)

	20 October 2010 € '000
<b>Change in benefit obligation</b>	
Benefit obligation at beginning of the period	5,008,691
Movement in period:	
Current service cost	21,287
Interest cost	213,138
Plan members' contributions	21,691
Actuarial (gain) - impact of assumption changes	(730,501)
Actuarial loss - experience loss	800,000
Benefits paid	(169,512)
Curtailment cost	26,252
Past service cost	14,954
<b>Benefit obligation at 20 October 2010</b>	<b>5,206,000</b>
<b>Change in plan assets</b>	
Fair value of plan assets at beginning of the period	2,824,000
Movement in period:	
Expected return on plan assets	155,314
Actuarial gains	30,695
Employer contributions	126,812
Plan members' contributions	21,691
Benefits paid	(169,512)
<b>Fair value of plan assets at 20 October 2010</b>	<b>2,989,000</b>
<b>Actual return on plan assets for the period ended 20 October 2010</b>	<b>(32,309)</b>

Analysis of the amounts recognised in the income statement, as part of the employee benefit charge were as follows:

	20 October 2010 € '000
Current service cost	21,287
Curtailment cost	26,252
Past service cost	14,954
Actuarial losses recognised in the period	58,406
Expected return on pension scheme assets	(155,314)
Interest on pension scheme liabilities	213,137
<b>Total defined benefit charge to 20 October 2010 (note 6)</b>	<b>178,722</b>

#### (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 €5.8 million (2010: €7.2 million).

## NOTES TO THE FINANCIAL STATEMENTS

### 18. PENSION LIABILITIES (continued)

#### (c) Northern Ireland Electricity Pension Scheme

The majority of the employees in Northern Ireland are members of the Northern Ireland Electricity Pension Scheme (the NIE Scheme). This has two sections: 'Options', which is a money purchase arrangement whereby the employer generally matches the members' contributions up to a maximum of 6% of salary, and 'Focus' which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the NIE Scheme are held under trust and invested by the trustees on the advice of professional investment managers.

#### Financial assumptions

The valuation of the Focus section of the NIE Scheme by independent actuaries for the purpose of IAS 19 disclosures is based on the following assumptions:

	At 31 December 2011	At 31 December 2010
Rate of interest applied to discount liabilities	4.70%	5.60%
Price inflation (CPI in the United Kingdom)	1.90%	2.45%
Rate of increase of pensionable salaries	3.40%	3.85%
Rate of increase of pensions in payment	1.90%	2.45%

The discount rate used in the calculation of the pension liability at 31 December 2011 was 4.7% (2010: 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 2011		At 31 December 2010	
	Males Years	Females Years	Males Years	Females Years
Current pensioners at aged 60	26.3	28.8	25.0	27.7
Future pensioners currently aged 40 (life expectancy at 60)	27.9	30.4	26.7	29.4

#### Pension assets and liabilities

The assets and liabilities in the Focus section of the NIE Scheme, and the expected rates of return are:

	At 31 December 2011 €'000	Expected rate of return (%)	At 31 December 2010 €'000	Expected rate of return (%)
Equities	331,554	7.6%	397,063	7.4%
Bonds	731,720	3.5%	634,397	4.6%
Other	2,522	2.8%	2,562	4.2%
Fair value of plan assets	1,065,796		1,034,022	
Present value of funded obligations	(1,157,012)		(1,021,324)	
<b>Net (deficit) / surplus</b>	<b>(91,216)</b>		<b>12,698</b>	

The expected rate of return on equities is based on the expected median returns over the long-term. The expected rate of return on bonds is measured directly from actual market yields for UK gilts and corporate bonds. Other assets include cash balances and other investments. The expected rate of return on these assets is measured directly from short-term market interest rates.

## NOTES TO THE FINANCIAL STATEMENTS

### 18. PENSION LIABILITIES (continued)

#### (c) Northern Ireland Electricity Pension Scheme (continued)

	Year ended 31 December 2011 €'000	9 months ended 31 December 2010* €'000
<b>History of experience gains and losses</b>		
Difference between the expected and actual return on Scheme assets:		
Amount (€'000)	(20,812)	17,178
Percentage of Scheme assets	2.0%	1.7%
Experience gains / (losses) on Scheme liabilities:		
Amount (€'000)	6,476	111,428
Percentage of the present value of Scheme liabilities	(0.6%)	10.9%
	Year ended 31 December 2011 €'000	9 months ended 31 December 2010* €'000
<b>Change in benefit obligation</b>		
Benefit obligation at the beginning of the period	1,021,324	928,745
Movement in period:		
Current service cost	8,096	7,191
Interest cost	54,669	40,319
Plan members' contributions	634	589
Actuarial (gain) / loss - impact of assumption changes	98,442	(85,472)
Actuarial (gain) / loss - experience loss	(6,476)	(26,054)
Benefits paid	(57,580)	(35,839)
Reallocation of liabilities from Viridian to NIE	2,523	161,448
FX (gain) / loss on benefit obligation in the period	35,380	30,397
<b>Benefit obligation at the end of the year</b>	<b>1,157,012</b>	<b>1,021,324</b>
<b>Change in plan assets</b>		
Fair value of plan assets at the beginning of the period	1,034,022	809,071
Movement in period:		
Expected return on plan assets	53,931	36,547
Actuarial (losses) / gains	(20,811)	17,094
Employer contributions	21,903	27,115
Plan members' contributions	634	589
Other - Viridian payment / reallocation to Viridian	2,178	155,057
Benefits paid	(57,580)	(35,839)
FX gain / (loss) on assets in the period	31,519	24,388
<b>Fair value of plan assets at the end of the period</b>	<b>1,065,796</b>	<b>1,034,022</b>
<b>Actual return on plan assets for the period</b>	<b>33,119</b>	<b>53,641</b>

\* Obligations to the NIE Scheme were only acquired on 21 December 2010. Disclosure provided for comparison purposes only.



## NOTES TO THE FINANCIAL STATEMENTS

### 18. PENSION LIABILITIES (continued)

#### (c) Northern Ireland Electricity Pension Scheme (continued)

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

	2011 €'000
Current service cost	(8,096)
Curtailment cost	-
<b>Total defined benefit charge in year</b>	<b>(8,096)</b>

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

	2011 €'000
Expected return on pension scheme assets	53,931
Interest on pension scheme liabilities	(54,669)
<b>Net pension scheme interest</b>	<b>(738)</b>

Analysis of the amounts recognised in the statement of comprehensive income

	2011 €'000
Actuarial loss on assets	(20,812)
Actuarial loss on liabilities	(92,311)
<b>Net actuarial loss</b>	<b>(113,123)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 19. LIABILITY FOR PENSION OBLIGATION AND EMPLOYEE RELATED LIABILITIES

GROUP	Liability for pension obligation €'000	Employee related liabilities		Total €'000
		Restructuring liabilities €'000	Other €'000	
<b>Balance at 1 January 2010</b>	-	141,150	56,180	<b>197,330</b>
Movements during the year:				
Charge to the income statement	<b>897,135</b>	23,398	21,208	<b>44,606</b>
Acquisitions	-	517	-	<b>517</b>
Utilised during the year	<b>(6,433)</b>	(58,048)	(30,095)	<b>(88,143)</b>
Financing charge	<b>6,000</b>	3,092	-	<b>3,092</b>
<b>Balance at 31 December 2010</b>	<b>896,702</b>	<b>110,109</b>	<b>47,293</b>	<b>157,402</b>
<b>Balance at 1 January 2011</b>	<b>896,702</b>	<b>110,109</b>	<b>47,293</b>	<b>157,402</b>
Movements during the year:				
Charge to the income statement	-	-	37,611	<b>37,611</b>
Acquisitions	-	-	1,556	<b>1,556</b>
Utilised during the year	<b>(101,907)</b>	(27,746)	(30,746)	<b>(58,492)</b>
Financing charge	<b>39,947</b>	3,605	-	<b>3,605</b>
Translation differences	-	11	25	<b>36</b>
<b>Balance at 31 December 2011</b>	<b>834,742</b>	<b>85,979</b>	<b>55,739</b>	<b>141,718</b>
<b>Analysed as follows:</b>				
Non-current liabilities	<b>732,835</b>	62,574	-	<b>62,574</b>
Current liabilities	<b>101,907</b>	23,405	55,739	<b>79,144</b>
<b>Total</b>	<b>834,742</b>	<b>85,979</b>	<b>55,739</b>	<b>141,718</b>

PARENT	Liability for pension obligation €'000	Employee related liabilities		Total €'000
		Restructuring liabilities €'000	Other €'000	
<b>Balance at 1 January 2010</b>	-	141,150	46,725	<b>187,875</b>
Movements during the year:				
Charge to the income statement	<b>897,135</b>	23,398	20,998	<b>44,396</b>
Utilised during the year	<b>(6,433)</b>	(58,048)	(27,771)	<b>(85,819)</b>
Financing charge	<b>6,000</b>	3,092	-	<b>3,092</b>
<b>Balance at 31 December 2010</b>	<b>896,702</b>	<b>109,592</b>	<b>39,952</b>	<b>149,544</b>
<b>Balance at 1 January 2011</b>	<b>896,702</b>	<b>109,592</b>	<b>39,952</b>	<b>149,544</b>
Movements during the year:				
Charge to the income statement	-	-	30,231	<b>30,231</b>
Utilised during the year	<b>(101,907)</b>	(27,631)	(24,319)	<b>(51,950)</b>
Financing charge	<b>39,947</b>	3,605	-	<b>3,605</b>
<b>Balance at 31 December 2011</b>	<b>834,742</b>	<b>85,566</b>	<b>45,864</b>	<b>131,430</b>
<b>Analysed as follows:</b>				
Non-current liabilities	<b>732,835</b>	62,574	-	<b>62,574</b>
Current liabilities	<b>101,907</b>	22,992	45,864	<b>68,856</b>
<b>Total</b>	<b>834,742</b>	<b>85,566</b>	<b>45,864</b>	<b>131,430</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 19. LIABILITY FOR PENSION OBLIGATION AND EMPLOYEE RELATED LIABILITIES (continued)

#### Liability for pension obligation

During 2010 the company reached agreement with the ESB Group of Unions to amend pension arrangements within the company. As explained in note 18, the clarification in the Agreement of the company's commitments in respect of future funding of the ESB General Employees' Superannuation Scheme has given rise to a change in accounting treatment of the Scheme and the Agreement also confirmed certain company obligations which require separate provision.

Under the Agreement the company committed to making an exceptional cash injection into the Scheme, which will be paid over 10 years. The fair value of this cash injection as calculated under the terms of IAS 39 Financial Instruments: Recognition and Measurement 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 Employee Benefits, provision has been made for employee remuneration liabilities, including accrued holiday leave, bonuses and profit share arrangements.

### 20. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2011 € '000	2010 € '000	2011 € '000	2010 € '000
<b>Current payables:</b>				
Progress payments on work in progress	38,242	40,845	-	49
Trade payables	266,963	336,906	192,786	244,617
Other payables	61,568	32,013	55,432	23,033
Employment taxes	19,303	17,998	17,456	15,552
Value added tax	43,579	30,750	24,505	18,880
Accruals	95,592	128,616	20,348	36,540
Amounts owed to subsidiary undertakings	-	-	714,631	819,812
Accrued interest on borrowings	57,945	30,541	2,968	1,055
	<b>583,192</b>	<b>617,669</b>	<b>1,028,126</b>	<b>1,159,538</b>
<b>Non-current payables:</b>				
Other payables	13,281	14,820	5,649	7,414

## NOTES TO THE FINANCIAL STATEMENTS

### 21. DEFERRED INCOME AND GOVERNMENT GRANTS

#### (a) GROUP

	Emissions allowances € '000	Supply contributions and other € '000	Total €'000
<b>Balance at 1 January 2010</b>	-	731,162	<b>731,162</b>
Receivable	120,189	918	<b>121,107</b>
Released to the income statement	(113,743)	(32,864)	<b>(146,607)</b>
Translation differences	305	-	<b>305</b>
<b>Balance at 31 December 2010</b>	<b>6,751</b>	<b>699,216</b>	<b>705,967</b>
<b>Balance at 1 January 2011</b>	<b>6,751</b>	<b>699,216</b>	<b>705,967</b>
Receivable	135,161	6,437	<b>141,598</b>
Released to the income statement	(127,746)	(42,451)	<b>(170,197)</b>
Translation differences	(161)	-	<b>(161)</b>
<b>Balance at 31 December 2011</b>	<b>14,005</b>	<b>663,202</b>	<b>677,207</b>
<b>Analysed as follows:</b>			
Non-current liabilities	-	620,020	<b>620,020</b>
Current liabilities	14,005	43,182	<b>57,187</b>
<b>Total</b>	<b>14,005</b>	<b>663,202</b>	<b>677,207</b>

#### (b) PARENT

	Emissions allowances € '000	Supply contributions and other € '000	Total €'000
<b>Balance at 1 January 2010</b>	-	719,615	<b>719,615</b>
Receivable	100,085	-	<b>100,085</b>
Released to the income statement	(93,333)	(32,417)	<b>(125,750)</b>
<b>Balance at 31 December 2010</b>	<b>6,752</b>	<b>687,198</b>	<b>693,950</b>
<b>Balance at 1 January 2011</b>	<b>6,752</b>	<b>687,198</b>	<b>693,950</b>
Receivable	112,076	332	<b>112,408</b>
Released to the income statement	(104,963)	(32,180)	<b>(137,143)</b>
<b>Balance at 31 December 2011</b>	<b>13,865</b>	<b>655,350</b>	<b>669,215</b>
<b>Analysed as follows:</b>			
Non-current liabilities	-	619,861	<b>619,861</b>
Current liabilities	13,865	35,489	<b>49,354</b>
<b>Total</b>	<b>13,865</b>	<b>655,350</b>	<b>669,215</b>

Emissions allowances received during the year are recorded as both intangible assets and deferred income. They are valued at market value on receipt and amortised to the income statement on the basis of actual emissions during the year.

To the extent that the value of the 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 emissions acquired in future years.

Non-repayable supply contributions and capital grants received prior to July 2009 were recorded as deferred income and released to the income statement on a basis consistent with the depreciation policy of the relevant assets. Accounting for supply contributions post July 2009 have been described further in the statement of accounting policies in these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 22. PROVISIONS

(a) GROUP	Power station closure costs € '000	Emissions provisions € '000	Customer rebate and other provisions € '000	Total € '000
<b>Balance at 1 January 2010</b>	218,603	147,947	53,362	<b>419,912</b>
Charged/(credited) to the income statement				
- Emissions	-	120,635	-	<b>120,635</b>
- Legal and other	-	-	2,984	<b>2,984</b>
- Station closure	1,380	-	-	<b>1,380</b>
Transferred to pension liability	(15,035)	-	-	<b>(15,035)</b>
Transferred from trade and other payables	-	-	14,265	<b>14,265</b>
Acquisitions	-	-	11,130	<b>11,130</b>
Utilised in the year	(18,079)	(147,935)	(4,156)	<b>(170,170)</b>
Financing charge	5,803	-	1,784	<b>7,587</b>
Translation differences	101	492	-	<b>593</b>
<b>Balance at 31 December 2010</b>	<b>192,773</b>	<b>121,139</b>	<b>79,369</b>	<b>393,281</b>
<b>Balance at 1 January 2011</b>	<b>192,773</b>	<b>121,139</b>	<b>79,369</b>	<b>393,281</b>
Charged/(credited) to the income statement				
- Emissions	-	131,568	-	<b>131,568</b>
- Legal and other	-	-	(24,242)	<b>(24,242)</b>
- Station closure	281	-	-	<b>281</b>
Acquisitions	1,136	-	-	<b>1,136</b>
Utilised in the year	(28,376)	(125,014)	(3,142)	<b>(156,532)</b>
Financing charge	7,873	-	2,194	<b>10,067</b>
Translation differences	157	435	363	<b>955</b>
<b>Balance at 31 December 2011</b>	<b>173,844</b>	<b>128,128</b>	<b>54,542</b>	<b>356,514</b>
<b>Analysed as follows:</b>				
Non-current liabilities	169,852	-	49,269	<b>219,121</b>
Current liabilities	3,992	128,128	5,273	<b>137,393</b>
<b>Total</b>	<b>173,844</b>	<b>128,128</b>	<b>54,542</b>	<b>356,514</b>



## NOTES TO THE FINANCIAL STATEMENTS

22. PROVISIONS (continued)				
(b) PARENT	Power station closure costs € '000	Emissions provisions € '000	Customer rebate and other provisions € '000	Total € '000
<b>Balance at 1 January 2010</b>	216,252	114,907	53,362	<b>384,521</b>
Charged/(credited) to the income statement				
- Emissions	-	92,439	-	<b>92,439</b>
- Legal and other	-	-	2,984	<b>2,984</b>
- Station closure	1,300	-	-	<b>1,300</b>
Transferred to pension liability	(15,035)	-	-	<b>(15,035)</b>
Transferred from trade and other payables			14,265	<b>14,265</b>
Utilised in the year	(18,078)	(114,453)	(4,156)	<b>(136,687)</b>
Financing charge	5,803	-	1,784	<b>7,587</b>
<b>Balance at 31 December 2010</b>	<b>190,242</b>	<b>92,893</b>	<b>68,239</b>	<b>351,374</b>
<b>Balance at 1 January 2011</b>	190,242	92,893	68,239	<b>351,374</b>
Charged/(credited) to the income statement				
- Emissions	-	100,740	-	<b>100,740</b>
- Legal and other	-	-	(25,420)	<b>(25,420)</b>
- Station closure	-	-	-	-
Utilised in the year	(28,376)	(96,799)	(2,557)	<b>(127,732)</b>
Financing charge	7,873	-	2,194	<b>10,067</b>
<b>Balance at 31 December 2011</b>	<b>169,739</b>	<b>96,834</b>	<b>42,456</b>	<b>309,029</b>
<b>Analysed as follows:</b>				
Non-current liabilities	165,747	-	39,295	<b>205,042</b>
Current liabilities	3,992	96,834	3,161	<b>103,987</b>
<b>Total</b>	<b>169,739</b>	<b>96,834</b>	<b>42,456</b>	<b>309,029</b>

### Power station closure costs

The provision at 31 December 2011 of €173.8 million (2010:€192.8 million) for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2020. 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<sub>2</sub> 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 9 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<sub>2</sub> 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<sub>2</sub> emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability.

### Customer rebate and other provisions

A customer rebate provision of €300 million at 1 January 2009 related to a payment due from ESB to all Irish electricity customers, in order to mitigate the requirement for increased electricity tariffs in 2008 / 2009 due to volatility in fuel prices. This was substantially paid during 2009. The remaining balance in addition to other provisions no longer required have been released to the income statement in 2011.

Other provisions represent prudent estimates of liabilities that may or may not arise, to third parties, in respect of claims notified or provided for at year end. In accordance with normal commercial practice, the year end provision includes an estimate for liabilities incurred but not yet notified.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

#### (a) Overview of financial risk management

##### Risk environment

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

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

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

##### Risk reporting structure

Through the Chief Executive, the Board has delegated to the Group Trading Committee (GTC) the broader responsibility of managing ESB's trading risk in a manner consistent with the Group's risk tolerance and business strategies. The GTC has established risk limits to manage and limit trading risk exposure at Group and business unit level. These limits are documented for each of the ESB businesses engaged in wholesale trading activities. Furthermore the Group Trading Risk Management Policy is applicable to each of these businesses.

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

The Trading Risk Management Committees report to the GTC. The middle office function in each business unit maintains a separate reporting line to the Group Trading Risk Management function, which is responsible for ensuring that the Group's net exposure to movements in commodity or other price movements is adequately managed in accordance with the 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 48 to 49.

##### Hedge accounting

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

In addition, the Group enters into certain commodity hedging transactions to fix fuel costs and to link electricity revenues more closely to fuel inputs, where possible. All of these arrangements are designated into hedge relationships, and in the great majority of cases meet the specific 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (b) Overview of financial assets and liabilities

Financial assets and liabilities, excluding provisions and employee related liabilities, at 31 December 2011, and at 31 December 2010 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	
	2011 € '000	2010 € '000	2011 € '000	2010 € '000	2011 € '000	2010 € '000	2011 € '000	2010 € '000	2011 € '000	2010 € '000
<b>ASSETS</b>										
<b>Non-current assets</b>										
Financial asset investments	39,482	18,866	1,344	1,318	-	-	-	-	40,826	20,184
Derivative financial instruments	-	-	-	-	427,303	497,666	429	-	427,732	497,666
<b>Total non-current financial assets</b>	<b>39,482</b>	<b>18,866</b>	<b>1,344</b>	<b>1,318</b>	<b>427,303</b>	<b>497,666</b>	<b>429</b>	<b>-</b>	<b>468,558</b>	<b>517,850</b>
<b>Current assets</b>										
Trade and other receivables	-	-	643,710	619,339	-	-	-	-	643,710	619,339
Cash and cash equivalents	-	-	277,409	199,585	-	-	-	-	277,409	199,585
Derivative financial instruments	-	-	-	-	72,900	76,244	2,124	3,525	75,024	79,769
<b>Total current financial assets</b>	<b>-</b>	<b>-</b>	<b>921,119</b>	<b>818,924</b>	<b>72,900</b>	<b>76,244</b>	<b>2,124</b>	<b>3,525</b>	<b>996,143</b>	<b>898,693</b>
<b>Total financial assets</b>	<b>39,482</b>	<b>18,866</b>	<b>922,463</b>	<b>820,242</b>	<b>500,203</b>	<b>573,910</b>	<b>2,553</b>	<b>3,525</b>	<b>1,464,701</b>	<b>1,416,543</b>
<b>LIABILITIES</b>										
<b>Non-current liabilities</b>										
Borrowings and other debt	-	-	4,367,862	3,361,211	-	-	-	-	4,367,862	3,361,211
Liability for pension obligation	-	-	732,835	808,231	-	-	-	-	732,835	808,231
Trade and other payables	-	-	13,281	14,820	-	-	-	-	13,281	14,820
Derivative financial instruments	-	-	-	-	74,382	167,802	479,455	268,138	553,837	435,940
<b>Total non-current financial liabilities</b>	<b>-</b>	<b>-</b>	<b>5,113,978</b>	<b>4,184,262</b>	<b>74,382</b>	<b>167,802</b>	<b>479,455</b>	<b>268,138</b>	<b>5,667,815</b>	<b>4,620,202</b>
<b>Current liabilities</b>										
Borrowings and other debt	-	-	233,309	781,989	-	-	-	-	233,309	781,989
Liability for pension obligation	-	-	101,907	88,471	-	-	-	-	101,907	88,471
Trade and other payables	-	-	583,192	617,669	-	-	-	-	583,192	617,669
Derivative financial instruments	-	-	-	-	17,608	10,595	9,191	8,116	26,799	18,711
<b>Total current financial liabilities</b>	<b>-</b>	<b>-</b>	<b>918,408</b>	<b>1,488,129</b>	<b>17,608</b>	<b>10,595</b>	<b>9,191</b>	<b>8,116</b>	<b>945,207</b>	<b>1,506,840</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>6,032,386</b>	<b>5,672,391</b>	<b>91,990</b>	<b>178,397</b>	<b>488,646</b>	<b>276,254</b>	<b>6,613,022</b>	<b>6,127,042</b>
<b>PARENT</b>										
<b>ASSETS</b>										
<b>Non-current assets</b>										
Investments in subsidiary undertakings	-	-	72,832	72,832	-	-	-	-	72,832	72,832
Derivative financial instruments	-	-	-	-	2,130	-	429	-	2,559	-
<b>Total non-current financial assets</b>	<b>-</b>	<b>-</b>	<b>72,832</b>	<b>72,832</b>	<b>2,130</b>	<b>-</b>	<b>429</b>	<b>-</b>	<b>75,391</b>	<b>72,832</b>
<b>Current assets</b>										
Trade and other receivables	-	-	1,946,550	1,944,374	-	-	-	-	1,946,550	1,944,374
Cash and cash equivalents	-	-	202,470	140,902	-	-	-	-	202,470	140,902
Derivative financial instruments	-	-	-	-	5,313	9,763	2,124	3,525	7,437	13,288
<b>Total current financial assets</b>	<b>-</b>	<b>-</b>	<b>2,149,020</b>	<b>2,085,276</b>	<b>5,313</b>	<b>9,763</b>	<b>2,124</b>	<b>3,525</b>	<b>2,156,457</b>	<b>2,098,564</b>
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>2,221,852</b>	<b>2,158,108</b>	<b>7,443</b>	<b>9,763</b>	<b>2,553</b>	<b>3,525</b>	<b>2,231,848</b>	<b>2,171,396</b>
<b>LIABILITIES</b>										
<b>Non-current liabilities</b>										
Borrowings and other debt	-	-	2,974,835	2,731,590	-	-	-	-	2,974,835	2,731,590
Liability for pension obligation	-	-	732,835	808,231	-	-	-	-	732,835	808,231
Trade and other payables	-	-	5,649	7,414	-	-	-	-	5,649	7,414
Derivative financial instruments	-	-	-	-	68,279	69,004	938	-	69,217	69,004
<b>Total non-current financial liabilities</b>	<b>-</b>	<b>-</b>	<b>3,713,319</b>	<b>3,547,235</b>	<b>68,279</b>	<b>69,004</b>	<b>938</b>	<b>-</b>	<b>3,782,536</b>	<b>3,616,239</b>
<b>Current liabilities</b>										
Borrowings and other debt	-	-	219,746	106,326	-	-	-	-	219,746	106,326
Liability for pension obligation	-	-	101,907	88,471	-	-	-	-	101,907	88,471
Trade and other payables	-	-	1,028,126	1,159,538	-	-	-	-	1,028,126	1,159,538
Derivative financial instruments	-	-	-	-	9,451	2,548	1,056	-	10,507	2,548
<b>Total current financial liabilities</b>	<b>-</b>	<b>-</b>	<b>1,349,779</b>	<b>1,354,335</b>	<b>9,451</b>	<b>2,548</b>	<b>1,056</b>	<b>-</b>	<b>1,360,286</b>	<b>1,356,883</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>5,063,098</b>	<b>4,901,570</b>	<b>77,730</b>	<b>71,552</b>	<b>1,994</b>	<b>-</b>	<b>5,142,822</b>	<b>4,973,122</b>

The Group's provisions and employee related liabilities are not analysed in the table above with the only exception to this being the liability for pension obligation of €834.7 million at 31 December 2011 (2010: €896.7 million). See notes 18, 19 and 22 for further information in relation to this and to the other provisions and employee related liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (c) Funding and liquidity management

The following table sets out the contractual maturities of financial liabilities (and assets of a similar nature), including the interest payments associated with borrowings, and the undiscounted net cash flows attributable to derivative financial instruments. Borrowings with a carrying value of €1,406.6 million (2010: €1,305.3 million), and net derivative financial instrument liabilities of €8.2 million (2010: €181.0 million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities. See notes 16, 17 and 23(b) for further analysis of Group and Parent financial assets and liabilities.

	Carrying amount €'000	Contractual cash outflows/ (inflows) - net €'000	Within 1 year €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000
<b>31 December 2011</b>						
Borrowings	4,601,171	5,938,014	405,443	573,531	2,234,972	2,724,068
Trade and other payables (excluding tax balances)	533,591	533,591	520,310	13,281	-	-
Financial instruments	580,636	873,770	29,814	33,032	165,273	645,651
<b>Total liabilities</b>	<b>5,715,398</b>	<b>7,345,375</b>	<b>955,567</b>	<b>619,844</b>	<b>2,400,245</b>	<b>3,369,719</b>
Financial instruments	502,756	534,356	72,520	75,208	182,664	203,964
<b>Total assets</b>	<b>502,756</b>	<b>534,356</b>	<b>72,520</b>	<b>75,208</b>	<b>182,664</b>	<b>203,964</b>
<b>Net liabilities</b>	<b>5,212,642</b>	<b>6,811,019</b>	<b>883,047</b>	<b>544,636</b>	<b>2,217,581</b>	<b>3,165,755</b>
<b>31 December 2010</b>						
Borrowings	4,143,200	5,174,333	925,249	236,960	2,073,595	1,938,529
Trade and other payables (excluding tax balances)	583,741	583,741	568,921	4,235	10,585	-
Financial instruments	454,651	848,481	20,958	(16,761)	160,964	683,320
<b>Total liabilities</b>	<b>5,181,592</b>	<b>6,606,555</b>	<b>1,515,128</b>	<b>224,434</b>	<b>2,245,144</b>	<b>2,621,849</b>
Financial instruments	577,435	662,868	77,283	37,500	182,898	365,187
<b>Total assets</b>	<b>577,435</b>	<b>662,868</b>	<b>77,283</b>	<b>37,500</b>	<b>182,898</b>	<b>365,187</b>
<b>Net liabilities</b>	<b>4,604,157</b>	<b>5,943,687</b>	<b>1,437,845</b>	<b>186,934</b>	<b>2,062,246</b>	<b>2,256,662</b>

#### (d) Credit risk

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

#### Financial assets

	2011		2010	
	Group €'000	Parent €'000	Group €'000	Parent €'000
Trade and other receivables	643,710	1,946,550	619,339	1,944,374
Financial asset investments	40,826	72,832	20,184	72,832
Cash and cash equivalents	277,409	202,470	199,585	140,902
Derivative financial instruments	502,756	9,996	577,435	13,288
	<b>1,464,701</b>	<b>2,231,848</b>	<b>1,416,543</b>	<b>2,171,396</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (d) Credit risk (continued)

##### Trade and other receivables

Wholesale and credit risk arising from trade and other receivables has been disclosed in note 12.

##### 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 €208.9 million (2010: €192.0 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.

#### (e) Foreign currency risk management

Foreign currency exposures arise mainly through the purchase of fuel and power, station overhaul costs required, other purchases denominated in foreign currencies, borrowings in foreign currencies (including the private placement as described in note 16) 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 2011 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 €32.3 million in 2011 (2010: positive movement of €5.0 million) of which a net positive movement of €0.7 million (2010: negative movement of €0.2 million) was recognised in the income statement and a net positive movement of €31.6 million (2010: positive movement of €5.2 million) was recognised directly in other comprehensive income. The amount recognised in the income statement in 2011 is inclusive of a gain of €33.3 million (2010: gain of €75.7 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 5). Ineffectiveness of €5.2 million was recognised in relation to foreign exchange contracts in 2011 (2010: €nil).

At year end, ESB's total debt portfolio amounted to €4.6 billion (2010: €4.1 billion), of which the Parent held €3.2 billion (2010: €2.8 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

GROUP	Before swaps		After swaps	
	2011 (%)	2010 (%)	2011 (%)	2010 (%)
<b>Currency</b>				
Euro	37%	33%	59%	58%
US dollar	21%	24%	0%	0%
Sterling	42%	43%	41%	42%
Total	100%	100%	100%	100%

PARENT	Before swaps		After swaps	
	2011 (%)	2010 (%)	2011 (%)	2010 (%)
<b>Currency</b>				
Euro	52%	47%	83%	83%
US dollar	30%	34%	0%	0%
Sterling	18%	19%	17%	17%
Total	100%	100%	100%	100%



## NOTES TO THE FINANCIAL STATEMENTS

### 23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (e) Foreign currency risk management (continued)

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

A general increase of 10% in foreign currency exchange rates at 31 December would change equity and profit before taxation by the amounts set out below. This analysis assumes that all other variables remain constant, and includes the impact of the value of commodity swaps in place, all of which are in effective hedge relationships at 31 December 2011.

GROUP	31 December 2011		31 December 2010	
	Other comprehensive income Gain / (loss) € '000	Profit before taxation Gain / (loss) € '000	Other comprehensive income Gain / (loss) € '000	Profit before taxation Gain / (loss) € '000
<b>10% Strengthening</b>				
US dollar	(24,974)	259	(4,774)	1,174
Sterling	(15,153)	(69)	(11,330)	(655)
Swiss franc	(3,783)	(503)	(4,877)	29
<b>10% Weakening</b>				
US dollar	30,524	(317)	5,835	(1,434)
Sterling	18,520	84	13,847	800
Swiss franc	4,624	615	5,961	(35)

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (f) Commodity price risk management

The volatility of prices of fuel required for the Group's electricity generation activities has been significant in recent years and the resulting exposures to fuel price movements are managed by the Group on a selective hedging basis. The Group has entered into forward commodity price contracts in relation to the purchase of gas and coal required for electricity generation activities - see note 17. Forward fuel price contracts are valued based on physical volumes contracted and outstanding, and on the forward prices of products of a similar nature, at the balance sheet date, discounted where necessary based on an appropriate forward interest curve.

A general increase of 10% in the price of gas and coal at 31 December would increase equity and profit before taxation by the amount set out below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant, and includes the impact of the value of commodity swaps in place, all of which are in effective cash flow hedge relationships at 31 December 2011. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remain constant.

GROUP	31 December 2011		31 December 2010	
	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	122,153	2,502	84,915	-

PARENT	31 December 2011		31 December 2010	
	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	22,349	2,502	5,622	-

A general increase of 10% in the System Market Price (SMP) of the Single Electricity Market at 31 December would have decreased other comprehensive income and profit before taxation by the amounts set out below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant, and includes the impact of 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 2011		31 December 2010	
	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	(61,684)	-	(39,397)	-

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 2011 or 2010.

The sensitivity analysis provided above for the Group and Parent has been calculated as at 31 December using the following base commodity prices and foreign currency rates:

	2011	2010
Gas (Stg. p/therm)	62.75	47.66
SMP (€ / MWh)	71.88	56.05
Coal (US\$ / tonne)	112.40	123.40
Foreign currency rate (€1 = US\$)	1.2939	1.3362
Foreign currency rate (€1 = Stg£)	0.8353	0.8608

## NOTES TO THE FINANCIAL STATEMENTS

### 23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (g) Fair value

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

31 December 2011	GROUP		PARENT	
	Carrying value	Fair value	Carrying value	Fair value
	2011	2011	2011	2011
	€ '000	€ '000	€ '000	€ '000
Long-term debt	4,312,134	4,233,929	2,919,107	2,845,663
Long-term finance lease liabilities	55,728	56,560	55,728	56,560
Short-term borrowings (includes finance leases)	233,309	226,989	219,746	212,687
<b>Total borrowings</b>	<b>4,601,171</b>	<b>4,517,478</b>	<b>3,194,581</b>	<b>3,114,910</b>
Derivative financial instruments - (assets) / liabilities	77,880	77,880	69,728	69,728
Financial assets at fair value through profit or loss	(39,482)	(39,482)	-	-
Liabilities for pension obligation	834,742	834,742	834,742	834,742
Trade and other payables	596,473	596,473	1,033,775	1,033,775
Trade and other receivables	(643,710)	(643,710)	(1,946,550)	(1,946,550)
Cash and cash equivalents	(277,409)	(277,409)	(202,470)	(202,470)
<b>Net liabilities</b>	<b>5,149,665</b>	<b>5,065,972</b>	<b>2,983,806</b>	<b>2,904,135</b>

31 December 2010	GROUP		PARENT	
	Carrying value	Fair value	Carrying value	Fair value
	2010	2010	2010	2010
	€ '000	€ '000	€ '000	€ '000
Long-term debt	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
<b>Total borrowings</b>	<b>4,143,200</b>	<b>4,067,437</b>	<b>2,837,916</b>	<b>2,775,206</b>
Derivative financial instruments - (assets) / liabilities	(122,784)	(122,784)	58,264	58,264
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	632,489	630,041	1,165,776	1,166,952
Trade and other receivables	(619,339)	(619,339)	(1,944,374)	(1,944,374)
Cash and cash equivalents	(199,585)	(199,585)	(140,902)	(140,902)
<b>Net liabilities</b>	<b>4,711,817</b>	<b>4,633,606</b>	<b>2,873,382</b>	<b>2,811,848</b>

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

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of trade and other payables is calculated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date.

#### Fair value - discount rates

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

	2011	2010
	%	%
Leases	4.8%	4.6%
Other loans and borrowings	5.3%	6.1%
Derivative financial instruments	1.7%	2.9%
Liability for pension obligation	5.0%	5.9%
Trade and other payables	5.2%	4.6%

## NOTES TO THE FINANCIAL STATEMENTS

### 23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (h) Fair value hierarchy

The table below analyses financial assets and liabilities carried at fair value, by valuation method. The different levels relevant to financial assets and liabilities held by the Group have been defined as follows:

- Level 2: inputs, other than unadjusted quoted prices in active markets for identical assets and liabilities, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### 31 December 2011 - GROUP

	Level 2 € '000	Level 3 € '000	Total € '000
<b>Assets</b>			
Derivative financial instruments			
Foreign exchange contracts	10,495	-	10,495
Forward fuel price contracts	-	238,512	238,512
Forward electricity price contracts	-	253,749	253,749
Financial assets at fair value through profit or loss	-	39,482	39,482
	<b>10,495</b>	<b>531,743</b>	<b>542,238</b>
<b>Liabilities</b>			
Derivative financial instruments			
Currency swaps	68,279	-	68,279
Interest rate swaps	5,986	-	5,986
Inflation linked interest rate swaps	-	486,652	486,652
Forward fuel price contracts	8,204	2,197	10,401
Forward electricity price contracts	-	9,127	9,127
Foreign exchange contracts	191	-	191
	<b>82,660</b>	<b>497,976</b>	<b>580,636</b>
<b>Net (liability) / asset</b>	<b>(72,165)</b>	<b>33,767</b>	<b>(38,398)</b>

#### 31 December 2010 - GROUP

	Level 2 € '000	Level 3 € '000	Total € '000
<b>Assets</b>			
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
	<b>17,989</b>	<b>578,312</b>	<b>596,301</b>
<b>Liabilities</b>			
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
	<b>75,378</b>	<b>379,273</b>	<b>454,651</b>
<b>Net (liability) / asset</b>	<b>(57,389)</b>	<b>199,039</b>	<b>141,650</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (h) Fair value hierarchy (continued)

##### 31 December 2011 - PARENT

	Level 2 € '000	Level 3 € '000	Total € '000
<b>Assets</b>			
Derivative financial instruments			
Foreign exchange contracts	7,002	-	7,002
Forward fuel price contracts	2,994	-	2,994
	9,996	-	9,996
<b>Liabilities</b>			
Derivative financial instruments			
Currency swaps	68,279	-	68,279
Interest rate swaps	938	-	938
Forward fuel price contracts	10,401	-	10,401
Foreign exchange contracts	106	-	106
	79,724	-	79,724
<b>Net (liability) / asset</b>	<b>(69,728)</b>	<b>-</b>	<b>(69,728)</b>

##### 31 December 2010 - PARENT

	Level 2 € '000	Level 3 € '000	Total € '000
<b>Assets</b>			
Derivative financial instruments			
Foreign exchange contracts	1,831	-	1,831
Forward fuel price contracts	11,457	-	11,457
	13,288	-	13,288
<b>Liabilities</b>			
Derivative financial instruments			
Currency swaps	69,004	-	69,004
Foreign exchange contracts	2,548	-	2,548
	71,552	-	71,552
<b>Net (liability) / asset</b>	<b>(58,264)</b>	<b>-</b>	<b>(58,264)</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (h) Fair value hierarchy (continued)

The following table shows a reconciliation from opening balances at 1 January 2011 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 asset/(liability)	18,866	(77,137)	533,564	(276,254)	199,039
Transferred in from Level 2	-	-	-	-	-
Purchases	24,684	-	-	-	24,684
Acquired during the year	-	-	-	-	-
Total gains or losses:					
in profit or loss	(4,831)	-	-	(202,274)	(207,105)
in OCI	-	290,493	(333,085)	-	(42,592)
Settlements	-	31,266	35,836	8,918	76,020
Translation movements	763	-	-	(17,042)	(16,279)
<b>Closing asset/(liability)</b>	<b>39,482</b>	<b>244,622</b>	<b>236,315</b>	<b>(486,652)</b>	<b>33,767</b>

Financial assets at fair value through profit or loss are carried at fair value. Where applicable, the fair value is based on the most recent fund valuation statement available. In relation to stand alone investments, the valuation methodology used is in accordance with International Private Equity and Venture Capital Valuation Guidelines which have been developed by a number of international venture capital associations. As this requires the use of model based valuation techniques, with a number of unobservable inputs, all financial assets at fair value through profit or loss have been categorised as Level 3 investments in the current year.

Forward fuel price contracts and forward electricity price contracts included at Level 3 in the fair value hierarchy relate to long-term contracts whose valuations are based on a number of forward price assumptions, with some unobservable inputs, including assumed forward electricity, carbon and gas inputs for longer term periods. Settlements form part of revenue and fuel costs in the income statement.

#### (i) Capital management

The Group considers its capital to comprise equity, being capital stock, retained earnings and cash flow hedging, revaluation and other reserves. Movements in retained earnings and cash flow hedging, revaluation and other 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.

### 24. COMMITMENTS AND CONTINGENCIES

#### (a) Operating lease obligations

	2011 € '000	2010 € '000
Total commitments under non-cancellable operating leases were as follows:		
Within one year	14,588	11,525
Between two and five years	41,129	35,687
After five years	114,778	111,457
<b>Total payable</b>	<b>170,495</b>	<b>158,669</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 24. COMMITMENTS AND CONTINGENCIES (continued)

	2011 € '000	2010 € '000
<b>(b) Capital commitments</b>		
Contracted for	<b>215,489</b>	276,580
Included in the 2011 capital commitments above, is a commitment relating to the VantagePoint fund (see Note 10). The Group could be called upon by its partners in this fund to make a further €6.2 million investment (2010: €7.2 million).		
<b>Share of joint venture capital commitments</b>	2011 € '000	2010 € '000
Contracted for	<b>88</b>	472

These commitments relate mainly to maintenance contracts which the Bizkaia Energia SL joint venture 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.

#### (d) Other disclosures

A number of letters of claim have been received in relation to 2009 flooding in Cork (Ireland); one claimant has issued legal proceedings seeking to recover circa €19 million for property damage. There is a possibility of additional claims being brought in connection with the flooding, but ESB intends to strenuously defend all such claims. On the basis of advices obtained, ESB believes that it has a good defence to these claims, and accordingly, no provision has been made for such claims in the financial statements.

### 25. RELATED PARTY TRANSACTIONS

#### Semi-state bodies

In common with many other entities, ESB deals in the normal course of business with other government sponsored bodies such as Bord Gáis and Bord na Mona. Long-term agreements are negotiated between ESB and Bord na Mona in relation to the purchase of peat for the Midland Stations.

#### Banks owned by the Irish state

In the normal course of business, ESB transacts with certain Irish banks which have become wholly or partially controlled by the Irish government. All of ESB's transactions with such banks are on normal commercial terms. ESB had no material concentration of borrowings with any such banks during the year or at 31 December 2011. Less than one third of cash and cash equivalents was held 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 2011, ESB Parent purchased engineering, consulting and other services, including rental services, of €109.7 million (2010: €88.2 million) from its subsidiaries.

During the year, ESB Parent had sales of €69.7 million (2010: €71.1 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 received interest of €31.4 million (2010: €12.1 million) from subsidiaries and paid interest of €6.8 million (2010: €7.3 million) to subsidiaries on intercompany loans.

At 31 December 2011, ESB Parent had amounts payable of €714.6 million (2010: €819.8 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 2011, ESB Parent had balances receivable of €1,583.6 million (2010: €1,582.5 million) from its subsidiaries. These receivables mainly relate to management services and loans to subsidiaries, as well as electricity charges such as use of system charges.

At 31 December 2011, ESB Parent had balances receivable from its subsidiaries, in relation to equity and capital contributions, of €72.8 million (2010: €72.8 million).

## NOTES TO THE FINANCIAL STATEMENTS

### 25. RELATED PARTY TRANSACTIONS (continued)

#### Joint ventures

During the year the Group provided services to Corby Power Limited (prior to acquisition) and to two of its remaining joint ventures, Bizkaia Energia SL and Marchwood Power Limited.

ESB provided services to Bizkaia Energia SL during the year to the value of €6.5 million (2010: €6.0 million). No services were provided to Marchwood Power Limited during 2011 (2010: €nil). Capital funding of €nil was advanced to Marchwood Power Limited during 2011 (2010: €0.7 million). As at 31 December 2011, the total capital funding from the Group to Marchwood Power Limited was €42.6 million (2010: €42.6 million). This capital funding was converted to an equity investment in the company in 2010 (see note 10(a)).

On 4 May 2011, Corby Power Limited converted from a joint venture to a full subsidiary of ESB Group, with the group acquiring the remaining 50% equity share in the company.

Prior to the full acquisition of Corby Power Limited, ESB provided services to the value of €1.8 million (2010: €2.8 million) to the company.

#### Key management compensation

	2011	2010
	€'000	€'000
Salaries and other short-term employee benefits	2,849	3,385
Post-employment benefits	361	354
Termination benefits	171	-
	<b>3,381</b>	<b>3,739</b>

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 the executive team.

### 26. ESTIMATES AND JUDGEMENTS

Preparation of consolidated financial statements requires a significant number of judgmental assumptions and estimates to be made. These impact on the income and expenses contained within the income statement and the valuation of the assets and liabilities in the balance sheet. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation.

It should be noted that the impact of variation in some assumptions and estimates can have a particularly material impact on the reported results. These include but are not limited to:

- The fair value, in accordance with IFRS 3 Business Combinations, of acquisitions and any associated goodwill, as described in note 10.
- Future costs required to settle current provisions and employee related liabilities, such as the liability for pension obligations, power station closure costs and voluntary severance obligations. These liabilities are disclosed in notes 18, 19 and 22.
- 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.
- As described in note 23 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. In 2010, the Group acquired, as part of the acquisition of NIE, inflation linked interest rate swaps which have a duration of over 20 years, which have been added to the Group's existing portfolio of level 3 financial instruments.
- 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 as updated for current market conditions are used in determining the level of incurred losses. These estimates include such factors as the current state of the Irish economy and particular industry issues. See note 12 for further information in respect of the profile and ageing of trade and other receivables and in respect of the allowance for impairment of trade and other receivables.

### 27. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated by ESB during 2001, with a €1 investment, as trustee to the ESB Employee Share Ownership Trust (ESOT) and the ESB Approved Profit Sharing Scheme (APSS). Under the terms of the creation of ESB ESOP Trustee Limited, ESB has no ability or rights to exert control over the assets or management of the company. The trustee company is chaired by an independent professional trustee director with four trustee directors representing ESB employees and two trustee directors representing the Company. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the company exist. In accordance with IAS 27 Consolidated and Separate Financial Statements, the accounts for ESB ESOP Trustee Limited are not consolidated with the results of ESB.

## NOTES TO THE FINANCIAL STATEMENTS

### 28. SUBSEQUENT EVENTS

On 14 September 2011 the Irish Government announced that it had decided to sell a minority stake in ESB as an integrated utility. A review group co-chaired by the Department of Communications Energy and Natural Resources and the Department of Public Expenditure and Reform and including officials from the Department of Finance (the "Review Group") issued a report to the Irish Government in February 2012. On 22 February 2012, the Irish Government announced that, following detailed analysis and further consideration, it has decided not to proceed with a sale of a minority stake in ESB. The Irish Government reaffirmed its commitment to retain ESB as a vertically integrated utility in State ownership, and it has decided to pursue a proposal to dispose of some of ESB's non-strategic generation capacity.

### 29. APPROVAL OF ACCOUNTS

The Board approved the financial statements on 5 April 2012.

# NOTES TO THE FINANCIAL STATEMENTS

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## 30. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
<b>Subsidiary undertakings</b>			
<b>Direct subsidiary</b>			
ESB Energy International Ltd. (formerly ESB International Ltd.)	*	100	Holding company
ESB International Ltd. (formerly ESB Ireland Holdings Ltd.)	*	100	Holding company
ESB International Investments Ltd.	*	100	International investments
ESB Financial Enterprises Ltd.	*	100	Holding company
Menloe Two Ltd.	**	100	Finance leasing
Menloe Investments Ltd.	**	100	Finance leasing
ESB Networks Ltd.	**	100	Power distribution
ESBNI Ltd.	*****	100	Holding company
ESB Finance Ltd.	**	100	Finance
ESB Electric Ireland Ltd.	**	100	Electricity sales
ESB Electric Ireland Ltd. (UK)	**	100	Electricity sales
Electric Ireland Ltd. (UK)	**	100	Electricity sales
<b>Indirect subsidiary</b>			
ESBI Engineering and Facility Management Ltd.	*	100	Engineering
ESBI Contracting Ltd.	*	100	Contracting
ESBI Consultants Ltd.	*	100	Consultancy
ESBI Computing Ltd.	*	100	Computer services
Elfinance Ltd.	*	100	Customer credit
ESBI Contracts Engineering Ltd.	*	100	Contracting
ESB Independent Energy Ltd.	*	100	Electricity sales
ESB Independent Energy NI Ltd.	*	100	Electricity sales
ESB Contracts Ltd.	*	100	Contracting
ESB Power Generation Holding Company Ltd.	*	100	Holding company
Gort Windfarms Ltd.	*	100	Power generation
Crockahenny Wind Farm Ltd.	*	75	Power generation
Utilities O&M Services Ltd.	58 Upper Mount Street, Dublin 2	100	Operation & maintenance services
Hibernian Wind Power Ltd.	*	100	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.	*****	100	Power generation
ESBII UK Ltd.	*****	100	Holding company



## NOTES TO THE FINANCIAL STATEMENTS

### 30. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
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
Knottingly Power Ltd (formerly Centrum Power Ltd.)	****	100	Power generation
Asturias Generation de Electricidad S.L.	Calle Uria, No 50-4, Oviedo 33001, Asturias, Spain	100	Power generation
Mountainlodge 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
Airvolution Energy Ltd. (UK)	58 Coinagehall Street, Helston, Cornwall, TR13 BEL	90	Power generation
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

## NOTES TO THE FINANCIAL STATEMENTS

### 30. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Carrington Power Ltd.	*****	85	Power generation
Northern Ireland Electricity Ltd.	*****	100	Power transmission and distribution
NIE Powerteam Ltd.	*****	100	Infrastructure contracting
Capital Pensions Management Ltd.	*****	100	Pension scheme administration
Powerteam Electrical Services Ltd.	*	100	Infrastructure contracting
Powerteam Electrical Services (UK) Ltd.	*****	100	Infrastructure contracting
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
Corby Power Ltd.	***	100	Power generation
CPL Operations Ltd.	***	100	Facility management
NIE Finance PLC.	*****	100	Finance
<b>Non-controlled subsidiary undertaking</b>			
ESB ESOP Trustee Ltd.	43 Merrion Square, Dublin 2	100	Staff Shareholding Scheme
<b>Joint venture undertakings</b>			
Bizkaia Energia S.L.	****	50	Power generation
Marchwood Power Ltd.	Oceanic Way, Marchwood Industrial Estate, Marchwood, Southampton, Hampshire SO40 4BD	50	Power generation
Oweninny Power Ltd.	*	50	Power generation
Emerald Bridge Fibres Ltd.	*	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

\*\*\*\*\* Unit 6, Sydenham Business Park, 9 Heron Avenue, Belfast BT3 9LF

Note 1: 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 2011 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 2011

When ESB receives a request from the supplier, it is ESB's policy to pay interest due on late payments. No such payments were made in respect of late payments during the year 2011 (2010: €5,500).



Lochlann Quinn  
Chairman



Brendan Byrne  
Chairman, Audit and Risk Committee

5 April 2012

# GLOSSARY

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

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

## **Business Working Responsibly (BWR)**

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

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

## **Corporate Performance Improvement**

**Programme:** The Corporate Performance Improvement Programme, which was launched during 2009, is designed to reduce the ESB cost base by €280 million, on a controllable cost base of €1.1 billion, by 2015, including a 20% reduction in payroll costs.

**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 instead to 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. It 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.

**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-amperes (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.

**Certified Emission Reduction (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.

**DETI:** DETI is the Department of Enterprise, Trade and Investment in Northern Ireland.

**Disability Traineeship Programme:** This programme is a six-month paid traineeship in ESB. The purpose of these traineeships is to give the participants the experience of a modern flexible business environment, to build-up their skills and confidence, and to enhance their chances for further employment.

**Environmental Management System (EMS):** An environmental management system is a framework for managing responsibilities so that they become more efficient and more integrated in overall operations.

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

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

**ISO 14001:** ISO 14001 is an international standard that specifies a process for controlling and improving a company's environmental performance.

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

**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.

**Long-term security of supply:** This means that electricity consumers are able to obtain electricity of sufficient quality as and when they need it. Security of supply requires unrestricted access to supplies of fuels of sufficient volume and diversity, existence of generation plant of sufficient quality, capacity and robustness as well as safe and high quality networks to transmit and distribute power.

**NIAUR:** Northern Ireland Authority for Utility Regulation (NIAUR) is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

**Over-the-counter trading platform:** Financial instruments (specifically electricity price contracts) which enable participants in the SEM to reduce their risk (and therefore electricity price volatility for their customers) by trading these products directly ('over the counter') with each other, rather than via an intermediary or through an exchange, in order to hedge their exposure to movements in the wholesale price of electricity.

**PAS 55:** PAS 55 is an international standard for excellence in the management of infrastructure. It provides clear definitions and requirements specification for establishing and verifying a joined-up, optimised and whole-life management system for all types of physical assets.

**Regional Energy Market:** The Regional Energy Market refers to the combined energy markets in Ireland (SEM) and Great Britain. Additional electrical interconnection between Ireland and Great Britain will lead to the evolution of an integrated All-Islands electricity market during this decade, under the direction of the EU's Regional Electricity Market initiative. The France-UK-Ireland (FUI) region is one of seven regions in Europe designated by European Regulators' Group for Electricity and Gas (EREG) in 2006 as part of the Electricity Regional Initiative to integrate Europe's electricity markets.

**Retail Price Index (RPI):** Official measure of the general level of inflation as reflected in the retail price of a basket of goods and services such as energy and fuel.

**Safety 4You Programme:** Safety 4You Programme is an initiative, focussing on behavioural change, which aims to enhance the health and safety culture of the organisation and to support staff in the development of non-technical skills for safety (e.g. situation awareness, communication and decision making).

**SEAI:** The Sustainable Energy Authority of Ireland (SEAI), formerly the Irish Energy Centre was set up by the government in 2002 as Ireland's national energy authority.

**SONI:** SONI is the System Operator for Northern Ireland and ensures the safe, secure and economic operation of the high voltage electricity grid in Northern Ireland and in co-operation with EirGrid colleagues is also responsible for running the all-island wholesale market for electricity.

**Single Electricity Market:** The Single Electricity Market (SEM) is a wholesale pool-based electricity market operating north and south of the Irish border.

**Smart Meter trials:** A selection of more than 5,000 customers are taking part in the largest smart metering behavioural trials internationally. These customers have smart meters installed to provide more frequent information on electricity usage and costs.

**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, the Corby power plant in Great Britain, 328 MW of wind generation in both the SEM and Great Britain, together with ESB's shareholdings in Marchwood CCGT, Great Britain, Amorebieta CCGT, Spain and Rousch CCGT, Pakistan.

**Vertically Integrated Utility:** The Vertically Integrated Utility (VIU) refers to ESB's presence within and ownership of, assets across all of the elements of the electricity value chain including the generation, trading, transmission, distribution and supply of power to our customers.





A photograph of a blue brick wall with a light-colored concrete base. The bricks are arranged in a standard pattern and have a slightly weathered appearance. The concrete base is visible at the bottom of the frame.

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