



Energy for  
generations

# INTERIM FINANCIAL REPORT

For the period to 30 June 2018

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# FINANCE REVIEW JUNE 2018

**FIGURE 1: FIVE-YEAR SUMMARY  
SIX MONTHS TO 30 JUNE**

|   | June<br>2018<br>€ 'm | June<br>2017<br>€ 'm     | June<br>2016<br>€ 'm     | June<br>2015<br>€ 'm     | June<br>2014<br>€ 'm     |
|---|----------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Revenue and other operating income <sup>1</sup> | 1,768                | 1,691                    | 1,647                    | 1,720                    | 1,654                    |
| Operating profit <sup>1</sup>                   | 244                  | 297                      | 287                      | 337                      | 327                      |
| EBITDA <sup>2</sup>                             | 620                  | 673                      | 638                      | 690                      | 665                      |
| Capital expenditure                             | 499                  | 303                      | 356                      | 405                      | 450                      |
|   | June<br>2018<br>€ 'm | December<br>2017<br>€ 'm | December<br>2016<br>€ 'm | December<br>2015<br>€ 'm | December<br>2014<br>€ 'm |
| Net debt <sup>3</sup>                           | 4,554                | 4,337                    | 4,524                    | 4,975                    | 4,639                    |
| Gearing (%) <sup>4</sup>                        | 53%                  | 52%                      | 51%                      | 55%                      | 53%                      |
| Total assets                                    | 12,219               | 12,294                   | 12,907                   | 13,157                   | 12,973                   |

<sup>1</sup> Before the following exceptional item: 2014: profit on disposal of investments in Bizkaia Energia SL (€38 million)

<sup>2</sup> EBITDA: operating profit before interest, taxation, depreciation and amortisation (including amortisation of supply contributions and impairments (2018: €22.4 million))

<sup>3</sup> Borrowings and other debt, net of cash and cash equivalents

<sup>4</sup> Net debt divided by the sum of net assets and gross debt

## HIGHLIGHTS

### OPERATING PROFIT:

**€244 million**

(€53 MILLION  
DECREASE ON JUNE  
2017)

### CAPITALEXPENDITURE:

**€499 million**

(€196 MILLION INCREASE ON  
JUNE 2017)

### INTERIM DIVIDEND PROPOSED:

**€30 million**

(2017 INTERIM DIVIDEND  
€55 MILLION)

See note 25 in the condensed  
consolidated financial statements  
for dividend details

**FIGURE 2: SUMMARISED INCOME STATEMENT**

|   | June<br>2018<br>€ 'm | June<br>2017<br>€ 'm |
|---|----------------------|----------------------|
| Revenue and other income                      | 1,768                | 1,691                |
| Operating costs                               | (1,524)              | (1,394)              |
| <b>Operating profit</b>                       | <b>244</b>           | <b>297</b>           |
| Total finance costs                           | (92)                 | (106)                |
| Fair value movements on financial instruments | 29                   | 20                   |
| Share of equity accounted investees loss      | (8)                  | (6)                  |
| <b>Profit before tax</b>                      | <b>173</b>           | <b>205</b>           |
| Tax charge                                    | (32)                 | (32)                 |
| <b>Profit after tax</b>                       | <b>141</b>           | <b>173</b>           |

### SEGMENTAL PERFORMANCE

The Group is organised into five main reportable segments or strategic divisions, which are managed separately. Further details on the business segments are included in note 5 of the condensed consolidated financial statements. The Group operating profit of €244 million is set out below on a segmental basis.

- ESB Networks operating profit for 2018 at €181 million is in line with 2017.
- Generation and Wholesale Markets (G&WM) operating profit of €44 million

is down €43 million as a result of lower wholesale electricity market spreads in the UK, higher operating costs including an impairment charge relating to amounts due from Tilbury Green Power Holdings Limited (an equity accounted investee waste to energy plant in the UK) offset by lower depreciation arising from a lower asset base following 2017 impairments.

- Northern Ireland Electricity Networks (NIE Networks) operating profit of €35 million is up €16 million due to higher Public Service Obligation (PSO) income and higher use of system revenue offset by voluntary severance scheme costs.

- Electric Ireland operating profit of €18 million is down €28 million due to higher energy costs and lower customer numbers.
- Other Segments include Innovation, Corporate Centre and the Business Service Centre which provide services to the business segments above. This segment, which includes most of the financing costs of the Group, reported an operating loss of €34 million for 2018, a €2 million improvement on 2017. This is largely due to lower write downs on financial asset investments.

### CAPITAL EXPENDITURE (INCLUDING PURCHASE OF FINANCIAL ASSETS)

ESB Networks expenditure of €210 million is up €69 million, mainly due to increased spend on the transmission network and SMART metering projects.

Capital Expenditure in G&WM of €193 million is up €144 million largely due to ESB's 12.5% investment in the 353 MW Galloper offshore wind farm located off the east coast of the UK.

NIE Networks expenditure of €56 million is down €10 million due to timing of spend on transmission network systems.

Other segments expenditure of €40 million is down €7 million due to lower spend on wind farm projects (Airvolution) and a non-recurrence of 2017 relocation fit out costs.

### NET DEBT AND GEARING

Net debt of €4.6 billion in 2018 has increased by €0.2 billion since December 2017 due to the continued capital investment programme (including the acquisition of Galloper offshore wind farm), finance costs and tax payments offset by positive EBITDA.

The reduction in cash flows from financing activities is due to the fact that debt was raised in the first half of 2017 to fund a Eurobond due for repayment in September 2017.

The gearing level of 53% at 30 June 2018 is marginally higher than December 2017 due to higher net debt.

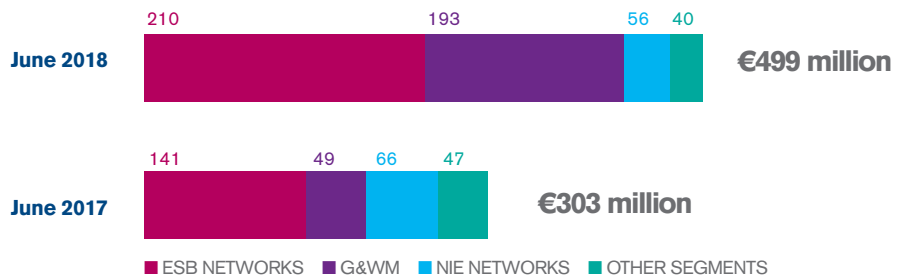
### FUNDING

Group Treasury's funding activities support ESB's substantial capital expenditure programme, the refinancing of maturing debt and the maintenance of a sufficient liquidity buffer against future unforeseen

FIGURE 3: SUMMARISED CASH FLOW STATEMENT

|  | June 2018<br>€ 'm | June 2017<br>€ 'm |
|--|-------------------|-------------------|
| EBITDA   | 620               | 673               |
| Provision utilisation and other movements                          | (5)               | (121)             |
| Interest and tax   | (147)             | (134)             |
| <b>Net cash inflow from operating activities</b>                   | <b>468</b>        | <b>418</b>        |
| Disposal proceeds  | 3                 | 3                 |
| Capital expenditure (including purchase of financial assets)       | (486)             | (307)             |
| Other  | (59)              | (33)              |
| <b>Net cash outflow from investing activities</b>                  | <b>(542)</b>      | <b>(337)</b>      |
| <b>Net cash (outflow) / inflow from financing activities</b>       | <b>(75)</b>       | <b>342</b>        |
| <b>Net (decrease) / increase in cash (before foreign exchange)</b> | <b>(149)</b>      | <b>423</b>        |

FIGURE 4: CAPITAL EXPENDITURE (INCLUDING PURCHASE OF FINANCIAL ASSETS)



circumstances. ESB's Revolving Credit Facility provides standby liquidity of €1.44 billion for the period to January 2022. In recent years, Group Treasury has taken advantage of strong liquidity in the market and historically low interest rates to reduce the average rate and increase the average tenor on the Group's debt portfolio. The weighted average interest rate on the Group's portfolio of outstanding borrowings at 30 June 2018 was 3.9%, and the weighted average duration of such borrowings as at that date was approximately seven years.

The ongoing weakness in sterling has contributed to a reduction in the proportion of sterling denominated debt in the Group's debt portfolio to around 35% at 30 June 2018, compared to 42% at 31 December 2015, before the outcome of the United Kingdom's (UK) vote to leave the European Union. The Group's policy is to finance its

Euro denominated business by borrowing directly in Euro or to convert any foreign currency borrowing to Euro through the use of derivative instruments. Investments in the UK are generally funded by Sterling denominated debt. ESB's risk management and hedging strategy is designed to protect key financial metrics from exchange rate volatility, the impact that this can have on the carrying value of borrowings and on reported earnings.

ESB's funding position reflects its underlying financial strength and credit ratings of A- and A3 with Standard & Poor's and Moody's respectively both with a stable outlook. Standard & Poor's and Moody's re-affirmed their ratings in May 2018. In the context of ESB's ongoing EBITDA performance - averaging €1.3 billion per annum in recent years - and liquidity of €1.8 billion (between cash and undrawn committed facilities) at 30 June

2018, ESB's debt maturity profile does not pose significant risks to the Group. The Group continues to proactively manage its borrowings repayment profile and maintains its ability to fund in the future through close ongoing engagement with its banks, debt investors and credit rating agencies.

On 20th September 2018, ESB's subsidiary NIE Networks Limited, through its financing arm NIE Finance PLC priced a 7 year £350 million bond with a 2.5% coupon for settlement on 27th September 2018.

## **BREXIT**

The full consequences of Brexit will only emerge over the next number of years. While this creates uncertainty, ESB will continue with prudent financial management of its UK assets, which are matched with sterling funding. ESB will continue to monitor the impacts from Brexit and other worldwide socio-political events and take prudent financial management actions, as appropriate, so as to protect ESB's financial strength.

## **INTEGRATED-SINGLE ELECTRICITY MARKET (I-SEM)**

The I-SEM is scheduled to go live in October 2018 and presents a degree of uncertainty for all market participants and will alter how the businesses in particular G&WM and Electric Ireland, earn revenues and manage energy trading risks. ESB's I-SEM project has made extensive preparations to ensure its readiness for these changes.

## **PRINCIPAL RISKS AND OPPORTUNITIES**

The Board of ESB is responsible for the Group's risk management and internal control systems, which are designed to identify, manage and mitigate potential material risks to the achievement of the Group's strategic and business objectives. The Board has approved a Risk Management Policy which sets out delegated responsibilities and procedures for the management of risk across the Group.

Following completion of the mid-year risk review process, it is confirmed that the principal risks and opportunities facing the Group, as set out on pages 28 to 37 of the 2017 Annual Report (together with the principal mitigation

measures), continue to be the principal risks and opportunities facing the Group for the remaining six months of the financial year.

This is not an exhaustive statement of all relevant risks and opportunities. Matters which are not currently known to the Board or events which the Board considers to be of low likelihood could emerge and give rise to material consequences. The mitigation measures that are maintained in relation to these risks are designed to provide a reasonable and not an absolute level of protection against the impact of the events in question.

## **OUTLOOK**

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

## RESPONSIBILITY STATEMENT OF THE BOARD MEMBERS IN RESPECT OF THIS INTERIM FINANCIAL REPORT

The Board members are responsible for preparing this Interim Financial Report including the Condensed Consolidated Financial Statements in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.


We confirm that to the best of our knowledge and belief that the unaudited condensed consolidated set of financial statements for the six month period ended 30 June 2018, which comprise the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement, and the related notes thereto, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

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

On behalf of the Board,



**Eilvena Graham**, Chairman



**Pat O'Doherty**, Chief Executive

26 September 2018

# INDEPENDENT REVIEW REPORT TO THE ELECTRICITY SUPPLY BOARD (ESB)

## REPORT ON THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Our Conclusion

We have reviewed ESB's Condensed Consolidated Financial Statements (the interim financial statements) in the Interim Financial Report of ESB for the six month period ended 30 June 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

### What we have reviewed

The interim financial statements, comprise:

- the Condensed Consolidated Balance Sheet as at 30 June 2018;
- the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Changes in Equity for the period then ended;
- the Condensed Consolidated Cash Flow Statement for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Financial Report have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

As disclosed in note 3 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of ESB is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## RESPONSIBILITIES FOR THE INTERIM FINANCIAL STATEMENTS AND THE REVIEW

### Our responsibilities and those of the Board members

The Interim Financial Report, including the interim financial statements, is the responsibility of, and has been approved by, the Board members. The Board members are responsible for preparing the Interim Financial Report in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Financial Report, based on our review. This report, including the conclusion, has been prepared for and only for ESB in accordance with the terms of our engagement and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the United Kingdom and Ireland. A review of interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers  
Chartered Accountants  
Dublin

26 September 2018



# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six month period ended 30 June 2018

|  | Notes | Unaudited<br>June 2018<br>€ '000 | Unaudited<br>June 2017<br>€ '000 |
|--|-------|----------------------------------|----------------------------------|
| Revenue  | 5/6   | <b>1,762,470</b>                 | 1,678,793                        |
| Other operating income (net)                         | 7     | <b>5,847</b>                     | 12,061                           |
| Operating costs                                      | 8     | <b>(1,523,960)</b>               | (1,394,144)                      |
| Operating profit                                     |       | <b>244,357</b>                   | 296,710                          |
| Net interest on borrowings                           | 9     | <b>(80,606)</b>                  | (95,607)                         |
| Financing charges                                    | 9     | <b>(13,222)</b>                  | (12,964)                         |
| Fair value movement on financial instruments         | 9     | <b>28,889</b>                    | 20,026                           |
| Finance income                                       | 9     | <b>1,326</b>                     | 3,090                            |
| Net finance cost                                     |       | <b>(63,613)</b>                  | (85,455)                         |
| Share of equity accounted investees loss, net of tax | 12    | <b>(7,971)</b>                   | (6,094)                          |
| Profit before taxation                               |       | <b>172,773</b>                   | 205,161                          |
| Income tax expense                                   | 15    | <b>(32,050)</b>                  | (31,755)                         |
| Profit after taxation                                |       | <b>140,723</b>                   | 173,406                          |
| <b>Attributable to:</b>                              |       |                                  |                                  |
| Equity holders of the Parent                         |       | <b>141,372</b>                   | 173,370                          |
| Non-controlling interest                             |       | <b>(649)</b>                     | 36                               |
| <b>Profit for the financial period</b>               |       | <b>140,723</b>                   | 173,406                          |

Notes 1 to 26 form an integral part of these condensed consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30 June 2018

|  | Unaudited<br>June 2018<br>€ '000 | Unaudited<br>June 2017<br>€ '000 |
|--|----------------------------------|----------------------------------|
| <b>Profit for the financial period</b>   | <b>140,723</b>                   | 173,406                          |
| <b>Items that will not be reclassified subsequently to profit or loss:</b>                                 |                                  |                                  |
| NIE Networks pension scheme actuarial gains / (losses)   | <b>85,046</b>                    | (5,260)                          |
| Tax on items that will not be reclassified to profit or loss   | <b>(14,459)</b>                  | 888                              |
|  | <b>70,587</b>                    | (4,372)                          |
| <b>Items that are or may be reclassified subsequently to profit or loss:</b>                               |                                  |                                  |
| Effective hedge of a net investment in foreign subsidiary  | <b>(19)</b>                      | 308                              |
| Translation differences on consolidation of foreign subsidiaries   | <b>978</b>                       | (1,301)                          |
| Translation differences on consolidation of non-controlling interest                                       | <b>(488)</b>                     | -                                |
| Fair value losses on cash flow hedges  | <b>(7,422)</b>                   | (51,394)                         |
| Transferred to income statement on cash flow hedges  | <b>(15,847)</b>                  | (24,572)                         |
| Fair value gains / (losses) on cash flow hedges in equity accounted investees                              | <b>1,896</b>                     | (475)                            |
| Tax on items that are or may be reclassified subsequently to profit or loss                                | <b>974</b>                       | 6,358                            |
| Tax on items that are or may be reclassified subsequently to profit or loss for equity accounted investees | <b>(308)</b>                     | 121                              |
| Tax on items transferred to income statement   | <b>1,840</b>                     | 2,849                            |
|  | <b>(18,396)</b>                  | (68,106)                         |
| <b>Other comprehensive income / (expense) for the financial period, net of tax</b>                         | <b>52,191</b>                    | (72,478)                         |
| <b>Total comprehensive income for the financial period</b>   | <b>192,914</b>                   | 100,928                          |
| <b>Attributable to:</b>  |                                  |                                  |
| Equity holders of the Parent   | <b>194,051</b>                   | 100,892                          |
| Non-controlling interest   | <b>(1,137)</b>                   | 36                               |
| <b>Total comprehensive income for the financial period</b>   | <b>192,914</b>                   | 100,928                          |

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018

|  | Notes | Unaudited<br>June<br>2018<br>€ '000 | Audited<br>December<br>2017<br>€ '000 |
|--|-------|-------------------------------------|---------------------------------------|
| <b>ASSETS</b>  |       |                                     |                                       |
| <b>Non-current assets</b>                                  |       |                                     |                                       |
| Property, plant and equipment                              | 11    | 9,971,054                           | 10,004,980                            |
| Intangible assets  |       | 277,626                             | 275,652                               |
| Goodwill   |       | 171,267                             | 171,039                               |
| Investments in equity accounted investees                  | 12    | 188,673                             | 68,334                                |
| Financial asset investments                                | 12    | 10,457                              | 22,165                                |
| Trade and other receivables                                |       | 84,064                              | 74,936                                |
| Derivative financial instruments                           | 17    | 23,397                              | 85,077                                |
| Deferred tax assets  |       | 172,895                             | 178,660                               |
| <b>Total non-current assets</b>                            |       | <b>10,899,433</b>                   | 10,880,843                            |
| <b>Current assets</b>                                      |       |                                     |                                       |
| Inventories  | 13    | 113,802                             | 121,985                               |
| Derivative financial instruments                           | 17    | 195,376                             | 117,367                               |
| Current tax asset  |       | -                                   | 9,185                                 |
| Trade and other receivables                                |       | 778,437                             | 783,981                               |
| Cash and cash equivalents                                  |       | 231,640                             | 380,405                               |
| <b>Total current assets</b>                                |       | <b>1,319,255</b>                    | 1,412,923                             |
| <b>Total assets</b>  |       | <b>12,218,688</b>                   | 12,293,766                            |
| <b>EQUITY</b>  |       |                                     |                                       |
| Capital stock  |       | 1,975,182                           | 1,975,182                             |
| Capital redemption reserve                                 |       | 4,700                               | 4,700                                 |
| Translation reserve  |       | 3,699                               | 2,740                                 |
| Cash flow hedging reserve                                  |       | 39,753                              | 58,620                                |
| Other reserves   |       | (172,017)                           | (242,604)                             |
| Retained earnings  |       | 1,991,638                           | 1,917,619                             |
| <b>Equity attributable to equity holders of the Parent</b> |       | <b>3,842,955</b>                    | 3,716,257                             |
| Non-controlling interest                                   |       | (4,875)                             | (3,738)                               |
| <b>Total equity</b>  |       | <b>3,838,080</b>                    | 3,712,519                             |
| <b>LIABILITIES</b>   |       |                                     |                                       |
| <b>Non-current liabilities</b>                             |       |                                     |                                       |
| Borrowings and other debt                                  | 16    | 4,166,852                           | 4,369,705                             |
| Liability – ESB pension scheme                             | 19    | 103,541                             | 100,190                               |
| Liability – NIE Networks pension scheme                    | 18    | 52,346                              | 143,056                               |
| Employee related liabilities                               |       | 39,879                              | 46,107                                |
| Deferred income  |       | 442,318                             | 460,975                               |
| Provisions   |       | 337,200                             | 305,525                               |
| Deferred tax liabilities                                   |       | 673,657                             | 677,853                               |
| Derivative financial instruments                           | 17    | 586,663                             | 637,825                               |
| <b>Total non-current liabilities</b>                       |       | <b>6,402,456</b>                    | 6,741,236                             |
| <b>Current liabilities</b>                                 |       |                                     |                                       |
| Borrowings and other debt                                  | 16    | 618,808                             | 388,073                               |
| Liability – ESB pension scheme                             | 19    | 294,130                             | 294,130                               |
| Employee related liabilities                               |       | 67,433                              | 65,881                                |
| Trade and other payables                                   |       | 691,430                             | 797,822                               |
| Deferred income  |       | 48,775                              | 49,142                                |
| Provisions   |       | 77,793                              | 108,435                               |
| Current tax liabilities                                    |       | 13,361                              | -                                     |
| Derivative financial instruments                           | 17    | 166,422                             | 136,528                               |
| <b>Total current liabilities</b>                           |       | <b>1,978,152</b>                    | 1,840,011                             |
| <b>Total liabilities</b>                                   |       | <b>8,380,608</b>                    | 8,581,247                             |
| <b>Total equity and liabilities</b>                        |       | <b>12,218,688</b>                   | 12,293,766                            |

Ellvena Graham, Chairman

Pat O'Doherty, Chief Executive

Pat Fenlon, Executive Director, Group Finance and Commercial

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 June 2018

| Unaudited reconciliation of charges in equity                          | Capital stock<br>€ '000 | Translation reserve<br>€ '000 | Capital redemption reserve <sup>2</sup><br>€ '000 | Cash flow hedging reserve<br>€ '000 | Other reserves <sup>1</sup><br>€ '000 | Retained earnings<br>€ '000 | Total<br>€ '000  | Non-controlling interest<br>€ '000 | Total equity<br>€ '000 |
|--|-------------------------|-------------------------------|---|-------------------------------------|---------------------------------------|-----------------------------|------------------|------------------------------------|------------------------|
| <b>Balance at 1 January 2017</b>                                       | 1,979,882               | 6,062                         | -   | 124,119                             | (220,322)                             | 2,037,459                   | 3,927,200        | (3,531)                            | <b>3,923,669</b>       |
| <b>Total comprehensive income / (expense) for the period</b>           |                         |                               |   |                                     |                                       |                             |                  |                                    |                        |
| Profit for the financial period  | -                       | -                             | -   | -                                   | -                                     | 173,370                     | 173,370          | 36                                 | <b>173,406</b>         |
| NIE Networks pension scheme actuarial losses                           | -                       | -                             | -   | -                                   | (5,260)                               | -                           | (5,260)          | -                                  | <b>(5,260)</b>         |
| Reserve on acquisition of Synergen Power Ltd.                          | -                       | -                             | -   | -                                   | (2,771)                               | 2,771                       | -                | -                                  | <b>-</b>               |
| Translation differences net of hedging                                 | -                       | (993)                         | -   | -                                   | -                                     | -                           | (993)            | -                                  | <b>(993)</b>           |
| Cash flow hedges:  |                         |                               |   |                                     |                                       |                             |                  |                                    |                        |
| - Net fair value losses  | -                       | -                             | -   | (51,394)                            | -                                     | -                           | (51,394)         | -                                  | <b>(51,394)</b>        |
| - Transfers to income statement  |                         |                               |   |                                     |                                       |                             |                  |                                    |                        |
| - Finance cost (interest)  | -                       | -                             | -   | 3,582                               | -                                     | -                           | 3,582            | -                                  | <b>3,582</b>           |
| - Finance cost (foreign translation movements)                         | -                       | -                             | -   | 43,461                              | -                                     | -                           | 43,461           | -                                  | <b>43,461</b>          |
| - Other operating expenses   | -                       | -                             | -   | (71,615)                            | -                                     | -                           | (71,615)         | -                                  | <b>(71,615)</b>        |
| - Fair value losses for hedges in equity accounted investees           | -                       | -                             | -   | (475)                               | -                                     | -                           | (475)            | -                                  | <b>(475)</b>           |
| Tax on items taken directly to statement of comprehensive income (OCI) | -                       | -                             | -   | 6,358                               | 888                                   | -                           | 7,246            | -                                  | <b>7,246</b>           |
| Tax on items transferred to income statement                           | -                       | -                             | -   | 2,849                               | -                                     | -                           | 2,849            | -                                  | <b>2,849</b>           |
| Tax on items taken directly to OCI for equity accounted investees      | -                       | -                             | -   | 121                                 | -                                     | -                           | 121              | -                                  | <b>121</b>             |
| <b>Total comprehensive income / (expense) for the period</b>           | -                       | (993)                         | -   | (67,113)                            | (7,143)                               | 176,141                     | 100,892          | 36                                 | <b>100,928</b>         |
| <b>Transactions with owners recognised directly in equity</b>          |                         |                               |   |                                     |                                       |                             |                  |                                    |                        |
| Dividends  | -                       | -                             | -   | -                                   | -                                     | (60,230)                    | (60,230)         | -                                  | <b>(60,230)</b>        |
| <b>Balance at 30 June 2017</b>   | 1,979,882               | 5,069                         | -   | 57,006                              | (227,465)                             | 2,153,370                   | 3,967,862        | (3,495)                            | <b>3,964,367</b>       |
| <b>Balance at 1 January 2018</b>                                       | <b>1,975,182</b>        | <b>2,740</b>                  | <b>4,700</b>                                      | <b>58,620</b>                       | <b>(242,604)</b>                      | <b>1,917,619</b>            | <b>3,716,257</b> | <b>(3,738)</b>                     | <b>3,712,519</b>       |
| Change in accounting policy (see note 3b)                              | -                       | -                             | -   | -                                   | -                                     | (62,780)                    | (62,780)         | -                                  | <b>(62,780)</b>        |
| <b>Restated total equity at the beginning of the financial period</b>  | 1,975,182               | 2,740                         | 4,700   | 58,620                              | (242,604)                             | 1,854,839                   | 3,653,477        | (3,738)                            | <b>3,649,739</b>       |
| <b>Total comprehensive income / (expense) for the period</b>           |                         |                               |   |                                     |                                       |                             |                  |                                    |                        |
| Profit for the financial period  | -                       | -                             | -   | -                                   | -                                     | 141,372                     | 141,372          | (649)                              | <b>140,723</b>         |
| NIE Networks pension scheme actuarial gains                            | -                       | -                             | -   | -                                   | 85,046                                | -                           | 85,046           | -                                  | <b>85,046</b>          |
| Translation differences net of hedging                                 | -                       | 959                           | -   | -                                   | -                                     | -                           | 959              | (488)                              | <b>471</b>             |
| Cash flow hedges:  |                         |                               |   |                                     |                                       |                             |                  |                                    |                        |
| - Net fair value (losses)  | -                       | -                             | -   | (7,422)                             | -                                     | -                           | (7,422)          | -                                  | <b>(7,422)</b>         |
| - Transfers to income statement  |                         |                               |   |                                     |                                       |                             |                  |                                    |                        |
| - Finance cost (interest)  | -                       | -                             | -   | 3,222                               | -                                     | -                           | 3,222            | -                                  | <b>3,222</b>           |
| - Finance cost (foreign translation movements)                         | -                       | -                             | -   | (14,295)                            | -                                     | -                           | (14,295)         | -                                  | <b>(14,295)</b>        |
| - Other operating expenses   | -                       | -                             | -   | (4,774)                             | -                                     | -                           | (4,774)          | -                                  | <b>(4,774)</b>         |
| - Fair value gains for hedges in equity accounted investees            | -                       | -                             | -   | 1,896                               | -                                     | -                           | 1,896            | -                                  | <b>1,896</b>           |
| Tax on items taken directly to OCI                                     | -                       | -                             | -   | 974                                 | (14,459)                              | -                           | (13,485)         | -                                  | <b>(13,485)</b>        |
| Tax on items transferred to income statement                           | -                       | -                             | -   | 1,840                               | -                                     | -                           | 1,840            | -                                  | <b>1,840</b>           |
| Tax on items taken directly to OCI for equity accounted investees      | -                       | -                             | -   | (308)                               | -                                     | -                           | (308)            | -                                  | <b>(308)</b>           |
| <b>Total comprehensive income / (expense) for the period</b>           | -                       | <b>959</b>                    | -   | <b>(18,867)</b>                     | <b>70,587</b>                         | <b>141,372</b>              | <b>194,051</b>   | <b>(1,137)</b>                     | <b>192,914</b>         |
| <b>Transactions with owners recognised directly in equity</b>          |                         |                               |   |                                     |                                       |                             |                  |                                    |                        |
| Dividends  | -                       | -                             | -   | -                                   | -                                     | (4,573)                     | (4,573)          | -                                  | <b>(4,573)</b>         |
| <b>Balance at 30 June 2018</b>   | <b>1,975,182</b>        | <b>3,699</b>                  | <b>4,700</b>                                      | <b>39,753</b>                       | <b>(172,017)</b>                      | <b>1,991,638</b>            | <b>3,842,955</b> | <b>(4,875)</b>                     | <b>3,838,080</b>       |

<sup>1</sup> Other reserves includes (i) balance relating to the NIE Networks pension scheme of (€150.6) million (December 2017: (€220.9) million); (ii) a non-distributable reserve of (€5.0) million (December 2017: (€5.0) million), which was created on the sale of the Group's share in Ocean Communications Limited in 2001; and (iii) an ESOP repurchase provision which relates to the amount that ESB has committed to date to purchase from the ESOP internal market (€15.9) million (December 2017: (€15.9) million). Refer to note 24 for information on the ESOP repurchase.

<sup>2</sup> The capital redemption reserve of €4.7 million arose from the purchase and cancellation of the 4.7 million ESOP share capital for a consideration of €5.6 million in 2017 and represents the nominal amount of the share capital cancelled.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six month period ended 30 June 2018

|  | Notes | Unaudited<br>June 2018<br>€ '000 | Unaudited<br>June 2017<br>€ '000 |
|--|-------|----------------------------------|----------------------------------|
| <b>Cash flows from operating activities</b>                                  |       |                                  |                                  |
| Profit after taxation  |       | 140,723                          | 173,406                          |
| <b>Adjustments for:</b>  |       |                                  |                                  |
| Depreciation and amortisation  | 8     | 371,245                          | 394,966                          |
| Amortisation of supply contributions and other deferred income               |       | (42,551)                         | (36,541)                         |
| Net emissions costs  |       | 3,842                            | 30,792                           |
| Profit on disposal of non-current assets                                     | 7     | (1,190)                          | -                                |
| Profit on disposal of subsidiaries   | 7     | -                                | (3,018)                          |
| Net finance cost   | 9     | 63,613                           | 85,455                           |
| Impact of fair value adjustments in operating costs                          |       | 4,591                            | 20,380                           |
| Losses from equity accounted investees                                       | 12    | 7,971                            | 6,094                            |
| Income tax expense   | 15    | 32,050                           | 31,755                           |
| Impairment charge  | 8     | 22,388                           | -                                |
| <b>Operating cash flows before changes in working capital and provisions</b> |       | <b>602,682</b>                   | <b>703,289</b>                   |
| Charge in relation to provisions   |       | 10,193                           | 292                              |
| Charge in relation to employee related liabilities                           |       | 29,819                           | 8,610                            |
| Utilisation of provisions  |       | (10,209)                         | (3,211)                          |
| Payments in respect of employee related liabilities                          |       | (49,054)                         | (179,517)                        |
| Deferred income received   |       | 23,509                           | 16,271                           |
| Decrease in trade and other receivables                                      |       | 37,573                           | 94,397                           |
| Decrease / (increase) in inventories   |       | 5,083                            | (22,653)                         |
| Decrease in trade and other payables   |       | (35,185)                         | (65,510)                         |
| <b>Cash generated from operations</b>  |       | <b>614,411</b>                   | <b>551,968</b>                   |
| Current tax paid   |       | (11,574)                         | (7,969)                          |
| Financing costs paid   |       | (135,238)                        | (125,581)                        |
| <b>Net cash inflow from operating activities</b>                             |       | <b>467,599</b>                   | <b>418,418</b>                   |
| <b>Cash flows from investing activities</b>                                  |       |                                  |                                  |
| Purchase of property, plant and equipment                                    |       | (309,960)                        | (282,522)                        |
| Purchase of intangible assets  |       | (47,728)                         | (24,223)                         |
| Proceeds from sale of non-current assets                                     |       | 2,974                            | -                                |
| Proceeds from sale of subsidiaries   |       | -                                | 3,123                            |
| Amounts advanced to equity accounted investees as shareholder loans          |       | (59,500)                         | (32,000)                         |
| Purchase of financial assets   |       | (128,102)                        | (1,661)                          |
| Interest received  |       | 774                              | -                                |
| <b>Net cash outflow from investing activities</b>                            |       | <b>(541,542)</b>                 | <b>(337,283)</b>                 |
| Dividends paid   | 14    | (4,573)                          | (60,230)                         |
| Repayments of term debt facilities   |       | (62,090)                         | (99,405)                         |
| Proceeds from the issue of new debt  |       | -                                | 509,446                          |
| Payments on inflation linked interest rate swaps                             |       | (8,296)                          | (8,186)                          |
| <b>Net cash (outflow) / inflow from financing activities</b>                 |       | <b>(74,959)</b>                  | <b>341,625</b>                   |
| <b>Net (decrease) / increase in cash and cash equivalents</b>                |       | <b>(148,902)</b>                 | <b>422,760</b>                   |
| <b>Cash and cash equivalents at 1 January</b>                                |       | <b>380,405</b>                   | <b>363,624</b>                   |
| <b>Effect of exchange rate fluctuations on cash held</b>                     |       | <b>137</b>                       | <b>(877)</b>                     |
| <b>Cash and cash equivalents at 30 June</b>                                  |       | <b>231,640</b>                   | <b>785,507</b>                   |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

ESB is a statutory body domiciled in the Republic of Ireland. The condensed consolidated financial statements of ESB as at and for the six months ended 30 June 2018 comprise the results of ESB and its subsidiaries (together referred to as ESB or the Group) and the Group's interests in associates and joint arrangements. These results are unaudited. The condensed consolidated financial information herein does not constitute the statutory financial statements of ESB, which were prepared as at and for the year ended 31 December 2017 and are available on our website [www.esb.ie](http://www.esb.ie). The auditor's report on those financial statements was unmodified.

## 2. STATEMENT OF COMPLIANCE

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 - Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the 2017 consolidated financial statements.

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in the note below.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Standards, interpretations and amendments to published standards that are not yet effective

The Group has not applied certain standards, amendments and interpretations to existing standards that have been issued but are not yet effective. The most significant of which are as follows:

#### IFRS 16: Leases (effective date: ESB financial year beginning 1 January 2019)

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and financial liability to pay rentals are recognised. The only exceptions are short-term (less than 1 year) and low-value leases. The accounting for lessors will not significantly change.

This standard will impact the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of c.€235.0 million. The Group is currently reviewing to what extent these commitments will result in the recognition of an asset and liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

### (b) Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's condensed consolidated financial statements and also sets out the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

Except as described below, the accounting policies applied in these condensed consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017. The changes in accounting policies will also be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

#### (i) IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. In accordance with transitional provisions in IFRS 9 comparative figures have not been restated.

#### Impact on the condensed consolidated financial statements on the adoption of IFRS 9

##### Borrowings

Under IAS 39, Financial instruments: Recognition and measurement at the date of modification. The difference between the original and modified cash flows was amortised over the remaining term of the modified liability by re-calculating the effective interest rate. Under IFRS 9 for any future liability modification transactions a gain or loss will be required to be recognised at the date of modification.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Changes in accounting policies (continued)

#### (i) IFRS 9 Financial Instruments (continued)

IFRS 9 made it compulsory to apply the standard retrospectively on previous liability management transactions on 1 January 2018 with no requirement to restate prior period balances. The Group refinanced bonds worth €500.0 million and €600.0 million in 2015 and 2016 respectively and these transactions are subject to retrospective adjustment. The Group has calculated a reduction to the opening reserves of €62.8 million, an increase of €7.2 million to deferred tax assets, an increase of €1.8 million to current tax assets and an increase to external borrowings on 1 January 2018 of €71.8 million which has been adjusted through the opening balances at 1 January 2018.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of the Group's assets, liabilities and equity.

| Group balance sheet extract    | Original carrying amount<br>31 Dec 2017<br>€'000 | IFRS 9 transition impact<br>€'000 | Restated<br>1 Jan 2018<br>€'000 |
|--------------------------------|--|-----------------------------------|---------------------------------|
| <b>Current assets</b>          |  |                                   |                                 |
| Tax asset                      | 9,185  | 1,800                             | <b>10,985</b>                   |
| <b>Non-current asset</b>       |  |                                   |                                 |
| Deferred tax asset             | 178,660  | 7,200                             | <b>185,860</b>                  |
| <b>Current liabilities</b>     |  |                                   |                                 |
| External Borrowings            | (388,073)  | (5,880)                           | <b>(393,953)</b>                |
| <b>Non-current liabilities</b> |  |                                   |                                 |
| External Borrowings            | (4,369,705)                                      | (65,900)                          | <b>(4,435,605)</b>              |
| <b>Equity</b>                  |  |                                   |                                 |
| Retained earnings              | (1,917,619)                                      | 62,780                            | <b>(1,854,839)</b>              |

#### Classification and measurement

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities other than as described above. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

The following accounting policies apply to the measurement of financial assets in the ESB Group consolidated financial statements:

#### Financial assets at fair value through profit or loss (FVTPL)

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

#### Financial assets at fair value through other comprehensive income (FVOCI)

These assets are subsequently measured at fair value. Net gains and losses are recognised in other comprehensive income.

#### Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Groups consolidated financial assets as at 1 January 2018. There is no impact on the Group's carrying value of the related assets or equity arising from classification and measurement under IFRS 9.

| Financial assets                 | Note | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39<br>31 Dec 2017<br>€'000 | New carrying amount under IFRS 9<br>1 Jan 2018<br>€'000 |
|----------------------------------|------|--------------------------------------|---------------------------------|---|---|
| Financial asset investments      | 12   | Financial assets at FVTPL            | Financial assets at FVTPL       | 22,165  | 22,165  |
| Derivative financial instruments | 18   | Cash flow hedges                     | Financial assets at FVOCI       | 202,444   | 202,444   |
| Trade and other receivables      |      | Amortised cost                       | Amortised cost                  | 819,549   | 819,549   |
| Cash and cash equivalents        |      | Amortised cost                       | Amortised cost                  | 380,405   | 380,405   |
| <b>Total financial assets</b>    |      |                                      |                                 | <b>1,424,563</b>  | <b>1,424,563</b>  |

#### Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to all the Group's financial assets measured at amortised cost but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Changes in accounting policies (continued)

#### (i) IFRS 9 Financial Instruments (continued)

The Group has a number of different types of trade and other receivables that are subject to IFRS 9's new expected credit loss model.

- Retail electricity and gas customers (billed and unbilled)
- Single electricity market (SEM) pool receivables
- Use of System receivables
- Other receivables and other non-electricity receivables
- Amounts due from equity accounted investees

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9 there is no impairment loss identified. The impact of the adoption of IFRS9 for each type of trade and other receivables is set out below.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the expected credit loss calculations, based on the group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

See note 15 in the Group's 2017 Consolidated Financial Statements for a full description on the credit risk for each of the class of trade and other receivables.

#### **Retail electricity and gas receivables**

Retail electricity and gas receivables billed and unbilled have been grouped together on days passed due and the appropriate expected loss model has been applied.

The loss allowance of €33.4 million at 30 June 2018 in relation to retail electricity and gas receivables is an estimate based on the historical experience of debts written off and based on an evaluation of the impact of economic conditions and particular industry issues. The IFRS 9 model will be further refined in advance of year end to take account of 2018 experience. Given historic loss rates, an estimate based on normal receivable ageing and the significant portion of retail receivables that are within agreed terms, applying the expected credit risk model has not had a material impact on retail receivables. Provision is also made in respect of specific balances where there is evidence of a dispute or an inability to settle.

#### **SEM pool receivables**

SEM pool receivables are subject to strict credit risk procedures due to the regulated markets they operate in. Security is provided by customers and strict payment arrangements are in place and credit risk is considered to be very low. Consequently they are all grouped as not past due receivables at period end and there is no expected credit loss expected on these receivables.

#### **Use of System receivables**

Use of System receivables are subject to strict credit risk procedures due to the regulated markets they are involved in. Security is provided by suppliers and strict payment arrangements are in place and credit risk is considered to be very low on these balances as they are settled before they fall past due. These receivables are generally settled within 10 - 36 days of invoice issue date and they are all grouped as not past due receivables at period end. Based on the fact that there are no previous losses experienced and an evaluation of the amounts recovered since period end, there is no expected credit loss applied to these receivables. See note 15 in the 2017 consolidated financial statements for further detail on these receivables.

#### **Other electricity receivables and non-electricity receivables**

Other electricity receivables include amounts in relation to ancillary services and electricity trading in the UK market which is not included in the SEM. Trade receivables (non-electricity) relate to balances due in respect of the Group's non-electricity trading and other operations. It includes amounts due in respect of the Group's telecommunications, consultancy, facility management and other ancillary operations. Applying the expected credit risk model has not had a material impact on other electricity receivables and non-electricity receivables.

#### **Amounts due from equity accounted investees**

Amounts due from equity accounted investees include shareholder loans, interest on these loans and trade receivable and payable balances. Based on an analysis performed on these receivables, ESB recognised an impairment of €20.7 million in respect of shareholder loans to Tilbury Green Power Holding Limited. The Group has used its judgement in making assumptions and selecting the inputs to the impairment calculation, based on the Groups market conditions as well as forward looking estimates at the end of the reporting period. Applying the expected credit risk model has not had a material impact on amounts due from equity accounted investees.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Changes in accounting policies (continued)

#### (i) IFRS 9 Financial Instruments (continued)

##### Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

ESB funds its operations using borrowings and uses deposit instruments to invest surplus funds. ESB also uses interest rate and foreign currency instruments to manage interest rate and currency risks that arise in the normal course of operations from US dollar and sterling denominated borrowings, from its foreign currency subsidiaries and from the use of foreign currency suppliers. Hedge accounting pursuant to IFRS 9 is also used for hedges of foreign currency liabilities and interest rate risks from current and non-current liabilities. Under IFRS 9, ESB's current hedge relationships will continue to qualify as hedges and there has been no significant impact on the accounting for its hedging relationships on transition from IAS 39.

In addition, the Group enters into certain commodity hedging transactions to fix fuel costs and to link electricity revenues more closely to fuel inputs, where possible. All of these arrangements are designated into hedge relationships and in the majority of cases meet the specific hedge accounting criteria of IFRS 9. Where the IFRS 9 hedge criteria are met in respect of cross currency swaps, interest rate swaps, foreign exchange contracts, forward fuel price contracts and forward electricity price contracts, these instruments are designated as cash flow hedges of highly probable forecast interest, revenue or other operating cost cash flows. Gains and losses on any derivatives not specifically designated into hedge relationships are recognised in profit or loss, within finance income and expense or other operating costs, as appropriate.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within finance income and expenses or other operating costs, as appropriate.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time are immediately reclassified to profit or loss.

##### IFRS 9 Financial Instruments - Accounting policies applied from 1 January 2018

The following accounting policies have been reviewed and amended accordingly to ensure that the ESB Group accounting policies comply with the new IFRS 9 Financial Instruments accounting standard from 1 January 2018.

#### 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.

###### Loans and balances with equity accounted investees

Loans and balances with equity accounted investees are non-derivative financial assets or liabilities which are not quoted in an active market. They are included in current assets or current liabilities on the balance sheet, except for those with maturities greater than twelve months after the balance sheet date, which are included in non-current assets or non-current liabilities and are initially recorded at fair value and thereafter at amortised cost using the effective interest method less provision made for impairment.

###### Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

###### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits repayable on demand and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents for the purpose of cash flow includes bank overdrafts payable on demand. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

###### Trade and other payables

Trade and other payables are initially recorded at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost using the effective interest method.

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Changes in accounting policies (continued)

#### (i) IFRS 9 Financial Instruments (continued)

Instruments held for trading are those that are acquired principally for the purpose of sale in the near term, are part of a portfolio of investments which are managed together and where short term profit taking occurs.

#### (b) Derivative financial instruments and other hedging instruments

The Group uses derivative financial instruments to hedge its exposure to commodity price, foreign exchange and interest rate risk arising from operational, financing and investing activities. The principal derivatives used include interest rate swaps, inflation-linked interest rate swaps, currency swaps and forward foreign currency contracts. Commodity contracts are also used to hedge the Group's exposures to the purchase of fuel and sale of electricity.

Within its regular course of business, the Group routinely enters into sale and purchase contracts for commodities, including gas and electricity. Where the contract was entered into and continues to be held for the purposes of receipt or delivery of the commodities in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as own use contracts and are accounted for as executory contracts. These contracts are therefore not within the scope of IFRS 9 Financial Instruments.

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 IFRS 9 as cash flow hedges or fair value hedges.

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are re-measured to fair value at the balance sheet date. With the exception of the inflation linked interest rate swaps, the majority of other derivative financial instruments are designated as being held for hedging purposes.

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

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

#### - Cash flow hedges

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

#### - 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 in the income statement immediately.

#### (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. If a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss is recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

#### (ii) IFRS 15 Revenue from Contracts with Customers

##### (a) Impact of adoption

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 18 Transfer of Assets from Customers, IFRIC 13 Customer Loyalty Programmes and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of application (i.e. 1 January 2018). The Group has opted to apply the practical expedient available on transition under the cumulative approach whereby IFRS 15 is only applied to contracts that are not completed as at the date of initial application (that is, the Group have ignored the effects of applying the revenue standard to contracts that were completed prior to adoption date).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Changes in accounting policies (continued)

#### (ii) IFRS 15 Revenue from Contracts with Customers (continued)

##### (a) Impact of adoption (continued)

Accordingly, the information presented for 2017 has not been restated – it is presented, as previously recorded, under IAS 18, IAS 11, IFRIC 18 and related interpretations.

The application of IFRS 15 has no material impact on revenue recognised in Group's condensed consolidated balance sheet as at 30 June 2018 and its condensed consolidated income statement and condensed consolidated statement of comprehensive income for the six months then ended. There was no material impact on the Group's condensed consolidated cash flow statement for the six month period ended 30 June 2018.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has applied IFRS 8 Operating Segments in these financial statements (see note 5). The Group's reportable segments to Chief Operating Decision-Maker (CODM) include Electric Ireland, ESB Networks, Generation and Wholesale Markets, NIE Networks and Other Segments. The nature of revenue contained within the reportable segments is set out below.

##### (b) Accounting policies

Revenue principally comprises the sales values derived from the following:

- Electric Ireland revenues consist of sales to electricity and gas customers.
- Generation and Wholesale Markets revenue derives mainly from electricity generation.
- ESB Networks and NIE Networks earn Use of System income in the Republic of Ireland and Northern Ireland respectively.
- Revenue derived from the provision of engineering services.

##### Electric Ireland - Revenue from sales to electricity and gas customers

Electric Ireland derives revenues primarily from sales to electricity and gas customers. This revenue is earned from both residential and business customers in the Republic of Ireland, Northern Ireland (NI) and Great Britain (GB). Revenue is recognised over time on consumption of gas and electricity. Electricity and gas revenue includes the value of units supplied to customers between the date of the last meter reading and the period end. This estimate is included in trade and other receivables in the balance sheet as retail electricity - unbilled initially, customers are billed every two months and subsequently recognised as retail electricity receivables – billed. Residential credit terms and debtor days in respect of retail electricity receivables are 14 days. Credit terms for business customers vary by contract.

The application of IFRS 15 has no material impact on the recognition of revenue in Electric Ireland.

##### ESB Networks - Revenue from Use of System charges to customers

ESB Networks mainly recognises revenue from Use of System that comprises of Distribution Use of System (DUoS) revenue and Transmission Use of System (TUoS) revenue. ESB Networks operates in the Republic of Ireland and is a regulated business, earning its revenue from an allowed return on its Regulated Asset Base (RAB).

DUoS revenue is earned through charges to suppliers for the use of the ESB Networks distribution system. DUoS revenue is recognised over time in line with the use of the system by suppliers and any outstanding billed and unbilled usage for DUoS is included as a Use of System receivable on the balance sheet. DUoS revenue is invoiced on a bi-monthly basis. The credit terms for DUoS are 10 business days and there are currently 39 suppliers.

TUoS revenue is earned by maintaining the transmission assets to facilitate the effective operation by EirGrid. For this fixed price contract TUoS revenue is recognised over time on a straight line basis and a Use of System Receivable is recognised on the balance sheet. TUoS revenue is invoiced to EirGrid over 12 monthly instalments with each invoice due 36 business days after month end.

The application of IFRS 15 has no material impact on the recognition of revenue in ESB Networks.

##### NIE Networks - Revenue from Use of System charges to customers

NIE Networks derives its revenue principally through charges for use of the distribution system (DUoS) levied on electricity suppliers and Transmission Service Charges (TSC) (mainly for use of the transmission system) levied on System Operator for Northern Ireland (SONI).

DUoS revenue is recognised in line with the use of the system by suppliers and any outstanding billed and unbilled usage for DUoS is included within Use of System receivables at the balance sheet date. The credit terms for DUoS are 10 business days and there are currently 9 suppliers.

TSC revenue is earned by maintaining the transmission assets to facilitate the effective operation by SONI. For this fixed price contract, TSC revenue is recognised over time on a straight line basis and a use of system receivables is recognised at the balance sheet date.

TSC revenue is invoiced to SONI over 12 monthly instalments with each invoice due 10 business days after month end. The application of IFRS 15 has no material impact on the recognition of revenue in NIE Networks.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Changes in accounting policies (continued)

#### (ii) IFRS 15 Revenue from Contracts with Customers (continued)

### (b) Accounting policies (continued)

#### Generation & Wholesale Markets - Revenue from Power Generation

##### Republic of Ireland

The Group operates power stations and wind farms and revenue earned derives mainly from the generation of electricity from such assets. The Single Electricity Market (SEM) is the single wholesale market (pool) for electricity in the Republic of Ireland (ROI) and Northern Ireland (NI). It is a mandatory gross pool, so all generators are required to sell and suppliers are required to buy power through the pool. The pool sets the spot price for electricity, known as the System Marginal Price (SMP) every half hour. Generators also receive separate payments for the provision of stable generation capacity through the capacity payment mechanism. Price volatility in the pool is managed by generators and suppliers who enter into fixed financial contracts (contracts for differences). Refer to policy on hedge accounting.

Revenue in respect of the SEM pool and capacity payment mechanism is recognised over a point in time when performance obligations to deliver power are satisfied. A SEM pool receivable is recognised on the balance sheet and generally settled daily or monthly depending on the type of SEM revenue.

##### Great Britain

British Electricity Trading and Transmission Arrangements (BETTA) is the wholesale electricity market operating in Great Britain (GB). Unlike the SEM, trading can take place between generators and suppliers either bilaterally or through exchanges. Both physical and financial contracts can be struck to manage price volatility, for timescales ranging from several years ahead to on-the-day trading markets. The British Government operates a capacity remuneration scheme and under the scheme, generators are awarded capacity contracts (based on the outcome of an auction) that enable them to receive payments for the provision of generation capacity while also receiving penalties for non-delivery during scarcity events.

Revenue derived from Great Britain is through the sale of power to individual UK counterparties and is recognised over time as performance obligations to deliver power are satisfied. Revenue relating to the GB market is recognised as other electricity receivables on the balance sheet and settled daily or monthly depending on the terms of the individual contract.

The application of IFRS 15 has no material impact on the recognition of revenue in Generation and Wholesale Electricity Markets.

##### Other Segments - Other revenue

Revenue comprises income derived from the provision of electrical, mechanical, civil, environmental, engineering and consultancy services and represents the fair value of services and works delivered to customers in the accounting period.

Services are deemed to have been delivered to customers when, and to the extent that, the entity has met its performance obligations under its contracts. Revenue is recognised over time in accordance with the input method in the income statement in line with the contract terms in proportion to the stage of completion, based on total costs of the contract. Billed revenue is recognised as a non-electricity trade receivable and settled in 30 business days. Unbilled revenue is recognised in other receivables.

The application of IFRS 15 has no material impact on the recognition of revenue in Other Segments.

## 4. GOING CONCERN

The Group's performance, business model, strategy and principal risks and uncertainties and how these are managed and mitigated are set out in the strategy and performance section of the 2017 consolidated financial statements.

The funding and liquidity management of the Group is described in note 16 and the amount of cash and cash equivalents that the Group had on hand at 30 June 2018 was €231.6 million.

Note 20 in the condensed consolidated financial statements includes an overview of financial risk management, details of the Group's financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources and the Board believes that the Group is well placed to manage its risks successfully. After making appropriate enquiries the Board is satisfied that ESB has adequate resources to continue in operational existence for at least twelve months from the date of approval of the condensed consolidated financial statements. Accordingly, the condensed consolidated financial statements are prepared on the going concern basis of accounting.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 5. SEGMENT REPORTING

The Group has applied IFRS 8 Operating Segments, and has made the appropriate disclosures in these condensed consolidated financial statements.

### (a) Income statement

#### (i) Segment revenue - 2018

|                       | Electric Ireland<br>€ '000 | ESB Networks<br>€ '000 | Generation and Wholesale Markets<br>€ '000 | NIE Networks <sup>1</sup><br>€ '000 | Other Segments<br>€ '000 | Consolidation and eliminations<br>€ '000 | Total<br>€ '000  |
|-----------------------|----------------------------|------------------------|--|-------------------------------------|--------------------------|--|------------------|
| External revenues     | 915,319                    | 366,672                | 312,398                                    | 136,304                             | 31,777                   | -  | <b>1,762,470</b> |
| Inter-segment revenue | 2,463                      | 189,158                | 472,511                                    | 15,163                              | 118,266                  | (797,561)                                | -                |
| <b>Revenue</b>        | <b>917,782</b>             | <b>555,830</b>         | <b>784,909</b>                             | <b>151,467</b>                      | <b>150,043</b>           | <b>(797,561)</b>                         | <b>1,762,470</b> |

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

#### (ii) Segment operating costs - 2018

|                               |           |           |           |          |           |         |                    |
|-------------------------------|-----------|-----------|-----------|----------|-----------|---------|--------------------|
| Depreciation and amortisation | (3,710)   | (196,294) | (97,368)  | (63,192) | (10,681)  | -       | <b>(371,245)</b>   |
| Other operating costs         | (896,431) | (197,234) | (643,691) | (52,782) | (160,138) | 797,561 | <b>(1,152,715)</b> |

#### (iii) Operating result - 2018

|   |               |                |               |               |                 |   |                 |
|---|---------------|----------------|---------------|---------------|-----------------|---|-----------------|
| Operating profit / (loss)                           | 17,641        | 180,744        | 43,869        | 35,493        | (33,390)        | - | <b>244,357</b>  |
| Net finance cost                                    | (40)          | (1,213)        | (21,796)      | (23,981)      | (16,583)        | - | <b>(63,613)</b> |
| Share of equity accounted investees profit / (loss) | -             | -              | (395)         | -             | (7,576)         | - | <b>(7,971)</b>  |
| <b>Profit / (loss) before taxation</b>              | <b>17,601</b> | <b>179,531</b> | <b>21,678</b> | <b>11,512</b> | <b>(57,549)</b> | - | <b>172,773</b>  |

#### (i) Segment revenue - 2017

|                       | Electric Ireland <sup>2</sup><br>€ '000 | ESB Networks <sup>2</sup><br>€ '000 | Generation and Wholesale Markets <sup>2</sup><br>€ '000 | NIE Networks <sup>1</sup><br>€ '000 | Other Segments<br>€ '000 | Consolidation and eliminations<br>€ '000 | Total<br>€ '000  |
|-----------------------|---|-------------------------------------|---|-------------------------------------|--------------------------|--|------------------|
| External revenues     | 865,670                                 | 333,549                             | 321,784   | 125,384                             | 32,406                   | -  | 1,678,793        |
| Inter-segment revenue | 2,309                                   | 198,307                             | 427,271   | 8,365                               | 109,243                  | (745,495)                                | -                |
| <b>Revenue</b>        | <b>867,979</b>                          | <b>531,856</b>                      | <b>749,055</b>  | <b>133,749</b>                      | <b>141,649</b>           | <b>(745,495)</b>                         | <b>1,678,793</b> |

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

#### (ii) Segment operating costs - 2017

|                               |           |           |           |          |           |         |           |
|-------------------------------|-----------|-----------|-----------|----------|-----------|---------|-----------|
| Depreciation and amortisation | (2,625)   | (193,607) | (114,897) | (68,416) | (15,421)  | -       | (394,966) |
| Other operating costs         | (819,813) | (181,751) | (547,487) | (45,997) | (149,625) | 745,495 | (999,178) |

#### (iii) Operating result - 2017

|  |               |                |               |                |                 |   |                |
|--|---------------|----------------|---------------|----------------|-----------------|---|----------------|
| Operating profit / (loss)                            | 45,542        | 180,446        | 87,324        | 19,336         | (35,938)        | - | 296,710        |
| Net finance cost                                     | (46)          | (72)           | (21,316)      | (24,185)       | (39,836)        | - | (85,455)       |
| Share of equity accounted investees' profit / (loss) | -             | -              | 2,473         | -              | (8,567)         | - | (6,094)        |
| <b>Profit / (loss) before taxation</b>               | <b>45,496</b> | <b>180,374</b> | <b>68,481</b> | <b>(4,849)</b> | <b>(84,341)</b> | - | <b>205,161</b> |

<sup>1</sup> NIE Networks segment includes depreciation on fair value uplift recognised on the acquisition of NIE Networks.

<sup>2</sup> As part of IFRS 15 project it was noted that PSO revenue had been inconsistently categorised at a segment level between internal and external revenue and costs and these amounts have restated to ensure consistency of presentation.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 5. SEGMENT REPORTING (continued)

### (b) Other disclosures

|   | June 2018<br>€ '000 | June 2017<br>€ '000 |
|---|---------------------|---------------------|
| <b>Additions to non-current assets (excluding acquisitions)</b> |                     |                     |
| Electric Ireland  | 5,285               | 4,354               |
| ESB Networks  | 209,723             | 141,378             |
| Generation and Wholesale Markets                                | 193,593             | 48,969              |
| NIE Networks  | 55,980              | 65,252              |
| Other Segments  | 34,762              | 42,990              |
| <b>Total</b>  | <b>499,343</b>      | <b>302,943</b>      |

Additions to non-current assets includes investments in property, plant and equipment, intangible assets (excluding emission allowances), financial assets and equity accounted investees.

## 6. REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 requires disclosure to reflect the nature, timing, amount and uncertainty of its revenue within its disclosure requirements. ESB has determined that the analysis using existing segments and the nature of revenues is adequate for its circumstances.

|   | Electric<br>Ireland<br>€ '000 | ESB<br>Networks<br>€ '000 | Generation<br>and<br>Wholesale<br>Markets<br>€ '000 | NIE<br>Networks<br>€ '000 | Other<br>Segments<br>€ '000 | Consolidation<br>and<br>eliminations<br>€ '000 | Total<br>€ '000  |
|---|-------------------------------|---------------------------|---|---------------------------|-----------------------------|--|------------------|
| <b>30 June 2018</b>                                 |                               |                           |   |                           |                             |  |                  |
| <b>External revenues</b>                            |                               |                           |   |                           |                             |  |                  |
| Revenue from Power Generation                       | -                             | -                         | 312,398   | -                         | -                           | -  | 312,398          |
| Revenue from Use of System charges to customers     | -                             | 366,672                   | -   | 136,304                   | -                           | -  | 502,976          |
| Revenue from sales to electricity and gas customers | 915,319                       | -                         | -   | -                         | -                           | -  | 915,319          |
| Other revenue                                       | -                             | -                         | -   | -                         | 31,777                      | -  | 31,777           |
| <b>Revenue from contracts with customers</b>        | <b>915,319</b>                | <b>366,672</b>            | <b>312,398</b>                                      | <b>136,304</b>            | <b>31,777</b>               | <b>-</b>                                       | <b>1,762,470</b> |
| Inter-segment revenue                               | 2,463                         | 189,158                   | 472,511   | 15,163                    | 118,266                     | (797,561)                                      | -                |
| <b>Total ESB Group revenue</b>                      | <b>917,782</b>                | <b>555,830</b>            | <b>784,909</b>                                      | <b>151,467</b>            | <b>150,043</b>              | <b>(797,561)</b>                               | <b>1,762,470</b> |

|   | Electric<br>Ireland<br>€ '000 | ESB<br>Networks<br>€ '000 | Generation<br>and<br>Wholesale<br>Markets<br>€ '000 | NIE<br>Networks<br>€ '000 | Other<br>Segments<br>€ '000 | Consolidation<br>and<br>eliminations<br>€ '000 | Total<br>€ '000  |
|---|-------------------------------|---------------------------|---|---------------------------|-----------------------------|--|------------------|
| <b>30 June 2017</b>                                 |                               |                           |   |                           |                             |  |                  |
| <b>External revenues</b>                            |                               |                           |   |                           |                             |  |                  |
| Revenue from Power Generation                       | -                             | -                         | 321,784   | -                         | -                           | -  | 321,784          |
| Revenue from Use of System charges to customers     | -                             | 333,549                   | -   | 125,384                   | -                           | -  | 458,933          |
| Revenue from sales to electricity and gas customers | 865,670                       | -                         | -   | -                         | -                           | -  | 865,670          |
| Other revenue                                       | -                             | -                         | -   | -                         | 32,406                      | -  | 32,406           |
| <b>Revenue from contracts with customers</b>        | <b>865,670</b>                | <b>333,549</b>            | <b>321,784</b>                                      | <b>125,384</b>            | <b>32,406</b>               | <b>-</b>                                       | <b>1,678,793</b> |
| Inter-segment revenue                               | 2,309                         | 198,307                   | 427,271   | 8,365                     | 109,243                     | (745,495)                                      | -                |
| <b>Total ESB Group revenue</b>                      | <b>867,979</b>                | <b>531,856</b>            | <b>749,055</b>                                      | <b>133,749</b>            | <b>141,649</b>              | <b>(745,495)</b>                               | <b>1,678,793</b> |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 7. OTHER OPERATING INCOME / (EXPENSES)

|  | June 2018<br>€ '000 | June 2017<br>€ '000 |
|--|---------------------|---------------------|
| Profit on disposal of property, plant and equipment and intangible assets              | 1,190               | -                   |
| Profit on disposal of subsidiaries <sup>1</sup>  | -                   | 3,018               |
| Amortisation of supply contributions   | 17,640              | 18,665              |
| Fair value movements on assets held at fair value through profit and loss <sup>2</sup> | (12,983)            | (15,559)            |
| Other operating income   | -                   | 5,937               |
| <b>Total</b>   | <b>5,847</b>        | <b>12,061</b>       |

<sup>1</sup> The profit on disposal of subsidiaries in 2017 related to the sale of windfarm subsidiaries (30 June 2017: €3.0 million).

<sup>2</sup> These fair value movements relate to adjustments to the value of investments in renewables enterprises held by ESB Novusmodus Limited Partnership, a subsidiary, as detailed in note 12.

## 8. OPERATING COSTS

|   | June 2018<br>€ '000 | June 2017<br>€ '000 |
|---|---------------------|---------------------|
| Employee costs (note 10)                | 252,819             | 233,462             |
| Fuel costs <sup>1</sup>                 | 437,771             | 371,616             |
| Other electricity related costs         | 152,488             | 136,956             |
| Operations and maintenance <sup>2</sup> | 309,637             | 257,144             |
| Depreciation and amortisation           | 371,245             | 394,966             |
| <b>Total</b>                            | <b>1,523,960</b>    | <b>1,394,144</b>    |

<sup>1</sup> Included in fuel costs is a credit of €6.6 million (30 June 2017: €6.4 million) relating to the fair valuing of fuel commodity swaps which have not been designated as accounting hedges.

<sup>2</sup> Included in operations and maintenance is the impairment of loans to equity accounted investees Tilbury Green Power Holdings Limited of €17.5 million (30 June 2017: €nil), Emerald Bridge Fibres DAC €1.4 million (30 June 2017: €nil).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 9. NET FINANCE COST AND OTHER FINANCING CHARGES

|  | June 2018<br>€ '000 | June 2017<br>€ '000 |
|--|---------------------|---------------------|
| Interest payable on borrowings   | 93,687              | 107,312             |
| Less capitalised interest  | (13,081)            | (11,705)            |
| <b>Net interest on borrowings</b>  | <b>80,606</b>       | <b>95,607</b>       |
| <b>Financing charges:</b>  |                     |                     |
| - on NIE Networks pension scheme (note 18)   | 1,773               | 2,122               |
| - on ESB pension scheme (note 19)  | 9,546               | 9,258               |
| - on employee related liabilities  | 123                 | 340                 |
| - on asset retirement costs  | 1,689               | 967                 |
| - on other provisions  | 91                  | 277                 |
| <b>Total financing charges</b>   | <b>13,222</b>       | <b>12,964</b>       |
| <b>Fair value (gains) / losses on financial instruments:</b>                         |                     |                     |
| - currency / interest rate swaps: cash flow hedges, transfer from OCI                | 3,222               | 3,582               |
| - interest rate swaps and inflation linked swaps not qualifying for hedge accounting | (32,111)            | (23,608)            |
| <b>Fair value gains on financial instruments</b>                                     | <b>(28,889)</b>     | <b>(20,026)</b>     |
| <b>Finance cost</b>  | <b>64,939</b>       | <b>88,545</b>       |
| <b>Finance income</b>  | <b>(1,326)</b>      | <b>(3,090)</b>      |
| <b>Net finance cost</b>  | <b>63,613</b>       | <b>85,455</b>       |

The financing charges on provisions are calculated in accordance with the policy for discounting of future payment obligations as disclosed in the 2017 consolidated financial statements - see note 1 in the 2017 consolidated financial statements for further details.

In addition to the amounts transferred from other comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a gain of €14.3 million (30 June 2017: loss of €43.5 million) has been transferred from the cash flow hedge reserve to net finance cost and other financing charges during the period. However, these amounts are fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates.

Included in finance income is interest on borrowings receivable from Tilbury Green Power Holdings Limited of €3.2 million which has been impaired so that at 30 June 2018 €nil (30 June 2017: €2.9 million) is recognised within finance income.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 10. EMPLOYEES

| <b>Employee costs in period</b>                                     | <b>June 2018</b><br>€ '000 | June 2017<br>€ '000 |
|---|----------------------------|---------------------|
| <b>Current staff costs (excluding pension)</b>                      |                            |                     |
| Salaries  | <b>252,789</b>             | 245,534             |
| Overtime  | <b>20,535</b>              | 18,203              |
| Social welfare costs (PRSI and national insurance)                  | <b>20,760</b>              | 19,265              |
| Other payroll benefits <sup>1</sup>                                 | <b>17,286</b>              | 15,988              |
| <b>Payroll cost for employees</b>                                   | <b>311,370</b>             | 298,990             |
| <b>Pension and other employee benefit costs</b>                     |                            |                     |
| Exit costs - NIE Network severance programme <sup>2</sup>           | <b>8,070</b>               | -                   |
| Pensions charge - other schemes <sup>3</sup>                        | <b>24,188</b>              | 23,527              |
| NIE Networks pension scheme charge <sup>4</sup>                     | <b>5,011</b>               | 5,742               |
| <b>Total pension and other employee benefit costs</b>               | <b>37,269</b>              | 29,269              |
| Capitalised payroll   | <b>(95,820)</b>            | (94,797)            |
| <b>Total employee related costs charged to the income statement</b> | <b>252,819</b>             | <b>233,462</b>      |

<sup>1</sup> These benefits primarily include travel and subsistence allowances.

<sup>2</sup> Included in NIE Networks severance programme costs are pension curtailment costs of €4.0 million (30 June 2017: €nil).

<sup>3</sup> The pension charge for other schemes include contributions to the ESB Defined Contribution Scheme, the ESB Defined Benefit Pension Scheme, the Options section of the NIE Networks Pension Scheme (NIE Networks Scheme) and the stakeholder pension scheme for Great Britain (GB) employees (FMUK Pension Scheme). For further details of the Group pension arrangements see note 21 and 22 of the 2017 consolidated financial statements.

<sup>4</sup> The NIE Networks pension scheme charge relates solely to the Focus section of the NIE Networks scheme.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 11. PROPERTY, PLANT & EQUIPMENT

|  | Land and buildings<br>€ '000 | Plant and machinery<br>€ '000 | Total assets in commission<br>€ '000 | Assets under construction<br>€ '000 | Total<br>€ '000   |
|--|------------------------------|-------------------------------|--------------------------------------|-------------------------------------|-------------------|
| <b>Cost</b>                                |                              |                               |                                      |                                     |                   |
| <b>Balance at 1 January 2017</b>           | 1,281,679                    | 17,457,867                    | 18,739,546                           | 1,094,544                           | <b>19,834,090</b> |
| Additions                                  | 33                           | 203,936                       | 203,969                              | 73,090                              | <b>277,059</b>    |
| Retirements / disposals                    | (40)                         | (4,048)                       | (4,088)                              | (9,302)                             | <b>(13,390)</b>   |
| Transfers out of assets under construction | 5,329                        | 158,498                       | 163,827                              | (163,827)                           | -                 |
| Transfers to intangible assets             | -                            | -                             | -                                    | (4,456)                             | <b>(4,456)</b>    |
| Translation differences                    | (216)                        | (112,442)                     | (112,658)                            | (2,987)                             | <b>(115,645)</b>  |
| <b>Balance at 30 June 2017</b>             | 1,286,785                    | 17,703,811                    | 18,990,596                           | 987,062                             | <b>19,977,658</b> |
| <b>Balance at 1 January 2018</b>           | 1,314,445                    | 18,192,791                    | 19,507,236                           | 880,552                             | <b>20,387,788</b> |
| Additions                                  | -                            | 146,740                       | 146,740                              | 176,771                             | <b>323,511</b>    |
| Retirements / disposals                    | (58)                         | (11,683)                      | (11,741)                             | (5,457)                             | <b>(17,198)</b>   |
| Transfers out of assets under construction | 15,457                       | 81,120                        | 96,577                               | (96,577)                            | -                 |
| Transfers to intangible assets             | -                            | (3,083)                       | (3,083)                              | -                                   | <b>(3,083)</b>    |
| Other transfers                            | (81,839)                     | 81,839                        | -                                    | -                                   | -                 |
| Translation differences                    | 21                           | 6,116                         | 6,137                                | -                                   | <b>6,137</b>      |
| <b>Balance at 30 June 2018</b>             | 1,248,026                    | 18,493,840                    | 19,741,866                           | 955,289                             | <b>20,697,155</b> |
| <b>Depreciation</b>                        |                              |                               |                                      |                                     |                   |
| <b>Balance at 1 January 2017</b>           | 710,147                      | 8,685,381                     | 9,395,528                            | -                                   | <b>9,395,528</b>  |
| Charge for the period                      | 16,963                       | 354,570                       | 371,533                              | -                                   | <b>371,533</b>    |
| Retirements / disposals                    | (36)                         | (3,994)                       | (4,030)                              | -                                   | <b>(4,030)</b>    |
| Translation differences                    | (57)                         | (46,448)                      | (46,505)                             | -                                   | <b>(46,505)</b>   |
| <b>Balance at 30 June 2017</b>             | 727,017                      | 8,989,509                     | 9,716,526                            | -                                   | <b>9,716,526</b>  |
| <b>Balance at 1 January 2018</b>           | 769,351                      | 9,613,457                     | 10,382,808                           | -                                   | <b>10,382,808</b> |
| Charge for the period                      | 14,679                       | 337,486                       | 352,165                              | -                                   | <b>352,165</b>    |
| Retirements / disposals                    | (58)                         | (10,323)                      | (10,381)                             | -                                   | <b>(10,381)</b>   |
| Transfers to intangible assets             | -                            | (360)                         | (360)                                | -                                   | <b>(360)</b>      |
| Other transfers                            | (39,653)                     | 39,653                        | -                                    | -                                   | -                 |
| Translation differences                    | -                            | 1,869                         | 1,869                                | -                                   | <b>1,869</b>      |
| <b>Balance at 30 June 2018</b>             | 744,319                      | 9,981,782                     | 10,726,101                           | -                                   | <b>10,726,101</b> |
| <b>Net book value at 30 June 2018</b>      | <b>503,707</b>               | <b>8,512,058</b>              | <b>9,015,765</b>                     | <b>955,289</b>                      | <b>9,971,054</b>  |
| <b>Net book value at 31 December 2017</b>  | 545,094                      | 8,579,334                     | 9,124,428                            | 880,552                             | <b>10,004,980</b> |
| <b>Net book value at 30 June 2017</b>      | 559,768                      | 8,714,302                     | 9,274,070                            | 987,062                             | <b>10,261,132</b> |

During the period the Group capitalised interest of €13.1 million (30 June 2017: €11.7 million) in assets under construction, using an effective interest rate of 3.5% (30 June 2017: 4.1%).

The carrying value of non-depreciable assets (land) at 30 June 2018 is €91.9 million (31 December 2017: €91.9 million).

Property, plant and equipment with a net book value of €nil at 30 June 2018 is included above at a cost of €4,324.1 million (31 December 2017: €4,087.9 million).

Retirements / disposals in 2018 and 2017 primarily relate to the retirement of assets that have been fully depreciated.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 12. FINANCIAL ASSET INVESTMENTS

|   | Equity accounted investments<br>€ '000 | Financial assets at fair value through profit or loss<br>€ '000 | Total<br>€ '000 |
|---|--|---|-----------------|
| <b>Balance at 1 January 2017</b>                            | 80,990                                 | 56,502  | <b>137,492</b>  |
| Additions   | -                                      | 1,661   | <b>1,661</b>    |
| Transfer to other payables                                  | 800                                    | -   | <b>800</b>      |
| Share of loss   | (6,094)                                | -   | <b>(6,094)</b>  |
| Share of fair value movement on cash flow hedges            | (354)                                  | -   | <b>(354)</b>    |
| Fair value movement – transfer to income statement (note 7) | -                                      | (15,559)  | <b>(15,559)</b> |
| Translation differences                                     | 208                                    | 1   | <b>209</b>      |
| <b>Balance at 30 June 2017</b>                              | <b>75,550</b>                          | <b>42,605</b>   | <b>118,155</b>  |
| <b>Balance at 1 January 2018</b>                            | 68,334                                 | 22,165  | <b>90,499</b>   |
| Additions   | 126,829                                | 1,275   | <b>128,104</b>  |
| Share of loss   | (7,971)                                | -   | <b>(7,971)</b>  |
| Share of fair value movement on cash flow hedges            | 1,588                                  | -   | <b>1,588</b>    |
| Fair value movement – transfer to income statement (note 7) | -                                      | (12,983)  | <b>(12,983)</b> |
| Translation differences                                     | (107)                                  | -   | <b>(107)</b>    |
| <b>Balance at 30 June 2018</b>                              | <b>188,673</b>                         | <b>10,457</b>   | <b>199,130</b>  |

### Aldeburgh Offshore

In March 2018 the Group acquired 50% of the issued share capital of Aldeburgh Offshore Wind Holdings Limited (AOWHL). The Group also acquired 50% of the loan notes issued by Aldeburgh Offshore Wind Investments Limited (AOWIL) a 100% owned subsidiary of AOWHL from Macquarie Corporate Holdings Pty Limited to become a 50% Joint Venture Partner with Sumitomo Corporation Europe Limited. The amount invested by ESB to date amounts to €154.0 million of which €126.8 million was advanced as equity and €27.2 million as shareholder loans (note 22).

AOWHL has a 25% stake in the Galloper Wind Farm project. The Galloper project is a 353MW development located in the Outer Thames estuary, 30km off the coast of Suffolk, England. The 50% investment in AOWHL indirectly provides ESB with a 12.5% stake in the Galloper Offshore Wind Farm.

AOWHL is legally separated from the parties and the legal form and the contractual arrangement do not give the parties direct rights to the assets and liabilities of the vehicle. Having assessed the investment in AOWHL/AOWIL ESB have concluded that they have joint control under IFRS 10 and IFRS 11. Accordingly, ESB's 50% investment in AOWHL/AOWIL is equity accounted in line with IAS 28.

Other than set out above there are no changes in the nature and scale of the financial asset investments described in the 2017 consolidated financial statements.

Please refer to note 22 for further information regarding transactions with equity accounted investees.

## 13. INVENTORIES

|                               | June 2018<br>€ '000 | December 2017<br>€ '000 |
|-------------------------------|---------------------|-------------------------|
| Materials                     | <b>43,469</b>       | 50,319                  |
| Fuel                          | <b>46,948</b>       | 58,821                  |
| Construction work in progress | <b>23,385</b>       | 12,845                  |
| <b>Total</b>                  | <b>113,802</b>      | 121,985                 |

Inventories consumed during the period to 30 June 2018 totalled €70.2 million (30 June 2017: €76.3 million). Provision for impairments recognised during the period was €3.1 million (30 June 2017: €nil).

Construction work in progress includes property assets which are being constructed for resale and stated at the lower of cost and net realisable value.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 14. CHANGES IN EQUITY

### (i) Non-controlling interest

Non-controlling interests at 31 December 2017 and 30 June 2018 relate to the minority shareholdings in Crockahenny Wind Farm DAC, Mountain Lodge Power DAC, Airvolution Energy Limited and wind farms associated with Coriolis Energy Limited.

### (ii) Dividends

|   | June<br>2018<br>€ '000 | June<br>2017<br>€ '000 |
|---|------------------------|------------------------|
| <b>Dividends on capital stock:</b>  |                        |                        |
| Total dividend paid 0.23 (30 June 2017: 3.04) cents per unit of capital stock | <b>4,573</b>           | 60,230                 |

Total dividends paid during the period includes a final dividend of €4.6 million (0.23 cent per unit of stock) in respect of 2017.

Total dividends paid during the period ended 30 June 2017 included a final dividend of €60.2 million (3.04 cent per unit of stock) in respect of 2016.

## 15. TAXATION

|   | June<br>2018<br>€ '000 | June<br>2017<br>€ '000 |
|---|------------------------|------------------------|
| <b>Income tax expense</b>                         |                        |                        |
| <b>Current tax expense</b>                        |                        |                        |
| Current tax                                       | <b>30,948</b>          | 7,963                  |
| Prior year under / (over) provision               | <b>2,173</b>           | (109)                  |
|   | <b>33,121</b>          | 7,854                  |
| <b>Deferred tax expense</b>                       |                        |                        |
| Origination and reversal of temporary differences | <b>81</b>              | 23,030                 |
| Prior year (over) / under provision               | <b>(1,152)</b>         | 871                    |
|   | <b>(1,071)</b>         | 23,901                 |
| <b>Total</b>                                      | <b>32,050</b>          | 31,755                 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 16. BORROWINGS AND OTHER DEBT

|                                       | Recourse borrowings<br>€ '000 | Non-recourse borrowings<br>€ '000 | June 2018<br>Total<br>€ '000 | December 2017<br>Total<br>€ '000 |
|---------------------------------------|-------------------------------|-----------------------------------|------------------------------|----------------------------------|
| <b>Current borrowings</b>             |                               |                                   |                              |                                  |
| - Repayable by instalments            | 72,207                        | 22,130                            | 94,337                       | 96,759                           |
| - Repayable other than by instalments | 326,202                       | 198,269                           | 524,471                      | 291,314                          |
| <b>Total current borrowings</b>       | 398,409                       | 220,399                           | 618,808                      | 388,073                          |
| <b>Non-current borrowings</b>         |                               |                                   |                              |                                  |
| - Repayable by instalments            |                               |                                   |                              |                                  |
| Between one and two years             | 83,860                        | 46,270                            | 130,130                      | 119,636                          |
| Between two and five years            | 230,778                       | 265,191                           | 495,969                      | 442,256                          |
| After five years                      | 288,077                       | 97,899                            | 385,976                      | 500,984                          |
|                                       | 602,715                       | 409,360                           | 1,012,075                    | 1,062,876                        |
| - Repayable other than by instalments |                               |                                   |                              |                                  |
| Between one and two years             | 522,776                       | -                                 | 522,776                      | 432,485                          |
| Between two and five years            | 299,731                       | -                                 | 299,731                      | 349,259                          |
| After five years                      | 1,882,818                     | 449,452                           | 2,332,270                    | 2,525,085                        |
|                                       | 2,705,325                     | 449,452                           | 3,154,777                    | 3,306,830                        |
| <b>Total non-current borrowings</b>   | 3,308,040                     | 858,812                           | 4,166,852                    | 4,369,706                        |
| <b>Total borrowings outstanding</b>   | 3,706,449                     | 1,079,211                         | 4,785,660                    | 4,757,779                        |

|   |            | June 2018<br>€ '000 | December 2017<br>€ '000 |
|---|------------|---------------------|-------------------------|
| <b>Current borrowings by facility</b>       |            |                     |                         |
|   | <b>Ref</b> |                     |                         |
| Non-recourse long-term project finance debt | 2          | 22,130              | 18,094                  |
| Non-recourse NIE Networks Eurobonds         | 3          | 198,269             | 199,609                 |
| Long-term bank borrowings                   | 4          | 70,558              | 78,665                  |
| Private placement borrowings                | 5          | 327,851             | 91,705                  |
|   |            | 618,808             | 388,073                 |

|   |            | June 2018<br>€ '000 | December 2017<br>€ '000 |
|---|------------|---------------------|-------------------------|
| <b>Non-current borrowings by facility</b>   |            |                     |                         |
|   | <b>Ref</b> |                     |                         |
| ESB Eurobonds                               | 1          | 2,407,277           | 2,334,037               |
| Non-recourse long-term project finance debt | 2          | 409,360             | 426,582                 |
| Non-recourse NIE Networks Eurobonds         | 3          | 449,452             | 448,842                 |
| Long-term bank borrowings                   | 4          | 598,507             | 636,294                 |
| Private placement borrowings                | 5          | 302,256             | 523,950                 |
|   |            | 4,166,852           | 4,369,705               |

With the exception of borrowings relating to non-recourse project finance debt, which is secured against specific assets, none of the borrowings are secured against the Group assets.

ESB was rated A- from Standard & Poor's (outlook stable) and A3 (equivalent to A-) from Moody's (outlook stable) at 30 June 2018.

### 1. ESB Eurobonds

The table below provides details of ESB Eurobonds included in borrowings at 30 June 2018:

| Issuer          | Value               | Issue Date    | Tenor    | Coupon |
|-----------------|---------------------|---------------|----------|--------|
| ESB Finance DAC | Stg£275.0 million   | March 2010    | 10 years | 6.500% |
| ESB Finance DAC | Euro €215.2 million | November 2012 | 7 years  | 4.375% |
| ESB Finance DAC | Euro €300.0 million | November 2013 | 10 years | 3.494% |
| ESB Finance DAC | Euro €500.0 million | June 2015     | 12 years | 2.125% |
| ESB Finance DAC | Euro €600.0 million | June 2016     | 15 years | 1.875% |
| ESB Finance DAC | Euro €500.0 million | January 2017  | 12 years | 1.750% |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 16. BORROWINGS AND OTHER DEBT (continued)

### 2. Non-recourse long-term project finance debt

In September 2012 Carrington Power Limited (CPL), a 100% owned subsidiary of ESB, completed the financial close of an 885MW Combined Cycle Gas Turbine power plant in Carrington, near Manchester. Finance was structured on a 70:30 debt / equity basis, with the debt of Stg£523.0 million being provided by a syndicate of banks by way of non-recourse project finance, incorporating export credit support from the Swiss Export Credit Agency, SERV. Stg£383.0 million (31 December 2017: Stg£396.0 million) debt was drawn at the period end. The remainder of this debt is in relation to a wind farm in Great Britain (GB).

### 3. Non-recourse NIE Networks Eurobonds

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

In June 2011, NIE Finance PLC, a subsidiary company of Northern Ireland Electricity Networks Limited issued a Stg£400.0 million 15 year sterling bond with a fixed coupon of 6.375%.

On 20th of September 2018 NIE Finance PLC priced a 7 year £350 million bond with a fixed coupon of 2.5% for settlement on 27th September 2018.

### 4. Long-term bank borrowings

After adjusting for the impact of interest rate swaps, long-term bank borrowings include €110.9 million (31 December 2017: €35.2 million) of floating rate debt borrowed on a bilateral basis, while the remainder is fixed interest rate or inflation linked debt.

A €1.44 billion revolving credit facility with a syndicate of 14 banks to draw down bank finance as required up to February 2022 is available to the Group. This facility is undrawn at 30 June 2018.

The facility signed in December 2013 with the European Investment Bank (EIB) to support renewable connections to the electricity network in the southwest of Ireland was increased by a further €100.0 million in October 2014, bringing the total value of the facility up to €200.0 million dependent on the completion of certain specified capital expenditure. At 30 June 2018, €100.0 million (31 December 2017: €100.0 million) of the EIB facility has been drawn down.

### 5. Private placement borrowings

The first private placement senior unsecured notes were issued, to a range of institutional investors, in December 2003. These fixed rate notes were issued in US dollars and sterling and at 30 June 2018 comprise US\$370.0 million, maturing on dates between 2018 and 2023, and Stg£20.0 million, maturing on dates between 2018 and 2023.

The second private placement senior unsecured notes were issued in June 2009. These notes were issued in US dollars, sterling and euro and at 30 June 2018 comprise US\$226.0 million, maturing in 2019, Stg£50.0 million maturing in 2021 and €40.0 million maturing in 2019.

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants. At 30 June 2018 ESB is fully in compliance with all the covenant requirements associated with the private placement debt and other facilities.

# NOTES TO THE CONDENSED CONSOLIDATED 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The method used to calculate the fair value of the Group's financial instruments is discounted cash flow analysis, using a zero-coupon discount rate and reflecting counterparty credit risk. This method enables the Group to discount the cash flows at a rate equal to the prevailing market rate of interest taking into account maturity and credit margin.

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

|                                      | June 2018                       |                             |                                      |                                  | Total<br>€ '000  |
|--------------------------------------|---------------------------------|-----------------------------|--------------------------------------|----------------------------------|------------------|
|                                      | Non-current<br>assets<br>€ '000 | Current<br>assets<br>€ '000 | Non-current<br>liabilities<br>€ '000 | Current<br>liabilities<br>€ '000 |                  |
| Interest rate swaps                  | 5,229                           | -                           | (23,444)                             | (11,137)                         | <b>(29,352)</b>  |
| Inflation linked interest rate swaps | -                               | -                           | (524,944)                            | (85,154)                         | <b>(610,098)</b> |
| Currency swaps                       | -                               | 30,806                      | (33,245)                             | (3,305)                          | <b>(5,744)</b>   |
| Foreign exchange contracts           | 8,003                           | 3,706                       | (431)                                | (2,467)                          | <b>8,811</b>     |
| Forward fuel price contracts         | 6,955                           | 119,717                     | (4,599)                              | (59,986)                         | <b>62,087</b>    |
| Forward electricity price contracts  | 3,210                           | 41,147                      | -                                    | (4,373)                          | <b>39,983</b>    |
|                                      | <b>23,397</b>                   | <b>195,376</b>              | <b>(586,663)</b>                     | <b>(166,422)</b>                 | <b>(534,312)</b> |

|                                      | December 2017                   |                             |                                      |                                  | Total<br>€ '000  |
|--------------------------------------|---------------------------------|-----------------------------|--------------------------------------|----------------------------------|------------------|
|                                      | Non-current<br>assets<br>€ '000 | Current<br>assets<br>€ '000 | Non-current<br>liabilities<br>€ '000 | Current<br>liabilities<br>€ '000 |                  |
| Interest rate swaps                  | 10,296                          | -                           | (31,699)                             | (8,021)                          | (29,424)         |
| Inflation linked interest rate swaps | -                               | -                           | (563,571)                            | (89,605)                         | (653,176)        |
| Currency swaps                       | 24,066                          | 10                          | (37,508)                             | (5,749)                          | (19,181)         |
| Foreign exchange contracts           | 8,472                           | 5,799                       | (180)                                | (2,030)                          | 12,061           |
| Forward fuel price contracts         | 2,860                           | 57,608                      | (4,867)                              | (31,123)                         | 24,478           |
| Forward electricity price contracts  | 39,383                          | 53,950                      | -                                    | -                                | 93,333           |
|                                      | <b>85,077</b>                   | <b>117,367</b>              | <b>(637,825)</b>                     | <b>(136,528)</b>                 | <b>(571,909)</b> |

With the exception of inflation linked interest rate swaps, the majority of the derivative balances shown in the tables above are designated as cash flow hedges of interest rate, currency or commodity risk arising from highly probable forecast interest, revenue, or other operating cost cash flows.

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks.

### (i) Interest rate swaps

The Group has executed interest rate swaps of Stg£734.5 million in connection with certain of its borrowings, including project finance debt secured by Carrington Power Limited and West Durham Wind Farm Limited, fixed rate borrowings held by the Parent and ESB Finance DAC and debt held in other wind farm assets within the Group. These have all been classified as cash flow hedges.

For interest rate swaps, the fair value takes into account the fixed, floating and market rates prevailing at the balance sheet date. As interest rate swaps are marked to market at 30 June 2018, their carrying value is equal to their fair value.

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

Arising from movements in forward interest rates, UK RPI forward prices, foreign currency exchange rates and payments during the year, fair value of the liability reduced by €43.1 million on these swaps in the period ended 30 June 2018 (30 June 2017: fair value decrease of €51.2 million). Positive fair value movements in the underlying swaps of €36.0 million (30 June 2017: €25.0 million), reflected in finance costs in the income statement (note 9) and payments of €8.3 million (30 June 2017: €8.2 million) arising under the swaps during the period offset by negative translation movements of €1.2 million (30 June 2017: positive translation movement of €18.0 million) during the period on translation of the swaps from sterling to euro are reflected in the OCI.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

#### (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.

Ineffectiveness under IFRS 9 (previously IAS 39) arose on the currency swaps during the period resulting in the recognition of a credit of €0.1 million (30 June 2017: charge €0.2 million) within finance costs in the income statement. Separately included in the income statement for the period ended 30 June 2018 is of a gain of €14.3 million (30 June 2017: loss of €43.5 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 9).

In addition to foreign currency forward contracts entered into in relation to the Group's borrowings, the Group has entered into foreign currency contracts in relation to energy costs, fuel purchase requirements (which are in US dollar and sterling) and in relation to power station projects (including Carrington Power Limited). These contracts have maturities extending until 2022. Total negative fair value movements of €3.2 million (30 June 2017: positive movements of €6.3 million) were recognised during the period in relation to these foreign exchange contracts, of which a negative fair value movement of €0.1 million (30 June 2017: positive movements of €2.3 million) was recognised through OCI and a negative fair value movement of €3.1 million (30 June 2017: positive movement of €4.0 million) was recognised in the income statement.

#### Fair value hierarchy

Further information on the methods of valuing financial instruments is included in note 20.

## 18. PENSION LIABILITIES

### Northern Ireland Electricity Networks (NIE Networks) Pension Scheme

|  | June<br>2018<br>€ '000 | June<br>2017<br>€ '000 |
|--|------------------------|------------------------|
| <b>Net deficit at 1 January</b>                                | <b>(143,056)</b>       | (170,543)              |
| Movements during the period:                                   |                        |                        |
| Actuarial gains / (losses) recognised in OCI during the period | <b>85,045</b>          | (5,260)                |
| Charge to the income statement - current service cost          | <b>(5,011)</b>         | (5,742)                |
| Charge to the income statement - curtailment cost              | <b>(3,983)</b>         | -                      |
| Pension contributions paid                                     | <b>17,265</b>          | 14,034                 |
| Charged to the income statement: net pension scheme interest   | <b>(1,773)</b>         | (2,122)                |
| Translation differences  | <b>(833)</b>           | 4,587                  |
| <b>Net deficit at 30 June</b>                                  | <b>(52,346)</b>        | (165,046)              |

#### Pension liability

The majority of the employees in NIE Networks are members of the NIE Networks Pension Scheme (the NIE Networks Scheme). This has two sections: Options, which is a money purchase arrangement whereby the employer generally matches the members' contributions up to a maximum of 7% of salary, and Focus which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the NIE Networks Scheme are held under trust and invested by the Trustees on the advice of professional investment managers.

The actuarial gains for the period arise due to an increase in the discount rate used to value the scheme liabilities to 2.80% at 30 June 2018, from 2.50% at 31 December 2017, in addition to revised mortality assumptions following the latest scheme valuation, offset by a reduced return on plan assets and an experience adjustment based on the final 2017 actuarial valuation.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 19. LIABILITY - ESB PENSION SCHEME

|                                  | Liability -<br>ESB pension<br>scheme<br>€ '000 |
|----------------------------------|--|
| <b>Balance at 1 January 2017</b> | <b>524,812</b>                                 |
| Movements during the period:     |  |
| Utilised during the period       | (146,290)                                      |
| Financing charge                 | 9,258  |
| <b>Balance at 30 June 2017</b>   | <b>387,780</b>                                 |
| <b>Balance at 1 January 2018</b> | <b>394,320</b>                                 |
| Movements during the period:     |  |
| Utilised during the period       | (6,195)  |
| Financing charge                 | 9,546  |
| <b>Balance at 30 June 2018</b>   | <b>397,671</b>                                 |
| <b>Analysed as follows:</b>      |  |
| Non-current liabilities          | 103,541  |
| Current liabilities              | 294,130  |
| <b>Total</b>                     | <b>397,671</b>                                 |

### Liability - ESB pension scheme.

During 2010 the Group reached agreement with the ESB Group of Unions to amend pension arrangements within the ESB statutory body and this is explained in note 21 of the 2017 consolidated financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 20. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

### (a) Overview of financial risk management

#### Risk environment

The main financial risks faced by the Group relate to foreign exchange (particularly movements in the value of the euro relative to sterling and the US dollar) and commodity (electricity and fuel) price movements. Liquidity risk, and exposure to interest rate volatility, are key long-term financial risks also. Policies to protect the Group from these risks and other risk areas, such as credit risk are regularly reviewed, revised and approved by the Board as appropriate. During 2017 the Board reviewed and approved the Group's interest rate and funding policy. Group Treasury is responsible for the day-to-day treasury activities of the Group. The Finance and Investment Committee is regularly updated on key treasury matters, risk and associated mitigants.

Commodity price risk is managed by the front and middle office functions of the relevant business units: ESB Trading (within Generation and Wholesale Markets) and Electric Ireland. This is done in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit and it is the responsibility of the Trading Risk Management Committees (overseen by the Group Trading Committee (GTC)) to ensure that internal audit findings and recommendations are adequately addressed. The Group Trading Risk Management function ensures that the Group's market, credit and operational risks (including new and emerging risks arising from I-SEM) are managed in a way designed to protect the Group from loss, while respecting the ring-fencing obligations in place between the business units.

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

#### Risk reporting structure

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

In both Generation and Wholesale Markets and Electric Ireland, separate Trading Risk Management Committees meet on a monthly basis (or more frequently as required), and serve as the primary overseer of trading risk at individual ring-fenced entity level. These committees include the head of the Front Office function, the Trading Risk (Middle Office) Manager, a representative from Group Trading Risk Management, and the business unit Financial Controller. The Trading Risk Management Committees are responsible for formulating trading risk strategy in accordance with the Group Trading Risk Management Policy and ensuring compliance with same, trading risk limit management and for ensuring that an effective control framework is in place. The Trading Risk Management Committees report to the GTC.

The Middle Office function in each business unit maintains a separate reporting line to the Group Trading Risk Management function, which is responsible for ensuring that the Group's net exposure to movements in commodity or other price movements is adequately managed in accordance with Group Trading Risk Management Policy.

#### Hedge accounting

ESB funds its operations using borrowings and uses deposit instruments to invest surplus funds. ESB also uses interest rate and foreign currency instruments to manage interest rate and currency risks that arise in the normal course of operations from US dollar and sterling denominated borrowings, from its foreign currency subsidiaries and from the use of foreign currency suppliers. Hedge accounting pursuant to IFRS 9 is used both for hedges of foreign currency liabilities and interest rate risks from current and non-current liabilities.

In addition, the Group enters into certain commodity hedging transactions to fix fuel costs and to link electricity revenues more closely to fuel inputs, where possible. All of these arrangements are designated into hedge relationships and in the majority of cases meet the specific hedging accounting criteria of IFRS 9. Where the IFRS 9 hedge criteria are met in respect of cross currency swaps, interest rate swaps, foreign exchange contracts, forward fuel price contracts and forward electricity price contracts, these instruments are designated as cash flow hedges of highly probable forecast interest, revenue or other operating cost cash flows.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

### (b) Fair value

The fair values of financial assets and liabilities excluding derivatives together with the carrying amounts shown in the balance sheet are as follows:

|   | June 2018                |                      | December 2017            |                      |
|---|--------------------------|----------------------|--------------------------|----------------------|
|   | Carrying value<br>€ '000 | Fair value<br>€ '000 | Carrying value<br>€ '000 | Fair value<br>€ '000 |
| Long-term debt                          | <b>4,166,852</b>         | <b>4,628,761</b>     | 4,369,705                | 5,615,889            |
| Short-term borrowings                   | <b>618,808</b>           | <b>648,367</b>       | 388,073                  | 400,078              |
| <b>Total borrowings</b>                 | <b>4,785,660</b>         | <b>5,277,128</b>     | 4,757,778                | 6,015,967            |
| Current trade and other payables*       | <b>629,833</b>           | <b>629,833</b>       | 735,794                  | 735,794              |
| Non-current trade and other receivables | <b>(84,064)</b>          | <b>(86,598)</b>      | (74,936)                 | (79,374)             |
| Current trade and other receivables**   | <b>(667,306)</b>         | <b>(667,306)</b>     | (744,613)                | (744,613)            |
| Cash and cash equivalents               | <b>(231,640)</b>         | <b>(231,640)</b>     | (380,405)                | (380,405)            |
| <b>Net liabilities</b>                  | <b>4,432,483</b>         | <b>(4,921,417)</b>   | 4,293,618                | 5,547,369            |

\* VAT and employment taxes have been excluded as these are statutory liabilities.

\*\* Prepayments have been excluded as they are not classified as a financial asset.

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

The fair value of non-current trade and other receivables is calculated based on the present value of future cash flows, discounted at the market rate interest rate or where applicable a specific interest rate has been applied.

ESB and NIE Networks Eurobonds are regarded as Level 1 fair values. The fair value of Eurobonds is derived from observation of the most recent traded values for these bonds in liquid markets at the balance sheet date. Other borrowings and debt are Level 2 fair values. The primary valuation technique used for borrowings and other debt classified as Level 2 fair values is discounting of the future associated cash flows using the zero coupon discount curve of the relevant currency.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

### (c) 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).

| <b>June 2018</b>                                      | Level 2<br>€ '000 | Level 3<br>€ '000 | Total<br>€ '000  |
|---|-------------------|-------------------|------------------|
| <b>ASSETS</b>   |                   |                   |                  |
| Derivative financial instruments                      |                   |                   |                  |
| - Interest rate swaps                                 | 5,229             | -                 | 5,229            |
| - Currency swaps                                      | 30,806            | -                 | 30,806           |
| - Foreign exchange contracts                          | 11,709            | -                 | 11,709           |
| - Forward fuel price contracts                        | 93,217            | 33,455            | 126,672          |
| - Forward electricity price contracts                 | 39                | 44,318            | 44,357           |
| Financial assets at fair value through profit or loss | -                 | 10,457            | 10,457           |
|   | <b>141,000</b>    | <b>88,230</b>     | <b>229,230</b>   |
| <b>LIABILITIES</b>                                    |                   |                   |                  |
| Derivative financial instruments                      |                   |                   |                  |
| - Interest rate swaps                                 | (34,581)          | -                 | (34,581)         |
| - Currency swaps                                      | (36,550)          | -                 | (36,550)         |
| - Foreign exchange contracts                          | (2,898)           | -                 | (2,898)          |
| - Forward fuel price contracts                        | (64,585)          | -                 | (64,585)         |
| - Forward electricity price contracts                 | -                 | (4,373)           | (4,373)          |
| - Inflation linked interest rate swaps                | (610,098)         | -                 | (610,098)        |
|   | <b>(748,712)</b>  | <b>(4,373)</b>    | <b>(753,085)</b> |
| <b>Net (liability) / asset</b>                        | <b>(607,712)</b>  | <b>83,857</b>     | <b>(523,855)</b> |
|   | Level 2<br>€ '000 | Level 3<br>€ '000 | Total<br>€ '000  |
| <b>December 2017</b>                                  |                   |                   |                  |
| <b>ASSETS</b>   |                   |                   |                  |
| Derivative financial instruments                      |                   |                   |                  |
| - Interest rate swaps                                 | 10,296            | -                 | 10,296           |
| - Currency swaps                                      | 24,076            | -                 | 24,076           |
| - Foreign exchange contracts                          | 14,271            | -                 | 14,271           |
| - Forward fuel price contracts                        | 56,847            | 3,621             | 60,468           |
| - Forward electricity price contracts                 | 15                | 93,318            | 93,333           |
| Financial assets at fair value through profit or loss | -                 | 22,165            | 22,165           |
|   | 105,505           | 119,104           | 224,609          |
| <b>LIABILITIES</b>                                    |                   |                   |                  |
| Derivative financial instruments                      |                   |                   |                  |
| - Interest rate swaps                                 | (39,720)          | -                 | (39,720)         |
| - Currency swaps                                      | (43,257)          | -                 | (43,257)         |
| - Foreign exchange contracts                          | (2,210)           | -                 | (2,210)          |
| - Forward fuel price contracts                        | (34,192)          | (1,798)           | (35,990)         |
| - Forward electricity price contracts                 | -                 | -                 | -                |
| - Inflation linked interest rate swaps                | (653,176)         | -                 | (653,176)        |
|   | <b>(772,555)</b>  | <b>(1,798)</b>    | <b>(774,353)</b> |
| <b>Net (liability) / asset</b>                        | <b>(667,050)</b>  | <b>117,306</b>    | <b>(549,744)</b> |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

### (c) Fair value hierarchy (continued)

#### Measurement of fair values - valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

| Type   | Valuation techniques  | Significant unobservable inputs  | Inter relationship between significant unobservable inputs and fair value measurement   |
|--|---|--|---|
| Currency swaps, foreign exchange contracts and interest rate swaps | <p>Level 2 - Present valuation of future contracted foreign exchange cash flows using constructed zero-coupon discount curve.</p> <p>The zero-coupon curve is constructed using the interest yield curve of the relevant currency.</p>  |  |   |
| Forward fuel and electricity price contracts                       | <p>Level 2 - The fair value of forward fuel and electricity contracts is determined by reference to forward electricity, gas, coal and carbon prices with the resulting value discounted to present values.</p> <p>Level 3 - The fair value of some specific forward fuel and electricity contracts are determined by reference to forward electricity prices and forward electricity, carbon and gas inputs which are unobservable.</p>  | <p>System marginal price (SMP)</p> <p>Forward electricity, carbon and gas inputs</p> | <p>The estimated fair value would increase / (decrease) if: SMP was lower / (higher).</p> <p>Generally a change in gas price is accompanied by a directionally similar change in SMP.</p>   |
| Inflation linked interest rate swaps                               | <p>Level 2 - Independent valuations are used and validated using the present valuation of expected cash flows using constructed zero-coupon discount curve.</p> <p>The zero-coupon curve is constructed using the interest rate yield curve of the relevant currency.</p> <p>Future cash flows are estimated using expected RPI benchmark levels as well as expected LIBOR rate sets.</p>   |  |   |
| Financial assets at fair value through profit or loss              | <p><b>Discounted cash flows:</b></p> <p>Level 3 - The valuation model considers the present value of expected cash flows.</p> <p>The expected payment is determined by considering the possible scenarios of forecast revenue and gross margin, future cash flows under each scenario and the probability of each scenario.</p> <p><b>Market comparison technique:</b></p> <p>The valuation model is based on market multiples derived from quoted prices of companies to the investee and the expected gross margin of the investee.</p> | <p>Forecast annual revenue growth rate; Forecast gross margin</p>                    | <p>Novusmodus typically assess the value of investments based on its expectations of the proceeds which could be realised in a disposal.</p> <p>This value will usually be driven by a number of inputs including the ability of the investee to grow its revenue and associated margins leading to higher EBITDA thus higher values.</p> |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

#### (c) Fair value hierarchy (continued)

The following tables shows a reconciliation from opening balances at 1 January 2018 to the period ended 30 June 2018 balances and the comparable period in 2017 for fair value measurements in Level 3 of the fair value hierarchy:

|                                   | Financial assets<br>at fair value<br>through profit<br>or loss<br>€ '000 | Forward<br>electricity price<br>contracts<br>€ '000 | Forward<br>fuel price<br>contracts<br>€ '000 | Total<br>€ '000 |
|-----------------------------------|--|---|--|-----------------|
| Opening balance at 1 January 2017 | 55,932   | 140,253   | 24,394                                       | 220,579         |
| Additions                         | 1,661  | -   | -  | 1,661           |
| Total gains / (losses):           |  |   |  |                 |
| - in profit or loss               | (15,559)   | -   | -  | (15,559)        |
| - in OCI                          | -  | (105)   | (35,669)                                     | (35,774)        |
| Settlements                       | -  | (23,082)  | (6,287)                                      | (29,369)        |
| Translation movements             | 1  | -   | -  | 1               |
| <b>Balance 30 June 2017 - net</b> | <b>42,035</b>  | <b>117,066</b>                                      | <b>(17,562)</b>                              | <b>141,539</b>  |

|                                   | Financial assets<br>at fair value<br>through profit<br>or loss<br>€ '000 | Forward<br>electricity price<br>contracts<br>€ '000 | Forward<br>fuel price<br>contracts<br>€ '000 | Total<br>€ '000 |
|-----------------------------------|--|---|--|-----------------|
| Opening balance at 1 January 2018 | 22,165   | 93,318  | 1,823  | 117,306         |
| Additions                         | 1,275  | -   | -  | 1,275           |
| Total gains / (losses):           |  |   |  |                 |
| - in profit or loss               | (12,983)   | -   | -  | (12,983)        |
| - in OCI                          | -  | (32,370)  | 30,441                                       | (1,929)         |
| Settlements                       | -  | (21,003)  | 1,191  | (19,812)        |
| Translation movements             | -  | -   | -  | -               |
| <b>Balance 30 June 2018 - net</b> | <b>10,457</b>  | <b>39,945</b>                                       | <b>33,455</b>                                | <b>83,857</b>   |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 21. COMMITMENTS AND CONTINGENCIES

### (a) Capital commitments

|  | June 2018<br>€ '000 | June 2017<br>€ '000 |
|--|---------------------|---------------------|
| Capital commitments contracted for during the period | 259,898             | 261,383             |

### (b) Fuel contract commitments

There are a number of long-term gas supply arrangements in place for different periods up to 2019. These arrangements provide for pricing changes in line with changes in inbuilt energy market indicators. Where appropriate, embedded derivatives have been separated and valued in accordance with IFRS 9.

### (c) Other disclosures

Following on from flooding in Cork in November 2009, Aviva as University College Cork's (UCC) insurer pursued a legal action against ESB in the High Court seeking recovery of €19.0 million for property damage. The High Court judgement found ESB liable for the damage by the flood but discounted the award to UCC by 40% to reflect UCC's contributory negligence.

Based on legal advices received, ESB appealed the decision to the Court of Appeal. On 20 March 2018 the Court of Appeal delivered its judgement which held that ESB is not liable for any damage caused to UCC's property by the flood.

In May 2018 UCC filed an Application for Leave to Appeal and Notice of Appeal of the judgement of the Court of Appeal in the Supreme Court. It is anticipated that the Supreme Court Appeal will be heard during 2019. The issue of the legal costs of the High Court and Court of Appeal cases are stayed pending the outcome of the Supreme Court appeal.

In addition to the UCC claim ESB has, since the judgement of the High Court in the UCC case, been served with 387 sets of proceedings relating to the flooding in Cork in November 2009. Details of amounts claimed in relation to these proceedings have not yet been received and therefore it is not possible to make a reliable estimate of their cost (should the Supreme Court not uphold the decision of the Court of Appeal) at this time. However, ESB does not anticipate that the total amount of damages awarded, if any, and related costs for all of the actions, including the Aviva / UCC action, would exceed its applicable insurance cover.

On the basis of the internal and external legal advice received, ESB believes that it is more probable than not that the Supreme Court will uphold the decision of the Court of Appeal and accordingly, no provision has been made for such claims in the condensed consolidated financial statements.

Other than as disclosed above, a number of other lawsuits, claims and disputes with third parties have arisen in the normal course of business. While any litigation or dispute has an element of uncertainty, the Board members believe that there were no contingent liabilities which would have a material adverse effect on the Group's financial position.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 22. RELATED PARTY TRANSACTIONS

### Equity accounted investees

|  | Sale of goods / services <sup>1</sup> |                        | Purchase of goods / services <sup>2</sup> |                        | Amounts owed (to) / from as at period / year end <sup>3</sup> |                            | Equity investment during the period / year |                            |
|--|---------------------------------------|------------------------|---|------------------------|---|----------------------------|--|----------------------------|
|  | € '000<br>June<br>2018                | € '000<br>June<br>2017 | € '000<br>June<br>2018                    | € '000<br>June<br>2017 | € '000<br>June<br>2018  | € '000<br>December<br>2017 | € '000<br>June<br>2018                     | € '000<br>December<br>2017 |
| Raheenleagh Power DAC                    | 305                                   | -                      | 5,344                                     | 4,961                  | 3,161   | 3,769                      | -  | -                          |
| Oweninny Power DAC                       | 775                                   | 760                    | -   | -                      | 12,538  | 12,051                     | -  | -                          |
| Castlepeak Power DAC                     | 786                                   | -                      | 3,090                                     | -                      | 5,676   | 7,229                      | -  | -                          |
| Emerald Bridge Fibres DAC                | 123                                   | 6                      | -   | 20                     | 165   | 1,433                      | -  | -                          |
| Tilbury Green Power Holdings Limited     | 480                                   | 301                    | 5,705                                     | 46                     | 34,620  | 51,094                     | -  | -                          |
| Kingspan ESB DAC                         | 12                                    | 83                     | -   | 360                    | 321   | 300                        | -  | -                          |
| SIRO Limited                             | 2,147                                 | 6,444                  | 1,586                                     | 2,000                  | 99,201  | 67,142                     | -  | -                          |
| Terra Solar Limited                      | -                                     | 88                     | -   | -                      | -   | -                          | -  | -                          |
| Aldeburgh Offshore Wind Holdings Limited | -                                     | -                      | -   | -                      | 27,207  | -                          | 126,829                                    | -                          |
| <b>Total</b>                             | <b>4,628</b>                          | <b>7,682</b>           | <b>15,725</b>                             | <b>7,387</b>           | <b>182,889</b>  | <b>143,018</b>             | <b>126,829</b>                             | <b>-</b>                   |

<sup>1</sup> ESB provided electricity sales, management and other professional services during the period to equity accounted investees as set out in the above table.

<sup>2</sup> ESB has purchased power and services in relation to telecoms and maintenance during the period from equity accounted investees as set out in the above table.

<sup>3</sup> Amounts owed (to) / from equity accounted investees include shareholders loans, interest on these loans and trade receivables and payables balances. Interest charged on borrowings relates to Tilbury Green Power Holdings Limited €nil in 2018 due to impairments (31 December 2017: €13.8 million) and Emerald Bridge Fibres DAC €nil (31 December 2017: €1.8 million)

During the period ended 30 June 2018, ESB has recognised impairments on the shareholders loans advanced to equity accounted investees to Tilbury Green Power Holdings Limited €20.7 million (31 December 2017: €nil) and Emerald Bridge Fibres DAC €1.4 million (31 December 2017: €nil). The amounts shown above are net of provisions. During the period ended 30 June 2018, ESB advanced amounts to equity accounted investees as shareholders loans totalling €59.5 million.

ESB has committed to provide capital funding to SIRO Limited of €85.0 million, of which €80.0 million has been advanced as a short-term shareholder loan as disclosed above.

### Terms and conditions

Sales to and purchases from equity accounted investees and associates are conducted in the ordinary course of business. The outstanding balances included in receivables and payables as at the balance sheet date in respect of transactions with equity accounted investees and associates are unsecured and settlement arises in cash. No guarantees have been either requested or provided in relation to related party receivables and payables.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 23. ESTIMATES AND JUDGEMENTS

Preparation of condensed consolidated financial statements requires a significant number of judgemental assumptions and estimates to be made. These impact on the income and expenses contained within the income statement and the carrying value of the assets and liabilities in the balance sheet. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation.

Key judgements are described in note 29 of the 2017 consolidated financial statements. There has been no change to the nature of these during the period and they are still considered to be the most relevant judgements and estimates in preparing our financial statements.

## 24. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated by ESB during 2001, with a €1 investment, as Trustee to the ESB Employee Ownership Trust (ESOT) and the ESB Approved Profit Sharing Scheme (APSS). Under the terms of the creation of ESB ESOP Trustee Limited, ESB has no ability or rights to exert control over the assets or management of the Company. The Trustee Company is chaired by an independent professional Trustee with four directors representing ESB employees and two directors representing ESB. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the Company exist. In accordance with IFRS 10 Consolidated Financial Statements, the financial statements for ESB ESOP Trustee Limited are not consolidated with the results of the ESB Group.

During the year ended 31 December 2015, ESB entered into an agreement to support the acquisition of capital stock in future ESOP internal markets. As part of the agreement ESB committed to match the acquisitions made by the ESOP Trustees up to a value of €25.0 million. An ESOP provision of €2.4 million was recognised in the 2017 consolidated financial statements in relation to the capital stock repurchase by the ESOP Trustee. During 2017, ESB also commenced the repurchase of the ESOP capital stock and consequently a capital redemption reserve of €4.7 million representing the nominal amount of the share capital cancelled arose from the purchase and cancellation of the 4.7 million ESOP share capital for a consideration of €5.6 million. The repurchase reduced the ESOP repurchase provision by €5.6 million and at 31 December 2017, the ESOP repurchase provision recognised in other reserves amounted to €15.9 million. There has been no change to the ESOP repurchase provision in 2018.

## 25. EVENTS SINCE THE BALANCE SHEET DATE

On 26 September 2018 the ESB Board approved an interim dividend of €30.0 million in respect of 2018.

## 26. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Board approved the condensed consolidated financial statements on 26 September 2018.

ESB Head Office  
Two Gateway  
East Wall Road  
Dublin 3  
D03 A995  
Ireland  
T: +353 1 676 5831  
E: [info@esb.ie](mailto:info@esb.ie)  
[www.esb.ie](http://www.esb.ie)  
Twitter: @ESBGroup  
LinkedIn: <https://www.linkedin.com/company/esb>  
YouTube: <https://www.youtube.com/user/ESBVideo>

