

ESB Finance Designated Activity Company

Annual report and
financial statements

Year ended 31 December 2021

ESB Finance Designated Activity Company

Annual report and financial statements

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ESB Finance Designated Activity Company

Directors and other information

Directors

E. Byrne (resigned 1 March 2022)
A. Kean (appointed 1 March 2022)
D. Cowler
P. Fenlon
S. McCarthy
G. Tallon

Company secretary

M. Sinnott

Registered Number

480184

Registered office

ESB Head Office
27 Fitzwilliam Street Lower
Dublin 2
Ireland

Independent auditor

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1
Ireland

ESB Finance Designated Activity Company

Directors' report

The directors present their annual report and audited financial statements of the company for the year ended 31 December 2021.

Principal activities

ESB Finance Designated Activity Company (“ESB Finance DAC” or “the company”) is a wholly owned subsidiary of the Electricity Supply Board (“ESB” or “parent entity”). The principal activity of the company is the issue of loan notes and the provision of funding to undertakings in the ESB group.

Review of the business and future developments

The company was incorporated on 26 January 2010 and issues bonds under the ESB and the ESB Finance DAC €5bn EMTN Programme, which is fully, irrevocably and unconditionally guaranteed by ESB. At 31 December 2021, the company holds external debt as set out in Note 9 to the financial statements. ESB was rated A- by Standard & Poor's in July 2021 and A3 (equivalent to A-) by Moody's in May 2021. The outlook of both agencies was ‘stable’.

The Covid-19 pandemic has created turbulence and economic uncertainty, impacting individuals and businesses. However, given the nature of the Company's business, the directors do not believe that COVID-19 has any material impact on the company.

The Ukraine crisis has created significant uncertainty in global markets, in particular, increased volatility in energy and commodity markets and increases in price inflation which may have direct and indirect impacts on individuals and businesses. The directors will continue to monitor this evolving situation and consider any impacts on the Company. The directors do not believe that the crisis will have a material impact on the Company.

The directors have no plans to significantly change the activities and operations of the company in the foreseeable future.

Going concern

The directors have adopted the going concern basis in preparing the financial statements. Further details are set out in note 1.2 to the financial statements.

Results and dividends

In the year to 31 December 2021, the company recorded income of €71.1 million (2020: €73.7 million) and a loss before tax of €0.6 million (2020: profit of €0.2 million). The directors are satisfied with the company's performance during the year. The directors do not recommend the payment of a dividend (2020: €nil).

Directors, secretary and their interests

The directors who served during the year and up to the date of the approval of these financial statements were:

E. Byrne (resigned 1 March 2022)
A. Kean (appointed 1 March 2022)
D. Cowler
P. Fenlon
S. McCarthy
G. Tallon

In accordance with the Articles of Association, the directors are not required to retire by rotation. The directors and secretary had no disclosable interests in the shares of the company, or any other group company, as defined in section 329 of the Companies Act 2014, at 31 December 2021 or 31 December 2020.

ESB Finance Designated Activity Company

Directors' report *(continued)*

Political donations

The company made no political donations during the year (2020: €nil) and complied with the Electoral Act, 1997.

Research and Development

The company did not engage in any research and development activities in the current or preceding year.

Principal risks and uncertainties

Disclosures in relation to financial risks are given in note 10 of the financial statements. The company is ultimately dependent on its parent entity. Accordingly, the principal risks and uncertainties pertain to the parent entity's continued ability to generate sufficient cash and liquid resources to meet the company's liquidity requirements for the foreseeable future and consequently to fund its contractual commitments in respect of the borrowings as they fall due.

Events since the end of the financial year

On 19 January 2022, ESB Finance DAC successfully raised a €500 million Green Bond, with a fixed coupon of 1.00% maturing on 19 July 2034.

The Ukraine crisis has created significant uncertainty in global markets, in particular, increased volatility in energy and commodity markets, increases in price inflation and potential supply disruption which may have direct and indirect impacts on individuals and businesses. The directors will continue to monitor this evolving situation and consider any impacts on the Company. The directors do not believe that the crisis will impact on the Company's ability to continue as a going concern.

There have been no other significant events since the balance sheet date that the directors believe require adjustment to, or disclosure in the financial statements.

Accounting records

The measures taken by the directors to ensure compliance with the requirements of Section 281 to 285 of the Companies Act 2014 with regard to keeping adequate accounting records, are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The company's accounting records are maintained at the company's registered office at 27 Fitzwilliam Street Lower, Dublin 2.

Statement on relevant audit information

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information (within the meaning of section 330).

Internal control and risk management systems relating to the financial reporting process

The Board of Directors are responsible for ensuring that appropriate internal control and risk management procedures relating to the financial reporting process are in place. Those systems are designed to manage, rather than eliminate, risks and can provide only reasonable, not absolute, assurance against material misstatement or loss. The company has procedures to ensure all relevant accounting records are properly maintained and are readily available, including production of annual financial statements. The annual financial statements of the company are required to be approved by the Board of Directors of the company and filed with the Irish Stock Exchange.

ESB Finance Designated Activity Company

Directors' report *(continued)*

The company's parent entity, ESB, provides secretarial and accountancy services to the company. ESB complies with the Code of Practice for the Governance of State Bodies and conforms, in so far as is reasonably applicable and on a voluntary basis, to the UK Corporate Governance Code. ESB has developed and maintains policies and systems to identify, monitor and control risk arising in respect of its activities. The Board of Directors of the company also considers and evaluates the report by the independent auditors concerning their audit of the financial statements and their comments on accounting and financial controls and other matters relevant to the audit.

Audit Committee

In accordance with the requirements of Section 167 of the Companies Act 2014, the Board of Directors confirms that it has decided not to establish an audit committee. Having considered the requirements of Section 167 the Board of Directors notes that (i) the terms of reference and the role and powers of the audit committee of the Board of Directors of the company's parent undertaking (the ESB Audit and Risk Committee) include within their scope the powers and responsibilities that would otherwise be required of an audit committee established for the company pursuant to Section 167 (including reporting arrangements with the company's statutory auditors), (ii) the composition and membership of the ESB Audit and Risk Committee satisfy the independence and skills-related requirements of Section 167 as it would otherwise apply to the company, and (iii) the ESB Audit and Risk Committee has exercised its role and its powers and has carried out those responsibilities in relation to the company. Therefore the Board of Directors has resolved that, in view of the foregoing, the establishment of an audit committee for the company would be superfluous and would unnecessarily duplicate the functions of the ESB Audit and Risk Committee in relation to the company. The Board of Directors has also considered the requirements of Section 1551 of the Companies Act and has resolved to avail of the exemption provided for in Section 1551(11)(a) thereof.

Compliance Statement

The directors acknowledge that they are responsible for securing the company's compliance with its relevant obligations, being the obligations defined in Section 225(1) of the Companies Act 2014 ("relevant obligations").

The directors confirm that:

- the company has drawn up a compliance policy statement setting out the policies with regard to such compliance that, in their opinion, are appropriate to the Company;
- appropriate arrangements or structures have been put in place in the company that are, in their opinion, designed to secure material compliance with the company's relevant obligations; and
- a review has been carried out, during the financial year to which this statement relates, of the arrangements or structures referred to in point above.

Auditors

A resolution appointing Deloitte Ireland LLP as auditors will be proposed to the shareholders at the next general meeting of the company.

On behalf of the Board of Directors



P. Fenlon

Director



G. Tallon

Director

18 May 2022

ESB Finance Designated Activity Company

Statement of directors' responsibilities For the Year Ended 31 December 2021

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with Irish Law.

Irish law requires the directors to prepare financial statements for each financial year giving a true and fair view of the company's assets, liabilities and financial position at the end of the financial year and the profit or loss of the company for the financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

Under Irish law the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the company's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the company for the financial year.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in notes to the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements and Directors' Report comply with the Companies Act 2014 and enable those financial statements to be audited.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

On behalf of the Board of Directors



P. Fenlon

Director



G. Tallon

Director

18 May 2022

ESB Finance Designated Activity Company

Independent auditors' report to the members of ESB Finance Designated Activity Company

Report on the audit of the financial statements

Opinion

In our opinion, ESB Finance Designated Activity Company's financial statements:

- give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual report and financial statements, which comprise:

- the Statement of financial position as at 31 December 2021;
- the Statement of comprehensive income for the year then ended;
- the Statement of cash flows for the year then ended;
- the Statement of changes in shareholder's equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law.

Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 January 2021 to 31 December 2021.

ESB Finance Designated Activity Company

Independent auditors' report to the members of ESB Finance Designated Activity Company (continued)

Our audit approach

Overview



Materiality

- Overall materiality: €36.2 million (2020: €35.9 million) based on circa 1% of total assets.
- Specific materiality: €0.7 million (2020: €0.7 million) applied to interest income and interest expense based on circa 1% of interest expense.

Audit scope

- A full scope audit was performed over the statutory entity based on materiality levels.

Key audit matters

- Loans to related party undertakings.

The scope of our audit

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Loans to related party undertakings.</p> <p>Refer to Note 1 (<i>Accounting policies</i>), Note 7 (<i>Loans to related party undertakings</i>) and Note 10 (<i>Financial instruments and risk management</i>).</p> <p>The company is a financing company that issues Eurobonds. The proceeds from the Eurobonds were lent to the company's immediate parent, Electricity Supply Board (ESB), and a fellow group undertaking, ESBNI Limited, under intercompany loan agreements.</p> <p>We determined this to be a key audit matter as the loans to related party undertakings represent the principal assets held by the company.</p>	<p>We confirmed the loan balances with the company's immediate parent and fellow group undertaking.</p> <p>We tested the valuation of the loans and considered whether there were any impairment indicators, including considering the ability of the company's immediate parent and fellow group undertaking to meet payments falling due to the company.</p> <p>We also met with management and discussed their approach to credit and liquidity risk management including their assessment of the immediate parent's and fellow group undertaking's debt servicing capacity. The results of our testing were satisfactory.</p>

ESB Finance Designated Activity Company

Independent auditors' report to the members of ESB Finance Designated Activity Company (continued)

How we tailored the audit scope

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

We performed a full scope audit of the company's financial statements, based on materiality levels.

Materiality

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

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

<i>Overall materiality</i>	€36.2 million (2020: €35.9 million) Specific materiality: €0.7 million (2020: €0.7 million) applied to interest income and interest expense based on circa 1% of interest expense.
<i>How we determined it</i>	Based on circa 1% of total assets.
<i>Rationale for benchmark applied</i>	The company is a finance vehicle for ESB Group and issues Eurobonds, the proceeds of which are advanced to its immediate parent company and fellow group undertakings. Therefore, we consider that the main focus of the users of the financial statements to be the total assets of the company.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €0.5 million (2020: €0.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Consideration of the overall level of financial resources and available liquidity of the company's parent undertaking, ESB, and its ability to provide the committed support to the entity; and
- Evaluation of the disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

ESB Finance Designated Activity Company

Independent auditors' report to the members of ESB Finance Designated Activity Company (continued)

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

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below

Directors' report

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.
- In our opinion, based on the work undertaken in the course of the audit of the financial statements, the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Directors' Report, is consistent with the financial statements and have been prepared in accordance with section 1373(2)(c).
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

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

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

Auditors' responsibilities for the audit of the financial statements

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

ESB Finance Designated Activity Company

Independent auditors' report to the members of ESB Finance Designated Activity Company (continued)

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 8 August 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2017 to 31 December 2021.

Mary Cleary

Mary Cleary
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
18 May 2022

ESB Finance Designated Activity Company

Statement of comprehensive income for the year ended 31 December 2021

	<i>Note</i>	2021 €'000	2020 €'000
Finance income	2	71,141	73,685
Finance expense	2	(70,990)	(74,062)
Net finance income/(expense)		151	(377)
Other (expense)/income (net)	3	(767)	530
(Loss)/profit before taxation		(616)	153
Taxation on (loss)/profit on ordinary activities	5	154	(38)
(Loss)/profit for the year		(462)	115
Other comprehensive income		-	-
Total comprehensive (loss)/income attributable to equity shareholders		(462)	115

The notes on pages 15 to 27 form and integral part of the financial statements.

ESB Finance Designated Activity Company

Statement of financial position as at 31 December 2021

	Note	2021 €'000	2020 €'000
Non-current assets			
Deferred tax asset	6	1,986	1,832
Loans to related party undertakings	7	3,568,979	3,542,064
Total non-current assets		3,570,965	3,543,896
Current assets			
Cash at bank		7,070	6,296
Loans to related party undertakings	7	40,972	40,482
Total current assets		48,042	46,778
Total assets		3,619,007	3,590,674
Equity			
Share capital	11	-	-
Retained losses		(5,970)	(5,508)
Shareholder's deficit		(5,970)	(5,508)
Non-current liabilities			
Loans and borrowings	9	3,568,890	3,541,818
Total non-current liabilities		3,568,890	3,541,818
Current liabilities			
Loans from related party undertakings	8	15,320	14,337
Trade and other payables	8	40,767	40,027
Total current liabilities		56,087	54,364
Total liabilities		3,624,977	3,596,182
Total equity and liabilities		3,619,007	3,590,674

The notes on pages 15 to 27 form and integral part of the financial statements.

On behalf of the Board of Directors



P. Fenlon

Director



G. Tallon

Director

18 May 2022

ESB Finance Designated Activity Company

Statement of changes in shareholder's equity *for the year end 31 December 2021*

	Share Capital €'000	Retained losses €'000	Total €'000
At 1 January 2020	-	(5,623)	(5,623)
Profit for the year	-	115	115
At 31 December 2020	-	(5,508)	(5,508)
At 1 January 2021	-	(5,508)	(5,508)
Loss for the year	-	(462)	(462)
At 31 December 2021	-	(5,970)	(5,970)

The notes on pages 15 to 27 form and integral part of the financial statements.

ESB Finance Designated Activity Company

Statement of cash flows

for the year ended 31 December 2021

	2021	2020
	€'000	€'000
Cash flows from operating activities		
(Loss)/profit after taxation	(462)	115
<i>Adjust for:</i>		
Foreign currency losses/(gains)	767	(530)
Interest income	(71,141)	(73,685)
Interest expense	70,990	74,062
Income tax (credit)/charge	(154)	38
Operating cash outflow before changes in working capital	-	-
Increase in loans and other receivables	-	(264,886)
Increase in loans and other payables	-	258,731
Debt issue cost paid	-	(5,902)
Debt issue premium received	-	11,315
Interest received	69,098	92,901
Interest paid	(68,709)	(89,704)
Net cash inflow from operating activities	389	2,455
Net increase in cash and cash equivalents	389	2,455
Cash and cash equivalents at 1 January	6,296	4,011
Effect of exchange rate fluctuation on cash held	385	(170)
Cash and cash equivalents at 31 December	7,070	6,296

The notes on pages 15 to 27 form and integral part of the financial statements.

ESB Finance Designated Activity Company

Notes to the financial statements

1 Accounting policies

ESB Finance Designated Activity Company (“ESB Finance DAC” or “the company”) is a limited company incorporated in Ireland, under the registered number 480184. The company is a wholly owned subsidiary of the Electricity Supply Board (“ESB” or “parent entity”). The principal activity of the company is the issue of loan notes and the provision of funding to undertakings in the ESB group. The address of its registered office is ESB Head Office, 27 Fitzwilliam Street Lower, Dublin 2.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company’s financial statements.

1.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU (EU IFRSs). The financial statements have been prepared in accordance with the EU IFRS standards and interpretations issued and effective for accounting periods ending on or before 31 December 2021.

The financial statements are presented in euro, rounded to the nearest thousand, which is the company's functional currency, and are prepared on an historical cost basis, except for derivative financial instruments, which are measured at fair value.

The preparation of the financial statements in conformity with EU IFRS, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. There have been no judgements made by management in the application of EU IFRS that are expected to have a significant effect on the financial statements or estimates with a significant risk of material misstatement in the next year.

1.2 Going concern

The financial statements have been prepared on a going concern basis, which assumes that the company has adequate financial resources to continue in operational existence for at least 12 months from the date of approval of these financial statements.

At 31 December 2021, the company had a shareholder’s deficit of €6.0 million (2020: €5.5 million).

The directors, having regard to the continued support of the company’s parent undertaking, ESB, have a reasonable expectation that the company will have adequate financial resources to continue in operational existence for at least 12 months from the date of approval of these financial statements and consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

ESB Finance Designated Activity Company

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

1.3 New standards and interpretations

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2021 that have a material impact on the company's financial statements.

1.4 Amounts due from related party undertakings

Amounts due from related party undertakings include loans and interest on these loans. Under IFRS 9, impairment is assessed using the expected credit loss model. In determining the impairment loss, amounts due from related party undertakings are classified as amounts repayable on demand, low credit risk receivables and amounts for which there has been a substantial increase in credit risk since initial recognition. In determining an expected credit loss, regard is given to historic performance of the relevant loan as well as forward looking information for the relevant related party undertakings including detailed discounted cash flow forecasts, where appropriate.

1.5 Loans and balances with related party undertakings

Loans and balances with related party undertakings 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. Loans and balances are initially recorded at fair value and thereafter at amortised cost. If a financial asset 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.

1.6 Impairment

The company 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.

For loans and balances with related parties, the company applies the general approach permitted by IFRS 9, which requires 12 month expected credit losses to be recognised on initial recognition of these receivables. If a significant increase in credit risk occurs, this requires expected lifetime credit loss to be recognised on these receivables.

1.7 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. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

ESB Finance Designated Activity Company

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

1.8 Trade and other payables

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

1.9 Loans and 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.

1.10 Loans and other receivables from group companies and loans from group companies

Loans to and receivables from group companies and loans from group companies are non-derivative financial assets or liabilities with fixed or determined payments that are not quoted in an active market. They are included in current assets or liabilities in the statement of financial position, except for those with maturities greater than twelve months after the reporting date, which are included in non-current assets or liabilities. At initial recognition, they are measured at fair value and thereafter at amortised cost using the effective interest method, less (in the case of assets) any impairment losses. Interest calculated using the effective interest method is recognised in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability. Loans and receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired.

1.11 Finance income and expense

Finance income represents the return receivable by the company on loans to and receivables from group undertakings and is recognised in profit or loss as it accrues using the effective interest rate method.

Interest expense on loans and borrowings is recognised in profit or loss as it accrues using the effective interest rate method.

An interest rate swap was used by the company to hedge the variable interest rate on its borrowings. All such derivatives are recognised at fair value and are re-measured to fair value at the balance sheet date. Gains and losses on its subsequent re-measurement are recognised directly through the profit or loss in the statement of comprehensive income.

ESB Finance Designated Activity Company

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

1.12 Current and deferred taxation

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

Current tax

Current tax is provided at current rates and is calculated on the basis of results for the year.

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised only to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.13 Foreign currency transactions

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. The resulting monetary assets and liabilities are translated at the rate ruling at the reporting date and the exchange differences are dealt with through profit or loss in the statement of comprehensive income. Non-monetary assets and liabilities are carried at historical cost and not subsequently retranslated.

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

2 Net finance income/(expense)

	2021	2020
	€'000	€'000
Finance income		
Interest on loans to parent undertaking	63,630	62,782
Interest on loans to group undertaking	7,511	10,903
	<u>71,141</u>	<u>73,685</u>
Finance expense		
Interest payable on Eurobond	(70,990)	(72,877)
Interest on interest rate swap	-	(1,185)
	<u>(70,990)</u>	<u>(74,062)</u>
Net finance income/(expense)	<u>151</u>	<u>(377)</u>

3 Other (expense)/income

	2021	2020
	€'000	€'000
Foreign currency (losses)/gains	(767)	530
Other (expense)/income	<u>(767)</u>	<u>530</u>

4 Statutory and other information

Profit before taxation is stated after charging:

	2021	2020
	€'000	€'000
Auditor's remuneration, including expenses	9	9

The audit fee is paid by a fellow group company.

The company had no directly hired employees during the year and hence incurred no direct labour costs (2020: €nil). The directors received no remuneration for their services to the company.

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

5 Taxation on (loss)/profit on ordinary activities

	2021 €'000	2020 €'000
Current tax expense	-	-
Deferred tax credit/(charge) – current year	154	(38)
Total income tax credit/(charge)	154	(38)
Reconciliation of effective tax rate:		
(Loss)/profit before taxation	(616)	153
Tax credit/(charge) at 25%	154	(38)
Total tax credit/(charge)	154	(38)

ESB Finance DAC has established itself for tax purposes under Section 110 Taxes Consolidation Act 2007. The applicable tax rate for companies taxed under Section 110 is 25%.

6 Deferred tax assets

	2021 €'000	2020 €'000
Deferred tax	1,986	1,832
	1,986	1,832

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

	Balance at 31 December 2020 €'000	Tax credit on loss in the year €'000	Balance at 31 December 2021 €'000
Tax losses carried forward	1,832	154	1,986
Total deferred tax assets	1,832	154	1,986

The deferred tax asset of €1.99 million at 31 December 2021 relates to losses carried forward of €7.95 million available for offset against taxable profits in the future. The tax losses do not expire under current tax legislation. The directors believe that it is probable that these losses carried forward will be utilised in the future by way of offset against future taxable profits of the company.

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

7 Loans to related party undertakings

	2021	2020
	€'000	€'000
Amounts owed from parent undertaking	37,714	37,516
Amounts owed from fellow group undertaking	3,258	2,966
Total current amounts receivable	40,972	40,482
Amounts owed from parent undertaking	3,187,180	3,185,543
Amounts owed from fellow group undertaking	381,799	356,521
Total non-current amounts receivable	3,568,979	3,542,064
Total loans to related party undertakings	3,609,951	3,582,546

At 31 December 2021, there was €37.7 million (2020: €37.5 million) interest accrued on amounts owed from parent undertaking and €3.3 million (2020: €3.0 million) interest accrued on amounts owed from the fellow group undertaking. These amounts are reflected in the balances above.

All of the loans are performing in accordance with their terms and conditions and are expected to be recovered.

8 Trade and other payables

	2021	2020
	€'000	€'000
Accrued interest	40,767	40,027
Amounts owed to parent undertaking	15,320	14,337
	56,087	54,364

All trade and other payables fall due within one year; their carrying value equates to fair value due to short term nature.

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

9 Loans and borrowings

	2021 €'000	2020 €'000
Non-current borrowings repayable between one and five years (Eurobond)	292,247	292,346
Non-current borrowings repayable after five years (Eurobond)	3,276,643	3,249,472
Total Non-current borrowings	<u>3,568,890</u>	<u>3,541,818</u>
Total Loans and borrowings	<u><u>3,568,890</u></u>	<u><u>3,541,818</u></u>

The total outstanding principal of borrowings was €3,587.0 million at 31 December 2021 (2020: €3,561.9 million) and has been recorded net of unamortised financing costs of €18.0 million (2020: €20.1 million).

For information and disclosure on the company's exposure to interest rate and liquidity risks see note 10. The following table summarises the terms of the outstanding borrowings as at 31 December:

Facility	Repayable	Interest	2021 €'000	2020 €'000
€300 million 10 year Eurobond	Jan 2024	3.494%	300,000	300,000
€500 million 12 year Eurobond	Jun 2027	2.125%	500,000	500,000
€600 million 15 year Eurobond	Jun 2031	1.875%	600,000	600,000
€500 million 12 year Eurobond	Feb 2029	1.750%	500,000	500,000
€500 million 15 year Eurobond	Nov 2033	2.125%	500,000	500,000
€700 million 11 year Green Bond	Jun 2030	1.125%	700,000	700,000
€100 million 25 year Eurobond	Apr 2044	2.000%	100,000	100,000
Stg£325 million 15 year Eurobond	July 2035	1.875%	<u>387,022</u>	<u>361,878</u>
			3,587,022	3,561,878
Deferred financing costs and unamortised debt issuance discount			<u>(18,013)</u>	<u>(20,060)</u>
			<u><u>3,568,890</u></u>	<u><u>3,541,818</u></u>

ESB was rated A- by Standard & Poor's in July 2021 and A3 (equivalent to A-) by Moody's in May 2021. The outlook of both of the agencies was 'stable'.

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

9 Loans and borrowings *(continued)*

Reconciliation of external borrowings

	Balance at 1 January € '000	Cash flows € '000	Effects of foreign exchange € '000	Other € '000	Balance at 31 December € '000
2021					
Debt Facility					
ESB Eurobonds	3,541,818	-	25,144	1,928	3,568,890
Total	3,541,818	-	25,144	1,928	3,568,890
	Balance at 1 January € '000	Cash flows € '000	Effects of foreign exchange € '000	Other € '000	Balance at 31 December € '000
2020					
Debt Facility					
ESB Eurobonds	3,295,174	265,071	(21,006)	2,579	3,541,818
Total	3,295,174	265,071	(21,006)	2,579	3,541,818

10 Financial instruments and risk management

(a) Interest rate risk

In managing interest rate risk, ESB Finance DAC aims to reduce the impact of short-term fluctuations on the company's earnings. As the principal activity of the company is the provision of funding to entities in the ESB Group, interest rate risks is principally managed by matching the interest rates and terms of borrowings, secured externally, with the interest rates and terms on amounts advanced to such undertakings. Details of Loans and Borrowing are set out in Note 9.

(b) Foreign currency risk

Foreign currency exposures arise mainly on the translation of foreign currency denominated liabilities and receivable balances into euro, which is the company's functional currency. As the principal activity of the company is the provision of funding to entities in the ESB Group, such exposures are principally managed by matching the currency of borrowings, secured externally, with the currency of amounts advanced to such undertakings.

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

10 Financial instruments and risk management *(continued)*

(b) Foreign currency risk *(continued)*

At 31 December 2021, ESB Finance DAC's debt portfolio (including accrued interest) amounted to €3.6bn (2020: €3.5bn). The net currency exposure at 31 December was as follows:

	Denominated in Euro 2021 €'000	Denominated in Sterling 2021 €'000	Total 2021 €'000
Included in accrued interest and other payables	37,526	3,241	40,767
Included in amounts owed to parent undertaking	-	15,320	15,320
Included in borrowings	3,187,124	381,766	3,568,890
Total liabilities	3,224,650	400,327	3,624,977
Amounts included in current and non-current assets	(3,225,950)	(391,071)	(3,617,021)
Net liability exposure	(1,300)	9,256	7,956
	Denominated in Euro 2020 €'000	Denominated in Sterling 2020 €'000	Total 2020 €'000
Included in accrued interest and other payables	37,330	2,697	40,027
Included in amounts owed to parent undertaking	12	14,325	14,337
Included in borrowings	3,185,544	356,274	3,541,818
Total liabilities	3,222,886	373,296	3,596,182
Amounts included in current and non-current assets	(3,223,820)	(365,022)	(3,588,842)
Net (asset)/liability exposure	(934)	8,274	7,340

A 10% strengthening of the euro against sterling would have increased profit before taxation as outlined below. A 10% weakening of the euro would have decreased profit before taxation in the opposite manner as outlined below.

	Equity /Profit before taxation Gain / (loss) 2021 €'000	Equity/Profit before taxation Gain / (loss) 2020 €'000
10% strengthening	841	752
10% weakening	(1,028)	(919)

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

10 Financial instruments and risk management *(continued)*

(c) Credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. At year end, the carrying amount of financial assets is as follows:

	2021	2020
	€'000	€'000
Loans to parent undertaking	3,224,894	3,223,059
Loans to fellow group undertaking	385,057	359,487
Cash and cash equivalents	7,070	6,296
	3,617,021	3,588,842
	3,617,021	3,588,842

Credit risk arises from cash and cash equivalents and loans to parent and fellow group undertakings. Other than cash and cash equivalents, all of the exposures are to related entities.

As at 31 December 2021 and 2020, no amounts were overdue or impaired.

(d) Liquidity risk

The principal liquidity risks faced by the company relate to (i) the inability of ESB Group companies to repay loans and borrowings to ESB Finance DAC when the matching external borrowings fall due, and (ii) the inability to refinance external borrowing facilities to meet the cash flow requirements of the parent and fellow group undertakings which ESB Finance DAC has been established to finance. In order to manage this risk, the company monitors financial markets in order to identify the optimum time to pre-fund any requirements arising from maturing debt and capital expenditure of these ESB Group companies.

The following table sets out the contractual maturities of financial liabilities of a similar nature, including the interest payments associated with borrowings.

	Carrying Amount €'000	Contractual cash outflows €'000	Within 1 year €'000	1 – 2 years €'000	2 – 5 years €'000	After 5 years €'000
31 December 2021						
Borrowings	3,584,210	4,185,246	43,417	68,864	485,627	3,587,338
Interest payable	40,767	40,767	40,767	-	-	-
	Carrying Amount €'000	Contractual cash outflows €'000	Within 1 year €'000	1 – 2 years €'000	2 – 5 years €'000	After 5 years €'000
31 December 2020						
Borrowings	3,556,155	4,221,636	42,694	68,392	494,695	3,615,855
Interest payable	40,027	40,027	40,027	-	-	-

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

10 Financial instruments and risk management *(continued)*

(e) Fair values

Fair value 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 fair values of financial assets and liabilities carried at amortised cost, together with their carrying amounts shown in the statement of financial position are set out in the table below. The fair value of loans and borrowings (receivable and payable) has been calculated by reference to publicly available market values for ESB's debt.

	2021		2020	
	Carrying value € '000	Fair value € '000	Carrying value € '000	Fair value € '000
Long term borrowings	3,568,890	3,885,690	3,541,818	4,068,742
Amounts owed to parent undertaking	15,320	15,320	14,337	14,337
Trade and other payables	40,767	40,767	40,027	40,027
Loans to related party undertakings				
- current	(40,972)	(40,972)	(40,482)	(40,482)
- non current	(3,568,979)	(3,885,690)	(3,542,064)	(4,068,742)

ESB Finance DAC Eurobonds (Long term borrowings) are regarded Level 1 fair values. The fair value of Eurobonds is derived from observation of the most recent traded values for these bonds in liquid markets at the statement of financial position date.

11 Capital and reserves

During 2010, the company issued one ordinary share for consideration of €1. This share was allotted to ESB.

The company considers its capital to comprise issued share capital and retained earnings. Movements in share capital and retained earnings during the year are disclosed in the statement of changes in shareholder's equity in these financial statements. The company relies on the support of its parent entity to continue as a going concern as noted in the statement of accounting policies.

12 Guarantees, commitments and contingencies

ESB Finance DAC has provided guarantees in respect of debt issued by ESB Group:

- Private placement senior unsecured notes issued in December 2003 in US dollars and sterling. At 31 December 2021 outstanding amounts comprise US\$273.5 million, maturing on 15 December 2023, and Stg£10 million, maturing on 15 December 2023.
- Private placement senior unsecured notes issued in June 2009 in US dollars, sterling and euro. Stg£50 million matured on 15 June 2021.

At 31 December 2021 a €1.4 billion Sustainability linked Revolving Credit Facility with a group of fourteen international banks to draw down bank finance as required up to February 2027 was available to the ESB Group. ESB Finance DAC was a co-guarantor under this facility. €Nil of this facility was drawdown at 31 December 2021 (2020: €nil).

ESB Finance Designated Activity Company

Notes to the financial statements (*continued*)

13 Related parties

ESB Finance DAC is a wholly owned subsidiary of ESB, a statutory corporation established under the Electricity (Supply) Act 1927 and domiciled in Ireland. The largest and smallest group into which the results of the company are consolidated is that headed by ESB and the consolidated financial statements of ESB are available to the public and may be obtained from ESB Head Office, 27 Fitzwilliam Street Lower, Dublin 2, Ireland, D02 KT92.

Transactions with parent undertaking

Details are set out in notes 2, 7 and 8.

Transactions with fellow group subsidiary undertaking

Details are set out in notes 2 and 7.

14 Segment information

The company is managed as a single business unit engaged in the issuance of loan notes and the investment of the net proceeds of the issue of these notes. Accordingly, the company operates in one reportable segment, and the directors assess the performance of the business from this perspective, based on the overall profit after tax of the company for the year.

15 Events since the end of the financial year

On 19 January 2022, ESB Finance DAC successfully raised a €500 million Green Bond, with a fixed coupon of 1.00% maturing on 19 July 2034.

The Ukraine crisis has created significant uncertainty in global markets, in particular, increased volatility in energy and commodity markets, increases in price inflation and potential supply disruption which may have direct and indirect impacts on individuals and businesses. The directors will continue to monitor this evolving situation and consider any impacts on the Company. The directors do not believe that the crisis will have a material impact on the Company.

There have been no other significant events since the balance sheet date that the directors believe require adjustment to, or disclosure in the financial statements.

16 Approval of financial statements

The Board of Directors approved the financial statements on 18 May 2022.

