ESB Finance Designated Activity Company

Annual report and
financial statements

Year ended 31 December 2018

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 D. Cowler P. Fenlon S. McCarthy G. Tallon
Secretary	J. Redmond
Auditor	PricewaterhouseCoopers Chartered Accountants and Statutory Audit Firm One Spencer Dock North Wall Quay Dublin 1 Ireland
Registered office	Two Gateway East Wall Road Dublin 3
Registered Number	480184

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 2018.

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 €3bn EMTN Programme, which is fully, irrevocably and unconditionally guaranteed by ESB. At 31 December 2018, the company holds external finance as set out in Note 9 to the financial statements. At 31 December 2018, ESB was rated A- from Standard & Poor's, A3 from Moody's (equivalent to A- with Standard & Poor's) and BBB+ from Fitch. The outlook on each of the three agencies at year end was 'stable'.

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 to the financial statements.

Results and dividends

In the year to 31 December 2018, the company recorded income of €75.6m (2017: €92.7m) and a profit before tax of €0.7m (2017: profit of €1.2m). The directors are satisfied with the company's performance during the year. The directors do not recommend the payment of a dividend (2017: €nil).

Directors, secretary and their interests

The directors who served during the year were:

E. Byrne (appointed 1 December 2018)
D. Cowler
P. Fenlon (appointed 3 May 2018)
G. Heavey (resigned 1 December 2018)
S. McCarthy (appointed 3 May 2018)
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 2018 or 31 December 2017.

Political donations

The company made no political donations during the year (2017: €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

The principal risks and uncertainties facing the company include events or occurrences which would result in the requirement to repay debt. The company considers the possibility of such a situation arising to be remote owing to continued parent entity support. Further 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 17 April 2019, ESB Finance DAC issued a 25 year Eurobond with a nominal amount of €100 million with a fixed coupon of 2%.

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 of 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 Two Gateway, East Wall Road, Dublin 3.

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)*

Internal control and risk management systems relating to the financial reporting process *(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, as far as possible 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 confirms that it has decided not to establish an audit committee. Having considered the requirements of Section 167 the Board notes that (i) the terms of reference and the role and powers of the audit committee of the Board 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 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 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

The auditors, PricewaterhouseCoopers have indicated their willingness to continue in office in accordance with section 383 (2) of the Companies Act 2014.

On behalf of the board

E. Byrne *Edmund Byrne*	G. Tallon *G. Tallon*	
Director	*Director*	*2nd May 2019*

ESB Finance Designated Activity Company

Statement of directors' responsibilities
For the Year Ended 31 December 2018

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

E. Byrne
Director

G. Tallon
Director

2nd May 2019

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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 2018 and of its profit 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 2018;
- 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

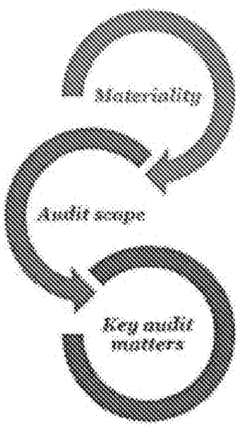
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 2018 to 31 December 2018.

Our audit approach

Overview



Materiality

- Overall materiality: €29.6 million (2017: €24.0 million) based on 1% of total assets.
- Specific materiality: €0.8 million (2017: €0.9 million) for the Statement of comprehensive income items based on 1% of interest expense.

Audit scope

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

Key audit matters

- Financial assets.

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*
Financial assets Refer to Note 1 (*Accounting policies*), Note 2 (*Net Finance Income*), Note 7 (*Loans to related party undertakings*) and Note 10 (Financial instruments and risk management). 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.	We confirmed the financial assets within the company's immediate parent and fellow group undertaking. We tested the valuation of the financial assets 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. 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 as outlined in Note 10 to the financial statements. The results of our testing were satisfactory.

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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:

Overall materiality	€29.6 million (2017: €23.9 million)
How we determined it	1% of total assets
Rationale for benchmark applied	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 (2017: €0.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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.

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 2018 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.

Corporate governance statement

- 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 Corporate Governance Statement, 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 Corporate Governance Statement.

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 set out on page 5, 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.

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.

Companies Act 2014 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 2 years, covering the years ended 31 December 2017 to 31 December 2018.

Mary Cleary

Mary Cleary
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
2 May 2019

ESB Finance Designated Activity Company

Statement of comprehensive income
for the year ended 31 December 2018

	Note	**2018 €'000**	2017 €'000
Finance income	*2*	**75,563**	92,773
Finance expense	*2*	**(74,782)**	(91,989)
Net finance income		**781**	784
Other (expenses)/income (net)	*3*	**(83)**	419
Profit before taxation		**698**	1,203
Income tax expense	*5*	**(175)**	(301)
Profit for the year		**523**	902
Other comprehensive income		**-**	-
Total comprehensive income attributable to equity shareholders		**523**	902

The notes on pages 15 to 32 form and integral part of the financial statements.

ESB Finance Designated Activity Company

Statement of financial position
as at 31 December 2018

	Note	2018 €'000	2017 €'000
Non-current assets			
Deferred tax asset	6	**2,015**	2,190
Derivative financial instruments	10	**4,185**	8,440
Loans to related party undertakings	7	**2,685,743**	2,335,322
Total non-current assets		**2,691,943**	2,345,952
Current assets			
Cash and cash equivalents		**5,491**	4,474
Loans to related party undertakings	7	**264,603**	48,898
Total current assets		**270,094**	53,372
Total assets		**2,962,037**	2,399,324
Equity			
Share capital	11	-	-
Retained losses		**(6,058)**	(6,581)
Shareholder's deficit		**(6,058)**	(6,581)
Non-current liabilities			
Loans and borrowings	9	**2,685,141**	2,334,200
Derivative financial instruments	10	**4,185**	8,440
Total non-current liabilities		**2,689,326**	2,342,640
Current liabilities			
Loans and borrowings	9	**214,210**	-
Loans from related party undertakings	8	**15,310**	15,509
Trade and other payables	8	**49,249**	47,756
Total current liabilities		**278,769**	63,265
Total liabilities		**2,968,095**	2,405,905
Total equity and liabilities		**2,962,037**	2,399,324

The notes on pages 15 to 32 form and integral part of the financial statements.

On behalf of the board

E. Byrne
Director

G. Tallon
Director

2nd May 2019

ESB Finance Designated Activity Company

Statement of changes in shareholder's equity
for the year end 31 December 2018

	Share Capital €'000	Retained losses €'000	Total €'000
At 1 January 2017	-	(7,483)	(7,483)
Profit for the year	-	902	902
At 31 December 2017	-	(6,581)	(6,581)
At 1 January 2018	-	**(6,581)**	**(6,581)**
Profit for the year	-	**523**	**523**
At 31 December 2018	-	**(6,058)**	**(6,058)**

The notes on pages 15 to 32 form and integral part of the financial statements.

ESB Finance Designated Activity Company

Statement of cash flows
for the year ended 31 December 2018

	2018 €'000	2017 €'000
Cash flows from operating activities		
Profit after taxation	**523**	902
Adjust for:		
Foreign currency losses/(gains)	**83**	(428)
Interest income	**(75,563)**	(92,773)
Interest expense	**74,782**	91,989
Income tax charge	**175**	301
Operating cash outflow before changes in working capital	**-**	(9)
Increase in loans and other receivables	**(493,500)**	(188,894)
Increase in loans and other payables	**500,000**	192,140
Debt issue cost paid	**(6,500)**	-
Interest received	**77,290**	93,752
Interest paid	**(76,273)**	(92,515)
Net cash inflow from operating activities	**1,017**	4,483
Net increase in cash and cash equivalents	**1,017**	4,474
Cash and cash equivalents at 1 January	**4,474**	-
Cash and cash equivalents at 31 December	**5,491**	4,474

The notes on pages 15 to 32 form and integral part of the financial statements.

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 Two Gateway, East Wall Road, Dublin 3.

The following accounting policies have been applied consistently, except for the adoption of the new accounting standards as set out below, in dealing with items which are considered material in relation to the company's financial statements.

Statement of compliance

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 2018.

Basis of preparation

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.

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 2018, the company had a shareholders deficit of €6.1m (2017: €6.6m).

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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

New Standards and Interpretations

The following standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), and endorsed by the EU, are effective for the first time in the current financial year and have been adopted with a significant impact on the company's results for the period or financial position:

New/Revised International Financial Reporting Standards	***Effective Date***
IFRS 9: Financial Instruments	*1 January 2018*

Impact on the financial statements on the adoption of IFRS 9
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 financial instrument by re-calculating the effective interest rate. Under IFRS 9 for any future financial instrument modification transactions a gain or loss is required to be recognised at the date of modification. IFRS 9 made it compulsory to apply the standard retrospectively on previous financial instrument management transactions on 1 January 2018 with no requirement to restate prior period balances.

ESB Finance DAC has calculated a reduction in the intercompany loan with the parent entity and an increase to external borrowings of €71.8 million on 1 January 2018. Both assets and liabilities are impacted by equal amounts so there is no net impact on tax or on reserves in ESB Finance DAC.

The following tables summarise the impact, of transition to IFRS 9 on the opening balance of assets and liabilities.

Balance sheet extract	**Original carrying amount 31 December 2017**	**IFRS 9 transition impact**	**New carrying amount 1 January 2018**
	€'000	**€'000**	**€'000**
Non-current asset			
Loans to related party undertakings	2,335,322	71,780	2,407,102
Non-current liabilities			
Loans and borrowings	2,334,200	71,780	2,405,980

1 Accounting policies *(continued)*

New Standards and Interpretations *(continued)*

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 in this note. 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 company's financial statements:

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 is 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 company's financial assets as at 1 January 2018.

Financial assets	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39 31 December 2017 €'000**	**New carrying amount under IFRS 9 1 January 2018 €'000**
Derivative financial instruments	Cash flow hedges	Financial assets at FVOCI	8,440	8,440
Loans to related party undertakings	Amortised cost	Amortised cost	2,384,220	2,456,000
Cash and cash equivalents	Amortised cost	Amortised cost	4,474	4,474
Total			**2,397,134**	**2,468,914**

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.

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

New Standards and Interpretations *(continued)*

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 company's assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, there is no impairment loss identified.

IFRS 9 Financial Instruments: Accounting policies applied to Financial Instruments from 1 January 2018

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

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.

Impairment
From 1 January 2018, 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 losses to be recognised on these receivables.

Cash and cash equivalents
Cash and cash equivalents include cash in hand. Cash and cash equivalents for the purpose of cash flow include bank overdrafts payable on demand. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

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 Accounting policies *(continued)*

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.

Derivative financial instruments and other hedging instruments
The company uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational activities. The derivatives used are interest rate swaps.

The designation of the hedge relationship is established at the inception of the contract. 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.

All fair value movements on derivatives that are not part of hedging relationships are recorded through the income statement.

Accounting policies applied to Financial Instruments pre 1 January 2018 (IAS 39)

Financial instruments
The company uses derivative financial instruments to hedge the exposure to interest rate risk in ESB Group. Such derivative financial instruments are recognised at fair value and are re-measured to fair value at the reporting date, with fair value changes recorded through profit or loss.

Non-derivative financial instruments comprise loans and receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

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.

1 Accounting policies *(continued)*

Loans to and 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. 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.

Loans to and receivables from group companies and loans from group companies *(continued)*

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.

Impairment

An impairment loss on financial assets / loans and receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the impairment loss is recognised in profit or loss. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Loans and borrowings

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

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.

1 Accounting policies *(continued)*

Standards, Interpretations and Amendments to Published Standards that are not yet effective.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, and have not been applied in preparing these financial statements. These items are not expected to have a material impact on the company.

Income tax

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, based on tax rates that are expected to be applied using rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

	2018	2017
	€'000	€'000
Finance income		
Interest on loans to parent undertaking	**54,335**	71,076
Interest on loans to group undertaking	**21,228**	21,529
Net mark to market on interest rate swap	**-**	168
	75,563	92,773
Finance expense		
Interest on amounts owed to parent undertaking	**(139)**	(141)
Interest payable on Eurobond	**(74,565)**	(91,848)
Net mark to market on interest rate swap	**(78)**	-
	(74,782)	(91,989)
Net finance income	**781**	784

The interest rate swaps do not qualify for hedge accounting under IFRS 9 and accordingly fair value movements are recognised in the statement of comprehensive income.

3 Other (expenses)/income

	2018	2017
	€'000	€'000
Audit fees	**-**	(9)
Foreign currency (losses)/gains	**(83)**	428
Other (expenses)/ income	**(83)**	419

4 Statutory and other information

Profit before taxation is stated after charging:

	2018	2017
	€'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 (2017: €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 profit on ordinary activities

	2018	2017
	€'000	€'000
Current tax expense	-	-
Deferred tax charge – current year	(175)	(301)
Total income tax charge	**(175)**	(301)

Reconciliation of effective tax rate:

	2018	2017
Profit before taxation	**698**	1,203
Tax charge at 25%	(175)	(301)
Total tax charge	**(175)**	(301)

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

	2018	2017
	€'000	€'000
Deferred tax	**2,015**	2,190
	2,015	2,190

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

	Balance at 31 December 2017 €'000	**Recognised in income €'000**	**Balance at 31 December 2018 €'000**
Tax losses carried forward	2,190	(175)	2,015
Total deferred tax assets	**2,190**	**(175)**	**2,015**

The deferred tax asset of €2.015m at 31 December 2018 relates to losses forward of €8.07m 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 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

	2018	2017
	€'000	€'000
Amounts owed from parent undertaking	**247,213**	31,365
Amounts owed from fellow group undertaking	**17,390**	17,533
Total current amounts receivable	**264,603**	48,898
Amounts owed from parent undertaking	**2,378,095**	2,025,154
Amounts owed from fellow group undertaking	**307,648**	310,168
Total non-current amounts receivable	**2,685,743**	2,335,322
Total loans to related party undertakings	**2,950,346**	2,384,220

At 31 December 2018, the company had balances (including interest accrued) receivable of €2,950.3 million (2017: €2,384.2 million) from related party undertakings. These receivables relate to loans to related parties.

At 31 December 2018 there was €33.0m (2017: €31.4m) interest accrued on amounts owed from parent undertaking and €17.4m (2017: €17.5m) interest accrued on amounts owed from the fellow group undertaking.

All of the loans are performing in accordance with their terms and conditions and are expected to be recovered. None of the loans were impaired at 31 December 2018.

8 Trade and other payables

	2018	2017
	€'000	€'000
Accrued interest	**49,249**	47,756
Amounts owed to parent undertaking	**15,310**	15,509
	64,559	63,265

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

9 Loans and borrowings

	2018	2017
	€'000	€'000
Current borrowings repayable within 1 year	**214,210**	-
Non-current borrowings repayable between one and five years (Eurobond)	**306,905**	497,066
Non-current borrowings repayable after five years (Eurobond)	**2,378,236**	1,837,134
Total Non-current borrowings	**2,685,141**	2,334,200
Total Loans and borrowings	**2,899,351**	2,334,200

The total outstanding principal of borrowings was €2,922.7m (2017: €2,425.2m) at 31 December 2018 and has been recorded net of unamortised financing costs of €23.3m (2017: €91.0m)

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**	**2018**	2017
			€'000	€'000
Stg£275m 10 year Eurobond	Mar 2020	6.500%	**307,434**	309,953
€215.2m 7 year Eurobond	Nov 2019	4.375%	**215,217**	215,217
€300m 10 year Eurobond	Jan 2024	3.494%	**300,000**	300,000
€500m 12 year Eurobond	Jun 2027	2.125%	**500,000**	500,000
€600m 15 year Eurobond	Jun 2031	1.875%	**600,000**	600,000
€500m 12 year Eurobond	Feb 2029	1.750%	**500,000**	500,000
€500m 15 year Eurobond	Nov 2033	2.125%	**500,000**	-
			2,922,651	2,425,170
Deferred financing costs and unamortised debt issuance discount			**(23,300)**	(90,970)
			2,899,351	2,334,200

On 5 November 2018, the company issued a €500m 15 year Eurobond with a fixed coupon of 2.125% under the ESB and the ESB Finance DAC €3bn EMTN Programme, which is fully, irrevocably and unconditionally guaranteed by ESB.

At 31 December 2018, ESB was rated A- from Standard & Poor's, A3 from Moody's (equivalent to A- with Standard & Poor's) and BBB+ from Fitch. The outlook on each of the three agencies at year end was 'stable'.

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

9 Loans and borrowings *(continued)*

Reconciliation of external borrowings

2018 **Debt Facility**	Balance at 1 January € '000	Cash flows € '000	Effects of foreign exchange € '000	Other € '000	**Balance at 31 December** **€ '000**
ESB Eurobonds	2,334,200	500,000	(2,529)	67,680	**2,899,351**
Total	2,334,200	500,000	(2,529)	67,680	**2,899,351**

2017 **Debt Facility**	Balance at 1 January € '000	Cash flows € '000	Effects of foreign exchange € '000	Other € '000	**Balance at 31 December** **€ '000**
ESB Eurobonds	2,145,288	192,140	(11,233)	8,005	**2,334,200**
Total	2,145,288	192,140	(11,233)	8,005	**2,334,200**

10 Financial instruments and risk management

(a) Interest rate risk

In March 2010, the company issued a Stg£275m 10 year Eurobond, with a fixed coupon of 6.5%, under the ESB and ESB Finance DAC €3bn Euro Medium Term Note (EMTN) Programme, which is fully, irrevocably and unconditionally guaranteed by ESB. The company has lent the proceeds from the issuance of the Eurobond to ESBNI Limited (a fellow group subsidiary) at a margin of 0.35%, which the directors believe to be a market rate of return. This loan to ESBNI Limited is repayable in 2020, with matching terms to that of the external Eurobond loan note.

In September 2012, ESB Finance DAC issued a €600m 5 year Eurobond with a fixed coupon of 6.25%, €300m of which was successfully bought back in June 2015 and the remaining €300m was repaid in September 2017.

In November 2012, ESB Finance DAC issued a €500m 7 year Eurobond with a fixed coupon of 4.375%, €285m of which was successfully bought back in June 2016.

In November 2013, ESB Finance DAC issued a €300m 10 year Eurobond with a fixed coupon of 3.494%.

In June 2015, ESB Finance DAC issued a €500m 12 year Eurobond with a fixed coupon of 2.125%.

In June 2016, ESB Finance DAC issued a €600m 15 year Eurobond with a fixed coupon of 1.875%.

On 7 February 2017, the company issued a €500m 12 year Eurobond with a fixed coupon of 1.75%.

On 5 November 2018, ESB Finance DAC issued a €500m 15 year Eurobond with a fixed coupon of 2.125%.

10 Financial instruments and risk management *(continued)*

(a) Interest rate risk *(continued)*

In managing interest rate risk, ESB Finance DAC aims to reduce the impact of short term fluctuations on the company's earnings. In December 2012, ESB Finance DAC entered into fixed to floating interest rate swaps with a notional amount of Stg£275m and a settlement date of March 2020 as part of the wider ESB Group hedging position. ESB Finance DAC also immediately entered back to back interest rate swaps with ESBNI Limited to effectively eliminate the company's interest rate exposure on these derivatives. There is no impact on profits due to the interest rate swaps in place.

(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.

At 31 December 2018, ESB Finance DAC's debt portfolio (including accrued interest) amounted to €2.9bn. The net currency exposure at 31 December was as follows:

	Denominated in Euro 2018 €'000	**Denominated in Sterling 2018 €'000**	**Total 2018 €'000**
Included in accrued interest and other payables	**32,857**	**16,392**	**49,249**
Included in amounts owed to parent undertaking	**927**	**14,383**	**15,310**
Included in borrowings	**2,592,446**	**306,905**	**2,899,351**
Total liabilities	**2,626,230**	**337,680**	**2,963,910**
Amounts included in current and non-current assets	**(2,626,411)**	**(329,426)**	**(2,955,837)**
Net (asset) / liability exposure	**(181)**	**8,254**	**8,073**

Notes to the financial statements *(continued)*

10 Financial instruments and risk management *(continued)*

(b) Foreign currency risk *(continued)*

	Denominated in Euro 2017 €'000	Denominated in Sterling 2017 €'000	Total 2017 €'000
Included in accrued interest and other payables	31,227	16,529	47,756
Included in amounts owed to parent undertaking	927	14,582	15,509
Included in borrowings	2,025,283	308,917	2,334,200
Total liabilities	2,057,437	340,028	2,397,465
Amounts included in current and non-current assets	(2,057,410)	(331,284)	(2,388,694)
Net liability exposure	27	8,744	8,771

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	Equity/Profit before taxation
	Gain / (loss)	Gain / (loss)
	2018	2017
	€'000	€'000
10% strengthening	**750**	795
10% weakening	**(917)**	(972)

(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:

	2018 €'000	2017 €'000
Loans to parent undertaking	**2,625,308**	2,056,519
Loans to fellow group undertaking	**325,038**	327,701
Derivative financial instruments	**4,185**	8,440
Cash and cash equivalents	**5,491**	4,474
	2,960,022	2,397,134

10 Financial instruments and risk management *(continued)*

(c) Credit risk (continued)

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

As at 31 December 2018 and 2017, 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 2018						
Borrowings	**2,914,661**	**3,547,736**	**311,658**	**379,150**	**155,196**	**2,701,732**
Interest payable	**49,249**	**49,249**	**49,249**	-	-	-
Interest rate swaps	**4,185**	**7,864**	**2,794**	**5,070**	-	-

	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 2017						
Borrowings	2,349,709	2,962,076	86,178	285,887	453,421	2,136,589
Interest payable	47,756	47,756	47,756	-	-	-
Interest rate swaps	8,440	11,445	3,101	3,113	5,231	-

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.

	2018		2017	
	Carrying value	**Fair value**	Carrying value	Fair value
	€ '000	**€ '000**	€ '000	€ '000
Short term borrowings	**214,210**	**224,432**	-	-
Long term borrowings	**2,685,141**	**2,814,576**	2,334,200	2,628,072
Amounts owed to parent undertaking	**15,310**	**15,310**	15,509	15,509
Trade and other payables	**49,249**	**49,249**	47,756	47,756
Loans to related party undertakings				
- current	**(264,603)**	**(274,826)**	(48,898)	(48,898)
- non current	**(2,685,743)**	**(2,814,804)**	(2,335,322)	(2,628,315)

ESB Finance DAC Eurobonds (Long term debt) 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.

Fair value – discount rates

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

	2018	2017
	%	%
ESB Eurobonds	**1.58 – 1.69**	1.19 – 1.25

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 company's financial instruments is discounted cash flow analysis, using a zero coupon discount rate and reflecting counterparty credit risk. This method enables the company to discount the cash flows at a rate equal to the prevailing market rate of interest taking into account maturity and credit margin.

ESB Finance Designated Activity Company

Notes to the financial statements *(continued)*

10 Financial instruments and risk management *(continued)*

(e) Fair values *(continued)*

Interest rate swaps

The company has executed interest rate swaps of Stg£275 million (2017: Stg£275 million) in connection with a certain portion of its borrowings.

For interest rate swaps, the fair value takes into account the fixed, floating and market rates prevailing at the balance sheet date. As interest rate swaps are marked to market at 31 December 2018, their carrying value is equal to their fair value.

As the interest rate swaps are back to back with ESBNI Limited, a reduction of €4.5 million (2017: €3.5 million) in both the derivative asset and the derivative liability were recognised. This had no net impact on gains & losses or reserves.

Fair value hierarchy

The table below analyses derivative financial instruments carried at fair value, by valuation method. The level relevant to derivative financial instruments held by the company 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. prices) or indirectly (i.e. derived from prices);

	2018		2017	
	Level 2	**Total**	Level 2	Total
	€ '000	**€ '000**	€ '000	€ '000
Assets				
Interest rate swaps	**4,185**	**4,185**	**8,440**	**8,440**
Liabilities				
Interest rate swaps	**4,185**	**4,185**	**8,440**	**8,440**
Net asset	**-**	**-**	**-**	**-**

Level 2 – The fair value of interest rate swaps is determined using the present value of expected cashflows using constructed zero coupon discount curve. The zero-coupon curve is constructed using the interest yield curve of the relevant currency.

11 Capital and reserves

On incorporation and at 31 December 2018 the authorised share capital comprised 1,000 ordinary shares of €1 each.

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:

a) Private placement senior unsecured notes issued in December 2003 in US dollars and sterling. At 31 December 2018 outstanding amounts comprise US$273.5 million, maturing on dates between 2019 and 2023, and Stg£10 million, maturing in 2023.

b) Private placement senior unsecured notes issued in June 2009 in US dollars, sterling and euro. At 31 December 2018 outstanding amounts comprise US$226 million maturing in 2019, €40 million maturing in 2019 and Stg£50 million maturing in 2021.

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 ESB Group. ESB Finance DAC is a co-guarantor to this facility. €1.37 billion of this facility is undrawn at 31 December 2018.

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 Two Gateway, East Wall Road, Dublin 3, Ireland, D03 A995.

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 17 April 2019, ESB Finance DAC issued a 25 year Eurobond with a nominal amount of €100 million with a fixed coupon of 2%.

16 Approval of financial statements

The board of directors approved the financial statements on 2nd May 2019.