

# ESB Finance Designated Activity Company

Directors' report and  
financial statements

**Year ended 31 December 2017**

*Registered number: 480184*



# ESB Finance Designated Activity Company

## Directors' report and financial statements

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# ESB Finance Designated Activity Company

## Directors and other information

<b>Directors</b>	Deirdre Cowler Pat Fenlon Geraldine Heavey Susan McCarthy Gerry Tallon
<b>Secretary</b>	John Redmond
<b>Auditor</b>	PricewaterhouseCoopers Chartered Accountants and Statutory Audit Firm One Spencer Dock North Wall Quay Dublin 1 Ireland
<b>Bankers</b>	Danske Bank International House 3 Harbourmaster Place IFSC Dublin 1
<b>Solicitors</b>	McCann Fitzgerald Riverside One Sir John Rogerson's Quay Dublin 2
<b>Registered office</b>	Two Gateway East Wall Road Dublin 3
<b>Registered Number</b>	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 2017.

### Principal activities

ESB Finance Designated Activity Company (“ESB Finance DAC”) 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 directors have no plans to significantly change the activities and operations of the company in the foreseeable future.

### Review of the business and future developments

ESB Finance DAC (“the company”) was incorporated on 26 January 2010 and holds external finance as follows:

- In March 2010, the company issued a Stg£275m 10 year Eurobond with a fixed coupon of 6.5% under the ESB and the ESB Finance DAC €3bn Euro Medium Term Note (EMTN) Programme, which is fully, irrevocably and unconditionally guaranteed by ESB.
- In September 2012, the company issued a €600m 5 year Eurobond with a fixed coupon of 6.25% under the ESB and the ESB Finance DAC €3bn EMTN Programme, which is fully, irrevocably and unconditionally guaranteed by ESB. On 5 June 2015, the company successfully bought back a €300 million portion of this €600 million Eurobond debt. The remaining €300 million portion of this debt was repaid, on maturity, in September 2017.
- In November 2012, the company issued a €500m 7 year Eurobond with a fixed coupon of 4.375% under the ESB and the ESB Finance DAC €3bn EMTN Programme, which is fully, irrevocably and unconditionally guaranteed by ESB. On 1 June 2016, the company successfully bought back a €285 million portion of this €500 million Eurobond debt.
- In December 2012, the company entered into interest rate swaps on the 2010 Stg£275m 10 year Eurobond which was swapped to a floating coupon for the remaining term of the loan, in order to hedge interest rate risk from an ESB Group perspective. The company then entered back to back interest rate swaps with ESBNI Limited, a group company, on which ESB Finance DAC receives a margin, in order to manage the company’s interest rate risk.
- In November 2013, the company issued a €300m 10 year Eurobond with a fixed coupon of 3.494% under the ESB and the ESB Finance DAC €3bn EMTN Programme, which is fully, irrevocably and unconditionally guaranteed by ESB.
- On 5 June 2015, the company issued a €500m 12 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. Some of the proceeds of the issuance were used by the company as part of a Tender Offer to buy back €300m of the company’s existing bonds, with maturity dates of September 2017, as outlined above.
- On 14 June 2016, the company issued a €600m 15 year Eurobond with a fixed coupon of 1.875% under the ESB and the ESB Finance DAC €3bn EMTN Programme, which is fully, irrevocably and unconditionally guaranteed by ESB. Some of the proceeds of the issuance were used by the company as part of a Tender Offer to buy back €285m of the company’s existing bonds, with maturity dates of November 2019, as outlined above.

# ESB Finance Designated Activity Company

## Directors' report *(continued)*

### **Review of the business and future developments *(continued)***

- On 7 February 2017, the company issued a €500m 12 year Eurobond with a fixed coupon of 1.75% under the ESB and the ESB Finance DAC €3bn EMTN Programme, which is fully, irrevocably and unconditionally guaranteed by ESB.

As at 31 December 2017, ESB has credit ratings of 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 parent undertaking, ESB, has guaranteed the borrowings of the company.

### **Principal risks and uncertainties**

The key 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 its liquidity requirements for the foreseeable future and consequently to fund its contractual commitments in respect of the borrowings as they fall due.

### **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 2017, the company recorded income of €92.7m (2016: €89.6m) and a profit before tax of €1.2m (2016: profit of €3m). The directors are satisfied with the company's performance during the year. The directors do not recommend the payment of a dividend (2016: €nil).

### **Directors and secretary and their interests**

The directors who served during the year were:

D. Cowler  
P. Fenlon  
G. Heavey  
S. McCarthy  
D. Shields  
G. Tallon

In accordance with the Articles of Association, the directors are not required to retire by rotation.

On 16 March 2017, Deirdre Shields resigned as a director of the company.

On 3 May 2017, Pat Fenlon was appointed a director of the company.

On 28 August 2017, Susan McCarthy was appointed a director of the company.

# ESB Finance Designated Activity Company

## Directors' report *(continued)*

### **Directors and secretary and their interests *(continued)***

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 2017 or 31 December 2016.

### **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.

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.

### **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.

### **Political donations**

The company made no political donations during the year (2016: €nil) and complied with the Electoral Act, 1997.

### **Post balance sheet events**

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

### **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).

# ESB Finance Designated Activity Company

Directors' report (*continued*)

## 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 regulation 115 of the European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016 (SI 312 of 2016) and has resolved to avail of the exemption provided for in regulation 115(10)(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 that, in their opinion, are appropriate to the company respecting the compliance by the company with its relevant obligations,
- 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.

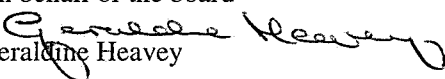
## Financial Risk Management

Further detail in respect of financial risk management and financial instruments is set out in note 10 to the financial statements.


## Auditor

The auditor, PricewaterhouseCoopers were appointed as auditors during the year and will continue in office in accordance with section 383 (2) of the Companies Act 2014.

On behalf of the board

  
Geraldine Heavey

Director

Gerard Tallon 

Director

7<sup>th</sup> June 2018



# ESB Finance Designated Activity Company

## Statement of directors' responsibilities in respect of the directors' report and financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Irish law requires the directors to prepare financial statements for each 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 company law the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company as at the end of the financial year and of its profit or loss for that 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 they have been prepared in accordance with IFRS as adopted by the EU and ensure that they contain the additional information required by the Companies Act 2014; and
- prepare the financial statements on the 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

  
Geraldine Heavey  
Director

  
Gerard Tallon  
Director

7<sup>th</sup> June 2018



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

### **Report on the audit of the financial statements**

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#### **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 2017 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 Directors' report and financial statements, which comprise:

- the Statement of financial position as at 31 December 2017;
- 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 Board of Directors.

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#### **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.

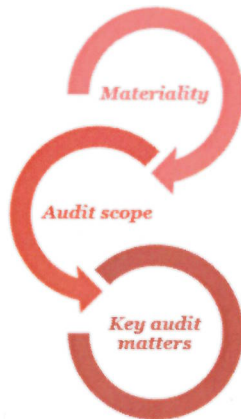
To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

## Our audit approach

Context

Overview



### Materiality

- Overall materiality: €24 million based on 1% of total assets.
- Specific materiality: €0.9 million for Statement of Comprehensive Income items (based on 1% of total interest expense).

### Audit scope

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

### Key audit matters

- Financial assets (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.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Financial assets (loans to related party undertakings)</i>  <i>Refer to Note 1 and Note 7 in the financial statements</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 confirmed the financial assets directly with the amounts recorded by the company's immediate parent and fellow group undertaking.</p> <p>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.</p> <p>We also discussed with management their approach to credit and liquidity risk management including their assessment of the immediate parent's and fellow group undertaking's debt servicing capacity.</p>



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
	Based on our procedures we were satisfied that the carrying value of the loans to related party undertakings is appropriate.

### *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.

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 our audits, we also addressed the risk of management override of controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### *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>	€24 million
<i>How we determined it</i>	1% of total assets
<i>Rationale for benchmark applied</i>	The company is a finance vehicle for the 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 focussed on this area as the amounts receivable from the company's immediate parent and fellow group undertaking represents 99.6% of the company's total assets.

In addition, we set a specific materiality of €0.9 million for profit or loss items (based on 1% of interest expense).

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above €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 Directors' 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 2017 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.

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## **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 in respect of the directors' report and financial statements set out on page 6, 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](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.

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## **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.

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### **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.

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### **Appointment**

We were appointed by the directors on 28 June 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

A handwritten signature in blue ink that reads 'Mary Cleary'.

Mary Cleary  
for and on behalf of PricewaterhouseCoopers  
Chartered Accountants and Statutory Audit Firm  
One Spencer Dock  
North Wall Quay  
Dublin 1  
7 June 2018

## ESB Finance Designated Activity Company

### Statement of comprehensive income for the year ended 31 December 2017

	<i>Note</i>	<b>2017</b> <b>€'000</b>	<b>2016</b> <b>€'000</b>
Finance income	2	<b>92,773</b>	89,572
Finance expense	2	<b>(91,989)</b>	(88,723)
<b>Net finance income</b>		<b>784</b>	849
Other income/(expenses) (net)	3	<b>419</b>	2,151
<b>Profit before taxation</b>		<b>1,203</b>	3,000
Income tax charge	5	<b>(301)</b>	(751)
<b>Profit for the year</b>		<b>902</b>	2,249
Other comprehensive income		-	-
<b>Total comprehensive income attributable to equity shareholders</b>		<b>902</b>	2,249

# ESB Finance Designated Activity Company

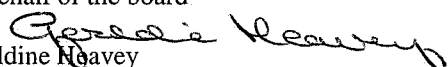
## Statement of financial position

as at 31 December 2017

	<i>Note</i>	<b>2017</b> €'000	2016 €'000
<b>Non-current assets</b>			
Deferred tax asset	6	2,190	2,491
Derivative financial instruments	10	8,440	11,973
Loans to related party undertakings	7	2,335,322	1,852,858
<b>Total non-current assets</b>		<b>2,345,952</b>	1,867,322
<b>Current assets</b>			
Cash and cash equivalents		4,474	-
Loans to related party undertakings	7	48,898	343,827
<b>Total current assets</b>		<b>53,372</b>	343,827
<b>Total assets</b>		<b>2,399,324</b>	2,211,149
<b>Equity</b>			
Share capital	11	-	-
Retained earnings		(6,581)	(7,483)
<b>Shareholder's deficit</b>		<b>(6,581)</b>	(7,483)
<b>Non-current liabilities</b>			
Loans and borrowings	9	2,334,200	1,851,248
Derivative financial instruments	10	8,440	11,973
<b>Total non-current liabilities</b>		<b>2,342,640</b>	1,863,221
<b>Current liabilities</b>			
Loans and borrowings	9	-	294,040
Loans from related party undertakings	8	15,509	15,027
Trade and other payables	8	47,756	46,344
<b>Total current liabilities</b>		<b>63,265</b>	355,411
<b>Total liabilities</b>		<b>2,405,905</b>	2,218,632
<b>Total equity and liabilities</b>		<b>2,399,324</b>	2,211,149

On behalf of the board

Geraldine Heavey  
Director



Gerard Tallon  
Director



7<sup>th</sup> June 2018



# ESB Finance Designated Activity Company

## Statement of changes in shareholder's equity *for the year end 31 December 2017*

	<b>Share Capital €'000</b>	<b>Retained earnings €'000</b>	<b>Total €'000</b>
At 1 January 2016	-	(9,732)	(9,732)
Profit for the year	-	2,249	2,249
At 31 December 2016	-	(7,483)	(7,483)
At 1 January 2017	-	(7,483)	(7,483)
Profit for the year	-	902	902
At 31 December 2017	-	(6,581)	(6,581)

# ESB Finance Designated Activity Company

## Statement of cash flows

for the year ended 31 December 2017

	2017	2016
	€'000	€'000
<b>Cash flows from operating activities</b>		
Profit after taxation	902	2,249
<i>Adjust for:</i>		
Foreign currency gains	(428)	(2,156)
Interest income	(92,773)	(89,572)
Interest expense	91,989	88,723
Income tax charge	301	751
<b>Operating cash outflow before changes in working capital</b>	<b>(9)</b>	<b>(5)</b>
Increase in loans and other receivables	(188,894)	(262,570)
Increase in loans and other payables	192,140	261,133
Interest received	93,752	81,246
Interest paid	(92,515)	(79,804)
<b>Net cash inflow from operating activities</b>	<b>4,483</b>	<b>5</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,474</b>	<b>-</b>
<b>Cash and cash equivalents at 1 January</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at 31 December</b>	<b>4,474</b>	<b>-</b>

# ESB Finance Designated Activity Company

## Notes to the financial statements

### 1 Accounting policies

ESB Finance DAC is a company domiciled in Ireland and a wholly owned subsidiary of the Electricity Supply Board (“ESB” or “parent entity”).

The following accounting policies have been applied consistently 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 2017.

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 no significant impact on the company’s results for the period or financial position:

<i>New/Revised International Financial Reporting Standards</i>	<i>Effective Date</i>
<i>Amendments to IFRS Disclosure Initiative (January 2016)</i>	<i>1 January 2017</i>
<i>Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses</i>	<i>1 January 2017</i>

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements. The item that may have relevance to the company is as follows:

<i>New/Revised International Financial Reporting Standards</i>	<i>Effective Date<sup>1</sup></i>
<i>IFRS 9: Financial Instruments (July 2014)</i>	<i>1 January 2018</i>

Our initial assessment of the impact of IFRS9 is that the adoption of this new Standard, due to the changes to the treatment of liability management transactions, will have a material impact on the ESB Finance DAC’s financial statements as follows:

ESB Finance DAC expects to adopt IFRS 9 by applying the retrospective application outlined by the standard for any previous liability management transactions. ESB Finance DAC refinanced bonds worth €500.0 million and €600.0 million in 2015 and 2016 respectively and these transactions will be subject to retrospective adjustment. ESB Finance DAC has calculated a reduction to the opening reserves and an increase to external borrowings on 1 January 2018 of €72.0 million.

The new Standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of ESB Finance DAC’s disclosures about its financial instruments particularly in the first year of adoption of the new Standard.

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<sup>1</sup> The effective dates are these applying to EU endorsed IFRS if later than the IASB effective dates and relate to periods beginning on or after those dates detailed above.

# ESB Finance Designated Activity Company

## Notes to the financial statements (*continued*)

### 1 Accounting policies (*continued*)

#### **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 could 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 2017, the company had a shareholders deficit of €6.6m (2016: €7.5m).

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.

#### **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.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs, except as described on the next page.

Subsequent to initial recognition non-derivative financial instruments are measured as described on the next page.

# ESB Finance Designated Activity Company

## Notes to the financial statements (*continued*)

### 1 Accounting policies (*continued*)

#### **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 balance sheet.

#### **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.

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.

# ESB Finance Designated Activity Company

## Notes to the financial statements (*continued*)

### 1 Accounting policies (*continued*)

#### **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

	2017	2016
	€'000	€'000
<b>Finance income</b>		
Interest on loans to parent undertaking	71,076	69,245
Interest on loans to group undertaking	21,529	20,215
Net mark to market on interest rate swap	168	112
	<u>92,773</u>	<u>89,572</u>
<b>Finance expense</b>		
Interest on bank borrowings	(141)	(85)
Interest payable on Eurobond	(91,848)	(88,638)
	<u>(91,989)</u>	<u>(88,723)</u>
<b>Net finance income</b>	<u>784</u>	<u>849</u>

The interest rate swaps do not qualify for hedge accounting under IAS 39 and accordingly fair value movements are recognised in the statement of comprehensive income.

### 3 Other income/(expenses)

	2017	2016
	€'000	€'000
Audit fees	(9)	(5)
Foreign currency gains	428	2,156
<b>Other income</b>	<u>419</u>	<u>2,151</u>

### 4 Statutory and other information

Profit before taxation is stated after charging:

	2017	2016
	€'000	€'000
Auditor's remuneration, including expenses	9	5
Directors' emoluments	-	-
	<u>-</u>	<u>-</u>

The company had no directly hired employees during the year and hence incurred no direct labour costs (2016: €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

	2017 €'000	2016 €'000
Current tax expense	-	-
Deferred tax charge	(301)	(751)
<b>Total income tax charge</b>	<b>(301)</b>	<b>(751)</b>
<b>Reconciliation of effective tax rate:</b>		
Profit before taxation	<b>1,203</b>	3,000
Tax charge at 25%	<b>(301)</b>	(751)
<b>Total tax charge</b>	<b>(301)</b>	<b>(751)</b>

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

	2017 €'000	2016 €'000
Deferred tax	<b>2,190</b>	2,491
	<b>2,190</b>	2,491

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

	Balance at 31 December 2016 €'000	Recognised in income €'000	Balance at 31 December 2017 €'000
Tax losses carried forward	2,491	(301)	2,190
<b>Total deferred tax assets</b>	<b>2,491</b>	<b>(301)</b>	<b>2,190</b>

The deferred tax asset of €2.190m at 31 December 2017 relates to losses forward of €9m 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

	2017 €'000	2016 €'000
Amounts owed from parent undertaking (note 13)	31,365	325,659
Amounts owed from fellow group undertaking (note 13)	17,533	18,168
<b>Total current amounts receivable</b>	<b>48,898</b>	<b>343,827</b>
Amounts owed from parent undertaking (note 13)	2,025,154	1,531,449
Amounts owed from fellow group undertaking (note 13)	310,168	321,409
<b>Total non-current amounts receivable</b>	<b>2,335,322</b>	<b>1,852,858</b>
<b>Total loans to related party undertakings</b>	<b>2,384,220</b>	<b>2,196,685</b>

At 31 December 2017 there was €31.4m (2016: €31.6m) interest accrued included in amounts owed from parent undertaking and €17.5m (2016: €18.2m) 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 2017.

### 8 Trade and other payables

	2017 €'000	2016 €'000
Accrued interest	47,756	46,344
Amounts owed to parent undertaking (note 13)	15,509	15,027
	<b>63,265</b>	<b>61,371</b>

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

# ESB Finance Designated Activity Company

## Notes to the financial statements (*continued*)

### 9 Loans and borrowings

	<b>2017</b>	2016
	<b>€'000</b>	€'000
Current borrowings repayable within 1 year	-	294,040
Non-current borrowings repayable between one and five years (Eurobond)	<b>497,066</b>	510,977
Non-current borrowings repayable after five years (Eurobond)	<b>1,837,134</b>	1,340,271
Total Non-current borrowings	<b>2,334,200</b>	1,851,248
Total Loans and borrowings	<b>2,334,200</b>	2,145,288

The total outstanding principal of borrowings was €2,425.1m (2016: €2,236.4m) at 31 December 2017 and has been recorded net of unamortised financing costs of €90.9m (2016: €91.1m)

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:

<b>Facility</b>	<b>Repayable</b>	<b>Interest</b>	<b>2017</b>	2016
			<b>€'000</b>	€'000
Stg£275m 10 year Eurobond	Mar 2020	6.500%	<b>309,953</b>	321,187
€300m 5 year Eurobond	Sep 2017	6.250%	-	300,000
€215.2m 7 year Eurobond	Nov 2019	4.375%	<b>215,217</b>	215,217
€300m 10 year Eurobond	Jan 2024	3.494%	<b>300,000</b>	300,000
€500m 12 year Eurobond	Jun 2027	2.125%	<b>500,000</b>	500,000
€600m 15 year Eurobond	Jun 2031	1.875%	<b>600,000</b>	600,000
€500m 12 year Eurobond	Feb 2029	1.750%	<b>500,000</b>	-
Deferred financing costs and unamortised debt issuance discount			<b>(90,970)</b>	(91,116)
			<b>2,334,200</b>	2,145,288

On 7 February 2017, the company issued a €500m 12 year Eurobond with a fixed coupon of 1.75% under the ESB and the ESB Finance DAC €3bn EMTN Programme, which is fully, irrevocably and unconditionally guaranteed by ESB.

On 11 September 2017, the company repaid the remaining €300m of a €600m 12 year Eurobond.

# ESB Finance Designated Activity Company

## Notes to the financial statements (*continued*)

### 10 Financial instruments and risk management

#### 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. As at 31 December 2017, ESB has credit ratings of A- from Standard & Poor's, A3 from Moody's (equivalent to A- with Standard & Poor's) and BBB+ from Fitch. The outlook from each of the three agencies at year end was stable. 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%.

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. Over the longer term, however, permanent changes in interest rates will have an impact on the company's earnings. It is estimated that a general increase of 50 basis points in interest rates at 31 December 2017 would have reduced profit before taxation by approximately €0.073m (2016: €0.075m). A decrease of 50 basis points in interest rates would have an equal and opposite effect. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

# ESB Finance Designated Activity Company

## Notes to the financial statements (*continued*)

### 10 Financial instruments and risk management (*continued*)

#### 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 or from other ESB Group companies, with the currency of amounts advanced to such undertakings and included within trade and other receivables.

At 31 December 2017, ESB Finance DAC's debt portfolio (including accrued interest) amounted to €2.4bn. The net currency exposure at 31 December was as follows:

	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
	Denominated in Euro 2016 €'000	Denominated in Sterling 2016 €'000	Total 2016 €'000
Included in accrued interest and other payables	29,208	17,136	46,344
Included in amounts owed to parent undertaking	-	15,027	15,027
Included in borrowings	1,825,615	319,673	2,145,288
Total liabilities	1,854,823	351,836	2,206,659
Amounts included in current and non-current assets	(1,854,953)	(341,732)	(2,196,685)
Net (asset) / liability exposure	(130)	10,104	9,974

# ESB Finance Designated Activity Company

## Notes to the financial statements *(continued)*

### 10 Financial instruments and risk management *(continued)*

#### Foreign currency risk *(continued)*

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.

	<b>Equity /Profit before taxation</b>	Equity/Profit before taxation
	<b>Gain / (loss)</b>	Gain / (loss)
	<b>2017</b>	2016
	<b>€'000</b>	€'000
10% strengthening	795	919
10% weakening	(972)	(1,123)

#### 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:

	<b>2017</b>	2016
	<b>€'000</b>	€'000
Loans to parent undertaking	2,056,519	1,857,108
Loans to fellow group undertaking	327,701	339,577
Derivative financial instruments	8,440	11,973
Cash and cash equivalents	4,474	-
	<b>2,397,134</b>	<b>2,208,658</b>

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. This derivative is an interest rate swap which has been put in place to hedge the exposure to interest rate risk in respect of the bond loaned to ESBNI Limited.

As at 31 December 2017 and 2016, no amounts were overdue or impaired.

# ESB Finance Designated Activity Company

## Notes to the financial statements (*continued*)

### 10 Financial instruments and risk management (*continued*)

#### 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
<b>31 December 2017</b>						
Borrowings	2,349,709	2,962,076	86,178	285,887	453,421	2,136,589
Trade & other payables	47,756	47,756	47,756	-	-	-
Derivative financial liability	<u>8,440</u>	<u>11,445</u>	<u>3,101</u>	<u>3,113</u>	<u>5,231</u>	=
	Carrying Amount €'000	Contractual cash outflows €'000	Within 1 year €'000	1 – 2 years €'000	2 – 5 years €'000	After 5 years €'000
<b>31 December 2016</b>						
Borrowings	2,160,315	2,751,426	396,427	62,650	684,653	1,607,696
Trade & other payables	46,344	46,344	46,344	-	-	-
Derivative financial liability	<u>11,973</u>	<u>12,325</u>	<u>2,435</u>	<u>2,422</u>	<u>7,468</u>	=

# ESB Finance Designated Activity Company

## Notes to the financial statements *(continued)*

### 10 Financial instruments and risk management *(continued)*

#### 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.

	2017		2016	
	Carrying value € '000	Fair value € '000	Carrying value € '000	Fair value € '000
Short term debt	-	-	294,040	313,389
Long term debt	2,334,200	2,628,072	1,851,248	2,127,438
Short term borrowings	15,509	15,509	15,027	15,027
Trade and other payables	47,756	47,756	46,344	46,344
Loans to related party undertakings				
- current	(53,372)	(53,372)	(343,827)	(313,389)
- non current	(2,335,322)	(2,628,315)	(1,852,858)	(2,087,760)

As current loans to related party undertakings, short term borrowings and trade and other payables are due within one year, their carrying value is considered to be materially in line with their fair value.

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 balance sheet 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:

	2017	2016
	%	%
Other loans	1.19 – 1.25	1.51 – 1.64

# ESB Finance Designated Activity Company

## Notes to the financial statements (*continued*)

### 10 Financial instruments and risk management (*continued*)

#### 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);

	2017		2016	
	Level 2 € '000	Total € '000	Level 2 € '000	Total € '000
<b>Assets</b>				
Interest rate swaps	<u>8,440</u>	<u>8,440</u>	<u>11,973</u>	<u>11,973</u>
	8,440	8,440	11,973	11,973
<b>Liabilities</b>				
Interest rate swaps	<u>8,440</u>	<u>8,440</u>	<u>11,973</u>	<u>11,973</u>
	8,440	8,440	11,973	11,973
<b>Net asset</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	-	-

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 2017 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 directors' report and the statement of accounting policies.



# ESB Finance Designated Activity Company

## Notes to the financial statements (*continued*)

### 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 2017 outstanding amounts comprise US\$370m, maturing on dates between 2018 and 2023, and Stg£20m, maturing on dates between 2018 and 2023.
- b) Private placement senior unsecured notes issued in June 2009 in US dollars, sterling and euro. At 31 December 2017 outstanding amounts comprise US\$226m, maturing in 2019, Stg£50m maturing in 2021 and €40m maturing in 2019. Stg£35m of this private placement debt was repaid in June 2017 as scheduled.

The private placement debt has conditions which require the ESB Group to maintain certain interest cover and asset covenants. At 31 December 2017, the ESB Group is in compliance with all the covenant requirements associated with the private placement debt.

A €1.44 billion revolving credit facility with a syndicate of 14 banks to draw down bank finance as required up to February 2022 is available to the ESB Group. €128 million of this facility is provided by Danske Bank. ESB Finance DAC is a co-guarantor to this facility. This facility is undrawn at 31 December 2017.

### 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 consolidated financial statements of the ESB are available to the public and may be obtained from Two Gateway, East Wall Road, Dublin 3.

#### **Transactions with parent undertaking**

During the year, the company recognised interest income of €71.1m (2016: €69.2m) (note 2) on loans advanced to the parent undertaking (ESB). Interest accrued at 31 December 2017 on loans to parent undertaking is €31.4m (2016: €31.6m). At 31 December 2017, loans due from the parent undertaking were €2bn (2016: €1.5bn) (note 7) and other payables due to the parent undertaking were €15.5m (2016: €15m) (note 8).

#### **Transactions with fellow group subsidiary undertaking**

During the year, the company recognised interest income of €21.5m (2016: €20.2m) (note 2) on loans advanced to ESBNI Limited, a fellow group subsidiary undertaking. Interest accrued at 31 December 2017 is €17.5m (2016: €18.2m). At 31 December 2017, loans (excluding accrued interest) to ESBNI Limited amounted to €310.1m (2016: €321.4m) (note 7). The above transactions were entered into on an arm's length basis.

The company is 100% owned by Electricity Supply Board (ESB), established and operating 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.

# ESB Finance Designated Activity Company

## Notes to the financial statements (*continued*)

### **14 Segment information**

Operating segments are reported in a manner consistent with the internal reports provided to the chief operating decision maker, identified as the directors of the company. 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 Post Balance Sheet Events**

There have been no 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 7<sup>th</sup> June 2018.