

**ESB Finance Designated Activity Company**  
**(previously ESB Finance Limited)**

Directors' report and  
financial statements

**Year ended 31 December 2016**

*Registered number: 480184*

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Directors' report and financial statements

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# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Directors and other information

<b>Directors</b>	Deirdre Cowler Geraldine Heavey Deirdre Shields Gerry Tallon
<b>Secretary</b>	John Redmond
<b>Auditor</b>	KPMG Chartered Accountants 1 Stokes Place St. Stephen's Green Dublin 2
<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 (previously ESB Finance Limited)

## Directors' report

The directors present their annual report and audited financial statements of the company for the year ended 31 December 2016.

The company registered as a Designated Activity Company pursuant to the Companies Act 2014 during the year.

## 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
- 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 they receive 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 (previously ESB Finance Limited)

## Directors' report *(continued)*

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

At 31 December 2016, ESB was rated A- from Standard & Poor's, BBB+ from Fitch and Baa1 (equivalent to BBB+) from Moody's. The outlook on each of the three agencies at year end was 'stable'.

The parent undertaking, ESB, has guaranteed the borrowings of the company.

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, having made enquiries, believe that the company has adequate resources and support from its parent, ESB (which is committed for a period of greater than one year from the date of signing the financial statements), to continue in operational existence for the foreseeable future and that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

### **Results and dividends**

In the year to 31 December 2016, the company recorded income of €89.6m (2015: €97.2m) and a profit before tax of €3m (2015: profit of €0.004m). The directors are satisfied with the company's performance during the year. The directors do not recommend the payment of a dividend (2015: €nil).

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

The directors who served during the year were:

D. Cowler  
J. Lawlor  
C. Marley  
C. Moriarty  
P. Fenlon  
D. Shields  
G. Heavey  
G. Tallon

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

On 4 March 2016, Cathal Marley resigned as a director of the company. On the same date, Pat Fenlon was appointed as a director of the company.

On 20 April 2016, Colm Moriarty resigned as a director of the company. On the same date Deirdre Shields was appointed as a director of the company.

On 4 October 2016, Joe Lawlor resigned as a director of the company. On the same date, Geraldine Heavey was appointed as a director of the company.

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Directors' report *(continued)*

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

On 21 December 2016, Pat Fenlon resigned as a director of the company. On the same date, Gerry Tallon was appointed as a director of the company.

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

The directors and secretary who held office at 31 December 2016, held no interests in the shares of the company or group companies at the beginning or end of the year, other than their entitlements under the ESB ESOP.

### **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 also considers and evaluates any reports by independent auditors concerning the operation of controls over its financial accounting and reporting process.

### **Political donations**

The company made no political donations during the year (2015: €nil) and complied with the Electoral Act, 1997.

### **Post balance sheet events**

On 31 January 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.

### **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

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Directors' report *(continued)*

- 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).

### 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 company (the ESB Audit 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 Committee satisfy the independence and skills-related requirements of Section 167 as it would otherwise apply to the company, and (iii) the ESB Audit 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/or would unnecessarily duplicate the functions of the ESB Audit 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").

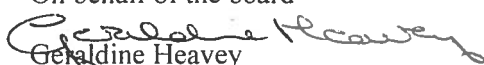
The directors confirm that:


- 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.

### Auditor

A formal external audit tender process has now been completed and the ESB Audit Committee has recommended that PricewaterhouseCoopers be appointed as statutory auditors to the company for the financial year to 31 December 2017 (and subsequent years). The directors of the Company concur with this recommendation and a resolution appointing PWC will be proposed to the shareholder at the next general meeting of the Company (to be held in May / June 2017). KPMG intend to resign as statutory auditors at that time and have confirmed to the directors that they will, at that time, in accordance with Section 400 of the Companies Act 2014, confirm that there are no circumstances connected with the resignation that they consider should be brought to the notice of the members or creditors of the Company.

On behalf of the board

  
Geraldine Heavey  
Director

  
Deirdre Cowler  
Director

3 May 2017

## ESB Finance Designated Activity Company (previously ESB Finance Limited)

### 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.

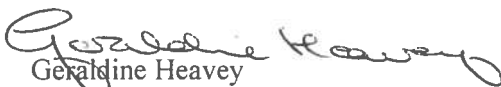
Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.


Under company law the directors must 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 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
- 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 which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the company and enable them to ensure that its financial statements comply with the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities. The directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

On behalf of the board

  
Geraldine Heavey  
Director

  
Deirdre Cowler  
Director

3 May 2017



# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Independent auditor's report to the members of ESB Finance DAC

We have audited the financial statements of ESB Finance DAC for the year ended 31 December 2016 which comprise the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in shareholder's equity and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union. Our audit was conducted in accordance with International Standards on Auditing (ISA's) (UK & Ireland).

### Opinions and conclusions arising from our audit

#### *1 Our opinion on the financial statements is unmodified*

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

#### *2 Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below*

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 and the financial statements are in agreement with the accounting records.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

#### *3 We have nothing to report in respect of matters on which we are required to report by exception*

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In addition, the Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made.

## ESB Finance Designated Activity Company (previously ESB Finance Limited)

Independent auditor's report to the members of ESB Finance DAC (*continued*)

### **Basis of our report, responsibilities and restrictions on use**

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Sean O'Keefe  
for and on behalf of  
KPMG

Chartered Accountants, Statutory Audit Firm  
1 Stokes Place  
St. Stephen's Green  
Dublin 2

3 May 2017

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Statement of comprehensive income for the year ended 31 December 2016

	<i>Note</i>	<b>2016 €'000</b>	<b>2015 €'000</b>
Finance income	2	89,572	97,206
Finance expense	2	(88,723)	(96,174)
<b>Net finance income</b>		<b>849</b>	<b>1,032</b>
Other income/(expenses)	3	2,151	(1,028)
<b>Profit before taxation</b>	4	<b>3,000</b>	<b>4</b>
Income tax charge	5	(751)	(2)
<b>Profit for the year</b>		<b>2,249</b>	<b>2</b>
Other comprehensive income		-	-
<b>Profit attributable to equity shareholders</b>		<b>2,249</b>	<b>2</b>

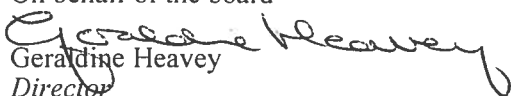
There are no items of income or expense for inclusion in other comprehensive income.

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Statement of financial position as at 31 December 2016

	Note	2016 €'000	2015 €'000
<b>Non-current assets</b>			
Deferred tax asset	6	2,491	3,242
Derivative financial instruments	10	11,973	3,733
Loans to related party undertakings	7	1,852,858	1,925,976
<b>Total non-current assets</b>		<b>1,867,322</b>	<b>1,932,951</b>
<b>Current assets</b>			
Loans to related party undertakings	7	343,827	46,733
<b>Total current assets</b>		<b>343,827</b>	<b>46,733</b>
<b>Total assets</b>		<b>2,211,149</b>	<b>1,979,684</b>
<b>Equity</b>			
Share capital	11	-	-
Retained earnings		(7,483)	(9,732)
<b>Shareholder's deficit</b>		<b>(7,483)</b>	<b>(9,732)</b>
<b>Non-current liabilities</b>			
Loans and borrowings	9	1,851,248	1,923,757
Derivative financial instruments	10	11,973	3,733
<b>Total non-current liabilities</b>		<b>1,863,221</b>	<b>1,927,490</b>
<b>Current liabilities</b>			
Loans and borrowings	9	294,040	-
Loans from related party undertakings	8	15,027	17,456
Trade and other payables	8	46,344	44,470
<b>Total current liabilities</b>		<b>355,411</b>	<b>61,926</b>
<b>Total liabilities</b>		<b>2,218,632</b>	<b>1,989,416</b>
<b>Total equity and liabilities</b>		<b>2,211,149</b>	<b>1,979,684</b>

On behalf of the board

  
Geraldine Heavey  
Director

  
Deirdre Cowler  
Director

3 May 2017

**ESB Finance Designated Activity Company (previously ESB Finance Limited)**

**Statement of changes in shareholder's equity**  
*for the year end 31 December 2016*

	<b>Share Capital €'000</b>	<b>Retained earnings €'000</b>	<b>Total €'000</b>
At 1 January 2015	-	(9,734)	(9,734)
Profit for the year	-	2	2
	<hr/>		
At 31 December 2015	-	(9,732)	(9,732)
	<hr/>		
At 1 January 2016	-	(9,732)	(9,732)
Profit for the year	-	2,249	2,249
	<hr/>		
<b>At 31 December 2016</b>	-	<b>(7,483)</b>	<b>(7,483)</b>
	<hr/>		

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Statement of cash flows for the year ended 31 December 2016

	2016 €'000	2015 €'000
<b>Cash flows from operating activities</b>		
Profit after taxation	2,249	2
<i>Adjust for:</i>		
Foreign currency (gains)/losses	(2,156)	1,023
Interest income	(89,572)	(97,206)
Interest expense	88,723	96,174
Income tax charge	751	2
<b>Operating cash outflow before changes in working capital</b>	<b>(5)</b>	<b>(5)</b>
Increase in loans and other receivables	(262,570)	(153,789)
Increase in loans and other payables	261,133	152,374
Interest received	81,246	99,183
Interest paid	(79,804)	(97,763)
<b>Net cash inflow from operating activities</b>	<b>5</b>	<b>5</b>
<b>Net increase in cash and cash equivalents</b>	<b>-</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>-</b>	<b>-</b>

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Notes

*forming part of 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. The financial statements have been prepared in accordance with the IFRS standards and interpretations issued and effective for accounting periods ending on or before 31 December 2016.

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:

<b><i>New/Revised International Financial Reporting Standards</i></b>	<b><i>Effective Date</i></b>
<i>Annual Improvements to IFRSs 2012-2014 Cycle</i>	<i>1 January 2016</i>

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements. The items that may have relevance to the company are as follows, however none are expected to have a material impact on the financial statements.

<b><i>New/Revised International Financial Reporting Standards</i></b>	<b><i>Effective Date<sup>1</sup></i></b>
<i>Amendments to IFRS Disclosure Initiative (January 2016)</i>	<i>1 January 2017<sup>2</sup></i>
<i>IFRS 9 Financial Instruments (July 2014)</i>	<i>1 January 2018<sup>2</sup></i>
<i>Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses</i>	<i>1 January 2017<sup>2</sup></i>

<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.

<sup>2</sup> This is the IASB effective date, not yet endorsed under EU IFRS.

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Notes *(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 IFRSs, as adopted by the EU, 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 IRFS 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 company's parent undertaking, ESB, has confirmed that it will continue to provide financial support to the company in order to enable it to meet its liabilities as they fall due and to enable it to continue in operational existence for the foreseeable future. The parent undertaking has guaranteed the third party loan note obligations of ESB Finance DAC. Based on the amount and expected level of resources available to these entities, the directors have determined on this basis that it is appropriate to prepare these financial statements on the going concern basis.

#### **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 below.

Subsequent to initial recognition non-derivative financial instruments are measured as described below.

#### **Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents represents cash in hand.



# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Notes (continued)

### 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 with fixed or determined payments that are not quoted in an active market. They are included in current assets or liabilities on 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 the 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 (previously ESB Finance Limited)

## Notes (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 (previously ESB Finance Limited)

Notes (continued)

## 2 Net finance income

	2016 €'000	2015 €'000
<b>Finance income</b>		
Interest on loans to parent undertaking	69,245	68,697
Interest on loans to group undertaking	20,215	28,358
Net mark to market on interest rate swap	112	151
	<b>89,572</b>	<b>97,206</b>
<b>Finance expense</b>		
Interest on bank borrowings	(85)	(206)
Interest payable on Eurobond	(88,638)	(95,968)
	<b>(88,723)</b>	<b>(96,174)</b>
<b>Net finance income</b>	<b>849</b>	<b>1,032</b>

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)

	2016 €'000	2015 €'000
Audit fees	(5)	(5)
Foreign currency gains/(losses)	2,156	(1,023)
<b>Other income</b>	<b>2,151</b>	<b>(1,028)</b>

## 4 Statutory and other information

Profit before taxation is stated after charging:

	2016 €'000	2015 €'000
Auditor's remuneration, including expenses	5	5
Directors' fees	-	-

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 (2015: €nil). The directors received no remuneration for their services to the company.

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Notes (continued)

### 5 Taxation on profit on ordinary activities

	2016 €'000	2015 €'000
Current tax expense	-	-
Deferred tax charge	(751)	(2)
<b>Total income tax charge</b>	<b>(751)</b>	<b>(2)</b>
<b>Reconciliation of effective tax rate:</b>		
Profit before taxation	3,000	4
Tax charge at 25%	(751)	(1)
Deferred tax provided at rates different to average rates	-	1
Utilisation of deferred tax asset	-	(2)
<b>Total tax charge</b>	<b>(751)</b>	<b>(2)</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

	2016 €'000	2015 €'000
Deferred tax	2,491	3,242
	<b>2,491</b>	<b>3,242</b>

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

	Balance at 31 December 2015 €'000	Recognised in income €'000	Balance at 31 December 2016 €'000
Tax losses carried forward	3,242	(751)	2,491
<b>Total deferred tax assets</b>	<b>3,242</b>	<b>(751)</b>	<b>2,491</b>

The deferred tax asset of €2,491m at 31 December 2016 relates to losses forward of €10m 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 (previously ESB Finance Limited)

Notes (continued)

## 7 Loans to related party undertakings

	2016 €'000	2015 €'000
Amounts owed from parent undertaking (note 13)	325,659	25,581
Amounts owed from fellow group undertaking (note 13)	18,168	21,152
<b>Total current amounts receivable</b>	<b>343,827</b>	<b>46,733</b>
Amounts owed from parent undertaking (note 13)	1,531,449	1,551,031
Amounts owed from fellow group undertaking (note 13)	321,409	374,945
<b>Total non-current amounts receivable</b>	<b>1,852,858</b>	<b>1,925,976</b>
<b>Total loans to related party undertakings</b>	<b>2,196,685</b>	<b>1,972,709</b>

At 31 December 2016 there was €31.6m (2015: €25.6m) interest accrued included in amounts owed from parent undertaking and €18.2m (2015: €21.2m) 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 2016.

## 8 Trade and other payables

	2016 €'000	2015 €'000
Accrued interest and other payables	46,344	44,470
Amounts owed to parent undertaking (note 13)	15,027	17,456
	<b>61,371</b>	<b>61,926</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 (previously ESB Finance Limited)

Notes (continued)

## 9 Loans and borrowings

	2016 €'000	2015 €'000
Current borrowings repayable within 1 year	<b>294,040</b>	-
Non-current borrowings repayable between one and five years (Eurobond)	<b>510,977</b>	1,170,378
Non-current borrowings repayable after five years (Eurobond)	<b>1,340,271</b>	753,379
Total Non-current borrowings	<b>1,851,248</b>	1,923,757
Total Loans and borrowings	<b>2,145,288</b>	1,923,757

The total outstanding principal of borrowings was €2,236.4m (2015: €1,974.7m) at 31 December 2016 and has been recorded net of unamortised financing costs of €91.1m (2015: €50.9m).

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	2016 €'000	2015 €'000
Stg£275m 10 year Eurobond	Mar 2020	6.500%	<b>321,187</b>	374,685
€300m 5 year Eurobond	Sep 2017	6.250%	<b>300,000</b>	300,000
€215.2m 7 year Eurobond	Nov 2019	4.375%	<b>215,217</b>	500,000
€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	Sep 2031	1.875%	<b>600,000</b>	-
Deferred financing costs and unamortised debt issuance discount			<b>(91,116)</b>	(50,928)
			<b>2,145,288</b>	1,923,757

On 14 June 2016, ESB Finance DAC issued a €600m, 1.875% fixed rate Eurobond maturing in June 2031. In addition to this, on the same date, the company bought back a €285m portion of its existing €500m Eurobond debt which was originally raised in November 2012. As the terms of the existing bond and the new issue was not substantially different, quantitatively or qualitatively, and the counterparty remained the same, this transaction was considered an exchange of existing debt instruments rather than the issue of new debt. As it was an exchange of existing debt instruments the difference between the tendered value of the existing bonds and the par value of the new issue (€43.5 million) was rolled into the effective interest rate of the new bond. The €43.5 million will be amortised to the income statement over the life of the new bond. €1.69 million has been amortised to the income statement as at 31 December 2016.

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Notes *(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 2016, ESB was rated A- from Standard & Poor's, BBB+ from Fitch and Baa1 (equivalent to BBB+) from Moody's respectively. 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.

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%.

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 2016 would have reduced equity and profit before taxation by approximately €0.075m (2015: €0.1m). 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 (previously ESB Finance Limited)

Notes (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 2016, ESB Finance DAC's debt portfolio (including accrued interest) amounted to €2.2bn. The net currency exposure at 31 December was as follows:

	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	-	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
Included in current and non-current assets	(1,854,953)	(341,732)	(2,196,685)
Net (asset) / liability exposure	(130)	10,104	9,974
	Denominated in Euro 2015 €'000	Denominated in Sterling 2015 €'000	Total 2015 €'000
Included in accrued interest and other payables	24,496	19,974	44,470
Included in amounts owed to parent	-	17,456	17,456
Included in borrowings	1,551,065	372,692	1,923,757
Total liabilities	1,575,561	410,122	1,985,683
Included in current and non-current assets	(1,576,612)	(396,097)	(1,972,709)
Net (asset) / liability exposure	(1,051)	14,025	12,974



# ESB Finance Designated Activity Company (previously ESB Finance Limited)

Notes (continued)

## 10 Financial instruments and risk management (continued)

### Foreign currency risk (continued)

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

	Equity /Profit before taxation	Equity/Profit before taxation
	Gain / (loss)	Gain / (loss)
	2016	2015
	€'000	€'000
10% strengthening	919	1,275
10% weakening	(1,123)	(1,558)

### 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:

	2016	2015
	€'000	€'000
Loans to parent undertaking	1,857,108	1,576,612
Loans to fellow group undertaking	339,577	396,097
Derivative financial instruments	11,973	3,733
	<b>2,208,658</b>	<b>1,976,442</b>

Loans receivable above all relate to amounts due from fellow group undertakings. All of the exposures herein are to related entities, which currently have sufficient resources to repay. The overall group policy for managing exposure to credit risk is included in the consolidated financial statements of the parent company; ESB. The parent company's consolidated financial statements can be obtained from the company's registered office at Two Gateway, East Wall Road, Dublin 3.

As at 31 December 2016 and 2015, no amounts were overdue or impaired.

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

Notes (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 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>28,139</u>	<u>6,970</u>	<u>6,982</u>	<u>14,187</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 2015</b>						
Borrowings	1,941,213	2,461,469	103,710	386,137	1,054,969	916,653
Trade & other payables	44,470	44,470	44,470	-	-	-
Derivative financial liability	<u>3,733</u>	<u>40,513</u>	<u>8,068</u>	<u>8,015</u>	<u>24,430</u>	=

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Notes (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.

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	€ '000	€ '000	€ '000	€ '000
Short term debt	294,040	313,389	-	-
Long term debt	1,851,248	2,127,438	1,923,757	2,195,916
Short term borrowings	15,027	-	17,456	-
Trade and other payables	46,344	-	44,470	-
Loans to related party undertakings				
- current	(343,827)	(313,389)	(46,733)	-
- non current	(1,852,858)	(2,087,760)	(1,925,976)	(2,053,716)

As loans to related party undertakings – current, 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.

Long term debt and loans to related undertakings – non-current are Level 2 fair values. The valuation technique used for long term debt and loans to related party undertakings is a comparison of debt stock to the marginal cost of debt (from main funding markets) in addition to discounting using the zero-coupon discount curve of the relevant currency.

#### 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:

	2016	2015
	%	%
Other loans and borrowings	1.51 – 1.64	0.98 - 2.47

# ESB Finance Designated Activity Company (previously ESB Finance Limited)

## Notes (continued)

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

#### Fair value hierarchy

The table below analyses financial assets and liabilities carried at fair value, by valuation method. The level relevant to financial assets and liabilities 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);

	2016		2015	
	Level 2	Total	Level 2	Total
	€ '000	€ '000	€ '000	€ '000
<b>Assets</b>				
Interest rate swaps	11,973	11,973	3,733	3,733
	11,973	11,973	3,733	3,733
<b>Liabilities</b>				
Interest rate swaps	11,973	11,973	3,733	3,733
<b>Net asset</b>	-	-	-	-

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 2016 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 (previously ESB Finance Limited)

## Notes (continued)

### 12 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 2016 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 2016 outstanding amounts comprise US\$226m, maturing in 2019, Stg£85m maturing on dates between 2017 and 2021 and €40m maturing in 2019. \$27m of this private placement debt was repaid in June 2016 as scheduled.

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

### 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 €69.2m (2015: €68.7m) (note 2) on loans advanced to the parent undertaking (ESB). Interest accrued at 31 December 2016 on loans to parent undertaking is €31.6m (2015: €25.6m). At 31 December 2016, loans to the parent undertaking were €1.9bn (2015: €1.6bn) (note 7) and other payables due to the parent undertaking were €15m (2015: €17.5m) (note 8).

#### Transactions with fellow group subsidiary undertaking

During the year, the company recognised interest income of €20.2m (2015: €28.4m) (note 2) on loans advanced to ESBNI Limited, a fellow group subsidiary undertaking. Interest accrued at 31 December 2016 is €18.2m (2015: €21.2m). At 31 December 2016, loans (excluding accrued interest) to ESBNI Limited amounted to €321.4m (2015: €374.9m) (note 7). The above transactions were entered into on an arm's length basis.

### 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

On 31 January 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 Euro Medium Term Note (EMTN) Programme, which is fully, irrevocably and unconditionally guaranteed by ESB.

## ESB Finance Designated Activity Company (previously ESB Finance Limited)

Notes *(continued)*

### **16 Approval of financial statements**

The board of directors approved the financial statements on 3 May 2017.