Energy for generations

BRIGHTER POSSIBILITIES

Annual Report and Accounts 2014

esb.ie

ABOUT ESB

ESB was established in 1927 as a corporate body in the Republic of Ireland under the Electricity (Supply) Act 1927. With a holding of 95%, ESB is majority owned by the Irish Government. The remaining 5% is held by the Trustee of an Employee Share Ownership Plan. As a strong, diversified, vertically integrated utility, ESB operates right across the electricity market: from generation, through transmission and distribution to supply. In addition, ESB extracts further value at certain points along this chain: supplying gas, using our networks to carry fibre for telecommunications and more. With a regulated asset base (RAB) of approximately €9 billion, 43% of generation in the all-island market and supplier of electricity to approximately 1.5 million customers throughout the island of Ireland, ESB is a leading Irish utility focused on providing excellent customer service and maintaining our financial strength. As at 31 December 2014, ESB Group employed approximately 7,150 people.

BRIGHTER POSSIBILITIES

BRIGHTER POSSIBILITIES

Since ESB was established in 1927, it has always endeavoured to bring light and energy to the people it serves, allowing individuals and communities to fulfil their potential in every walk of life. This is achieved not only through the provision of critical energy infrastructure, but also through ESB's contribution to the economy in the form of investment, taxes, dividends and jobs; in addition ESB is committed to playing a full role in society by acting responsibly in how it conducts its business, working towards a low carbon future and supporting the communities in which it works.

The future is electric and with that comes Brighter Possibilities.

CONTENTS

KEY FACTS & FIGURES

2014 OPERATING PROFIT*
€684m (€96m)

2013	2012
€780m	€415m
2011	**2010**
€469m	€9m

2014 EBITDA*
€1,433m (€4m)

2013	2012
€1,437m	€1,095m
2011	**2010**
€1,121m	€839m

*Including exceptional items. See Finance Review Page 31.

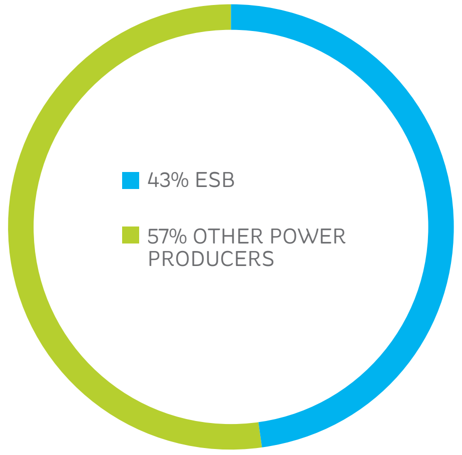
2014 TOTAL ASSETS
€12,973m €191m

2013	2012
€12,782m	€12,600m
2011	**2010**
€12,539m	€12,112m

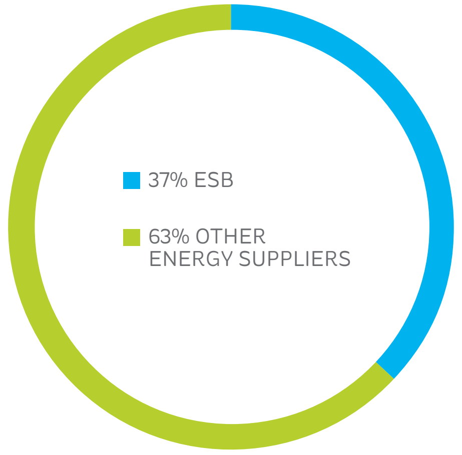
2014 NET DEBT
€4,639m €495m

2013	2012
€4, 144m	€4,414m
2011	**2010**
€4,324m	€3,944m

GENERATION
all-island market share



SUPPLY
all-island market share



LOW CARBON FUTURE

Recognising the long-term imperative to decarbonise society, ESB will invest to reduce the carbon intensity of its generation plant and networks infrastructure while increasing the role of renewable energy in its fuel mix, in line with the overall market and public policy.

01 STRATEGY AND PERFORMANCE

BUSINESS OVERVIEW

CHAIRMAN'S STATEMENT

Ellvena Graham, Acting Chairman

RESULTS

2014 has been a more challenging year for ESB than 2013, however we reported solid profits after tax of €215 million and earned a return on capital employed (ROCE) of 6%. Operating profits were constrained by lower wholesale electricity prices, impairments of two specific generation assets, low levels of availability in parts of the generation fleet as a result of unplanned outages and storm repair costs associated with restoring power to customers in the first quarter of the year. In addition there was a negative non-cash movement related to the mark to market of certain financial instruments. These issues were partly offset by two positive exceptional items – a gain on the sale of ESB's 50% interest in a Spanish power station and the fair value uplift related to the establishment of the fibre joint venture.

GOVERNANCE AND THE BOARD

The Board is committed to the highest standards of corporate governance. ESB has put in place appropriate measures to comply with the Code of Practice for the Governance of State Bodies, the agreed Government framework for the effective governance of State Bodies.

Lochlann Quinn's term as Chairman of ESB expired in January 2015. Lochlann served for seven years as Chairman and both the Board and management would like to thank him most sincerely for his expertise, business experience and wise judgement.

Brendan Byrne and John Coleman also left the Board during the year. I would like to thank them both for their valuable contribution to ESB over the past number of years.

STRATEGY

The implementation of ESB's Group Strategy to 2025 remains on track. The strategy aims to deliver a smarter, more sustainable electricity system, which will support national decarbonisation targets and meet the future energy needs of our customers.

The construction of Carrington Power Station in the UK is a key element of the strategy and will allow ESB to compete as a player of scale in the all-islands electricity market. The plant is scheduled to begin commercial operations in 2016.

During the year, we received competition clearance for a joint venture with Vodafone to roll out high-speed fibre broadband to over 500,000 customers in 50 towns around the Republic of Ireland using our distribution network. This is an ambitious and much needed project that will help transform the economy of many rural Irish towns.

Competitive offerings and innovative products helped Electric Ireland to maintain its share of the energy supply market during 2014, despite intensifying competition from new market entrants. A price reduction on our standard electricity tariff was introduced in the fourth quarter.

On an all-island basis, ESB's share of the generation market is 43% and its share of the total supply market is 37%.

DIVIDENDS

ESB paid an interim dividend of €47.1 million and also special dividends of €260.2 million (€46.5 million in May 2014 and €213.7 million in January 2015), representing the final instalment of the one off dividend to the Government. The Board has recommended a final dividend payment of €10.4 million bringing total dividends for 2014 to €317.7 million and to almost €1.5 billion over the past ten years.

PEOPLE

I would like to thank the staff of ESB for their hard work and commitment to the organisation during 2014, particularly the front line staff in ESB Networks and NIE who, supported by colleagues from across the Group, worked tirelessly in very difficult conditions to restore power to customers following the winter storms.

2014 was overshadowed by a workplace accident which led to the death of Declan Molloy, an experienced member of staff. The accident took place less than two years after the death of Shane Conlan who was fatally injured in a work incident in January 2013. These events have shocked and saddened the organisation.

During 2014, we undertook a root and branch review of our safety processes. Safety remains a core value for the organisation and we continue to invest heavily in safety structures and the development of safety competencies.

OUTLOOK

Economic indicators are positive, but trading conditions remain challenging as competition intensifies from new market entrants, including international utilities and emerging technologies.

We will drive forward the implementation of our Group Strategy to 2025 as the most effective way to ensure that our customers in the Republic of Ireland, Northern Ireland and the Great Britain market have access to secure, reliable and competitive energy supplies.

CONCLUSION

In accordance with the provisions of the Electricity (Supply) Acts 1927–2004, the Board presents the annual report and accounts for the year ended 31 December 2014.

Ellvena Graham, Acting Chairman
24 February, 2015

CHIEF EXECUTIVE'S REVIEW


Pat O'Doherty, Chief Executive

IN CONVERSATION WITH THE CHIEF EXECUTIVE, PAT O'DOHERTY

WHAT IS ESB'S STRATEGY FOR THE NEXT FEW YEARS?

We are in the second full year of our Group Strategy to 2025, which will set ESB on a path to becoming a utility of scale, offering sustainable and competitive solutions in an integrated Republic of Ireland (ROI), Northern Ireland (NI) and Great Britain (GB) market. Under the strategy, we are investing in low carbon generation, building smart networks and maximising the efficiency of our business. During 2014, we made progress in all of these areas.

WHAT WERE THE MAIN DRIVERS AFFECTING PROFITS IN 2014?

Overall, ESB achieved solid results across all areas of its business in 2014. Profits were negatively impacted by a number of factors, low wholesale electricity prices in ROI, NI and GB, impairment of certain generation assets, a number of unplanned outages on our generation plant which affected availability and the cost of responding to a prolonged spate of winter storms. There is a negative non-cash movement of €245 million in the income statement related to the mark to market valuation of certain financial instruments. This reflects the current low interest rate environment in the UK. Despite the challenges for 2014, we paid €317.7 million of dividends to our shareholder.

HOW MUCH DID ESB INVEST IN CAPITAL PROJECTS DURING 2014?

Capital expenditure was €960 million in 2014. Across ESB, we continued to invest in critical infrastructure in ROI, NI and GB, including new low carbon generation and upgrades to our transmission and distribution networks. €448 million was invested in the Irish electricity network to support new, renewable generation. In GB, we are investing over €800 million in the construction of Carrington Power Station which is on schedule to begin commercial operations in 2016.

IS THE PERFORMANCE IMPROVEMENT PROGRAMME ON TRACK?

During the year, we made further operational cost savings in all areas of the business. Since 2010, we have achieved recurring annual savings in excess of €270 million against a target of €280 million. This has been a challenging process and I want to acknowledge the important role played by staff in the ongoing implementation of the 2011–2015 Payroll Cost Base Reduction Agreement.

WHAT HAS ESB DONE TO IMPROVE SAFETY IN 2014?

Safety is a core value for ESB. Two of our colleagues have died over the past two years in work related incidents. As Chief Executive, this is completely unacceptable to me. During this time we have undertaken a fundamental review of our safety practices including procedures and safety culture, and have made significant progress in implementing recommendations from this review. We continue to invest heavily in the systems, processes and capabilities to protect our staff, colleagues and members of the public.

WHAT IS THE TIMEFRAME FOR DELIVERING THE NEW HIGH-SPEED FIBRE BROADBAND PROJECT WITH VODAFONE?

Work on our new fibre broadband network began with a pilot project in Cavan in the second half of the year with the objective of reaching 500,000 customers in 50 towns by the end of 2018.

CAPITAL EXPENDITURE
€960 MILLION

YOU TALK OF AN ENGAGED AND AGILE WORKFORCE; WHAT ARE THE IMPLICATIONS OF THIS?

We operate in a complex and increasingly competitive market where our success is built from the hard work and dedication of our people. ESB must be a top class employer that can attract and retain high quality, highly skilled people, by offering great career and development opportunities as well as competitive reward packages.

HOW IS ESB CONTRIBUTING TO THE COMMUNITIES IN WHICH IT OPERATES?

ESB constantly strives to bring light and energy to the communities in which we work, not only through our physical infrastructure but also through our corporate social responsibility (CSR) and sustainability programmes.

During 2014, we distributed €2 million to a range of community based initiatives through our social impact fund, Energy for Generations, with particular emphasis on projects to address suicide prevention, homelessness and educational disadvantage. We also recorded over 30,000 hours of staff volunteering during the year.

In the area of sustainability, we continued to reduce our CO_2 emissions and made significant strides in delivering new infrastructure to support a low carbon energy future.

WHAT IS ESB DOING TO SUPPORT VULNERABLE CUSTOMERS?

ESB is conscious that many of its customers are struggling to make ends meet. Through Electric Ireland, we continue to offer competitive and innovative products and services to support our customers, including Pay As You Go meters. We also reduced our standard electricity tariff by 2% during the year ahead of the winter peak when customers need it most.

Electric Ireland helped to develop the new Supplier Code on Disconnections, an industry agreed code of practice to protect vulnerable customers. We are fully compliant with the code, which consolidates many of the practices already in place in Electric Ireland and have the lowest rate of disconnections per 10,000 customers of all the major suppliers.

WHAT CHALLENGES DO YOU SEE IN THE FUTURE AND WHERE ARE THE RISKS?

The energy sector is going through a period of massive transition, driven by new technology and the need to balance energy affordability, energy security and decarbonisation objectives. We are making long-term investment decisions in the context of a future that is more complex and uncertain than ever before. We welcome the publication of the Government Green Paper on Energy Policy in ROI and have submitted a considered response.

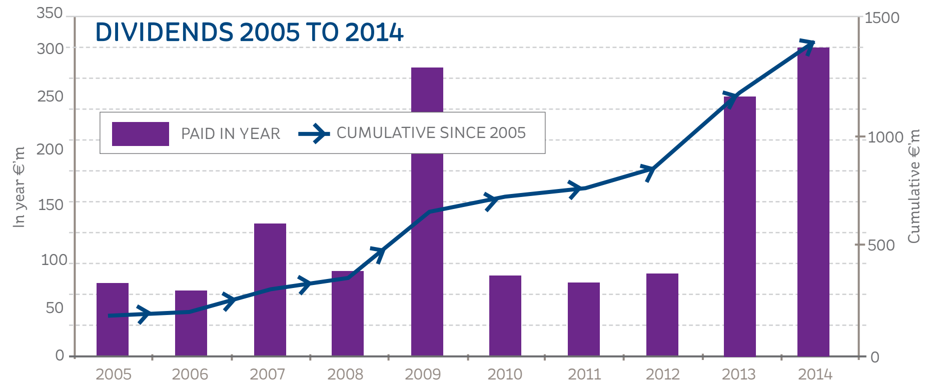
I am confident that our Group Strategy to 2025, which is focused on sustainable innovation to deliver a broad mix of low carbon generation technologies and advanced, smart networks, together with our ongoing emphasis on cost reduction is the right path for ESB and will ensure that we remain at the forefront of the energy sector in an integrated ROI/NI/GB market.

2% WE ALSO REDUCED OUR STANDARD ELECTRICITY TARIFF BY 2% DURING THE YEAR

WHAT ARE THE MAIN CHALLENGES FACING PERFORMANCE IN THE BUSINESS UNITS?

The scale of change and level of uncertainty facing the electricity sector means that both our strategy and our people must be flexible enough to respond quickly to new developments and adapt to a new energy landscape. For Electric Ireland, the immediate priority will be to retain and grow market share in an increasingly competitive environment. For ESB Networks, the main challenge in 2015 will be to secure sufficient funding under the Commission for Energy Regulation (CER) (the independent regulator of the energy market in ROI) Price Review (PR4) to fund necessary investments in the network over the next five years. Meanwhile, the challenge for Generation and Wholesale Markets (G&WM) will be to ensure the operational and financial success of the Carrington Power Station and to deliver the investment in renewables required to continue to reduce our generation carbon footprint. In these challenging times, I would like to extend my thanks to all the staff throughout ESB for their continued dedication and outstanding commitment which I am very proud to be associated with.

Finally I would like to take this opportunity to express my appreciation to Brid Horan, Deputy Chief Executive, Joe O'Mahony, Managing Director NIE, and John McSweeney, Head of Innovation, who retired during the year, for the exemplary contribution that they made to ESB during their extensive careers.



01 STRATEGY AND PERFORMANCE
02 CORPORATE GOVERNANCE
03 FINANCIAL STATEMENTS

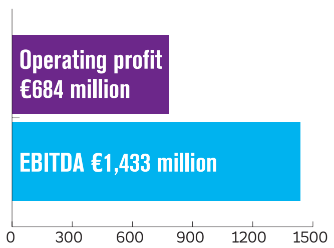
ESB AT A GLANCE

Business Segment		Revenue	Operating profit *	Capital expenditure	Average employee numbers	Link to other sections in this report →
Generation and Wholesale Markets Generation and Wholesale Markets (G&WM) comprises ESB's generation, trading and asset development activities.		€1,450m	€162m	€340m	983	G&WM operational review, page 36
ESB Networks ESB Networks is principally concerned with the ownership and operation of the electricity distribution network and the ownership of the electricity transmission network in the Republic of Ireland (ROI).		€960m	€293m	€448m	3,120	ESB Networks operational review, page 38
Northern Ireland Electricity (NIE) NIE is responsible for the construction and maintenance of the electricity transmission and distribution networks in Northern Ireland (NI), as well as with the operation of the distribution network.		€280m	€56m	€102m	1,254	NIE operational review, page 40
Electric Ireland Electric Ireland is a leading supplier of electricity and gas to domestic customers in ROI and has a substantial market share in the non-domestic electricity sector in ROI and NI.		€2,057m	€64m	€8m	313	Electric Ireland operational review, page 42
Other Segments Other Segments include Innovation and internal service providers.		€260m	€109m	€61m	1,479	Other Segments operational review, page 44

* Before interest and taxation

HIGHLIGHTS

FINANCIAL



OVER **€2** BILLION CONTRIBUTED TO THE IRISH ECONOMY

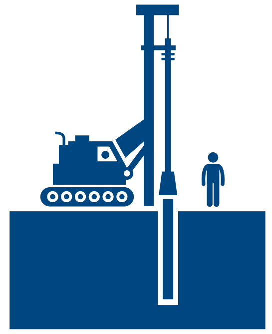
RETURN ON CAPITAL EMPLOYED (ROCE) of 6% in line with other European utilities

Total dividend paid of almost **€1.5** billion over the past decade including **€400** million of special dividend paid to the Government

OPERATIONAL

ESB AND VODAFONE ESTABLISHED A JOINT VENTURE

to invest €450 million in the Fibre to the Building (FTTB) network in ROI



Carrington project progressing well, to reach commercial operation in 2016

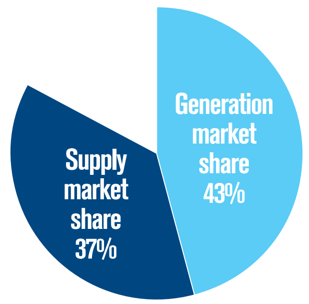
IN THE AFTERMATH OF STORM DARWIN, ESB NETWORKS EFFICIENTLY RESTORED SUPPLY TO OVER **280,000** CUSTOMERS

OVER **1,900** Electric vehicle (EV) charge points installed

CUSTOMER AND MARKET

OVER 20,000 PAY AS YOU GO METERS INSTALLED

2% DISCOUNT passed on to residential customers



NATIONAL CUSTOMER CARE CENTRE

accredited with the Customer Contact Association Global Standard for the seventh successive year

CORPORATE SOCIAL RESPONSIBILITY

EXCELLENCE IN THE ENVIRONMENT CATEGORY RECEIVED BY ARDNACRUSHA AT THE 2014 CHAMBERS IRELAND CSR AWARDS

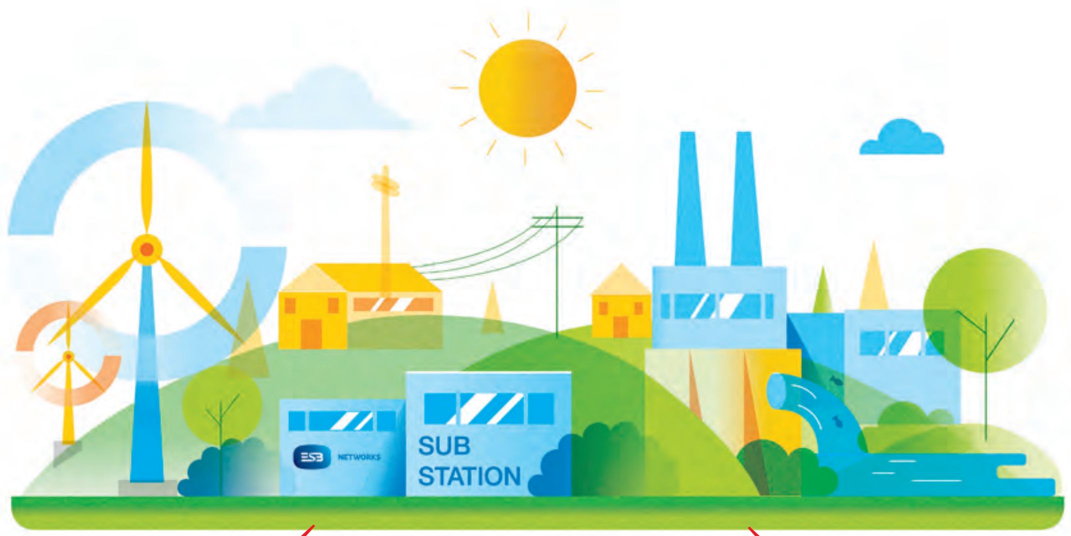
Gold Award for the Business in the Community ARENA Northern Ireland received by Coolkeeragh Power Station

ENERGY FOR GENERATIONS **CORPORATE RESPONSIBILITY FUND DISTRIBUTED €2 MILLION** TO COMMUNITY BASED INITIATIVES IN IRELAND

ElectricAid raised and spent over **€1 MILLION** in 2014 on development and relief projects in developing countries

ESB'S CONTRIBUTION TO THE ECONOMIES IT OPERATES IN

The principal activities of the ESB Group are the operation, transmission, distribution and supply of electricity in the Republic of Ireland, Northern Ireland, and Great Britain. The Group also operates internationally. ESB demonstrates its commitment to these economies through its contribution in the form of investment, taxes, dividends and jobs.



ALMOST €9 BILLION IN CAPITAL PROJECTS OVER THE LAST 10 YEARS

7,150 EMPLOYEES

ALMOST €1.5 BILLION IN DIVIDENDS OVER THE LAST 10 YEARS

STRATEGIC OVERVIEW

STRATEGY

BUSINESS ENVIRONMENT CONTEXT FOR ESB GROUP STRATEGY

OUR VISION

To be Ireland's foremost energy company, competing successfully in the all-islands market

OUR MISSION

To bring sustainable and competitive energy solutions to all our customers

OUR VALUES

FOR SAFETY

We will always put the safety of staff, contractors, customers and public first, relentlessly pursuing our goal of zero injuries and incidents

INTEGRITY AND RESPECT

We respect each other as employees of ESB and conduct all our affairs with our customers, partners, stakeholders and the public with integrity and to the highest ethical standards

RELIABLE AND COMPETITIVE SERVICE

We deliver reliable and competitively priced products and services to all our customers, constantly striving to improve our performance

SUSTAINABLE INNOVATION

We embrace the challenges facing the energy sector, always seeking to deliver novel, creative and sustainable solutions which meet the needs of our customers

TEAM- WORK

We promote openness and collaboration in everything we do and we develop our people to fulfil their potential

The ESB Group Strategy is framed as a response to the long-term forces that are at work within the markets. At a fundamental level, the current business environment for European power utilities is marked by significant uncertainty, with widely different views of drivers such as future fuel prices and technological evolution. For ESB, there are three factors that will transform the context within which ESB will operate and that the strategy aims to address:

- A European and national energy and climate policy
- Market integration through establishment of regional energy markets (REM)
- A challenging European and Irish economic environment

1 A EUROPEAN AND NATIONAL ENERGY AND CLIMATE POLICY

The long-term need to decarbonise European and global societies to address the threat of worldwide climate change presents an enduring challenge to the energy industry over future decades.

At a European level, this is reflected in a comprehensive set of European Union and national laws and regulations within the 2020 Climate and Energy Framework and in the continuing discussions on the Climate and Energy Policy Framework for 2021–2030.

Current EU policy is to reduce total carbon emissions production by 80–95% by 2050. In October 2014, the European Council announced its 2030 Climate and Energy Policy Framework, which included an agreement on the headline objective of a 40% reduction in greenhouse gas emissions by 2030. Further details are to be worked out by the end of 2015 when it is hoped a global climate accord will be concluded.

In the near term, under the 2020 framework, there are legally binding targets at European and national levels to decrease carbon emissions, increase the proportion of energy from renewable sources, and enhance energy efficiency.

As part of this, the Irish Government has set a target for the proportion of electricity sourced from renewable sources of 40% by the end of this decade. In the United Kingdom (UK), 30% will be sourced from renewable sources. The impact of these policies and decisions on the markets in which ESB operates will be profound.

While the broad direction of travel towards the 2050 vision is relatively clear, the technology and policy choices that Europe needs to arrive at a sustainable and secure energy system at a reasonable cost are not clear. At present there is no single or simple solution for achieving this.

What is clear is that over the long term, societal decarbonisation will require new business models, regulatory frameworks and technologies, e.g. markets that can accommodate both intermittent renewable generation with zero marginal cost and dispatchable thermal generation.

Decarbonisation is projected to require a significant increase in the level of investment in generation and networks infrastructure across the European utility industry.

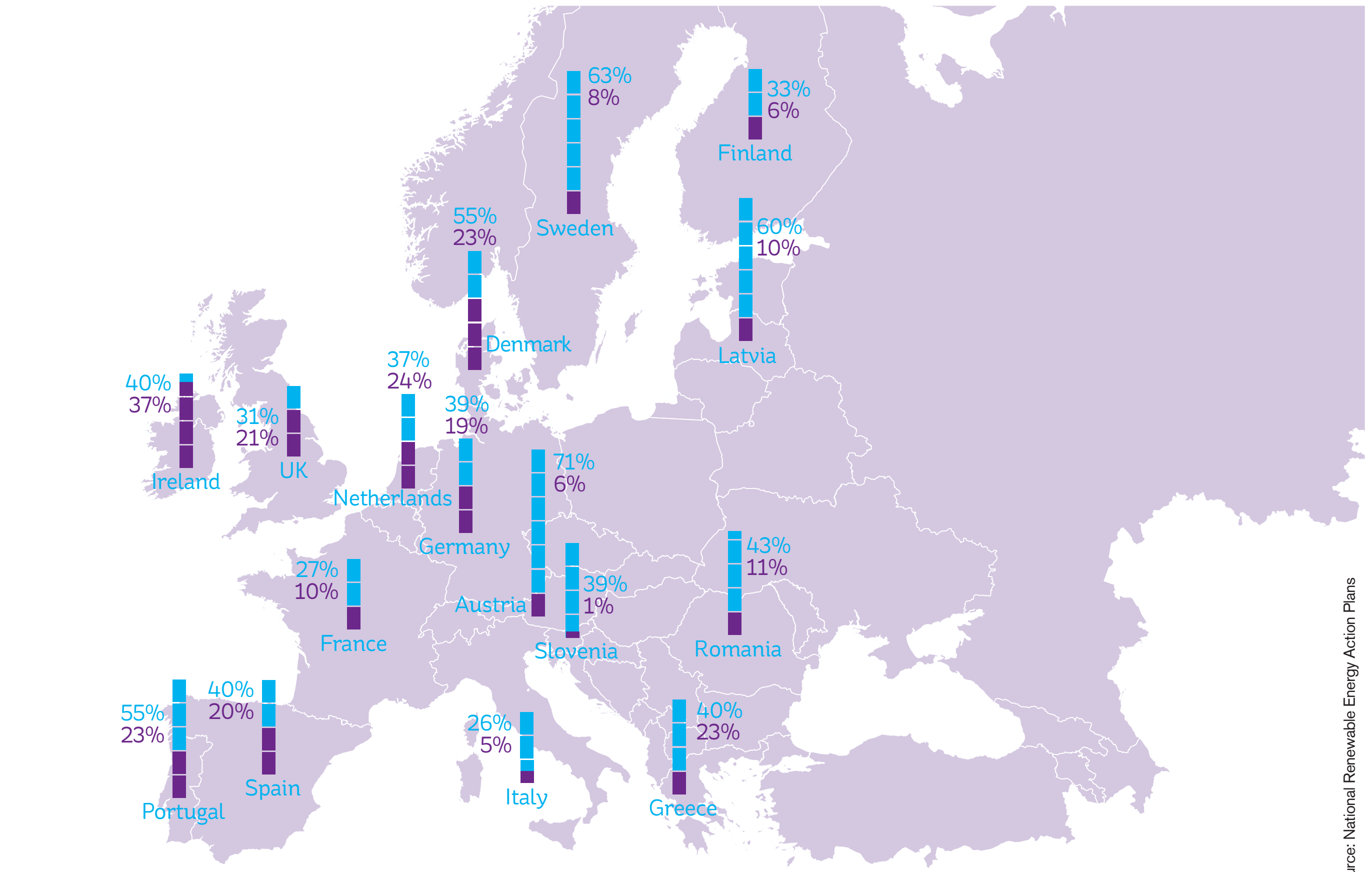
To prosper in such a context, ESB will increasingly invest in low carbon technologies. In 2008, ESB was one of the first utilities in Europe to commit itself to a net zero carbon generation portfolio and ESB's current Group Strategy continues that focus.

2 MARKET INTEGRATION THROUGH ESTABLISHMENT OF REGIONAL ENERGY MARKETS (REM)

The integration of European energy markets is a major policy priority for European and National authorities across the continent, reflecting the long-term policy to create a Single European Market across all sectors.

This has been reflected in both a regulatory policy to enhance the ability to trade power and gas between different national market systems

2020 RENEWABLE ENERGY TARGETS



Source: National Renewable Energy Action Plans

■ WIND ENERGY AS A % OF TOTAL ELECTRICITY DEMAND

■ RENEWABLE ENERGY AS A % OF TOTAL ELECTRICITY DEMAND

and in the construction of physical electricity and gas interconnection to allow this to happen.

There is already a single wholesale electricity market (SEM) in Republic of Ireland (ROI) and Northern Ireland (NI), which operates and is regulated on an all-island basis. The SEM is now undergoing a redesign scheduled for completion by October 2017 (I-SEM). This is intended to achieve integration through new common codes for energy market trading which will facilitate deeper energy market integration across Europe. This will result in prices in SEM being determined on a pan-European trading platform, which on occasion will create a single wholesale price of electricity with Great Britain (GB) and on the continent.

Electricity Market Reform (EMR) in GB is also progressing, but because of concerns over security of supply, changes being considered to BETTA (British Electricity Trading Transmission Arrangements) appear to be moving away from a wholly market-based regime to one that is fundamentally more regulated.

The above trends have the potential to transform the competitive environment within which ESB operates, changing our generation and supply businesses from relatively large players within the SEM, to a player with much smaller shares in a pan-European market which is dominated by larger, mostly pan-European utilities.

In order to ensure the future viability of the generation, trading and supply (GTS) businesses in the face of this challenge, ESB aims to increase its scale, capabilities and cost competitiveness.

3 CHALLENGING EUROPEAN AND IRISH ECONOMIC ENVIRONMENT

Since 2007, the European and global economic and financial climate was marked by uncertainty and slowed economic growth. This had a significant impact on our markets including:

- Electricity demand destruction due to reduced economic activity
- Greater stress on financial markets creating uncertainty around the cost and availability of funding
- Increased pressure on arrears, fuel poverty and affordability

There have been significant improvements in both the ROI and UK economies in 2014, a recovery that is projected to continue. This may not automatically translate into growth in overall electricity demand as factors such as energy efficiency take effect. In contrast, greater electrification in areas such as transport and heating as part of a path to decarbonisation of the overall economy offers the prospect of new sources of electricity demand.

The economic outlook remains challenging, particularly with regard to wider European economic performance.

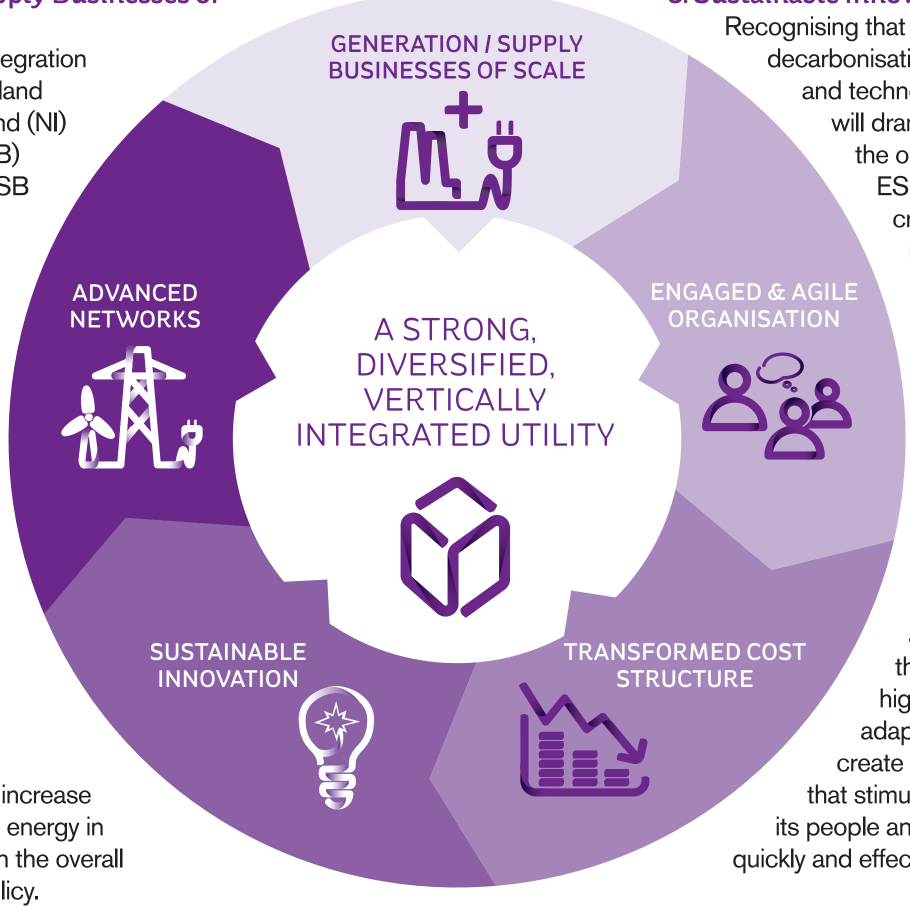
At the EU and national level, there has been an increasing focus on cost competiveness of the energy system over the past year as European firms must compete in a global context where energy costs have fallen due to factors such as the advent of shale gas in the United States.

For ESB, this uncertain context will require continued cost efficiency so that it can deliver value to its customers and shareholders and maintain its financial strength to ensure access to funding.

ESB must retain the flexibility to scale up or scale down its investment plans in response to evolving conditions.

THE FIVE PRIORITIES OF THE ESB GROUP STRATEGY TO 2025

In order to deliver its vision and mission, ESB believes that it will have to achieve the objective of being a strong, diversified Vertically Integrated Utility (VIU). The ESB Group Strategy is focused around five key priorities, each of which is designed to support this objective. ESB sees vertical integration as providing balance and adaptability in the context of uncertain environments. ESB creates value by managing and developing a portfolio of investments across the energy value chain. It also seeks to exploit its assets and expertise in related adjacent markets. Through disciplined financial management of business units, ESB retains the flexibility to respond to external changes in the environment.



1. Generation / Supply Businesses of Scale

In response to the integration of the Republic of Ireland (ROI), Northern Ireland (NI) and Great Britain (GB) electricity markets, ESB will grow the scale and capabilities of its generation, trading and supply businesses so that they can compete within this new all-islands competitive environment. Recognising the long-term imperative to decarbonise society, ESB will also invest to reduce the carbon intensity of its power generation plant and increase the role of renewable energy in its fuel mix, in line with the overall market and public policy.

2. Advanced Networks

ESB will work to deliver high quality and affordable electricity networks for its customers in both the ROI and NI. This will include investment to underpin social and economic development, security of supply and the achievement of climate change targets.

3. Sustainable Innovation

Recognising that forces such as decarbonisation, competition and technological evolution will dramatically change the operating context, ESB will innovate to create and grow new opportunities in areas directly adjacent to its core business.

4. Engaged and Agile Organisation

The delivery of the strategy will require an organisation that is flexible, highly motivated and adaptable. ESB will create a dynamic workplace that stimulates and engages its people and that can respond quickly and effectively to change.

5. Transformed Cost Structure

Increased competition, an uncertain economic environment and the need to fund future growth will require ESB to operate with even greater efficiency. ESB will enhance the cost-effectiveness of its business so that it can survive and prosper in this new context.

KEY STRATEGIC PERFORMANCE INDICATORS

At a detailed level progress to achieving these priorities is tracked through a set of strategic performance indicators, consisting of metrics, milestones and key actions. The key strategic performance indicators measuring progress on the delivery of the five priorities are detailed below:

	2012 (commencement of strategy)	2014	2025 TARGET
A STRONG DIVERSIFIED VIU			
Financial Strength	BBB+ Rating	BBB+ Rating	A- Rating
Total EBITDA	€1,095 million	€1,433 million	€2,400 million
1. GENERATION / SUPPLY BUSINESSES OF SCALE			
Total generation capacity (MW)	4,800 MW	4,800 MW	7,000 MW
All-Islands generation market share (% output)	5%	4%	7%
Renewable capacity as % of total generation capacity	12%	13%	26%
2. ADVANCED NETWORKS			
Regulated Asset Base (RAB)	€8 billion	€9 billion	€14 billion
Smart meters / grids	Pilot	Smart meter / grid project still at pilot status, the project is moving into the procurement phase in 2015	Fully implemented
Wind energy connected	2,100 MW	2,987 MW	3,500–4,000 MW
3. SUSTAINABLE INNOVATION			
Emergent businesses	ESB International	Significant new contract wins in Africa and the Middle East	Double ESB International external income
	eCars	Infrastructure rollout substantially complete and growing Electric Vehicle (EV) fleet	
	Novusmodus	To date, almost €120 million invested in developing portfolio	Exploit new investment opportunities
	Fibre / Telecoms	Joint venture established with Vodafone and commencing commercial operations	
4. TRANSFORMED COST STRUCTURE			
Cost base	Performance Improvement Programme	Over €270 million in annual recurring cost savings achieved against a target of €280 million	Competitive cost structure
5. ENGAGED AND AGILE ORGANISATION			
Safety		78 Lost Time Injuries (LTIs)	Zero injuries
Engagement		Biennial Staff Survey	High levels of engagement and performance
Change		Major programme underway in developing leadership and communications skills and engagement for all levels of management	Fast, locally driven change

BUSINESS MODEL

Our Vision
To be Ireland's foremost energy company, competing successfully in the all-islands market

Our Mission
To bring sustainable and competitive energy solutions to all our customers

GENERATION

Creating cleaner power using sustainable generation

- Wind
- Thermal
- Hydro
- Pumped storage
- Ocean

SEE PAGE 36 FOR GENERATION AND WHOLESALE MARKETS (G&WM)

NETWORKS

Building smarter networks that puts the customer in control of their energy

- Smart grids
- Smart meters
- Power check apps

SEE PAGE 38 FOR ESB NETWORKS

SEE PAGE 40 FOR NORTHERN IRELAND ELECTRICITY (NIE)

SUPPLY AND OTHER SEGMENTS

Bringing sustainable and competitive energy solutions to all our customers

- Supplier of electricity and gas
- eCars
- Smart meters
- Fibre broadband
- Climote (Remote heating control)
- Engineering Services
- Telecoms

SEE PAGE 42 FOR ELECTRIC IRELAND

SEE PAGE 44 FOR INNOVATION

RISK REPORT

ESB'S RISK POLICY

The ESB Risk Policy, as adopted by the Board, outlines the aims, risk management principles, responsibilities and risk management framework that support decision making and effective management of risk and uncertainty in the business and aids decision making. The policy meets the risk management requirements of the Code of Practice for the Governance of State Bodies and takes account of the UK Corporate Governance Code and related guidance. The policy also complies with International Risk Management standard ISO 3100.

The policy is reviewed on an annual basis to ensure that it remains up to date with the development of the business and the external environment in which ESB operates.

THE POLICY AIMS

- Manage risk to a level acceptable to the Board
- Maximise the chances of delivering ESB's strategy by managing its risks and pursuit of opportunities thereby creating and protecting value across the Group
- Align risk appetite and strategy
- Embed a strong risk management culture in the Group
- Ensure that the fundamentals of good risk management are incorporated into decision making
- Identify and manage multiple and cross-Group risks
- Remain relevant over time in the continually evolving business environment
- Apply risk management approaches in a tailored manner which takes account of the particular circumstances of the Group
- Provide relevant information to shareholders, investors, staff and other stakeholders of the principal risks faced by the business and the actions being taken / controls in place to mitigate principal risks

RISK MANAGEMENT PRINCIPLES

ESB's risk management approach as detailed in the Risk Policy deals with risks and opportunities affecting value creation or preservation.

RESPONSIBILITIES

The Risk Policy sets out how the Board, the Audit and Risk Committee and management will meet their respective responsibilities for risk management and internal control. These responsibilities are set out below:

THE BOARD

- Overall responsibility for the ESB risk management and internal control system
- Setting strategic objectives and defining risk appetite for the Group
- Monitoring the nature and extent of risk exposure against risk appetite for principal risks
- Sets the tone from the top by providing direction on the importance of risk management and risk management culture

AUDIT AND RISK COMMITTEE

- Advises the Board of its consideration of overall risk appetite, risk tolerance and risk strategy of the Group
- Reviews the annual Risk Plan and recommends it to the Board for approval
- Supports the Board in monitoring risk exposure against its risk appetite
- Reviews the effectiveness of risk management and internal control systems

INTERNAL AUDIT

- Supports the Audit and Risk Committee in reviewing the effectiveness of risk management and internal control systems

THE MANAGEMENT RISK FORUM (EXECUTIVE TEAM)

- Assesses the annual Risk Plan and the Risk Appetite Statement for completeness
- Considers whether mitigations are appropriate and likely to be effective
- Supports the Audit and Risk Committee and the Board in fulfilling their risk management responsibilities
- Monitors risk management processes and internal control

THE GROUP RISK MANAGEMENT COMMITTEE

(Chaired by the Group Finance Director with Senior Management from business units)

- Supports the embedding of best practice risk management
- Reviews and recommends for approval the consolidated Risk Plan based on the risk assessments and plans from individual business areas
- Support the Group risk function and the Executive Team in fulfilling their risk management responsibilities
- Reviews and recommends for approval the Risk Appetite Statement

THE BUSINESS UNITS

- Embed risk management processes and internal control
- Identify, assess, measure and mitigate risk
- Report on the effectiveness of measures taken to mitigate risks
- Embed risk awareness and safety culture

The following guiding principles apply:

- Risk is actively considered in making business decisions, including setting strategy and business plans at all levels in the Group
- A culture of active risk management is in place across the Group with risk management being the responsibility of the Board, senior management and staff at every level of the Group
- The Group Risk function supports effective risk management within the business through analysis, review, challenge and effective monitoring
- Have a clear statement of risk appetite which establishes how much risk ESB is willing to take in pursuit of its strategic objectives
    - Risk appetite is set and regularly reviewed by the Board
    - In setting the risk appetite for the Group, the Board considers the Group's capacity to bear risk, where it will be best rewarded for taking risk, and its overall risk profile
- Regular update and review of principal risks to ensure appropriate risk mitigations are in place to reduce the probability of risks emerging and appropriate recovery measures where an event takes place
- Ensure accountability for risk by allocating responsibility to named individuals
- A communications plan is in place to brief the Board and the relevant Subcommittees on key risk topics throughout the year

RISK MANAGEMENT FRAMEWORK

To support the management and oversight of risk across the Group, the Risk Policy requires the establishment and maintenance, to international best practice, of an appropriate risk management framework.

The risk management framework takes an enterprise wide approach and consists of appropriate structures to support risk management, formal assignment of risk responsibilities, procedures and systems for risk identification / assessment / reporting, plus ongoing monitoring of the effectiveness of risk mitigation actions and controls.

RISK ASSESSMENT

All business units performed detailed risk assessments to identify, assess and where appropriate quantify their risks. The business units also proposed responses to mitigate those risks. Risk assessments took into account each business units' risk appetite. The outputs were fully debated and considered by the Executive Director and senior management teams of each business unit and responsibility allocated to risk owners for managing each of the principal risks. A consolidated view of the Group risk profile was developed based on the inputs received from each business unit and the considered views of Group-wide functions.

The Group Risk Management Committee's role was to perform a full review and challenge of the draft principal risks and consider whether there were any new or emerging risks which should be added to the register. The considered view of the principal risks was the basis of the 2014 Risk Report drafted by the Group Risk Manager. The Executive Risk Forum, led by the Chief Executive, held a special meeting to consider and discuss the Risk Report and following incorporation of their views, the final report was submitted to the Audit and Risk Committee. The Board approved the Risk Report following a recommendation from the Audit and Risk Committee at the January Board meeting.

RISK MANAGEMENT FRAMEWORK

At mid year and year end, all business units updated their risk assessments as part of the risk review and reporting process. The reviews were discussed in detail with the Audit and Risk Committee. Monthly reporting to the Board is a feature of the Risk Management Framework and ensures transparency and timely flow of information about key changes in the risk profile.

BUSINESS CONTINUITY

Business continuity is a key aspect of the Risk Management Framework covering continuity of systems, services and processes. Business units have scheduled plans to test their continuity arrangements throughout the year. ESB Networks participates in the all-island Emergencies Group planning process.

PRINCIPAL RISKS

ESB's principal risks and uncertainties persisted from 2013 into 2014. However, with different business developments, new aspects to the risks were proposed by the Management Risk Forum to the Board. The Board approved the list of principal risks and included them in its risk appetite and mitigation discussions during the year.

CONSIDERATIONS FOR RISK IDENTIFICATION

A consolidated view of the Group risk is developed based on reviewing the following:

- External risk reviews e.g. National Risk Assessment, World Economic Forum Global Risk Review
- Internal and external auditor perspectives
- External peer research and information exchange
- Meetings with the Risk Management Committee, the Management Risk Forum, the Deputy Chief Executive and Chief Executive
- Business unit risks
- ESB Group Strategy
- Business plans and budgets
- Risk Appetite Statement
- Annual governance and financial control reviews

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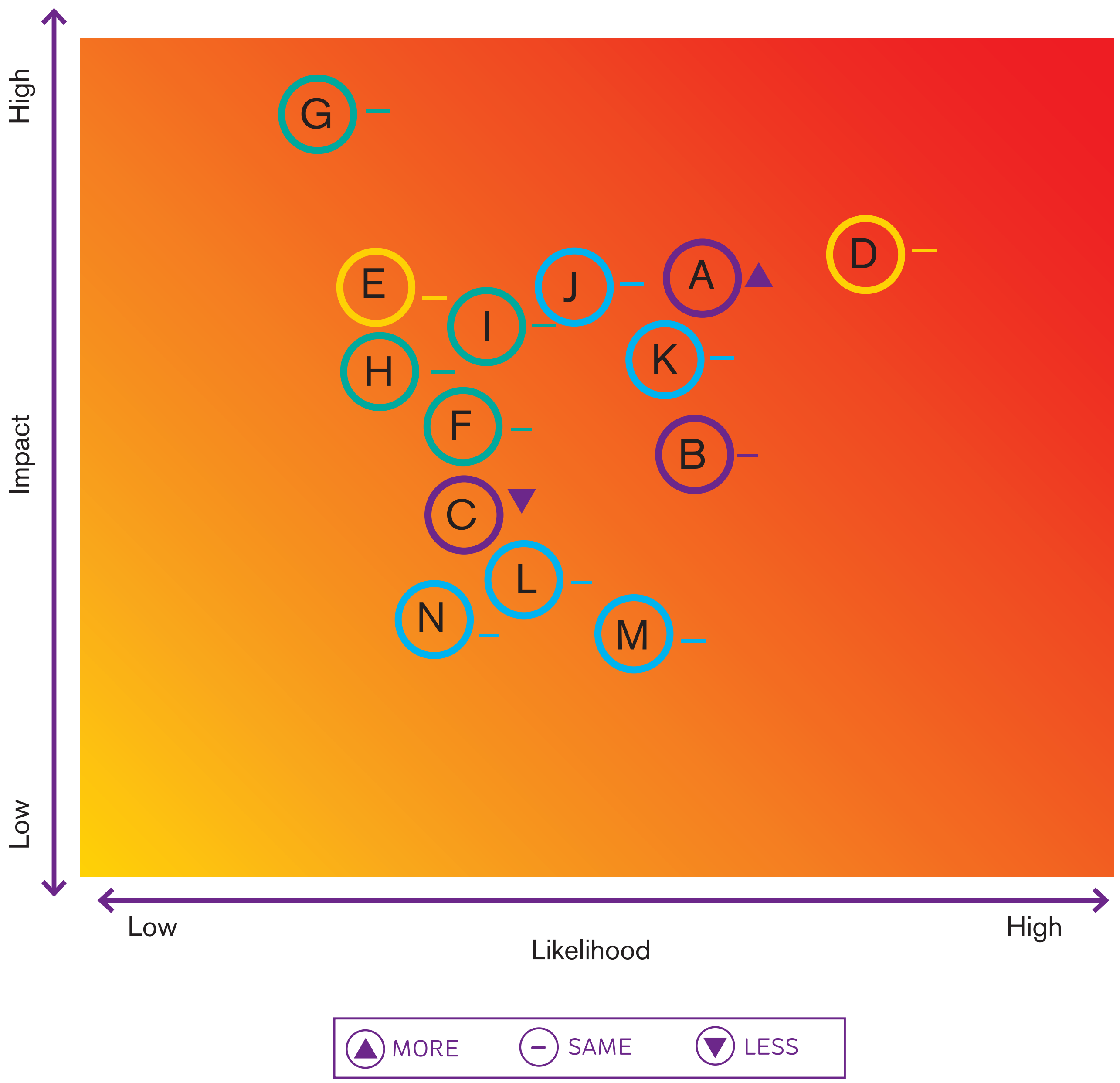
RISK HEAT MAP

The following risk heat map illustrates the relative positioning of our principal risks in terms of impact and likelihood at the end of 2014.



Financial	Compliance	Operational	Strategic
A Competitor Action	D Compliance and Regulatory Change	F Environment and Climate Changes	J Trading Risk
B Economic and Market Conditions	E Reputation and Public Standing	G Injury to Staff, Contractors and the General Public	K Disruptive Technology / Market Developments
C Funding and Liquidity		H Plant Performance Risk	L Knowledge and Skills
		I Business Processes and IT Systems	M Investments / Project Execution Risk
			N Successful Delivery of Change

PRINCIPAL RISKS AND MITIGATION STRATEGIES

Risks	2014	Description and Impact	Update	Mitigation Actions
FINANCIAL				
EXTERNAL – A. Competitor Action	High	The level of competitor activity in the domestic supply sector has fundamentally altered the nature of this market	New entrants, innovative products and services and low growth in electricity demand	• Electric Ireland, ESB's retail business, continues to compete strongly in all segments of the electricity and gas supply markets through competitive price offers, excellent service and innovative products, overall brand awareness (95%) and residential customer satisfaction ratings (90%) are high • Electric Ireland was the only electricity supplier to pass through a price reduction to all its residential electricity customers in 2014
EXTERNAL – B. Economic and Market Conditions	High	The prevailing macroeconomic environment and uncertainty in financial markets present risks and challenges to the Group's profitability levels and potentially to delivery of the Group's investment and growth targets	While the economic situation has improved considerably compared to 2013, downward pressure on wholesale electricity prices in the Single Electricity Market (SEM) and the Great Britain (GB) market and the lower than expected recovery in the growth of demand for electricity is a concern	• ESB continues to seek cost efficiency through innovation and investment in systems, positioning itself to meet financial targets whilst maintaining a stable investment portfolio • ESB is maintaining a continued focus on improving overall cost competitiveness and delivering the remaining cost improvement targets of its Performance Improvement Programme, to date savings in excess of €270 million have been made against a target of €280 million
EXTERNAL – C. Funding and Liquidity	Medium	The key financial risk areas facing the Group include exposure to foreign exchange, interest rates, funding, liquidity risks and reliance on related financial and operational controls This risk relates to securing adequate funding at an appropriate cost to finance planned investments and to maintain ESB's liquidity sufficient to meet all commitments as they arise and to provide contingency against future shocks	Improved market conditions and return to more normal funding arrangements has reduced this risk considerably	• Group Treasury is responsible for the day-to-day treasury activities of the Group, including the trading of specific derivative instruments to mitigate these risks • ESB maintains an overall financing strategy that takes account of market conditions and is appropriate to ESB's strategic plan and targets • Policies and procedures to protect the Group from the treasury / financial risks are regularly reviewed, revised and approved by the Board as appropriate • The Group's policy is to maintain strong liquidity to meet funding requirements for more than a year ahead, and to access funds from a diverse range of markets • ESB has a BBB+ (stable outlook) credit rating with 3 international Rating Agencies and the financial markets are available to ESB for raising funds when required • ESB maintains a strong liquidity position and has a €1.44 billion revolving credit facility which was signed in January 2015 and extends to 2022
COMPLIANCE				
EXTERNAL – D. Compliance and Regulatory Changes	High	The principal regulatory risks faced by the Group originate from an evolving EU policy and regulatory framework, the impact of price control reviews, licence compliance and ring-fencing requirements	Continued uncertainty relating to market reforms in SEM and GB and downward pressure on regulated returns for networks businesses	• ESB manages regulatory risks through dedicated teams within each of the businesses • The Corporate Regulatory Affairs Team provides ongoing input to the development of regulatory strategies and policies for the Group and is responsible for the identification of the principal regulatory risks, the Team also monitors compliance with the Group's licence obligations • ESB is a member of the Electricity Association of Ireland and actively contributes to its advocacy activities at national and European level • ESB has a proactive and structured approach to consultations with regulatory authorities on all market developments, the key issues currently being addressed include: 1. Inputting to consultations on high level design for the Integrated Single Electricity Market (I-SEM) 2. Engaging with the relevant authorities in the consultations on the DS3 Programme (a programme designed to help the electricity grid accept more wind) 3. Engaging with the Competition and Markets Authority in GB on their review of the GB electricity market 4. Submission of ESB Networks Price Control PR4 to the ROI regulator the Commission for Energy Regulation (CER) with a final determination expected in 2015 5. Inputting to consultations and preparations for the roll out of the National Smart Metering Programme

PRINCIPAL RISKS AND MITIGATION STRATEGIES

	Risks	2014	Description and Impact	Update	Mitigation Actions
	COMPLIANCE (continued)				
INTERNAL	E. Reputation and Public Standing	High	Reputational risk could arise from damage to the Group's image, credibility, standing with customers and key stakeholders and which could impair its ability to retain and generate revenue Such damage may result from a breakdown of trust, confidence or business relationships Safeguarding the Group's reputation is important to its continued success	Public perception of utilities in general and ongoing concern about electricity prices	▪ ESB proactively manages its reputation through timely and accurate media and stakeholder communication, hosting of events, sponsorship and public engagements such as presenting at conferences and active involvement in relevant external bodies ▪ As part of the risk management process, each business unit is responsible for identifying, assessing and determining all reputational risks and opportunities that may arise within their respective areas of business ▪ Should a risk event occur, the Group's crisis management processes are designed to minimise the reputational impact of an event. - Crisis management teams are in place both at Group and business unit level to ensure the effective management of any such events - This includes ensuring through its corporate communications that the Group's perspective is represented fairly in the media ▪ All forms of media, including social media, are used to keep customers up to date during emergency situations e.g. in the case of adverse weather conditions such as Storm Darwin
	OPERATIONAL				
EXTERNAL	F. Environment and Climate Change	Medium	Many ESB activities have potential for significant environmental impact and are regulated by relevant national and EU laws	Ongoing development of regulation in this area	▪ Strong control and regular compliance auditing are a feature of ESB's environmental protection systems ▪ Formal reporting to the Environmental Protection Agency ▪ The Group commits significant resources towards ensuring compliance with applicable planning and environmental laws / regulations and works closely with all relevant authorities ▪ ESB has increased its training and awareness programmes for staff in environmental areas in 2014 ▪ To address the challenges of climate change, ESB is pursuing an ambitious low carbon strategy, investing strongly in renewable energy and environmentally friendly technology ▪ Environmental information and the Sustainability Report is published on the website www.esb.ie
INTERNAL	G. Injury to Staff, Contractors and the General Public	High	As a major energy utility, ESB is committed to the highest possible safety standards to protect against the risk of injury to staff, contractors and the general public	The death of a member of staff in ESB Networks in 2014 has again highlighted the ever present dangers associated with working with electricity	▪ Thorough investigations are carried out when there is a safety incident and the outcome of these investigations are communicated through ESB ▪ A review of the safety culture and practices has been undertaken and new organisational arrangements are being put in place to drive safety leadership and performance across the Group ▪ In relation to public safety, ongoing media and direct marketing campaigns are run to increase public awareness of the risks and dangers of electricity to the public ▪ Safety is a key consideration in contractor selection as part of the procurement process
INTERNAL	H. Plant Performance Risk	Medium	Failure to achieve the targeted performance and availability of existing generation plant through damage to ESB plant, incidents and breakdowns	Generation plant availability was impacted in 2014 by a number of unplanned outages	▪ Such plant risks are minimised through ESB's well-established plant safety and maintenance regimes, operating and technical procedures and staff training ▪ The Group also has in place appropriate insurance contracts to protect against financial loss from outages arising from plant damage ▪ Continuing to increase the number of plants that are accredited under the PAS 55 asset management standard ▪ Working with the relevant agencies to manage the risks associated with interference with electrical plant and equipment
INTERNAL	I. Business Processes and IT systems	Medium	ESB's risk management framework processes identify and address (escalating where appropriate) operational risks that could lead to losses or reputational damage from mistakes or shortcomings in the Group's business processes and IT systems	Continued dependency on IT systems and telecommunications to support business processes and integration Focus on data privacy and cyber risk	▪ From a Group perspective, the Chief Information Officer (CIO) is responsible for ESB's overall IT strategy, including governance arrangements for the security/reliability of IT infrastructure and systems ▪ Internal controls, including IT governance, are subject to internal and external audit ▪ The Information Governance Council, led by the CIO, is responsible for reviewing and monitoring all the relevant data management policies in light of increasing compliance requirements relating to data security and information management ▪ Each business unit is responsible for limiting and managing operational risks within its area of responsibility by ensuring that well documented processes, reliable IT systems and satisfactory internal controls are in place ▪ During 2014, ESB launched the IT Programme Management Office to support business units in delivering successful project and change management objectives ▪ Training programmes in place to support staff in complying with data protection obligations

PRINCIPAL RISKS AND MITIGATION STRATEGIES

	Risks	2014	Description and Impact	Update	Mitigation Actions
	STRATEGIC				
EXTERNAL	J. Trading Risk	High	Power prices in the SEM, and fuel prices paid by the Group in connection with its electricity generating activities, have shown significant volatility in recent years ESB's profits can be materially affected by changes in power, fuel and CO_2 prices, and by relative movements between prices of different fuel types	Trading and hedging strategies are in place and operation risk continues to be managed	▪ ESB has adopted an appropriate trading and hedging strategy to manage potential price volatility and uncertainty in the SEM - Financial contracts are entered into and trading decisions are taken in line with this strategy - Commodities are purchased 12-24 months in advance to smooth price changes for end customer ▪ Business units have strengthened their traditional energy trading functions to ensure the full extent of ongoing SEM trading positions is fully understood and managed ▪ The completion of the Trading Project allows the complete SEM and GB generation portfolio to be managed on an integrated basis ▪ In line with regulatory ring fencing requirements, business units participating in the SEM maintain the appropriate trading capability, structures and systems for effective management of risk in the SEM ▪ The embedded risk management and controls covering trading activities that apply in the relevant business units are subject to a strict governance and reporting regime, including regular review by Group Internal Audit ▪ ESB has successfully implemented new structures and processes to comply with new EU financial reporting and compliance regulations
EXTERNAL	K. Disruptive Technology / Market Developments	Medium	Fail to react when existing / new competitors take advantage of new disruptive technologies or markets	Ongoing technology and market developments	▪ The development and implementation of strategies relating to new technologies / markets in areas directly related to the core business is actively pursued ▪ Novusmodus Technology Committee provides early insights into emerging technologies and business models ▪ Ongoing knowledge transfer between the Novusmodus Fund Investment Manager and business units
INTERNAL	L. Knowledge and Skills	Medium	ESB has a high dependency on the technical competence of its management / staff The Group especially needs to maintain high standards of competence in new and developing areas of the business with the emergence of new technologies	Continued focus on the need for specialised skills sets to deliver on key elements of the Group Strategy	▪ ESB continues to invest in staff training and development and in ongoing performance improvement, particularly in the context of people management and new technologies such as smart metering, renewables, electric vehicles, smart grids, etc ▪ A full review of the resourcing requirements was undertaken during 2014 and a Strategic Resourcing Plan for the future was developed and this will be reviewed annually ▪ ESB continued to roll out the leadership communications programme to all levels of management within the Group to support performance improvement and engagement
INTERNAL	M. Investments / Project Execution Risk	Medium	ESB is making significant capital investments in network infrastructure and generation plant Failure to bring in capital projects on time and on budget could lead to losses or not deliver the planned returns	Carrington construction project is progressing well Networks capital expenditure is largely in line with expectations	▪ ESB ensures that strong project management methodology is rigorously applied to all major projects ▪ Regular reviews of appropriateness of business cases, market conditions and timings of investments are performed
INTERNAL	N. Successful Delivery of Change	Medium	The full benefits of agreed change programmes are not delivered or are delayed	Continued focus on change programmes	▪ ESB is maintaining a continued focus on improving overall cost competitiveness and delivering the remaining cost improvement targets of its Performance Improvement Programme, to date savings in excess of €270 million have been made against a target of €280 million ▪ Initial steps were taken to engage with Trade Unions on a sustainable employee reward model into the future

OPERATING AND FINANCIAL REVIEW

EXECUTIVE TEAM

JERRY O'SULLIVAN

Jerry O'Sullivan was appointed Deputy Chief Executive in October 2014. Prior to this, he was Managing Director, ESB Networks Ltd. He joined ESB in 1981 and held a number of positions in Power Station Construction, Distribution and Transmission, Retail, Contracting, Marketing and Customer Service. He was appointed Head of Network Services in 2002 and Head of Sustainability and Network Systems in 2008. He holds a degree in Civil Engineering from University College Cork.

JIM DOLLARD

Jim Dollard was appointed to the position of Executive Director for Business Service Centre (BSC) and Electric Ireland in July 2013. Jim was previously the General Manager of Electric Ireland having taken up that role in January 2013. An accountant, Jim began his career at ESB in 1992 and has held a number of senior management positions throughout the Group including Acting Group Financial Controller and Financial Controller ESB Energy International.

DONAL FLYNN

Donal Flynn was appointed Group Finance Director in August 2010. Prior to joining ESB, Donal worked in Airtricity and was its Chief Financial Officer from February 2008 when SSE acquired Airtricity. Donal worked in a number of finance roles with General Electric from 1998 to 2003. He qualified as a chartered accountant with Arthur Andersen having worked in both the London and Dublin practices of the firm between 1995 and 1998. Donal holds Bachelor of Commerce and Masters in Accounting degrees from University College Galway and University College Dublin respectively.

JOHN REDMOND

John Redmond was appointed Company Secretary in 2002. He was previously Group Secretary and Senior Vice President Corporate affairs of GPA Group plc. and subsequently Company Secretary of debis AirFinance BV (an associate of Daimler Chrysler) and of the SEC registered Airplanes Limited. From 1980 to 1988 he worked in the Department of Foreign Affairs and the Department of Finance. He is a graduate of NUI Maynooth and holds postgraduate qualifications in Corporate Governance from Napier University Edinburgh and from University College Dublin. He became a Fellow of the Institute of Chartered Secretaries in 1997.

PADDY HAYES

Paddy Hayes was appointed Executive Director, Generation and Wholesale Markets in June 2012. Previously he held various senior management positions in ESB including Head of Independent Generation and Manager Energy Portfolio. Prior to joining ESB in 1999, Paddy worked in a number of roles with British Steel. He is a Chartered Engineer and holds a Masters degree in Engineering from University College Dublin and an MBA from the University of Warwick.

PAUL MULVANEY

Paul Mulvaney was appointed Executive Director, Innovation in October 2014. Paul joined ESB in 1985 and has held a number of senior management positions, including Manager Great Island and Moneypoint Generation Stations, Group Manager Coal / Oil / Gas Stations, Asset Manager Power Generation and Programme Manager Corporate Change. He was appointed Managing Director eCars in 2009 and Head of Distribution & Customer Service, ESB Networks in 2012. Paul holds a degree in Mechanical Engineering and has completed the Advanced Management Programme at the IESE Business School in the University of Navarra.

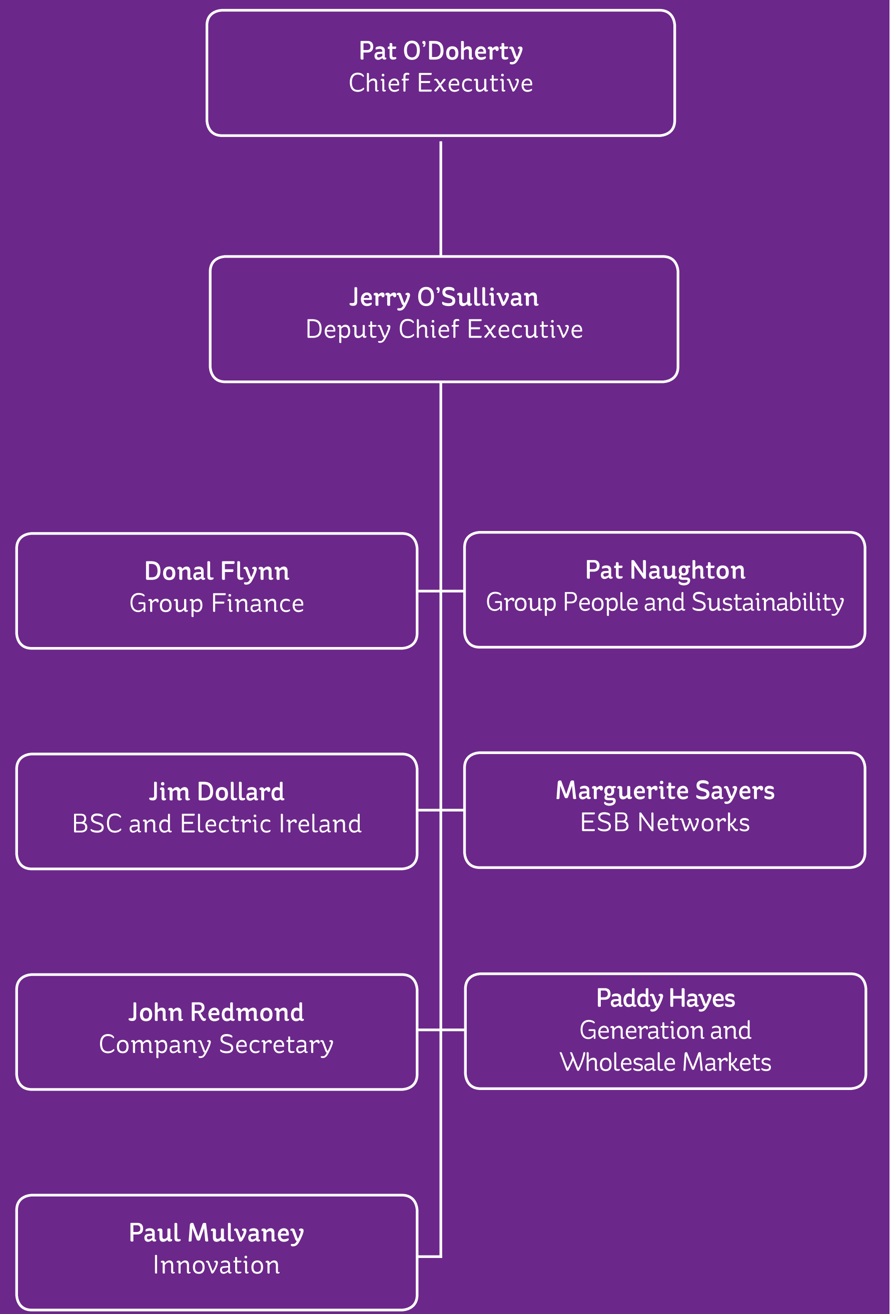
PAT NAUGHTON

Pat Naughton was appointed Executive Director Group People and Sustainability in 2012. A mechanical engineer by profession, Pat has worked in a variety of roles since joining the company in 1978. He previously held senior positions as HR Manager ESB Energy International, Manager Strategy and Portfolio Development ESB Energy International and Manager of Hydro Stations, ESB Power Generation.

MARGUERITE SAYERS

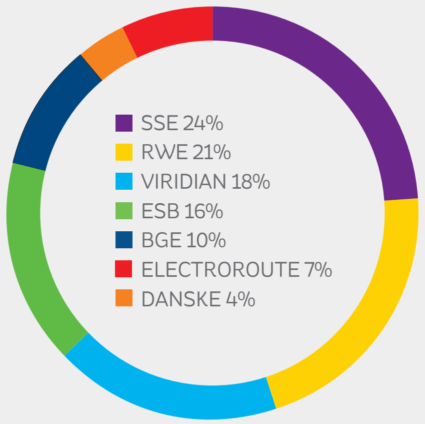
Marguerite Sayers was appointed Managing Director, ESB Networks Ltd. in November 2014. An electrical engineer by profession, she has 23 years' experience of working in various technical and managerial positions in ESB. Previously, she held roles in ESB Networks of Customer Service Manager for Dublin South and Head of Asset Management. She was also Generation Manager in Generation and Wholesale Markets where she was responsible for ESB's generation portfolio in the Republic of Ireland. She has a degree in Electrical Engineering from University College Cork, a diploma in Accounting and Finance from University of Limerick and a diploma in Project Management from University College Cork.

EXECUTIVE TEAM CHART

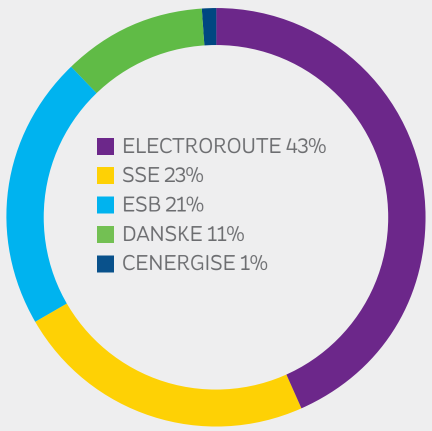


OPERATING ENVIRONMENT

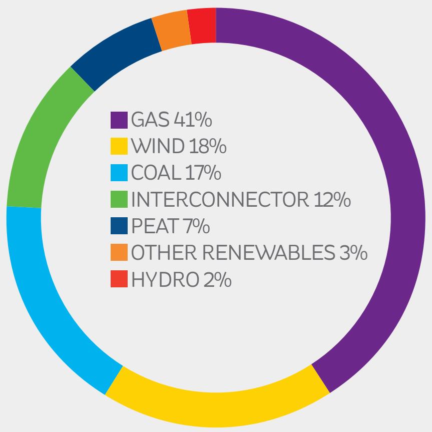
TOTAL INTERCONNECTOR IMPORTS BY PARTICIPANT



TOTAL INTERCONNECTOR EXPORTS BY PARTICIPANT



ELECTRICITY GENERATION BY FUEL TYPE



OVERVIEW OF THE ELECTRICITY MARKETS IN THE REPUBLIC OF IRELAND AND NORTHERN IRELAND

The structure of the electricity market in the Republic of Ireland (ROI) and Northern Ireland (NI) can be divided into four segments: generation, supply, transmission and distribution. Electricity generation and supply are open to full competition throughout the island of Ireland. Electricity transmission and distribution are regulated monopolies in each of ROI and NI.

Energy policy and regulation

Energy policies and energy affairs are managed through the Minister for Communications, Energy and Natural Resources in ROI and the Department of Enterprise, Trade and Investment in NI. Energy policy and regulation are heavily influenced by European Union law.

The Commission for Energy Regulation (CER) is the independent regulator of the energy markets in ROI. The Northern Ireland Authority for Utility Regulation (NIAUR) is the independent regulator of the energy market in NI.

Single electricity market (SEM)

The SEM is the single wholesale market (pool) for electricity in ROI and NI. SEM is a mandatory gross pool, so all generators have to sell and suppliers have to buy power through the pool. The pool sets the spot price for electricity, known as the system marginal price (SMP) every half hour. Generators also receive separate payments for the provision of stable generation capacity through the capacity payment mechanism. Price volatility in the pool is managed by generators and suppliers entering into fixed financial contracts (contracts for differences).

The SEM came into operation on the island of Ireland in November 2007. It is operated by the Single Electricity Market Operator (SEMO). SEMO is a joint venture between EirGrid plc. (EirGrid), the transmission system operator for ROI, and SONI Limited (SONI), the transmission system operator for NI. SEMO is licensed and regulated co-operatively by the CER and the NIAUR.

2014 saw the first steps in the design of the Integrated Single Electricity Market (I-SEM). Efficient implementation of the EU Target Model which is a set of harmonised arrangements for the cross-border trading of wholesale energy and balancing services across Europe, is the main driver for the introduction of I-SEM. I-SEM will also address a number of emerging issues for the current market design, resulting from changes in generation, demand and interconnection. I-SEM is expected to replace SEM in October 2017.

Electricity networks

The electricity transmission system is a high-voltage network for the transmission of bulk electricity supplies. The distribution system delivers electricity to individual customers over the 38kV / medium / low voltage networks. Two entities, ESB and EirGrid, own and operate the electricity networks in ROI, respectively.

Interconnection with other networks

For geographical reasons, the electricity transmission systems on the island are isolated compared to systems in mainland Europe and in Great Britain. The Moyle Interconnector links the electricity grids of NI and Scotland through submarine cables running between converter stations in NI and Scotland. The link has a capacity of 500 MW. The East-West Interconnector links the electricity transmission system in ROI to the electricity transmission system in Wales, enabling two-way transmission of electricity.

The East-West Interconnector runs between Deeside in north Wales and Woodland, County Meath in ROI. Approximately 260 kilometres in length, the underground and undersea link has the capacity to transport 530 MW – enough energy to power 300,000 homes. ESB is an active participant on the interconnectors and is responsible for 16% of total imports and 21% of total exports.

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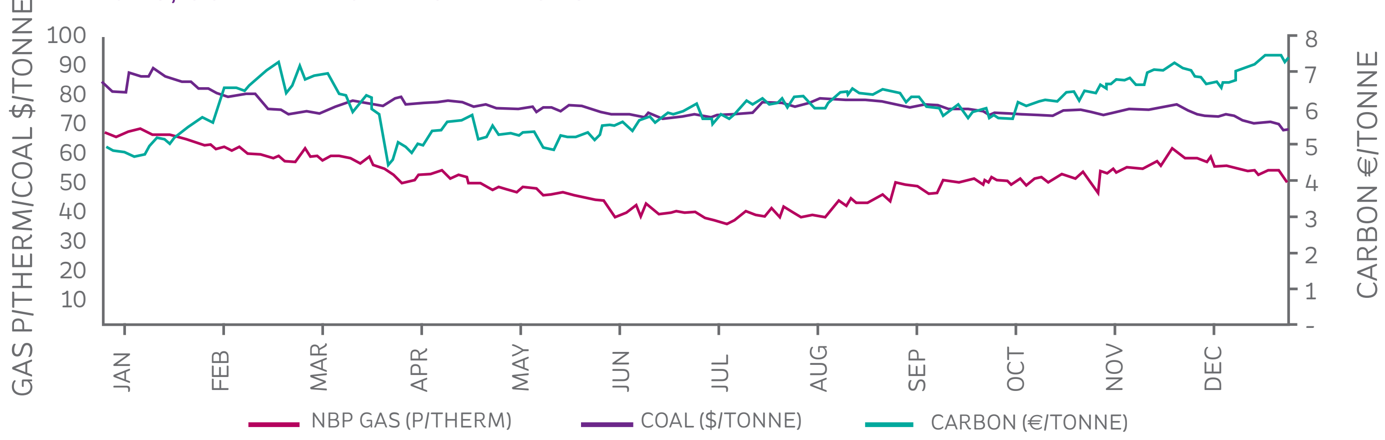
GAS, COAL AND CARBON PRICES 2014



Electricity generation

The SEM generation sector comprises approximately 12,395 MW of capacity connected to the system on an all-island basis. The capacity connected to the system includes a mix of older generation plants alongside modern combined cycle gas turbine (CCGT) plants and renewable energy sources such as wind power. These stations generate electricity from fuels such as gas, coal and oil as well as indigenous resources including hydro, wind, peat and biomass. SEM has 2,825 MW of wind installed which is key to the Government's target for 40% of electricity to be generated from renewable resources by 2020. ESB was responsible for over 43% of generation in SEM in 2014.

SEM wholesale electricity prices

The SMP in the SEM is made up of two components, the short-run marginal cost of production (SRMC) which is the cost of fuel (typically 70%) and uplift which is the recovery of start costs and no load costs (typically 30%). In 2014, 85% of generation was met by fossil fuels, predominately gas and coal. With CCGT units being the most efficient units on the system, wholesale gas price is very closely linked to the SMP. Year on year, the 2014 SMP has decreased by 14%, which has been driven by the fall in gas prices.

Electricity supply

The liberalisation of the electricity market began in February 2000, with 28% of the market opening to competition, allowing major consumers of electricity to select a supplier of their choice. A second phase brought market liberalisation to most non-domestic customers. Full market opening to all consumers occurred in February 2005.

Following a public consultation process commenced by the CER in December 2009, with effect from 4 April 2011, the CER removed price regulation previously imposed on ESB's retail electricity supply business in ROI. In connection with the removal of such price regulation, ESB rebranded its retail electricity supply business as 'Electric Ireland' and this business now operates in ROI without price regulation.

THE GLOBAL ENERGY MARKETS

Gas prices

The global gas market in 2014 has been characterised by higher than normal temperatures which have directly contributed to an oversupplied gas market. Geopolitical risks such as the Russia–Ukraine conflict did little to stem the downward momentum in prices throughout the year. Liquefied natural gas (LNG) deliveries continued to North-West Europe throughout the summer outage season and the latter half of 2014 due to an oversupplied global LNG market. This, together with record levels of gas storage across Western Europe, has kept downward pressure on gas prices throughout the year.

Shale gas

Production of shale gas in the US continued to grow in 2014, driving down US gas prices to around a half to a third of those in Europe and a fifth of those in Japan. China and Europe have shown mixed degrees of interest, but have yet to actively pursue such opportunities.

Coal prices

Coal markets have been bearish in 2014 with coal prices falling from $85/tonne to a low of $67/tonne. The downward spiral has been driven mainly by an oversupplied global market and a correlation with Brent crude prices which also fell throughout 2014.

Carbon prices

Carbon price is the amount that must be paid to emit one tonne of CO_2 into the atmosphere. Carbon prices in 2014 began strongly, rising from €4.60/tonne in January to €7.20/tonne in February when demand was at its highest driven largely by Banks and Funds trading. Prices decreased to €4.40/tonne by the end of quarter 1 due to an EU Commission study which proposed scrapping the Emissions Trading Scheme in favour of carbon taxes. EU elections saw the return of confidence in the market and prices slowly returned to the €5.50 – €6.00/tonne range over the summer season. New discussions in Brussels of a market stability reserve for excess carbon credits have put upward pressure on prices in the fourth quarter with prices returning to above €7/tonne.

GB electricity prices

GB power prices entered a bearish phase in the first half of the year, falling from highs of £51/MWh in January to a low of £34/MWh in mid July. This fall in prices was driven by a decrease in expected demand due to higher than normal temperatures together with falling fuel (coal and gas) prices and high outturn in wind generation. By August, power prices began to show signs of recovery, with day-ahead prices reaching £55/MWh in November, before falling again in December.

The first UK capacity auction took place in December 2014 with 49.3 GW of capacity procured at a clearing price of £19.40/kW.

FINANCE REVIEW

Donal Flynn,
Group Finance
Director

“ 2014 has been a more challenging year than 2013 for ESB. Operating profits are down €132 million to €552 million. Despite the challenges in 2014 we paid €318 million in dividends to our shareholder and earned a ROCE of 6% in line with other European utilities. We contributed over €2 billion to the Irish economy and were the first supplier to reduce prices for our customers in November. ESB finished 2014 with a strong liquidity position. ”

FIGURE 1: FIVE-YEAR SUMMARY

	2014 €'m	2013 €'m	2012 €'m	2011 €'m	2010 €'m
Revenue and other operating income before exceptional items[1]	3,293	3,445	3,295	2,995	2,740
Operating profit before exceptional items[2]	552	684	576	469	339
Adjusted profit before taxation[3]	307	450	351	283	249
EBITDA[4] including exceptional items[5]	1,433	1,437	1,095	1,121	839
Capital expenditure[6]	960	825	765	883	819
Net debt	4,639	4,144	4,414	4,324	3,944
Gearing (%)[7]	53%	48%	53%	52%	50%
Total assets	12,973	12,782	12,600	12,539	12,112

[1] Before the following exceptional items: 2014: profit on asset disposal (€38 million) and fair value gain (non-cash) (€94 million) 2013: profit on asset disposal (€96 million)
[2] Before the following exceptional items: 2014: profit on asset disposal (€38 million) and fair value gain (non-cash) (€94 million) 2013: profit on asset disposal (€96 million) 2012: staff exit costs (€161 million) 2010: pension charge (€330 million)
[3] Adjusted profit before tax: the profit before tax figure adjusted for exceptional items and the fair value movements on financial instruments
[4] EBITDA: operating profit before interest, taxation, depreciation, amortisation and impairment
[5] Includes exceptional items: 2014: profit on asset disposal (€38 million) and fair value gain (non-cash) (€94 million) 2013: profit on asset disposal (€96 million) 2012: staff exit costs (€161 million) 2010: pension charge (€330 million)
[6] Excludes NIE acquisition in 2010: (€1.2 billion)
[7] Excludes joint ventures

HIGHLIGHTS

- OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS: €552 MILLION
- PROFIT AFTER TAX: €215 MILLION
- CAPITAL EXPENDITURE: €960 MILLION
- DIVIDENDS: €318 MILLION[1]
- OPERATING COST SAVINGS ACHIEVED SINCE 2010: OVER €270 MILLION

[1] See note 17 in the financial statements for dividend details

FIGURE 2: SUMMARISED INCOME STATEMENT

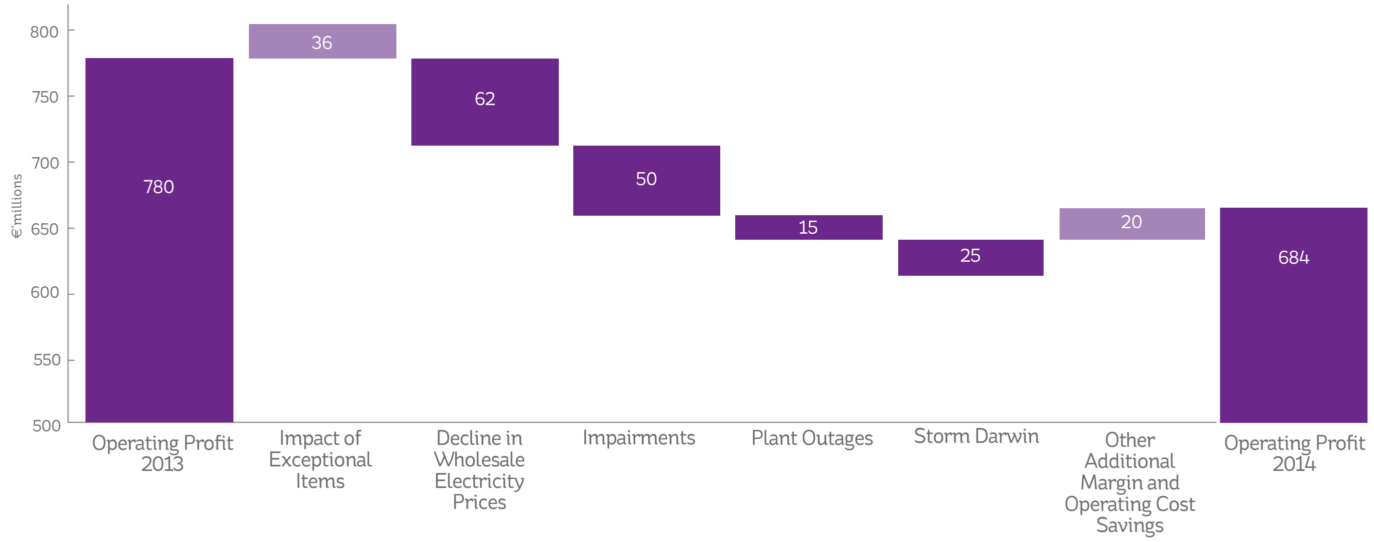
	2014 €'m	2013 €'m
Revenue and other income	3,293	3,445
Operating costs	(2,741)	(2,761)
Operating profit	**552**	**684**
Exceptional items	132	96
Operating profit after exceptional items	**684**	**780**
Total finance costs	(243)	(256)
Fair value movements on financial instruments	(225)	(19)
Joint venture profits	(1)	22
Profit before tax	**214**	**527**
Tax credit / (charge)	1	(17)
Profit after tax	**215**	**510**

REVENUE

Revenue and other operating income before exceptional items at €3,293 million has decreased by €152 million compared to 2013 (€3,445 million).

The decrease is driven by lower wholesale electricity prices in Generation and Wholesale Markets (G&WM) and reduced volumes in Electric Ireland.

FIGURE 4: RECONCILIATION OF OPERATING PROFIT 2013 TO 2014



OPERATING COSTS

Overall operating costs at €2,741 million have decreased by €20 million. Excluding the impact of fuel, other energy costs, depreciation and impairment, operating costs at €865 million are down €62 million on 2013. The variances by operating cost are outlined below:

FIGURE 3: OPERATING COSTS

	2014 €'m	2013 €'m
Fuel and other electricity related costs	1,095	1,144
Depreciation and amortisation	731	690
Employee costs	414	414
Operations and maintenance	451	513
Impairment charge	50	-
Total operating charge	**2,741**	**2,761**

- Fuel and other electricity related costs have decreased by €49 million on 2013 levels largely due to plant outages in G&WM
- Depreciation at €731 million is up €41 million on 2013 primarily due to increased capital spend
- Employee costs at €414 million are in line with 2013
- Operations and maintenance costs have decreased by €62 million mainly due to the disposal of Powerteam Electrical Services Limited in 2013
- Following impairment reviews of the generation assets in Great Britain (GB) it was decided to recognise an impairment charge of €50 million in relation to Corby Power Limited (€31 million) and West Durham Wind Farm Limited (€19 million). These impairment charges reflect lower wholesale electricity prices in GB in 2014 as well as a lower wind yield estimate for West Durham. Further detail in relation to these impairments is included in note 9 and 10 in the financial statements.

A detailed breakdown of the operating costs by business segment is provided in note 1 to the financial statements.

EXCEPTIONAL ITEMS

The 2014 exceptional items relate to:

- The sale of ESB's interest in Bizkaia Energia SL and the subsidiary ESBI Facility Management España SL (€38 million) to an affiliate of ArcLight Capital Partners, LLC, the proceeds from the sale of these assets were used to fund part of the special dividend of €400 million agreed with the Government in 2012
- The non-cash gain reflecting the fair value of ESB's 50% share in Fibre to the Building project with Vodafone (€94 million)

OPERATING PROFIT AND EBITDA

Operating profit before exceptional items has decreased by €132 million. The decrease is driven by the following:

- A decline in wholesale electricity prices €62 million which is impacting particularly on the gross margin of gas plants in G&WM
- Impairment costs of €50 million in G&WM primarily relating to a decline in wholesale electricity prices in GB
- Plant outage costs of €15 million principally in the Moneypoint plant
- Costs of €25 million in ESB Networks associated with Storm Darwin
- Offset by €20 million of additional margin elsewhere in the Group and operations and maintenance savings

EBITDA including exceptional items for 2014 at €1,433 million is €4 million lower than 2013. The items driving the operating profit decrease of €132 million described on page 31 also drive the change in EBITDA offset by the €41 million increase in depreciation, the impairment charge of €50 million and the €36 million increase in exceptional items.

ADJUSTED PROFIT BEFORE TAXATION

Adjusted profit before taxation has decreased by €143 million to €307 million (2013: €450 million). This decrease is driven primarily by lower operating profit as described above.

FIGURE 5: RECONCILIATION OF ADJUSTED PROFIT BEFORE TAXATION

	2014 €'m	2013 €'m
Profit before taxation	214	527
Exceptional items	(132)	(96)
Fair value movement on interest rate swaps	225	19
Adjusted profit before taxation	**307**	**450**

TOTAL FINANCE COSTS

Total finance costs for 2014 are €193 million higher than 2013 charges

FIGURE 6: TOTAL FINANCE COSTS

	2014 €'m	2013 €'m
Net interest on borrowings	199	208
Financing charges	45	51
Finance income	(1)	(3)
Net finance costs	**243**	**256**
Inflation linked interest rate swaps	245	(10)
Fair value losses on financial instruments	(20)	29
Total finance costs	**468**	**275**

The reduction in net interest on borrowings reflects a lower average cost of borrowing.

Financing charges have reduced as a result of a decrease in the discount rate used to calculate them.

The charge for inflation linked interest rate swaps is a negative non-cash movement relating to a mark to market valuation. This negative movement reflects the current low interest rate environment in the UK and a restructuring of the swaps during the year. Further detail is included in note 20 of the financial statements.

TAXATION

The effective tax rate for the Group is significantly lower than the Irish corporation tax rate of 12.5% as a result of:

- A tax credit relating to the fair value loss on the inflation linked interest rate swaps
- No tax arising on the sale of Bizkaia Energia SL as a result of the availability of substantial shareholder relief
- No tax arising on the fair value (non-cash) Fibre to the Building gain

SEGMENTAL PERFORMANCE

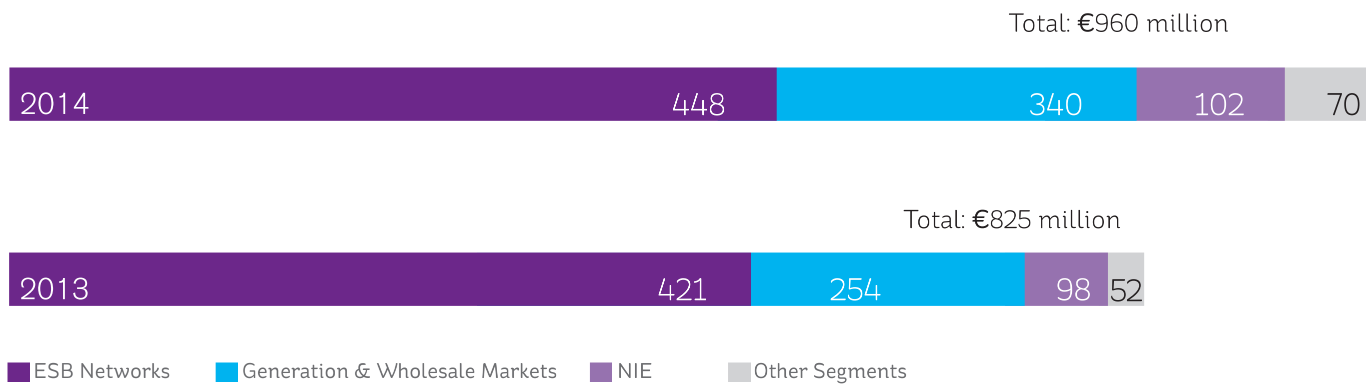
The Group is organised into five main reportable segments or strategic divisions, which are managed separately. Further details on the business segments are included in the business unit review sections on pages 36 to 45 and in note 1 of the financial statements. The Group operating profit before exceptional items of €552 million is set out below on a segmental basis.

- G&WM's operating profit (excluding exceptional items) for 2014 at €124 million is down €136 million on 2013 mainly due to a decline in wholesale electricity prices, impairment costs, plant outages and higher depreciation
- ESB Networks operating profit for 2014 at €293 million is down €1 million on 2013, the increased revenue from higher regulated tariffs is fully offset by storm costs
- NIE's operating profit for 2014 amounted to €56 million and is down €21 million on 2013 reflecting higher depreciation costs and the costs of a voluntary severance scheme
- Electric Ireland reported an operating profit of €64 million for 2014, a decrease of €15 million from 2013, the decrease in profit is due to lower gross margin and increased operating costs
- Other Segments include Innovation, Corporate and Business Service Centre activities which provide services to the main business segments above, this segment also includes most of the financing costs of the Group

FIGURE 7: SUMMARISED CASH FLOW STATEMENT

	2014 €'m	2013 €'m
EBITDA	1,433	1,437
Exceptional item	(132)	(96)
Provision utilisation and other movements	(64)	(158)
Interest and tax	(299)	(267)
Net cash inflow from operating activities	**938**	**916**
Sale proceeds	61	190
Capital expenditure	(920)	(745)
Other	28	22
Net cash outflow from investing activities	**(831)**	**(533)**
Net cash inflow / (outflow) from financing activities	**(338)**	**(172)**
Net (decrease) / increase in cash	**(231)**	**211**

FIGURE 8: CAPITAL EXPENDITURE



NET DEBT AND GEARING

The increase in net debt to €4.6 billion in 2014 from €4.1 billion in 2013 reflects increases in capital expenditure, payments on inflation linked interest rate swaps, the weakening of the euro and higher dividend payments.

The gearing level of 53% is 5% higher than 2013 reflecting higher net debt. During the year total assets increased to €13.0 billion from €12.8 billion, mainly reflecting the ongoing capital investment program in the Group.

CAPITAL EXPENDITURE

Capital expenditure totalled €960 million in 2014, this is an increase of €135 million on 2013 investment levels.

Capital investment in the networks businesses continued in 2014 with €550 million invested in the networks infrastructure in the Republic of Ireland (ROI) and Northern Ireland (NI). This expenditure is based on the five-year capital expenditure programmes agreed with the respective regulators in ROI and NI.

Expenditure in G&WM in 2014 includes €261 million spent on the construction of Carrington, the combined cycle gas turbine power station in GB. This project is expected to reach commercial operation in 2016. A further €79 million has been invested in the generation business, of which €61 million relates to plant overhauls and other projects and €18 million to renewables projects.

TREASURY MANAGEMENT

FRAMEWORK FOR TREASURY AND TRADING OPERATIONS

The main financial risks faced by the Group relate to liquidity, commodity (electricity and fuel) price movements, foreign exchange, interest rates, counterparty credit and operational risk.

Group Treasury is responsible for the day-to-day treasury activities of the Group. The Finance and Business Performance Committee of the Board is updated on an ongoing basis on key treasury matters.

Derivative instruments are used to mitigate financial risks and are executed in compliance with the Specification of the Minister for Finance issued under the aegis of the Financial Transactions of Certain Companies and Other Bodies Act 1992. This Act enables ESB to enter derivative contracts to eliminate or reduce risk of loss arising from changes in interest rates, currency, commodity prices or other factors similar in nature.

IAS 39 hedge accounting is applied to the Group's derivative positions where possible. Where derivative instruments held do not qualify for hedge accounting, they are nevertheless regarded as good economic hedges.

FOREIGN EXCHANGE AND INTEREST RATE RISK MANAGEMENT

The majority of the Group's business is located in Ireland and the UK. Accordingly, operating and investing cash flows are mainly denominated in either euro or sterling. The main exception to this are coal purchases, which are generally denominated in US dollars. Foreign currency exposures are managed using currency derivatives such as forward purchase contracts.

The Group's policy is to finance its euro denominated business through borrowing directly in euro or to convert any foreign currency borrowing to euro through the use of derivative instruments. Investments in the UK (including NIE, and the Carrington Power Station currently under construction) are generally funded by sterling denominated debt. Approximately 59% of ESB's debt is denominated in euro, with the remaining 41% in sterling.

In June 2014 the Group successfully concluded a restructuring of its Retail Price Index (RPI) linked interest rate swaps in connection with the NIE business. The mandatory break period in the swaps was extended from 2015 to 2022, which reduced liquidity risk in the Group. Early settlement in 2014 of accrued accretion payments, together with amendments to the fixed interest rate element of the swaps were also agreed. Arising from this restructuring, there was an increase in the number of RPI swap counterparties and competitive pricing was achieved, taking prevailing market conditions into account. Given the historically low forward interest rates during the year, there were inevitably negative fair value movements during the year on these and other of the Group's interest rate swaps. These swaps form part of the Group's interest rate policy of maintaining a significant majority of its debt at fixed (or inflation linked) interest rate to maturity, with a minimum of 50% fixed (or inflation linked) at all times. Currently 96% of the Group's debt is fixed to maturity or inflation linked.

COMMODITY PRICE RISK

The volatility of the fuel prices required for ESB's electricity generation activities is a feature of the business and the resulting exposures to the impact of fuel price movements on future earnings are managed by ESB on a selective hedging basis. ESB has entered into forward commodity price contracts in relation to gas, coal and carbon emissions allowances for up to three years ahead in order to reduce the Group's exposure to movements in wholesale electricity prices arising from such commodity price fluctuations. The Group's supply business, Electric Ireland, provides a natural hedge in this regard.

COUNTERPARTY CREDIT RISK

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts within financial and commodity markets. The Group's policy is to limit exposure to counterparties based on assessments of credit risk. Exposures and related limits are subject to ongoing review and monitoring in each business unit, and, on a Group-wide basis, by the Group Trading Committee (GTC). Dealing activities are controlled by establishing dealing mandates with counterparties.

In general, counterparty credit limits set by the GTC are closely linked to the credit rating of each counterparty as determined by the leading credit rating agencies, although other factors, including security provided and the legal structure of the transaction, may also be taken into account. The limit set for a counterparty is the amount by which the sum of the settlement amount, the mark to market value and the potential future exposure may not exceed, and these positions are reviewed on a regular (up to daily) basis.

FUNDING

The Group's funding operations are of strategic importance and support capital expenditure, the refinancing of maturing debt and the maintenance of liquidity. Following the credit crisis ESB embarked on a successful programme of funding, notably in the form of €1.4 billion raised in the Eurobond market in 2012 and 2013. As a result of this, together with a strong operating cash flow performance during the year, there was little requirement for new funding in 2014, and the majority of the debt drawn down during the year related to the project financed Carrington Power Station.

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account funding costs and the need for risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements and Group Treasury maintains diversity in ESB's lender base in order to achieve a strategic spread of risk.

In January 2015, the Group's revolving credit facility, agreed in February 2013, was amended. The amendment, agreed with a group of 14 leading Irish and international banks, increased the size of the facility from €1.4 billion to €1.44 billion, combined with a significant reduction in pricing. The facility provides ESB with a very substantial level of standby liquidity for the next five years.

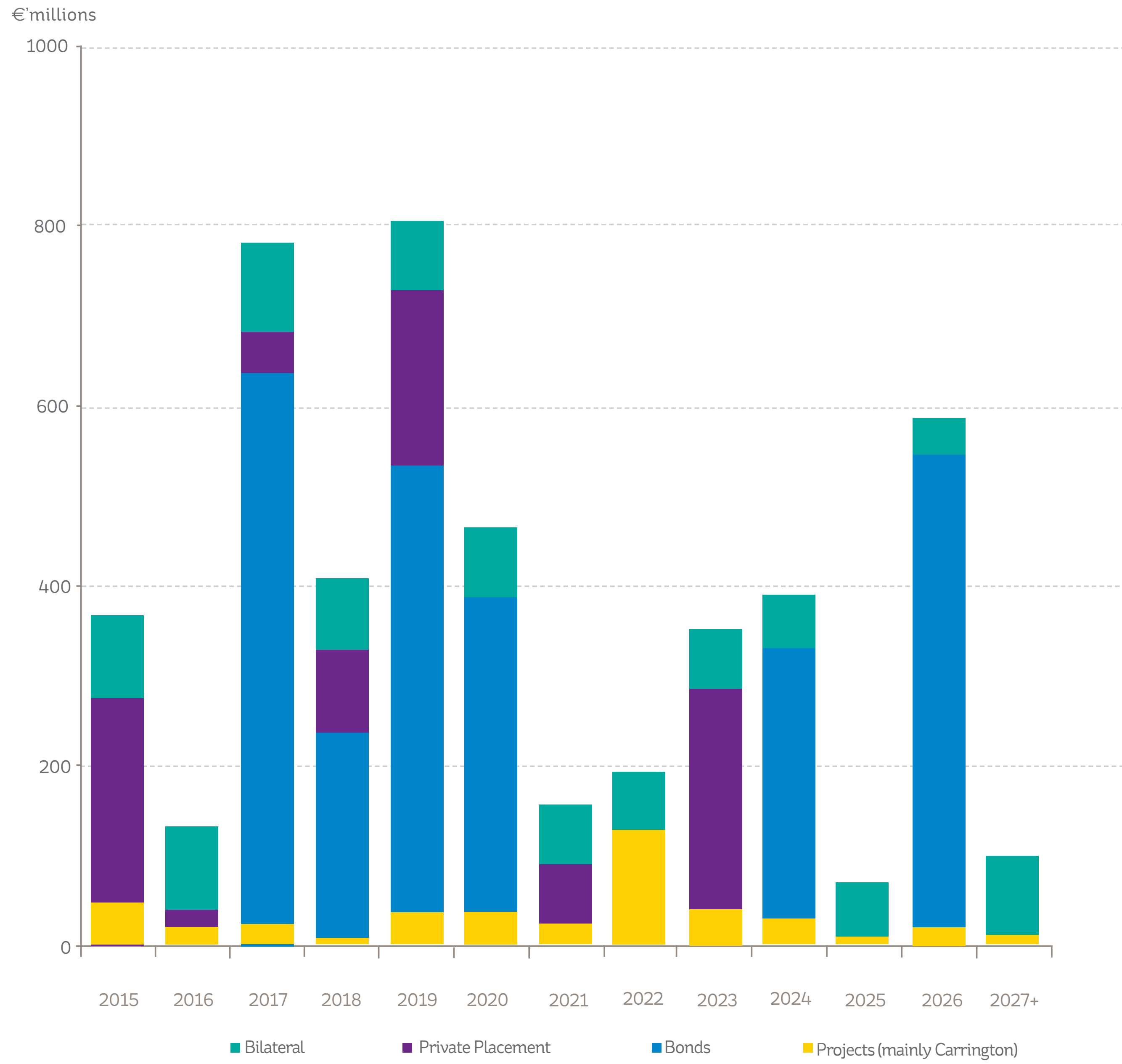
ESB's funding position reflects its underlying financial strength and BBB+ (or equivalent) credit ratings from all three major agencies. ESB's debt maturity profile as set out in the chart on page 35 is very manageable, particularly in the context of EBITDA of €1.4 billion in 2014 and liquidity of €1.8 billion (between cash undrawn committed facilities) at the year end. The Group continues to maintain its ability to fund with the active management of bank, investor and ratings agency relationships.

The weighted average interest rate on the Group's portfolio of outstanding borrowings at 31 December 2014 was 5.8%, and the weighted average duration of such borrowings as at that date was just over six years. ESB will seek where possible to avail of opportunities in the current funding environment to reduce the average rate, and increase the average tenor, of ESB's debt portfolio, taking the repayment profile of existing borrowings into account.

FUTURE OUTLOOK

The economic and geopolitical climate, and volatility in market prices, will continue to pose challenges for the business into

FIGURE 9: ESB SCHEDULED DEBT REPAYMENT PROFILE AT 31 DECEMBER 2014



2015. However, the Group has a strong liquidity position, access to diverse funding sources and a manageable debt maturity profile. Furthermore, future operating cash flows arising from electricity revenues and associated fuel procurement and foreign currency requirements are appropriately hedged in line with its trading risk management strategy. Together with an ongoing focus on cost control and performance improvement, these factors ensure that the Group is well positioned to deliver its programme of energy infrastructure investment, and create value for all its stakeholders, in the years ahead.

GENERATION AND WHOLESALE MARKETS (G&WM)

Paddy Hayes, Executive Director, Generation and Wholesale Markets

"2014 was a challenging year for Generation & Wholesale Markets, reflected in a €193 million reduction in operating profit. Excluding the impact of exceptional profits arising from asset disposals, profits are down by €136 million. This results from the decline in wholesale electricity prices, impairment costs, extended plant outages and higher depreciation costs. The focus for 2015 is on developing further renewable possibilities, delivering assets under construction, improving core availability and optimising trading and risk management in wholesale markets."

G&WM PERFORMANCE IN 2014

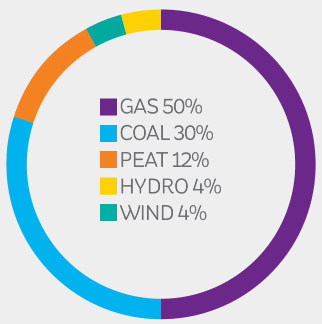
OPERATING PROFIT

2014 €162 million
2013 €355 million
(€193 million)

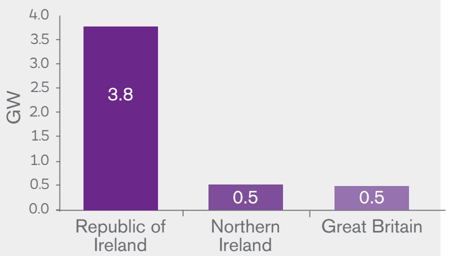
CAPITAL EXPENDITURE

2014 €340 million
2013 €254 million
€86 million

GENERATION FUEL MIX



GENERATION CAPACITY[1]



[1] **Generation Capacity –** Total installed dispatchable capacity by location (GW)

OVERVIEW

The G&WM business develops, operates and trades ESB's electricity generation assets. The portfolio includes 4,300 MW of generation in the Single Electricity Market (SEM) and 475 MW in Great Britain (GB). During 2014, ESB successfully sold its 50% shareholding in Bizkaia Energia SL, the 755 MW combined cycle gas turbine in northern Spain.

OPERATING ENVIRONMENT

SEM demand for electricity levelled off in 2013 and 2014 following an aggregate reduction of 6.5% between 2008 and 2012. G&WM's margin during 2014 was negatively impacted by significantly lower plant availability in some critical generating assets, particularly Moneypoint and generally reducing wholesale electricity prices.

Further progress was made in response to the Government's October 2012 request for a special dividend of €400 million through the sale of non-strategic assets. Following on from the sale of ESB's shareholding in Marchwood Power in GB during 2013, the sale of ESB's 50% shareholding in Bizkaia Energia SL in Spain was completed in May 2014.

Whilst the intention to sell the peat stations of Lough Ree and West Offaly was announced and the process commenced, it was confirmed in July 2014, following a detailed review, that ESB would retain ownership of these plants. The final instalment of the special dividend was paid in early 2015.

As part of the UK Government's Electricity Market Reform (EMR) programme, the first capacity auction took place in December for capacity to be provided in 2018 and cleared at £19.40/ kW. ESB's GB thermal plants, Corby and Carrington, withdrew from the auction before the clearing price was reached.

INVESTMENT AND GROWTH

G&WM is responsible for identifying and developing opportunities to enhance and expand ESB's generation portfolio, with the objective of building a balanced, low carbon generation portfolio of scale in the all-islands market.

The implementation of this strategy advanced in 2014 as the construction of the 881 MW Carrington Power Station near Manchester in GB continued. This important project is progressing well with all major plant components now on-site; it is expected to reach commercial operation in 2016.

ESB's pipeline of investment options remains strong with an application, for a 1,500 MW gas-fired power plant in Knottingley, England currently under review by the planning authorities, with a determination expected in 2015.

ESB has been actively developing a portfolio of renewable assets, complemented by acquisitions and partnerships. There was good progress in the construction of a 20 MW wind farm at Woodhouse in County Waterford. It is scheduled for commercial operation in the first half of 2015 and will bring ESB's operational wind portfolio to over 400 MW. In addition, ESB is actively exploring additional investment opportunities in both wind and alternative renewable technologies, including solar and biomass in order to grow a diverse renewable portfolio.

G&WM continues to invest in existing generation assets with major overhauls in 2014 at a number of power stations including Moneypoint and Aghada. The long-term programme of renewing hydro assets continued with significant work at Erne and the completion of a major refurbishment at Ardnacrusha.

In the trading area, a major systems and business process project was successfully completed during 2014, delivering a single, integrated system across ESB's generation portfolio, with enhanced trading and risk management capabilities.

G&WM successfully increased the scope of its accreditation to PAS 55, an international standard relating to excellence in Asset Management. Moneypoint (coal), Coolkeeragh, Marina, Poolbeg (gas), Ardnacrusha, Turlough Hill, Liffey (hydro), Fullabrook and Hunter's Hill (wind) were externally assessed in 2014 and join the five previously certified plants. This programme will continue with the remaining generating assets through 2015.

G&WM CUSTOMERS

G&WM continues to offer a variety of traded contracts to all supply companies in the SEM on a non-discriminatory basis via the Over the Counter trading platform. During 2014 ESB broadened the range of power products provided and sold these contracts to an increased number of electricity suppliers. These contracts provide all suppliers with the opportunity to hedge their power purchases which in turn, enables them to better manage risk and power price volatility for their retail customers, both residential and commercial.

PEOPLE

During 2014, Carrington Power Station successfully recruited the team to operate and maintain the plant, bringing average staff numbers in G&WM in 2014 to 983, a slight decrease on 2013.

Staff numbers remain 20% lower than at the end of 2011. Operating with the reduced numbers while maintaining the safe and effective performance of the business and delivering the strategy continued to be a key focus during 2014.

Safety is of fundamental importance and G&WM's safety improvement programme during 2014 centred on a behavioural safety programme known as 4You and a major process safety project, both of which will continue in to 2015. All locations within G&WM are covered by an OHSAS certified safety management system.

In the area of staff engagement, the Strategy and Regulation, Human Resources and Finance teams within G&WM were awarded the Excellence Through People standard for the first time while the Trading team retained their accreditation in 2014.

SUSTAINABILITY

G&WM operates its business with a focus on minimising its environmental impact; its investment strategy is to significantly increase the amount of renewable generation plant and reduce the carbon intensity of generation.

The absolute levels of CO_2 emissions from G&WM's SEM generation plants in 2014 were 37% less than 2005. The carbon intensity of ESB generation (the CO_2 emitted per unit of electricity generated) also reduced over the same period.

ESB continues to invest in its Fisheries Conservation Programmes which includes the operation of three salmon conservation hatcheries, a comprehensive river restoration programme, and the juvenile and silver eel trap and transport programmes. These programmes deliver clear environmental benefits in terms of the improvements of fish stocks and the natural river habitats.

PRIORITIES FOR 2015

OPERATIONAL

- Maintaining a healthy and injury-free workplace, building on the 4You programme, embedding the Process Safety Project, and seeking further improvement in the application of ESB's Safety Leadership Framework.
- Delivering strong commercial and operational performance across ESB's generation plant through best practice operations and maintenance and timely completion of overhauls.
- Safely progressing construction and commissioning of the 881 MW Carrington Power Station near Manchester and completing the construction of the 20 MW wind farm at Woodhouse in Waterford.

STRATEGIC

- Commencing construction of additional renewable projects supporting the reduction in the carbon intensity of generation, and continuing to develop diverse renewable and thermal growth options.
- Building on G&WM's new trading systems and risk management capability and preparing for the introduction of the I-SEM electricity wholesale market in 2017.

TURLOUGH HILL AND MARINA GENERATING STATIONS

ESB celebrated the 40 and 60 year anniversaries of Turlough Hill and Marina generating stations respectively during 2014. Turlough Hill was opened to the public for its 40th anniversary and the response was fantastic, attracting over 20,000 visitors including many schools and community groups. The continued success of Marina and Turlough Hill is a credit to the staff (both past and present) involved in building, operating and maintaining quality generation assets and providing energy for generations of customers.

01 STRATEGY AND PERFORMANCE
02 CORPORATE GOVERNANCE
03 FINANCIAL STATEMENTS

ESB NETWORKS

Marguerite Sayers, Managing Director, ESB Networks Ltd

“The outstanding performance of all staff in ESB Networks in response to Storm Darwin and other winter storms again reflected ESB's ongoing commitment and dedication to providing excellent customer service. ESB's proactive customer communications during these storms was recognised by the Public Relations Institute of Ireland, with the award for the Best Corporate Campaign 2014.”

ESB NETWORKS PERFORMANCE IN 2014

OPERATING PROFIT

2014 €293 million
2013 €294 million
(€1 million)

CAPITAL EXPENDITURE

2014 €448 million
2013 €421 million
€27 million

REGULATED ASSET BASE (RAB)[1]

2014 €7.1 billion
2013 €7.0 billion
€0.1 billion

CUSTOMER MINUTES LOST[2] (CMLS)

2014 146 minutes
2013 127 minutes
19 minutes

CHARTER DEFAULTS[3] (NUMBER)

2014 1,155
2013 1,063
92

SUPPLIER CALLS[4] <5 DAYS

2014 91%
2013 93%
(2%)

[1] **Regulated Asset Base (RAB) -** The asset base which ESB Networks is entitled to earn a regulated return on
[2] **Customer Minutes Lost-** Customer Minutes Lost is the average duration of interruptions for all customers during the year
[3] **Charter Defaults -** The total number of Charter Default payments that are made if the service guarantees are not met
[4] **Suppliers calls <5 days –** The % of supplier calls completed in less than 5 days

OVERVIEW

ESB Networks aims to construct and maintain a safe, reliable and affordable electricity network of 183,200 kilometres in the Republic of Ireland (ROI). In line with this objective, ESB Networks made an infrastructure investment of €448 million (net of customer contributions) in 2014, which brings the investment in critical electricity network infrastructure over the last five years to €2.4 billion. During 2014, €129 million was spent on maintaining the existing network.

Tragically, one of our colleagues, Declan Molloy, lost his life while working at a 38kV substation in Little Bray in September 2014. In addition to a HSA investigation, a comprehensive internal investigation has been carried out into this tragic accident and there will be a sustained focus on implementing the recommendations of this investigation.

OPERATING ENVIRONMENT

A recovery in the Irish housing market has been the main driver for an increase of circa. 14% in the number of new connections for both homes and businesses. The highest growth has occurred in new connections for housing schemes and apartments where further growth is envisaged in 2015.

The amount of wind generation connected to the electricity network in ROI has exceeded 2,200 MW and continues to increase annually. Ireland is well on track to achieving the national target of providing 40% of its electricity needs from renewable resources by 2020.

STRATEGIC AIMS

Health & safety: ESB Networks is fully committed to ensuring the health and safety of staff, contractors and the public. The tragic accidental death of our colleague Declan Molloy in 2014 has reinforced the commitment to the delivery of ESB Networks safety strategy aimed at further embedding safe delivery of work as a core value based on the four pillars of leadership, competence, compliance and engagement.

Electricity infrastructure investment and growth: ESB Networks invested €448 million (net of customer contributions) in critical network infrastructure in 2014. The focus of the investment in the transmission network was on continuing the reinforcement of the transmission system to facilitate and enable new, renewable electricity generation.

ESB Networks also continued to invest in the electricity distribution network to improve reliability of supply and ensure the safety of the network.

- Significant progress was made on completing a major circa. €400 million project in the South-West, which includes five new 220/110kV stations
- 200 MW of wind farm capacity was connected to the transmission and distribution systems

- Significant progress was made on completing a further two transmission wind farm connections
- A new 69 kilometres 110kV line project was completed, 87 kilometres was refurbished and 162 kilometres of transmission lines was uprated, as part of the Grid 2025 Transmission Reinforcement Programme
- Completion of the Storm Impact Rectification Project

Smart metering programme: Following successful smart metering trials and policy consultations, the Commission for Energy Regulation (CER) issued a policy decision paper in October 2014 which included its decision for the National Program to proceed to the next stage. This stage will focus on designing the changes to the market design, finalising specifications and conducting procurement processes for the meter and communications products and services necessary to deliver smart metering. The outcome of this stage will lead to a determination by CER as to whether the proposed roll out is to proceed.

ESB NETWORKS' CUSTOMERS

Customer satisfaction with ESB Networks' overall performance continues to be above target at 80%. ESB Networks' National Customer Care Centre (NCCC) continues to maintain its world-class customer service levels. In 2014, the NCCC team successfully retained its Global Standard accreditation with the Customer Contact Association (CCA–UK).

ESB Networks is also continuing to expand its service channels, with its Twitter following continuing to grow and the PowerCheck app increasing in usage. During the year ESB Networks also continued to provide critical market services to electricity suppliers in line with service level agreements. This included the processing of the transfer of over 316,000 customer switches between suppliers to facilitate intense competition between electricity suppliers and installation of almost 21,000 Pay As You Go (PAYG) meters for electricity customers experiencing financial hardship.

PRIORITIES FOR 2015

OPERATIONAL

Ensuring the health and safety of staff, contractors, and the public and given the nature of electricity, ESB Networks understands the complexity of its safety challenge.

Continue to work closely with CER to deliver the customer service targets contained in the regulatory determination in line with the Customer Service Improvement Plan (2013–2016).

STRATEGIC

Efficiently deliver the critical infrastructure required to support the ongoing growth of the Irish economy.

To be a recognised leader in the area of energy and environmental sustainability and develop an integrated Smart Networks Strategy to enable national targets to be met.

Achieving an acceptable Revenue Determination for 2016 to 2020. It is expected that CER will make a decision on the PR4 submission in mid-2015, which will set the allowed revenue for ESB Networks for the period 2016 to 2020. This will determine ESB Networks ability to support the development of the electricity network in the period 2016 to 2020.

PRICE REVIEW 4 (PR4)

In November 2014, ESB Networks submitted its proposed revenue for the five-year period 2016 to 2020 (PR4) to the CER. The submission was based on the requirement for critical electricity network infrastructure and operating expenditure over that period. ESB Networks considers that its revenue proposal for the 2016 to 2020 period is appropriately balanced, ensuring that ESB Networks can finance the cost of providing a safe and reliable electricity network for its customers and the Irish economy, whilst maintaining excellent customer service at an affordable price. The CER is expected to give their final determination in mid 2015.

STORM DARWIN

Storm Darwin in February 2014 was one of the worst storms on record in ROI. With sustained wind speeds of 120 km/hr and damaging gusts up to 177 km/hr over a 3–4 hour period, the storm severely damaged the network in the south and resulted in loss of supply to 280,000 customers. ESB Network's response was two-fold.

- The initial storm response focused on repairing immediate storm damage and restoring supply to over 280,000 customers in a timely manner, this included replacing over 2,000 poles, 411,000 kilometres of electricity conductor and 4,200 transformers, answering over 200,000 customer calls and involved 2,700 people
- A follow-on public safety survey and hazard rectification programme of the network most severely affected by the storms was completed

PEOPLE

ESB Networks' business strategy can only be achieved by everyone working together to deliver its various elements. The ESB Networks' people strategy is aligned with the ESB Group Strategy and reflects the importance of improved performance in achieving success. In 2014, a strong focus was placed on the development of people in all parts of the organisation.

SUSTAINABILITY

During 2014, ESB Networks maintained external accreditation to ISO 14001:2004 – the International Standard for Environmental Management Systems.

NORTHERN IRELAND ELECTRICITY (NIE)

Jerry O'Sullivan, Deputy Chief Executive

"The Competition and Markets Authority's final determination on NIE's price control in April has enabled capital investment programmes to be scaled up and provides closer alignment with the regulatory framework in Great Britain (GB)."

NIE PERFORMANCE IN 2014

OPERATING PROFIT

2014 €56 million
2013 €77 million
(€21 million)

CAPITAL EXPENDITURE

2014 €102 million
2013 €98 million
€4 million

REGULATORY ASSET BASE[1] (RAB)

2014 £1. 3 billion
2013 £1. 2 billion
£0.1 billion

LARGE-SCALE RENEWABLE GENERATION CONNECTED: (>2MW)[2]

2014 98 MW
2013 60 MW
38MW

CUSTOMER MINUTES LOST (FAULTS)[3]

2014 56 minutes
2013 56 minutes
-

STAGE 2 COMPLAINTS TO CONSUMER COUNCIL[4]

2014 6
2013 3
3

[1] **Regulatory Asset Base** - The regulatory value of NIE's Transmission, Distribution and Land Bank assets

[2] **Large-scale renewable generation connected: (>2MW)** - The number of megawatts of capacity connected to NIE's transmission and distribution networks during the year from wind generation projects with individual capacity of over 2 MW

[3] **Customer Minutes Lost (Faults)** - The average number of minutes lost per customer through Distribution fault interruptions excluding the effect of major storms

[4] **Stage 2 complaints to consumer council** - The number of customer complaints which the Consumer Council for Northern Ireland takes up on behalf of customers

OVERVIEW

NIE's principal activities are the construction and maintenance of 48,000 kilometres of transmission and distribution networks in Northern Ireland (NI) and the operation of the distribution network. In 2014, NIE continued to invest in NI's electricity infrastructure by replacing worn assets, servicing increased customer demand and facilitating connection of renewable generation, while maintaining safety and security of supply. As required under the NIE regulatory licence, NIE maintains full managerial and operational independence within the ESB Group.

OPERATING ENVIRONMENT

NIE's price control in respect of the fifth regulatory period commencing on 1 April 2012 (RP5) was determined in April 2014 following a referral to the UK Competition and Markets Authority (CMA). A key aspect of the CMA's determination is the closer alignment of the regulatory framework and reporting arrangements with those applied by Ofgem (the GB regulator). NIE fully supports this change, which should facilitate future price control reviews. The price control will apply for the period from 1 April 2012 to 30 September 2017.

The CMA substantially allowed the components of the investment plan proposed by NIE, with the main exceptions being the proposals for improving network performance and increasing the resilience of the 11kV rural network to ice-accretion events. NIE's emphasis during RP5 will be on the delivery of specified outputs, particularly regarding asset replacement expenditure.

The price control also provides for additional capital expenditure relating to large transmission projects, which may be approved by the Utility Regulator on a case-by-case basis.

In May 2014, responsibility for transmission network planning was transferred to SONI Limited, the transmission system operator in NI, as a consequence of the IME Directive.

INVESTMENT AND GROWTH

During the year NIE invested €102 million in its networks (net of customer contributions), which was consistent with 2013.

The investment was primarily the refurbishment and replacement of worn transmission and distribution assets to improve the reliability of supply and ensure the safety of the network. Key projects progressed during the year included construction of the new 110/33kV substation at Whitla Street in Belfast and major refurbishment underway at 275/110kV substations at Kells, Castlereagh and Tandragee.

Further network development to facilitate the connection of additional renewable generation included construction of new transmission infrastructure at Tamnamore and the uprating of existing transmission overhead lines.

NIE CUSTOMERS

During the year, strong standards of customer service were maintained; the number of customer minutes lost both for planned interruptions in supply and due to faults, remained well within the target range and the number of customer complaints which the Consumer Council for Northern Ireland took up on behalf of customers (Stage 2 complaints) remained low.

NIE continues to test and confirm the robustness of its emergency response capabilities during severe weather events and arrangements are in place between ESB Networks and NIE to provide reciprocal emergency support if needed.

During the year, four large-scale wind farms were connected to the network, providing an additional 98 MW of renewable generation. The rate of applications for the connection of small-scale renewable generation continued at the high levels experienced during 2013 with 59 MW connected, including single wind turbines, anaerobic digesters, hydro turbines and domestic solar photovoltaic micro-generation projects. By the end of the year, there was a total of 750 MW of renewable generation connected, representing around 20% of total generation in NI. This high level of activity has led to congestion in the distribution network, which has resulted in increased costs for developers where there is significant 11kV reinforcement required. Parts of the 33kV network also require reinforcement, which is subject to agreement with the Utility Regulator. NIE is working with key stakeholders to resolve these issues.

PEOPLE

During the year, a new Vision, Mission and Values Statement for the business was developed through employee engagement and communicated to all employees. Ensuring the safety of employees, contractors and the general public continued to be the number one value at the heart of all NIE's operations. The aim is to provide a zero harm working environment where risks to health and safety are assessed and controlled. However, during the year there was one lost-time incident. The quality of near miss reporting in NIE continues to improve safety performance.

Against the backdrop of the price control determination, management considered a range of cost reduction initiatives including working with employees on the implementation of a voluntary selective severance scheme under which 100 employees left the business. Organisational structures have been streamlined, with development opportunities available for all levels of employees. NIE continues to refresh its workforce with apprentice and graduate engineering trainees and provides several scholarship programmes to electrical engineering undergraduate students and an Apprentice to Graduate programme.

NIE was accredited by the UK Commission for Employment and Skills with the Investment in People (IIP) Gold Standard, the highest level of accreditation.

SUSTAINABILITY

NIE is committed to the highest levels of sustainability in all aspects of its operations and maintained ISO 14001 accreditation during the year. There has been continued focus on waste management targets with the recycling rate for all hazardous and non-hazardous waste (excluding excavation waste from roads and footpaths, civils project excavation and asbestos removal) at 98%.

PRIORITIES FOR 2015

OPERATIONAL

- Ensuring the health and safety of employees, contractors and the general public will continue to be NIE's top priority.
- Consistently providing high standards in network performance and customer service.
- NIE will strive to operate within the expenditure allowances set in the price control, delivering cost efficiencies and performance improvements where possible.

STRATEGIC

- Further ramp up of the network investment programme to replace worn / aged assets and to facilitate connection of renewable generation within regulatory allowances.
- Continuing investment in employees to enhance the organisation's capability through further employee development programmes, increased employee engagement and empowerment and extended educational outreach initiatives.
- Engaging effectively with key stakeholders including the regulators, renewables industry groups, Confederation of British Industry (CBI) and large energy users.

SHIFT & SAVE SMART GRID

NIE completed its Shift & Save Smart Grid trial during the year. The trial, involving 200 homes, investigated how smart meters and smart grid technology could change homeowners' energy usage patterns. Customer behaviour was monitored via in-home displays and the use of a multirate shadow tariff. During the trial customers significantly reduced the average tea-time peak usage and the total number of units used.

ELECTRIC IRELAND

Jim Dollard, Executive Director for Business Service Centre and Electric Ireland

"Electric Ireland is aware that cost is a significant issue for all customers. Electric Ireland competes effectively in the market, as evidenced by the volumes of customers who joined Electric Ireland in 2014. In addition, in November 2014 Electric Ireland took the decision to reduce its electricity prices in the residential market by 2% for all its customers, ahead of the winter peak."

ELECTRIC IRELAND PERFORMANCE IN 2014

REVENUE

2014 €2,057 million
2013 €2,078 million
(€21 million)

OPERATING PROFIT

2014 €64 million
2013 €79 million
(€15 million)

CUSTOMER NUMBERS[1]

2014 1.5 million
2013 1.5 million
-

MARKET SHARE[2]

2014 37%
2013 37%
-

ENERGY EFFICIENCY (GWH)[3]

2014 110 GWH
2013 N/A

RESIDENTIAL CUSTOMER SATISFACTION[4]

2014 90%
2013 89%
1%

[1] **Customer Numbers** - customer numbers for residential, business and gas

[2] **Market Share** - Total SEM all-island market share

[3] **Energy Efficiency (GWh)** - Cumulative GWh savings achieved as part of National Plan 2014-2016

[4]. **Residential Customer Satisfaction** - Research Perspective Monthly survey results

OVERVIEW

Electric Ireland is the retail arm of ESB, supplying electricity, gas and energy services to its customers. It operates in all market segments in the Republic of Ireland (ROI) and supplies energy and services to business customers in Northern Ireland (NI). The Electric Ireland brand was launched in 2011 and is now recognised as a leading retail brand by Irish consumers and businesses with brand awareness at 95%.

OPERATING ENVIRONMENT

2014 was notable for continued high levels of competitor activity in the marketplace; new entrants to the market commenced activities and a number of high profile marketing campaigns were launched. Electric Ireland has competed effectively in this environment through continued focus on competitively priced products and strong customer service and maintained its overall market share. It has also remained highly competitive in the business segment of the market and has grown its market share in the small and medium sized business segment.

A key factor in the success of the business is the capability, knowledge and flexibility of staff in understanding customer needs and providing innovative products and services to meet those needs.

STRATEGIC AIMS AND RESPONSE TO CHANGE

Electric Ireland's strategy is to be the leading energy supplier in the market offering smart and innovative solutions to homes and businesses. This will be achieved by providing competitive offerings, excellent customer service and new and innovative products to meet customer needs.

These solutions include:

- Rolling out a Pay As You Go (PAYG) product for residential customers
- Launching a Fuel Variation Tariff (FVT) gas product for business customers
- Introducing new home heating control devices (e.g. NEST) to customers
- Developing new initiatives to help customers invest in energy efficiency improvements in their home
- Maintaining the Electric Ireland brand as the leading energy supply brand in the country

ELECTRIC IRELAND CUSTOMERS

In a continuing drive to gain and retain residential customers, Electric Ireland continued to successfully develop and launch new and differentiated product and price offerings.

Electric Ireland continues to maintain its strong presence in the large business market sector despite significant competition. This market segment consists of predominantly high load factor customers to whom it provides a tailored customer service, supported by a range of energy efficiency solutions. There was also strong growth in the electricity small and medium-business market sectors (both increased by 6% over the past 12 months). During 2014, Electric Ireland entered into the FVT gas sector which now enables the company to offer a full range of products across electricity and gas markets.

ELECTRIC IRELAND'S RESPONSE TO CURRENT ECONOMIC ENVIRONMENT

The current economic environment presents significant challenges for debt management. While proactively working to ensure that debt is collected, Electric Ireland has responded to customers experiencing serious hardship by:

- Playing a key role, alongside the Electricity Association of Ireland and other suppliers, in the development of the Energy Engage Code (sets out how energy suppliers should help their customers manage their energy use and costs) which was launched in May 2014
- Identifying as early as possible when customer payments are in arrears and contacting them to discuss the options available, Electric Ireland made circa. 200,000 tailored payment arrangements with customers in 2014
- Electric Ireland aim to further reduce disconnections by continuing the roll out of Pay As You Go Meters and offering convenient payment arrangements
- Proactively engaging with the Society of St. Vincent de Paul, the Money Advice and Budgeting Service (MABS) and other agencies to support customers experiencing affordability issues

PRIORITIES FOR 2015

OPERATIONAL	STRATEGIC
Deliver innovative products and services that provide customers with excellent value for money.	Invest in the development of a digital platform so customers can increasingly avail of services online.
Provide excellent customer service and introduce new initiatives to improve the customer experience.	Develop innovative solutions for homes and businesses to become more energy efficient.
Maintain the Electric Ireland brand as the leading energy supply brand in Ireland.	Engage with the Commission for Energy Regulation (CER) and all stakeholders regarding key developments in the market (e.g. the Integrated Single Electricity Market (I-SEM) and the National Smart Metering Programme) for the benefit of the consumer.
Deliver value for money for customers by focusing on retaining a competitive and flexible cost base.	
Work proactively with customers in offering payment options to facilitate debt repayment.	

Electric Ireland continues to prioritise quality customer service and its level of customer satisfaction remained high throughout 2014. In addition, Electric Ireland continued to deliver service levels in line with Customer Charter and Customer Service Codes of Practice.

With the increasing use of web, email and social media channels such as Twitter and Facebook, customers are engaging with Electric Ireland in new ways. Meeting customer needs through such channels and enabling customers to carry out more transactions using digital channels if they so choose, is one of Electric Ireland's top service priorities.

SUSTAINABILITY

Electric Ireland works with customers to help them reduce their energy consumption and get better value from their usage through the promotion of energy efficient products and energy awareness campaigns. These campaigns include energy efficiency advice delivered directly to customers and web-based tools including the Appliance Calculator and the Energy Wizard home auditing tools.

The National Plan to deliver an EU target of 20% improvement in energy efficiency by 2020 includes an energy efficiency obligation on all energy suppliers. Under this scheme, Electric Ireland is mandated to deliver 420 GWh of energy efficiency savings over the period 2014–2016, the equivalent of a reduction in electricity consumption of over 75,000 homes.

In 2014, this was achieved through a range of programmes. In the residential market, Electric Ireland has directly supported the retrofitting of homes to minimise energy usage through the introduction of smart heating controls and by incentivising customers with discounts off their energy bill when they undertake energy efficiency measures. In the business sector, Electric Ireland have assisted customers to identify and implement energy saving measures.

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OTHER SEGMENTS

Other segments include Innovation and the Business Service Centre.

INNOVATION

Paul Mulvaney, Executive Director, Innovation

“ Innovation in new products and services will drive growth for ESB Group in the coming years and Innovation is working with all parts of ESB and its external partners to identify and invest in those opportunities. ”

INNOVATION BUSINESS LINES

ESB INTERNATIONAL

- Offers a full range of engineering, operations and maintenance solutions, as well as consultancy services to the global energy market

NOVUSMODUS

- €200 million clean technology and renewable energy fund that invests in renewable energy and energy efficiency sectors

TELECOMS

- Owns fibre-optic broadband network and a network of independent mobile-phone towers
- Sub-sea fibre optic cable linking ROI and UK
- Fibre to the Building (FTTB)

OCEAN ENERGY

- Supports range of initiatives in the Ocean Energy Sector

ECARS

- Roll out the charging infrastructure for electric cars and vehicles

OVERVIEW

Innovation acts as a focal point for new ideas across the ESB Group and is the driver of growth opportunities and transformation across the organisation. 2014 has been a significant year with the establishment of the joint venture with Vodafone to deliver FTTB and the success in securing NER 300 funding for the ESB WestWave energy project. Existing businesses have continued to deliver good results in highly competitive markets with both ESB International and Telecoms winning new customers and trading strongly.

OPERATING ENVIRONMENT

The environment continues to be challenging with significant competition in the key markets.

ESB International, the international consultancy business, faces different competitors across the world but it has adapted to meet changing market demands while ensuring that its services are delivered to the highest technical standards.

Telecoms operates in the Irish fibre and towers wholesale market. It has responded to the changing needs of its customers by creating bundled offerings which make the most of its position as a provider with both a national tower infrastructure integrated with a national fibre-optic network.

Novusmodus continues to invest in growing companies that have new products or offerings, which are unique or have a cost advantage in the energy efficiency or renewable energy sectors. There continues to be real opportunity in this space as shown with the recent investment in Cylon Controls, a leading developer of Smart Energy Management Systems for buildings.

INVESTMENT AND GROWTH / STRATEGIC AIMS

The focus for ESB International is the identification and development of new target markets and customer offerings. This is in addition to ESB International's ongoing role as a centre of engineering excellence for the delivery of ESB Group's activities.

Telecoms is continuing to develop its extensive national fibre and tower footprint to ensure that its infrastructure is positioned to meet the increasing demands for speed and capacity from consumers and businesses on a cost-effective basis. Telecoms is developing its customer offerings to support the roll out of high-speed broadband across the Republic of Ireland (ROI) with a specific focus on services to FTTB and 4G networks.

The objectives of Novusmodus are two-fold: to create a successful investment fund, and to take the lessons learned from the fund to create future opportunities for ESB. Novusmodus will continue to expand its investment portfolio while reviewing options for the realisation of existing investments over the next number of years.

eCars is completing the roll out of its national charge point infrastructure with almost 900 public charge points installed. eCars is now developing plans for a large-scale commercial offering as well as putting its world-leading expertise to work in supporting other international roll outs in conjunction with its partners.

INNOVATION STRATEGY IMPLEMENTATION

- **Developing Emerging Energy Technologies:** A key part of the role of Innovation is to examine the opportunities in the evolving energy sector and to develop solutions in areas such as energy efficiency. In particular, Innovation is conducting trials to examine the effectiveness of solar photovoltaic generation in ROI as well as completing significant reviews of developments in energy storage and data applications.

FIBRE TO THE BUILDING

During 2014, ESB established a joint venture with Vodafone to invest €450 million to roll out ROI's first Fibre to the Building network to 50 regional towns across the country. This pioneering initiative will deliver fibre broadband with upload and download speeds of up to 1 Gb/s to over half a million premises countrywide, enabling a revolution in internet usage for those communities. The fibre will be deployed on ESB's existing overhead and underground infrastructure.

- **Fostering an Innovative Culture:** Right across ESB there are talented staff developing solutions to business and technical problems as showcased in the Little Big Things, a campaign whereby staff are encouraged to generate new ideas to add value to the organisation. Innovation is examining new ways to tap into people's capability, seeking to implement new thinking across the business. Innovation will continue to develop an environment and a structured approach to ensure that value-adding ideas and solutions are brought to fruition for ESB and its customers.
- **Collaboration and Strategic Partnerships:** Innovation is developing relationships and collaborations with external partners to develop new commercial products and services for the ESB Group.

INNOVATION CUSTOMERS

The impact on customers of the changes in the energy and telecoms sectors will continue to be an area of focus. Developing new value propositions to meet emerging customer needs and expectations is a key part of Innovation's role.

ESB International has continued to expand its international customer base, particularly in the Middle East, Asia and Africa, where it has been building its utility experience to offer targeted solutions to other utility operators.

Telecoms has existing relationships with all of the providers in the Irish wholesale telecoms markets and has been collaborating successfully with these customers to develop tailored solutions to meet their needs.

eCars has expanded its charging infrastructure throughout 2014. eCars is introducing more fast-charger sites for its customers on high-traffic routes while continuing to support the growth of the electric vehicle market through initiatives such as the Great Electric Drive, an opportunity for members of the public to trial an electric vehicle.

PRIORITIES FOR 2015

OPERATIONAL

- Both ESB International and Telecoms will continue to grow their external customer base and revenues by offering tailored products and services to existing markets while looking for opportunities to expand into new territories.
- Novusmodus will continue to manage and support its investment portfolio building value for ESB both financially and in the development of new products and services.
- The FTTB joint venture with Vodafone will establish commercial operations and significantly increase the pace and scale of roll out to target communities across ROI.
- eCars will complete the national charge point infrastructure roll out and begin the implementation of commercial offerings using the network.

STRATEGIC

- Evaluate the emerging technologies and business models relevant to ESB and develop plans to ensure that these can be transformed into commercial products and services for ESB.
- Develop relationships and collaborate with external partners to create new opportunities to commercialise new initiatives for ESB.
- The FTTB joint venture with Vodafone together with ESB will be examining opportunities to support the delivery of the National Broadband Plan.

PEOPLE

ESB International is continuing to recruit qualified staff across a range of disciplines to meet the changing demands of its international business as well as the requirements of ESB Group.

Innovation is also adding employees to their other businesses. This reflects the need to continue to develop new skills to support the development of these businesses as well as their role in supporting innovation across ESB.

BUSINESS SERVICE CENTRE

THE BUSINESS SERVICE CENTRE (BSC) IS THE INTERNAL PROVIDER OF BOTH BUSINESS AND STAFF SERVICES WITHIN ESB

The BSC works in partnership with ESB's business units to ensure business needs are met in an efficient, sustainable and affordable way. The centralisation of services enables the BSC to provide a consistent level of customer service and increase the volume of self-service through the ESB intranet.

SERVICES INCLUDE

HR Operations
- Recruitment and Staff Development
- Employee Well-being
- Safety and Sustainability
- Medical Provident Fund
- HR Information and Services

Finance Operations
- Requisition to Pay
- Accounting and Reporting
- Governance and Process Improvement
- Procurement and Vendor Management
- Group Tax
- Treasury Operations

ITS
- IT Governance and Strategy
- IT Service Delivery
- IT Project Delivery
- IT Service Support

Services
- Group Property
- Legal
- Insurance
- Customer Service Centre

Pensions
- Defined Benefit Pension Scheme
- Defined Contribution Pension Scheme

CORPORATE SOCIAL RESPONSIBILITY

OVERVIEW

Pat Naughton, Executive Director, Group People and Sustainability

ESB is a business built on the strength of its people. In Group People and Sustainability, 2014 has been a year of embedding new safety, sustainability, people development and corporate responsibility strategies within our operations. In each area, this has been the first full year of the implementation of the policies developed to support the Group Strategy and we have made good progress.

ESB is facing a very challenging period with regard to its safety performance given recent tragic events. Safety is a core value for ESB and ESB will always put the safety of staff, contractors, customers and the public first, relentlessly pursuing our goal of zero injuries and incidents. We remain committed to our Safety Leadership Strategy and to promoting a strong safety culture in all business areas of ESB.

Our team is focused on leading the organisation in effective resource planning. ESB is entering a period of organisational renewal and having the appropriate recruitment, retention and succession strategies is critical for us to move forward. We must ensure that we continue to have access to the skills and capabilities we need to realise our ambition.

Our objective is to be a positive and effective partner for each of our stakeholders, our staff, our customers, the communities in which we operate and for our environment. In 2014 we have laid the foundation for continuing progress in the years ahead, while achieving some significant milestones along the way.

We were pleased to be recognised for our commitment to employee support and good environmental practice with two Excellence Awards at the Chambers Ireland Corporate Social Responsibility Awards this year. Our Engineers' Week Programme, where 140 of our engineers met with second-level students throughout the country and promoted careers in engineering, was a successful initiative and is something we aim to build on in future years. Our recently launched staff health and well-being website is proving a very popular and useful resource across the business and is a signal of our commitment, as an employer, to supporting good physical and mental health for our staff. In line with other European utilities, we remain on target to decarbonise our generation activities by 2050 and our Sustainability Strategy supports our Group Strategy commitment in this critical area.

We will continue to build on our achievements this year by getting the fundamentals right, by being an exemplary employer and by addressing our broader responsibilities to society.

Pat Naughton
Executive Director,
Group People and Sustainability

SUSTAINABILITY

2014 was the first full calendar year of the implementation of the ESB Sustainability Strategy. Building on the success of the sustainability programme 2008–2012 and designed to support the delivery of the Group Strategy, the new strategy's key focus is on the embedding of sustainable thinking and practices at the heart of business activities, whilst continuing to deliver against key objectives. ESB is committed to communicating its objectives, progress and challenges on sustainability to a wider audience, both within and outside the Group. ESB reports its progress against its strategic sustainability objectives on a six-monthly basis to a broad audience of stakeholders through the Group website.

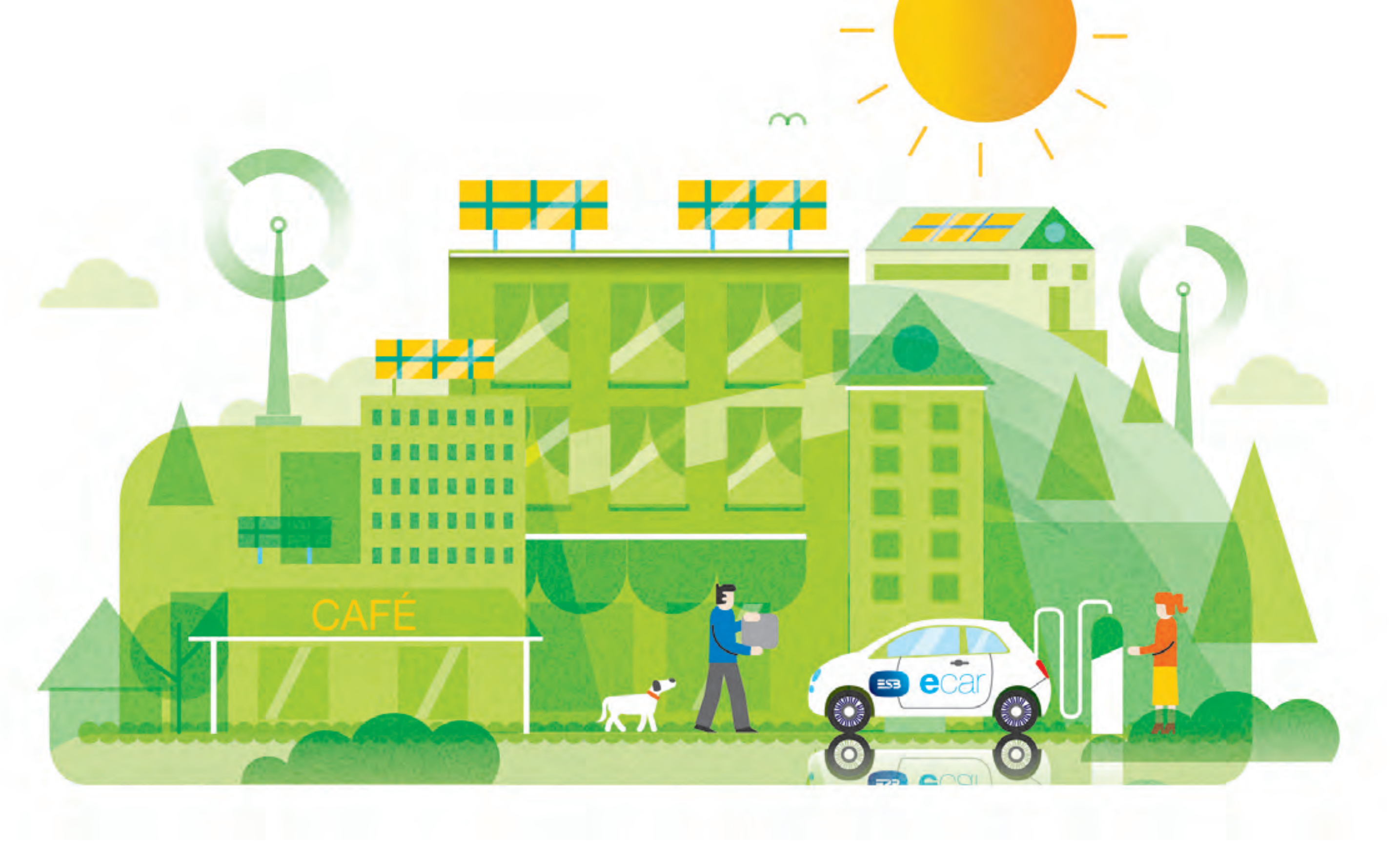
ESB has sought to profile its sustainability journey and has received some recognition through the following awards:

- The sustainable, large, public-sector organisation award at The Green Awards 2014
- Ardnacrusha won the Excellence in Environment Category award at the 2014 Chambers Ireland CSR Awards for a sustainable project, which increased the amount of electricity generated per unit of water flowing through the hydro plant
- ESB's Coolkeeragh Station received a Gold Award in the 2014 Business in the Community ARENA Northern Ireland environmental survey, this award recognises the ongoing work and commitment by Coolkeeragh to minimise its impact on the environment
- Winner of the Social Responsibility Reporting, Published Accounts Awards 2014 from the Leinster Society of Chartered Accountants

In the context of the global discourse on climate change, ESB recognises that there are significant challenges ahead and it has a significant contribution to make as it continues the journey toward decarbonisation of its generation activities.

2014 has been a year of challenge but also of significant progress. The severity of Storm Darwin in February brought an unprecedented level of response to reconnect customers affected by the storms. The consolidated storm response directly contributed to a 7% increase in fleet fuel consumption for the storm period, however the consolidated efforts of the Green Fleet Plan delivered a 10% reduction overall in 2014.

ESB delivered a roof-mounted 25 kW solar photovoltaic pilot project, the first of its kind in the Republic of Ireland (ROI) and secured NER 300 funding for the ESB WestWave energy project. There are significant ongoing efforts in the generation, transmission, distribution and customer parts of the Group, focusing on driving further energy efficiencies and delivering lower carbon solutions.



PROGRESS ON SUSTAINABILITY OBJECTIVES

ESB has specific objectives in relation to sustainability based around the five priorities of the ESB Group Strategy 2025. The progress on these objectives is detailed below for 2014. A copy of the Sustainability Report is available from the ESB website www.esb.ie.

GENERATION / SUPPLY BUSINESS OF SCALE

- Woodhouse Wind Farm in County Waterford (20 MW) will reach commercial operation in 2015 bringing the operational wind farm portfolio to over 400 MW of capacity
- No material breaches of environmental legislation or licence parameters reported in 2014
- ESB submitted a formal response to the Government in relation to the Energy Green Paper
- Electric Ireland have successfully piloted and launched an Energy Efficiency Incentive Scheme, targeting domestic dwelling energy efficiency improvements
- Current market conditions of a low coal price and the low market price of carbon, combine to keep coal plants in merit, which makes the delivery of further CO_2 reductions challenging

ADVANCED NETWORKS

- A further 567 kilometres of 10kV network was converted to 20kV operation during 2014, which will deliver further savings of 3 GWh through reduced losses on the network, in total in excess of 45,150 kilometres of network have been converted to date
- During 2014, 200 MW of wind have been connected in the Republic of Ireland and a further 157 MW of wind have been connected in Northern Ireland
- A Domestic Demand Response project received funding from SEAI (Sustainable Energy Authority of Ireland), aiming to test the network and domestic technologies in order to develop and deliver a smart network
- The Commission for Energy Regulation (CER) launched the next stage of the smart metering programme, aiming to deliver the EU target of 80% of homes having smart meters by 2020

SUSTAINABLE INNOVATION

- The current programme for installation of electric vehicle public charging infrastructure is nearing completion
- ESB and Vodafone signed an innovative joint venture agreement in 2014 to invest €450 million in building a Fibre to the Building broadband network
- ESB has entered a full energy spectrum collaboration with Dublin Airport Authority targeting 33% energy savings
- Novusmodus made a €6.5 million investment in Cylon Controls, an Irish company that manufactures equipment to control the efficiency of space heating and cooling systems
- ESB installed a 25 kW solar photovoltaic array at ESB Networks premises in Leopardstown
- ESB WestWave energy project was awarded €23 million of NER 300 funding

TRANSFORMED COST STRUCTURE

- Building energy consumption has improved across business units by between 1% and 14% for 2014
- All main operational business units within the ESB Group now operate under externally certified ISO 14001 Environmental Management Systems
- ESB has framework agreements in place with waste service providers to maximize recycling levels, the overall recovery rate for the Group in 2014 exceeded 90%
- Water monitoring and conservation measures continue across the business
- ESB fully complied with the deadline for reporting of energy consumption performance to SEAI

ENGAGED AND AGILE ORGANISATION

- Staff engagement on sustainability was driven through workshops, newsletters and briefings and the annual sustainability awards
- ESB has supported over 30,000 hours of staff volunteering during 2014 and dispersed €2 million in philanthropic activities
- During 2014 ESB published two sustainability progress updates to the ESB website in April and October, as well as publishing our annual Sustainability Report in July
- Tenders in excess of €5 million are trialling sustainability workshops as part of the specification and pre-tender requirements process

ENERGY USAGE IN 2014

EU Energy Efficiency Regulations S.I. No. 426 of 2014 require ESB to disclose its annual energy usage, together with the initiatives being undertaken to improve energy performance. ESB monitors and reports on energy consumption against a 2006 baseline and is committed to continuing the drive towards improved energy performance.

Electricity generation accounts for over 90% of ESB's use of energy. In 2014, ESB consumed 28,079 GWh of fossil fuel energy in generating electricity in the Republic of Ireland (ROI).

This comprised:
11,989 GWh of natural gas
10,596 GWh of coal
4,951 GWh of peat
543 GWh of oil

In relation to the remaining energy use, the amount of energy used by ESB in its buildings constitutes the most significant portion, followed by that used in fleet and in private cars used on company business. The bulk of the energy used is attributable to space heating.

Internal use accounted for 108.3 GWh Primary Energy Equivalent in non-generation activities (156 GWh in 2006).

This consisted of:
63 GWh of electricity as Primary Energy Equivalent
1 GWh of natural gas
44 GWh of transport diesel
0.3 GWh of renewable energy in transport

ESB's generating plants are subject to the integrated pollution control licensing (IPPC) regime and are required to optimise energy efficiency. ESB Networks business continues to focus on reducing losses on the network through continued upgrade of the electricity networks system and the conversion of the network from operating at 10kV to 20kV.

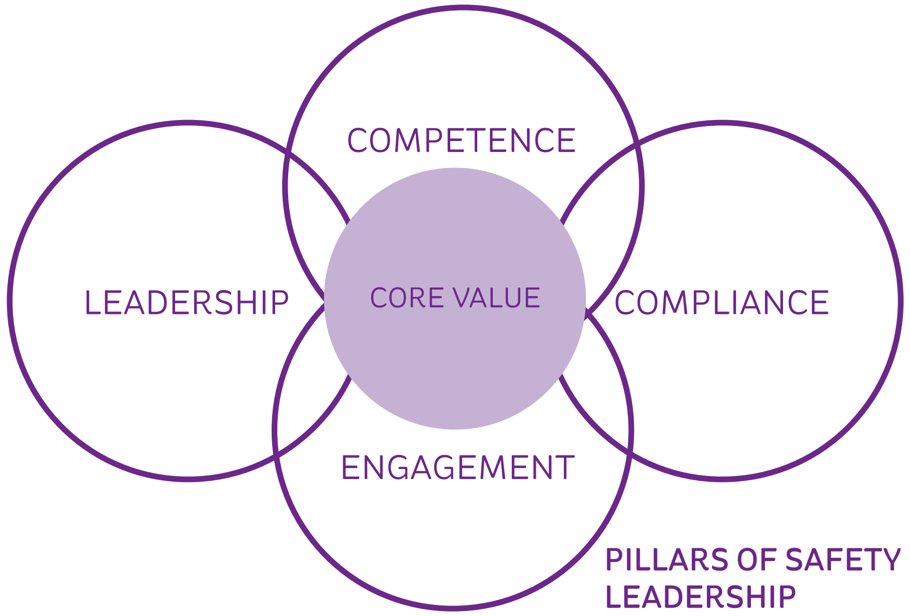
Since 2006, ESB has reduced energy usage in its buildings by 34%, and in its business fleet and private cars used for business travel by 26%. This is in line with the Government objective for the public sector of a 33% improvement in energy efficiency by 2020.

Steps to deliver this target in ESB in 2014 included:

- Installation of energy efficient lighting and advanced lighting controls in office buildings
- Continued trial installations of electric pumps and other renewable energy technologies in office buildings as part of the Better Energy Programme
- Installation of solar photovoltaic roof top pilot project
- Installation of advanced controls for exterior lighting
- Promotion of sustainability to encourage behavioural change amongst staff with respect to using energy efficiently
- Delivery of efficiency savings in all aspects of the business
- Introduction of electric vehicles to the fleet and electric auxiliary equipment and continued trials of biofuels (ESB has the largest fleet of biofuel vehicles in the country)
- Fleet renewal programme to replace older, less efficient vehicles with new high efficiency vehicles
- Continued use of web-based meeting / communications facility to avoid the need for business travel and introducing workplace travel planning
- Promotion of sustainability to encourage behavioural change amongst staff with respect to using energy efficiently
- Delivery of efficiency savings in all aspects of the business

ENERGY SOURCE	2014 (GWh)	2006 (GWh)	CHANGE (GWh)
ELECTRICITY SOURCE	26	38	(12)
ELECTRICITY PRIMARY ENERGY EQUIVALENT	63	96	(33)
FOSSIL FUELS			
- NATURAL GAS	1	1	-
- HEATING OIL	-	-	-
- DIESEL	44	59	(15)
TOTAL FOSSIL FUELS	45	60	(15)
RENEWABLE ENERGY	-	-	-
TOTAL PRIMARY ENERGY EQUIVALENT	108	156	(48)

SAFETY



PILLARS OF SAFETY LEADERSHIP

OVERVIEW

ESB is fully committed to protecting the health and safety of colleagues, contractors and the people it serves. Safety is a core value of the Group and the safety of staff, contractors, customers and the public always comes first. ESB believes that all operational processes should be designed and operated in an inherently safe manner. This belief guides the approach to safety across all business activities and is reinforced through strong and visible leadership throughout ESB. Pride is taken in safety achievements and an open and proactive health and safety culture is promoted with the full involvement of all people.

The Chief Executive has overall responsibility for the management of health and safety in ESB. Functional responsibility is shared with all senior management and, in turn, with each manager, supervisor, team leader and, ultimately, every member of staff. The Board has a Health, Safety and Environment Committee which monitors safety performance and reports to the Board on matters of policy, strategy and performance in relation to health and safety performance.

All ESB business units have safety management systems in place, many of which are certified to the OHSAS 18001 standard or equivalent. ESB rigorously enforces safety policies and standards to achieve the ultimate target of zero harm. An extensive Safety Leadership Strategy was rolled out during 2014, focusing on the four pillars of Leadership, Competence, Compliance and Engagement and each business area models its local health and safety programmes on these four pillars.

SAFETY PERFORMANCE IN 2014

Performance in 2014 has been overshadowed by the tragic fatality to a member of staff in the ESB Networks business. On 22 September 2014, Declan Molloy, a Network Technician, was fatally injured while working in Little Bray 38kV substation in Co. Wicklow. This tragedy and other staff and contractor fatalities in recent years has reinforced ESB's commitment to safety as a core value. A comprehensive investigation into the death of Declan Molloy has been carried out and the recommendations arising from the incident are being progressively implemented with regular updates to the Executive Director Team and the Board.

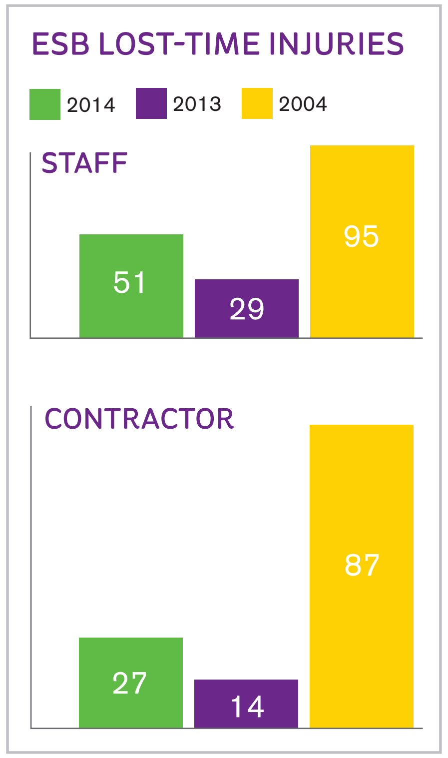
Regrettably, a member of the public was fatally injured in an electrical incident involving use of a portable heater in his own home. There were no fatalities to contractors in 2014.

LOST-TIME INJURIES (LTIs)

The number of LTIs in 2014 (78) is significantly higher than in 2013 (43) and in 2012 (37). While the majority of these injuries were of low severity, nevertheless the significant increase in LTIs in recent years is a cause for concern as ESB continue to focus on reducing risks in the business that give rise to injurious incidents. The most common causes of LTIs are slips and trips, handling, lifting and use of tools and equipment.

HIGH-POTENTIAL INCIDENTS

In addition to focusing on LTIs, ESB categorises all injurious incidents and near-misses with a particular focus on high-potential incidents that could lead to more serious outcomes. All high-potential incidents and LTIs are investigated to determine the root-causes of each incident. The most significant safety risks arising from high-potential incidents for ESB remain electricity, driving and transport, working at height and use of tools and equipment.



01 STRATEGY AND PERFORMANCE
02 CORPORATE GOVERNANCE
03 FINANCIAL STATEMENTS

01 STRATEGY AND PERFORMANCE
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PEOPLE

ESB EMPLOYEE HEALTH AND WELL-BEING

ESB is strongly committed to supporting staff in maintaining good health and well-being so that they can reach their full potential in the workplace and maintain a healthy and balanced life. In these challenging times, ESB believes that there is a greater need for the provision of support services and the proactive promotion of health and well-being to maintain a healthy and high performing workforce.

ESB's Health and Well-Being Programme is focused on providing proactive health programmes that offer information and advice to staff to help them create and maintain a healthy lifestyle. The programme provides effective remedial support to employees who face ill-health and other personal life challenges through an occupational health medical service, an Employee Assistance Programme, counselling and through a range of diversity programmes.

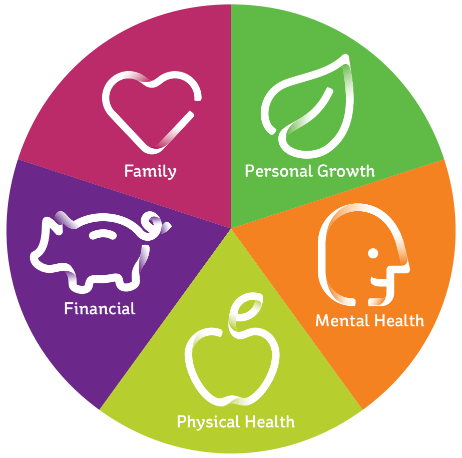
ESB's focus for the year has been on:

- Encouraging staff to take responsibility for their own health and well-being
- Promoting initiatives aimed at helping staff to maintain good physical and mental health
- Extensive promotion of health and well-being staff support services

In 2014 ESB launched a new health and well-being website as a communication platform for engaging with staff members on health and well-being matters. The site provides staff with quick and easy access to all the health information staff need to deal with the pressures and challenges of a busy life.

WELL-BEING SUPPORT SERVICES

ESB's in-house Employee Assistance Programme (EAP) provides professional and confidential support to individual staff members who are experiencing personal issues. The main areas of support include: bereavement, mental and physical well-being, family



relationships and financial pressures. ESB also introduced a 24/7 Confidential Support Service which is available to staff 24 hours a day, 7 days a week. Staff can discuss any issue of concern in total confidence with a qualified counsellor.

PROACTIVE HEALTH PROGRAMME

The ESB health maintenance programmes are focused on general health advice and support, with an increasing focus on stress. While it is recognised that stress may be an integral part of everyday life, the availability of active workplace stress awareness programmes are crucial to supporting staff in dealing with stress and minimising the impact on their well-being.

Some of the programmes available to ESB staff during the year were:

- Cardiovascular health screening
- Bowel cancer screening
- Flu vaccination and smoking cessation programmes
- Monthly health bulletins on mental health, physical health, financial health and life balance
- Physical health challenges

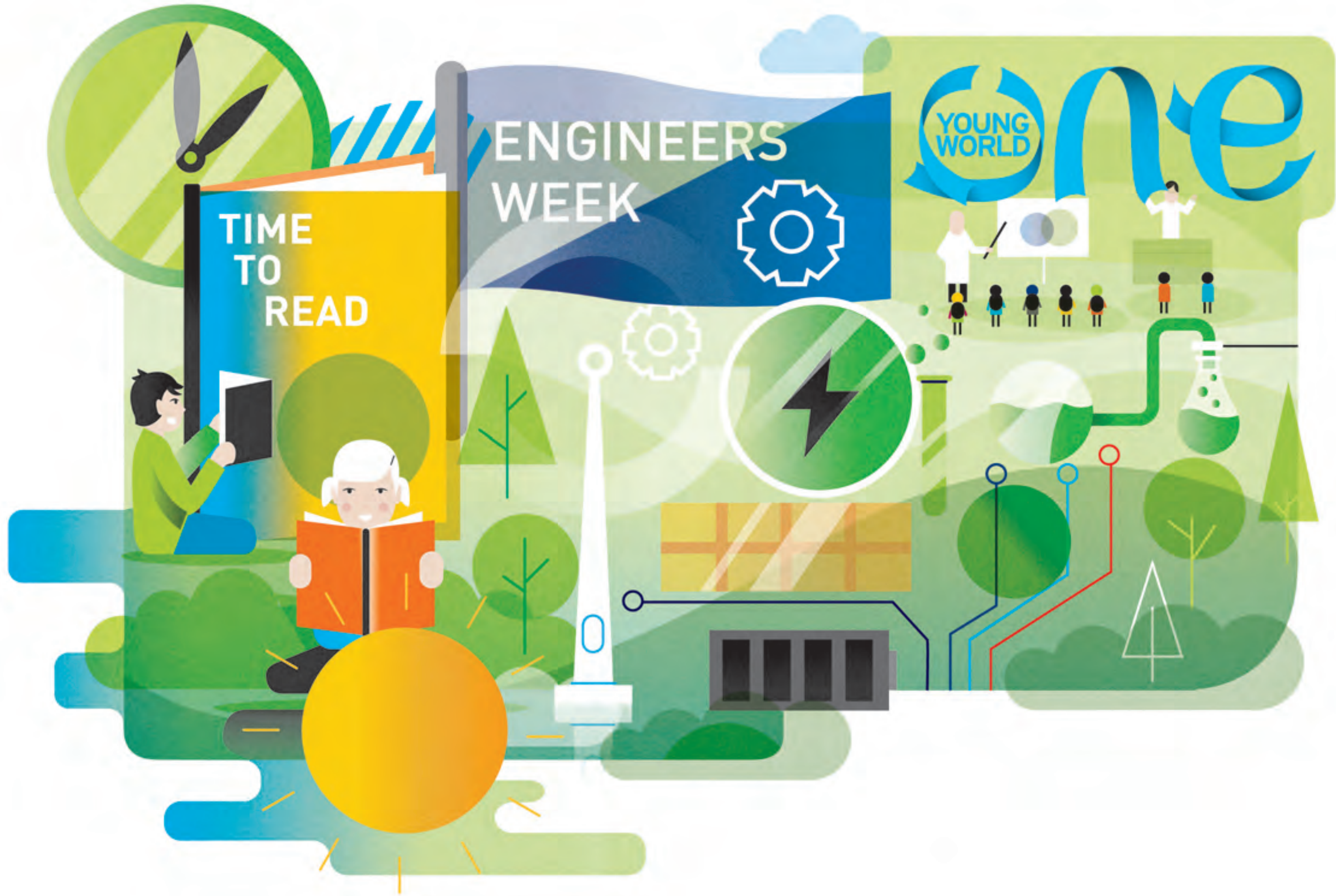
DIVERSITY AND INCLUSION

Diversity in the workplace results in better products, better decisions, more innovation and better business performance all round.

ESB continues to create and promote a positive and inclusive work environment through understanding and building awareness of the benefits of diversity. ESB's Equality and Diversity Policies, Practices and Initiatives are used for positive employee engagement and to support staff during times of organisational change as well as the life cycle of employees. Policies are regularly reviewed, in line with legislation and best practice, and aim to support a culture of inclusion, respect and dignity for the individual in the workplace. The values of diversity and inclusion play an increasingly important part in ESB's ability to attract, retain and develop key skills and talent.

Key initiatives in 2014 included:

- Joining a Diversity Champions Network in partnership with GLEN – Gay Lesbian Equality Network
- The ESB Traineeship Programme for People with Disabilities which is now in its ninth year
- Harnessing generational diversity in the workplace
- Supporting working parents
- A women's learning and networking programme
- Playing an active role in a number of external equality and diversity networking groups
- Promoting an alternative dispute resolution mechanism – independent mediation service
- A Joint Equality Council whose members are a cross-section of staff and union representatives and include a disability and LGBT representative
- Continuing to exceed the 3% National Disability Authority (NDA) target of employing employees with disabilities
- Business Unit Diversity Groups, that continue to raise awareness at local level by integrating equality and diversity practices and initiatives for staff and customers



LEARNING AND DEVELOPMENT

In 2014, the ESB People Strategy continued to provide the focus and direction for many human resource initiatives and actions. It is designed to support the overall corporate objective of developing an engaged and agile workforce. In 2014 initiatives in human resource development included:

Manager development: A Management Development Framework was introduced. This will become the Group's guide for the development of its managers during the next few years, with a focus on building the People Management capability of line managers. A number of Manager Development initiatives in 2014 included a development programme for newly appointed managers to assist them in their transition and, in particular, with their people management responsibilities. In addition, ESB continued its investment in developing the skill set of its managers in building a high performance culture. During 2014 the focus shifted from the Senior Manager level to the Middle and Front Line / Team Leader / Supervisor levels.

Staff development: Building staff capability continues to be a strategically important activity as ESB seeks to manage its different business environments and the challenges each poses. The Group's annual Performance and Development Process has been re-engineered and re-launched and provides the platform for the identification and delivery of targeted learning and development solutions. Effective development is based on specified competencies that align with the needs of the Group and each individual.

Graduate development: After a number of years where graduate recruitment had significantly reduced and tended to be business specific, in 2014 ESB Group recruited an increased number of graduates, from a wide range of disciplines, and involving a greater number of ESB businesses. Those graduates recruited commenced a structured three-year Development Programme that includes a centrally managed induction event, work assignments, off-the-job business specific training, personal skills development and mandatory training, supported by a mentoring relationship.

CORPORATE RESPONSIBILITY

ESB has a long track record of being actively involved in the communities in which it works. In the past decade it formalised its approach, while ensuring that it is as responsive and responsible as possible.

ENERGY FOR GENERATIONS CORPORATE RESPONSIBILITY FUND

2014 was the first full year of operation of ESB's new Energy for Generations Corporate Responsibility Fund. The Fund of €2 million (which replaces the previous ElectricAid Ireland Fund) supports charities and volunteers working in the areas of educational support, suicide prevention and the alleviation of homelessness.

Suicide and Homelessness

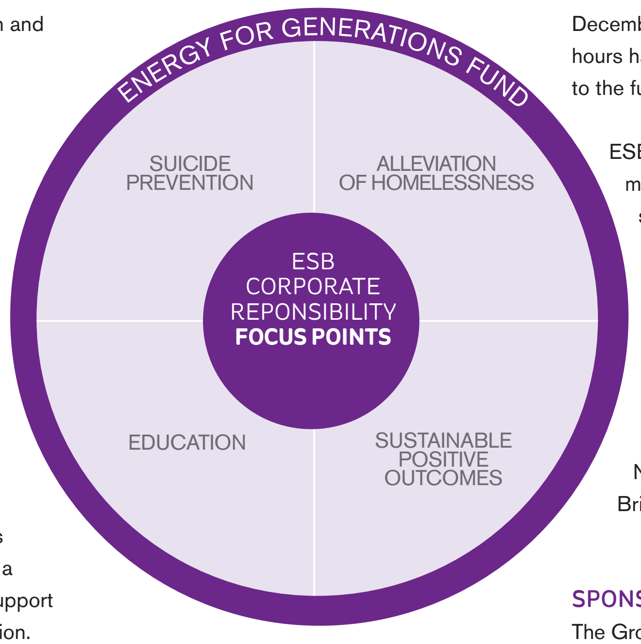
ESB has been supporting suicide prevention and the alleviation of homelessness since 2005, as selected by staff as areas where they wanted to see the Group focus its activity.

Education

ESB added educational focus as a theme in 2013 because, as a leading Irish employer, it is conscious of its need to have access to a highly skilled workforce. Also, ESB recognise that its staff group has been the beneficiary of a good quality education and wants to support a similar investment in the next generation.

The Fund disburses direct grants to applicant organisations throughout the country. This is managed by a cross-company Committee, who meet on a quarterly basis. In addition to this ongoing work, the Group is continuing with two significant educational partnerships.

1. An Cosán, the Adult Education Centre in Tallaght in Dublin. ESB is An Cosán's national partner in its strategy to virtualise its learning platform, creating a virtual community college, accessible throughout the country. This project is now entering its second year, and ESB was very pleased to see the first 27 students from the programme graduate in November 2014.
2. With Business in the Community ESB supports the Time to Read literacy initiative, working with children in 2nd class in primary school to build their enjoyment of and confidence in reading. It has four school partnerships through the programme (in Dublin City, Santry, Cork City and Whitegate, Cork). It also supports a number of post-primary schools with mentoring and interview skills training.



Sustainable Positive Outcomes

In 2014 ESB played a significant role in Engineers' Week. 140 engineers from all parts of the Group got involved with the STEPS programme, and participated in enjoyable and rewarding visits to post-primary schools to talk to Leaving Certificate students about engineering as a career. This is something ESB intends to build on in 2015.

As part of the renewal of its Fund in 2014, ESB introduced a new element with formal support for staff volunteering. Any staff member who has volunteered over 20 hours with a charity can request that ESB donates €250 to that organisation. It's a way of ensuring that their contribution, as a volunteer, is augmented and that an amount of ESB Corporate Responsibility Funds are dedicated to causes that are of concern to staff. There has been a very good response to the initiative, with donations being made to a wide range of charities, including Down Syndrome Ireland, the Jack and Jill Foundation, Scouts and Guide Groups, Age Action among many others. To the end of December 2014, almost 30,000 volunteered hours have been recorded by staff applying to the fund.

ESB believes in being a responsible member of the community by actively supporting communities in the vicinity of its wind farms. In 2014, ESB committed over €400,000 to enable communities to develop sustainably by funding community initiatives. During 2014, ESB assisted a diverse range of community projects in the Republic of Ireland (ROI), Northern Ireland (NI), and Great Britain (GB).

SPONSORSHIP

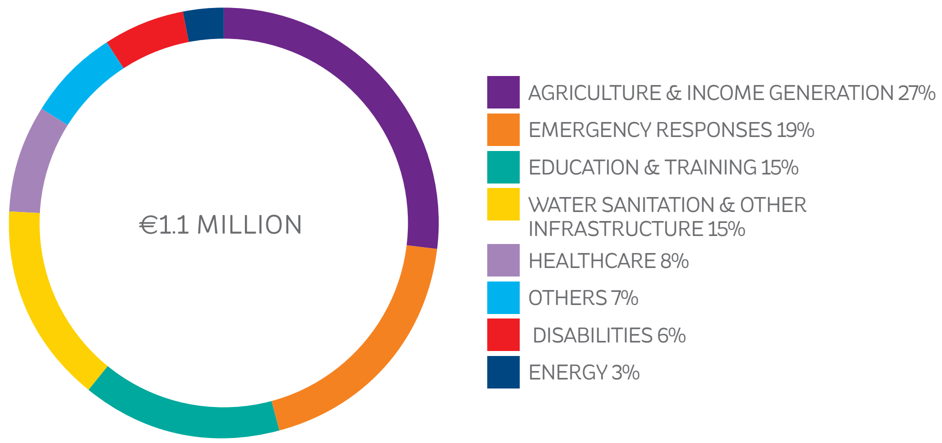
The Group manages an active sponsorship portfolio in the following areas:

- Promoting young people in sport, through the Electric Ireland GAA minor hurling and football championships, Ireland's under 20's rugby and Team Ireland for the Olympics
- Supporting organisations such as the Darkness into Light sponsored walk / run for Pieta House and Powering Kindness, an initiative which encourages people to do a simple act of kindness and bank it in favour of one of three Irish charities
- Supporting the arts and music through festival sponsorships such as Electric Picnic

INTERNATIONAL CSR

ElectricAid is the social justice and development charity of ESB (and EirGrid) staff and pensioners. There is a membership of 2,450 contributors strongly supported by ESB and EirGrid. In 2014, ElectricAid raised and spent €1.1 million on 130 separate development and relief projects in ROI and in 40 developing countries. ElectricAid committed €60,000 in eight separate funding initiatives to the fight against Ebola in Guinea, Liberia and Sierra Leone.

ELECTRICAID FUNDINGS BY CATEGORY 2014



EMPOWERING THE CUSTOMER

ESB is developing innovative solutions for homes and businesses to enable the customer to become more energy efficient and have greater control.

02 CORPORATE GOVERNANCE

CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

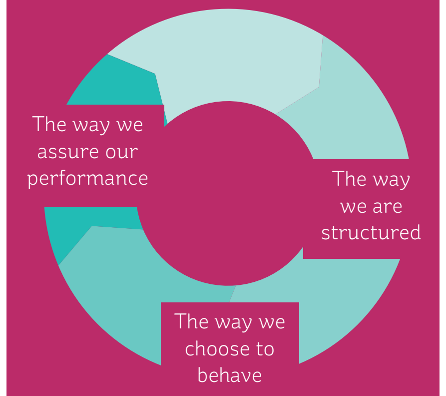
THE WAY WE WORK

THE WAY WE ARE STRUCTURED

Our organisation is structured to allow for effective and efficient decision making with clear accountability

THE WAY WE CHOOSE TO BEHAVE

- We comply with the Code of Practice for the Governance of State Bodies (updated in 2009)
- While ESB is not listed, we conform as far as possible and on a voluntary basis, to the UK Corporate Governance Code
- Our code of ethics outlines our approach to responsible business behaviour. The underlying principle of the Code is that employees will strive to perform their duties in accordance with the highest standards of integrity, loyalty, fairness and confidentiality and that they will abide by all legal and regulatory requirements to enhance the reputation of the ESB Group



THE WAY WE PROVIDE ASSURANCE

- Management assurance is provided by a combination of effective management processes and risk and compliance activities
- Independent assurance is provided primarily by internal audit and by our external auditors

Ellvena Graham, Acting Chairman

I set out below how governance underpins our activities in ESB and describe how we apply the principles of good corporate governance as set out in the Code of Practice for the Governance of State Bodies, the UK Corporate Governance Code and the Irish Corporate Governance Annex.

COMPLIANCE

ESB has put in place the appropriate measures to comply with the Code of Practice for the Governance of State Bodies, updated in 2009. The Code of Practice sets out the governance framework agreed by Government for the internal management and the internal and external reporting relationships, of commercial and non-commercial State bodies. ESB continuously reviews and updates its policies and procedures to ensure compliance with the Code of Practice and best practice in corporate governance.

ESB also conforms as far as possible, and on a voluntary basis, to the UK Corporate Governance Code (September 2012). Our compliance on a voluntary basis with the Corporate Governance Code demonstrates our commitment to the highest standards of governance and corporate behaviour.

BOARD MEMBERSHIP

The ESB Board in 2014 brought diverse experience, independence and challenge to support effective decision making. The range of Board members' experience in engineering, banking, law, politics, accounting and in our industry is set out in their biographies on pages 60 to 61.

The Code of Practice provides that the Chairman may engage with Government on succession and this provides an opportunity for ensuring an appropriate mix of skills and experience.

ROLE OF THE CHAIRMAN

The role of the Chairman in ESB is to lead a unified Board, to facilitate open discussion, effective decision making and timely communication with our owners and stakeholders.

ROLE OF THE BOARD

The Board is responsible for the long-term success of ESB and decisions are only made after the necessary level of information has been made available to Board members and with due consideration of the risks identified through the risk management process.

The Board has reserved key decisions including the following for its own consideration:

- Approval of Group Strategy, annual budgets and annual and interim financial statements
- Review of operational and financial performance
- Approval of major capital expenditure
- Overall review of Group health and safety performance
- Appointment of the Chief Executive
- Appointments to the Executive Team on the recommendation of the Chief Executive
- Appointment of the Company Secretary
- Major acquisitions, disposals or retirements
- Determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives

BOARD MEETINGS

We have eleven scheduled Board meetings during the year and any additional Board meetings as required. Papers, including minutes of Board Committees, are circulated in advance of each Board meeting. There is an agreed procedure in place, which allows Board members to take independent professional advice in the course of their duties and all Board members have access to the advice of the Company Secretary.

BOARD COMMITTEES

Five Committees of the Board assist in the discharge of its responsibilities and the Board delegates specific responsibilities to those Board Committees as set out in their Terms of Reference. The Committees assist the Board by giving more detailed consideration to business, operational and governance issues and they report to the Board with any necessary recommendations. Further details of these Committees are set out on page 62 of this report.

Lochlann Quinn's term as Chairman of ESB expired in January 2015. Lochlann served for seven years and both Board and management greatly benefitted from his expertise, business experience and wise judgement.

Brendan Byrne stepped down as the Chair of the Audit and Risk Committee in September 2014. During his term as Chair, Brendan used his extensive business knowledge and experience to provide valuable direction to the Committee and I would like to thank him for his valuable contributions. Noreen O'Kelly has been appointed as Chair of the Audit and Risk Committee and I would like to wish her all the best with this role and with her experience in the area of governance Noreen will bring a new dynamic and insight to the Committee.

John Coleman's second term as a Worker Board member expired in December 2014. John served as a Board member for eight years and brought a wide knowledge and experience of ESB's business and a commitment to the Group and its staff. I also want to welcome Peter O'Sullivan who joined the Board as a Worker Board member in January 2015.

CONCLUSION

Good governance is good business. In pursuit of our goal of strong and sustainable growth the Board and management will remain committed to transparency and accountability in all we do.

Ellvena Graham, Acting Chairman
24 February, 2015

KEY ROLES AND RESPONSIBILITIES

ACTING CHAIRMAN
Ellvena Graham

- Leading the Board
- Determining the Board agenda
- Ensuring its effectiveness and facilitating full participation by each Board member
- Ensuring effective communication with the Group's owners and stakeholders

THE CHIEF EXECUTIVE
Pat O'Doherty

- Management of the Group's business
- Development and implementation of the Group's strategies and policies
- Maintaining a close working relationship with the Chairman
- Leading the Executive Team

THE SENIOR INDEPENDENT DIRECTOR
Ellvena Graham

- Serving as an intermediary for the other directors

THE COMPANY SECRETARY
John Redmond

- Assisting the Chairman in ensuring that all directors have full and timely access to all relevant information
- Ensuring that correct Board procedures are followed and advises the Board on corporate governance matters
- Liaising between Board and Executive Team

Biographical details of the Acting Chairman and Chief Executive can be found on pages 60 and 61
Biographical details of the Company Secretary can be found on page 27

THE BOARD IN 2014

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- AUDIT AND RISK COMMITTEE
- HEALTH, SAFETY AND ENVIRONMENT COMMITTEE
- REGULATION COMMITTEE
- REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE
- FINANCE AND BUSINESS PERFORMANCE COMMITTEE

1 LOCHLANN QUINN

Appointment to the Board: January 2008 as Chairman and Board member and reappointed in January 2013.
Retirement from the Board: January 2015.
Career experience: Chartered Accountant, Partner with Arthur Andersen & Co and Former Deputy Chairman of Glen Dimplex.
External appointments: Chairman of the Merrion Hotel Group, member of the Board of Smurfit Graduate School at University College Dublin, former chairman of Allied Irish Bank plc (1997-2003) and of the National Gallery of Ireland (2002-2010).

2 PAT O'DOHERTY

Appointment to the Board: January 2013 as Board member and December 2011 as Chief Executive.
Career experience: Holds primary and masters degrees in Engineering from University College Dublin. Completed the Advanced Management Programme at Harvard Business School. Headed up each of ESB's main businesses as Executive Director ESB International, Managing Director ESB Networks and Executive Director ESB Power Generation.
External appointments: Trustee of The Conference Board of the United States and is a director of Energy UK.

3 ANNE BUTLER

Appointment to the Board: November 2012.
Career experience: Former President of the Institution of Engineers of Ireland and was a founding director of the Environmental Protection Agency (EPA). Established an environmental / advisory service.
External appointments: Served on a number of boards including the National Roads Authority (NRA), Ordinance Survey Ireland (OSI), member of the Governing Body of the Dublin Institute of Technology.

4 BRENDAN BYRNE

Appointment to the Board: September 2004, reappointed September 2009 until September 2014.
Retirement from the Board: September 2014.
Career experience: Chartered Accountant, has held a number of senior management positions in Aer Lingus and has worked extensively in the field of change management.
External appointments: Director of a number of companies in the aviation industry specialising in the areas of Air Cargo and Information Technology.

5 DAVE BYRNE

Appointment to the Board: January 2011 as a Worker Board member.
Career experience: Member of a team that is now part of ESB's Business Service Centre organisation and previously worked in Customer Supply (now Electric Ireland).
External appointments: President of ESB Officers Association (ESBOA) until April 2010 and then appointed as the Group of Unions representative in Central Partnership.

6 JOHN COLEMAN

Appointment to the Board: January 2007 as a Worker Board member and reappointed in January 2011.
Retirement from the Board: December 2014.
Career experience: Joined ESB as a Day Worker in Ferbane Generating Station.
External appointments: Secretary of the ATGWU Day Workers Union, Chairman of ATGWU ESB Branch.

7 ELLVENA GRAHAM

Appointment to the Board: October 2010.
Career experience: MD of SME Banking at Ulster Bank Group and Head of Ulster Bank Northern Ireland. Ellvena has held other senior positions at the Bank including Chief Operating Officer Ulster Bank Group, Director of Business Services Ireland, Interim Director of Group Operations, Europe, Middle East & Africa (EMEA), Chief Operating Officer – Corporate Bank.
External appointments: Member of the Advisory Board of Women's Executive Network in Ireland, Board member of the Northern Ireland Chamber of Commerce.

8 SEAN KELLY

Appointment to the Board: January 2011 as a Worker Board member.
Career experience: Joined ESB as an apprentice in June 1997. Safety Champion for Newcastle West, Safety Representative for the Mid-Western Division, Branch official in Limerick No.2 Branch of the T.E.E.U.
External appointments: Chairperson of the Mid-Western Local Implementation Group (LIG).

9 SEAMUS MALLON

Appointment to the Board: February 2006 and reappointed in May 2011.
Career experience: Elected to the Armagh District Council, the Northern Ireland Assembly and the Northern Ireland Convention. Member of Seanad Éireann and MP for Newry and Armagh at Westminister. Deputy Leader of the SDLP and Deputy First Minister of Northern Ireland.

10 TONY MERRIMAN

Appointment to the Board: January 2007 as a Worker Board member and reappointed in January 2011.
Career experience: Joined ESB as a Network Technician in 1979. Served as an officer with the ESB Group of Unions.
External appointments: Board member of ESB ESOP Trustee Limited.

11 NOREEN O'KELLY

Appointment to the Board: April 2013.
Career experience: Chartered Accountant trained with KPMG and held a number of senior positions in Independent News and Media Group including Head of Treasury and Group Secretary. In 2002, was appointed Company Secretary of C&C Group. Consultant on corporate governance.

12 NOREEN WRIGHT

Appointment to the Board: June 2011.
Career experience: Called to the Bar of Northern Ireland in 1976. Worked in the in-house legal team in Northern Ireland Electricity (NIE). Held a number of senior management posts in NIE / Viridian including Company Secretary and Head of Legal Services.
External appointments: Member of the Industrial and Fair Employment Tribunals, Lay Magistrate and member of the Northern Ireland Valuation Tribunal. Director of Springvale Training Limited and Co-operation Ireland Limited. Trustee of Garfield Weston Trust.

NEW MEMBER TO THE BOARD IN 2015

Mr. Peter O'Sullivan was elected as a Worker Board member effective from 1 January 2015.

PETER O' SULLIVAN

Appointment to the Board: January 2015.
Career experience: Joined ESB as a Network Technician in 1980. Former Safety Representative in Kerry / West Cork.
External Appointments: Former President of Network Technicians Association. Negotiation member of Group of Unions. Board member of ESOP Trustee Limited.

BOARD COMMITTEES IN 2014

1. AUDIT AND RISK COMMITTEE

The purpose of the Audit and Risk Committee is to assist the Board with its responsibilities in relation to financial reporting, internal control, risk management and its interactions with the external and internal auditor. The Company Secretary acts as Secretary of the Committee. The Committee held ten meetings during 2014. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings attended
Brendan Byrne, Chairman (to September 2014)	7
Noreen O'Kelly, Chairman (from September 2014)	10
Anne Butler	10
Ellvena Graham	8

2. HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The purpose of the Health, Safety and Environment Committee is to advise the Board on health, safety and environmental matters. The Committee held four meetings during 2014. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings attended
Tony Merriman, Chairman	4
John Coleman	4
Seamus Mallon	3
Noreen Wright	4
Pat O'Doherty	4

3. REGULATION COMMITTEE

The purpose of the Regulation Committee is to monitor evolving legislation and regulatory matters at national and European level and to oversee compliance with regulatory requirements. The Committee held three meetings during 2014. The members of the Committee and the number of meetings attended are set out below:

Members	Meetings attended
Noreen Wright, Chairman	3
Dave Byrne	3
Seamus Mallon	2
Sean Kelly	3

4. REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE

The purpose of the Remuneration and Management Development Committee is to advise the Board on all aspects of the remuneration of the Chief Executive, to approve any changes to the remuneration of Worker Board members, to set the remuneration of the executive management group following consultation with the Chief Executive and to monitor the development of current and future leaders of ESB. During 2014, the Committee considered the remuneration and targets of the Chief Executive and the senior executives and appointments to the senior Executive Team. The Committee held five meetings during 2014 which were attended by all Committee members and are set out below:

Members	Meetings attended
Lochlann Quinn, Chairman	5
Ellvena Graham	5
Noreen Wright	5

5. FINANCE AND BUSINESS PERFORMANCE COMMITTEE

The purpose of the Finance and Business Performance Committee is to oversee strategy and policy on financial matters, to monitor the Group's performance improvement programmes and to advise the Board as appropriate. The Committee also reviews investment proposals aimed at ensuring the positioning of ESB for future success consistent with the strategy approved by the Board.

The Finance and Business Performance Committee held eleven meetings during 2014 and attendance is set out below:

Members	Meetings attended
Ellvena Graham, Chairman	9
Dave Byrne	11
Brendan Byrne (to September 2014)	7
Tony Merriman	10
Pat O'Doherty	10
Lochlann Quinn (from September 2014)	4

BOARD MEMBERS' REPORT

BOARD MEMBERS' REPORT

The Board members present their report together with the audited financial statements of the Parent and of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activities of the ESB Group are the generation, transmission, distribution and supply of electricity in the Republic of Ireland (ROI) and Northern Ireland (NI). The Group also operates internationally, in related activities in Great Britain (GB), mainland Europe and is involved in a number of consultancy projects in Asia and Africa.

BUSINESS REVIEW

Commentaries on performance in the year ended 31 December 2014, including information on recent events and potential future developments, are contained in the Chairman's Statement and the Chief Executive's Review. The performance of the business and its financial position together with the principal risks faced by the Group are reflected in the financial review, the reviews for each major business unit within the Group and the risk report.

RESULTS FOR THE YEAR

The financial results of the Group show a profit after tax of €215 million for the financial year 2014, compared with a profit of €510 million for 2013.

An interim dividend of €47.1million (2.38 cents per unit of stock) was paid in November in respect of 2014.

A special dividend payment of €46.5 million (2.34 cents per unit of stock) was paid in May 2014, from the sale of ESB's interest in Bizkaia Energia SL and the subsidiary ESBI Facility Management España SL to an affiliate of ArcLight Capital Partners, LLC.The balance of the special dividend, €213.7 million (10.79 cents per unit of stock), was paid in January 2015.

The Board is now recommending a final dividend of €10.4 million (0.52 cent per unit of stock). This brings the total dividends in the past decade to almost €1.5 billion.

CORPORATE GOVERNANCE

ESB complies with the Code of Practice for the Governance of State Bodies, which sets out principles of corporate governance which the Boards of State Bodies are required to observe. ESB also complies with the corporate governance and other obligations imposed by the Ethics in Public Office Act, 1995 and the Standards in Public Office Act, 2001.

ESB conforms as far as possible, and on a voluntary basis, to the UK Corporate Governance Code (the Code). ESB also complies as far as possible with the Irish Corporate Governance Annex (the Irish Annex).

The Code consists of principles (main and supporting) and provisions. Companies listed on the Irish Stock Exchange are required, as part of the Listing Rules, to describe how they apply the principles of the Code, whether the Group has complied with all relevant provisions and the related Irish Annex and to provide an explanation of noncompliance.

ESB is a statutory corporation established under the Electricity (Supply) Act 1927 as amended and, accordingly, is not obliged to comply with the Code or the Irish Annex. As stated above, ESB supports the principles and provisions of the Code and the Irish Annex and voluntarily complies with them subject to the following exceptions:

(i) Appointments to the Board are a matter for Government and accordingly ESB does not have a Nomination Committee.

(ii) Board members are appointed for terms of up to five years (or four years in the case of Worker Board members) and therefore are not subject to re-election to the Board at lesser intervals.

(iii) ESB's policies and disclosures in relation to remuneration of the Chief Executive are in accordance with applicable Government guidelines. The details of Board members' remuneration on page 67 do not include amounts paid to the four Worker Board members as employees of ESB (as such pay is neither increased nor decreased because of their membership of the Board), but do include amounts paid to them by way of fees.

(iv) The Board evaluation process has not to date evaluated the individual performance of Board members as the Board does not have a formal role in determining its own composition.

(v) The Board Chairman is also Chairman of the Remuneration and Management Development Committee given the importance of compliance by ESB with Government policy in this area and the role of the Chairman as the primary interface with Government.

PRINCIPLES OF GOOD GOVERNANCE

Attendance at meetings in 2014

There were 11 General Board meetings and 2 Special Board meetings during 2014. The number opposite each name below represents the attendance by each Board member during the year.

MEETINGS ATTENDED

Board Members 2014	General Board Meetings	Special Board Meetings
Lochlann Quinn[1]	10	2
Brendan Byrne*[2]	7	2
Anne Butler*	11	2
Dave Byrne^	11	2
John Coleman ^[3]	11	2
Ellvena Graham*	11	1
Sean Kelly ^	11	2
Seamus Mallon*	9	2
Tony Merriman^	11	2
Noreen O'Kelly*	11	2
Noreen Wright*	11	2
Pat O'Doherty	11	2

* Independent Board Members

^ Worker Board Member

[1] Lochlann Quinn – retired January 2015
[2] Brendan Byrne – retired September 2014
[3] John Coleman – retired December 2014

THE BOARD

While day-to-day responsibility for the leadership and control of the Group is delegated to the Chief Executive and his Executive Team, within pre-defined authority limits, the Board is ultimately responsible for the performance of the Group. During 2014 the Board comprised the Board members in the table on page 63 of whom the Chairman and the independent directors were appointed by Government and the four Worker Board members were appointed pursuant to the Worker Participation (State Enterprises) Acts. The Board size and structure is governed by the Electricity (Supply) Acts 1927-2004 and by the Worker Participation (State Enterprises) Acts.

The Board has determined that the Board members identified on page 63 were independent during 2014. This determination took account of the relevant provisions of the UK Corporate Governance Code regarding directors' independence in character and judgement and the absence of relationships or circumstances which could compromise directors' independence. In the light of these factors the Board is satisfied of the independence of the directors identified above.

BOARD MEETINGS

The Board meets monthly (with the exception of August) and meets on other occasions as necessary. The Board is responsible for reviewing the operational and financial performance of the Group and for ensuring effective internal control and risk management. The Board has a formal schedule of matters specifically reserved to it for decision. The matters reserved to the Board are described on pages 58 and 59.

The Board has delegated authority to management for normal course of business decisions subject to specified limits and thresholds.

The Board members, in the furtherance of their duties, may take independent professional advice, at the expense of ESB. All Board members have access to the advice and services of the Company Secretary. Insurance cover is in place to protect Board members and officers against liability arising from legal actions taken against them in the course of their duties. An induction programme is in place to familiarise new Board members with the operations of the Group and a continuing development programme is in place for all Board members. There is ongoing financial and operational reporting to the Board and papers are sent to each member on a timely basis before the Board meetings. The Board papers include the minutes of Board Committee meetings.

BOARD EVALUATION

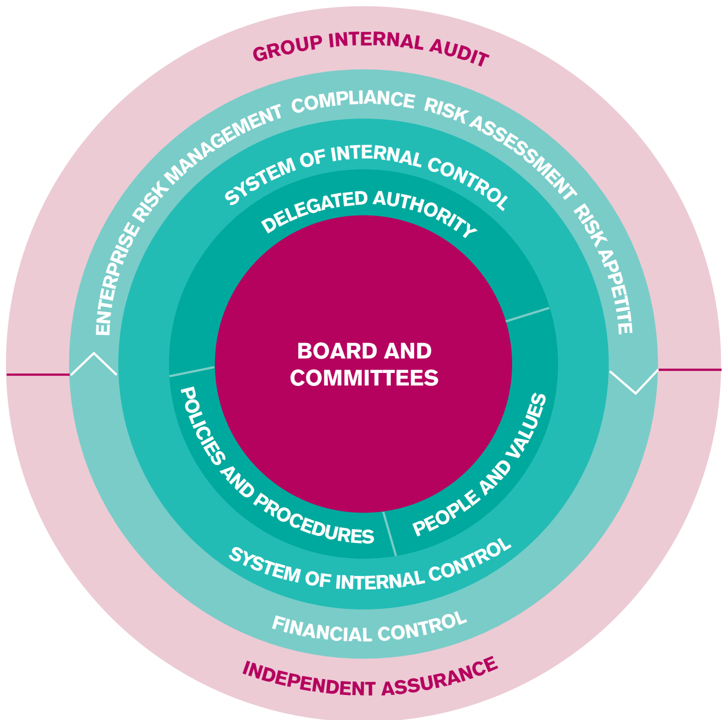
The Board conducts an annual evaluation of its own performance and that of its Committees. This evaluation is undertaken in order to comply with the Code of Practice for State Bodies and so far as possible, with the UK Corporate Governance Code. The evaluation relates to the Board's collective performance and not to the individual performance of Board members. The purpose of the evaluation is to review the Board's own operation and to identify ways to improve its effectiveness. It also helps to identify specific skills required or desirable in Board members and this can be advised to Government by the Chairman for consideration when making appointments.

The evaluation is led by the Chairman, supported by the Company Secretary. The evaluation consists of a questionnaire and based on Board members' replies a report is made to the Board on the outcome with proposed actions to address issues raised. Implementation is reviewed at mid year.

In addition, the Chairman meets with Board members including the Senior Independent Board member for an open exchange among Board members concerning the efficiency and effectiveness of the Board.

BOARD COMMITTEES IN 2014

Committees are established to assist the Board in the discharge of its responsibilities. The five Committees are set out on page 62, with details of attendance at meetings by Committee members. In addition, the Board Chairman frequently attended meetings of the Audit and Risk Committee, and the Finance and Business Performance Committee.



GOVERNANCE, RISK AND CONTROL

COSO FRAMEWORK

ESB INTERNAL CONTROL FRAMEWORK

Control Environment
1. Demonstrates commitment to control and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment
6. Specifies suitable objectives
7. Identifies and analyses risk
8. Assesses fraud risk
9. Identifies and analyses significant change

Control Activities
10. Selects and develops control activities
11. Selects and develops general controls over activities
12. Deploys through policies and procedures

Information and Communication
13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities
16. Conducts ongoing and / or separate evaluations
17. Evaluates and communicates deficiencies

The Group has used the integrated internal control framework as developed by Committee of Sponsoring Organisations of the Treadway Commission (COSO) as a guidance for internal control.

BOARD APPOINTMENTS

As Board appointments are a matter for Government or for election by staff, ESB does not undertake an evaluation of individual Board members. However, the Chairman does engage with Government in advance of Board appointments about the specific skills which are required in the Board.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for monitoring its effectiveness. The system of internal control is designed to provide reasonable but not absolute assurance against the risk of material misstatement or loss. In order to discharge that responsibility in a manner which ensures compliance with legislation and regulations, the Board has established an organisational structure with clear operating and reporting procedures, lines of responsibility, authorisation limits, segregation of duties and delegated authority. The Board has reviewed the effectiveness of the Group's system of internal control covering financial, operational and compliance controls and risk management systems.

ESB has in place a strong internal control framework, which includes the following:

- A code of ethics that requires all Board members and employees to maintain the highest ethical standards in conducting business
- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board which support the maintenance of a strong control environment
- A corporate governance framework which includes risk analysis, financial control review and formal annual governance compliance statements by the management of business lines
- A comprehensive set of policies and procedures relating to operational and financial controls
- Large capital projects require the approval of the Board, and are closely monitored on an ongoing basis by the Finance and Business Performance Committee, they can also be subject to post completion audits
- Comprehensive budgeting systems with an annual budget approved by the Board
- A comprehensive system of financial reporting
- Cumulative actual results and key performance indicators are reported against budget and considered by the Board on a monthly basis, any significant changes and / or material adverse variances are questioned by the Board, and remedial action taken where appropriate
- A confidential helpline service to provide staff with a confidential, and if required, anonymous means to report fraud or ethical concerns

These controls are reviewed systematically by Group Internal Audit. In these reviews, emphasis is focused on areas of greater risk as identified by risk analysis. The Board, supported by the Audit and Risk Committee, have reviewed the effectiveness of the system of internal control. The process used by the Board and the Audit and Risk Committee to review the effectiveness of the system of internal control includes:

- A designated risk management function in ESB
- Review and consideration of the half-yearly risk review process and regular risk management updates
- Independent advice on the adequacy of the current risk management process in operation in ESB
- Review and consideration of certifications from management of satisfactory and effective operation of systems of internal control, both financial and operational
- A review of the programme of Group Internal Audit and consideration of their findings and reports
- Group Internal Audit also report regularly on the status of issues raised previously from their own reports and reports from the external auditor
- A review of reports of the external auditor, KPMG, which contain details of any significant control issues identified, arising from its work as auditor

RISK MANAGEMENT

Effective risk management is critical to the achievement of ESB's strategic objectives and the long-term sustainable growth of its business. The rapid changes taking place in ESB makes it all the more important to continuously reassess risks and have clear strategies to manage them. The Board has overall responsibility for the Group's approach to risk.
Specifically the Board is responsible for:

- Ensuring that an adequate process designed to identify the principal risks and uncertainties is in place
- Embedding an appropriate risk culture throughout the Group
- Oversight of the risk management and crisis management processes and
- Assessment of the likely effectiveness of management's mitigation measures and controls

The Board is aware that it must lead by example in shaping and supporting the Group values which underpin the approach to risk. The Board also wants to ensure that sufficient risk management skills and capabilities are available in the business and that the knowledge and experience of all the staff in ESB who understand the risks associated with operations is utilised. Regular reporting has helped the Board to stay abreast of emerging risks and uncertainties.

Risk appetite may also vary over time and the Board has explicitly considered the level of this appetite and any deviation from its stated appetite for risk that the Group is prepared to accept in respect of specific risks. The propensity to take risk is always balanced by a focus on exercising control.

ACTIVITIES UNDERTAKEN BY THE BOARD DURING 2014 IN RESPECT OF ITS RISK MANAGEMENT RESPONSIBILITIES INCLUDED

ACTIVITY	DETAIL
Approved revisions to Group Risk Policy	The Group Risk Policy was refreshed this year to clarify policy aims and roles and responsibilities for risk. A clear reference to the importance of risk culture and values in sound risk management was incorporated into the policy statement.
Updated on High Impact Low Probability risks (HILPs)	A review of the High Impact Low Probability risks (HILPs) (risks that have a high impact if they occur but there is a low probability of them occurring) was carried out this year and brought to the Board for discussion and approval. The HILP register has been reorganised, risk owners identified and mitigations outlined.
Reviewed the crisis management plan	Following a threatened industrial dispute in late 2013 and the impact of severe weather events in early 2014, a full review of ESB's crisis management and crisis communications capability was carried out in conjunction with the business units. The review also examined how ESB works alongside other state agencies in coordinating national responses to emergencies. A number of improvements were identified and actioned by the business units.
Briefed in relation to risk assessments being carried out by external parties	The Audit and Risk Committee and the Board were updated on the draft National Risk Assessment conducted by the Department of An Taoiseach. In particular, the Committee and the Board noted aspects of the assessment relevant to ESB relating to: ● Disruption to energy supply and ● Appropriate infrastructure development The Board and the Audit and Risk Committee were also briefed on the World Economic Forum's Global Risks 2014 Report. The Report considers a core set of 31 global risks in five categories; economic, environmental, geopolitical, technological and societal. Many of the risks listed are also relevant to the consideration of ESB's risk environment / trends and are a useful input into the ESB's principal risks.
Reviewed risk reporting	Reporting of risk to the Audit and Risk Committee and the Board was considerably enhanced during 2014. Specific monthly updates were provided by the Chief Executive to the Board on developments related to ESB's principal risks and the effectiveness of mitigations in place.
Supply chain risk	Board members visited the National Supply Store to be briefed on its supply chain capabilities and to gain a more in-depth understanding of how supply chain risks are managed in the business.

BOARD MEMBERS' REMUNERATION

	2014 €	2013 €
Chairman: Lochlann Quinn		
Fees	75,075	75,075

Chief Executive: Pat O'Doherty	2014 €	2013 €
Salary	295,000	295,000
Taxable benefits	15,570	15,570
Pension contributions	48,380	48,380
	358,950	358,950

Non-Executive Board Members' Remuneration	2014 €	2013 €
Brendan Byrne	14,696	15,750
Dave Byrne	15,750	15,750
John Coleman	15,750	15,750
Ellvena Graham	15,750	15,750
Sean Kelly	15,750	15,750
Seamus Mallon	15,750	15,750
Tony Merriman	15,750	15.750
Anne Butler	15,750	15,750
Noreen Wright	15,750	15,750
Noreen O'Kelly[1]	-	-
	140,696	141,750

[1]Ms O'Kelly waived her Board fees in 2013 and 2014

CHIEF EXECUTIVE'S REMUNERATION

The Chief Executive's remuneration is set within a range determined by the Minister for Public Expenditure and Reform and the Minister for Communications, Energy and Natural Resources. Pat O'Doherty was appointed Chief Executive effective 1 December 2011 and was appointed a Board member in January 2013. His remuneration consists of an annual salary of €295,000 and a company car. He is a member of the ESB Pension Scheme. In line with Government policy at this time, he did not receive any performance related payments in 2014.

WORKER BOARD MEMBERS' REMUNERATION

Worker Board members appointed under the Worker Participation (State Enterprises) Acts are remunerated as employees of ESB. They are members of the ESB Pension Scheme.

NON-EXECUTIVE BOARD MEMBERS' REMUNERATION

The remuneration of the Non-Executive Board members (including the Chairman) is determined by the Minister for Public Expenditure and Reform and the Minister for Communications, Energy and Natural Resources and they do not receive pensions.

BOARD MEMBERS' EXPENSES

In compliance with the revised Code of Practice for the Governance of State Bodies, disclosure is required of the expenses paid to the Chief Executive and Board members, broken down by category. During 2014, the following amounts were reimbursed to, or paid on behalf of, the Chief Executive and Board members: €59,721 for travel expenses, €21,015 for accommodation / subsistence, €6,476 for business entertainment and €4,160 for subscriptions to business relevant organisations and publications.

The above business and travel expenses include those of the Chief Executive in respect of his duties as an executive.

GOING CONCERN

The Group's performance, business model, strategy and principal risks and uncertainties and how these are managed and mitigated are set out in the strategy and performance section on pages 2 to 55.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the finance review on pages 30 to 35. Note 26 in the financial statements includes an overview of financial risk management, details of the Group's financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources and the Board believe that the Group is well placed to manage its risks successfully. After making appropriate enquiries the Board is satisfied that ESB has adequate resources to continue in operational existence for the next financial year and the foreseeable future. Accordingly the financial statements are prepared on a going concern basis.

ACCOUNTING RECORDS

The Board members believe that they have employed accounting personnel with appropriate expertise and provided adequate resources to the financial function to ensure compliance with ESB's obligation to keep proper books of account. The books of account of ESB are held at 27 Lower Fitzwilliam Street, Dublin 2.

ELECTORAL ACT, 1997

The Board made no political donations during the year.

CONCLUSION

This report was approved by the Board on 24 February 2015 for submission to the Minister for Communications, Energy and Natural Resources.

On behalf of the Board

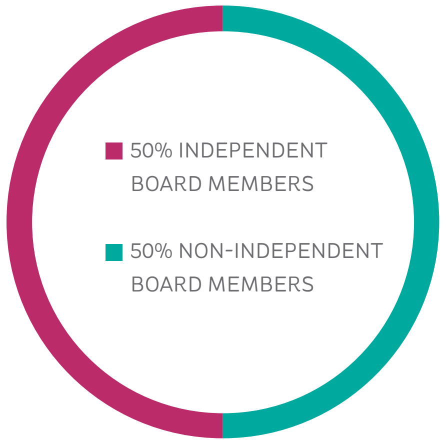
Ellvena Graham, Acting Chairman

Pat O'Doherty, Chief Executive
24 February, 2015

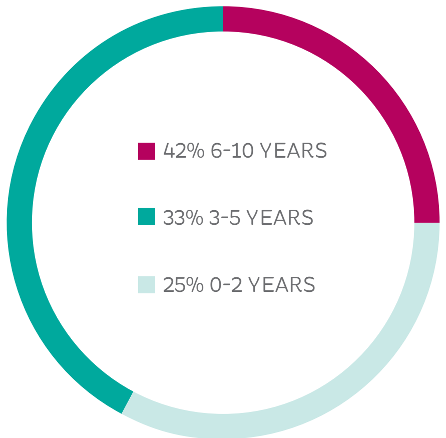
COMMITTEE MEMBERSHIP DURING 2014 AND LENGTH OF SERVICE

Name	On Committee Since
Audit and Risk Committee	
Anne Butler	January 2013
Ellvena Graham	April 2013
Noreen O'Kelly, Chairman	June 2013
Brendan Byrne (to September 2014)	February 2005
Health, Safety and Environment Committee	
Tony Merriman, Chairman	February 2007
John Coleman	February 2007
Seamus Mallon	May 2006
Noreen Wright	April 2013
Pat O'Doherty	December 2011
Finance and Business Performance Committee	
Ellvena Graham, Chairman	April 2013
Dave Byrne	April 2013
Brendan Byrne (to September 2014)	April 2013
Tony Merriman	April 2012
Pat O' Doherty	April 2013
Lochlann Quinn	September 2014
Regulation Committee	
Noreen Wright, Chairman	January 2012
Dave Byrne	March 2012
Seamus Mallon	February 2007
Sean Kelly	April 2013
Remuneration and Management Development Committee	
Lochlann Quinn, Chairman	February 2008
Ellvena Graham	January 2012
Noreen Wright	January 2012

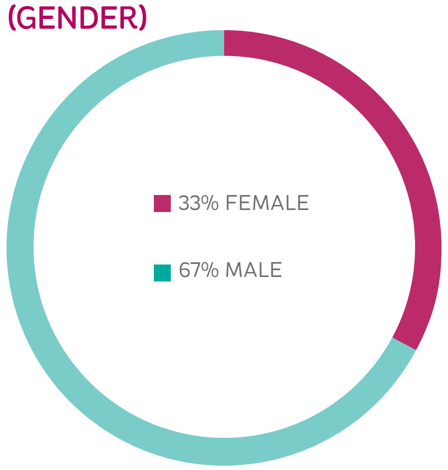
INDEPENDENCE OF BOARD



LENGTH OF TENURE



COMPOSITION OF BOARD (GENDER)



AUDIT AND RISK COMMITTEE REPORT

Noreen O'Kelly
Chairman,
Audit and Risk
Committee

CHAIRMAN'S INTRODUCTION

I succeeded Brendan Byrne as Chairman of the Audit and Risk Committee in September, 2014. On behalf of the Audit and Risk Committee, I would like to thank Brendan for his enormous contribution to the Committee both as a member and Chairman, and recognise in particular the broad business knowledge, experience and commitment he brought to the Committee.

Under the 2012 UK Corporate Governance Code, (the Code), the Board has a responsibility to confirm that the annual report and accounts taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders / stakeholders to assess the Group's performance, business model and strategy. The Audit and Risk Committee have reviewed the annual report and accounts and are satisfied that it meets these criteria and can recommend them to the Board for approval.

The Audit and Risk Committee also considered the significant issues in relation to the financial statements and how these issues were addressed. This work is summarised in the table on the right.

The Audit and Risk Committee will keep its activities under review to ensure that future developments relating to the work of the Audit and Risk Committee are fully considered. The responsibilities of the Audit and Risk Committee are summarised above and are set out in full in its Terms of Reference.

DUTIES

The role of the Audit and Risk Committee is set out in its Terms of Reference, a copy of which can be found on the ESB website. The Terms of Reference set out the duties of the Audit and Risk Committee under the following headings:

- Financial Reporting
- Internal Control and Risk Management
- Compliance, Fraud and Whistle-blowing
- Internal Audit
- External Audit

ACTIVITIES UNDERTAKEN BY THE COMMITTEE DURING 2014 IN RESPECT OF ITS DUTIES INCLUDED

Duty	Activity
Financial Reporting Review the annual report and accounts to ensure that when taken as a whole they are fair, balanced and understandable	■ Reviewed the clarity and completeness of the disclosures in the annual report and accounts and the material information presented with them ■ Reviewed the interim results which consist of financial statements and explanatory notes ■ Considered and challenged the methods used to account for significant or unusual transactions and how these were presented and disclosed ■ Reviewed whether the Group had applied appropriate estimates and judgements taking into account the views of the external auditor
Internal Control and Risk Management Review the effectiveness of internal control and risk management	■ Reviewed and monitored the effectiveness of the Group's system of internal control ■ Reviewed the arrangements for business continuity planning ■ Reviewed ESB's revised Risk Policy, 2014 Risk Plan and regular risk reports and recommended them to the Board for approval
Compliance, Fraud and Whistle-blowing Review the adequacy of whistle-blowing arrangements and ensure that appropriate investigation of any whistle-blowing incidents have been undertaken	■ Reviewed the controls and procedures in place to provide assurance of compliance with statutory obligations ■ Reviewed the adequacy of the processes adopted by ESB to achieve compliance with the Code of Practice for the Governance of State Bodies ■ Reviewed the procedures and policies for preventing and detecting fraud and were informed of any instances of fraud ■ Reviewed the adequacy and security of the arrangements for raising concerns confidentially about possible wrongdoing in financial reporting or other matters ■ Reviewed and revised the Audit and Risk Committee's Terms of Reference to ensure that they remained relevant and up to date
Internal Audit Monitor and assess the role and effectiveness of the internal audit function	■ Reviewed the internal audit plan and monitored progress against this plan to assess the effectiveness of the function ■ Reviewed reports detailing the results of key audits, managements response and the timeliness of resolution of actions ■ Met with the Head of Internal Audit without management being present
External Audit Monitor and review the objectivity, independence and quality of the external auditor (KPMG)	■ Reviewed and challenged the proposed external audit plan to ensure that KPMG had identified all key risks and developed robust audit procedures ■ Reviewed the report from KPMG on its audit of the financial statements and their responses to accounting, financial control and audit issues as they arise ■ Enforced the policy on the engagement of the external auditor to provide non-audit services ■ Met with the external auditor without management being present giving KPMG the opportunity to raise any matters in confidence

FINANCIAL REPORTING

The Audit and Risk Committee receives and considers statutory reports on financial performance from management as well as directing work of and receiving reports from the internal audit team and discussing the audit strategy and focus of the external auditor. Taking into account information from these activities, the Audit and Risk Committee determined the key risks of misstatement of the Group's financial statements related to the following:

- Carrying value of goodwill and long-lived assets
- Pension obligations
- Derivatives and hedging arrangements

These issues were discussed with management during the year; with the auditor at the time the Audit and Risk Committee reviewed and agreed the auditor's Group audit plan; when the auditor reviewed the half year interim financial statements in September 2014; and also at the conclusion of the audit of the financial statements.

CARRYING VALUE OF GOODWILL AND LONG-LIVED ASSETS

Republic of Ireland (ROI) and United Kingdom (UK) Generation Portfolio

Impairment reviews were performed on the ROI and UK generation portfolios to ensure the carrying values are supported by forecast future discounted cash flows. An impairment charge of €50 million with respect to the generation business was necessary following this review. This impairment related to Corby Power Limited (€31 million) and West Durham Wind Farm Limited (€19 million). Further details are set out in note 9 and 10 to the financial statements.

ESB Networks Transmission and Distribution Assets

ESB Networks is entering the final year of the five year price control period (PR3). As at 31 December 2014, there were no indicators of impairment of the carrying value of the regulated asset base (€7.1 billion), which determines the future regulated income to be earned.

Northern Ireland Electricity (NIE) Goodwill

Goodwill recognised in the NIE business at 31 December 2014 amounted to €195 million. An annual impairment test of goodwill was carried out in accordance with IAS 36 and no reduction in the value of goodwill was required. The growth rate and appropriate discount rate used to carry out this test are significant judgements and these are explained more fully in note 11 to the financial statements.

The Audit and Risk Committee has considered detailed papers including descriptions of the methodologies and assumptions applied in deriving the recoverable values including the discount rates utilised. The Audit and Risk Committee constructively challenged the assumptions and projections presented in the papers and also considered the detailed reporting from, and findings by, the external auditor. Following this review the Audit and Risk Committee is satisfied that the proposed impairment charge of €50 million is appropriate and that the carrying value of the assets is appropriately stated at the reporting date.

PENSION OBLIGATIONS

During 2013 there was a legal and IR challenge in relation to the ESB General Employees' Superannuation Scheme. The IR issue was resolved at the Labour Relations Commission in December 2013. The legal case was subsequently withdrawn by the 4 plaintiffs (all employees) and struck out. Given that both challenges related to ESB's obligations to the Scheme, the Audit and Risk Committee and the Board reviewed the accounting treatment of ESB's obligations in relation to the Scheme. The process included meetings with the auditor and management as well as obtaining updated legal advice, and concluded that the accounting treatment, as reflected in the financial statements continued to be appropriate. This conclusion was based on the following key factors:

- The Scheme is registered as a Defined Benefit Scheme with the Pensions Board. The regulations governing the Scheme stipulate the benefits that are to be provided and the contributions to be paid by both ESB and the contributing members.

- The Scheme is not a typical "balance of costs" Defined Benefit Scheme (where the employer is liable to pay the balance of contributions required to fund benefits). The company does not intend that any further contributions, other than the normal ongoing contributions and the balance of the company's €591 million additional contribution (committed to under the 2010 Pensions Agreement), will be made.

- Should a deficit arise in the future, the company is obliged under the Scheme regulations to consult with the parties to the Scheme. However, ESB has no obligation to increase contributions to maintain benefits in the event of a deficit and ESB's rate of contribution cannot be altered without the agreement of ESB and the approval of the Minister for Communications, Energy and Natural Resources.

The accounting for the obligations to be reflected in the financial statements requires the exercise of judgement. The Board remains satisfied that the appropriate accounting treatment, determined in accordance with IAS 19 Employee Benefits, is to reflect its existing committed obligations, as set out in the notes to the financial statements.

DERIVATIVES AND HEDGING ARRANGEMENTS

The Group uses derivative financial instruments and non-derivative instruments to hedge its exposure to foreign exchange, interest rate and commodity price risk arising from operational, financing and investing activities. The principal derivatives used include interest rate swaps, currency swaps, foreign currency contracts and indexed swap contracts relating to the purchase of fuel and sale of electricity. Derivative contracts which are not designated as own use contracts are primarily accounted for as cash flow hedges, where they meet cash flow hedge accounting criteria under IAS 39. Gains or losses on these contracts are deferred in equity until the underlying transaction occurs at which time any gains or losses are reported in earnings.

On acquisition of NIE in December 2010, the Group acquired inflation linked interest rate swaps (RPI Swaps) with a negative fair value of €272.5 million, which do not qualify for hedge accounting and therefore all fair value movements have an impact on profit for the year. The fair values of the RPI Swaps are sensitive to movements in the market expectations of LIBOR interest rates and the UK Retail Price Index (RPI) and modest changes to these key assumptions would have a significant effect on the results of the Group.

The RPI Swaps were restructured in June 2014 in order to manage the liquidity of the Group in advance of the mandatory break clause of December 2015. As a result, the break clause has been extended to 2022 and the coupon rate increased. This, along with low interest rates in the UK, resulted in a significant fair value movement in the income statement of €245 million. Further details are set out in note 20 to the financial statements.

The Audit and Risk Committee has reviewed and discussed with management a paper outlining the key details of the restructuring and accounting treatment of the RPI Swaps. The Audit and Risk Committee considered the results of the work of the external auditor in relation to the RPI Swaps and other financial derivatives. Based on this work, the Audit and Risk Committee is satisfied that the accounting treatment for financial derivatives is reasonable.

DISCUSSIONS WITH THE AUDITOR

The Audit and Risk Committee has received and discussed a report from the external auditor on the findings from the audit, including those relating to the risks noted above. The auditor reported to the Audit and Risk Committee any misstatements that they had found in the course of their work and no material amounts remain unadjusted.

After reviewing the presentations and reports from management and internal audit, and taking into account views expressed by the external auditor, the Audit and Risk Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures). The Audit and Risk Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

APPOINTMENT AND INDEPENDENCE

KPMG and its predecessor firms have been the Group's external auditor since the establishment of ESB in 1927. The Audit and Risk Committee considers the reappointment of the external auditor every five years and this process is subject to public tender. The last tender process was completed in early 2012 and a three year contract was awarded with an option to extend for another two years. This option was exercised in February 2015. A tender process will be initiated during 2015 / 2016 for the appointment of an external auditor for the 2017 financial year. The Audit and Risk Committee also assesses the auditor's independence on an ongoing basis. The external auditor is required to rotate the audit partner responsible for the Group audit every five years.

NON-AUDIT SERVICES

The Audit and Risk Committee has developed a policy regarding the provision of non-audit services by the external auditor, whereby, other than as notified to the Audit and Risk Committee, such services should be limited to advice in relation to accounting, taxation and compliance issues. The fees payable for non-audit services in any financial year should not exceed audit fees for that year. A summary of fees paid to the external auditor is set out in note 8 to the financial statements. Significant engagements undertaken during the year included advice in relation to the Fibre to the Building joint venture.

MEETINGS

The internal and external auditors have full and unrestricted access to the Audit and Risk Committee. The Audit and Risk Committee Chairman reports the outcome of its meetings to the Board. The Board is satisfied that at all times during the year at least one member of the Audit and Risk Committee had recent and relevant financial experience. Meetings are routinely attended by the Chairman, Chief Executive, Finance Director, Head of Internal Audit and representatives of the external auditor.

On behalf of the Audit and Risk Committee

Noreen O'Kelly
Chairman, Audit and Risk Committee
24 February, 2015

NURTURING FUTURE TALENT

ESB is Ireland's leading energy company and its staff are recognised globally for their skills in the energy sector. ESB will continue to renew and develop its workforce, for the company and the economy as well as improving the opportunities for young people while at the same time developing critical skills to support Ireland's future growth and development.

03 FINANCIAL STATEMENTS

CONTENTS

STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

The Board members are responsible for preparing the annual report and the Group and Parent financial statements. The Electricity (Supply) Acts 1927 to 2004 require the Board members to prepare Group and Parent financial statements for each financial year. Under ESB's governing regulations (the Regulations), adopted pursuant to the Electricity (Supply) Acts 1927 to 2004, the Board is required to prepare financial statements and reports as required by, and in accordance with, the Companies Acts 1963 to 2013 (the Companies Acts), in the same manner as a company established under the Companies Acts. Further, the Board members have prepared the financial statements of the Parent and the Group in accordance with IFRS as adopted by the EU, and as applied in accordance with the Companies Acts.

The Group financial statements are required by law to present a true and fair view of the state of affairs of the Parent and the Group as at the end of the financial year, and of the profit and / or loss of the Parent and the Group for the financial year. Pursuant to IFRS as adopted by the EU, the financial statements are required to present fairly the financial position and performance of the Group and the Parent.

In preparing each of the Group and Parent financial statements on pages 89 to 150 the Board members are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent will continue in business.

The Board members are responsible for the following:

- Keeping proper books of account which correctly record and explain the transactions of the Group and the Parent
- Disclosing with reasonable accuracy at any time the financial position of the Group and Parent, enable them to ensure that the financial statements comply with the Companies Acts and enable the accounts of the Group and the Parent to be readily and properly audited
- Taking such steps that as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities
- Preparing a Board Members' Report that complies with the requirements of the Companies Acts
- The maintenance and integrity of the financial information included on the Group's website

In accordance with the 2012 Corporate Governance Code, the directors, having taken all relevant matters into consideration, believe that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the Group's performance, business model and strategy.

Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Ellvena Graham, Acting Chairman

Pat O'Doherty, Chief Executive

INDEPENDENT AUDITOR'S REPORT TO THE STOCKHOLDERS OF ELECTRICITY SUPPLY BOARD (ESB)

OPINION AND CONCLUSIONS ARISING FROM OUR AUDIT

1. OPINION ON FINANCIAL STATEMENTS

As the auditor appointed by the Minister for Communications, Energy and Natural Resources with the consent of the Minister for Finance, under Section 7 of the Electricity (Supply) Act 1927, we have audited the financial statements of ESB for the year ended 31 December 2014 set out on pages 89 to 150. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK and Ireland).

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2014 and of its profit for the year then ended;
- the Company balance sheet gives a true and fair view, in accordance with IFRSs as adopted by the EU, as applied in accordance with the provisions of the Companies Acts 1963 to 2013 and as applied by the Electricity (Supply) Acts 1927 to 2004, of the state of the Company's affairs as at 31 December 2014; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013 as applied by the Electricity (Supply) Acts 1927 to 2004.

2. OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the Group financial statements the risks of material misstatement that had the greatest effect on our Group audit were as follows:

- Liability - ESB pension scheme: €731 million (2013: €766 million)
  Refer to page 70 (Report of the Audit and Risk Committee), page 87 (accounting policy) and note 21 to the financial statements

The Risk

Pension arrangements for the majority of ESB's employees are funded through the ESB General Employees' Superannuation Scheme (the Scheme). The regulations of the Scheme stipulate that benefits are to be provided to members of the Scheme according to an agreed formula, however these are not linked to the contributions required to be made by ESB under the Scheme rules. Consequently ESB has no legal obligation to increase contributions to maintain benefits in the event of a deficit. Should a deficit arise in the future, ESB is obliged under the Scheme regulations to consult with the Superannuation Committee, the Trustees and the Scheme Actuary to consider the necessity of submitting an amending Scheme for Ministerial approval. This does not conform to a typical 'balance of cost' defined benefit scheme where the employer is liable to pay the balance of contributions to fund deficits. However, historically, on a number of occasions, when a deficit was reported by the Scheme actuary and following consultation with the various affected parties, both ESB and employees increased their contributions to the Scheme to address this.

In 2010 a new pensions agreement was reached between ESB and the Scheme members which included benefit and other actuarial changes to the Scheme which were borne by the Scheme members. The fixed contribution rates for ESB and members were not changed but ESB also agreed to pay a once off contribution of €591 million (the Contribution) and the Scheme was closed to new joiners. In the 2010 financial statements, ESB stated that it did not intend to make any further contributions to the Scheme, other than the ongoing fixed contributions. This was stated explicitly in the 2010 financial statements and in subsequent periods, ESB has not made any contributions to the Scheme other than the agreed contributions. As a consequence, the accounting for the Scheme was amended in 2010 to only accrue for the Contribution within ESB's balance sheet, and to account for the ongoing fixed percentage of salary contributions relating to current service costs in the income statement as pensionable service is provided.

In late 2013, a dispute arose between ESB and its unions in relation to the pension scheme which ultimately resulted in a Labour Relations Commission brokered agreement between the parties. This agreement obliges ESB to accurately describe the pension Scheme in its accounts, re-iterated the obligation on the parties to consult in the event of a deficit and noted that neither party had an intention to adjust the level of contributions to the Scheme at that time. This agreement has not changed the Board's views in relation to its accounting for the Scheme and the Board has further re-confirmed that it is not the Group's intention to make any further contributions to the Scheme. It consequently continues to be the ESB's view that it has no legal or constructive obligation in this regard and that the accounting treatment adopted in 2010 continues to apply.

This is a significant judgement as the interpretation of the Scheme rules, whether ESB has a legal or constructive obligation to fund the Scheme, and the associated accounting are complex matters.

Our Response

Our audit procedures included obtaining an understanding of ESB's legal position from internal and external legal counsel. We received confirmation from the Board members that the Group did not intend to make any further payments to the Scheme other than those provided for in the 2010 pension agreement and a fixed continuing contribution of Scheme members' salaries. We considered other documentation and internal briefing notes provided to us by the Company in relation to the issue. We also had regard to the Group's actions in the period since 2010, particularly through a period of industrial unrest, during which no additional contributions were made to the Scheme and we considered a communication the Group subsequently made to all staff in which its intention that no additional contributions would be made, was re-iterated. We considered whether the accounting and disclosures made in the financial statements in respect of this significant judgemental matter were appropriate and in accordance with the relevant accounting guidance. We also reconsidered the appropriateness of the accounting in the context of the revised IAS 19 Employee Benefits standard.

INDEPENDENT AUDITOR'S REPORT TO THE STOCKHOLDERS OF ELECTRICITY SUPPLY BOARD (ESB) (continued)

- Carrying value of goodwill and long-lived assets: €11.1 billion (2013: €10.6 billion), impairment charge of €50 million (2013: €nil)
  Refer to page 70 (Report of the Audit and Risk Committee), pages 82 to 83 (accounting policy) and notes 9, 10 and 11 to the financial statements

The Risk

ESB has long-lived assets with a carrying value of €11.1 billion on its balance sheet at 31 December 2014 (€10.6 billion at 31 December 2013). The most significant of these assets are the Republic of Ireland and Northern Ireland network assets and the Group's power generation portfolio. Given the magnitude of these assets relative to ESB's balance sheet, any potential impairment could have a significant impact on the results of the Group. Management review the carrying value of other significant long-lived assets for any indications of impairment on an annual basis.

The acquisition of the electricity networks business in Northern Ireland (NIE) in December 2010 resulted in the recognition of €1.9 billion of network assets and €178 million of goodwill. Goodwill is required to be assessed for impairment at least annually, irrespective of whether there is any indication that it may be impaired. Recoverability of these assets is based on forecasting and discounting cash flows, which is a judgemental process. The valuation of NIE is also sensitive to the outcome of periodic regulatory price consultations between NIE and the Northern Ireland Authority for Utility Regulation (NIAUR), the most recent of which was determined in April 2014.

Given the inherent uncertainty in estimating long-term cash flows associated with long-lived assets and goodwill, this is considered a key audit risk.

Our Response

In relation to the Group's power generation portfolio, we obtained an understanding of the Group's value in use models, including the assumptions employed, the output, availability and profitability of the assets. We compared management's assumptions on future projected cash flows to externally derived data, where possible, and performed sensitivity analysis on the key assumptions.

We compared the Regulatory Asset Base of the Group's Republic of Ireland networks transmission and distribution assets (on which future regulated income is determined) with the net book value of the assets in the financial statements. We also inspected relevant correspondence between the Commission for Energy Regulation and the Group and considered the implications for the financial statements.

We performed a full inspection of the most recent regulatory price determination in respect of NIE, and management's assessment of its impact on the carrying value of the long-lived assets of NIE and related goodwill. We assessed the reasonableness of management's assumptions used in their impairment models, which are based on the final RP5 determination, including the discount rate used. We compared management's assumptions, where possible, to third party data and performed sensitivity analysis on the key assumptions. We compared prices achieved for similar assets in market transactions to the estimated value in use established by management and the carrying values.

For all value in use models, we challenged the key assumptions for the earnings and cash flow forecasts, the discount rate used and, when relevant, the value of the impairment charged in the year. We considered whether the disclosures made in respect of the risks, estimation uncertainty and the sensitivity of the impairment assessment to changes in key assumptions are adequate.

- Derivatives and hedging – hedging arrangements: net liability €500 million (2013: net liability €243 million)
  Refer to page 70 (Report of the Audit and Risk Committee), page 84 (accounting policy) and note 20 to the financial statements

The Risk

The Group uses derivative and other contracts to hedge its exposure to foreign exchange, interest rate and commodity price risk arising from operational, financing and investing activities. The principal derivatives used include inflation linked swaps, interest rate swaps, currency swaps, foreign currency contracts and indexed swap and other commercial contracts relating to the purchase of fuel and sale of electricity. These contracts are designated into a variety of cash flow hedging relationships, with the exception of the Group's inflation linked swaps which do not qualify for hedge accounting. The hedge designations and associated documentation requirements of the applicable accounting standards are complex and the valuation of all of these derivatives is judgemental and sensitive to movements in underlying variables (such as benchmark interest rate indices and commodity futures). Modest changes to these variables could have a significant impact on the financial position of the Group.

INDEPENDENT AUDITOR'S REPORT TO THE STOCKHOLDERS OF ELECTRICITY SUPPLY BOARD (ESB) (continued)

Our Response

Our audit procedures included the use of valuation specialists in assessing the valuation of the derivative contracts and comparing the Group's assumptions to externally derived data in assessing whether the assumptions used by the Group are reasonable. We obtained and assessed the Group's hedge accounting documentation and associated supporting calculations to ascertain whether hedge accounting was appropriate, correctly accounted for, documented and tested on a periodic basis. We assessed whether the disclosures reflected the risks inherent in the accounting for derivative financial instruments.

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The materiality for the Group financial statements as a whole was set at €12 million (2013: €22 million). This has been determined using 5% of the benchmark of profit before taxation excluding the effect of once-off items. Once-off items in the year are (i) the profit on disposal of a joint venture investment and related subsidiary business of €38 million; (ii) the fair value gain of €94 million on the loss of control of Evolve Structuring Services Limited (the Fibre to the Building entity) as it moved from a subsidiary to a joint venture; (iii) the fair value loss of €96 million on the restructuring of the Group's inflation linked interest rate swaps; and (iv) the €50 million impairment charge on the Group's long-lived power generation assets.

We have determined profit before tax excluding the effect of once-off items, in our professional judgement, to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax. There were no circumstances during our audit that indicated a need to revise our approach with regard to determining materiality.

We report to the ESB Audit and Risk Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of €0.65 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our Group audit scope focused on the Group's four key reportable segments, in addition to the head office function, all of which were subject to a full scope audit for the year ended 31 December 2014. Together these locations represent the principal business units of the Group and account for in excess of 95% (2013: 95%) of the Group's external revenue, profit after tax and total assets, as at and for the year ended 31 December 2014. Audits of these locations are performed centrally by the Group engagement team and to materiality determined individually for each component.

4. WE HAVE NOTHING TO REPORT IN RESPECT OF THE MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ISAs (UK and 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 particular, we are required to report to you if:

- we have identified any inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider the annual report is fair, balanced and understandable and provides information necessary for shareholders to assess the entity's performance, business model and strategy; or if
- the Audit and Risk Committee Report does not appropriately disclose those matters that we communicated to the Committee.

Under the Code of Practice for the Governance of State Bodies (the Code) we are required to report to you if the statement regarding the system of internal financial control required under the Code as included in the Corporate Governance Statement on pages 63 to 67 does not reflect the Group's compliance with paragraph 13.1(iii) of the Code or if it is not consistent with the information of which we are aware from our audit work on the financial statements and we report if it does not.

In accordance with the terms of our engagement letter, we review:

- the Board members' statement, set out on page 63 to 67, in relation to going concern;
- the part of the Corporate Governance Statement on pages 63 relating to Board's compliance with the ten provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review; and
- certain elements of disclosures in the report to stockholders by the Remuneration and Management Development Committee.

In addition, the Companies Acts 1963 to 2013 require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

5. OUR CONCLUSIONS ON OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY THE COMPANIES ACTS 1963 TO 2013 ARE SET OUT BELOW

We have obtained all the information and explanations which we considered necessary for the purposes of our audit.

The Company's balance sheet is in agreement with the books of account and, in our opinion, proper books of account have been kept by the Company.

In our opinion the information given in the Board members' report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE STOCKHOLDERS OF ELECTRICITY SUPPLY BOARD (ESB) (continued)

BASIS OF OUR REPORT, RESPONSIBILITIES AND RESTRICTIONS ON USE

As explained more fully in the Statement of Board Members' Responsibilities set out on page 75, the Board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group and Company financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (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 and 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 Group'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 our 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 and 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 accounting and reporting.

This report is made solely to the stockholders of ESB, as a body, in accordance with section 193 of the Companies Act 1990, made applicable to ESB by virtue of the Regulations adopted by it as its governing regulations under the Electricity (Supply) Act, 1927, as amended by the Electricity (Supply) (Amendment) Act 2004. Our audit work has been undertaken so that we might state to the stockholders of ESB 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 ESB and its stockholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Patricia Carroll
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
Dublin, Ireland
24 February, 2015

01 STRATEGY AND PERFORMANCE
02 CORPORATE GOVERNANCE
03 FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

1. BASIS OF PREPARATION

Electricity Supply Board (ESB) is a statutory corporation established under the Electricity (Supply) Act, 1927 and is domiciled in Ireland. The consolidated financial statements of ESB as at and for the year ended 31 December 2014 comprise the Parent and its subsidiaries (together referred to as ESB or the Group) and the Group's interests in associates and jointly controlled entities.

The Parent and consolidated financial statements are prepared under IFRS (International Financial Reporting Standards) as adopted by the EU (EU IFRS) and, in the case of the Parent, as applied in accordance with the Companies Acts 1963 to 2013. The Companies Acts 1963 to 2013 provide a Parent Company that presents its individual financial statements together with its consolidated financial statements with an exemption from publishing the Parent income statement and statement of comprehensive income which forms part of the Parent financial statements prepared and approved in accordance with the Acts. The financial statements of the Parent and Group have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective for accounting periods ending on or before 31 December 2014. The Parent and consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and certain financial asset investments which are measured at fair value.

These financial statements are prepared in euro, and except where otherwise stated, all financial information presented in euro has been rounded to the nearest thousand.

The preparation of 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 estimates and underlying assumptions are reviewed on an ongoing basis. Judgements made by management in the application of EU IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29 to the financial statements.

The policies set out below have been consistently applied to all years presented in these consolidated financial statements and have been applied consistently by Group entities – with the exception of adoption of new standards as set out below.

The Board members consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis. Further details of the Group's liquidity position are provided in note 19 of the financial statements.

2. BASIS OF CONSOLIDATION

The Group's financial statements consolidate the financial statements of the Parent and of all subsidiary undertakings together with the Group's share of the results and net assets of associates and joint ventures made up to 31 December 2014. The results of subsidiary undertakings acquired or disposed of in the year are included in the Group income statement from the date of acquisition or up to the date of disposal.

Accounting for business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 1 January 2010

From 1 January 2010 the Group applied IFRS 3 Business Combinations (2008) in accounting for business combinations. From this date onwards, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the goodwill excess was negative, a bargain purchase gain was recognised immediately in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, the Group elected to restate only those business

STATEMENT OF ACCOUNTING POLICIES (continued)

combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

Control

As a result of the introduction of IFRS 10 Consolidated Financial Statements, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 requires the Group to consolidate investees that it controls on the basis of de facto control.

In accordance with IFRS 10, the Group reassessed the control conclusion for its investees at 1 January 2014. There were no changes in the accounting previously applied to ESB subsidiaries, investments and joint arrangements as a result of the adoption of IFRS 10.

Subsidiaries

Subsidiaries are entities controlled by ESB. Control exists when ESB is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In the Parent financial statements, investments in subsidiaries are carried at cost less any impairment charges.

Joint Arrangements

As a result of the introduction of IFRS 11 Joint Arrangements, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances.

Joint Operations

Joint operations are those undertakings in which the Company is deemed to have joint control of the arrangement and has rights to the assets and obligations for the liabilities of the arrangement. Accordingly, the Company's share of assets, liabilities, revenues, expenses and other comprehensive income are recognised in the respective consolidated accounts.

Joint Ventures

Joint venture undertakings (joint ventures) are those undertakings over which ESB exercises contractual control jointly with another party, whereby the Group has rights to net assets of the arrangement rather than rights to its assets and obligations for its liabilities.

Joint ventures are accounted for using the equity method of accounting. Under the equity method, the Group's share of the profits after tax of joint ventures is included in the consolidated income statement after interest and financing charges. The Group's share of items of other comprehensive income is shown in the statement of comprehensive income.

The Group's interests in the net assets or liabilities of joint ventures are included as investments in joint ventures on the face of the consolidated balance sheet at an amount representing the Group's share of the fair values of the net assets at acquisition plus goodwill, acquisition costs, the Group's share of post acquisition retained income and expenses less any impairment provision.

The amounts included in the consolidated financial statements in respect of post acquisition results of joint ventures are taken from their latest audited financial statements made up to the Group's balance sheet date.

In the Parent financial statements, investments in joint ventures are carried at cost less any impairment charges.

Associates

Entities other than joint arrangements and subsidiaries in which the Group has a participating interest, and over whose operating and financial policies the Group is in a position to exercise significant influence but not control or joint control, are accounted for as associates using the equity method and are included in the consolidated financial statements from the date on which significant influence is deemed to arise until the date on which such influence ceases to exist.

In the Parent financial statements, investments in associates are carried at cost less any impairment charges.

The Group has re-evaluated its involvement in joint arrangements and has confirmed that these investments met the criteria of joint ventures which continue to be accounted for using the equity method; accordingly there has been no impact on recognised assets, liabilities and comprehensive income of the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to

STATEMENT OF ACCOUNTING POLICIES (continued)

the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. NEW STANDARDS AND INTERPRETATIONS

The following standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) are effective for the first time in the current financial year and have been adopted with no significant impact on the Group's result for the period or financial position:

New/Revised International Financial Reporting Standards	Effective date[1]
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities. IASB also issued IAS 27 Separate Financial Statements (2011), which supersedes IAS 27 (2008) and IAS 28 Investment in Associates and Joint Ventures (2011), which supersedes IAS 28 (2008).	1 January 2014
Investment Entities (Amendments to IFRS 10, IFRS 11 and IAS 27)	1 January 2014
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014
Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRIC 21 Levies	1 January 2014

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2014, and have not been applied in preparing these consolidated financial statements. The items that may have relevance to the Group are as follows:

New/Revised International Financial Reporting Standards	Effective date[1]
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	1 February 2015
Amendments to IFRS 11: Accounting for acquisitions of interest in Joint Operations	1 January 2016 *
IFRS 14: Regulatory Deferral Accounts	1 January 2016 *
Amendments to IAS 36 and IAS 38: Clarification of acceptable methods of depreciation and amortisation	1 January 2016 *
Amendments to IAS 27: Equity method in separate financial statements	1 January 2016 *
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associates or joint ventures	1 January 2016 *
Amendments to IAS 16 Property, Plant and Equipment and IAS 41	1 January 2016 *
IFRS 9: Financial Instruments	1 January 2018 *
IFRS 15: Revenue from Contracts with Customers	1 January 2017 *
Amendments to IAS 1: Disclosure initiative	1 January 2016 *

[1] The effective dates are those applying to EU endorsed IFRS if later than the IASB effective dates and relate to periods beginning on or after those dates detailed above
* Not EU endorsed at the time of approval of the financial statements

4. FOREIGN CURRENCIES

These financial statements are prepared in euro, which is the Parent's functional currency.

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 balance sheet date and the exchange differences are dealt with in the income statement. Non-monetary assets and liabilities are carried at historical cost and not subsequently retranslated.

Net investments in foreign operations

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured accordingly in that currency. In the consolidated financial statements, the Group's net investments in overseas subsidiary undertakings, joint ventures, associates and related goodwill are translated at the rate ruling at the balance sheet date. Where an inter-group loan is made for the long term and its settlement is neither planned nor foreseen, it is accounted for as part of the net investment in a foreign operation. The profits, losses and cash flows of overseas subsidiary undertakings, joint ventures and associates are translated at average rates for the period where that represents a reasonable approximation of the actual rates.

Exchange differences resulting from the retranslation of the opening balance sheets of overseas subsidiary undertakings, joint ventures and associates at closing rates, together with the differences on the translation of the income statements, are dealt with through a separate component of equity (translation reserve) and reflected in the Group statement of comprehensive income. Translation differences held in this reserve are released to the income statement on disposal of the relevant entity.

Where foreign currency denominated borrowings are designated as a hedge of the net investment in a foreign operation, exchange differences on such borrowings are taken to the same translation reserve to the extent that they are effective hedges.

5. PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Recognition and measurement

Property, plant and equipment is stated at cost less accumulated depreciation and provisions for impairment in value, except for land which is shown at cost less impairment. Property, plant and equipment includes capitalised employee, interest and other costs that are directly attributable to the asset.

STATEMENT OF ACCOUNTING POLICIES (continued)

Depreciation

The charge for depreciation is calculated to write down the cost of property, plant and equipment to its estimated residual value over its expected useful life using methods appropriate to the nature of the Group's business and to the character and extent of its property, plant and equipment. No depreciation is provided on freehold land or on assets in the course of construction. Major asset classifications and their allotted life spans are:

Generation plant and thermal station structures	20 years
Wind farm generating assets	20/25 years
Distribution plant and structures	25/30 years
Transmission plant and structures	30 years
General buildings and hydro stations	50 years

Depreciation is provided on all depreciable assets from the date of commissioning (date available for use), as follows:

- On the straight-line method for transmission, distribution and general assets, and
- On a projected plant usage basis for generating units.

Reviews of depreciation rates and residual values are conducted annually.

Subsequent expenditure

Subsequent expenditure on property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Included in property, plant and equipment are strategic spares in relation to the electricity generation business. Capital stock in the networks business is carried within assets under construction pending commissioning.

6. LEASED ASSETS

Finance leases are leases where the Group, as lessee, assumes substantially all the risks and rewards of ownership, while operating leases are those in which the lessor retains those risks and rewards of ownership.

Non-current assets acquired under finance leases are included in the balance sheet at their equivalent capital value and are depreciated over the shorter of the lease term and their expected useful lives. The corresponding liabilities are recorded as a finance lease payable and the interest element of the finance lease payments is charged to the income statement on a constant periodic rate of interest. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

7. INTANGIBLE ASSETS AND GOODWILL

(a) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see note 11 to the financial statements.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of the asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses in respect of goodwill are recognised in profit or loss, and are not reversed.

(b) Emissions allowances

Emissions allowances purchased by ESB are recorded as intangible assets at market value on the date of issue.

As emissions arise, a provision is recorded in the income statement to reflect the amount required to settle the liability to the Authority. This provision includes the carrying value of the emissions allowances held, as well as the current market value of any additional allowances required to settle the obligation. These allowances are returned to the relevant Authority in charge of the scheme within four months of the end of that calendar year, in order to cover the liability for actual emissions of CO_2 during that year. Emissions allowances held at cost as intangible assets are therefore not amortised as they are held for settlement of the emissions liability in the following year.

(c) Software costs and other intangible assets

Acquired computer software licenses and other intangible assets including grid connections and other acquired rights, are capitalised on the basis of the costs incurred to acquire and bring the specific asset into use. These costs are measured at cost less accumulated amortisation which is estimated over their useful lives on a straight line basis and accumulated impairment losses. Major asset classifications and their allotted life spans are:

Software	3/5 years
Other intangibles	20 years

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and the Parent, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

STATEMENT OF ACCOUNTING POLICIES (continued)

Direct costs include the costs of software development, employees and an appropriate portion of relevant overheads. These costs are measured at cost less accumulated amortisation which is estimated over their estimated useful lives (three to five years) on a straight line basis and accumulated impairment losses.

8. IMPAIRMENT OF ASSETS OTHER THAN GOODWILL

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU).

For power generation assets, value in use is based on the estimated cash flows expected to be generated by the asset and is based on an external view of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of operating costs and capital expenditure. These cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

9. BORROWING COSTS

Borrowing costs attributable to the construction of major assets, which necessarily take substantial time to get ready for intended use, are added to the cost of those assets at the weighted average cost of borrowings, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred. The capitalisation rate applied equates to the average cost of ESB's outstanding debt.

10. INVENTORIES

Inventories are carried at the lower of average cost and net realisable value. Cost comprises all purchase price and direct costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is based on normal selling price less further costs expected to be incurred prior to disposal.

Specific provision is made for damaged, deteriorated, obsolete and unusable items where appropriate.

11. FINANCIAL ASSETS AND LIABILITIES

(a) Non-derivative financial assets and liabilities

Trade and other receivables

Trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount and subsequently carried at amortised cost using the effective interest method less provision made for impairment.

Specific provisions are made where there is objective evidence of impairment, for example where there is an inability to pay. An additional provision is made on a portfolio basis to cover additional incurred losses based on an analysis of previous loss experience updated for current market conditions.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes cash in hand, deposits repayable on demand and other short-term highly liquid investments with original maturities of three months or less, less bank overdrafts payable on demand.

Trade and other payables

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

Loans to and receivables from Group companies

Loans to and receivables from Group companies are non-derivative financial assets which are not quoted in an active market. They are included in current assets on the balance sheet, except for those with maturities greater than twelve months after the balance sheet date, which are included in non-current assets. Loans and receivables are included within trade and other receivables in the Parent balance sheet and are initially recorded at fair value and thereafter at amortised cost.

Financial assets or liabilities at fair value through profit or loss

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

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

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

(b) Derivative financial instruments and other hedging instruments

The Group uses derivative financial instruments and non-derivative financial instruments to hedge its exposure to foreign exchange, interest rate, and commodity price risk arising from

STATEMENT OF ACCOUNTING POLICIES (continued)

operational, financing and investing activities. The principal derivatives used include interest rate swaps, inflation linked interest rate swaps, currency swaps, forward foreign currency contracts and indexed swap contracts relating to the purchase of fuel.

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities, including gas and electricity. Where the contract was entered into and continues to be held for the purposes of receipt or delivery of the commodities in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as own use contracts and are accounted for as executory contracts. These contracts are therefore not within the scope of IAS 39 Financial Instruments: Recognition and Measurement.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised in accordance with IAS 39 as cash flow hedges or fair value hedges.

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are re-measured to fair value at the balance sheet date. The majority of these derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on subsequent re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a fair value or cash flow hedge.

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

(i) Cash flow hedges

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

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in other comprehensive income is recognised in the income statement immediately.

(ii) Hedge of net investment in foreign entity

Where a foreign currency liability hedges a net investment in a foreign operation, foreign exchange differences arising on translation of the liability are recognised directly in other comprehensive income, and taken to the translation reserve, with any ineffective portion recognised immediately in the income statement.

(c) Interest bearing borrowings

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

(d) Insurance contracts

During the normal course of business, Parent Company guarantees and bonds are provided to subsidiary companies of the Parent. These guarantees and bonds are classified under IFRS 4 as insurance contracts. Where it is expected that no claims will be made on these contracts, no provision is made in the Parent Company financial statements. Where claims are probable, the provisions policy (15) is applied.

12. NON-REPAYABLE SUPPLY CONTRIBUTIONS AND CAPITAL GRANTS

Non-repayable supply contributions and capital grants received up until 1 July 2009 were recorded as deferred income and are released to the income statement on a basis consistent with the depreciation policy of the relevant assets.

Following the implementation of IFRIC 18 Transfer of Assets from Customers, non-repayable supply contributions received after 1 July 2009 (the effective date of the interpretation) are recognised in full upon completion of services rendered in the income statement.

13. CAPITAL STOCK

The units of capital stock are measured at the price at which they were initially issued to the Department of Finance, the Department of Communication, Energy and Natural Resources and the ESB ESOP Trustee Limited.

14. INCOME TAX

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except

STATEMENT OF ACCOUNTING POLICIES (continued)

to the extent that it relates to items recognised directly in other comprehensive income or equity.

(a) Current tax
Current tax is provided at current rates and is calculated on the basis of results for the period. The income tax expense in the income statement does not include taxation on the Group's share of profits of joint venture undertakings, as this is included within the separate lines on the face of the income statement for profits from joint ventures.

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

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

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

15. PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Provision for generating station closure
The provision for closure of generating stations represents the present value of the current estimate of the costs of closure of the stations at the end of their useful lives.

The estimated costs of closing stations are recognised in full at the outset of the asset life, but discounted to present values using a risk free rate. The costs are capitalised in property, plant and equipment and are depreciated over the useful economic lives of the stations to which they relate. The costs are reviewed each year and amended as appropriate. Amendments to the discounted estimated costs are capitalised into the relevant assets and depreciated over the remaining life of the relevant assets. As the costs are capitalised and initially provided on a discounted basis, the provision is increased by a financing charge in each period, which is calculated based on the provision balance and discount rate applied at last measurement date (updated annually) and is included in the income statement as a financing charge. In this way, the provision will equal the estimated closure costs at the end of the useful economic lives of stations. The actual expenditure is set against the provision as stations are closed.

The provision for generating station closure costs is included within current or non-current provisions as appropriate on the balance sheet.

16. OPERATING SEGMENTS – IFRS 8

As a result of the €3 billion wholesale Eurobond debt programme, which is listed on the Irish Stock Exchange, the disclosure requirements of IFRS 8 Operating Segments apply to the Group. IFRS 8 specifies how an entity should disclose information about its segments using a management approach under which segment information is presented on the same basis as that used for internal reporting. Financial information for segments whose operating activities are regularly reviewed by the Executive Team and the Board, collectively the Chief Operating Decision Maker (CODM), in order to make decisions about allocating resources and assessing performance has been presented in note 1 to the financial statements.

17. REVENUE

(a) Electricity revenue
Revenue comprises the sales value derived from the generation, distribution and sale of electricity, together with other goods and services to customers outside the Group and excludes value added tax. Electricity revenue includes the value of units supplied to customers between the date of the last meter reading and the period end and this estimate is included in trade and other receivables in the balance sheet as unbilled consumption. Electricity revenue is recognised on consumption of electricity.

(b) Contract revenue
Contract revenue is recognised on a time apportionment basis by reference to the stage of completion of the contract at the balance sheet date.

18. OTHER OPERATING INCOME

Other operating income comprises of income which accrues to the Group outside of the Group's normal trading activities.

19. COSTS

(a) Energy costs
Energy costs comprise direct fuel, (primarily coal and gas), purchased electricity, Use of System Charges (other electricity costs) and net emissions costs. Fuel and purchased electricity costs are recognised as they are utilised. The Group has entered into certain long-term power purchase agreements for fixed amounts. Amounts payable under the contracts that are in excess of or below market rates are recoverable by the Group or repayable to the market under the Public Service Obligation (PSO) levy.

(b) Operating and other maintenance costs
Operating and other maintenance costs

STATEMENT OF ACCOUNTING POLICIES (continued)

relate primarily to overhaul and project costs, contractor costs and establishment costs. These costs are recognised in the income statement as they are incurred.

(c) Finance income and finance costs
Finance income comprises interest income on bank deposits, which attract interest at prevailing deposit interest rates.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, fair value gains and losses on financial instruments not qualifying for hedge accounting, losses on hedging instruments that are recognised in the income statement and reclassifications of amounts previously recognised in other comprehensive income.

20. EXCEPTIONAL ITEMS

The Group has used the term exceptional to describe certain items which, in management's view, warrant separate disclosure by virtue of their size or incidence, or due to the fact that certain gains or losses are determined to be non-recurring in nature. Exceptional items may include restructuring, significant impairments, profit or loss on asset disposals, material changes in estimates or once off costs where separate identification is important to gain an understanding of the financial statements. Further details of the Group's exceptional items are provided in note 3 of the financial statements.

21. EMPLOYEE RELATED LIABILITIES

(a) Restructuring liabilities
Voluntary termination benefits are payable under a tripartite agreement between the Board of ESB, the Group of Unions and Government when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement age, or to provide termination benefits as a result of an offer made to employees to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense when the Group has made an offer of voluntary redundancy and the offer has been accepted. Ordinary termination benefits not covered by the aforementioned agreement are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. Benefits expected to be settled more than twelve months after the balance sheet date are discounted to present value. Future operating losses are not provided for.

(b) Other short-term employee related liabilities
The costs of vacation leave and bonuses accrued are recognised when employees render the service that increases their entitlement to future compensated absences.

22. PENSION OBLIGATIONS

Pension obligations
The Group companies operate various pension schemes in the Republic of Ireland and Northern Ireland, which are funded through payments to trustee administered funds. A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate fund but where the Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all members of the scheme the benefits relating to employee service in the current and prior periods. A defined benefit scheme is a pension scheme that is not a defined contribution scheme.

Pension schemes in the Republic of Ireland
The Group operates two pension schemes, which are called the ESB General Employees' Superannuation Scheme and the ESB Defined Contribution Pension Scheme (formerly ESB Subsidiary Companies Pension Scheme).

Pensions for the majority of employees in the electricity business are funded through a contributory pension scheme called the ESB General Employees' Superannuation Scheme. The fund is vested in trustees nominated by ESB and its members for the sole benefit of employees and their dependants. The Scheme is registered as a Defined Benefit (DB) Scheme with the Pensions Board.

The regulations governing the Scheme stipulate the benefits that are to be provided and the contributions to be paid by both ESB and the contributing members. Benefits payable are determined by reference to a Career Average Revalued Earnings (CARE) pension model for benefits earned after 1 January 2012 (previously based on final salary). ESB has no legal obligation to increase contributions to maintain benefits in the event of a deficit and ESB's rate of contribution cannot be altered without the agreement of ESB and approval of the Minister for Communications, Energy and Natural Resources. Should a deficit arise in the future, the Company is obliged under the Scheme regulations to consult with the Superannuation Committee, the Trustees and the Scheme Actuary to consider the necessity of submitting an amending Scheme for Ministerial approval.

Under the 2010 Pensions Agreement (approved by employees in July 2010 and formally ratified by the Board of ESB on 20 October 2010), ESB agreed to a once off cash injection into the Scheme, payable over a number of years, which had an agreed valuation for actuarial purposes as at 1 January 2010 of €591 million. The fixed contribution rates for the employer and for employees were not changed. Under the Agreement membership of the Scheme has been closed to new joiners.

The obligations to the Scheme reflected in ESB's financial statements have been determined in accordance with IAS 19 Employee Benefits. Given that the Scheme is not a typical "balance of costs" DB Scheme (where the employer is liable to pay the balance of contributions required to fund benefits), the obligations to be reflected in the financial

STATEMENT OF ACCOUNTING POLICIES (continued)

statements require the exercise of judgement. Should a deficit arise in the future, the Company, as noted above, is obliged to consult with the parties to the Scheme. However, ESB has no obligation to increase contributions to maintain benefits in the event of a deficit and the Company does not intend that any further contributions, other than the normal ongoing contributions and the balance of the Company's €591 million additional contribution (committed to as part of the 2010 Pensions Agreement), will be made. Therefore, ESB has concluded that the financial statements should reflect its obligations to the Scheme, which consist of:
a) any remaining amounts to be paid in relation to the once-off contribution agreed pursuant to the 2010 Agreement (€591 million in 2010 money to be paid over a number of years)
b) pre-existing commitments relating to past service (the present value of the agreed contributions that relates to service prior to October 2010), and
c) Past Voluntary Severance (VS) Programmes – in 2010 the Company recognised a future commitment in respect of staff who have left the Company under past VS programs. ESB will make pension contributions in respect of those staff and these are recognised at fair value.

Ongoing contributions (up to 16.4%) are recognised in the income statement as incurred. Any unpaid amounts at year end are recognised as liabilities on the balance sheet.

The ESB Defined Contribution Pension Scheme (formerly ESB Subsidiary Companies Pension Scheme) is a defined contribution scheme and contributions to the scheme are accounted for on a defined contribution basis with the employers' contribution charged to income in the period the contributions become payable.

Pension scheme in Northern Ireland
The Group's wholly owned subsidiary undertaking Northern Ireland Electricity Limited (NIE) operates a defined benefit scheme in respect of all eligible employees. The defined benefit obligation of NIE is calculated annually by independent actuaries using the projected unit credit method, and discounted at a rate selected with reference to the current rate of return of high quality corporate bonds of equivalent currency and term to the liabilities. Pension scheme assets are measured at fair value. Full actuarial valuations are obtained at least triennially and are updated annually thereafter. Actuarial gains and losses are recognised in full in the period in which they occur and are recognised in other comprehensive income.

The cost of providing benefits under the defined benefit scheme is charged to the income statement over the periods benefitting from employees' service. Past service costs including curtailment losses are recognised in the income statement in the period they occur. The interest income from pension scheme assets and the interest expense on pension scheme liabilities are included within net finance cost.

23. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

An asset or a disposal group is classified as held for sale if the following criteria are met:
-its carrying value will be recovered principally through sale rather than continuing use;
-it is available for immediate sale; and
-the sale is highly probable within the next twelve months.

When an asset (or disposal group) is initially classified as held for sale, it is measured at the lower of the carrying amount or fair value less costs to sell at the date of reclassification. Impairment losses subsequent to classification of such assets are recognised in the income statement. Increases in fair value less costs to sell of such assets that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative loss previously recognised in respect of the asset.

Where the above conditions cease to be met, the assets (or disposal group) are reclassified out of held for sale and included under the appropriate statement of financial position classifications.

GROUP INCOME STATEMENT

For the year ended 31 December 2014

		2014			2013		
	Notes	**Excluding exceptional items € '000**	**Exceptional items note 3 € '000**	**Including exceptional items € '000**	Excluding exceptional items € '000	Exceptional items note 3 € '000	Including exceptional items € '000
Revenue	1	**3,257,954**	**-**	**3,257,954**	3,422,484	-	3,422,484
Other operating income	1/4	**35,240**	**132,095**	**167,335**	22,449	95,475	117,924
Operating costs	5	**(2,741,204)**	**-**	**(2,741,204)**	(2,760,849)	-	(2,760,849)
Operating profit		**551,990**	**132,095**	**684,085**	684,084	95,475	779,559
Net interest on borrowings	6	**(198,992)**	**-**	**(198,992)**	(208,488)	-	(208,488)
Financing charges	6	**(45,218)**	**-**	**(45,218)**	(50,868)	-	(50,868)
Fair value movements on financial instruments	6	**(224,894)**	**-**	**(224,894)**	(18,714)	-	(18,714)
Finance income	6	**1,120**	**-**	**1,120**	2,632	-	2,632
Net finance cost		**(467,984)**	**-**	**(467,984)**	(275,438)	-	(275,438)
Share of equity accounted investees (loss) / profit	12	**(1,354)**	**-**	**(1,354)**	22,244	-	22,244
Profit before taxation		**82,652**	**132,095**	**214,747**	430,890	95,475	526,365
Income tax credit / (expense)	18	**646**	**-**	**646**	(15,981)	-	(15,981)
Profit after taxation		**83,298**	**132,095**	**215,393**	414,909	95,475	510,384
Attributable to:							
Equity holders of the Parent		**83,176**	**132,095**	**215,271**	414,717	95,475	510,192
Non-controlling interest		**122**	**-**	**122**	192	-	192
Profit for the financial year		**83,298**	**132,095**	**215,393**	414,909	95,475	510,384

Notes 1 to 32 form an integral part of these financial statements.

Ellvena Graham, Acting Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014 € '000	2013 € '000
Profit for the financial year	**215,393**	510,384
Items that will never be reclassified subsequently to profit or loss:		
NIE pension scheme actuarial (losses) / gains	**(60,728)**	2,061
Tax on items that will never be reclassified to profit or loss	**12,118**	(3,507)
	(48,610)	(1,446)
Items that are or may be reclassified subsequently to profit or loss:		
Effective hedge of a net investment in foreign subsidiary	**(1,714)**	595
Translation differences on consolidation of foreign subsidiaries	**39,309**	(6,422)
Translation differences on equity accounting for equity accounted investees	**-**	(2,797)
Translation differences transferred to income statement for equity accounted investees	**-**	(2,317)
Fair value losses on cash flow hedges	**(91,644)**	(150,959)
Fair value gains on cash flow hedges in equity accounted investees	**-**	6,078
Transferred to income statement on cash flow hedges	**(106,056)**	129,274
Transferred to income statement on cash flow hedges in equity accounted investees	**13,833**	13,322
Tax on items that are or may be reclassified subsequently to profit or loss	**17,161**	15,198
Tax on items that are or may be reclassified subsequently to profit or loss for equity accounted investees	**-**	(1,758)
Tax on items transferred from other comprehensive income (OCI)	**12,635**	(19,375)
	(116,476)	(19,161)
Other comprehensive loss for the financial year, net of tax	**(165,086)**	(20,607)
Total comprehensive income for the financial year	**50,307**	489,777
Attributable to:		
Equity holders of the Parent	**50,185**	489,585
Non-controlling interest	**122**	192
Total comprehensive income for the financial year	**50,307**	489,777

Ellvena Graham, Acting Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

GROUP BALANCE SHEET

As at 31 December 2014

	Notes	2014 € '000	2013 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**10,716,586**	10,156,963
Intangible assets	10	**203,660**	238,365
Goodwill	11	**194,827**	182,013
Investments in equity accounted investees	12	**99,464**	-
Financial asset investments	12	**63,638**	49,359
Derivative financial instruments	20	**231,624**	353,555
Deferred tax assets	18	**234,374**	179,722
Total non-current assets		**11,744,173**	11,159,977
Current assets			
Inventories	13	**78,838**	83,753
Derivative financial instruments	20	**195,517**	94,208
Current tax asset		**1,705**	3,106
Trade and other receivables	14	**809,523**	899,223
Cash and cash equivalents	15	**143,731**	370,848
Assets held for sale	16	**-**	170,558
Total current assets		**1,229,314**	1,621,696
Total assets		**12,973,487**	12,781,673
EQUITY			
Capital stock	17	**1,979,882**	1,979,882
Translation reserve		**19,702**	(17,893)
Cash flow hedging reserve		**123,995**	278,066
Other reserves		**(144,031)**	(89,878)
Retained earnings		**1,907,807**	1,970,275
Equity attributable to equity holders of the Parent		**3,887,355**	4,120,452
Non-controlling interest	17	**1,676**	2,037
Total equity		**3,889,031**	4,122,489
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	19	**4,412,377**	4,393,404
Liability - ESB pension scheme	22	**615,770**	693,717
Liability - NIE pension scheme	21	**164,022**	109,666
Employee related liabilities	22	**107,736**	124,998
Trade and other payables	23	**8,185**	-
Deferred income and government grants	24	**533,813**	561,346
Provisions	25	**182,953**	184,180
Deferred tax liabilities	18	**792,358**	807,942
Derivative financial instruments	20	**738,516**	637,306
Total non-current liabilities		**7,555,730**	7,512,559
Current liabilities			
Borrowings and other debt	19	**370,592**	121,992
Liability - ESB pension scheme	22	**115,300**	72,511
Employee related liabilities	22	**57,966**	57,773
Trade and other payables	23	**688,148**	675,411
Deferred income and government grants	24	**45,031**	46,974
Provisions	25	**58,738**	75,558
Current tax liabilities		**4,373**	27,553
Derivative financial instruments	20	**188,578**	54,027
Liabilities associated with assets held for sale	16	**-**	14,826
Total current liabilities		**1,528,726**	1,146,625
Total liabilities		**9,084,456**	8,659,184
Total equity and liabilities		**12,973,487**	12,781,673

Ellvena Graham, Acting Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

PARENT BALANCE SHEET

As at 31 December 2014

	Notes	2014 € '000	2013 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**7,057,773**	6,868,112
Intangible assets	10	**137,566**	138,470
Investment in equity accounted investee	12	**100,000**	-
Investments in subsidiary undertakings	12	**61,782**	61,782
Derivative financial instruments	20	**53,303**	2,866
Deferred tax assets	18	**105,632**	116,120
Total non-current assets		**7,516,056**	7,187,350
Current assets			
Inventories	13	**53,974**	62,037
Derivative financial instruments	20	**136,959**	4,984
Trade and other receivables	14	**3,017,734**	2,572,121
Cash and cash equivalents	15	**56,384**	239,436
Assets held for sale	16	**-**	168,760
Total current assets		**3,265,051**	3,047,338
Total assets		**10,781,107**	10,234,688
EQUITY			
Capital stock	17	**1,979,882**	1,979,882
Cash flow hedging reserve		**(47,795)**	(88,624)
Retained earnings		**1,514,040**	1,346,743
Equity attributable to equity holders of the Parent		**3,446,127**	3,238,001
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	19	**1,522,749**	1,736,031
Liability - ESB pension scheme	22	**615,770**	693,717
Employee related liabilities	22	**107,736**	124,998
Deferred income and government grants	24	**534,352**	558,671
Provisions	25	**166,429**	169,489
Deferred tax liabilities	18	**446,568**	434,761
Derivative financial instruments	20	**72,789**	161,938
Total non-current liabilities		**3,466,393**	3,879,605
Current liabilities			
Borrowings and other debt	19	**330,516**	108,306
Liability - ESB pension scheme	22	**115,300**	72,511
Employee related liabilities	22	**49,525**	50,685
Trade and other payables	23	**3,115,419**	2,737,549
Deferred income and government grants	24	**33,108**	33,108
Provisions	25	**49,538**	63,211
Current tax liabilities		**6,998**	11,040
Derivative financial instruments	20	**168,183**	39,717
Liabilities associated with assets held for sale	16	**-**	955
Total current liabilities		**3,868,587**	3,117,082
Total liabilities		**7,334,980**	6,996,687
Total equity and liabilities		**10,781,107**	10,234,688

GROUP STATEMENT OF CHANGES IN EQUITY

As at 31 December 2014

Reconciliation of changes in equity	Capital stock € '000	Translation reserve € '000	Cash flow hedging reserve € '000	Other reserves[1] € '000	Retained earnings € '000	Total € '000	Non-controlling interest € '000	**Total equity € '000**
Balance at 1 January 2013	1,979,882	(6,952)	286,286	(82,889)	1,601,343	3,777,670	1,845	3,779,515
Total comprehensive income / (loss) for the year								
Profit for the financial year	-	-	-	-	510,192	510,192	192	510,384
NIE pension scheme actuarial gains	-	-	-	2,061	-	2,061	-	2,061
Revaluation reserves on acquisition of Synergen Power Ltd.	-	-	-	(5,543)	5,543	-	-	-
Translation differences net of hedging	-	(8,624)	-	-	-	(8,624)	-	(8,624)
Cash flow hedges:								
- Net fair value losses	-	-	(150,959)	-	-	(150,959)	-	(150,959)
- Transfers to income statement								
- Finance cost (interest)	-	-	5,040	-	-	5,040	-	5,040
- Finance cost (foreign translation movements)	-	-	4,218	-	-	4,218	-	4,218
- Other operating expenses	-	-	120,016	-	-	120,016	-	120,016
- Fair value gains for hedges in equity accounted investees	-	-	6,078	-	-	6,078	-	6,078
- Transfers to income statement for sale of equity accounted investees	-	(2,317)	13,322	-	-	11,005	-	11,005
Tax on items taken directly to statement of other comprehensive income (OCI)	-	-	15,198	(3,507)	-	11,691	-	11,691
Tax on items transferred to income statement	-	-	(19,375)	-	-	(19,375)	-	(19,375)
Tax on items taken directly to OCI for equity accounted investees	-	-	(1,758)	-	-	(1,758)	-	(1,758)
Total comprehensive income / (loss) for the year	-	(10,941)	(8,220)	(6,989)	515,735	489,585	192	489,777
Transactions with owners recognised directly in equity								
Dividends	-	-	-	-	(146,803)	(146,803)	-	(146,803)
Balance at 31 December 2013	1,979,882	(17,893)	278,066	(89,878)	1,970,275	4,120,452	2,037	4,122,489
Balance at 1 January 2014	**1,979,882**	**(17,893)**	**278,066**	**(89,878)**	**1,970,275**	**4,120,452**	**2,037**	**4,122,489**
Total comprehensive income / (loss) for the year								
Profit for the financial year	-	-	-	-	215,271	215,271	122	**215,393**
NIE pension scheme actuarial losses	-	-	-	(60,728)	-	(60,728)	-	**(60,728)**
Revaluation reserves on acquisition of Synergen Power Ltd.	-	-	-	(5,543)	5,543	-	-	**-**
Translation differences net of hedging	-	37,595	-	-	-	37,595	-	**37,595**
Cash flow hedges								
- Net fair value losses	-	-	(91,644)	-	-	(91,644)	-	**(91,644)**
- Transfers to income statement								
- Finance cost (interest)	-	-	7,470	-	-	7,470	-	**7,470**
- Finance cost (foreign translation movements)	-	-	(87,040)	-	-	(87,040)	-	**(87,040)**
- Other operating expenses	-	-	(26,486)	-	-	(26,486)	-	**(26,486)**
- Fair value gains for hedges in equity accounted investees	-	-	-	-	-	-	-	**-**
- Transfers to income statement for sale of equity accounted investees	-	-	13,833	-	-	13,833	-	**13,833**
Tax on items taken directly to statement of other comprehensive income (OCI)	-	-	17,161	12,118	-	29,279	-	**29,279**
Tax on items transferred to income statement	-	-	12,635	-	-	12,635	-	**12,635**
Total comprehensive income / (loss) for the year	-	**37,595**	**(154,071)**	**(54,153)**	**220,814**	**50,185**	**122**	**50,307**
Transactions with owners recognised directly in equity								
Dividends	-	-	-	-	(283,282)	(283,282)	(483)	**(283,765)**
Balance at 31 December 2014	**1,979,882**	**19,702**	**123,995**	**(144,031)**	**1,907,807**	**3,887,355**	**1,676**	**3,889,031**

[1]Other reserves includes (i) a €44.3 million revaluation reserve (2013: €49.8 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009; (ii) other reserves relating to the NIE pension scheme of (€182.8) million (2013: (€134.2) million) and (iii) a non-distributable reserve of (€5.0) million which was created on the sale of the Group's share in Ocean Communications Limited in 2001.

PARENT STATEMENT OF CHANGES IN EQUITY

As at 31 December 2014

Reconciliation of changes in equity	Capital stock € '000	Cash flow hedging reserve € '000	Retained earnings € '000	Total € '000
Balance at 1 January 2013	1,979,882	(50,117)	1,200,584	3,130,349
Total comprehensive income / (loss) for the year				
Profit for the financial year	-	-	292,962	292,962
Cash flow hedges:				
- Net fair value losses	-	(77,837)	-	(77,837)
- Transfers to income statement				
- Finance cost (interest)	-	2,123	-	2,123
- Finance cost (foreign translation movements)	-	4,693	-	4,693
- Other operating expenses	-	27,013	-	27,013
Tax on items taken directly to statement of other comprehensive income (OCI)	-	9,730	-	9,730
Tax on items transferred to income statement	-	(4,229)	-	(4,229)
Total comprehensive income / (loss) for the year	-	(38,507)	292,962	254,455
Transactions with owners recognised directly in equity				
Dividends	-	-	(146,803)	(146,803)
Balance at 31 December 2013	1,979,882	(88,624)	1,346,743	3,238,001
Balance at 1 January 2014	**1,979,882**	**(88,624)**	**1,346,743**	**3,238,001**
Total comprehensive income / (loss) for the year				
Profit for the financial year	-	-	450,579	**450,579**
Cash flow hedges:				
- Net fair value gains	-	94,342	-	**94,342**
- Transfers to income statement				
- Finance cost (interest)	-	49	-	**49**
- Finance cost (foreign translation movements)	-	(87,040)	-	**(87,040)**
- Other operating expenses	-	39,311	-	**39,311**
Tax on items taken directly to statement of other comprehensive income (OCI)	-	(11,793)	-	**(11,793)**
Tax on items transferred to income statement	-	5,960	-	**5,960**
Total comprehensive income / (loss) for the year	-	**40,829**	**450,579**	**491,408**
Transactions with owners recognised directly in equity				
Dividends	-	-	(283,282)	**(283,282)**
Balance at 31 December 2014	**1,979,882**	**(47,795)**	**1,514,040**	**3,446,127**

GROUP CASH FLOW STATEMENT

For the year ended 31 December 2014

	Notes	2014 € '000	2013 € '000
Cash flows from operating activities			
Profit after taxation		**215,393**	510,384
Adjustments for:			
Depreciation and amortisation	5	**730,794**	689,685
Amortisation of supply contributions and other deferred income	24	**(59,644)**	(37,276)
Net emissions costs		**(9,612)**	23,669
Loss / (profit) on disposal of non-current assets		**1,283**	(4,616)
Profit on disposal of emissions allowances	4	**(9,838)**	-
Non-cash foreign exchange gain recognised in the income statement		**(8,468)**	-
Non-cash gain on conversion of Evolve to equity accounted investee	3	**(93,700)**	-
Profit on disposal of subsidiaries and equity accounted investees	3	**(38,395)**	(95,475)
Net finance cost	6	**467,984**	275,438
Impact of fair value adjustments in operating costs		**2,425**	12,260
Losses / (profits) from equity accounted investees	12	**1,354**	(22,244)
Income tax (credit) / expense	18	**(646)**	15,981
Dividend income	4	**(574)**	(965)
Impairment charge	8	**50,147**	-
Operating cash flows before changes in working capital and provisions		**1,248,503**	1,366,841
Charge in relation to provisions		**5,095**	3,766
Charge in relation to employee related liabilities		**41,587**	36,750
Utilisation of provisions		**(13,384)**	(10,423)
Utilisation of employee related liabilities		**(150,940)**	(179,864)
Decrease / (increase) in trade and other receivables		**83,116**	(91,282)
Decrease in inventories		**1,815**	15,263
Increase in trade and other payables		**21,467**	40,754
Cash generated from operations		**1,237,259**	1,181,805
Current tax paid		**(65,094)**	(6,121)
Financing costs paid		**(234,496)**	(260,918)
Net cash inflow from operating activities		**937,669**	914,766
Cash flows from investing activities			
Purchase of property, plant and equipment		**(873,811)**	(702,587)
Purchase of intangible assets		**(22,886)**	(25,161)
Proceeds from sale of non-current assets		**432**	20,241
Proceeds from sale of emissions allowances		**14,951**	-
Proceeds from sale of subsidiaries and equity accounted investees		**45,290**	170,169
Purchase of financial assets		**(23,545)**	(16,884)
Dividends from equity accounted investees	12	**-**	18,835
Dividends received from associate undertakings		**574**	965
Interest received		**1,120**	2,632
Deferred income received		**27,012**	-
Net cash outflow from investing activities		**(830,863)**	(531,790)
Cash flows from financing activities			
Dividends paid	17	**(283,765)**	(146,803)
Repayments of term debt facilities and finance leases		**(157,001)**	(475,038)
Proceeds from the issue of new debt		**208,662**	548,502
Decrease in other borrowings (net)		**(300)**	(85,190)
Payments on inflation linked interest rate swaps		**(105,049)**	(13,038)
Net cash outflow from financing activities		**(337,453)**	(171,567)
Net (decrease) / increase in cash and cash equivalents		**(230,647)**	211,409
Cash and cash equivalents at 1 January	15	**370,848**	159,405
Effect of exchange rate fluctuations on cash held		**3,530**	34
Cash and cash equivalents at 31 December	15	**143,731**	370,848

PARENT CASH FLOW STATEMENT

For the year ended 31 December 2014

	Notes	2014 € '000	2013 € '000
Cash flows from operating activities			
Profit after taxation		**450,579**	292,961
Adjustments for:			
Depreciation and amortisation		**495,438**	474,016
Amortisation of supply contributions and other deferred income	24	**(33,667)**	(32,521)
Net emissions cost		**(7,853)**	14,333
Profit on non-current assets		**(10,646)**	(1,286)
Investment in subsidiary write-off		**-**	11,050
Non-cash gain on conversion of Evolve to equity accounted investee		**(93,700)**	-
Non-cash foreign exchange gains recognised in the income statement		**(45,883)**	-
Net finance cost		**127,991**	158,326
Impact of fair value movement on financial instruments in operating costs		**(4,019)**	3,989
Dividend receivable from subsidiary undertakings		**(8,450)**	(11,846)
Income tax expense		**45,891**	41,706
Operating cash flows before changes in working capital and provisions		**915,681**	950,728
Charge in relation to provisions		**3,462**	2,046
Charge in relation to employee related liabilities		**24,798**	21,296
Utilisation of provisions		**(10,828)**	(9,144)
Utilisation of employee related liabilities		**(115,437)**	(141,939)
Increase in trade and other receivables		**(371,706)**	(171,042)
Decrease in inventories		**4,962**	14,848
Increase in trade and other payables		**381,593**	648,706
Cash generated from operations		**832,525**	1,315,499
Current tax paid		**(30,724)**	(5)
Financing costs paid		**(161,685)**	(181,879)
Net cash inflow from operating activities		**640,116**	1,133,615
Cash flows from investing activities			
Purchase of property, plant and equipment		**(480,795)**	(442,815)
Purchase of intangible assets		**(22,058)**	(20,229)
Proceeds from the sale of non-current assets		**15,144**	1,686
Financial asset investment additions		**(2,891)**	-
Supply contributions and other deferred income received		**6,665**	-
Interest received		**46,938**	43,815
Dividends received from subsidiary undertakings		**8,450**	11,846
Net cash outflow from investing activities		**(428,547)**	(405,697)
Cash flows from financing activities			
Dividends paid		**(283,282)**	(146,802)
Repayments of term debt facilities and finance leases		**(111,339)**	(458,585)
Proceeds from the issue of new debt		**-**	153,990
Decrease in other borrowings (net)		**-**	(85,075)
Net cash outflow from financing activities		**(394,621)**	(536,472)
Net (decrease) / increase in cash and cash equivalents		**(183,052)**	191,446
Cash and cash equivalents at 1 January	15	**239,436**	47,990
Cash and cash equivalents at 31 December	15	**56,384**	239,436

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING

As a result of issuing publicly traded debt, the Group comes within the scope of IFRS 8 Operating Segments, and has made the appropriate disclosures in these financial statements.

For management purposes, the Group is organised into four key reportable segments, being the Group's strategic divisions which are managed separately and in respect of which internal management information is supplied to Executive Team and to the Board being collectively the Chief Operating Decision Maker (CODM) of the Group. Three further corporate divisions provide support and other services to the principal operating divisions of the Group and are combined as Other Segments in the information below.

A description of the Group's key reportable segments is as follows:

(a) Electric Ireland is a leading supplier of electricity and gas to domestic customers in the Republic of Ireland and has a substantial market share in the non-domestic electricity sector in the Republic of Ireland and Northern Ireland. Revenues are primarily derived from sales to electricity customers.

(b) ESB Networks is principally concerned with the ownership and operation of the electricity distribution network and the ownership of the electricity transmission network in the Republic of Ireland. ESB Networks is a regulated business earning an allowed return on its Regulated Asset Base (RAB) through Use of System charges payable by electricity generators and suppliers. It is ring-fenced through regulation from the Group's generation and supply businesses.

(c) Generation and Wholesale Markets comprises the generation and international investment business across the Group. Within this business segment, from 2011 the Group has progressed its strategy of integrating its previously regulated Power Generation business with its Independent Generation business which operates power stations and wind farms in Ireland, Northern Ireland and Great Britain.

(d) NIE is responsible for the construction and maintenance of the transmission and distribution network in Northern Ireland, as well the operation of the distribution network. NIE derives its revenue principally from charges for the use of the distribution systems levied on electricity suppliers and from charges on transmission services collected from the System Operator for Northern Ireland (SONI).

(e) Other Segments include the results of internal service providers, which supply the main business units of the Group with support services. These segments are governed by regulation, and service level agreements are in place to ensure that transactions between operating segments are on an arm's length basis similar to transactions with third parties. This segment also includes most finance costs in the Group, as the majority of Treasury activity is conducted centrally. Finance costs are not recharged to other operating segments.

From 1 January 2013, Innovation was established to co-ordinate and focus on new investment opportunities to develop and grow business in the context of a changing environment. This segment operates adjacent to the core operating segments of the Group. It is proposed that as business opportunities are identified and become viable, they will then be transferred to the relevant core operating segment. Innovation is reported to the CODM as a separate component within Other Segments.

The CODM monitors the operating results of the segments separately in order to allocate resources between segments and to assess performance. Segment performance is predominantly evaluated based on operating profit. Assets and liabilities are not reported by segment to the CODM.

Revenue by product

Reportable segments are split by type of product revenue earned. Electric Ireland revenues consist of sales to electricity and gas customers. Generation and Wholesale Markets revenue derives mainly from electricity generation. ESB Networks and NIE earn Use of System income in the Republic of Ireland and Northern Ireland respectively. Revenue included within Other Segments relates primarily to engineering services.

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NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING (continued)

(a) Income statement

(i) Segment revenue - 2014	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE [1] € '000	Other Segments € '000	Consolidation and eliminations € '000	**Total € '000**
External revenues	2,052,897	463,001	423,246	256,921	61,889	-	**3,257,954**
Inter-segment revenue	3,806	496,900	1,026,650	23,359	197,799	(1,748,514)	**-**
Revenue	2,056,703	959,901	1,449,896	280,280	259,688	(1,748,514)	**3,257,954**
(ii) Segment operating costs - 2014							
Depreciation and amortisation	(8,608)	(357,649)	(220,527)	(130,082)	(13,928)	-	**(730,794)**
Other operating costs	(1,984,142)	(342,473)	(1,063,797)	(94,398)	(223,967)	1,748,514	**(1,960,263)**
Impairment charge	-	-	(50,147)	-	-	-	**(50,147)**
(iii) Operating result - 2014							
Exceptional items (note 3)	-	-	38,395	-	93,700	-	**132,095**
Operating profit (includes exceptional item)	63,953	292,785	162,190	55,800	109,357	-	**684,085**
Net finance cost	(1,132)	(1,293)	(35,044)	(50,607)	(379,908)	-	**(467,984)**
Share of equity accounted investees loss	-	-	(326)	-	(1,028)	-	**(1,354)**
Profit /(loss) before taxation	62,821	291,492	126,820	5,193	(271,579)	-	**214,747**

(i) Segment revenue - 2013	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE [1] € '000	Other Segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	2,073,959	477,028	416,754	256,615	198,128	-	3,422,484
Inter-segment revenue	3,724	449,690	1,192,357	22,938	121,919	(1,790,628)	-
Revenue	2,077,683	926,718	1,609,111	279,553	320,047	(1,790,628)	3,422,484
(ii) Segment operating costs - 2013							
Depreciation and amortisation	(9,038)	(349,230)	(202,620)	(116,466)	(12,331)	-	(689,685)
Other operating costs	(1,990,194)	(317,293)	(1,149,521)	(94,344)	(310,440)	1,790,628	(2,071,164)
(iii) Operating result - 2013							
Exceptional items (note 3)	-	-	95,475	-	-	-	95,475
Operating profit / (loss) (includes exceptional item)	78,676	293,677	355,167	77,498	(25,459)	-	779,559
Net finance cost	(682)	(1,883)	(31,906)	(49,244)	(191,723)	-	(275,438)
Share of equity accounted investees profit /(loss)	-	-	22,489	-	(245)	-	22,244
Profit / (loss) before taxation	77,994	291,794	345,750	28,254	(217,427)	-	526,365

[1]NIE segment includes depreciation on fair value uplift recognised on the acquisition of NIE.

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING (continued)

(b) Other disclosures	**2014 € '000**	2013 € '000
Additions to non-current assets (excluding acquisitions)		
Electric Ireland	**8,129**	6,986
ESB Networks	**447,859**	421,332
Generation and Wholesale Markets	**340,398**	253,362
NIE	**102,057**	97,842
Other Segments	**61,195**	45,080
Total	**959,638**	824,602

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

2. GEOGRAPHIC INFORMATION

(a) Non-current assets by geographic location	**2014 € '000**	2013 € '000
Ireland	**7,738,533**	7,392,541
UK including Northern Ireland	**3,520,201**	3,216,224
Rest of world	**19,441**	17,935
Total	**11,278,175**	10,626,700

Non-current assets for this purpose consist of property, plant and equipment, intangible assets, goodwill, financial asset investments and equity accounted investees. Derivative financial instruments and deferred tax assets are excluded.

(b) External revenue by geographic market	**2014 € '000**	2013 € '000
Ireland	**2,720,517**	2,803,304
UK including Northern Ireland	**515,738**	586,245
Rest of world	**21,699**	32,935
Total	**3,257,954**	3,422,484

3. EXCEPTIONAL ITEMS

The Group presents certain items separately which are unusual by virtue of their size and incidence in the context of its ongoing core operations. This presentation is made in the income statement to aid understanding of the performance of the Group's underlying business. Judgement is used by the Group in assessing the particular items which should be disclosed as exceptional.

	2014 € '000	2013 € '000
Fair value (non-cash) gain on loss of control of subsidiary	**93,700**	-
Profit on disposal of subsidiaries and equity accounted investees	**38,395**	95,475
Total	**132,095**	95,475

Fair value (non-cash) gain on loss of control of subsidiary
ESB plans to deliver high capacity Fibre to the Building (FTTB) network to homes and businesses in selected urban locations across the Republic of Ireland through an innovative joint venture agreement with Vodafone Ireland Limited. The joint venture will begin rolling out the fibre network across Ireland through a special purpose vehicle, Evolve Structuring Services Limited (Evolve). Prior to the joint venture agreement, Evolve was a 100% subsidiary of ESB. At the date of the joint venture agreement, Vodafone acquired a 50% interest in Evolve and a loss of control event occurred for ESB. Accordingly, the Group has recorded its remaining 50% equity investment at fair value which gave rise to a non-cash gain of €93.7 million (refer to note 12 for further details).

Profit on disposal of subsidiaries and equity accounted investees
In February 2013 ESB announced its intention to sell its 50% shareholding in each of its international tolling plants, namely Marchwood Power Limited (Marchwood) in the UK and Bizkaia Energia SL in Spain. This announcement arose from the Irish Government's proposal in 2012 that ESB would dispose of some non-strategic generation capacity, with the specific objective of delivering special dividends to the Government.

On 30 April 2014 ESB completed the sale of its interest in Bizkaia Energia SL and the Group's 100% subsidiary ESBI Facility Management España SL to an affiliate of ArcLight Capital Partners, LLC.

The profit on disposal of ESB's shareholding in Bizkaia Energia SL and ESBI Facility Management Espãna SL, being the proceeds received less the carrying amount of the investment as at the sale date, direct selling expenses, associated translation reserve and cash flow hedge reserve amounts reclassified on disposal, was €38.4 million.

In November 2013 agreement was reached with MR Infrastructure Investment GmbH (MR) for the sale of ESB's shareholding in Marchwood. The profit on disposal of ESB's shareholding in Marchwood, being the proceeds received from MR less the carrying amount of the investment as at the sale date, together with direct selling expenses and associated translation reserve and cash flow hedge reserve amounts reclassified on disposal, was €95.5 million.

NOTES TO THE FINANCIAL STATEMENTS

4. OTHER OPERATING INCOME / (EXPENSES)

	2014 € '000	2013 € '000
(Loss) / profit on disposal of property, plant and equipment and intangible assets	(1,283)	8,880
Loss on disposal of subsidiary [1]	-	(4,264)
Gain arising on sale of emissions allowances	9,838	-
Amortisation of supply contributions	32,222	32,199
Dividends received	574	965
Fair value movements on assets held through profit and loss (note 12) [2]	(6,111)	(15,331)
Total	35,240	22,449

[1] The loss on disposal of subsidiary relates to the sale of ESB's investment in Powerteam Electrical Services Limited to Vinci Engineers United Kingdom PLC in 2013.

[2] The fair value movements in 2014 and 2013 relate to adjustments to the value of investments in renewables enterprises held by Novusmodus, as detailed in note 12.

5. OPERATING COSTS

	2014 € '000	2013 € '000
Employee costs (note 7)	413,662	413,799
Fuel costs	796,822	875,107
Other electricity related costs	298,404	269,449
Operations and maintenance	451,375	512,809
Impairment charges (notes 9/10)	50,147	-
Depreciation and amortisation (notes 9/10)	730,794	689,685
Total	2,741,204	2,760,849

Included in fuel costs is a credit of €3.2 million (2013: charge of €2.5 million) relating to the fair valuing of fuel commodity swaps which have not been designated as accounting hedges.

Included in operations and maintenance costs above is a credit of €0.8 million (2013: charge of €1.7 million) relating to fair valuing and ineffectiveness on certain cash flow hedges.

6. NET FINANCE COST AND OTHER FINANCING CHARGES

	2014 € '000	2013 € '000
Interest payable on borrowings	247,039	241,211
Interest payable on finance leases	-	2,274
Interest payable	247,039	243,485
Less capitalised interest	(48,047)	(34,997)
Net interest on borrowing	198,992	208,488
Financing charges:		
- on NIE pension scheme (note 21)	4,283	4,888
- on ESB pension scheme (note 22)	34,686	36,598
- on employee related liabilities (note 22)	2,372	4,729
- on power station closure costs (note 25)	2,947	3,542
- on other provisions (note 25)	930	1,111
Total financing charges	45,218	50,868
Fair value (gains) / losses on financial instruments:		
- currency / interest rate swaps: cash flow hedges, transfer from OCI	7,470	5,040
- interest rate swaps and inflation linked swaps not qualifying for hedge accounting	217,427	14,194
- foreign exchange contracts not qualifying for hedge accounting	(3)	(520)
Total fair value losses on financial instruments	224,894	18,714
Finance cost	469,104	278,070
Finance income	(1,120)	(2,632)
Net finance cost	467,984	275,438

NOTES TO THE FINANCIAL STATEMENTS

6. NET FINANCE COST AND OTHER FINANCING CHARGES (continued)

The financing charges on provisions are calculated in accordance with the policy for discounting of future payment obligations.

In addition to the amounts transferred from other comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a further €87.0 million (2013: €4.7 million) has been transferred from the cash flow hedge reserve to net finance cost and other financing charges during the period. However, these amounts are fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates.

Fair value (gains)/ losses on interest rate swaps and inflation linked interest rate swaps primarily relate to fair value movements on inflation linked interest rate swaps, which were acquired as part of the purchase of the NIE business in December 2010. The swaps do not qualify for hedge accounting under IAS 39 and accordingly fair value movements following their acquisition are recognised in the income statement. Their fair value is affected by relative movements in interest rates and in market expectations of future Retail Price Index (RPI) movements in the United Kingdom. Movements in 2014 and 2013 also include the valuation of interest rate swaps contracted in December 2012.

During the year the Group, and its counterparty banks, agreed a restructuring of the swaps, together with amendments to certain of their critical terms. These changes included an extension of the mandatory break in the swaps from 2015 to 2022, immediate settlement in 2014 of accretion payments of €90.1 million (previously due for payment in 2015), amendments to the fixed interest rate element of the swaps, and an expansion in the number of swap counterparties. Future accretion payments are now scheduled to occur every 5 years, starting in 2018, with remaining accretion paid at maturity. Negative fair value movements of €244.9 million (€95.7 million of which is attributable to the restructuring noted above) arose on the swaps to year end 31 December 2014 reflecting the current low interest rate environment in the UK (2013: positive fair value movements of €10.2 million). These have been recognised within finance costs in the income statement, as hedge accounting was not available.

7. EMPLOYEES

GROUP

(a) Average number of employees in year by business activity, including temporary employees:

	2014 Number	2013 Number
Electric Ireland	313	322
ESB Networks	3,120	3,140
Generation and Wholesale Markets	983	1,009
NIE	1,254	1,291
Other	1,479	1,728
Total	7,149	7,490

(b) Employee costs in year

	2014 € '000	2013 € '000
Current staff costs (excluding pension)		
Salaries	435,195	443,565
Overtime	34,379	26,050
Social welfare costs	31,292	32,255
Other payroll benefits[1]	28,619	28,475
	529,485	530,345
Capitalised payroll	(173,225)	(168,467)
Net payroll cost for employees	356,260	361,878
(c) Pension and other employee benefit costs		
Exit costs - NIE severance programme	3,144	-
Pensions charge – other schemes [2]	42,031	42,362
NIE pension scheme charge [3]	12,227	9,559
	57,402	51,921
Total employee related costs charged to the income statement	413,662	413,799

[1] These benefits primarily include travel and subsistence expenses and accruals for holiday leave balances remaining at year end.

[2] The pension charge to other schemes include contributions to the ESB Defined Contribution Scheme, the ESB General Employees' Superannuation Scheme and the Options section of the Northern Ireland Electricity Scheme (NIE Scheme).

[3] The NIE pension scheme charge relates solely to the Focus section to the NIE Scheme. See note 22 for further details.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEES (continued)

PARENT

(a) Average number of employees in year by business activity, including temporary employees:

	2014 Number	2013 Number
Electric Ireland	**225**	230
ESB Networks	**3,120**	3,140
Generation and Wholesale Markets	**624**	659
Other	**806**	725
Total	**4,775**	4,754

(b) Employee costs in year

	2014 € '000	2013 € '000
Current staff costs (excluding pension)		
Salaries	**306,182**	306,573
Overtime	**28,504**	20,027
Social welfare costs	**19,259**	17,943
Other payroll benefits [1]	**19,032**	17,142
	372,977	361,685
Capitalised payroll	**(124,335)**	(121,049)
Net payroll cost for employees	**248,642**	240,636
(c) Pension and other employee benefit costs		
Pension charge [2]	**30,933**	31,091
Total employee related costs charged to the income statement	**279,575**	271,727

[1] These benefits primarily include travel and subsistence expenses and accruals for holiday leave balances remaining at year end.

[2] The pension charge to other schemes include contributions to the ESB Defined Contribution Scheme and the ESB General Employees' Superannuation Scheme.

8. PROFIT FOR THE FINANCIAL YEAR

	2014 € '000	2013 € '000
The profit for the financial year is stated after charging / (crediting):		
Depreciation and amortisation	**730,794**	689,685
Impairment charge [1]	**50,147**	-
Operating lease charges	**10,851**	11,185
Amortisation of supply contributions	**(32,222)**	(32,199)
Loss on disposal of subsidiary	**-**	4,264
Profit on disposal of property, plant and equipment and intangible assets	**(8,555)**	(8,880)
Profit on disposal of subsidiaries and equity accounted investees	**(38,395)**	(95,475)
Fair value (non-cash) gain on loss of control of subsidiary	**(93,700)**	-
Auditor's remuneration:		
- Audit of individual and Group accounts [2]	**320**	320
- Other assurance services	**290**	286
- Tax advisory services (Parent and NIE entities only)	**23**	31
- Other non-audit services	**164**	325
- NIE audit and other assurance services[3]	**106**	105
ESB (Parent) Board members' remuneration:		
- Fees	**216**	217
- Other remuneration	**359**	359

[1] Impairment charge (notes 9/10)
[2] €180,000 (2013: €0.2 million) related to the Parent Company
[3] €106,000 (2013: €0.1 million) related to the NIE entities audited by Ernst & Young

NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT & EQUIPMENT

GROUP	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
Cost					
Balance at 1 January 2013	1,132,073	14,846,030	15,978,103	938,759	**16,916,862**
Additions	1,832	154,108	155,940	626,618	**782,558**
Retirements / disposals	(332)	(22,625)	(22,957)	(7,909)	**(30,866)**
Transfers to assets held for sale	(146)	(435,137)	(435,283)	-	**(435,283)**
Transfers out of assets under construction	28,131	392,117	420,248	(420,248)	**-**
Transfers to intangible assets	-	(8,733)	(8,733)	(2,478)	**(11,211)**
Translation differences	(35)	(79,163)	(79,198)	(5,632)	**(84,830)**
Balance at 31 December 2013	1,161,523	14,846,597	16,008,120	1,129,110	**17,137,230**
Balance at 1 January 2014	1,161,523	14,846,597	16,008,120	1,129,110	**17,137,230**
Additions	392	180,240	180,632	732,576	**913,208**
Retirements / disposals	(99)	(5,953)	(6,052)	-	**(6,052)**
Transfers from assets held for sale	146	435,137	435,283	-	**435,283**
Transfers out of assets under construction	17,646	303,209	320,855	(320,855)	**-**
Transfers to equity accounted investees	-	-	-	(3,409)	**(3,409)**
Transfers from / (to) intangible assets	-	82	82	(1,160)	**(1,078)**
Translation differences	593	273,984	274,577	36,142	**310,719**
Balance at 31 December 2014	1,180,201	16,033,296	17,213,497	1,572,404	**18,785,901**
Depreciation					
Balance at 1 January 2013	615,954	6,013,172	6,629,126	-	**6,629,126**
Charge for the year	21,253	635,103	656,356	-	**656,356**
Retirements / disposals	(237)	(10,080)	(10,317)	-	**(10,317)**
Transfers to assets held for sale	(59)	(270,251)	(270,310)	-	**(270,310)**
Translation differences	(35)	(24,553)	(24,588)	-	**(24,588)**
Balance at 31 December 2013	636,876	6,343,391	6,980,267	-	**6,980,267**
Balance at 1 January 2014	636,876	6,343,391	6,980,267	-	**6,980,267**
Charge for the year	23,234	673,921	697,155	-	**697,155**
Retirements / disposals	(59)	(5,549)	(5,608)	-	**(5,608)**
Transfers from assets held for sale	59	270,251	270,310	-	**270,310**
Transfers to intangible assets	-	(82)	(82)	-	**(82)**
Impairment	-	31,246	31,246	-	**31,246**
Translation differences	134	95,893	96,027	-	**96,027**
Balance at 31 December 2014	660,244	7,409,071	8,069,315	-	**8,069,315**
Net book value at 31 December 2014	**519,957**	**8,624,225**	**9,144,182**	**1,572,404**	**10,716,586**
Net book value at 31 December 2013	524,647	8,503,206	9,027,853	1,129,110	**10,156,963**
Net book value at 1 January 2013	516,119	8,832,858	9,348,977	938,759	**10,287,736**

During the year the Group capitalised interest of €48.0 million (2013: €34.9 million) in assets under construction, using an effective interest rate of 4.9% (2013: 5.1%).

The carrying value of non-depreciable assets at 31 December 2014 is €89.2 million (2013: €75.8 million).

Property, plant and equipment with a net book value of €nil at 31 December 2014 is included above at a cost of €3,173.1 million (2013: €2,682.5 million).

Refer to note 16 for further information relating to assets transferred from held for sale.

Retirements / disposals in both 2014 and 2013 primarily relate to the retirement of assets that have been fully depreciated.

Impairment charge

An impairment review has been carried out on assets displaying indications of impairment by comparing the net present value of future cash flows to their net book value as at 31 December 2014. A review of the Corby CCGT plant in the UK was undertaken at year end. An impairment loss of €31.2 million has been recognised in the income statement in respect of this plant. This impairment has arisen as a result of adverse changes to the projected UK Wholesale Electricity Price curve. The real discount rate applied to the cash flows to determine the net present value was a pre-tax rate of 6%.

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NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT & EQUIPMENT (continued)

PARENT	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	**Total € '000**
Cost					
Balance at 1 January 2013	1,099,842	11,386,807	12,486,649	602,993	**13,089,642**
Additions	735	59,705	60,440	435,441	**495,881**
Retirements / disposals	(302)	(6,864)	(7,166)	-	**(7,166)**
Transfers to assets held for sale	(146)	(435,137)	(435,283)	-	**(435,283)**
Transfers out of assets under construction	28,131	264,036	292,167	(292,167)	**-**
Transfers to intangible assets	-	(8,713)	(8,713)	(2,478)	**(11,191)**
Balance at 31 December 2013	1,128,260	11,259,834	12,388,094	743,789	**13,131,883**
Balance at 1 January 2014	1,128,260	11,259,834	12,388,094	743,789	**13,131,883**
Additions	382	78,526	78,908	425,248	**504,156**
Retirements / disposals	(99)	(5,463)	(5,562)	-	**(5,562)**
Transfers from assets held for sale	146	435,137	435,283	-	**435,283**
Transfers out of assets under construction	17,646	293,414	311,060	(311,060)	**-**
Transfers to equity accounted investees	-	-	-	(3,409)	**(3,409)**
Transfers from / (to) intangible assets	-	82	82	(1,142)	**(1,060)**
Balance at 31 December 2014	1,146,335	12,061,530	13,207,865	853,426	**14,061,291**
Depreciation					
Balance at 1 January 2013	613,475	5,475,336	6,088,811	-	**6,088,811**
Charge for the year	20,292	431,742	452,034	-	**452,034**
Retirements / disposals	(231)	(6,533)	(6,764)	-	**(6,764)**
Transfers to assets held for sale	(59)	(270,251)	(270,310)	-	**(270,310)**
Balance at 31 December 2013	633,477	5,630,294	6,263,771	-	**6,263,771**
Balance at 1 January 2014	633,477	5,630,294	6,263,771	-	**6,263,771**
Charge for the year	20,720	454,134	474,854	-	**474,854**
Retirements / disposals	(59)	(5,276)	(5,335)	-	**(5,335)**
Transfers from assets held for sale	59	270,251	270,310	-	**270,310**
Transfers to intangible assets	-	(82)	(82)	-	**(82)**
Balance at 31 December 2014	654,197	6,349,321	7,003,518	-	**7,003,518**
Net book value at 31 December 2014	**492,138**	**5,712,209**	**6,204,347**	**853,426**	**7,057,773**
Net book value at 31 December 2013	494,783	5,629,540	6,124,323	743,789	**6,868,112**
Net book value at 1 January 2013	486,367	5,911,471	6,397,838	602,993	**7,000,831**

During the year the Parent capitalised interest of €23.7 million (2013: €17.7 million) in assets under construction, using an effective interest rate of 4.2% (2013: 4.6%).

The carrying value of non-depreciable assets at 31 December 2014 is €83.8 million (2013: €73.2 million).

Property, plant and equipment with a net book value of €nil at 31 December 2014 are included above at a cost of €2,868.1 million (2013: €2,508.9 million).

Retirements / disposals in both 2014 and 2013 primarily relate to the retirement of assets that have been fully depreciated.

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS

GROUP	Software and other intangible assets € '000	Emissions allowances € '000	Software under development € '000	**Total € '000**
Cost				
Balance at 1 January 2013	541,855	110,340	7,953	**660,148**
Software additions	6,093	-	19,067	**25,160**
Purchase of emissions	-	31,312	-	**31,312**
Software disposals	(9,302)	-	-	**(9,302)**
Settlement of emissions allowances	-	(80,965)	-	**(80,965)**
Transfers out of software under development	6,737	-	(6,737)	**-**
Transfers from property, plant and equipment	8,733	-	2,478	**11,211**
Translation differences	(3,546)	(446)	22	**(3,970)**
Balance at 31 December 2013	550,570	60,241	22,783	**633,594**
Balance at 1 January 2014	550,570	60,241	22,783	**633,594**
Software additions	9,590	-	13,296	**22,886**
Purchase of emissions	-	52,842	-	**52,842**
Disposal of emissions	-	(5,113)	-	**(5,113)**
Software disposals	(1,395)	-	-	**(1,395)**
Settlement of emissions allowances	-	(58,014)	-	**(58,014)**
Transfers out of software under development	10,857	-	(10,857)	**-**
Transfers (to) / from property, plant and equipment	(82)	-	1,160	**1,078**
Translation differences	11,758	67	191	**12,016**
Balance at 31 December 2014	581,298	50,023	26,573	**657,894**
Amortisation				
Balance at 1 January 2013	372,550	-	-	**372,550**
Charge for the year	33,329	-	-	**33,329**
Translation differences	(1,582)	-	-	**(1,582)**
Retirements / disposals	(9,068)	-	-	**(9,068)**
Balance at 31 December 2013	395,229	-	-	**395,229**
Balance at 1 January 2014	395,229	-	-	**395,229**
Charge for the year	33,639	-	-	**33,639**
Retirements / disposals	(124)	-	-	**(124)**
Impairment	18,901	-	-	**18,901**
Transfers from property, plant and equipment	82	-	-	**82**
Translation differences	6,507	-	-	**6,507**
Balance at 31 December 2014	454,234	-	-	**454,234**
Net book value at 31 December 2014	**127,064**	**50,023**	**26,573**	**203,660**
Net book value at 31 December 2013	155,341	60,241	22,783	**238,365**
Net book value at 1 January 2013	169,305	110,340	7,953	**287,598**

Software costs include both internally developed and externally purchased assets. The majority of these costs however are represented by internally developed assets.

Other intangible assets include grid connections and other wind farm development assets.

Emissions allowances are not amortised as they are held for settlement in the following year.

Amortisation and impairment of intangible assets is charged to the income statement as part of operating costs.

Impairment charge

During the year ended 31 December 2014 other intangible assets arising on the acquisition of the Group's operating wind farm, West Durham wind farm in the UK was impaired by €18.9 million. This impairment has arisen as a result of adverse changes to the projected UK Wholesale Electricity Price curve and a reduction in wind yield relative to the original business case. The impairment was calculated by comparing the net present value of future cash flows to the net book value of the wind farm as at 31 December 2014. The real discount rate applied to the cash flows to determine the net present value was a pre-tax rate of 5%.

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS (continued)

PARENT	Software and other intangible assets € '000	Emissions allowances € '000	Software under development € '000	Total € '000
Cost				
Balance at 1 January 2013	382,019	86,218	5,291	**473,528**
Software additions	6,093	-	14,136	**20,229**
Purchase of emissions	-	31,086	-	**31,086**
Software disposals	(928)	-	-	**(928)**
Settlement of emissions allowances	-	(63,914)	-	**(63,914)**
Transfers out of software under development	6,636	-	(6,636)	**-**
Transfers from property, plant and equipment	8,713	-	2,478	**11,191**
Balance at 31 December 2013	402,533	53,390	15,269	**471,192**
Balance at 1 January 2014	402,533	53,390	15,269	**471,192**
Software additions	9,344	-	12,714	**22,058**
Purchase of emissions	-	46,426	-	**46,426**
Disposal of emissions	-	(4,204)	-	**(4,204)**
Software disposals	(195)	-	-	**(195)**
Settlement of emissions allowances	-	(45,507)	-	**(45,507)**
Transfers out of software under development	2,811	-	(2,811)	**-**
Transfers (to) / from property, plant and equipment	(82)	-	1,142	**1,060**
Balance at 31 December 2014	414,411	50,105	26,314	**490,830**
Amortisation				
Balance at 1 January 2013	311,668	-	-	**311,668**
Charge for the year	21,982	-	-	**21,982**
Retirements / disposals	(928)	-	-	**(928)**
Balance at 31 December 2013	332,722	-	-	**332,722**
Balance at 1 January 2014	332,722	-	-	**332,722**
Charge for the year	20,584	-	-	**20,584**
Retirements / disposals	(124)	-	-	**(124)**
Transfers from property, plant and equipment	82	-	-	**82**
Balance at 31 December 2014	353,264	-	-	**353,264**
Net book value at 31 December 2014	**61,147**	**50,105**	**26,314**	**137,566**
Net book value at 31 December 2013	69,811	53,390	15,269	**138,470**
Net book value at 1 January 2013	70,351	86,218	5,291	**161,860**

Software costs include both internally developed and externally purchased assets. The majority of these costs however are represented by internally developed assets.

Emissions allowances are not amortised as they are held for settlement in the following year.

Amortisation of intangible assets is charged to the income statement as part of operating costs.

NOTES TO THE FINANCIAL STATEMENTS

11. GOODWILL

	€ '000
Balance at 1 January 2013	185,938
Translation differences	(3,925)
Balance at 31 December 2013	182,013
Balance at 1 January 2014	182,013
Translation differences	12,814
Balance at 31 December 2014	**194,827**

Goodwill was recognised on the acquisition of NIE in December 2010, and relates to the fair value of the expected return on future investment in the Regulated Asset Base (RAB) of the NIE business. Goodwill is reviewed annually in December for impairment, by assessing the recoverable amount of the investment, based on its value in use.

The annual impairment test of goodwill was carried out in December 2014 in accordance with IAS 36. No reduction in the value of goodwill was deemed to be required.

The Group calculates the value in use using a 20-year discounted cash flow model, and a terminal value based on RAB, corresponding to the expected useful life of the underlying asset base. The future cash flows are adjusted for risks specific to the investment and are discounted using a pre-tax discount rate of 6.9% (2013: 6.9%).

The discount rate used is a key driver for valuation and the rate was determined by building up an appropriate Weighted Average Cost of Capital (WACC) for the NIE business and benchmarking relevant comparators. Other key drivers include inflation and regulatory assumptions. Long-term inflation rates used were sourced from the UK Office of Budget Responsibility, and are currently based on a long-term rate of 2.75%. Assumptions in relation to regulatory return are made by reference to previous regulatory decisions in the UK.

Key factors in assessing the value of goodwill are expectations of future levels of capital spend and the appropriateness of the allowed return on the RAB. Both are agreed with the Utility Regulator in Northern Ireland (NIAUR) as part of the Regulatory Price review. Management believes that at the date of the impairment test there were no reasonably possible changes in the key valuation drivers that would cause the carrying amount of the investment to exceed its recoverable amount.

The most recent price control programme (RP5) applicable to NIE took effect from 1 October 2012. NIAUR published its final determination for RP5 in October 2012. In November 2012 NIE advised the regulator that it was unable to accept the proposed terms for the RP5 price control and on 30 April 2013 the matter was referred to the UK Competition Authority.

The Competition Commission issued its final determination on 15 April 2014. The final determination has been reviewed and incorporated into the annual impairment review of goodwill at December 2014 noted above.

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL ASSET INVESTMENTS

GROUP	Equity accounted investees € '000	Financial assets at fair value through profit or loss € '000	Total € '000
Balance at 1 January 2013	31,436	48,849	**80,285**
Additions	-	16,884	**16,884**
Disposals	(51,409)	-	**(51,409)**
Transfers to other payables	1,576	-	**1,576**
Share of profit	22,244	-	**22,244**
Fair value movement on cash flow hedges	4,320	-	**4,320**
Fair value movement - transfer to income statement	-	(15,331)	**(15,331)**
Dividends received	(18,835)	-	**(18,835)**
Translation differences	(2,797)	(1,043)	**(3,840)**
Transfers to assets and liabilities held for sale	13,465	-	**13,465**
Balance at 31 December 2013	-	49,359	**49,359**
Balance at 1 January 2014	-	49,359	**49,359**
Additions	916	19,737	**20,653**
Transfer to Evolve	2,891	-	**2,891**
Transfers from property, plant and equipment (to Evolve)	3,409	-	**3,409**
Disposals	-	(3,894)	**(3,894)**
Transfers to other payables	(98)	-	**(98)**
Share of loss	(1,354)	-	**(1,354)**
Fair value movement - transfer to income statement (note 4)	-	(6,111)	**(6,111)**
Conversion of subsidiary to equity accounted investee (note 3)	93,700	-	**93,700**
Translation differences	-	4,547	**4,547**
Balance at 31 December 2014	**99,464**	**63,638**	**163,102**

Equity accounted investees

The fair value movement in 2013 on cash flow hedges related to derivatives held in Bizkaia Energia SL and Marchwood Power Limited, which were designated into cash flow hedging relationships in those entities.

Dividends received in 2013 from equity accounted investments related to Marchwood Power Limited (€8.6 million) and Bizkaia Energia SL (€10.2 million).

Translation differences for 2013 related to Marchwood Power Limited as this Company is located in the United Kingdom and has sterling as its functional currency.

Interests in equity accounted investees

The following companies have been included in the ESB Group accounts as joint ventures using equity accounting:

Name of the Company	Country	Holding at 31 December 2014 % of share capital owned	Holding at 31 December 2013 % of share capital owned
Oweninny Power Limited [1]	Republic of Ireland	**50**	50
Emerald Bridge Fibres Limited [1]	Republic of Ireland	**50**	50
Evolve Structuring Services Limited	Republic of Ireland	**50**	-
Bizkaia Energia SL [2]	Spain	**-**	50

[1] At 31 December 2014, the investments in both Oweninny Power Limited and Emerald Bridge Fibres Limited were held at €nil.

[2] In April 2014, ESB reached an agreement for the sale of its investment in Bizkaia Energia SL (see note 3).

Evolve Structuring Services Limited (Evolve)

Evolve is an unlisted joint arrangement in which the Group has joint control and a 50% ownership interest. Evolve was founded by the Group, with Vodafone Ireland Limited acquiring a 50% stake in November 2014.

Vodafone's acquisition of shares in Evolve was pursuant to a Joint Venture Arrangement (JVA) concluded between both parties. Evolve is structured as a separate vehicle, is jointly controlled by the Group and Vodafone Ireland Limited and the Group has a residual interest in the net assets of the Company. Accordingly, the Group has classified its interest in Evolve as an equity accounted investee. ESB has committed to provide capital funding to Evolve amounting to €85.0 million over the next 5 years.

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL ASSET INVESTMENTS (continued)

The following table summarises financial information for the Group's equity accounted investees based on their consolidated financial statements prepared in accordance with IFRS.

The Group's aggregate share of the non-current assets, current assets, non-current liabilities, current liabilities, income and expenses related to its interests in these equity accounted investees are as follows:

Summarised income statement

	Evolve Structuring Services Limited		Other equity accounted investees	
	2014 € '000	2013 € '000	**2014 € '000**	2013 € '000
Revenue	**-**	-	**-**	-
Profit [1]	**(1,071)**	-	**(1,636)**	3,152
Other comprehensive income	**-**	-	**-**	-
Total comprehensive income	**(1,071)**	-	**(1,636)**	3,152
Group share 50%	**(536)**	-	**(818)**	1,576
Summarised statement of financial position				
Cash	**99,930**	-	**-**	-
Current assets	**65**	-	**-**	-
Non-current assets	**108,949**	-	**-**	-
Current liabilities	**(10,016)**	-	**-**	-
Non-current liabilities	**-**	-	**-**	-
Net assets	**198,928**	-	**-**	-
Group share 50%	**99,464**	-	**-**	-

[1] 2014 profit includes Emerald Bridge Fibres Limited and Oweninny Power Limited. 2013 profit included Marchwood Power Limited, Bizkaia Energia SL, Emerald Bridge Fibres Limited and Oweninny Power Limited.

Interest in financial assets held at fair value through profit and loss

The Group owns a venture capital business, Novusmodus, in which seed capital is invested into emerging technology entities. These investments are managed purely for an investment return and are consequently carried at fair value through the income statement. No financial assets held at fair value through profit or loss are controlled by ESB. Additions include investments in a number of clean energy and new technology companies and also additional investment in the VantagePoint clean energy fund. These investments have been fair valued at the year end and the movement transferred to the income statement. The fair value movements in both 2014 and 2013 primarily relate to adjustments to the value of certain investments in renewables enterprises.

At 31 December 2014 the Group could be called upon by its partners in the VantagePoint fund to make a further €0.8 million investment in the fund (2013: €2.2 million). Further information on these investments is included in note 26.

PARENT	Equity accounted investees € '000	Subsidiary undertakings € '000
Balance at 1 January 2013	-	72,832
Write off investment in subsidiary [1]	-	(11,050)
Balance at 31 December 2013	-	61,782
Balance at 1 January 2014	-	61,782
Transfer to Evolve	2,891	-
Transfer from property, plant & equipment (to Evolve)	3,409	-
Conversion of Evolve to equity accounted investee (note 3)	93,700	-
Balance at 31 December 2014	**100,000**	**61,782**

[1] During 2013, ESB's investment in dormant Company ESB Retail Limited was written off and the Company was dissolved. This had no impact on the consolidated results of the Group.

13. INVENTORIES

	GROUP		PARENT	
	2014 € '000	2013 € '000	**2014 € '000**	2013 € '000
Materials	**20,262**	17,962	**4,255**	4,666
Fuel	**58,576**	65,791	**49,719**	57,371
Total	**78,838**	83,753	**53,974**	62,037

Inventories consumed during the year ended 31 December 2014 totalled €137.1 million (2013: €143.3 million). There were no inventory impairments recognised during the year (2013: €nil).

NOTES TO THE FINANCIAL STATEMENTS

14. TRADE AND OTHER RECEIVABLES

	GROUP 2014 € '000	GROUP 2013 € '000	PARENT 2014 € '000	PARENT 2013 € '000
Retail electricity receivables - billed	**88,933**	102,427	**66,690**	80,235
Retail electricity receivables - unbilled	**205,484**	214,129	**156,627**	156,373
Total retail electricity receivables	**294,417**	316,556	**223,317**	236,608
SEM pool related receivables	**74,485**	95,547	**49,839**	62,951
Use of System receivables (including unbilled)	**207,848**	180,408	**38,502**	31,975
Other electricity receivables	**106,552**	163,953	**84,660**	130,262
Total electricity receivables	**683,302**	756,464	**396,318**	461,796
Trade receivables - non-electricity	**37,521**	40,923	**9,788**	8,032
Amounts due from equity accounted undertakings	**9,549**	8,096	**-**	-
Other receivables	**47,638**	67,955	**19,995**	18,943
Amounts due from subsidiary undertakings	**-**	-	**2,574,643**	2,071,867
Prepayments	**31,513**	25,785	**16,990**	11,483
Total	**809,523**	899,223	**3,017,734**	2,572,121

Wholesale and retail credit risk

Trade and other receivables can be divided into final retail electricity customers (billed and unbilled), SEM pool related receivables, Use of System receivables and other (non-electricity) receivables.

The maximum credit exposure of the Group at 31 December is set out below. Prepayments of €31.5 million (2013: €25.8 million) are excluded from the analysis as no credit exposure is perceived in relation to these. In the case of the Parent, balances stated also exclude amounts due from subsidiary undertakings of €2,574.6 million (2013: €2,071.9 million).

	GROUP 2014 Gross amount receivable € '000	GROUP 2014 Impairment provisions € '000	GROUP 2014 Net amount receivable € '000	GROUP 2013 Gross amount receivable € '000	GROUP 2013 Impairment provisions € '000	GROUP 2013 Net amount receivable € '000
Not past due	**706,854**	**-**	**706,854**	802,253	-	802,253
Past due < 30 days	**30,288**	**(513)**	**29,775**	36,616	(988)	35,628
Past due 30 - 120 days	**30,015**	**(3,311)**	**26,704**	27,054	(1,501)	25,553
Past due > 120 days	**29,459**	**(23,125)**	**6,334**	30,242	(25,747)	4,495
Past due by more than one year	**39,259**	**(30,916)**	**8,343**	28,700	(23,191)	5,509
Total	**835,875**	**(57,865)**	**778,010**	924,865	(51,427)	873,438

	PARENT 2014 Gross amount receivable € '000	PARENT 2014 Impairment provisions € '000	PARENT 2014 Net amount receivable € '000	PARENT 2013 Gross amount receivable € '000	PARENT 2013 Impairment provisions € '000	PARENT 2013 Net amount receivable € '000
Not past due	**401,369**	**-**	**401,369**	450,031	-	450,031
Past due < 30 days	**6,366**	**(331)**	**6,035**	16,941	(306)	16,635
Past due 30 - 120 days	**19,941**	**(2,280)**	**17,661**	23,567	(1,501)	22,066
Past due > 120 days	**23,282**	**(23,125)**	**157**	25,045	(25,006)	39
Past due by more than one year	**27,002**	**(26,123)**	**879**	18,989	(18,989)	-
Total	**477,960**	**(51,859)**	**426,101**	534,573	(45,802)	488,771

Management does not expect any significant losses of receivables that have not been provided for as shown above. As explained below overdue amounts, including amounts past due by more than one year, are impaired only to the extent that there is evidence that they are not ultimately recoverable. The impairment provision recognised is collective rather than specific in nature and is calculated based on the level of credit risk perceived in relation to the underlying balances. The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	GROUP 2014 € '000	GROUP 2013 € '000	PARENT 2014 € '000	PARENT 2013 € '000
Balance at 1 January	**51,427**	42,020	**45,802**	37,318
Impairment loss recognised	**24,350**	27,492	**23,016**	28,130
Provision utilised	**(17,912)**	(18,085)	**(16,959)**	(19,646)
Balance at 31 December	**57,865**	51,427	**51,859**	45,802

NOTES TO THE FINANCIAL STATEMENTS

14. TRADE AND OTHER RECEIVABLES (continued)

Retail electricity receivables

The credit risk on electricity accounts is managed through the ongoing monitoring of debtor days, putting in place appropriate collateral and a collection policy based on the credit worthiness, size and duration of debt. The concentration of risk in Electric Ireland is in relation to retail electricity accounts that have closed and are in arrears. In addition, given an increase in competition, certain customers may switch suppliers before they have settled their outstanding balances. The Commission for Energy Regulation (CER), in conjunction with all electricity supply companies, is attempting to agree a solution to this phenomenon (known as debt hopping). These accounts are managed within the Group's debt collection policy by a combination of internal debt follow-up, the use of debt collection agencies and legal action where necessary including the publication of judgements.

The impairment provisioning policy in relation to retail electricity receivables is based on the historical experience of debts written off. Provision may be made in respect of specific balances where there is evidence of a dispute or an inability to settle. An additional provision is made on a portfolio basis to cover additional anticipated losses based on an analysis of previous losses experienced and an evaluation of the impact of economic conditions and particular industry issues. Provision is not made in cases where appropriate repayment arrangements are in place and there is evidence that balances are ultimately recoverable, notwithstanding that such balances may be heavily in arrears. Collateral is held in the form of security deposits on new customer accounts. The largest single billed retail balance outstanding at 31 December 2014 was €224,000 (2013: €353,000).

Controls around electricity receivables are focused on the full recovery of amounts invoiced. In 2014, electricity receivables to the value of €57.8 million (2013: €51.4 million) were provided for at year end. The single largest customer amount written off during the year was €272,000 (2013: €77,000) relating to a customer that went into liquidation. Retail electricity receivables arise largely in the Republic of Ireland, with 6% (2013: 7%) relating to Northern Ireland revenue.

Unbilled electricity receivables represent estimates of consumption not yet invoiced.

SEM pool receivables

Credit risk in relation to SEM pool related receivables is managed by the Energy Trading and Risk functions (ET&R) within those business units engaged in electricity trading through the SEM pool. Each of these functions are ring-fenced from each other and segregation of responsibilities between the back office, middle office and front office functions is maintained. The Trading Back Office function is responsible for invoicing customers and maintaining all accounts receivable. Payment terms for all trading balances relating to each of the SEM revenue streams are governed by the SEM settlement calendar.

Use of System receivables

Use of System income in the Republic of Ireland comprises of Distribution Use of System (DUoS) income, Transmission Use of System (TUoS) income and Operation and Maintenance (O&M) charges for generators connected to the Distribution System. The credit terms for DUoS are 10 business days and there are currently 21 suppliers. TUoS is collected by EirGrid and the Transmission Asset Owner (TAO) allowed revenue is invoiced to EirGrid over 12 monthly instalments with each invoice due 36 business days after month end. Invoices were issued in respect of 145 generators during 2014 for operation and maintenance charges. The credit terms for these invoices are 20 business days.

The credit risk in relation to DUoS is managed by the invocation of section 7 of the DUoS Framework Agreement approved by CER on 12 November 2009. This section provides for the provision of security by each supplier. Before a supplier can register a customer they must sign up to the DUoS agreement. All suppliers must provide security in accordance with section 7.2. The DUoS credit risk is managed through the timely collection procedures in place which are in line with what is outlined in section 6 of the DUoS Framework Agreement and the monitoring of debtor days to keep these to a minimum. In the event of a supplier defaulting, in line with section 7 of the DUoS Framework Agreement, there is security cover in place for all suppliers.

The TUoS credit risk is managed through the timely collection procedures in place and the monitoring of debtor days to keep these to a minimum. Procedures for the payment by EirGrid of TUoS income due to ESB Networks as the TAO are governed by the Infrastructure Agreement between EirGrid and ESB. This is not a normal bilateral contract freely entered into by the will of the parties, but an arrangement required by legislation and many of whose terms are specified in that legislation. Accordingly, the credit risk in relation to TUoS receivables is considered to be low. The amount due in respect of TUoS income at 31 December 2014 was €41.9 million (2013: €32.0 million), which is the largest Use of System receivable balance in the Republic of Ireland.

In respect of the Networks business in Northern Ireland revenue is derived principally from charges for use of the distribution system, Public Service Obligation (PSO) charges levied on electricity suppliers and charges for transmission services levied on SONI (System Operator for Northern Ireland). Credit risk in respect of Use of System receivables from electricity suppliers is mitigated by security received in the form of cash deposits, letters of credit or Parent Company guarantees. With the exception of public bodies, payments in relation to new connections or alterations are paid for in advance of the work being carried out. Normal credit terms and debtor days in respect of trade receivables from electricity suppliers are less than 30 days. The largest Use of System electricity receivable in Northern Ireland at 31 December 2014 is €12.5 million (2013: €12.0 million).

Other electricity receivables

Other electricity receivables include amounts in relation to PSO levy in addition to amounts relating to ancillary services and electricity trading in the GB market which is not part of the SEM.

Trade and other receivables - non-electricity

Trade receivables (non-electricity) relate to balances due in respect of the Group's non-electricity trading and other operations. It includes amounts due in respect of the Group's telecommunications, consultancy, facility management and other ancillary operations. Other receivables include prepayments of €31.5 million (2013: €25.8 million). Credit risk with regard to these balances is not considered to be significant. The largest single balance included within this category at 31 December 2014 is an amount of €9.7 million (2013: €7.4 million).

NOTES TO THE FINANCIAL STATEMENTS

15. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2014 €'000	2013 €'000	2014 €'000	2013 €'000
Cash at bank and in hand	**143,731**	370,848	**56,384**	239,436

16. ASSETS AND LIABILITIES HELD FOR SALE

	GROUP		PARENT	
	2014 €'000	2013 €'000	2014 €'000	2013 €'000
Non-current assets	-	164,975	-	164,975
Current assets	-	5,583	-	3,785
Total assets held for sale	-	170,558	-	168,760
Total liabilities associated with assets held for sale	-	(14,826)	-	(955)
Total assets held for sale - net	-	155,732	-	167,805

Further to the Irish Government's proposal in February 2012 that ESB would dispose of some non-strategic generation capacity, on 27 February 2013 ESB announced its intention to sell its 50% shareholding in each of its international tolling plants, namely Marchwood Power Limited in the UK and Bizkaia Energia SL in Spain.

The investments in Marchwood Power Limited and Bizkaia Energia SL were sold in November 2013 and April 2014 respectively (see note 3).

In October 2013, ESB announced its intention to sell its investment in its two peat-fired generation stations, namely West Offaly Power and Lough Ree Power and accordingly these assets were classified as held for sale in the 2013 financial statements.

Since that announcement, detailed analyses were carried out which concluded that it was financially more beneficial to both ESB and its shareholders for ESB to retain ownership of the peat plants. The remainder of the €400.0 million special dividend announced in 2012 was funded from ESB's existing facilities in January 2015.

As a result, at 31 December 2014 these assets no longer meet the criteria for assets held for sale under IFRS 5 and have been reclassified to property, plant and equipment at the balance sheet date. These assets have been re-measured at the lower of their recoverable amount and their carrying value as at 1 January 2014 and depreciation has been charged on these assets for the year ended 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS

17. CHANGES IN EQUITY

(i) Capital stock

There are 1,979,881,855 units of capital stock in issue at a value of €1 each.

	2014 €'000	2013 €'000
Comprised as:		
Stock issued from converted reserves	**1,880,888**	1,880,888
Stock issued for subscription by ESOT	**98,994**	98,994
	1,979,882	1,979,882

In accordance with the Electricity (Supply) (Amendment) Act 2001, on 30 December 2001, the equity of ESB was converted to capital stock and issued to the Department of Finance. At the same time, ESB ESOP Trustee Limited, established to act as trustee for an ESB employee shareholding scheme, subscribed for 5% of the stock. The principal rights attaching to each unit of capital stock include the rights to exercise a vote at annual meetings, entitlements to dividends from profits when declared and the rights to proportionate participation in a surplus on winding up.

The Energy (Miscellaneous Provisions) Act 2006 amended Section 2 of the 2001 Act to provide that 10% of issued capital stock in ESB now stands vested in the Minister for Communications, Energy and Natural Resources, with the Minister for Finance retaining 85% of ESB's capital stock and the ESOP retaining 5% of the stock.

The Ministers and Secretaries Amendment Act 2011, which came into force on 6 July 2011, establishes the office of the Minister for Public Expenditure and Reform. The 2011 Act has the effect of transferring ownership of the stock previously held by the Minister for Finance in ESB to the Minister for Public Expenditure and Reform as and from 6 July 2011.

(ii) Non-controlling interest - Group

Non-controlling interests at 31 December 2014 relate to the minority shareholdings in Crockahenny Wind Farm Limited, Mountain Lodge Power Limited and Airvolution Energy Limited.

(iii) Cash flow hedging reserves - Group and Parent

The hedging reserve primarily represents the fair value of derivatives which are part of effective cash flow hedging relationships at year end. As the derivatives are held for hedging purposes as defined by IAS 39, their fair value movements are retained in OCI instead of being charged to the income statement during the year and will be charged to income in the same period as the corresponding transaction.

Other reserves include the following:

- Revaluation reserves of €44.3 million (2013: €49.8 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009. This reserve is being amortised to retained earnings over the same term as the associated assets acquired are depreciated;
- Non-distributable reserves of €5.0 million which was created on the sale of the Group's share in Ocean Communications Limited in 2001; and
- Actuarial movements on the NIE defined benefit scheme, net of the related deferred tax adjustments, totalling (€182.8) million (2013: (€134.2) million).

(iv) Dividends

GROUP	2014 €'000	2013 €'000
Dividends on capital stock:		
Total dividend paid 14.33 (2013: 7.41) cents per capital stock unit	**283,282**	146,803
Dividend to minority interest	**483**	-
Total	**283,765**	146,803

(v) Dividends

PARENT	2014 €'000	2013 €'000
Dividends on capital stock:		
Total dividend paid 14.33 (2013: 7.41) cents per capital stock unit	**283,282**	146,803
Total	**283,282**	146,803

Total dividends paid during 2014 amounted to €283.3 million and include a final dividend of €28.8 million (1.46 cents per unit of stock) in respect of 2013, a dividend of €160.9 million (8.12 cents per unit of stock) paid in January 2014 and €46.5 million (2.34 cents per unit of stock) paid in May 2014, arising from the sale of generation assets, and an interim dividend of €47.1 million (2.38 cents per unit of stock) which was paid in September in respect of 2014.

The Board is now recommending a final dividend of 0.52 cent per unit of stock, or €10.4 million in aggregate.

In July 2014, the Board declared an interim dividend in respect of the remaining special dividend of €213.7 million. This amount was paid in January 2015 and as it was an interim dividend, has not been accrued in the financial statements for year ended 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS

17. CHANGES IN EQUITY (continued)

(v) Dividends (continued)

During 2013, the Board of ESB approved a revised dividend policy, which has been agreed with the Government and is intended to cover the period to at least the end of this decade. The key parameters of this policy are:

- The target dividend pay-out ratio was set at 30% for 2013 and 2014, in addition to the targeted Special Dividends from the disposal of non-strategic generation capacity in 2013 - 2014 of €400 million.
- From 2015, the target pay-out ratio will be increased gradually.
- ESB will aim to pay an interim dividend within each financial year, with the balance to be paid as a final dividend post year-end.
- ESB has agreed with the Government that sustaining a minimum BBB+ credit rating is a key policy objective for the Company, and that this should be a priority consideration when considering dividend payments under the policy outlined above.

18. TAXATION

(a) Income tax expense / (credit)

	2014 € '000	2013 € '000
Current tax expense		
Current tax	**40,166**	31,381
Prior year under / (over) provision	**2,561**	(18,814)
Value of tax losses surrendered to joint ventures	**131**	-
	42,858	12,567
Deferred tax expense		
Origination and reversal of temporary differences	**(43,507)**	24,911
Reduction in tax rate	**-**	(36,543)
Prior year under provision	**3**	15,046
	(43,504)	3,414
Total	**(646)**	15,981

Reconciliation of effective tax rate	2014 € '000	2013 € '000
Profit before tax	**214,747**	526,365
Less: after tax share of joint venture loss / (profit)	**1,354**	(22,244)
Profit before tax (excluding joint venture loss / (profit))	**216,101**	504,121
Taxed at 12.5% (2013: 12.5%)	**27,013**	63,015
Expenses not deductible	**4,842**	8,510
Income not taxable [1]	**(4,872)**	(13,962)
Write down of investment [2]	**3,619**	-
Gain on loss of control of subsidiary[3]	**(11,712)**	-
Income taxed at higher rate of corporation tax	**546**	-
Higher tax rates on chargeable gains	**-**	299
Higher tax rates on overseas losses	**(22,638)**	(465)
Prior year over provisions [4]	**2,564**	(3,768)
Impact of reduced rate of UK tax on deferred tax stated at Irish tax rate [5]	**-**	(37,002)
Other items	**(8)**	(646)
Income tax (credit) / expense	**(646)**	15,981

[1] Income not taxable in 2014 relates to the profit on sale of a 50% shareholding in Bizkaia Energia SL which qualified for substantial shareholding relief. Income not taxable in 2013 relates to the profit on sale of Marchwood Power Limited which qualified for the UK substantial shareholding relief.

[2] The write down of investment relates to the impairment of the carrying value of Corby Power Limited and West Durham Wind Farm Holdings Limited. This write down formed part of the overall impairment loss recognised as a result of the impairment review outlined in notes 9 and 10. The loss on the write down of the investment is a permanent adjustment for tax purposes.

[3] During 2014, ESB entered into a joint venture agreement with Vodafone Ireland Limited in order to deliver a high capacity Fibre to the Building (FTTB) network to homes and businesses in selected urban locations across the Republic of Ireland. Following the joint venture agreement, ESB's investment in, Evolve Structuring Services Limited reduced to 50% and accordingly had to be restated at fair value. This gave rise to a non-cash fair value gain which reflects the fair value to ESB of its 50% shareholding. This gain is not subject to corporation tax and thus has been treated as a permanent adjustment for tax purposes.

[4] The 2013 prior year over provision relates mainly to a change in tax treatment adopted by NIE in relation to inflation linked interest rate swaps. The proposed tax treatment for these contracts has been clarified with HMRC during the period, and the revised classification reflects the agreed treatment. The 2014 prior year under provision arose as a result of adjustments to a number of the single entity statutory accounts which were booked following the finalisation of the consolidated financial statements.

[5] The 2013 Budget for the UK included the provision that the UK corporation tax rate will reduce to 20% over a period up to 2015. The reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014), and further reductions to 20% (effective from 1 April 2015) were substantively enacted on 3 July 2013. This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2014 has been calculated based on the rate of 20% (2013: 20%) substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

(b) Deferred tax assets and liabilities

GROUP	2014 € '000	2013 € '000
Deferred tax assets		
Property, plant and equipment and intangible assets	**739**	551
Liability - NIE pension scheme	**32,802**	21,555
Liability - ESB pension scheme	**91,384**	96,079
Provisions	**4,459**	4,305
Tax losses forward	**8,421**	8,686
Derivative financial instruments	**96,569**	48,546
Total	**234,374**	179,722
Deferred tax liabilities		
Property, plant and equipment and intangible assets	**760,291**	748,351
Provisions	**156**	143
Derivative financial instruments	**29,524**	57,160
Capital Gains Tax	**2,387**	2,288
Total	**792,358**	807,942
Net deferred tax liability	**(557,984)**	(628,220)

The movement in temporary differences for the Group were as follows:

2014	Balance at 1 January € '000	Recognised in income € '000	Recognised in equity € '000	Translation differences € '000	Balance at 31 December € '000
ASSETS					
Property, plant and equipment and intangible assets	551	188	-	-	**739**
Liability - NIE pension scheme	21,555	(871)	12,118	-	**32,802**
Liability - ESB pension scheme	96,079	(4,695)	-	-	**91,384**
Provisions	4,305	154	-	-	**4,459**
Tax losses forward	8,686	(265)	-	-	**8,421**
Derivative financial instruments	48,546	43,214	1,645	3,164	**96,569**
Total deferred tax assets	179,722	37,725	13,763	3,164	**234,374**
LIABILITIES					
Property, plant and equipment and intangible assets	748,351	2,813	-	9,127	**760,291**
Provisions	143	13	-	-	**156**
Derivative financial instruments	57,160	(8,704)	(28,151)	9,219	**29,524**
Capital Gains Tax	2,288	99	-	-	**2,387**
Total deferred tax liabilities	807,942	(5,779)	(28,151)	18,346	**792,358**
Net deferred tax (liability) / asset for the year	(628,220)	43,504	41,914	(15,182)	**(557,984)**

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18. TAXATION (continued)

GROUP (continued)

2013	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Transferred out on disposals € '000	Translation differences € '000	Balance at 31 December € '000
ASSETS						
Property, plant and equipment and intangible assets	1,273	(722)	-	-	-	551
Liability - NIE pension scheme	31,282	(6,220)	(3,507)	-	-	21,555
Liability - ESB pension scheme	101,623	(5,544)	-	-	-	96,079
Provisions	6,690	(2,385)	-	-	-	4,305
Tax losses forward	13,618	(4,031)	-	(901)	-	8,686
Derivative financial instruments	77,484	(32,190)	2,302	-	950	48,546
Total deferred tax assets	231,970	(51,092)	(1,205)	(901)	950	179,722
LIABILITIES						
Property, plant and equipment and intangible assets	797,197	(46,723)	-	-	(2,123)	748,351
Provisions	881	(738)	-	-	-	143
Derivative financial instruments	53,485	-	6,479	(2,804)	-	57,160
Capital Gains Tax	2,505	(217)	-	-	-	2,288
Total deferred tax liabilities	854,068	(47,678)	6,479	(2,804)	(2,123)	807,942
Net deferred tax (liability) /asset at the year end	(622,098)	(3,414)	(7,684)	1,903	3,073	(628,220)

The following deferred tax assets have not been recognised in the balance sheet as it is not probable that they will be realised for the foreseeable future:

	2014 € '000	2013 € '000
Operating losses	**-**	267

Deferred tax has not been provided for in relation to unremitted reserves of the Group's overseas subsidiaries for two reasons; either there is no commitment for these reserves to be distributed in the foreseeable future or it has been established that no tax would arise on the remittance. Nor has deferred tax been provided for in relation to unremitted reserves of the Group's joint ventures as the Group has the ability to control the repatriation of these reserves to Ireland. Cumulative unremitted reserves of overseas subsidiaries and associates totalled €668.0 million (2013: €268.7 million).

There is no expiry date to when tax losses in the Group can be utilised.

PARENT	**2014 € '000**	2013 € '000
Deferred tax assets		
Liability - ESB pension scheme	**91,384**	96,079
Provisions	**3,184**	3,144
Derivative financial instruments	**11,064**	16,897
Total	**105,632**	116,120
Deferred tax liabilities		
Property, plant and equipment	**445,388**	433,581
Capital Gains Tax	**1,180**	1,180
Total	**446,568**	434,761
Net deferred tax liability	**(340,936)**	(318,641)

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

PARENT (continued)

The movement in temporary differences for the Parent were as follows:

2014	Balance at 1 January € '000	Recognised in income € '000	Recognised in equity € '000	**Balance at 31 December € '000**
ASSETS				
Liability - ESB pension scheme	96,079	(4,695)	-	**91,384**
Provisions	3,144	40	-	**3,184**
Derivative financial instruments	16,897	-	(5,833)	**11,064**
Total deferred tax assets	116,120	(4,655)	(5,833)	**105,632**
LIABILITIES				
Property, plant and equipment	433,581	11,807	-	**445,388**
Capital Gains Tax	1,180	-	-	**1,180**
Total deferred tax liabilities	434,761	11,807	-	**446,568**
Net deferred tax (liability) / asset for the year end	**(318,641)**	**(16,462)**	**(5,833)**	**(340,936)**

2013	Balance at 1 January € '000	Recognised in income € '000	Recognised in equity € '000	Balance at 31 December € '000
ASSETS				
Liability - ESB pension scheme	101,623	(5,544)	-	96,079
Provisions	4,482	(1,338)	-	3,144
Tax losses forward	6,666	(6,666)	-	-
Derivative financial instruments	11,396	-	5,501	16,897
Total deferred tax assets	124,167	(13,548)	5,501	116,120
LIABILITIES				
Property, plant and equipment	418,707	14,874	-	433,581
Capital Gains Tax	1,180	-	-	1,180
Total deferred tax liabilities	419,887	14,874	-	434,761
Net deferred tax (liability) / asset for the year end	(295,720)	(28,422)	5,501	(318,641)

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT

(a) GROUP	Recourse borrowings € '000	Non-recourse borrowings € '000	2014 Total € '000	2013 Total € '000
Current borrowings				
- Repayable by instalments	101,350	2,388	**103,738**	90,655
- Repayable other than by instalments	241,049	25,805	**266,854**	31,337
Total current borrowings	342,399	28,193	**370,592**	121,992
Non-current borrowings				
- Repayable by instalments				
Between one and two years	95,390	13,500	**108,890**	103,593
Between two and five years	249,163	71,393	**320,556**	301,142
After five years	497,566	301,983	**799,549**	737,703
	842,119	386,876	**1,228,995**	1,142,438
- Repayable other than by instalments				
Between one and two years	22,194	-	**22,194**	210,359
Between two and five years	1,459,442	238,440	**1,697,882**	966,661
After five years	951,759	511,547	**1,463,306**	2,073,946
	2,433,395	749,987	**3,183,382**	3,250,966
Total non-current borrowings	3,275,514	1,136,863	**4,412,377**	4,393,404
Total borrowings outstanding	3,617,913	1,165,056	**4,782,969**	4,515,396

See section (c) for details of applicable interest rates.

Current borrowings by facility	Ref	2014 € '000	2013 € '000
Long-term bank borrowings	5	**101,350**	86,254
Private placement borrowings	6	**211,127**	33,899
Fuel financing arrangement	3	**29,922**	-
Non-recourse long-term project finance debt	2	**2,388**	1,839
Non-recourse short-term project finance debt	7	**25,805**	-
		370,592	121,992

Non-current borrowings by facility	Ref	2014 € '000	2013 € '000
Non-recourse long-term project finance debt	2	**386,876**	212,283
ESB Eurobonds	1	**1,745,910**	1,721,167
NIE Eurobonds	4	**749,987**	704,854
Long-term bank borrowings	5	**842,119**	922,329
Private placement borrowings	6	**687,485**	802,978
Fuel financing arrangement	3	**-**	29,793
		4,412,377	4,393,404

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

At 31 December 2014, ESB was rated BBB+ from Standard & Poor's and Fitch and Baa1 from Moody's respectively. The outlook on each of the three agencies at year end was stable.

1. ESB Eurobonds

The table below provides details of ESB Eurobonds included in borrowings at 31 December 2014:

Issuer	Value	Date	Tenor	Coupon
ESB Finance Limited	Stg£275.0 million	March 2010	10 years	6.500%
ESB Finance Limited	Euro €600.0 million	September 2012	5 years	6.250%
ESB Finance Limited	Euro €500.0 million	November 2012	7 years	4.375%
ESB Finance Limited	Euro €300.0 million	November 2013	10 years	3.494%

2. Non-recourse long-term project finance debt

In September 2012 Carrington Power Limited (CPL), a 100 per cent owned subsidiary of ESB, completed the financial close of an 881 MW combined cycle gas turbine power plant in Carrington, near Manchester. Finance was structured on a 70:30 debt / equity basis, with the debt of Stg£523.0 million being provided by a syndicate of banks by way of non-recourse project finance, incorporating export credit support from the Swiss Export Credit Agency, SERV. Stg£305.9 million (2013: Stg£181.7 million) debt was drawn at the year end. The plant is scheduled to be commissioned in 2016 and the assets under construction are Stg£442.1 million at year end. The remainder of this debt is in relation to a wind farm in the UK.

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

3. Fuel financing arrangement

In December 2012 the Group received €30.0 million from the sale of fuel inventories, and at the same date contracted to buy them back in December 2015 at a fixed price. This transaction has the effect of a financing arrangement, and is disclosed in current borrowings.

4. NIE Eurobonds

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

In June 2011, NIE Limited issued a Stg£400.0 million 15 year sterling bond with a fixed coupon of 6.375%.

5. Long-term bank borrowings

Long-term bank borrowings include €171.5 million of floating rate debt borrowed on a bilateral basis, while the remainder is fixed interest debt.

A €1.4 billion revolving credit facility with a syndicate of 14 banks to draw down bank finance as required up to February 2018 was available to the Group at 31 December 2014, and was undrawn. An amended revolving credit facility amounting to €1.44 billion was agreed with a syndicate of 14 banks in January 2015 to draw down bank finance up to 2020, with an option to extend this for a further two years.

The facility signed in December 2013 with the European Investment Bank (EIB) to support renewable connections to the electricity network in the southwest of Ireland was increased by a further €100.0 million in October 2014, bringing the total value of the facility to €200.0 million. The facility is undrawn at December 2014.

6. Private placement borrowings

The first private placement senior unsecured notes were issued, to a range of institutional investors, in December 2003. These fixed rate notes were issued in US dollars and sterling and at 31 December 2014 comprise US$626.5 million, maturing on dates between 2015 and 2023, and Stg£20.0 million, maturing on dates between 2018 and 2023.

The second private placement senior unsecured notes were issued in June 2009. These notes were issued in US dollars, sterling and euro and at 31 December 2014 comprise US$253.0 million, maturing on dates between 2016 and 2019, Stg£85.0 million maturing on dates between 2017 and 2021 and €40.0 million maturing in 2019. US$33.0 million and €10.0 million of this private placement debt was repaid in June 2014 as scheduled.

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

7. Non-recourse short-term project finance debt

Short-term private equity funding of Stg£20.0 million had been drawn down at 31 December 2014. This is in relation to the financing of certain clean energy infrastructure acquisitions.

Hedge of net investment in foreign operations

Included in borrowings are sterling denominated bank loans, which have been designated as a hedge of the Group's investment in a sterling denominated subsidiary in the United Kingdom, as outlined below:

Sterling denominated loans designated as a hedge of Group's investment in subsidiary	2014 € '000	2013 € '000
Value at 1 January	**80,041**	93,456
Repayments in year	**(11,822)**	(11,025)
Loss / (gain) on translation to euro	**5,258**	(2,390)
Value at 31 December	**73,477**	80,041
Loss / (gain) on translation of intra-group Euro loan to subsidiary (taken to OCI)	**3,544**	(1,795)

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

PARENT	Recourse borrowings € '000	2014 Total € '000	2013 Total € '000
Current borrowings			
- Repayable by instalments	89,467	**89,467**	76,969
- Repayable other than by instalments	241,049	**241,049**	31,337
Total current borrowings	330,516	**330,516**	108,306
Non-current borrowings			
- Repayable by instalments			
Between one and two years	88,535	**88,535**	89,907
Between two and five years	249,163	**249,163**	258,988
After five years	497,566	**497,566**	562,080
	835,264	**835,264**	910,975
- Repayable other than by instalments			
Between one and two years	22,194	**22,194**	210,469
Between two and five years	363,191	**363,191**	140,840
After five years	302,100	**302,100**	473,747
	687,485	**687,485**	825,056
Total non-current borrowings	1,522,749	**1,522,749**	1,736,031
Total borrowings outstanding	1,853,265	**1,853,265**	1,844,337

(b) Funding and liquidity management

The principal liquidity risks faced by the Group relate to cash flow requirements arising from day-to-day operations, maturing debt obligations and the funding of capital investment programmes. The Group's Treasury function manages this risk through a combination of liquid investments, cash and cash equivalents and undrawn committed bank facilities. The Group negotiates facilities with relationship banks and debt capital markets to pre-fund any requirements arising from maturing debt and capital expenditure.

At 31 December 2014 the Group had over €1.74 billion available in cash or cash equivalents and committed bank facilities, ensuring liquidity demands can be met as required. The committed bank facilities include a syndicated loan facility with a large number of well-rated financial institutions as well as facilities with the EIB. Included in the amount disclosed are facilities totalling €200.0 million which may only be drawn against certain scheduled capital expenditure.

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account the compatibility between funding costs and risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements.

The maturity profile of the carrying amount of the Group's borrowings, and the expiry of material undrawn committed bank borrowing facilities are as follows:

	Drawn Debt - Group		Drawn Debt - Parent		Undrawn Facility - Group and Parent	
Maturing	2014 € '000	2013 € '000	2014 € '000	2013 € '000	2014 € '000	2013 € '000
In one year or less	**370,592**	121,992	**330,516**	108,306	**-**	-
Between one and two years	**131,084**	313,952	**110,729**	300,376	**200,000**	100,000
Between two and five years	**2,018,438**	1,267,803	**612,354**	399,828	**1,387,161**	1,387,000
In more than five years	**2,262,855**	2,811,649	**799,666**	1,035,827	**-**	-
	4,782,969	4,515,396	**1,853,265**	1,844,337	**1,587,161**	1,487,000

The following table sets out the contractual maturities of Group borrowings, including the associated interest payments. Borrowings with a carrying value of €2,929.7 million (2013: €2,671.0 million) are included in the Group balances below, but do not comprise part of the Parent's liabilities.

	Carrying amount € '000	Contractual cash outflows / (inflows) - net € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
31 December 2014						
Recourse borrowings	3,617,913	4,438,521	479,353	267,019	2,045,914	1,646,235
Non-recourse borrowings	1,165,056	1,771,297	71,400	83,583	477,649	1,138,665
Total borrowings	**4,782,969**	**6,209,818**	**550,753**	**350,602**	**2,523,563**	**2,784,900**
31 December 2013						
Recourse borrowings	3,596,420	4,655,289	284,755	487,791	1,419,101	2,463,642
Non-recourse borrowings	918,976	1,403,967	49,618	49,409	429,284	875,656
Total borrowings	4,515,396	6,059,256	334,373	537,200	1,848,385	3,339,298

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

(c) Interest rate risk management

The Group's interest rate policy was updated in 2013 and the target is to have a significant majority of its debt at fixed (or inflation linked) interest rate to maturity, with a minimum of 50% fixed (or inflation linked) at all times. This is achieved either by borrowing directly at fixed interest rates or via interest rate swaps. At 31 December 2014, 96% of the Group's debt was fixed to maturity or inflation linked (2013: 95%). The fair value of interest rate swaps is disclosed in note 20.

In respect of income-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date taking into account the effect of interest rate swaps and cross currency swaps:

	Effective interest rate %	Total € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
Private placement borrowings (fixed interest rate)	**6.1**	**898,612**	211,127	22,194	363,191	302,100
Non-recourse borrowings (fixed interest rate)	**5.1**	**1,165,056**	28,193	13,500	309,833	813,530
Other long-term borrowings (fixed and variable interest rate)	**5.9**	**2,719,301**	131,272	95,390	1,345,414	1,147,225

Included within other long-term borrowings in this analysis are floating rate liabilities of €171.5 million (2013: €240.5 million).

The effective interest rate on the private placement borrowings has been fixed through the use of cross currency swaps and interest rate swaps. The effective rate of non-recourse sterling borrowings of Stg£359.2 million has been fixed using interest rate swaps. In the absence of these interest rate swaps, the floating rate on the underlying sterling and euro borrowings at 31 December 2014 would be 1.9%, in line with prevailing interest rates in those monetary areas on borrowings of a similar duration. Inflation linked swaps are included at equivalent nominal interest rate levels.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates will have an impact on consolidated earnings. It is estimated that a general increase of 50 basis points in interest rates (and corresponding real interest rates) at 31 December would have increased profit before taxation and reduced equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant, including the assumption that there is no change in inflation rates.

	31 December 2014		31 December 2013	
	50 bp increase gain / (loss) € '000	50 bp decrease gain / (loss) € '000	50 bp increase gain / (loss) € '000	50 bp decrease gain / (loss) € '000
Profit before taxation				
Interest payable	**(858)**	**858**	(3,392)	3,392
Fair value movements on financial instruments	**59,513**	**(61,924)**	60,593	(67,415)
Other comprehensive income				
Fair value gains / (losses)	**18,304**	**(18,304)**	11,704	(11,704)

The following assumptions were made in respect of the sensitivity analysis above:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;

- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;

- derivatives designated as cash flow hedges against movements in interest rates are assumed to be fully effective, recorded fully within equity with no impact on the income statement;

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only; and

- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

NOTES TO THE FINANCIAL STATEMENTS

20. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Fair value by class of derivative financial instrument

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

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

GROUP	2014 Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	**Total € '000**
Interest rate swaps	1,849	-	(35,352)	-	**(33,503)**
Inflation linked interest rate swaps	-	-	(626,136)	(15,070)	**(641,206)**
Currency swaps	-	-	(28,611)	(3,764)	**(32,375)**
Foreign exchange contracts	1,444	16,919	(7,251)	(28,663)	**(17,551)**
Forward fuel price contracts	82,611	136,960	(41,166)	(141,081)	**37,324**
Forward electricity price contracts	145,720	41,638	-	-	**187,358**
	231,624	**195,517**	**(738,516)**	**(188,578)**	**(499,953)**

	2013 Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	Total € '000
Interest rate swaps	23,934	-	(29,525)	-	(5,591)
Inflation linked interest rate swaps	-	-	(452,132)	(13,458)	(465,590)
Currency swaps	497	517	(130,213)	-	(129,199)
Foreign exchange contracts	6,818	7,264	(7,601)	(2,837)	3,644
Forward fuel price contracts	190,858	58,393	(17,835)	(37,732)	193,684
Forward electricity price contracts	131,448	28,034	-	-	159,482
	353,555	94,208	(637,306)	(54,027)	(243,570)

PARENT	2014 Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	**Total € '000**
Interest rate swaps	636	-	(115)	-	**521**
Currency swaps	-	-	(28,611)	(3,764)	**(32,375)**
Foreign exchange contracts	1,444	16,846	(5,005)	(28,116)	**(14,831)**
Forward fuel price contracts	29,095	120,113	(39,058)	(136,303)	**(26,153)**
Forward electricity price contracts	22,128	-	-	-	**22,128**
	53,303	**136,959**	**(72,789)**	**(168,183)**	**(50,710)**

	2013 Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	Total € '000
Interest rate swaps	-	-	(6,341)	-	(6,341)
Currency swaps	497	517	(130,213)	-	(129,199)
Foreign exchange contracts	1,293	3,319	(7,586)	(2,607)	(5,581)
Forward fuel price contracts	1,076	1,148	(17,798)	(37,110)	(52,684)
	2,866	4,984	(161,938)	(39,717)	(193,805)

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

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

The interest rate used to discount future estimated cash flows was 0.9% (2013: 1.8%). The rate is based on the EURIBOR yield curve at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

(i) Interest rate swaps

The Group has executed interest rate swaps of Stg£729.2 million in connection with certain borrowings including project finance debt secured by Carrington Power Limited and West Durham Wind Farm Limited, and in relation to fixed rate borrowings held by the Parent and ESB Finance Limited. These have all been classified as cash flow hedges.

For interest rate swaps, the fair value takes into account the fixed, floating and market rates prevailing at the year end. As interest rate swaps are marked to market at the year end, their carrying value is equal to their fair value.

Total fair value losses of €27.9 million (2013: gains of €15.1 million) were recognised during the year in relation to interest rate swaps, of which gains of €26.4 million were recognised directly in finance costs in the income statement, with losses of €54.3 million recognised in OCI (2013: losses of €23.2 million recognised in finance costs and gains of €38.3 million recognised in OCI).

(ii) Inflation linked interest rate swaps

Inflation linked interest rate swaps with a fair value on acquisition of €272.5 million were acquired in December 2010 as part of the purchase of the NIE business. The inflation linked interest rate swaps did not qualify for hedge accounting under IAS 39 on acquisition of the NIE business. The fair value of inflation linked interest rate swaps is affected by relative movements in interest rates and market expectations of future Retail Price Index (RPI) movements in the United Kingdom.

On 22 June 2014 the Group, and its counterparty banks, together agreed a restructuring of the swaps, including amendments to certain critical terms. These changes included an extension of the mandatory break period in the swaps from 2015 to 2022, including immediate settlement in 2014 of accretion payments of €90.1 million (previously due for payment in 2015), amendments to the fixed interest rate element of the swaps, and an expansion in the number of swap counterparties. Future accretion payments are now scheduled to occur every 5 years, starting in 2018, with remaining accretion paid on maturity.

Arising from the movements in forward interest rates and the very low interest environment in the UK RPI forward prices during the year, together with the impact of the change in the terms of the swaps, negative fair value movements of €244.9 million (€95.7 million of which is attributable to the restructuring noted above) occurred in 2014 (2013: positive fair value movements of €10.2 million). These have been recognised in finance costs in the income statement, as hedge accounting was not available.

(iii) Currency swaps

The fair value of currency swaps is affected by movements in foreign exchange and interest rates. ESB's currency swaps are primarily classified as cash flow hedges and relate mainly to the cross currency swaps entered into in connection with the private placement debt, which is described in note 19. These cross currency swaps were entered into in order to swap US dollar and sterling interest and principal repayments on the underlying debt to euro, thereby hedging the risk on these payments over the periods to maturity from 2010 to 2023.

Ineffectiveness under the meaning of IAS 39 arose on the currency swaps during the year and resulted in the recognition of a credit of €0.3 million (2013: charge of €1.0 million) within finance costs in the income statement. Separately included in the income statement in 2014 is a transfer from the cash flow hedge reserve of €87.0 million (2013: loss of €4.7 million) arising on cross currency swaps which is fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates (see note 6).

In addition to foreign currency forward contracts entered into in relation to the Group's borrowings, the Group has entered into foreign currency contracts in relation to pool purchases, fuel purchase requirements (which are in US dollars and pounds sterling) and in relation to power station projects (including Carrington Power Limited). These contracts have maturities extending until 2022. Total negative fair value movements of €20.9 million (2013: negative movements of €0.2 million) were recognised during the year in relation to such foreign exchange contracts, of which a positive fair value movement of €0.6 million (2013: positive movements of €0.6 million) was recognised through other comprehensive income and a negative fair value movement of €21.5 million (2013: negative movements of €0.8 million) was recognised in the income statement.

Fair value hierarchy

Further information on the methods of valuing financial instruments is included in note 26.

NOTES TO THE FINANCIAL STATEMENTS

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) Funding and liquidity management - maturity of derivative financial instruments

The following table sets out the contractual maturities of derivative financial instruments, including the associated undiscounted net cash flows attributable to them. These derivative financial instruments are expected to impact profit or loss over a time period similar to the cash outflows. Net derivative financial instrument liabilities of €449.2 million (2013: €49.8 million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities. See note 26 (b) for further analysis of Group and Parent financial assets and liabilities.

	Carrying amount € '000	Contractual cash outflows / (inflows) - net € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
31 December 2014						
Interest rate swaps	35,352	100,563	10,380	10,736	32,244	47,203
Inflation linked interest rate swaps	641,206	773,622	15,151	12,392	123,394	622,685
Currency swaps	32,375	(24,838)	1,348	(5,119)	(27,084)	6,017
Foreign exchange contracts	35,914	35,175	27,847	3,851	2,355	1,122
Forward fuel price contracts	182,247	182,264	141,092	41,172	-	-
Total liabilities	**927,094**	**1,066,786**	**195,818**	**63,032**	**130,909**	**677,027**
Interest rate swaps	1,849	24,823	3,619	3,638	10,558	7,008
Foreign exchange contracts	18,363	18,355	16,908	1,426	21	-
Forward fuel price contracts	219,571	219,995	136,968	47,309	35,718	-
Forward electricity price contracts	187,358	187,928	41,343	52,921	93,664	-
Total assets	**427,141**	**451,101**	**198,838**	**105,294**	**139,961**	**7,008**
Net derivative (assets) / liabilities	**499,953**	**615,685**	**(3,020)**	**(42,262)**	**(9,052)**	**670,019**
31 December 2013						
Interest rate swaps	29,525	127,950	9,272	12,260	39,104	67,314
Inflation linked interest rate swaps	465,590	632,401	11,076	109,150	1,513	510,662
Currency swaps	130,213	92,123	2,867	32,084	19,198	37,974
Foreign exchange contracts	10,438	10,492	2,819	7,673	-	-
Forward fuel price contracts	55,567	55,569	37,748	17,821	-	-
Total liabilities	691,333	918,535	63,782	178,988	59,815	615,950
Interest rate swaps	23,934	46,542	6,480	6,484	18,873	14,705
Currency swaps	1,014	1,146	620	526	-	-
Foreign exchange contracts	14,082	14,918	7,296	2,081	1,531	4,010
Forward fuel price contracts	249,251	254,318	58,640	55,825	126,408	13,445
Forward electricity price contracts	159,482	163,544	28,172	30,970	93,808	10,594
Total assets	447,763	480,468	101,208	95,886	240,620	42,754
Net derivative (assets) / liabilities	243,570	438,067	(37,426)	83,102	(180,805)	573,196

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES

The Group operates a number of pension schemes for staff in both the Republic of Ireland and Northern Ireland. Pension arrangements in respect of staff in the Republic of Ireland including ESB employees seconded overseas are set out in sections (a) and (b) below. Pension arrangements in respect of staff in Northern Ireland are described in section (c).

(a) Parent and Group - Republic of Ireland

(i) ESB General Employees' Superannuation Scheme (The Scheme)

Pensions for the majority of employees in the electricity business are funded through a contributory pension scheme called the ESB General Employees' Superannuation Scheme. The fund is vested in trustees nominated by ESB and its members for the sole benefit of employees and their dependants. The Scheme is a defined benefit scheme and is registered as such with the Pensions Board.

The regulations governing the Scheme stipulate the benefits that are to be provided and the contributions to be paid by both ESB and the contributing members. Notwithstanding the defined benefit nature of the benefits, ESB has no legal obligation to increase contributions to maintain those benefits in the event of a deficit. ESB's rate of contribution cannot be altered without the agreement of ESB and approval of the Minister for Communications, Energy and Natural Resources. Should a deficit arise in the future, the Company is obliged under the regulations to consult with the Superannuation Committee, the Trustees and the Scheme Actuary to consider the necessity of submitting an amending Scheme for Ministerial approval. This is different to the normal 'balance of cost' defined benefit approach, where the employer is liable to pay the balance of contributions required to fund benefits.

History

Historically the contributions of both ESB and members have been fixed by the Scheme regulations for long periods. On a number of occasions since the early 1980s, a deficit in the Scheme has been reported by the Scheme actuary. On each occasion ESB has, in accordance with its obligations under the Scheme rules, consulted with the committee, the trustees and the actuary. Following discussions with the unions, deficits were resolved by increasing contributions by both the Company and pension Scheme members.

The 2010 Pensions Agreement followed a 31 December 2008 actuarial deficit of €1,957.0 million. It was recognised that it was not feasible to address such a deficit through increased contributions. Negotiations between the Company and ESB Group of Unions (employee representatives) concluded with the landmark 2010 Pensions Agreement (approved by employees in July 2010 and formally ratified by the Board of ESB on 20 October 2010). The main features of the Agreement included the introduction of a Career Average Revalued Earnings (CARE) pension model for benefits earned after 1 January 2012, pension and pay freezes, the cessation of the historic link between salary and pension increases, and the application of a solvency test in relation to any future pension increases. The fixed contribution rates for the employer and for Scheme members were not changed. Under the Agreement ESB agreed to a once off cash injection into the Scheme, payable over a number of years, which had an agreed valuation for actuarial purposes as at 1 January 2010 of €591.0 million. Under the Agreement membership of the Scheme has been closed to new joiners. The changes brought about by the 2010 Pensions Agreement were subsequently approved by the Minister.

The Scheme does not have a deficit on an ongoing actuarial basis. It would have a deficit in a wind-up situation (Minimum Funding Standard) but a funding plan has been approved by the Pensions Board to resolve this deficit by 2018. According to the last Minimum Funding Standard review in 2013 this plan was on track and there are no plans to wind up the Scheme. An updated Minimum Funding Standard review will be carried out in the first half of 2015. The Company does not intend that any further contributions, other than the normal ongoing contributions (up to 16.4% of pensionable salary, in addition to employee contributions of up to 8.5%) and the balance of the Company's €591.0 million additional contribution (committed to as part of the 2010 Agreement), will be made. Should a deficit arise in the future, the obligation on the Company, as set out in the Scheme regulations, to consult with the parties to the Scheme remains unchanged.

Definitions

There are three different methods of assessing the financial status of the Scheme:

- Ongoing Actuarial Valuation.
- Minimum Funding Standard, under the Pensions Acts.
- Accounting, as set out in International Accounting Standard 19 (revised), Employee Benefits.

Each of these methods assesses the Scheme from specific perspectives using assumptions and projections which may differ.

Ongoing actuarial valuation

This valuation method assumes that both the Scheme and the Company continue in existence for the foreseeable future - it is not a wind-up valuation. The Scheme actuary confirmed in 2013 that the Scheme is in balance on an ongoing actuarial basis, i.e. that based on the assumptions made, the Scheme is projected to be able to meet its obligations as they fall due.

Wind up / Minimum Funding Standard valuation

The Pensions Act requires the trustees of the Scheme to also assess whether it could meet a certain prescribed standard, known as the Minimum Funding Standard. This assesses whether, if the Scheme were wound up on a specified theoretical valuation date, it could secure the benefits on that date. It should be noted that ESB does not envisage the winding up of the Scheme.

The Scheme actuary reported at the end of 2011 that the Scheme did not satisfy the Minimum Funding Standard requirements. To address this, the Scheme trustees, with the agreement of ESB, submitted a funding plan to the Pensions Board, which was approved in October 2012. This funding plan aims to resolve the requirements by the end of 2018 and as at 31 December 2013 this Plan was on track to meet that objective based on existing contribution levels (including the €591.0 million commitment from the 2010 Pensions Agreement). An updated Minimum Funding Standard review will be carried out in the first half of 2015.

Accounting

IAS 19 (revised) Employee Benefits is the relevant accounting standard to determine the way post-employment benefits should be reflected in ESB's financial statements.

The financial statements reflect the following obligations to the Scheme:

- Ongoing contributions - these are recognised in the income statement as incurred. Any unpaid amounts at year end are recognised as liabilities on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES (continued)

Accounting (continued)

- Obligations of €731.0 million to the Scheme are also included on the balance sheet, made up of;
  - 2010 Pension Agreement Injection – the Company committed to making an exceptional cash injection of €591.0 million (PV in 2010 money based on a rate of 6.25%) over a period of up to 12 years into the Scheme. Amounts yet to be paid to the Scheme under this part of the Pension Agreement are effectively subject to an annual financing charge and this is expensed in the income statement. €149.0 million has been paid into the Scheme to date.
  - Past service contributions – the ongoing rate of contribution by ESB includes a contribution towards past service accrued in 2010. The present value of future contributions in respect of that past service are recognised on the balance sheet.
  - Past Voluntary Severance (VS) Programmes – in 2010 the Company recognised a future fixed commitment in respect of staff who had left the Company under previous VS programs. ESB will make pension contributions in respect of those staff and the fair value of those future contributions are also recognised on the balance sheet.

(b) ESB Defined Contribution Pension Scheme - Republic of Ireland

ESB also operates an approved defined contribution scheme called ESB Defined Contribution Pension Scheme (formerly ESB Subsidiary Companies Pension Scheme) for employees of ESB subsidiary companies (other than NIE) and, from 1 November 2010, new staff of the Parent. Contributions are paid by the members and the employer at fixed rates. The benefits secured at retirement reflect each employee's accumulated fund and the cost of purchasing benefits at that time. Death benefits are insured on a Group basis and may be paid in the form of a lump sum and / or survivor's pension. The assets of the Scheme are held in a separate trustee administered fund. The pension charge for the year represents the defined employer contribution and amounted to €7.5 million (2013: €7.0 million).

(c) Northern Ireland Electricity Pension Scheme - Northern Ireland

The majority of the employees in Northern Ireland Electricity Limited and subsidiaries (NIE) are members of the Northern Ireland Electricity Pension Scheme (the NIE Scheme). This has two sections: Options, which is a money purchase arrangement whereby the employer generally matches the members' contributions up to a maximum of 6% of salary, and Focus which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the NIE Scheme are held under trust and invested by the trustees on the advice of professional investment managers.

In June 2011, the IASB published an amended version of IAS 19 Employee Benefits which is applicable for annual periods beginning on or after 1 January 2013. As a result of this change, the Group determines the net interest expense by applying the discount rate used to measure the pension obligation at the beginning of the annual period to the net liability.

Financial assumptions

The valuation of the Focus section of the NIE Scheme by independent actuaries for the purpose of IAS 19 disclosures is based on the following assumptions:

	% at 31 December 2014	% at 31 December 2013
Rate of interest applied to discount liabilities	**3.50**	4.40
Price inflation (CPI in the United Kingdom)	**1.90**	2.30
Rate of increase of pensionable salaries	**3.25**	3.55
Rate of increase of pensions in payment	**1.90**	2.30

The discount rate used in the calculation of the pension liability at 31 December 2014 was 3.5% (2013: 4.4%). This was determined by reference to market yields as at that date on high quality corporate bonds. The currency and term of the corporate bonds was consistent with the currency and estimated term of the post-employment benefit obligations.

Mortality assumptions

The assumptions relating to life expectancy at retirement for members are set out below. These assumptions are based on standard actuarial mortality tables and include an allowance for future improvements in life expectancy.

	At 31 December 2014		At 31 December 2013	
	Males Years	Females Years	Males Years	Females Years
Current pensioners at aged 60	**26.5**	**29.0**	26.4	28.9
Future pensioners currently aged 40 (life expectancy age 60)	**28.1**	**30.6**	27.9	30.5

Pension assets and liabilities

The assets and liabilities in the Focus section of the NIE Scheme are:

	At 31 December 2014 €'000	At 31 December 2013 €'000
Equities	**269,856**	268,048
Bonds	**515,082**	435,629
Diversified growth	**527,598**	477,220
Other	**6,649**	8,832
Fair value of plan assets	**1,319,185**	1,189,729
Present value of funded obligations	**(1,483,207)**	(1,299,395)
Net deficit	**(164,022)**	(109,666)

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES (continued)

(c) Northern Ireland Electricity Pension Scheme (continued)

	At 31 December 2014 €'000	At 31 December 2013 €'000
Change in benefit obligation		
Benefit obligation at the beginning of the year	**1,299,395**	1,264,982
Movements during the year:		
Current service cost	**9,861**	9,524
Interest cost	**57,225**	50,964
Plan members' contributions	**605**	639
Actuarial loss - impact of assumption changes	**102,159**	62,153
Benefits paid	**(82,658)**	(64,308)
Other	**(446)**	1,061
Past service cost	**2,367**	35
Translation difference on benefit obligation in the year	**94,699**	(25,655)
Benefit obligation at the end of the year	**1,483,207**	1,299,395
Change in plan assets		
Fair value of plan assets at the beginning of the year	**1,189,729**	1,132,458
Movements during the year:		
Interest on plan assets	**52,942**	46,076
Actuarial gains	**41,431**	64,214
Employer contributions	**31,488**	27,431
Plan members' contributions	**605**	639
Other	**-**	1,061
Benefits paid	**(82,658)**	(64,308)
Article 75 contribution	**323**	4,668
Translation difference on assets in the year	**85,325**	(22,510)
Fair value of plan assets at the end of the year	**1,319,185**	1,189,729
Actual return on plan assets for the year	**94,373**	110,338

Analysis of the amounts recognised in employee costs as part of employee benefits were as follows:	2014 €'000	2013 €'000
Current service cost	**(9,861)**	(9,524)
Past service cost	**(2,367)**	(35)
Total defined benefit charge in year	**(12,228)**	(9,559)

Analysis of the amounts recognised in finance costs, as net pension scheme interest:	2014 €'000	2013 €'000
Interest on pension scheme assets	**52,942**	46,076
Interest on pension scheme liabilities	**(57,225)**	(50,964)
Net pension scheme interest	**(4,283)**	(4,888)

Analysis of the amounts recognised in the statement of comprehensive income:	2014 €'000	2013 €'000
Actual return on assets less interest	**41,431**	64,214
Actuarial loss on liabilities	**(102,159)**	(62,153)
Net actuarial (loss) / gain	**(60,728)**	2,061

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Pension liability	2014 €'000	2013 €'000
Discount rate (0.1% movement)	**21.2**	17.0
Inflation rate (0.1% movement)	**(19.4)**	(16.3)
Future mortality (1 year)	**(49.4)**	(41.6)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

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NOTES TO THE FINANCIAL STATEMENTS

22. LIABILITY - ESB PENSION SCHEME AND EMPLOYEE RELATED LIABILITIES

GROUP	Liability - ESB pension scheme € '000	Employee related liabilities: Restructuring liabilities € '000	Employee related liabilities: Other € '000	Employee related liabilities: Total € '000
Balance at 1 January 2013	**814,767**	182,704	30,801	**213,505**
Movements during the year:				
Charge to the income statement	**-**	-	27,191	**27,191**
Utilised during the year	**(85,137)**	(35,156)	(27,471)	**(62,627)**
Financing charge	**36,598**	4,729	-	**4,729**
Translation differences	**-**	(6)	(21)	**(27)**
Balance at 31 December 2013	**766,228**	152,271	30,500	**182,771**
Balance at 1 January 2014	**766,228**	152,271	30,500	**182,771**
Movements during the year:				
Charge to the income statement	**-**	-	29,360	**29,360**
Utilised during the year	**(69,844)**	(21,492)	(27,347)	**(48,839)**
Financing charge	**34,686**	2,372	-	**2,372**
Translation differences	**-**	13	25	**38**
Balance at 31 December 2014	**731,070**	133,164	32,538	**165,702**
Analysed as follows:				
Non-current liabilities	**615,770**	107,736	-	**107,736**
Current liabilities	**115,300**	25,428	32,538	**57,966**
Total	**731,070**	**133,164**	**32,538**	**165,702**

PARENT	Liability - ESB pension scheme € '000	Employee related liabilities: Restructuring liabilities € '000	Employee related liabilities: Other € '000	Employee related liabilities: Total € '000
Balance at 1 January 2013	**814,767**	182,472	23,988	**206,460**
Movements during the year:				
Charge to the income statement	**-**	-	21,296	**21,296**
Utilised during the year	**(85,137)**	(35,110)	(21,692)	**(56,802)**
Financing charge	**36,598**	4,729	-	**4,729**
Balance at 31 December 2013	**766,228**	152,091	23,592	**175,683**
Balance at 1 January 2014	**766,228**	152,091	23,592	**175,683**
Movements during the year:				
Charge to the income statement	**-**	-	24,798	**24,798**
Utilised during the year	**(69,844)**	(21,492)	(24,100)	**(45,592)**
Financing charge	**34,686**	2,372	-	**2,372**
Balance at 31 December 2014	**731,070**	132,971	24,290	**157,261**
Analysed as follows:				
Non-current liabilities	**615,770**	107,736	-	**107,736**
Current liabilities	**115,300**	25,235	24,290	**49,525**
Total	**731,070**	**132,971**	**24,290**	**157,261**

NOTES TO THE FINANCIAL STATEMENTS

22. LIABILITY — ESB PENSION SCHEME AND EMPLOYEE RELATED LIABILITIES (continued)

Liability - ESB Pension Scheme
See note 21 (a).

Restructuring liabilities
This provision represents the estimated cost of providing post employment payments to former employees, other than those amounts covered by the pension scheme. It includes liabilities for continuing payments to employees who left under past voluntary severance initiatives, which are expected to be materially discharged by 2027. Expected future cash flows are discounted to present value using long-term interest rates based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread.

Other
In accordance with the requirements of IAS 19 Employee Benefits, provision has been made for employee remuneration liabilities, including accrued holiday leave, bonuses and profit share arrangements.

23. TRADE AND OTHER PAYABLES

	GROUP 2014 € '000	GROUP 2013 € '000	PARENT 2014 € '000	PARENT 2013 € '000
Current payables:				
Progress payments on work in progress	**62,781**	49,825	**-**	-
Trade payables	**358,845**	354,301	**205,736**	231,599
Other payables	**21,701**	26,687	**12,471**	17,019
Employment taxes	**17,520**	16,559	**15,680**	14,815
Value added tax	**46,618**	50,395	**21,981**	29,883
Accruals	**101,660**	110,335	**20,759**	18,870
Amounts owed to subsidiary undertakings	**-**	-	**2,829,356**	2,415,627
Accrued interest on borrowings	**79,023**	67,309	**9,436**	9,736
	688,148	675,411	**3,115,419**	2,737,549

	2014 € '000	2013 € '000	2014 € '000	2013 € '000
Non-current payables:				
Other payables	**8,185**	-	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED INCOME AND GOVERNMENT GRANTS

GROUP	Emissions allowances € '000	Supply contributions and other € '000	Total €'000
Balance at 1 January 2013	12,097	629,986	**642,083**
Receivable	-	15,608	**15,608**
Released to the income statement	(12,336)	(37,276)	**(49,612)**
Translation differences	239	2	**241**
Balance at 31 December 2013	-	608,320	**608,320**
Balance at 1 January 2014	-	608,320	**608,320**
Receivable	-	29,695	**29,695**
Released to the income statement	-	(59,644)	**(59,644)**
Translation differences	-	473	**473**
Balance at 31 December 2014	**-**	**578,844**	**578,844**
Analysed as follows:			
Non-current liabilities	-	533,813	**533,813**
Current liabilities	-	45,031	**45,031**
Total	**-**	**578,844**	**578,844**

PARENT	Emissions allowances € '000	Supply contributions and other € '000	Total €000
Balance at 1 January 2013	11,047	623,564	**634,611**
Receivable	-	736	**736**
Released to the income statement	(11,047)	(32,521)	**(43,568)**
Balance at 31 December 2013	-	591,779	**591,779**
Balance at 1 January 2014	-	591,779	**591,779**
Receivable	-	9,348	**9,348**
Released to the income statement	-	(33,667)	**(33,667)**
Balance at 31 December 2014	**-**	**567,460**	**567,460**
Analysed as follows:			
Non-current liabilities	-	534,352	**534,352**
Current liabilities	-	33,108	**33,108**
Total	**-**	**567,460**	**567,460**

In accordance with the European CO_2 Emissions Trading Scheme, emissions allowances covering a percentage of the expected emissions were granted at the beginning of each year by the relevant Authority. These emissions allowances received were recorded as both intangible assets and deferred income. They were valued at market value on receipt and amortised to the income statement on the basis of actual emissions during the year. This scheme ceased in 2012 and any remaining allowances were released to the income statement during the year ended 31 December 2013.

Non-repayable supply contributions and capital grants received prior to July 2009 were recorded as deferred income and released to the income statement on a basis consistent with the depreciation policy of the relevant assets. Accounting for supply contributions post July 2009 have been described further in the statement of accounting policies in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

25. PROVISIONS

GROUP	Power station closure costs € '000	Emissions provisions € '000	Other € '000	Total € '000
Balance at 1 January 2013	142,064	77,215	56,038	**275,317**
Charged to the income statement				
- Emissions	-	67,317	-	**67,317**
- Legal	-	-	3,623	**3,623**
- Station closure	143	-	-	**143**
Utilised in the year	(6,701)	(80,274)	(3,723)	**(90,698)**
Financing charge	3,542	-	1,111	**4,653**
Translation differences	(44)	(300)	(273)	**(617)**
Balance at 31 December 2013	139,004	63,958	56,776	**259,738**
Balance at 1 January 2014	139,004	63,958	56,776	**259,738**
Charged to the income statement				
- Emissions	-	49,125	-	**49,125**
- Legal	-	-	4,813	**4,813**
- Station closure	282	-	-	**282**
Utilised in the year	(7,303)	(63,910)	(6,081)	**(77,294)**
Financing charge	2,947	-	930	**3,877**
Translation differences	175	158	817	**1,150**
Balance at 31 December 2014	135,105	49,331	57,255	**241,691**
Analysed as follows:				
Non-current liabilities	128,351	-	54,602	**182,953**
Current liabilities	6,754	49,331	2,653	**58,738**
Total	**135,105**	**49,331**	**57,255**	**241,691**

PARENT	Power station closure costs € '000	Emissions provisions € '000	Other € '000	Total € '000
Balance at 1 January 2013	137,659	60,995	44,032	**242,686**
Charged to the income statement				
- Emissions	-	56,464	-	**56,464**
- Legal	-	-	2,046	**2,046**
Utilised in the year	(6,623)	(63,914)	(2,520)	**(73,057)**
Financing charge	3,451	-	1,110	**4,561**
Balance at 31 December 2013	134,487	53,545	44,668	**232,700**
Balance at 1 January 2014	134,487	53,545	44,668	**232,700**
Charged to the income statement				
- Emissions	-	38,572	-	**38,572**
- Legal	-	-	3,462	**3,462**
Utilised in the year	(7,303)	(51,403)	(3,524)	**(62,230)**
Financing charge	2,532	-	931	**3,463**
Balance at 31 December 2014	129,716	40,714	45,537	**215,967**
Analysed as follows:				
Non-current liabilities	122,961	-	43,468	**166,429**
Current liabilities	6,755	40,714	2,069	**49,538**
Total	**129,716**	**40,714**	**45,537**	**215,967**

NOTES TO THE FINANCIAL STATEMENTS

25. PROVISIONS (continued)

Power station closure costs

The provision at 31 December 2014 of €135.0 million (2013: €139.0 million) for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2025. As the costs are provided on a discounted basis, a financing charge is included in the income statement and added to the provision each year. The power station closure provision is re-examined annually and the liability re-calculated in accordance with the current expected station closure dates. The estimated value of future closure costs at the balance sheet date include physical dismantling, site remediation, de-manning and associated costs.

There are a number of uncertainties that affect the calculation of the provision for station closure, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, the impact of alternative technologies and changes in the discount rate. The Group has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision. Expected future cash flows are discounted to present value using long-term interest rates based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread.

Emissions provisions

In accordance with the provisions of the European CO_2 Emissions Trading Scheme, a provision is recognised to cover the liability for actual emissions during the year. Allowances purchased during the year are returned to the relevant Authority in charge of the scheme within four months from the end of that calendar year, in line with the actual emissions of CO_2 during the year. The year end provision represents the obligation to return emissions allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO_2 emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability.

Other provisions

Other provisions represent prudent estimates of liabilities to third parties, in respect of claims notified or provided for at year end. In accordance with normal commercial practice, the year end provision includes an estimate for liabilities incurred but not yet notified.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

(a) Overview of financial risk management

Risk environment

The main financial risks faced by the Group relate to liquidity, foreign exchange, interest rate, commodity (electricity and fuel) price movements and operational risk. Policies to protect the Group from these risks, and other risk areas, such as credit risk, are regularly reviewed, revised and approved by the Board as appropriate. Group Treasury is responsible for the day-to-day treasury activities of the Group. The Finance and Business Performance Committee is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the Committee for review.

Commodity price risk is managed by the front and middle office functions of the relevant business units: ESB Trading (located within Generation and Wholesale Markets) and Electric Ireland. This is done in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit. The Group Trading Risk Management function ensures that the Group's market, credit and operational risks are managed in a way to protect the Group from loss, while respecting the ring-fencing obligations in place between the business units.

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

Risk reporting structure

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

Within each of these business units, a Trading Risk Management Committee has been established to serve as the primary overseer of trading risk at individual ring-fenced entity level. This Committee includes the head of the front office function, the Trading Risk (Middle Office) Manager, a representative from Group Trading Risk Management, and the business unit Financial Controller. The Trading Risk Management Committees are responsible for formulating trading risk strategy in accordance with the Group Trading Risk Management Policy and ensuring compliance with same, trading risk limit management and ensuring that there is an effective control framework in place.

The Trading Risk Management Committees report to the GTC. The middle office function in each business unit maintains a separate reporting line to the Group Trading Risk Management function, which is responsible for ensuring that the Group's net exposure to movements in commodity or other price movements is adequately managed in accordance with Group Trading Risk Management Policy. The trading operations of the business units are subject to review by Group Internal Audit.

For further information on the Group's Risk Management Policy and objectives see the Risk Management Report on pages 18 to 23.

Hedge accounting

ESB funds its operations using borrowings and uses deposit instruments to invest surplus funds, and ESB also uses interest rate and foreign currency instruments to manage interest rate and currency risks that arise in the normal course of operations from US dollar and sterling denominated borrowings, from its foreign currency subsidiaries, and from the use of foreign currency suppliers. Hedge accounting pursuant to IAS 39 is used both for hedges of foreign currency liabilities and interest rate risks from current and non-current liabilities.

In addition, the Group enters into certain commodity hedging transactions to fix fuel costs and to link electricity revenues more closely to fuel inputs, where possible. All of these arrangements are designated into hedge relationships, and in the great majority of cases meet the specific hedging accounting criteria of IAS 39. Where the IAS 39 hedge criteria are met in respect of cross currency swaps, interest rate swaps, foreign exchange contracts, forward fuel price contracts and forward electricity price contracts, all of these instruments are designated as cash flow hedges of highly probable forecast interest, revenue or other operating cost cash flows. Any derivatives on hand which are not specifically designated into hedge relationships from an accounting perspective are nevertheless regarded as valid economic hedges.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Overview of financial assets and liabilities

Financial assets and liabilities, excluding provisions and employee related liabilities, at 31 December 2014, and at 31 December 2013 can be analysed as follows:

	Financial assets at fair value through profit or loss		Assets / (liabilities) held at amortised cost		Derivative financial instruments with hedging relationships		Derivative financial instruments with no hedging relationships		Total	
GROUP	**2014 € '000**	2013 € '000	**2014 € '000**	2013 € '000	**2014 € '000**	2013 € '000	**2014 € '000**	2013 € '000	**2014 € '000**	2013 € '000
ASSETS										
Non-current assets										
Financial asset investments	**63,638**	49,359	**-**	-	**-**	-	**-**	-	**63,638**	49,359
Derivative financial instruments	**-**	-	**-**	-	**218,544**	353,137	**13,080**	418	**231,624**	353,555
Total non-current financial assets	**63,638**	49,359	**-**	-	**218,544**	353,137	**13,080**	418	**295,262**	402,914
Current assets										
Trade and other receivables	**-**	-	**809,523**	899,223	**-**	-	**-**	-	**809,523**	899,223
Cash and cash equivalents	**-**	-	**143,731**	370,848	**-**	-	**-**	-	**143,731**	370,848
Derivative financial instruments	**-**	-	**-**	-	**75,435**	91,740	**120,082**	2,468	**195,517**	94,208
Total current financial assets	**-**	-	**953,254**	1,270,071	**75,435**	91,740	**120,082**	2,468	**1,148,771**	1,364,279
Total financial assets	**63,638**	49,359	**953,254**	1,270,071	**293,979**	444,877	**133,162**	2,886	**1,444,033**	1,767,193
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	**-**	-	**4,412,377**	4,393,404	**-**	-	**-**	-	**4,412,377**	4,393,404
Trade and other payables	**-**	-	**8,185**	-	**-**	-	**-**	-	**8,185**	-
Derivative financial instruments	**-**	-	**-**	-	**94,164**	155,585	**644,352**	481,721	**738,516**	637,306
Total non-current financial liabilities	**-**	-	**4,420,562**	4,393,404	**94,164**	155,585	**644,352**	481,721	**5,159,078**	5,030,710
Current liabilities										
Borrowings and other debt	**-**	-	**370,592**	121,992	**-**	-	**-**	-	**370,592**	121,992
Trade and other payables	**-**	-	**688,148**	675,411	**-**	-	**-**	-	**688,148**	675,411
Derivative financial instruments	**-**	-	**-**	-	**57,284**	39,909	**131,294**	14,118	**188,578**	54,027
Total current financial liabilities	**-**	-	**1,058,740**	797,403	**57,284**	39,909	**131,294**	14,118	**1,247,318**	851,430
Total financial liabilities	**-**	-	**5,479,302**	5,190,807	**151,448**	195,494	**775,646**	495,839	**6,406,396**	5,882,140
PARENT										
ASSETS										
Non-current assets										
Investments in subsidiary undertakings	**-**	-	**61,782**	61,782	**-**	-	**-**	-	**61,782**	61,782
Derivative financial instruments	**-**	-	**-**	-	**41,435**	2,452	**11,868**	414	**53,303**	2,866
Total non-current financial assets	**-**	-	**61,782**	61,782	**41,435**	2,452	**11,868**	414	**115,085**	64,648
Current assets										
Trade and other receivables	**-**	-	**3,017,734**	2,572,121	**-**	-	**-**	-	**3,017,734**	2,572,121
Cash and cash equivalents	**-**	-	**56,384**	239,436	**-**	-	**-**	-	**56,384**	239,436
Derivative financial instruments	**-**	-	**-**	-	**17,209**	3,536	**119,750**	1,448	**136,959**	4,984
Total current financial assets	**-**	-	**3,074,118**	2,811,557	**17,209**	3,536	**119,750**	1,448	**3,211,077**	2,816,541
Total financial assets	**-**	-	**3,135,900**	2,873,339	**58,644**	5,988	**131,618**	1,862	**3,326,162**	2,881,189
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	**-**	-	**1,522,749**	1,736,031	**-**	-	**-**	-	**1,522,749**	1,736,031
Derivative financial instruments	**-**	-	**-**	-	**59,445**	155,532	**13,344**	6,406	**72,789**	161,938
Total non-current financial liabilities	**-**	-	**1,522,749**	1,736,031	**59,445**	155,532	**13,344**	6,406	**1,595,538**	1,897,969
Current liabilities										
Borrowings and other debt	**-**	-	**330,516**	108,306	**-**	-	**-**	-	**330,516**	108,306
Trade and other payables	**-**	-	**3,115,419**	2,737,549	**-**	-	**-**	-	**3,115,419**	2,737,549
Derivative financial instruments	**-**	-	**-**	-	**51,959**	39,056	**116,224**	661	**168,183**	39,717
Total current financial liabilities	**-**	-	**3,445,935**	2,845,855	**51,959**	39,056	**116,224**	661	**3,614,118**	2,885,572
Total financial liabilities	**-**	-	**4,968,684**	4,581,886	**111,404**	194,588	**129,568**	7,067	**5,209,656**	4,783,541

The Group's provisions and employee related liabilities are not analysed in the table above, or in the further analysis following. The only exception to this is the liability for pension obligation of €731.0 million at 31 December 2014 (2013: €766.2 million). See notes 21, 22 and 25 for further information in relation to this and to the other provisions and employee related liabilities.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Funding and liquidity management

The following table sets out the contractual maturities of financial liabilities (and assets of a similar nature), including the interest payments associated with borrowings, and the undiscounted net cash flows attributable to derivative financial instruments. Borrowings with a carrying value of €2,929.7 million (2013: €2,671.0 million), and net derivative financial instrument liabilities of €449.2 million (2013: €49.7 million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities. See notes 19, 20 and 26(b) for further analysis of Group and Parent financial assets and liabilities.

	Carrying amount € '000	Contractual cash outflows / (inflows) - net € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
31 December 2014						
Borrowings	4,782,969	6,209,818	550,753	350,602	2,523,563	2,784,900
Trade and other payables (excluding tax balances and accrued interest on borrowings)	553,171	553,171	544,986	8,185	-	-
Derivative financial liability	927,094	1,066,786	195,818	63,032	130,909	677,027
Total liabilities	**6,263,234**	**7,829,775**	**1,291,557**	**421,819**	**2,654,472**	**3,461,927**
Derivative financial asset	427,141	451,101	198,838	105,294	139,961	7,008
Total assets	**427,141**	**451,101**	**198,838**	**105,294**	**139,961**	**7,008**
Net liabilities	**5,836,093**	**7,378,674**	**1,092,719**	**316,525**	**2,514,511**	**3,454,919**
31 December 2013						
Borrowings	4,515,396	6,059,256	334,373	537,200	1,848,385	3,339,298
Trade and other payables (excluding tax balances and accrued interest on borrowings)	541,148	541,148	541,148	-	-	-
Derivative financial liability	691,333	918,535	63,782	178,988	59,815	615,950
Total liabilities	5,747,877	7,518,939	939,303	716,188	1,908,200	3,955,248
Derivative financial asset	447,763	480,468	101,208	95,886	240,620	42,754
Total assets	447,763	480,468	101,208	95,886	240,620	42,754
Net liabilities	5,300,114	7,038,471	838,095	620,302	1,667,580	3,912,494

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivative Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency or commodity are aggregated into a single net amount that is payable by one party to the other. In certain circumstances, for example, when a credit event such as default occurs - all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The following tables provide information on the impact of netting for instruments subject to an enforceable master netting agreement or similar agreement and the carrying amounts of recognised financial instruments that are subject to the above agreements:

GROUP	Gross amount of financial instruments on the balance sheet € '000	Amounts not offset on the balance sheet € '000	Net amount € '000
31 December 2014			
Financial assets			
Interest rate swaps	1,849	(1,011)	838
Foreign exchange contracts	18,363	(16,783)	1,580
Forward fuel price contracts	219,571	(132,075)	87,496
Forward electricity price contracts	187,358	(20,614)	166,744
	427,141	**(170,483)**	**256,658**
Financial liabilities			
Interest rate swaps	(35,352)	1,011	(34,341)
Inflation linked interest rate swaps	(641,206)	-	(641,206)
Currency swaps	(32,375)	-	(32,375)
Foreign exchange contracts	(35,914)	31,874	(4,040)
Forward fuel price contracts	(182,247)	137,598	(44,649)
	(927,094)	**170,483**	**(756,611)**
31 December 2013			
Financial assets			
Interest rate swaps	23,934	(5,341)	18,593
Currency swaps	1,014	(1,014)	-
Foreign exchange contracts	14,082	(7,037)	7,045
Forward fuel price contracts	249,251	(1,111)	248,140
Forward electricity price contracts	159,482	-	159,482
	447,763	(14,503)	433,260
Financial liabilities			
Interest rate swaps	(29,525)	5,341	(24,184)
Inflation linked interest rate swaps	(465,590)	-	(465,590)
Currency swaps	(130,213)	1,014	(129,199)
Foreign exchange contracts	(10,438)	4,577	(5,861)
Forward fuel price contracts	(55,567)	3,571	(51,996)
	(691,333)	14,503	(676,830)

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Master netting or similar agreements (continued)

PARENT	Gross amount of financial instruments on the balance sheet € '000	Amounts not offset on the balance sheet € '000	Net Amount € '000
31 December 2014			
Financial assets			
Interest rate swaps	636	(115)	521
Foreign exchange contracts	18,290	(16,710)	1,580
Forward fuel price contracts	149,208	(131,089)	18,119
Forward electricity price contracts	22,128	(20,614)	1,514
	190,262	**(168,528)**	**21,734**
Financial liabilities			
Interest rate swaps	(115)	115	-
Currency swaps	(32,375)	-	(32,375)
Foreign exchange contracts	(33,121)	30,815	(2,306)
Forward fuel price contracts	(175,361)	137,598	(37,763)
	(240,972)	**168,528**	**(72,444)**
31 December 2013			
Financial assets			
Currency swaps	1,014	(1,014)	-
Foreign exchange contracts	4,612	(3,040)	1,572
Forward fuel price contracts	2,224	(386)	1,838
	7,850	(4,440)	3,410
Financial liabilities			
Interest rate swaps	(6,341)	-	(6,341)
Currency swaps	(130,213)	1,014	(129,199)
Foreign exchange contracts	(10,193)	2,952	(7,241)
Forward fuel price contracts	(54,908)	474	(54,434)
	(201,655)	4,440	(197,215)

(e) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial assets

	2014 Group € '000	2014 Parent € '000	2013 Group € '000	2013 Parent € '000
Trade and other receivables	**809,523**	**3,017,734**	899,223	2,572,121
Financial asset investments	**63,638**	**61,782**	49,359	61,782
Cash and cash equivalents	**143,731**	**56,384**	370,848	239,436
Derivative financial instruments	**427,141**	**190,262**	447,763	7,850
	1,444,033	**3,326,162**	1,767,193	2,881,189

Trade and other receivables

Wholesale and credit risk arising from trade and other receivables has been disclosed in note 14.

Financial asset investments

Credit risk arising on financial asset investments, including financial assets at fair value through profit or loss, is closely monitored and reflected in the carrying value at year end.

Treasury related credit risk (relating to cash and derivative instruments)

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts with in the financial markets. The Group's policy is to limit its exposure to each financial institution based on accepted credit ratings of not less than BBB or equivalent.

Trading in derivatives is performed to mitigate financial risks and is executed in compliance with the Specification and Requirements of the Minister for Finance issued under the aegis of the Financial Transactions of Certain Companies and Other Bodies Act 1992. The Specification and Requirements outline the type of derivatives which ESB can transact and the associated requirements which ESB must satisfy regarding each derivative counterparty. Dealing activities are controlled by putting in place robust dealing mandates with counterparties. The Group does not hold or trade derivative instruments for speculative purposes. Exposures, related limits and compliance with the Minister's Specification and Requirements are subject to ongoing review and monitoring. The Group has not experienced any losses due to failure of such counterparties to deliver on their obligations.

Commodity credit risk (relating to derivatives)

The Group also has credit risk associated with commodity positions. These arise from derivative financial instruments that are entered into to hedge energy and fuel price risks and are managed in accordance with the Minister's Specification and Requirements (Financial Transactions of Certain Companies and Other Bodies Act 1992). The Group establishes counterparty credit risk limits to restrict uncollateralised exposure. Net exposures, collateral requirements and compliance are monitored on an ongoing basis. Collateral, in the form of bonds and guarantees, is required by ESB business units from various parties, specifically in the form of Letters of Credit from certain power Contract for Differences (CfD) counterparties. Total collateral held at year end was €100.1 million (2013: €258.1 million). Given the current economic environment, the Group is particularly cognisant of any changes in the creditworthiness of counterparties, and where such a change occurs all appropriate steps are taken to further secure the Group's position.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(f) Foreign currency risk management

Foreign currency exposures arise mainly through the purchase of fuel and power, station overhaul costs required, other purchases denominated in foreign currencies, borrowings in foreign currencies (including the private placement as described in note19) and investments outside the Eurozone.

Foreign currency forward purchase contracts and cross currency swaps are used to reduce volatility arising from foreign currency exposures. The foreign currency forward purchase contracts in place at 31 December 2014 relate to forecast cash flows expected to occur up to 2028.

At year end, ESB's total debt portfolio amounted to €4.8 billion (2013: €4.5 billion), of which the Parent held €1.8 billion (2013: €1.8 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

GROUP	Before swaps 2014 (%)	Before swaps 2013 (%)	After swaps 2014 (%)	After swaps 2013 (%)
Currency				
Euro	**44**	50	**59**	66
US dollar	**15**	15	**-**	-
Sterling	**41**	35	**41**	34
Total	**100**	100	**100**	100

PARENT	Before swaps 2014 (%)	Before swaps 2013 (%)	After swaps 2014 (%)	After swaps 2013 (%)
Currency				
Euro	**36**	39	**75**	78
US dollar	**39**	36	**-**	-
Sterling	**25**	25	**25**	22
Total	**100**	100	**100**	100

As shown above, the majority of the Parent debt portfolio is swapped to euro for both principal and interest, thereby reducing the foreign currency risk exposure in the Group. In managing its foreign operations, the Group is cognisant of borrowing in currencies that match the functional currency of the foreign operation. Therefore a substantial proportion of debt is sterling denominated primarily as a result of the NIE acquisition.

A general increase of 10% in foreign currency exchange rates at 31 December would increase equity and profit before taxation by the amount set out below. This analysis assumes that all other variables remain constant, and includes the impact of the value of commodity swaps in place, all of which are in effective hedge relationships at 31 December 2014.

GROUP	31 December 2014 Other comprehensive income gain / (loss) € '000	31 December 2014 Profit before taxation gain / (loss) € '000	31 December 2013 Other comprehensive income gain / (loss) € '000	31 December 2013 Profit before taxation gain / (loss) € '000
10% Strengthening				
US dollar	**(32,769)**	**-**	(40,706)	-
Sterling	**-**	**30,257**	28,534	(1,853)
Swiss Franc	**(1,365)**	**(501)**	(1,691)	-
10% Weakening				
US dollar	**40,051**	**-**	33,304	-
Sterling	**-**	**(36,197)**	(23,346)	1,516
Swiss Franc	**1,668**	**501**	1,384	-

The following assumptions were made in respect of the sensitivity analysis above:
- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only;
- changes in the carrying value of derivative financial instruments that are cash flow hedges impact other comprehensive income only;
- changes in the carrying value of derivative financial instruments designated as net investment hedges arising from movements in the euro to sterling exchange rate are recorded directly in equity, with no ineffectiveness assumed.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(g) Commodity price risk management

The volatility of the fuel prices required for the Group's electricity generation activities has been significant in recent years and the resulting exposures to fuel price movements are managed by the Group on a selective hedging basis. The Group has entered into forward commodity price contracts in relation to the purchase of gas and coal required for electricity generation activities - see note 20. Forward fuel price contracts are valued based on physical volumes contracted and outstanding, and on the forward prices of products of a similar nature, at the balance sheet date, discounted where necessary based on an appropriate forward interest curve.

A general increase of 10% in the price of gas and coal at 31 December would increase equity and decrease profit before taxation by the amounts set out below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant, and includes the impact of the value of commodity swaps in place, all of which are in effective cash flow hedge relationships at 31 December 2014. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remain constant.

GROUP	31 December 2014 Other comprehensive income gain / (loss) € '000	31 December 2014 Profit before taxation gain / (loss) € '000	31 December 2013 Other comprehensive income gain / (loss) € '000	31 December 2013 Profit before taxation gain / (loss) € '000
Gain / loss due to 10% increase in gas and coal prices	**78,763**	**(2,972)**	110,329	(414)

PARENT	31 December 2014 Other comprehensive income gain / (loss) € '000	31 December 2014 Profit before taxation gain / (loss) € '000	31 December 2013 Other comprehensive income gain / (loss) € '000	31 December 2013 Profit before taxation gain / (loss) € '000
Gain / loss due to 10% increase in gas and coal prices	**24,894**	**(2,972)**	27,891	(414)

A general increase of 10% in the System Marginal Price (SMP) of the Single Electricity Market at 31 December would have decreased other comprehensive income and profit before taxation by the amounts set out below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant, and includes the impact on the value of commodity swaps in place. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remained constant.

GROUP	31 December 2014 Other comprehensive income gain / (loss) € '000	31 December 2014 Profit before taxation gain / (loss) € '000	31 December 2013 Other comprehensive income gain / (loss) € '000	31 December 2013 Profit before taxation gain / (loss) € '000
Loss due to 10% increase in the SMP	**(66,098)**	**-**	(51,230)	-

PARENT	31 December 2014 Other comprehensive income gain / (loss) € '000	31 December 2014 Profit before taxation gain / (loss) € '000	31 December 2013 Other comprehensive income gain / (loss) € '000	31 December 2013 Profit before taxation gain / (loss) € '000
Loss due to 10% increase in the SMP	**(28,207)**	**-**	-	-

The sensitivity analysis provided above for the Group and Parent has been calculated as at 31 December using the following base commodity prices and foreign currency rates:

	2014	2013
Gas (Stg.p/therm)	**50.15**	64.77
SMP (€/MWh)	**56.67**	64.20
Coal (US$/tonne)	**66.39**	84.96
Foreign currency rate (US$ = €1)	**1.241**	1.3791
Foreign currency rate (Stg£ = €1)	**0.7789**	0.8337

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(h) Fair value

The fair values of financial assets and liabilities carried at amortised cost, together with the carrying amounts shown in the balance sheet are as follows:

	GROUP Carrying value 2014 € '000	GROUP Fair value 2014 € '000		PARENT Carrying value 2014 € '000	PARENT Fair value 2014 € '000
31 December 2014					
Long-term debt	4,412,377	5,226,255		1,522,749	1,928,662
Short-term borrowings	370,592	433,804		330,516	413,960
Total borrowings	**4,782,969**	**5,660,059**		**1,853,265**	**2,342,622**
Trade and other payables	688,148	688,148	*	3,115,419	3,115,419
Trade and other receivables	(809,523)	(809,523)	*	(3,017,734)	(3,017,734)
Cash and cash equivalents	(143,731)	(143,731)		(56,384)	(56,384)
Net liabilities	**4,517,863**	**5,394,953**		**1,894,566**	**2,383,923**

	GROUP Carrying value 2013 € '000	GROUP Fair value 2013 € '000		PARENT Carrying value 2013 € '000	PARENT Fair value 2013 € '000
31 December 2013					
Long-term debt	4,393,404	4,811,684		1,736,031	1,867,711
Short-term borrowings (includes finance leases)	121,992	135,471		108,306	118,702
Total borrowings	4,515,396	4,947,155		1,844,337	1,986,413
Trade and other payables	675,411	675,411	*	2,737,549	2,737,549
Trade and other receivables	(899,223)	(899,223)	*	(2,572,121)	(2,572,121)
Cash and cash equivalents	(370,848)	(370,848)		(239,436)	(239,436)
Net liabilities	3,920,736	4,352,495		1,770,329	1,912,405

* As trade and other receivables are all due within one year, and have been provided for where impaired, their carrying value is considered to be materially in line with their fair value. The fair value of trade and other payables is calculated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Borrowings and other debt are Level 2 fair values. The valuation technique used for borrowings and other debt 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.

Financial assets at fair value through profit or loss are carried at fair value. Where applicable, the fair value is based on the most recent fund valuation statement available. In relation to stand alone investments, the valuation methodology used is in accordance with International Private Equity and Venture Capital Valuation Guidelines which have been developed by a number of international venture capital associations. As this requires the use of model based valuation techniques, with a number of unobservable inputs, all financial assets at fair value through profit or loss have been categorised as Level 3 investments in the current year.

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:

	2014 %	2013 %
Other loans and borrowings	**1.8**	3.3
Derivative financial instruments	**0.9**	1.8
Trade and other payables	**1.1**	2.0

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) Fair value hierarchy

The table below analyses financial assets and liabilities carried at fair value, by valuation method. The different levels relevant to financial assets and liabilities held by the Group have been defined as follows:

- Level 2: inputs, other than unadjusted quoted prices in active markets for identical assets and liabilities, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

GROUP	Level 2 € '000	Level 3 € '000	**Total € '000**
31 December 2014			
ASSETS			
Derivative financial instruments			
- Foreign exchange contracts	18,363	-	**18,363**
- Forward fuel price contracts	149,206	70,365	**219,571**
- Forward electricity price contracts	333	187,025	**187,358**
- Interest rate swaps	1,849	-	**1,849**
Financial assets at fair value through profit or loss	-	63,068	**63,068**
	169,751	**320,458**	**490,209**
LIABILITIES			
Derivative financial instruments			
- Currency swaps	(32,375)	-	**(32,375)**
- Foreign exchange contracts	(35,914)	-	**(35,914)**
- Forward fuel price contracts	(175,362)	(6,885)	**(182,247)**
- Interest rate swaps	(35,352)	-	**(35,352)**
- Inflation linked interest rate swaps	(641,206)	-	**(641,206)**
	(920,209)	**(6,885)**	**(927,094)**
Net (liability) / asset	**(750,458)**	**313,573**	**(436,885)**

	Level 2 € '000	Level 3 € '000	Total € '000
31 December 2013			
ASSETS			
Derivative financial instruments			
- Currency swaps	1,014	-	1,014
- Foreign exchange contracts	14,082	-	14,082
- Forward fuel price contracts	2,224	247,027	249,251
- Forward electricity price contracts	916	158,566	159,482
- Interest rate swaps	23,934	-	23,934
Financial assets at fair value through profit or loss	-	48,791	48,791
	42,170	454,384	496,554
LIABILITIES			
Derivative financial instruments			
- Currency swaps	(130,213)	-	(130,213)
- Foreign exchange contracts	(10,438)	-	(10,438)
- Forward fuel price contracts	(54,908)	(659)	(55,567)
- Interest rate swaps	(29,525)	-	(29,525)
- Inflation linked interest rate swaps	(465,590)	-	(465,590)
	(690,674)	(659)	(691,333)
Net (liability) / asset	(648,504)	453,725	(194,779)

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) Fair value hierarchy (continued)

PARENT	Level 2 € '000	Level 3 € '000	Total € '000
31 December 2014			
ASSETS			
Derivative financial instruments			
- Interest rate swaps	636	-	**636**
- Foreign exchange contracts	18,290	-	**18,290**
- Forward electricity price contracts	-	22,128	**22,128**
- Forward fuel price contracts	149,208	-	**149,208**
	168,134	**22,128**	**190,262**
LIABILITIES			
Derivative financial instruments			
- Currency swaps	(32,375)	-	**(32,375)**
- Foreign exchange contracts	(33,121)	-	**(33,121)**
- Forward fuel price contracts	(175,361)	-	**(175,361)**
- Interest rate swaps	(115)	-	**(115)**
	(240,972)	**-**	**(240,972)**
Net (liability) / asset	**(72,838)**	**22,128**	**(50,710)**

	Level 2 € '000	Level 3 € '000	Total € '000
31 December 2013			
ASSETS			
Derivative financial instruments			
- Currency swaps	1,014	-	1,014
- Foreign exchange contracts	4,612	-	4,612
- Forward fuel price contracts	2,224	-	2,224
	7,850	-	7,850
LIABILITIES			
Derivative financial instruments			
- Currency swaps	(130,213)	-	(130,213)
- Foreign exchange contracts	(10,193)	-	(10,193)
- Forward fuel price contracts	(54,908)	-	(54,908)
- Interest rate swaps	(6,341)	-	(6,341)
	(201,655)	-	(201,655)
Net liability	(193,805)	-	(193,805)

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) Fair value hierarchy (continued)

Measurement of fair values - Valuation techniques and significant unobservable inputs

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

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

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) Fair value hierarchy (continued)

The following table shows a reconciliation from opening balances at 1 January 2014 to the year end balances for fair value measurements in Level 3 of the fair value hierarchy.

GROUP	Financial assets at fair value through profit or loss € '000	Forward electricity price contracts € '000	Forward fuel price contracts € '000	Total € '000
Opening balance	48,791	158,566	246,368	**453,725**
Transferred in from Level 2				
- Purchases	19,737	-	-	**19,737**
- Disposals	(3,894)	-	-	**(3,894)**
Total gains or losses				
- In profit or loss	(6,111)	-	-	**(6,111)**
- In OCI	-	60,064	(159,610)	**(99,546)**
Settlements	-	(31,605)	(23,278)	**(54,883)**
Translation movements	4,545	-	-	**4,545**
Closing balance - net	**63,068**	**187,025**	**63,480**	**313,573**

Financial assets at fair value through profit or loss are carried at fair value. Where applicable, the fair value is based on the most recent fund valuation statement available. In relation to stand alone investments, the valuation methodology used is in accordance with International Private Equity and Venture Capital Valuation Guidelines which have been developed by a number of international venture capital associations. As this requires the use of model based valuation techniques, with a number of unobservable inputs, all financial assets at fair value through profit or loss have been categorised as Level 3 investments in the current year.

Forward fuel price contracts and forward electricity price contracts included at Level 3 in the fair value hierarchy relate to long-term contracts whose valuations are based on a number of forward price assumptions, with some unobservable inputs, including assumed forward electricity, carbon and gas inputs for longer term periods. Settlements form part of the revenue and fuel costs in the income statement.

Sensitivity analysis - Level 3 fair values

For the fair values of forward fuel and electricity price contracts reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

GROUP	31 December 2014 Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000
Gain due to 10% increase in gas and coal prices	**53,868**	**-**
Loss due to 10% increase in the SMP	**(66,098)**	**-**

(j) Capital management

The Group considers its capital to comprise equity, being capital stock, retained earnings and cash flow hedging, revaluation and other reserves. Movements in retained earnings and cash flow hedging and revaluation reserves during the year are disclosed in the Group statement of changes in equity in these financial statements. Any changes in the composition of capital stock need shareholder approval. The Group's objective is to maintain strong cash flow generation, interest cover and gearing ratios while funding the growth and capital investment levels targeted in its 2025 strategy. The Company's dividend policy is disclosed in note 17.

NOTES TO THE FINANCIAL STATEMENTS

27. COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

Total commitments under non-cancellable operating leases are due as follows:	2014 € '000	2013 € '000
Within one year	**12,962**	11,641
Between two and five years	**29,012**	30,059
After five years	**116,355**	104,442
Total payable	**158,329**	146,142

Operating leases payable by the Group generally relate to the rental of land and buildings. These lease costs are based on open market value at the date of inception and are generally subject to rent reviews, on average, every five years. There are no significant or unusual restrictions imposed on the Group by the terms of the operating leases.

(b) Capital commitments

	2014 € '000	2013 € '000
Contracted for	**381,159**	598,065

These contracts relate mainly to commitments under a turnkey construction contract, various interconnection contracts and long-term maintenance contracts.

(c) Fuel contract commitments

There are a number of long-term gas supply arrangements in place for different periods up to 2019. These arrangements provide for pricing changes in line with changes in inbuilt energy market indicators. Where appropriate, embedded derivatives have been separated and valued in accordance with IAS 39.

(d) Other disclosures

A number of letters of claim have been received in relation to 2009 flooding in Cork (Ireland); one claimant is pursuing a legal action seeking recovery of circa €19.0 million for property damage and that case is currently at hearing in the High Court. There is a possibility of additional property damage claims being brought in connection with the flooding, but ESB intends to strenuously defend all such claims. On the basis of advices obtained, ESB believes that it has a good defence to these claims, and accordingly, no provision has been made for such claims in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

28. RELATED PARTY TRANSACTIONS

Semi-state bodies
In common with many other entities, ESB deals in the normal course of business with other Government sponsored bodies such as Ervia and Bord na Móna. Long-term agreements are negotiated between ESB and Bord na Móna in relation to the purchase of peat for the Midland Stations.

Banks owned by the Irish state
In the normal course of business ESB transacts with certain Irish banks which have become wholly or partially controlled by the Irish Government. All of ESB's transactions with such banks are on normal commercial terms. ESB had no material concentration of borrowings with any such banks during the year or at 31 December 2014. A portion of the cash and cash equivalents as disclosed in note 15 was on deposit with such banks.

Board members' interests
Other than agreed allocations under ESOP, Board members had no beneficial interest in ESB or its subsidiaries at any time during the year.

Subsidiary undertakings
During the year ended 31 December 2014, ESB Parent purchased engineering, consulting and other services, including rental services of €131.6 million (2013: €111.8 million) from its subsidiaries.

During the year, ESB Parent had sales of €113.3 million (2013: €78.2 million) to subsidiaries. These sales mainly relate to management services, as well as electricity charges including Use of System Charges and sales of electricity.

During the year, ESB Parent received interest of €46.5 million (2013: €42.5 million) from subsidiaries and paid interest of €72.3 million (2013: €61.8 million) to subsidiaries on inter-company loans.

At 31 December 2014, ESB Parent had amounts payable of €2,829.4 million (2013: €2,415.6 million) to its subsidiaries. These payables mainly relate to amounts held on deposit for subsidiaries, borrowings raised by ESB Finance Limited and loaned to ESB Parent for working capital and capital expenditure requirements, as well as amounts due in respect of engineering and consulting services.

At 31 December 2014, ESB Parent had balances receivable of €2,574.6 million (2013: €2,071.9 million) from its subsidiaries. These receivables mainly relate to management services and loans to subsidiaries, as well as electricity charges including Use of System Charges.

At 31 December 2014, ESB Parent had balances receivable from its subsidiaries, in relation to equity and capital contributions, of €61.8 million (2013: €61.8 million).

Equity accounted investees
ESB provided services during the year to Oweninny Power Limited of €0.5 million (2013: €0.9 million), to Emerald Bridge Fibres Limited of €0.1 million (2013: €0.2 million), and to Evolve Structuring Services Limited of €0.2 million (2013: €nil). No services were provided to Bizkaia Energia SL during 2014 (2013: €6.7 million).

Capital funding of €0.9 million (2013: €4.1 million) was advanced to Emerald Bridge Fibres Limited, and loan amounts of €1.8 million (2013: €1.8 million) to Oweninny Power Limited. No capital was advanced during the year to Evolve Structuring Services Limited.

Interest on borrowings receivable from Emerald Bridge Fibres Limited amounted to €0.3 million for 2014 (2013: €0.4 million).

ESB has committed to provide capital funding to Evolve amounting to €85.0 million over the next 5 years.

Key management compensation	2014 € '000	2013 € '000
Salaries and other short-term employee benefits	**2,409**	2,676
Post-employment benefits	**318**	321
Termination benefits	**387**	-
	3,114	2,997

The key management compensation amounts disclosed above represent compensation to those people having the authority and responsibility for planning, directing and controlling the activities of the Group. These include the remuneration of Board members and senior executives.

NOTES TO THE FINANCIAL STATEMENTS

29. ESTIMATES AND JUDGEMENTS

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

It should be noted that the impact of variation in some assumptions and estimates can have a particularly material impact on the reported results. These include but are not limited to:

(a) The accounting for the ESB pension liability requires the exercise of judgement. The Board is satisfied that the appropriate accounting treatment, determined in accordance with IAS 19 Employee Benefits, is to reflect its existing committed obligations, as set out in the notes to the financial statements.

(b) The value in use, in accordance with IAS 36 Impairment of Assets, of goodwill as described in note 11.

(c) The value in use, in accordance with IAS 36 Impairment of Assets, of long lived assets as described below.

For power generation assets, value in use is based on the estimated cash flows expected to be generated by the asset and is based on an external view of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of operating costs and capital expenditure. These cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. The estimation of forecasted revenues and the timing of expenditure requires judgement and is dependent on the economic factors associated with these assets.

(d) As described in note 26 section (h), the valuation of certain financial instruments is based on a number of judgemental factors and assumptions which of necessity are not based on observable inputs. These have been classified as Level 3 financial instruments, under the meaning of IFRS 13 Fair Value Measurement. In 2010, the Group acquired, as part of the acquisition of NIE, inflation linked interest rate swaps which have a duration of over 20 years, which have been added to the Group's existing portfolio of Level 3 financial instruments.

(e) Future costs required to settle current provisions and employee related liabilities, such as the power station closure costs and voluntary severance obligations. These liabilities are disclosed in notes 21, 22 and 25.

(f) The measurement of a number of assets, liabilities, income and costs at year end which require a high degree of estimation and judgement including, the calculation of unbilled electricity income and trade and other receivables, the valuation of fuel stocks, the cost of fuel consumed, the useful lives of property, plant and equipment and also accruals for goods received or work carried out for which supplier invoices have not yet been received. These items are estimated in accordance with the accounting policies of the Group and current International Financial Reporting Standards.

(g) ESB provide services to around 1.5 million individuals and businesses, mainly on credit terms. It is known that certain debts due to ESB will not be paid through the default of a small number of customers. Estimates, based on historical experience are used in determining the level of debts that is believed will not be collected. These estimates include such factors as the current state of the Irish economy and particular industry issues (see note 14).

30. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated by ESB during 2001, with a €1 investment, as trustee to the ESB Employee Ownership Trust (ESOT) and the ESB Approved Profit Sharing Scheme (APSS). Under the terms of the creation of ESB ESOP Trustee Limited, ESB has no ability or rights to exert control over the assets or management of the Company. The trustee Company is chaired by an independent professional trustee with four directors representing ESB employees and two directors representing the Company. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the Company exist. In accordance with IAS 27 Consolidated and Separate Financial Statements, the accounts for ESB ESOP Trustee Limited are not consolidated with the results of the ESB Group.

31. APPROVAL OF ACCOUNTS

The Board approved the accounts on 24 February 2015.

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
Direct subsidiary			
ESB Energy International Ltd.	1	100	Holding company
ESB International Ltd.	1	100	Holding company
ESB International Investments Ltd.	1	100	International investments
ESB Financial Enterprises Ltd.	1	100	Holding company
ESB Networks Ltd.	8	100	Power distribution
ESBNI Ltd.	5	100	Holding company
ESB Finance Ltd.	2	100	Finance
ESB Electric Ireland Ltd.	2	100	Electricity sales
ESB Electric Ireland Ltd. (UK)	2	100	Electricity sales
Electric Ireland Ltd. (UK)	2	100	Electricity sales
Indirect subsidiary			
ESBI Engineering and Facility Management Ltd.	1	100	Engineering
ESBI Contracting Ltd.	1	100	Contracting
ESBI Consultants Ltd.	1	100	Consultancy
ESBI Computing Ltd.	1	100	Computer services
Elfinance Ltd.	1	100	Customer credit
ESB Independent Energy Ltd.	1	100	Electricity sales
ESB Independent Energy NI Ltd.	1	100	Electricity sales
ESB Power Generation Holding Company Ltd.	1	100	Holding company
Gort Windfarms Ltd.	1	100	Power generation
Crockahenny Wind Farm Ltd.	1	75	Power generation
Utility O&M Services Ltd.	9	100	Operation & maintenance services
Hibernian Wind Power Ltd.	1	100	Power generation
ESB Telecoms Ltd.	1	100	Telecommunications
Electricity Supply Board Services B.V. (and Malaysian Branch)	10	100	Facility management
Electricity Supply Board International Investments B.V.	11	100	Holding company
Corvoderry Wind Farm Ltd.	1	100	Power generation
Kerry Wind Power Ltd.	2	100	Power generation
Raheenleagh Power Ltd.	2	100	Power generation
Airstream Wind Energy Ltd.	2	100	Power generation
Coolkeeragh ESB Ltd.	5	100	Power generation
ESBII UK Ltd.	4	100	Holding company
ESBI Luxembourg S.A.	12	100	Holding company
Power Generation Technology Snd. Bhd.	13	100	Power generation
Facility Management UK Ltd.	4	100	Facility management
ESBI Georgia Ltd.	14	100	Transmission management
Marchwood Power Development Ltd.	4	100	Power generation
Knottingley Power Ltd.	4	100	Power generation
Mountainlodge Power Ltd.	1	85.9	Power generation
Tullynahaw Power Ltd.	1	100	Power generation
Woodhouse Windfarm Ltd. (formerly Boleywind Ltd.)	1	100	Power generation
ESB Trading Ltd. (formerly Blackwind Ltd.)	1	100	Power generation
Kobai Ltd.	1	100	Power generation
Orliven Ltd.	1	100	Power generation
Cappawhite Ltd.	1	100	Power generation
Waterfern Ltd.	1	100	Power generation
Hunter's Hill Wind Farm Ltd.	5	100	Power generation
ESB Wind Development Ltd.	2	100	Power generation
ESB Asset Development UK Ltd. (formerly ESB Wind Development UK Ltd.)	4	100	Power generation

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Indirect subsidiary (continued)			
ESB Commercial Properties Ltd.	1	100	Property management
Crockagarran Wind Farm Ltd.	5	100	Power generation
West Durham Wind Farm Ltd.	4	100	Power generation
West Durham Wind Farm Holdings Ltd.	4	100	Power generation
West Durham Wind Farm Holdings 2 Ltd.	4	100	Power generation
Devon Wind Power Ltd.	4	100	Power generation
Synergen Power Ltd.	15	100	Power generation
ESB Novusmodus GP Ltd.	2	100	Clean technology investment
Airvolution Energy Ltd. (UK)	7	90	Power generation
Airvolution Energy (Garlenick) Ltd.	7	90	Power generation
Airvolution Energy (Wythegill) Ltd.	7	90	Power generation
Airvolution Energy (East Youlstone) Ltd.	7	90	Power generation
Airvolution Energy (M1J18) Ltd.	7	90	Power generation
Airvolution Energy (Mossmorran) Ltd.	16	90	Power generation
Airvolution Energy (Potato Pot) Ltd.	7	90	Power generation
Airvolution Energy (Demming) Ltd.	7	90	Power generation
Airvolution Energy (Shotts) Ltd.	7	90	Power generation
Airvolution Energy (Park Farm) Ltd.	7	90	Power generation
Airvolution Energy (Hafod-Y-Dafal) Ltd.	7	90	Power generation
Airvolution Energy (Agney Farm) Ltd.	7	90	Power generation
Airvolution Energy (Rawcliffe Bridge) Ltd.	7	90	Power generation
Airvolution Energy (New Rides Farm) Ltd.	7	90	Power generation
Airvolution Energy (Junction 2A) Ltd.	7	90	Power generation
Airvolution Energy (Biglis Farm) Ltd.	7	90	Power generation
Airvolution Energy (Blaeduad) Ltd.	7	90	Power generation
Airvolution Energy (Glenstockdale) Ltd.	7	90	Power generation
Airvolution Energy (Muircleugh) Ltd.	7	90	Power generation
Airvolution Energy (Scottow) Ltd.	7	90	Power generation
Airvolution Energy (Pan Lane) Ltd.	7	90	Power generation
Airvolution Energy (Park Hall) Ltd.	7	90	Power generation
Airvolution Energy (Blakemore) Ltd.	7	90	Power generation
Airvolution Energy (Carr Ban Wind Farm) Ltd.	7	90	Power generation
Airvolution Energy (Church House Farm) Ltd.	7	90	Power generation
Airvolution Energy (Hartwood Hill) Ltd.	7	90	Power generation
Airvolution Energy (Kinegar) Ltd.	7	90	Power generation
Airvolution Energy (Lancarr) Ltd.	7	90	Power generation
Airvolution Energy (Middle Balbeggie) Ltd.	7	90	Power generation
Airvolution Energy (Pals Bodewyrd Farm) Ltd.	7	90	Power generation
Airvolution Energy (RCW) Ltd.	7	90	Power generation
Airvolution Energy (Washpit Drove) Ltd.	7	90	Power generation
Airvolution Energy (West Scales) Ltd.	7	90	Power generation
Airvolution Energy (Wilton) Ltd.	7	90	Power generation
Airvolution Energy (Swan Valley) Ltd.	7	90	Power generation
ESB 1927 Ltd. (formerly ESB 1927 Properties Ltd.)	2	100	Property management
ESBI Carbon Solutions Ltd.	1	100	Carbon emissions reduction
ESB Independent Generation Trading Ltd.	1	100	Electricity and gas trading
Carrington Power Ltd.	4	100	Power generation
Northern Ireland Electricity Ltd.	6	100	Power transmission and distribution
NIE Networks Services Ltd. (formerly NIE Powerteam Ltd.)	6	100	Infrastructure contracting

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Indirect subsidiary (continued)			
Capital Pensions Management Ltd.	6	100	Pension scheme administration
NIE Ltd.	6	100	Dormant company
NIE Generation Ltd.	6	100	Dormant company
Cambrian Renewable Energy Ltd.	5	100	Power generation
EC02 Cambrian Ltd.	4	100	Power generation
Curryfree Wind Farm Ltd.	5	100	Power generation
Mount Eagle Wind Farm Ltd.	1	100	Power generation
Garvagh Glebe Power Ltd.	1	100	Power generation
Corby Power Ltd.	3	100	Power generation
NIE Finance PLC	6	100	Finance
Non-controlled subsidiary undertaking			
ESB ESOP Trustee Ltd.	17	100	Staff shareholding scheme
Equity accounted investees			
Oweninny Power Ltd.	1	50	Power generation
Emerald Bridge Fibres Ltd.	1	50	Telecommunications
UNES Operation and Maintenance Inc.	18	50	Operation & maintenance services
Evolve Structuring Services Ltd.	2	50	Fibre to the Building
Associate undertakings			
Pesaka Technologies	19	30	Power generation

ESB's principal place of business is 27 Lower Fitzwilliam Street, Dublin 2.

Notes:

1	Stephen Court, 18-21 St Stephen's Green, Dublin 2
2	27 Lower Fitzwilliam Street, Dublin 2
3	Mitchell Road, Phoenix Parkway, Corby, Northamptonshire N17 1Q7
4	Tricor , 4th Floor, 50 Mark Lane, London, EC3R 7QR
5	2 Electra Road, Maydown, Derry BT47 6UL
6	120 Malone Road, Belfast BT9 5HT
7	Palladium House, 1-4 Argyll Street, London, W1F 7TA
8	Clanwilliam House, Clanwilliam Place, Dublin 2
9	58 Upper Mount Street, Dublin 2
10	Symphony House Block D13, Pusat Dagangan Dana1, Jalan PJU 1A/46, 43701 Petaling Jaya, Malaysia
11	Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam Zuidoost, The Netherlands
12	65 Boulevard Grand, Duchesse Charlotte, L-1391 Luxembourg
13	10th Floor, Wisma Havela, Thakardos, No 1 Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia
14	39 Gamsakhurdia Ave, Suite 42 Tbilisi, Georgia
15	Power Plant, Pigeon House Road, Ringsend, Dublin 4
16	50 Lothian Road, Festival Square, Edinburgh, Scotland EH3 9WJ
17	43 Merrion Square, Dublin 2
18	Nispetiye Cad.Akmerkez E3, Blok K.13 Etiler/Besiktas, Turkey
19	Level 1 Menara Yayasan, Tun Razak Zoo, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia

Report of Board Members on Compliance with the Prompt Payment of Accounts Act, 1997 and European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002)

Introduction

Payments terms during 2014 were governed by two items of legislation:

- The Prompt Payment of Accounts Act, 1997
- European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002) to combat late payments in commercial transactions. These Regulations apply to contracts for goods and services supplied to ESB by EU-based suppliers

Statement of payment practices including standard payment periods

ESB operates a policy of paying all undisputed supplier invoices within the agreed terms of payment. The standard terms specified in the standard purchase order are net monthly. Other payment terms may apply in cases where a separate contract is agreed with the supplier.

Compliance with the legislation

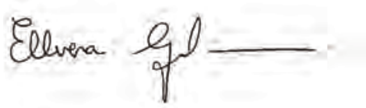
ESB complies with the requirements of the legislation in respect of external supplier payments within the EU in all material respects.

Procedures and controls in place

Appropriate internal financial controls have been implemented including clearly defined roles and responsibilities. These procedures provide reasonable but not absolute assurance against material non-compliance with the legislation.

Details of interest payments in respect of 2014

When ESB receives a request from the supplier, it is ESB's policy to pay interest due on late payments. No such payments were made in respect of late payments during the year 2014 (2013: €nil).



Ellvena Graham
Acting Chairman

Pat O'Doherty
Chief Executive

24 February, 2015

01 STRATEGY AND PERFORMANCE
02 CORPORATE GOVERNANCE
03 FINANCIAL STATEMENTS

GLOSSARY

1. Anaerobic Digesters
The process of Anaerobic Digestion involves the breakdown of organic material by bacteria in an oxygen-free environment.

2. Appliance Calculator
The Appliance Calculator is an online calculator which estimates how much your home electrical appliances and lights cost to run and compares the cost of using appliances in different ways (e.g. washing clothes at 40 °C versus 60 °C).

3. Better Energy Programme (BER)
This programme was launched under the Government's Jobs Initiative, the 'Better Energy – The National Upgrade Programme' in May 2011. Its objective is to deliver a major increase in sustainable energy investments in upgrading existing buildings and facilities.

4. Business in the Community (BIC)
Business in the Community works with the largest companies in Ireland to help them develop, manage and measure their corporate social responsibility (CSR) and sustainability strategies.

5. Commission for Energy Regulation (CER)
The Commission for Energy Regulation is the independent regulator of the energy market in the Republic of Ireland.

6. Contracts for Difference (CFDs)
A contract for difference (CFD) is a contract between two parties, a buyer and a seller, stipulating that the buyer will pay to the seller the difference between the current value of an asset and its value at contract time. If the difference is negative, then the seller pays instead to the buyer.

7. Customer Contact Association Global Standard
Customer Contact Association Global Standard is a set of key principles which have been defined and agreed by industry experts and stakeholders designed to increase the reliability and effectiveness of the customer contact operation.

8. Customer Service Improvement Plan 2013 - 2016
The Plan is based on feedback from customers, and outlines ten key areas that the company will focus on over the period to 2016 to improve customer service.

9. EBITDA
Operating profit before interest, taxation, depreciation, amortisation and impairment.

10. Energy Wizard
The Energy Wizard is Electric Ireland's online home energy efficiency audit tool. The Energy Wizard develops Energy Saving recommendations personalised to each home, using a series of questions.

11. Environmental Protection Agency (EPA)
The Environmental Protection Agency is an independent public body established under the Environmental Protection Agency Act, 1992. It is at the front line of environmental protection and policing.

12. 4You Safety
4You Safety programme is an initiative, focusing on behavioural change, which aims to enhance the health and safety culture of the organisation and to support staff in the development of non-technical skills for safety. 4You tools available include safety culture assessments, safety leadership behaviour questionnaires, safety leadership and workforce programmes and workshops, and 4You safety coaching.

13. Fibre to the Building (FTTB)
The Fibre to the Building Project is a nationwide project, which will deliver fibre broadband with upload and download speeds of up to 1 Gb/s to over half a million premises countrywide using existing ESB overhead and underground infrastructure.

14. Great Britain (GB)
England, Wales and Scotland

15. Gigawatt (GW)
Gigawatt, being the amount of power equal to 1 billion watts.

16. Gigawatt Hours (GWh)
Gigawatt hours, being the amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

17. Impairment
An impairment charge is determined when the carrying value (book value) of assets exceeds its recoverable amount.

18. Joint Equality Council
The Joint Equality Council is a joint body drawn from representatives from ESB management and the Group of Unions to promote equality and diversity.

GLOSSARY

19. Joint Venture
A company or other equity which is controlled jointly between parties.

20. Liquefied Natural Gas (LNG)
Liquefied natural gas, a clear, colourless, non-toxic liquid that forms when natural gas is cooled to -162°C (-260°F).

21. Lost Time Injuries (LTI)
A work related injury causing an absence for one or more working days, counting from the day after the injury, before the person returns to normal or restricted work.

22. Megawatt (MW)
Megawatt, being the amount of power equal to 1 million watts.

23. Megawatt Hours (MWh)
Megawatt hours, being the amount of energy equivalent to delivering 1 million watts of power for a period of one hour.

24. National Broadband Plan
This Plan sets out the strategy to deliver high speed broadband throughout Ireland.

25. National Smart Metering Programme
The CER, working closely with the Department of Communications, Energy and Natural Resources (DCENR), established the National Smart Metering Programme (NSMP) in late 2007.

26. NER 300 Funding
NER 300 is one of the world's largest funding programmes for innovative low carbon energy demonstration projects. The programme is conceived as a catalyst for the demonstration of environmentally safe carbon capture and storage (CCS) and innovative renewable energy (RES) technologies on a commercial scale within the European Union.

27. Nest
The Nest Learning Thermostat gives precise control of the temperature and creates a personalised heating schedule for the home.

28. Northern Ireland Utility Regulator (NIAUR)
The Utility Regulator is responsible for regulating the electricity, gas, water and sewerage industries in Northern Ireland.

29. UK Office of Gas and Electricity Markets (Ofgem)
The UK office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

30. OHSAS 18001
OHSAS 18001 Occupational, Health and Safety Management Certification is an international standard which provides a framework to identify, control and decrease the risks associated with health and safety within companies.

31. Over the Counter Trading Platform
Financial instruments (specifically electricity price contracts) which enable participants in the SEM to reduce their risk (and therefore electricity price volatility for their customers) by trading these products directly (over the counter) with each other, rather than via an intermediary or through an exchange, in order to hedge their exposure to movements in the wholesale price of electricity.

32. PAS 55
PAS 55 is the British Standards Institution (BSI) publically available specification for the optimised management of physical assets. It provides clear definitions and requirements specification for establishing and verifying a joined-up, optimised and whole-life management system for all types of physical assets.

33. Performance Improvement Programme (PIP)
The Performance Improvement Programme, which was launched during 2009, is designed to reduce the ESB cost base by €280 million, on a controllable cost base of €1.1 billion, by 2015, including a 20% reduction in payroll costs.

34. PowerCheck App
PowerCheck app provides real time information to customers regarding planned and unplanned power supply interruptions, including projected restoration times.

35. Price Review 4 (PR4)
Regulatory periods are of 5 years' duration and the Price Review covers the period 2016 to 2020 and sets out the total regulated allowed revenues over that period as determined by the Commission for Energy Regulation (CER).

GLOSSARY

36. Regulatory Period 5 (RP5)
Regulatory periods are of 5 years' duration and Regulatory Period 5 covers the period 1 April 2012 to 31 March 2017 as determined by the Utility Regulator in Northern Ireland.

37. Retail Price Index (RPI)
The UK Retail Price Index as published by the Office for the National Statistics.

38. Single Electricity Market (SEM)
The Single Electricity Market is a wholesale pool-based electricity market operating north and south of the Irish Border.

39. Single Electricity Market Operator (SEMO)
The SEM is operated by SEMO, a joint-venture between EirGrid and SONI, the transmission system operators in Ireland and Northern Ireland respectively.

40. Smart Grid
A transformed electricity transmission and distribution network or Grid that uses robust two-way communications, advanced sensors and distributed computers to improve the efficiency, reliability and safety of power delivery and use.

41. Smart Meters
Smart meters are the next generation of energy meter. They will replace the traditional electricity and gas meters removing the need for a home visit to read the meter and will eliminate the need to use estimates whenever a meter cannot be read.

42. Solar Photovoltaic
This is the term for technology used to convert the sun's radiation directly into electricity. The basis of the technology is the solar cell, which consists of layers of a semi conductor material which generates electric current when irradiated with the sun's energy. Solar photovoltaic is a clean renewable energy source.

43. STEPS Programme
Engineers Ireland's STEPS programme was established in 2000 to encourage primary and post-primary students to explore the world of science and engineering. The value of the programme has been formally recognised by Government and is a key element of Science Foundation Ireland's (SFI) Discover Programme, formerly known as Discover, Science and Engineering.

44. Sustainable Energy Authority of Ireland (SEAI)
The Sustainable Energy Authority of Ireland was established as Ireland's national energy authority under the Sustainable Energy Act 2002.

45. System Operator for Northern Ireland (SONI)
The System Operator for Northern Ireland ensures the safe, secure and economic operation of the high voltage electricity grid in Northern Ireland and in co-operation with EirGrid is also responsible for running the all-island wholesale market for electricity.

46. System Marginal Price (SMP)
The wholesale price of electricity for each half hour period.

47. UK Competition and Markets Authority (CMA)
The UK Competition and Markets Authority is an independent non-ministerial Government department in the United Kingdom (UK), to promote competition for the benefit of consumers, both within and outside the UK.

48. United Kingdom (UK)
England, Wales, Scotland and Northern Ireland.

49. Up-rating
Changing the conductor, the towers or the voltage of an overhead line to increase its power-carrying capability.

50. Vertically Integrated Utility (VIU)
The Vertically Integrated Utility refers to ESB's presence within and ownership of, assets across all of the elements of the electricity value chain including the generation, trading, transmission, distribution and supply of power to customers.

Notes

Notes

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