



ESB Finance Limited

Directors' report and
financial statements

for year ended 31 December 2012

Registered number: 465172



ESB Finance Limited

Directors' report and financial statements

Contents

	<i>Page</i>
Directors and other information	1
Directors' report	2 - 4
Statement of directors' responsibilities in respect of the directors' report and financial statements	5
Independent auditor's report	6 - 7
Statement of accounting policies	8 - 10
Statement of comprehensive income	11
Statement of financial position	12
Statement of cash flows	13
Statement of changes in shareholder's equity	14
Notes forming part of the financial statements	15 - 23



ESB Finance Limited

Directors and other information

Directors Deirdre Cowler
Justin Johnston
Paul Stapleton
Susan McCarthy (appointed 26/09/2012)

Secretary John Redmond

Auditors KPMG
Chartered Accountants
1 Stokes Place
St. Stephen's Green
Dublin 2

Bankers National Irish Bank
1 Airton Close
Airton Road
Tallaght
Dublin 24

Solicitors McCann Fitzgerald
Riverside One
Sir John Rogerson's Quay
Dublin 2

Registered office 27 Lower Fitzwilliam Street
Dublin 2

ESB Finance Limited

Directors' report

The directors present their annual report and audited financial statements of the company for the year ended 31 December 2012.

Principal activities

ESB Finance Limited is a wholly owned subsidiary of the Electricity Supply Board (“ESB” or “parent entity”). The principal activity of the company is the issue of loan notes and the provision of funding to undertakings in the ESB group. The directors have no plans to significantly change the activities and operations of the company in the foreseeable future.

Review of the business and future developments

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

- In March 2010, ESB Finance Limited issued a £275 million 10 year Eurobond with a fixed coupon of 6.5% under the ESB and ESB Finance Limited €3.0 billion Euro Medium Term Note (EMTN) Programme, which is fully, irrevocably and unconditionally guaranteed by ESB. The retention of this coupon rate is dependent on ESB obtaining an investment grade rating. In January 2011 ESB received ratings from Standard & Poor, Moodys and Fitch of BBB+, Baa1 & BBB + respectively.
- A 1-year £810 million Bridging Facility with an optional 1 year extension was raised to finance the acquisition of NIE by ESB Group which was completed in December 2010. ESB Finance Limited is the original borrower on this Facility. In December 2010, ESB Finance Limited drew down £571 million of this Bridging Facility which was outstanding at 31 December 2010. The credit facility was partly repaid in June 2011 with the outstanding balance being re-financed in September 2011 under a new Syndicated Term Facility. The company loaned the funds raised to fellow group companies for a market rate of return.
- In September 2012, ESB Finance Limited issued a €600m 5 year Eurobond with a fixed coupon of 6.25% under the ESB and ESB Finance Limited €3.0 billion Euro Medium Term Note (EMTN) Programme, which is fully, irrevocably and unconditionally guaranteed by ESB. The receipt of these funds triggered the mandatory re-payment of the Syndicated Term Facility (£223 million), the re-payment of such was re-financed by a drawdown from the Bridging Facility.
- In November 2012, ESB Finance Limited issued a €500m 7 year Eurobond with a fixed coupon of 4.375% under the ESB and ESB Finance Limited €3.0 billion Euro Medium Term Note (EMTN) Programme, which is fully, irrevocably and unconditionally guaranteed by ESB.
- In November 2012, ESB Finance Limited re-paid the balance on the Bridging Facility following the receipt of intercompany funds from ESB.
- In December 2012, ESB Finance Limited entered into interest rate swaps on the £275 million Eurobond which was swapped to floating for the remaining term of the loan. ESB Finance Limited then entered back to back interest rate swaps with ESBNI Limited, on which they charged a margin. These swaps were entered into in order to hedge interest rate risk from the ESB Group perspective.
- In January/ February 2013, ESB received revised ratings from Standard & Poor, Moodys and Fitch of BBB+ (stable outlook).

The parent undertaking, ESB, and certain of its subsidiaries have guaranteed the borrowings of the company.

ESB Finance Limited

Directors' report *(continued)*

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

The key risks and uncertainties facing the company include events or occurrences which would result in the requirement to repay debt. The company considers the possibility of such a situation arising to be remote owing to continued parent entity support. Further disclosures in relation to financial risks are given in note 9 to the financial statements. The company is ultimately dependent on its parent entity. Accordingly, the principal risks and uncertainties pertain to the parent entity's continued ability to generate sufficient cash and liquid resources to meet its liquidity requirements for the foreseeable future and consequently to fund its contractual commitments in respect of the borrowings as they fall due.

Going concern

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

Results and dividends

The results for the period are set out on page 11. The directors do not recommend the payment of a dividend.

Directors and secretary and their interests

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

On 2 August 2012 Ronan Sheehy resigned as director of ESB Finance Limited. Susan McCarthy was appointed director on 26 September 2012. On 27 February 2013 Susan McCarthy resigned as director of ESB Finance Limited and Joe Lawlor was appointed director.

The directors and secretary who held office at 31 December 2012, or subsequently, held no interests in the shares of the company or group companies at the beginning or end of the period, other than their entitlements under the ESB ESOP.

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

The Board of Directors are responsible for ensuring that appropriate internal control and risk management procedures relating to the financial reporting process are in place. Those systems are designed to manage, rather than eliminate, risks and can provide only reasonable, not absolute, assurance against material misstatement or loss.

The company has procedures to ensure all relevant accounting records are properly maintained and are readily available, including production of annual financial statements. The annual financial statements of the company are required to be approved by the Board of Directors of the company and filed with the Irish Stock Exchange.

The company's parent entity, ESB, provides secretarial and accountancy services to the company. ESB complies with the Code of Practice for the Governance of State Bodies and, as far as possible, with the UK Corporate Governance Code. ESB has developed and maintains policies and systems to identify, monitor and control risk arising in respect of its activities. The Board of Directors also considers and evaluates any reports by independent auditors concerning the operation of controls over its financial accounting and reporting process.



ESB Finance Limited

Directors' report *(continued)*

Political donations

The company made no political donations during the year and complied with the Electoral Act, 1997.

Accounting records

The directors believe that they have complied with the requirements of Section 202 of the Companies Act, 1990 with regard to books of account by employing, through its parent undertaking, accounting personnel with appropriate expertise and by providing adequate resources to the finance function. The books of account of the company are maintained at the company's registered office, at 27 Lower Fitzwilliam Street, Dublin 2.

Auditors

In accordance with Section 160(2) of the Companies Act, 1963, KPMG, Chartered Accountants will continue in office.

On behalf of the board


Paul Stapleton
Director


Deirdre Cowler
Director

28 May 2013

ESB Finance Limited

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

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

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

The financial statements are required by law and IFRSs, as adopted by the EU, to present fairly the financial position and performance of the company. The Companies Acts 1963 to 2012 provide in relation to such financial statements that references in the relevant part of those Acts to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the EU and the Companies Acts 1963 to 2012; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2012. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a directors' report that complies with the requirements of the Companies Acts 1963 to 2012.

On behalf of the board



Paul Stapleton
Director



Deirdre Cowler
Director

28 May 2013



KPMG
Chartered Accountants
1 Stokes Place
St. Stephen's Green
Dublin 2
Ireland

ESB Finance Limited

Independent auditor's report to the members of ESB Finance Limited

We have audited the financial statements ('financial statements') of ESB Finance Limited for the year ended 31 December 2012 which comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in shareholder's equity and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5 the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012.



ESB Finance Limited

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

Matters on which we are required to report by the Companies Acts 1963 to 2012

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

The financial statements are 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 directors' report is consistent with the financial statements.

The net assets of the company, as stated in the statement of financial position are not more than half of the amount of its called-up share capital and, in our opinion, on that basis there did exist at 31 December 2012 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2012 which requires us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

Patricia Carroll
For and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
Dublin, Ireland

[28 May] 2013

ESB Finance Limited

Statement of accounting policies

For the year ended 31 December 2012

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

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

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU. The financial statements have been prepared in accordance with the IFRS standards and interpretations issued and effective as at 31 December 2012. There are a number of new accounting standards which will be applicable to the company with effect from the year beginning 1 January 2013. However, none are expected to have a material impact on the financial statements

New accounting standards in the year

There were no new accounting standards in the year which had an impact on these financial statements.

Basis of preparation

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

The preparation of the financial statements in conformity with IFRSs, as adopted by the EU, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and the associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects current and future periods.

Going concern

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

ESB Finance Limited

Statement of accounting policies (continued)

Financial instruments

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

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

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

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

Cash and cash equivalents

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

Loans to/ receivables from group companies and loans from group companies

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

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

Impairment

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

Loans and borrowings

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

ESB Finance Limited

Statement of accounting policies *(continued)*

Finance income and expense

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

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

Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, based on tax rates that are expected to be applied using rates enacted or substantively enacted at the reporting date.

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

Foreign currency transactions

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



ESB Finance Limited

Statement of comprehensive income for the year ended 31 December 2012

	Note	31 December 2012 €'000	31 December 2011 €'000
Finance income	1	46,461	29,648
Finance expense	1	(45,922)	(30,150)
Net finance expense		539	(502)
Other income/ (expenses)	2	(943)	(525)
Loss before taxation	3	(406)	(1,027)
Income tax credit	4	101	257
Loss for the period		(305)	(770)
Loss attributable to equity shareholders		(305)	(770)

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

On behalf of the board

Paul Stapleton
Director

28 May 2013

Deirdre Cowler
Director




ESB Finance Limited

Statement of financial position

as at 31 December 2012

	Note	2012 €'000	2011 €'000
Non-current assets			
Deferred tax asset	5	3,419	3,318
Derivative financial instrument		623	-
Loans to related party undertakings	6	1,433,741	617,357
Total non-current assets		1,437,783	620,675
Current assets			
Receivables from related party undertakings	6	38,411	1,193
Total current assets		38,411	1,193
Total assets		1,476,194	621,868
Equity			
Share capital	10	-	-
Retained earnings		(10,259)	(9,954)
Shareholder's deficit		(10,259)	(9,954)
Non-current liabilities			
Loans and borrowings	8	1,427,879	611,657
Derivative financial instrument	9	616	-
Total non-current liabilities		1,428,495	611,657
Current liabilities			
Loans from related party undertakings	7	25,946	1,722
Trade and other payables	7	32,012	18,443
Total current liabilities		57,958	20,165
Total Liabilities		1,486,453	631,822
Total equity and liabilities		1,476,194	621,868

On behalf of the board


Paul Stapleton
Director
28 May 2013


Deirdre Cowler
Director



ESB Finance Limited

Statement of cash flows

for the year ended 31 December 2012

	2012	2011
	€'000	€'000
Cash flows from operating activities		
Loss after taxation for the period	(305)	(770)
<i>Adjust for:</i>		
Income tax charge / (credit)	(101)	(257)
Operating loss before changes in working capital and provisions	(406)	(1,027)
(Increase)/ decrease in loans and other receivables	(853,602)	362,094
Increase/ (decrease) in loans and other payables	854,015	(361,475)
	7	(408)
Interest received	30,120	3,375
Interest paid	(30,127)	(2,967)
Net cash outflow from operating activities	-	-
Cash flows from financing activities		
Issue of share capital	-	-
Net cash from financing activities	-	-
Net increase/ (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at the date of incorporation	-	-
Cash and cash equivalents at 31 December 2012	-	-

ESB Finance Limited

Statement of changes in shareholder's equity for the year end 31 December 2012

	* Share Capital €'000	Retained earnings €'000	Total €'000
At beginning of year	-	(9,184)	(9,184)
Loss for the year	-	(770)	(770)
At 31 December 2011	-	(9,954)	(9,954)
At beginning of year	-	(9,954)	(9,954)
Loss for the year	-	(305)	(305)
At 31 December 2012	-	(10,259)	(10,259)

* During 2010, the company issued one ordinary share for consideration of €1. This share was allotted to Electricity Supply Board.

ESB Finance Limited

Notes

forming part of the financial statements

1 Net finance expense

	2012 €'000	2011 €'000
Finance income		
Interest on loans to parent undertaking	22,929	6,046
Interest on loans to group undertaking	23,525	23,602
Fair value gain on interest rate swap	7	-
	<u>46,461</u>	<u>29,648</u>
Finance expense		
Interest on bank borrowings	(10,140)	(9,139)
Interest payable on Eurobond	(35,782)	(21,011)
	<u>(45,922)</u>	<u>(30,150)</u>
Net finance expense	<u>(539)</u>	<u>(502)</u>

The interest rate swaps do not qualify for hedge accounting under IAS39 and accordingly fair value movements are recognised in the income statement.

2 Other income/ (expenses)

	2012 €'000	2011 €'000
Foreign currency (gains)/ losses	943	525
Total	<u>943</u>	<u>525</u>

3 Statutory and other information

Loss before taxation is stated after charging:

	2012 €'000	2011 €'000
Auditor's remuneration, including expenses	-	-
Directors' fees	-	-

The company had no directly hired employees during the period and hence incurred no direct labour costs. The directors received no remuneration for their services to the company. Audit fees of €5,000 including expenses (2011: €5,000) were paid by the company's parent undertaking without recourse to the company.

ESB Finance Limited

Notes (continued)

4 Taxation on profit on ordinary activities

	2012 €'000	2011 €'000
Reconciliation of effective tax rate:		
Loss before taxation	(406)	(1,027)
Tax (charge)/ credit at 25%	<u>101</u>	<u>257</u>

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

5 Deferred tax

	2012 €'000	2011 €'000
Deferred tax	<u>3,419</u>	<u>3,318</u>
	<u>3,419</u>	<u>3,318</u>

The deferred tax asset of €3.4 million at 31 December 2012 relates to losses forward of €13.7 million available for offset against taxable profits in the future. The tax losses do not expire under current tax legislation. The directors believe that it is probable that these losses forward will be utilised in the future by way of offset against future taxable profits of the company.

6 Loans to related party undertakings

	2012 €'000	2011 €'000
Amounts owed from parent undertaking – current (Note 12)	19,315	1,193
Amounts owed from fellow group undertaking – current (Note 12)	19,096	-
Amounts owed from parent undertaking – non-current (Note 12)	1,096,514	264,150
Amounts owed from fellow group undertaking – non-current (Note 12)	<u>337,227</u>	<u>353,207</u>
	<u>1,472,152</u>	<u>618,550</u>

At 31 December 2012 there was €19.3 million (2011: €0.4 million) interest accrued on amounts owed from parent undertaking and €19.1 million (2011: €22.3 million) interest accrued on amounts owed from a fellow group subsidiary undertaking.

ESB Finance Limited

Notes (continued)

7 Trade and other payables

	2012 €'000	2011 €'000
Accrued interest	32,012	18,281
Fee accruals	-	162
Amounts owed to parent entity (Note 12)	25,946	1,722
	<u>57,958</u>	<u>20,165</u>

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

8 Loans and borrowings

	2012 €'000	2011 €'000
Non-current borrowings repayable between one and five years (Eurobond)	927,879	286,300
Non-current borrowings repayable after five years (Eurobond)	500,000	325,357
	<u>1,427,879</u>	<u>611,657</u>

The total outstanding principal of borrowings was €1,437m (2011: €617.8m) at 31 December 2012 and has been recorded net of unamortised financing costs of €9.1m (2011: €6.2m).

For information and disclosure on the company's exposure to interest rate and liquidity risks see note 9. The following table summarised the terms of the outstanding borrowings as at 31 December:

Facility	Repayable	Interest	2012 €'000	2011 €'000
€275m 10 year Eurobond	March 2020	6.50%	336,969	329,223
€600m 5 year Eurobond	September 2017	6.25%	600,000	-
€500m 7 year Eurobond	November 2019	4.38%	500,000	-
Deferred financing costs and unamortised debt issuance discount			(9,086)	(6,179)
Bridging Facility/ Syndicated Term Facility			-	288,613
Total			<u>1,427,879</u>	<u>611,657</u>

ESB Finance Limited

Notes *(continued)*

9 Financial instruments and risk management

Interest rate risk

In March 2010, ESB Finance Limited issued a £275 million 10 year Eurobond with a fixed coupon of 6.5% under the ESB and ESB Finance Limited €3.0 billion Euro Medium Term Note (EMTN) Programme, which is fully, irrevocably and unconditionally guaranteed by ESB. The retention of this coupon rate was dependent on ESB obtaining an investment grade rating. As at 31 December 2012, ESB BBB+ from Standard & Poor's and Fitch and Baa3 from Moody's respectively. The outlook on each of the three agencies at year end was negative, largely associated with the negative outlook placed on the Irish sovereign rating by each of the agencies. On 31 January 2013, Fitch revised ESB's credit rating from BBB+ (Negative outlook) to BBB+ (Stable outlook) and on 13 February 2013, Standard & Poor's also revised ESB's credit rating from BBB+ (Negative outlook) to BBB+ (Stable outlook). Such rating changes have had no impact on the fixed rate of interest payable on the Eurobond. The Company has lent the proceeds, from the issuance of the Eurobond, to ESBNI limited (a fellow group subsidiary) at a margin of 0.35%, which the directors believe to be a market rate of return. This loan to ESBNI is repayable in 2020, with matching terms to that of the external Eurobond loan note.

A 1-year £810 million Bridging Facility with an optional 1 year extension was raised to finance the acquisition of NIE by ESB Group which was completed in December 2010. ESB Finance Limited is the original borrower on this Facility. In December 2010, ESB Finance Limited drew down £571 million of this Bridging Facility. In June 2011, ESB Finance Limited re-paid £359 million of this facility upon part re-payment of intercompany debt due from ESBNI Limited. In September 2011, ESB Finance Limited re-financed this debt and repaid the outstanding balance on the then outstanding Bridging Facility following the receipt of funds, in the amount of £223 million from a new 3 year Stg£307.5 million Syndicated Term Facility. The Syndicated Term Facility is repayable in 2014, and charged interest at a variable rate linked to LIBOR at a margin of 0.3%. The proceeds from this loan were lent by the Company to its parent, ESB, at a market rate of return. Such loan notes due from ESB are repayable in 2014, with matching terms to that of the external syndicated Term Facility.

In September 2012, ESB Finance Limited issued a €600.0 million 5 year Eurobond with a fixed coupon of 6.25%. The 3 year Stg£307.5 million Syndicated Term Facility signed in September 2011 was repaid from the proceeds of the bond issue with the remaining funds being loaned to ESB for five years at a margin of 0.01%. In November 2012, ESB Finance Limited issued a €500 million 7 year Eurobond with a fixed coupon of 4.375%. The bond proceeds were loaned to ESB for seven years at a margin of 0.01%. Loans to ESB have matching terms to that of the external Eurobond loan note.

In managing interest rate risk, ESB Finance Limited aims to reduce the impact of short term fluctuations on the Group's earnings. In December 2012, ESB Finance Limited entered into floating to fixed interest rate swaps with a notional amount of £275 million and a settlement date of March 2020 as part of the wider ESB Group hedging position. ESB Finance Limited also immediately entered back to back interest rate swaps with ESBNI Limited to effectively eliminate the Company's interest rate exposure on these derivatives. Over the longer term, however, permanent changes in interest rates will have an impact on the company's earnings. It is estimated that a general increase of 50 basis points in interest rates at 31 December 2012 would have reduced equity and profit before taxation by approximately €0.1 million (2011: €0.1 million). A decrease of 50 basis points in interest rates would have an equal and opposite effect. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

ESB Finance Limited

Notes (continued)

9 Financial instruments and risk management (continued)

Foreign currency risk

Foreign currency exposures arise mainly on the translation of foreign currency denominated liabilities and receivable balances into euro, which is the company's functional currency. As the principal activity of the company is the provision of funding to entities in the ESB Group, such exposures are managed by matching the currency of borrowings, secured externally or from other ESB Group companies, with the currency of amounts advanced to such undertakings and included within trade and other receivables. The foreign currency expense for the year is primarily due to recognised exchange losses on short term funding under the Syndicated Term Facility which was not matched by loans to other group entities.

At 31 December 2012, ESB Finance Limited's debt portfolio (including accrued interest) amounted to €1.4 billion. The net currency exposure at 31 December was as follows:

	Denominated in Euro 2012 €'000	Denominated in Sterling 2012 €'000	Total 2012 €'000
Included in trade and other payables	13,964	18,048	32,012
Included in amounts owed to related party undertakings	3,918	22,028	25,946
Included in borrowings	1,094,338	333,541	1,427,879
Total liabilities	1,112,220	373,617	1,485,837
Included in current and non-current assets	(1,112,243)	(359,909)	(1,472,152)
Net exposure	(23)	13,708	13,685
	Denominated in Euro 2011 €'000	Denominated in Sterling 2011 €'000	Total 2011 €'000
Included in trade and other payables	-	18,281	18,281
Included in borrowings	-	611,657	611,657
Total liabilities	-	629,938	629,938
Included in current and non-current assets	-	(618,550)	(618,550)
Net exposure	-	11,388	11,388

ESB Finance Limited

Notes (continued)

9 Financial instruments and risk management (continued)

Foreign currency risk (continued)

A 10% strengthening of the euro against sterling would have decreased equity and profit before taxation by the following amount. A 10% weakening of the euro would have had an equal but opposite effect.

	Equity /Profit before taxation	Equity /Profit before taxation
	Gain / (loss) 2012 €'000	Gain / (loss) 2011 €'000
10% Strengthening	571	1,035

Exposure to credit risk

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

	2012 €'000	2011 €'000
Loans to parent undertaking	1,096,514	265,343
Loans to fellow group undertaking	337,227	353,207
	1,433,741	618,550

Loans receivable above all relate to amounts due from fellow group undertakings. All of the exposures herein are to related entities, which currently have sufficient resources to repay. The overall group policy for managing exposure to credit risk is included in the consolidated financial statements of the parent company; ESB. The parent company's consolidated financial statements can be obtained from the company's registered office at 27 Lower Fitzwilliam Street, Dublin 2.

As at 31 December 2012 and 2011, no amounts were past due or impaired.

ESB Finance Limited

Notes (continued)

9 Financial instruments and risk management (continued)

Liquidity risk

The principal liquidity risks faced by the company relate to (i) the inability of ESB Group companies to repay loans and borrowings to ESB Finance Limited when the matching external borrowings fall due, (ii) to the cash flow requirements of parent and fellow group undertakings which ESB Finance Limited has been established to finance. It is intended to manage this risk through the raising of finance externally.

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

	Carrying Amount €'000	Contractual cash outflows €'000	Within 1 year €'000	1 – 2 years €'000	2 – 5 years €'000	After 5 years €'000
31 December 2012						
Borrowings	1,427,879	1,926,089	50,481	78,518	861,514	935,576
Trade & Other Payables	32,012	32,012	32,012	-	-	-
31 December 2011						
Borrowings	611,657	696,511	24,998	24,998	300,015	346,500
Trade & Other Payables	20,165	20,165	20,165	-	-	-

Fair values

The fair values of financial assets and liabilities are set out in the table below. The fair value of loans and borrowings (receivable and payable) has been calculated by reference to publicly available market values for ESB's debt.

	Carrying Value €'000	Fair value €'000
Loans and borrowings	(1,427,879)	(1,590,748)
Amounts owed to related party undertakings	(25,946)	(25,946)
Trade and other payables	(32,012)	(32,012)
Derivative financial instrument liabilities (Level 1)	(616)	(616)
Derivative financial instrument assets (Level 1)	623	623
Amounts owed from related party undertakings	1,472,152	1,625,846

ESB Finance Limited

Notes (continued)

10 Capital and reserves

On incorporation and at 31 December 2012 the authorised share capital comprised 1,000 ordinary shares of €1 each.

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

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

11 Commitments and contingencies

ESB Finance Limited has provided subsidiary company guarantees in respect of:

- a) Private placement senior unsecured notes issued in December 2003. These notes were issued in US dollars and sterling and comprise US\$951.5 million, maturing on dates between 2013 and 2023, and Stg£20.0 million, maturing on dates between 2018 and 2023.
- b) Private placement senior unsecured notes issued in June 2009. These notes were issued in US dollars, sterling and euro and comprise US\$301 million, maturing on dates between 2013 and 2019, Stg£85m maturing on dates between 2017 and 2021 and €50.0 million maturing on dates between 2014 and 2019.
- c) A €50.0 million 3 year bilateral facility drawn down in October 2011.

12 Related parties

ESB Finance Limited is a wholly owned subsidiary of the Electricity Supply Board, a statutory corporation established under the Electricity (Supply) Act 1927 and domiciled in Ireland. The consolidated financial statements of the Electricity Supply Board are available to the public and may be obtained from 27 Lower Fitzwilliam Street, Dublin 2.

Transactions with parent undertaking

During the year, the company recognised interest income of €22.9 million (2011: €6.1 million) (Note 1) on loans advanced to the parent undertaking (ESB). Interest accrued at 31 December 2012 on loans to parent undertaking is €19.3m (2011: €0.4m). At 31 December 2012, loans to the parent undertaking were €1.1 billion (2011: €265.3 million) (Note 6) and other payables due to the parent undertaking were €25.9 million (2011: €1.7 million) (Note 7).

Transactions with fellow group subsidiary undertaking

During the year, the company recognised interest income of €23.9 million (2011: €23.6m) (Note 1) on loans advanced to ESBNI Limited, a fellow group subsidiary undertaking. Interest accrued at 31 December 2012 is €19.1m (2011: €22.3m). At 31 December 2012, loans (excluding accrued interest) to ESBNI Limited amounted to €337.2 million (2011: €330 million) (Note 6).

The above transactions were entered into on an arm's length basis.

ESB Finance Limited

Notes *(continued)*

13 Segment information

Operating segments are reported in a manner consistent with the internal reports provided to the chief operating decision maker, identified as the directors of the company. The company is managed as a single business unit engaged in the issuance of loan notes and the investment of the net proceeds of the issue of these notes. Accordingly, the company operates in one reportable segment, and our directors assess the performance of the business from this perspective, based on the overall profit after tax of the company for the year. See note 9 for entity wide disclosures.

14 Approval of financial statements

The board of directors approved the financial statements on 28 May 2013.