Energy for generations

INTERIM FINANCIAL REPORT

For the period to 30 June 2017

esb.ie


STAY SAFE STAY
electric ireland
RSA

CONTENTS

FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FINANCE REVIEW JUNE 2017

FIGURE 1: FIVE-YEAR SUMMARY
SIX MONTHS TO 30 JUNE

	June 2017 € 'm	June 2016 € 'm	June 2015 € 'm	June 2014 € 'm	June 2013 € 'm
Revenue and other operating income[1]	**1,691**	1,647	1,720	1,654	1,724
Operating profit[1]	**297**	287	337	327	359
EBITDA[2]	**673**	638	690	665	680
Capital expenditure	**303**	356	405	450	296
	June 2017 € 'm	December 2016 € 'm	December 2015 € 'm	December 2014 € 'm	December 2013 € 'm
Net debt[3]	**4,416**	4,524	4,975	4,639	4,144
Gearing (%)[4]	**48%**	51%	55%	53%	48%
Total assets	**12,896**	12,907	13,157	12,973	12,782

[1] Before the following exceptional item: 2014: profit on disposal of investments in Bizkaia Energia SL (€38 million)
[2] EBITDA: operating profit before interest, taxation, depreciation and amortisation (including amortisation of supply contributions)
[3] Borrowings and other debt, net of cash and cash equivalents
[4] Net debt divided by the sum of net assets and gross debt (excluding joint ventures)

HIGHLIGHTS

OPERATING PROFIT:

€297 million
(€10 MILLION INCREASE ON JUNE 2016)

CAPITAL EXPENDITURE:

€303 million
(€53 MILLION DECREASE ON JUNE 2016)

DIVIDEND PAYMENTS:

€60 million[1]
(€30 MILLION INCREASE ON JUNE 2016)

[1]See note 16 in the interim financial statements for dividend details

FIGURE 2: SUMMARISED INCOME STATEMENT

	June 2017 € 'm	June 2016 € 'm
Revenue and other income	1,691	1,647
Operating costs	(1,394)	(1,360)
Operating profit	**297**	**287**
Total finance costs	(106)	(89)
Fair value movements on financial instruments	20	(120)
Share of equity accounted investees loss	(6)	(8)
Profit before tax	**205**	**70**
Tax charge	(32)	(6)
Profit after tax	**173**	**64**

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 note 4 of the interim financial statements. The Group operating profit of €297 million is set out below on a segmental basis.

- Generation and Wholesale Markets (G&WM) operating profit for 2017 at €87 million is down €24 million as a result of lower energy margin earned in the Single Electricity Market (SEM).
- ESB Networks operating profit for 2017 at €181 million is up €32 million due to higher regulated tariffs in 2017.
- Northern Ireland Electricity Networks (NIE Networks) operating profit for 2017 amounted to €19 million, up €4 million due to lower operating costs.
- Electric Ireland reported an operating profit of €46 million to 30 June 2017, down €11 million due to the impact of its price reduction and lower customer numbers.
- Other Segments include Innovation, Corporate Centre and the Business Service Centre which provide services to the business segments above.

This segment, which includes most of the financing costs of the Group, reported an operating loss of €36 million for 2017, €9 million improvement on 2016. This improvement relates to lower foreign exchange translation losses on sterling denominated intercompany positions.

CAPITAL EXPENDITURE

ESB Networks expenditure in 2017 of €141 million is down €7 million as a result of timing of spend on the transmission and distribution network systems.

Capital expenditure in G&WM in 2017 at €49 million is down €36 million. 2016 included the remaining investment costs associated with the construction of Carrington, the combined cycle gas turbine (CCGT) plant in Great Britain.

NIE Networks expenditure of €66 million in 2017 is down €10 million due to foreign exchange movements and timing of spend on transmission network systems.

NET DEBT AND GEARING

The decrease in net debt to €4.4 billion in 2017 from €4.5 billion in December 2016 reflects the positive EBITDA and the continued weakening of sterling impacting sterling denominated debt offset by continued capital investment programme, finance costs and tax payments.

The gearing level of 48% for 2017 has decreased 3% from December 2016 primarilly due to favourable foreign currency movements in sterling denominated debt and higher cash and cash equivalents.

FUNDING

Group Treasury's funding activities support ESB's substantial capital expenditure programme, the refinancing of maturing debt, and the maintenance of a sufficient liquidity buffer against future shocks. As such, these activities are of strategic importance to the Group, and more widely. ESB's Revolving Credit Facility provides standby liquidity of €1.44 billion for the period to January 2022. ESB issued a 12 year, €500 million fixed-rate bond at 1.750% in early 2017, maturing in February 2029. This was the lowest coupon on any of the bonds issued under ESB's Eurobond programme to date, and provided the Group with a significantly increased liquidity buffer during a period of significant political uncertainty. The proceeds have been used in part to repay the balance of the Group's September 2012 bond, which matured in September 2017, and to fund ESB's commitments under the 2010 Pension Agreement.

In recent years, Group Treasury has taken advantage of falling interest rates, and strong liquidity in the market, to reduce the average rate, and increase the average tenor, on the Group's debt portfolio. The weighted average interest rate on the Group's portfolio of outstanding borrowings at 30 June 2017 was 4.1%, and the weighted average duration of such borrowings as at that date was approximately seven years.

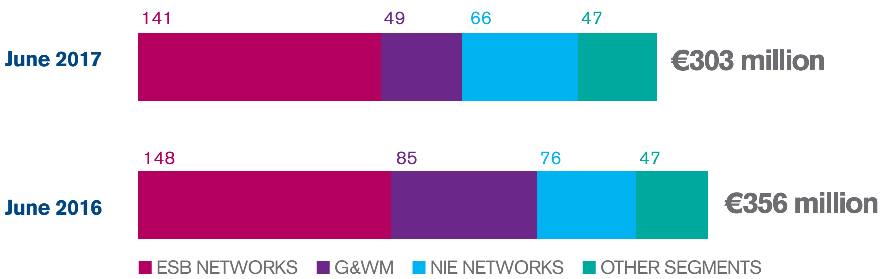
The recent weakness in sterling has reduced the proportion of the total debt portfolio represented by sterling denominated debt, to around 34% at 30 June 2017, compared to 40% at 30 June 2016. The Group's policy is to finance its euro denominated business by borrowing directly in euro or to convert any foreign currency borrowing to euro through the use of derivative instruments. Investments in the United Kingdom (UK) are generally funded by sterling denominated debt. ESB's risk management and hedging strategy is designed to protect key financial metrics from exchange rate volatility, and the impact that this can have on the carrying value of borrowings, and on reported earnings.

ESB's funding position reflects its underlying financial strength and credit ratings of A-, A3 and BBB+ with Standard & Poor's, Moody's and Fitch respectively. Standard & Poor's and Fitch re-affirmed their ratings during 2017, while Moody's rating was upgraded to A3 in September 2017. In the context of ESB's ongoing EBITDA performance, averaging over €1.3 billion per annum in recent years

FIGURE 3: SUMMARISED CASH FLOW STATEMENT

	June 2017 € 'm	June 2016 € 'm
EBITDA	673	638
Provision utilisation and other movements	(121)	75
Interest and tax	(134)	(146)
Net cash inflow from operating activities	**418**	**567**
Disposal proceeds	3	1
Capital expenditure	(307)	(332)
Other	(33)	-
Net cash outflow from investing activities	**(337)**	**(331)**
Net cash inflow / (outflow) from financing activities	**342**	**(48)**
Net increase in cash (before foreign exchange)	**423**	**188**

FIGURE 4: CAPITAL EXPENDITURE



and liquidity of €2.3 billion (between cash and undrawn committed facilities) at 30 June 2017, ESB's debt maturity profile does not pose significant risks to the Group. The Group continues to proactively manage its borrowings repayment profile and maintains its ability to fund in the future through close ongoing engagement with its banks, debt investors and credit rating agencies.

BREXIT

The full consequences of Brexit are likely to emerge over the next number of years. While this creates uncertainty, ESB will continue with prudent financial management of its UK assets, which are matched with sterling funding. ESB will continue to monitor the impacts from Brexit and other worldwide socio-political events and take prudent financial management actions, as appropriate, so as to protect ESB's financial strength.

INTEGRATED-SINGLE ELECTRICITY MARKET (I-SEM)

The future I-SEM due to go live in May 2018 presents a degree of uncertainty and will alter how the businesses in particular G&WM and Electric Ireland, earn revenues and manage risks. An I-SEM project has been established to ensure ESB is ready to respond to these changes.

PRINCIPAL RISKS AND OPPORTUNITIES

The Board of ESB is responsible for the Group's risk management and internal control systems, which are designed to identify, manage and mitigate potential material risks to the achievement of the Group's strategic and business objectives. The Board has approved a Risk Management Policy which sets out delegated responsibilities and procedures for the management of risk across the Group.

Following completion of the mid-year risk review process, it is confirmed that the principal risks and opportunities facing the Group, as set out on pages 20 to 23 of the 2016 annual report (together with the principal mitigation measures), continue to be the principal risks and opportunities facing the Group for the remaining six months of the financial year.

An additional risk has been identified for 2017, which is the ability of ESB Networks to meet the increase in infrastructure demand in Dublin.

This is not an exhaustive statement of all relevant risks and opportunities. Matters which are not currently known to the Board or events which the Board considers to be of low likelihood could emerge and give rise to material consequences. The mitigation measures that are maintained in relation to these risks are designed to provide a reasonable and not an absolute level of protection against the impact of the events in question.

RESPONSIBILITY STATEMENT OF THE BOARD MEMBERS IN RESPECT OF THIS INTERIM FINANCIAL REPORT

The Board members are responsible for preparing this Interim Financial Report including the Condensed Consolidated interim financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

We confirm that to the best of our knowledge and belief that the unaudited condensed consolidated set of financial statements for the six month period ended 30 June 2017, which comprise the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement, the Condensed Consolidated Statement of Changes in Equity and the related notes thereto, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

The Board members are responsible for the maintenance and integrity of the corporate and financial information included on the ESB website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

On behalf of the Board,

Ellvena Graham, Chairman

Pat O'Doherty, Chief Executive

27 September 2017

INDEPENDENT REVIEW REPORT TO THE ELECTRICITY SUPPLY BOARD (ESB)

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Our Conclusion

We have reviewed ESB's Condensed Consolidated interim financial statements (the interim financial statements) in the Interim Financial Report of ESB for the six month period ended 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

What we have reviewed

The interim financial statements, comprise:

- the Condensed Consolidated Balance Sheet as at 30 June 2017;
- the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Changes in Equity for the period then ended;
- the Condensed Consolidated Cash Flow Statement for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Financial Report have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

As disclosed in note 3 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of ESB is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

RESPONSIBILITIES FOR THE INTERIM FINANCIAL STATEMENTS AND THE REVIEW

Our responsibilities and those of the Board members

The Interim Financial Report, including the interim financial statements, is the responsibility of, and has been approved by, the Board members. The Board members are responsible for preparing the Interim Financial Report in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Financial Report, based on our review. This report, including the conclusion, has been prepared for and only for ESB in accordance with the terms of our engagement and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the United Kingdom and Ireland. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers
Chartered Accountants
Dublin

27 September 2017

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six month period ended 30 June 2017

	Notes	Unaudited June 2017 € '000	Unaudited June 2016 € '000
Revenue	4	**1,678,793**	1,630,657
Other operating income	5	**12,061**	16,066
Operating costs	6	**(1,394,144)**	(1,360,100)
Operating profit		**296,710**	286,623
Net interest on borrowings	7	**(95,607)**	(78,837)
Financing charges	7	**(12,964)**	(16,075)
Fair value movement on financial instruments	7	**20,026**	(119,882)
Finance income	7	**3,090**	6,594
Net finance cost		**(85,455)**	(208,200)
Share of equity accounted investees loss, net of tax	12	**(6,094)**	(7,903)
Profit before taxation		**205,161**	70,520
Income tax expense	17	**(31,755)**	(6,282)
Profit after taxation		**173,406**	64,238
Attributable to:			
Equity holders of the Parent		**173,370**	64,482
Non-controlling interest		**36**	(244)
Profit for the financial period		**173,406**	64,238

Notes 1 to 31 form an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30 June 2017

	Unaudited June 2017 € '000	Unaudited June 2016 € '000
Profit for the financial period	**173,406**	64,238
Items that will not be reclassified subsequently to profit or loss:		
NIE Networks pension scheme actuarial losses	**(5,260)**	(49,621)
Tax on items that will not be reclassified to profit or loss	**888**	8,923
	(4,372)	(40,698)
Items that are or may be reclassified subsequently to profit or loss:		
Effective hedge of a net investment in foreign subsidiary	**308**	2,532
Translation differences on consolidation of foreign subsidiaries	**(1,301)**	(42,368)
Fair value losses on cash flow hedges	**(51,394)**	(12,553)
Transferred to income statement on cash flow hedges	**(24,572)**	25,282
Fair value losses on cash flow hedges in equity accounted investees	**(475)**	(1,383)
Tax on items that are or may be reclassified subsequently to profit or loss	**6,358**	2,788
Tax on items transferred from other comprehensive income (OCI)	**2,849**	(3,436)
Tax on items that are or may be reclassified subsequently to profit or loss for equity accounted investees	**121**	173
	(68,106)	(28,965)
Other comprehensive expense for the financial period, net of tax	**(72,478)**	(69,663)
Total comprehensive income / (expense) for the financial period	**100,928**	(5,425)
Attributable to:		
Equity holders of the Parent	**100,892**	(5,181)
Non-controlling interest	**36**	(244)
Total comprehensive income / (expense) for the financial period	**100,928**	(5,425)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017

	Notes	Unaudited June 2017 € '000	Audited December 2016 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**10,261,132**	10,438,562
Intangible assets	10	**214,669**	273,221
Goodwill	11	**172,576**	177,242
Investments in equity accounted investees	12	**75,550**	80,990
Financial asset investments	12	**42,605**	56,502
Trade and other receivables	14	**72,088**	69,995
Derivative financial instruments	19	**114,139**	183,999
Deferred tax assets		**199,258**	200,741
Total non-current assets		**11,152,017**	11,481,252
Current assets			
Inventories	13	**95,825**	73,172
Derivative financial instruments	19	**126,895**	203,192
Current tax asset		**18,215**	15,338
Trade and other receivables	14	**717,213**	770,081
Cash and cash equivalents	15	**785,507**	363,624
Total current assets		**1,743,655**	1,425,407
Total assets		**12,895,672**	12,906,659
EQUITY			
Capital stock		**1,979,882**	1,979,882
Translation reserve		**5,069**	6,062
Cash flow hedging reserve		**57,006**	124,119
Other reserves		**(227,465)**	(220,322)
Retained earnings		**2,153,370**	2,037,459
Equity attributable to equity holders of the Parent		**3,967,862**	3,927,200
Non-controlling interest		**(3,495)**	(3,531)
Total equity		**3,964,367**	3,923,669
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	18	**4,752,781**	4,398,113
Liability – ESB pension scheme	21	**233,894**	370,308
Liability – NIE Networks pension scheme	20	**165,046**	170,543
Employee related liabilities	21	**71,307**	78,396
Deferred income and government grants	23	**468,888**	486,531
Provisions	24	**232,150**	237,153
Deferred tax liabilities		**724,282**	709,442
Derivative financial instruments	19	**703,661**	753,968
Total non-current liabilities		**7,352,009**	7,204,454
Current liabilities			
Borrowings and other debt	18	**448,995**	489,330
Liability – ESB pension scheme	21	**153,886**	154,504
Employee related liabilities	21	**55,383**	64,305
Trade and other payables	22	**728,791**	835,018
Deferred income and government grants	23	**55,253**	50,021
Provisions	24	**56,140**	84,822
Current tax liabilities		**2,540**	750
Derivative financial instruments	19	**78,308**	99,786
Total current liabilities		**1,579,296**	1,778,536
Total liabilities		**8,931,305**	8,982,990
Total equity and liabilities		**12,895,672**	12,906,659

Ellvena Graham, Chairman

Pat O'Doherty, Chief Executive

Pat Fenlon, Executive Director, Group Finance and Commercial

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 June 2017

Unaudited 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 2016	1,979,882	51,376	49,799	(151,098)	1,930,558	3,860,517	(1,874)	3,858,643
Total comprehensive income / (expense) for the period								
Profit for the financial period	-	-	-	-	64,482	64,482	(244)	64,238
NIE Networks pension scheme actuarial losses	-	-	-	(49,621)	-	(49,621)	-	(49,621)
Revaluation reserves on acquisition of Synergen Power Ltd.	-	-	-	(2,771)	2,771	-	-	-
Translation differences net of hedging	-	(39,836)	-	-	-	(39,836)	-	(39,836)
Cash flow hedges:								
- Net fair value losses	-	-	(12,553)	-	-	(12,553)	-	(12,553)
- Transfers to income statement								
- Finance cost (interest)	-	-	3,188	-	-	3,188	-	3,188
- Finance cost (foreign translation movements)	-	-	17,738	-	-	17,738	-	17,738
- Other operating expenses	-	-	4,356	-	-	4,356	-	4,356
- Fair value losses for hedges in equity accounted investees	-	-	(1,383)	-	-	(1,383)	-	(1,383)
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	2,788	8,923	-	11,711	-	11,711
Tax on items transferred to income statement	-	-	(3,436)	-	-	(3,436)	-	(3,436)
Tax on items taken directly to OCI for equity accounted investees	-	-	173	-	-	173	-	173
Total comprehensive income / (expense) for the period	-	(39,836)	10,871	(43,469)	67,253	(5,181)	(244)	(5,425)
Transactions with owners recognised directly in equity								
Dividends	-	-	-	-	(30,717)	(30,717)	-	(30,717)
Balance at 30 June 2016	1,979,882	11,540	60,670	(194,567)	1,967,094	3,824,619	(2,118)	3,822,501
Balance at 1 January 2017	**1,979,882**	**6,062**	**124,119**	**(220,322)**	**2,037,459**	**3,927,200**	**(3,531)**	**3,923,669**
Total comprehensive income / (expense) for the period								
Profit for the financial period	-	-	-	-	173,370	173,370	36	**173,406**
NIE Networks pension scheme actuarial losses	-	-	-	(5,260)	-	(5,260)	-	**(5,260)**
Revaluation reserves on acquisition of Synergen Power Ltd.	-	-	-	(2,771)	2,771	-	-	**-**
Translation differences net of hedging	-	(993)	-	-	-	(993)	-	**(993)**
Cash flow hedges:								
- Net fair value losses	-	-	(51,394)	-	-	(51,394)	-	**(51,394)**
- Transfers to income statement								
- Finance cost (interest)	-	-	3,582	-	-	3,582	-	**3,582**
- Finance cost (foreign translation movements)	-	-	43,461	-	-	43,461	-	**43,461**
- Other operating expenses	-	-	(71,615)	-	-	(71,615)	-	**(71,615)**
- Fair value losses for hedges in equity accounted investees	-	-	(475)	-	-	(475)	-	**(475)**
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	6,358	888	-	7,246	-	**7,246**
Tax on items transferred to income statement	-	-	2,849	-	-	2,849	-	**2,849**
Tax on items taken directly to OCI for equity accounted investees	-	-	121	-	-	121	-	**121**
Total comprehensive income / (expense) for the period	**-**	**(993)**	**(67,113)**	**(7,143)**	**176,141**	**100,892**	**36**	**100,928**
Transactions with owners recognised directly in equity								
Dividends	-	-	-	-	(60,230)	(60,230)	-	**(60,230)**
Balance at 30 June 2017	**1,979,882**	**5,069**	**57,006**	**(227,465)**	**2,153,370**	**3,967,862**	**(3,495)**	**3,964,367**

[1]Other reserves includes (i) a €30.4 million revaluation reserve (December 2016: €33.2 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009; (ii) other reserves relating to the NIE Networks pension scheme of (€233.0) million (December 2016: (€228.6) 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; and (iv) an ESOP repurchase provision which relates to the amount that ESB has committed to date to purchase from the ESOP internal market (€19.1) million (December 2016: (€19.1) million). Refer to note 29 for information on the ESOP repurchase.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six month period ended 30 June 2017

	Notes	**Unaudited June 2017 € '000**	Unaudited June 2016 € '000
Cash flows from operating activities			
Profit after taxation		**173,406**	64,238
Adjustments for:			
Depreciation and amortisation	6	**394,966**	368,090
Amortisation of supply contributions and other deferred income*	23	**(36,541)**	(30,050)
Net emissions costs		**30,792**	1,474
Loss on disposal of non-current assets	5	**-**	398
Profit on disposal of subsidiaries	5	**(3,018)**	-
Net finance cost	7	**85,455**	208,200
Impact of fair value adjustments in operating costs		**20,380**	(1,632)
Losses from equity accounted investees	12	**6,094**	7,903
Income tax expense	17	**31,755**	6,282
Operating cash flows before changes in working capital and provisions		**703,289**	624,903
Charge in relation to provisions		**292**	995
Charge in relation to employee related liabilities		**8,610**	6,525
Utilisation of provisions		**(3,211)**	(9,786)
Utilisation of employee related liabilities		**(179,517)**	(35,572)
Deferred income received*		**16,271**	4,225
Decrease in trade and other receivables		**94,397**	75,102
(Increase) / decrease in inventories		**(22,653)**	14,989
(Decrease) / increase in trade and other payables		**(65,510)**	30,938
Cash generated from operations		**551,968**	712,319
Current tax paid		**(7,969)**	(13,431)
Financing costs paid		**(125,581)**	(132,238)
Net cash inflow from operating activities		**418,418**	566,650
Cash flows from investing activities			
Purchase of property, plant and equipment		**(282,522)**	(309,780)
Purchase of intangible assets		**(24,223)**	(17,170)
Proceeds from sale of non-current assets		**-**	1,408
Proceeds from sale of subsidiaries		**3,123**	-
Amounts advanced to equity accounted investees		**(32,000)**	-
Purchase of financial assets		**(1,661)**	(5,570)
Interest received		**-**	371
Net cash outflow from investing activities		**(337,283)**	(330,741)
Cash flows from financing activities			
Dividends paid	16	**(60,230)**	(30,717)
Repayments of term debt facilities and finance leases		**(99,405)**	(65,574)
Proceeds from the issue of new debt		**509,446**	306,305
Decrease in other borrowings		**-**	(250,000)
Payments on inflation linked interest rate swaps		**(8,186)**	(8,301)
Net cash inflow / (outflow) from financing activities		**341,625**	(48,287)
Net increase in cash and cash equivalents		**422,760**	187,622
Cash and cash equivalents at 1 January	15	**363,624**	133,863
Effect of exchange rate fluctuations on cash held		**(877)**	(7,759)
Cash and cash equivalents at 30 June	15	**785,507**	313,726

* Comparative amounts in the Group cash flow statement have been regrouped where necessary to ensure consistency in the two periods being recorded. This regrouping relates to disclosing deferred income received as cash generated from operations (30 June 2016: €4.3 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

ESB is a statutory body domiciled in the Republic of Ireland. The condensed consolidated interim financial statements of ESB as at and for the six months ended 30 June 2017 comprise the results of the Company and its subsidiaries (together referred to as ESB or the Group) and the Group's interests in associates and joint arrangements. These results are unaudited but were reviewed by our auditors. The condensed financial information herein does not constitute the statutory financial statements of ESB, which were prepared as at and for the year ended 31 December 2016 and are available on our website www.esb.ie. The auditor's report on those financial statements was unmodified.

2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 - Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

As none of the newly effective amendments to IFRS standards had an impact on the Group, the accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2016.

A number of new standards, amendments to standards and interpretations are not yet effective for the period, and have not been applied in preparing the financial statements. ESB is currently assessing the full impact of these amendments on the Group.

New / Revised International Financial Reporting Standards	Effective Date[1]
Amendments to IAS 7: Disclosure Initiative	1 January 2017*
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017*
IFRS 15: Revenue from Contracts with Customers	1 January 2018
IFRS 9: Financial Instruments	1 January 2018
Clarifications to IFRS 15: Revenue from Contracts with Customers	1 January 2018*
IFRS 16: Leases	1 January 2019*

[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.
* These are the IASB effective dates not yet endorsed under EU IFRS.

Standards, interpretations and amendments to published standards that are not yet effective
The Group has not applied certain standards, amendments and interpretations to existing standards that have been issued but are not yet effective. The most significant of which are as follows:

IFRS 9: Financial Instruments (effective date: ESB financial year beginning 1 January 2018)
This standard is designed to replace IAS 39 Financial Instruments: Recognition and Measurement and has been completed in a number of phases with the final version issued by the IASB in July 2014. The Standard includes requirements for recognition, measurement, impairment and de-recognition of financial instruments and general hedge accounting. The Group will apply IFRS 9 from its effective date. The Group is currently assessing the impact of IFRS 9 on the Group's financial statements.

IFRS 15: Revenue from Contracts with Customers (effective date: ESB financial year beginning 1 January 2018)
This standard will replace IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and therefore has the ability to direct the use and obtain the benefits from the good or service. Subject to EU endorsement, the Group will apply IFRS 15 from its effective date. The Group is currently assessing the impact of IFRS 15 on the Group's financial statements.

IFRS 16: Leases (effective date: ESB financial year beginning 1 January 2019)
This standard will replace IAS 17 Leases. The changes under IFRS 16 are significant and will predominantly affect lessees, the accounting for which is substantially reformed. The lessor accounting requirements contained in IFRS 16's predecessor, IAS 17 will remain largely unchanged. The main impact on lessees is that almost all leases will be recognised in the balance sheet as the distinction between operating and finance leases is removed for lessees. Instead, under IFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions are short-term and low-value leases. The standard introduces new estimates and judgemental thresholds that affect the identification, classification and measurement of lease transactions. More extensive disclosures, both qualitative and quantitative, are also required. Subject to EU endorsement, the Group will apply IFRS 16 from its effective date. The Group is currently assessing the impact of IFRS 16 on the Group's financial statements.

Other changes to IFRS have been issued but are not yet effective for the Group. However, they are either not expected to have a material effect on the consolidated financial statements or they are not currently relevant for the Group.

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 of the 2016 annual report.

The funding and liquidity management of the Group are described in note18 and the amount of cash and cash equivalents that the Group had on hand at 30 June 2017 was €785.5 million. Note 25 in the interim 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 believes 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 at least twelve months from the date of approval of the interim financial statements. Accordingly, the condensed consolidated interim financial statements are prepared on the going concern basis of accounting.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT REPORTING

The Group has applied IFRS 8 Operating Segments, and has made the appropriate disclosures in these financial statements.

(a) Income statement

(i) Segment revenue - 2017

	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE Networks[1] € '000	Other Segments € '000	Consolidation and eliminations € '000	**Total € '000**
External revenues	886,369	251,325	383,309	125,384	32,406	-	**1,678,793**
Inter-segment revenue	2,062	280,531	365,745	8,365	109,243	(765,946)	**-**
Revenue	888,431	531,856	749,054	133,749	141,649	(765,946)	**1,678,793**

All inter-segment revenues are eliminated upon consolidation and are reflected in the eliminations column above.

(ii) Segment operating costs - 2017

	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE Networks[1] € '000	Other Segments € '000	Consolidation and eliminations € '000	**Total € '000**
Depreciation and amortisation	(2,625)	(193,607)	(114,897)	(68,416)	(15,421)	-	**(394,966)**
Other operating costs	(840,264)	(181,751)	(547,487)	(45,997)	(149,625)	765,946	**(999,178)**

(iii) Operating result - 2017

	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE Networks[1] € '000	Other Segments € '000	Consolidation and eliminations € '000	**Total € '000**
Operating profit / (loss)	45,542	180,446	87,324	19,336	(35,938)	-	**296,710**
Net finance cost	(46)	(72)	(21,316)	(24,185)	(39,836)	-	**(85,455)**
Share of equity accounted investees profit / (loss)	-	-	2,473	-	(8,567)	-	**(6,094)**
Profit / (loss) before taxation	45,496	180,374	68,481	(4,849)	(84,341)	-	**205,161**

(i) Segment revenue - 2016

	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE Networks[1] € '000	Other Segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	1,011,869	230,932	221,962	130,842	35,052	-	1,630,657
Inter-segment revenue	2,076	271,204	424,035	7,828	101,459	(806,602)	-
Revenue	1,013,945	502,136	645,997	138,670	136,511	(806,602)	1,630,657

All inter-segment revenues are eliminated upon consolidation and are reflected in the eliminations column above.

(ii) Segment operating costs - 2016

	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE Networks[1] € '000	Other Segments € '000	Consolidation and eliminations € '000	Total € '000
Depreciation and amortisation	(4,396)	(188,626)	(93,816)	(72,232)	(9,020)	-	(368,090)
Other operating costs	(952,802)	(181,702)	(440,441)	(51,617)	(172,050)	806,602	(992,010)

(iii) Operating result - 2016

	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE Networks[1] € '000	Other Segments € '000	Consolidation and eliminations € '000	Total € '000
Operating profit / (loss)	56,747	148,116	111,743	14,821	(44,804)	-	286,623
Net finance cost	(68)	(385)	(17,639)	(26,695)	(163,413)	-	(208,200)
Share of equity accounted investees profit / (loss)	-	-	124	-	(8,027)	-	(7,903)
Profit / (loss) before taxation	56,679	147,731	94,228	(11,874)	(216,244)	-	70,520

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT REPORTING (continued)

(b) Other disclosures

	June 2017 € '000	June 2016 € '000
Additions to non-current assets (excluding acquisitions)		
Electric Ireland	**4,354**	3,354
ESB Networks	**141,378**	147,657
Generation and Wholesale Markets	**48,969**	84,691
NIE Networks	**65,252**	76,296
Other Segments	**42,990**	43,795
Total	**302,943**	355,793

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

5. OTHER OPERATING INCOME / (EXPENSES)

	June 2017 € '000	June 2016 € '000
Loss on disposal of property, plant and equipment and intangible assets	**-**	(398)
Profit on disposal of subsidiaries[1]	**3,018**	-
Amortisation of supply contributions	**18,665**	16,275
Fair value movements on assets held at fair value through profit and loss[2]	**(15,559)**	189
Other operating income	**5,937**	-
Total	**12,061**	16,066

[1] The profit on disposal of subsidiaries relates to the sale of windfarm subsidiaries in 2017 of which €9.3 million (30 June 2016: €nil) was included in property, plant and equipment (note 9).

[2] These fair value movements relate to adjustments to the value of investments in renewables enterprises held by Novusmodus, a subsidiary, as detailed in note 12.

6. OPERATING COSTS

	June 2017 € '000	June 2016 € '000
Employee costs (note 8)	**233,462**	226,701
Fuel costs[1]	**371,616**	265,131
Other electricity related costs	**136,956**	211,606
Operations and maintenance[2]	**257,144**	288,572
Depreciation and amortisation (notes 9 / 10)	**394,966**	368,090
Total	**1,394,144**	1,360,100

[1] Included in fuel costs is a charge of €6.4 million (30 June 2016: €4.9 million) relating to the fair valuing of fuel commodity swaps which have not been designated as accounting hedges.

[2] Included in operations and maintenance is a foreign exchange retranslation loss of €6.6 million (30 June 2016: €36.4 million loss) on sterling denominated intercompany positions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. NET FINANCE COST AND OTHER FINANCING CHARGES

	June 2017 € '000	June 2016 € '000
Interest payable on borrowings	**107,312**	109,154
Less capitalised interest	**(11,705)**	(30,317)
Net interest on borrowings	**95,607**	78,837
Financing charges:		
- on NIE Networks pension scheme (note 20)	**2,122**	2,428
- on ESB pension scheme (note 21)	**9,258**	12,329
- on employee related liabilities (note 21)	**340**	303
- on power station closure costs (note 24)	**967**	738
- on other provisions (note 24)	**277**	277
Total financing charges	**12,964**	16,075
Fair value (gains) / losses on financial instruments:		
- currency / interest rate swaps: cash flow hedges, transfer from OCI	**3,582**	3,188
- interest rate swaps and inflation linked swaps not qualifying for hedge accounting	**(23,608)**	116,694
Total fair value (gains) / losses on financial instruments	**(20,026)**	119,882
Finance cost	**88,545**	214,794
Finance income	**(3,090)**	(6,594)
Net finance cost	**85,455**	208,200

The financing charges on provisions are calculated in accordance with the policy for discounting of future payment obligations as disclosed in the 2016 consolidated financial statements - see note 1 for further details.

In addition to the amounts transferred from other comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a loss of €43.5 million (30 June 2016: loss of €17.7 million) has been transferred from the cash flow hedging 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.

Included in finance income is interest on borrowings receivable from Tilbury Green Power Holdings Limited €2.9 million (30 June 2016: €6.2 million) - see note 12 for further details.

Positive fair value movements of €25.0 million arose on the inflation linked swaps in 2017 (30 June 2016: negative fair value movements of €121.1 million) reflecting an increase in interest rates and a marginally lower RPI index in the UK. These have been recognised within finance costs in the income statement, as hedge accounting is not available for these instruments.

8. EMPLOYEES

Employee costs in period	**June 2017 € '000**	June 2016 € '000
Current staff costs (excluding pension)		
Salaries	**245,534**	234,360
Overtime	**18,203**	16,437
Social welfare costs (PRSI)	**19,265**	17,880
Other payroll benefits[1]	**15,988**	16,123
	298,990	284,800
Capitalised payroll	**(94,797)**	(85,809)
Net payroll cost for employees	**204,193**	198,991
Pension and other employee benefit costs		
Pensions charge – other schemes[2]	**23,527**	22,792
NIE Networks pension scheme charge[3]	**5,742**	4,918
	29,269	27,710
Total employee related costs charged to the income statement	**233,462**	226,701

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

[2] The pension charge to other schemes include contributions to the ESB Defined Contribution Pension Scheme, the ESB Defined Benefit Pension Scheme and the Options section of the NIE Networks Pension Scheme (NIE Networks Scheme).

[3] The NIE Networks Scheme charge relates solely to the Focus section of the NIE Networks Scheme - see note 20 for further details.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. PROPERTY, PLANT & EQUIPMENT

	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	**Total € '000**
Cost					
Balance at 1 January 2016	1,201,419	16,944,704	18,146,123	1,682,110	**19,828,233**
Additions	667	106,853	107,520	225,533	**333,053**
Retirements / disposals	(3,307)	(6,998)	(10,305)	-	**(10,305)**
Transfers out of assets under construction	4,878	51,750	56,628	(56,628)	**-**
Transfers to intangible assets	-	(3,391)	(3,391)	-	**(3,391)**
Translation differences	(1,072)	(513,527)	(514,599)	(92,310)	**(606,909)**
Balance at 30 June 2016	1,202,585	16,579,391	17,781,976	1,758,705	**19,540,681**
Balance at 1 January 2017	1,281,679	17,457,867	18,739,546	1,094,544	**19,834,090**
Additions	33	203,936	203,969	73,090	**277,059**
Retirements / disposals	(40)	(4,048)	(4,088)	(9,302)	**(13,390)**
Transfers out of assets under construction	5,329	158,498	163,827	(163,827)	**-**
Transfers to intangible assets	-	-	-	(4,456)	**(4,456)**
Translation differences	(216)	(112,442)	(112,658)	(2,987)	**(115,645)**
Balance at 30 June 2017	1,286,785	17,703,811	18,990,596	987,062	**19,977,658**
Depreciation					
Balance at 1 January 2016	681,045	8,274,352	8,955,397	-	**8,955,397**
Charge for the period	10,532	336,830	347,362	-	**347,362**
Retirements / disposals	(1,608)	(6,891)	(8,499)	-	**(8,499)**
Translation differences	(268)	(210,369)	(210,637)	-	**(210,637)**
Balance at 30 June 2016	689,701	8,393,922	9,083,623	-	**9,083,623**
Balance at 1 January 2017	710,147	8,685,381	9,395,528	-	**9,395,528**
Charge for the period	16,963	354,570	371,533	-	**371,533**
Retirements / disposals	(36)	(3,994)	(4,030)	-	**(4,030)**
Translation differences	(57)	(46,448)	(46,505)	-	**(46,505)**
Balance at 30 June 2017	727,017	8,989,509	9,716,526	-	**9,716,526**
Net book value at 30 June 2017	**559,768**	**8,714,302**	**9,274,070**	**987,062**	**10,261,132**
Net book value at 31 December 2016	571,532	8,772,486	9,344,018	1,094,544	**10,438,562**
Net book value at 30 June 2016	512,884	8,185,469	8,698,353	1,758,705	**10,457,058**
Net book value at 1 January 2016	520,374	8,670,352	9,190,726	1,682,110	**10,872,836**

During the period the Group capitalised interest of €11.7 million (30 June 2016: €30.3 million) in assets under construction, using an effective interest rate of 4.1% (30 June 2016: 4.4%).

The carrying value of non-depreciable assets at 30 June 2017 is €87.7 million (31 December 2016: €87.4 million).

Property, plant and equipment with a net book value of €nil at 30 June 2017 is included above at a cost of €3,951.7 million (31 December 2016: €3,885.6 million).

Retirements / disposals in both 2017 and 2016 primarily relate to the retirement of assets that have been fully depreciated in addition to the disposal of development wind farms under construction (refer to note 5).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS

	Software and other intangible assets € '000	Emission allowances € '000	Software under development € '000	**Total € '000**
Cost				
Balance at 1 January 2016	661,932	31,963	33,753	**727,648**
Software additions	1,620	-	15,550	**17,170**
Purchase of emission allowances	-	29,599	-	**29,599**
Software disposals	(1,144)	-	-	**(1,144)**
Settlement of emission allowances	-	(61,154)	-	**(61,154)**
Transfers out of software under development	97	-	(97)	**-**
Transfers from property, plant and equipment	3,391	-	-	**3,391**
Translation differences	(22,037)	-	(46)	**(22,083)**
Balance at 30 June 2016	643,859	408	49,160	**693,427**
Balance at 1 January 2017	676,407	62,423	56,063	**794,893**
Software additions	208	-	24,015	**24,223**
Purchase of emission allowances	-	2,809	-	**2,809**
Settlement of emission allowances	-	(65,232)	-	**(65,232)**
Transfers out of software under development	20,235	-	(20,235)	**-**
Transfers from property, plant and equipment	6,212	-	(1,756)	**4,456**
Translation differences	(4,978)	-	142	**(4,836)**
Balance at 30 June 2017	698,084	-	58,229	**756,313**
Amortisation				
Balance at 1 January 2016	499,908	-	-	**499,908**
Charge for the period	20,728	-	-	**20,728**
Retirements / disposals	(54)	-	-	**(54)**
Translation differences	(15,918)	-	-	**(15,918)**
Balance at 30 June 2016	504,664	-	-	**504,664**
Balance at 1 January 2017	521,672	-	-	**521,672**
Charge for the period	23,433	-	-	**23,433**
Translation differences	(3,461)	-	-	**(3,461)**
Balance at 30 June 2017	541,644	-	-	**541,644**
Net book value at 30 June 2017	**156,440**	**-**	**58,229**	**214,669**
Net book value at 31 December 2016	154,735	62,423	56,063	**273,221**
Net book value at 30 June 2016	139,195	408	49,160	**188,763**
Net book value at 1 January 2016	162,024	31,963	33,753	**227,740**

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.

Emission 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. GOODWILL

	€ '000
Balance at 1 January 2016	206,759
Translation differences	(23,153)
Balance at 30 June 2016	183,606
Balance at 1 January 2017	**177,242**
Translation differences	**(4,666)**
Balance at 30 June 2017	**172,576**

Goodwill was recognised on the acquisition of NIE Networks in December 2010, and relates to the fair value of the expected return on future investment in the Regulated Asset Base (RAB) of NIE Networks. Goodwill is reviewed annually in December for impairment, by assessing the recoverable amount of the investment, based on its value in use.

The latest annual impairment test of goodwill was carried out in December 2016 in accordance with IAS 36. No reduction in the value of goodwill was deemed to be required. During the period to 30 June 2017, there were no indicators of impairment. Accumulated impairment losses for goodwill is €nil.

12. FINANCIAL ASSET INVESTMENTS

	Equity accounted investments € '000	Financial assets at fair value through profit or loss € '000	**Total € '000**
Balance at 1 January 2016	94,850	62,563	**157,413**
Additions	100	5,470	**5,570**
Transfers to other payables	1,355	-	**1,355**
Share of loss	(7,903)	-	**(7,903)**
Fair value movement on cash flow hedges	(1,210)	-	**(1,210)**
Fair value movement - transfer to income statement (note 5)	-	189	**189**
Translation differences	(327)	(1,004)	**(1,331)**
Balance at 30 June 2016	**86,865**	**67,218**	**154,083**
Balance at 1 January 2017	80,990	56,502	**137,492**
Additions	-	1,661	**1,661**
Transfers to other payables	800	-	**800**
Share of loss	(6,094)	-	**(6,094)**
Fair value movement on cash flow hedges	(354)	-	**(354)**
Fair value movement - transfer to income statement (note 5)	-	(15,559)	**(15,559)**
Translation differences	208	1	**209**
Balance at 30 June 2017	**75,550**	**42,605**	**118,155**

Equity accounted investments

The fair value movement on cash flow hedges for equity accounted investees relates to derivatives held in Raheenleagh Power DAC, and Tilbury Green Power Holdings Limited which have been designated as cash flow hedging relationships in these entities.

Translation differences for equity accounted investees relate to Tilbury Green Power Holdings Limited as this Company's functional currency is sterling.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. FINANCIAL ASSET INVESTMENTS (continued)

Name of the company	Country	**Holding 30 June 2017 % of share capital owned**	Holding 31 December 2016 % of share capital owned
Oweninny Power DAC[1]	Republic of Ireland	**50**	50
Emerald Bridge Fibres DAC[1]	Republic of Ireland	**50**	50
SIRO Limited	Republic of Ireland	**50**	50
Raheenleagh Power DAC	Republic of Ireland	**50**	50
Kingspan ESB Limited	Great Britain	**50**	50
Castlepook Power DAC	Republic of Ireland	**50**	50
Tilbury Green Power Holdings Limited	Great Britain	**47**	47
Terra Solar Limited	Republic of Ireland	**25**	25

[1] At 30 June 2017, the investments in both Oweninny Power DAC and Emerald Bridge Fibres DAC were held at €nil.

SIRO Limited (SIRO)

SIRO is an unlisted joint arrangement in which the Group has joint control and a 50% ownership interest. SIRO was founded by the Group with Vodafone Ireland Limited acquiring a 50% stake in November 2014.

Vodafone's acquisition of shares in SIRO was pursuant to a Joint Venture Arrangement (JVA) concluded between both parties.

SIRO 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 SIRO as an equity accounted investee. ESB has committed to provide capital funding to SIRO of €85.0 million, of which €32.0 million has been advanced as a short-term shareholder loan during the period.

Raheenleagh Power DAC (Raheenleagh)

The Group is a 50% partner in Raheenleagh, a joint arrangement formed with Coillte Teoranta. The purpose of this joint arrangement is to construct and operate a 35 MW wind farm in Co. Wicklow. The amount invested in Raheenleagh to date amounts to €6.9 million of which €3.2 million was advanced as equity and €3.7 million as shareholder loans.

Raheenleagh is legally separated from the parties and the legal form and the contractual arrangement do not give the parties direct rights to the assets and liabilities of the vehicle. Accordingly, the Group has classified its interest in Raheenleagh as an equity accounted investee as both parties have a residual interest in the net assets of the arrangement.

The Group has entered into a 15 year arrangement with Raheenleagh to purchase physical power from the wind farm. Payments made under this contract are based upon actual production.

Raheenleagh reached commercial operation in 2016.

Castlepook Power DAC (Castlepook)

The Group previously held a 100% interest in Castlepook and accounted for this interest as a fully consolidated subsidiary. During the year ended 31 December 2016, the Group entered into a joint arrangement with Coillte Teoranta and a loss of control event occurred for ESB. The purpose of this joint arrangement is to construct and operate a 33.1 MW wind farm in Co. Cork. In 2016, the Group recorded its remaining 50% equity investment at fair value. No gain or loss arose on the loss of control of subsidiary in 2016. The Group has classified its interest as an equity accounted investee.

As at 30 June 2017, the Group's share of capital commitments in Castlepook was €12.9 million and the amount invested in Castlepook as a shareholder loan to date amounts to €6.9 million.

Tilbury Green Power Holdings Limited (Tilbury)

The Group is a 47% partner in Tilbury, a joint arrangement formed with Green Investment Bank (47%) and Scandinavian equipment suppliers BWSC and AET (6%). The purpose of this joint arrangement is to construct and operate a waste wood to energy plant in Great Britain.

The amount invested in Tilbury to date amounts to €39.8 million, €2.4 million was advanced as equity and €37.4 million as shareholder loans. Interest on borrowings receivable from Tilbury amount to €10.9 million.

Tilbury is legally separated from the parties and the legal form and the contractual arrangement do not give the parties direct rights to the assets and liabilities of the vehicle. Accordingly, the Group has classified its interest in Tilbury as an equity accounted investee as both parties have a residual interest in the net assets of the arrangement.

The Group has entered into a 15-year arrangement with Tilbury to purchase physical power, renewable obligation certificates and levy exemption certificates from the plant. Payments made under this contract are contingent upon actual production.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. FINANCIAL ASSET INVESTMENTS (continued)

Terra Solar Limited

During the year ended 31 December 2016, the Group invested in Terra Solar Limited €2.5 million for a 25% equity shareholding in the company. Terra Solar Limited is a developer of ground mounted solar parks. This investment is classified as an associate and is accounted for using the equity method.

Please refer to note 27 for further information regarding transactions with equity accounted investees.

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 joint ventures are as follows:

	SIRO Limited		Tilbury Green Power Holdings Limited		Other equity accounted investees[1]	
Summarised income statement	**June 2017 € '000**	June 2016 € '000	**June 2017 € '000**	June 2016 € '000	**June 2017 € '000**	June 2016 € '000
Revenue	**1,203**	139	**-**	-	**5,432**	1,951
(Loss) / gain	**(15,535)**	(14,085)	**3,367**	-	**172**	(1,722)
Total comprehensive (loss) / gain	**(15,535)**	(14,085)	**3,367**	-	**172**	(1,722)
Group share of (loss) / gain	**(7,768)**	(7,042)	**1,583**	-	**91**	(861)

Summarised balance sheet	**June 2017 € '000**	December 2016 € '000	**June 2017 € '000**	December 2016 € '000	**June 2017 € '000**	December 2016 € '000
Cash	**32,523**	10,558	**38,457**	13,744	**14,331**	11,694
Current assets	**5,435**	4,090	**1,212**	2,439	**5,115**	2,332
Non-current assets	**199,993**	168,647	**195,778**	176,362	**94,373**	81,682
Current liabilities	**(98,466)**	(29,133)	**(9,667)**	(3,202)	**(4,185)**	(413)
Non-current liabilities	**(855)**	-	**(222,833)**	(187,803)	**(100,829)**	(90,005)
Net assets	**138,630**	154,162	**2,947**	1,540	**8,805**	5,290

Reconciliation of the above amounts to the investment recognised in the consolidated balance sheet.

Group equity interest	**50%**	50%	**47%**	47%		
Net assets	**138,630**	154,162	**2,947**	1,540	**8,805**	5,290
Group share	**69,315**	77,081	**1,385**	724	**3,620**	1,909
Other adjustments	**(454)**	(454)	**-**	-	**1,684**	1,730
Carrying value of Group's equity interest	**68,861**	76,627	**1,385**	724	**5,304**	3,639

[1] Other equity accounted investees' includes ESB's 50% share in Emerald Bridge Fibres DAC, Kingspan ESB Limited, Raheenleagh Power DAC, Oweninny Power DAC, Castlepook Power DAC and 25% share in Terra Solar Limited.

Interest in financial assets held at fair value through profit and loss

The Group owns a venture capital fund, 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. These investments have been fair valued at the period end and the movement is reflected in the income statement. The fair value movements in both 2017 and 2016 primarily relate to adjustments to the value of certain investments in the fund.

At 30 June 2017, the Group could be called upon by its partners in the VantagePoint fund to make a further €0.5 million (31 December 2016: €0.5 million) investment in the fund.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. INVENTORIES

	June 2017 € '000	December 2016 € '000
Materials	**33,241**	31,665
Fuel	**57,121**	41,507
Construction work in progress	**5,463**	-
Total	**95,825**	73,172

Inventories consumed during the period to 30 June 2017 totalled €76.3 million (30 June 2016: €55.6 million). There were no inventory impairments recognised during the period (31 December 2016: €nil).

14. TRADE AND OTHER RECEIVABLES

	June 2017 € '000	December 2016 € '000
Current receivables		
Retail electricity receivables - billed	**80,433**	69,990
Retail electricity receivables - unbilled	**128,912**	182,968
Total retail electricity receivables	**209,345**	252,958
SEM pool related receivables	**42,184**	69,633
Use of System receivables (including unbilled)	**193,894**	238,386
Other electricity receivables	**8,429**	24,030
Total electricity receivables	**453,852**	585,007
Trade receivables - non-electricity	**50,582**	59,428
Amounts due from equity accounted undertakings	**41,163**	4,751
Other receivables	**84,014**	82,575
Prepayments	**87,602**	38,320
Total	**717,213**	770,081

	June 2017 € '000	December 2016 € '000
Non-current receivables:		
Trade receivables - non-electricity	**200**	196
Amounts due from equity accounted undertakings	**71,888**	69,799
Total	**72,088**	69,995

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. Please see note 15 of the 2016 annual report for further details on wholesale and retail credit risk.

15. CASH AND CASH EQUIVALENTS

	June 2017 € '000	December 2016 € '000
Cash at bank and in hand	**785,507**	363,624

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. CHANGES IN EQUITY

(i) Non-controlling interest

Non-controlling interests at 31 December 2016 and 30 June 2017 relate to the minority shareholdings in Crockahenny Wind Farm DAC, Mountain Lodge Power DAC, Airvolution Energy Limited and windfarms associated with Coriolis Energy.

(ii) Dividends

	June 2017 € '000	June 2016 € '000
Dividends on capital stock:		
Total dividend paid 3.04 (30 June 2016: 1.55) cents per capital stock unit	**60,230**	30,717

Total dividends paid during the period includes a final dividend of €60.2 million (3.04 cent per unit of stock) in respect of 2016.

Total dividends paid during the period ended 30 June 2016 included a final dividend of €30.7 million (1.55 cent per unit of stock) in respect of 2015.

17. TAXATION

Income tax expense	June 2017 € '000	June 2016 € '000
Current tax expense		
Current tax	**7,963**	26,153
Prior year over provision	**(109)**	(6,400)
	7,854	19,753
Deferred tax expense		
Origination and reversal of temporary differences	**23,030**	(20,049)
Prior year under provision	**871**	6,578
	23,901	(13,471)
Total	**31,755**	6,282

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT

(a)

	Recourse borrowings € '000	Non-recourse borrowings € '000	**June 2017 Total € '000**	December 2016 Total € '000
Current borrowings				
- Repayable by instalments	91,670	26,345	**118,015**	117,003
- Repayable other than by instalments	297,795	33,185	**330,980**	372,327
Total current borrowings	389,465	59,530	**448,995**	489,330
Non-current borrowings				
- Repayable by instalments				
Between one and two years	77,690	23,051	**100,741**	100,147
Between two and five years	218,686	254,839	**473,525**	349,964
After five years	379,842	156,717	**536,559**	738,559
	676,218	434,607	**1,110,825**	1,188,670
- Repayable other than by instalments				
Between one and two years	326,093	203,021	**529,114**	303,430
Between two and five years	562,988	-	**562,988**	825,237
After five years	2,085,548	464,306	**2,549,854**	2,080,776
	2,974,629	667,327	**3,641,956**	3,209,443
Total non-current borrowings	3,650,847	1,101,934	**4,752,781**	4,398,113
Total borrowings outstanding	4,040,312	1,161,464	**5,201,776**	4,887,443

See section (c) for details of applicable interest rates.

Current borrowings by facility	**Ref**	**June 2017 € '000**	December 2016 € '000
ESB Eurobonds	1	**299,958**	299,854
Non-recourse long-term project finance debt	2	**26,345**	28,721
Long-term bank borrowings	4	**89,507**	86,182
Private placement borrowings	5	**-**	40,860
Non-recourse short-term project finance debt (Airvolution)	6	**33,185**	33,713
		448,995	489,330

Non-current borrowings by facility	**Ref**	**June 2017 € '000**	December 2016 € '000
ESB Eurobonds	1	**2,338,439**	1,844,868
Non-recourse long-term project finance debt	2	**445,985**	459,845
Non-recourse NIE Networks Eurobonds	3	**655,949**	677,718
Long-term bank borrowings	4	**670,810**	728,825
Private placement borrowings	5	**641,598**	686,857
		4,752,781	4,398,113

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.

ESB was rated A- by Standard & Poor's (outlook stable), A3 (equivalent to A-) by Moody's (outlook stable) and BBB+ by Fitch (outlook stable).

Standard & Poor's and Fitch reaffirmed their ratings during 2017, while Moody's was upgraded to A3 in September 2017.

1. ESB Eurobonds

The table below provides details of ESB Eurobonds included in borrowings at 30 June 2017:

Issuer	Value	Issue Date	Tenor	Coupon
ESB Finance DAC	Stg £275.0 million	March 2010	10 years	6.500%
ESB Finance DAC	Euro €300.0 million	September 2012	5 years	6.250%
ESB Finance DAC	Euro €215.2 million	November 2012	7 years	4.375%
ESB Finance DAC	Euro €300.0 million	November 2013	10 years	3.494%
ESB Finance DAC	Euro €500.0 million	June 2015	12 years	2.125%
ESB Finance DAC	Euro €600.0 million	June 2016	15 years	1.875%
ESB Finance DAC	Euro €500.0 million	January 2017	12 years	1.750%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT (continued)

2. Non-recourse long-term project finance debt
In September 2012 Carrington Power Limited (CPL), a 100% owned subsidiary of ESB, completed the financial close of an 885 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£406.8 million (31 December 2016: Stg£420.1 million) debt was drawn at 30 June 2017. The plant entered commercial operation in September 2016 marking the end of construction. The remainder of this debt is in relation to a wind farm in Great Britain.

3. Non-recourse NIE Networks Eurobonds
As part of the acquisition of NIE Networks, 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 Networks Limited issued a Stg£400.0 million 15 year sterling bond with a fixed coupon of 6.375%.

4. Long-term bank borrowings
Long-term bank borrowings include €150.0 million (31 December 2016: €113.2 million) of floating rate debt borrowed on a bilateral basis, while the remainder is fixed interest debt.

A €1.44 billion revolving credit facility with a syndicate of 14 banks to draw down bank finance as required up to January 2022 is available to the Group. This facility is undrawn at 30 June 2017.

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 up to €200.0 million dependent on the completion of certain specified capital expenditure. At 30 June 2017, €100.0 million of the EIB facility has been drawn down.

5. 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 30 June 2017 comprise US$370.0 million, maturing on dates between 2018 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 30 June 2017 comprise US$226.0 million maturing in 2019, Stg£50.0 million maturing in 2021 and €40.0 million maturing in 2019. Stg£35.0 million of this debt was repaid in June 2017 as scheduled.

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants. At 30 June 2017 ESB is fully in compliance with all the covenant requirements associated with the private placement debt and other facilities.

6. Non-recourse short-term project finance debt
Short-term non-recourse project funding of Stg£29.2 million had been drawn down at 30 June 2017. This is in relation to the financing of certain Airvolution projects.

Hedge of net investment in foreign operations
Included in borrowings above 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	**June 2017 € '000**	December 2016 € '000
Value at 1 January	**44,563**	64,981
Repayments in period / year	**(5,539)**	(11,892)
Gain on translation to euro	**(1,058)**	(8,526)
Value at 30 June	**37,966**	44,563
Loss on translation of intragroup euro loan to subsidiary (taken to OCI)	**(750)**	(5,522)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT (continued)

(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, or pre-hedge, any funding requirements arising from maturing debt, capital expenditure and general business requirements.

At 30 June 2017 the Group had over €2.3 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 €75.0 million which may increase to €100.0 million and can only be drawn against certain specified 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 both 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 is as follows:

Maturing	**June 2017 Drawn Debt € '000**	**June 2017 Undrawn Debt € '000**	December 2016 Drawn Debt € '000	December 2016 Undrawn Debt € '000
In one year or less	**448,995**	**75,000**	489,330	68,000
Between one and two years	**629,855**	**-**	403,577	-
Between two and five years	**1,036,513**	**1,440,000**	1,175,201	1,440,000
In more than five years	**3,086,413**	**-**	2,819,335	-
	5,201,776	**1,515,000**	4,887,443	1,508,000

(c) Interest rate risk management

The Group's interest rate policy was updated in 2017 and targets to have a significant majority of its debt at fixed (or inflation linked) 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 30 June 2017, 97% of the Group's debt was fixed to maturity or inflation linked (31 December 2016: 96%). The fair value of interest rate swaps is disclosed in note 19.

In respect of interest-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)	**6.4**	**641,598**	-	333,831	56,838	250,929
Non-recourse borrowings (fixed interest rate)	**5.6**	**1,161,464**	59,530	226,072	254,839	621,023
Other long-term borrowings (fixed and variable interest rate)	**3.9**	**3,398,714**	389,465	69,952	724,836	2,214,461

Included within other long-term borrowings in this analysis are floating rate liabilities of €150.0 million (31 December 2016: €113.2 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£463.2 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 30 June 2017 would be 0.39%, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS

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:

	June 2017				
	Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	**Total € '000**
Interest rate swaps	9,752	21	(32,834)	(9,339)	**(32,400)**
Inflation linked interest rate swaps	-	-	(630,352)	(16,859)	**(647,211)**
Currency swaps	37,266	-	(25,611)	-	**11,655**
Foreign exchange contracts	9,146	5,882	(416)	(7,446)	**7,166**
Forward fuel price contracts	7,686	47,354	(12,262)	(39,963)	**2,815**
Forward electricity price contracts	50,289	73,638	(2,186)	(4,701)	**117,040**
	114,139	**126,895**	**(703,661)**	**(78,308)**	**(540,935)**

	December 2016				
	Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	Total € '000
Interest rate swaps	15,240	661	(40,533)	(9,127)	(33,759)
Inflation linked interest rate swaps	-	-	(681,981)	(16,491)	(698,472)
Currency swaps	61,289	-	(10,270)	-	51,019
Foreign exchange contracts	9,969	7,715	(619)	(16,185)	880
Forward fuel price contracts	27,042	104,343	(10,236)	(47,633)	73,516
Forward electricity price contracts	70,459	90,473	(10,329)	(10,350)	140,253
	183,999	203,192	(753,968)	(99,786)	(466,563)

With the exception of inflation linked interest rate swaps, the 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.

(i) Interest rate swaps

The Group has executed interest rate swaps of Stg£804.9 million in connection with certain borrowings, including project finance debt secured by Carrington Power Limited and West Durham Wind Farm Limited, fixed rate borrowings held by the Parent and ESB Finance DAC and debt held in other wind farm assets within the Group. 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 balance sheet date. As interest rate swaps are marked to market at 30 June 2017, their carrying value is equal to their fair value.

Total movements (inclusive of receipts, payments and fair value movements) of €1.4 million (30 June 2016: losses of €23.3 million) were recognised during the period in relation to interest rate swaps, of which a loss of €3.6 million was recognised directly in finance costs in the income statement, with a gain of €5.0 million recognised in other comprehensive income (OCI) (30 June 2016: gains of €3.0 million recognised in finance costs and losses of €26.3 million recognised in OCI).

(ii) Inflation linked interest rate swaps

Inflation linked interest rate swaps with a fair value liability on acquisition of €272.5 million were acquired in December 2010 as part of the purchase of the NIE Networks business. The inflation linked interest rate swaps did not qualify for hedge accounting under IAS 39 on acquisition of the NIE Networks business. The fair value of the inflation linked interest rate swaps is affected by relative movements in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(ii) Inflation linked interest swaps (continued)

Arising from movements in forward interest rates, UK RPI forward prices, foreign currency exchange rates and payments during the period, fair value reduced by €51.2 million on these swaps in the period ended 30 June 2017 (30 June 2016: fair value increase of €31.9 million). Positive fair value movements in the underlying swaps of €25.0 million, reflected in finance costs in the income statement (note 7), which includes payments of €8.2 million arising under the swaps during the period. In addition positive translation movements of €26.2 million during the period on translation of the swaps from sterling to euro are reflected in the OCI.

(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 18. 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 period resulting in the recognition of a charge of €0.2 million (30 June 2016: charge €0.8 million) within finance costs in the income statement. Separately included in the income statement for the period ended 30 June 2017 is a loss of €43.5 million (30 June 2016: loss of €17.7 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 7).

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 dollar and sterling) and in relation to power station projects (including Carrington Power Limited). These contracts have maturities extending until 2022. Total positive fair value movements of €6.3 million (30 June 2016: positive movements of €9.2 million) were recognised during the period in relation to such foreign exchange contracts, of which a positive fair value movement of €2.3 million (30 June 2016: positive movements of €7.4 million) was recognised through OCI and a positive fair value movement of €4.0 million (30 June 2016: positive movement of €1.8 million) was recognised in the income statement.

Fair value hierarchy

Further information on the methods of valuing financial instruments is included in note 25.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. PENSION LIABILITIES

Northern Ireland Electricity Networks (NIE Networks) Pension Scheme

	June 2017 € '000	June 2016 € '000
Net deficit at 1 January	**(170,543)**	(142,069)
Movements during the period:		
Actuarial losses recognised in OCI during the period	**(5,260)**	(49,621)
Charge to the income statement	**(5,742)**	(4,918)
Pension contributions paid	**14,034**	15,299
Net pension scheme interest	**(2,122)**	(2,428)
Translation differences	**4,587**	18,792
Net deficit at 30 June	**(165,046)**	(164,945)

Pension liability

The majority of the employees of Northern Ireland Electricity Networks Limited and subsidiaries (NIE Networks) are members of the NIE Networks Pension Scheme (the NIE Networks 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 7% of salary, and Focus which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the NIE Networks Scheme are held under trust and invested by the trustees on the advice of professional investment managers.

The actuarial loss for the period arises due to a decrease in the discount rate used to value the scheme liabilities to 2.60% at 30 June 2017, from 2.70% at 31 December 2016, partially offset by higher than expected return on pension scheme assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21. LIABILITY - ESB PENSION SCHEME AND EMPLOYEE RELATED LIABILITIES

		Employee related liabilities		
	Liability - ESB pension scheme € '000	Restructuring liabilities € '000	Other € '000	**Total € '000**
Balance at 1 January 2016	**648,129**	111,726	33,684	**145,410**
Movements during the period:				
Charge to the income statement	**-**	-	1,607	**1,607**
Utilised during the period	**(7,365)**	(8,236)	(4,672)	**(12,908)**
Financing charge	**12,329**	303	-	**303**
Translation differences	**-**	(2)	-	**(2)**
Balance at 30 June 2016	**653,093**	103,791	30,619	**134,410**
Balance at 1 January 2017	**524,812**	95,647	47,054	**142,701**
Movements during the period:				
Charge to the income statement	**-**	-	2,868	**2,868**
Utilised during the period	**(146,290)**	(7,929)	(11,264)	**(19,193)**
Financing charge	**9,258**	340	-	**340**
Translation differences	**-**	-	(26)	**(26)**
Balance at 30 June 2017	**387,780**	88,058	38,632	**126,690**
Analysed as follows:				
Non-current liabilities	**233,894**	71,307	-	**71,307**
Current liabilities	**153,886**	16,751	38,632	**55,383**
Total	**387,780**	88,058	38,632	**126,690**

Liability - ESB pension scheme
During 2010 the Group reached agreement with the ESB Group of Unions to amend pension arrangements within the ESB statutory body and this is explained in note 21 to the financial statements in the 2016 annual report.

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 and performance related payments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. TRADE AND OTHER PAYABLES

	June 2017 € '000	December 2016 € '000
Current payables:		
Progress payments on work in progress	**59,487**	80,220
Trade payables	**390,473**	434,865
Other payables	**60,697**	65,966
Employment taxes	**18,996**	18,550
Value added tax	**40,162**	43,337
Accruals	**99,858**	114,122
Accrued interest on borrowings	**59,118**	77,958
Total	**728,791**	835,018

23. DEFERRED INCOME AND GOVERNMENT GRANTS

	Supply contributions and other € '000
Balance at 1 January 2016	**558,284**
Receivable	**19,830**
Released to the income statement	**(30,050)**
Translation differences	**1,610**
Balance at 30 June 2016	**549,674**
Balance at 1 January 2017	**536,552**
Receivable	**24,800**
Released to the income statement	**(36,541)**
Translation differences	**(670)**
Balance at 30 June 2017	**524,141**
Analysed as follows:	
Non-current liabilities	**468,888**
Current liabilities	**55,253**
Total	**524,141**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

24. PROVISIONS

	Power station closure costs € '000	Emission provisions € '000	Other € '000	Total € '000
Balance at 1 January 2016	131,707	62,132	81,592	**275,431**
Charged to the income statement				
- Emission allowances	-	31,073	-	**31,073**
- Legal and other	-	-	995	**995**
Utilised in the period	(1,699)	(61,154)	(8,087)	**(70,940)**
Financing charge	738	-	277	**1,015**
Translation differences	(364)	(88)	(1,326)	**(1,778)**
Balance at 30 June 2016	130,382	31,963	73,451	**235,796**
Balance at 1 January 2017	180,301	65,403	76,271	**321,975**
Charged to the income statement				
- Emission allowances	-	33,600	-	**33,600**
- Legal and other	-	-	292	**292**
Utilised in the period	(1,337)	(65,232)	(1,874)	**(68,443)**
Financing charge	967	-	277	**1,244**
Translation differences	(80)	(19)	(279)	**(378)**
Balance at 30 June 2017	179,851	33,752	74,687	**288,290**
Analysed as follows:				
Non-current liabilities	178,128	-	54,022	**232,150**
Current liabilities	1,723	33,752	20,665	**56,140**
Total	**179,851**	**33,752**	**74,687**	**288,290**

Power station closure costs

The provision at 30 June 2017 of €179.9 million (31 December 2016: €180.3 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 credited 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. There has been no change in estimates up to period end 30 June 2017 (31 December 2016: €56.9 million increase). 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.

Emission 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 provision represents the obligation to return emission allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO_2 emission allowances, in addition to the market value of any additional allowances required to settle the period end liability.

Other provisions

Other provisions represent estimates of liabilities to third parties, in respect of claims notified or provided for at period end. In accordance with normal commercial practice, the period end provision includes an estimate for liabilities incurred but not yet reported.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. 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 Investment 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 tolerances 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 in the 2016 annual report.

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 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, 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. 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 30 June 2017, and at 31 December 2016 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	
	June 2017 € '000	December 2016 € '000	June 2017 € '000	December 2016 € '000	June 2017 € '000	December 2016 € '000	June 2017 € '000	December 2016 € '000	June 2017 € '000	December 2016 € '000
ASSETS										
Non-current assets										
Trade and other receivables	**-**	-	**72,088**	69,995	**-**	-	**-**	-	**72,088**	69,995
Financial asset investments	**42,605**	56,502	**-**	-	**-**	-	**-**	-	**42,605**	56,502
Derivative financial instruments	**-**	-	**-**	-	**101,760**	161,545	**12,379**	22,454	**114,139**	183,999
Total non-current financial assets	**42,605**	56,502	**72,088**	69,995	**101,760**	161,545	**12,379**	22,454	**228,832**	310,496
Current assets										
Trade and other receivables*	**-**	-	**629,611**	731,761	**-**	-	**-**	-	**629,611**	731,761
Cash and cash equivalents	**-**	-	**785,507**	363,624	**-**	-	**-**	-	**785,507**	363,624
Derivative financial instruments	**-**	-	**-**	-	**93,262**	131,647	**33,633**	71,545	**126,895**	203,192
Total current financial assets	**-**	-	**1,415,118**	1,095,385	**93,262**	131,647	**33,633**	71,545	**1,542,013**	1,298,577
Total financial assets	**42,605**	56,502	**1,487,206**	1,165,380	**195,022**	293,192	**46,012**	93,999	**1,770,845**	1,609,073
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	**-**	-	**4,752,781**	4,398,113	**-**	-	**-**	-	**4,752,781**	4,398,113
Derivative financial instruments	**-**	-	**-**	-	**67,504**	53,496	**636,157**	700,472	**703,661**	753,968
Total non-current financial liabilities	**-**	-	**4,752,781**	4,398,113	**67,504**	53,496	**636,157**	700,472	**5,456,442**	5,152,081
Current liabilities										
Borrowings and other debt	**-**	-	**448,995**	489,330	**-**	-	**-**	-	**448,995**	489,330
Trade and other payables**	**-**	-	**669,633**	773,130	**-**	-	**-**	-	**669,633**	773,130
Derivative financial instruments	**-**	-	**-**	-	**31,410**	27,903	**46,898**	71,883	**78,308**	99,786
Total current financial liabilities	**-**	-	**1,118,628**	1,262,460	**31,410**	27,903	**46,898**	71,883	**1,196,936**	1,362,246
Total financial liabilities	**-**	-	**5,871,409**	5,660,573	**98,914**	81,399	**683,055**	772,355	**6,653,378**	6,514,327

*Prepayments have been excluded as they are not classified as a financial asset. Comparative amounts have been restated where necessary to ensure consistency in the two periods being recorded.

**VAT and employment taxes have been excluded as these are statutory liabilities. Comparative amounts have been restated where necessary to ensure consistency in the two periods being recorded.

The Group's provisions and employee related liabilities are not analysed in the table above, or in the further analysis below. This includes the liability for pension obligation of €387.8 million at 30 June 2017 (31 December 2016: €524.8 million). See notes 20, 21 and 24 in relation to this and to the other provisions and employee related liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) 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	June 2017 € '000	December 2016 € '000
Trade and other receivables*	**701,699**	801,756
Cash and cash equivalents	**785,507**	363,624
Derivative financial instruments	**241,034**	387,191
	1,728,240	1,552,571

*Prepayments have been excluded as they are not classified as a financial asset. Comparative amounts have been restated where necessary to ensure consistency in the two periods being recorded.

Trade and other receivables

Wholesale and credit risk arising from trade and other receivables has been disclosed in note 15 of the most recent annual report, and has not changed significantly since.

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 within 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 period end 30 June 2017 was €38.0 million (31 December 2016: €45.0 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) 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 note 18) and investment 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 30 June 2017 relate to forecast cash flows expected.

At 30 June 2017, ESB's total debt portfolio amounted to €5.2 billion (31 December 2016: €4.9 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

	Before swaps		After swaps	
	June 2017 (%)	December 2016 (%)	**June 2017 (%)**	December 2016 (%)
Currency				
Euro	**56**	50	**66**	62
US dollar	**10**	11	**-**	-
Sterling	**34**	39	**34**	38
Total	**100**	100	**100**	100

The key exchange rates used at 30 June 2017 and 31 December 2016 were as follows:

	June 2017	December 2016
Foreign currency rate (US$ = €1)	**1.14**	1.05
Foreign currency rate (Stg£ = €1)	**0.88**	0.86

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) Fair value

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

	June 2017		December 2016	
	Carrying value € '000	**Fair value € '000**	Carrying value € '000	Fair value € '000
Long-term borrowings	**4,752,781**	**5,381,468**	4,398,113	5,507,281
Short-term borrowings	**448,995**	**461,849**	489,330	530,046
Total borrowings	**5,201,776**	**5,843,317**	4,887,443	6,037,327
Current trade and other payables*	**669,633**	**669,633**	773,130	773,130
Non-current trade and other receivables	**(72,088)**	**(79,529)**	(69,995)	(125,180)
Current trade and other receivables**	**(629,611)**	**(629,611)**	(731,761)	(731,761)
Cash and cash equivalents	**(785,507)**	**(785,507)**	(363,624)	(363,624)
Net liabilities	**4,384,203**	**5,018,303**	4,495,193	5,589,892

* VAT and employment taxes have been excluded as these are statutory liabilities. Comparative amounts have been restated where necessary to ensure consistency in the two periods being recorded.

** Prepayments have been excluded as they are not classified as a financial asset. Comparative amounts have been restated where necessary to ensure consistency in the two periods being recorded.

Current 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 or where applicable a specific interest rate has been applied.

ESB and NIE Networks Eurobonds are regarded Level 1 fair values. Other borrowings and debt are Level 2 fair values. The primary valuation technique used for borrowings and other debt classified as Level 2 fair values is the discounting of the future associated cash flows using the zero-coupon discount curve of the relevant currency. The fair value of Eurobonds is derived from observation of the most recent traded values for these bonds in liquid markets at the balance sheet date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(f) 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).

June 2017	Level 2 € '000	Level 3 € '000	**Total € '000**
ASSETS			
Derivative financial instruments			
- Currency swaps	37,266	-	**37,266**
- Foreign exchange contracts	15,028	-	**15,028**
- Forward fuel price contracts	48,901	6,139	**55,040**
- Forward electricity price contracts	-	123,927	**123,927**
- Interest rate swaps	9,773	-	**9,773**
Financial assets at fair value through profit or loss	-	42,035	**42,035**
	110,968	**172,101**	**283,069**
LIABILITIES			
Derivative financial instruments			
- Currency swaps	(25,611)	-	**(25,611)**
- Foreign exchange contracts	(7,862)	-	**(7,862)**
- Forward fuel price contracts	(28,524)	(23,701)	**(52,225)**
- Forward electricity price contracts	(26)	(6,861)	**(6,887)**
- Interest rate swaps	(42,173)	-	**(42,173)**
- Inflation linked interest rate swaps	(647,211)	-	**(647,211)**
	(751,407)	**(30,562)**	**(781,969)**
Net (liability) / asset	**(640,439)**	**141,539**	**(498,900)**

December 2016	Level 2 € '000	Level 3 € '000	Total € '000
ASSETS			
Derivative financial instruments			
- Currency swaps	61,289	-	61,289
- Foreign exchange contracts	17,684	-	17,684
- Forward fuel price contracts	106,048	25,337	131,385
- Forward electricity price contracts	-	160,932	160,932
- Interest rate swaps	15,901	-	15,901
Financial assets at fair value through profit or loss	-	55,932	55,932
	200,922	242,201	443,123
LIABILITIES			
Derivative financial instruments			
- Currency swaps	(10,270)	-	(10,270)
- Foreign exchange contracts	(16,804)	-	(16,804)
- Forward fuel price contracts	(56,926)	(943)	(57,869)
- Forward electricity price contracts	-	(20,679)	(20,679)
- Interest rate swaps	(49,660)	-	(49,660)
- Inflation linked interest rate swaps	(698,472)	-	(698,472)
	(832,132)	(21,622)	(853,754)
Net (liability) / asset	(631,210)	220,579	(410,631)

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(f) 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 investments based on its 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 thus higher values.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(f) Fair value hierarchy (continued)

The following table shows a reconciliation from opening balances at 1 January 2017 to the period ended 30 June 2017 balances for fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets at fair value through profit or loss € '000	Forward electricity price contracts € '000	Forward fuel price contracts € '000	**Total € '000**
Opening balance	55,932	140,253	24,394	**220,579**
Additions	1,661	-	-	**1,661**
Total gains / (losses):				
- in profit or loss	(15,559)	-	-	**(15,559)**
- in OCI	-	(105)	(35,669)	**(35,774)**
Settlements	-	(23,082)	(6,287)	**(29,369)**
Translation movements	1	-	-	**1**
Closing balance - net	**42,035**	**117,066**	**(17,562)**	**141,539**

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 adjusted for a liquidity discount. 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 period.

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.

Sensitivity analysis - Level 3 fair values

For the fair values of forward fuel and electricity price contracts and inflation linked interest rate swaps, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	June 2017		December 2016	
	Other comprehensive income gain / (loss) € '000	**Profit before taxation gain / (loss) € '000**	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000
Gain due to 10% increase in gas and coal prices	**(14,708)**	**-**	(22,276)	-
Loss due to 10% increase in the SMP	**18,919**	**-**	26,311	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

26. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

	June 2017 € '000	June 2016 € '000
Capital commitments contracted for during the period	**261,383**	140,029

(b) 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.

(c) Other disclosures

Following on from flooding in Cork in November 2009, Aviva as University College Cork's (UCC) insurer pursued a legal action against ESB in the High Court seeking recovery of €19.0 million for property damage. On 5 October 2015 the High Court delivered its judgement in the case and found ESB 60% liable for the damage caused and UCC 40% contributorily negligent.

Based on legal advices received, ESB has appealed the decision to the Court of Appeal and the appeal has been listed for hearing over four days commencing 31 October 2017. Pending the appeal hearing, no hearing on quantum (i.e. the actual amount of damages payable in respect of UCC's losses) will take place and the High Court has stayed its order on costs.

In addition to the UCC claim ESB has, since the judgement in the UCC case, been served with 387 sets of proceedings relating to the flooding in Cork in November 2009. Details of amounts claimed in relation to these proceedings have not yet been received and therefore it is not possible to make a reliable estimate of their cost (should the Court of Appeal find against ESB) at this time. However, ESB does not anticipate that the total amount of damages awarded, if any, and related costs for all of the actions, including the Aviva / UCC action, would exceed its applicable insurance cover.

On the basis of the internal and external legal advice received, ESB believes that it is more probable than not that the appeal will be successful and accordingly, no provision has been made for such claims in the financial statements.

27. 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, Bord na Móna, Eirgrid and Coillte Teoranta. 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 period or at 30 June 2017. 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 period.

Equity accounted investees

ESB provided management and other professional services during the period to Oweninny Power DAC of €0.8 million (30 June 2016: €nil), SIRO Limited €6.4 million (30 June 2016: €1.5 million), Tilbury Green Power Holdings Limited €0.3 million (30 June 2016: €0.9 million), Raheenleagh Power DAC €nil (30 June 2016: €2.2 million), Kingspan ESB Limited €0.1 million (30 June 2016: €nil) and to Terra Solar Limited €0.1 million (30 June 2016: €nil).

ESB has purchased power and services in relation to telecoms and maintenance during the period from Raheenleagh Power DAC €4.9 million (30 June 2016: €nil), SIRO Limited €2.0 million (30 June 2016: €nil) and from Kingspan ESB Limited €0.3 million (June 2016: €nil).

Capital funding advanced to date includes Raheenleagh Power DAC €3.2 million, Terra Solar Limited €2.5 million and Tilbury Green Power Holdings Limited €2.4 million.

The Group was owed €101.7 million from equity accounted investees at 30 June 2017, being €3.8 million (31 December 2016: €3.8 million) from Raheenleagh Power DAC, €7.2 million (31 December 2016: €6.9 million) from Oweninny Power DAC, €37.4 million (31 December 2016: €38.4 million) from Tilbury Green Power Holdings Limited, €4.9 million (31 December 2016: €4.4 million) from Emerald Bridge Fibres DAC, €6.9 million (31 December 2016: €6.9 million) from Castlepook Power DAC, €41.2 million (31 December 2016: €4.7 million) from SIRO Limited and €0.3 million (31 December 2016: €0.3 million) from Kingspan ESB Limited.

The Group was owed interest on borrowings receivable €11.3 million at 30 June 2017, being €0.2 million (31 December 2016: €0.7 million) from Emerald Bridge Fibres DAC, €0.2 million (31 December 2016: €nil) from Oweninny Power DAC and €10.9 million (31 December 2016: €8.4 million) from Tilbury Green Power Holdings Limited.

ESB has committed to provide capital funding to SIRO Limited of €85.0 million, of which €32.0 million has been advanced as a short-term shareholder loan as disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

27. RELATED PARTY TRANSACTIONS (continued)

Key management compensation

The key management compensation for the year ended 31 December 2016 is disclosed in note 28 of the 2016 annual report. There has been no significant changes to compensation arrangements during the period for the remuneration of Board members and senior executives.

28. 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, the amounts recognised in other comprehensive income 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.

Key judgements are described in note 29 of the 2016 annual report. There has been no change to the nature of these during the period and they are still considered to be the most subjective in preparing our financial statements.

29. 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 IFRS 10 Consolidated Financial Statements, the financial statements for ESB ESOP Trustee Limited are not consolidated with the results of the ESB Group.

During the year ended 31 December 2015, ESB entered into an agreement to support the acquisition of capital stock in future ESOP internal markets. As part of the agreement ESB committed to match the acquisitions made by the ESOP Trustees up to a value of €25.0 million. The acquisition of this stock by ESB will not commence until September 2017. A further ESOP repurchase provision of €7.0 million was recognised in the 2016 financial statements in relation to the capital stock repurchase by the ESOP Trustee. There has been no change to the ESOP repurchase provision in 2017.

30. EVENTS SINCE THE BALANCE SHEET DATE

There have been no significant events outside the ordinary course of business affecting the Group since 30 June 2017.

31. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Board approved the condensed consolidated interim financial statements on 27 September 2017.

ESB Head Office
Two Gateway
East Wall Road
Dublin 3
D03 A995
Ireland
T: +353 1 676 5831
E: info@esb.ie
www.esb.ie
Twitter: @ESBGroup
LinkedIn: https://www.linkedin.com/company/esb
YouTube: https://www.youtube.com/user/ESBVideo

FSC®