



INTERIM ACCOUNTS 2012

**Condensed Consolidated Financial Statements
as at and for the six month period ended
30 June 2012**

Consolidated Condensed Income Statement
For the six month period ended 30 June 2012

	Notes	Unaudited June 2012 € '000	Unaudited June 2011 € '000
Revenue	4	1,641,201	1,384,614
Other operating income	5	18,467	58,322
Operating costs	6	(1,350,512)	(1,231,155)
Operating profit before net finance cost		309,156	211,781
Net interest on borrowings	7	(86,307)	(65,748)
Financing charges	7	(27,933)	(22,905)
Fair value gains / (losses) on financial instruments	7	14,589	(52,774)
Finance income	7	1,147	787
Net finance cost		(98,504)	(140,640)
Share of joint ventures' profit	11	7,758	10,719
Profit before taxation		218,410	81,860
Income tax credit	16	14,413	5,866
Profit after taxation		232,823	87,726
Attributable to:			
Equity holders of the Parent		232,784	87,706
Non-controlling interest		39	20
Profit for the financial period		232,823	87,726

Signed:
Chairman




Signed:
Chief Executive



Signed:
Chairman, Audit and Risk Committee



Signed:
Executive Director, Group Finance and Commercial



Consolidated Condensed Statement of Comprehensive Income

For the six month period ended 30 June 2012

	Unaudited June 2012 € '000	Unaudited June 2011 € '000
Profit for the financial period	232,823	87,726
Other comprehensive income (OCI)		
Effective hedge of a net investment in foreign subsidiary	(841)	1,060
Translation differences on consolidation of foreign subsidiaries and joint ventures ¹	5,530	14,845
Defined benefit scheme actuarial losses	(47,506)	(1,624)
Fair value gains / (losses) on cash flow hedges	58,620	(85,481)
Fair value (losses) / gains on cash flow hedges in joint ventures	(2,687)	4,467
Transferred to income statement on cash flow hedges	(25,755)	76,366
Tax on items taken directly to statement of comprehensive income (OCI)	7,146	10,434
Tax on items taken directly to / transferred from OCI for joint ventures	691	(1,251)
Tax on items transferred from OCI	3,166	(9,546)
Total other comprehensive (loss) / income	(1,636)	9,270
Total comprehensive income for the financial period	231,187	96,996
Attributable to:		
Equity holders of the Parent	231,148	96,976
Non-controlling interest	39	20
Total comprehensive income for the financial period	231,187	96,996

¹ Included within foreign currency translation differences above are translation gains relating to the retranslation of joint venture investments at the balance sheet date of €2.5 million (period ended 30 June 2011: losses of €3.6 million) (see note 11).

Signed:
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Signed:
Chief Executive



Signed:
Chairman, Audit and Risk Committee



Signed:
Executive Director, Group Finance and Commercial



Consolidated Condensed Balance Sheet

As at 30 June 2012

	Notes	Unaudited June 2012 € '000	Audited December 2011 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	9	10,190,070	10,162,326
Intangible assets and goodwill	10	502,234	553,642
Investments in joint ventures	11	31,206	28,678
Financial asset investments	11	52,084	40,826
Derivative financial instruments	24	455,289	427,732
Deferred tax assets		192,563	181,052
Total non-current assets		11,423,446	11,394,256
Current assets			
Inventories	12	127,330	136,566
Derivative financial instruments	24	86,907	75,024
Current tax asset		-	12,182
Trade and other receivables	13	602,018	643,710
Cash and cash equivalents	14	174,566	277,409
Total current assets		990,821	1,144,891
Total assets		12,414,267	12,539,147
EQUITY			
Capital stock		1,979,882	1,979,882
Translation reserve		(12,778)	(17,467)
Cash flow hedging, revaluation and other reserves		347,210	356,306
Retained earnings		1,709,789	1,474,234
Equity attributable to equity holders of the Parent		4,024,103	3,792,955
Non-controlling interest		1,871	1,832
Total equity		4,025,974	3,794,787
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	17	4,247,416	4,367,862
Liability for pension obligation	20	780,595	732,835
Defined benefit pension liability	19	134,219	91,216
Employee related liabilities	20	57,085	62,574
Trade and other payables	21	12,843	13,281
Deferred income and government grants	22	609,342	620,020
Provisions	23	219,500	219,121
Deferred tax liabilities		857,180	864,683
Derivative financial instruments	24	515,497	553,837
Total non-current liabilities		7,433,677	7,525,429
Current liabilities			
Borrowings and other debt	17	137,931	233,309
Liability for pension obligation	20	63,825	101,907
Employee related liabilities	20	57,376	79,144
Trade and other payables	21	508,586	583,192
Deferred income and government grants	22	81,672	57,187
Provisions	23	47,851	137,393
Current tax liabilities		8,716	-
Derivative financial instruments	24	48,659	26,799
Total current liabilities		954,616	1,218,931
Total liabilities		8,388,293	8,744,360
Total equity and liabilities		12,414,267	12,539,147

Signed:
Chairman



Signed:
Chief Executive



Signed:
Chairman, Audit and Risk Committee



Signed:
Executive Director, Group Finance and Commercial



Consolidated Condensed Statement of Changes in Equity

As at 30 June 2012

Reconciliation of changes in equity

	Capital Stock	Translation Reserve	Cash Flow Hedging & Other Reserves ¹	Retained Earnings	Total	Non - Controlling Interest	Total Equity
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Balance at 1 January 2011	1,979,882	(18,904)	468,238	1,445,947	3,875,163	1,542	3,876,705
Total comprehensive income for the period							
Income for the period	-	-	-	87,706	87,706	20	87,726
Defined benefit scheme actuarial losses	-	-	(1,624)	-	(1,624)	-	(1,624)
Transfers to retained earnings	-	(3,541)	(2,771)	6,312	-	-	-
Translation differences net of hedging	-	(59,676)	75,581	-	15,905	-	15,905
Cash flow hedges:							
- Net fair value losses	-	-	(85,833)	-	(85,833)	-	(85,833)
- Transfers to income statement							
- Finance cost (interest)	-	-	3,439	-	3,439	-	3,439
- Finance cost (foreign translation movements)	-	-	71,772	-	71,772	-	71,772
- Other operating expenses	-	-	1,155	-	1,155	-	1,155
- Fair value gains for hedges in joint ventures	-	-	4,467	-	4,467	-	4,467
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	10,434	-	10,434	-	10,434
Tax on items transferred to income statement	-	-	(9,546)	-	(9,546)	-	(9,546)
Tax on items taken directly to OCI for joint ventures	-	-	(1,251)	-	(1,251)	-	(1,251)
Total comprehensive (loss) / income for the period	-	(63,217)	65,823	94,018	96,624	20	96,644
Balance at 30 June 2011	1,979,882	(82,121)	534,061	1,539,965	3,971,787	1,562	3,973,349
Balance at 1 January 2012	1,979,882	(17,467)	356,306	1,474,234	3,792,955	1,832	3,794,787
Total comprehensive income for the period							
Income for the period	-	-	-	232,784	232,784	39	232,823
Defined benefit scheme actuarial losses	-	-	(47,506)	-	(47,506)	-	(47,506)
Transfers to retained earnings	-	-	(2,771)	2,771	-	-	-
Translation differences net of hedging	-	4,689	-	-	4,689	-	4,689
Cash flow hedges:							
- Net fair value gains	-	-	58,620	-	58,620	-	58,620
- Transfers to income statement							
- Finance cost (interest)	-	-	109	-	109	-	109
- Finance cost (foreign translation movements)	-	-	(27,250)	-	(27,250)	-	(27,250)
- Other operating expenses	-	-	1,386	-	1,386	-	1,386
- Fair value gains losses for hedges in joint ventures	-	-	(2,687)	-	(2,687)	-	(2,687)
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	7,146	-	7,146	-	7,146
Tax on items transferred to income statement	-	-	3,166	-	3,166	-	3,166
Tax on items taken directly to OCI for joint ventures	-	-	691	-	691	-	691
Total comprehensive income / (loss) for the period	-	4,689	(9,096)	235,555	231,148	39	231,187
Balance at 30 June 2012	1,979,882	(12,778)	347,210	1,709,789	4,024,103	1,871	4,025,974

¹ The cash flow hedging and other reserves comprises of (i) a €58.1 million revaluation reserve (December 2011: €60.8 million) which arose following the acquisition of the remaining 30% of Synergex Power Limited in 2009 and (ii) cash flow hedge reserve of €289.1 million (December 2011: €295.5 million).

Consolidated Condensed Cash Flow Statement

For the six month period ended 30 June 2012

	Notes	Unaudited June 2012 € '000	Unaudited June 2011 € '000
<u>Cash flows from operating activities</u>			
Profit before taxation		218,410	81,860
<u>Adjustments for:</u>			
Depreciation and amortisation	9, 10	345,534	328,077
Amortisation of supply contributions and other deferred income	5	(17,486)	(17,061)
(Profit) on disposal of property, plant and equipment and investments		(504)	(253)
(Gain) relating to acquisition of Corby Power Limited	5	-	(28,805)
Impact of fair value adjustments on financial instruments in operating costs		9,911	624
Net finance cost	7	98,504	140,640
(Profits) from joint ventures	11	(7,758)	(10,719)
Operating cashflows before changes in working capital and provisions		646,611	494,363
Charge in relation to provisions		3,624	5,000
Charge in relation to employee related liabilities		6,098	5,026
Utilisation of provisions		(7,791)	(7,164)
Utilisation of employee related liabilities		(56,783)	(53,809)
Decrease in trade and other receivables		43,523	30,691
Decrease / (increase) in inventories		9,236	(32,310)
(Decrease) in trade and other payables		(60,246)	(92,010)
Cash generated from operations		584,272	349,787
Current tax refunded / (paid)		9,616	(5,678)
Interest paid		(113,946)	(80,070)
Net cash inflow from operating activities		479,942	264,039
<u>Cash flows from investing activities</u>			
Purchase of property, plant and equipment		(250,190)	(346,243)
Purchase of intangible assets		(23,529)	(24,114)
Proceeds from sale of property, plant and equipment and investments		1,811	1,477
Purchase of financial assets	11	(12,143)	(6,359)
Payments in relation to acquisitions net of cash acquired		-	(34,835)
Dividends received from joint venture undertakings	11	5,766	11,142
Interest received	7	1,147	787
Net cash outflow from investing activities		(277,138)	(398,145)
<u>Cash flows from financing activities</u>			
(Repayments) of term debt facilities and finance leases		(172,106)	(448,730)
Proceeds from the issue of new debt		128,921	704,959
(Decrease) in other borrowings (net)		(259,724)	(186,682)
Interest element of finance lease payments		(2,269)	(2,555)
Net settlement on inflation linked interest rate swaps		(4,045)	(4,412)
Net cash (outflow) / inflow from financing activities		(309,223)	62,580
Net (decrease) in cash and cash equivalents		(106,419)	(71,526)
Cash and cash equivalents at 1 January	14	277,409	199,585
Effect of exchange rate fluctuations on cash held		3,576	(3,538)
Cash and cash equivalents at 30 June	14	174,566	124,521

Notes to the Consolidated Condensed Financial Statements

1. REPORTING ENTITY

ESB is a company domiciled in the Republic of Ireland. The condensed consolidated interim financial statements of ESB as at and for the six months ended 30 June 2012 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 jointly controlled entities. 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 2011 and are available on our website www.esb.ie. The auditor's report on those financial statements was unqualified.

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 2011.

3. SIGNIFICANT ACCOUNTING POLICIES

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 2011 except as otherwise described below.

The following amendments to existing standards and interpretations were effective for the current period, but did not have a material impact on the Group's interim financial statements:

Accounting standard / interpretation	Effective date
Amendments to IFRS 7 - Financial Instruments: Disclosure - on transfers of assets	1 January 2012

In addition, an amendment to IAS 12 - Income Taxes, relating to the deferred tax recovery of underlying assets, is effective for periods beginning 1 January 2012 but has not yet been endorsed by the EU and therefore has not been applied by the Group. However, it is not expected to have a material impact when it is applied.

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. We are currently assessing the full impact of these amendments on the Group.

Accounting standard / interpretation	Effective date
IFRS 7 (Revised) - Financial Instruments: Disclosure - Transfers of financial assets; Offsetting of financial assets and financial liabilities; and Initial application of IFRS 9	Effective at various dates beginning on or after 1 July 2013
IFRS 9 - Financial Instruments: Classification and Measurement	1 January 2015
IFRS 10 - Consolidated Financial Statements	1 January 2013
IFRS 11 - Joint Arrangements	1 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 - Fair Value Measurement	1 January 2013
IAS 1 - Amendments to revise the way other comprehensive income is presented	1 July 2012
IAS 19 - Employee Benefits	1 January 2013
IAS 27 - Separate Financial Statements	1 January 2013
IAS 28 - Investments in Associates and Joint Ventures	1 January 2013
IAS 32 - Financial Instruments: Disclosure and Presentation - on offsetting Financial Assets and Financial Liabilities	1 January 2014

Notes to the Consolidated Condensed Financial Statements

4. SEGMENT REPORTING

(i) Segment revenue - 2012

	Electric Ireland € '000	ESB Networks € '000	ESB Energy International € '000	NIE ¹ € '000	Other segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	976,407	247,495	288,358	127,145	1,796	-	1,641,201
Inter-segment revenue	1,940	198,428	579,197	12,626	68,698	(860,889)	-
Revenue	<u>978,347</u>	<u>445,923</u>	<u>867,555</u>	<u>139,771</u>	<u>70,494</u>	<u>(860,889)</u>	<u>1,641,201</u>

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

(ii) Segment operating costs - 2012

Depreciation and amortisation	(6,257)	(170,605)	(100,390)	(64,090)	(4,192)	-	(345,534)
Other operating costs	(949,787)	(185,427)	(625,865)	(41,320)	(63,468)	860,889	(1,004,978)

(iii) Operating result - 2012

Operating profit	22,303	106,988	142,503	34,361	3,001	-	309,156
Net finance cost	(409)	(837)	(20,267)	(21,952)	(55,039)	-	(98,504)
Share of joint ventures' profit	-	-	7,758	-	-	-	7,758
Profit / (loss) before taxation	<u>21,894</u>	<u>106,151</u>	<u>129,994</u>	<u>12,409</u>	<u>(52,038)</u>	<u>-</u>	<u>218,410</u>

(i) Segment revenue - 2011

	Electric Ireland € '000	ESB Networks € '000	ESB Energy International € '000	NIE ¹ € '000	Other segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	797,269	261,223	222,458	99,931	3,733	-	1,384,614
Inter-segment revenue	4,641	177,179	507,480	11,785	74,914	(775,999)	-
Revenue	<u>801,910</u>	<u>438,402</u>	<u>729,938</u>	<u>111,716</u>	<u>78,647</u>	<u>(775,999)</u>	<u>1,384,614</u>

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

(ii) Segment operating costs - 2011

Depreciation and amortisation	(4,344)	(162,775)	(100,368)	(55,488)	(5,102)	-	(328,077)
Other operating costs	(811,140)	(171,432)	(574,932)	(46,123)	(75,450)	775,999	(903,078)

(iii) Operating result - 2011

Operating (loss) / profit	(13,574)	121,328	95,681	10,105	(1,759)	-	211,781
Net finance income / (cost)	448	(772)	(15,386)	(28,720)	(96,210)	-	(140,640)
Share of joint ventures' profit	-	-	10,719	-	-	-	10,719
(Loss) / profit before taxation	<u>(13,126)</u>	<u>120,556</u>	<u>91,014</u>	<u>(18,615)</u>	<u>(97,969)</u>	<u>-</u>	<u>81,860</u>

¹ NIE segment includes depreciation on fair value uplift recognised on acquisition of NIE, and primarily impacts the depreciation and amortisation line in 2011 and 2012.

Notes to the Consolidated Condensed Financial Statements

5. OTHER OPERATING INCOME	June 2012 € '000	June 2011 € '000
Amortisation of supply contributions and other deferred income	17,486	17,061
Profit on disposal of property, plant and equipment	143	253
Profit on disposal of investment	838	-
Gain arising on acquisition of Corby Power Limited	-	28,805
Settlement on novation of tolling agreement	-	12,203
Total	18,467	58,322
6. OPERATING COSTS	June 2012 € '000	June 2011 € '000
Employee costs (Note 8)	242,952	230,393
Fuel costs	396,687	312,360
Other electricity related costs	155,035	164,458
Operations and maintenance	210,304	195,867
Depreciation and amortisation (Notes 9/10)	345,534	328,077
Total	1,350,512	1,231,155
7. NET FINANCE COST AND OTHER FINANCING CHARGES	June 2012 € '000	June 2011 € '000
Interest payable on borrowings	97,571	78,839
Interest payable on finance leases	2,192	2,499
Interest payable	99,763	81,338
Less capitalised interest	(13,456)	(15,590)
Net interest on borrowings	86,307	65,748
Financing charges:		
- on defined benefit pension scheme (Note 19)	438	1,190
- on liability for pension obligation (Note 20)	20,219	14,200
- on employee related liabilities (Note 20)	1,701	2,244
- on power station closure costs (Note 23)	4,395	4,036
- on other provisions (Note 23)	1,180	1,235
Total financing charges	27,933	22,905
Fair value (gains) / losses on financial instruments:		
- currency / interest rate swaps: cash flow hedges, transfer from OCI	109	3,439
- interest rate swaps and inflation linked swaps not qualifying for hedge accounting	(14,121)	49,335
- foreign exchange contracts not qualifying for hedge accounting	(577)	-
Total fair value (gains) / losses on financial instruments	(14,589)	52,774
Finance cost	99,651	141,427
Finance income	(1,147)	(787)
Net finance cost	98,504	140,640

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

Fair value (gains) / losses on interest rate swaps and inflation linked interest rate swaps primarily relate to fair value movements on inflation linked interest rate swaps, which were acquired as part of the purchase of the NIE business in December 2010. These swaps do not qualify for hedge accounting under IAS 39 and accordingly fair value movements following their acquisition are recognised in the income statement. Their fair value is affected by relative movements in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom.

In addition to the amounts transferred from other comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a further €27.3 million (June 2011: €71.8 million) has been transferred from the cash flow hedge reserve to net finance cost and other financing charges during the period. However, these amounts are fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates.

Notes to the Consolidated Condensed Financial Statements

8. EMPLOYEES

(a) Employee costs in the period	June 2012 € '000	June 2011 € '000
Current staff costs (excluding pension)		
Salaries	250,501	248,471
Overtime	9,463	13,465
Social welfare costs	16,939	15,280
Other payroll benefits ¹	14,379	15,834
Capitalised payroll	<u>(74,122)</u>	<u>(87,377)</u>
Net payroll cost for employees	<u>217,160</u>	<u>205,673</u>
(b) Pension and other employee benefit costs		
Exit costs	-	713
Defined benefit charge ²	4,454	3,932
Defined contribution charge ³	<u>21,338</u>	<u>20,075</u>
	<u>25,792</u>	<u>24,720</u>
Total employee related costs charged to the income statement	<u>242,952</u>	<u>230,393</u>

During the period the company reached agreement with the Group of Unions (on behalf of employees) on proposals to reduce costs in the company. As part of this agreement, a voluntary severance programme was launched. It is expected that this programme will close by the end of the year, with a significant charge to employee costs arising in 2012.

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

² The defined benefit charge relates solely to the 'Focus' section of the Northern Ireland Electricity Pension Scheme ('the NIE Scheme') which is accounted for as a defined benefit scheme.

³ The defined contribution charge includes contributions to the ESB Defined Contribution Pension Scheme, the ESB General Employees' Superannuation Scheme and the 'Options' section of the NIE Scheme.

Notes to the Consolidated Condensed Financial Statements

9. PROPERTY, PLANT AND 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 2011	1,042,297	13,133,534	14,175,831	991,900	15,167,731
Additions	655	80,381	81,036	274,910	355,946
Acquisitions	-	111,509	111,509	-	111,509
Retirements / disposals	4	(12,693)	(12,689)	-	(12,689)
Transfers out of assets under construction	24,136	148,193	172,329	(172,329)	-
Transfers to intangible assets	(44,791)	37,187	(7,604)	(3)	(7,607)
Translation differences	(255)	(104,816)	(105,071)	(11,608)	(116,679)
Balance at 30 June 2011	1,022,046	13,393,295	14,415,341	1,082,870	15,498,211
Balance at 1 January 2012	1,089,980	14,206,970	15,296,950	829,137	16,126,087
Additions	437	84,724	85,161	165,470	250,631
Retirements / disposals	(10)	(5,950)	(5,960)	-	(5,960)
Transfers out of assets under construction	18,610	169,194	187,804	(187,804)	-
Transfers to intangible assets	-	(23)	(23)	-	(23)
Other transfers	588	(588)	-	-	-
Translation differences	5,861	122,998	128,859	5,625	134,484
Balance at 30 June 2012	1,115,466	14,577,325	15,692,791	812,428	16,505,219
Depreciation					
Balance at 1 January 2011	572,383	4,757,422	5,329,805	-	5,329,805
Charge for the period	12,654	294,324	306,978	-	306,978
Retirements / disposals	(21)	(11,357)	(11,378)	-	(11,378)
Other transfers	(549)	549	-	-	-
Translation differences	(1,180)	(3,016)	(4,196)	-	(4,196)
Balance at 30 June 2011	583,287	5,037,922	5,621,209	-	5,621,209
Balance at 1 January 2012	593,525	5,370,236	5,963,761	-	5,963,761
Charge for the period	9,612	309,239	318,851	-	318,851
Retirements / disposals	(10)	(5,441)	(5,451)	-	(5,451)
Other transfers	94	(94)	-	-	-
Translation differences	66	37,922	37,988	-	37,988
Balance at 30 June 2012	603,287	5,711,862	6,315,149	-	6,315,149
Net book value at 30 June 2012	512,179	8,865,463	9,377,642	812,428	10,190,070
Net book value at 31 December 2011	496,455	8,836,734	9,333,189	829,137	10,162,326
Net book value at 30 June 2011	438,759	8,355,373	8,794,132	1,082,870	9,877,002
Net book value at 1 January 2011	469,914	8,376,112	8,846,026	991,900	9,837,926

During the period the group capitalised interest of €13.5 million (June 2011: €15.6 million) in assets under construction, using an effective interest rate of 5.25% (June 2011: 5.0%).

The carrying value of non-depreciable assets at 30 June 2012 is €78.6 million (December 2011: €70.5 million).

Property, plant and equipment with a net book value of €nil at 30 June 2012 is included above at a cost of €2,357.5 million (December 2011: €2,206.2 million).

Retirements / disposals in both 2012 and 2011 primarily relate to the retirement of assets that have been fully depreciated.

Finance leases

All finance leases are held by the Parent. The net book value of property, plant and equipment includes an amount of €25.0 million (December 2011: €30.0 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the period amounted to €5.0 million (June 2011: €5.0 million).

Notes to the Consolidated Condensed Financial Statements

10. INTANGIBLE ASSETS

	Goodwill € '000	Software and other intangible assets € '000	Emissions Allowances € '000	Software under development € '000	Total € '000
Cost					
Balance at 1 January 2011	176,293	454,005	134,739	17,072	782,109
Software additions	-	9,882	-	8,275	18,157
Allocation of emissions allowances	-	-	133,033	-	133,033
Purchase of emissions allowances	-	-	5,957	-	5,957
Acquisitions	-	-	12,266	-	12,266
Software disposals	-	(188)	-	-	(188)
Settlement of emissions allowances	-	-	(125,014)	-	(125,014)
Transfers out of software under development	-	356	-	(356)	-
Transfers from property, plant and equipment	-	7,673	-	(66)	7,607
Translation differences	(8,165)	(2,587)	(544)	(12)	(11,308)
Balance at 30 June 2011	168,128	469,141	160,437	24,913	822,619
Balance at 1 January 2012	181,664	479,666	168,680	34,487	864,497
Software additions	-	1,688	-	21,034	22,722
Allocation of emissions allowances	-	-	68,554	-	68,554
Purchase of emissions allowances	-	-	807	-	807
Settlement of emissions allowances	-	-	(127,475)	-	(127,475)
Transfers out of software under development	-	47,183	-	(47,183)	-
Transfers from property, plant and equipment	-	23	-	-	23
Translation differences	7,870	2,856	731	1,320	12,777
Balance at 30 June 2012	189,534	531,416	111,297	9,658	841,905
Amortisation					
Balance at 1 January 2011	-	256,501	-	-	256,501
Charge for the period	-	21,099	-	-	21,099
Translation differences	-	(58)	-	-	(58)
Retirements / disposals	-	(188)	-	-	(188)
Balance at 30 June 2011	-	277,354	-	-	277,354
Balance at 1 January 2012	-	310,855	-	-	310,855
Charge for the period	-	26,683	-	-	26,683
Translation differences	-	2,133	-	-	2,133
Balance at 30 June 2012	-	339,671	-	-	339,671
Net book value at 30 June 2012	189,534	191,745	111,297	9,658	502,234
Net book value at 31 December 2011	181,664	168,811	168,680	34,487	553,642
Net book value at 30 June 2011	168,128	191,787	160,437	24,913	545,265
Net book value at 1 January 2011	176,293	197,504	134,739	17,072	525,608

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

Emissions allowances are not amortised as they are held for settlement in the following year. The emissions allowances included above were received by way of government grant and are also included in deferred income, as shown in note 22. The Group sold certain allowances with a carrying value of €59.0 million in April 2012, and simultaneously contracted to buy them back in February 2013 at a fixed price. This transaction has been treated as a financing arrangement and is detailed in Note 17.

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

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

Goodwill was recognised on the acquisition of NIE in December 2010, and relates to the fair value of the expected return on future investment in the Regulated Asset Base of the NIE business. Goodwill is reviewed annually in December for impairment, by assessing the recoverable amount of the investment, based on its value in use. At 30 June 2012 there were no indicators of impairment, other than as noted below.

The Utility Regulator in Northern Ireland (NIAUR) announced in October 2011 that the next price control programme (RPS) applicable to NIE would take effect from 1 October 2012 rather than 1 April 2012. In April 2012 NIAUR published for consultation its draft determination for RPS. NIE's response was submitted on 19 July 2012. NIAUR's final determination is expected in late 2012.

Regulatory pricing decisions have a marked impact on the value in use of the NIE business. To the extent that the method or level of regulatory recovery determined in RPS is not consistent with the current programme, and similar programmes in the UK, an indicator of impairment may arise.

Notes to the Consolidated Condensed Financial Statements

11. FINANCIAL ASSET INVESTMENTS

	Joint venture investments € '000	Financial assets at fair value through profit or loss € '000	Other investments € '000	Total € '000
Balance at 1 January 2011	55,117	18,866	1,318	75,301
Additions	-	6,359	-	6,359
Share of profit	10,719	-	-	10,719
Fair value movement on cash flow hedges	3,216	-	-	3,216
Dividends received	(11,142)	-	-	(11,142)
Translation differences	(3,563)	(68)	26	(3,605)
Conversion of Corby Power Limited to full subsidiary	(23,488)	-	-	(23,488)
Balance at 30 June 2011	30,859	25,157	1,344	57,360
Balance at 1 January 2012	28,678	39,482	1,344	69,504
Additions	25	12,118	-	12,143
Disposals	-	-	(798)	(798)
Share of profit	7,758	-	-	7,758
Fair value movement on cash flow hedges	(1,996)	-	-	(1,996)
Dividends received	(5,766)	-	-	(5,766)
Translation differences	2,507	-	(62)	2,445
Balance at 30 June 2012	31,206	51,600	484	83,290

Interests in joint ventures

The following companies have been included in the ESB Group accounts as joint ventures using equity accounting:

Name of the company	Country	Holding 30 June 2012 % of share capital owned	Holding 31 December 2011 % of share capital owned
Bizkaia Energia SL	Spain	50%	50%
Marchwood Power Ltd	United Kingdom	50%	50%
Oweninny Power Ltd	Republic of Ireland	50%	50%
Emerald Bridge Fibres Ltd	Republic of Ireland	50%	50%

Notes to the Consolidated Condensed Financial Statements

12. INVENTORIES

	June 2012 € '000	December 2011 € '000
Materials	53,963	53,483
Fuel	73,367	83,083
	<u>127,330</u>	<u>136,566</u>

Inventories consumed during the six month period ended 30 June 2012 totalled €91.1 million (six months ended 30 June 2011: €85.9 million). There were no inventory impairments recognised during the period (year ended 31 December 2011: €nil).

13. TRADE AND OTHER RECEIVABLES

	June 2012 € '000	December 2011 € '000
Trade receivables	235,764	238,682
Unbilled consumption	209,181	274,452
Amounts owed by joint venture undertakings	5,208	6,247
Prepayments	23,435	27,169
Other receivables	128,430	97,160
	<u>602,018</u>	<u>643,710</u>

Wholesale and retail credit risk

Trade, other receivables and unbilled consumption can be divided into final retail electricity customers (billed and unbilled), SEM pool related receivables, use of system receivables, and other (non-electricity) receivables. Risks relating to these receivables have not changed significantly from those disclosed in the most recent annual report.

14. CASH AND CASH EQUIVALENTS

	June 2012 € '000	December 2011 € '000
Cash at bank and in hand	<u>174,566</u>	<u>277,409</u>

15. NON-CONTROLLING INTEREST

Non controlling interest at 30 June 2012 relates to the minority shareholdings in Crockahenny Wind Farm Limited, Mountain Lodge Power Limited, Carrington Power Limited and Airvolution Energy Limited.

16. TAXATION

	June 2012 € '000	June 2011 € '000
Income tax credit		
Current tax		
Current tax charge	12,622	997
Prior year over provision	(1,340)	(500)
	<u>11,282</u>	<u>497</u>
Deferred tax		
Origination and reversal of temporary differences	18,009	(6,363)
Deferred tax not previously recognised ¹	(28,800)	-
Effect of decrease in UK tax rate on opening deferred tax liability ²	(14,628)	-
Prior year over provision	(276)	-
	<u>(25,695)</u>	<u>(6,363)</u>
Total	<u>(14,413)</u>	<u>(5,866)</u>

¹ This deferred tax asset arises due to agreement with HMRC that derivative financial instruments will be taxed under hedge accounting rules for UK tax purposes. The Group expects to earn sufficient future profits to absorb future payments represented by the current fair value of relevant derivatives.

² On 26 March 2012, the UK corporation tax rate was reduced by 1% to 24%, effective from 1 April 2012. Therefore the new rate has been used in calculating the Group's UK deferred tax liability at 30 June 2012, resulting in a credit of €14.6 million.

Notes to the Consolidated Condensed Financial Statements

17. BORROWINGS AND OTHER DEBT

(a) Borrowings	Finance leases	Recourse borrowings	Non-recourse borrowings	June 2012 Total	December 2011 Total
	€ '000	€ '000	€ '000	€ '000	€ '000
Current borrowings					
- Repayable by instalments	7,066	58,178	1,115	66,359	73,747
- Repayable other than by instalments	-	71,572	-	71,572	159,562
Total current borrowings	7,066	129,750	1,115	137,931	233,309
Non-current borrowings					
- Repayable by instalments					
Between one and two years	52,077	74,085	2,509	128,671	116,848
Between two and five years	-	268,680	5,679	274,359	254,267
After five years	-	526,416	20,662	547,078	507,827
	52,077	869,181	28,850	950,108	878,942
- Repayable other than by instalments					
Between one and two years	-	304,571	-	304,571	273,045
Between two and five years	-	1,322,073	-	1,322,073	1,554,439
After five years	-	936,675	733,989	1,670,664	1,661,436
	-	2,563,319	733,989	3,297,308	3,488,920
Total non-current borrowings	52,077	3,432,500	762,839	4,247,416	4,367,862
Total borrowings outstanding	59,143	3,562,250	763,954	4,385,347	4,601,171

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

Current borrowings by facility	June 2012	December 2011
	€ '000	€ '000
Emissions allowances financing arrangement	59,686	148,342
Long term bank borrowings	58,178	58,649
Private placement borrowings	11,886	-
Non-recourse long term project finance debt	1,115	1,716
Capital element of finance leases	7,066	24,602
	137,931	233,309

Non-current borrowings by facility	June 2012	December 2011
	€ '000	€ '000
ESB stock	10,304	10,304
Non-recourse long term project finance debt	28,850	27,857
ESB Eurobond	337,186	325,318
NIE Eurobonds	733,989	710,613
Long term bank borrowings	1,922,847	2,095,102
Private placement borrowings	1,162,163	1,142,940
Capital element of finance leases	52,077	55,728
	4,247,416	4,367,862

With the exception of borrowings relating to finance leases and the non-recourse project finance debt relating to certain wind farm assets, which are secured against those specific assets, none of the borrowings are secured against the Group assets.

In April 2011 the Group received €145.0 million from the sale of emissions allowances, and at the same date contracted to buy them back in April 2012 at a fixed price. In April 2012 the Group bought back these allowances, and completed a similar sale of €59.0 million of emissions allowances, contracting to buy them back in February 2013, at a fixed price. These transactions have the effect of a financing arrangement, and are disclosed in current borrowings above.

In March 2010, ESB issued a Stg€275.0 million 10 year Eurobond with a fixed coupon of 6.5%. This bond required ESB to obtain an investment grade rating. In January 2011, ESB received ratings from Standard & Poor's, Moodys and Fitch of BBB+, Baa1 and BBB+ respectively. On 14 July 2011, Moody's issued a revision of the rating to Baa3, largely as a result of their downgrade of the Irish sovereign credit rating. The outlook on each of the three ratings is currently negative, largely associated with the negative outlook placed on the Irish sovereign rating by each of the agencies. The credit rating change had no impact on the fixed coupon of 6.5%. There has been no change in the credit ratings during the period.

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

Notes to the Consolidated Condensed Financial Statements

17. BORROWINGS AND OTHER DEBT (continued)

(a) Borrowings (continued)

Finance leases

The Group has entered into a lease arrangement in connection with certain assets included within property, plant and equipment. Payment obligations on both sides of this arrangement were fulfilled immediately, such that the Group has no future net payment obligations under the terms of the arrangement and continues to have unrestricted use of the assets concerned. Accordingly, the assets continue to be recognised in the financial statements and there is no corresponding lease obligation.

Future finance lease commitments for the Group are as follows:

	June 2012 Minimum lease payments € '000	June 2012 Present value of minimum lease payments € '000	December 2011 Minimum lease payments € '000	December 2011 Present value of minimum lease payments € '000
Amounts payable:				
Within one year	10,579	7,066	28,679	24,602
Between one and five years	53,670	52,077	59,025	55,728
	64,249	59,143	87,704	80,330
Less future lease charges	(5,106)		(7,374)	
Present value of lease obligations	59,143		80,330	

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 2012 € '000	June 2011 € '000
Value at 1 January	102,765	110,772
Repayments in period	(5,711)	(5,541)
Loss / (gain) on translation to Euro (OCI)	3,430	(4,856)
Value at 30 June	100,484	100,375
Gain / (loss) on translation of net investment in subsidiary (OCI)	2,588	(3,816)

(b) Funding and liquidity management

The principal liquidity risks faced by the Group relate to cash flow requirements arising from day-to-day operations, maturing debt obligations and the funding of capital investment programmes. The Group's treasury function manages this risk through a combination of liquid investments, cash and cash equivalents and undrawn committed bank facilities. The Group negotiates facilities with relationship banks and debt capital markets to pre-fund any requirements arising from maturing debt and capital expenditure.

At 30 June 2012 the Group had over €1,254 million 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 €221 million which may only be drawn against certain scheduled capital expenditure.

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account the compatibility between funding costs and risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements.

The maturity profile of the carrying amount of the Group's borrowings, and the expiry of material undrawn committed bank borrowing facilities are as follows:

Maturing	30 June 2012		31 December 2011	
	Drawn debt € '000	Undrawn facility € '000	Drawn debt € '000	Undrawn facility € '000
In one year or less	137,931	-	233,309	-
Between one and two years	433,242	-	389,893	-
Between two and five years	1,596,432	841,444	1,808,706	600,689
In more than five years	2,217,742	238,825	2,169,263	321,306
	4,385,347	1,080,269	4,601,171	921,995

Notes to the Consolidated Condensed Financial Statements

17. BORROWINGS AND OTHER DEBT (continued)

(c) Interest rate risk management

The Group's current interest rate policy is to have a minimum of 50% of the debt portfolio at fixed (or inflation linked) rates of interest, with a target of 75% at fixed (or inflation linked) rates of interest. This is achieved either by borrowing directly at fixed interest rates or via interest rate swaps. At 30 June 2012, 84% of the Group's debt was fixed to maturity or inflation linked (December 2011: 79%). The fair value of interest rate swaps can be seen in Note 18.

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
Finance leases (fixed interest rate)	6.1%	59,143	7,066	52,077	-	-
Private placement borrowings (fixed interest rate)	5.8%	1,174,049	11,886	294,267	268,407	599,489
Non-recourse borrowings (fixed interest rate)	6.5%	763,954	1,115	2,509	5,679	754,651
Other long term borrowings (fixed and variable interest rate)	5.0%	2,388,201	117,864	84,389	1,322,345	863,603

Included within other long term borrowings above are floating rate liabilities of €1,428.7 million (2011: €836.9 million). The principal floating rate facility is in place until dates in 2014 and 2015.

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 Sig£25.5m 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 2012 would be 1.2%, 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 Consolidated Condensed Financial Statements

18. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value by class of derivative financial instrument

The fair values of financial instruments, grouped by class of instrument, are as follows:

	June 2012 € '000	December 2011 € '000
Interest rate swaps (cash flow hedges):		
- Non-current liabilities	(10,116)	(5,986)
Inflation linked interest rate swaps (cash flow hedges):		
- Non-current liabilities	(470,324)	(478,517)
- Current liabilities	(10,548)	(8,135)
Currency swaps (cash flow hedges):		
- Non-current liabilities	(33,080)	(68,279)
Foreign exchange contracts (non SEM trading related):		
- Non-current assets	1,519	1,942
- Current assets	3,564	3,579
- Current liabilities	(1,549)	(85)
Foreign exchange contracts (SEM trading related):		
- Non-current assets	271	207
- Current assets	5,327	4,768
- Non-current liabilities	(409)	-
- Current liabilities	(378)	(106)
Forward fuel price contracts (cash flow hedges):		
- Non-current assets	233,382	207,693
- Current assets	49,862	30,819
- Non-current liabilities	(1,568)	-
- Current liabilities	(35,274)	(10,401)
Forward electricity price contracts (cash flow hedges):		
- Non-current assets	220,117	217,890
- Current assets	28,154	35,858
- Non-current liabilities	-	(1,055)
- Current liabilities	(910)	(8,072)
	<u>(21,960)</u>	<u>(77,880)</u>

With the exception of inflation linked interest rate swaps, the vast majority of the derivative balances shown in the table above are designated as cash flow hedges of interest rate, currency or commodity risk arising from highly probable forecast interest, revenue, fuel, or other operating cost cash flows.

Derivative financial instruments are carried at fair value. The fair value of a financial instrument is the amount it could be exchanged for in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. 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.

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

The weighted average interest rate used to discount future estimated cash flows was 1.3% (year ended 31 December 2011: 1.7%). The rate is based on the EURIBOR yield curve at the reporting date.

(i) Interest rate swaps

For interest rate swaps, the fair value takes into account the fixed, floating and market rates prevailing at the year end. As interest rate swaps are marked to market at the year end, their carrying value is equal to their fair value. Total fair value losses of €4.1 million were recognised during the six month period to 30 June 2012 (June 2011: gains of €0.2 million) in relation to interest rate swaps, all of which was recognised directly in fair value gains / losses on financial instruments in the income statement.

The majority of ESB's interest rate swaps are part of effective hedging relationships. The purpose of these hedges is to fix the interest rate payments on the debt over its lifetime.

Notes to the Consolidated Condensed Financial Statements

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value by class of derivative financial instrument (continued)

(ii) Inflation linked interest rate swaps

Interest rate swaps with a fair value on acquisition of €272.5 million were acquired in December 2010 as part of the purchase of the NIE business. During the six month period to 30 June 2012, positive fair value movements on these swaps of €18.3 million (June 2011: negative fair value movements of €49.5 million) were recognised within fair value gains / losses on financial instruments in the income statement. In addition, negative fair value movements of €16.6 million (June 2011: positive fair value movements of €14.4 million) were recognised through other comprehensive income.

The inflation linked interest rate swaps did not qualify for hedge accounting under IAS 39 on acquisition of the NIE business. Their fair value is affected by relative movements in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom.

(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. 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 foreign exchange risk on these payments over the periods to maturity from 2010 to 2023.

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 and fuel purchase requirements (which are in US dollar and pounds sterling) and in relation to future power station overhaul costs (which are in swiss francs). These contracts have maturities extending until 2015. Total negative fair value movements of €2.7 million were recognised during the six month period to 30 June 2012 (year ended 31 December 2011: positive movements of €6.2 million) in relation to such foreign exchange contracts, of which negative movements of €4.5 million (2011: €6.0 million) were recognised through other comprehensive income and positive movements of €1.8 million (2011: €0.2 million) were recognised in the income statement.

Notes to the Consolidated Condensed Financial Statements

19. PENSION LIABILITY

	June 2012 € '000	June 2011 € '000
Northern Ireland Electricity Pension Scheme		
Net (deficit) / asset at 1 January	(91,216)	12,698
Movements during the period:		
Actuarial losses recognised in OCI in the period	(47,506)	(1,624)
Charge to the income statement	(4,454)	(3,933)
Pension contributions paid	13,528	9,076
Net pension scheme interest	(438)	(1,190)
Translation differences	(4,133)	(630)
Net (deficit) / asset at 30 June	<u>(134,219)</u>	<u>14,397</u>

Pension liability

The majority of the employees in Northern Ireland are members of the Northern Ireland Electricity Pension Scheme ('the NIE Scheme'). This has two sections: 'Options', which is a money purchase arrangement whereby the employer generally matches the members' contributions up to a maximum of 6% of salary, and 'Focus' which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the NIE Scheme are held under trust and invested by the trustees on the advice of professional investment managers.

The actuarial loss for the period arises mainly due to a reduction in the discount rate used to value the scheme liabilities to 4.35% at 30 June 2012, from 4.7% at 31 December 2011.

20. LIABILITY FOR PENSION OBLIGATION AND EMPLOYEE RELATED LIABILITIES

	Liability for pension obligation € '000	Employee related liabilities		
		Restructuring liabilities € '000	Other € '000	Total € '000
Balance at 1 January 2011	896,702	110,109	47,293	157,402
Movements during the period:				
Charge to the income statement	-	68	7,438	7,506
Acquisitions	-	-	1,556	1,556
Utilised during the period	(15,491)	(20,553)	(8,689)	(29,242)
Financing charge	14,200	2,244	-	2,244
Translation differences	-	(25)	(5)	(30)
Balance at 30 June 2011	<u>895,411</u>	<u>91,843</u>	<u>47,593</u>	<u>139,436</u>
Balance at 1 January 2012	834,742	85,979	55,739	141,718
Movements during the period:				
Charge to the income statement	-	(68)	3,415	3,347
Utilised during the period	(10,541)	(9,801)	(22,913)	(32,714)
Financing charge	20,219	1,701	-	1,701
Translation differences	-	10	399	409
Balance at 30 June 2012	<u>844,420</u>	<u>77,821</u>	<u>36,640</u>	<u>114,461</u>
Analysed as follows:				
Non-current liabilities	780,595	57,085	-	57,085
Current liabilities	63,825	20,736	36,640	57,376
Total	<u>844,420</u>	<u>77,821</u>	<u>36,640</u>	<u>114,461</u>

Liability for pension obligation

During 2010 the company reached agreement with the ESB Group of Unions to amend pension arrangements within the company. Further information is included in Notes 18 and 19 to the Financial Statements in the ESB Annual Report 2011. This agreement confirmed certain company obligations which require separate provision.

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, as well as liabilities in respect of former employees which may arise as part of other potential legal or constructive post retirement obligations. These liabilities are expected to be materially discharged by 2021.

Other

In accordance with the requirements of IAS 19 Employee Benefits, provision has been made for employee remuneration liabilities, including accrued holiday leave, bonuses and profit share arrangements.

Notes to the Consolidated Condensed Financial Statements

21. TRADE AND OTHER PAYABLES

Current payables:	June 2012 € '000	December 2011 € '000
Progress payments on work in progress	38,011	38,242
Trade payables	208,640	266,963
Other payables	68,706	61,568
Employment taxes	19,419	19,303
Value added tax	38,717	43,579
Accruals	95,113	95,592
Accrued interest on borrowings	39,980	57,945
	508,586	583,192
	June 2012 € '000	December 2011 € '000
Non-current payables:		
Other payables	12,843	13,281

22. DEFERRED INCOME AND GOVERNMENT GRANTS

	Emissions allowances € '000	Supply contributions and other € '000	Total € '000
Balance at 1 January 2011	6,751	699,216	705,967
Receivable	133,033	971	134,004
Released to the income statement	(61,435)	(17,061)	(78,496)
Translation differences	(104)	-	(104)
Balance at 30 June 2011	78,245	683,126	761,371
Balance at 1 January 2012	14,005	663,202	677,207
Receivable	68,554	2,855	71,409
Released to the income statement	(36,204)	(21,542)	(57,746)
Translation differences	144	-	144
Balance at 30 June 2012	46,499	644,515	691,014
Analysed as follows			
Non-current liabilities	-	609,342	609,342
Current liabilities	46,499	35,173	81,672
Total	46,499	644,515	691,014

Notes to the Consolidated Condensed Financial Statements

23. PROVISIONS

	Power station closure costs € '000	Emissions provisions € '000	Customer rebate and other provisions € '000	Total € '000
Balance at 1 January 2011	192,773	121,139	79,369	393,281
Charged to the income statement				
- Emissions	-	66,757	-	66,757
- Legal and other	-	-	582	582
- Station closure	51	-	-	51
Transferred to pension liability	(955)	-	-	(955)
Acquisitions	1,136	-	-	1,136
Utilised in the period	(5,798)	(125,014)	(1,366)	(132,178)
Financing charge	4,036	-	1,235	5,271
Translation differences	(32)	(404)	(532)	(968)
Balance at 30 June 2011	191,211	62,478	79,288	332,977
Balance at 1 January 2012	173,844	128,128	54,542	356,514
Charged to the income statement				
- Emissions	-	38,601	-	38,601
- Legal and other	-	-	183	183
- Station closure	1,043	-	-	1,043
Utilised in the period	(6,333)	(127,475)	(1,458)	(135,266)
Financing charge	4,395	-	1,180	5,575
Translation differences	78	206	417	701
Balance at 30 June 2012	173,027	39,460	54,864	267,351
Analysed as follows:				
Non-current liabilities	169,035	-	50,465	219,500
Current liabilities	3,992	39,460	4,399	47,851
Total	173,027	39,460	54,864	267,351

Power station closure costs

The provision at 30 June 2012 of €173.0 million (December 2011: €173.8 million) for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2025. As the costs are provided on a discounted basis, a financing charge is included in the income statement and added to the provision in each period. The power station closure provision is re-examined annually and the liability recalculated in accordance with the current expected station closure dates. Closure costs include physical dismantling costs and costs associated with de-manning the stations on closure.

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, transportation costs, 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.

Emissions provisions

In accordance with the provisions of the European CO2 emissions trading scheme, a provision is recognised to cover the liability for actual emissions during the year. Under this scheme, emissions allowances covering a percentage of the expected emissions are granted at the beginning of each year by the relevant Authority (See Note 10 Intangible assets and Note 22 Deferred income and Government Grants). These allowances, together with any additional 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 CO2 during the year. The period end provision represents the obligation to return emissions allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO2 emissions allowances, in addition to the market value of any additional allowances required to settle the liability.

Customer rebate and other provisions

A customer rebate provision of €300 million at 1 January 2009 related to a payment due from ESB to all Irish electricity customers, in order to mitigate the requirement for increased electricity tariffs in 2008 / 2009 due to volatility in fuel prices. This was substantially paid during 2009. The remaining balance in addition to other provisions no longer required were released to the income statement during the second half of 2011.

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

Notes to the Consolidated Condensed Financial Statements

24. 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 Board Finance 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 Energy International and Electric Ireland. This is done in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit. The Group Trading Risk Management function ensures that the Group's market, credit and operational risks are managed in a way to protect the Group from loss, while respecting the ring-fencing obligations in place between the business units.

Contracts entered into in order to hedge exposures arising from the production and sale of electricity may be divided into forward fuel price contracts, forward electricity price contracts and foreign exchange contracts. Financial instruments are derecognised on settlement or sale.

Risk reporting structure

Through the Chief Executive, the Board has delegated to the Group Trading Committee (GTC) the broader responsibility of managing ESB's trading risk in a manner consistent with the Group's risk tolerance and business strategies. The GTC has established risk limits to manage and limit trading risk exposure at Group and business unit level. These limits are documented for each of the ESB businesses engaged in wholesale trading activities. Furthermore the Group Trading Risk Management Policy is applicable to each of these businesses.

Within each of these business units, a Trading Risk Management Committee has been established to serve as the primary overseer of trading risk at individual ring-fenced entity level. This committee includes the head of the front office function, the Trading Risk (Middle Office) Manager, a representative from Group Trading Risk Management, and the business unit Financial Controller. The Trading Risk Management Committees are responsible for formulating trading risk strategy in accordance with the Group Trading Risk Management Policy and ensuring compliance with same, trading risk limit management and ensuring that there is an effective control framework in place.

The Trading Risk Management Committees report to the GTC. The middle office function in each business unit maintains a separate reporting line to the Group Trading Risk Management function, which is responsible for ensuring that the Group's net exposure to movements in commodity or other price movements is adequately managed in accordance with Group Trading Risk Management Policy. The trading operations of the business units are subject to review by Group Internal Audit.

ESB funds its operations using a combination of borrowings and finance leases, uses deposit instruments to invest surplus funds and uses interest rate and foreign currency instruments to manage interest rate and currency risks that arise in the normal course of operations from US dollar and sterling denominated borrowings, from its foreign currency subsidiaries, and from the use of foreign currency suppliers. Hedge accounting pursuant to IAS 39 is used both for hedges of foreign currency liabilities and interest rate risks from current and non-current liabilities.

In addition, the Group enters into certain commodity hedging transactions to fix fuel costs and to link electricity revenues more closely to fuel inputs, where possible. All of these arrangements are designated into hedge relationships, and in the great majority of cases meet the specific hedge accounting criteria of IAS 39. Where the IAS 39 hedge criteria are met in respect of cross currency swaps, interest rate swaps, foreign exchange contracts, forward fuel price contracts and forward electricity price contracts, all of these instruments are designated as cash flow hedges of highly probable forecast interest, revenue or other operating cost cash flows. Any derivatives on hand which are not specifically designated into hedge relationships from an accounting perspective are nevertheless regarded as valid economic hedges.

Notes to the Consolidated Condensed Financial Statements

24. 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 2012, and at 31 December 2011 can be analysed as follows:

GROUP

	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	
	December		December		December		December		December	
	June 2012 € '000	2011 € '000	June 2012 € '000	2011 € '000	June 2012 € '000	2011 € '000	June 2012 € '000	2011 € '000	June 2012 € '000	2011 € '000
ASSETS										
Non-current assets										
Financial asset investments	51,600	39,482	484	1,344	-	-	-	-	52,084	40,826
Derivative financial instruments	-	-	-	-	455,134	427,303	155	429	455,289	427,732
Total non-current financial assets	51,600	39,482	484	1,344	455,134	427,303	155	429	507,373	468,558
Current assets										
Trade and other receivables	-	-	602,018	643,710	-	-	-	-	602,018	643,710
Cash and cash equivalents	-	-	174,566	277,409	-	-	-	-	174,566	277,409
Derivative financial instruments	-	-	-	-	84,573	72,900	2,334	2,124	86,907	75,024
Total current financial assets	-	-	776,584	921,119	84,573	72,900	2,334	2,124	863,491	996,143
Total financial assets	51,600	39,482	777,068	922,463	539,707	500,203	2,489	2,553	1,370,864	1,464,701
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	-	-	4,247,416	4,367,862	-	-	-	-	4,247,416	4,367,862
Liability for pension obligation	-	-	780,595	732,835	-	-	-	-	780,595	732,835
Trade and other payables	-	-	12,843	13,281	-	-	-	-	12,843	13,281
Derivative financial instruments	-	-	-	-	35,057	74,382	480,440	479,455	515,497	553,837
Total non-current financial liabilities	-	-	5,040,854	5,113,978	35,057	74,382	480,440	479,455	5,556,351	5,667,815
Current liabilities										
Borrowings and other debt	-	-	137,931	233,309	-	-	-	-	137,931	233,309
Liability for pension obligation	-	-	63,825	101,907	-	-	-	-	63,825	101,907
Trade and other payables	-	-	508,586	583,192	-	-	-	-	508,586	583,192
Derivative financial instruments	-	-	-	-	37,940	17,608	10,719	9,191	48,659	26,799
Total current financial liabilities	-	-	710,342	918,408	37,940	17,608	10,719	9,191	759,001	945,207
Total financial liabilities	-	-	5,751,196	6,032,386	72,997	91,990	491,159	488,646	6,315,352	6,613,022

The Group's provisions and employee related liabilities are not analysed in the table above, or in the further analysis below. The only exception to this is the liability for pension obligation of €844.4 million at 30 June 2012 (31 December 2011: €834.7 million). See Notes 19, 20 and 23 for further information in relation to this and to the other provisions and employee related liabilities.

(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.

<i>Financial assets</i>	30 June 2012 Group € '000	31 December 2011 Group € '000
Trade and other receivables	602,018	643,710
Financial asset investments	52,084	40,826
Cash and cash equivalents	174,566	277,409
Derivative financial instruments	542,196	502,756
	<u>1,370,864</u>	<u>1,464,701</u>

Trade and other receivables

Risks relating to these receivables have not changed significantly from those disclosed in the most recent annual report.

Financial asset investments

Credit risk arising on financial asset investments, including financial assets at fair value through profit or loss, is closely monitored and reflected in the carrying value at the period end.

Notes to the Consolidated Condensed Financial Statements

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Credit risk (continued)

Treasury related credit risk (relating to cash and derivative instruments)

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts with in the financial markets. The Group's policy is to limit its exposure to each financial institution based on accepted credit ratings of not less than BBB or equivalent.

Trading in derivatives is performed to mitigate financial risks and is executed in compliance with the Specification and Requirements of the Minister for Finance issued under the aegis of the "Financial Transactions of Certain Companies and Other Bodies Act 1992". The Specification and Requirements outline the type of derivatives which ESB can transact and the associated requirements which ESB must satisfy regarding each derivative counterparty. Dealing activities are controlled by putting in place robust dealing mandates with counterparties. The Group does not hold or trade derivative instruments for speculative purposes. Exposures, related limits and compliance with the Minister's Specification and Requirements are subject to ongoing review and monitoring. The Group has not experienced any losses due to failure of such counterparties to deliver on their obligations.

Commodity credit risk (relating to derivatives)

The Group also has credit risk associated with commodity positions. These arise from derivative financial instruments that are entered into to hedge energy and fuel price risks and are managed in accordance with the Minister's Specification and Requirements ("Financial Transactions of Certain Companies and Other Bodies Act 1992"). The Group establishes counterparty credit risk limits to restrict uncollateralised exposure. Net exposures, collateral requirements and compliance are monitored on an ongoing basis. Collateral, in the form of bonds and guarantees, is required by ESB business units from various parties, specifically in the form of Letters of Credit from certain power Contract for Differences (CfD) counterparties. Total collateral held at the period end was €185.0 million (31 December 2011: €208.9 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.

(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 and investments outside the eurozone.

Foreign currency forward purchase contracts and cross currency swaps are used to reduce volatility arising from foreign currency exposures. The foreign currency forward purchase contracts in place at 30 June 2012 relate to forecast cash flows expected to occur up to 15 December 2023.

There was a negative fair value movement on foreign currency contracts of €5.9 million in the period to 30 June 2012 (year ended 31 December 2011: positive movement of €32.3 million) of which a net positive movement of €1.8 million (2011: positive movement of €0.7 million) was recognised in the income statement and a net negative movement of €7.7 million (2011: positive movement of €31.6 million) was recognised in other comprehensive income. The amount recognised in the income statement in the period to 30 June 2012 is inclusive of a gain of €27.2 million (year ended 31 December 2011: gain of €33.3 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). Ineffectiveness of €0.2 million was recognised in relation to foreign exchange contracts in the period (2011: €5.2 million).

At 30 June 2012, ESB's total debt portfolio amounted to €4.4 billion (31 December 2011: €4.6 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

GROUP	Before swaps		After swaps	
	30 June 2012 (%)	31 December 2011 (%)	30 June 2012 (%)	31 December 2011 (%)
Currency				
Euro	34%	37%	57%	59%
US Dollar	23%	21%	0%	0%
Sterling	43%	42%	43%	41%
Total	100%	100%	100%	100%

In managing its foreign operations, the Group is cognisant of borrowing in currencies that match the functional currency of the foreign operation. Therefore a substantial proportion of debt is sterling-denominated primarily as a result of the NIE acquisition.

The key exchange rates used at 30 June 2012 and 31 December 2011 were as follows:

	June 2012	December 2011
€1 = US\$	1.2590	1.2939
€1 = Stg£	0.8068	0.8353
€1 = CHF	1.2030	1.2156

Notes to the Consolidated Condensed Financial Statements

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Fair value

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

	30 June 2012		31 December 2011	
	Carrying value € '000	Fair value € '000	Carrying value € '000	Fair value € '000
Long term debt held to maturity	4,195,339	4,197,524	4,312,134	4,233,929
Long term finance lease liabilities	52,077	53,006	55,728	56,560
Short term borrowings (includes finance leases)	137,931	138,003	233,309	226,989
Total borrowings	4,385,347	4,388,533	4,601,171	4,517,478
Derivative financial instruments (net)	(21,960)	(21,960)	77,880	77,880
Financial assets at fair value through profit or loss	(51,600)	(51,600)	(39,482)	(39,482)
Liabilities for pension obligation	844,420	844,420	834,742	834,742
Trade and other payables	521,429	521,429	596,473	596,473
Trade and other receivables	(602,018)	(602,018)	(643,710)	(643,710)
Cash and cash equivalents	(174,566)	(174,566)	(277,409)	(277,409)
Net liabilities	4,901,052	4,904,238	5,149,665	5,065,972

As trade and other receivables, and the vast majority of trade and other payables 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.

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of trade and other payables is calculated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Financial assets at fair value through profit or loss are carried at fair value. Where applicable, the fair value is based on the most recent fund valuation statement available. In relation to stand alone investments, the valuation methodology used is in accordance with International Private Equity and Venture Capital Valuation Guidelines which have been developed by a number of international venture capital associations.

Fair value - Discount rates

The interest rates used to discount future estimated cash flows, where applicable, are based on the EURIBOR yield curve at the reporting date plus an adequate constant credit spread, and were as follows:

	30 June 2012	31 December 2011
	%	%
Leases	4.4%	4.8%
Other loans and borrowings	4.7%	5.3%
Derivative financial instruments	1.3%	1.7%
Liability for pension obligation	4.5%	5.0%
Trade and other payables	4.4%	5.2%

Notes to the Consolidated Condensed Financial Statements

25. COMMITMENTS AND CONTINGENCIES

	June 2012 € '000	June 2011 € '000
(a) Capital commitments		
Capital commitments contracted for during the period	<u>125,573</u>	<u>111,483</u>
	June 2012 € '000	June 2011 € '000
Share of joint venture capital commitments		
Contracted for	<u>-</u>	<u>73</u>

(b) Fuel contract commitments

There are a number of long term gas supply arrangements in place for different periods up to 2020. 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

A number of letters of claim have been received in relation to 2009 flooding in Cork (Ireland); one claimant has issued legal proceedings seeking to recover circa €19m for property damage. There is a possibility of additional claims being brought in connection with the flooding, but ESB intends to strenuously defend all such claims. On the basis of advices obtained, ESB believes that it has a good defence to these claims, and accordingly, no provision has been made for such claims in the financial statements.

The Group's most recent annual report noted that on 22 February 2012 the Irish government announced that it had decided to pursue a proposal to dispose of some of ESB's non-strategic generation capacity. There have been no further developments in relation to this proposal during the period.

26. 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 Bord Gáis and Bord na Mona. Long term agreements are negotiated between ESB and Bord na Mona 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 2012. Approximately one third of the cash and cash equivalents as disclosed in note 14 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.

Joint ventures

During the period the Group provided services to its joint ventures Oweninny Power Ltd and Emerald Bridge Fibres Limited. No services were provided to Marchwood Power Limited or Bizkaia Energia SL.

ESB provided services to Oweninny Power Ltd during the period to the value of €2.4 million (June 2011: €nil) and to Emerald Bridge Fibres Limited to the value of €0.1 million (June 2011: €nil).

Capital funding to the value of €0.5 million (June 2011: €nil) was provided to Emerald Bridge Fibres Limited during the period. The group was owed €0.5 million (June 2011: €0.5 million) by Bizkaia Energia SL as at 30 June 2012.

Notes to the Consolidated Condensed Financial Statements

27. ESTIMATES AND JUDGEMENTS

Preparation of consolidated financial statements requires a significant number of judgemental assumptions and estimates to be made. These impact on the income and expenses contained within the income statement and the valuation of the assets and liabilities in the balance sheet. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation.

Key judgemental accounting policies are described in Note 26 of the 2011 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 deriving our financial statements.

28. SUBSEQUENT EVENTS

On 4 September 2012 the Group issued a €600 million 5 year Eurobond with a fixed coupon of 6.25% under its existing Euro Medium Term Note (EMTN) programme.

29. APPROVAL OF ACCOUNTS

The Board approved the accounts on 26 September 2012.