Energy for generations

Interim Financial Report

FOR THE PERIOD TO 30 JUNE 2021

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FINANCE REVIEW JUNE 2021

Pat Fenlon

EXECUTIVE DIRECTOR, GROUP FINANCE AND COMMERCIAL

FINANCIAL PERFORMANCE

ESB has delivered an improved operating profit before exceptional items of €363 million for the six months to June 2021, an increase of €114 million on the same period in 2020. The COVID-19 pandemic had a significant impact on the 2020 half year operating profit with reduced revenue due to a sharp fall in demand in Q2 2020 and restrictions on our capital programme leading to more costs being charged to the income statement. The easing of COVID-19 restrictions, an improvement in electricity demand, regulated network tariff changes and positive foreign exchange movements are the primary drivers of the increase in operating profit in 2021.

ESB is a joint venture partner in the Neart na Gaoithe project, a 448 MW offshore wind farm development off the east coast of Scotland. Delays to the project and an expectation of significant additional construction costs (due to more challenging sea-bed conditions than anticipated) have caused an exceptional impairment charge of €106 million as at 30 June 2021. This represents approximately 0.7% of our total asset base at 30 June 2021.

In June 2021, ESB successfully completed the sale of its 47% stake in Tilbury Green Power, a waste wood energy plant in Great Britain. A gain on sale of €82m has been recognised in the income statement in respect of this transaction, most of which is accounted for as a reversal of previous impairment charges (including interest) on ESB shareholder loans to the project.

These results represent a strong performance as we continue to lead the transition to a low-carbon energy future for our customers.

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

	June 2021 €m	June 2020 €m	June 2019 €m	June 2018 €m	June 2017 €m
Operating profit	**363**	249	294	244	297
EBITDA[1]	**742**	604	664	620	673
Capital expenditure[2]	**435**	395	396	579	303
	June 2021 €m	December 2020 €m	December 2019 €m	December 2018 €m	December 2017 €m
Net debt[3]	**4,770**	5,120	5,239	4,915	4,337
Gearing (%)[4]	**51%**	55%	57%	56%	52%
Total assets	**15,021**	13,842	14,159	13,304	12,294

[1] EBITDA: operating profit before interest, taxation, depreciation, impairments (including non-trading net impairment losses on financial assets), amortisation and revenue from supply contributions

[2] 2018 - 2021 capital expenditure is gross of customer contributions for network connections. (in line with IFRS 15 'Revenue from Contracts with Customers'). Capital expenditure in 2017 is net of customer contributions

[3] 2021 and 2020 net debt includes lease liabilities recognised in accordance with IFRS 16 'Leases'

[4] Gearing - net debt divided by the sum of net assets and gross debt (including lease liabilities) excluding joint ventures

FIGURE 2: SUMMARISED EBITDA CALCULATION

	June 2021 €m	June 2020 €m
Operating profit after exceptional items	**445**	**72**
Depreciation and amortisation	413	390
Revenue from supply contributions	(40)	(36)
Impairment gain	(79)	-
Impairment charge	3	178
EBITDA	**742**	**604**

HIGHLIGHTS

OPERATING PROFIT:

€363 million

(€114 MILLION INCREASE ON JUNE 2020)

CAPITAL EXPENDITURE:

€435 million

(€40 MILLION INCREASE ON JUNE 2020)

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 6 of the interim financial statements. The Group operating profit before exceptional items for the six months to June 2021 of €363 million is €114 million higher than the equivalent period in 2020. This is set out below on a segmental basis.

- ESB Networks operating profit of €206 million is up €74 million. This is primarily due to an increase in regulated tariffs and electricity demand compared to 2020. The impact of COVID-19 in the first half of 2020 led to lower overall electricity demand (c.4% year on year reduction for the first half of 2020). This led to reduced revenue and and a restriction of certain capital work programmes (reducing payroll capitalisation, thus increasing payroll costs in the income statement). The positive income statement impact of the easing of restrictions on the capital programme is offset by a higher depreciation charge in 2021 due to the growing and changing nature of the asset base.
- Customer Solutions operating profit of €31 million is up €13 million versus 2020. This is primarily as a result of the timing of price changes and the hedging of wholesale energy costs. The impact of higher wholesale market costs is expected to have a greater impact on Customer Solutions operating profit in the second half of 2021.
- Generation and Trading (GT) operating profit of €91 million (excluding exceptional items) is up €23 million due to lower net operating costs as well as improved energy margin in Great Britain.
- Northern Ireland Electricity Networks (NIE Networks) operating profit of €37 million is down €8 million primarily due to lower Public Service Obligation (PSO) income (timing of pass-through regulated charges) offset by positive movements in demand and capital activities (due to the impact of COVID-19 in 2020) which have resulted in lower net payroll costs being charged to the income statement.
- Other Segments include Engineering & Major Projects, Corporate Centre and Enterprise Services which provide services to the other business segments. This segment, which includes most of the financing costs of the Group, reported an operating loss of €2 million for 2021 compared to a loss of €14 million in 2020. This primarily reflects foreign exchange gains on intercompany positions (compared to foreign exchange losses in 2020).

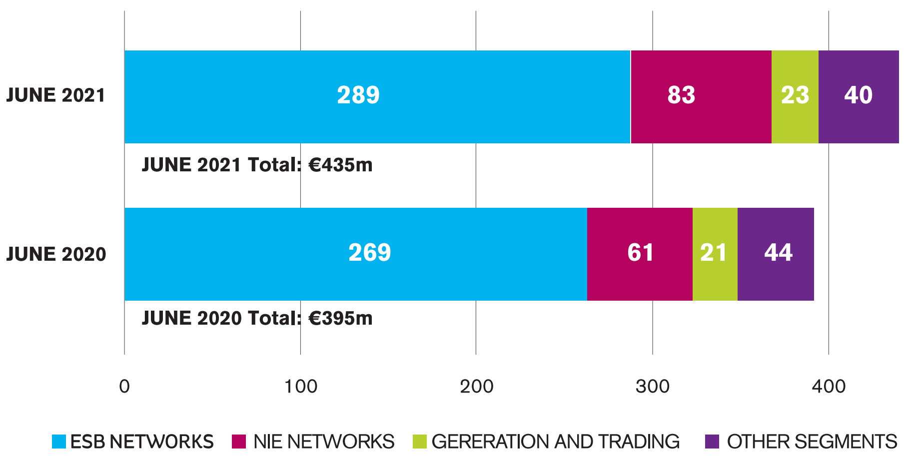
FIGURE 3: SUMMARISED INCOME STATEMENT

	2021 €m	2020 €m
Revenue and other operating income	2,154	1,857
Operating costs	(1,791)	(1,608)
Operating profit	**363**	**249**
Exceptional item	82	(177)
Operating profit after exceptional item	**445**	**72**
Net finance costs	(63)	(78)
Fair value movements on financial instruments	(49)	(53)
Share of equity accounted investees loss	(17)	(3)
Exceptional impairment of equity accounted investees	(106)	-
Profit / (loss) before tax	**210**	**(62)**
Tax charge	(82)	(4)
Profit / (loss) after tax	**128**	**(66)**

FIGURE 4: SUMMARISED CASH FLOW STATEMENT

	2021 €m	2020 €m
EBITDA	742	604
Provision utilisation and working capital	336	88
Interest and tax	(135)	(140)
Net cash inflow from operating activities	**943**	**552**
Sale proceeds	1	13
Capital expenditure and loans to equity accounted investees	(428)	(390)
Net cash outflow from investing activities	**(427)**	**(377)**
Net cash (outflow) / inflow from financing activities	**(215)**	**16**
Net increase in cash	**301**	**191**

FIGURE 5: CAPITAL EXPENDITURE (INCLUDING PURCHASE OF FINANCIAL ASSETS)



ESB Networks expenditure of €289 million is up €20 million mainly due to increased spend on smart metering as well as distribution and transmission network projects. This is primarily due to the increase in the ESB Networks capital programme agreed under Price Review 5 as well as the impact of COVID-19 on the capital programme in 2020.

NIE Networks expenditure of €83 million is up €22 million due to higher core network and connections activity mainly due to COVID-19 restrictions in 2020 impacting the ability to complete work programmes.

Capital expenditure in Generation and Trading at €23 million is up €2 million with increases in new projects (including renewables and battery storage) being offset by marginally lower overhaul costs.

Other Segments expenditure of €40 million is €4 million below the prior period and includes spend on the redevelopment at the Fitzwilliam Street Head Office complex which is lower than 2020 due to the extended site closure due to COVID-19 restrictions during the first half of 2021.

NET DEBT AND GEARING

Net debt of €4.8 billion at 30 June 2021 comprises borrowings of €5.2 billion (31 December 2020: €5.2 billion), cash of €553 million (31 December 2020: €249 million) and lease liabilities of €120 million recognised under IFRS 16 'Leases' (31 December 2020: €125 million). Borrowing levels remain in line with December 2020 with increased EBITDA being offset by negative movements on the translation of Sterling denominated debt into euro due to the strengthening of Sterling in 2021. The increased cash balance is primarily due to the cash collateral amounts received in relation to mark-to-market of exchange traded gas, carbon and power contracts as set out in the Funding and Liquidity section below.

The gearing level of 51% at 30 June 2021 has reduced since December 2020 (55%) reflecting lower net debt.

FUNDING AND LIQUIDITY

Group Treasury's funding activities support ESB's capital expenditure programme, the refinancing of maturing debt and the maintenance of a sufficient liquidity buffer against future political or economic events which may have an impact on cash flows and financial markets.

Throughout the period of the COVID-19 pandemic, ESB's cashflow and liquidity position has remained strong. In February 2020 ESB negotiated a €1.4 billion Sustainability-Linked Revolving Credit Facility with a group of fourteen international banks. This facility currently extends to February 2026, as ESB exercised the first of two 1-year extension options earlier this year. The cost of this standby liquidity facility is directly linked to the delivery by ESB of specific decarbonisation targets aligned with ESB's Brighter Future Strategy. This facility (€1.4 billion) was undrawn at 30 June 2021.

At 30 June 2021, ESB had over €550 million of cash on hand. Included in this amount is just over €450 million relating to cash collateral amounts received in relation to mark-to-market positions of exchange traded gas, carbon and power contracts. Excluding these collateral amounts but including the Revolving Credit Facility and an undrawn facility with the European Investment Bank, the Group had just under €1.7 billion in available liquidity at 30 June 2021. This is significantly in excess of scheduled debt repayments due over the next 24 months of just over €150 million.

The weighted average interest rate on the Group's portfolio of outstanding borrowings at 30 June 2021 had fallen to 2.6% (31 December 2020: 2.7%). 99% of borrowings are fixed to maturity or inflation linked. Approximately 33% of Group borrowings are Sterling denominated. These borrowings have been raised to fund assets in Great Britain and Northern Ireland, which earn, or will earn in the future, Sterling denominated net revenues.

In April 2021 the breaks on a series of RPI-linked swaps, held by NIE Networks with a variety of bank counterparties, with a nominal value of GBP £550 million were either removed or extended. The swaps with maturities of 2026 (£200 million), 2031 (£200 million) and 2036 (£150 million) each had a break at June 2022. The breaks on the 2026 and 2031 swaps have been removed with the breaks on the 2036 swaps extended to December 2025.

ESB's strong liquidity position reflects its underlying financial strength and credit ratings of A- and A3 with Standard & Poor's and Moody's respectively, both reaffirmed during 2021 and with a stable outlook. 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 credit rating agencies, debt investors and relationship banks.

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 Group Risk Management Policy and Governance Framework which sets out delegated responsibilities and procedures for the management of risk across the Group.

Following completion of the 2021 Group Risk Plan and the 2021 mid-year risk review process, four additional principal risks have been added to the principal risks facing the Group set out on pages 28 to 39 of the 2020 Annual Report. The risks contained in the 2020 Annual Report continue to be principal risks for the Group albeit with a broadening of one of the risks to include a greater focus on organisational agility (including keeping pace with new and emerging markets and technologies). The additional principal risks (over and above those set out in the 2020 Annual Report) relate to:

1. ESB's response to policy measures addressing climate change
2. Growing and increasingly complex network infrastructures and systems required to meet future customer and societal needs
3. The industrial relations environment
4. Electricity system and market wide capacity margin issues

The risks above, along with those set out in the 2020 Annual Report reflect the principal risks and opportunities facing the Group for the remaining six months of the financial year.

What is included in the Annual Report and above 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 but not an absolute level of protection against the impact of the events in question.

OUTLOOK

As Ireland's leading energy utility, ESB has a strong balance sheet at 30 June 2021 with net assets of €4.1 billion. We continue to deliver strong operating profits (before exceptional items) and maintain a strong liquidity position of c.€1.7 billion. This strong financial position along with a stable business profile, means ESB is well positioned to meet the challenges that lie ahead and to deliver on our strategic ambition to lead the transition to reliable, affordable low-carbon energy for the benefit of our customers.

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 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 2021, which comprise the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement, 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,

Noreen O'Kelly, Board member

Terence O'Rourke, Chairman

15 September 2021

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six month period ended 30 June 2021

		Unaudited June 2021			Unaudited June 2020		
	Notes	**Excluding exceptional items €m**	**Exceptional items note 8 €m**	**Total €m**	Excluding exceptional items €m	Exceptional items note 8 €m	Total €m
Revenue	7	**2,153.5**	**-**	**2,153.5**	1,849.8	-	1,849.8
Other operating income (net)	9	**0.2**	**3.2**	**3.4**	6.8	-	6.8
Net impairment losses on financial assets	10	**(6.7)**	**-**	**(6.7)**	(10.5)	-	(10.5)
Operating costs	10	**(1,784.2)**	**79.0**	**(1,705.2)**	(1,597.2)	(176.6)	(1,773.8)
Operating profit		**362.8**	**82.2**	**445.0**	248.9	(176.6)	72.3
Net interest on borrowings	11	**(59.2)**	**-**	**(59.2)**	(65.4)	-	(65.4)
Financing charges	11	**(6.6)**	**-**	**(6.6)**	(13.0)	-	(13.0)
Fair value movement on financial instrument	11	**(48.6)**	**-**	**(48.6)**	(53.3)	-	(53.3)
Finance income	11	**2.6**	**-**	**2.6**	0.7	-	0.7
Net finance cost		**(111.8)**	**-**	**(111.8)**	(131.0)	-	(131.0)
Share of equity accounted investees loss, net of tax	14	**(17.6)**	**-**	(17.6)	(3.6)	-	(3.6)
Impairment of equity accounted investee	14	**-**	**(105.6)**	**(105.6)**	-	-	-
Profit before taxation		**233.4**	**(23.4)**	**210.0**	114.3	(176.6)	(62.3)
Income tax expense	17	**(66.0)**	**(15.6)**	**(81.6)**	(25.8)	22.1	(3.7)
Profit / (loss) after taxation		**167.4**	**(39.0)**	**128.4**	88.5	(154.5)	(66.0)
Attributable to:							
Equity holders of the Parent		**168.2**	**(39.0)**	**129.2**	89.9	(154.5)	(64.6)
Non-controlling interest		**(0.8)**	**-**	**(0.8)**	(1.4)	-	(1.4)
Profit / (loss) for the financial period		**167.4**	**(39.0)**	**128.4**	88.5	(154.5)	(66.0)

Notes 1 to 27 form an integral part of these financial statements.

INTERIM FINANCIAL REPORT

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30 June 2021

	Unaudited June 2021 €m	Unaudited June 2020 €m
Profit / (loss) for the financial period	**128.4**	(66.0)
Items that will not be reclassified subsequently to profit or loss:		
NIE Networks pension scheme actuarial gains / (losses)	**102.0**	(92.5)
Tax on items that will not be reclassified to profit or loss	**(12.6)**	21.4
	89.4	(71.1)
Items that are or may be reclassified subsequently to profit or loss:		
Effective hedge of a net investment in foreign subsidiary	**-**	0.2
Translation differences on consolidation of foreign subsidiaries	**4.4**	(14.0)
Fair value (losses) / gains on cash flow hedges	**(12.6)**	19.1
Fair value gains / (losses) on cash flow hedges in equity accounted investees	**40.8**	(3.7)
Transferred to income statement on cash flow hedges	**16.2**	(21.1)
Tax on items that are or may be reclassified subsequently to profit or loss	**1.5**	(2.5)
Tax on items that are or may be reclassified subsequently to profit or loss for equity accounted investees	**(6.8)**	0.6
Tax on items transferred to income statement	**(2.0)**	2.6
	41.5	(18.8)
Other comprehensive income / (expense) for the financial period, net of tax	**130.9**	(89.9)
Total comprehensive income / (expense) for the financial period	**259.3**	(155.9)
Attributable to:		
Equity holders of the Parent	**260.1**	(154.5)
Non-controlling interest	**(0.8)**	(1.4)
Total comprehensive income / (expense) for the financial period	**259.3**	(155.9)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2021	Notes	Unaudited June 2021 €m	Audited December 2020 €m
ASSETS			
Non-current assets			
Property, plant and equipment	13	**11,056.9**	10,930.1
Intangible assets		**454.1**	426.8
Right-of-use assets		**116.2**	123.6
Goodwill		**176.9**	169.0
Investments in equity accounted investees	14	**306.4**	378.1
Financial asset investments at fair value through profit or loss	14	**5.4**	8.6
Trade and other receivables		**159.2**	149.3
Derivative financial instruments	19	**11.1**	8.3
Deferred tax assets		**4.6**	1.7
Total non-current assets		**12,290.8**	12,195.5
Current assets			
Inventories	15	**160.4**	160.1
Intangible assets		**129.1**	120.1
Derivative financial instruments	19	**760.5**	169.6
Current tax asset		**-**	5.7
Trade and other receivables		**1,127.5**	942.6
Cash and cash equivalents		**552.8**	248.7
Total current assets		**2,730.3**	1,646.8
Total assets		**15,021.1**	13,842.3
EQUITY			
Capital stock		**1,957.7**	1,957.7
Capital redemption reserve		**22.2**	22.2
Translation reserve		**(2.0)**	(6.4)
Other reserves		**(190.5)**	(243.4)
Cash flow hedging reserve		**(13.8)**	(50.9)
Retained earnings		**2,291.5**	2,243.1
Equity attributable to equity holders of the Parent		**4,065.1**	3,922.3
Non-controlling interest		**(15.0)**	(14.2)
Total equity		**4,050.1**	3,908.1
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	18	**5,128.5**	5,114.0
Lease liabilities		**99.9**	107.3
Liability – ESB pension scheme	21	**92.2**	95.3
Liability – NIE Networks pension scheme	20	**10.6**	116.9
Employee related liabilities		**36.6**	47.0
Deferred income		**1,331.8**	1,269.1
Provisions		**613.5**	597.7
Deferred tax liabilities		**508.9**	462.3
Derivative financial instruments	19	**674.8**	604.9
Total non-current liabilities		**8,496.8**	8,414.5
Current liabilities			
Borrowings and other debt	18	**74.2**	129.6
Lease liabilities		**20.0**	17.5
Liability – ESB pension scheme	21	**10.7**	11.0
Employee related liabilities		**89.4**	90.1
Trade and other payables		**1,097.2**	821.4
Deferred income		**87.7**	91.0
Provisions		**328.1**	166.4
Current tax liabilities		**7.6**	-
Derivative financial instruments	19	**759.3**	192.7
Total current liabilities		**2,474.2**	1,519.7
Total liabilities		**10,971.0**	9,934.2
Total equity and liabilities		**15,021.1**	13,842.3

Terence O'Rourke, Chairman

Noreen O'Kelly, Board member

Pat Fenlon, Executive Director, Group Finance and Commercial

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 June 2021

Unaudited reconciliation of changes in equity	Capital stock €m	Translation reserve €m	Capital redemption reserve €m	Cash flow hedging reserve €m	Other reserves[1] €m	Retained earnings €m	Total €m	Non-controlling interest €m	**Total equity €m**
Balance at 1 January 2020	1,966.4	3.7	13.5	(17.0)	(233.2)	2,171.8	3,905.2	(10.0)	3,895.2
Total comprehensive income / (expense) for the period									
Loss for the financial period	-	-	-	-	-	(64.6)	(64.6)	(1.4)	(66.0)
NIE Networks pension scheme actuarial losses	-	-	-	-	(92.5)	-	(92.5)	-	(92.5)
Foreign currency translation adjustments	-	(13.8)	-	-	-	-	(13.8)	-	(13.8)
Cash flow hedges:									
- Net fair value gains	-	-	-	19.1	-	-	19.1	-	19.1
- Transfers to income statement									
- Finance cost (interest)	-	-	-	(0.3)	-	-	(0.3)	-	(0.3)
- Finance cost (foreign translation movements)	-	-	-	(0.6)	-	-	(0.6)	-	(0.6)
- Other operating expenses	-	-	-	(20.2)	-	-	(20.2)	-	(20.2)
- Fair value losses for hedges in equity accounted investees	-	-	-	(3.7)	-	-	(3.7)	-	(3.7)
Tax on items taken directly to OCI	-	-	-	(2.5)	21.4	-	18.9	-	18.9
Tax on items transferred to income statement	-	-	-	2.6	-	-	2.6	-	2.6
Tax on items taken directly to OCI for equity accounted investees	-	-	-	0.6	-	-	0.6	-	0.6
Total comprehensive income / (expense) for the period	-	(13.8)	-	(5.0)	(71.1)	(64.6)	(154.5)	(1.4)	(155.9)
Transactions with owners recognised directly in equity									
Dividends	-	-	-	-	-	-	-	(0.2)	(0.2)
Balance at 30 June 2020	1,966.4	(10.1)	13.5	(22.0)	(304.3)	2,107.2	3,750.7	(11.6)	3,739.1
Balance at 1 January 2021	**1,957.7**	**(6.4)**	**22.2**	**(50.9)**	**(243.4)**	**2,243.1**	**3,922.3**	**(14.2)**	**3,908.1**
Total comprehensive income / (expense) for the period									
Profit for the financial period	-	-	-	-	-	129.2	129.2	(0.8)	**128.4**
NIE Networks pension scheme actuarial gains	-	-	-	-	102.0	-	102.0	-	**102.0**
Foreign currency translation adjustments	-	4.4	-	-	-	-	4.4	-	**4.4**
Cash flow hedges:									
- Net fair value losses	-	-	-	(12.6)	-	-	(12.6)	-	**(12.6)**
- Transfers to income statement									
- Finance cost (interest)	-	-	-	2.3	-	-	2.3	-	**2.3**
- Finance cost (foreign translation movements)	-	-	-	(7.4)	-	-	(7.4)	-	**(7.4)**
- Other operating expenses	-	-	-	21.3	-	-	21.3	-	**21.3**
- Fair value gains for hedges in equity accounted investees	-	-	-	40.8	-	-	40.8	-	**40.8**
Tax on items taken directly to OCI	-	-	-	1.5	(12.6)	-	(11.1)	-	**(11.1)**
Tax on items transferred to income statement	-	-	-	(2.0)	-	-	(2.0)	-	**(2.0)**
Tax on items taken directly to OCI for equity accounted investees	-	-	-	(6.8)	-	-	(6.8)	-	**(6.8)**
Total comprehensive income / (expense) for the period	**-**	**4.4**	**-**	**37.1**	**89.4**	**129.2**	**260.1**	**(0.8)**	**259.3**
Transactions with owners recognised directly in equity									
Dividends	-	-	-	-	-	(80.8)	(80.8)	-	**(80.8)**
ESOP repurchase provision[1]	-	-	-	-	(36.5)	-	(36.5)	-	**(36.5)**
Balance at 30 June 2021	**1,957.7**	**(2.0)**	**22.2**	**(13.8)**	**(190.5)**	**2,291.5**	**4,065.1**	**(15.0)**	**4,050.1**

[1]Other reserves include (i) other reserves relating to the Northern Ireland Electricity Networks Limited (NIE Networks) pension scheme of (€147.8) million (31 December 2020: (€237.2) million), (ii) 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 (iii) an ESOP repurchase provision which relates to the amount that ESB has committed to date to purchase from the ESOP internal market (€36.5) million (31 December 2020: €nil). Refer to note 25 for information on the ESOP provision.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six month period ended 30 June 2021

	Notes	**Unaudited June 2021 €m**	Unaudited June 2020 €m
Cash flows from operating activities			
Profit / (loss) after taxation		**128.4**	(66.0)
Adjustments for:			
Depreciation and amortisation	10	**412.6**	390.3
Revenue from supply contributions and amortisation of other deferred income		**(49.3)**	(54.1)
Net emissions movements		**115.1**	49.0
Profit on disposal of non-current assets	9	**(0.2)**	(0.1)
Profit on disposal of subsidiaries and equity accounted investees	9	**(3.2)**	-
Inventory impairment	15	**(3.3)**	0.4
Net finance cost	11	**111.8**	131.0
Impact of fair value adjustments in operating costs		**(20.7)**	2.8
Losses from equity accounted investees	14	**17.6**	3.6
Impairment of equity accounted investees	14	**105.6**	-
Income tax expense	17	**81.6**	3.7
Dividend received	9	**-**	(0.5)
Net impairment losses on financial assets	10	**6.7**	10.5
Impairment (gain) / charge, net	10	**(75.4)**	177.6
Operating cash flows before changes in working capital and provisions		**827.3**	648.2
Charge in relation to provisions		**10.6**	18.7
Charge in relation to employee related liabilities		**38.2**	40.1
Utilisation of provisions		**(4.6)**	(6.2)
Payments in respect of employee related liabilities		**(65.8)**	(71.0)
Deferred income received		**88.5**	76.4
(Increase) / decrease in trade and other receivables		**(108.7)**	54.3
Decrease in inventories		**2.9**	7.1
Increase / (decrease) in trade and other payables		**289.1**	(75.1)
Cash generated from operations		**1,077.5**	692.5
Current tax paid (net)		**(38.5)**	(19.1)
Financing costs paid		**(96.5)**	(121.3)
Net cash inflow from operating activities		**942.5**	552.1
Cash flows from investing activities			
Purchase of property, plant and equipment		**(360.4)**	(342.7)
Purchase of intangible assets		**(57.1)**	(60.0)
Proceeds from sale of non-current assets		**1.1**	0.2
Proceeds from sale of investments		**-**	12.7
Amounts advanced to equity accounted investees as shareholder loans		**(12.2)**	-
Dividends received from joint venture	14	**3.3**	10.5
Dividends received from associate undertaking		**-**	0.5
Purchase of financial assets and equity accounted investments		**(2.0)**	(0.7)
Repayment from financial assets and equity accounted investees		**-**	1.5
Interest received		**0.5**	0.7
Net cash outflow from investing activities		**(426.8)**	(377.3)
Cash flows from financing activities			
Dividends paid		**(80.8)**	-
Repayments of term debt facilities		**(113.3)**	(433.0)
Proceeds from the issue of bonds		**-**	431.9
Proceeds from revolving credit facility and other borrowings		**-**	30.0
Revolving credit facility arrangement fee		**(0.9)**	-
Principal element of lease payments		**(6.4)**	(5.2)
Payments on inflation-linked interest rate swaps		**(13.8)**	(7.6)
Net cash (outflow) / inflow from financing activities		**(215.2)**	16.1
Net increase in cash and cash equivalents		**300.5**	190.9
Cash and cash equivalents at 1 January		**248.7**	125.1
Effect of exchange rate fluctuations on cash held		**3.6**	(5.4)
Cash and cash equivalents at 30 June		**552.8**	310.6

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

ESB is a statutory body domiciled in the Republic of Ireland. The condensed consolidated financial statements of ESB as at and for the six months ended 30 June 2021 comprise the results of ESB 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. The condensed consolidated financial information herein does not constitute the statutory financial statements of ESB, which were prepared as at and for the year ended 31 December 2020 and are available on our website www.esb.ie. The auditor's report on those financial statements was unmodified.

2. BASIS OF PREPARATION

These condensed consolidated financial statements for the six months ended 30 June 2021 are not full financial statements and were not reviewed by the auditors. These condensed consolidated 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 2020 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

A list of the accounting policies applicable in the current reporting period are detailed in note 1 of the 2020 consolidated financial statements, other than as set out below.

Certain tables in the consolidated financial statements may not add precisely due to rounding.

New standards or amendments

A number of new standards, amendments and interpretations have been issued in the current reporting period. See table below.

New standards or amendments	Details	Effective date	Material effects on the results and financial position of the Group
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments) Phase 2	Interest Rate Benchmark Reform	01 January 2021	No material effect
IFRS 16 (Amendments)	COVID-19 related rent concessions	01 January 2021	No material effect

4. ESTIMATES AND JUDGEMENTS

The preparation of condensed 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 judgements are described in note 1 (iii) of the 2020 consolidated financial statements. There has been no change to the nature of these key judgements during the period and they are still considered to be the most relevant judgements and estimates in preparing our financial statements.

Legal case

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 million for property damage. The High Court judgment found ESB liable for the damage caused by the flood but discounted the award to UCC by 40% to reflect UCC's contributory negligence. ESB appealed the High Court decision and the Court of Appeal held that ESB was not liable for any damage caused to UCC's property by the flood.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UCC appealed this judgment to the Supreme Court. Their appeal was heard in July 2019. The Supreme Court delivered its decision on 8 July 2020 and upheld UCC's appeal. The Court decided by a 4:1 majority that ESB is liable to UCC for negligence in this case. The Court concluded that ESB did have a duty of care which required it to consider the effects of a natural flood on downstream landowners in operating its dams. It also concluded that ESB had a duty to carry out a risk assessment of the effect of a flood downstream. The Supreme Court concluded that ESB did not discharge these duties during the flood of 2009. It remitted the case to the High Court for a partial retrial to establish what damage was caused to UCC's buildings because of ESB's failure to discharge these duties.

The issue of whether UCC was contributorily negligent during the 2009 flood was heard separately by the Supreme Court in November 2020. On 25 March 2021, the Court issued a Judgment remitting the matter of contributory negligence to the High Court to be reheard with the existing remittal. In that judgment the Court held that while UCC was not liable for the negligence of its professional advisors in the design of its buildings, it had been negligent in not carrying out its own risk assessments and taking steps to mitigate the risk posed to its buildings by the River Lee. Both of the remittals have now been reassigned to Mr Justice Max Barrett in the High Court and a date for the rehearing has been provisionally set as 15 June 2022.

The Supreme Court heard submissions from both parties in relation to the award of costs in these cases and on 23 July 2021 the Supreme Court awarded UCC its legal costs for the liability appeal in the Supreme Court and its legal costs for the Court of Appeal. The costs of the original High Court trial are to be considered by the High Court in light of the final decision to be reached by that Court on the various matters which were earlier remitted to the High Court.

In addition to the UCC claim, since the 2015 High Court judgment in the UCC case, ESB has been served with 388 sets of proceedings relating to the flooding in Cork in November 2009. ESB has estimated the amount of damages and related costs in respect of these claims and a provision of €95 million has been recognised. This estimate is unchanged by recent Supreme Court judgment on contributory negligence. There are a number of uncertainties in respect of the nature and quantum of claims made and consequently as further information becomes available, this could materially impact the estimate of the provision. However, ESB does not anticipate that the total amount of damages awarded and related costs for all of the actions, including the Aviva / UCC case, will exceed its insurance cover. A corresponding amount of €94 million has been included in other receivables in respect of the expected reimbursement under the related insurance contracts.

5. 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 2020 annual report.

The COVID-19 pandemic has not had a significant impact on financial performance to date in 2021 and ESB has delivered operating profits (excluding exceptional items) of €363 million for the half-year.

The funding and liquidity management of the Group are described in note 21 of the ESB Group Annual Report. The Group also has a revolving credit facility (undrawn) of €1.4 billion providing standby liquidity to February 2026. Including cash and other facilities, the Group has overall liquidity of c.€1.7 billion at 30 June 2021.

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 sufficient cash flows, available liquidity and access to capital markets to continue in operational existence for at least twelve months from the date of approval of the financial statements. Accordingly, the condensed consolidated financial statements are prepared on the going concern basis of accounting.

Note 22 to the condensed consolidated 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. SEGMENT REPORTING

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

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

(a) Income statement

(i) Segment revenue - June 2021

	Customer Solutions €m	ESB Networks €m	Generation and Trading €m	NIE Networks €m	Other Segments €m	Consolidation and eliminations €m	**Total €m**
External revenues	1,259.7	461.8	282.5	136.1	13.4	-	**2,153.5**
Inter-segment revenue	16.1	205.3	437.2	26.1	144.1	(828.8)	**-**
Revenue	1,275.8	667.1	719.7	162.2	157.5	(828.8)	**2,153.5**
(ii) Segment operating costs - June 2021							
Depreciation and amortisation	(8.9)	(241.0)	(66.3)	(82.4)	(14.0)	-	**(412.6)**
Net other operating costs	(1,227.9)	(220.2)	(559.5)	(42.9)	(145.9)	828.6	**(1,367.8)**
Impairment charge	-	-	(3.6)	-	-	-	**(3.6)**
Net impairment losses on financial assets	(8.1)	-	-	-	1.4	-	**(6.7)**
Exceptional impairment gain and profit on disposal (note 8)	-	-	82.2	-	-	-	**82.2**
Costs	(1,244.9)	(461.2)	(547.2)	(125.3)	(158.5)	828.6	**(1,708.5)**
(iii) Operating result - June 2021							
Operating profit / (loss) - including exceptional items	30.9	205.9	172.5	36.9	(1.0)	(0.2)	**445.0**
Net finance cost	(0.2)	(2.1)	(14.7)	(20.8)	(74.2)	0.2	**(111.8)**
Share of equity accounted investees' loss	-	-	(11.8)	-	(5.8)	-	**(17.6)**
Exceptional impairment of equity accounted investees	-	-	(105.6)	-	-	-	**(105.6)**
Profit / (loss) before taxation	30.7	203.8	40.4	16.1	(81.0)	-	**210.0**

(i) Segment revenue - June 2020

	Customer Solutions €m	ESB Networks €m	Generation and Trading €m	NIE Networks €m	Other Segments €m	Consolidation and eliminations €m	Total €m
External revenues	1,131.5	404.3	147.5	152.8	13.7	-	1,849.8
Inter-segment revenue	2.4	183.8	498.0	19.6	154.0	(857.8)	-
Revenue	1,133.9	588.1	645.5	172.4	167.7	(857.8)	1,849.8
(ii) Segment operating costs - June 2020							
Depreciation and amortisation	(8.8)	(222.1)	(65.9)	(79.9)	(13.6)	-	(390.3)
Net other operating costs	(1,096.9)	(234.3)	(510.6)	(47.5)	(167.6)	857.8	(1,199.1)
Impairment charge	-	-	(177.6)	-	-	-	(177.6)
Net impairment losses on financial assets	(10.3)	-	-	(0.2)	-	-	(10.5)
Costs	(1,116.0)	(456.4)	(754.1)	(127.6)	(181.2)	857.8	(1,777.5)
(iii) Operating result - June 2020							
Operating profit / (loss) - including exceptional items	17.9	131.7	(108.6)	44.8	(13.5)	-	72.3
Net finance cost	(0.1)	(1.1)	(17.0)	(21.1)	(91.7)	-	(131.0)
Share of equity accounted investees' profit / (loss)	(0.1)	-	2.1	-	(5.6)	-	(3.6)
Profit / (loss) before taxation	17.7	130.6	(123.5)	23.7	(110.8)	-	(62.3)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(b) Other disclosures

Additions to non-current assets	**June 2021 €m**	June 2020 €m
Customer Solutions	**12.3**	14.0
ESB Networks	**288.7**	269.4
Generation and Trading	**23.4**	21.1
NIE Networks	**82.8**	60.5
Other Segments	**27.6**	30.0
Total	**434.8**	395.0

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 requires disclosure to reflect the nature, timing, amount and uncertainty of its revenue within its disclosure requirements. ESB has determined that the disaggregation using existing segments and the nature of revenues is appropriate for its circumstances.

30 June 2021	Customer Solutions €m	ESB Networks €m	Generation & Trading €m	NIE Networks €m	Other Segments €m	Consolidation and eliminations €m	Total €m
External revenues							
Revenue from power generation	-	-	282.5	-	-	-	**282.5**
Revenue from Use of System charges to customers	-	430.9	-	127.0	-	-	**557.9**
Revenue from supply contributions	-	30.9	-	9.1	-	-	**40.0**
Revenue from sales to electricity and gas customers	1,244.4	-	-	-	-	-	**1,244.4**
Other revenue	15.3	-	-	-	13.4	-	**28.7**
Revenue from contracts with customers	**1,259.7**	**461.8**	**282.5**	**136.1**	**13.4**	**-**	**2,153.5**
Inter-segment revenue	16.1	205.3	437.2	26.1	144.1	(828.8)	**-**
Total ESB Group revenue	**1,275.8**	**667.1**	**719.7**	**162.2**	**157.5**	**(828.8)**	**2,153.5**

30 June 2020	Customer Solutions €m	ESB Networks €m	Generation & Trading €m	NIE Networks €m	Other Segments €m	Consolidation and eliminations €m	Total €m
External revenues							
Revenue from power generation	-	-	147.5	-	-	-	147.5
Revenue from Use of System charges to customers	-	376.8	-	144.5	-	-	521.3
Revenue from supply contributions	-	27.5	-	8.3	-	-	35.8
Revenue from sales to electricity and gas customers	1,100.0	-	-	-	-	-	1,100.0
Other revenue	31.5	-	-	-	13.7	-	45.2
Revenue from contracts with customers	**1,131.5**	**404.3**	**147.5**	**152.8**	**13.7**	**-**	**1,849.8**
Inter-segment revenue	2.4	183.8	498.0	19.6	154.0	(857.8)	-
Total ESB Group revenue	**1,133.9**	**588.1**	**645.5**	**172.4**	**167.7**	**(857.8)**	**1,849.8**

8. EXCEPTIONAL ITEMS

	June 2021 €m	June 2020 €m
Profit on disposal of equity accounted investee and impairment gain	**82.2**	-
Impairment of equity accounted investee	**(105.6)**	
Impairment charges	**-**	(176.6)
	(23.4)	(176.6)

2021 Profit on disposal of equity accounted investee and impairment gain

In June 2021 ESB completed the disposal of its shareholding in Tilbury Green Power Holdings Limited (Tilbury) to Lakeside BidCo Limited (a consortium of Altri / Greenvolt and Equitix). The Group was a 47% partner in Tilbury, a joint arrangement formed with Green Investment Bank (47%) and Scandinavian equipment suppliers BWSC and AET (6%). Tilbury operates a waste wood to energy plant in Great Britain.

The gain arising on the disposal of ESB's shareholding in Tilbury comprises of two components:
- €3.2 million, being the difference between the proceeds received for the equity shareholding held less its carrying value of €nil at the date of disposal. The carrying value reflects share of joint venture losses recognised in previous periods; and
- €79.0 million impairment gain in respect of shareholder loans to Tilbury. The impairment gain includes the reversal of expected credit losses previously recognised in the income statement and interest income not previously recognised as the loans were accounted for under IFRS 9 as a stage 3 credit impaired asset.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2021 Impairment of equity accounted investee

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

The Neart na Gaoithe (UK) project is being constructed through NNG Windfarm Holdings Limited, a joint arrangement between ESBIIUK Limited and EDF Renewables UK Limited.

The purpose of this joint arrangement is to develop a 448 MW wind farm off the east coast of Scotland. As a result of delays to the project and an expectation of significant additional construction costs (primarily due to more challenging sea-bed conditions than anticipated) an impairment test of the carrying value of the Neart na Gaoithe project included within investments in equity accounted investees was performed as at 30 June 2021.

The main assumptions used in performing the impairment test are outlined below:
- Most likely Commercial Operation Date.
- Forecast cash outflows to Commercial Operation Date are based on equity contributions required to fund construction and financing costs to completion (including contingencies).
- Forecast cash inflows are based on the future dividend stream from Neart na Gaoithe once commercial operation has commenced, which is in turn driven by forecasted wind load factors, regulatory support during the Contract for Difference period, operating and maintenance costs, forecast rates of inflation and forward prices for electricity.
- Selection of appropriate risk-adjusted discount rate (5.25%).

The carrying value as at 30 June 2021 prior to the impairment test was €243.1 million reflecting initial equity investment and movements thereafter relating to translation differences, the Group's share of loss after tax and fair value movements on cash flow hedges (net of deferred tax).
The recoverable amount has been assessed as €137.5 million as at 30 June 2021. This has resulted in an impairment charge of €105.6 million (30 June 2020: €nil) being recorded as an exceptional item in 2021.

2020 Impairment charges

The impact of COVID-19 on electricity demand in the short term, in addition to lower forecast wholesale electricity margins in both the GB market and the Integrated Single Electricity Market (I-SEM) were the indicators that prompted impairment reviews as at 30 June 2020. Impairment reviews were undertaken in respect of the following assets; I-SEM thermal and onshore windfarm assets, GB thermal, onshore and offshore windfarm assets. With the exception of Carrington Combined Cycle Gas Turbine (CCGT), the recoverable amount of each asset was higher than the value in use and no impairments were noted.

The main assumptions used in preparing the impairment reviews are outlined below:
-The cash flow period used is to the end of each individual asset's life.
-Specific discount rates are applied to each class of asset and applied to their cash inflows and outflows in determining the NPV.
-Forecast cash inflows for each asset and generation plant are based on the forecasted running profiles for the plants, regulatory support, forward prices for electricity, gas and carbon.
-Forecast cash outflows reflect the forecast operating and capital expenditure plans based on the Board approved five-year business plans and ten-year long term asset plans updated for management's latest view. Thereafter, forecast cash outflows are extrapolated based on forecast inflation rates, forecast running profile and management's view of required operating and capital expenditure.
-Sensitivity analysis is performed in respect of significant assumptions.

Carrington is an 880MW Combined Cycle Gas Turbines plant in the Generation and Trading segment located in Great Britain (GB). It was commissioned in September 2016. A value in use calculation was used to determine the recoverable amount as €401.0 million as at 30 June 2020. This resulted in an impairment charge of €176.6 million (2019: €nil) being recorded in operating costs in 2020. The impairment reflected lower forecasted demand resulting in lower day ahead power prices and lower peak prices, both resulting in lower forecasted revenue and margins. The real discount rate applied to the projected cash flows to determine the NPV was a pre-tax rate of 6.1% (2019: 6.1%).

9. OTHER OPERATING INCOME

	June 2021 €m	June 2020 €m
Profit on disposal of property, plant and equipment and intangible assets	**0.2**	0.1
Profit on disposal of equity accounted investees	**3.2**	-
Dividends received	**-**	0.5
Fair value movements on assets held at fair value through profit and loss[1]	**-**	6.2
Total	**3.4**	6.8

[1] These fair value movements relate to adjustments to the value of investments in renewables enterprises held by ESB Novusmodus Limited Partnership, a subsidiary, as detailed in note14.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. OPERATING COSTS (including net impairment losses on financial assets)

	June 2021 €m	June 2020 €m
Employee costs (note12)	**256.2**	275.4
Energy costs[1]	**880.1**	655.1
Operations and maintenance	**231.7**	275.4
Net impairment losses on financial assets	**6.7**	10.5
Other impairment charges[2]	**3.6**	177.6
Impairment gain[3]	**(79.0)**	-
Depreciation and amortisation	**412.6**	390.3
Total	**1,711.9**	1,784.3

[1] Included in energy costs is a gain of €12.8 million (30 June 2020: gain of €3.0 million) relating to the fair valuing of fuel commodity swaps which have not been designated as accounting hedges.

[2] Impairment charges of €3.6 million (30 June 2020: €177.6 million) have been recognised in 2021, €nil (30 June 2020: €176.6 million) of which have been disclosed as exceptional items in the income statement (see note 8 for further details).

[3] Impairment gain of €79.0 million (30 June 2020: €nil) has been recognised in 2021 and is disclosed as an exceptional item in the income statement (see note 8 for further details).

Net impairment losses on financial assets

Net impairment losses on financial assets include impairment losses incurred on trade and other receivables of €6.7 million (30 June 2020: €10.5 million).

The application of IFRS 9 to the Group's financial trade and other receivables and contract assets is described in note 17 of the 2020 consolidated financial statements. The Group has continued to apply the simplified model in order to measure impairment provisions for credit losses on trade and other receivables, contract assets, and other financial assets that are not carried at fair value.

11. NET FINANCE COST AND OTHER FINANCING CHARGES

	June 2021 €m	June 2020 €m
Interest payable on borrowings	**70.1**	77.9
Less capitalised interest	**(10.9)**	(12.5)
Net interest on borrowings	**59.2**	65.4
Financing charges:		
- on NIE Networks pension scheme (note 20)	**0.7**	1.1
- on ESB pension scheme (note 21)	**2.8**	9.8
- on provisions	**2.1**	1.2
- on lease obligations	**1.0**	0.9
Total financing charges	**6.6**	13.0
Fair value (gains) / losses on financial instruments:		
- currency / interest rate swaps: cash flow hedges, transfer from OCI	**2.3**	(0.3)
- interest rate swaps and inflation-linked swaps not qualifying for hedge accounting	**46.3**	53.6
Total fair value losses on financial instruments	**48.6**	53.3
Finance cost	**114.4**	131.7
Finance income	**(2.6)**	(0.7)
Net finance cost	**111.8**	131.0

The financing charges on provisions are calculated in accordance with the policy for discounting of future payment obligations as disclosed in the 2020 consolidated financial statements.

Included in interest rate swaps and inflation-linked swaps not qualifying for hedge accounting are fair value losses relating to interest rate swaps, fair value losses on inflation-linked interest rate swaps and fair value gains on currency swaps. See note 19 for further details of these movements.

Included in finance income is interest on borrowings receivable from Inchcape Offshore Limited €1.7 million (30 June 2020: €nil) and Oweninny Power DAC €0.1 million (30 June 2020: €0.2 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. EMPLOYEES

Employee costs in period	June 2021 €m	June 2020 €m
Current staff costs (excluding pension)		
Salaries	**273.3**	275.8
Overtime	**16.8**	17.9
Social welfare costs (PRSI and national insurance)	**23.8**	22.8
Other payroll benefits[1]	**10.5**	14.3
Payroll cost for employees	**324.4**	330.8
Pension and other employee benefit costs		
Pensions charge – other schemes[2]	**26.0**	25.5
NIE Networks pension scheme charge[3]	**4.3**	3.2
	30.3	28.7
Capitalised payroll	**(98.5)**	(84.1)
Total employee related costs charged to the income statement	**256.2**	275.4

[1]These benefits primarily include travel and subsistence allowances.

[2]The pension charge for other schemes include contributions to the ESB Defined Contribution Scheme, the ESB Defined Benefit Pension Scheme, the Options section of the NIE Networks Pension Scheme (NIE Networks Scheme) and the stakeholder pension scheme for Great Britain (GB) employees (FMUK Pension Scheme). See note 20 and 21 for further details.

[3]The NIE Networks pension 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

13. PROPERTY, PLANT & EQUIPMENT

	Land and buildings €m	Plant and machinery €m	Total assets in commission €m	Assets under construction €m	Total €m
Cost					
Balance at 1 January 2020	1,220.1	20,213.1	21,433.2	1,366.8	**22,800.0**
Additions	-	178.5	178.5	156.7	**335.2**
Retirements / disposals	-	(8.3)	(8.3)	-	**(8.3)**
Transfers out of assets under construction	3.8	85.3	89.1	(89.1)	**-**
Transfers from intangible assets	-	0.1	0.1	-	**0.1**
Translation differences	(1.3)	(356.9)	(358.2)	(2.0)	**(360.2)**
Balance at 30 June 2020	1,222.6	20,111.8	21,334.4	1,432.4	**22,766.8**
Balance at 1 January 2021	1,240.8	20,890.6	22,131.4	1,303.3	**23,434.7**
Additions	-	190.3	190.3	182.6	**372.9**
Retirements / disposals	-	(36.7)	(36.7)	(0.8)	**(37.5)**
Transfers out of assets under construction	5.6	82.6	88.2	(88.2)	**-**
Transfers to intangible assets	-	(0.1)	(0.1)	(0.7)	**(0.8)**
Translation differences	0.9	233.1	234.0	-	**234.0**
Balance at 30 June 2021	1,247.3	21,359.8	22,607.1	1,396.2	**24,003.3**
Depreciation					
Balance at 1 January 2020	699.1	11,023.5	11,722.6	-	**11,722.6**
Charge for the period	11.2	343.0	354.2	-	**354.2**
Retirements / disposals	-	(8.3)	(8.3)	-	**(8.3)**
Impairment	-	176.6	176.6	-	**176.6**
Translation differences	(0.2)	(148.4)	(148.6)	-	**(148.6)**
Balance at 30 June 2020	710.1	11,386.4	12,096.5	-	**12,096.5**
Balance at 1 January 2021	718.8	11,784.2	12,503.0	1.6	**12,504.6**
Charge for the period	10.8	364.9	375.7	-	**375.7**
Retirements / disposals	-	(36.5)	(36.5)	-	**(36.5)**
Transfers to intangible assets	-	(5.6)	(5.6)	-	**(5.6)**
Impairment	-	-	-	3.6	**3.6**
Translation differences	0.1	104.5	104.6	-	**104.6**
Balance at 30 June 2021	729.7	12,211.5	12,941.2	5.2	**12,946.4**
Net book value at 30 June 2021	**517.6**	**9,148.3**	**9,665.9**	**1,391.0**	11,056.9
Net book value at 31 December 2020	522.0	9,106.4	9,628.4	1,301.7	**10,930.1**
Net book value at 30 June 2020	512.5	8,725.4	9,237.9	1,432.4	**10,670.3**
Net book value at 1 January 2020	521.0	9,189.6	9,710.6	1,366.8	**11,077.4**

During the period the Group capitalised interest of €10.9 million (30 June 2020: €12.5 million) in assets under construction, using an effective interest rate of 2.4% (30 June 2020: 2.5%).

Impairment charge

An impairment review has been carried out on assets displaying indications of impairment as at 30 June 2021 resulting in an impairment charge of €3.6 million (30 June 2020: €176.6 million) of which €nil has been disclosed as exceptional (30 June 2020: €176.6 million). Refer to note 8 for further details on these exceptional impairment items.

The impairment charge of €3.6 million in 2021 relates to a generation development no longer proceeding.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. FINANCIAL ASSET INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND EQUITY ACCOUNTED INVESTEES

	Equity accounted investees €m	Financial assets at fair value through profit or loss €m	Total €m
Balance at 1 January 2020	413.5	13.4	**426.9**
Additions	-	0.7	**0.7**
Disposals	-	(12.7)	**(12.7)**
Share of loss (net)	(3.6)	-	**(3.6)**
Share of fair value movement on cash flow hedges	(3.1)	-	**(3.1)**
Fair value movement through profit and loss	-	6.2	**6.2**
Dividends received	(10.5)	-	**(10.5)**
Repayments	(1.5)	-	**(1.5)**
Translation differences	(23.7)	-	**(23.7)**
Balance at 30 June 2020	**371.1**	**7.6**	**378.7**
Balance at 1 January 2021	378.1	8.6	**386.7**
Additions	4.6	0.2	**4.8**
Transfer to other receivables	-	(3.3)	**(3.3)**
Share of loss (net)	(17.6)	-	**(17.6)**
Share of fair value movement on cash flow hedges	34.0	-	**34.0**
Dividends received	(3.3)	-	**(3.3)**
Impairment	(105.6)	-	**(105.6)**
Translation differences	16.2	(0.1)	**16.1**
Balance at 30 June 2021	**306.4**	**5.4**	**311.8**

Impairment charge

An impairment test has been carried out on assets displaying indications of impairment as at 30 June 2021 resulting in an exceptional impairment charge of €105.6 million (30 June 2020: €nil). Refer to note 8 for further details on the exceptional impairment item.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. INVENTORIES

	June 2021 €m	December 2020 €m
Materials	**37.5**	36.6
Fuel	**36.0**	37.1
Construction work in progress	**86.9**	86.4
Total	**160.4**	160.1

Inventories consumed during the period ended 30 June 2021 totalled €51.9 million (30 June 2020: €24.6 million). Provision for impairments recognised during the period was €0.3 million (30 June 2020: €0.4 million).

Following a survey of coal stocks, €3.6 million (30 June 2020: €nil) was written back during the period.

Construction work in progress includes property assets which are being constructed for resale and stated at the lower of cost and net realisable value.

16. CHANGES IN EQUITY

(i) Non-controlling interest

Non-controlling interests at 30 June 2021 relate to the minority shareholdings in Crockahenny Wind Farm DAC, Mountain Lodge Power DAC, and other companies associated with wind and solar projects.

(ii) Dividends

	June 2021 €m	June 2020 €m
Dividends on capital stock:		
Total dividend paid 4.13 (2020: nil) cents per capital stock unit	80.8	-
Total	**80.8**	-

Total dividends paid during the period ended 30 June 2021 included a final dividend of €80.8 million in respect of 2020 (30 June 2020: €nil in respect of 2019).

17. TAXATION

Income tax expense	June 2021 €m	June 2020 €m
Current tax expense		
Current tax	**52.2**	28.8
Prior year under / (over) provision	**0.3**	(3.2)
Value of tax losses surrendered to equity accounted investees	**1.6**	-
	54.1	25.6
Deferred tax expense		
Origination and reversal of temporary differences	**(3.6)**	(34.0)
Increase in tax rate[1]	**29.5**	11.3
Prior year under provision	**1.6**	0.8
	27.5	(21.9)
Total	**81.6**	3.7

[1] The substantively enacted UK corporation tax rate was increased from 17% to 19% on 1 April 2020, effectively cancelling the proposed reduction in the future corporation tax rate. This change gave rise to an increase in the UK Group's net deferred tax liability as at 30 June 2020 in the amount of €11.3 million.

A further change to the main UK corporation tax rate was announced in the UK Budget on 3 March 2021 and was substantively enacted for IFRS and UK GAAP purposes on 24 May 2021. The rate applicable for now and until 31 March 2023 remains at 19%. The 25% tax rate applies to profits earned on or after 1 April 2023. This change gave rise to an increase in the UK Group's net deferred tax liability as at 30 June 2021 in the amount of €29.5 million.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT

	Recourse borrowings €m	Non-recourse borrowings €m	June 2021 Total €m	December 2020 Total €m
Current borrowings				
- Repayable by instalments	74.2	-	**74.2**	74.5
- Repayable other than by instalments	-	-	**-**	55.1
Total current borrowings	74.2	-	**74.2**	129.6
Non-current borrowings				
- Repayable by instalments				
Between one and two years	74.8	-	**74.8**	71.4
Between two and five years	182.8	-	**182.8**	200.3
After five years	200.9	-	**200.9**	235.9
	458.5	-	**458.5**	507.6
- Repayable other than by instalments				
Between one and two years	-	-	**-**	-
Between two and five years	538.1	872.0	**1,410.1**	919.8
After five years	3,259.9	-	**3,259.9**	3,686.6
	3,798.0	872.0	**4,670.0**	4,606.4
Total non-current borrowings	4,256.5	872.0	**5,128.5**	5,114.0
Total borrowings outstanding	4,330.7	872.0	**5,202.7**	5,243.6

Current borrowings by facility	Ref	June 2021 €m	December 2020 €m
ESB Eurobonds	1	**-**	-
Non-recourse long-term project finance debt	2	**-**	1.9
Non-recourse NIE Networks Sterling bonds	3	**-**	-
Long-term bank borrowings	4	**74.2**	72.1
Private placement borrowings	5	**-**	55.6
		74.2	129.6

Non-current borrowings by facility	Ref	June 2021 €m	December 2020 €m
ESB Eurobonds	1	**3,559.6**	3,542.1
Non-recourse long-term project finance debt	2	**-**	10.1
Non-recourse NIE Networks Sterling bonds	3	**872.0**	832.7
Long-term bank borrowings	4	**454.9**	494.8
Private placement borrowings	5	**242.0**	234.3
		5,128.5	5,114.0

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- from Standard & Poor's (outlook stable) and A3 (equivalent to A-) from Moody's (outlook stable) at June 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT (Continued)

1. ESB Eurobonds

The table below provides details of ESB Eurobonds included in borrowings at 30 June 2021:

Issuer	Value	Issue Date	Tenor	Coupon
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%
ESB Finance DAC	Euro €500.0 million	November 2018	15 years	2.125%
ESB Finance DAC	Euro €100.0 million	April 2019	25 years	2.000%
ESB Finance DAC	Euro €700.0 million (Green bond)	June 2019 / July 2020	11 years	1.125%
ESB Finance DAC	Stg £325.0 million	January 2020	15 years	1.875%

2. Non-recourse long-term project finance debt

This debt relates to a wind farm in Great Britain (GB). This has been fully repaid as at 30 June 2021.

3. Non-recourse NIE Networks Sterling bonds

The table below provides details of non-recourse NIE Networks Sterling bonds included in borrowings at 30 June 2021:

Issuer	Value	Issue Date	Tenor	Coupon
NIE Networks Limited	Stg £400.0 million	June 2011	15 years	6.375%
NIE Networks Limited	Stg £350.0 million	September 2018	7 years	2.500%

4. Long-term bank borrowings

The table below provides details of long-term bank borrowings included in borrowings at 30 June 2021:

	Balance at 30 June 2021	Balance at 31 December 2020
€200 million European Investment Bank (EIB) to support renewable connections to the electricity network in the southwest of Ireland	Euro €200.0 million	Euro €200.0 million
Other Long term bank borrowings of floating rate debt borrowed on a bilateral basis (apart from above €200million)	Euro €27.1 million	Euro €43.7 million
€150.0 million European Investment Bank (EIB) to support the roll out of Smart Meters in Ireland	-	-
€1.4 billion revolvoing credit facility (with a syndicate of 14 banks)	-	-

A €200.0 million facility with the European Investment Bank (EIB) to support renewable connections to the electricity network in the southwest of Ireland was drawn down in full at 30 June 2021 (December 2020: €200.0 million).

A €150.0 million facility with the European Investment Bank (EIB) to support the roll out of Smart Meters in Ireland was signed in August 2020 and remained fully undrawn at 30 June 2021.

In February 2020 ESB entered into a new €1.4 billion Sustainability linked Revolving Credit Facility up to February 2025 with a group of fourteen international banks. This replaced the previous €1.44 billion facility signed in 2015. In February 2021, the facility was extended to February 2026. €nil of this facility was drawdown at 30 June 2021 (December 2020: €nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. BORROWINGS AND OTHER DEBT (Continued)

5. Private placement borrowings

The table below provides details of private placement borrowings included in borrowings at 30 June 2021:

	Balance at 30 June 2021	Balance at 31 December 2020	Issue Date	Maturity Date	Coupon
First Private Placement Senior unsecured notes	USD $273.5 million Stg £10 million	USD $273.5 million Stg £10 million	December 2003 December 2003	December 2023 December 2023	6.050% 6.000%
Second Private Placement Senior unsecured notes	Stg £nil	Stg £50 million	June 2009	June 2021	7.310%

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants. At 30 June 2021 ESB is fully in compliance with all the covenant requirements associated with the private placement debt and other facilities.

19. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Fair value by class of derivative financial instrument

Derivative financial instruments are carried at fair value. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The method used to calculate the fair value of the Group's financial instruments is discounted cash flow analysis, using a LIBOR 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 2021	Non-current assets €m	Current assets €m	Non-current liabilities €m	Current liabilities €m	**Total €m**
Interest rate swaps	-	0.2	-	(2.6)	**(2.4)**
Inflation-linked interest rate swaps	-	-	(618.0)	(26.7)	**(644.7)**
Currency swaps	-	-	(23.4)	-	**(23.4)**
Foreign exchange contracts	2.0	9.0	(5.6)	(2.3)	**3.1**
Forward fuel price contracts	9.1	751.3	(27.8)	(727.7)	**4.9**
	11.1	**760.5**	**(674.8)**	**(759.3)**	**(662.5)**

December 2020	Non-current assets €m	Current assets €m	Non-current liabilities €m	Current liabilities €m	Total €m
Interest rate swaps	3.4	0.4	(1.6)	-	2.2
Inflation-linked interest rate swaps	-	-	(571.3)	(21.2)	(592.5)
Currency swaps	-	-	(19.4)	-	(19.4)
Foreign exchange contracts	1.4	2.7	(3.5)	(4.6)	(4.0)
Forward fuel price contracts	3.5	166.5	(9.1)	(166.9)	(6.0)
	8.3	169.6	(604.9)	(192.7)	(619.7)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Fair value by class of derivative financial instrument (continued)

The Group decides at inception whether to designate financial instruments into hedge relationships for certain arrangements that meet the specific hedging accounting criteria of IFRS 9.

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 £395.0 million (31 December 2020: Stg £454.0 million) in connection with a certain portion of its fixed rate borrowings held by Parent and ESBNI. These have all been classified as cash flow hedges. During 2021, interest rate swaps relating to West Durham Wind Farm Limited matured due to the project finance debt being repaid. In addition, a further Stg £50.0 million matured during the year.

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 2021, their carrying value is equal to their fair value.

Total movement reflects a loss of €4.6 million (30 June 2020: loss of €2.6 million) during the period in relation to interest rate swaps, of which €6.1 million loss is recognised directly in finance costs in the income statement offset by a payment of €1.5 million in relation to the repayment of the West Durham project finance debt.

(ii) Inflation-linked interest rate swaps

Inflation-linked interest rate swaps were acquired in December 2010 as part of the purchase of the NIE Networks business. The fair value of the swaps as at 30 June 2021 is a liability of €644.7 million (31 December 2020: €592.5 million liability). The inflation-linked interest rate swaps did not qualify for hedge accounting 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 (UK).

On 12 April 2021 the Group, and its counterparty banks, together agreed a restructuring of the swaps, including amendments to certain terms. These changes included an extension of the date of the mandatory early termination clause from 22 June 2022 to 22 December 2025 for the swaps maturing 22 December 2036. The restructuring also included amendments to the fixed interest rate element of the swaps, and a change to the number of swap counterparties.

The overall impact of the restructuring of the swaps, movements in forward interest rates, UK RPI forward prices, foreign currency exchange rates and payments during the period, increased the fair value of the liability by €52.2 million in the period ended 30 June 2021 (30 June 2020: fair value of the liability decreased by €5.9 million). The movement reflects negative mark to market movements in the underlying swaps of €38.1million (30 June 2020: negative movement €55.8 million), reflected in finance costs in the income statement (note 11) offset by payments of €13.4 million (30 June 2020: €7.7 million) arising under the swaps during the period, including fees of €0.5 million relating to the restructuring. In addition, negative translation movements of €27.5 million (30 June 2020: positive translation movements of €42.2 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 has a portfolio of currency swaps which relate to both a US private placement debt as well as a Euro Bond, the currency swaps are primarily classified as cash flow hedges. The EUR USD cross-currency swaps were entered into in order to swap US dollar interest and principal payments relating to the US Private Placement debt into euro, thereby hedging the risk on these payments over the years to maturity from 2010 to 2023. The EUR GBP cross-currency swaps were entered into in order to swap EUR interest and principal repayments, relating to the EUR bond raised in connection with the refinancing of Carrington Power Limited into GBP, thereby hedging the risk on these payments over the years to maturity from 2018 to 2028.

No ineffectiveness under the meaning of IFRS 9 arose on the currency swaps during the period (30 June 2020: €nil). Separately, included in the income statement for the period 30 June 2021 is a gain of €7.4 million (30 June 2020: gain of €0.6 million) arising on cross-currency swaps which is substantially offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates and a fair value gain of €1.0 million relating to the novated element of the Currency Swaps (see note 11).

(iv) Foreign exchange contracts

In addition to foreign exchange contracts entered into in relation to the Group's borrowings, the Group has entered into foreign exchange contracts in relation to energy costs, LTSAs and fuel purchase requirements (which are in US dollar and sterling). These contracts have maturities extending until 2024. Total positive fair value movements of €7.1 million (30 June 2020: negative movements of €26.3 million) were recognised during the period in relation to such foreign exchange contracts, of which a positive €0.1 million (30 June 2020: positive movements of €3.6 million) was recognised through OCI and positive fair value movement of €7.0 million (30 June 2020: negative movement of €29.9 million) was recognised in the income statement.

Fair value hierarchy

Further information on the methods of valuing financial instruments is included in note 22.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. PENSION LIABILITIES

Northern Ireland Electricity Networks (NIE Networks) Pension Scheme

	June 2021 €m	June 2020 €m
Change in benefit obligation		
Net deficit at 1 January	**(116.9)**	(116.0)
Movements during the period:		
Actuarial gains / (losses) recognised in OCI during the period	**102.0**	(92.5)
Charge to the income statement - current service cost	**(4.3)**	(3.2)
Pension contributions paid	**14.6**	14.3
Charged to the income statement - net pension scheme interest	**(0.7)**	(1.1)
Translation differences	**(5.3)**	11.3
Net deficit at 30 June	**(10.6)**	(187.2)

The majority of the employees in 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 8% 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 gains for the period arise due to a change in financial assumptions of €71.4 million and a higher return on assets €30.6 million. The discount rate used to value the scheme liabilities has increased from 1.3% at 31 December 2020 to 1.8% as at 30 June 2021.

21. LIABILITY - ESB PENSION SCHEME

	€m
Balance at 1 January 2020	**392.6**
Movements during the period:	
Utilised during the period	**(5.7)**
Financing charge	**9.8**
Balance at 30 June 2020	**396.7**
Balance at 1 January 2021	**106.3**
Movements during the period:	
Utilised during the period	**(6.2)**
Financing charge	**2.8**
Balance at 30 June 2021	**102.9**
Analysed as follows:	
Non-current liabilities	**92.2**
Current liabilities	**10.7**
Total	**102.9**

Liability - ESB pension scheme

The liability as at 30 June 2021 relates to future contributions for past service and past voluntary severance programmes and this is explained in note 24 of the 2020 consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

(a) Overview of financial risk management

Risk environment

The main financial risks faced by the Group relate to foreign exchange (particularly movements in the value of the euro relative to sterling and the US dollar) and commodity (electricity and fuel) price movements. Liquidity risk, and exposure to interest rate volatility, are key long-term financial risks also, but have been substantially addressed in the short run. 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 regularly updated on key treasury matters, risk and associated mitigants.

Commodity price risk is managed by the front and middle office functions of the relevant business units: ESB Trading (within Generation and Trading) and Customer Solutions. This is done in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit. It is the responsibility of the Trading Risk Management Committees within these two business units to ensure that internal audit findings and recommendations are adequately addressed. This is overseen by the Executive Director level Group Trading Committee (GTC). The Group Trading Risk Management function ensures that the Group's market, credit and operational risks are managed in a way designed 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 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.

In both Generation and Trading and Customer Solutions, separate Trading Risk Management Committees meet on a monthly basis (or more frequently as required) and serve as the primary overseer of trading risk at individual ring-fenced business unit level. These committees include 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 for ensuring that an effective control framework is in place.

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.

Hedge accounting

ESB funds its operations using borrowings and uses deposit instruments to invest surplus funds. 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 IFRS 9 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. The Group decides at inception whether to designate financial instruments into hedge relationships. Certain arrangements meet the specific hedging accounting criteria of IFRS 9.

Within its regular course of business, the Group routinely enters into sale and purchase contracts for commodities, including gas and electricity. Where the contract was entered into and continues to be held for the purposes of receipt or delivery of the commodities in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as own use contracts and are accounted for as executory contracts. These contracts are therefore not within the scope of IFRS 9 - Financial Instruments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Fair value

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

	June 2021		December 2020	
	Carrying value €m	**Fair value €m**	Carrying value €m	Fair value €m
Long-term debt	**5,128.5**	**5,747.6**	5,114.0	5,983.9
Short-term borrowings	**74.2**	**82.5**	129.6	140.9
Lease liabilities	**119.9**	**119.9**	124.8	124.8
Total borrowings	**5,322.6**	**5,950.0**	5,368.4	6,249.6
Current trade and other payables	**1,022.6**	**1,022.6**	731.8	731.8
Amounts due from insurers	**(94.2)**	**(94.2)**	(94.2)	(94.2)
Non-current trade and other receivables	**(65.0)**	**(65.0)**	(55.1)	(55.1)
Current trade and other receivables	**(977.6)**	**(977.6)**	(862.7)	(862.7)
Cash and cash equivalents	**(552.8)**	**(552.8)**	(248.7)	(248.7)
Net liabilities	**4,655.6**	**5,283.0**	4,839.5	5,720.7

Cross-currency swaps that swap fixed US dollar debt to euro fixed are included in fair value of long-term debt above, the fair value of the related derivative is a liability of €5.3 million (31 December 2020: €14.8 million).

Current trade and other receivables and 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.

ESB Eurobonds and NIE Networks Sterling bonds are regarded as Level 1 fair values. The fair value of these bonds are derived from observation of the most recent traded values for these bonds in liquid markets at the balance sheet date. 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 discounting of the future associated cash flows using the zero coupon discount curve of the relevant currency.

Fair value - discount rates

The interest rates used to discount future estimated cash flows, where applicable, are based on the applicable EURIBOR or LIBOR yield curve at the reporting date plus an appropriate constant credit spread.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) 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 2021	Level 2 €m	Level 3 €m	**Total €m**
ASSETS			
Derivative financial instruments			
- Interest rate swaps	0.2	-	**0.2**
- Foreign exchange contracts	11.0	-	**11.0**
- Forward fuel price contracts[1]	760.4	-	**760.4**
Financial assets at fair value through profit or loss	-	5.4	**5.4**
	771.6	**5.4**	**777.0**
LIABILITIES			
Derivative financial instruments			
- Interest rate swaps	(2.6)	-	**(2.6)**
- Currency swaps	(23.4)	-	**(23.4)**
- Foreign exchange contracts	(7.9)	-	**(7.9)**
- Forward fuel price contracts[1]	(752.3)	(3.2)	**(755.5)**
- Inflation-linked interest rate swaps	(644.7)	-	**(644.7)**
	(1,430.9)	**(3.2)**	**(1,434.1)**
Net (liability) / asset	**(659.3)**	**2.2**	**(657.1)**

December 2020	Level 2 €m	Level 3 €m	Total €m
ASSETS			
Derivative financial instruments			
- Interest rate swaps	3.8	-	3.8
- Foreign exchange contracts	4.1	-	4.1
- Forward fuel price contracts[1]	170.0	-	170.0
Financial assets at fair value through profit or loss	-	8.6	8.6
	177.9	8.6	186.5
LIABILITIES			
Derivative financial instruments			
- Interest rate swaps	(1.6)	-	(1.6)
- Currency swaps	(19.4)	-	(19.4)
- Foreign exchange contracts	(8.1)	-	(8.1)
- Forward fuel price contracts[1]	(173.1)	(2.9)	(176.0)
- Inflation-linked interest rate swaps	(592.5)	-	(592.5)
	(794.7)	(2.9)	(797.6)
Net (liability) / asset	(616.8)	5.7	(611.1)

[1]Contracts that link the forward electricity price more closely with forward fuel prices are presented net in forward fuel price contracts at 30 June 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

Measurement of fair values - valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation techniques	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 cashflows contracted using market observable inputs and discounted back to present value.		
Forward fuel and electricity price contracts	Level 2 - The fair value of forward fuel contracts is determined by reference to 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.	Forward electricity prices	The estimated fair value would increase / (decrease) if Wholesale Electricity Price was higher / (lower). Generally a change in gas prices is accompanied by a directionally similar change in Wholesale Electricity Price.
Inflation-linked interest rate swaps	Level 2 - Independent valuations are used and validated using the present valuation of expected cash flows using the interest rate yield curve of the relevant currency. The zero-coupon curve is based on using the interest rate yield curve of the relevant currency.		
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss are carried at fair value. Where applicable, valuations are based on the most recent independent information available at period end, taking into account any other known and relevant factors. Unquoted investments are valued by deriving an enterprise value using one of the following methodologies: • the price of a recent investment; • revenue multiple; • cost, less any required provision; • realised value.	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. See note 9 and note 14. 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

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

The following table shows a reconciliation from opening balances at 1 January 2021 to the period ended 30 June 2021 for fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets at fair value through profit or loss €m	Forward electricity price contracts[1] €m	Forward fuel price contracts[1] €m	Total €m
Balance at 1 January 2020 - net	13.4	81.3	(77.5)	**17.2**
Transfer to forward fuel price contracts (netting)	-	(81.3)	81.3	**-**
Additions	0.7	-	-	**0.7**
Disposals	(12.7)	-	-	**(12.7)**
Total gains / (losses):				
- in profit or loss	6.2	-	-	**6.2**
- in OCI	-	-	(13.3)	**(13.3)**
Settlements	-	-	5.6	**5.6**
Balance at 30 June 2020 - net	**7.6**	**-**	**(3.9)**	**3.7**
Balance at 1 January 2021 - net	8.6	-	(2.9)	**5.7**
Additions	0.2	-	-	**0.2**
Total gains / (losses):				
- in OCI	-	-	(5.4)	**(5.4)**
Settlements	-	-	5.1	**5.1**
Transfer to other receivables	(3.3)	-	-	**(3.3)**
Translation movements	(0.1)	-	-	**(0.1)**
Balance at 30 June 2021 - net	**5.4**	**-**	**(3.2)**	**2.2**

[1] Contracts that link the forward electricity price more closely with forward fuel prices are presented net in forward fuel price contracts at 30 June 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

23. COMMITMENTS AND CONTINGENCIES

	June 2021 €m	December 2020 €m
(a) Capital commitments		
Tangible assets contracted for	**540.8**	443.4

(b) Fuel contract commitments

There are a number of long-term gas supply arrangements in place for different periods up to 2024. 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 IFRS 9.

(c) Other disclosures

A number of other lawsuits, claims and disputes with third parties have arisen in the normal course of business. While any litigation or dispute has an element of uncertainty, the Board members believe that there were no contingent liabilities which would have a materially adverse effect on the Group's financial position.

24. RELATED PARTY TRANSACTIONS

Equity accounted investees

	Sale of goods / services[1]		Purchase of goods / services[2]		Amounts owed (to) / from as at period / year ended[3&4]		Equity advanced during the period /year	
	June 2021 €m	June 2020 €m	**June 2021 €m**	June 2020 €m	**June 2021 €m**	December 2020 €m	**June 2021 €m**	December 2020 €m
Inch Cape Offshore Holdings Limited	-	-	-	-	**49.8**	45.4	-	0.9
NNG Windfarm Holdings Limited	-	-	-	-	-	-	-	1.0
Aldeburgh Offshore Wind Holdings Limited	-	-	-	-	-	-	-	(4.8)
SIRO Limited[5]	**4.9**	5.4	-	-	**99.2**	96.6	-	-
Tilbury Green Power Holdings Limited[7]	**0.4**	0.3	**22.5**	12.1	-	3.2	-	-
Raheenleagh Power DAC	**0.4**	0.3	**5.0**	5.3	**0.2**	(1.9)	-	-
Oweninny Power DAC	**0.5**	-	**13.0**	-	**15.0**	14.0	-	-
Oweninny Power 2 DAC	-	-	-	-	**8.7**	-	-	-
Emerald Bridge Fibres DAC	-	-	-	-	**0.2**	0.2	-	-
Kingspan ESB DAC	-	-	-	-	**0.1**	0.1	-	-
Superhomes Ireland DAC[6]	-	-	-	-	-	-	**0.8**	-
Total	6.2	6.0	40.5	17.4	173.2	157.6	0.8	(2.9)

[1] ESB provided electricity sales, management and other professional services during the period to equity accounted investees as set out in the above table.

[2] ESB has purchased power and services in relation to telecoms and maintenance during the period from equity accounted investees as set out in the above table.

[3] Amounts owed (to) / from equity accounted investees include shareholders loans (shown net of any impairments), interest on these loans and trade receivable and payable balances of €2.1 million (31 December 2020: €1.7 million). Interest receivable on borrowings relates to Oweninny Power DAC, €1.7 million (31 December 2020: €1.7 million) and Inch Cape Offshore Holdings Limited €1.8 million (31 December 2020: €nil).

[4] Included in the bad debt provision is €nil in respect of balances owed from Tilbury Green Power Holdings Limited (31 December 2020: €52.9 million), €0.8 million in respect of balances owed from SIRO Limited (31 December 2020: €0.8 million) and €0.2 million in respect of the balances owed from Emerald Bridge Fibres DAC (31 December 2020: €0.2 million).

[5] ESB committed to provide capital funding to SIRO Ltd. of €93.0 million, of which €93.0 million has been advanced as a short-term shareholder loan as disclosed above. ESB has guaranteed a 50% share of a €230.0 million revolving credit facility held by SIRO Ltd. of which €206.0 million was drawn down as at 30 June 2021 (31 December 2020: €182.0 million). Fees payable by SIRO Ltd. to ESB in respect of this guarantee amounted to €2.4 million (30 June 2020: €2.2 million).

[6] In addition to the equity advanced to Superhomes Ireland DAC during the period ESB recognised contingent consideration of €2.8 million.

[7] On 30 June 2021 ESB disposed of its shareholding in Tilbury Green Power Holdings Limited, refer to note 8 for more details.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. 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 ESB. 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. As at 30 June 2021 ESB has purchased and cancelled shares at a total cost of €23.5 million.

During the period ended 30 June 2021, ESB entered into a further agreement to support the acquisition of capital stock in future ESOP internal markets. As part of the agreement, ESB committed up to €35 million in addition to remaining funds on the 2015 agreement, to purchase shares in future ESOP internal markets from 2021 (inclusive) onwards. An ESOP provision of €36.5 million (31 December 2020: €0.9 million) was recognised in respect of this agreement.

26. EVENTS SINCE THE BALANCE SHEET DATE

There are no post balance sheet events which the directors believe required adjustment to or disclosure in the finance statements.

27. APPROVAL OF FINANCIAL STATEMENTS

The Board approved the financial statements on 15 September 2021.

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