



Energy for
generations

ENERGY FOR LIFE

Annual Report and Financial Statements 2015

esb.ie



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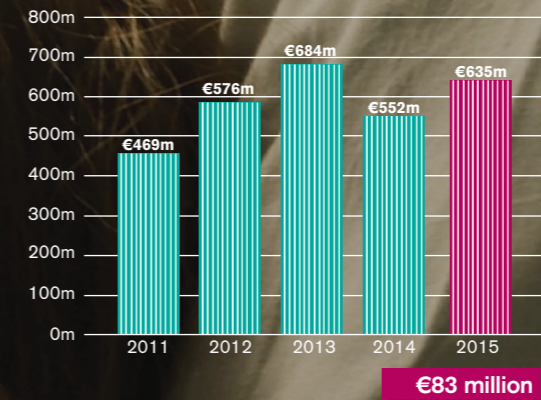
ENERGY FOR LIFE

Since ESB was established in 1927, it has been providing energy for those life moments, big and small, profound and every day, where electricity influences peoples' lives for the better. This is achieved not only through the provision of critical energy infrastructure, but also through ESB's contribution to the economy in the form of investment, taxes, dividends and jobs. In addition ESB is committed to playing a full role in society by acting responsibly in how it conducts its business, working towards a low-carbon future and supporting the communities in which it works.

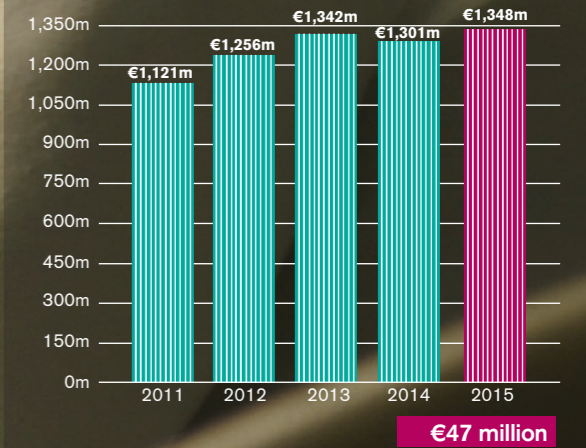
ABOUT ESB: ESB was established in 1927 as a corporate body in the Republic of Ireland under the Electricity (Supply) Act 1927. With a holding of 95%, ESB is majority owned by the Irish Government. The remaining 5% is held by the Trustee of an Employee Share Ownership Plan (ESOP). As a Strong, Diversified, Vertically Integrated Utility, ESB operates right across the electricity market: from generation, through transmission and distribution to supply of customers. In addition, we extract further value at certain points along this chain; supplying gas, using our networks to carry fibre for telecommunications and more. ESB is a leading Irish utility with a regulated asset base (RAB) of approximately €9 billion, 49% of generation in the all-island market and supplier of electricity to approximately 1.5 million customers throughout the island of Ireland. ESB will continue to grow the scale of its generation, trading and supply businesses so that it can compete within the all-islands competitive environment. ESB is focused on providing excellent customer service and maintaining its financial strength. As at 31 December 2015, ESB Group employed approximately 7,300 people.

KEY FACTS & FIGURES

2015 OPERATING PROFIT*



2015 EBITDA*



*Before exceptional items. See Finance Review page 34.

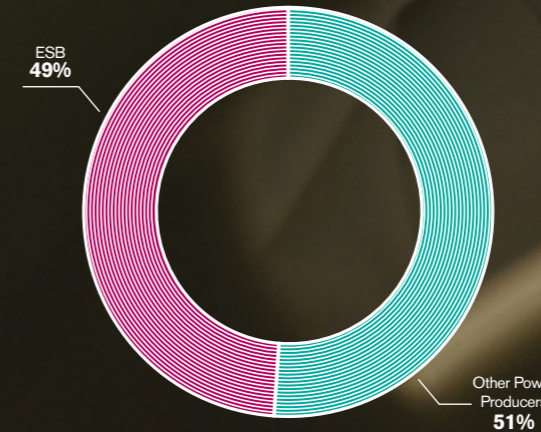
2015 TOTAL ASSETS



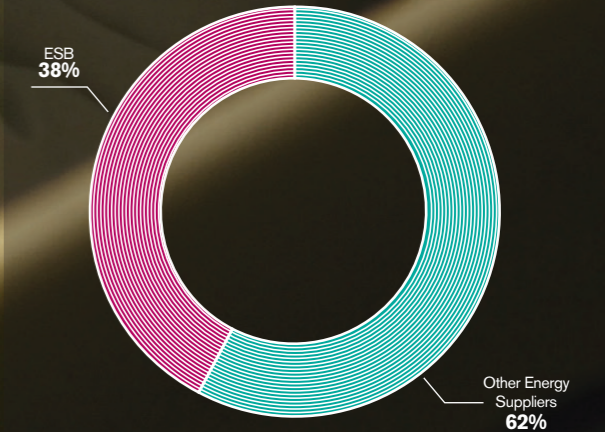
2015 NET DEBT



GENERATION
All-island market share



SUPPLY
All-island market share



ENERGY FOR EXPLORING



01

STRATEGY AND PERFORMANCE

BUSINESS OVERVIEW

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CHAIRMAN'S STATEMENT



Eilvena Graham, Chairman

OVERVIEW

I am delighted and honoured to chair ESB. ESB has a long history of supporting development and growth in Ireland and around the world. ESB does this not only through the provision of critical energy infrastructure but also through its commitment to customers, its economic contribution and the full and positive role it plays in the communities it serves. Over the past ten years, ESB has returned almost €1.5 billion in dividends to the Irish Exchequer.

2015 has been a solid year for ESB with profits after tax of €286 million and a return on capital employed (ROCE) of 6.5%. Profits benefited from the improved availability of our generation plant. However, it was necessary to impair two of our generation assets; Corby Power Limited as a result of

continued pressure on wholesale electricity prices in Great Britain (GB) and Coolkeeragh ESB Limited due to a reduction in the plants running in the Irish energy market.

Competition continues to intensify in both the generation and supply markets. In 2015, ESB generated 49% of the electricity produced in the Single Electricity Market (SEM) and supplied 38% of the electricity market in the Republic of Ireland (ROI). To maintain its market share and customer loyalty, ESB has introduced new customer centred offerings such as Smarter Pay As You Go products and is trialling other similar services for roll-out in 2016.

ESB GROUP STRATEGY

Despite a relatively stable 2015, changes in the energy landscape are transforming

“ The energy sector is going through a period of transition, driven by new technology and the need to balance energy affordability, energy security and decarbonisation objectives. We are making long-term investment decisions in the context of a future that is more complex and uncertain than ever before ”

practically every part of the electricity value chain. ESB is responding with significant investment in innovation in order to stay relevant and responsive to its customers' needs.

ESB is conscious of its responsibility to help find solutions to industry challenges such as energy security, affordability and climate change. The decarbonisation of the energy system at least cost to customers is a priority. During 2015, ESB continued to grow its portfolio of renewable generation including new onshore wind farms in ROI and the United Kingdom (UK). ESB also entered into joint ventures with the UK's Green Investment Bank to develop a biomass plant on the north bank of the River Thames in Essex and with Kingspan to roll-out a solar photovoltaic offering primarily in Northern Ireland (NI).

Development of the electricity network in ROI and NI continued during the year with over €629 million invested across the island of Ireland.

A significant milestone in 2015 was the launch of SIRO, a joint venture with Vodafone, which will bring 1 gigabit per second (Gbps) broadband to 500,000 customers in fifty towns across Ireland using our distribution network. This is the first deployment of its kind in Europe.

DIVIDENDS

ESB paid an interim dividend of €48 million in October 2015. The Board has recommended a final dividend payment of €31 million, bringing the total dividends for 2015 to €79 million and to almost €1.5 billion over the past ten years.

GOVERNANCE

The Board is committed to the highest standard of corporate governance to manage risks and drive growth in the Group. ESB has put in place appropriate measures to comply with the Code of Practice for the Governance of State Bodies, the agreed Government framework for the effective governance of State Bodies. In addition ESB complies, on a voluntary basis, with the UK Corporate Governance Code and the Irish Corporate Governance Annex.

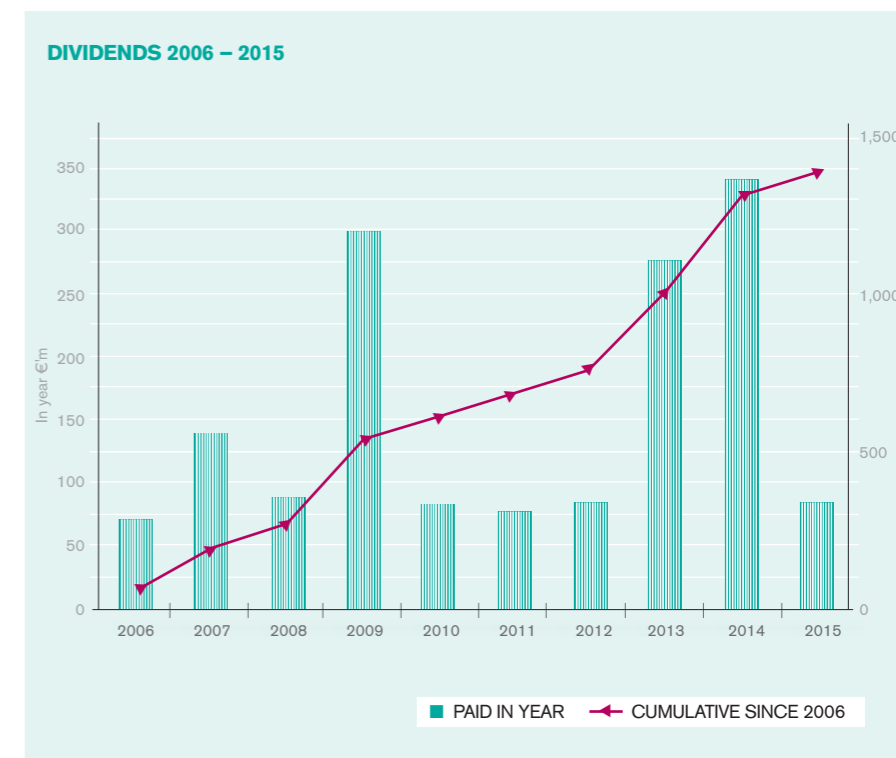
Andrew Hastings and Peter O'Sullivan joined the Board this year.

SAFETY

In 2015, ESB continued to implement the recommendations of the independent safety review carried out in 2014 to ensure that an appropriate safety culture is embedded at all levels of the organisation.

PEOPLE

Ireland ranks among the top twenty countries in the world in terms of the reliability of electricity supply. ESB's ability to deliver a high quality service to its customers is underpinned by the efforts, initiatives and



commitment of its employees. I would like to take this opportunity to thank them and in particular front-line employees, whose dedication during the recent storms is to be highly commended.

OUTLOOK

The energy sector is going through a period of transition, driven by new technology and the need to balance energy affordability, energy security and decarbonisation objectives. We are making long-term investment decisions in the context of a future that is more complex and uncertain than ever before. However, I am confident that the ESB Group Strategy to 2025, which is focused on sustainable innovation to deliver a broad mix of low-carbon generation technologies and advanced networks, together with our ongoing emphasis on cost efficiency is the right path for ESB and will ensure that we remain at the forefront of the energy sector in an all-islands market.

CONCLUSION

In accordance with the provisions of the Electricity (Supply) Acts 1927-2004, the Board presents the annual report and financial statements for the year ended 31 December 2015.

Eilvena Graham, Chairman
24 February, 2016

CHIEF EXECUTIVE'S REVIEW

CHIEF EXECUTIVE, PAT O'DOHERTY



Pat O'Doherty, Chief Executive

PERFORMANCE

Overall, ESB achieved solid results across all areas of its business in 2015. Profits were positively impacted by the improved availability of our generation plant increasing from 86% in 2014 to 92% in 2015. Continued pressure on Great Britain (GB) wholesale electricity prices and reduced running for gas plants in the Irish market prompted us to carry out an impairment review of some of our generation assets. As a result of this review we incurred an impairment charge of €104 million relating to two assets; Corby Power Limited (€58 million) and Coolkeeragh ESB Limited (€46 million). We continued to invest in critical infrastructure in the Republic of Ireland (ROI), Northern Ireland (NI) and GB including new low-carbon generation and upgrades to our transmission and distribution networks. We paid €273 million of dividends to our shareholders

including the final instalment of the special dividend (€214 million).

2015 HIGHLIGHTS

In 2015 progress was made against the ESB Group Strategy in all parts of the business. In Generation and Wholesale Markets (G&WM) there was good progress on the development of new generation assets including the completion of Woodhouse, a 20 MW Wind Farm, ongoing progress on the construction of Carrington, our 881 MW gas power station near Manchester and commencement of the construction of a number of other renewable projects including biomass, wind and solar. ESB Networks invested €494 million in developing the electricity network infrastructure in ROI. ESB International celebrated its fortieth anniversary in 2015. Over this time, it has not only helped countries around the

“ We are very conscious that energy affordability remains an issue for many of our customers. For the second year running, we reduced residential electricity prices by 2% in advance of the winter peak when customers need it most. ”

world to improve the quality and reliability of their electricity supply, it has also allowed ESB access to strategic engineering talent. SIRO, ESB's joint venture with Vodafone, commenced activities, rolling-out fibre broadband to customers across Ireland using the low-voltage electricity network.

INVESTING IN A LOW-CARBON FUTURE

ESB is preparing for a decarbonised energy landscape by investing in new renewable technologies such as onshore wind and solar photovoltaic (PV), and developing a more intelligent network capable of supporting intermittent distributed generation. Renewable technologies will make up a bigger proportion of our generation fleet in the years ahead. However, while we transition to a low-carbon future, backup from traditional generation will continue to be required for the foreseeable future both to maintain affordability and provide predictable despatch to offset and facilitate intermittency.

FOCUS ON AFFORDABILITY

Energy affordability remains an issue for many of our customers. For the second year running, Electric Ireland reduced residential electricity prices by 2% in advance of the winter peak when customers need it most. From 1 January 2016, we reduced our gas prices for residential and SME business customers by 2.5%. Electric Ireland has also established a specialist team to provide services to people experiencing fuel affordability issues, such as tailored payment plans and Smarter Pay As You Go products. Disconnections continued to fall in 2015 – less than 30 per 10,000 customers disconnected.

COMPETITIVE AND CUSTOMER FOCUSED SOLUTIONS

This year, we continued to offer competitive and innovative products and services to our customers and were first to the market with a Smarter Pay As You Go product. We also expanded into the domestic electricity market in NI, and have maintained an all-island market share of 38%. Electric Ireland had the highest customer satisfaction rating of all suppliers throughout 2015, as reported by the Commission for Energy Regulation (CER).

IMPACT OF FALLING OIL AND GAS PRICES

Electric Ireland has reduced both electricity and gas prices for residential customers by 4% and 5% respectively over the past two years. We are committed to continuing to pass through reductions in wholesale prices to our customers. Energy suppliers typically hedge their wholesale fuel costs in advance so as to smooth out prices for customers and for that reason there is not an immediate correlation between movements in wholesale fuel costs and customers' energy prices, but changes in wholesale fuel prices do feed into customers' energy prices over time. Fuel accounts for less than 30% of the full cost of supplying electricity to a residential customer. Electric Ireland will not build margin on the back of decreasing wholesale costs – if prices reduce further, they will be passed on to customers.

INVESTING IN SKILLS

ESB launched two major recruitment campaigns in 2015; a graduate programme and an apprenticeship programme. The intake from these programmes together with our ongoing investment in training and development for existing employees will allow us to acquire

CAPITAL EXPENDITURE

€873
million

and nurture critical skills for the future and facilitate growth.

SAFETY AS A CORE VALUE

Safety is a core value of ESB and the safety of employees, contractors, customers and the public always comes first. In my role as Chief Executive, I have overall responsibility for the management of health and safety in ESB. Safety leadership is shared with all senior management and in turn with each manager, supervisor, team leader and ultimately every employee. Safety leadership however is just one element of our safety strategy; it also includes engagement, compliance and competency focused initiatives.

ESB'S ROLE IN RIVER MANAGEMENT

ESB operates hydroelectric power stations on the rivers Shannon, Liffey, Lee, Erne and Clady. Each of the schemes was established under legislation, which places a duty on ESB to operate and maintain the hydroelectric power stations and associated reservoirs, dams and embankments and lands for the purpose of electricity generation. In carrying out its duties ESB consults with other stakeholders who have specific duties or interests in the management or use of these rivers.

During December 2015 all these rivers were subject to flood conditions arising from a sustained period of above average rainfall across Ireland and, in particular, two distinct severe rainfall periods associated with Storms Desmond and Frank. During this period, ESB were fully engaged with local authorities and stakeholders. At national level ESB attended the Government's National Co-Ordination Group on a daily basis.

SUPPORTING COMMUNITIES

Over the past ten years, ESB has awarded over €10 million to community based projects in ROI and NI working in the areas of suicide prevention, education and homelessness through our Energy for Generations Fund. The fund is aligned with

20%

We reduced our residential electricity prices by 2% during the year

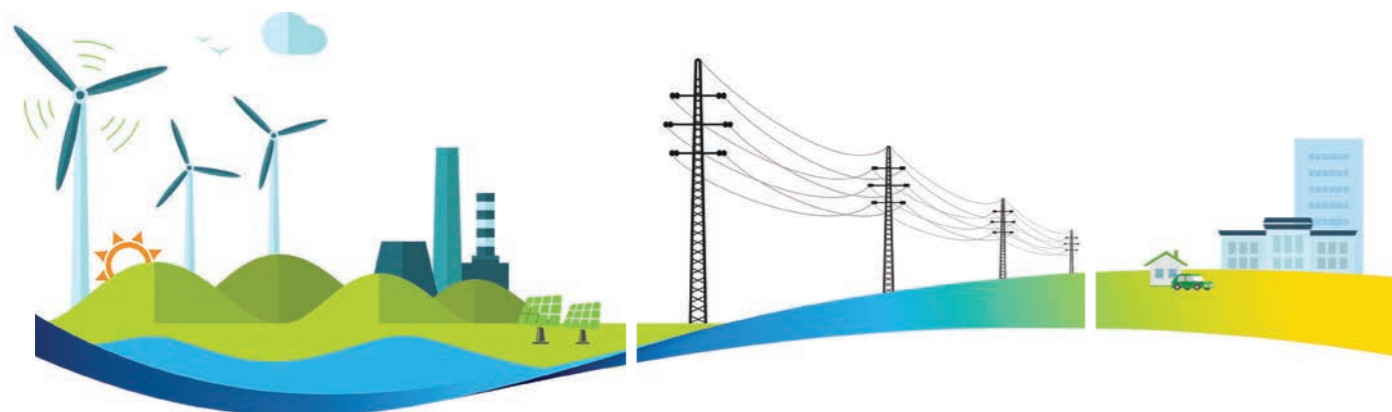
national policy objectives and as well as providing financial support to organisations, we actively engage our employees through volunteering programmes. We also invest in communities through sponsorships to promote science, technology, engineering and maths, as well as sport, arts and cultural initiatives.

LOOKING AHEAD

Looking ahead, I see further change in the industry as new technologies emerge and non-traditional players enter the market. Upstream, there will be further developments in low-carbon generation, while downstream, new products and services will be enabled by advances in technology and the smart grid. It is ESB's intention to collaborate where possible to accelerate innovation across all areas of our business, as evidenced by recent partnerships with Vodafone, Kingspan, Coillte Teoranta and the Green Investment Bank. The introduction of the Integrated Single Electricity Market (I-SEM), due to launch in 2017, will also present significant challenges for ESB over the next few years. I am confident that the commitment and knowledge of ESB's employees means that we are well positioned to address these changes.

Pat O'Doherty, Chief Executive
24 February, 2016

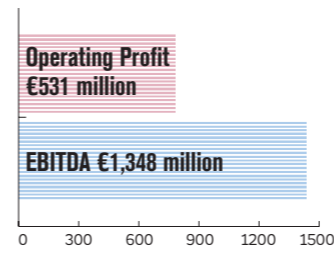
ESB AT A GLANCE



BUSINESS SEGMENT	GENERATION AND WHOLESALE MARKETS (G&WM)	ESB NETWORKS	NORTHERN IRELAND ELECTRICITY NETWORKS (NIE NETWORKS)	ELECTRIC IRELAND	OTHER SEGMENTS
DESCRIPTION	Electricity Generation	Electricity Transmission and Distribution		Electricity Supply	Innovation and Internal Service Providers
REVENUE	€1,409m	€954m	€301m	€2,100m	€278m
OPERATING PROFIT (including exceptional items)	€137m	€287m	€48m	€44m	€15m
CAPITAL EXPENDITURE	€176m	€494m	€135m	€11m	€57m
AVERAGE EMPLOYEE NUMBERS	973	3,204	1,208	346	1,574
LINK TO OTHER SECTIONS IN THIS REPORT	G&WM Operational Review, Page 40	ESB Networks Operational Review, Page 42	NIE Networks Operational Review, Page 44	Electric Ireland Operational Review, Page 46	Innovation Operational Review, Page 48

HIGHLIGHTS

FINANCIAL



RETURN ON CAPITAL EMPLOYED
6.5%

CONTRIBUTION TO THE IRISH ECONOMY
OVER €2 BILLION

Total dividends paid of almost **€1.5** billion over the past decade

OPERATIONAL

CONSTRUCTION STARTED ON THE 40 MW TILBURY GREEN POWER BIOMASS PLANT

ESB AND KINGSPAN ESTABLISHED A JOINT VENTURE TO CONSTRUCT ROOFTOP SOLAR PROJECTS

ESB NETWORKS CONCLUDED ON THE PRICE REVIEW FOR THE REGULATORY PERIOD (2016-2020)

CONSTRUCTION OF THE SIRO FIBRE TO THE BUILDING NETWORK COMMENCED IN THE FIRST TOWNS

CUSTOMER AND MARKET

2% PRICE REDUCTION PASSED ON TO RESIDENTIAL ELECTRICITY CUSTOMERS

2.5% PRICE REDUCTION TO RESIDENTIAL GAS CUSTOMERS

Generation Market Share **49%**

Supply Market Share **38%**

ENTERED THE NORTHERN IRELAND RESIDENTIAL MARKET

Accredited with the Customer Contact Association Global Standard for the eighth successive year
NATIONAL CUSTOMER CARE CENTRE

CORPORATE SOCIAL RESPONSIBILITY

ElectricAid raised and spent over **€1.3 MILLION** in 2015 on development and relief projects in developing countries

THE ENERGY FOR GENERATIONS FUND DISTRIBUTED €2 MILLION TO COMMUNITY BASED INITIATIVES IN IRELAND

OVER 30,000 VOLUNTEERED HOURS HAVE BEEN RECORDED BY EMPLOYEES

THE ENERGY EFFICIENCY OBLIGATION SCHEME HAS DELIVERED 253 GWH OF ENERGY SAVINGS AND RETURNED OVER €40 MILLION TO CUSTOMERS TO DATE

ENERGY FOR FUN

BUSINESS MODEL, RISK REPORT AND STRATEGY

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BUSINESS MODEL

BUSINESS ENVIRONMENT

- Climate and Energy Policy
- Market Integration
- Electricity Demand
- Transformation and Innovation
- Adjacent Sectors
- Macro-Economy and Fuel Markets
- Great Britain (GB) Energy Markets
- Return on Regulated Assets
- Financial Strength

See page 20 for Business Environment

PRINCIPAL RISKS 2015

- Financial**
 - Competitive Intensity
 - Energy Trading Risk
 - Long-Term Results
 - Carrington Commercialisation
- Regulatory**
 - Regulatory Outcomes
 - Reputation
- Operational**
 - Health and Safety
 - Cork Flood Case
 - Infrastructure Failure
 - IT Failure
 - Employee Engagement
- Strategic**
 - Disruptive Market / Technology
 - Organisational Capability
 - Key Infrastructure Delivery
 - Industrial Relations Environment

See page 14 for Risk Report and Principal Risks

DETAILED BELOW ARE THE MAIN CAPITALS THAT ESB USES IN ITS BUSINESS ACTIVITIES TO CREATE VALUE FOR THE GROUP AND ITS STAKEHOLDERS

TYPES OF CAPITAL

- 1. MANUFACTURED CAPITAL**
 – To generate and provide energy in a safe and reliable manner
 - 4,827 MW of generation capacity
 - Over 180,000 km electricity network in ROI
 - Over 47,000 km electricity network in NI
- 2. FINANCIAL CAPITAL**
 – To create value for our key shareholders
 - BBB+ credit rating
 - €13.2 billion total assets
 - 55% gearing
 - Liquidity of €1.5 billion
- 3. INTELLECTUAL CAPITAL**
 – To create value by continuing to innovate
 - Innovation generating and implementing new solutions
 - Promotion of innovation
 - Corporate governance structure
 - Project management systems and skills
 - To date almost €130 million invested by Novusmodus Fund
- 4. HUMAN CAPITAL**
 – A workforce that is engaged and agile
 - Over 7,300 employees
 - Safety Leadership Strategy
 - Employee development programmes
- 5. SOCIAL AND RELATIONSHIP CAPITAL**
 – To create a relationship based on trust with our key stakeholders
 - 1.5 million customers
 - 30,000 hours recorded on volunteering programmes
 - Over €10 million distributed to community initiatives over the last decade
 - Annual contribution to ElectricAid of circa €1 million
- 6. NATURAL CAPITAL**
 – Bringing sustainable and competitive energy solutions to all our customers
 - 404 MW of renewable generation assets
 - Recycling rates of above 75%

BUSINESS ACTIVITIES

- Generation and Wholesale Markets (G&WM) - See page 40 for G&WM Operating Review**
 G&WM comprises ESB's generation, trading and asset development activities in the Republic of Ireland (ROI), Northern Ireland (NI) and Great Britain (GB).
- ESB Networks – See page 42 for ESB Networks Operating Review**
 ESB Networks owns the electricity transmission and distribution system network in ROI and operates the electricity distribution system network in ROI.
- Northern Ireland Electricity Networks (NIE Networks) – See page 44 for NIE Networks Operating Review**
 NIE Networks owns the electricity transmission and distribution system network in NI and operates the electricity distribution system network in NI.
- Electric Ireland – See page 46 for Electric Ireland Operating Review**
 Electric Ireland is a leading supplier of electricity and gas to domestic customers in ROI and has a substantial market share in the non-domestic electricity sector in ROI and NI.
- Innovation – See page 48 for Innovation Operating Review**
 - ESB International**
 Engineering consulting services
 - Novusmodus Fund**
 €200 million clean technology fund
 - Telecoms**
 Fibre-optic broadband network
 - eCars**
 Operates the national charging infrastructure for electric vehicles

OUTPUTS

- €1.3 billion EBITDA
- 6.5% return on capital employed (ROCE)
- Contributed over €2 billion to the Irish economy
- Almost €1.5 billion of dividends over the last decade
- 49% of all-island generation market share
- 38% of all-island supply market share
- Maintain over 180,000 kilometres of distribution and transmission network in ROI
- Maintain over 47,000 kilometres of distribution and transmission network in NI
- Over 3,200 MW of renewable generation connected to the grid on an all-island basis
- Rolled out over 2,300 eCar charge points across ROI

STRATEGIC PRIORITIES



See page 22 for Strategic Priorities

RISK REPORT

APPROACH TO RISK MANAGEMENT

ESB considers effective risk management to be essential to the successful achievement of its strategic objectives.

The Board has the overall responsibility for risk management and internal control. It has adopted the ESB Risk Policy, which outlines its risk management objectives and establishes roles and responsibilities for the effective management of risk throughout the Group.

The Audit and Risk Committee, under delegation from the Board, monitors the nature and extent of risk exposure against principal risks and advises the Board in its consideration of overall risk appetite, risk tolerance and risk strategy of the Group. Details of the activities undertaken by the Board and the Audit and Risk Committee during 2015 in respect of their risk responsibilities are outlined on page 74. All Board Committees have a role in monitoring and overseeing risk topics within their areas of competence and ensuring adequate coverage of risk oversight on behalf of the Board.

Business units are responsible for identifying, assessing and managing risks in their respective areas. At executive level, the Executive Director Risk Forum and the Group Risk Management Committee review principal and emerging risks and ensure the fundamentals of good risk management are incorporated into decision making at all levels of the Group.

IDENTIFYING PRINCIPAL RISKS

ESB identifies its principal risks through an annual bottom-up and top-down approach. The bottom-up exercise is performed by each business unit. The outputs are fully debated and considered by the Executive Director and senior management teams of each business unit and the responsibility is allocated to risk owners for managing each of the principal risks.

The top-down process requires a consolidated view of the Group profile to be developed based on the inputs received from each business unit and the considered views of senior managers in Group wide functions. External risk trends and drivers also inform the process.

Following the consideration and recommendation by the Audit and Risk Committee, the identified principal risks are approved by the Board.

CONSIDERATIONS FOR RISK IDENTIFICATION

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

- ESB Group Strategy to 2025
- Risk appetite statements
- Business plans and budgets
- Annual governance and financial control reviews
- Business unit risk reviews
- External risk reviews (e.g. National Risk Assessment, World Economic Forum Global Risk Review)
- Internal and external auditor perspectives
- External peer research and information exchange
- Meetings with the Risk Management Committee, the Executive Director Risk Forum, the Deputy Chief Executive and Chief Executive

RESPONSIBILITIES

The Risk Policy explains how the Board, the Audit and Risk Committee and management will meet their respective responsibilities with regard to risk management and internal control. These responsibilities are detailed on page 14 in the risk management framework.

RISK MANAGEMENT FRAMEWORK

To support the management and oversight of risk across the Group, the Risk Policy requires the establishment and maintenance,

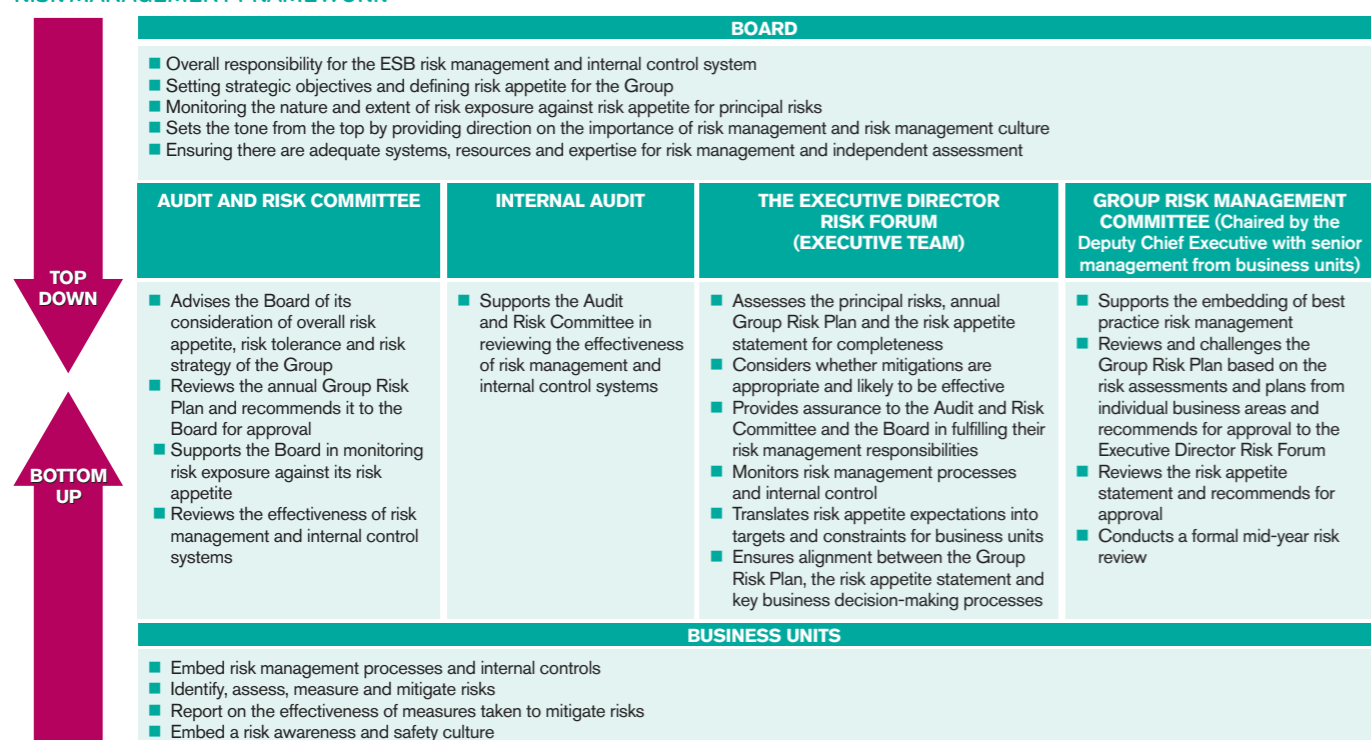
to international best practice, of an appropriate risk management framework.

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

PRINCIPAL RISKS

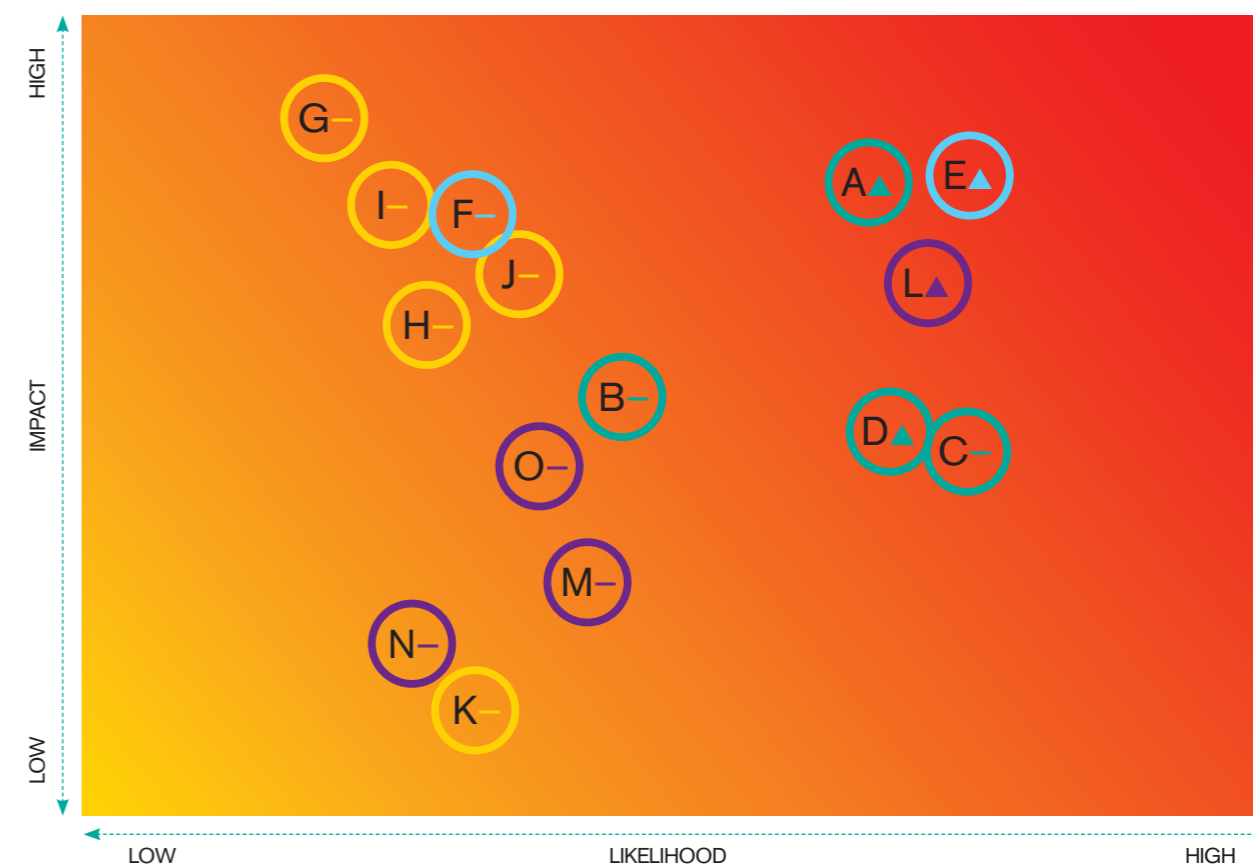
ESB's principal risks and uncertainties persisted from 2014 into 2015 although with some movement on the relative ranking of risks. The Board approved the principal risks and the detailed Group Risk Plan following consideration and recommendation by the Audit and Risk Committee. The principal risks were included in its risk appetite and mitigation discussions during the year. The Group can achieve its strategic objectives with the effective management of the principal risks.

RISK MANAGEMENT FRAMEWORK



RISK HEAT MAP

The following risk heat map illustrates the relative positioning of principal risks in terms of impact and likelihood at the end of 2015 and the changes in ranking from the end of 2014.

















Financial	Regulatory	Operational	Strategic	
A. Competitive Intensity	E. Regulatory Outcomes	G. Health and Safety	L. Disruptive Market / Technology	▲ INCREASE
B. Energy Trading Risk	F. Reputation	H. Cork Flood Case	M. Organisational Capability	○ UNCHANGED
C. Long-Term Results		I. Infrastructure Failure	N. Key Infrastructure Delivery	▼ DECREASE
D. Carrington		J. IT Failure	O. Industrial Relations	
Commercialisation		K. Employee Engagement	Environment	

PRINCIPAL RISKS

	RISK TITLE	STRATEGIC PILLAR	RISK DESCRIPTION	TREND/MOVEMENT	ASSESSMENT / UPDATE	STRATEGIC RESPONSE
FINANCIAL	A. Competitive Intensity		The risk of loss of market share arising from the level of competitor activity from new and existing competitors in the residential supply sector.	↑	<ul style="list-style-type: none"> The energy supply market remains very active, with competitors continuing to increase discount levels to attract new customers 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Provide excellent customer service and deliver competitive price offerings and innovative products to the market to defend market share and differentiate ESB customer propositions Help customers to have greater visibility and control over their energy use through continued development of smart and connected home solutions Continued delivery of cost base efficiencies to maintain competitive price Increased flexibility through outsource partners to adapt more quickly to changing customer needs Focus on digital marketing initiatives / platforms to support and differentiate the Electric Ireland brand Build customer loyalty through affinity programmes Electric Ireland entered the Northern Ireland (NI) residential market and aims to grow the business further in 2016 <p>If the risk materialises:</p> <ul style="list-style-type: none"> Renewed focus on competitively priced products and strong customer service
	B. Energy Trading Risk		ESB's profits and market share can be affected by adverse movements in energy / commodity prices, or by a material energy trading error.	↔	<ul style="list-style-type: none"> Power prices in the Single Electricity Market (SEM), and fuel prices paid by ESB in connection with its electricity generating activities continue to experience the volatility seen in recent years 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Market risk is managed through implementation of appropriate trading and risk management strategies in both generation and supply businesses and implementation of a range of initiatives to increase ESB's access to energy markets Credit risk is managed through trading only with sufficiently rated entities and ensuring acceptable forms of collateral are in place where required Operational risk is managed through continued operation of a trading governance framework Review of risk appetite and the Trading and Risk Management Strategy in light of market developments Ongoing implementation of controls and mitigations, including investment in systems and training <p>If the risk materialises:</p> <ul style="list-style-type: none"> Amend risk appetite and the Trading and Risk Management Strategy in light of market developments Undertake investigation into any trading incident Lessons learned reviews
	C. Long-Term Results		Possibility of a credit rating downgrade as a result of unsatisfactory financial performance making it difficult to secure adequate funding at an appropriate cost in order to finance planned investments and to maintain ESB's liquidity.	↔	<ul style="list-style-type: none"> Risk of exceeding regulatory allowances Volatility in energy prices resulting in low margins in Generation and Wholesale Markets (G&WM) in the Republic of Ireland (ROI), NI and Great Britain (GB) Significant changes in the energy sector driven by new technology and decarbonisation objectives 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Business planning target setting from the top down using key financial metrics, focused on ESB Group Strategy to 2025 (ESB Group Strategy) delivery and protecting financial strength Use of business and / or technology specific hurdle rates in business investment decisions to ensure capital expenditure is allocated to those projects that deliver on both strategic and business performance requirements Continue to seek cost efficiencies Innovation is tasked with identifying new businesses / technologies to drive future growth opportunities Investors and shareholder briefings to update on ESB Group Strategy progress Capital allocation being kept under review across the Group <p>If the risk materialises:</p> <ul style="list-style-type: none"> Amend ESB Group Strategy in order to rebuild financial strength
	D. Carrington Commercialisation		ESB faces a risk that the combination of energy margin and capacity market revenue available in the GB market does not adequately remunerate new build gas plant.	↑	<ul style="list-style-type: none"> Carrington opted for a one year contract in the 2015 GB capacity auction, which cleared at £18/kW (2014: £19.40/kW) Spreads have increased recently with the announcement of further GB coal plant retirements but still remain low 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Continue to implement the GB Market Access Strategy Input to consultations and pursue opportunities to engage with policymakers on future policy developments in the GB market Project for the commercialisation of Carrington is in place addressing: <ul style="list-style-type: none"> Strategy for the GB capacity auctions Trading and Risk Management Strategy Ensuring systems and operational processes are delivered to support commissioning and ongoing management of Carrington Enhancing the GB trading capability <p>If the risk materialises:</p> <ul style="list-style-type: none"> ESB Group Strategy review
REGULATORY	E. Regulatory Outcomes	 	The principal regulatory risks faced by the Group originate from the evolving EU's internal energy market and climate change obligations, the regulatory approach to price control reviews in the networks businesses and licence and competition law obligations.	↑	<ul style="list-style-type: none"> The uncertainty of the outcome of the regulatory price review in NIE Networks Regulatory Period 6 (2017 - 2024) (RP6) The impact of the Integrated Single Electricity Market (I-SEM) on the wholesale market design Additional requirements arising from the connection of increased levels of renewables to the ROI and NI networks 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Experienced project team established in NIE Networks to prepare for and negotiate RP6 Participate in Regulator led consultation processes on DS3 - an innovative proposal to support increased renewables on the electricity system I-SEM programme established to develop ESB positions on regulatory, market and structural issues and to prepare for the transition to a new market design Consider regulatory developments as an input into the annual review of the ESB Group Strategy Licence monitoring and reporting to Regulators to demonstrate ongoing compliance <p>If the risk materialises:</p> <ul style="list-style-type: none"> Amend capital and operating cost plans to align with the regulatory outcome Report regulatory non-compliance and implement actions to resolve any issues Activate communications plans to deal with any issues that may arise
	F. Reputation		A materialisation of any of the principal risks could materially damage ESB's reputation and brand causing stakeholders to lose trust in ESB, which could undermine support for ESB's Group Strategy, challenge ESB's ability to secure finance at acceptable rates, compromising ESB's capability to deliver on capital investment programmes and resulting in a significant loss of customers.	↔	<ul style="list-style-type: none"> A number of severe weather events during the year including storms and flooding Ongoing concerns regarding energy price levels The increased use of social media allows customers and consumer groups to engage, share views and take part in direct action and other campaigns more readily than before 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Pro-active management of principal risks Ongoing engagement with media to facilitate open and clear communication Actively managing regulatory compliance Stakeholder Management Plan <p>If the risk materialises:</p> <ul style="list-style-type: none"> Activate Crisis and Stakeholder Management Plans, as appropriate
OPERATIONAL	G. Health and Safety Risk		Risk of serious injury or death to employees, contractors or the general public.	↔	<ul style="list-style-type: none"> Implementation of the ESB Networks fatality report recommendations and of the ESB Safety Strategy remain priorities The appointment of a new Group Head of Safety, focused on implementation of ESB Safety Strategy Public safety and the dangers associated with electricity networks were prioritised in 2015 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Expedite the roll-out of all elements of the ESB Safety Strategy Maintain accreditation of ESB safety management systems to OHSAS 18001 Implement health and safety initiatives based on analysis of safety performance Deliver health and wellbeing initiatives to support employees' physical and mental wellbeing Implement public safety awareness campaigns Business continuity planning and testing programme in place <p>If the risk materialises:</p> <ul style="list-style-type: none"> Undertake critical incident investigation and reporting Lessons learned reviews
	H. Cork Flood Case		Risk that the Court of Appeal upholds the decision of the High Court in UCC v ESB.	↔	<ul style="list-style-type: none"> On 5 October 2015, the High Court delivered its judgement in the case and found ESB 60% liable for the damage caused and UCC 40% contributory negligent ESB has appealed the judgement to the Court of Appeal - the appeal is expected to be heard in early 2017 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> A multi-disciplinary team is in place to manage the ongoing litigation <p>If the risk materialises:</p> <ul style="list-style-type: none"> Activate communications plan to update key stakeholders Consider the implications of any decision on plant operations

PRINCIPAL RISKS (Continued)

	RISK TITLE	STRATEGIC PILLAR	RISK DESCRIPTION	TREND/ MOVEMENT	ASSESSMENT / UPDATE	STRATEGIC RESPONSE
OPERATIONAL	I. Infrastructure Failure		The risk of sustained or frequent outages arising from weather driven incidents or operational issues resulting in lower revenues and additional operating costs.		<ul style="list-style-type: none"> A number of severe weather events during the year leading to grid outages Although generation plant performance was excellent in 2015, high levels of plant availability remains a priority 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Networks businesses carry out annual review and update of network security of supply plans Ongoing timber-cutting, maintenance and hazard patrol Participation at National Emergency Co-Ordination Group for storm and flood related crisis events Continuing accreditation to PAS 55 asset management standard for generation and networks assets Long-term asset maintenance plan in place for generation assets Availability of strategic spares Retention of key operational / maintenance skills <p>If the risk materialises:</p> <ul style="list-style-type: none"> Review of storm damage to inform asset management plans and future price control submissions High level of network automation to facilitate automatic and / or remote restoration of supply where possible Contingency plans and associated standing instructions available to Network Controllers to facilitate restoration of supply for loss of major plant 24/7 system manager rotas and customer rotas in place to provide after-hours system management during fault situations and to manage stakeholder interaction post event or emergency situation Identification of the cause of the plant outage and implementation of the necessary maintenance actions and, if required, amendments to ongoing maintenance plan
	J. IT Failure		A risk of significant data loss or failure of IT infrastructure or IT systems, arising from a successful cyber attack or non-malicious failure.		<ul style="list-style-type: none"> Business dependency on IT systems and telecoms has resulted in a continued focus on this risk A data protection audit of Electric Ireland by the Office of the Data Protection Commissioner (ODPC) in 2015 was largely positive with a small number of improvements identified 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Built-in resilience, including backup and recovery facilities Regular review and update of Business Continuity and Disaster Recovery Plans including regular site switching for key systems Dedicated and continuous monitoring of cyber risk by the IT Security Team Data protection policies in place Dedicated data protection manager Ongoing data protection training The findings from the data protection audit are being shared across the Group and recommendations are being implemented <p>If the risk materialises:</p> <ul style="list-style-type: none"> Activate communications plans prepared for key stakeholders depending on incident e.g. ODPC for data breach Share findings and knowledge from incidents to manage future risks
	K. Employee Engagement		A risk of low employee morale, loss of productivity, a risk of an increasing attrition rate with consequent loss of key skills and ultimately a failure to deliver on the ESB Group Strategy.		<ul style="list-style-type: none"> Responses to the staff survey highlighted that there are some areas for improvement in relation to employee engagement 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Increase the use of focus groups to allow employees address areas of concern Provide alternative communication channels for employees e.g. social media Implement recommendations arising from the staff survey Review of decision making and approval processes to support agile decision making Engaging with employees to inform them of the link between their roles and the ESB Group Strategy The ESB Staff Innovation Recognition Awards <p>If the risk materialises:</p> <ul style="list-style-type: none"> Resource a team with the required skills and capabilities to develop and implement an action plan to address the failure Initiate an immediate engagement plan which: <ul style="list-style-type: none"> Increases the priority for all line managers to engage with employees Communicates key messages focusing on the future prospects of the Group
STRATEGIC	L. Disruptive Market / Technology		Failure to respond to disruptive market / technology developments could result in the loss of significant market share in both retail and wholesale markets, having an adverse effect on profitability, challenging ESB's delivery of its strategic goal of sustainable innovation and undermining ESB's reputation as a leading Irish technology / engineering company.		<ul style="list-style-type: none"> Momentum increasing in relation to the development of new energy technologies 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Implementation of innovation strategy road maps Knowledge transfer between Novusmodus, the Emerging Energy Technologies Group and business units Identifying external collaboration opportunities through joint ventures e.g. Kingspan ESB, SIRO Showcasing emerging technology potential at the ESB Powering Potential Expo and other events <p>If the risk materialises:</p> <ul style="list-style-type: none"> Amend the ESB Group Strategy and formulate a decision on whether to enter, acquire or consider any additional investment needs Re-organise the businesses and divert investment to alternative technologies or business models
	M. Organisational Capability		Failure to attract new talent, or to retain and develop existing talent could result in a deterioration in business performance or impact on the ability to deliver the ESB Group Strategy as ESB has a high dependency on the technical competency of its management / employees.		<ul style="list-style-type: none"> As the economy recovers, retention and recruitment of certain specialist employees continues to be challenging 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Deliver the People Strategy, which is centred on employee engagement and includes development of an appropriate reward model Detailed Group Resource Plan in place which highlights resource requirements in the short-to-medium term Implement succession planning within each business unit Graduate recruitment and development to support business growth Provide innovators with the time and resources to pursue their ideas <p>If the risk materialises:</p> <ul style="list-style-type: none"> Review options for short-term resourcing (e.g. contracting or partnering) for critical capabilities or skillsets Review options for short-term redeployment of resources to key vacancies, based on key skill sets from previous roles and, in parallel, fast-track training of replacements for the critical roles within the businesses
	N. Key Infrastructure Delivery		Failure to deliver key infrastructure on time or to budget could lead to losses, not delivering on planned returns, and failure to deliver the ESB Group Strategy.		<ul style="list-style-type: none"> Carrington construction is nearing completion Woodhouse Wind Farm construction completed during the year Commencement of construction of a number of renewable projects ESB Networks and NIE Networks capital expenditures are in line with targets Complex planning and consenting processes, contractor management and safety vigilance continue to be areas of focus 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Joint Project Management Office established with EirGrid to streamline delivery of transmission projects ESB Networks Renewables Forum established to manage delivery of renewable programme Project management function in place to oversee the development and construction of projects Medium-term wind project delivery plan, aligned to ESB Group Strategy along with portfolio of early stage wind development sites for longer-term delivery identified Continue to develop longer-term generation options <p>If the risk materialises:</p> <ul style="list-style-type: none"> Work to achieve as full a financial recovery as possible for assets delivered late Purchase operating assets Pursue joint venture options
	O. Industrial Relations Environment		A risk of industrial action, arising from failure to agree a new sustainable reward model.		<ul style="list-style-type: none"> The Group continued to engage with the Group of Unions during 2015 on pay and conditions for current and future employees No agreement had been reached by year end, both sides will continue to engage in 2016 	<p>To prevent the risk materialising:</p> <ul style="list-style-type: none"> Industrial processes and procedures being fully utilised to reach a successful conclusion Ongoing engagement with employees about the proposed agreement <p>If the risk materialises:</p> <ul style="list-style-type: none"> Utilise internal resolution mechanisms and procedures to address specific issues Initiate crisis management and contingency planning arrangements

STRATEGY

STRATEGIC PLANNING PROCESS

ESB's approach to strategic planning includes the following two components:

- A Business Environment Review is conducted annually using both internal and external expertise to identify and understand those factors that impact most on the direction of the ESB Group Strategy to 2025 (ESB Group Strategy)
- A Strategic Performance Review is also completed annually during which the Group's performance and path towards delivering the ESB Group Strategy is assessed and if necessary, corrections are agreed

Strategic Performance Indicators (SPIs) have been developed to track ESB's performance in delivering the ESB Group Strategy to 2025; they are core to the annual strategic performance review. The Strategic Planning Process commences with detailed discussions with the Executive Directors and their business units in preparation for engagement with and final review by the Board.

THE BUSINESS ENVIRONMENT

A summary of the key business environment factors that currently impact on the ESB Group Strategy are set out below:

1 CLIMATE AND ENERGY POLICY

The long-term need to decarbonise European and global societies to address the threat of worldwide climate change will present an enduring challenge to and opportunity for the energy sector over future decades.

In December 2015, the United Nations (UN) unanimously agreed to a global agreement on climate change. The Paris Agreement sets a commitment to keep global temperature rises to well below 2°C with a target of 1.5°C. An ongoing cycle of five-year reviews of national contributions has been agreed, so although currently the total contributions are not expected to keep global temperature rises below 2°C, these reviews can accelerate the ambition and collective effort to meet the targets.

Current EU policy is to reduce total greenhouse gas emissions by 80 - 95% by 2050, compared to 1990 levels. The Irish Government has set a target of an 80% reduction in emissions in electricity, transport and the built environment by 2050 with carbon neutrality in agriculture and land use. The UK Government has also set a target of an 80% reduction in emissions by 2050. In the medium term, the EU has adopted a 2030 objective of a 40% reduction in greenhouse gas emissions. Each Member State will have a single annual binding target for greenhouse gases in agriculture, transport and buildings. From 2021, there will be an Energy Union Governance Process which will provide for national long-term plans and tracking of progress on greenhouse gases and on EU-level renewable and efficiency goals.

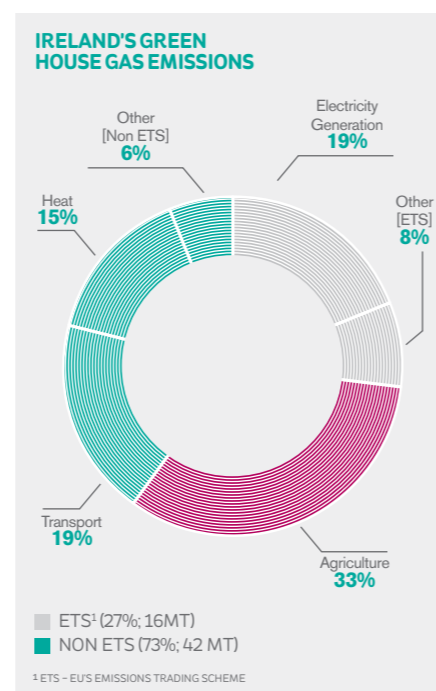
In the short-term, under the 2020 framework, there are also legally binding targets at national levels to decrease carbon emissions for sectors such as transport, agriculture and buildings. The electricity sector is already legally committed to emission reductions under the EU's Emissions Trading Scheme (ETS) and is on track to achieve these. There are also targets to increase the proportion of energy from renewable sources. The Republic of Ireland (ROI) and the United Kingdom (UK) have set targets for the proportion of electricity from renewable sources of 40% and 30% respectively.

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

The UK in late 2015 announced a reduction in renewable subsidies and an intention to close all coal-fired generation stations by 2025, to be replaced mainly by gas-fired and nuclear generation.

In ROI, the Government, in late 2015, published its White Paper on energy: Ireland's Transition to a Low-Carbon Future. Contained within the document is a focus on the challenge of meeting

Ireland's commitments to reduce greenhouse gas emissions in transport, heating and agriculture and a framework for citizen engagement and evidence-based policies to get there. ESB's Group Strategy is broadly in alignment with this long-term decarbonisation vision and with the direction of travel of UK policy.



2 MARKET INTEGRATION

The integration of European energy markets is a major policy priority for European and national authorities across the continent. This priority has been reflected in both a regulatory policy to enhance the ability to trade power and gas between different national market systems and in the construction of physical electricity and gas interconnection to allow this to happen. Such integration has the power to transform the competitive environment within which ESB operates – changing ESB's generation and supply businesses from relatively significant players within the Single Electricity Market (SEM), to a player with much smaller shares in a pan-European market which is dominated by larger, mostly pan-European utilities.

3 ELECTRICITY DEMAND

The traditional relationship between economic growth and electricity consumption is changing. Economic recession has contributed to a reduction in electricity usage but the pace of economic recovery is not expected to be exactly matched by electricity growth. Factors such as energy efficiency, driven by both improvements in technology and Governmental policies, will dampen growth in electricity demand while national and international climate change targets could create new demand for electricity from sectors such as transport and heat (which have large energy requirements and need to reduce their carbon impact).

4 TRANSFORMATION AND INNOVATION

The utility sector faces transformation from a combination of energy technology, IT-enabled and IT-led innovations, energy efficiency, different business models, changing customer behaviour and expectations. The sources of change may be multiple, small-scale and dispersed rather than a single catalyst and there is no certainty as to the pace, timing or scale of such transformation. ESB has expertise in this area and is active directly and indirectly in many areas of transformation and innovation.

5 ADJACENT SECTORS

Electricity generation is already on an agreed path to full decarbonisation yet in Ireland for example it still only represents one fifth of total energy use nationally. It is clear that for society as a whole to reduce its climate impact, then other sectors must also decarbonise. ESB believe that greater use of electricity has a major role to play, particularly in sectors such as transport and heat as these sectors must inevitably move to reduce their carbon impact.

Communications infrastructure is arguably now as central to a modern economy and society as electricity. ESB has over many years used its internal expertise and resources to serve the commercial telecoms market in Ireland. SIRO, the joint venture with Vodafone will provide high speed, fibre-optic based communications, initially

to fifty towns throughout Ireland. There are many other areas in Ireland, mostly rural, which have been identified as having an inadequate broadband service. There is a real challenge for policymakers to put in place a national plan to bridge this digital divide in Ireland which is realistic and achievable.

6 MACRO-ECONOMY AND FUEL MARKETS

The significant improvements in both the ROI and UK economies in 2014 remained throughout 2015 and this recovery is projected to continue, however the energy sector is not seeing the benefits of this recovery. The outlook remains more challenging with regard to wider European economic performance.

Fuel sources and projects whether traditional (e.g. coal, gas), unconventional (e.g. shale gas) or renewable (e.g. wind) are all being affected by the ongoing global oversupply of traditional fuel sources - see page 30 for further information on global commodity prices in 2015.

7 GREAT BRITAIN (GB) ENERGY MARKETS

In GB, the gap between supply and demand has never been as tight as this winter and last year's capacity auction process did little to achieve the desired result of securing significant, new, large scale capacity. The stated intent to remove coal generation from the system by the middle of the next decade, the ongoing delays in developing new nuclear plants and the strength of the economy are supportive of ESB's view that, the UK energy market offers the best potential for long-term growth within the EU. Ultimately though, this will be dependent on appropriate energy policy and pricing - see page 30 for further information on GB electricity prices in 2015.

The uncertainty surrounding a potential exit by the UK from the EU is likely to remain until 2017. While ESB has investments in the UK such as Carrington and the networks investment in NI, ESB's conclusion based on a review of possible scenarios, is that these investments would not be

significantly impacted in the short-to-medium term even in the event of the UK exiting the EU.

8 RETURN ON REGULATED ASSETS

The long-term nature of network investments is an emerging strategic issue as the uncertainty around the level of future returns increases. This is related not only to current price controls but to the fact that long-term recovery of large-scale investments face multiple regulatory review periods in a context where changing demand and disruption may impact the future use of such assets.

9 FINANCIAL STRENGTH

ESB's profitability impacts on its credit strength, gearing levels and the amount available for future capital investments. ESB's ownership of regulated networks brings associated large-scale investment obligations, so while it still has a presence across the energy value chain it remains strongly weighted towards regulated network assets.

THE LINK BETWEEN THE BUSINESS ENVIRONMENT AND THE ESB GROUP STRATEGY

Three overarching themes link the business environment and the ESB Group Strategy:

1. Uncertainty and Change

ESB is operating in an environment that is unprecedented in terms of both the scale of uncertainty and the potential pace of change. This uncertainty is evident at economic, sectoral, policy and market levels.

2. Adaptable and Responsive

Given such uncertainty about both the scale and pace of change in aspects that impact its business so fundamentally, ESB needs to be both adaptable in terms of its strategic direction and innovative to changes in the environment, which would necessitate such a change. Accordingly the ESB Group Strategy seeks flexibility and diversity across a range of dimensions, including the spread of businesses across the energy value chain; a presence in ROI and UK; a generation portfolio with a mix of fuel types; and an openness to opportunities in adjacent sectors.

3. Financial Strength

Underpinning ESB's capacity to deliver on the ESB Group Strategy and to adapt and respond to a changing environment is maintaining its financial strength through a disciplined approach to managing costs, investments and risks.

THE ESB GROUP STRATEGY TO 2025







Development of the ESB Group Strategy is based on a vision of being Ireland's foremost energy company competing successfully in the all-islands market.

The delivery of this vision is focused on the overall goal of being a Strong, Diversified, Vertically Integrated Utility (VIU). To deliver this goal the following five priorities have been identified:

- Generation / Supply Businesses of Scale
- Advanced Networks
- Sustainable Innovation
- Transformed Cost Structure
- Engaged and Agile Organisation

Progress against these priorities has been made to date and is tracked using agreed SPIs - see page 23 for further detail.

THE ESB GROUP STRATEGY TO 2025 AND PROGRESS AGAINST KEY STRATEGIC PERFORMANCE INDICATORS

2015 BUSINESS ENVIRONMENT	OVERARCHING THEMES	STRATEGIC PRIORITIES	TYPES OF CAPITAL	STRATEGIC PERFORMANCE INDICATORS (SPIs)	2015	2025 TARGET
<p>1. Climate and Energy Policy</p> <p>2. Market Integration</p> <p>3. Electricity Demand</p> <p>4. Transformation and Innovation</p> <p>5. Adjacent Sectors</p> <p>6. Macro-Economy and Fuel Markets</p> <p>7. GB Energy Markets</p> <p>8. Return on Regulated Assets</p> <p>9. Financial Strength</p>	<p>Uncertainty and Change</p> <p>Adaptable and Responsive</p> <p>Financial Strength</p>	 <p>A Strong Diversified VIU ESB sees vertical integration as providing balance and adaptability in the context of such uncertain environments. ESB creates value by managing and developing a portfolio of investments across the energy value chain. It also seeks to exploit its assets and expertise in related adjacent markets. Through disciplined financial management of business units, ESB retains the flexibility to respond to external changes in the environment.</p>	<ul style="list-style-type: none"> ■ Manufactured ■ Financial ■ Intellectual ■ Human ■ Social and Relationship ■ Natural 	<p>Financial Strength</p> <p>EBITDA</p>	<p>BBB + rating</p> <p>€1,348 million</p>	<p>A- rating</p> <p>€2,400 million</p>
		 <p>Generation / Supply Businesses of Scale In response to the integration of ROI, NI and GB electricity markets, ESB will grow the scale and capabilities of its generation, trading and supply businesses so that they can compete within this new all-islands competitive environment. Recognising the long-term imperative to decarbonise society, ESB will also invest to reduce the carbon intensity of its power generation fleet and increase the role of renewable energy in its fuel mix, in line with the overall market and public policy.</p>	<ul style="list-style-type: none"> ■ Manufactured ■ Financial ■ Intellectual ■ Human ■ Social and Relationship ■ Natural 	<p>Total generation capacity (MW)</p> <p>All-islands generation market share (% output)</p> <p>Renewable capacity as % of total generation capacity</p>	<p>4,827 MW</p> <p>4%</p> <p>13%</p>	<p>7,000 MW</p> <p>7%</p> <p>26%</p>
		 <p>Advanced Networks ESB will work to deliver high quality and affordable electricity networks for its customers in both the ROI and NI. This will include investment to underpin social and economic development, security of supply and the achievement of climate change targets.</p>	<ul style="list-style-type: none"> ■ Manufactured ■ Financial ■ Intellectual ■ Human ■ Social and Relationship ■ Natural 	<p>Regulated Asset Base (RAB)</p> <p>Smart meters / grids</p> <p>Wind energy connected</p>	<p>€9 billion</p> <p>Project decisions to be made by CER in 2016 on foot of their cost benefit analysis review</p> <p>Connections at end of 2015 now at between 67% – 75% of the 2020 target range*</p>	<p>€14 billion</p> <p>CER requirements fully implemented</p> <p>Deliver network connections to support target of 40% renewable energy by 2020</p>
		 <p>Sustainable Innovation Recognising that forces such as decarbonisation, competition and technological evolution will dramatically change the operating context, ESB will innovate to create and grow new opportunities in areas directly adjacent to its core businesses.</p>	<ul style="list-style-type: none"> ■ Manufactured ■ Financial ■ Intellectual ■ Human ■ Social and Relationship ■ Natural 	<p>Emerging Businesses</p>	<p>Novusmodus</p> <ul style="list-style-type: none"> - Plan to fully realise Novusmodus Fund by 2021 - Ongoing investment and support for portfolio companies - Maximising learning transfer to new ESB businesses <p>eCars</p> <ul style="list-style-type: none"> - Charging infrastructure installed and enhanced for commercial operations - Consulting on new pricing model <p>SIRO</p> <ul style="list-style-type: none"> - SIRO joint venture with Vodafone launched June 2015 - SIRO connecting first customers across Ireland <p>ESB International</p> <ul style="list-style-type: none"> - Review of ESB International services and targets undertaken - Updating offering to reflect changing customer needs 	<p>Exploit new investment opportunities and significantly increase ESB International external income</p>
		 <p>Transformed Cost Structure Increased competition, an uncertain economic environment and the need to fund future growth will require ESB to operate with even greater efficiency. ESB will enhance the cost-effectiveness of its business so that it can survive and prosper in this new context.</p>	<ul style="list-style-type: none"> ■ Financial ■ Human ■ Social and Relationship 	<p>Cost base</p>	<p>€270 million in annual recurring cost savings achieved against a target of €280 million</p>	<p>Competitive cost structure</p>
		 <p>Engaged and Agile Organisation The delivery of the ESB Group Strategy will require an organisation that is flexible, highly motivated and adaptable. ESB will create a dynamic workplace that stimulates and engages its people and that can respond quickly and effectively to change.</p>	<ul style="list-style-type: none"> ■ Financial ■ Intellectual ■ Human ■ Social and Relationship 	<p>Safety</p> <p>Engagement</p> <p>Change</p>	<p>58 LTIs (Employees and Contractors) New Safety Organisation Structure established New Safety IT system (SHIELD) delivered in 2015</p> <p>Staff survey completed</p> <p>New reward model for new entrants</p>	<p>Zero injuries</p> <p>High levels of engagement and performance</p> <p>Fast, locally driven change</p>

For the short-to-medium term priorities, see pages 40 to 49 for business unit detail.

*Subject to verification

ENERGY FOR WORK

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EXECUTIVE TEAM

The Executive Team focuses on the ESB Group Strategy, technological and commercial developments, programme execution, financial and competitive performance, people development, organisational development and Group-wide policies.



Pat O'Doherty

Pat O'Doherty was appointed as Chief Executive in December 2011. Prior to this he headed up ESB's largest businesses as Executive Director ESB International, Managing Director ESB Networks and Executive Director ESB Power Generation. He holds primary and masters degrees in engineering from University College Dublin. He completed the Advanced Management Programme at Harvard Business School. He is a trustee of The Conference Board of the United States and a director of Energy UK.



Jerry O'Sullivan

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



John Redmond

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



Donal Flynn

Donal Flynn was appointed Group Finance Director in August 2010. Prior to joining ESB Donal worked in Airtricity and was its Chief Financial Officer from February 2008 when SSE acquired Airtricity. Donal worked in a number of finance roles with General Electric from 1998 to 2003. He qualified as a chartered accountant with Arthur Andersen. Donal holds a bachelor's degree in commerce and a master's degree in accounting from University College Galway and University College Dublin, respectively.



Paddy Hayes

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



Marguerite Sayers

Marguerite Sayers was appointed Managing Director, ESB Networks Ltd. in November 2014. An electrical engineer by profession, she joined the Group in 1992 and has experience of working in various technical and managerial positions in ESB. She has a degree in electrical engineering from University College Cork, a diploma in accounting and finance from University of Limerick and a diploma in project management from University College Cork. Previously, she held the roles in ESB Networks of Customer Service Manager for Dublin South and Head of Asset Development. She was Generation Manager in Generation and Wholesale Markets where she was responsible for ESB's generation portfolio.



Jim Dollard

Jim Dollard was appointed to the position of Executive Director for Business Service Centre (BSC) and Electric Ireland in July 2013. An accountant, Jim began his career at ESB in 1992 and has held a number of senior management positions throughout the Group. Jim holds a bachelor's degree in commerce from University College Dublin.



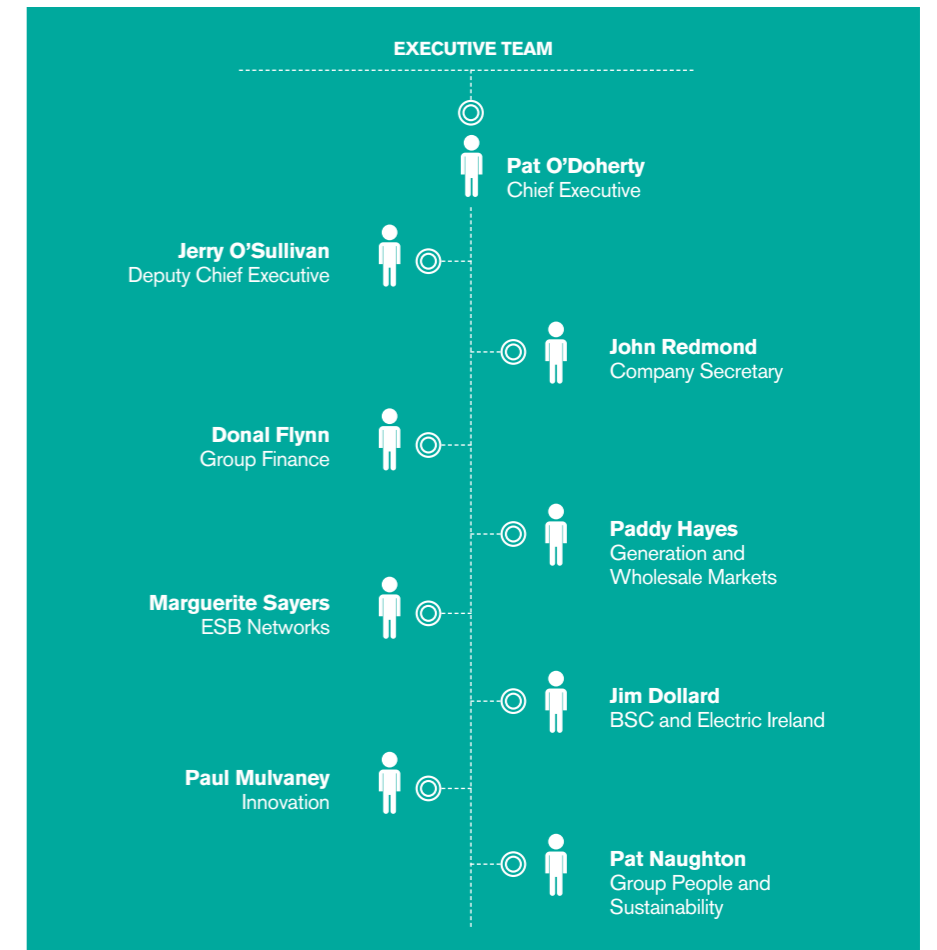
Paul Mulvaney

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



Pat Naughton

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



MARKET STRUCTURE AND OPERATING ENVIRONMENT 2015

1. OVERVIEW OF THE ELECTRICITY MARKETS STRUCTURE IN THE REPUBLIC OF IRELAND (ROI) AND NORTHERN IRELAND (NI)

The structure of the electricity market in ROI and NI can be divided into four segments: generation, transmission, distribution and supply. Electricity generation and supply are open to full competition throughout the island of Ireland. Electricity transmission and distribution are regulated monopolies in ROI and NI, with the respective regulator determining the allowed revenue for the price review period (five years).

Energy Policy and Regulation

Energy policies are set by the Minister for Communications, Energy and Natural Resources in ROI and the Minister for Enterprise, Trade and Investment in NI. Energy policy and regulation are heavily influenced by European Union (EU) law.

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

Single Electricity Market (SEM)

The SEM is the single wholesale market (pool) for electricity in ROI and NI. SEM is a mandatory gross

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

Integrated Single Electricity Market (I-SEM)

I-SEM will address a number of emerging issues for the current market design, resulting from changes in generation, demand and interconnection. Efficient implementation of the EU Target Model, which is a set of harmonised arrangements for cross-border trading of wholesale energy and balancing services across Europe, is the main driver for the introduction of I-SEM. I-SEM is expected to replace SEM in October 2017. In response to these proposed changes, ESB has established I-SEM programmes to ensure that the business is ready for new market arrangements.

In response to binding national and European targets, EirGrid Group began a multi-year programme, known as, Delivering a Secure, Sustainable Electricity System (DS3). The aim of the DS3 Programme is to meet the challenges of operating the electricity system in a secure manner

while achieving the 2020 renewable electricity targets. The DS3 Programme is designed to ensure that the power system can securely operate with increasing amounts of variable non-synchronous renewable generation (e.g. wind) over the coming years.

Electricity Networks

The electricity transmission system is a high-voltage network for the transmission of bulk electricity supplies. The distribution system delivers electricity to individual customers over the 38kV / medium / low voltage networks. In ROI, ESB owns the transmission and distribution system network and operates the electricity distribution system network, EirGrid operates the transmission system network. In NI Northern Ireland Electricity Networks (NIE Networks) owns the electricity transmission and distribution system network and operates the electricity distribution system network. System Operator for Northern Ireland (SONI) operates the transmission system network.

Interconnection

For geographical reasons, the electricity transmission systems on the island of Ireland are isolated compared to systems in mainland Europe and in Great Britain (GB). The Moyle Interconnector links the electricity grids of NI

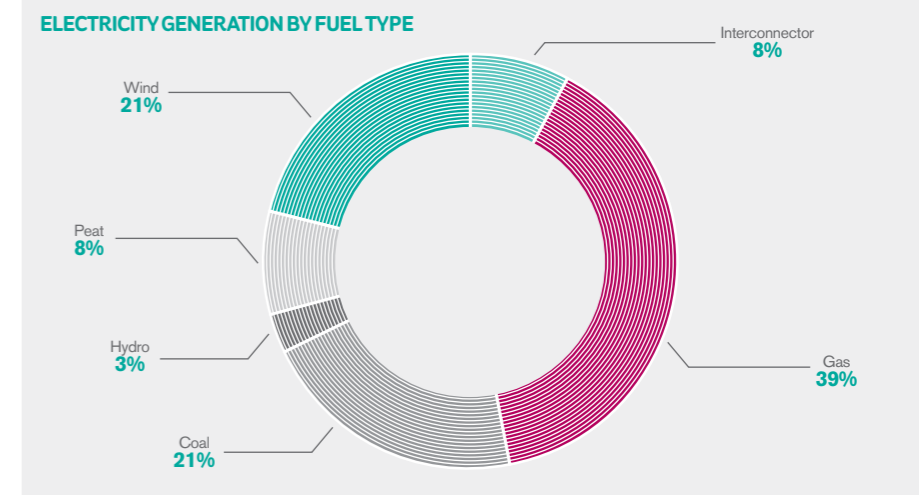
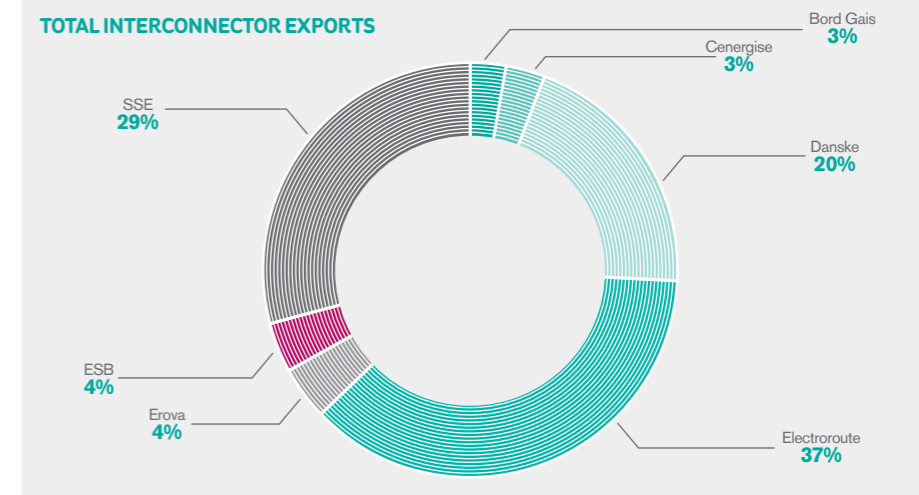
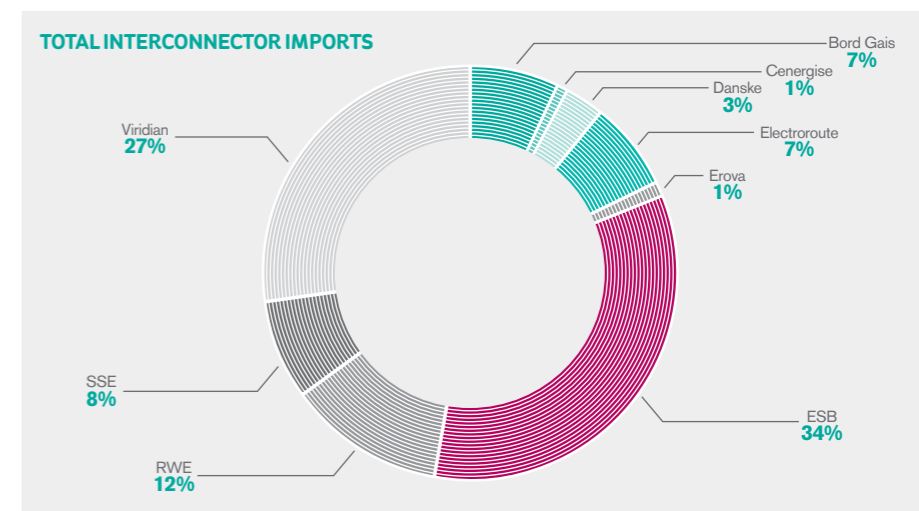
and Scotland through submarine cables running between converter stations in NI and Scotland. The link has a capacity of 500 MW. The East-West Interconnector links the electricity transmission system in ROI to the electricity transmission system in Wales, enabling two-way transmission of electricity. The East-West Interconnector runs between Deeside in north Wales and Woodland, County Meath in ROI. Approximately 260 kilometres in length, the underground and undersea links have the capacity to transport 530 MW. ESB is an active participant in the interconnectors and was responsible for 34% of total imports and 4% of total exports during 2015.

Electricity Generation

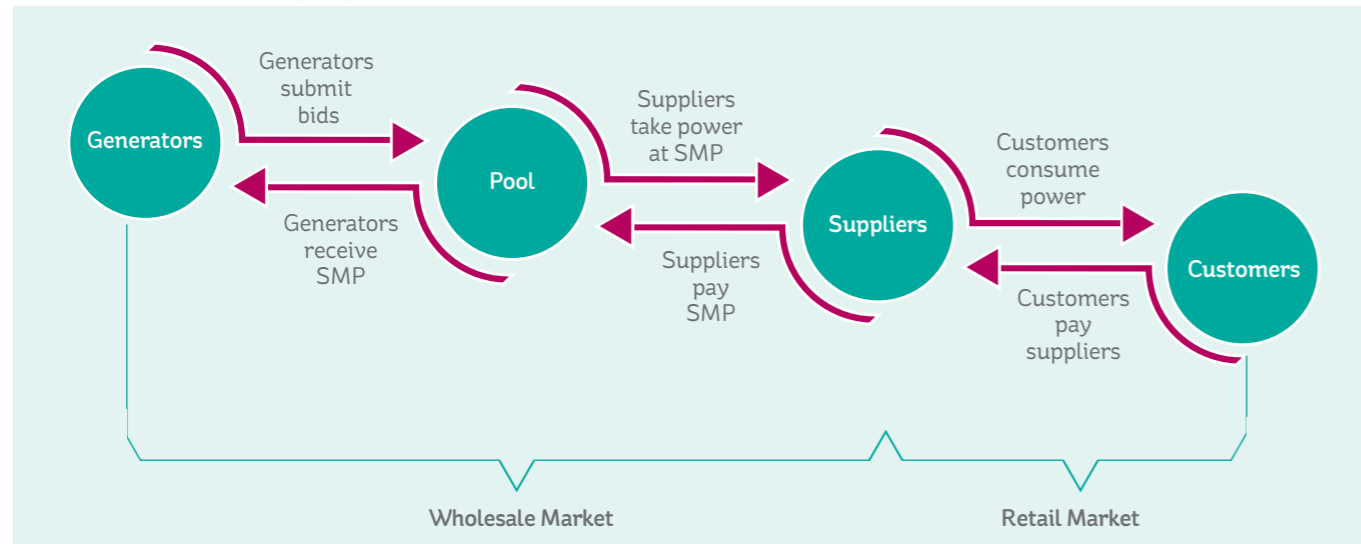
The SEM generation sector comprises approximately 12,785 MW of capacity connected to the system on an all-island basis. The capacity connected to the system includes a mix of older generation plants alongside modern combined cycle gas turbine (CCGT) plants and renewable energy sources such as wind power. These stations generate electricity from fuels such as gas, coal and oil as well as indigenous resources including hydro, wind, peat and biomass.

SEM has 2,963 MW of wind installed which is key to the Government's target for 40% of electricity to be generated from renewable resources by 2020. Wind contributed to 21% of generation in 2015, up from 18% in 2014, with a maximum wind output of 2,514 MW being recorded in January 2015. ESB was responsible for 49% of generation in SEM in 2015.

2015 saw good availability of baseload thermal generation in SEM, with gas and coal continuing to dominate generating fuels in the market. SSE's new Great Island CCGT unit in County Wexford went into commercial operation in April 2015 which removed 240 MW of oil units from the system and replaced it with 464 MW of gas.



SINGLE ELECTRICITY MARKET (SEM)



Electricity Trading

The electricity and gas markets in GB, ROI and NI are linked in two ways, firstly through gas being used for electricity generation and secondly through the physical interconnection of electricity and gas networks. In common with a number of other companies in the Irish market ESB is active in both Irish and GB markets in gas and electricity.

In addition to ESB's generation interests, ESB is active in all sectors of the gas market from residential to large commercial and is one of the biggest gas shippers on the island.

ESB is continuing to grow in the electricity and gas markets and key developments in 2015 included the commercial operation of Woodhouse Wind Farm in County Waterford, contract signing for Tilbury biomass plant in Essex and the continued build of the Carrington CCGT plant near Manchester. Supporting this activity ESB Trading has a full trading capability up to real time with a 24 hour trading presence in gas and electricity markets.

2. OPERATING ENVIRONMENT

THE GLOBAL ENERGY MARKETS

Gas Prices

The global gas market in 2015 was oversupplied, due to increased availability of Liquefied Natural Gas (LNG) and higher than normal temperatures, which put downward pressure on price, falling from 50p/therm to 31p/therm throughout the year.

Coal Prices

Coal prices decreased this year falling from \$67/tonne at the beginning of the year to a low of \$47/tonne by December. The downward movement has been driven by a combination of an oversupplied global coal market, weak demand from coal consuming countries and falling oil prices.

Carbon Prices

Carbon prices increased throughout the year especially during the second and third quarter when the highest price in a three year period was recorded at €8.70/tonne. Carbon price

movements are strongly linked to policy decisions and implementation at an EU level rather than commodity prices.

SEM Wholesale Electricity Prices

The System Marginal Price (SMP) in SEM is made up of two components, the short-run marginal cost of production (SRMC) which is the cost of fuel (typically 75%) and uplift, which is the recovery of start-up and no-load costs - these are fixed costs which do not vary with the level of output (typically 25%).

In 2015, 76% of generation was met by fossil fuels, predominately gas and coal. With gas CCGT units being the most efficient units on the system, the wholesale gas price is very closely linked to the SMP. Year on year, the 2015 SMP has decreased by 10%, which has been driven by the fall in gas prices and coal prices and increased renewables in the market.

The year started off with very volatile prices following Storm Rachel leading to price highs of €740/MWh on 11 March 2015 to lows of €0/MWh on 9 and 12 March 2015. Summer prices were more stable, reflecting falling commodities, good system availability and low wind. Winter prices were unseasonably low, with higher than normal temperatures reducing demand and winter storms increasing the amount of wind on the system. The Christmas period again saw very volatile prices during Storm Eva with highs of €412/MWh on 17 December 2015 to lows of €0/MWh on 19 December 2015. The year closed out with an average price of €50.83/MWh (2014: €56.63/MWh).

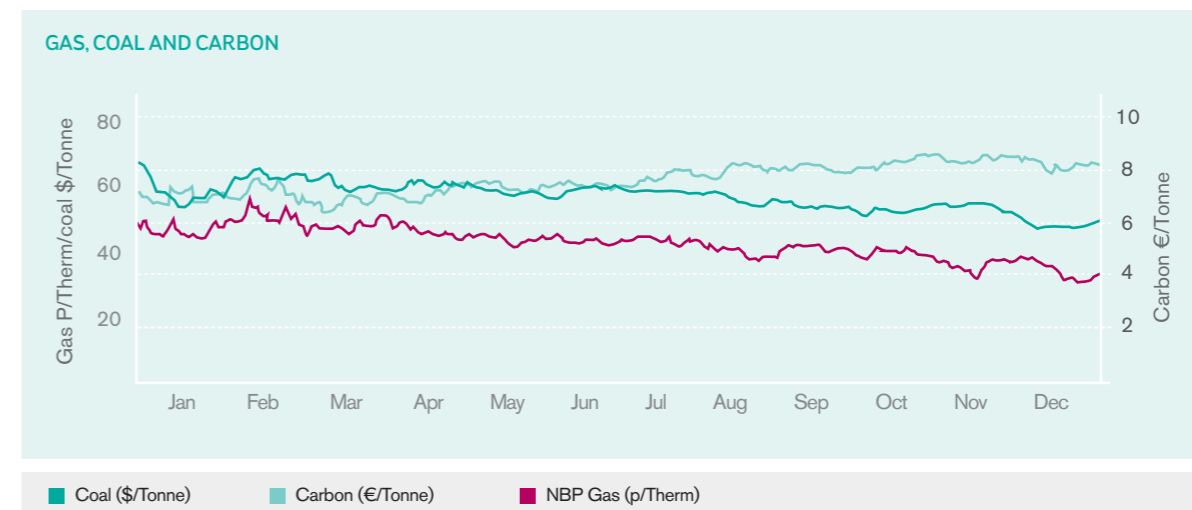
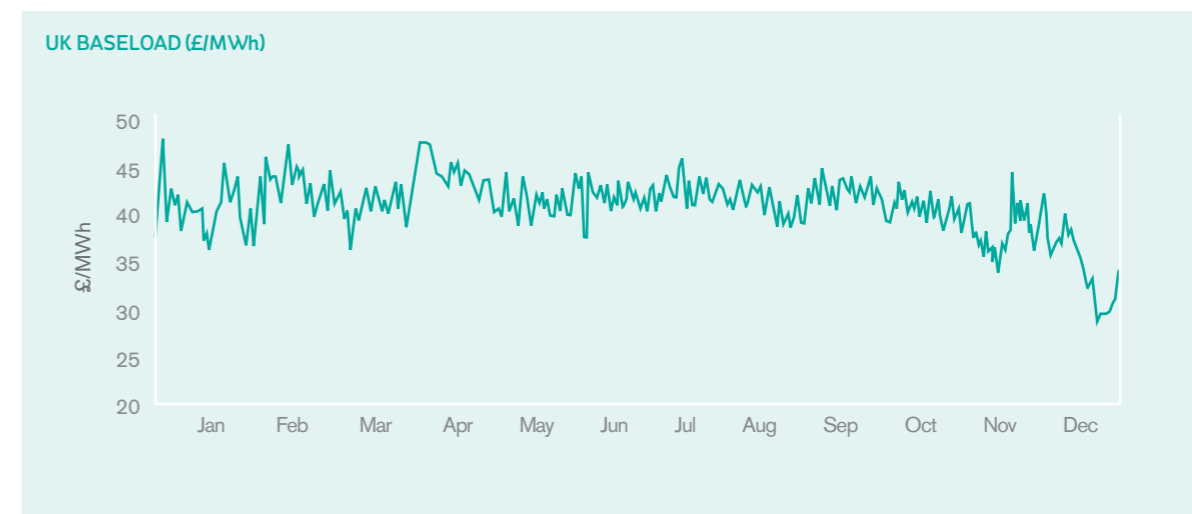
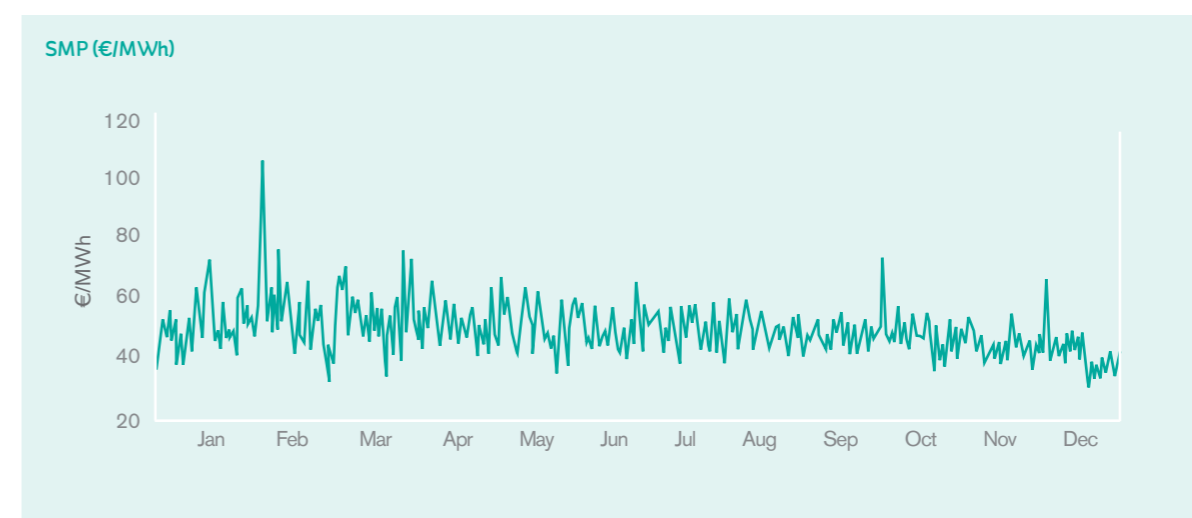
GB Electricity Prices

GB power prices decreased throughout the year. The fall in prices was driven by falling fuel (coal and gas) prices. The fall in fuel prices was more than offset by the increase in Carbon Price Floor (a measure introduced as part of the Electricity Market Reform to incentivise low-carbon investment), which increased from £9.55/tonne to £18.08/tonne in April 2015. The year began with some volatile prices, as temperatures fell below normal, increasing prices towards the end of the

first quarter. The rest of the year prices decreased, in line with the fall in fuel prices. The 2015 average price was £40.21/MWh a decrease of 4% on 2014 prices.

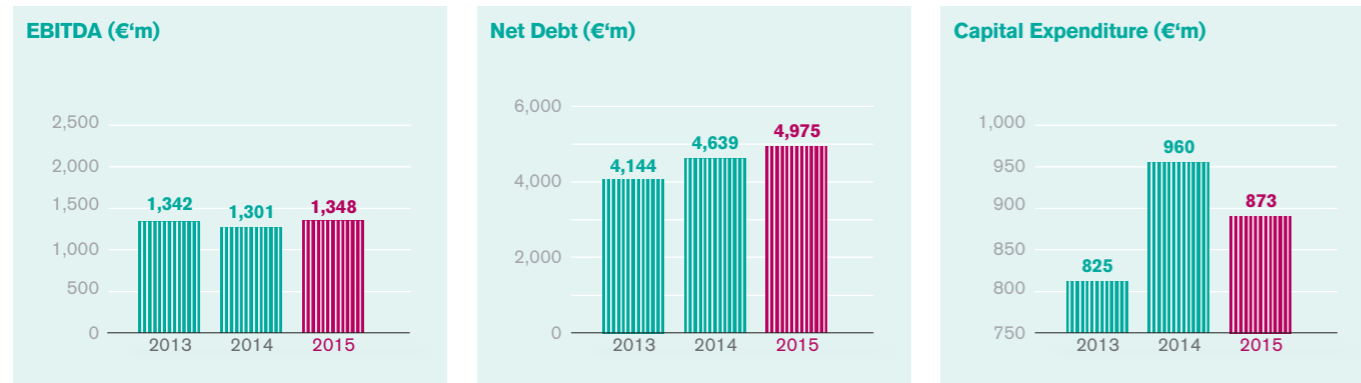
The GB capacity auction took place in December 2015 for 2019 with 46.35 GW (2014: 49.30 GW) of capacity procured at a clearing price of £18/kW (2014: £19.40/kW). ESB withdrew its Corby plant before the auction cleared. ESB's new CCGT, Carrington secured a one year contract. See page 40 for more detail in relation to the auction.

COMMODITY PRICES 2015



KEY PERFORMANCE INDICATORS (KPIs)

FINANCIAL



KPI	DEFINITION	STRATEGIC RELEVANCE	PERFORMANCE	STRATEGIC PRIORITY
EBITDA	Earnings before interest, taxation, depreciation, impairment, amortisation and exceptional items	EBITDA is a key measure of the cash generated in the Group during the year which is then available for strategic investments, repayment of debt and dividend payments.	The increase in EBITDA in 2015 is related to the improved availability of generation plant. For further detail see finance review page 36.	
Net Debt	Borrowings and other debt net of cash and cash equivalents	Net debt is a measure of how leveraged the Group is and if it is line with its key covenants. Net debt continues to grow as ESB partly funds its capital investment programmes with borrowings.	Net debt continues to increase as ESB progresses its capital investment programme, which is being partly financed by additional borrowings. For further detail see finance review page 36.	
Capital Expenditure	Additions for property, plant and equipment, intangible assets and financial asset investments	ESB is in a period of significant capital investment for both its Networks businesses and Generation and Wholesale Markets (G&WM). This is so that ESB can develop the electricity network and compete within the all-island environment.	The decrease in capital expenditure in 2015 relates to a reduction in the spend on the Carrington CCGT as it nears completion. For further detail see finance review page 37.	

CUSTOMER AND MARKET



KPI	DEFINITION	STRATEGIC RELEVANCE	PERFORMANCE	STRATEGIC PRIORITY
Market Share	Total Single Electricity Market (SEM) all-island market share	Retention and growth of market share is key to ESB so that it can compete within the all-island competitive environment.	Through a continued focus on competitively price products and strong customer service Electric Ireland has marginally increased overall market share to 38%.	
Residential Customer Satisfaction	Provides a measure of residential customer satisfaction (Source: Research Perspective Monthly Survey Results)	ESB strives to provide excellent customer service and introduce new initiatives to improve their customer experience in order to retain market share.	Customer satisfaction has reduced due to increased competition and the high level of discounts being offered by competitors.	
Brand Awareness	Awareness of Electric Ireland as an Energy Supplier (Source: IPSOS Customer Survey Results)	Maintain the Electric Ireland brand as the leading energy supply brand in Ireland.	Continued to be strong at 95% as a result of marketing, sponsorship and promotional campaigns during the year.	

OPERATIONAL



KPI	DEFINITION	STRATEGIC RELEVANCE	PERFORMANCE	STRATEGIC PRIORITY
Plant Availability	Percentage of the time in the year that generation plant was available to produce electricity, whether they generated or not	Delivering strong operational performance across ESB's generation plant through best practice operations and maintenance and timely completion of overhauls is critical to ESB's commercial performance.	Plant availability has improved on 2014 due to improved availability across the fleet most notably in Moneypoint (915 MW coal plant) which had a number of significant outages in 2014.	
MW Renewable Operational	Total MW's of renewable generation where the assets have reached their commercial operation date	Renewable generation is key to ESB's objective to reduce the carbon intensity of its generation fleet.	The increase of 20 MW relates to Woodhouse Wind Farm which went into commercial operation during 2015.	
Customer Minutes Lost (CMLs) ESB Networks	The average duration of interruptions (planned and fault) for all customers during the year	The reliability of the grid and minimising interruptions to customers is of key importance to ESB.	The increase in minutes lost in 2015 relates to a significant maintenance programme undertaken in 2015.	

PEOPLE



KPI	DEFINITION	STRATEGIC RELEVANCE	PERFORMANCE	STRATEGIC PRIORITY
Headcount	Average number of employees in the year including temporary employees employed by ESB	The delivery of the strategy will require an organisation that is of a certain scale and is flexible, highly motivated and adaptable.	The increase in headcount is to ensure effective succession planning. 179 apprentices and graduates were recruited during the year.	
Employee LTIs	Employee LTIs are work-related injuries that involve an absence of at least one day (not including the day the injury occurred)	Safety is a core value of the Group. ESB continue to focus on reducing risks in the business that gives rise to injuries.	The number of LTIs in 2015 is lower than 2014 as ESB focuses on reducing risks in the business that give rise to injurious incidents.	

FINANCE REVIEW



“2015 has been a solid year for ESB. After tax profits are up from €215 million to €286 million and ROCE is up from 6.0% to 6.5%. At the core of this pick up in performance is the improved availability of our generation plant from 86% to 92%. ESB also finished the year with a strong liquidity position of €1.5 billion.”

Donal Flynn, Group Finance Director

FIGURE 1: FIVE-YEAR SUMMARY

	2015 €'m	2014 €'m	2013 €'m	2012 €'m	2011 €'m
Revenue and other operating income before exceptional items ¹	3,364	3,293	3,445	3,295	2,995
Operating profit before exceptional items ²	635	552	684	576	469
Adjusted profit before taxation ³	381	307	450	351	283
EBITDA excluding exceptional items ⁴	1,348	1,301	1,342	1,256	1,121
Capital expenditure	873	960	825	765	883
Net debt	4,975	4,639	4,144	4,414	4,324
Gearing (%) ⁵	55%	53%	48%	53%	52%
Total assets	13,157	12,973	12,782	12,600	12,539

¹ Before the following exceptional items: 2015: impairment charge (€104 million). 2014: profit on asset disposal (€38 million) and non-cash gain (€94 million). 2013: profit on asset disposal (€95 million).

² Before the following exceptional items: 2015: impairment charge (€104 million). 2014: profit on asset disposal (€38 million) and non-cash gain (€94 million). 2013: profit on asset disposal (€95 million). 2012: staff exit costs (€161 million).

³ Adjusted profit before tax: The profit before tax figure adjusted for exceptional items and the fair value movements on interest rate swaps.

⁴ Before the following exceptional items: 2015: impairment charge (€104 million). 2014: profit on asset disposal (€38 million) and non-cash gain (€94 million). 2013: profit on asset disposal (€95 million). 2012: staff exit costs (€161 million).

⁵ Excludes joint ventures.

HIGHLIGHTS

OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS:

€635 million

PROFIT AFTER TAX:

€286 million

CAPITAL EXPENDITURE:

€873 million

2015 DIVIDENDS:

€79 million¹

OPERATING COSTS SAVINGS ACHIEVED SINCE 2010:

€270 million

FIGURE 2: SUMMARISED INCOME STATEMENT

	2015 €'m	2014 €'m
Revenue and other income	3,364	3,293
Operating costs	(2,729)	(2,741)
Operating profit	635	552
Exceptional items	(104)	132
Operating profit after exceptional items	531	684
Net finance costs	(245)	(243)
Fair value movements on financial instruments	30	(225)
Share of equity accounted investees loss	(9)	(2)
Profit before tax	307	214
Tax (charge) / credit	(21)	1
Profit after tax	286	215

REVENUE

Revenue and other operating income before exceptional items at €3,364 million has increased by €71 million compared to 2014 (€3,293 million).

The increase is driven by improved availability in Generation and Wholesale Markets (G&WM) and new large contracts in Electric Ireland.

OPERATING COSTS

Overall operating costs at €2,833 million have increased by €92 million.

- Fuel and other energy costs have marginally decreased by €7 million on 2014 levels driven by lower gas costs.
- Depreciation at €745 million is up €14 million on 2014 due to the larger asset base in 2015.
- Employee costs at €421 million are up €7 million on 2014 as a result of an increase in headcount.
- Operating and maintenance costs have increased by €24 million. This has been driven by higher operating costs in Northern Ireland Electricity Networks (NIE Networks) associated with the strengthening of GBP. Excluding the impact of foreign exchange these costs are flat.
- Following impairment reviews of the generation assets it was decided to recognise an impairment charge of €104 million in relation to Corby Power Limited (€58 million) and Coolkeeragh ESB Limited (€46 million). These impairment charges reflect lower Great Britain (GB) wholesale electricity prices in 2015 as well as a lower market running for Coolkeeragh. Further detail in relation to these impairments is included in notes 4 and 10.

A detailed breakdown of the operating costs by business segment is provided in note 2.

FIGURE 3: OPERATING COSTS INCLUDING IMPAIRMENT

	2015 €'m	2014 €'m
Fuel and other energy costs	1,088	1,095
Depreciation and amortisation	745	731
Employee costs	421	414
Operating and maintenance costs	475	451
Impairment (exceptional item in 2015)	104	50
Total operating costs including impairment	2,833	2,741

EXCEPTIONAL ITEMS

The 2015 exceptional items relate to the impairment and are described in operating costs above.

OPERATING PROFIT AFTER EXCEPTIONAL ITEMS

Operating profit after exceptional items has decreased by €153 million. The decrease is driven by the following:

- Exceptional gains in the prior year 2014 (€132 million). These gains related to:
 - The profit on disposal of ESB's interest in Bizkaia Energia SL and ESBI Facility Management España SL to an affiliate of Arclight Capital Partners, LLC (€38 million).
- The proceeds from the sale of these assets were used to fund part of the special dividend

of €400 million agreed with the Government in 2012.

– The non-cash gain reflecting the fair value of ESB's 50% share in SIRO with Vodafone (€94 million).

- Higher impairment costs in 2015 of €54 million.

- Higher operating costs in 2015 (excluding impairment) of €38 million – see operating costs for further detail.

- Offset by higher gross margin in 2015 of €71 million primarily in G&WM driven by improved availability in the generation plant (2015: 92% v 2014: 86%).

The movement in operating profit between 2014 and 2015 is set out in the reconciliation of operating profit 2014 to 2015 in Figure 4.

FIGURE 4: RECONCILIATION OF OPERATING PROFIT 2014 TO 2015



¹ See note 17 for dividend details

EBITDA

EBITDA excluding exceptional items for 2015 at €1,348 million is €47 million higher than 2014. This increase is driven by higher energy margins offset by higher operating costs excluding depreciation.

ADJUSTED PROFIT BEFORE TAXATION

Adjusted profit before taxation has increased by €74 million to €381 million (2014: €307 million). This increase is driven primarily by the higher gross margin as described previously.

FIGURE 5: RECONCILIATION OF ADJUSTED PROFIT BEFORE TAXATION

	2015 €'m	2014 €'m
Profit before taxation	307	214
Exceptional items	104	(132)
Fair value movement on interest rate swaps	(30)	225
Adjusted profit before taxation	381	307

TOTAL FINANCE COSTS

Total finance costs for 2015 are €253 million lower than 2014 charges

FIGURE 6: TOTAL FINANCE COSTS

	2015 €'m	2014 €'m
Net interest on borrowings	206	199
Financing charges	40	45
Finance income	(1)	(1)
Net finance costs	245	243
Inflation Linked Interest Rate Swaps	(30)	245
Fair value losses on financial instruments	-	(20)
Total finance costs	215	468

FIGURE 7: SUMMARISED CASH FLOW STATEMENT

	2015 €'m	2014 €'m
EBITDA (excluding exceptional items)	1,348	1,301
Provision utilisation and other movements	(185)	(64)
Interest and tax	(306)	(299)
Net cash inflow from operating activities	857	938
Sale proceeds	7	61
Capital expenditure	(786)	(920)
Other	33	28
Net cash outflow from investing activities	(746)	(831)
Net cash outflow from financing activities	(124)	(338)
Net decrease in cash	(13)	(231)

The increase in net interest on borrowings relates to the impact of strengthening GBP on GBP interest payments and higher debt levels.

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

In 2014 the Group and its counterparty banks, agreed a restructuring of the inflation linked swaps. This, associated with the low interest rate environment in the UK, resulted in a significant negative fair value movement in 2014. The slight recovery in interest rates in 2015 resulted in a positive fair value movement this year. Further detail is included in note 20.

TAXATION

Higher tax charge of €21 million primarily due to a lower deferred tax credit year on year (2% change in UK tax rate).

SEGMENTAL PERFORMANCE

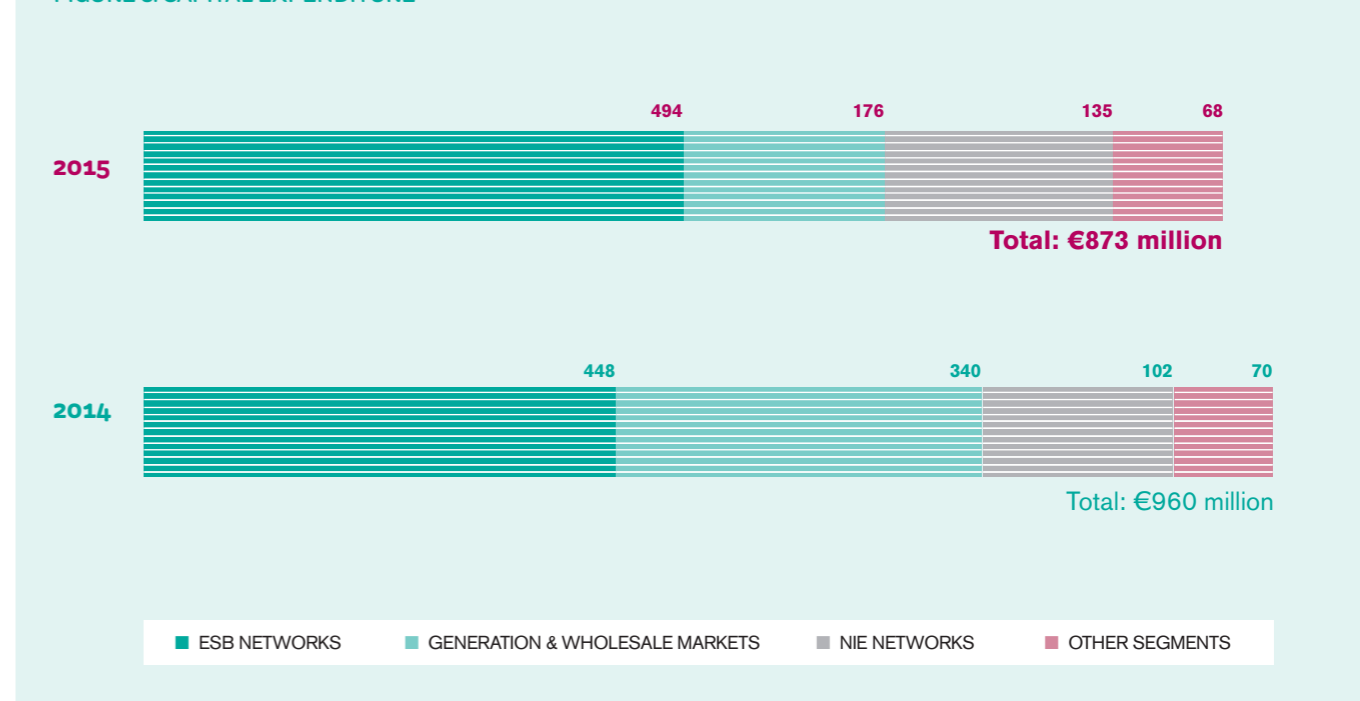
The Group is organised into five main reportable segments or strategic divisions, which are managed separately. Details on the financial performance of the business segments are included in the business unit review sections pages 40 to 47 and in note 2.

NET DEBT AND GEARING

The increase in net debt to €5.0 billion in 2015 from €4.6 billion in 2014 reflects continued capital investment, finance costs, the weakening of the euro and dividend payments in 2015.

The gearing level of 55% is 2% higher than 2014 reflecting higher net debt. During the year total assets increased to €13.2 billion from €13.0 billion, reflecting the ongoing capital investment programme of the Group.

FIGURE 8: CAPITAL EXPENDITURE



CAPITAL EXPENDITURE

Capital expenditure totalled €873 million in 2015, this is a decrease of €87 million on 2014 investment levels.

Capital investment in the networks businesses continued in 2015 with €629 million invested in the networks infrastructure in the Republic of Ireland (ROI) and Northern Ireland (NI). This expenditure is based on the five-year capital expenditure programmes agreed with the respective regulators in ROI and NI.

Expenditure in G&WM in 2015 includes €93 million invested in the construction of the Carrington CCGT power station in Great Britain (GB), a decrease of €168 million on 2014 as the plant nears completion. This project is expected to reach commercial operation in 2016. A further €83 million has been invested in the generation business, of which €66 million relates to plant overhauls and €17 million to renewable projects.

TREASURY MANAGEMENT

FRAMEWORK FOR TREASURY AND TRADING OPERATIONS

The main financial risks faced by the Group relate to:

- Liquidity and maintenance of access to the debt markets
- Foreign exchange volatility
- Interest rate movements on the Group's existing and projected future debt portfolio
- Fuel commodity price movements
- Counterparty credit exposure
- Operational risk, including exposure to fraud and error

Group Treasury is responsible for the day-to-day treasury activities of the Group, and therefore for the management, in whole or in part, for each of these financial risks. Some of these risks can be mitigated through the use of derivative financial instruments, and where appropriate such instruments are executed in compliance with the

specifications of the Minister for Finance issued under the Financial Transactions of Certain Companies and Other Bodies Act 1992. This Act enables ESB to enter into derivative contracts to eliminate or reduce the risk of loss arising from changes in interest rates, currency, commodity prices or other factors similar in nature. IAS 39 hedge accounting is applied to the Group's derivative positions where possible. Where derivative instruments held do not qualify for hedge accounting, they are nevertheless regarded as good economic hedges.

The Finance and Investment Committee of the Board is updated on an ongoing basis on key treasury matters. Group Treasury's approach to the management of the key financial risks of ESB is set out in note 26.

FUNDING AND LIQUIDITY

The Group's funding operations are of strategic importance and support capital expenditure, the refinancing of maturing debt and the maintenance of adequate liquidity. To this end, a number of milestones were achieved in 2015 to secure the funding and liquidity position of the Group. In January 2015, the Group's Revolving Credit Facility, agreed in February 2013, was amended and extended. The amendment, agreed with a group of fourteen leading Irish and international banks, increased the size of the facility from €1.40 billion to €1.44 billion, combined with a significant reduction in pricing. The facility provides ESB with a very substantial level of standby liquidity for the next five years, with an option for a further two year extension, to 2022.

In June 2015 ESB issued a €500 million fixed-rate bond at a coupon rate of 2.125%, which will mature in June 2027. The majority of the proceeds were used to buy back a portion of a €600 million five year 6.25% bond issued in September 2012. This successful bond placement and buy-back helped the Group to extend the average maturity of its long-term debt at very competitive rates.

Following these transactions, the weighted average interest rate on the Group's portfolio of outstanding borrowings at 31 December 2015 was 5.4%, and the weighted average duration of such borrowings as at that date was six years. Group Treasury will continue to actively manage its debt maturity profile to secure its liquidity position, and to further reduce the average rate and increase the average tenor of the Group's debt portfolio.

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account funding costs and the need for risk mitigation. All borrowing

facilities are in compliance with the Electricity Acts and relevant regulatory requirements and Group Treasury maintains diversity in ESB's lender base in order to achieve a strategic spread of risk.

ESB's funding position reflects its underlying financial strength and credit ratings of at least BBB+ (or equivalent) from all three major agencies. ESB's debt maturity profile as set out in Figure 9 on page 39 is in a positive position, particularly in the context of strong ongoing EBITDA performance (€1.3 billion in 2015) and liquidity of €1.5 billion (between cash and undrawn committed facilities) at 31 December 2015. The Group continues to proactively manage its borrowings repayment profile and maintains its ability to fund in the future through close ongoing engagement with its banks, investors and credit rating agencies.

FOREIGN EXCHANGE AND INTEREST RATE RISK MANAGEMENT

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

The Group's policy is to finance its euro denominated business by borrowing directly in euro or to convert any foreign currency borrowing to euro through the use of derivative instruments. Investments in the UK (including NIE Networks, and the Carrington power plant currently under construction) are generally funded by sterling denominated debt. Approximately 58% of ESB's debt is denominated in euro, with the remaining 42% in GBP.

The Group's interest rate policy is to maintain a significant majority of its debt at fixed (or inflation linked) interest rate to maturity, with

a minimum of 50% fixed (or inflation linked) at all times. Currently 77% of the Group's debt is fixed to maturity and another 15% is inflation linked.

COMMODITY PRICE RISK

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

COUNTERPARTY CREDIT RISK

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

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

FUTURE OUTLOOK

The rapidly changing economic and regulatory environment, and volatility in market prices, continue to pose challenges to the delivery of ESB's programme of energy infrastructure investment, and other targets set out in the ESB Group Strategy. In order to position itself to successfully adapt to these challenges, over

the past twelve months the Group has taken the opportunity to significantly improve its liquidity position, to address spikes in its debt maturity profile, and to reduce the cost of borrowings. Future operating cash flows arising from electricity revenues and associated fuel procurement and foreign currency requirements have been appropriately hedged to mitigate risk.

Building on the progress of the past year, the Group's treasury management strategy is to continue to develop and avail of opportunities to support the growth and transformation of the Group, through ensuring access to funding at the best available cost and duration, and through robust processes to identify and manage risk in an increasingly complex environment.

FIGURE 9: ESB DEBT MATURITY PROFILE AT 31 DECEMBER 2015



GENERATION AND WHOLESALE MARKETS (G&WM)



“2015 was a positive year for Generation and Wholesale Markets. There was good progress on the development and construction of new assets, while strong performance from both trading and generation underpinned an operating profit (before exceptional items) of €241 million on a turnover of €1.4 billion. After the exceptional charge of €104 million for impairments operating profit is at €137 million.”

Paddy Hayes, Executive Director, Generation and Wholesale Markets

OPERATING PROFIT



CAPITAL EXPENDITURE



OVERVIEW

The G&WM business develops, operates and trades ESB's electricity generation assets. The portfolio consists of 4,827 MW of thermal and renewable generation assets in operation across the Single Electricity Market (SEM) and Great Britain (GB), with a further 1,017 MW under construction.

With a strong focus on safety, G&WM delivers value by:

- Providing wholesale and traded products to meet market needs
- Offering system services to support robust and reliable electricity grids
- Optimising the operation of the ESB generation portfolio
- Delivering new generation assets to drive decarbonisation of electricity
- Acting positively in communities local to construction projects and operating assets

FINANCIAL PERFORMANCE

G&WM's operating profit (including exceptional items) at €137 million is down €25 million on 2014. This reflects an improvement in gross margin of €72 million related to strong plant availability offset by a €5 million increase in operating costs together with additional impairment charges in 2015 of €54 million, compared to an exceptional gain in 2014 (€38 million) relating to the sale of a 50% stake in Bizkaia Energia SL and ESBI Facility Management España SL.

The G&WM 2015 total impairment charge of €104 million consists of a charge of €58 million for Corby Power Limited resulting from forecast wholesale electricity prices together with a charge of €46 million for Coolkeeragh ESB Limited related to a reduction of the plant's running in the energy market.

Capital expenditure was €164 million lower, reflecting a reduction in the investment in the Carrington plant as it nears completion.

OPERATING ENVIRONMENT

The operating environment was challenging in both GB and the SEM during 2015. Although there was a slight growth in SEM electricity demand, gas prices reduced, in turn reducing SEM electricity prices and putting downward pressure on margins from coal and hydro plants. These adverse market movements were mitigated to some extent by longer-term hedges and this also moderated the impact lower gas prices had on margins from gas plants. G&WM's performance benefited also from excellent generation plant availability and output during 2015 with strong performance from all assets.

Thermal generation assets operate under strict environmental legislation and G&WM has been preparing for the introduction of the Industrial Emissions Directive (IED), which came into force in January 2016. This involved making choices about the longer term operating regimes for a number of older generation plants and these decisions have been registered with the relevant regulatory authorities. A major environmental investment of €353 million was completed in Moneypoint coal station by 2010 in order to be able to meet the standards of the IED.

The new Integrated Single Electricity Market (I-SEM) proposed by regulators and due to launch in quarter 4, 2017, will result in a very significant change to the business environment for SEM generation and trading operations. A project has been mobilised to ensure that G&WM is fully engaged in the process and will be ready for the market change.

The UK Government's Electricity Market Reform (EMR) programme continues and the second GB capacity auction took place in December 2015. G&WM accepted a one year capacity contract for Carrington for the year 2019 / 20, but withdrew Corby's capacity before the auction cleared.

Corby bid into a National Grid tender for additional Supplemental Balancing Reserve capacity for the winters of 2016 / 17 and 2018 / 19, and was successful in being awarded a contract extension for that period.



PROGRESS ON STRATEGIC OBJECTIVES

G&WM is responsible for identifying and developing opportunities to enhance and expand ESB's generation portfolio, in order to build a balanced, low-carbon generation portfolio in the all-islands market, as part of ESB's strategic ambition of delivering Generation / Supply Businesses of Scale.

There was good progress on this objective during 2015, with the development, construction and delivering of a number of new generation assets.

UPDATE ON 2015 PRIORITIES AND PRIORITIES FOR 2016

2015 PRIORITY	2015 PROGRESS	2016 PRIORITY
OPERATIONAL		
Maintaining a healthy and injury-free workplace, building on the 4You programme, embedding the Process Safety Project and seeking further improvement in the application of ESB's Safety Leadership Framework.	<ul style="list-style-type: none"> ■ G&WM deepened the 4You approach ■ Delivered phase one of the Process Safety Programme ■ Strengthened the application of ESB's Safety Leadership Framework 	<ul style="list-style-type: none"> ■ Continuing to maintain a healthy and injury-free workplace, increasing safety assurance
Safely progressing construction and commissioning of the 881 MW Carrington Power Station near Manchester and completing the construction of the 20 MW wind farm at Woodhouse in Waterford.	<ul style="list-style-type: none"> ■ Safe completion of the Woodhouse Wind Farm ■ Construction progressed on Carrington ■ Safe completion of a number of JV solar rooftop projects 	<ul style="list-style-type: none"> ■ Safely completing Carrington, progressing Tilbury, wind and solar projects, to deliver an increasingly diverse range of energy assets and to reduce carbon intensity
Delivering strong commercial and operational performance across ESB's generation plant through best practice operations and maintenance and timely completion of overhauls.	<ul style="list-style-type: none"> ■ Solid commercial performance underpinned by excellent operational performance from both generation and trading ■ Retention of accreditation to PAS 55, the International Asset Management Standard 	<ul style="list-style-type: none"> ■ Significant investment in existing assets together with a continued focus on further innovation and performance improvement in generation and trading
STRATEGIC		
Commencing construction of additional renewable projects supporting the reduction of the carbon intensity of generation and continuing to develop diverse renewable and thermal growth options.	<ul style="list-style-type: none"> ■ Step change in the number of renewable assets under construction, including wind, waste wood biomass and rooftop solar 	<ul style="list-style-type: none"> ■ Additional renewable projects while continuing to develop diverse renewable and thermal growth options
Building on G&WM's new trading systems and risk management capability and preparing for the introduction of the I-SEM electricity wholesale market in 2017.	<ul style="list-style-type: none"> ■ New portfolio optimisation and risk management capabilities delivered ■ Enhanced trading capability made possible through improved systems, processes and an innovative organisation 	<ul style="list-style-type: none"> ■ The trading of Carrington and the design of new trading processes and wholesale products appropriate to the I-SEM structure

Asset Delivery

- Woodhouse Wind Farm (20 MW) was completed and went into commercial operation
- Over 500 kW of rooftop solar projects have been built by the Kingspan ESB joint venture (JV) primarily in Northern Ireland (NI)

Asset Construction

- The 881 MW Carrington combined cycle gas turbine (CCGT) plant near Manchester started commissioning and is nearing completion, with commercial operation planned for 2016
- Construction started on the 40 MW Tilbury Green Power biomass plant, located in Essex, a JV with the UK's Green Investment Bank and the Scandinavian Contractors BWSC & AET
- Construction has started on Raheenleagh Wind Farm (35 MW in County Wicklow) – a JV with Coillte Teoranta
- Initial engineering works have started on several other wind farms in ROI and NI

Asset Development

- Development consent was secured for a 1,500 MW CCGT plant in Knottingley, GB
- An agreement was signed with Coriolis Energy, a specialist independent wind farm development company, securing access to a development pipeline of wind projects in Scotland
- ESB's development pipeline also continues to grow, with a number of wind projects due to move from development to construction between 2016 and 2020

Investment in Existing Assets

- G&WM continued to make significant investments

(to the value of €66 million) in the existing generation portfolio during 2015

G&WM'S CUSTOMERS

G&WM continues to offer a variety of traded contracts to all supply companies in the SEM on a non-discriminatory basis via an over-the-counter trading platform. These contracts provide all suppliers with the opportunity to hedge their power purchases, which enables them to better mitigate against power price volatility risk for their residential and commercial customers.

PEOPLE

At 973, employee numbers in G&WM remain similar to 2014 and almost 20% lower than in 2011. Operating with these numbers while maintaining the safe and effective performance of the business and delivering the ESB Group Strategy continued to be a key focus during 2015.

Safety is of fundamental importance and G&WM's safety improvement programme during 2015 included the behavioural safety approach (4You) and implemented the first phase of a significant process safety project.

All locations within G&WM are covered by an externally audited OHSAS certified safety management system for which accreditation was maintained. G&WM retained their Excellence Through People accreditation.

SUSTAINABILITY

G&WM operates its business with a focus on minimising environmental impact, aiming to increase

renewables and reduce the carbon intensity of generation. The absolute levels of CO₂ from G&WM's SEM generation plants are in line with 2014 and remain lower than 2005 by circa. 37%.

G&WM continue to invest in its Fisheries Conservation Programmes, which includes operating three salmon conservation hatcheries, a comprehensive river restoration programme and the juvenile and silver eel trap and transport programmes. These programmes are directed at improving fish stocks and natural river habitats.

ENERGY FOR LIFE

ESB Wind Community Funds

G&WM's wind community funds support a wide range of projects, helping make a difference to the everyday lives of local residents in the communities where G&WM build and operate wind farms. Some examples of projects G&WM supported in 2015 include:

- Arigna Mining Experience – a community group, near wind farms at Tullynahaw and Garvagh Glebe, established to develop an innovative tourism heritage attraction in the Arigna valley in north Roscommon; and
- Aglish Community First Responders – a community based group, near Woodhouse Wind Farm, established to provide community first response services in advance of the arrival of the ambulance service which is 25 minutes away.

ESB NETWORKS



“The €494 million of new investment in network assets during 2015 brings the total investment in critical electricity network infrastructure over the last five years to €2.2 billion, helping to facilitate a more sustainable energy environment for Ireland, as well as supporting economic growth through providing stable, safe and reliable electricity supply to homes and industries.”

Marguerite Sayers, Managing Director, ESB Networks Limited

OPERATING PROFIT



CAPITAL EXPENDITURE



REGULATED ASSET BASE (RAB)



OVERVIEW

ESB Networks builds, owns and maintains a transmission and distribution network of over 180,000 kilometres in the Republic of Ireland (ROI). The business invested €494 million (net of customer contributions) in constructing new network in 2015, bringing the total investment over the last five years to €2.2 billion. During 2015, €111 million was spent on maintaining the existing network.

During 2015, ESB Networks achieved reaccreditation for its asset management systems through ISO 55001 certification and for its safety management systems through OHSAS accreditation. These external accreditations are important in providing assurance that the business is being run consistently to high external benchmarks.

FINANCIAL PERFORMANCE

ESB Networks operating profit for 2015 at €287 million is down €6 million on 2014. The decrease relates to lower regulated tariff income.

Capital expenditure at €494 million is up by €46 million on 2014. The increase is related to additional spend on the distribution network system.

OPERATING ENVIRONMENT

Economic recovery has continued during 2015 in both the house building and business sectors with both experiencing increasing volumes of new connections, with connections up 8% on 2014. Further modest growth is expected in 2016.

The amount of wind generation connected to the electricity network in ROI has exceeded 2,400 MW and continues to increase annually. Ireland is on track to achieving the national target of providing 40% of its electricity needs from renewable resources by 2020.

During 2015, ESB Networks engaged with the Commission for Energy Regulation (CER) to agree the regulated revenues for the next Price Review Period (2016 - 2020). The ESB Networks' submission sought to ensure that it could finance the substantial planned investment programme, whilst maintaining excellent customer service at an affordable price. The final determination has been published and ESB Networks is satisfied that it has a reasonable framework under which it can continue to deliver a safe and reliable network.



PROGRESS ON STRATEGIC OBJECTIVES

The key strategic objective relating to ESB Networks is the delivery of Advanced Networks. During 2015, ESB Networks made progress in a number of areas relating to this objective:

Health and Safety

ESB Networks is fully committed to ensuring the health and safety of employees, contractors and the public. As part of the ESB Safety Strategy, ESB Networks engaged external specialists during 2015 to carry out an independent survey of ESB Networks' safety culture. This assessment has confirmed that the approach and activities being taken in the safety strategy are correct and has made recommendations on how to further improve safety plans. All employees were briefed on the findings of this survey.

Electricity Infrastructure Investment and Growth

The focus of the 2015 investment in the transmission network was on continuing the reinforcement of the transmission system to facilitate the connection of new renewable electricity generation. ESB Networks also continued to invest in the electricity distribution network to improve reliability of supply and ensure the safety of the network.

- Further progress was made on completing a major €400 million project in the South-West, which includes five new 220/110kV stations at Kilpaddock, Ballyvouskill, Knockanure, Ballinahulla and Moneypoint
- Progress has been made on a number of major customer connections – some of these are still at planning while some are in construction
- A new 14 kilometre 110kV line project from Trian to a new station at Cloghboola was completed, 220 kilometres of transmission line were refurbished and 80 kilometres of transmission lines was updated, as part of the Grid 2025 Transmission Reinforcement Programme
- A refurbishment project for Old Street - Woodland 400kV circuits also commenced
- Network reinforcement and refurbishment expenditure of €202 million including HV station investment and extensive MV/LV network refurbishment

Smart Metering Programme

The detailed design and procurement stage is in progress, focusing on designing changes to the

UPDATE ON 2015 PRIORITIES AND PRIORITIES FOR 2016

2015 PRIORITY	2015 PROGRESS	2016 PRIORITY
OPERATIONAL		
Ensuring the health and safety of employees, contractors and the public and given the nature of electricity, ESB Networks understands the complexity of its safety challenge.	<ul style="list-style-type: none"> ■ External specialists were engaged during 2015 to carry out an independent survey of ESB Networks' safety culture ■ Launched a number of new safety campaigns and initiatives 	<ul style="list-style-type: none"> ■ Continuation of the strategy to ensure the health and safety of employees, contractors and the public
Continue to work closely with CER to deliver the customer service targets contained in the regulatory determination in line with the Customer Service Improvement Plan (2013-2016).	<ul style="list-style-type: none"> ■ Customer satisfaction ratings continued to be ahead of target 	<ul style="list-style-type: none"> ■ Examine emerging trends in electricity networks across Europe and develop strategic plans accordingly, in order to effectively position ESB Networks for future industry changes ■ Launch a website that will facilitate a number of additional services for customers online ■ Continue to work closely with SIRO to ensure a smooth roll-out of the fibre infrastructure in towns across Ireland
STRATEGIC		
Achieving an acceptable revenue determination for 2016 - 2020. It is expected that CER will make a decision on the PR4 submission in mid-2015, which will set the allowed revenue for ESB Networks for the period 2016 - 2020. This will determine ESB Networks ability to support the development of the electricity network in 2016 - 2020.	<ul style="list-style-type: none"> ■ PR4 was concluded in December 2015 and ESB Networks is satisfied that it has a reasonable framework under which it can continue to deliver a safe and reliable network 	<ul style="list-style-type: none"> ■ Deliver the first year of the PR4 capital and maintenance programmes, while developing the framework for ongoing monitoring of PR4 performance
Efficiently deliver the critical infrastructure required to support the ongoing growth of the Irish economy.	<ul style="list-style-type: none"> ■ Good progress during the year on both transmission and distribution projects 	<ul style="list-style-type: none"> ■ Efficiently deliver the critical infrastructure required to support the ongoing growth of the Irish economy
To be a recognised leader in the area of energy and environmental sustainability and develop an integrated Smart Networks Strategy to enable national targets to be met.	<ul style="list-style-type: none"> ■ Input into the Smart Metering policies that the CER published during 2015 	<ul style="list-style-type: none"> ■ To be a recognised leader in the area of energy and environmental sustainability and develop an integrated Smart Networks Strategy to enable national targets to be met

market, finalising technology specifications and conducting procurement processes for the meter and communications products and services necessary to deliver the programme. Following substantial input from ESB Networks and other industry players, the CER published two sets of policy decisions in July and December 2015. A final decision on this programme is expected during 2016.

Customer Value

The Network Access Agreement between ESB and SIRO (ESB's joint venture with Vodafone, for the roll-out of fibre broadband to customers across Ireland using the distribution network) came into effect during 2015. This agreement allows SIRO to deploy fibre infrastructure on certain ESB Networks' assets in return for an access fee, which in turn reduces charges to electricity customers. Using the network in this innovative way demonstrates ESB Networks' commitment to delivering best value for electricity customers, while maintaining the rights to primacy of network for electricity purposes.

ESB NETWORKS' CUSTOMERS

ESB Networks continues to improve its service to all electricity customers and suppliers.

During 2015, ESB Networks provided a range of services to electricity suppliers, 310,644 site switches were facilitated, 17,012 new residential and business connections were carried out and ESB Networks continued to support customers experiencing financial hardship by installing 12,319 Pay As You Go meters.

Overall customer satisfaction with ESB Networks across a range of activities including meter reading, and new

connections continues to be above target, at 80%.

ESB Network's National Customer Care Centre (NCCC) continues to maintain its very high customer service levels with customer satisfaction levels at 90%. Expanding customer communication channels to make it easier for customers to contact ESB Networks and to receive information is an important part of its Customer Service Improvement Plan. ESB Networks Twitter feed @esbnetworks continues to grow its followers and, along with the PowerCheck App, it is a critical channel to provide customers with information on safety, planned and fault outages and estimated restoration times.

In 2015, ESB Networks put in place a Vulnerable Customer Policy, which outlines how it can assist customers who have registered as vulnerable with their electricity supplier.

The safety of the public in relation to electricity is an important element of customer communications. In 2015, ESB Networks launched a number of new campaigns and initiatives including the Stay Safe, Stay Clear schools programme, increased radio advertising and social media campaigns.

PEOPLE

ESB Networks' employees are central to successfully implementing its business strategy. This ethos is reflected by the importance placed on the ongoing development of employees in 2015. During the year, ESB Networks recruited 120 network technician apprentices, reflecting its commitment to ensuring ESB Networks has

the requisite resources and skills to maintain and enhance the network.

SUSTAINABILITY

During 2015, ESB Networks maintained external accreditation to ISO 14001: 2004 – the International Standard for Environmental Management Systems. A total of 222 MW of wind farm capacity was connected to the transmission system in 2015 – bringing total renewable MWs connected to the grid to over 2,700 MW. ESB Networks plan to connect a further 500 MW of renewable energy in 2016.

ENERGY FOR LIFE

Apprenticeship Programme

ESB has a long history of involvement in offering apprenticeships resulting in qualifications mainly in electrical and mechanical trades. The Group announced in 2015 that it is to recruit three hundred apprentices over the next five years as part of a large scale recruitment and development programme. This represents a €40 million investment in the training and development of ESB's future workforce. The apprenticeship system has been part of ESB's philosophy and ethos and the investment in apprenticeships and in-career training is critical to ensuring that ESB has the requisite skills available for it to maintain, develop and enhance the electricity system so that it meets the needs of modern Ireland.

NORTHERN IRELAND ELECTRICITY NETWORKS (NIE NETWORKS)



“Re-naming as Northern Ireland Electricity Networks Limited (NIE Networks) clarifies for customers the company’s role as the electricity networks provider in Northern Ireland.”

Jerry O'Sullivan, Deputy Chief Executive

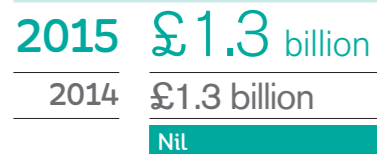
OPERATING PROFIT



CAPITAL EXPENDITURE



REGULATED ASSET BASE (RAB)



OVERVIEW

NIE Networks is responsible for the transmission and distribution of electricity from generators to every home, farm and business in Northern Ireland (NI). NIE Networks employees work 24/7 to plan, build, repair and develop the electricity network and operate the distribution network to keep the lights on for customers. NIE Networks is also responsible for metering and provides metering information to all electricity suppliers. It develops and reconfigures the electricity network to facilitate the connection of further renewable generation.

As required under its regulatory licences, NIE Networks is an independent business within ESB with its own Board of Directors, management and employees.

FINANCIAL PERFORMANCE

NIE Networks operating profit for 2015 amounted to €48 million a reduction of €8 million on 2014 reflecting lower regulated tariff income and higher operating costs associated with depreciation charges on the increasing asset base.

Capital expenditure at €135 million is €33 million higher than 2014 related to the strengthening of GBP and a ramp up in the capital investment programme to deliver the outputs required in the RP5 determination.

OPERATING ENVIRONMENT

In 2010, under the Strategic Energy Framework (SEF), the NI Assembly set a target of achieving 40% of electricity consumption from renewable sources by 2020, with an interim target of 20% by 2015. By the end of 2015 renewable generation connected represented approximately 24% of total electricity generation in NI. Government support through the Northern Ireland Renewable Obligation (NIRO) scheme was a key enabler of this achievement and a mid-term review of the SEF is underway.

NIE Networks is currently responsible for construction of all connections to the electricity network. The Utility Regulator (UR) announced the introduction of contestability (the opening of the market to other providers) for all new networks connections which will bring competition from independent connection providers. NIE Networks is engaging with the UR to enable the first phase of opening the market to competition by May 2016, followed by full market opening by the end of 2017.



PROGRESS ON STRATEGIC OBJECTIVES

A key strategic objective for NIE Networks is the delivery of the network investment plan under the regulatory period 5 (RP5) price control. During 2015, NIE Networks made progress on a number of areas relating to this objective.

The capital expenditure programme was ramped up to deliver the outputs specified in the network investment plan for RP5, particularly regarding asset replacement and progress is on track to deliver those specified outputs. Further renewable generation was connected to the network.

During 2015, NIE Networks invested €135 million (net of customer contributions) primarily on the refurbishment and replacement of worn transmission and distribution assets to improve the reliability of supply and ensure the safety of the network for customers. Key projects included: the construction of the new 110/33kV substation in Belfast due for completion in mid-2016; significant progress with the refurbishment of three 275/110kV substations and major refurbishment commenced at two existing 110/33kV substations.

Further network development was undertaken to facilitate the connection of additional renewable generation, including the completion of a new 275/110kV substation at Tamnamore and the commencement of construction of three 110/33kV wind farm cluster substations. A major programme to replace and update 25% of customers' meters by 2017 commenced.

With the anticipated closure of the NIRO scheme, there was a significant increase in demand for renewable generation connections, particularly small-scale wind generation. NIE Networks worked with the UR and the renewables industry to address the increased demand for the benefit of customers.

There was increased engagement with key stakeholders including a consultation programme with customers and other stakeholders on

UPDATE ON 2015 PRIORITIES AND PRIORITIES FOR 2016

2015 PRIORITY	2015 PROGRESS	2016 PRIORITY
OPERATIONAL		
Ensuring the health and safety of employees, contractors and the general public will continue to be NIE Networks' top priority.	<ul style="list-style-type: none"> No lost time incidents ISO OHSAS accreditation 	<ul style="list-style-type: none"> Ensure the health and safety of employees, contractors and the general public and achieve a zero-harm work environment through implementation of injury and accident-free initiatives
Consistently providing high standards in network performance and customer service.	<ul style="list-style-type: none"> Customer and generation connections brought into one business to improve delivery Enhanced online services for customers Think Customer initiative launched 	<ul style="list-style-type: none"> Roll-out of Think Customer initiative
NIE Networks will strive to operate within the expenditure allowances set in the price control, delivering cost efficiencies and performance improvements where possible	<ul style="list-style-type: none"> New methods developed to monitor costs against price control allowances Organisational structure re-aligned 	<ul style="list-style-type: none"> Deliver a high level of generation connections Opening connections to competition Further development of financial reporting systems
STRATEGIC		
Further ramp up of network investment programme to replace worn / aged assets and to facilitate connection of renewable generation within regulatory allowances.	<ul style="list-style-type: none"> Network investment programme on target Completion of major substation at Tamnamore 	<ul style="list-style-type: none"> Keep on target to deliver network investment programme for RP5
Continuing investment in employees to enhance the organisation's capability through further employee development programmes, increased employee engagement and empowerment and extended educational outreach.	<ul style="list-style-type: none"> IET accreditation of development programme for engineers Increase in employee numbers particularly in network connections 	<ul style="list-style-type: none"> Construction of three new wind farm cluster substations Increased employee engagement
Engaging effectively with key stakeholders including regulators, renewables industry groups, Confederation of British Industry (CBI) and large energy users.	<ul style="list-style-type: none"> Significant engagement with customers and other stakeholders to inform investment priorities for RP6 	<ul style="list-style-type: none"> Further recruitment Continued effective engagement with key stakeholders
		<ul style="list-style-type: none"> Complete RP6 stakeholder consultation programme Submit business plan for RP6 to the UR

their views on the company's current service level and what they would like delivered in the future. These views will be taken into account in developing the business plan for the next price control period (RP6), from 2017 to 2024, which will be submitted to the UR in mid-2016.

Investment in NIE Networks' key resource, its people, has continued with extensive employee engagement activity, employee development opportunities and recruitment.

NIE NETWORKS' CUSTOMERS

Customers' expectations of service continue to increase. Against the backdrop of a ramp up in the network investment programme, NIE Networks continued to manage outages required for essential maintenance and development in order to minimise the occasions and length of time that customers are off supply. The average number of customer minutes lost due to planned outages was 66, representing an increase on the previous year. The average number of minutes lost due to faults in the distribution network was 65, an increase on the previous year reflecting faults due to storm damage. The number of complaints taken up by the Consumer Council for NI on behalf of customers remained low, at only four complaints. A new customer service initiative, Think Customer, was launched in the autumn.

Customers increasingly wish to use the website and social media to engage with the business. New online services continued to be rolled out, including a video advising what to do in the event of a power cut. The new company name was launched to help clarify when customers should contact NIE Networks.

PEOPLE

Ensuring the safety of employees, contractors and the general public continued to be the number one value at the heart of all NIE Networks operations. The aim is to provide a zero-harm working environment where risks to health and safety are assessed and controlled. There have been no safety incidents resulting in lost working time for employees since September 2014, showing the commitment of employees to maintaining the highest standards of safety.

Further to the accreditation by the UK Commission for Employment and Skills with the Investors in People Gold Standard in early 2015, the NIE Networks' development programme for engineers was accredited by the Institution of Engineering and Technology (IET).

SUSTAINABILITY

During the year, two large-scale wind farms, three hundred small-scale renewable generation projects and several hundred micro-generation

projects were connected to the network, together providing an additional 90 MW of renewable generation in 2015. By the end of the year, there was a total of 840 MW of renewable generation connected, representing around 24% of total electricity generation in NI. The installed capacity of renewable electricity generation connected in NI per customer was ranked as the highest in the UK (based on 2014 figures).

ENERGY FOR LIFE

Educating Children in Electricity Safety

Electricity is needed by the whole community and NIE Networks is dedicated to educating children from a young age on electricity and its dangers.

NIE Networks has been involved in the development of a dedicated safety training facility for children and young people, known as RADAR (Risk Avoidance and Danger Awareness Resource). NIE Networks has built an overhead line and a ground-mounted substation complete with special effects to simulate the sound and light associated with accidental contact with electrical apparatus. A total of 10,000 children and young people are expected to visit RADAR during 2016.

ELECTRIC IRELAND



“Electric Ireland remains committed to providing value for all customers and I was delighted to announce a 2% reduction in our residential electricity prices in November 2015, following on from a similar reduction in 2014, both ahead of the winter peak demand period. Combined with gas price reductions totalling 5% during 2015, it means that on average an Electric Ireland dual fuel customer has seen savings of over €90 per annum since November 2014. Electric Ireland will continue to monitor energy markets and will pass through price savings to the customer as soon as the opportunity arises. 2015 also saw Electric Ireland bring a number of new and innovative products and services to our customers, such as Smarter Pay As You Go, aimed at improving customer experience and empowerment.”

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

REVENUE



OPERATING PROFIT



OVERVIEW

Electric Ireland is the retail arm of ESB, supplying electricity, gas and energy services to customers across the island of Ireland. With over 1.5 million customers and an electricity all-island market share of 38%, Electric Ireland serves all market segments, from domestic households to large industrial and commercial businesses, in both the Republic of Ireland (ROI) and Northern Ireland (NI). With a strong focus on customer service, providing value for all customers and contributing to communities across the country, Electric Ireland is recognised as a leading retail brand by Irish consumers and businesses.

FINANCIAL PERFORMANCE

Revenue in Electric Ireland in 2015 was €2,100 million, an increase of 2% compared to 2014 driven by an increase in overall Single Electricity Market (SEM) market share. Electric Ireland's overall market share increased by 1% during 2015 to 38% driven by strong performance in the Industrial and Commercial market sector.

Electric Ireland reported an operating profit of €44 million, which represents an operating profit

margin of less than 2% and is down €20 million from 2014 levels.

In 2015, Electric Ireland sought clarification on the calculation of regulated renewables revenue it received. This resulted in a rebate on some of these revenues and accounts for €12 million of the year on year decrease. The remaining €8 million movement reflects the lower margin and more competitive environment in 2015 compared with 2014.

OPERATING ENVIRONMENT

Electric Ireland operates in one of the most dynamic and competitive energy retail markets in Europe, evidenced by the number of new suppliers to enter the market in recent years and the high customer switching levels.

Despite another new supplier entering the residential marketplace in 2015 and a number of high profile marketing campaigns launched by existing competitors, Electric Ireland has continued to compete effectively in this environment through a continued focus on competitively priced products and strong customer service and has marginally increased overall market share to 38%.



PROGRESS ON STRATEGIC OBJECTIVES

In pursuit of the strategic objective to be a Supply Business of Scale, Electric Ireland is aiming to continue to be the leading energy supplier in the ROI market offering smart and innovative solutions to homes and businesses. This is being achieved by providing competitive offerings, excellent customer service and new and innovative products to meet customer needs.

During 2015, Electric Ireland delivered effectively on its strategic goals with a number of notable achievements in the following areas:

- Value for customers
- New products and markets
- Excellent customer service and care

ELECTRIC IRELAND'S CUSTOMERS

The customer remains central to everything that Electric Ireland does. In addition to reducing prices and launching new and innovative products, such as Smarter Pay As You Go (PAYG), Electric Ireland has also delivered a number of key customer service improvements with the aim of maintaining its position of having the highest customer satisfaction ratings of all energy suppliers.

With the increasing use of web, email and social media channels, customers are engaging with Electric Ireland in new ways. To meet the changing requirements of customers and with a strong focus on customer empowerment and self-service, Electric Ireland launched a new mobile website during the year. This was complimented by a new business online account management facility, which provides business customers with enhanced information in relation to energy consumption and costs and a new e-billing portal for residential customers.

With continued focus on a quality customer service offering Electric Ireland maintained its high levels of customer satisfaction and had the highest levels of customer satisfaction of all electricity suppliers during 2015, as reported by the Commission for Energy Regulation (CER). In addition, Electric Ireland continued to deliver service levels in line with Customer Charter and Customer Service Codes of Practice.

UPDATE ON 2015 PRIORITIES AND PRIORITIES FOR 2016

2015 PRIORITY	2015 PROGRESS	2016 PRIORITY
OPERATIONAL		
Deliver innovative products and services that provide customers with excellent value for money.	<ul style="list-style-type: none"> First to market with a Smarter PAYG product for residential customers 	<ul style="list-style-type: none"> Continue to innovate for the benefit of customers through the delivery of new smart and innovative products and services
Provide excellent customer service and introduce new initiatives to improve the customer experience.	<ul style="list-style-type: none"> New mobile enabled website New online residential and business account management facility 	<ul style="list-style-type: none"> Roll-out of enhanced interactive voice response (IVR) system
Maintain the Electric Ireland brand as the leading energy supply brand in Ireland.	<ul style="list-style-type: none"> Continued sponsorship of a number of sporting, cultural and charity events Launch of Smarter Living brand campaign to highlight Electric Ireland's brand promise of delivering simple ideas that make life better Entered the NI residential market 	<ul style="list-style-type: none"> Sponsorship of Team Ireland in the 2016 Rio Olympics
Deliver value for money for customers by focusing on retaining a competitive and flexible cost base.	<ul style="list-style-type: none"> Reduced electricity prices by 2% in November 2015 following on from a similar reduction in 2014, in both cases ahead of the winter peak Announced a 2.5% reduction in gas unit rates from 1 January 2016 following on from a similar reduction in April 2015 	<ul style="list-style-type: none"> Support Electric Ireland customers and their communities through sponsorships and corporate social responsibility initiatives Continue to enhance the value offered to all customers (existing and new) and to honour the commitment to pass through further energy price reductions where possible
Work proactively with customers in offering payment options to facilitate debt repayment.	<ul style="list-style-type: none"> Established a specialist team in the Customer Care Service Centre to offer a range of services to customers experiencing fuel affordability issues Disconnections continued to fall in 2015 - less than 30 per 10,000 customers disconnected. 	<ul style="list-style-type: none"> Early identification of customers with a higher risk of having payment difficulties and be proactive in offering suitable products and payment plans
STRATEGIC		
Invest in the development of a digital platform so customers can increasingly avail of services online.	<ul style="list-style-type: none"> New mobile enabled website complimented with new residential and business online account management facilities 	<ul style="list-style-type: none"> Ongoing focus on customer convenience, empowerment and control through continued development of the digital service capability across the entire customer experience journey
Develop innovative solutions for homes and businesses to become more energy efficient.	<ul style="list-style-type: none"> Energy Efficiency Incentive Scheme which has delivered 15 GWh of energy savings to date and returned over €1 million to customers Expanded the range of smart home products and services 	<ul style="list-style-type: none"> Maintain Electric Ireland's market leading position through the delivery of its energy efficiency targets and providing customers with new products and services to help reduce their carbon footprint
Engage with the CER and all stakeholders regarding key developments in the market (e.g. the Integrated Single Electricity Market (I-SEM) and the National Smart Metering Programme) for the benefit of the consumer.	<ul style="list-style-type: none"> Established I-SEM and Smart Metering Programme project teams to support and influence design and roll-out of these significant market developments 	<ul style="list-style-type: none"> Ensure that the customer interest is central to the design of I-SEM and the Smart Metering Programme

A continued focus on the customer experience and improvements in the digital capability of the business remains one of Electric Ireland's top service priorities for 2016.

PEOPLE

A key element in the successful delivery of Electric Ireland's strategic and operational priorities is the capability, knowledge and performance of employees. A continued strong focus on employee development and targeted recruitment across a range of disciplines and activities will ensure that Electric Ireland continues to provide competitive offerings, excellent customer service and new and innovative products to meet customer needs. In 2015, Electric Ireland recruited more than thirty new employees with a range of skills and experience, including data analytics, digital expertise and marketing, to support the business in the delivery of its strategic objectives.

SUSTAINABILITY

Electric Ireland is conscious of operating its business in a sustainable and environmentally responsible way. The internal business activities are certified to ISO 14001 standard and Electric Ireland actively works with customers to assist them in improving the sustainability of their

homes and businesses through the efficient use of the energy provided to them. This is achieved through a mixture of promotional campaigns, providing tips and insights on the efficient use of energy right through to detailed energy audits and consultations tailored to particular customer usage and requirements.

Electric Ireland also delivers energy savings as part of the National Energy Efficiency Obligation Programme. In 2015, Electric Ireland assisted local authorities and housing associations around the country to improve the energy efficiency of social housing through a variety of measures including attic and wall insulation, heating system improvements and heating control upgrades.

Electric Ireland is rewarding customers who undertake measures to improve the energy efficiency of their homes through its Energy Efficiency Incentive Scheme, which gives customers additional discounts on their bills. Electric Ireland has pioneered the introduction of Smart Heating Controls, offered as part of price plans to assist customers in managing their energy requirements. Electric Ireland has also assisted business customers in reviewing their

energy consumption and significant savings have been made through the introduction of new technologies ranging from lighting upgrades to energy consumption improvements.

ENERGY FOR LIFE

Smarter PAYG

In 2015, Electric Ireland launched a new brand campaign around the theme of Smarter Living. Electric Ireland promise that through understanding their customers, they will provide simple ideas that make life better. In response to listening to their customers' needs, in October 2015, Electric Ireland launched a new PAYG electricity product for customers, Smarter PAYG.

Smarter PAYG is the most advanced PAYG electricity product in the market. It has an in-home display which supplies live data on electricity usage, customers can also compare their usage by day, week or month and set daily usage targets as well as choosing how they want to pay through scheduled top ups, automatic top ups or text and online options.

INNOVATION



“Change is the nature of the business in which we work. The energy sector is in a constant state of discovery and reinvention. The only option is to adapt, advance and thrive and because of this, innovation is an imperative. In ESB, innovation is about collaborating internally and externally, asking questions about how we can work smarter and grow our business with new products and services.”

Paul Mulvaney, Executive Director, Innovation

INNOVATION BUSINESS LINES

ESB International

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

Novusmodus

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

Telecoms

- Owns fibre-optic broadband network and a network of independent mobile phone towers
- SIRO, fibre to the building JV with Vodafone

Emerging energy technologies

- Supporting development of a range of technologies and business models to meet changing energy customer and market needs

eCars

- Operates the national charging infrastructure for electric vehicles and provides commercial services in the electromobility sector internationally

OVERVIEW

Innovation is focused on driving the organisation to generate and implement new solutions to deliver growth opportunities and positive transformation in the lives of ESB customers.

2015 was an important year for Innovation with further investment in developing new business opportunities and collaborations, which will improve service offerings into the future.

The ESB Powering Potential Expo, a major technology event, showcased ESB's perspective on the future in energy, telecoms and transport and how ESB is responding to the changes in customers' energy needs. ESB also held its inaugural ESB Staff Innovation Recognition Awards to recognise the creative solutions developed by teams and individuals that have added real value to the Group.

Individual business areas such as ESB International and ESB Telecoms continued to trade strongly and win new customer contracts and the SIRO JV commenced the roll-out of its wholesale fibre-optic network.

OPERATING ENVIRONMENT

The businesses in Innovation operate in competitive markets and are responding to that challenge.

ESB International celebrates forty years in business this year but is continuing to adapt its customer offering to incorporate new technologies and is winning new customers as a result. ESB International continues to see a strong demand for its services.

Telecoms operate in an Irish fibre and towers wholesale market which is seeing significant consolidation. It is working with its customers to design their future networks to ensure that its unique position as a provider, with a national tower infrastructure integrated with a national fibre network, is fully utilised. Telecoms has also launched new product offerings, including a Metro Express product to improve its offering to customers connecting data centres around Dublin.

Novusmodus continues to invest in and support its portfolio companies and is moving to realise

value from some of its investments as evidenced by its disposal of Lumicity in 2015. Novusmodus will continue to target new investment in renewable energy / cleantech and continue to be an important source for new thinking and potential business opportunities.

eCars has upgraded and improved its infrastructure in 2015 and has been working with vehicle manufacturers and other stakeholders to support the expected increase in electric vehicle numbers across the island of Ireland.



PROGRESS ON STRATEGIC OBJECTIVES

Sustainable Innovation is the key strategic objective across the Innovation business lines, with Innovation also playing an active role in promoting this objective across the other business units in ESB.

Innovation is focusing on the following areas in relation to Sustainable Innovation.

Transformational Technologies

New technologies have revolutionised the energy industry. The customers of today are not like the customers of the past. They want greener solutions, faster connections and more flexibility. Through dedicated teams, ESB is investing in developing solutions that harness the power of solar, wind, wave and storage to meet those needs and provide commercial offerings for ESB customers.

ESB's People Power the Future

Innovation is looking at new ways to tap into people's capability to bring new thinking to the organisation. Across ESB, all of its businesses are working to ensure that new ideas and solutions are brought to fruition for ESB and its customers. The achievements of employees were showcased at the ESB Staff Innovation Recognition Awards where fifty finalists competed for ten awards out of a total of five hundred submissions.

Powerful Collaborations

Through strategic partnerships with other leading organisations, ESB shares knowledge, ideas and experience. New collaborations are being developed to expand into new areas and grow revenue streams with the work to further deepen

UPDATE ON 2015 PRIORITIES AND PRIORITIES FOR 2016

2015 PRIORITY	2015 PROGRESS	2016 PRIORITY
OPERATIONAL		
Both ESB International and Telecoms will continue to grow their external customer base and revenues by offering tailored products and services to existing markets while looking for opportunities to expand into new territories.	<ul style="list-style-type: none"> ■ ESB International has had significant customer wins in the Middle East and Africa ■ Telecoms launched the Metro Express product to improve its offering to customers connecting data centres around Dublin 	<ul style="list-style-type: none"> ■ Both ESB International and Telecoms will continue to support their external customers and will seek to increase their revenues by developing new products for existing (and new) customers
Novusmodus will continue to manage and support its investment portfolio building value for ESB both financially and in the development of new products and services.	<ul style="list-style-type: none"> ■ Novusmodus has made additional investments in its portfolio and has successfully disposed of its interest in Lumicity ■ Insight from markets and technologies reviewed by Novusmodus has led to the creation of a number of new business areas within ESB 	<ul style="list-style-type: none"> ■ Novusmodus will continue to focus on building and realising value in its investment portfolio as well as supporting development of options for new business for ESB
eCars will complete the national charge point infrastructure roll-out and begin the implementation of commercial offerings using the network.	<ul style="list-style-type: none"> ■ eCars has completed its charge point roll-out and has completed an upgrade of its customer processes ■ eCars have taken over the responsibility for the operation, maintenance and development of the charge point network in NI 	<ul style="list-style-type: none"> ■ eCars will begin the implementation of a commercial offering on its national charge point infrastructure while exploring other opportunities in the electromobility sector outside Ireland
STRATEGIC		
Evaluate the emerging technologies and business models relevant to ESB and develop plans to ensure that these can be transformed into commercial products and services for ESB.	<ul style="list-style-type: none"> ■ Dedicated teams have been established to pursue key strategic roadmaps – identifying new products and services to be offered by ESB - with work already underway on new offerings for 2016 	<ul style="list-style-type: none"> ■ Emerging Energy Technologies will introduce new commercial products to ESB's core markets to respond to changing customer requirements
SIRO will establish commercial operations and significantly increase the pace and scale of roll-out to target communities across ROI.	<ul style="list-style-type: none"> ■ SIRO has commenced activities and is deploying its fibre to the building offering in selected locations around Ireland 	<ul style="list-style-type: none"> ■ SIRO will continue to accelerate its roll-out to offer its unique product set through more retailers across more of the premises targeted
Develop relationships and collaborate with external partners to create new opportunities to commercialise new initiatives for ESB.	<ul style="list-style-type: none"> ■ Small Business Innovation Research (SBIR) programme initiated with SEAI and Enterprise Ireland to support development of electric vehicle charging solution for multi-tenant dwellings 	<ul style="list-style-type: none"> ■ Continue collaboration with external partners

the offering to commercial customers such as Dublin Airport Authority (DAA). Innovation are also supporting the first Small Business Innovation Research (SBIR) programme with SEAI and Enterprise Ireland (to develop new solutions for electric vehicle charging in multi-tenant dwellings).

INNOVATION'S CUSTOMERS

The barriers to entry in the energy industry are falling and new competitors are entering the marketplace as a result. This changing landscape has focused ESB's priority on developing new services in collaboration with other companies to offer value-added competitive solutions to its customers.

ESB International has had significant customer wins in the Middle East and Africa and is targeting further growth in these markets, where its utility experience can support solutions for other utility operators.

Telecoms have existing relationships with all of the providers in the Irish wholesale telecoms

markets and have been working with those customers to support their needs as the industry evolves and consolidates.

eCars has completed the implementation of a new management system for its infrastructure in 2015 as well as improving the quality of the charge posts and charge post sites. In addition, eCars have taken over the responsibility for the operation, maintenance and development of the charge point network in Northern Ireland (NI) and now supports an integrated system, which enables seamless cross-border charging for the growing number of electric vehicles in Ireland.

PEOPLE

In a changing industry, the calibre of its workforce is a critical factor in ensuring that ESB has the skills to respond to the challenges and opportunities presented to it. As well as continuing to invest in existing teams and their capabilities, Innovation will continue to recruit talented employees to support its own business requirements as well as those of the Group.

ENERGY FOR LIFE

ESB Staff Innovation Recognition Awards

Innovation is not just part of what ESB does; it is what defines ESB, which is why in 2015 ESB celebrated its own innovators through the ESB Staff Innovation Recognition Awards. These awards recognise the achievements of employees who have demonstrated new thinking and developed creative solutions to challenges across the Group. These solutions show the quality, depth and commitment of ESB's employees to improving the business and delivering benefits to customers.

Overall Winner of the ESB Staff Innovation Recognition Awards - World's First Sub-Sea Cable Repair

A multidisciplinary team successfully implemented the world's first undersea cable repair on the Moyle Interconnector between NI and Scotland using a specially developed submersible habitat. This innovative approach substantially reduced the cost and duration of the repair and is the subject of a patent application.

ENERGY FOR DREAMS



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OVERVIEW



Pat Naughton, Executive Director, Group People and Sustainability

“I want to acknowledge the contribution of all of our people across the Group to the continued success of our business in 2015. Their dedication ensures that we can provide a reliable, sustainable and value for money electricity service, for all our customers. We are committed to delivering this work to the highest safety standards. The safety of our employees, our customers and the public is a core value for us and all our operations are informed by our four pillars of safety: leadership, competence, compliance and engagement.

We undertake this work in an ever-more challenging and complex business environment. Our businesses are under significant competitive and regulatory pressure and we need to ensure that we have the right reward model to ensure that we can continue to sustain our organisation over the longer term. We have made significant progress in this regard during 2015. We have engaged with our employees on the various employment models operating in the business, and have put in place a new reward model for new entrants that will, overtime, become a single fit-for-purpose, sustainable total reward package supporting greater integration within our business and the quality employment that has always been the hallmark of ESB.

ESB's priorities in maintaining and developing the right team of employees are:

- Making a long-term commitment to employees, giving them the time to build their skills and the

- opportunity to advance their careers
- Ensuring effective succession planning, particularly in the context of a workforce where up to two thousand of our current employees are set to retire over the next decade
- Recognising that the most effective employees over the long-term are those who are able to maintain a good balance between their working and family lives
- Taking steps to ensure a balanced and diverse set of candidates for roles within ESB
- Making ESB a great place to work, therefore retaining engaged, motivated and committed people and attracting a strong and diverse number of quality applicants for new roles

We are committed to fostering respect in the workplace and to developing an inclusive workforce based on merit and ability. It is a guiding Group philosophy to develop and nurture all employees, to provide training and skills learning, offering interesting career paths and upskilling opportunities. We also support our employees in terms of the maintenance of their physical and mental health, our extensive wellbeing programme was recognised by Chambers Ireland in their 2015 Corporate Social Responsibility Awards.

We are committed to the highest standards of environmental management and to proactively addressing the challenges of climate change. We implement programmes across our operations to promote energy and resource efficiency,

and, in addition, develop new environmentally driven product and process innovation and new business opportunities.

We believe that continued sustainable business success is built on maintaining excellent relationships with all stakeholders. We were very pleased to be re-accredited by Business in the Community to the Business Working Responsibly Mark this year for a further three year period to 2018.

We also recognise a wider responsibility beyond our core business activities in the communities in which we operate. In 2015 we have supported over 190 organisations through our ESB Energy for Generations Fund in the areas of education, suicide prevention and homelessness. Our work with Pieta House on their Darkness Into Light annual suicide awareness walk was also recognised by Chambers Ireland at their Corporate Social Responsibility (CSR) Awards this year.

Finally, our employees have recorded over 30,000 hours of volunteering with charities throughout Ireland and we are proud to support them in their efforts. ”

Pat Naughton
Executive Director,
Group People and Sustainability

SAFETY

OVERVIEW

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

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

All ESB business units have safety management systems in place, many of which are certified to the OHSAS 18001:2007 standard or equivalent. ESB rigorously enforces safety policies and standards to achieve the ultimate target of an incident and injury free environment.

SAFETY PERFORMANCE IN 2015

There were no fatalities to employees or contractors arising from ESB activities in 2015.

The safety programme in 2015 has focused on the implementation of the Safety Leadership Strategy based on the four pillars of leadership, competence, compliance and engagement and each business area models its local health and safety programme on these four pillars.

ESB completed a safety cultural assessment survey involving all employees in ESB Networks business and have developed a detailed strategy to implement recommendations arising

from the survey. ESB also continued to make progress in other business units on improving its safety performance in key risk areas of the business including process safety, managing contractors and the safety of the public who use its services.

ESB completed the implementation of a new Environment, Health and Safety System, which supports a risk-based approach across the Group. The new system replaces a number of separate incident and audit recording systems in each business unit and will facilitate easier recording and tracking of all safety and environmental incidents across ESB.

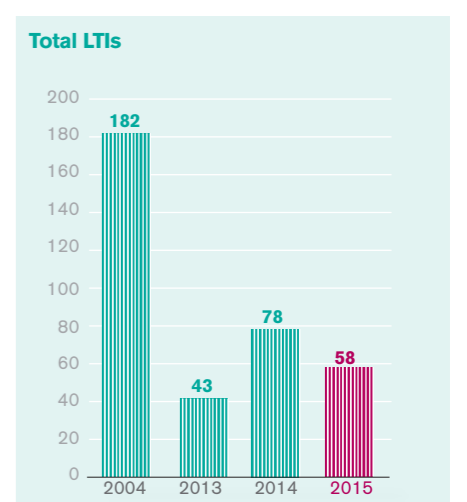
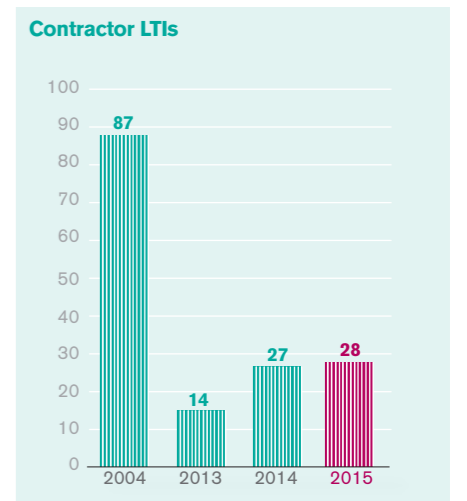
Regrettably, a member of the public was fatally injured in June 2015 in an electrical incident involving use of an extended telescopic hedge trimming device that came into contact with an overhead electricity line.

LOST-TIME INJURIES (LTIs)

There has been a steady reduction in employee and contractor LTIs since 2004. The number of LTIs in 2015 (58) is lower than 2014 (78) however it represents an increase on the number in both 2013 (43) and in 2012 (37). While the majority of these injuries were of low severity, the significant increase in LTIs in recent years is a cause for concern as ESB continues to focus on reducing risks in the business that give rise to injurious incidents. The most common causes of LTIs are slips and trips, handling, lifting and use of tools and equipment.

HIGH-POTENTIAL INCIDENTS

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



PEOPLE



ESB PEOPLE STRATEGY

The capabilities and commitment of ESB's employees helps set ESB apart. In 2015, the ESB People Strategy continued to provide the focus and direction for many human resource initiatives and actions. The strategy is designed to support the overall ESB Group Strategy objective of developing an Engaged and Agile Organisation. In order to achieve this objective the following four areas are focused on:

- Developing people
- Employee health and wellbeing
- Diversity and inclusion
- Employee engagement

DEVELOPING PEOPLE

There is a number of integrated human resource processes embedded in the organisation which ensures that ESB delivers its Group Strategy.

Resource Planning

Resource planning in ESB focuses on identifying the number of employees required and the capability these employees need for the successful delivery of ESB's Group Strategy. During the process the gap between the current number and capability and future requirements is identified. Action plans are agreed and implemented to ensure that these gaps are bridged.

Employee Development

ESB is committed to developing all its employees so that they have the skills and competencies to be effective in their current role and to build a career in the organisation based on their requirements and the organisation's requirements. Building employee capability continues to be a strategically important activity as ESB seeks to manage its different business environments and the challenges each poses. The Group's Annual Performance and Development Process provides the platform for the identification and delivery of targeted learning and development solutions. Effective development is based on specified competencies that align with the needs of each individual and the Group.

Manager Development

Following the development of the Management

Development Framework in 2014 a Managing People in ESB - Managers Guide was developed to support managers in understanding their roles, associated competencies and development options.

ESB continued its investment in developing the skill set of its managers and in building a high performance culture. The focus in 2015 was on the middle and front line / team leader / supervisor levels through a three day Leadership Communications Programme, with a focus on performance conversations skills.

The CPD Accreditation Award, for the period from 1 June 2015 to 1 June 2018, was made to the Chief Executive and Executive Director of Group People and Sustainability at an event in July 2015. This award recognises ESB as a best practice organisation with regard to the support provided to its engineers to further their continuing professional development (CPD) through its HR systems and practices.

ESB continues to run the Human Resource Management (HRM) for Line Managers Programme, this programme develops people management capability among line managers. This programme is accredited by the Chartered Institute of Personnel and Development (CIPD).

In addition, ESB held a competitive process, which was open to all employees in order to select a number of candidates who will be supported to undertake a part-time MBA.

Graduate and Apprentice Recruitment and Development

Almost sixty new recruits (from all disciplines) commenced a three year graduate programme in September 2015. The development programme includes a centrally managed induction event, work assignments, off-the-job business specific training, personal skills development and mandatory training, supported by a mentoring relationship.

The Group announced in 2015 that it is to recruit three hundred apprentices over the next five years as part of a large scale recruitment and development programme.

EMPLOYEE HEALTH AND WELLBEING

ESB is strongly committed to supporting employees in maintaining good health and wellbeing. ESB's Health and Wellbeing Programme is focused on supporting employees to reach their full potential in the workplace through the promotion of good mental, physical and emotional wellbeing. It is focused on providing proactive health programmes that offer information and advice to employees to help them to create and maintain a healthy lifestyle. The programme also provides effective remedial support as employees face ill health and other personal life challenges through an occupational health medical service, an Employee Assistance Programme, psychological counselling and through a range of other wellbeing support measures.

Positive mental and physical health promotion among ESB employees was acknowledged with the achievement of the Chambers Ireland Excellence in the Workplace CSR Award in 2015.

ESB's employee health and wellbeing focus for the year has been on:

- Developing effective physical and mental health policies that support good health and wellbeing in the workplace
- Promoting increased physical activity through competitions and get active health challenges
- Revamping the ESB health and wellbeing website, providing easier access and regular updates on health topics

Proactive Health Programmes

ESB's health maintenance programmes are focused on prevention and keeping employees well by providing opportunities for them to lead healthier and more active lives. While it is recognised that stress may be an integral part of everyday life, the availability of active workplace stress awareness programmes are crucial to supporting employees in dealing with these challenges and minimising the impact on their wellbeing. Some of the programmes and initiatives available to ESB employees during the year were:

- Seminars and workshops for 3,000 employees on positive mental health for teams, personal

stress management, suicide awareness, nutrition advice, back care and financial awareness

- A Pedometer Challenge competition where eighty three teams walked in excess of 20,670 kilometres
- Cardio-vascular and bowel screening programmes along with a flu vaccination programme

DIVERSITY AND INCLUSION

ESB continues to create and provide a positive and inclusive work environment through building, understanding and awareness of the benefits of a diverse and inclusive workforce for the individual and the organisation. ESB's Equality and Diversity Policies are regularly reviewed, in line with legislation and best practice and aim to support a culture of inclusion, respect and dignity for the individual in the workplace and for the customers it serves. Having a diverse and inclusive work environment plays an increasingly important part in ESB's ability to attract, retain and develop key skills and talent.

Key initiatives in 2015 included:

- Sponsorship of Gay Lesbian Equality Network (GLEN) Diversity Professional Networking Evening and GLEN's Workplace Equality Index Inaugural Awards
- The ESB Traineeship Programme for People with Disabilities is now in its tenth year

EMPLOYEE ENGAGEMENT

ESB provides information to its employees in a variety of ways, including its intranet sites, email, twitter, social media, text and video messages as well as through business unit specific briefings.

In 2015 employees were invited to participate in a survey which allows ESB measure engagement levels and compare with other large companies and performance in the previous survey. The feedback from the survey is used by ESB to improve how it engages with employees.

	2014	2015
Average Number of Employees	7,149	7,305
Female	23%	22%
Management Level Female	19%	19%
Full Time	94%	94%
Employees with Disabilities	5%	5%

- Introduction of managing successful maternity transitions through ESB's Maternity Positive Programme
- Supporting working parents through ESB's Positive Parenting Programme
- Promoting an alternative dispute resolution mechanism – through case management and independent mediation service
- A Joint Equality Council whose members are a cross-section of employees and union representatives and includes a disability and lesbian, gay, bisexual and transgender (LGBT) representative
- Continuing to exceed the 3% National Disability Authority (NDA) target of employing employees with disabilities
- Business unit diversity groups, that continue to raise awareness at local level by integrating equality and diversity practices and initiatives for employees and customers

EMPLOYEE ENGAGEMENT RESULTS

81%
I'm proud to work in ESB

68%
Good communication between me and my line manager

94%
I believe that ESB expects me to behave in an ethical manner and work with integrity

87%
Management in my team / workgroup are committed to safety in the workplace

SUSTAINABILITY

ESB is in the third full year of the ESB Group Strategy. Under the strategy, ESB is investing in low-carbon generation, building smart networks and maximising the efficiency of the business. The sustainability strategy supports the ESB Group Strategy, and reflects ESB's determination to build a successful business in the long term as it moves to decarbonise its generation activities by 2050. ESB is focused on maintaining the highest levels of environmental management and sustainability in all aspects of its operations in order to minimise its impact on the environment and enhance the reputation of ESB as an exemplar organisation.

PROGRESS ON SUSTAINABILITY OBJECTIVES

ESB's Sustainability reporting underwent a transition in 2015 in line with the update to the Sustainability Reporting Guidelines as issued by the Global Reporting Initiative (develops and disseminates globally applicable sustainability reporting guidelines). As part of this transition a materiality process was undertaken, which identified the issues of greatest material importance to the business in the context of sustainability. The strategic sustainability objectives align with the material issues and the five priorities of the ESB Group Strategy to 2025. The progress on these objectives in 2015 is detailed below. A copy of the Sustainability Report is available from the ESB website, www.esb.ie

ESB GROUP STRATEGIC PRIORITIES	ISSUES OF MATERIAL IMPORTANCE TO ESB	RELATED STRATEGIC SUSTAINABILITY OBJECTIVES	2015 PROGRESS
	Development of low-carbon portfolio	<ul style="list-style-type: none"> Reduce air emissions (SOx, NOx) per GWh and CO₂ emissions to 343g/KWh from ESB's generation portfolio by 2025 Increase renewable energy sources in ESB's generation portfolio to 26% by 2025 	<ul style="list-style-type: none"> Market conditions continued to favour coal generation in 2015 with ESB's total CO₂ emissions remaining in line with 2014 at 9.2 million tonnes and carbon intensity increasing by 14.0g/kWh to 590g/kWh, however the emissions have decreased by circa. 37% from 2005 levels. At the end of 2015, renewable energy sources in ESB's generation portfolio is 13%. During the year significant progress was made on the following renewable projects: <ul style="list-style-type: none"> Woodhouse Wind Farm (20 MW) entered commercial operation Early construction / development of wind farms in the Republic of Ireland (ROI) and the United Kingdom (UK) Tilbury biomass project (40 MW) commenced construction Entered into a joint venture (JV) with Kingspan to install solar photovoltaic (PV) generation systems on rooftops Compliance with applicable environmental legislation was reported by all business units. An ongoing process of engagement with the Environmental Protection Agency (EPA) and Northern Ireland Environment Agency (NIEA) is in place on relevant environmental matters. Engagement with stakeholders on carbon policy issues in the lead up to the December 2015 Paris Agreement. Electric Ireland through the Energy Efficiency Incentive Scheme has delivered 15 GWh of energy savings to date and returned over €1 million to customers The Energy Efficiency Obligation Scheme has delivered some 253 GWh (against a 3 year target of 420 GWh) of energy savings for its customers in 2015 and returned over €40 million in cost savings to customers to date, as well as €6 million directly from Electric Ireland in the form of grants, incentives and credits.
	Energy efficiency and affordability for customers	<ul style="list-style-type: none"> Maintain compliance with applicable laws on the journey towards a low-carbon economy Influence carbon policy at national and EU level Work with customers to improve their energy efficiency and demand response through the introduction of smart home technologies. Achieve Sustainable Energy Authority of Ireland (SEAI) Better Energy Targets 	
	Develop resilient networks and facilitate renewables	<ul style="list-style-type: none"> Reduce transmission and distribution losses on the all-island network Facilitate the connection of renewable energy onto the all-island network Maintain ESB's position as a world leader in smart networks implementation Implement smart metering to meet the future needs of customers, ESB and stakeholders 	<ul style="list-style-type: none"> 1,198 kilometres of network were converted from 10kV to 20kV during 2015 reducing distribution losses. An additional 312 MW of wind generation was connected to the grid on an all-island basis in 2015, bringing the total renewable MWs connected to the grid to over 3,200 MW. The ESB RealValue smart network project will see the installation of a storage solution and profile metering in 800 homes in Ireland and the installation of advanced monitoring and control capability in medium voltage (MV) substations associated with the trial. Following substantial input from ESB Networks and other industry players the Commission for Energy Regulation (CER) published two sets of policy decisions in July and December 2015. A final decision on the programme is expected in 2016.
	Evolution of emerging technologies	<ul style="list-style-type: none"> Promote electric vehicles in Ireland through installing a national network of public smart charging points Explore the potential to use ESB's network infrastructure to deliver broadband on a commercial basis Invest in emerging clean energy and energy efficiency sector Assess business opportunities in emerging clean technology areas such as energy storage, carbon capture storage (CCS), ocean energy and solar PV 	
	Operational energy efficiency Environmental management	<ul style="list-style-type: none"> Reduce ESB's internal CO₂ carbon footprint by improving the energy efficiency of ESB's buildings, reducing fuel used in its vehicle fleet and promoting sustainable travel for employees Drive improvements in environmental management and ESB's impact on biodiversity Reduce waste streams, increase recycling and reduce waste going to landfill Reduce water usage Achieve Public Sector Energy Efficiency targets to 2020 	<ul style="list-style-type: none"> ESB has reduced its primary energy use in its operations by 24.7%, 53 GWh primary energy equivalent (PEE), since the baseline period (2006 - 2008 average). All business units now operate under externally ISO 14001: 2004 certified environmental management systems Recycling rates generally above 75% and diversion from landfill rates above 93%. Thirty nine meters are now installed in ESB Networks' depots, which have driven a focus on reducing water usage. The 2015 Public Sector energy efficiency performance reports ESB as having delivered 24.7% energy savings since baseline. This is in line with the objective of a 33% improvement in energy efficiencies by 2020. See page 60 for detail on how ESB is using its profits in a sustainable way.
	Financial performance		
	Impact on society	<ul style="list-style-type: none"> Engage with employees to promote sustainability in the workplace, in the community and in the home Establish an overall ESB Corporate Responsibility Programme which promotes volunteering and monitor its impact Communicate progress both internally and externally against sustainability targets on a regular basis to enhance the reputation of ESB Work with employees and suppliers to embed sustainable procurement within each business unit Health and safety 	<ul style="list-style-type: none"> Sustainable innovation award category as part of the ESB Staff Innovation Recognition Awards. The Energy for Generations Fund has contributed over €10 million in the past decade to community based projects around the country. To the end of December 2015, over 30,000 volunteered hours had been recorded by ESB employees. Progress updates are published every six months and on an annual basis a sustainability report is prepared. Ongoing roll-out of sustainability workshops as part of the specification and pre-tender requirements process for tenders in excess of €5 million. See page 53 for details on safety.

ENERGY USAGE IN 2015

ENERGY USAGE IN 2015

EU Energy Efficiency Regulations S.I. No. 426 of 2014 requires ESB to disclose its annual energy usage, together with the initiatives being undertaken to improve energy performance. ESB monitors and reports on energy consumption against its baseline (2005 for generation, 2006-2008 average for operations) and is committed to continuing the drive towards improved energy performance. Electricity generation accounts for over 90% of ESB's use of energy. In 2015, ESB consumed 26,204 GWh of fossil fuel energy in generating electricity in the Republic of Ireland (ROI).

The prevailing market conditions continue to favour coal generation, due to the lower fuel cost and the demand for affordable electricity. Increased generation from coal in 2015 increased ESB's overall carbon intensity to 590 gCO₂/kWh with 2015 emissions of 9.2 million tonnes CO₂ in line with 2014. Within the EU Emissions Trading System (ETS), ESB does not receive any free allocations in Phase III of the ETS. ESB purchases EU Allowances (EUAs) at market price in the secondary over the counter (OTC) market. All of ESB's EUAs are purchased at market price from third-party participants.

In relation to the remaining energy use, the amount of energy used by ESB in its buildings constitutes the most significant portion, followed by that used in fleet and in private cars used on company business. The bulk of the energy used is attributable to space heating. Internal use accounted for 114 GWh primary energy equivalent (PEE) in non-generation activities (baseline 167 GWh).

Against the baseline consumption (2006 - 2008 average), ESB has delivered a 24.7% improvement in its PEE consumption. This is in line with the Government objective for the public sector of a 33% improvement in energy efficiency by 2020.

Steps to deliver this target in ESB in 2015 included:

- Energy efficiency upgrades programme prioritising buildings and depots to improve

ENERGY CONSUMPTION FROM ESB OPERATIONS (GENERATION)

ENERGY SOURCE	2014	2015
Coal (GWh)	10,596	13,106
Natural Gas (GWh)	11,989	7,791
Peat (GWh)	4,951	4,676
Oil (GWh)	543	631

PRIMARY ENERGY EQUIVALENT CONSUMPTION FROM ESB OPERATIONS (NON-GENERATION)

ENERGY SOURCE	2006 - 2008 Avg.* GWh	2015 GWh	CHANGE GWh
Electricity	39	28	(11)
Electricity Primary Energy Equivalent	96	63	(33)
Fossil Fuels			
- Natural Gas	1	1	-
- Heating Oil	-	-	-
- Diesel	70	50	(20)
Total Fossil Fuels	71	51	(20)
Renewable Energy	-	-	-
Total Primary Energy Equivalent	167	114	(53)

*Baseline reflects calculations for compliance with Sustainable Energy Authority of Ireland (SEAI) Public Sector Monitoring and Reporting. 2015 figures for PEE as reported in annual report 2015 on Public Sector Energy Efficiency Performance.

- energy performance
 - Continued trial installations of electric heat pumps and other renewable energy technologies in office buildings as part of the Better Energy Programme
 - Installation and operation of solar photovoltaic (PV) roof top project at the ESB Networks' Leopardstown Depot
 - Installation of advanced controls for exterior lighting
 - Promotion of sustainability to encourage behavioural change amongst employees with
- respect to using energy efficiently
 - Use of electric vehicles in the fleet and electric auxiliary equipment and continued use of biofuels
 - Fleet renewal programme has replaced in the region of one thousand five hundred less energy efficient vehicles
 - Continued use of web-based meeting / communications facility to avoid the need for business travel

CORPORATE RESPONSIBILITY

ESB has a long track record of being actively involved in the communities in which it works. It seeks to empower and enrich the lives of individuals and communities across Ireland through its corporate social responsibility programme. ESB offers its support through grants, sponsorship, partnerships and knowledge transfer from its employees to individuals and communities.

ENERGY FOR GENERATIONS CORPORATE RESPONSIBILITY FUND

As a leading Irish organisation with deep roots in the community dating back to 1927, ESB is committed to playing a role in addressing some of the key social issues facing Ireland today. In December 2015, ESB celebrated ten years of charity funding and in celebration of this milestone brought together a panel of leading experts to discuss the future of Corporate Social Responsibility. With over 400 community and voluntary organisations supported with €10 million of ESB funding in the past decade, ESB know that their investment has made some real impacts across the island of Ireland. ESB's aim with the Energy for Generations Fund is to maximise the impact of its investment by taking a more strategic approach to affect change. In 2015, €2 million was awarded to projects primarily in the areas of educational disadvantage, suicide prevention and homelessness and employee volunteering.

Educational Disadvantage

ESB supports a number of organisations including TechSpace, a national programme to promote science, technology, engineering and maths to young people across the country. ESB also supports An Cosán's Virtual Community College and is the national partner of Business in the Community's Time to Read programme.

Suicide and Homelessness

ESB has supported suicide prevention and the alleviation of homelessness since 2005, following the consultation with employees. The Energy for Generation Fund, managed by a cross-company Committee, disburses direct grants to applicant organisations throughout the country.

Employee Volunteering Support

The Fund also provides support to ESB employees who volunteer in their own communities. Any

employee who volunteers for over twenty hours with a charity can request that ESB donates €250 to that organisation. There has been a good response to this initiative, with donations being made to a wide range of charities including Capuchin Day Centre, Age Action, Scouts and Girl Guide Groups and Daisyhouse Housing. To the end of December 2015, over 30,000 volunteered hours have been recorded by employees.

WIND FARM COMMUNITY FUND

ESB actively supports the communities in the vicinity of its wind farms. In 2015, ESB committed over €500,000 to a diverse range of community projects in the Republic of Ireland (ROI), Northern Ireland (NI) and Great Britain (GB).

SPONSORSHIP

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

- Promoting young people in sport, through the Electric Ireland GAA minor hurling and football championships, Ireland's under 20's rugby and Team Ireland for the Olympics
- Supporting the Darkness into Light sponsored walk / run for Pieta House - in 2015, Electric Ireland was awarded Chambers Ireland Excellence in Communication Award for this
- Supporting charities through Powering Kindness, an initiative which encourages people to do a simple act of kindness and bank it in favour of one of three charities

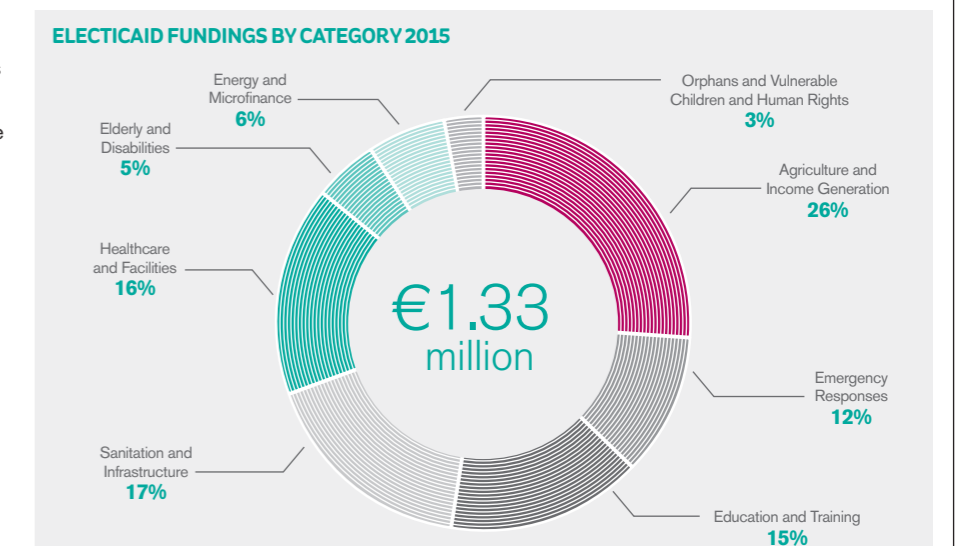
- Supporting the arts and music through sponsorships of Feis Ceoil, Electric Picnic and the National Gallery
- Supporting the development of skills in science, technology and engineering through partnerships with Science Gallery Dublin, City Spectacular and Engineers Ireland

INTERNATIONAL CSR

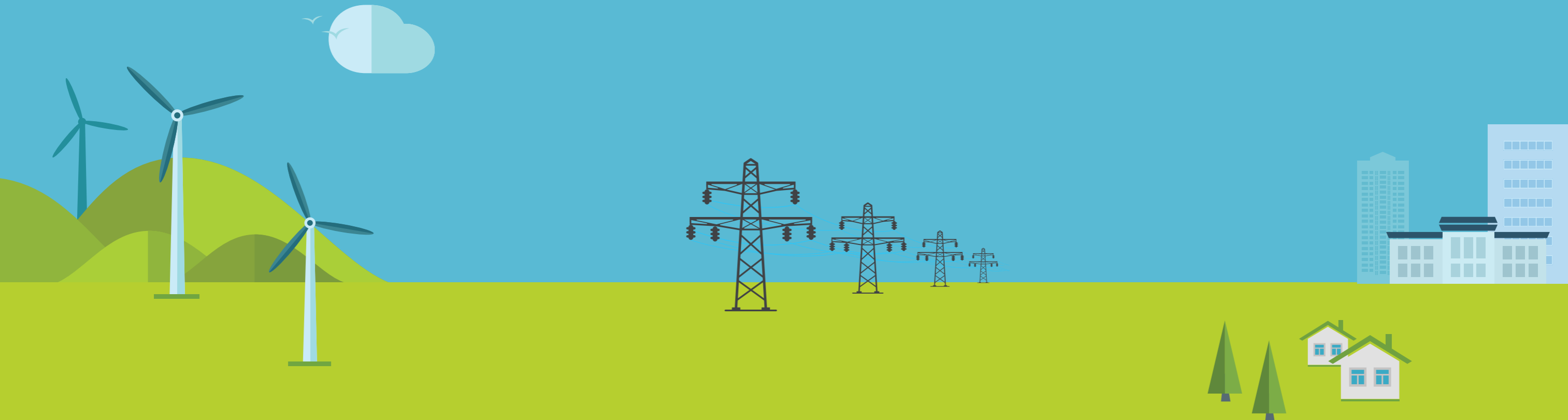
ElectricAid is the social justice and development charity of ESB and EirGrid employees and pensioners. The charity, although strongly supported by ESB (ESB currently matches employee and pensioner contributions on a 2:3 basis), is owned and controlled by its two thousand six hundred contributing members. In 2015, ElectricAid raised and spent €1.33 million on one hundred and sixty four separate development and relief projects in Ireland and in forty one developing countries. ElectricAid committed over €153,000 in twenty seven separate funding initiatives for emergency relief in Ireland, Afghanistan, Kenya, Nepal, Pakistan, Syria and the refugee crisis in Europe.

BUSINESS WORKING RESPONSIBLY MARK

2015 saw ESB receive its third accreditation to Ireland's only independently validated corporate responsibility standard, the Business Working Responsibly Mark. It is awarded by Business in the Community Ireland (BITCI); the non-profit organisation dedicated to corporate responsibility and is audited by the National Standards Authority (NSA). It is based on ISO 26000: 2010 and is valid for three years.



USING OUR PROFITS IN A SUSTAINABLE WAY



PROFITS



ENERGY FOR CREATING



02

CORPORATE GOVERNANCE

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THE BOARD IN 2015

1



- AUDIT AND RISK COMMITTEE
- HEALTH, SAFETY AND ENVIRONMENT COMMITTEE
- REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE
- FINANCE AND INVESTMENT COMMITTEE

1 Ellvena Graham ■■

Appointment to the Board: October 2010 and appointed as Chairman with effect from July 2015.

Length of service: Five years and three months (five months as Chairman).

Career experience: Ellvena has over 30 years' experience in banking, most recently at Executive Management level within Ulster Bank, where she was Head of Ulster Bank in Northern Ireland and Managing Director of SME Banking across the island of Ireland. Prior to that, Ellvena held the position of Chief Operating Officer for Ulster Bank Group. Having finished her executive role in 2015, Ellvena has been appointed as a Non-Executive Director of Ulster Bank with effect from February 2016.

External appointments: Chairman of the Economic Advisory Group (EAG) in Northern Ireland, Board member of the Northern Ireland Chamber of Commerce and Industry and a member of the Advisory Board of the Women's Executive Network in Ireland. Fellow of the Institute of Banking.

2



4



2 Pat O'Doherty ■■

Appointment to the Board: January 2013 as Board member and December 2011 as Chief Executive.

Length of service: Three years as Board member.

Career experience: Holds primary and masters degrees in engineering from University College Dublin. Completed the Advanced Management Programme at Harvard Business School. Headed up ESB's largest businesses as Executive Director ESB International, Managing Director ESB Networks and Executive Director ESB Power Generation.

External appointments: Trustee of The Conference Board of the United States and a director of Energy UK.

3 Anne Butler ■

Appointment to the Board: November 2012.

Length of service: Three years and two months.

Career experience: Chartered engineer. Worked in engineering consultancy for the Dublin Local Authorities and as a founding Director (Executive) of the Environmental Protection Agency. Former President of the Institution of Engineers and is a member of the Irish Academy of Engineering.

External appointments: Served on a number of boards including the National Roads Authority (NRA), Ordnance Survey Ireland (OSI), Dublin Institute of Technology (DIT) and REPAK.

3



5



4 Dave Byrne ■

Appointment to the Board: January 2011 under the Worker Participation (State Enterprises) Act 1977.

Length of service: Five years.

Career experience: Member of a team that is now part of ESB's Business Service Centre organisation and previously worked in Customer Supply (now Electric Ireland).

External appointments: President of ESB Officers Association (ESBOA) until April 2010 and then appointed as the Group of Union's representative in Central Partnership.

5 Andrew Hastings ■■

Appointment to the Board: July 2015.

Length of service: Six months.

Career experience: CEO position of Barclays Bank Ireland plc until March 2015, which included responsibility for Northern Ireland. Fellow of the Institute of Banking and a Chartered Director. CEO of BNP Paribas Ireland from 2007 to 2011.

External appointments: Director of Elavon Financial Services Limited, the Dublin-based subsidiary of US Bancorp and a Director of Carrick Laurel Consulting Limited. Partner with AP Partners and consultant to London - based Valuation Consulting LLP.

6



9



6 Sean Kelly ■

Appointment to the Board: January 2011 under the Worker Participation (State Enterprises) Act 1977.

Length of service: Five years.

Career experience: Joined ESB in 1997 as an apprentice network technician.

External appointments: Chairperson of the ESB Defined Benefit Superannuation Committee and Training Officer for the National Worker Directors Group. Sean is also a member of the Mediators' Institute of Ireland.

7 Seamus Mallon ■

Appointment to the Board: February 2006 and reappointed in May 2011.

Length of service: Nine years and ten months.

Career experience: Elected to the Armagh District Council, the Northern Ireland Assembly and the Northern Ireland Convention. Member of Seanad Éireann and MP for Newry and Armagh at Westminster. Deputy Leader of the SDLP and Deputy First Minister of Northern Ireland.

7



10



8 Tony Merriman ■

Appointment to the Board: January 2007 under the Worker Participation (State Enterprises) Act 1977.

Length of service: Nine years.

Career experience: Joined ESB as a network technician in 1979. Served as an officer with the ESB Group of Unions.

External appointments: Board member of ESB ESOP Trustee Limited and Chairman of the National Worker Directors Group.

9 Noreen O'Kelly ■■

Appointment to the Board: April 2013.

Length of service: Two years and eight months.

Career experience: Chartered accountant trained with KPMG. Held a number of senior positions in Independent News and Media Group including Head of Treasury and Group Secretary. In 2002, she was appointed Company Secretary of C&C Group. Consultant on corporate governance.

External appointments: Director / Chair of Audit Committee of Rehab Group, Director / Chair of Audit Committee of Barretstown Gang Camp Fund Limited and external member of the Audit Committee of the Institute of Technology, Sligo.

8



11



10 Peter O'Sullivan ■

Appointment to the Board: January 2015 under the Worker Participation (State Enterprises) Act 1977.

Length of service: One year.

Career experience: Joined ESB as a network technician in 1980. Formerly Safety Representative in Kerry / West Cork.

External appointments: Former President of Network Technicians' Association, negotiation member of Group of Unions. Board member of ESOP Trustee Limited.

11 Noreen Wright ■■

Appointment to the Board: June 2011.

Length of service: Four years and six months.

Career experience: Called to the Bar of Northern Ireland in 1976. Worked in the electricity industry for 25 years and held a number of senior management posts in both Northern Ireland Electricity plc and Viridian plc including Company Secretary and Head of Legal Services.

External appointments: Lay Magistrate, member of both the Industrial and Fair Employment Tribunals of Northern Ireland and the Northern Ireland Valuation Tribunal. Director of both Springvale Training Limited and Co-operation Ireland Limited. Trustee of Garfield Weston Trust.

BOARD COMMITTEES IN 2015

AUDIT AND RISK COMMITTEE

The Committee held nine meetings during 2015. The members of the Committee and the number of meetings attended are set out below:

MEMBERS	LENGTH OF SERVICE	MEETINGS ATTENDED
Noreen O'Kelly, Chairman	2 years and six months	9
Anne Butler (to September 2015)	2 years and 9 months	6
Ellvena Graham (to September 2015)	2 years and 6 months	6
Andrew Hastings (from September 2015)	3 months	4
Noreen Wright (from September 2015)	3 months	4

Activities undertaken by the Committee in 2015 are outlined in the Audit and Risk Committee Report on page 77.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The Committee held five meetings during 2015. The members of the Committee and the number of meetings attended are set out below:

MEMBERS	LENGTH OF SERVICE	MEETINGS ATTENDED
Tony Merriman, Chairman	8 years and 11 months	5
Seamus Mallon	9 years and 8 months	5
Noreen Wright (to September 2015)	2 years and 6 months	3
Pat O'Doherty	4 years and 1 month	5
Peter O'Sullivan (from September 2015)	3 months	2
Anne Butler (from September 2015)	3 months	2

Key Activities of the Health, Safety and Environment Committee in 2015

Performance Updates	<ul style="list-style-type: none"> Safety performance including review of major safety incidents, lost time incidents (LTIs), high potential safety incidents and key risks in the business
Safety Plans	<ul style="list-style-type: none"> Review of the following safety plans: <ul style="list-style-type: none"> ESB Networks Generation and Wholesale Markets (G&WM) Innovation Dam Safety Public Safety ESB Fisheries
Health and Wellbeing	<ul style="list-style-type: none"> Approval of the ESB Group Health, Safety and Wellbeing Strategy
Road Safety	<ul style="list-style-type: none"> Received a briefing on the Road Safety Strategy
Environmental	<ul style="list-style-type: none"> Received a briefing on the environmental management in G&WM

REGULATION COMMITTEE

The Committee held three meetings during 2015. As from September 2015, regulatory issues are reported directly to the Board and the Regulation Committee has been discontinued. The members of the Committee and the number of meetings attended are set out below:

MEMBERS	LENGTH OF SERVICE	MEETINGS ATTENDED
Noreen Wright, Chairman (to September 2015)	3 years and 9 months	3
Dave Byrne (to September 2015)	3 years and 7 months	2
Seamus Mallon (to September 2015)	8 years and 8 months	3
Sean Kelly (to September 2015)	2 years and 6 months	3

Key Activities of the Regulation Committee in 2015

Integrated Single Electricity Market (I-SEM)	<ul style="list-style-type: none"> Received a briefing on the I-SEM Programme
Freedom of Information Act	<ul style="list-style-type: none"> Received an update on the Freedom of Information Act and considered its application to ESB
Networks Price Control Review 4 (PR4)	<ul style="list-style-type: none"> Received an update on the ESB submission, CER response and associated issues / risks
EU's Wholesale Electricity Market Transparency Regulations (REMIT)	<ul style="list-style-type: none"> Received a briefing on the obligations imposed by REMIT on wholesale energy trading activities
EU's European Market Infrastructure Regulations (EMIR)	<ul style="list-style-type: none"> Received a briefing on the regulatory framework, role of the Central Bank of Ireland and the ESB approach to compliance
White Paper on Energy	<ul style="list-style-type: none"> Received an update on the White Paper covering the Government focus and priorities and considered the potential implications for ESB
UK Competition and Markets Authority Provisional Report	<ul style="list-style-type: none"> Considered the implications for the Irish market and ESB

REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE

The Committee held three meetings during 2015. The members of the Committee and the number of meetings attended are set out below:

MEMBERS	LENGTH OF SERVICE	MEETINGS ATTENDED
Ellvena Graham, Chairman	4 years	3
Andrew Hastings (from September 2015)	3 months	1
Noreen Wright	4 years	3

Key Activities of the Remuneration and Management Development Committee in 2015

Chief Executive Targets	<ul style="list-style-type: none"> Reviewed performance against 2014 targets Set 2015 targets
Succession Planning	<ul style="list-style-type: none"> Reviewed and considered the CEO / Executive Director Team (EDT) succession plan

FINANCE AND INVESTMENT COMMITTEE

The Committee held six meetings during 2015. The members of the Committee and the number of meetings attended are set out below:

MEMBERS	LENGTH OF SERVICE	MEETINGS ATTENDED
Ellvena Graham, Chairman	2 years and 9 months	6
Dave Byrne	2 years and 9 months	6
Pat O'Doherty	2 years and 9 months	6
Tony Merriman (to September 2015)	2 years and 6 months	2
Andrew Hastings (from September 2015)	3 months	3
Sean Kelly (from September 2015)	3 months	3
Noreen O'Kelly (from September 2015)	3 months	3

Key Activities of the Finance and Investment Committee in 2015

Financial Performance Reporting	<ul style="list-style-type: none"> Reviewed and considered: <ul style="list-style-type: none"> Quarter end results and year end forecasts Quarterly capital expenditure report Quarterly loans, swaps and bonds report Reviewed and considered: <ul style="list-style-type: none"> Budget and the five-year business plan
Investment Proposals	<ul style="list-style-type: none"> Reviewed and considered: <ul style="list-style-type: none"> Joint venture agreement for the roof top solar business in Northern Ireland (NI) and Republic of Ireland (ROI) Renewables investments Generation asset overhaul and investment programme Redevelopment of ESB Head Office Participation in the Great Britain (GB) capacity auction
Performance Updates	<ul style="list-style-type: none"> Reviewed and considered: <ul style="list-style-type: none"> GB capacity auction results Raheenleagh Wind Farm Novusmodus Fund performance ESB trading risk position

The responsibilities of the Committees are set out on page 70.

CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT



Ellvena Graham, Chairman

“ Good governance provides the foundation for long-term value creation and is a core focus for the ESB Board and for me as Chairman. In this regard, and in line with the UK Corporate Governance Code 2014 (the UK Code), we see our responsibilities including setting the Group's strategic aims, providing the leadership to put them into effect and both supporting and challenging management to get the best outcomes for ESB and its stakeholders. Management have the knowledge and expertise for the operational requirements of the business. It is not the role of the Board to duplicate that. However, we do question and monitor in the light of ESB's values and strategic direction. In our view, the best decisions are made through this dynamic interchange between Board and management.

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

ESB in pursuit of its governance objectives complies with the Code of Practice for the Governance of State Bodies (the State Code) and to the maximum extent possible with the UK Code. ESB has put in place the appropriate measures to comply with the State Code which

sets out the governance framework agreed by Government for the internal management and the internal and external reporting relationships of State Bodies. ESB continuously reviews and updates its policies and procedures to ensure compliance with the State Code and a report on such compliance is made annually to the Audit and Risk Committee.

ESB also conforms as far as possible and on a voluntary basis to the Irish Corporate Governance Annex (the Irish Annex). We do this to adhere as closely as possible to listed company governance standards.

A detailed description of our governance compliance is set out on pages 69 to 76.

ESB has adopted its own Code of Ethics which sets out our approach to responsible and ethical business behaviour. The underlying principle of the Code of Ethics is that employees best serve ESB by adhering to the highest standards of integrity, loyalty, fairness and confidentiality and by meeting all legal and regulatory requirements.

BOARD EVALUATION

The Board continually strives to improve its effectiveness. We do this on an informal ongoing basis by discussion among Board members and feedback to the Chairman and Company Secretary. We also undertake a formal evaluation annually and a mid-year review. The results of the Board evaluation in respect of 2015 are described on page 72.

BOARD AND COMMITTEE CHANGES

Andrew Hastings joined the Board as an Independent Board member in July 2015. Andrew has extensive experience at senior management and Board levels. Peter O'Sullivan joined the Board as a Worker Board member in January 2015. Peter has been working in ESB since 1980 and brings a wide knowledge of ESB and its business to the Board. As a result of Board membership changes, the Committee membership was amended during the year and

details of the revised Committees and their membership are set out on pages 66 to 67 of this report.

RISK

With the publication in September 2014 of the Financial Reporting Council's (FRC) Guidance on Risk Management, Internal Control and Related Financial and Business Reporting there has been a focus on the adequacy of the processes that companies use to manage their portfolio of risks. The Group's risk process has been reviewed to ensure it is consistent with these latest guidelines and improvements have been implemented as a result.

EXTERNAL AUDITOR

As the current contract with ESB's external auditor is due to expire after the audit of the 2016 results, the Board has commenced the tender process for the audit of 2017 onwards. This process is due to be completed in the second half of 2016. The Board has been keeping developments at EU level in regard to audit tenure under close review. Taking account of these developments and market practice in the Republic of Ireland (ROI) and the United Kingdom (UK), a decision was taken to select a new external auditor in the tender process. The Board would like to record their sincere thanks to KPMG for many years of excellent service to ESB. Further details on the tender process are set out on page 82.

CONCLUSION

Good governance is good business and is built on competency, transparency and accountability. In pursuit of our goal of strong and sustainable growth, the Board and management remain committed to achieving that transparency and accountability in all we do.”

Ellvena Graham, Chairman
24 February, 2016

THE BOARD GOVERNANCE REPORT

PRINCIPLES OF GOVERNANCE

ESB in pursuit of its governance objectives complies with the Code of Practice for the Governance of State Bodies (the State Code) and to the maximum extent possible with the UK Corporate Governance Code 2014 (the UK Code). The UK Code sets out five key principles of governance: Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders.

1. LEADERSHIP

THE BOARD

The Board provides the leadership of the Group and, either directly or through the operation of Committees, applies independent judgement on matters of strategy, performance, resources and governance. During 2015, the Board comprised the Board members detailed on pages 64 to 65 of whom the Chairman, the Chief Executive and the Independent Board members were appointed by Government and the four Worker Board members were appointed pursuant to the Worker Participation (State Enterprises) Act 1977. The Board size and structure is governed by the Electricity Supply Acts 1927 - 2004 and by the Worker Participation (State Enterprises) Acts.

The Board has determined that those Board members (details on pages 64 to 65) were independent during 2015. This determination took account of the relevant provisions of the UK Code regarding Board members' independence in character and judgement and the absence of relationships or circumstances which could compromise Board members' independence. In light of these factors the Board is satisfied of the independence of the Board members identified above.

BOARD MEMBERSHIP

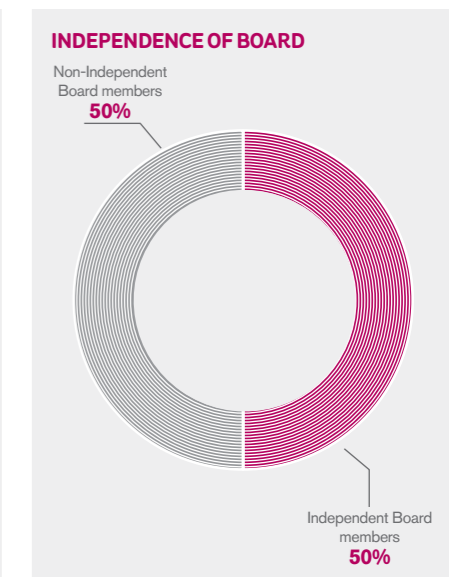
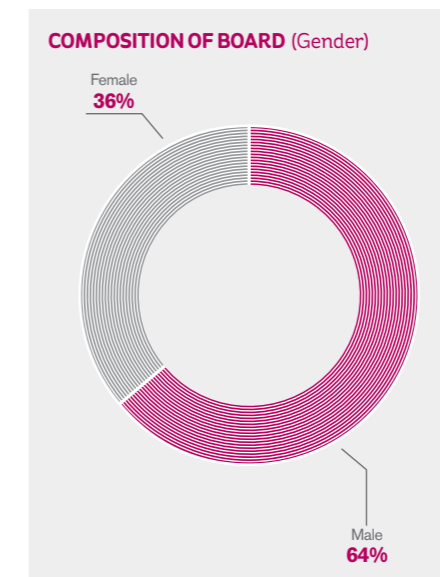
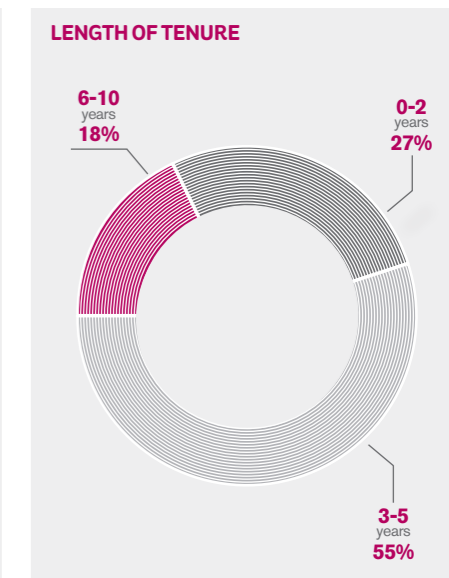
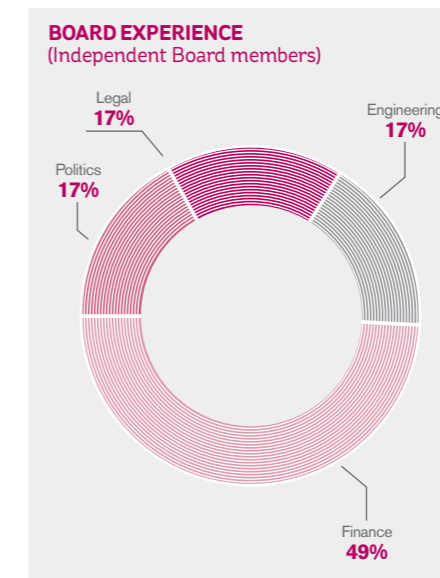
The ESB Board in 2015 brought diverse experience, independence and challenge to support effective decision making. The range of Board members' experience in engineering, finance, legal, politics and in ESB is set out

in their biographies on pages 64 to 65. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a Board member.

The Board's primary role is to exercise objective and informed judgement in determining the ESB Group Strategy, to ensure there is a strong management team in place to execute and

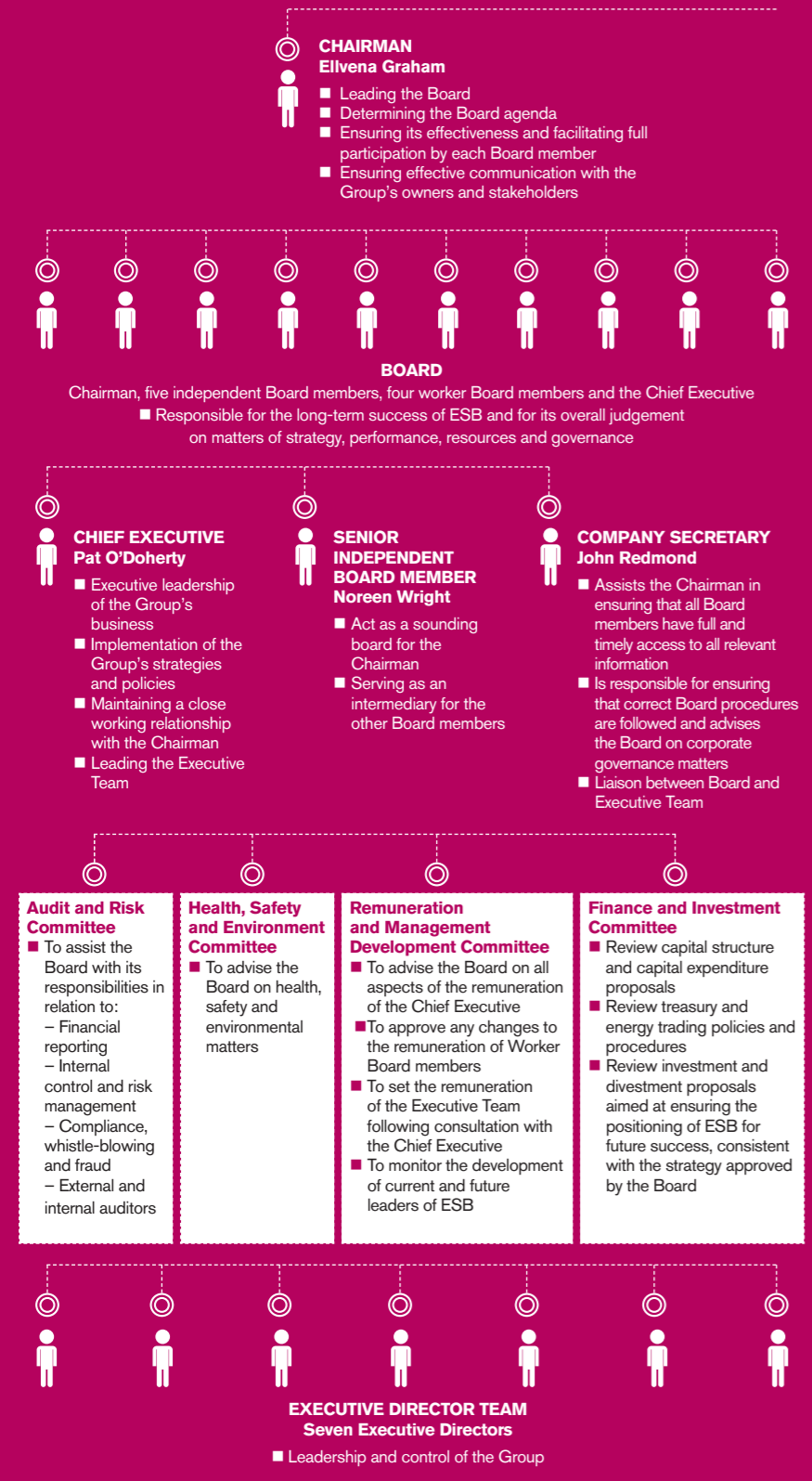
monitor business performance and to maintain a framework of prudent and effective controls to mitigate risk. Two critical factors determine how the Board is equipped to fulfil those duties and obligations successfully:

- A diverse and deep range of skills and experiences around the boardroom table
- Processes to ensure that all of the Board



THE WAY WE ARE STRUCTURED

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



members develop a good understanding of the Group's operations and external environment and are therefore well placed to make informed decisions

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

ROLE OF THE BOARD

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

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

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

Biographical details of the Chairman, Chief Executive and Senior Independent Director can be found on pages 64 to 65.

Biographical details of the Company Secretary can be found on page 26.

2. EFFECTIVENESS

BOARD MEETINGS

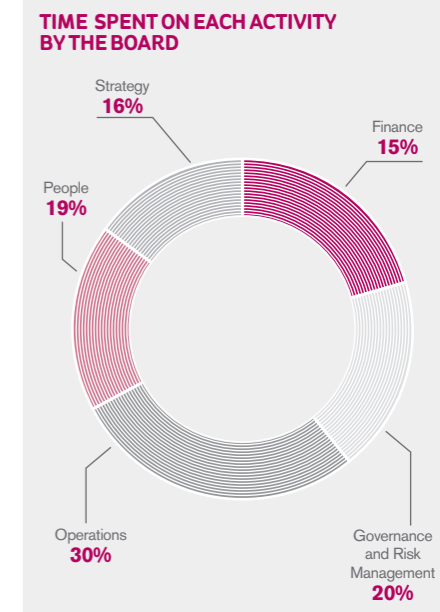
The Board meets monthly (with the exception of August) and meets on other occasions as necessary. The Board is responsible for reviewing the operational and financial performance of the Group and for ensuring effective internal control and risk management. The Board has a formal schedule of matters specifically reserved to it for decision. The matters reserved to the Board are described on page 70.

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

The Board members, in the furtherance of their duties, may take independent professional advice,

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

The Board is satisfied that the Chairman and each of the Board members committed sufficient time during the year to enable them to fulfil their duties as Board members of ESB.



EXAMPLES OF MATTERS CONSIDERED AND / OR APPROVED BY THE BOARD

STRATEGY	OPERATIONS
<ul style="list-style-type: none"> Strategy review and update Energy policy and market updates Material potential acquisitions and disposals Competitor activity 	<ul style="list-style-type: none"> Chief Executive operations report Health and safety reports Energy trading updates Plant overhauls programme Capital investment evaluations Performance of Novusmodus Fund
FINANCE	GOVERNANCE AND RISK MANAGEMENT
<ul style="list-style-type: none"> Annual and half-yearly published results Quarterly financial performance and forecasts Annual budget and five-year business plan Dividends Capital market funding - €500 million bond issue in June 2015 Credit rating agency updates Cost of capital and hurdle rates for new investments Actuarial and minimum funding standard valuations for ESB's Republic of Ireland (ROI) Pension Fund 	<ul style="list-style-type: none"> Group Risk Appetite Statement and Group Risk Plan Effectiveness of risk management and internal control Internal audit plan for the year Board evaluation Extension of appointment of external auditor Change of Committee members for 2015 Committee Terms of Reference
PEOPLE	
<ul style="list-style-type: none"> Staff survey results Review of changes to the Employee Scheme Ownership Plan (ESOP) market Industrial relations negotiations on a new reward model 	

ATTENDANCE AT MEETINGS IN 2015

There were 11 General Board meetings and 2 Special Board meetings during 2015. The number opposite each name below represents the attendance by each Board member during the year.

BOARD MEMBERS 2015	General Board Meetings	Special Board Meetings
Ellvena Graham	11	2
Anne Butler*	11	2
Dave Byrne^	10	1
Andrew Hastings* ¹	4	2
Sean Kelly^	11	2
Seamus Mallon*	9	2
Tony Merriman^	11	2
Noreen O'Kelly*	11	2
Peter O'Sullivan^	11	2
Noreen Wright*	11	1
Pat O'Doherty	11	2

* Independent Board members

^ Worker Board members

¹ Appointed July 2015

BOARD COMMITTEES

Four Committees of the Board assist in the discharge of its responsibilities and the Board delegates specific responsibilities to those Board Committees as set out in their Terms of Reference. The Committees assist the Board by giving more detailed consideration to business, operational, financial and governance issues and they report to the Board with any necessary recommendations.

As a result of Board changes, the Committee membership was amended during the year and details of the revised Committees and their membership are set out on pages 66 to 67 of this report.

BOARD EVALUATION

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

the Chairman for consideration when making appointments.

The evaluation is led by the Chairman, supported by the Company Secretary. The evaluation consists of a questionnaire and based on Board members' replies, a report is made to the Board on the outcome with proposed actions to address issues raised. Implementation is reviewed at mid-year. An independent evaluation is conducted every three years or so and the last independent evaluation took place in 2013.

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

BOARD APPOINTMENTS

As Board appointments are a matter for Government or for election by employees, ESB does not undertake an evaluation of individual Board members. However, the Chairman does engage with Government in advance of Board appointments about the specific skills that are required on the Board. Board appointments conform to the Guidelines on Appointments to State Boards as published by the Department of Public Expenditure and Reform in November 2014.

RECOMMENDATIONS FROM BOARD EVALUATION

2014 RECOMMENDATIONS	ACTIONS TAKEN IN 2015
<p>1. BOARD MEETINGS</p> <p>Board arrangements and information should include more focus on strategic issues in the Board papers</p> <p>Business location and informal meetings of Board and Committees</p>	<ul style="list-style-type: none"> ■ Ongoing review of Board agenda to ensure appropriate strategic issues / industry developments feature regularly and strategic issues were highlighted on all Board papers ■ Group sites were chosen as locations for meetings in 2015 and site visits took place
<p>2. APPOINTMENTS TO THE BOARD</p> <p>Board and its Committees need to have the right mix of people, skills, experience, diversity, independence and knowledge</p>	<ul style="list-style-type: none"> ■ Committee membership was reviewed and restructured during 2015 ■ Necessary skills and experience are identified in the specification for Board members

3. ACCOUNTABILITY

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

ESB complies with the State Code, which sets out principles of corporate governance, which the Boards of State Bodies are required to observe. ESB also complies with the corporate governance and other obligations imposed by the Ethics in Public Office Act, 1995, the Standards in Public Office Act, 2001 and the Regulation of Lobbying Act, 2015.

ESB conforms as far as possible and on a voluntary basis, to the UK Code. ESB supports the provisions of the UK Code and voluntarily complies with them as far as possible. The UK Code is available on the Financial Reporting Council's (FRC) website.

ESB also complies, as far as possible, with the Irish Corporate Governance Annex (the Irish Annex).

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

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

- Appointments to the Board are a matter for Government and accordingly ESB does not have a nomination committee.
- Board members are appointed for terms of five years or four years in the case of Worker Board members and therefore are not subject to re-election to the Board at lesser intervals.

- ESB's policies and disclosures in relation to remuneration of the Chief Executive are in accordance with applicable Government guidelines. The details of Board members' remuneration on page 76 do not include amounts paid to the four Worker Board members as employees of ESB (as such pay is neither increased nor decreased because of their membership of the Board), but do include amounts paid to them by way of fees.
- The Board evaluation process has not to date evaluated the individual performance of Board members as the Board does not have a formal role in determining its own composition.
- The Board Chairman is also Chairman of the Remuneration and Management Development Committee given the importance of compliance by ESB with Government policy in this area and the role of the Chairman as the primary interface with Government.
- There is currently one vacancy on the Board and as a result, only half of the Board, excluding the Chairman, is independent.

FINANCIAL AND BUSINESS REPORTING

The Board recognises its responsibility for preparing the annual report and financial statements and to present a fair balanced and understandable assessment of the Group's position and prospects. The Board members' responsibilities regarding financial statements and going concern are set out on page 87.

INTERNAL CONTROL

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

The Group uses the integrated internal control framework as developed by the Committee

of Sponsoring Organisations of the Treadway Commission (COSO) as guidance for designing, implementing and conducting internal control and assessing its effectiveness. The COSO framework was first released in 1992 and updated in 2013.

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

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

These controls are reviewed systematically by Group Internal Audit. In these reviews, emphasis is focused on areas of greater risk as identified by risk analysis.

COSO FRAMEWORK



ESB INTERNAL CONTROL FRAMEWORK

Control Environment

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

Risk Assessment

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

Control Activities

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

Information and Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities

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

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

RISK MANAGEMENT

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

Specifically the Board is responsible for:

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

The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity. A

cyclical review process for identifying, assessing and managing its significant risks has been in place for the year under review and up to the date of approval of the annual report. The principal risks and uncertainties facing the Group together with the mitigating strategies are set out on pages 15 to 19.

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

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

ACTIVITIES UNDERTAKEN BY THE BOARD AND THE AUDIT AND RISK COMMITTEE DURING 2015 IN RESPECT OF ITS RISK RESPONSIBILITIES

ACTIVITY	DETAIL
Risk Appetite Statement and Risk Plan	The Audit and Risk Committee recommended the Group Risk Appetite Statement and the Group Risk Plan 2015 and details of emerging risks 2016 - 2019 for Board approval
Risk Update on Data Protection / Cyber Attack	Received an update on the IT security risk covering data protection and cyber attack issues
World Economic Forum (WEF) Global Risk Report	Received a briefing on the WEF Global risks 2015 and considered the implications for ESB
FRC Guidance on Risk Management	Reviewed details of ESB's compliance with the FRC's Guidance on Risk Management
National Risk Assessment Plan	Received a briefing on the plan which emphasised the importance of clarity at a national level of risk ownership and considered the specific responsibilities of ESB
National Level Emergency / Critical Response	Received a briefing on the role of ESB as one of the key agencies in a major emergency affecting disruption to energy supply – the briefing also covered the role of the Government Task Force on Emergency Planning and the Office of Emergency Planning
Generation Asset Assurance	Reviewed the risk appetite in relation to plant availability across the generation portfolio – the operational and safety implications of the current approach were also considered
High Impact Low Probability (HILP) Deep Dive	Visited Telecoms Services ESB Networks for a presentation on the HILP risks of the business

THE 2015 REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL AND RISK MANAGEMENT

The Board retains the overall responsibility for internal control and risk management. During 2015, the Board has directly and through the delegated authority to the Audit and Risk Committee, reviewed the effectiveness of the Group's system of internal control covering financial, operational and compliance controls and risk management systems for 2015 and will ensure a similar review is performed in 2016.

The process used by the Board and the Audit and Risk Committee to review the effectiveness of the system of internal control includes:

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

On the basis of this review, the Board confirms the following for 2015:

- There is an ongoing process for identifying, evaluating and managing the principal risks of the Group
- Systems of internal control have been in place for the year under review and up to the date of approval of the annual report
- The systems accord with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting

- That no significant failings or weaknesses were identified in the review and where areas of improvement were identified, processes are in place to ensure necessary action is taken and progress is monitored

Through its ongoing involvement and overview of internal control and risk management activities, the Board is satisfied that the internal control and risk management remain effective.

GOING CONCERN

The Group's performance, business model, strategy and principal risks and uncertainties and how these are managed are set out in the strategy and performance report on pages 2 to 61.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the finance review on pages 34 to 39. Note 26 in the financial statements includes an overview of financial risk management, details of its financial instruments and hedging activities and its exposure to credit and liquidity risks.

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

VIABILITY STATEMENT

In accordance with the UK Code, the Board members have assessed the prospect of the Group over a five-year period, which is consistent with the timeframe of the Group's business planning process. The assessment is based on consideration of ESB's current position and prospects, maintaining financial strength, progress against ESB Group Strategy, risk appetite, principal risks and how these are managed.

The business planning process is completed annually and underpinned by regular Board

briefings provided by business units along with Strategic Performance Indicators (SPIs) to measure progress. The metrics in the business plan are subject to sensitivity analysis, which involves flexing a number of the main assumptions underlying the plan to assess key financial metrics such as Free Funds from Operations (FFO) to Debt and EBITDA. Where appropriate, this analysis is carried out to evaluate the potential impact of the Group's principal risks actually occurring.

The Group's funding operations are of strategic importance and support capital expenditure, the refinancing of maturing debt and the maintenance of adequate liquidity. The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturity. The Group's revolving credit facility of €1.44 billion provides ESB with a substantial level of standby liquidity for the next five years. ESB's funding position reflects its underlying financial strength and at least BBB+ (or equivalent) credit ratings from all three major agencies. Further details on debt maturity is set out on page 39.

Based on the results of the above analysis, the Board members have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

4. REMUNERATION

CHIEF EXECUTIVE'S REMUNERATION

The Chief Executive's remuneration is set within a range determined by the Minister for Public Expenditure and Reform and the Minister for Communications, Energy and Natural Resources. Mr O'Doherty was appointed Chief Executive effective 1 December 2011 and was appointed a Board member in January 2013. His remuneration consists of an annual salary of €295,000, a company car and employer pension contributions. He is a member of the ESB Pension Scheme. In line with Government policy at this time, he did not receive any performance related payments in 2015.

AUDIT AND RISK COMMITTEE REPORT

WORKER BOARD MEMBERS' REMUNERATION

Worker Board members appointed under the Worker Participation (State Enterprises) Act 1977 are remunerated as employees of ESB. They are members of the ESB Pension Scheme.

INDEPENDENT BOARD MEMBERS' REMUNERATION

The remuneration of the Independent Board members (including the Chairman) is determined by the Minister for Public Expenditure and Reform and the Minister for Communications, Energy and Natural Resources and they do not receive pensions or any other remuneration. The terms and conditions are set out in their letter of appointment and this is available on request from the Company Secretary.

BOARD MEMBERS' EXPENSES

In compliance with the State Code, disclosure is required of the expenses paid to the Chief Executive and Board members, broken down by category. During 2015, the following amounts were reimbursed to, or paid on behalf of, the Chief Executive and Board members: €39,836 for travel expenses, €34,600 for accommodation / subsistence and €7,289 for subscriptions to business relevant organisations and publications.

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

BOARD MEMBERS' REMUNERATION

CHAIRMAN	2015	2014
	€	€
Ellvena Graham	23,075	–
Lochlann Quinn	3,952	75,075

CHIEF EXECUTIVE	2015	2014
	€	€
Salary	295,000	295,000
Taxable benefits	15,570	15,570
Pension contributions	48,380	48,380
	358,950	358,950

INDEPENDENT / WORKER BOARD MEMBERS

	2015	2014
	€	€
Anne Butler	15,750	15,750
Brendan Byrne	–	14,696
Dave Byrne	15,750	15,750
John Coleman	–	15,750
Ellvena Graham	–	15,750
Andrew Hastings	7,372	–
Sean Kelly	15,750	15,750
Seamus Mallon	15,750	15,750
Tony Merriman	15,750	15,750
Noreen O'Kelly ¹	–	–
Peter O'Sullivan	15,750	–
Noreen Wright	15,750	15,750
	117,622	140,696

¹Ms O'Kelly waived her Board fees in 2014 and 2015

5. RELATIONS WITH SHAREHOLDERS

DIALOGUE WITH SHAREHOLDERS

ESB is owned 95% by the Irish Government and 5% by the Trustee of the Employee Share Ownership Plan. ESB engages in active and ongoing consultation with the Government on key policies and strategic issues as required by legislation and the State Code. It also provides quarterly updates on its financial performance. ESB also regularly engages with and consults with the Trustee of the Employee Share Ownership Plan.

ANNUAL GENERAL MEETING (AGM)

ESB holds an AGM each year and no later than fifteen months after the last AGM. The requisite notice is given to all shareholders. Board members including the Chairman of the Audit and Risk Committee are invited to attend. The Chairman gives an overview of development for the year and invites shareholders to make any comments they may have. The external auditor attends the AGM and voting is by show of hands or by poll.



Noreen O'Kelly, Chairman, Audit and Risk Committee

CHAIRMAN'S INTRODUCTION

Under the UK Corporate Governance Code 2014 (the UK Code), the Board has a responsibility to confirm that the annual report and financial statements taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders / stakeholders to assess the Group's performance, business model and strategy. The Audit and Risk Committee has reviewed the annual report and financial statements and is satisfied that it meets these criteria and can recommend them to the Board for approval.

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

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

KEY OBJECTIVE

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

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

ACTIVITIES UNDERTAKEN BY THE COMMITTEE DURING 2015 IN RESPECT OF THE DISCHARGE OF ITS DUTIES

DUTY	ACTIVITY
Financial Reporting Reviewing the annual report and financial statements to ensure that when taken as a whole they are fair, balanced and understandable and that appropriate accounting standards, estimates and judgements have been applied	<ul style="list-style-type: none"> ■ Reviewed the clarity and completeness of the disclosures in the annual report and financial statements and the material information presented within them ■ Reviewed whether the Group had applied appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor ■ Reviewed the interim results which consist of financial statements and explanatory notes ■ Reviewed and approved the ESB regulatory financial statements ■ Considered and challenged the methods used to account for significant or unusual transactions and how these were presented and disclosed in the financial statements
Internal Control and Risk Management Reviewing the effectiveness of internal control and risk management	<ul style="list-style-type: none"> ■ Reviewed and monitored the effectiveness of the Group's system of internal control ■ Reviewed the arrangements for business continuity planning ■ Reviewed ESB's revised Risk Policy, 2015 Risk Plan and regular risk reports and recommended them to the Board for approval ■ Considered the external review of ESB Risk Management
Compliance, Whistle-blowing and Fraud Review the adequacy and security of the arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters	<ul style="list-style-type: none"> ■ Reviewed the controls and procedures in place to provide assurance of compliance with statutory obligations ■ Reviewed the adequacy of the processes adopted by ESB to achieve compliance with the Code of Practice for the Governance of State Bodies (the State Code) ■ Reviewed the procedures and policies for preventing and detecting fraud and were informed of any instances of fraud ■ Reviewed the adequacy and security of the arrangements for raising concerns confidentially about possible wrongdoing in financial reporting or other matters ■ Considered the revised ESB Code of Ethics
Internal Audit Monitor and assess the role and effectiveness of the internal audit function	<ul style="list-style-type: none"> ■ Reviewed the internal audit plan and monitored progress against this plan to assess the effectiveness of the function ■ Reviewed reports detailing the results of key audits, management's response and the timeliness of resolution of actions ■ Met with the head of internal audit without management being present
External Audit Monitor and review the objectivity, independence and quality of the external auditor (KPMG) and review the findings of the audit with the external auditor	<ul style="list-style-type: none"> ■ Reviewed and challenged the proposed external audit plan to ensure that KPMG had identified all key risks and developed robust audit procedures ■ Reviewed the report from KPMG on its audit of the financial statements and their responses to accounting, financial control and other audit issues as they arose ■ Enforced the policy on the engagement of the external auditor to supply non-audit services ■ Met with the external auditor without management being present, giving KPMG the opportunity to raise any matters in confidence ■ Approved the external audit tender process and selection criteria for 2017 onwards

FINANCIAL REPORTING

The Audit and Risk Committee receives and considers the interim and year end financial statements from management as well as directing the work of and receiving reports from the internal audit team and discussing the audit strategy and focus of the external auditor. Taking into account information from these activities, the Audit and

Risk Committee determined the key risks of misstatement of the Group's financial statements related to the following:

- Carrying value of long-lived assets and goodwill
- Pension obligations
- Derivatives and hedging arrangements
- Legal contingent liabilities and disclosures
- Capital market funding

These issues were discussed with management during the year, with the auditor at the time the Audit and Risk Committee reviewed and agreed the auditor's Group audit plan, when the auditor reviewed the half-year interim financial statements in September 2015 and at the conclusion of the audit of the financial statements.

SIGNIFICANT ISSUES CONSIDERED	HOW ADDRESSED BY THE AUDIT AND RISK COMMITTEE
<p>CARRYING VALUE OF LONG-LIVED ASSETS AND GOODWILL</p> <p>Republic of Ireland (ROI) and United Kingdom (UK) Generation Portfolio Impairment reviews were performed on the ROI and UK generation portfolios to ensure the carrying values are supported by forecast future discounted cash flows. An impairment charge of €104 million with respect to the generation business was necessary following this review. This impairment related to Corby Power Limited (€58 million), and Coolkeeragh ESB Limited (€46 million). Further details are in notes 4 and 10 to the financial statements.</p> <p>Networks Transmission and Distribution Assets As at 31 December 2015, there were no indicators of impairment of the carrying value of the regulated asset base, ESB Networks (€7.4 billion) and Northern Ireland Electricity Networks (NIE Networks) (€1.8 billion), which determines the future regulated income to be earned.</p> <p>NIE Networks Goodwill Goodwill recognised in the NIE Networks business at 31 December 2015 amounted to €207 million. An annual impairment test of goodwill was carried out in accordance with IAS 36 and no reduction in the value of goodwill was required. The growth rate and appropriate discount rate used to carry out this test are significant judgements and these are explained more fully in the note 12 to the financial statements.</p>	<p>The Audit and Risk Committee recognises that the impairment reviews for the carrying value of assets involve a range of judgemental decisions largely related to the assumptions used to assess the value in use of the assets being tested.</p> <p>To assist with their decision on the level of impairment charge they carried out the following:</p> <ul style="list-style-type: none"> ■ Considered detailed papers including descriptions of the methodologies and assumptions applied in deriving the recoverable values including the discount rates used ■ Constructively challenged the assumptions and projections presented in the papers ■ Considered the detailed reporting from, and findings by, the external auditor <p>Following the review above the Audit and Risk Committee is satisfied that the impairment review approach, disclosures in notes 4 and 10, key assumptions and the proposed impairment charge of €104 million are appropriate.</p>

SIGNIFICANT ISSUES CONSIDERED (Continued)	HOW ADDRESSED BY THE AUDIT AND RISK COMMITTEE
<p>PENSION OBLIGATIONS</p> <p>In accordance with IAS 19 Employee Benefits, ESB continues to reflect its existing committed obligations on the balance sheet as set out in note 22 to the financial statements. This treatment is based on the following key factors, none of which changed during 2015.</p> <ul style="list-style-type: none"> ■ The Scheme is registered as a Defined Benefit Scheme with the Pensions Authority. The regulations governing the Scheme stipulate the benefits that are to be provided and they also stipulate contributions to be paid by both ESB and the contributing members. ■ The Scheme is not a typical "balance of costs" Defined Benefit Scheme (where the employer is liable to pay the balance of contributions required to fund benefits). The company does not intend that any further contributions, other than the normal ongoing contributions and the balance of the company's €591 million additional contribution (committed under the 2010 Pensions Agreement and indexed at 6.25%), will be made. ■ Should a deficit arise in the future, the company is obliged under the Scheme regulations to consult with the parties to the Scheme. However, ESB has no obligation to increase contributions to maintain benefits in the event of a deficit and ESB's rate of contribution cannot be altered without the agreement of ESB and the approval of the Minister for Communications, Energy and Natural Resources. 	<p>The accounting for the obligations to be reflected in the financial statements requires the exercise of judgement. The Board remains satisfied that the appropriate accounting treatment, determined in accordance with IAS 19 Employee Benefits, is to reflect its existing committed obligations, as set out in the notes to the financial statements.</p>
<p>DERIVATIVES AND HEDGING ARRANGEMENTS</p> <p>The Group uses derivative financial instruments and non-derivative instruments to hedge its exposure to foreign exchange, interest rate and commodity price risk arising from operational, financing and investing activities. The principal derivatives used include interest rate swaps, currency swaps, foreign currency contracts and indexed swap contracts relating to the purchase of fuel and sale of electricity. Derivative contracts which are not designated as own-use contracts are primarily accounted for as cash flow hedges, where they meet cash flow hedge accounting criteria under IAS 39 which impacts principally on equity rather than on the reported earnings of the Group.</p>	<p>The Audit and Risk Committee recognises the inherent complexities around the accounting for derivatives and hedging arrangements and that a significant level of judgement is required in arriving at the appropriate accounting treatment.</p> <p>To assist with their decision on the reasonableness of the accounting treatment they carried out the following work:</p> <ul style="list-style-type: none"> ■ Reviewed and discussed with management a paper outlining the key details of the more complex hedging arrangements ■ Relied on the third party verification process in relation to the valuation of certain derivatives ■ Considered the results of the work of the external auditor in relation to derivatives <p>Based on this work, the Audit and Risk Committee is satisfied that the accounting treatment for financial derivatives is appropriate.</p>

SIGNIFICANT ISSUES CONSIDERED <i>(Continued)</i>	HOW ADDRESSED BY THE AUDIT AND RISK COMMITTEE
<p>LEGAL CONTINGENT LIABILITIES AND DISCLOSURES</p> <p>Following on from flooding in Cork in November 2009, Aviva as UCC's insurer pursued a legal action against ESB in the High Court seeking recovery of €19 million for property damage. On 5 October 2015 the High Court delivered its judgement in the case and found ESB 60% liable for the damage caused and UCC 40% contributory negligent.</p> <p>Based on legal advices received, ESB has appealed the decision to the Court of Appeal. The appeal is likely to be heard in 2017. Pending the appeal hearing, no hearing on quantum (i.e. the actual amount of damages payable in respect of UCC's losses) will take place and the High Court has stayed its order on costs.</p> <p>In addition to the UCC claim ESB has, since the judgement in the UCC case, been served with 156 sets of proceedings relating to the flooding in Cork in November 2009. Details of amounts claimed in relation to these proceedings have not yet been received and therefore it is not possible to make a reliable estimate of their cost (should the Court of Appeal find against ESB) at this time. However, ESB does not anticipate that the total amount of damages awarded, if any, and related costs for all of the actions, including the Aviva / UCC action, would exceed its applicable insurance cover.</p> <p>On the basis of the internal and external legal advice received, ESB believes that it is more probable than not that the appeal will be successful and accordingly, no provision has been made for such claims in the financial statements.</p>	<p>The Audit and Risk Committee recognise that in relation to legal claims judgement is necessary on the appropriate level of disclosure and provisioning.</p> <p>To assist with the decision on the classification of the claim as a contingent liability, the Audit and Risk Committee carried out the following work:</p> <ul style="list-style-type: none"> ■ Considered the legal advice both internal and external in relation to the case ■ Challenged the views taken by management where necessary ■ Reviewed an accounting paper from management outlining the accounting treatment and the proposed disclosure (see note 27 in the financial statements) ■ Considered the external auditor's opinion <p>Based on this work, the Audit and Risk Committee is satisfied that it is appropriate not to make a provision in relation to the case.</p>
<p>CAPITAL MARKET FUNDING</p> <p>In June 2015, ESB issued a €500 million 12-year Eurobond with a fixed coupon of 2.125%. Some of the proceeds of the issuance were used by the company, as part of a Tender Offer, to redeem €300 million of the Group's existing bonds, with maturity dates of September 2017.</p> <p>Consideration was given as to whether the repurchase and refinancing of those bonds was a renegotiation of the existing debt or the extinguishment of the existing debt and it was concluded that it was a renegotiation of the existing debt.</p>	<p>The Audit and Risk Committee recognises the inherent complexities around the accounting for the bond issue and redemption in the financial statements.</p> <p>To assist with their decision on the reasonableness of the accounting treatment they carried out the following work:</p> <ul style="list-style-type: none"> ■ Reviewed and discussed with management the accounting paper outlining the accounting treatment of the bond issue and redemption ■ Reviewed the quantitative and qualitative IAS 39 testing ■ Review of equivalent liability management transactions by other organisations ■ Considered the results of the work of the external auditor <p>Based on this work, the Audit and Risk Committee is satisfied that the accounting for the new bond issue and redemption is appropriate.</p>

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Audit and Risk Committee has considered whether, in its opinion, the annual report and financial statements taken as a whole, is fair, balanced and understandable and provide all the necessary information for shareholders / stakeholders to assess the Group's performance, business model and strategy. Consideration is also given to whether the information is presented in a clear and concise format, avoids the use of jargon and is easily understood by the reader of the financial statements.

In reaching their conclusion, the Audit and Risk Committee considered the following:

- All Board members received copies of the annual report and financial statements to review early in the process to ensure the key messages in the annual report were aligned with the Group's position, performance and strategy and the narrative sections of the annual report were consistent with the financial statements
- That a robust process was put in place by the management for the preparation of the annual report and financial statements for the year ended 31 December 2015 including early planning, taking into consideration regulatory changes and best practice
- Clear linkages to the strategic objectives are provided throughout the report
- That the Key Performance Indicators (KPIs) used and reported in the annual report are used for Board reporting
- Review of data and information included in the annual report by internal audit and the external auditor
- That all key events and issues reported to the Board during the year, both positive and negative have been adequately referenced or reflected in the annual report

Following its review, the Audit and Risk Committee is of the opinion, that the annual report and financial statements taken as a whole, is fair, balanced and understandable and provide

all the necessary information for shareholders / stakeholders to assess the Group's performance, business model and strategy.

AUDIT AND RISK COMMITTEE EVALUATION

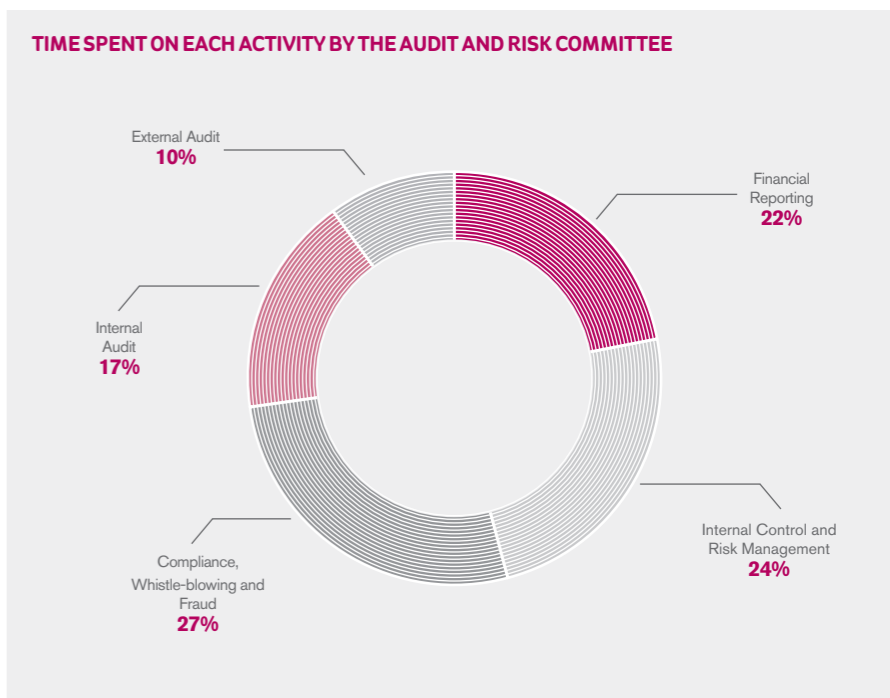
As part of the Board evaluation process, the operation of the Audit and Risk Committee was also evaluated. Details of the evaluation process are set out on page 72. Key recommendations arising out of the evaluation and actions implemented in 2015 included:

- More structured engagement with internal and external auditors to facilitate open discussion at members only meetings
- Increased time allocation for the consideration of internal audit and whistle-blowing
- More extensive reporting and communication with the Board on sound risk management and internal control systems
- A session dedicated to risk issues, which was addressed at the strategy session attended by the entire Board

DISCUSSIONS WITH THE EXTERNAL AUDITOR

The Audit and Risk Committee has received and discussed a report from the external auditor on the findings from the audit, including those relating to the judgemental areas noted on pages 78 to 80. The auditor reported to the Audit and Risk Committee any misstatements that they had found in the course of their work and no material amounts remain unadjusted.

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



APPOINTMENT AND INDEPENDENCE

The Audit and Risk Committee considers the reappointment of the external auditor every five years and this process is subject to public tender. The last tender process was completed in early 2012 and a three year contract was awarded to KPMG with an option to extend for another two years. This option was exercised in February 2015.

The Audit and Risk Committee also assesses the auditor's independence on an ongoing basis. The external auditor is required to rotate the audit partner responsible for the Group audit every five years.

The Audit and Risk Committee is satisfied that KPMG is both independent and objective.

The Audit and Risk Committee has been keeping developments at EU level in regard to audit tenure under close review and taking account of these developments and market practice in ROI and the UK, a decision was taken to select a new external auditor for the audit of 2017 onwards. The Audit and Risk Committee would like to take this opportunity to extend its sincere appreciation to KPMG for their exemplary service for many years to ESB.

The Audit and Risk Committee considers it essential that the tendering of an external audit is well planned to ensure the Group will comply with regulatory and best practice requirements. The Official Journal of the European Communities (OJEC) notice will be issued in the first half of 2016. Based on the responses received from the OJEC notice, it is intended that the request for tender document will be issued to the shortlist of invited firms afterwards, with the entire process due to be completed in the second half of 2016.

AUDITOR EFFECTIVENESS

The effectiveness of the external auditor is reviewed annually, taking into account feedback from a questionnaire on the evaluation of the external auditor. The evaluation focuses on such areas as the robustness of the audit process,

audit team, communications and governance. Overall the review was very satisfactory. During the year the audit partner met with the Chair of the Audit and Risk Committee on two occasions outside of the scheduled meetings. The Audit and Risk Committee Chair has suggested that it would be beneficial to meet more frequently between meetings.

NON-AUDIT SERVICES

The Audit and Risk Committee has a policy regarding the provision of non-audit services by the external auditor. The fees payable for non-audit services in any financial year should not exceed audit fees for that year. A summary of fees paid to the external auditor is set out in note 9 to the financial statements.

MEETINGS

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

On behalf of the Audit and Risk Committee



Noreen O'Kelly
Chairman, Audit and Risk Committee
24 February, 2016

BOARD MEMBERS' REPORT

BOARD MEMBERS' REPORT

The Board members present their report together with the audited financial statements of the Parent and of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Commentaries on performance in the year ended 31 December 2015, including information on recent events and potential future developments, are contained in the Chairman's Statement and the Chief Executive's Review. The performance of the business and its financial position together with the principal risks faced by the Group are reflected in the reviews for each major business unit, the financial review and the risk report.

RESULTS AND DIVIDEND FOR THE YEAR

The financial results of the Group show a profit after tax of €286 million for the financial year 2015, compared with a profit of €215 million for 2014.

An interim dividend for 2015 of €48 million (2.44 cents per unit of stock) was paid in October in respect of 2015.

The Board is now recommending a final dividend for 2015 of 1.55 per cent per unit of stock, or €31 million in aggregate. This brings the total dividends paid over the past decade to almost €1.5 billion.

SHARE CAPITAL

An Employee Share Ownership Plan (ESOP) market liquidity proposal was approved at the Board meeting in May 2015. The objective of the proposal is to improve liquidity in the ESOP market whereby the ESOP Trustee is committing to spend €25 million of funds to acquire capital stock in the ESOP internal market. ESB will

match the expenditure committed by the ESOP Trustee in the period 2014 – 2018. Acquisition of the capital stock by ESB will not commence until 2017.

ACCOUNTING RECORDS

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

EXTERNAL AUDITOR

The external auditor, KPMG have expressed their willingness to continue in office for 2016.

REPORT UNDER SECTION 22 OF THE PROTECTED DISCLOSURES ACT 2014

Section 22 of the Protected Disclosures Act 2014 requires ESB to publish an annual report relating to protected disclosures made under the Protected Disclosures Act 2014. In accordance with this requirement, ESB confirms that in the full year ending 31 December 2015, one protected disclosure was made to ESB regarding suspected theft of Group property. The matter reported was investigated in accordance with ESB's disciplinary procedures and reported to An Garda Síochána.

REGULATION OF LOBBYING ACT 2015

In accordance with the requirements of the Regulation of Lobbying Act, ESB is registered on the Lobbying Register at www.lobbying.ie and has made the required return for the period 1 September to 31 December 2015.

ELECTORAL ACT, 1997

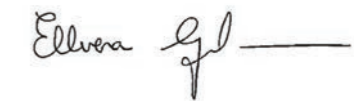
The Board made no political donations during the year.

APPROVAL OF THE 2015 ANNUAL REPORT AND FINANCIAL STATEMENTS

The Board is satisfied, after taking into account the recommendation of the Audit and Risk Committee, that the annual report and financial statements taken as a whole, is fair, balanced and

understandable and provide all the necessary information for shareholders / stakeholders to assess the Group's performance, business model and strategy.

On behalf of the Board



Ellvena Graham, Chairman



Pat O'Doherty, Chief Executive

24 February, 2016

ENERGY FOR COMFORT



03

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STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

The Board members are responsible for preparing the annual report, incorporating financial statements for ESB (the Parent) and for ESB Group.

Under ESB's governing regulations, adopted pursuant to the Electricity Supply Acts 1927 to 2004, the Board is required to prepare financial statements as are required by companies established under the Companies Act 2014 (which replaced previous Companies Acts). ESB is also required, to furnish its annual report, which incorporates the financial statements, to the Minister for Communications, Energy and Natural Resources in accordance with corporate governance guidelines and to meet its obligations under Section 32 of the Electricity (Supply) Act 1927 (as amended), to make to the Minister a report of its proceedings during the preceding year. The Companies Act 2014 provides that Group financial statements should be prepared in accordance with IFRS as adopted by the European Union and the Board has elected to prepare ESB's financial statements in accordance with IFRS as adopted by the European Union and as applied in accordance with the applicable provisions of the Companies Act and ESB Regulations.

The Board members must not approve the financial statement unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and of ESB and of the Group's profit or loss for that year.

In preparing the financial statements for each of the Group and ESB on pages 91 to 165 the Board members are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRS as adopted by the European Union, and as regards ESB, as applied in accordance with the Companies Acts; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and ESB will continue in business.

The Board members are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of ESB, and which enable them to ensure that the financial statements of the Group are prepared in accordance with applicable IFRS as adopted by the European Union and as applied in accordance with applicable provisions of the Companies Acts and ESB Regulations. They are also responsible for safeguarding the assets of ESB and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board members are responsible for the maintenance and integrity of the corporate and financial information included on the Group's and ESB's website www.esb.ie.

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

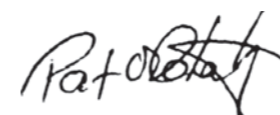
Each of the Board members, confirm that, to the best of each person's knowledge and belief:

- The Group financial statements, prepared in accordance with IFRS as adopted by the European Union and ESB's financial statements prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of Companies Act 2014 and as applied by the ESB Regulations, give a true and fair view of the assets, liabilities, financial position of the Group and of ESB at 31 December 2015 and of the profit of the Group for the year then ended 31 December 2015;
- The Board members' report contained in the annual report includes a fair review of the development and performance of the business and the position of the Group and ESB, together with a description of the principal risk and uncertainties that they face; and
- The annual report and financial statements, taken as a whole, provides the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable and provides the information necessary for shareholders to assess ESB's position and performance, business model and strategy.

On behalf of the Board



Eilvena Graham, Chairman



Pat O'Doherty, Chief Executive

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

OPINION AND CONCLUSIONS ARISING FROM OUR AUDIT

1. OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

As the auditor appointed by the Minister for Communications, Energy and Natural Resources with the consent of the Minister for Finance, under Section 7 of the Electricity (Supply) Act 1927, we have audited the financial statements of ESB for the year ended 31 December 2015 set out on pages 91 to 165. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK & Ireland).

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2015 and of its profit for the year then ended;
- the Company balance sheet gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2015;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014 and as applied by the Electricity (Supply) Acts 1927 to 2004; and
- the Company financial statement and Group financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and as applied by the Electricity (Supply) Acts 1927 to 2004.

2. OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

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

■ Carrying value of goodwill and long-lived assets: €11.3 billion (2014: €11.1 billion), impairment charge of €104 million (2014: €50 million)
Refer to page 78 (Report of the Audit and Risk Committee), page 101 (accounting policy) and notes 4, 10, 11 and 12 to the financial statements.

The Risk

ESB has long-lived assets with a carrying value of €11.1 billion on its balance sheet at 31 December 2015 (€10.9 billion at 31 December 2014) and goodwill associated with the electricity networks business in Northern Ireland (NIE Networks) of €207 million (€195 million at 31 December 2014).

The most significant of these assets are the Republic of Ireland and Northern Ireland network assets and the Group's power generation portfolio. Given the magnitude of these assets relative to ESB's balance sheet, any potential impairment could have a significant impact on the results of the Group.

Management review the carrying value of other significant long-lived assets for any indications of impairment on an annual basis. Recoverability of these assets is based on forecasting and discounting cash flows, which is a judgemental process. At 31 December 2015, indicators of impairment were identified for the Corby power plant (due to adverse changes in the projected GB electricity curve) and the Coolkeeragh power plant (due to increased competition in the Single Electricity Market). Based on the value in use calculated for Corby and Coolkeeragh, impairment charges of €58 million and €46 million respectively were recognised.

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

Our Response

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

We compared the Regulatory Asset Base of the Group's Republic of Ireland networks transmission

and distribution assets (on which future regulated income is determined) with the net book value of the assets in the financial statements. We also inspected relevant correspondence between the Commission for Energy Regulation and the Group and considered the implications for the financial statements.

In respect of the NIE Networks' assets and related goodwill, we assessed the reasonableness of management's assumptions used in their impairment models, which are based on the final RP5 determination, including the discount rate used. We compared management's assumptions, where possible, to third party data and performed sensitivity analysis on the key assumptions. We compared prices achieved for similar assets in market transactions to the estimated value in use established by management and the carrying values.

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

■ Derivatives and hedging - hedging arrangements: net liability €511 million (2014: net liability €500 million)
Refer to page 79 (Report of the Audit and Risk Committee), page 102 (accounting policy) and note 20 to the financial statements.

The Risk

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

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

rate indices and commodity futures). Modest changes to these variables could have a significant impact on the financial position of the Group.

Our Response

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

■ Liability - ESB pension scheme: €648 million (2014: €731 million)
Refer to page 79 (Report of the Audit and Risk Committee), page 105 (accounting policy) and note 22 to the financial statements.

The Risk

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

In 2010 a new pensions agreement was reached

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

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

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

Our Response

Our audit procedures included obtaining an understanding of ESB's legal position from internal and external legal counsel. We received representations from the Board members that ESB do not intend to make any further payments to the Scheme other than those

provided for in the 2010 pension agreement and a fixed continuing contribution of Scheme members' salaries. We considered other documentation and internal briefing notes provided to us by ESB in relation to the issue. We also had regard to ESB's actions in the period since 2010, during which no additional contributions were made to the Scheme. We considered whether the accounting and disclosures made in the financial statements in respect of this significant judgemental matter were appropriate and in accordance with the relevant accounting guidance. We also reconsidered the appropriateness of the accounting in the context of IAS 19 Employee Benefits.

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

The materiality for the Group financial statements as a whole was set at €17 million (2014: €12 million). This has been determined using circa 4% of the benchmark of profit before taxation excluding the effect of once-off items. Once-off items in the year are the €104 million impairment charge on the Group's long-lived power generation assets.

We have determined profit before tax excluding the effect of once-off items, in our professional judgement, to be the most appropriate benchmark as we consider it to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We report to the ESB Audit and Risk Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of €0.5 million, in addition to other audit misstatements below that threshold that we believe warrant reporting on qualitative grounds.

Our Group audit scope focused on the Group's four key reportable segments, in addition to the head office function, all of which were subject to a full scope audit for the year ended 31 December 2015. Together these locations represent the principal business units of the Group and account for in excess of 95% (2014: 95%) of the Group's external revenue, profit after tax and total assets, as at and for the year ended 31 December 2015. Audits of these locations are performed centrally by the Group engagement team and to materiality determined individually for each component.

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

4. WE HAVE NOTHING TO REPORT ON THE DISCLOSURES OF PRINCIPAL RISKS

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' Viability Statement on page 75, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the five years to 2021; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

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

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

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

Under the Code of Practice for the Governance of State Bodies ('the Code') we are required to report to you if the statement regarding the system of internal financial control required under the Code as included in the Board Governance Report on pages 69 to 76 does not reflect the Group's compliance with paragraph 13.1(iii) of the Code or if it is not consistent with the information of which we are aware from our audit work on the financial statements and we report if it does not.

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

- the Board members' statement, set out on page 75, in relation to going concern;
- the part of the Board Governance Report on pages 69 to 76 relating to Board's compliance with the provisions of the UK Corporate

Governance Code and the Irish Corporate Governance Annex specified for our review; and

- certain elements of disclosures in the report to stockholders by the Remuneration and Management Development Committee.

In addition, the Companies Acts 2014 require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

6. OUR CONCLUSIONS ON OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY THE COMPANIES ACTS 2014 ARE SET OUT BELOW

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

The Company's balance sheet is in agreement with the accounting records and, in our opinion, adequate accounting records have been kept by the Company.

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

BASIS OF OUR REPORT, RESPONSIBILITIES AND RESTRICTIONS ON USE

As explained more fully in the Statement of Board members' Responsibilities set out on page 87, the Board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group and Company financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK & Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the

accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing our audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of accounting and reporting.

This report is made solely to the stockholders of ESB, as a body, in accordance with section 391 of the Companies Act 2014, made applicable to ESB by virtue of the Regulations adopted by it as its governing regulations under the Electricity (Supply) Act, 1927, as amended by the Electricity (Supply) (Amendment) Act 2004. Our audit work has been undertaken so that we might state to the stockholders of ESB those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than ESB and its stockholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Sean O'Keefe
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
Dublin, Ireland
24 February, 2016

GROUP INCOME STATEMENT

For the year ended 31 December 2015

	Notes	2015 Excluding exceptional items € '000	2015 Exceptional items note 4 € '000	2015 Including exceptional items € '000	2014 Excluding exceptional items € '000	2014 Exceptional items note 4 € '000	2014 Including exceptional items € '000
Revenue	2	3,335,401	-	3,335,401	3,257,954	-	3,257,954
Other operating income	4 / 5	28,943	-	28,943	35,240	132,095	167,335
Operating costs	4 / 6	(2,728,977)	(104,237)	(2,833,214)	(2,741,204)	-	(2,741,204)
Operating profit		635,367	(104,237)	531,130	551,990	132,095	684,085
Net interest on borrowings	7	(206,957)	-	(206,957)	(198,992)	-	(198,992)
Financing charges	7	(39,659)	-	(39,659)	(45,218)	-	(45,218)
Fair value movement on financial instruments	7	30,234	-	30,234	(224,894)	-	(224,894)
Finance income	7	1,294	-	1,294	1,120	-	1,120
Net finance cost		(215,088)	-	(215,088)	(467,984)	-	(467,984)
Share of equity accounted investees loss	13	(9,176)	-	(9,176)	(1,354)	-	(1,354)
Profit before taxation		411,103	(104,237)	306,866	82,652	132,095	214,747
Income tax (expense) / credit	18	(18,553)	(2,073)	(20,626)	646	-	646
Profit after taxation		392,550	(106,310)	286,240	83,298	132,095	215,393
Attributable to:							
Equity holders of the Parent		395,852	(106,310)	289,542	83,176	132,095	215,271
Non-controlling interest		(3,302)	-	(3,302)	122	-	122
Profit for the financial year		392,550	(106,310)	286,240	83,298	132,095	215,393

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

Ellvena Graham, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015 € '000	2014 € '000
Profit for the financial year	286,240	215,393
Items that will never be reclassified subsequently to profit or loss:		
NIE Networks pension scheme actuarial gains / (losses)	17,220	(60,728)
Tax on items that will never be reclassified to profit or loss	(6,664)	12,118
	10,556	(48,610)
Items that are or may be reclassified subsequently to profit or loss:		
Effective hedge of a net investment in foreign subsidiary	(1,362)	(1,714)
Translation differences on consolidation of foreign subsidiaries	33,036	39,309
Fair value losses on cash flow hedges	(16,421)	(9,644)
Fair value losses on cash flow hedges in equity accounted investees	(1,031)	-
Transferred to income statement on cash flow hedges	(66,527)	(106,056)
Transferred to income statement on cash flow hedges in equity accounted investees	-	13,833
Tax on items that are or may be reclassified subsequently to profit or loss	1,855	17,161
Tax on items that are or may be reclassified subsequently to profit or loss for equity accounted investees	129	-
Tax on items transferred from other comprehensive income (OCI)	7,799	12,635
	(42,522)	(116,476)
Other comprehensive income for the financial year, net of tax	(31,966)	(165,086)
Total comprehensive income for the financial year	254,274	50,307
Attributable to:		
Equity holders of the Parent	257,576	50,185
Non-controlling interest	(3,302)	122
Total comprehensive income for the financial year	254,274	50,307

Ellvena Graham, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

GROUP BALANCE SHEET

As at 31 December 2015

	Notes	2015 € '000	2014 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	10	10,872,836	10,716,586
Intangible assets	11	227,740	203,660
Goodwill	12	206,759	194,827
Investments in equity accounted investees	13	94,850	99,464
Financial asset investments	13	62,563	63,638
Trade and other receivables	15	44,777	-
Derivative financial instruments	20	236,565	231,624
Deferred tax assets	18	207,246	234,374
Total non-current assets		11,953,336	11,744,173
Current assets			
Inventories	14	96,670	78,838
Derivative financial instruments	20	214,400	195,517
Current tax asset		7,853	1,705
Trade and other receivables	15	751,177	809,523
Cash and cash equivalents	16	133,863	143,731
Total current assets		1,203,963	1,229,314
Total assets		13,157,299	12,973,487
EQUITY			
Capital stock	17	1,979,882	1,979,882
Translation reserve		51,376	19,702
Cash flow hedging and other reserves		49,799	123,995
Other reserves		(151,098)	(144,031)
Retained earnings		1,930,558	1,907,807
Equity attributable to equity holders of the Parent		3,860,517	3,887,355
Non-controlling interest	17	(1,874)	1,676
Total equity		3,858,643	3,889,031
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	19	4,690,314	4,412,377
Liability - ESB pension scheme	22	493,148	615,770
Liability - NIE Networks pension scheme	21	142,069	164,022
Employee related liabilities	22	91,057	107,736
Trade and other payables	23	8,686	8,185
Deferred income and government grants	24	510,011	533,813
Provisions	25	196,431	182,953
Deferred tax liabilities	18	751,082	792,358
Derivative financial instruments	20	754,537	738,516
Total non-current liabilities		7,637,335	7,555,730
Current liabilities			
Borrowings and other debt	19	418,825	370,592
Liability - ESB pension scheme	22	154,981	115,300
Employee related liabilities	22	54,353	57,966
Trade and other payables	23	695,535	688,148
Deferred income and government grants	24	48,273	45,031
Provisions	25	79,000	58,738
Current tax liabilities		3,250	4,373
Derivative financial instruments	20	207,104	188,578
Total current liabilities		1,661,321	1,528,726
Total liabilities		9,298,656	9,084,456
Total equity and liabilities		13,157,299	12,973,487

Ellvena Graham, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

PARENT BALANCE SHEET

As at 31 December 2015

	Notes	2015 € '000	2014 € '000
ASSETS			
Non-current assets			
Property, plant and equipment	10	7,102,256	7,057,773
Intangible assets	11	159,386	137,566
Investment in equity accounted investee	13	100,000	100,000
Investments in subsidiary undertakings	13	61,782	61,782
Derivative financial instruments	20	92,905	53,303
Deferred tax assets	18	97,586	105,632
Total non-current assets		7,613,915	7,516,056
Current assets			
Inventories	14	66,843	53,974
Derivative financial instruments	20	139,398	136,959
Current tax asset		2,250	-
Trade and other receivables	15	3,181,023	3,017,734
Cash and cash equivalents	16	17,202	56,384
Total current assets		3,406,716	3,265,051
Total assets		11,020,631	10,781,107
EQUITY			
Capital stock	17	1,979,882	1,979,882
Cash flow hedging and other reserves		(35,883)	(47,795)
Retained earnings		1,625,100	1,514,040
Equity attributable to equity holders of the Parent		3,569,099	3,446,127
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	19	1,488,584	1,522,749
Liability - ESB pension scheme	22	493,148	615,770
Employee related liabilities	22	90,829	107,736
Deferred income and government grants	24	500,434	534,352
Provisions	25	166,733	166,429
Deferred tax liabilities	18	458,829	446,568
Derivative financial instruments	20	42,669	72,789
Total non-current liabilities		3,241,226	3,466,393
Current liabilities			
Borrowings and other debt	19	365,397	330,516
Liability - ESB pension scheme	22	154,981	115,300
Employee related liabilities	22	46,460	49,525
Trade and other payables	23	3,393,612	3,115,419
Deferred income and government grants	24	33,108	33,108
Provisions	25	64,576	49,538
Current tax liabilities		1,513	6,998
Derivative financial instruments	20	150,659	168,183
Total current liabilities		4,210,306	3,868,587
Total liabilities		7,451,532	7,334,980
Total equity and liabilities		11,020,631	10,781,107

Ellvena Graham, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director

GROUP STATEMENT OF CHANGES IN EQUITY

As at 31 December 2015

	Capital stock € '000	Translation reserve € '000	Cash flow hedging reserve € '000	Other reserves ^{1&2} € '000	Retained earnings € '000	Total € '000	Non- controlling interest € '000	Total equity € '000
Reconciliation of changes in equity								
Balance at 1 January 2014	1,979,882	(17,893)	278,066	(89,878)	1,970,275	4,120,452	2,037	4,122,489
Total comprehensive income / (loss) for the year								
Profit for the financial year	-	-	-	-	215,271	215,271	122	215,393
NIE Networks pension scheme actuarial losses	-	-	-	(60,728)	-	(60,728)	-	(60,728)
Revaluation reserves on acquisition of Synergen Power Ltd.	-	-	-	(5,543)	5,543	-	-	-
Translation differences net of hedging	-	37,595	-	-	-	37,595	-	37,595
Cash flow hedges:								
- Net fair value losses	-	-	(91,644)	-	-	(91,644)	-	(91,644)
- Transfers to income statement								
- Finance cost (interest)	-	-	7,470	-	-	7,470	-	7,470
- Finance cost (foreign translation movements)	-	-	(87,040)	-	-	(87,040)	-	(87,040)
- Other operating expenses	-	-	(26,486)	-	-	(26,486)	-	(26,486)
- Transfers to income statement for equity accounted investees	-	-	13,833	-	-	13,833	-	13,833
Tax on items taken directly to statement of other comprehensive income (OCI)	-	-	17,161	12,118	-	29,279	-	29,279
Tax on items transferred to income statement	-	-	12,635	-	-	12,635	-	12,635
Total comprehensive income / (loss) for the year	-	37,595	(154,071)	(54,153)	220,814	50,185	122	50,307
Transactions with owners recognised directly in equity								
Dividends	-	-	-	-	(283,282)	(283,282)	(483)	(283,765)
Balance at 31 December 2014	1,979,882	19,702	123,995	(144,031)	1,907,807	3,887,355	1,676	3,889,031
Balance at 1 January 2015	1,979,882	19,702	123,995	(144,031)	1,907,807	3,887,355	1,676	3,889,031
Total comprehensive income / (loss) for the year								
Profit for the financial year	-	-	-	-	289,542	289,542	(3,302)	286,240
NIE Networks pension scheme actuarial gains	-	-	-	17,220	-	17,220	-	17,220
Revaluation reserves on acquisition of Synergen Power Ltd.	-	-	-	(5,543)	5,543	-	-	-
Translation differences net of hedging	-	31,674	-	-	-	31,674	-	31,674
Cash flow hedges:								
- Net fair value losses	-	-	(16,421)	-	-	(16,421)	-	(16,421)
- Transfers to income statement								
- Finance cost (interest)	-	-	7,722	-	-	7,722	-	7,722
- Finance cost (foreign translation movements)	-	-	(63,718)	-	-	(63,718)	-	(63,718)
- Other operating expenses	-	-	(10,531)	-	-	(10,531)	-	(10,531)
- Fair value losses for hedges in equity accounted investees	-	-	(1,031)	-	-	(1,031)	-	(1,031)
Tax on items taken directly to statement of other comprehensive income (OCI)	-	-	1,855	(6,664)	-	(4,809)	-	(4,809)
Tax on items transferred to income statement	-	-	7,799	-	-	7,799	-	7,799
Tax on items taken directly to OCI for equity accounted investees	-	-	129	-	-	129	-	129
Total comprehensive income / (loss) for the year	-	31,674	(74,196)	5,013	295,085	257,576	(3,302)	254,274
Changes in ownership interests								
Acquisition of subsidiary with NCI	-	-	-	-	-	-	127	127
Total changes in ownership interests	-	-	-	-	-	-	127	127
Transactions with owners recognised directly in equity								
Dividends	-	-	-	-	(272,334)	(272,334)	(375)	(272,709)
ESOP repurchase provision ²	-	-	-	(12,080)	-	(12,080)	-	(12,080)
Balance at 31 December 2015	1,979,882	51,376	49,799	(151,098)	1,930,558	3,860,517	(1,874)	3,858,643

¹ Other reserves comprises of (i) a €38.8 million revaluation reserve (December 2014: €44.3 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009; (ii) other reserves relating to the NIE Networks pension scheme of (€171.9 million) (2014: (€182.8) million) and (iii) a non-distributable reserve of (€5.0) million which was created on the sale of the Group's share in Ocean Communications Limited in 2001.

² The ESOP repurchase provision relates to the amount that ESB has committed to date to purchase from the ESOP internal market. Refer to note 17 for information on the ESOP repurchase.

PARENT STATEMENT OF CHANGES IN EQUITY

As at 31 December 2015

	Capital stock € '000	Cash flow hedging and other reserves € '000	Retained earnings € '000	Total € '000
Reconciliation of changes in equity				
Balance at 1 January 2014	1,979,882	(88,624)	1,346,743	3,238,001
Total comprehensive income / (loss) for the year				
Profit for the financial year	-	-	450,579	450,579
Cash flow hedges:				
- Net fair value gains	-	94,342	-	94,342
- Transfers to income statement				
- Finance cost (interest)	-	49	-	49
- Finance cost (foreign translation movements)	-	(87,040)	-	(87,040)
- Other operating expenses	-	39,311	-	39,311
Tax on items taken directly to statement of other comprehensive income (OCI)	-	(11,793)	-	(11,793)
Tax on items transferred to income statement	-	5,960	-	5,960
Total comprehensive income / (loss) for the year	-	40,829	450,579	491,408
Transactions with owners recognised directly in equity				
Dividends	-	-	(283,282)	(283,282)
Balance at 31 December 2014	1,979,882	(47,795)	1,514,040	3,446,127
Balance at 1 January 2015	1,979,882	(47,795)	1,514,040	3,446,127
Total comprehensive income / (loss) for the year				
Profit for the financial year	-	-	383,394	383,394
Cash flow hedges:				
- Net fair value gains	-	55,089	-	55,089
- Transfers to income statement				
- Finance cost (interest)	-	(1,487)	-	(1,487)
- Finance cost (foreign translation movements)	-	(63,718)	-	(63,718)
- Other operating expenses	-	37,537	-	37,537
Tax on items taken directly to statement of other comprehensive income (OCI)	-	(6,887)	-	(6,887)
Tax on items transferred to income statement	-	3,458	-	3,458
Total comprehensive income / (loss) for the year	-	23,992	383,394	407,386
Transactions with owners recognised directly in equity				
Dividends	-	-	(272,334)	(272,334)
ESOP repurchase provision ¹	-	(12,080)	-	(12,080)
Balance at 31 December 2015	1,979,882	(35,883)	1,625,100	3,569,099

¹ The ESOP repurchase provision relates to the amount that ESB has committed to date to repurchase from the ESOP internal market. Refer to note 17 for information on the ESOP repurchase.

GROUP CASH FLOW STATEMENT

For the year ended 31 December 2015

	Notes	2015 € '000	2014* € '000
Cash flows from operating activities			
Profit after taxation		286,240	215,393
Adjustments for:			
Depreciation and amortisation	6	744,678	730,794
Amortisation of supply contributions and other deferred income	24	(57,530)	(59,644)
Net emissions costs		30,992	(9,612)
(Profit) / loss on disposal of non-current assets		(590)	1,283
Profit on disposal of emissions allowances	5	-	(9,838)
Non-cash gain on conversion of SIRO Limited to equity accounted investee	4	-	(93,700)
Profit on disposal of subsidiaries and equity accounted investees	4 / 5	(6,852)	(38,395)
Net finance cost	7	215,088	467,984
Impact of fair value adjustments in operating costs		9,611	2,425
Losses from equity accounted investees	13	9,176	1,354
Income tax expense / (credit)	18	20,626	(646)
Dividend income		-	(574)
Impairment charge	4 / 6	104,237	50,147
Operating cash flows before changes in working capital and provisions		1,355,676	1,256,971
Charge in relation to provisions		14,821	5,095
Charge in relation to employee related liabilities		34,581	41,587
Utilisation of provisions		(8,889)	(13,384)
Utilisation of employee related liabilities		(190,725)	(150,940)
Decrease in trade and other receivables		20,958	83,116
(Increase) / decrease in inventories		(20,191)	1,815
(Decrease) / increase in trade and other payables		(43,446)	12,999
Cash generated from operations		1,162,785	1,237,259
Current tax paid		(50,934)	(65,094)
Financing costs paid		(254,844)	(234,496)
Net cash inflow from operating activities		857,007	937,669
Cash flows from investing activities			
Purchase of property, plant and equipment		(730,918)	(873,811)
Purchase of intangible assets		(42,108)	(22,886)
Proceeds from sale of non-current assets		2,528	432
Proceeds from sale of emissions allowances		-	14,951
Proceeds from sale of subsidiaries and equity accounted investees		4,682	45,290
Purchase of financial assets		(13,066)	(23,545)
Dividend received from associate undertaking		-	574
Interest received		1,294	1,120
Deferred income received		32,009	27,012
Net cash outflow from investing activities		(745,579)	(830,863)
Cash flows from financing activities			
Dividends paid	17	(272,709)	(283,765)
Repayments of term debt facilities and finance leases		(357,715)	(157,001)
Proceeds from the issue of new debt		274,334	208,662
Increase / (decrease) in other borrowings (net)		249,259	(300)
Payments on inflation linked interest rate swaps		(17,530)	(105,049)
Net cash outflow from financing activities		(124,361)	(337,453)
Net decrease in cash and cash equivalents		(12,933)	(230,647)
Cash and cash equivalents at 1 January	16	143,731	370,848
Effect of exchange rate fluctuations on cash held		3,065	3,530
Cash and cash equivalents at 31 December	16	133,863	143,731

* Comparative amounts in the Group cash flow statement have been regrouped where necessary to ensure consistency in the two years being recorded.

PARENT CASH FLOW STATEMENT

For the year ended 31 December 2015

	Notes	2015 € '000	2014* € '000
Cash flows from operating activities			
Profit after taxation		383,394	450,579
Adjustments for:			
Depreciation and amortisation		491,381	495,438
Amortisation of supply contributions and other deferred income	24	(32,422)	(33,667)
Net emissions cost		25,642	(7,853)
Profit on sale of non-current assets		(1,398)	(10,646)
Non-cash gain on conversion of SIRO Limited to equity accounted investee		-	(93,700)
Net finance cost		119,770	127,991
Impact of fair value movement on financial instruments in operating costs		(1,110)	(4,019)
Dividend receivable from subsidiary undertakings		(8,950)	(8,450)
Income tax expense		50,925	45,891
Operating cash flows before changes in working capital and provisions		1,027,232	961,564
Charge in relation to provisions		2,096	3,462
Charge in relation to employee related liabilities		20,047	24,798
Utilisation of provisions		(8,266)	(10,828)
Utilisation of employee related liabilities		(154,939)	(115,437)
Increase in trade and other receivables		(89,067)	(37,170)
(Increase) / decrease in inventories		(15,413)	4,962
Increase in trade and other payables		206,032	335,710
Cash generated from the operations		987,722	832,525
Current tax paid		(41,783)	(30,724)
Interest paid		(157,270)	(161,685)
Net cash inflow from operating activities		788,669	640,116
Cash flows from investing activities			
Purchase of property, plant and equipment		(490,865)	(480,795)
Purchase of intangible assets		(39,362)	(22,058)
Proceeds from the sale of non-current assets		2,825	15,144
Financial asset investment additions		-	(2,891)
Supply contributions and other deferred income received		1,034	6,665
Interest received		51,903	46,938
Dividends received from subsidiary undertakings		8,950	8,450
Net cash outflow from investing activities		(465,515)	(428,547)
Cash flows from financing activities			
Dividends paid		(272,334)	(283,282)
Repayments of term debt facilities and finance leases		(339,953)	(111,339)
Increase / (decrease) in other borrowings (net)		249,951	-
Net cash outflow from financing activities		(362,336)	(394,621)
Net decrease in cash and cash equivalents		(39,182)	(183,052)
Cash and cash equivalents at 1 January	16	56,384	239,436
Cash and cash equivalents at 31 December	16	17,202	56,384

* Comparative amounts in the Parent cash flow statement have been regrouped where necessary to ensure consistency in the two years being recorded.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

1. BASIS OF PREPARATION

Electricity Supply Board (ESB) is a statutory corporation established under the Electricity (Supply) Act, 1927 and is domiciled in Ireland. The consolidated financial statements of ESB as at and for the year ended 31 December 2015 comprise the Parent and its subsidiaries (together referred to as ESB or the Group) and the Group's interests in associates and jointly controlled entities.

The Parent and consolidated financial statements are prepared under IFRS (International Financial Reporting Standards) as adopted by the EU (EU IFRS) and, in the case of the Parent, as applied in accordance with the Companies Act 2014. The Companies Act 2014 provide a Parent Company that presents its individual financial statements together with its consolidated financial statements with an exemption from publishing the Parent income statement and statement of comprehensive income which forms part of the Parent financial statements prepared and approved in accordance with the Act. The financial statements of the Parent and Group have been prepared in accordance with those IFRS standards and IFRIC (International Financial Reporting Interpretations Committee) interpretations issued and effective for accounting periods ending on or before 31 December 2015. The Parent and consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and certain financial asset investments which are measured at fair value.

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

The preparation of financial statements in conformity with EU IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

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

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

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

2. BASIS OF CONSOLIDATION

The Group's financial statements consolidate the financial statements of the Parent and of all subsidiary undertakings together with the Group's share of the results and net assets of associates and joint ventures made up to 31 December 2015. The results of subsidiary undertakings acquired or disposed of in the year are included in the Group income statement from the date of acquisition or up to the date of disposal.

Accounting for business combinations

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

Acquisitions on or after 1 January 2010

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

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

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions between 1 January 2004 and 1 January 2010

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

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

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

Control

The IFRS 10 control model focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 requires the Group to consolidate investees that it controls on the basis of de facto control.

In accordance with IFRS 10, the Group's assessment of control is performed on a continuous basis and the Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of the control model.

Subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Joint Arrangements

Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements.

When making this assessment, the Group considers the structure and legal form of the arrangements, the contractual terms of the arrangement agreed by the parties and when relevant, other facts and circumstances.

Joint Operations

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

Joint Ventures

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

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

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

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

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

The Group assesses if a change in the facts and circumstances requires reassessment of whether joint control still exists. The Group has evaluated its involvement in joint arrangements and has confirmed that these investments meet the criteria of joint ventures which continue to be accounted for using the equity method.

Associates

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

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

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. NEW STANDARDS AND INTERPRETATIONS

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

New / Revised International Financial Reporting Standards	Effective date ¹
Annual improvements to IFRSs 2011 - 2013 cycle	1 January 2015 (was available for early adoption).

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these consolidated financial statements. The items that may have relevance to the Group are as follows:

New / Revised International Financial Reporting Standards	Effective date ¹
Annual improvements to IFRSs 2010 - 2012 cycle	1 February 2015
Amendments to IFRS 11: Accounting for acquisitions of interests in Joint Operations	1 January 2016
Amendments to IAS 38: Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16: Property, Plant and Equipment and IAS 41 Bearer Plants	1 January 2016
Amendments to IAS 27: Equity method in Separate Financial Statements	1 January 2016
Amendments to IAS 1: Disclosure Initiative	1 January 2016
Annual Improvements to IFRSs 2012 - 2014 Cycle	1 January 2016
IFRS 14: Regulatory Deferral Accounts	1 January 2016*
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture (September 2014)	Deferred Indefinitely
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the consolidation exception (December 2014)	1 January 2016*
IFRS 15: Revenue from contracts with customers (May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (September 2015)	1 January 2018*
IFRS 9: Financial Instruments (July 2014)	1 January 2018*

¹ The effective dates are those applying to EU endorsed IFRS if later than the IASB effective dates and relate to periods beginning on or after those dates detailed above.

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

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (continued)

4. FOREIGN CURRENCIES

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

Foreign currency transactions

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

Net investments in foreign operations

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

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

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

5. PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Recognition and measurement

Property, plant and equipment is stated at cost

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

Depreciation

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

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

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

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

Reviews of depreciation rates and residual values are conducted annually.

Subsequent expenditure

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

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

construction pending commissioning.

6. LEASED ASSETS

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

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

7. INTANGIBLE ASSETS AND GOODWILL

(a) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented separately on the balance sheet. For the measurement of goodwill at initial recognition, see note 12 to the financial statements.

Subsequent measurement

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

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

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

(b) Emissions allowances

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

As emissions arise, a charge is recorded in the income statement to reflect the amount required to settle the liability to the Authority.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (continued)

This provision includes the carrying value of the emissions allowances held, as well as the current market value of any additional allowances required to settle the obligation. These allowances are returned to the relevant Authority in charge of the scheme within four months of the end of that calendar year, in order to cover the liability for actual emissions of CO₂ during that year. Emissions allowances held at cost as intangible assets are therefore not amortised as they are held for settlement of the emissions liability in the following year.

(c) Software costs and other intangible assets

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

Software	3 / 5 years
Other intangibles	20 years

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and the Parent, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development, employees and an appropriate portion of relevant overheads. These costs are measured at cost less accumulated amortisation, which is estimated over their estimated useful lives (three to five years) on a straight-line basis and accumulated impairment losses.

8. IMPAIRMENT OF ASSETS OTHER THAN GOODWILL

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher

of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU).

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

9. BORROWING COSTS

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

10. INVENTORIES

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

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

11. FINANCIAL ASSETS AND LIABILITIES

(a) Non-derivative financial assets and liabilities

Trade and other receivables

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

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

Cash and cash equivalents

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

Trade and other payables

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

Loans to and receivables from Group companies

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

Financial assets or liabilities at fair value through profit or loss

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(b) Derivative financial instruments and other hedging instruments

The Group uses derivative financial instruments and non-derivative financial instruments to hedge its exposure to foreign exchange, interest rate, and commodity price risk arising from operational, financing and investing activities. The principal derivatives used include interest rate swaps, inflation-linked interest rate swaps, currency swaps, forward foreign currency contracts and indexed swap contracts relating to the purchase of fuel.

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

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

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

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

(i) Cash flow hedges

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

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

(ii) Hedge of net investment in foreign entity

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

(c) Interest bearing borrowings

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

(d) Insurance contracts

During the normal course of business, Parent

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

12. NON-REPAYABLE SUPPLY CONTRIBUTIONS AND CAPITAL GRANTS

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

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

13. CAPITAL STOCK

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

14. INCOME TAX

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

(a) Current tax

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

(b) Deferred tax

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

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (continued)

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

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

15. PROVISIONS

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

Provision for generating station closure

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

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

16. OPERATING SEGMENTS - IFRS 8

As a result of the €3 billion wholesale Eurobond debt programme, which is listed on the Irish Stock Exchange, the disclosure requirements of IFRS 8 Operating Segments apply to the Group. IFRS 8 specifies how an entity should disclose information about its segments using a management approach under which segment information is presented on the same basis as that used for internal reporting. Financial information for segments whose operating activities are regularly reviewed by the Executive Team and the Board, collectively the Chief Operating Decision Maker (CODM), in order to make decisions about allocating resources and assessing performance has been presented in note 2 to the financial statements.

17. REVENUE

(a) Electricity revenue

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

(b) Contract revenue

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

18. OTHER OPERATING INCOME

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

19. COSTS

(a) Energy costs

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

(b) Operating and other maintenance costs

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

(c) Finance income and finance costs

Finance income comprises interest income on bank deposits, which attract interest at prevailing deposit interest rates.

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

20. EXCEPTIONAL ITEMS

The Group has used the term exceptional to describe certain items which, in management's view, warrant separate disclosure by virtue of their size or incidence, or due to the fact that certain gains or losses are determined to be non-recurring in nature. Exceptional items may include restructuring, significant impairments, profit or loss on asset disposals, material changes in estimates or once off costs where separate identification is important to gain an understanding of the financial statements. Further details of the Group's exceptional items are provided in note 4 of the financial statements.

21. EMPLOYEE RELATED LIABILITIES

(a) Restructuring liabilities

Voluntary termination benefits are payable under various collective agreements between the Board of ESB and Union Staff when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement age, or to provide termination benefits as a result of an offer made to employees to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognised as an expense when the Group has made an offer of voluntary redundancy and the offer has been accepted. Ordinary termination benefits not covered by the aforementioned agreement are expensed at

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES (continued)

the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. Benefits expected to be settled more than twelve months after the balance sheet date are discounted to present value. Future operating losses are not provided for.

(b) Other short-term employee related liabilities

The costs of vacation leave and bonuses accrued are recognised when employees render the service that increases their entitlement to future compensated absences.

22. PENSION OBLIGATIONS

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

Pension schemes in the Republic of Ireland

The Group operates two pension schemes, which are called the ESB Defined Benefit Pension Scheme (the Scheme) (formerly the ESB General Employees' Superannuation Scheme) and the ESB Defined Contribution Pension Scheme.

Pensions for the majority of employees in the electricity business are funded through a contributory pension scheme called the ESB Defined Benefit Pension Scheme. The fund is vested in trustees nominated by ESB and its members for the sole benefit of employees and their dependants. The Scheme is registered as a Defined Benefit Scheme with the Pensions Authority.

The regulations governing the Scheme stipulate the benefits that are to be provided and the contributions to be paid by both ESB and the contributing members. Benefits payable are determined by reference to a Career Average Revalued Earnings (CARE) pension model

for benefits earned after 1 January 2012 (previously based on final salary). ESB has no legal obligation to increase contributions to maintain benefits in the event of a deficit and ESB's rate of contribution cannot be altered without the agreement of ESB and approval of the Minister for Communications, Energy and Natural Resources. Should a deficit arise in the future, the Company is obliged under the Scheme regulations to consult with the Superannuation Committee, the Trustees and the Scheme Actuary to consider the necessity of submitting an amending Scheme for Ministerial approval.

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

The obligations to the Scheme reflected in ESB's financial statements have been determined in accordance with IAS 19 Employee Benefits. Given that the scheme is not a typical "balance of costs" DB Scheme (where the employer is liable to pay the balance of contributions required to fund benefits), the obligations to be reflected in the financial statements require the exercise of judgement. Should a deficit arise in the future, the Company, as noted above, is obliged to consult with the parties to the Scheme. However, ESB has no obligation to increase contributions to maintain benefits in the event of a deficit and the Company does not intend that any further contributions, other than the normal ongoing contributions and the balance of the Company's €591 million additional contribution (committed to as part of the 2010 Pensions Agreement), will be made. Therefore, ESB has concluded that the financial statements should reflect its obligations to the Scheme, which consist of:

a) any remaining amounts to be paid in relation to the once-off contribution agreed pursuant to the 2010 Agreement (€591 million in 2010 money to be paid over a number of years)

b) pre-existing commitments relating to past service (the present value of the agreed contributions that relates to service prior to October 2010), and

c) Past Voluntary Severance (VS) Programmes - in 2010 the Company recognised a future commitment in respect of staff who have left the Company under past VS programmes. ESB will make pension contributions in respect of those staff and these are recognised at fair value.

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

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

Pension scheme in Northern Ireland

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT REPORTING

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

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

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

(a) Electric Ireland is a leading supplier of electricity and gas to domestic customers in the Republic of Ireland and during 2015 entered the Northern Ireland domestic market. Electric Ireland has a substantial market share in the non-domestic sector in both the Republic of Ireland and Northern Ireland. Revenues are primarily derived from sales to electricity customers.

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

(c) Generation and Wholesale Markets comprises the generation and international investment business across the Group. Within this business segment, the Group operates power stations and wind farms in Ireland, Northern Ireland and Great Britain.

(d) Northern Ireland Electricity Networks (NIE Networks) is principally concerned with the ownership and operation of the electricity distribution network and the ownership of the electricity transmission network in Northern Ireland. NIE Networks derives its revenue principally from charges for the use of the distribution systems levied on electricity suppliers and from charges on transmission services collected from the System Operator for Northern Ireland (SONI).

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

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

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

Revenue by product

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

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT REPORTING (continued)

(a) Income statement

(i) Segment revenue - 2015

	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE Networks ¹ € '000	Other Segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	2,095,907	407,880	472,241	279,630	79,743	-	3,335,401
Inter-segment revenue	4,418	546,172	936,479	21,672	198,558	(1,707,299)	-
Revenue	2,100,325	954,052	1,408,720	301,302	278,301	(1,707,299)	3,335,401

(ii) Segment operating costs - 2015

Depreciation and amortisation	(8,288)	(365,361)	(206,227)	(147,697)	(17,105)	-	(744,678)
Other operating costs	(2,047,985)	(335,015)	(961,122)	(105,336)	(242,140)	1,707,299	(1,984,299)
Impairment charge (exceptional item)	-	-	(104,237)	-	-	-	(104,237)

(iii) Operating result - 2015

Operating profit (includes exceptional item)	44,052	286,644	137,079	48,269	15,086	-	531,130
Net finance cost	(149)	(665)	(29,528)	(57,557)	(127,189)	-	(215,088)
Share of equity accounted investees loss	-	-	(179)	-	(8,997)	-	(9,176)
Profit / (loss) before taxation	43,903	285,979	107,372	(9,288)	(121,100)	-	306,866

(i) Segment revenue - 2014

	Electric Ireland € '000	ESB Networks € '000	Generation and Wholesale Markets € '000	NIE Networks ¹ € '000	Other Segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	2,052,897	463,001	423,246	256,921	61,889	-	3,257,954
Inter-segment revenue	3,806	496,900	1,026,650	23,359	197,799	(1,748,514)	-
Revenue	2,056,703	959,901	1,449,896	280,280	259,688	(1,748,514)	3,257,954

(ii) Segment operating costs - 2014

Depreciation and amortisation	(8,608)	(357,649)	(220,527)	(130,082)	(13,928)	-	(730,794)
Other operating costs	(1,984,142)	(342,473)	(1,063,797)	(94,398)	(223,967)	1,748,514	(1,960,263)
Impairment charge	-	-	(50,147)	-	-	-	(50,147)

(iii) Operating result - 2014

Exceptional items (note 4)	-	-	38,395	-	93,700	-	132,095
Operating profit (includes exceptional items)	63,953	292,785	162,190	55,800	109,357	-	684,085
Net finance cost	(1,132)	(1,293)	(35,044)	(50,607)	(379,908)	-	(467,984)
Share of equity accounted investees loss	-	-	(326)	-	(1,028)	-	(1,354)
Profit / (loss) before taxation	62,821	291,492	126,820	5,193	(271,579)	-	214,747

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

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT REPORTING (continued)

(b) Other disclosures	2015 € '000	2014 € '000
Additions to non-current assets (excluding acquisitions)		
Electric Ireland	10,895	8,129
ESB Networks	494,477	447,859
Generation and Wholesale Markets	175,965	340,398
NIE Networks	134,977	102,057
Other Segments	56,659	61,195
Total	872,973	959,638

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

3. GEOGRAPHIC INFORMATION

(a) Non-current assets by geographic location	2015 € '000	2014 € '000
Ireland	7,767,937	7,738,533
UK including Northern Ireland	3,717,022	3,520,201
Rest of world	24,566	19,441
Total	11,509,525	11,278,175

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

(b) External revenue by geographic market	2015 € '000	2014 € '000
Ireland	2,792,331	2,720,517
UK including Northern Ireland	528,051	515,738
Rest of world	15,019	21,699
Total	3,335,401	3,257,954

4. EXCEPTIONAL ITEMS

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

	2015 € '000	2014 € '000
Impairment charges (2014 impairment charge recorded in operating costs (note 6))	(104,237)	-
Fair value (non-cash) gain on loss of control of subsidiary	-	93,700
Profit on disposal of subsidiaries and equity accounted investees	-	38,395
Total	(104,237)	132,095

Impairment charges

International Accounting Standard 36 - Impairment of Assets stipulates that an impairment loss is the amount by which the carrying value of an asset exceeds its recoverable amount. Recoverable amount is the higher of its fair value less costs of disposal and its value in use. Value in use is calculated by taking the Net Present Value (NPV) of expected future cash flows from the asset discounted at an appropriate discount rate. Entities are required to conduct impairment tests where there is an indication of impairment of an asset. The following indicators have prompted impairment reviews on certain generation plant.

- The impact of continued downward pressure on wholesale electricity margins in Great Britain (GB) (spark spreads and capacity revenue) on Corby power station (Corby)
- The reduced running of Coolkeeragh power station (Coolkeeragh)

NOTES TO THE FINANCIAL STATEMENTS

4. EXCEPTIONAL ITEMS (continued)

Impairment charges (continued)

Corby is a 350 MW Combined Cycle Gas Turbine (CCGT) in GB that has been operated successfully by ESB through an Operations and Maintenance (O&M) Agreement since commissioning in 1994. Initially ESB had a 20% shareholding in Corby and this was increased to 50% in 2000 as a result of one of the original shareholders exiting the business, the other 50% was held by E.ON who had a long-term tolling agreement with Corby.

During the period 2001 - 2010, ESB successfully operated the plant in line with the tolling agreement. In May 2011, ESB purchased E.ON's 50% share in Corby and the tolling agreement was assigned to ESB as part of the transaction. ESB paid a net consideration of Stg£34 million for E.ON's 50% share.

An impairment charge of €31.2 million (Stg£24 million) was recorded in operating costs in 2014 (note 6) in respect of Corby due to adverse changes to the projected GB wholesale electricity price curve and Corby being unsuccessful in the 2014 capacity auction. The curve continued to decline in 2015 and Corby failed to secure an acceptable capacity contract in the GB capacity auction, therefore a further impairment review was carried out. As a result of this review an impairment charge for the full remaining carrying value of €57.8 million (Stg£41 million) has been taken and is recognised in the Generation and Wholesale Markets segment. The real discount rate applied to the cash flows to determine the NPV was a pre-tax rate of 5.7% (2014: 6.0%). The cash inflows are based on the forecasted running profiles for the plant, forward prices for electricity, gas and carbon and forecast capacity auction prices. The cash outflows for operating and capital expenditure are based on the Board approved five-year business plans, and thereafter, on long-term production and cash flow forecasts.

Coolkeeragh is a 400 MW CCGT in Northern Ireland which was commissioned in June 2005. Between 2005 and 2006 an impairment charge of €50.0 million was recognised in relation to Coolkeeragh. This impairment arose as a result of a reduction in the technical performance of the plant. Coolkeeragh is currently providing system security in Northern Ireland but despite this is seeing a reduction in its running in the Single Electricity Market (SEM). The reduction is due to energy generated from other technologies being more economic and also there are a number of gas plants, similar to Coolkeeragh, in the SEM competing for running. As a result of this reduced running, an impairment review has been performed which resulted in an impairment charge of €46.4 million (Stg£33 million) being recognised in the current year in the Generation and Wholesale Markets segment. The remaining carrying value is €59.0 million (Stg£42 million). The real discount rate applied to the cash flows to determine the NPV was a pre-tax rate of 5.7%. The cash inflows are based on the forecasted running profiles for the plant, forward prices for electricity, gas and carbon. The cash outflows for operating and capital expenditure are based on the Board approved five-year business plans, and thereafter, on long-term production and cash flow forecasts.

Gain on conversion of subsidiary to equity accounted investee

ESB has commenced delivery of a high capacity Fibre to the Building (FTTB) network to homes and businesses in selected urban locations across the Republic of Ireland through an innovative joint venture agreement with Vodafone Ireland Limited. The joint venture has begun rolling out the fibre network across Ireland through a special purpose vehicle, SIRO Limited (SIRO) (formally Evolve Structuring Services Limited). Prior to the joint venture agreement, SIRO was a 100% subsidiary of ESB. At the date of the joint venture agreement, Vodafone acquired a 50% interest in SIRO and a loss of control event occurred for ESB. In 2014 the Group recorded its remaining 50% equity investment at fair value which gave rise to a non-cash gain of €93.7 million in 2014 (refer to note 13 for further details).

Profit on disposal of subsidiaries and equity accounted investees

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

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

5. OTHER OPERATING INCOME / (EXPENSES)

	2015 € '000	2014 € '000
Profit / (loss) on disposal of property, plant and equipment and intangible assets	590	(1,283)
Profit on disposal of subsidiaries ¹	6,852	-
Gain arising on sale of emissions allowances	-	9,838
Amortisation of supply contributions	32,222	32,222
Dividends received	-	574
Fair value movements on assets measured at fair value through profit and loss (note 13) ²	(2,847)	(6,111)
Loss on consolidation of equity accounted investees ³	(7,874)	-
Total	28,943	35,240

¹ The profit on disposal of subsidiaries relates to the sale of wind farms in Airvolution of which €26.1 million was included in property, plant and equipment (note 10).

² The fair value movements in 2015 and 2014 relate to adjustments to the value of investments in renewable enterprises held by Novusmodus, as detailed in note 13.

³ Refer to note 13 for further information relating to the conversion of Geothermal International Limited to subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

6. OPERATING COSTS (INCLUSIVE OF IMPAIRMENT CHARGE)

	2015 € '000	2014 € '000
Employee costs (note 8)	421,192	413,662
Fuel costs	653,667	796,822
Other electricity related costs	434,732	298,404
Operations and maintenance	474,708	451,375
Impairment charges (notes 10 / 11)	104,237	50,147
Depreciation and amortisation (notes 10 / 11)	744,678	730,794
Total	2,833,214	2,741,204

Included in fuel costs is a charge of €nil (2014: gains of €3.2 million) relating to the fair value movement of fuel commodity swaps which have not been designated as cash flow hedges.

7. NET FINANCE COST AND OTHER FINANCING CHARGES

	2015 € '000	2014 € '000
Interest payable on borrowings	259,583	247,039
Less capitalised interest	(52,626)	(48,047)
Net interest on borrowings	206,957	198,992
Financing charges:		
- on NIE Networks pension scheme (note 21)	5,651	4,283
- on ESB pension scheme (note 22)	30,788	34,686
- on employee related liabilities (note 22)	1,190	2,372
- on power station closure costs (note 25)	1,568	2,947
- on other provisions (note 25)	462	930
Total financing charges	39,659	45,218
Fair value (gains) / losses on financial instruments:		
- currency / interest rate swaps: cash flow hedges, transfer from OCI	7,722	7,470
- interest rate swaps and inflation linked swaps not qualifying for hedge accounting	(37,958)	217,427
- foreign exchange contracts not qualifying for hedge accounting	2	(3)
Total fair value (gains) / losses on financial instruments	(30,234)	224,894
Finance cost	216,382	469,104
Finance income	(1,294)	(1,120)
Net finance cost	215,088	467,984

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

In addition to the amounts transferred from other comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a further €63.7 million (2014: €87.0 million) has been transferred from the cash flow hedge reserve to net finance cost and other financing charges during the period. However, these amounts are fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates.

In 2014, the Group, and its counterparty banks, agreed a restructuring of its inflation linked swaps, together with amendments to certain of their critical terms. These changes included an extension of the mandatory break in the swaps from 2015 to 2022, immediate settlement in 2014 of accrued accretion payments (previously due for payment in 2015), amendments to the fixed interest rate element of the swaps, and an expansion in the number of swap counterparties. Future accretion payments are now scheduled to occur every 5 years, starting in 2018, with remaining accretion paid at maturity. Arising from these changes, an amount of €95.7 million in accretion payments under the swaps was made in 2014.

Positive fair value movements of €29.8 million arose on the inflation linked swaps in 2015 (2014: negative fair value movements of €244.9 million). These have been recognised within finance costs in the income statement, as hedge accounting is not available for these instruments.

NOTES TO THE FINANCIAL STATEMENTS

8. EMPLOYEES

GROUP

(a) Average number of employees in year by business activity, including temporary employees:	2015 Number	2014 Number
Electric Ireland	346	313
ESB Networks	3,204	3,120
Generation and Wholesale Markets	973	983
NIE Networks	1,208	1,254
Other Segments	1,574	1,479
Total	7,305	7,149

(b) Employee costs in year

	2015 € '000	2014 € '000
Current staff costs (excluding pension)		
Salaries	455,758	435,195
Overtime	36,730	34,379
Social welfare costs (PRSI)	33,753	31,292
Other payroll benefits ¹	32,203	28,619
	558,444	529,485
Capitalised payroll	(191,652)	(173,225)
Net payroll cost for employees	366,792	356,260

(c) Pension and other employee benefit costs

Exit costs - NIE Networks severance programme	-	3,144
Pensions charge - other schemes ²	44,127	42,031
NIE Networks pension scheme charge ³	10,273	12,227
	54,400	57,402
Total employee related costs charged to the income statement	421,192	413,662

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

² The pension charge to other schemes include contributions to the ESB Defined Contribution Pension Scheme, ESB Defined Benefit Pension Scheme (formerly the ESB General Employees' Superannuation Scheme) and the Options section of the NIE Networks Scheme.

³ The NIE Networks pension scheme charge relates solely to the Focus section to the Northern Ireland Electricity Scheme (the NIE Networks Scheme) See note 21 for further details.

NOTES TO THE FINANCIAL STATEMENTS

8. EMPLOYEES (continued)

PARENT

(a) Average number of employees in year by business activity, including temporary employees:	2015 Number	2014 Number
Electric Ireland	283	225
ESB Networks	3,204	3,120
Generation and Wholesale Markets	626	624
Other Segments	850	806
Total	4,963	4,775

(b) Employee costs in year	2015 € '000	2014 € '000
Current staff costs (excluding pension)		
Salaries	321,526	306,182
Overtime	29,808	28,504
Social welfare costs (PRSI)	20,722	19,259
Other payroll benefits ¹	20,933	19,032
	392,989	372,977
Capitalised payroll	(134,146)	(124,335)
Net payroll cost for employees	258,843	248,642

(c) Pension and other employee benefit costs	2015	2014
Pension Charge ²	31,697	30,933
Total employee related costs charged to the income statement	290,540	279,575

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

² The pension charge to other schemes include contributions to the ESB Defined Contribution Pension Scheme and the ESB Defined Benefit Pension Scheme (formerly the ESB General Employees' Superannuation Scheme).

9. PROFIT FOR THE FINANCIAL YEAR

	2015 € '000	2014 € '000
The profit for the financial year is stated after charging / (crediting):		
Depreciation and amortisation	744,678	730,794
Impairment charge ¹	104,237	50,147
Operating lease charges	13,940	10,851
Amortisation of supply contributions ²	(32,222)	(32,222)
Profit / (loss) on disposal of property, plant and equipment	(590)	(8,555)
Profit on disposal of subsidiaries and intangible assets	(6,852)	(38,395)
Fair value (non-cash) gain on loss of control of subsidiary	-	(93,700)
Loss on consolidation of equity accounted investee	7,874	-
Auditor's remuneration:		
- Audit of individual and Group financial statements ³	320	320
- Other assurance services	290	290
- Tax advisory services (Parent and NIE Networks entities only)	36	23
- Other non-audit services	67	164
- NIE Networks audit and other assurance services ⁴	104	106
ESB (Parent) Board members' remuneration:		
- Fees	142	216
- Other remuneration	359	359

¹ Impairment charge (notes 10 / 11)

² Included within note 24 deferred income and government grants is amortisation of supply contributions €32.2 million and other deferred income €25.3 million.

³ €180,000 (2014: €180,000) related to the Parent Company.

⁴ €104,000 (2014: €106,000) related to the NIE Networks entities audited by EY.

NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT & EQUIPMENT

GROUP	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
Cost					
Balance at 1 January 2014	1,161,523	14,846,597	16,008,120	1,129,110	17,137,230
Additions	392	180,240	180,632	732,576	913,208
Retirements / disposals	(99)	(5,953)	(6,052)	-	(6,052)
Transfer of assets held for resale	146	435,137	435,283	-	435,283
Transfers out of assets under construction	17,646	303,209	320,855	(320,855)	-
Transfers to equity accounted investees	-	-	-	(3,409)	(3,409)
Transfers from / (to) intangible assets	-	82	82	(1,160)	(1,078)
Translation differences	593	273,984	274,577	36,142	310,719
Balance at 31 December 2014	1,180,201	16,033,296	17,213,497	1,572,404	18,785,901
Balance at 1 January 2015	1,180,201	16,033,296	17,213,497	1,572,404	18,785,901
Additions	100	235,367	235,467	579,058	814,525
Retirements / disposals	(1,299)	(12,329)	(13,628)	(26,164)	(39,792)
Transfers out of assets under construction	21,865	429,977	451,842	(451,842)	-
Transfers to intangible assets	-	-	-	(31,604)	(31,604)
Translation differences	552	258,393	258,945	40,258	299,203
Balance at 31 December 2015	1,201,419	16,944,704	18,146,123	1,682,110	19,828,233
Depreciation					
Balance at 1 January 2014	636,876	6,343,391	6,980,267	-	6,980,267
Charge for the year	23,234	673,921	697,155	-	697,155
Retirements / disposals	(59)	(5,549)	(5,608)	-	(5,608)
Transfers to assets held for resale	59	270,251	270,310	-	270,310
Impairment	-	31,246	31,246	-	31,246
Transfers from / (to) intangible assets	-	(82)	(82)	-	(82)
Translation difference	134	95,893	96,027	-	96,027
Balance at 31 December 2014	660,244	7,409,071	8,069,315	-	8,069,315
Balance at 1 January 2015	660,244	7,409,071	8,069,315	-	8,069,315
Charge for the year	21,317	685,050	706,367	-	706,367
Retirements / disposals	(642)	(11,985)	(12,627)	-	(12,627)
Impairment	-	104,237	104,237	-	104,237
Translation difference	126	87,979	88,105	-	88,105
Balance at 31 December 2015	681,045	8,274,352	8,955,397	-	8,955,397
Net book value at 31 December 2015	520,374	8,670,352	9,190,726	1,682,110	10,872,836
Net book value at 31 December 2014	519,957	8,624,225	9,144,182	1,572,404	10,716,586
Net book value at 1 January 2014	524,647	8,503,206	9,027,853	1,129,110	10,156,963

During the year the Group capitalised interest of €52.6 million (2014: €48.0 million) in assets under construction, using an effective interest rate of 4.7% (2014: 4.9%).

The carrying value of non-depreciable assets at 31 December 2015 is €88.0 million (2014: €89.2 million).

Property, plant and equipment with a net book value of €nil at 31 December 2015 is included above at a cost of €3,613.9 million (2014: €3,173.1 million).

Retirements / disposals in both 2015 and 2014 primarily relate to the retirement of assets that have been fully depreciated in addition to the disposal of developmental wind farms from assets under construction in 2015 (refer to note 5).

Impairment charges

An impairment review has been carried out on assets displaying indications of impairment by comparing the value in use to their net book value as at 31 December 2015.

A review of the Corby CCGT plant in GB and the Coolkeeragh CCGT plant in Northern Ireland was undertaken at year end. An impairment loss of €57.8 million (2014: €31.2 million) in respect of Corby and €46.4 million in respect of Coolkeeragh has been recognised in the income statement. The remaining carrying value of Corby is €nil and €59.0 million in respect of Coolkeeragh.

Refer to note 4 for further information relating to the above impairment charges.

NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT & EQUIPMENT (continued)

	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
PARENT					
Cost					
Balance at 1 January 2014	1,128,260	11,259,834	12,388,094	743,789	13,131,883
Additions	382	78,526	78,908	425,248	504,156
Retirements / disposals	(99)	(5,463)	(5,562)	-	(5,562)
Transfer of assets held for resale	146	435,137	435,283	-	435,283
Transfers out of assets under construction	17,646	293,414	311,060	(311,060)	-
Transfers to equity accounted investees	-	-	-	(3,409)	(3,409)
Transfers to / (from) intangible assets	-	82	82	(1,142)	(1,060)
Balance at 31 December 2014	1,146,335	12,061,530	13,207,865	853,426	14,061,291
Balance at 1 January 2015	1,146,335	12,061,530	13,207,865	853,426	14,061,291
Additions	92	98,562	98,654	439,155	537,809
Retirements / disposals	(1,054)	(12,329)	(13,383)	-	(13,383)
Transfers out of assets under construction	21,082	386,664	407,746	(407,746)	-
Transfers to intangible assets	-	-	-	(27,645)	(27,645)
Balance at 31 December 2015	1,166,455	12,534,427	13,700,882	857,190	14,558,072
Depreciation					
Balance at 1 January 2014	633,477	5,630,294	6,263,771	-	6,263,771
Charge for the year	20,720	454,134	474,854	-	474,854
Retirements / disposals	(59)	(5,276)	(5,335)	-	(5,335)
Transfer of assets held for resale	59	270,251	270,310	-	270,310
Transfers to intangible assets	-	(82)	(82)	-	(82)
Balance at 31 December 2014	654,197	6,349,321	7,003,518	-	7,003,518
Balance at 1 January 2015	654,197	6,349,321	7,003,518	-	7,003,518
Charge for the year	17,920	446,844	464,764	-	464,764
Retirements / disposals	(481)	(11,985)	(12,466)	-	(12,466)
Balance at 31 December 2015	671,636	6,784,180	7,455,816	-	7,455,816
Net book value at 31 December 2015	494,819	5,750,247	6,245,066	857,190	7,102,256
Net book value at 31 December 2014	492,138	5,712,209	6,204,347	853,426	7,057,773
Net book value at 1 January 2014	494,783	5,629,540	6,124,323	743,789	6,868,112

During the year the Parent capitalised interest of €22.2 million (2014: €23.7 million) in assets under construction, using an effective interest rate of 4.2% (2014: 4.2%).

The carrying value of non-depreciable assets at 31 December 2015 is €82.3 million (2014: €83.8 million).

Property, plant and equipment with a net book value of €nil at 31 December 2015 are included above at a cost of €2,992.4 million (2014: €2,868.1 million).

Retirements / disposals in both 2015 and 2014 primarily relate to the retirement of assets that have been fully depreciated.

NOTES TO THE FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS

	Software and other intangible assets € '000	Emissions allowances € '000	Software under development € '000	Total € '000
GROUP				
Cost				
Balance at 1 January 2014	550,570	60,241	22,783	633,594
Software additions	9,590	-	13,296	22,886
Purchase of emissions	-	52,842	-	52,842
Impairment of emissions	-	(5,113)	-	(5,113)
Software disposals	(1,395)	-	-	(1,395)
Settlement of emissions allowances	-	(58,014)	-	(58,014)
Transfers out of software under development	10,857	-	(10,857)	-
Transfers (to) / from property, plant and equipment	(82)	-	1,160	1,078
Translation differences	11,758	67	191	12,016
Balance at 31 December 2014	581,298	50,023	26,573	657,894
Balance at 1 January 2015	581,298	50,023	26,573	657,894
Software additions	12,076	-	33,306	45,382
Purchase of emissions	-	32,153	-	32,153
Software disposals	(332)	-	-	(332)
Settlement of emissions allowances	-	(50,213)	-	(50,213)
Transfers out of software under development	26,153	-	(26,153)	-
Transfers from property, plant and equipment	31,604	-	-	31,604
Translation differences	11,133	-	27	11,160
Balance at 31 December 2015	661,932	31,963	33,753	727,648
Amortisation				
Balance at 1 January 2014	395,229	-	-	395,229
Charge for the year	33,639	-	-	33,639
Retirements / disposals	(124)	-	-	(124)
Impairment	18,901	-	-	18,901
Transfers from property, plant and equipment	82	-	-	82
Translation differences	6,507	-	-	6,507
Balance at 31 December 2014	454,234	-	-	454,234
Balance at 1 January 2015	454,234	-	-	454,234
Charge for the year	38,311	-	-	38,311
Retirements / disposals	(56)	-	-	(56)
Translation differences	7,419	-	-	7,419
Balance at 31 December 2015	499,908	-	-	499,908
Net book value at 31 December 2015	162,024	31,963	33,753	227,740
Net book value at 31 December 2014	127,064	50,023	26,573	203,660
Net book value at 1 January 2014	155,341	60,241	22,783	238,365

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

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

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

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

Impairment charge

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

NOTES TO THE FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS (continued)

	Software and other intangible assets € '000	Emissions allowances € '000	Software under development € '000	Total € '000
PARENT				
Cost				
Balance at 1 January 2014	402,533	53,390	15,269	471,192
Software additions	9,344	-	12,714	22,058
Purchase of emissions	-	46,426	-	46,426
Impairment of emissions	-	(4,204)	-	(4,204)
Software disposals	(195)	-	-	(195)
Settlement of emissions allowances	-	(45,507)	-	(45,507)
Transfers out of software under development	2,811	-	(2,811)	-
Transfers (to) / from property, plant and equipment	(82)	-	1,142	1,060
Balance at 31 December 2014	414,411	50,105	26,314	490,830
Balance at 1 January 2015	414,411	50,105	26,314	490,830
Software additions	8,556	-	30,806	39,362
Purchase of emissions	-	21,402	-	21,402
Software disposals	(567)	-	-	(567)
Settlement of emissions allowances	-	(39,462)	-	(39,462)
Transfers out of software under development	25,879	-	(25,879)	-
Transfers from property, plant and equipment	27,645	-	-	27,645
Balance at 31 December 2015	475,924	32,045	31,241	539,210
Amortisation				
Balance at 1 January 2014	332,722	-	-	332,722
Charge for the year	20,584	-	-	20,584
Retirements / disposals	(124)	-	-	(124)
Transfers from property, plant and equipment	82	-	-	82
Balance at 31 December 2014	353,264	-	-	353,264
Balance at 1 January 2015	353,264	-	-	353,264
Charge for the year	26,617	-	-	26,617
Retirements / disposals	(57)	-	-	(57)
Balance at 31 December 2015	379,824	-	-	379,824
Net book value at 31 December 2015	96,100	32,045	31,241	159,386
Net book value at 31 December 2014	61,147	50,105	26,314	137,566
Net book value at 1 January 2014	69,811	53,390	15,269	138,470

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

12. GOODWILL

	€ '000
Balance at 1 January 2014	182,013
Translation differences	12,814
Balance at 31 December 2014	194,827
Balance at 1 January 2015	194,827
Translation differences	11,932
Balance at 31 December 2015	206,759

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

The annual impairment test of goodwill was carried out in December 2015 in accordance with IAS 36. No reduction in the value of goodwill was deemed to be required.

The Group calculates the value in use using a 20-year discounted cash flow model, and a terminal value based on RAB, corresponding to the expected useful life of the underlying asset base. The future cash flows are adjusted for risks specific to the investment and are discounted using a pre-tax discount rate of 6.9% (2014: 6.9%).

The discount rate used is a key driver for valuation and the rate was determined by building up an appropriate Weighted Average Cost of Capital (WACC) for NIE Networks and benchmarking relevant comparators. Other key drivers include inflation and regulatory assumptions. Long-term inflation rates used were sourced from the UK Office of Budget Responsibility, and are currently based on a long-term rate of 2.75%. Assumptions in relation to regulatory return are made by reference to previous regulatory decisions in the UK.

Key factors in assessing the value of goodwill are expectations of future levels of capital spend and the appropriateness of the allowed return on the RAB. Both are agreed with the Utility Regulator in Northern Ireland (NIAUR) as part of the Regulatory Price review. Management believes that at the date of the impairment test there were no reasonably possible changes in the key valuation drivers that would cause the carrying amount of the investment to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

13. FINANCIAL ASSET INVESTMENTS

GROUP	Equity accounted investees € '000	Financial assets at fair value through profit or loss € '000	Total € '000
Balance at 1 January 2014	-	49,359	49,359
Additions	916	19,737	20,653
Transfers to SIRO Limited	2,891	-	2,891
Transfers from property, plant and equipment (to SIRO Limited)	3,409	-	3,409
Disposals	-	(3,894)	(3,894)
Transfers to other payables	(98)	-	(98)
Share of loss	(1,354)	-	(1,354)
Fair value movement - transfer to income statement (note 5)	-	(6,111)	(6,111)
Conversion of subsidiary to equity accounted investee (note 4)	93,700	-	93,700
Translation differences	-	4,547	4,547
Balance at 31 December 2014	99,464	63,638	163,102
Balance at 1 January 2015	99,464	63,638	163,102
Additions	4,178	8,888	13,066
Transfers to other payables	803	-	803
Share of loss	(9,176)	-	(9,176)
Fair value movement on cash flow hedges	(902)	-	(902)
Fair value movement - transfer to income statement (note 5)	-	(2,847)	(2,847)
Consolidation of equity accounted investee	-	(10,905)	(10,905)
Translation differences	483	3,789	4,272
Balance at 31 December 2015	94,850	62,563	157,413

Equity accounted investees investments

The fair value movement on cash flow hedges for equity accounted investees relates to derivatives held in Raheenleagh Power Limited, which have been designated as cash flow hedging relationships in this entity.

Translation differences for equity accounted investees relate to Tilbury Green Power Holdings Limited as this company is located in GB and has sterling as its functional currency.

Name of the company	Country	Holding 31 December 2015 % of share capital owned	Holding 31 December 2014 % of share capital owned
Oweninny Power Limited ¹	Republic of Ireland	50	50
Emerald Bridge Fibres Limited ¹	Republic of Ireland	50	50
SIRO Limited (formerly Evolve Structuring Services Limited)	Republic of Ireland	50	50
Raheenleagh Power Limited	Republic of Ireland	50	-
Kingspan ESB Limited	Great Britain	50	-
Tilbury Green Power Holdings Limited	Great Britain	47	-

¹ At 31 December 2015, the investments in both Oweninny Power Limited and Emerald Bridge Fibres Limited were held at €nil.

SIRO Limited (SIRO) (formally Evolve Structuring Services Limited)

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

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

SIRO is structured as a separate vehicle, is jointly controlled by the Group and Vodafone Ireland Limited and the Group has a residual interest in the net assets of the company. Accordingly, the Group has classified its interest in SIRO as an equity accounted investee. ESB has committed to provide capital funding to SIRO amounting to €85 million over the next 5 years.

NOTES TO THE FINANCIAL STATEMENTS

13. FINANCIAL ASSET INVESTMENTS (continued)

Tilbury Green Power Holdings Limited (Tilbury)

During the year ended 31 December 2015, the Group became a 47% partner in Tilbury, a joint arrangement formed with the Green Investment Bank (47%) and the EPC / O&M consortium (6.0%). The purpose of this joint arrangement is to construct and operate a biomass plant in GB.

The amount invested in Tilbury to date is €47.2 million, of which €2.4 million was advanced as equity and €44.8 million as shareholder loans.

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

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

Raheenleagh Power Limited (Raheenleagh)

During the year ended 31 December 2015, the Group became a 50% partner in Raheenleagh, a joint arrangement formed with Coillte Teoranta. The purpose of this joint arrangement is to construct and operate a 35 MW wind farm in the Republic of Ireland. The amount invested in Raheenleagh to date is €5.6 million of which €1.8 million was advanced as equity and €3.8 million as shareholder loans.

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

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

NOTES TO THE FINANCIAL STATEMENTS

13. FINANCIAL ASSET INVESTMENTS (continued)

The Group's aggregate share of the non-current assets, current assets, non-current liabilities, current liabilities, income and expenses related to its interests in these equity accounted investees are as follows:

Summarised income statement	SIRO Limited		Tilbury Green Power Holdings Limited		Other equity accounted investees ¹	
	2015 €'000	2014 €'000	2015 €'000	2014 €'000	2015 €'000	2014 €'000
Revenue	20	-	-	-	-	-
Loss	(16,730)	(1,071)	-	-	(1,622)	(1,636)
Group share of loss	(8,365)	(536)	-	-	(811)	(818)

Summarised balance sheet	SIRO Limited		Tilbury Green Power Holdings Limited		Other equity accounted investees ¹	
	2015 €'000	2014 €'000	2015 €'000	2014 €'000	2015 €'000	2014 €'000
Cash	71,426	99,930	-	-	361	-
Current assets	5,549	65	95,307	-	-	-
Non-current assets	129,475	108,949	6,192	-	27,033	-
Current liabilities	(23,345)	(10,016)	-	-	(25,712)	-
Non-current liabilities	-	-	(95,307)	-	-	-
Net assets	183,105	198,928	6,192	-	1,682	-

Reconciliation of the above amounts to the investment recognised in the balance sheet:

Group equity interest	50%	50%	47%	-	50%	50%
Net assets	183,105	198,928	6,192	-	1,682	-
Group share	91,553	99,464	2,910	-	841	-
Other adjustments	(454)	-	-	-	-	-
Carrying value of Group's equity interest	91,099	99,464	2,910	-	841	-

¹ Other equity accounted investees include Emerald Bridge Fibres Limited, Oweninny Power Limited and Raheenleagh Power Limited in 2015. 2014 included Emerald Bridge Fibres Limited and Oweninny Power Limited.

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

The Group owns a venture capital fund, Novusmodus, in which seed capital is invested into emerging technology entities. These investments are managed purely for an investment return and are consequently carried at fair value through the income statement. No financial assets held at fair value through profit or loss are controlled by ESB. Additions include investments in a number of clean energy and new technology companies and also on investment in the VantagePoint clean energy fund. These investments have been fair valued at the year end and the movement transferred to the income statement. The fair value movements in both 2015 and 2014 primarily relate to adjustments to the value of certain investments in the fund.

At 31 December 2015, the Group could be called upon by its partners in the VantagePoint fund to make a further €0.4 million investment in the fund (2014: €0.8 million).

Conversion of Geothermal International Limited to a full subsidiary

During the year, ESB acquired the total shareholding of Geothermal International Limited and its related financial asset investment was therefore converted to a full subsidiary. The carrying value of the Group's investment at the date of acquisition was €10.9 million and a loss of €7.9 million was recognised in the income statement on conversion to a full subsidiary (note 5).

PARENT	Equity accounted investees €'000	Subsidiary undertakings €'000
Balance at 1 January 2014	-	61,782
Transfer to SIRO Limited	2,891	-
Transfer from property, plant and equipment (to SIRO Limited)	3,409	-
Conversion of SIRO Limited from subsidiary to equity accounted investee (note 4)	93,700	-
Balance at 31 December 2014	100,000	61,782
Balance at 1 January 2015	100,000	61,782
Balance at 31 December 2015	100,000	61,782

NOTES TO THE FINANCIAL STATEMENTS

14. INVENTORIES

	GROUP		PARENT	
	2015 €'000	2014 €'000	2015 €'000	2014 €'000
Materials	29,489	20,262	8,630	4,255
Fuel	67,181	58,576	58,213	49,719
Total	96,670	78,838	66,843	53,974

Inventories consumed during the year ended 31 December 2015 totalled €123.7 million (2014: €137.1 million). There were no inventory impairments recognised during the year (2014: €nil).

15. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2015 €'000	2014 €'000	2015 €'000	2014 €'000
Current receivables:				
Retail electricity receivables - billed	89,881	88,933	67,140	66,690
Retail electricity receivables - unbilled	187,853	205,484	140,462	156,627
Total retail electricity receivables	277,734	294,417	207,602	223,317
SEM pool related receivables	54,882	74,485	32,087	49,839
Use of System receivables (including unbilled)	212,527	207,848	38,377	38,502
Other electricity receivables	38,082	106,552	28,316	84,660
Total electricity receivables	583,225	683,302	306,382	396,318
Trade receivables - non-electricity	58,683	37,521	11,024	9,788
Amounts due from equity accounted undertakings	16,218	9,549	-	-
Other receivables	56,706	47,638	7,271	19,995
Amounts due from subsidiary undertakings	-	-	2,836,676	2,574,643
Prepayments	36,345	31,513	19,670	16,990
Total	751,177	809,523	3,181,023	3,017,734

	GROUP		PARENT	
	2015 €'000	2014 €'000	2015 €'000	2014 €'000
Non-current receivables:				
Amounts due from equity accounted undertakings	44,777	-	-	-

Wholesale and retail credit risk

Trade and other receivables can be divided into final retail electricity customers (billed and unbilled), SEM pool related receivables, Use of System receivables, and other (non-electricity) receivables.

The maximum credit exposure of the Group at 31 December is set out on page 122. Prepayments of €36.3 million (2014: €31.5 million) are excluded from the analysis as no credit exposure is perceived to exist in relation to these. In the case of the Parent, balances stated also exclude amounts due from subsidiary undertakings of €2,836.7 million (2014: €2,574.6 million).

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES (continued)

	GROUP 2015			GROUP 2014		
	Gross amount receivable €'000	Impairment provisions €'000	Net amount receivable €'000	Gross amount receivable €'000	Impairment provisions €'000	Net amount receivable €'000
Not past due	662,145	-	662,145	706,854	-	706,854
Past due < 30 days	57,416	(842)	56,574	30,288	(513)	29,775
Past due 30 - 120 days	35,179	(6,785)	28,394	30,015	(3,311)	26,704
Past due > 120 days	24,479	(20,846)	3,633	29,459	(23,125)	6,334
Past due by more than one year	35,927	(27,064)	8,863	39,259	(30,916)	8,343
Total	815,146	(55,537)	759,609	835,875	(57,865)	778,010

	PARENT 2015			PARENT 2014		
	Gross amount receivable €'000	Impairment provisions €'000	Net amount receivable €'000	Gross amount receivable €'000	Impairment provisions €'000	Net amount receivable €'000
Not past due	269,089	-	269,089	401,369	-	401,369
Past due < 30 days	39,324	(670)	38,654	6,366	(331)	6,035
Past due 30 - 120 days	18,021	(1,533)	16,488	19,941	(2,280)	17,661
Past due > 120 days	20,569	(20,420)	149	23,282	(23,125)	157
Past due by more than one year	22,919	(22,622)	297	27,002	(26,123)	879
Total	369,922	(45,245)	324,677	477,960	(51,859)	426,101

Management does not expect any significant losses of receivables that have not been provided for as shown above. As explained below overdue amounts, including amounts past due by more than one year, are impaired only to the extent that there is evidence that they are not ultimately recoverable. The impairment provision recognised is collective rather than specific in nature and is calculated based on the level of credit risk perceived to exist in relation to the underlying balances. The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	GROUP		PARENT	
	2015 €'000	2014 €'000	2015 €'000	2014 €'000
Balance at 1 January	57,865	51,427	51,859	45,802
Impairment loss recognised	22,807	24,350	17,560	23,016
Provision utilised	(25,135)	(17,912)	(24,174)	(16,959)
Balance at 31 December	55,537	57,865	45,245	51,859

Retail electricity receivables

The credit risk on electricity accounts is managed through the ongoing monitoring of debtor days, putting in place appropriate collateral and a collection policy based on the credit worthiness, size and duration of debt. The concentration of risk in Electric Ireland is in relation to retail electricity accounts that have closed in arrears. In addition, given an increase in competition, certain customers may switch suppliers before they have settled their outstanding balances. The CER, in conjunction with all electricity supply companies, is attempting to agree a solution to this phenomenon (known as debt hopping). These accounts are managed within the Group's debt collection policy by a combination of internal debt follow-up, the use of debt collection agencies and legal action where necessary including the publication of judgements.

The impairment provisioning policy in relation to retail electricity receivables is based on the historical experience of debts written off. Provision may be made in respect of specific balances where there is evidence of a dispute or an inability to settle. An additional provision is made on a portfolio basis to cover additional anticipated losses based on an analysis of previous losses experienced and an evaluation of the impact of economic conditions and particular industry issues. Provision is not made in cases where appropriate repayment arrangements are in place and there is evidence that balances are ultimately recoverable, notwithstanding that such balances may be seriously in arrears. Collateral is held in the form of security deposits on new customer accounts. The largest single billed retail balance outstanding at 31 December 2015 was €102,000 (2014: €224,000).

Controls around electricity receivables are focused on the full recovery of amounts invoiced. In 2015, electricity receivables to the value of €55.5 million (2014: €57.8 million) were provided for at year end. The single largest customer amount written off during the year was €104,000 (2014: €272,000) relating to a customer that went into liquidation. Retail electricity receivables arise largely in the Republic of Ireland, with 5% (2014: 6%) relating to Northern Ireland revenue.

Unbilled electricity receivables represent estimates of consumption not yet invoiced.

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES (continued)

SEM pool receivables

Credit risk in relation to SEM pool related receivables is managed by the Energy Trading and Risk functions (ET&R) within those business units engaged in electricity trading through the SEM pool. Each of these functions is ring-fenced from each other and segregation of responsibilities between the back office, middle office and front office functions is maintained in each case. The Trading Back Office function is responsible for invoicing customers and maintaining all accounts receivable. Payment terms for all trading balances relating to each of the SEM revenue streams are governed by the SEM settlement calendar.

Use of System receivables

Use of System income in the Republic of Ireland comprises of Distribution Use of System (DUoS) income, Transmission Use of System (TUoS) income and Operation and Maintenance (O&M) charges for generators connected to the Distribution System. The credit terms for DUoS are 10 business days and there are currently 25 suppliers. TUoS is collected by EirGrid, and the Transmission Asset Owner (TAO) allowed revenue is invoiced to EirGrid over 12 monthly instalments with each invoice due 36 business days after month end. Invoices were issued in respect of 158 generators during 2015 for operation and maintenance charges. The credit terms for these invoices are 20 business days.

The credit risk in relation to DUoS is managed by the invocation of section 7 of the DUoS Framework Agreement approved by CER on 1 August 2002. This section provides for the provision of security by each supplier. Before a supplier can register a customer they must sign up to the DUoS agreement. All suppliers must provide security in accordance with section 7.2. The DUoS credit risk is managed through the timely collection procedures which are in accordance with the regulations in section 6 of the DUoS Framework Agreement and the monitoring of debtor days to keep these to a minimum. There is security cover in place for all suppliers, in the event of a supplier defaulting as set out in section 7 of the DUoS Framework Agreement.

In the event of a supplier defaulting as set out by section 7 of the DUoS Framework agreement, TUoS credit risk is managed through timely collection procedures and the monitoring of debtor days to keep these to a minimum. Procedures for the payment by EirGrid of TUoS income due to ESB Networks as TAO are governed by the Infrastructure Agreement between EirGrid and ESB. This is not a normal bilateral contract freely entered into by the will of the parties, but an arrangement required by legislation and many of whose terms are specified in that legislation. Accordingly, the credit risk in relation to TUoS receivables is considered to be low. The amount due in respect of TUoS income at 31 December 2015 was €41.1 million (2014: €41.9 million), which is the largest Use of System receivable balance in the Republic of Ireland. This amount has been received subsequent to year end.

In respect of the Networks business in Northern Ireland revenue is derived principally from charges for use of the distribution system, PSO charges levied on electricity suppliers and charges for transmission services levied on SONI (System Operator for Northern Ireland). Credit risk in respect of use of system receivables from electricity suppliers is mitigated by security received in the form of cash deposits, letters of credit or parent company guarantees. With the exception of public bodies, payments in relation to new connections or alterations are paid for in advance of the work being carried out. Normal credit terms and debtor days in respect of trade receivables from electricity suppliers are less than 30 days. The largest use of system electricity receivable in Northern Ireland at 31 December 2015 is €12.8 million (2014: €12.5 million).

Other electricity receivables

Other electricity receivables include amounts in relation to Public Service Obligation (PSO) levy in addition to amounts relating to ancillary services and electricity trading in the UK market which is not included in the SEM.

Trade and other receivables - non-electricity

Trade receivables (non-electricity) relate to balances due in respect of the Group's non-electricity trading and other operations. It includes amounts due in respect of the Group's telecommunications, consultancy, facility management and other ancillary operations. Credit risk with regard to these balances is not considered to be significant. The largest single balance included within this category at 31 December 2015 is an amount of €8.6 million (2014: €9.7 million) due from an external company.

16. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2015 €'000	2014 €'000	2015 €'000	2014 €'000
Cash at bank and in hand	133,863	143,731	17,202	56,384

17. CHANGES IN EQUITY

(i) Capital Stock

There are 1,979,881,885 units of capital stock in issue at a value of €1 each.

	2015 €'000	2014 €'000
Comprised as:		
Stock issued from converted reserves	1,880,888	1,880,888
Stock issued for subscription by ESOT	98,994	98,994
Total	1,979,882	1,979,882

In accordance with the Electricity (Supply) (Amendment) Act 2001, on 30 December 2001, the equity of ESB was converted to capital stock and issued to the Department of Finance. At the same time, ESB ESOP Trustee Limited, established to act as Trustee for an ESB employee shareholding scheme, subscribed for 5% of the stock. The principal rights attaching to each unit of capital stock include the rights to exercise a vote at annual meetings, entitlements to dividends from profits when declared and the rights to proportionate participation in a surplus on winding up.

NOTES TO THE FINANCIAL STATEMENTS

17. CHANGES IN EQUITY (continued)

(i) Capital Stock (continued)

The Energy (Miscellaneous Provisions) Act 2006 amended Section 2 of the 2001 Act to provide that 10% of issued capital stock in ESB now stands vested in the Minister for Communications, Energy and Natural Resources, with the Minister for Finance retaining 85% of ESB's capital stock and the ESOP retaining 5% of the stock.

The Ministers and Secretaries Amendment Act 2011, which came into force on 6 July 2011, establishes the office of the Minister for Public Expenditure and Reform. The 2011 Act has the effect of transferring ownership of the stock previously held by the Minister for Finance in ESB to the Minister for Public Expenditure and Reform as and from 6 July 2011.

(ii) ESOP repurchase

An ESOP market liquidity proposal was approved at the Board meeting in May 2015. The objective of the proposal is to improve liquidity in the Employee Share Ownership Plan (ESOP) market whereby the ESOP Trustee is committing to spend €25 million of funds to acquire capital stock in the ESOP internal market. ESB will match the expenditure committed by the ESOP Trustee in the period 2014 - 2018. Acquisition of the capital stock by ESB will not commence until 2017. An ESOP repurchase provision of €12.1 million has been recognised in the 2015 financial statements in relation to capital stock repurchase by the ESOP Trustee.

(iii) Non-controlling interest - Group

Non-controlling interests at 31 December 2015 relate to the minority shareholdings in Crockahenny Wind Farm Limited, Mountain Lodge Power Limited, Airvolution Energy Limited, Coriolis Energy Limited and Geothermal International Limited.

(iv) Cash flow hedging, revaluation and other reserves - Group and Parent

The hedging reserve primarily represents the fair value of derivatives which are part of effective cash flow hedging relationships at year end. As the derivatives are held for hedging purposes as defined by IAS 39, their fair value movements are retained in OCI instead of being charged to the income statement during the year and will be charged to the income statement in the same period as the corresponding transaction.

Other reserves include the following:

- Revaluation reserves of €38.8 million (2014: €44.3 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009. This reserve is being amortised to retained earnings over the same term as the associated assets acquired are depreciated;
- Non-distributable reserves of €5.0 million which were created on the sale of the Group's share in Ocean Communications Limited in 2001; and
- Actuarial movements on the NIE Networks defined benefit scheme, net of the related deferred tax adjustments, totalling (€172.0) million (2014: (€182.8) million); and
- ESOP repurchase provision of €12.1 million which relates to the amount that ESB has committed to date to repurchase from the ESOP internal market.

(v) Dividends

GROUP	2015 € '000	2014 € '000
Dividends on capital stock:		
Total dividend paid 13.77 (2014: 14.33) cents per capital stock unit	272,334	283,282
Dividend to non-controlling interest	375	483
Total	272,709	283,765

PARENT	2015 € '000	2014 € '000
Dividends on capital stock:		
Total dividend paid 13.77 (2014: 14.33) cents per capital stock unit	272,334	283,282
Total	272,334	283,282

Total dividends paid during 2015 amounted to €272.3 million and include a final dividend of €10.3 million (0.52 cent per unit of stock) in respect of 2014, the remaining special dividend of €213.7 million declared by the Board in July 2014 and an interim dividend of €48.3 million (2.44 cent per unit of stock) which was paid in October in respect of 2015.

The Board is now recommending a final dividend of 1.55 cent per unit of stock, or €30.7 million in aggregate.

During 2013, the Board of ESB approved a revised dividend policy, which has been agreed with the Government and is intended to be in effect for the period to at least the end of this decade. The key parameters of this policy are:

- The target dividend pay-out ratio was set at 30% profit after tax for 2013 and 2014, in addition to the targeted Special Dividends from the disposal of non-strategic generation capacity in 2013 - 2014 of €400 million.
- From 2015, the target pay-out ratio will be increased gradually.
- ESB will aim to pay an interim dividend within each financial year, with the balance to be paid as a final dividend post year-end.
- ESB has agreed with the Government that sustaining a minimum BBB+ credit rating is a key policy objective for the Group, and that this should be a priority consideration when considering dividend payments under the policy outlined above.

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION

(a) Income tax expense / (credit)

	2015 € '000	2014 € '000
Current tax expense		
Current tax	45,021	40,166
Prior year (over) / under provision	(1,735)	2,561
Value of tax losses surrendered to joint ventures	137	131
	43,423	42,858
Deferred tax expense		
Origination and reversal of temporary differences	(3,322)	(43,507)
Reduction in tax rate ⁵	(19,568)	-
Prior year under provision	93	3
	(22,797)	(43,504)
Total	20,626	(646)

Reconciliation of effective tax rate

	2015 € '000	2014 € '000
Profit before tax	306,866	214,747
Plus: after tax share of joint venture loss	9,176	1,354
Profit before tax (excluding joint venture loss)	316,042	216,101
Taxed at 12.5%	39,505	27,013
Expenses not deductible ¹	5,209	4,842
Income not taxable ²	-	(4,872)
Write down of investment ³	-	3,619
Fair value gain on loss of control of subsidiary ⁴	-	(11,712)
Income taxed at higher rate of corporation tax	49	546
Impact of tax rates in foreign jurisdictions	(2,209)	(22,638)
Impact of reduced rate of UK tax on deferred tax stated at Irish tax rate ⁵	(20,064)	-
Revisions to prior year estimates ⁶	(1,642)	2,564
Other items	(222)	(8)
Income tax expense / (credit)	20,626	(646)

¹Included in expenses not deductible is the tax impact of creation of the provision for the buyback of ESOP shares. See note 30.

²Income not taxable in 2014 relates to the profit on sale of a 50% shareholding in Bizkaia Energia SL which qualified for substantial shareholding relief.

³The write down of investment relates to the impairment of the carrying value of Corby Power Limited and West Durham Wind Farm Holdings 2 Limited in 2014.

⁴During 2014, ESB entered into a joint venture agreement with Vodafone in order to deliver a high capacity Fibre to the Building (FTTB) network to homes and businesses in selected urban locations across the Republic of Ireland. Following the joint venture agreement, ESB's investment in the joint venture entity, SIRO Limited reduced to 50% and accordingly had to be restated at fair value. This gave rise to a fair value gain which reflects the fair value to ESB of its 50% shareholding. This gain is not subject to corporation tax and thus has been treated as a permanent adjustment for tax purposes.

⁵The July 2015 Budget for the UK included the provision that the UK corporation tax rate will reduce to 18% over a period up to 2020. The reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and a further reduction to 18% (effective 1 April 2020) were substantially enacted on 26 October 2015. This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2015 has been calculated based on the rate of 18% (2014: 20%) substantively enacted at the balance sheet date.

⁶The 2015 and 2014 prior year over and under provision arose as a result of adjustments to a number of the single entity statutory accounts which were booked following the finalisation of the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

(b) Deferred tax assets and liabilities

GROUP	2015 € '000	2014 € '000
Deferred tax assets		
Property, plant and equipment and intangible assets	1,753	739
Liability - NIE Networks pension scheme	25,556	32,802
Liability - ESB pension scheme	87,266	91,384
Provisions	3,663	4,459
Tax losses forward	6,151	8,421
Derivative financial instruments	82,857	96,569
Total	207,246	234,374
Deferred tax liabilities		
Property, plant and equipment and intangible assets	731,414	760,291
Provisions	166	156
Derivative financial instruments	18,322	29,524
Capital gains tax	1,180	2,387
Total	751,082	792,358
Net deferred tax liability	(543,836)	(557,984)

The movement in temporary differences for the Group were as follows:

2015	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Translation differences € '000	Balance at 31 December € '000
ASSETS					
Property, plant and equipment and intangible assets	739	1,014	-	-	1,753
Liability - NIE Networks pension scheme	32,802	(582)	(6,664)	-	25,556
Liability - ESB pension scheme	91,384	(4,118)	-	-	87,266
Provisions	4,459	(796)	-	-	3,663
Tax losses forward	8,421	(2,270)	-	-	6,151
Derivative financial instruments	96,569	(17,779)	(1,365)	5,432	82,857
Total deferred tax assets	234,374	(24,531)	(8,029)	5,432	207,246
LIABILITIES					
Property, plant and equipment and intangible assets	760,291	(37,833)	-	8,956	731,414
Provisions	156	10	-	-	166
Derivative financial instruments	29,524	(8,298)	(11,148)	8,244	18,322
Capital gains tax	2,387	(1,207)	-	-	1,180
Total deferred tax liabilities	792,358	(47,328)	(11,148)	17,200	751,082
Net deferred tax (liability) / asset for the year	(557,984)	22,797	3,119	(11,768)	(543,836)

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

GROUP (continued)

2014	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Translation differences € '000	Balance at 31 December € '000
ASSETS					
Property, plant and equipment and intangible assets	551	188	-	-	739
Liability - NIE Networks pension scheme	21,555	(871)	12,118	-	32,802
Liability - ESB pension scheme	96,079	(4,695)	-	-	91,384
Provisions	4,305	154	-	-	4,459
Tax losses forward	8,686	(265)	-	-	8,421
Derivative financial instruments	48,546	43,214	1,645	3,164	96,569
Total deferred tax assets	179,722	37,725	13,763	3,164	234,374
LIABILITIES					
Property, plant and equipment and intangible assets	748,351	2,813	-	9,127	760,291
Provisions	143	13	-	-	156
Derivative financial instruments	57,160	(8,704)	(28,151)	9,219	29,524
Capital gains tax	2,288	99	-	-	2,387
Total deferred tax liabilities / (assets)	807,942	(5,779)	(28,151)	18,346	792,358
Net deferred tax (liability) / asset for the year	(628,220)	43,504	41,914	(15,182)	(557,984)

There is no expiry date to when tax losses in the Group can be utilised.

Deferred tax has not been provided for in relation to unremitted reserves of the Group's overseas subsidiaries for two reasons; either there is no commitment for these reserves to be distributed in the foreseeable future or it has been established that no tax would arise on the remittance. Nor has deferred tax been provided for in relation to unremitted reserves of the Group's joint ventures as the Group has the ability to control the repatriation of these reserves to the Republic of Ireland. Cumulative unremitted reserves of overseas subsidiaries, joint ventures and associates totalled €508 million (2014: €668 million) as at 31 December 2015.

PARENT	2015 € '000	2014 € '000
Deferred tax assets		
Liability - ESB pension scheme	87,267	91,384
Provisions	2,684	3,184
Derivative financial instruments	7,635	11,064
Total	97,586	105,632
Deferred tax liabilities		
Property, plant and equipment	457,649	445,388
Capital gains tax	1,180	1,180
Total	458,829	446,568
Net deferred tax liability	(361,243)	(340,936)

NOTES TO THE FINANCIAL STATEMENTS

18. TAXATION (continued)

PARENT (continued)

The movement in temporary differences for the Parent were as follows:

2015	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Balance at 31 December € '000
ASSETS				
Liability - ESB pension scheme	91,384	(4,117)	-	87,267
Provisions	3,184	(500)	-	2,684
Derivative financial instruments	11,064	-	(3,429)	7,635
Total deferred tax assets	105,632	(4,617)	(3,429)	97,586
LIABILITIES				
Property, plant and equipment	445,388	12,261	-	457,649
Capital gains tax	1,180	-	-	1,180
Total deferred tax liabilities	446,568	12,261	-	458,829
Net deferred tax liability	(340,936)	(16,878)	(3,429)	(361,243)

2014	Balance at 1 January € '000	Recognised in income € '000	Recognised in OCI € '000	Balance at 31 December € '000
ASSETS				
Liability - ESB pension scheme	96,079	(4,695)	-	91,384
Provisions	3,144	40	-	3,184
Derivative financial instruments	16,897	-	(5,833)	11,064
Total deferred tax assets	116,120	(4,655)	(5,833)	105,632
LIABILITIES				
Property, plant and equipment	433,581	11,807	-	445,388
Capital gains tax	1,180	-	-	1,180
Total deferred tax liabilities	434,761	11,807	-	446,568
Net deferred tax liability	(318,641)	(16,462)	(5,833)	(340,936)

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT

(a) GROUP	Recourse borrowings € '000	Non-recourse borrowings € '000	2015 Total € '000	2014 Total € '000
Current borrowings				
- Repayable by instalments	99,278	18,893	118,171	103,738
- Repayable other than by instalments	272,574	28,080	300,654	266,854
Total current borrowings	371,852	46,973	418,825	370,592
Non-current borrowings				
- Repayable by instalments				
Between one and two years	97,538	27,305	124,843	108,890
Between two and five years	240,439	112,853	353,292	320,556
After five years	427,296	344,883	772,179	799,549
	765,273	485,041	1,250,314	1,228,995
- Repayable other than by instalments				
Between one and two years	339,082	-	339,082	22,194
Between two and five years	1,205,870	248,989	1,454,859	1,697,882
After five years	1,103,199	542,860	1,646,059	1,463,306
	2,648,151	791,849	3,440,000	3,183,382
Total non-current borrowings	3,413,424	1,276,890	4,690,314	4,412,377
Total borrowings outstanding	3,785,276	1,323,863	5,109,139	4,782,969

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

Current borrowings by facility

	Ref	2015 € '000	2014 € '000
Long-term bank borrowings	5	347,067	101,350
Private placement borrowings	6	24,785	211,127
Fuel financing arrangement	3	-	29,922
Non-recourse long-term project finance debt	2	18,893	2,388
Non-recourse short-term project finance debt	7	28,080	25,805
		418,825	370,592

Non-current borrowings by facility

	Ref	2015 € '000	2014 € '000
Non-recourse long-term project finance debt	2	485,041	386,876
ESB Eurobonds	1	1,918,096	1,745,910
NIE Networks Eurobonds	4	791,849	749,987
Long-term bank borrowings	5	765,273	842,119
Private placement borrowings	6	730,055	687,485
		4,690,314	4,412,377

With the exception of borrowings relating to non-recourse project finance debt, which is secured against specific assets, none of the borrowings are secured against the Group assets.

At 31 December 2015, ESB was rated A- from Standard & Poor's, BBB+ from Fitch and Baa1 (equivalent to BBB+) from Moody's. The outlook on all three rating agencies at 31 December 2015 was stable.

1. ESB Eurobonds

The table below provides details of ESB Eurobonds included in borrowings at 31 December 2015:

Issuer	Value	Date	Tenor	Coupon
ESB Finance Limited	Stg£275.0 million	March 2010	10 years	6.500%
ESB Finance Limited	Euro €300.0 million	September 2012	5 years	6.250%
ESB Finance Limited	Euro €500.0 million	November 2012	7 years	4.375%
ESB Finance Limited	Euro €300.0 million	November 2013	10 years	3.494%
ESB Finance Limited	Euro €500.0 million	June 2015	12 years	2.125%

On 5 June 2015, ESB successfully raised a €500 million, 2.125% fixed rate Eurobond maturing in June 2027. In addition to this, on the same date, the Group successfully bought back a €300 million portion of its existing €600 million Eurobond debt which was originally raised in September 2012, as outlined above.

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

1. ESB Eurobonds (continued)

As the terms of the existing bond and the new issue were not substantially different, quantitatively or qualitatively, and the counterparty remained the same under International Accounting Standard 39 - Financial Instruments Recognition and Measurement, this transaction was considered an exchange of existing debt instruments rather than the issue of new debt. As it was an exchange of existing debt instruments the difference between the tendered value of the existing bonds and the par value of the new issue (€41.7 million) was rolled into the effective interest rate of the new bonds. The €41.7 million will be amortised to the income statement over the life of the new bonds. €2.0 million has been amortised to the income statement as at 31 December 2015.

2. Non-recourse long-term project finance debt

In September 2012 Carrington Power Limited (CPL), a 100 per cent owned subsidiary of ESB, completed the financial close of an 881 MW Combined Cycle Gas Turbine power plant in Carrington, near Manchester. Finance was structured on a 70:30 debt / equity basis, with the debt of Stg£523.0 million being provided by a syndicate of banks by way of non-recourse project finance, incorporating export credit support from the Swiss Export Credit Agency, SERV. Stg£372.4 million (2014: Stg£305.9 million) debt was drawn at the year end. The plant is scheduled to be commissioned in 2016 and the assets under construction are Stg£509.8 million at year end. The remainder of this debt is in relation to a wind farm in GB.

3. Fuel financing arrangement

In December 2012 the Group received €30.0 million from the sale of fuel inventories, and at the same date contracted to buy them back in December 2015 at a fixed price. This transaction had the effect of a financing arrangement and was treated as such in the financial statements. This amount was repaid as scheduled in December 2015.

4. NIE Networks Eurobonds

As part of the acquisition of NIE Networks, a Eurobond of Stg£175.0 million was also acquired at fair value at the acquisition date. This facility had a 6.875% fixed coupon rate and is repayable in 2018.

In June 2011, NIE Networks Limited issued a Stg£400.0 million 15 year sterling bond with a fixed coupon of 6.375%.

5. Long-term bank borrowings

Long-term bank borrowings include €406.0 million of floating rate debt borrowed on a bilateral basis, while the remainder is fixed interest debt.

A €1.44 billion revolving credit facility with a syndicate of 14 banks to draw down bank finance as required up to February 2020, with an option to extend this for a further two years was available to the Group. At 31 December 2015 €250 million was drawn on this facility.

The facility signed in December 2013 with the European Investment Bank (EIB) to support renewable connections to the electricity network in the southwest of Ireland was increased by a further €100 million in October 2014, bringing the total value of the facility up to €200 million dependent on the completion of certain specified capital expenditure. The facility is undrawn at 31 December 2015.

6. Private placement borrowings

The first private placement senior unsecured notes were issued, to a range of institutional investors, in December 2003. These fixed rate notes were issued in US dollars and sterling and at 31 December 2015 comprise US\$370.0 million, maturing on dates between 2018 and 2023, and Stg£20.0 million, maturing on dates between 2018 and 2023. US\$256.5 million of this first private placement debt was repaid in December 2015 as scheduled.

The second private placement senior unsecured notes were issued in June 2009. These notes were issued in US dollars, sterling and euro and at 31 December 2015 comprise US\$253.0 million, maturing on dates between 2016 and 2019, Stg£85.0 million maturing on dates between 2017 and 2021 and €40.0 million maturing in 2019. See note 26(f) for private placement debt swapped to euro at inception.

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

7. Non-recourse short-term project finance debt

Short-term non-recourse project funding of Stg£20.6 million had been drawn down at 31 December 2015. This is in relation to the financing of certain Airvolution projects (a Novusmodus investee).

Hedge of net investment in foreign operations

Included in borrowings above are sterling denominated bank loans, which have been designated as a hedge of the Group's investment in a sterling denominated subsidiary in the United Kingdom, as outlined below:

Sterling denominated loans designated as a hedge of Group's investment in subsidiary	2015 € '000	2014 € '000
Value at 1 January	73,477	80,041
Repayments in year	(13,123)	(11,822)
Loss on translation to euro	4,627	5,258
Value at 31 December	64,981	73,477
Gain on translation of intra-group euro loan to subsidiary (taken to OCI)	3,265	3,544

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

	Recourse borrowings € '000	2015 Total € '000	2014 Total € '000
PARENT			
Current borrowings			
- Repayable by instalments	92,823	92,823	89,467
- Repayable other than by instalments	272,574	272,574	241,049
Total current borrowings	365,397	365,397	330,516
Non-current borrowings			
- Repayable by instalments			
Between one and two years	97,538	97,538	88,535
Between two and five years	240,439	240,439	249,163
After five years	427,297	427,297	497,566
	765,274	765,274	835,264
- Repayable other than by instalments			
Between one and two years	45,438	45,438	22,194
Between two and five years	345,195	345,195	363,191
After five years	332,677	332,677	302,100
	723,310	723,310	687,485
Total non-current borrowings	1,488,584	1,488,584	1,522,749
Total borrowings outstanding	1,853,981	1,853,981	1,853,265

(b) Funding and liquidity management

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

At 31 December 2015 the Group had over €1.5 billion available in cash or cash equivalents and committed bank facilities, ensuring liquidity demands can be met as required. The committed bank facilities include a syndicated loan facility with a large number of well-rated financial institutions as well as facilities with the EIB. Included in the amount disclosed are facilities totalling €145 million (which may be increased to €200 million) and can only be drawn against certain specified capital expenditure.

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

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

Maturing	Drawn Debt - Group		Drawn Debt - Parent		Undrawn Facility - Group and Parent	
	2015 € '000	2014 € '000	2015 € '000	2014 € '000	2015 € '000	2014 € '000
In one year or less	418,825	370,592	365,397	330,516	-	-
Between one and two years	463,925	131,084	142,976	110,729	145,000	200,000
Between two and five years	1,808,151	2,018,438	585,634	612,354	1,190,000	1,387,161
In more than five years	2,418,238	2,262,855	759,974	799,666	-	-
	5,109,139	4,782,969	1,853,981	1,853,265	1,335,000	1,587,161

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

(b) Funding and liquidity management (continued)

The following table sets out the contractual maturities of Group borrowings, including the associated interest payments. Borrowings with a carrying value of €3,255.5 million (2014: €2,929.7 million) are included in the Group balances below, but do not comprise part of the Parent's liabilities.

	Carrying amount € '000	Contractual cash outflows / (inflows) - net € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
31 December 2015						
Recourse borrowings	3,785,276	4,694,995	528,860	596,682	1,786,736	1,782,717
Non-recourse borrowings	1,323,863	1,880,859	114,181	95,352	511,393	1,159,933
Total borrowings	5,109,139	6,575,854	643,041	692,034	2,298,129	2,942,650
31 December 2014						
Recourse borrowings	3,617,913	4,438,521	479,353	267,019	2,045,914	1,646,235
Non-recourse borrowings	1,165,056	1,771,297	71,400	83,583	477,649	1,138,665
Total borrowings	4,782,969	6,209,818	550,753	350,602	2,523,563	2,784,900

(c) Interest rate risk management

The Group's interest rate policy was updated in 2013 and the target is to have a significant majority of its debt at fixed (or inflation linked) interest rate to maturity, with a minimum of 50% fixed (or inflation linked) at all times. This is achieved either by borrowing directly at fixed interest rates or via interest rate swaps. At 31 December 2015, 92% of the Group's debt was fixed to maturity or inflation linked (2014: 96%). The fair value of interest rate swaps is disclosed in note 20.

In respect of income-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date taking into account the effect of interest rate swaps and cross currency swaps:

	Effective interest rate %	Total € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
Private placement borrowings (fixed interest rate)	6.5	754,840	24,785	47,658	349,634	332,763
Non-recourse borrowings (fixed interest rate)	6.0	1,323,863	46,973	27,305	361,842	887,743
Other long-term borrowings (fixed and variable interest rate)	4.9	3,030,436	347,067	388,962	1,096,675	1,197,732

Included within other long-term borrowings in this analysis are floating rate liabilities of €406.0 million (2014: €171.5 million).

The effective interest rate on the private placement borrowings has been fixed through the use of cross currency swaps and interest rate swaps. The effective rate of non-recourse sterling borrowings of £412.5 million has been fixed using interest rate swaps. In the absence of these interest rate swaps, the floating rate on the underlying sterling and euro borrowings at 31 December 2015 would be 0.43%, in line with prevailing interest rates in those monetary areas on borrowings of a similar duration. Inflation linked swaps are included at equivalent nominal interest rate levels.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates will have an impact on consolidated earnings. It is estimated that a general increase of 50 basis points in interest rates (and corresponding real interest rates) at 31 December would have increased profit before taxation and reduced equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant, including the assumption that there is no change in inflation rates.

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS AND OTHER DEBT (continued)

(c) Interest rate risk management (continued)

	31 December 2015		31 December 2014	
	50 bp increase gain / (loss) € '000	50 bp decrease gain / (loss) € '000	50 bp increase gain / (loss) € '000	50 bp decrease gain / (loss) € '000
Profit before taxation				
Interest payable	(2,030)	2,030	(858)	858
Fair value movements on financial instruments	42,640	(43,244)	59,513	(61,924)
Other comprehensive income				
Fair value gains / (losses)	19,106	(19,106)	18,304	(18,304)

The following assumptions were made in respect of the sensitivity analysis above:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments
- derivatives designated as cash flow hedges against movements in interest rates are assumed to be fully effective, recorded fully within equity with no impact on the income statement;
- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

NOTES TO THE FINANCIAL STATEMENTS

20. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Fair value by class of derivative financial instrument

Derivative financial instruments are carried at fair value. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The method used to calculate the fair value of the Group's financial instruments is discounted cash flow analysis using a zero coupon discount rate and reflecting counterparty credit risk. This method enables the Group to discount the cash flows at a rate equal to the prevailing market rate of interest taking into account maturity and credit margin.

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

GROUP	2015				Total € '000
	Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	
Interest rate swaps	3,750	-	(28,607)	-	(24,857)
Inflation linked interest rate swaps	-	-	(619,204)	(14,838)	(634,042)
Currency swaps	43,040	5,768	-	-	48,808
Foreign exchange contracts	283	6,820	(12,049)	(14,013)	(18,959)
Forward fuel price contracts	11,999	82,523	(94,677)	(178,253)	(178,408)
Forward electricity price contracts	177,493	119,289	-	-	296,782
	236,565	214,400	(754,537)	(207,104)	(510,676)

	2014				Total € '000
	Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	
Interest rate swaps	1,849	-	(35,352)	-	(33,503)
Inflation linked interest rate swaps	-	-	(626,136)	(15,070)	(641,206)
Currency swaps	-	-	(28,611)	(3,764)	(32,375)
Foreign exchange contracts	1,444	16,919	(7,251)	(28,663)	(17,551)
Forward fuel price contracts	82,611	136,960	(41,166)	(141,081)	37,324
Forward electricity price contracts	145,720	41,638	-	-	187,358
	231,624	195,517	(738,516)	(188,578)	(499,953)

PARENT	2015				Total € '000
	Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	
Interest rate swaps	17	-	-	-	17
Currency swaps	43,040	5,768	-	-	48,808
Foreign exchange contracts	283	6,767	(2,174)	(13,898)	(9,022)
Forward fuel price contracts	11,999	82,523	(40,495)	(136,761)	(82,734)
Forward electricity price contracts	37,566	44,340	-	-	81,906
	92,905	139,398	(42,669)	(150,659)	38,975

	2014				Total € '000
	Non-current assets € '000	Current assets € '000	Non-current liabilities € '000	Current liabilities € '000	
Interest rate swaps	636	-	(115)	-	521
Currency swaps	-	-	(28,611)	(3,764)	(32,375)
Foreign exchange contracts	1,444	16,846	(5,005)	(28,116)	(14,831)
Forward fuel price contracts	29,095	120,113	(39,058)	(136,303)	(26,153)
Forward electricity price contracts	22,128	-	-	-	22,128
	53,303	136,959	(72,789)	(168,183)	(50,710)

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

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

The interest rate used to discount future estimated cash flows was 0.9% (2014: 0.9%). The rate is based on the EURIBOR yield curve at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

(i) Interest rate swaps

The Group has executed interest rate swaps of Stg£805.0 million in connection with certain of its borrowings, including project finance debt secured by Carrington Power Limited and West Durham Wind Farm Limited and in relation to fixed rate borrowings held by the Parent and ESB Finance Limited.

For interest rate swaps, the fair value takes into account the fixed, floating and market rates prevailing at the year end. As interest rate swaps are marked to market at the year end, their carrying value is equal to their fair value.

Total fair value gains of €8.6 million (2014: gains of €27.9 million) were recognised during the year in relation to interest rate swaps, of which gains of €2.9 million were recognised directly in finance costs in the income statement, with gains of €5.7 million recognised in OCI (2014: losses of €54.3 million recognised in OCI).

(ii) Inflation linked interest rate swaps

Inflation linked interest rate swaps with a fair value on acquisition of €272.5 million were acquired in December 2010 as part of the purchase of NIE Networks. The inflation linked interest rate swaps did not qualify for hedge accounting under IAS 39 on acquisition of NIE Networks. 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.

During 2014 the Group and its counterparty banks agreed a restructuring of the swaps, including amendments to certain critical terms. These changes included an extension of the mandatory break period in the swaps from 2015 to 2022, immediate settlement in 2014 of accrued accretion payments of €90.1 million (previously due for payment in 2015), amendments to the fixed interest rate element of the swaps, and an expansion in the number of swap counterparties. Future accretion payments are now scheduled to occur every 5 years, starting in 2018, with remaining accretion paid at maturity in 2036.

Arising from movements in forward interest rates and RPI forward prices during the year, positive fair value movements of €7.2 million occurred in 2015 (2014: negative fair value movements of €244.9 million). These have been recognised within finance costs in the income statement.

(iii) Currency swaps

The fair value of currency swaps is affected by movements in foreign exchange and interest rates. ESB's currency swaps are primarily classified as cash flow hedges and relate mainly to the cross currency swaps entered into in connection with the private placement debt, which is described in note 19. These cross currency swaps were entered into in order to swap US dollar and sterling interest and principal repayments on the underlying debt to euro, thereby hedging the risk on these payments as a result of restructuring over the periods to maturity from 2010 to 2023.

Ineffectiveness under the meaning of IAS 39 arose on the currency swaps during the year and resulted in the recognition of a charge of €nil (2014: credit €0.3 million) within finance costs in the income statement. Separately included in the income statement in 2015 is a transfer from the cash flow hedge reserve of €63.7 million (2014: transfer of €87.0 million) arising on cross currency swaps which is fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates (see note 7).

In addition to foreign currency forward contracts entered into in relation to the Group's borrowings, the Group has entered into foreign currency contracts in relation to pool purchases, fuel purchase requirements (which are in US dollars and sterling) and in relation to power station projects (including Carrington Power Limited). These contracts have maturities extending until 2022. Total negative fair value movements of €1.4 million (2014: negative movements of €20.9 million) were recognised during the year in relation to such foreign exchange contracts, of which a negative fair value movement of €13.0 million (2014: positive movements of €0.6 million) was recognised through other comprehensive income and a positive fair value movement of €11.6 million (2014: negative movements of €21.5 million) was recognised in the income statement.

Fair value hierarchy

Further information on the methods of valuing financial instruments is included in note 26.

NOTES TO THE FINANCIAL STATEMENTS

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) Funding and liquidity management - maturity of derivative financial instruments

The following table sets out the contractual maturities of derivative financial instruments, including the associated undiscounted net cash flows attributable to them. These derivative financial instruments are expected to impact profit or loss over a time period similar to the cash outflows. Net derivative financial instrument liabilities of €549.6 million (2014: €449.2million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities. See note 26 (b) for further analysis of Group and Parent financial assets and liabilities.

	Carrying amount € '000	Contractual cash outflows / (inflows) - net € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
31 December 2015						
Interest rate swaps	28,607	116,337	11,862	14,772	39,948	49,755
Inflation linked interest rate swaps	634,042	769,639	14,900	11,935	104,776	638,028
Foreign exchange contracts	26,062	26,291	13,974	2,985	2,024	7,308
Forward fuel price contracts	272,930	273,872	170,783	73,442	29,647	-
Total liabilities	961,641	1,186,139	211,519	103,134	176,395	695,091
Interest rate swaps	3,750	21,912	3,728	3,649	13,810	725
Currency swaps	48,808	105,950	11,490	5,702	63,649	25,109
Foreign exchange contracts	7,103	7,078	6,795	249	34	-
Forward fuel price contracts	94,522	94,025	81,963	12,026	36	-
Forward electricity price contracts	296,782	296,241	118,698	103,577	73,966	-
Total assets	450,965	525,206	222,674	125,203	151,495	25,834
Net derivative (assets) / liabilities	510,676	660,933	(11,155)	(22,069)	24,900	669,257
31 December 2014						
Interest rate swaps	35,352	100,563	10,380	10,736	32,244	47,203
Inflation linked interest rate swaps	641,206	773,622	15,151	12,392	123,394	622,685
Currency swaps	32,375	(24,838)	1,348	(5,119)	(27,084)	6,017
Foreign exchange contracts	35,914	35,175	27,847	3,851	2,355	1,122
Forward fuel price contracts	182,247	182,264	141,092	41,172	-	-
Total liabilities	927,094	1,066,786	195,818	63,032	130,909	677,027
Interest rate swaps	1,849	24,823	3,619	3,638	10,558	7,008
Foreign exchange contracts	18,363	18,355	16,908	1,426	21	-
Forward fuel price contracts	219,571	219,995	136,968	47,309	35,718	-
Forward electricity price contracts	187,358	187,928	41,343	52,921	93,664	-
Total assets	427,141	451,101	198,838	105,294	139,961	7,008
Net derivative (assets) / liabilities	499,953	615,685	(3,020)	(42,262)	(9,052)	670,019

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES

The Group operates a number of pension schemes for staff in both the Republic of Ireland and Northern Ireland. Pension arrangements in respect of staff in the Republic of Ireland including ESB employees seconded overseas are set out in sections (a) and (b) below. Pension arrangements in respect of staff in Northern Ireland are described in section (c).

(a) Parent and Group - Republic of Ireland

(i) ESB Defined Benefit Pension Scheme (The Scheme) (formerly ESB General Employees' Superannuation Scheme)

Pensions for the majority of employees in the electricity business are funded through a contributory pension scheme called the ESB Defined Benefit Pension Scheme. The fund is vested in trustees nominated by ESB and its members for the sole benefit of employees and their dependants. The Scheme is a defined benefit scheme and is registered as such with the Pensions Authority.

The regulations governing the Scheme stipulate the benefits that are to be provided and the contributions to be paid by both ESB and the contributing members. Notwithstanding the defined benefit nature of the benefits, ESB has no legal obligation to increase contributions to maintain those benefits in the event of a deficit. ESB's rate of contribution cannot be altered without the agreement of ESB and approval of the Minister for Communications, Energy and Natural Resources. Should a deficit arise in the future, the Company is obliged under the regulations to consult with the Superannuation Committee, the Trustees and the Scheme Actuary to consider the necessity of submitting an amending Scheme for Ministerial approval. This is different to the normal 'balance of cost' defined benefit approach, where the employer is liable to pay the balance of contributions required to fund benefits.

History

Historically the contributions of both ESB and members have been fixed by the Scheme regulations for long periods. On a number of occasions since the early 1980s, a deficit in the Scheme has been reported by the Scheme actuary. On each occasion ESB has, in accordance with its obligations under the Scheme rules, consulted with the committee, the trustees and the actuary. Following discussions with the unions, deficits were resolved by increasing contributions by both the Company and pension Scheme members.

The 2010 Pensions Agreement followed a 31 December 2008 actuarial deficit of €1,957.0 million. It was recognised that it was not feasible to address such a deficit through increased contributions. Negotiations between the Company and ESB Group of Unions (employee representatives) concluded with the landmark 2010 Pensions Agreement (approved by employees in July 2010 and formally ratified by the Board of ESB on 20 October 2010). The main features of the Agreement included the introduction of a Career Average Revalued Earnings (CARE) pension model for benefits earned after 1 January 2012, pension and pay freezes, the cessation of the historic link between salary and pension increases, and the application of a solvency test in relation to any future pension increases. The fixed contribution rates for the employer and for Scheme members were not changed. Under the Agreement ESB agreed to a once off cash injection into the Scheme, payable over a number of years, which had an agreed valuation for actuarial purposes as at 1 January 2010 of €591.0 million. Under the Agreement membership of the Scheme has been closed to new joiners. The changes brought about by the 2010 Pensions Agreement were subsequently approved by the Minister.

The Scheme does not have a deficit on an ongoing actuarial basis. It would have a deficit in a wind-up situation (Minimum Funding Standard) but a funding plan has been approved by the Pensions Authority to resolve this deficit by 2018. According to the last Minimum Funding Standard review in 2015 this plan was on track and there are no plans to wind up the Scheme. The Company does not intend that any further contributions, other than the normal ongoing contributions (up to 16.4% of pensionable salary, in addition to employee contributions of up to 8.5%) and the balance of the Company's €591.0 million additional contribution (committed to as part of the 2010 Agreement), will be made. Should a deficit arise in the future, the obligation on the Company, as set out in the Scheme regulations, to consult with the parties to the Scheme remains unchanged.

Definitions

There are three different methods of assessing the financial status of the Scheme:

- Ongoing Actuarial Valuation.
 - Minimum Funding Standard, under the Pensions Acts.
 - Accounting, as set out in International Accounting Standard 19 (revised), Employee Benefits.
- Each of these methods assesses the Scheme from specific perspectives using assumptions and projections which may differ.

Ongoing actuarial valuation

This valuation method assumes that both the Scheme and the Company continue in existence for the foreseeable future - it is not a wind-up valuation. The Scheme actuary confirmed in 2015 that the Scheme is in balance on an ongoing actuarial basis, i.e. that based on the assumptions made, the Scheme is projected to be able to meet its obligations as they fall due.

Wind up / Minimum Funding Standard Valuation

The Pensions Act requires the Trustees of the Scheme to also assess whether it could meet a certain prescribed standard, known as the Minimum Funding Standard (MFS). This assesses whether, if the Scheme were wound up on a specified theoretical valuation date, it could secure the benefits on that date. It should be noted that ESB does not envisage the winding up of the Scheme.

The Scheme actuary reported at the end of 2011 that the Scheme did not satisfy the Minimum Funding Standard requirements. To address this, the Scheme trustees, with the agreement of ESB, submitted a funding plan to the Pensions Authority, which was approved in October 2012. This funding plan aims to resolve the Minimum Funding Standard requirements by the end of 2018 and during 2015 this Scheme actuary confirmed that this Plan was on track to meet that objective based on existing contribution levels (including the €591.0 million commitment from the 2010 Pensions Agreement).

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES (continued)

Accounting

IAS 19 (revised) Employee Benefits is the relevant accounting standard to determine the way post-employment benefits should be reflected in ESB's financial statements.

The financial statements reflect the following obligations to the Scheme:

- Ongoing contributions - these are recognised in the income statement as incurred. Any unpaid amounts at year end are recognised as liabilities on the balance sheet.
- Obligations of €648.1 million to the Scheme are also included on the balance sheet, made up of:
 - 2010 Pension Agreement Injection - the Company committed to making an exceptional cash injection of €591.0 million (PV in 2010 money based on a rate of 6.25%) over a period of up to 12 years into the Scheme. Amounts yet to be paid to the Scheme under this part of the Pension Agreement are effectively subject to an annual financing charge and this is expensed in the income statement. €249.0 million has been paid into the Scheme to date.
 - Past service contributions - the ongoing rate of contribution by ESB includes a contribution towards past service accrued in 2010. The present value of future contributions in respect of that past service are recognised on the balance sheet.
 - Past Voluntary Severance (VS) Programmes - in 2010 the Company recognised a future fixed commitment in respect of staff who had left the Company under previous VS programmes. ESB will make pension contributions in respect of those staff and the fair value of those future contributions are also recognised on the balance sheet.

(b) ESB Defined Contribution Pension Scheme - Republic of Ireland

ESB also operates an approved defined contribution scheme called ESB Defined Contribution Pension Scheme for employees of ESB subsidiary companies (other than NIE Networks) and, from 1 November 2010, new staff of the Parent. Contributions are paid by the members and the employer at fixed rates. The benefits secured at retirement reflect each employee's accumulated fund and the cost of purchasing benefits at that time. Death benefits are insured on a Group basis and may be paid in the form of a lump sum and/or survivor's pension. The assets of the Scheme are held in a separate trustee administered fund. The pension charge for the year represents the defined employer contribution and amounted to €8.6 million (2014: €7.5 million).

(c) Northern Ireland Electricity Networks (NIE Networks) Pension Scheme

The majority of the employees in NIE Networks Limited and subsidiaries 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 6% 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.

In June 2011, the IASB published an amended version of IAS 19 Employee Benefits which is applicable for annual periods beginning on or after 1 January 2013. As a result of this change, the Group determines the net interest expense by applying the discount rate used to measure the pension obligation at the beginning of the annual period to the net liability.

Financial assumptions

The valuation of the Focus section of the NIE Networks Scheme by independent actuaries for the purpose of IAS 19 disclosures is based on the following assumptions:

	% at 31 December 2015	% at 31 December 2014
Rate of interest applied to discount liabilities	3.80	3.50
Price inflation (CPI in the United Kingdom)	1.90	1.90
Rate of increase of pensionable salaries	3.00	3.25
Rate of increase of pensions in payment	1.90	1.90

The discount rate used in the calculation of the pension liability at 31 December 2015 was 3.8% (2014: 3.5%). This was determined by reference to market yields as at that date on high quality corporate bonds. The currency and term of the corporate bonds was consistent with the currency and estimated term of the post-employment benefit obligations.

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES (continued)

(c) Northern Ireland Electricity Networks (NIE Networks) Pension Scheme (continued)

Mortality assumptions

The assumptions relating to life expectancy at retirement for members are set out below. These assumptions are based on standard actuarial mortality tables and include an allowance for future improvements in life expectancy.

	At 31 December 2015		At 31 December 2014	
	Males Years	Females Years	Males Years	Females Years
Current pensioners at aged 60	27.1	29.7	26.5	29.0
Future pensioners currently aged 40 (life expectancy age 60)	29.1	31.7	28.1	30.6

Pension assets and liabilities

The assets and liabilities in the Focus section of the NIE Networks Scheme are:

	At 31 December 2015 €'000	At 31 December 2014 €'000
Equities	289,938	269,856
Bonds	276,179	515,082
Multi-asset credit investment	239,510	-
Diversified growth	539,971	527,598
Other	6,676	6,649
Fair value of plan assets	1,352,274	1,319,185
Present value of funded obligations	(1,494,343)	(1,483,207)
Net deficit	(142,069)	(164,022)

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION LIABILITIES (continued)

(c) Northern Ireland Electricity Networks (NIE Networks) Pension Scheme (continued)

	At 31 December 2015 €'000	At 31 December 2014 €'000
Change in benefit obligation		
Benefit obligation at the beginning of the year	1,483,207	1,299,395
Movement during the year:		
Current service cost	10,126	9,861
Interest cost	54,549	57,225
Plan members' contributions	603	605
Actuarial (gain) / loss - impact of assumption changes	(46,943)	102,159
Actuarial (gain) / loss - experience loss	(23,437)	-
Benefits paid	(78,530)	(82,658)
Re-apportionment of PES liabilities to NIE Networks Limited	2,604	-
Other	-	(446)
Past service cost	147	2,367
Translation difference on benefit obligation in the year	92,017	94,699
Benefit obligation at the end of the year	1,494,343	1,483,207
Change in plan assets		
Fair value of plan assets at the beginning of the year	1,319,185	1,189,729
Movement during the year:		
Interest on plan assets	48,898	52,942
Actuarial gains / (losses)	(53,160)	41,431
Employer contributions	31,281	31,488
Plan members' contributions	603	605
Re-apportionment of PES liabilities to NIE Networks Limited	2,604	-
Other	(120)	-
Benefits paid	(78,530)	(82,658)
Article 75 contribution	-	323
Translation difference on assets in the year	81,513	85,325
Fair value of plan assets at the end of the year	1,352,274	1,319,185
Actual return on plan assets for the year	(4,261)	94,373
	2015	2014
	€ '000	€ '000
Analysis of the amounts recognised in employee costs as part of employee benefits were as follows:		
Current service cost	(10,126)	(9,861)
Past service costs	(147)	(2,367)
Total defined benefit charge in year	(10,273)	(12,228)
	2015	2014
	€ '000	€ '000
Analysis of the amounts recognised in finance costs, as net pension scheme interest:		
Interest on pension scheme assets	48,898	52,942
Interest on pension scheme liabilities	(54,549)	(57,225)
Net pension scheme interest	(5,651)	(4,283)
	2015	2014
	€ '000	€ '000
Analysis of the amounts recognised in the statement of comprehensive income:		
Actual return on assets less interest	(53,160)	41,431
Actuarial gains / (loss) on liabilities	70,380	(102,159)
Net actuarial gain / (loss)	17,220	(60,728)

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Pension Liability	2015 € 'm	2014 € 'm
Discount rate (0.1% movement)	19.6	21.2
Inflation rate (0.1% movement)	(19.9)	(19.4)
Future mortality (1 year)	(43.2)	(49.4)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

NOTES TO THE FINANCIAL STATEMENTS

22. LIABILITY - ESB PENSION SCHEME AND EMPLOYEE RELATED LIABILITIES

GROUP	Liability - ESB pension scheme € '000	Employee related liabilities		Total € '000
		Restructuring liabilities € '000	Other € '000	
Balance at 1 January 2014	766,228	152,271	30,500	182,771
Movements during the year:				
Charge to the income statement	-	-	29,360	29,360
Utilised during the year	(69,844)	(21,492)	(27,347)	(48,839)
Financing charge	34,686	2,372	-	2,372
Translation differences	-	13	25	38
Balance at 31 December 2014	731,070	133,164	32,538	165,702
Balance at 1 January 2015	731,070	133,164	32,538	165,702
Movements during the year:				
(Release) / charge to the income statement	-	(3,998)	28,306	24,308
Utilised during the year	(113,729)	(18,644)	(27,191)	(45,835)
Financing charge	30,788	1,190	-	1,190
Translation differences	-	14	31	45
Balance at 31 December 2015	648,129	111,726	33,684	145,410
Analysed as follows:				
Non-current liabilities	493,148	91,057	-	91,057
Current liabilities	154,981	20,669	33,684	54,353
Total	648,129	111,726	33,684	145,410

PARENT	Liability - ESB pension scheme € '000	Employee related liabilities		Total € '000
		Restructuring liabilities € '000	Other € '000	
Balance at 1 January 2014	766,228	152,091	23,592	175,683
Movements during the year:				
Charge to the income statement	-	-	24,798	24,798
Utilised during the year	(69,844)	(21,492)	(24,100)	(45,592)
Financing charge	34,686	2,372	-	2,372
Balance at 31 December 2014	731,070	132,971	24,290	157,261
Balance at 1 January 2015	731,070	132,971	24,290	157,261
Movements during the year:				
(Release) / charge to the income statement	-	(3,998)	24,045	20,047
Utilised during the year	(113,729)	(18,738)	(22,471)	(41,209)
Financing charge	30,788	1,190	-	1,190
Balance at 31 December 2015	648,129	111,425	25,864	137,289
Analysed as follows:				
Non-current liabilities	493,148	90,829	-	90,829
Current liabilities	154,981	20,596	25,864	46,460
Total	648,129	111,425	25,864	137,289

NOTES TO THE FINANCIAL STATEMENTS

22. LIABILITY - ESB PENSION SCHEME AND EMPLOYEE RELATED LIABILITIES (continued)

Liability - ESB Pension Scheme

See note 21 (a).

Restructuring liabilities

This provision represents the estimated cost of providing post employment payments to former employees, other than those amounts covered by the pension scheme. It includes liabilities for continuing payments to employees who left under past voluntary severance initiatives, which are expected to be materially discharged by 2027. Expected future cash flows are discounted to present value using long-term interest rates based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread.

Other

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

23. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2015 € '000	2014 € '000	2015 € '000	2014 € '000
Current Payables:				
Trade payables	350,692	358,845	180,786	205,736
Progress payments on work in progress	76,815	62,781	-	-
Other payables	43,070	21,701	19,089	12,471
Employment taxes	20,199	17,520	18,216	15,680
Value added tax	35,681	46,618	14,992	21,981
Accruals	85,737	101,660	20,741	20,759
Amounts owed to subsidiary undertakings	-	-	3,104,118	2,829,356
Accrued interest on borrowings	83,341	79,023	35,670	9,436
Total	695,535	688,148	3,393,612	3,115,419
	2015 € '000	2014 € '000	2015 € '000	2014 € '000
Non-current payables:				
Other payables	8,686	8,185	-	-

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED INCOME AND GOVERNMENT GRANTS

	Supply contributions and other €'000
GROUP	
Balance at 1 January 2014	608,320
Receivable	29,695
Released to the income statement	(59,644)
Translation differences	473
Balance at 31 December 2014	578,844
Balance at 1 January 2015	578,844
Receivable	36,959
Released to the income statement	(57,530)
Translation differences	11
Balance at 31 December 2015	558,284
Analysed as follows	
Non-current liabilities	510,011
Current liabilities	48,273
Total	558,284
	Supply contributions and other €'000
PARENT	
Balance at 1 January 2014	591,779
Receivable	9,348
Released to the income statement	(33,667)
Balance at 31 December 2014	567,460
Balance at 1 January 2015	567,460
Receivable	1,034
Released to the income statement	(32,422)
Transfer to Group	(2,530)
Balance at 31 December 2015	533,542
Analysed as follows	
Non-current liabilities	500,434
Current liabilities	33,108
Total	533,542

Non-repayable supply contributions and capital grants received prior to July 2009 were recorded as deferred income and released to the income statement on a basis consistent with the depreciation policy of the relevant assets. Accounting for supply contributions post July 2009 have been described further in the statement of accounting policies in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

25. PROVISIONS

GROUP	Power station closure costs € '000	Emissions provisions € '000	Other € '000	Total € '000
Balance at 1 January 2014	139,004	63,958	56,776	259,738
Charged to the income statement				
- Emissions	-	49,125	-	49,125
- Legal and other	-	-	4,813	4,813
- Station closure	282	-	-	282
Utilised in the year	(7,303)	(63,910)	(6,081)	(77,294)
Financing charge	2,947	-	930	3,877
Translation differences	175	158	817	1,150
Balance at 31 December 2014	135,105	49,331	57,255	241,691
Balance at 1 January 2015	135,105	49,331	57,255	241,691
Charged to the income statement				
- Emissions	-	63,145	-	63,145
- Legal and other	-	-	14,821	14,821
ESOP provision (note 30)	-	-	12,080	12,080
Utilised in the year	(5,139)	(50,259)	(3,750)	(59,148)
Financing charge	1,568	-	462	2,030
Translation differences	173	(85)	724	812
Balance at 31 December 2015	131,707	62,132	81,592	275,431
Analysed as follows:				
Non-current liabilities	129,693	-	66,738	196,431
Current liabilities	2,014	62,132	14,854	79,000
Total	131,707	62,132	81,592	275,431

PARENT	Power station closure costs € '000	Emissions provisions € '000	Other € '000	Total € '000
Balance at 1 January 2014	134,487	53,545	44,668	232,700
Charged to income statement				
- Emissions	-	38,572	-	38,572
- Legal and Other	-	-	3,462	3,462
Utilised in the year	(7,303)	(51,403)	(3,524)	(62,230)
Financing Charge	2,532	-	931	3,463
Balance at 31 December 2014	129,716	40,714	45,537	215,967
Balance at 1 January 2015	129,716	40,714	45,537	215,967
Charged to the income statement				
- Emissions	-	47,044	-	47,044
- Legal and other	-	-	2,096	2,096
ESOP provision (note 30)	-	-	12,080	12,080
Utilised in the year	(5,139)	(39,462)	(3,127)	(47,728)
Financing charge	1,388	-	462	1,850
Balance at 31 December 2015	125,965	48,296	57,048	231,309
Analysed as follows:				
Non-current liabilities	123,951	-	42,782	166,733
Current liabilities	2,014	48,296	14,266	64,576
Total	125,965	48,296	57,048	231,309

NOTES TO THE FINANCIAL STATEMENTS

25. PROVISIONS (continued)

Power station closure costs

The provision at 31 December 2015 of €131.7 million (2014: €135.0 million) for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2025. As the costs are provided on a discounted basis, a financing charge is included in the income statement and added to the provision each year. The power station closure provision is re-examined annually and the liability re-calculated in accordance with the current expected station closure dates. The estimated value of future closure costs at the balance sheet date include physical dismantling, site remediation, de-manning and associated costs.

There are a number of uncertainties that affect the calculation of the provision for station closure, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, the impact of alternative technologies and changes in the discount rate. The Group has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision. Expected future cash flows are discounted to present value using long-term interest rates based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread.

Emissions provisions

In accordance with the provisions of the European CO₂ Emissions Trading Scheme, a provision is recognised to cover the liability for actual emissions during the year. Allowances purchased during the year are returned to the relevant Authority in charge of the scheme within four months from the end of that calendar year, in line with the actual emissions of CO₂ during the year. The year end provision represents the obligation to return emissions allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO₂ emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability.

Other provisions

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

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

(a) Overview of financial risk management

Risk environment

The main financial risks faced by the Group relate to liquidity, foreign exchange, interest rate, commodity (electricity and fuel) price movements and operational risk. Policies to protect the Group from these risks, and other risk areas, such as credit risk, are regularly reviewed, revised and approved by the Board as appropriate. Group Treasury is responsible for the day to day treasury activities of the Group. The Finance and Investment Committee is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the Committee for review.

Commodity price risk is managed by the front and middle office functions of the relevant business units: ESB Trading (located within Generation and Wholesale Markets) and Electric Ireland. This is done in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit. The Group Trading Risk Management function ensures that the Group's market, credit and operational risks are managed in a way to protect the Group from loss, while respecting the ring-fencing obligations in place between the business units.

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

Risk reporting structure

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

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

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

For further information on the Group's Risk Management Policy and objectives see the Risk Management Report on pages 14 to 19.

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 IAS 39 is used both for hedges of foreign currency liabilities and interest rate risks from current and non-current liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Overview of financial assets and liabilities

Financial assets and liabilities, excluding provisions and employee related liabilities, at 31 December 2015, and at 31 December 2014 can be analysed as follows:

GROUP	Financial assets at fair value through profit or loss		Assets / (liabilities) held at amortised cost		Derivative financial instruments with hedging relationships		Derivative financial instruments with no hedging relationships		Total	
	2015 € '000	2014 € '000	2015 € '000	2014 € '000	2015 € '000	2014 € '000	2015 € '000	2014 € '000	2015 € '000	2014 € '000
ASSETS										
Non-current assets										
Trade and other receivables	-	-	44,777	-	-	-	-	-	44,777	-
Financial asset investments	62,563	63,638	-	-	-	-	-	-	62,563	63,638
Derivative financial instruments	-	-	-	-	165,993	218,544	70,572	13,080	236,565	231,624
Total non-current financial assets	62,563	63,638	44,777	-	165,993	218,544	70,572	13,080	343,905	295,262
Current assets										
Trade and other receivables	-	-	751,177	809,523	-	-	-	-	751,177	809,523
Cash and cash equivalents	-	-	133,863	143,731	-	-	-	-	133,863	143,731
Derivative financial instruments	-	-	-	-	181,205	75,435	33,195	120,082	214,400	195,517
Total current financial assets	-	-	885,040	953,254	181,205	75,435	33,195	120,082	1,099,440	1,148,771
Total financial assets	62,563	63,638	929,817	953,254	347,198	293,979	103,767	133,162	1,443,345	1,444,033
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	-	-	4,690,314	4,412,377	-	-	-	-	4,690,314	4,412,377
Trade and other payables	-	-	8,686	8,185	-	-	-	-	8,686	8,185
Derivative financial instruments	-	-	-	-	110,664	94,164	643,873	644,352	754,537	738,516
Total non-current financial liabilities	-	-	4,699,000	4,420,562	110,664	94,164	643,873	644,352	5,453,537	5,159,078
Current liabilities										
Borrowings and other debt	-	-	418,825	370,592	-	-	-	-	418,825	370,592
Trade and other payables	-	-	695,535	688,148	-	-	-	-	695,535	688,148
Derivative financial instruments	-	-	-	-	115,647	57,284	91,457	131,294	207,104	188,578
Total current financial liabilities	-	-	1,114,360	1,058,740	115,647	57,284	91,457	131,294	1,321,464	1,247,318
Total financial liabilities	-	-	5,813,360	5,479,302	226,311	151,448	735,330	775,646	6,775,001	6,406,396

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Overview of financial assets and liabilities (continued)

	Financial assets at fair value through profit or loss		Assets / (liabilities) held at amortised cost		Derivative financial instruments with hedging relationships		Derivative financial instruments with no hedging relationships		Total	
	2015 € '000	2014 € '000	2015 € '000	2014 € '000	2015 € '000	2014 € '000	2015 € '000	2014 € '000	2015 € '000	2014 € '000
PARENT										
ASSETS										
Non-current assets										
Derivative financial instruments	-	-	-	-	63,443	41,435	29,462	11,868	92,905	53,303
Total non-current financial assets	-	-	-	-	63,443	41,435	29,462	11,868	92,905	53,303
Current assets										
Trade and other receivables	-	-	3,181,023	3,017,734	-	-	-	-	3,181,023	3,017,734
Cash and cash equivalents	-	-	17,202	56,384	-	-	-	-	17,202	56,384
Derivative financial instruments	-	-	-	-	69,400	17,209	69,998	119,750	139,398	136,959
Total current financial assets	-	-	3,198,225	3,074,118	69,400	17,209	69,998	119,750	3,337,623	3,211,077
Total financial assets	-	-	3,198,225	3,074,118	132,843	58,644	99,460	131,618	3,430,528	3,264,380
LIABILITIES										
Non-current liabilities										
Borrowings and other debt	-	-	1,488,584	1,522,749	-	-	-	-	1,488,584	1,522,749
Derivative financial instruments	-	-	-	-	21,968	59,445	20,701	13,344	42,669	72,789
Total non-current financial liabilities	-	-	1,488,584	1,522,749	21,968	59,445	20,701	13,344	1,531,253	1,595,538
Current liabilities										
Borrowings and other debt	-	-	365,397	330,516	-	-	-	-	365,397	330,516
Trade and other payables	-	-	3,393,612	3,115,419	-	-	-	-	3,393,612	3,115,419
Derivative financial instruments	-	-	-	-	74,040	51,959	76,619	116,224	150,659	168,183
Total current financial liabilities	-	-	3,759,009	3,445,935	74,040	51,959	76,619	116,224	3,909,668	3,614,118
Total financial liabilities	-	-	5,247,593	4,968,684	96,008	111,404	97,320	129,568	5,440,921	5,209,656

The Group's provisions and employee related liabilities are not analysed in the table above, or in the further analysis below. This includes the liability for pension obligation of €648.1 million at 31 December 2015 (2014: €731.0 million). See notes 21, 22 and 25 for further information in relation to this and to the other provisions and employee related liabilities.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Funding and liquidity management

The following table sets out the contractual maturities of financial liabilities (and assets of a similar nature), including the interest payments associated with borrowings, and the undiscounted net cash flows attributable to derivative financial instruments. Borrowings with a carrying value of €3,255.1 million (2014: €2,929.7 million), and net derivative financial instrument assets of €549.6 million (2014: €449.2 million) are included in the Group balances below, but do not comprise part of the Parent's assets and liabilities. See notes 19, 20 and 23 for further analysis of Group and Parent financial assets and liabilities.

	Carrying amount € '000	Contractual cash outflows / (inflows) - net € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
31 December 2015						
Borrowings	5,109,139	6,575,854	643,041	692,034	2,298,129	2,942,650
Trade and other payables (excluding tax balances and accrued interest on borrowings)	565,000	565,000	556,314	8,686	-	-
Derivative financial liability	961,641	1,186,139	211,519	103,134	176,395	695,091
Total liabilities	6,635,780	8,326,993	1,410,874	803,854	2,474,524	3,637,741
Derivative financial asset	450,965	525,206	222,674	125,203	151,495	25,834
Total assets	450,965	525,206	222,674	125,203	151,495	25,834
Net liabilities	6,184,815	7,801,787	1,188,200	678,651	2,323,029	3,611,907
31 December 2014						
Borrowings	4,782,969	6,209,818	550,753	350,602	2,523,563	2,784,900
Trade and other payables (excluding tax balances and accrued interest on borrowings)	553,171	553,171	544,986	8,185	-	-
Derivative financial liability	927,094	1,066,786	195,818	63,032	130,909	677,027
Total liabilities	6,263,234	7,829,775	1,291,557	421,819	2,654,472	3,461,927
Derivative financial asset	427,141	451,101	198,838	105,294	139,961	7,008
Total assets	427,141	451,101	198,838	105,294	139,961	7,008
Net liabilities	5,836,093	7,378,674	1,092,719	316,525	2,514,511	3,454,919

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivative Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency or commodity are aggregated into a single net amount that is payable by one party to the other. In certain circumstances - for example when a credit event such as default occurs - all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The following tables provide information on the impact of netting for instruments subject to an enforceable master netting agreement or similar agreement and the carrying amounts of recognised financial instruments that are subject to the above agreements.

	Gross amount of financial instruments on the balance sheet € '000	Amounts not offset on the balance sheet € '000	Net amount € '000
GROUP			
31 December 2015			
Financial assets			
Interest rate swaps	3,750	(1,520)	2,230
Currency swaps	48,808	-	48,808
Foreign exchange contracts	7,103	(6,179)	924
Forward fuel price contracts	94,522	(74,708)	19,814
Forward electricity price contracts	296,782	(65,563)	231,219
	450,965	(147,970)	302,995
Financial liabilities			
Interest rate swaps	(28,607)	1,520	(27,087)
Inflation linked interest rate swaps	(634,042)	-	(634,042)
Foreign exchange contracts	(26,062)	17,296	(8,766)
Forward fuel price contracts	(272,930)	129,154	(143,776)
	(961,641)	147,970	(813,671)
31 December 2014			
Financial assets			
Interest rate swaps	1,849	(1,011)	838
Foreign exchange contracts	18,363	(16,783)	1,580
Forward fuel price contracts	219,571	(132,075)	87,496
Forward electricity price contracts	187,358	(20,614)	166,744
	427,141	(170,483)	256,658
Financial liabilities			
Interest rate swaps	(35,352)	1,011	(34,341)
Inflation linked interest rate swaps	(641,206)	-	(641,206)
Currency swaps	(32,375)	-	(32,375)
Foreign exchange contracts	(35,914)	31,874	(4,040)
Forward fuel price contracts	(182,247)	137,598	(44,649)
	(927,094)	170,483	(756,611)

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Master netting or similar agreements (continued)

	Gross Amount of financial instruments on the balance sheet € '000	Amounts not offset on the balance sheet € '000	Net amount € '000
PARENT			
31 December 2015			
Financial assets			
Interest rate swaps	17	-	17
Currency swaps	48,808	-	48,808
Foreign exchange contracts	7,050	(5,757)	1,293
Forward fuel price contracts	94,522	(60,196)	34,326
Forward electricity price contracts	81,906	(76,606)	5,300
	232,303	(142,559)	89,744
Financial liabilities			
Foreign exchange contracts	(16,072)	13,635	(2,437)
Forward fuel price contracts	(177,256)	128,924	(48,332)
	(193,328)	142,559	(50,769)
31 December 2014			
Financial assets			
Interest rate swaps	636	(115)	521
Foreign exchange contracts	18,290	(16,710)	1,580
Forward fuel price contracts	149,208	(131,089)	18,119
Forward electricity price contracts	22,128	(20,614)	1,514
	190,262	(168,528)	21,734
Financial liabilities			
Interest rate swaps	(115)	115	-
Currency swaps	(32,375)	-	(32,375)
Foreign exchange contracts	(33,121)	30,815	(2,306)
Forward fuel price contracts	(175,361)	137,598	(37,763)
	(240,972)	168,528	(72,444)

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial assets	2015		2014	
	GROUP € '000	PARENT € '000	GROUP € '000	PARENT € '000
Trade and other receivables	795,954	3,181,023	809,523	3,017,734
Financial asset investment	62,563	-	63,638	-
Cash and cash equivalents	133,863	17,202	143,731	56,384
Derivative financial instruments	450,965	232,303	427,141	190,262
	1,443,345	3,430,528	1,444,033	3,264,380

Trade and other receivables

Wholesale and credit risk arising from trade and other receivables has been disclosed in note 15.

Financial asset investments

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

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

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

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

Commodity credit risk (relating to derivatives)

The Group also has credit risk associated with commodity positions. These arise from derivative financial instruments that are entered into to hedge energy and fuel price risks and are managed in accordance with the Minister's Specification and Requirements (Financial Transactions of Certain Companies and Other Bodies Act 1992). The Group establishes counterparty credit risk limits to restrict uncollateralised exposure. Net exposures, collateral requirements and compliance are monitored on an ongoing basis. Collateral, in the form of bonds and guarantees, is required by ESB business units from various parties, specifically in the form of Letters of Credit from certain power Contract for Differences (CfD) counterparties. Total collateral held at year end was €49.7 million (2014: €100.1 million). Given the current economic environment, the Group is particularly cognisant of any changes in the creditworthiness of counterparties, and where such a change occurs all appropriate steps are taken to further secure the Group's position.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(f) Foreign currency risk management

Foreign currency exposures arise mainly through the purchase of fuel and power, station overhaul costs required, other purchases denominated in foreign currencies, borrowings in foreign currencies (including the private placement as described in note 19) and investments outside the Eurozone.

Foreign currency forward purchase contracts and cross currency swaps are used to reduce volatility arising from foreign currency exposures. The foreign currency forward purchase contracts in place at 31 December 2015 relate to forecast cash flows expected to occur up to 2028.

At year end, ESB's total debt portfolio amounted to €5.1 billion (2014: €4.8 billion), of which the Parent held €1.8 billion (2014: €1.8 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

GROUP	Before swaps		After swaps	
	2015 (%)	2014 (%)	2015 (%)	2014 (%)
Currency				
Euro	47	44	58	59
US dollar	11	15	-	-
Sterling	42	41	42	41
Total	100	100	100	100

PARENT	Before swaps		After swaps	
	2015 (%)	2014 (%)	2015 (%)	2014 (%)
Currency				
Euro	45	36	75	75
US dollar	31	39	-	-
Sterling	24	25	25	25
Total	100	100	100	100

As shown above, the majority of the Parent debt portfolio is either denominated in or swapped into euro for both principal and interest, thereby reducing the foreign currency risk exposure in the Group. In managing its foreign operations, the Group is cognisant of borrowing in currencies that match the functional currency of the foreign operation. Therefore a substantial proportion of debt is sterling denominated primarily as a result of the NIE Networks acquisition.

A general increase of 10% in foreign currency exchange rates at 31 December would increase equity and profit before taxation by the amount set out below. This analysis assumes that all other variables remain constant, and includes the impact of the value of commodity swaps in place, all of which are in effective hedge relationships at 31 December 2015.

GROUP	31 December 2015		31 December 2014	
	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000
10% Strengthening				
US dollar	(25,275)	540	(32,769)	-
Sterling	19,641	(3,434)	-	30,257
Swiss Franc	(948)	-	(1,365)	(501)
10% Weakening				
US dollar	30,891	(660)	40,051	-
Sterling	(24,006)	4,197	-	(36,197)
Swiss Franc	1,158	-	1,668	501

The following assumptions were made in respect of the sensitivity analysis above:

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only;
- changes in the carrying value of derivative financial instruments that are cash flow hedges impact other comprehensive income only;
- changes in the carrying value of derivative financial instruments designated as net investment hedges arising from movements in the euro to sterling exchange rate are recorded directly in equity, with no ineffectiveness assumed.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(g) Commodity price risk management

The volatility of the fuel prices required for the Group's electricity generation activities has been significant in recent years and the resulting exposures to fuel price movements are managed by the Group on a selective hedging basis. The Group has entered into forward commodity price contracts in relation to the purchase of gas and coal required for electricity generation activities - refer to note 20 for further details. Forward fuel price contracts are valued based on physical volumes contracted and outstanding, and on the forward prices of products of a similar nature, at the balance sheet date, discounted where necessary based on an appropriate forward interest curve.

A general increase of 10% in the price of gas and coal at 31 December 2015 would impact equity and profit before taxation by the amount set out below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant, and includes the impact of the value of commodity swaps in place, all of which are in effective hedge relationships at 31 December 2015. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remain constant.

GROUP	31 December 2015		31 December 2014	
	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000
Gain / (loss) due to 10% increase in gas and coal prices	42,072	(2,340)	78,763	(2,972)

PARENT	31 December 2015		31 December 2014	
	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000
Gain / (loss) due to 10% increase in gas and coal prices	5,707	(2,340)	24,894	(2,972)

A general increase of 10% in the System Marginal Price (SMP) of the Single Electricity Market at 31 December 2015 would have decreased other comprehensive income and profit before taxation by the amounts set out below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant, and includes the impact on the value of commodity swaps in place. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remained constant.

GROUP	31 December 2015		31 December 2014	
	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000
Loss due to 10% increase in the SMP	(29,775)	-	(66,098)	-

A 10% movement in the SMP at 31 December 2015 would have no significant impact on other comprehensive income, or profit before taxation, of the Parent in 2015 or 2014.

PARENT	31 December 2015		31 December 2014	
	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000
Loss due to 10% increase in the SMP	-	-	(28,207)	-

The sensitivity analysis provided above for the Group and Parent has been calculated as at 31 December 2015 using the following base commodity prices and foreign currency rates:

	2015	2014
Gas (Stg. p/therm)	33.70	50.15
SMP (€/MWh)	45.09	56.67
Coal (US\$/tonne)	43.27	66.39
Foreign currency rate (US\$ = €1)	1.09	1.241
Foreign currency rate (Stg£ = €1)	0.7340	0.7789

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(h) Fair value

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

	GROUP		PARENT	
	Carrying value 2015 € '000	Fair value 2015 € '000	Carrying value 2015 € '000	Fair value 2015 € '000
31 December 2015				
Long-term debt	4,690,314	5,290,073	1,488,584	1,875,656
Short-term borrowings	418,825	472,381	365,397	460,410
Total borrowings	5,109,139	5,762,454	1,853,981	2,336,066
Non-current trade and other payables	8,686	8,513	-	-
Current trade and other payables	695,535	695,535	3,393,612	3,393,612
Non-current trade and other receivables	(44,777)	(66,001)	-	-
Current trade and other receivables	(751,177)	(751,177)	(3,181,023)	(3,181,023)
Cash and cash equivalents	(133,863)	(133,863)	(17,202)	(17,202)
Net liabilities	4,883,543	5,515,461	2,049,368	2,531,453

	GROUP		PARENT	
	Carrying value 2014 € '000	Fair value 2014 € '000	Carrying value 2014 € '000	Fair value 2014 € '000
31 December 2014				
Long-term debt	4,412,377	5,226,255	1,522,749	1,928,662
Short-term borrowings	370,592	433,804	330,516	413,960
Total borrowings	4,782,969	5,660,059	1,853,265	2,342,622
Non-current trade and other payables	8,185	8,022	-	-
Trade and other payables	688,148	688,148	3,115,419	3,115,419
Trade and other receivables	(809,523)	(809,523)	(3,017,734)	(3,017,734)
Cash and cash equivalents	(143,731)	(143,731)	(56,384)	(56,384)
Net liabilities	4,526,048	5,402,975	1,894,566	2,383,923

As trade and other receivables are all due within one year, and have been provided for where impaired, their carrying value is considered to be materially in line with their fair value.

The fair value of trade and other payables is calculated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Borrowings and other debt are Level 2 fair values. The valuation technique used for borrowings and other debt is a comparison of debt stock to the marginal cost of debt (from main funding markets) in addition to discounting using the zero coupon discount curve of the relevant currency.

Fair value - discount rates

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

	2015 %	2014 %
Other loans and borrowings	2.2	1.8
Derivative financial instruments	0.9	0.9
Trade and other payables	1.0	1.1

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) Fair value hierarchy

The table below analyses financial assets and liabilities carried at fair value, by valuation method. The different levels relevant to financial assets and liabilities held by the Group have been defined as follows:

- Level 2: inputs, other than unadjusted quoted prices in active markets for identical assets and liabilities, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

GROUP	Level 2 € '000	Level 3 € '000	Total € '000
31 December 2015			
ASSETS			
Derivative financial instruments			
- Currency swaps	48,808	-	48,808
- Foreign exchange contracts	7,103	-	7,103
- Forward fuel price contracts	94,522	-	94,522
- Forward electricity price contracts	574	296,208	296,782
- Interest rate swaps	3,750	-	3,750
Financial assets at fair value through profit or loss	-	61,993	61,993
	154,757	358,201	512,958
LIABILITIES			
Derivative financial instruments			
- Foreign exchange contracts	(26,062)	-	(26,062)
- Forward fuel price contracts	(177,256)	(95,674)	(272,930)
- Interest rate swaps	(28,607)	-	(28,607)
- Inflation linked interest rate swaps	(634,042)	-	(634,042)
	(865,967)	(95,674)	(961,641)
Net (liability) / asset	(711,210)	262,527	(448,683)

	Level 2 € '000	Level 3 € '000	Total € '000
31 December 2014			
ASSETS			
Derivative financial instruments			
- Foreign exchange contracts	18,363	-	18,363
- Forward fuel price contracts	149,206	70,365	219,571
- Forward electricity price contracts	333	187,025	187,358
- Interest rate swaps	1,849	-	1,849
Financial assets at fair value through profit or loss	-	63,068	63,068
	169,751	320,458	490,209
LIABILITIES			
Derivative financial instruments			
- Currency swaps	(32,375)	-	(32,375)
- Foreign exchange contracts	(35,914)	-	(35,914)
- Forward fuel price contracts	(175,362)	(6,885)	(182,247)
- Interest rate swaps	(35,352)	-	(35,352)
- Inflation linked interest rate swaps	(641,206)	-	(641,206)
	(920,209)	(6,885)	(927,094)
Net (liability) / asset	(750,458)	313,573	(436,885)

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

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) Fair value hierarchy (continued)

PARENT	Level 2 € '000	Level 3 € '000	Total € '000
31 December 2015			
ASSETS			
Derivative financial instruments			
- Currency swaps	48,808	-	48,808
- Interest rate Swaps	17	-	17
- Foreign exchange contracts	7,050	-	7,050
- Forward electricity price contracts	-	81,906	81,906
- Forward fuel price contracts	94,522	-	94,522
	150,397	81,906	232,303
LIABILITIES			
Derivative financial instruments			
- Foreign exchange contracts	(16,072)	-	(16,072)
- Forward fuel price contracts	(177,256)	-	(177,256)
	(193,328)	-	(193,328)
Net (liability) / asset	(42,931)	81,906	38,975

	Level 2 € '000	Level 3 € '000	Total € '000
31 December 2014			
ASSETS			
Derivative financial instruments			
- Interest Rate Swaps	636	-	636
- Foreign Exchange contracts	18,290	-	18,290
- Forward electricity price contracts	-	22,128	22,128
- Forward fuel price contracts	149,208	-	149,208
	168,134	22,128	190,262
LIABILITIES			
Derivative financial instruments			
- Currency swaps	(32,375)	-	(32,375)
- Foreign exchange contracts	(33,121)	-	(33,121)
- Forward fuel price contracts	(175,361)	-	(175,361)
- Interest rate swaps	(115)	-	(115)
	(240,972)	-	(240,972)
Net (liability) / asset	(72,838)	22,128	(50,710)

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) Fair value hierarchy (continued)

Measurement of fair values - Valuation techniques and significant unobservable inputs

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

Type	Valuation technique	Significant unobservable inputs	Inter relationship between significant unobservable inputs and fair value measurement
Currency swaps, foreign exchange contracts and interest rate swaps	Level 2 - Present valuation of future contracted foreign exchange cash flows using constructed zero-coupon discount curve. The zero-coupon curve is constructed using the interest yield curve of the relevant currency.		
Forward fuel and electricity price contracts	Level 2 - The fair value of forward fuel and electricity contracts is determined by reference to forward electricity, gas, coal and carbon prices with the resulting value discounted to present values. Level 3 - The fair value of some specific forward fuel and electricity contracts are determined by reference to forward electricity prices which are unobservable.	System Marginal Price (SMP)	The estimated fair value would increase/ (decrease) if SMP was lower / (higher). Generally a change in SMP is accompanied by a directionally similar change in gas prices.
Inflation linked interest rate swaps	Level 2 - Independent valuations are used and validated using the present valuation of expected cash flows using a constructed zero-coupon discount curve. The zero-coupon curve is constructed using the interest rate yield curve of the relevant currency. Future cash flows are estimated using expected RPI benchmark levels as well as expected LIBOR rate sets.		
Financial assets at fair value through profit or loss	Discount cash flows: The valuation model considers the present value of expected cash flows. The expected payment is determined by considering the possible scenarios of forecast revenue and gross margin, future cash flows under each scenario and the probability of each scenario. Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies to the investee and the expected gross margin of the investee.	Forecast annual revenue growth rate; Forecast gross margin	Novusmodus typically assesses the value of its investments based on our expectations of the proceeds which could be realised in a disposal. This value will usually be driven by a number of inputs including the ability of the investee to grow its revenue and associated margins leading to higher EBITDA thus higher values.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(i) Fair value hierarchy (continued)

The following table shows a reconciliation from opening balances at 1 January 2015 to the year ended 31 December 2015 balances for fair value measurements in Level 3 of the fair value hierarchy:

GROUP	Financial assets at fair value through profit or loss € '000	Forward electricity price contracts € '000	Forward fuel price contracts € '000	Total € '000
Opening balance	63,068	187,025	63,480	313,573
Purchases	8,888	-	-	8,888
Total gains or losses:				
- in profit or loss	(13,752)	-	-	(13,752)
- in OCI	-	148,416	(152,506)	(4,090)
Settlements	-	(39,233)	(6,648)	(45,881)
Translation movements	3,789	-	-	3,789
Closing balance - net	61,993	296,208	(95,674)	262,527

Financial assets at fair value through profit or loss are carried at fair value. Where applicable, the fair value is based on the most recent fund valuation statement available adjusted for a liquidity discount. In relation to stand alone investments, the valuation methodology used is in accordance with International Private Equity and Venture Capital Valuation Guidelines which have been developed by a number of international venture capital associations. As this requires the use of model based valuation techniques, with a number of unobservable inputs, all financial assets at fair value through profit or loss have been categorised as Level 3 investments in the current year.

Forward fuel price contracts and forward electricity price contracts included at Level 3 in the fair value hierarchy relate to long-term contracts whose valuations are based on a number of forward price assumptions, with some unobservable inputs, including assumed forward electricity, carbon and gas inputs for longer term periods.

Sensitivity analysis - Level 3 fair values

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

GROUP	31 December 2015	
	Other comprehensive income gain / (loss) € '000	Profit before taxation gain / (loss) € '000
Gain due to 10% increase in gas and coal prices	(35,705)	-
Loss due to 10% increase in the SMP	(29,775)	-

NOTES TO THE FINANCIAL STATEMENTS

27. COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

Total commitments under non-cancellable operating leases are due as follows:	2015 € '000	2014 € '000
Within one year	14,256	12,962
Between two and five years	39,378	29,012
After five years	147,469	116,355
Total payable	201,103	158,329

Operating leases payable by the Group generally relate to the rental of land and buildings. These lease costs are based on open market value at the date of inception and are generally subject to rent reviews, on average, every five years. There are no significant or unusual restrictions imposed on the Group by the terms of the operating leases.

(b) Capital commitments

	2015 € '000	2014 € '000
Contracted for	336,912	381,159

(c) Fuel contract commitments

There are a number of long-term gas supply arrangements in place for different periods up to 2019. These arrangements provide for pricing changes in line with changes in inbuilt energy market indicators. Where appropriate, embedded derivatives have been separated and valued in accordance with IAS 39.

(d) Other disclosures

Following on from flooding in Cork in November 2009, Aviva as UCC's insurer pursued a legal action against ESB in the High Court seeking recovery of €19 million for property damage. On 5 October 2015 the High Court delivered its judgement in the case and found ESB 60% liable for the damage caused and UCC 40% contributory negligent.

Based on legal advices received, ESB has appealed the decision to the Court of Appeal. The appeal is likely to be heard in 2017. Pending the appeal hearing, no hearing on quantum (i.e. the actual amount of damages payable in respect of UCC's losses) will take place and the High Court has stayed its order on costs.

In addition to the UCC claim ESB has, since the judgement in the UCC case, been served with 156 sets of proceedings relating to the flooding in Cork in November 2009. Details of amounts claimed in relation to these proceedings have not yet been received and therefore it is not possible to make a reliable estimate of their cost (should the Court of Appeal find against ESB) at this time. However, ESB does not anticipate that the total amount of damages awarded, if any, and related costs for all of the actions, including the Aviva/UCC action, would exceed its applicable insurance cover.

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

NOTES TO THE FINANCIAL STATEMENTS

28. RELATED PARTY TRANSACTIONS

Semi-state bodies

In common with many other entities, ESB deals in the normal course of business with other Government sponsored bodies such as Ervia and Bord na Móna. Long-term agreements are negotiated between ESB and Bord na Móna in relation to the purchase of peat for the Midland Stations.

Banks owned by the Irish state

In the normal course of business ESB transacts with certain Irish banks which have become wholly or partially controlled by the Irish Government. All of ESB's transactions with such banks are on normal commercial terms. ESB had no material concentration of borrowings with any such banks during the year or at 31 December 2015. A portion of the cash and cash equivalents as disclosed in note 16 was on deposit with such banks.

Board members' interests

Other than agreed allocations under ESOP, Board members had no beneficial interest in ESB or its subsidiaries at any time during the year.

ESOP repurchase

Please refer to note 30 for details of the ESOP repurchase.

Subsidiary undertakings

During the year ended 31 December 2015, ESB Parent purchased engineering, consulting and other services, including rental services of €149.8 million (2014: €131.6 million) from its subsidiaries.

During the year, ESB Parent had sales of €149.6 million (2014: €113.3 million) to subsidiaries. These sales mainly relate to management services, as well as electricity charges including Use of System Charges and sales of electricity.

During the year, ESB Parent received interest of €50.8 million (2014: €46.5 million) from subsidiaries and paid interest of €170.5 million (2014: €72.3 million) to subsidiaries on inter-company loans.

At 31 December 2015, ESB Parent had amounts payable of €3,104.1 million (2014: €2,829.4 million) to its subsidiaries. These payables mainly relate to amounts held on deposit for subsidiaries, borrowings raised by ESB Finance Limited and loaned to ESB Parent, as well as amounts due in respect of engineering and consulting services.

At 31 December 2015, ESB Parent had balances receivable of €2,836.7 million (2014: €2,574.6 million) from its subsidiaries. These receivables relate to management services and loans to subsidiaries, as well as electricity charges including Use of System Charges.

At 31 December 2015, ESB Parent had balances receivable from its subsidiaries, in relation to equity and capital contributions, of €61.8 million (2014: €61.8 million).

Equity accounted investees

ESB provided services during the year to Oweninny Power Limited of €0.7 million (2014: €0.5 million), to Emerald Bridge Fibres Limited of €0.1 million (2014: €0.1 million), to SIRO Limited of €1.8 million (2014: €0.2 million), to Tilbury Green Power Limited of €5.3 million (2014: €nil) and to Raheenleagh Power Limited amounted of €4.5 million (2014: €nil).

ESB has purchases during the year from Emerald Bridge Fibres Limited €0.1 million (2014: €nil) and from Kingspan ESB Limited €0.9 million (2014: €nil).

Capital funding of €1.8 million (2014: €nil) was advanced to Raheenleagh Power Limited, and €2.9 million (2014: €nil) to Tilbury Green Power Holdings Limited.

The Group was owed €50.4 million from equity accounted investees at the 31st December 2015, being €3.8m (2014: €nil) from Raheenleagh Power Limited, €1.8 million (2014: €1.8 million) from Oweninny Power Limited, €44.8 million (2014: €nil) from Tilbury Green Power Holdings Limited and €nil (2014: €0.9 million) from Emerald Bridge Fibres Limited. No capital was advanced during the year to SIRO Limited.

Interest on borrowings receivable from Emerald Bridge Fibres Limited amounted to €0.4 million for 2015 (2014: €0.3 million), and Oweninny Power Limited for €0.4 million (2014: €nil).

ESB has committed to provide capital funding to SIRO Limited amounting to €85.0 million over the next 5 years.

Key management compensation

	2015 € '000	2014 € '000
Salaries and other short-term employee benefits	2,506	2,409
Post-employment benefits	359	318
Termination benefits	-	387
	2,865	3,114

The key management compensation amounts disclosed above represent compensation to those people having the authority and responsibility for planning, directing and controlling the activities of the Group. These include the remuneration of Board members and senior executives.

NOTES TO THE FINANCIAL STATEMENTS

29. ESTIMATES AND JUDGEMENTS

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

It should be noted that the impact of variation in some assumptions and estimates can have a particularly material impact on the reported results. These include but are not limited to:

(a) The accounting for the ESB - pension liability requires the exercise of judgement. The Board is satisfied that the appropriate accounting treatment, determined in accordance with IAS 19 Employee Benefits, is to reflect its existing committed obligations, as set out in the note to the financial statements.

(b) The value in use, in accordance with IAS 36 Impairment of Assets relates to goodwill, as described in note 12.

(c) The value in use, in accordance with IAS 36 Impairment of Assets, of long lived assets as described below.

For power generation assets, value in use is based on the estimated cash flows expected to be generated by the asset and is based on a detailed review of the forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of operating costs and capital expenditure. These cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. The estimation of forecasted revenues and the timing of expenditure requires judgement and is dependent on the economic factors associated with these assets.

(d) As described in note 26 section (h), the valuation of certain financial instruments is based on a number of judgemental factors and assumptions which of necessity are not based on observable inputs. These have been classified as Level 3 financial instruments, under the meaning of IFRS 13 Fair Value Measurement. In 2010, the Group acquired, as part of the acquisition of NIE Networks, inflation linked interest rate swaps which have a duration of over 20 years, which have been added to the Group's existing portfolio of Level 3 financial instruments.

(e) Future costs required to settle current provisions and employee related liabilities, such as the power station closure costs and voluntary severance obligations. These liabilities are disclosed in notes 21, 22 and 25.

(f) The measurement of a number of assets, liabilities, income and costs at year end which require a high degree of estimation and judgement, including, the calculation of unbilled electricity income and trade and other receivables, the valuation of fuel stocks, the cost of fuel consumed, the useful lives of property, plant and equipment and also accruals for goods received or work carried out for which supplier invoices have not yet been received. These items are estimated in accordance with the accounting policies of the Group and current International Financial Reporting Standards.

(g) ESB provides services to around 1.5 million individuals and businesses, mainly on credit terms. It is known that certain debts due to ESB will not be paid through the default of a small number of customers. Estimates, based on historical experience, are used in determining the level of debts that is believed will not be collected. These estimates include such factors as the current state of the Irish economy and particular industry issues (see note 15).

(h) For other disclosures, please refer to note 27 for further details of estimates and judgements regarding ongoing legal claims.

30. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated by ESB during 2001, with a €1 investment, as trustee to the ESB Employee Ownership Trust (ESOT) and the ESB Approved Profit Sharing Scheme (APSS). Under the terms of the creation of ESB ESOP Trustee Limited, ESB has no ability or rights to exert control over the assets or management of the Company. The trustee Company is chaired by an independent professional trustee with four directors representing ESB employees and two directors representing the Company. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the Company exist. In accordance with IAS 27 Consolidated and Separate Financial Statements, the accounts for ESB ESOP Trustee Limited are not consolidated with the results of the ESB Group. 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 million. The acquisition of this stock by ESB will not commence until 2017. An ESOP repurchase provision of €12.1 million has been recognised in the 2015 financial statements in relation to capital stock repurchase by the ESOP Trustee.

Refer to note 17 for further details.

31. APPROVAL OF FINANCIAL STATEMENTS

The Board approved the financial statements on 24 February 2016.

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
Direct subsidiary			
ESB Energy International Ltd.	1	100	Holding company
ESB International Ltd.	1	100	Holding company
ESB International Investments Ltd.	1	100	International investments
ESB Financial Enterprises Ltd.	1	100	Holding company
ESB Networks Ltd.	8	100	Power distribution
ESBNI Ltd.	5	100	Holding company
ESB Finance Ltd.	2	100	Finance
ESB Electric Ireland Ltd.	2	100	Electricity sales
ESB Electric Ireland Ltd. (UK)	4	100	Electricity sales
Electric Ireland Ltd. (UK)	4	100	Electricity sales
Indirect subsidiary			
ESBI Engineering and Facility Management Ltd.	1	100	Engineering
ESBI Contracting Ltd.	1	100	Contracting
ESBI Consultants Ltd.	1	100	Consultancy
ESBI Computing Ltd.	1	100	Computer services
Elfinance Ltd.	1	100	Customer credit
ESB Independent Energy Ltd.	1	100	Electricity sales
ESB Independent Energy NI Ltd.	1	100	Electricity sales
ESB Power Generation Holding Company Ltd.	1	100	Holding company
Gort Windfarms Ltd.	1	100	Power generation
Crockahenny Wind Farm Ltd.	1	75	Power generation
Utility O&M Services Ltd.	14	100	Operation & maintenance services
Hibernian Wind Power Ltd.	1	100	Power generation
ESB Telecoms Ltd.	1	100	Telecommunications
Electricity Supply Board Services B.V.	12	100	Facility management
Corvoderry Wind Farm Ltd.	1	100	Power generation
Kerry Wind Power Ltd.	2	100	Power generation
Geothermal International Ltd.	10	90	Power generation
Coolkeeragh ESB Ltd.	5	100	Power generation
ESBII UK Ltd.	4	100	Holding company
Power Generation Technology Snd. Bhd.	21	100	Power generation
Facility Management UK Ltd.	4	100	Facility management
ESBI Georgia Ltd.	15	100	Transmission management
Marchwood Power Development Ltd.	4	100	Power generation
Knottingly Power Ltd.	4	100	Power generation
Mountainlodge Power Ltd.	1	85.9	Power generation
Tullynahaw Power Ltd.	1	100	Power generation
Woodhouse Wind Farm Ltd.	1	100	Power generation
ESB Trading Ltd.	1	100	Power generation
Kobai Ltd.	1	100	Power generation
Orliven Ltd.	1	100	Power generation
Cappawhite Wind Ltd.	1	100	Power generation
Waterfern Ltd.	1	100	Power generation
Hunter's Hill Wind Farm Ltd.	5	100	Power generation
ESB Wind Development Ltd.	1	100	Power generation
ESB Commercial Properties Ltd.	2	100	Property management
Crockagarran Windfarm Ltd.	5	100	Power generation
West Durham Wind Farm Ltd.	4	100	Power generation
West Durham Wind Farm (Holdings) Ltd.	4	100	Power generation
West Durham Wind Farm (Holdings) 2 Ltd.	4	100	Power generation

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Indirect subsidiary (continued)			
Devon Wind Power Ltd.	4	100	Power generation
ESB Solar (NI) Ltd.	5	100	Business and management consultancy activities
Crockdun Windfarm (NI) Ltd.	5	100	Power generation
ESBI Eng & FM (Botswana) (Proprietary) Ltd.	11	100	Engineering and consultancy
ESB Asset Development (UK) Ltd.	4	100	Power generation
ESB Solar (IRE) Ltd.	2	100	Business and management consultancy activities
Airstream Wind Energy Ltd.	1	100	Power generation
Northern Ireland Electricity Networks Ltd.	6	100	Power transmission and distribution
Sillahertane Energy Project Two Ltd.	1	100	Power generation
NIE Network Services Ltd.	6	100	Infrastructure contracting
Synergen Power Ltd.	16	100	Power generation
ESB Novus Modus GP Ltd.	2	100	Clean technology investment
Airvolution Energy Ltd. (UK)	7	90	Power generation
Airvolution Energy (Wythegill) Ltd.	7	90	Power generation
Airvolution Energy (Mossmorran) Ltd.	17	90	Power generation
Airvolution Energy (Potato Pot) Ltd.	7	90	Power generation
Airvolution Energy (Shotts) Ltd.	7	90	Power generation
Airvolution Energy (Hafod-Y-Dafal) Ltd.	7	90	Power generation
Airvolution Energy (Agney Farm) Ltd.	7	90	Power generation
Airvolution Energy (Rawcliffe Bridge) Ltd.	7	90	Power generation
Airvolution Energy (New Rides Farm) Ltd.	7	90	Power generation
Airvolution Energy (Junction 2A) Ltd.	7	90	Power generation
Airvolution Energy (Biglis Farm) Ltd.	7	90	Power generation
Airvolution Energy (Muircleugh) Ltd.	7	90	Power generation
Airvolution Energy (Scottow) Ltd.	7	90	Power generation
Airvolution Energy (Airfield) Ltd.	7	90	Power generation
Airvolution Energy (Blakemore) Ltd.	7	90	Power generation
Airvolution Energy (Car Ban Wind Farm) Ltd.	7	90	Power generation
Airvolution Energy (Church House Farm) Ltd.	7	90	Power generation
Airvolution Energy (Grimoldby) Ltd.	7	90	Power generation
Airvolution Energy (Hartwood Hill) Ltd.	7	90	Power generation
Airvolution Energy (Kinegar) Ltd.	7	90	Power generation
Airvolution Energy (Lancarr) Ltd.	7	90	Power generation
Airvolution Energy (Middle Balbeggie) Ltd.	7	90	Power generation
Airvolution Energy (Plas Bodewryd) Ltd.	7	90	Power generation
Airvolution Energy (RGM) Ltd.	7	90	Power generation
Airvolution Energy (Roseland) Ltd.	7	90	Power generation
Airvolution Energy (Shotts 2) Ltd.	7	90	Power generation
Airvolution Energy (Washpit Drove) Ltd.	7	90	Power generation
Airvolution Energy (West Scales) Ltd.	7	90	Power generation
Airvolution Energy (Wilton) Ltd.	7	90	Power generation
ESB 1927 Ltd.	2	100	Property management
ESBI Carbon Solutions Ltd.	1	100	Carbon emission reduction
ESB Independent Generation Trading Ltd.	1	100	Electricity and gas trading
Carrington Power Ltd.	4	100	Power generation
Northern Ireland Electricity Ltd.	6	100	Dormant
Capital Pensions Management Ltd.	6	100	Pension scheme administration
Cambrian Renewable Energy Ltd.	4	100	Power generation
ECO2 Cambrian Ltd.	4	100	Power generation
Curryfree Wind Farm Ltd.	5	100	Power generation
Mount Eagle Wind Farm Ltd.	1	100	Power generation
Garvagh Glebe Power Ltd.	1	100	Power generation
Corby Power Ltd.	3	100	Power generation

NOTES TO THE FINANCIAL STATEMENTS

32. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Indirect subsidiary (continued)			
NIE Finance PLC	6	100	Finance
ESB Services BV (Holland)	12	100	Operation and maintenance
Castlepook Power Ltd.	2	100	Power generation
Non-controlled subsidiary undertaking			
ESB ESOP Trustee Ltd.	18	100	Staff shareholding scheme
Equity accounted investees			
Oweninny Power Ltd.	1	50	Power generation
Emerald Bridge Fibres Ltd.	1	50	Telecommunications
UNES Operation and Maintenance Inc.	19	50	Operation & maintenance services
Kingspan ESB Ltd.	2	50	Business and management consultancy activities
SIRO Ltd. (formerly Evolve Structuring Services Ltd)	2	50	Fibre to the Building
Raheenleagh Power Ltd.	2	50	Power generation
Tilbury Green Power Holdings Ltd.	4	47	Power generation
Associate undertakings			
Pesaka Technologies	20	30	Power generation
Rousch Pakistan Power	13	7	Power generation
Blarghour Wind Farm Ltd.	9	8	Power generation
Glendye Wind Farm Ltd.	9	8	Power generation
Turnalt Wind Farm Ltd.	9	8	Power generation
Chirmorie Wind Farm Ltd.	9	8	Power generation
Kirk Hill Wind Farm Ltd.	9	8	Power generation
Dell Wind Farm Ltd.	9	8	Power generation
Lower Alt Wind Farm Ltd.	9	8	Power generation

ESB's principal place of business is 27 Lower Fitzwilliam Street, Dublin 2.

Notes:

- Stephen Court, 18-21 St Stephen's Green, Dublin 2
- 27 Lower Fitzwilliam Street, Dublin 2
- Mitchell Road, Phoenix Parkway, Corby, Northamptonshire, N17 1Q7
- Tricor Services Europe LLP, 4th Floor, 50 Mark Lane, London, EC3R 7QR
- 2 Electra Road, Maydown, Derry, BT47 6 UL
- 120 Malone Road, Belfast, BT9 5HT
- Palladium House, 1-4 Argyll Street, London, W1F 7TA
- Clanwilliam House, Clanwilliam Place, Dublin 2
- 22 - 24 King Street, Maidenhead, SL61EF
- Shellingwood House, Westwood Way, Westwood Business Park, Coventry, CV48J2
- Deloitte House, First Floor, Plot, 64518, Fairgrounds Office Park, Gaborne, Botswana
- 22nd Floor, Menara, EON Bank, Lala Raja Laut, 50350, Kuala Lumpur, Malaysia
- 94 - W, 3rd Floor, AAMIR Plaza, Jinnah Avenue, Blue Area, Islambad, Pakistan
- 58 Upper Mount Street, Dublin 2
- 39 Gamsakhurdia Ave, Suite 42, Tbilisi, Georgia
- Power Plant, Pigeon House Road, Ringsend, Dublin 4
- 50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ
- 43 Merrion Square, Dublin 2
- Nispetiye Cad Akmerkez E3, Blok K, 13Etiler/Besiktas, Turkey
- Level 1, Menara Yavasan, Tun Razak, Zoo, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia
- 10th Floor, Wisma Havela, Thakardos, No 1 Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia

Report of Board Members on Compliance with the Prompt Payment of Accounts Act, 1997 and European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002)

Introduction

Payments terms during 2015 were governed by two items of legislation:

- The Prompt Payment of Accounts Act, 1997.
- European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002) to combat late payments in commercial transactions. These Regulations apply to contracts for goods and services supplied to ESB by EU-based suppliers.

Statement of payment practices including standard payment periods

ESB operates a policy of paying all undisputed supplier invoices within the agreed terms of payment. The standard terms specified in the standard purchase order are net monthly. Other payment terms may apply in cases where a separate contract is agreed with the supplier.

Compliance with the legislation

ESB complies with the requirements of the legislation in respect of external supplier payments within the EU in all material respects.

Procedures and controls in place

Appropriate internal financial controls have been implemented including clearly defined roles and responsibilities. These procedures provide reasonable but not absolute assurance against material non-compliance with the legislation.

Prompt Payment Code of Conduct

In 2015 the Government launched the Prompt Payment Code of Conduct, which can be found at www.promptpayment.ie. ESB are signatories to this code and undertake to pay suppliers on time, give clear guidance to suppliers on payment procedures and encourage the adoption of the Code by suppliers within their own supply chains.

Details of interest payments in respect of 2015

When ESB validates a request from the supplier, it is ESB's policy to pay interest due on late payments. No such payments were made in respect of late payments during the year 2015 (2014: €nil).



Ellvena Graham

Chairman



Pat O'Doherty

Chief Executive

24 February, 2016

GLOSSARY

1. Better Energy Programme (BER)

This programme was launched under the Government's Jobs Initiative, the Better Energy - The National Upgrade Programme on 11 May 2011. Its objective is to deliver a major increase in sustainable energy investments in upgrading existing buildings and facilities.

2. Business in the Community (BIC)

Business in the Community works with the largest companies in Ireland to help them develop, manage and measure their corporate social responsibility (CSR) and sustainability strategies.

3. Commission for Energy

Regulation (CER)

The Commission for Energy Regulation (CER) is the independent regulator of the energy market in the Republic of Ireland.

4. Contracts for Difference (CFDs)

A contract for difference (CFD) is a contract between two parties, a buyer and a seller, stipulating that the buyer will pay to the seller the difference between the current value of an asset and its value at contract time. If the difference is negative, then the seller pays instead to the buyer.

5. Customer Contact Association Global Standard

Customer Contact Association is a set of key principles which have been defined and agreed by industry experts and stakeholders designed to increase the reliability and effectiveness of the customer contact operation.

6. Customer Service Improvement Plan 2013 - 2016

The plan is based on feedback from customers and outlines ten key areas that the company will focus on over the period to 2016 to improve customer service.

7. EBITDA

Operating profit before interest, taxation, depreciation, impairment, amortisation, and exceptional items.

8. Electricity Market Reform (EMR)

Electricity Market Reform (EMR) is a UK Government policy to incentivise investment in secure, low-carbon electricity, improve the security of Great Britain's electricity supply and improve affordability for consumers.

9. Energy for Generations Fund

In November 2013, ESB launched the Energy for Generations Fund, a corporate responsibility investment which will see over €2 million per year disbursed across a range of community and issues-based initiatives.

10. Environmental Protection Agency (EPA)

The Environmental Protection Agency is an independent public body established under the Environmental Protection Agency Act, 1992. It is at the front line of environmental protection and policing.

11. 4You Safety

The 4You Safety programme is an initiative, focusing on behavioural change, which aims to enhance the health and safety culture of the organisation and to support staff in the development of non-technical skills for safety. 4You tools available include safety culture assessments, safety leadership behaviour questionnaires, safety leadership and workforce programmes and workshops, and 4You safety coaching.

12. Great Britain (GB)

England, Wales and Scotland.

13. Gigawatt (GW)

Gigawatt, being the amount of power equal to 1 billion watts.

14. Gigawatt Hours (GWh)

Gigawatt hours, being the amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

15. Impairment

An impairment charge is determined when the carrying value (book value) of assets exceeds its recoverable amount.

16. Integrated Single Electricity Market (I-SEM)

This European Target Model is a development flowing from the Third Energy Package and is an umbrella term for a detailed list of new common EU guidelines, procedures and codes to be put in place to enable a single EU-wide wholesale electricity market. The implementation of these common EU guidelines, procedures and codes across the EU will allow electricity and gas to be traded freely across the Union.

17. Industrial Emissions Directive

The Industrial Emissions Directive is a series of environmental legislative changes aimed at reducing emissions from industrial production processes which account for a large amount of the overall pollution in Europe.

18. Joint Equality Council

The Joint Equality Council is a joint body drawn from representatives from ESB management and the Group of unions to promote equality and diversity.

19. Joint Venture

A company or other entity which is controlled jointly with other parties.

20. Liquefied Natural Gas (LNG)

Liquefied natural gas, a clear, colourless, non-toxic liquid that forms when natural gas is cooled to -162°C (-260°F).

21. Lost Time Injuries (LTI)

A work related injury causing an absence for one or more working days, counting from the day after the injury, before the person returns to normal or restricted work.

22. Megawatt (MW)

Megawatt, being the amount of power equal to 1 million watts.

23. Megawatt Hours (MWh)

Megawatt hours, being the amount of energy equivalent to delivering 1 million watts of power for a period of one hour.

24. National Smart Metering Programme

The CER, working closely with the Department of Communications, Energy and Natural Resources (DCENR), established the National Smart Metering Programme (NSMP) in late 2007.

25. Northern Ireland Environment Agency (NIEA)

The Northern Ireland Environment Agency is an executive agency within the Department of the Environment with the strategic objective to create prosperity and wellbeing through effective environment and heritage management and regulation.

26. No-load costs

No-load costs are generator costs which are indifferent to output levels.

27. The Northern Ireland Renewables Obligation (NIRO)

The Northern Ireland Renewables Obligation is the main support mechanism for encouraging increased renewable electricity generation in Northern Ireland.

28. Novusmodus Fund

The Novusmodus Fund is a venture capital fund in which seed capital is invested into emerging technologies.

29. OHSAS 18001

OHSAS 18001 Occupational, Health and Safety Management Certification is an international standard which provides a framework to identify, control and decrease the risks associated with health and safety within companies.

GLOSSARY

30. Over the Counter trading platform

Financial instruments (specifically electricity price contracts) which enable participants in the SEM to reduce their risk (and therefore electricity price volatility for their customers) by trading these products directly (over the counter) with each other, rather than via an intermediary or through an exchange, in order to hedge their exposure to movements in the wholesale price of electricity.

31. PAS 55

PAS 55 is the British Standards Institution (BSI) publically available specification for the optimised management of physical assets. It provides clear definitions and requirements specification for establishing and verifying a joined-up, optimised and whole-life management system for all types of physical assets.

32. PowerCheck app

PowerCheck app provides real time information to customers regarding planned and unplanned power supply interruptions, including projected restoration times.

33. Price Review 4 (PR4)

Regulatory periods are of 5 years' duration and the Price Control Review (PR4) covers the period 2016 to 2020 and sets out the total regulated allowed revenues over that period as determined by the Commission Energy Regulation.

34. Regulatory Period 5 (RP5)

Regulatory Period 5 (RP5), are regulatory periods of 5 years' duration for price control covering the period 1 April 2012 to 31 March 2017 by the Utility Regulator in Northern Ireland.

35. Regulatory Period 6 (RP6)

Regulatory Period 6 (RP6), are regulatory periods of 5 years' duration for price control covering the period 1 October 2017 to 31 March 2024 by the Utility Regulator in Northern Ireland.

36. Return on Capital Employed (ROCE)

The return on capital employed shows the overall return on capital provided by both debt and equity.

37. Single Electricity Market (SEM)

The Single Electricity Market is a wholesale pool-based electricity market operating north and south of the Irish Border.

38. Single Electricity Market Operator (SEMO)

The SEM is operated by SEMO, a joint-venture between EirGrid and SONI, the transmission system operators in Ireland and Northern Ireland respectively.

39. SIRO

A joint venture with Vodafone, which will bring 1 gigabit per second (Gbps) broadband to 500,000 customers in fifty towns across Ireland using the existing distribution network.

40. Smart Grid

A transformed electricity transmission and distribution network or Grid that uses robust two-way communications, advanced sensors and distributed computers to improve the efficiency, reliability and safety of power delivery and use.

41. Smart Meters

Smart meters are the next generation of energy meter. They will replace the traditional electricity and gas meters removing the need for a home visit to read the meter and will eliminate the need to use estimates whenever a meter cannot be read.

42. Smarter Pay As You Go

Smarter Pay As You Go products allows users to control electricity usage and track usage from a monitor to enable them to know how much they are spending on electricity at all times.

43. Solar Photovoltaic

This is the term for technology used to convert the sun's radiation directly into electricity. The basis of the technology is the solar cell, which consists of layers of a semi-conductor material which generates electric current when irradiated with the sun's energy. Solar photovoltaic is a clean, renewable energy source.

44. Spark Spread

The difference between the price of a unit of electricity and the cost of the gas used to generate it.

45. Start-up costs

Start-up costs are costs a generator faces if it needs to be turned on after a period of inactivity.

46. Supplemental Balancing Reserve

Supplemental Balancing Reserve is a service designed to support the National Grid in balancing the system in the unlikely event that there is insufficient capacity in the market to meet demand.

47. Sustainable Energy Authority of Ireland (SEAI)

The Sustainable Energy Authority of Ireland was established as Ireland's national energy authority under the Sustainable Energy Act 2002.

48. System Operator for Northern Ireland (SONI)

The System Operator for Northern Ireland ensures the safe, secure and economic operation of the high voltage electricity grid in Northern Ireland and in co-operation with EirGrid is also responsible for running the all-island wholesale market for electricity.

49. System Marginal Price (SMP)

The wholesale price of electricity for each half hour period.

50. UK Competition and Markets Authority (CMA)

The UK Competition and Markets Authority is an independent non-ministerial Government department in the United Kingdom (UK), to promote competition for the benefit of consumers, both within and outside the UK.

51. United Kingdom (UK)

England, Wales, Scotland and Northern Ireland.

52. Utility Regulator (UR)

The independent non-ministerial Government department set-up to ensure the effective regulation of the electricity, gas and water and sewerage industries in Northern Ireland.

53. Vertically Integrated Utility

The Vertically Integrated Utility (VIU) refers to ESB's presence within and ownership of assets across all of the elements of the electricity value chain including the generation, trading, transmission, distribution and supply of power to customers.

ESB Head Office
27 Lower Fitzwilliam Street
Dublin 2
DO2 KT92
Ireland
T: +353 1 676 5831
E: info@esb.ie
www.esb.ie
Twitter: @ESBGroup
LinkedIn: <https://www.linkedin.com/company/esb>
YouTube: <https://www.youtube.com/user/ESBvideo>



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