

Dated 20 November 2012



ESB FINANCE LIMITED

(a private company incorporated with limited liability in Ireland with registration number 480184)

**ESB Finance Limited issue of €500,000,000 4.375 per cent. Notes due 21 November 2019
unconditionally and irrevocably guaranteed by
Electricity Supply Board
under the
€3,000,000,000
Euro Medium Term Note Programme**

**Series No: 3
Tranche No: 1**

ESB Finance Limited (**ESB Finance** or the **Issuer**) is an issuer under the €3,000,000,000 Euro Medium Term Note Programme of Electricity Supply Board (**ESB**) and the Issuer (the **Programme**). This prospectus (this **Prospectus**) contains information relating to the issue by the Issuer of its €500,000,000 4.375 per cent. Notes due 21 November 2019 (the **Notes**) under the Programme. The payments of all amounts due in respect of the Notes are unconditionally and irrevocably guaranteed by ESB (the **Guarantor**).

This Prospectus constitutes a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC, as amended (the **Prospectus Directive**), as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference” below). This Prospectus should be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.

Capitalised terms used herein without definition have the meanings given to them in those parts of the Base Prospectus (as defined in the section below entitled “Documents Incorporated by Reference”) which are incorporated by reference into this Prospectus.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors referred to under the section headed “Risk Factors” in this Prospectus.

This Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**), as competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange Limited (the **Irish Stock Exchange**) for the Notes to be admitted to the official list (the **Official List**) and trading on its regulated market. However, there can be no assurance that such listing or admission to trading will be granted.

Joint Lead Managers

Barclays
BofA Merrill Lynch
RBC Capital Markets

BNP PARIBAS
HSBC
Société Générale Corporate & Investment Banking

As at the date of this Prospectus, the long term issuer default rating of ESB from Fitch Ratings Limited (**Fitch**) is BBB+ (negative outlook), the long term issuer rating of ESB from Moody's Investor Services Limited (**Moody's**) is Baa3 (negative outlook) and the long term corporate rating of ESB from Standard & Poor's Credit Market Services Europe Limited (**S&P**) is BBB+ (negative outlook). At the date of this Prospectus, the short term issuer default rating of ESB from Fitch is F2, the short term issuer rating of ESB from Moody's is P-3 and the short term corporate rating of ESB from S&P is A-2. The Notes are expected to be rated BBB+ (negative) by Fitch, Baa3 (negative) by Moody's and BBB+ (negative) by S&P. Each of Fitch, Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such, each of Fitch, Moody's and S&P is included in the list of credit ratings agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Each of the Issuer and ESB accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and ESB (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The only persons authorised to use this Prospectus in connection with an offer of the Notes are the persons named in the Terms and Conditions of the Notes as the Managers with respect to the Notes (the **Managers**).

Neither the Managers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or the Trustee as to the accuracy or completeness of the information contained in, or incorporated by reference into, this Prospectus or any other information provided by the Issuer and/or ESB in connection with the Programme or the Notes. None of the Managers or the Trustee accepts any liability in relation to the information contained in, or incorporated by reference into, this Prospectus or any other information provided by the Issuer and/or ESB in connection with the Programme or the Notes.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, ESB, the Managers or the Trustee.

Neither this Prospectus nor any other information supplied in connection with the Programme or the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, ESB, any of the Managers or the Trustee that any recipient of this Prospectus or of any other information supplied in connection with the Programme or the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or ESB. None of this Prospectus or any other information supplied in connection with the Programme or the issue of the Notes constitutes an offer or invitation by or on behalf of the Issuer, ESB, any of the Managers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer and/or ESB is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Managers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or ESB during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons - see the section entitled "*Subscription and Sale*" in the Base Prospectus (as such term is defined below under "*Documents Incorporated by Reference*").

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of the Notes may be restricted by law in certain jurisdictions. The Issuer, ESB, the Managers and the Trustee do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, ESB, the Managers or the Trustee which is intended to permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or the Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the Notes in the United States, the European Economic Area (including the United Kingdom and Ireland) and Japan - see the section entitled "*Subscription and Sale*" in the Base Prospectus (as such term is defined below under "*Documents Incorporated by Reference*").

This Prospectus has been prepared on the basis that any offer of the Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Prospectus may only do so in circumstances in which no obligation arises for the Issuer, ESB or the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer, ESB nor the Managers have authorised, nor do they authorise, the making of any offer of the Notes in circumstances in which an obligation arises for the Issuer, ESB or the Managers to publish or supplement a prospectus for such offer.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus; (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio; (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes; (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by

certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

All references in this document to *euro*, *EUR* and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

In connection with the issue of the Notes, the Manager or Managers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the section below "*Terms and Conditions of the Notes*" may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manger) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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RISK FACTORS

Each of ESB and ESB Finance believe that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and neither ESB nor ESB Finance is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

Each of ESB and ESB Finance believe that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of either of ESB and/or ESB Finance to pay interest, principal or other amounts on or in connection with the Notes and/or ESB's guarantee of the Notes (the "Guarantee") may occur for other reasons which may not be considered significant risks by ESB and ESB Finance based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in (including as incorporated by reference in) this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect ESB's ability to fulfil its obligations under the Guarantee

Political, regulatory and legal risks

Regulated Markets

A significant part of the business activities of ESB and its subsidiaries (together, the "Group") are carried on in regulated markets and are therefore subject to regulation. The principal regulatory risks faced by the Group originate from licence compliance, ring-fencing requirements, the impact of price control reviews in markets where the prices charged by the Group are regulated (including, without limitation, the revenues allowed to the Group as owner of the Irish and Northern Ireland electricity distribution and transmission systems – see further the section of this Prospectus entitled "Description of ESB"), changes to market mechanisms such as the Single Electricity Market (SEM) (see further the section of this Prospectus entitled "Overview of the Electricity Markets in Ireland and Northern Ireland"), agreements with regulatory authorities (see further the section of this Prospectus entitled "Description of ESB") and an evolving EU regulatory framework. In addition, changes to the electricity generation market, such as an increase in the share of that market of wind energy, may result in changes to the structure and regulation of the market, which may have adverse impacts on the Group's business, results of operations, operating costs, prospects and/or financial condition.

In particular, changes to the regulatory regimes operated by the Irish energy regulator, the Commission for Energy Regulation (CER) or by the Northern Ireland energy regulator, the Northern Ireland Authority for Utility Regulation (NIAUR) and/or changes in regulated rates of return, or the basis on which such rates of return are calculated, including, for example, the continued use of the Capital Asset Pricing Model (CAPM), and/or changes in margins earned by the Group, could impact adversely the Group's financial performance. Even in markets where the Group is not subject to price regulation directly, changes to the structure or regulation of the relevant market could materially and adversely impact the Group's financial performance.

NIAUR published its final determination entitled "Northern Ireland Electricity Transmission and Distribution Price Controls 2012 - 2017" on 23 October 2012 setting out, its proposals concerning the price control in relation to Northern Ireland Electricity Limited (NIE) (a wholly owned subsidiary of ESB) for the price control period 2012 - 2017 (RP5). The final determination could impact adversely on the financial performance of NIE and consequently on the Group's performance. NIE constitutes approximately 15% of the Group in terms of asset value and EBITDA. The final determination is open to consultation until 20 November 2012 by which date NIE must decide whether to accept the licence modifications which give effect to the price control. If NIE is not satisfied with the final

determination, it will have the option of refusing the licence modifications which will result in a referral to the UK Competition Commission by the NIAUR for final adjudication.

State ownership and Government control

ESB is majority owned by the Government of Ireland (see further the section of this Prospectus entitled “*Description of ESB – Overview*” in relation to its commitment to maintain ESB as a vertically integrated utility under State control, and to dispose of some of its non-strategic power generation capacity). As such, the Group’s strategy, business operations, capital structure, corporate and environmental policies, profitability, dividend policy and level of retained profit are directly and indirectly influenced by decisions of the Government of Ireland over which the Group has no control. In particular, the Group’s actions and policies may be influenced by political imperatives. In addition, under its governing legislation, ESB is required to obtain the consent of the Minister for Communications, Energy and Natural Resources of Ireland, the Minister for Finance and/or the Minister for Public Expenditure and Reform of Ireland in order to engage in a variety of commercial transactions. There can be no assurance that such consents will be forthcoming when requested by the management of ESB. Political developments and considerations, therefore, have the ability to materially and adversely impact upon the Group’s business, results of operations, operating costs, prospects and/or financial condition.

Implementation of Third Energy Package

On 13 July 2009, the European Parliament and the EU Commission adopted a number of legislative measures commonly referred to as the “Third Energy Package”, which further deregulate the European energy sector. Amongst other matters, the Third Energy Package gives a number of options to EU Member States to legislate for the unbundling of electricity transmission assets from vertically integrated electricity utilities. The options comprise full ownership unbundling, an independent system operator (**ISO**) model, an independent transmission operator (**ITO**) model, or the continuation of the existing arrangements in place when the Third Energy Package came into force on 3 September 2009, if it can be demonstrated that the model in place as of that date guarantees more effective independence of the transmission system operator than the ITO model. These options were required to be implemented by Member States by 3 March 2012.

The Government of Ireland engaged in a process to consider the transfer of the ESB transmission assets to EirGrid, the independent Transmission System Operator (**TSO**) in the context of the Third Energy Package and, as part of this process, commissioned a report by an independent third party. Following this process, the Government of Ireland announced on 27 July 2011, that it had decided that the ownership of the transmission assets was to remain with ESB and that EirGrid would continue to be the TSO. The Government of Ireland subsequently announced that there would then follow a process of certification of the existing arrangements under Article 9(9) of the Third Energy Package (**Article 9(9)**).

Each of ESB in Ireland and NIE in Northern Ireland is currently pursuing certification under Article 9(9) on the basis that the transmission assets owned by ESB and NIE respectively are (and since September 2009 have been) operated by independent transmission system operators, being EirGrid in Ireland and SONI in Northern Ireland. In each case, the process of certification under Article 9(9) is being managed by the Single Electricity Market Committee (**SEM Committee**), made up of representatives from the NIAUR, the CER and an independent member. The European Commission will take a decision as to whether the arrangements in Northern Ireland and Ireland respectively can be certified under Article 9(9) and the SEM Committee (and the NIAUR and the CER) must comply with the decision of the European Commission in this regard.

Any change to the currently proposed models for implementation of the Third Energy Package in Ireland or Northern Ireland could require implementation of one of the other unbundling options

provided for by the Third Energy Package which in turn could have adverse implications for ESB's business.

Environmental, health and safety risks

Many of ESB's activities have potential for significant environmental impact and are regulated by relevant national authorities in the EU under the integrated pollution prevention and control framework and under other national and EU legislation. Regular compliance audits are a feature of this system.

In addition, safety hazards may arise for employees, contractors and the public from the Group's activities. In common with other electricity utilities, the Group uses and generates hazardous and potentially hazardous products and by-products in the course of its operations.

The Group commits significant resources towards ensuring compliance with applicable planning, environmental, health and safety laws and regulations. Nevertheless, a major safety or environmental impact incident could cause injury, loss of life, financial loss, a security of supply issue, property damage and/or reputational damage to the Group. In addition, breaches of applicable environmental or health and safety laws or regulations could expose the Group to significant penalties, claims for financial compensation and/or adverse regulatory consequences. Furthermore, there can be no assurance that costs of compliance with applicable environmental standards and regulations will not increase and any such increased costs could adversely affect the Group's financial performance.

ESB is a member of the EU Emissions Trading Scheme (ETS). The ETS is a 'cap and trade' scheme, that is to say it caps the overall level of CO2 emissions allowed but, within that limit, allows participants in the system to buy and sell allowances as they require. Until 2013, a significant proportion of allowances required by operators will be provided free of charge. From 2013, an auction process will take place for these allowances, with enterprises having to bid competitively to obtain them. The requirement to purchase such allowances from 2013 will result in additional costs being incurred by the Group, which may adversely affect the Group's financial performance.

Increased costs of environmental regulatory compliance could have an adverse impact on the Group's business, results of operations, generating costs, prospects and/or financial condition.

Litigation

In February 2012 a number of letters of claim were received in relation to flooding which occurred in Cork (Ireland) in 2009. One claimant has issued legal proceedings against ESB seeking to recover approximately EUR19 million for property damage. There is a possibility of additional claims being brought in connection with such flooding, but ESB intends to defend strenuously all such claims. This course of action has been notified to ESB's insurers. On the basis of advices obtained, ESB believes that it has a good defence to these claims. Accordingly, no provision has been made for such claims in ESB's financial statements.

More generally, ESB is from time to time involved in legal proceedings and it may, in the future, be involved in other legal proceedings, that may or may not be material. An adverse result in relation to litigation proceedings could have a significant adverse effect on the Group's financial position and profitability.

Compliance with competition and procurement laws

The Group currently owns and operates some of the key energy infrastructure and services in Ireland. Its ownership of such infrastructure and/or its position in some of the markets in which it operates may have competition law implications for the Group. In addition, the Group is subject to public procurement law and the provisions of the EU Utilities Directive (Directive 2004/17/EC).

Whilst the Group has policies and procedures in place which seek to ensure compliance with the relevant competition and procurement legislation, any failure by the Group to comply with relevant law could result in penalties being imposed on the Group. The imposition of any such penalties may have an adverse effect on the Group's business, results of operations, prospects and/or financial condition.

Compliance with data protection laws

The Group's activities involve the collection and processing of personal data relating to customers and employees. Any breach of data protection laws could result in a complaint being made to the relevant authorities. In Ireland, the Data Protection Commissioner has power to investigate data protection breaches and has a number of remedies at his disposal including the issue of enforcement and/or information notices, criminal prosecution and the naming of non-compliant organisations in his annual report. The Group has policies and procedures in place which are designed to ensure that it remains compliant with its data protection obligations, particularly those which relate to its marketing activities. Nevertheless, any failure by the Group to comply with applicable law could result in penalties being imposed on the Group. The imposition of any such penalties may have an adverse effect on the Group's business, results of operations, prospects and/or financial condition.

Financial risks

Pension risk

The Group operates a number of pension schemes for staff, the largest of which is a contributory pension scheme (the **ESB Scheme**) of which the majority of ESB employees are members. At the actuarial valuation completed as at 31 December 2008, the ESB Scheme's liabilities exceeded its assets by EUR1.96 billion.

Following this, management and staff sought to reach an agreement as to how the actuarial deficit identified in relation to the ESB Scheme should be addressed and in October 2010 a pension agreement (the **Pension Agreement**), which addressed the actuarial deficit issue, was ratified by the Board of ESB. The Pension Agreement is designed to enhance the financial position of the ESB Scheme, primarily by addressing and reducing the ESB Scheme's liabilities, and also through the gradual increase in the proportion of assets held in lower risk investments, thus reducing the exposure to asset valuation falls arising from financial market volatility.

A key feature of the Pension Agreement is the reduction of future pension benefits through the introduction of Career Average Revalued Earnings (**CARE**) for service from January 2012, a pension and pay freeze to 2014 and 2012 respectively, and the capping of any future increases in pensions at 4% per annum. All future increases in pensions paid will also be dependent on the solvency of the ESB Scheme. In order to allow the ESB Scheme to de-risk by investing in lower risk assets in the future, a once-off capital injection of EUR591 million (present actuarial value at 1 January 2010) will also be made by ESB over a period of up to 10 years to facilitate this transition. Under the Pension Agreement, membership of the ESB Scheme has been closed to new joiners.

The latest actuarial valuation completed as at 31 December 2011 revealed that the ESB Scheme has an ongoing actuarial deficit of EUR72 million which is significantly reduced from EUR1.96 billion at the end of 2008. Given the size of the ESB Scheme, the actuary considered a projected deficit of EUR72 million to be in the margin that allows him to consider the ESB Scheme broadly in balance. The ESB Scheme had a statutory minimum funding standard deficit at end of 2011 of EUR1.71 billion. This measures the funding position if the ESB Scheme was to be wound up at the valuation date. The trustees of the ESB Scheme, with the agreement of ESB, have submitted a funding proposal under section 49(3) of the Pensions Act, 1990 (as amended) to the Pensions' Board and are awaiting a response.

The Pension Agreement has contributed to clarifying ESB's obligations in relation to the ESB Scheme; such that, under IAS 19 Employee Benefits, the ESB Scheme is now accounted for as a defined contribution scheme, having been formerly accounted for as a defined benefit scheme. The change in accounting treatment has given rise to a once-off exceptional charge in the financial year ended 31 December 2010 of EUR330 million.

Separately, NIE participates in the Northern Ireland Electricity Pension Scheme (the **NIE Scheme**) which includes a final salary section and a defined contribution section. The NIE Scheme is currently in deficit and a deficit repair plan has been agreed with the trustees of the NIE Scheme.

The amount and timing of future funding obligations to the NIE Scheme are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements, changes to which could result in NIE having to make additional contributions to the NIE Scheme.

Whilst it is expected that any obligation on NIE to make additional contributions to the NIE Scheme should be recoverable under its price control, if and to the extent that is not the case, the obligation to make such contributions could have an adverse impact on the financial position of the Group.

Financial market risks

The Group is exposed to a variety of financial market risks, including interest rate, foreign exchange, counterparty credit, funding and liquidity risks. Members of the Group are party to various hedging arrangements including, without limitation, interest rate, inflation-linked, and foreign exchange swaps which are intended to mitigate such risks but which also carry their own counterparty risks. The Group's exposure to funding and liquidity risks can be exacerbated by factors such as (i) debt repayment requirements and (ii) cash collateral or break provisions within derivative contracts to which Group members are party. The Group seeks to ensure that all of these risks are, wherever possible, monitored, reported and managed within a strict framework of controls and procedures. Nevertheless, there can be no assurance that market, political or legislative developments will not have a material adverse effect on the Group's financial performance. Where possible, the Group applies IAS39 hedge accounting treatment to its derivative transactions. However certain derivative transactions, such as the Group's inflation-linked (Retail Price Index or "RPI") swaps, which hedge a large proportion of the Group's UK network assets, are not eligible for such hedge accounting treatment. Therefore the volatility in the marked to market valuation of these swaps, which can be significant, impacts the Group's income statement and, depending on the marked to market valuation on any reporting date, could have a material adverse effect on the Group's reported profits. The marked to market valuation of these swaps is influenced by changes in UK real interest rates.

See further "*Description of ESB – Summary Financial Information*".

Borrowing restrictions and covenants

ESB is subject to certain statutory borrowing restrictions, including a statutory borrowing limit which is currently set at EUR6 billion. ESB is also subject to certain covenants and restrictions under the terms of its senior unsecured debt securities and credit facilities. Any failure to comply with such restrictions, limits or covenants could have a material adverse effect on the Group's operations, operating costs, prospects and/or financial condition.

Project Finance

ESB has developed a number of power generation projects overseas using non recourse or limited project finance and special purpose companies owned or partially owned by ESB. While the recourse

to ESB may be limited or excluded nevertheless there may be financial or reputational risks to ESB if these projects failed or became insolvent.

Commodity price movements

Power, fuel and CO₂ prices paid by the Group in connection with its electricity generating activities, have shown significant volatility in recent years. The Group's profits could be (and have been) materially affected by changes in power, fuel and CO₂ prices, and by relative movements between prices of different fuel and/or power types.

The EU has ceased issuing free CO₂ allowances for CO₂ emissions in Ireland in 2012 and therefore ESB will have to purchase sufficient allowances for its future emissions which will be an additional volatile cost.

Continuing volatility in power and fuel prices could have a material adverse effect on ESB's results of operations, prospects and/or financial condition.

Accounting and tax risks

Non-compliance with applicable accounting standards, revisions to existing accounting standards, or the introduction of new accounting standards, rules or interpretations could have an adverse effect on the Group's reported financial results.

The effective rate of tax paid by the Group may be influenced by a number of factors, including changes in law and accounting standards, and changes in the practices of, or legal interpretations adopted by, relevant tax authorities. Changes in such factors could result in an increase in the effective rate of tax paid by the Group and therefore could have a material adverse effect on the Group's prospects and/or financial condition.

Business risks

The economic environment in which the Group operates

The ability of the Group to maintain and grow its business and profit levels could be adversely affected by economic factors, such as a general economic downturn. This could result in lower business activity levels and/or lower profitability in existing business lines. In addition, the fixed nature of a significant proportion of the Group's cost base could, in such circumstances, make it difficult for the Group to achieve cost savings which may be required in response to lower business activity levels. An economic downturn could also adversely affect the ability of the Group to proceed with planned investment. Furthermore the value of ESB's regulated asset base and its allowed cost base, is adjusted for inflation or deflation as part of the applicable regulatory pricing structure (see further the section of this Prospectus entitled "*Description of ESB*"). Therefore a significant reoccurrence of the recent period of economic recession in Ireland and/or deflation in Ireland could have a material adverse effect on the Group's results of operations, prospects and/or financial condition.

Euro and Eurozone Risk

Market perceptions concerning the instability of the euro, the potential re-introduction of individual currencies within the Eurozone, or the potential dissolution of the euro entirely, could adversely affect the value of Notes.

As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the **EF**FSF) and the European Financial Stability Mechanism (the **EF**SM) to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for

Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism (the ESM), which will be activated by mutual agreement, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013.

Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to the re-introduction of individual currencies in one or more Member States, or, in more extreme circumstances, the possible dissolution of the euro entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of the Notes.

Competition

The Group faces strong competition in its generation, supply (see further the section of this Prospectus entitled "*Description of ESB – Services and Electric Ireland*") and overseas' markets. There can be no assurance that existing or increased competition will not adversely affect the Group in one or more of the markets in which it operates, in particular in markets in which the Group is subject to price regulation. For example, increased competition is likely to result, and in the recent past has resulted, in a decline in the Group's customer numbers and demand for the Group's products or services in certain competitive markets in which the Group operates, and consequently in revenues earned by the Group in such markets. There can be no assurance that further declines in customer numbers will not occur in such markets. In addition, the Group may encounter difficulties in transitioning to deregulated markets, when required to do so. Adverse consequences which may affect the Group include loss of profitability and an inability to recover stranded fixed costs.

Surplus capacity

The SEM is a small electricity market by international standards, where the addition of a new thermal power plant represents a material increase to total capacity. Significant new capacity has been added in recent years and new wind capacity is being added each year. In addition, the East-West Interconnector, which became operational in October 2012, will introduce a further 500MW of capacity in Ireland (see further the section of this Prospectus entitled "*Overview of the Electricity Markets in Ireland and Northern Ireland*"). Combined with an observed fall in demand in the period from 2009 to 2011 and the potential for further reductions in the future, the SEM faces the possibility of excess capacity until additional demand materialises, or some existing capacity closes. Surplus capacity could result in lower power prices and reduced profits, or losses, to generators in the SEM, including the Group. Sustained excess capacity could have a material adverse effect on the Group's results of operations, prospects and/or financial condition.

Formulation and implementation of strategy

It is the responsibility of the Board of ESB to consider strategic issues including capital investment in projects, acquisitions, disposals, investments, market positioning, climate change, sustainable development and new technologies. The Group's 'Strategic Framework to 2020' launched in 2008 and updated in 2012 sets out the Group's investment and growth targets for that period (see further the section of this Prospectus entitled "*Description of ESB*"). Implementation of the Group's investment and growth targets will require significant borrowing and there can be no assurance that the Group will be able to raise the necessary funds on acceptable terms. In addition, a failure to formulate a successful strategy, to review and refine such strategy in the light of economic, regulatory and market developments, or to implement such strategy effectively could adversely impact on the financial or market position of the Group.

Project execution

Project execution in general is subject to commercial, construction, technical, contractor, planning permission, relevant approvals and economic risks. Failure to secure an appropriate revenue structure is an additional key risk for any project. Failure to deliver planned new projects to successful technical and commercial operation could have a material adverse effect on the Group's business, results of operations, operating costs, prospects and/or financial condition.

Labour relations

ESB had approximately 8,212 employees as at 31 December 2011, including 1,240 employees of Northern Ireland Electricity Limited. Approximately 80% of ESB's employees are members of unions. While relations between Group management and the employees and trade unions are good and there has been no significant strike action by ESB employees since 1991, any industrial action by employees could affect critical services, curtail operations and have an adverse financial and reputational impact on the Group and/or result in adverse regulatory action.

Reputational risk

The Group's reputation for professionalism and competence within the energy sector is exposed to the risk of an occurrence of any adverse event or circumstance that may damage its brand or public standing. This in turn could have an adverse impact on the Group's business, results of operations, operating costs, prospects and/or financial condition.

Security of primary energy sources

The principal sources of primary energy in the Irish electricity market are gas, coal, hydro, peat and wind. Approximately 85% of the primary energy for electricity production in Ireland is imported fuel. At present over 95% of gas used in Ireland is purchased on the United Kingdom gas markets, which in turn are supplied by United Kingdom production, European imports and the import of liquified natural gas. Any disruption to the importation of fuel into Ireland could have an adverse impact on the Group's electricity generating capability and its financial condition.

Network, plant and other infrastructure performance and security risk

The Group's businesses include the operation and development of electricity networks and also encompass certain responsibilities in relation to waterways in Ireland. Electricity networks are critical infrastructure for electricity users in Ireland and the Irish economy. The risk of a major network failure or disruption of electricity supply is an inherent part of the business. For example, a failure or disruption to network performance, or damage to other infrastructure, could be a consequence of such factors as under-investment, inadequate maintenance, inadequate planning for future demand, system failure, severe weather conditions, flooding or natural disasters. In addition, sabotage or other intentional and unlawful acts of third parties may result in damage to, or destruction of, plant, networks and other infrastructure owned and/or operated by the Group. The potential consequences for the Group of any of the above risks could include damage to reputation, material financial loss, risk of injury or death, and/or adverse regulatory action.

The breakdown or malfunction of generation plant, including dams associated with hydro-electric generating plants, could also have a material adverse impact on the Group's business, for example as a result of increased exposure to SEM pool market prices, increased cost of production, increased maintenance costs and/or reputational damage.

Insurance

The Group seeks to maintain insurance cover on all its key property and liability exposures in the international insurance market. No assurance can be given that the insurance cover acquired by the Group provides adequate or sufficient cover for all events or incidents. The international insurance

market is volatile and therefore there can be no guarantee that existing cover will remain available or will be available at commercially acceptable premiums.

Systems and business interruption

The Group's ability to manage its operations and engage in critical business tasks is dependent on the efficient and uninterrupted operation of its IT, software, hardware and communication systems. The risk extends to reliance on key personnel and suppliers who provide, operate or maintain these systems and on the IT, software, hardware and communication systems used by third parties in the course of their dealings with the Group. A failure in any relevant system could have an adverse effect on the Group's results of operations, operating cost, prospects and/or financial condition.

Information security

The confidentiality, integrity and availability of information could be affected by factors that include human error, ineffective design or operation of key controls, data theft or through cyber attack. Loss of data integrity could affect the Group's ability to conduct day-to-day operations, while any compromise of the confidentiality of information held by the Group may have an adverse impact on the Group's business, reputation, results of operations, operating costs, prospects and/or financial condition.

Operational risk

The Group faces the risk of losses or reputational damage due to human error, fraud or inadequate processes across all its operations, including its trading and treasury operations. Any losses which may arise as a result of human error, fraud or inadequate processes affecting the Group's trading or treasury operations may, due to the nature and scale of such operations, be significant and therefore have a material adverse effect on the Group's financial condition.

Reliance on key personnel

The Group is reliant on the employment of competent and qualified personnel in all areas of its business (including its senior management team as outlined in the section of this Prospectus entitled "Description of ESB"). Failure to attract or retain, or changes in, key personnel could have an adverse effect on the Group's business, results of operations, prospects and/or financial condition.

Factors that may affect ESB Finance's ability to fulfil its obligations under the Notes

The Issuer is a special purpose financing entity with no business operations other than the entry into of financing arrangements (including the issuance of Notes under the Programme), the lending of the proceeds to ESB or other members of the Group, the giving of intra-group guarantees, and the entry into of certain ancillary arrangements, including related hedging contracts. ESB Finance's only material assets will be receivables due to it from ESB or other members of the Group under intra-Group financing arrangements and/or from third parties under related hedging contracts. Therefore, ESB Finance is subject to all risks to which ESB is subject, to the extent that such risks could limit ESB's or the relevant Group recipient's ability to satisfy in full and on a timely basis its obligations under such loan. See "Factors that may affect ESB's ability to fulfil its obligations under the Guarantee" above for a further description of certain of these risks.

Factors which are material for the purpose of assessing the market risks associated with the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, currency exchange rates and other factors that may affect its investment and its ability to bear the applicable risks.

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the relevant Issuer, in the circumstances described in Condition 15 (*Meetings of Noteholders, Modification, Waiver and Substitution*).

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither ESB,

ESB Finance nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. ESB or ESB Finance is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Denominations involve integral multiples: definitive Notes

As the Notes have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that the Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of the Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

In addition, Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Prospectus), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. Such lack of liquidity may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the assets of ESB or ESB Finance. Neither ESB nor ESB Finance can predict which of these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes and ESB will make payments under the Guarantee in euro (the **Specified Currency**). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the

Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings

A rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. A rating may not reflect the potential impact of all risks related to the structure, market and other factors that may affect the value of the Notes. The methodology employed by each of S&P, Moody's and Fitch to ascribe credit ratings to state-owned energy utilities such as ESB may change from time to time. Relevant factors within such methodology may include, without limitation, the sovereign rating of the relevant state. Accordingly, for so long as ESB remains majority owned by the Government of Ireland, any downgrading of Ireland's sovereign credit rating may contribute towards, or result in, a corresponding downgrading of ESB's credit rating.

OVERVIEW OF THE ELECTRICITY MARKETS IN IRELAND AND NORTHERN IRELAND

The structure of the electricity market in Ireland and Northern Ireland (the two jurisdictions being referred to together as **Island of Ireland**) can be divided into four segments: generation, supply, transmission and distribution. Electricity generation and supply are open to full competition throughout the Island of Ireland. Electricity transmission and distribution are regulated monopolies in each of Ireland and Northern Ireland.

Energy Policy and Regulation

The Government of Ireland, through the Minister for Communications, Energy and Natural Resources is responsible for energy policy and energy affairs in Ireland. In Northern Ireland, the Department of Enterprise, Trade and Investment is responsible for energy policy and energy affairs. Ireland's and Northern Ireland's energy policy and regulation are heavily influenced by European Union law.

The CER is the independent regulator of the energy markets in Ireland. The NIAUR is the independent regulator of the energy markets in Northern Ireland. Representatives from each of the CER and NIAUR make up the SEM Committee which makes decisions in relation to the SEM (see further below).

Single Electricity Market

The SEM came into operation on the Island of Ireland in November 2007. It is operated by the Single Electricity Market Operator (**SEMO**). SEMO is a joint venture between EirGrid plc (**EirGrid**), the transmission system operator for Ireland, and SONI Limited (**SONI**), the transmission system operator for Northern Ireland. SEMO is licensed and regulated co-operatively by the CER and the NIAUR.

The SEM is a single wholesale market for electricity in Ireland and Northern Ireland into which virtually all electricity generated in, or imported into, the Island of Ireland must be sold, and from which all wholesale electricity consumed in, or exported from, the Island of Ireland must be purchased. The key design features of the SEM are that it is a gross mandatory pool with central commitment and a single unconstrained marginal pricing structure.

For economic efficiency and market power mitigation reasons, the SEM is structured to ensure that the system marginal price (**SMP**) reflects underlying marginal power production cost. As a result, generators are required (under a Bidding Code of Practice) to bid prices into the pool at no less than, and no greater than, short-run marginal costs.

However, due to the capital intensity of generation investment, revenue derived on this basis will in general not provide an adequate return on that investment and, accordingly, the SEM supplements the spot revenue with an administered capacity payment with the aim that, when taken together, generators should receive adequate revenue over the long term.

The SEM therefore incorporates an explicit Capacity Payment Mechanism based on the lifetime cost of a "Best New Entrant", as well as providing constraint payments to compensate generators constrained on/off due to stability reasons and/or transmission constraints.

In addition, in order to mitigate residual market power, the relevant regulatory bodies direct ESB, and potentially other market participants, to sell each year to eligible suppliers a portion of output in the form of directed contracts for differences (**Directed CfDs**) (which totalled less than 2TWhs in 2011). The relevant regulatory bodies determine both the quantity and price (which is calculated using a model based on forward SMP values) of these Directed CfDs.

Therefore, to the extent set out in the preceding paragraphs, there remains an element of regulatory control over the wholesale price of electricity in the Island of Ireland.

Participating generators must submit a day-ahead commercial bid, which is based on the avoidable costs of electricity generation. SEMO optimises the dispatch of these generators to meet demand for electricity, and produces, for each half-hour trading period, a single wholesale energy price that is applicable to generators and suppliers in both jurisdictions. From a generator's perspective the following two features of the market are of particular interest:

- The availability of a revenue stream to a participating generator will not depend upon it finding a purchaser for its output as all power can be sold into the pool. A generator may, however, wish to mitigate the uncertainty associated with fluctuating SEM energy prices by entering into bilateral arrangements with participating suppliers, so as to achieve the effect of a fixed output price. As the market's gross mandatory design is not consistent with the use of physical off-take arrangements, such bilateral arrangements will take the form of contracts for differences.
- In addition to payments for energy, the SEM includes a capacity mechanism that rewards each participating generator for making generation capacity available, whether or not the generator is actually dispatched. Each year the regulatory authorities determine an annual capacity payment sum, which is distributed to generators throughout the year on a weighted basis reflecting the fluctuating value of generation capacity. These capacity payments are funded by suppliers.

Electricity Transmission

The Irish electricity transmission system is a high voltage network for the transmission of bulk electricity supplies around Ireland. Generally the high voltage lines deliver electricity from Ireland's generation sources to the transformer stations, where the electricity voltage is reduced and taken onwards through the distribution system to individual users' premises. There are also approximately 18 very large commercial users directly connected to the transmission system.

The Irish transmission system is operated and owned by separate entities, namely EirGrid and ESB (acting through its ring-fenced ESB Networks division, **ESBN**).

EirGrid, a separate Irish State-owned company, is the licensed operator of the Irish electricity transmission system (Transmission System Operator – **TSO**). It has responsibility for the operation, maintenance and development of Ireland's transmission system in a safe, secure, reliable, economical and efficient manner. It offers terms and levies charges regulated by the CER for the connection to and use of the system by market participants.

ESBN owns the Irish transmission system assets (with a regulatory asset base (**RAB**) value as at 31 December 2011 of approximately EUR1.3 billion) and is licensed as the transmission asset owner (**TAO**) by the CER. ESBN, in its capacity as TAO, is required to maintain the transmission system and carry out construction work for its development in accordance with the TSO's Transmission Development Plan.

The interaction between EirGrid as TSO and ESBN as TAO is the subject of an agreement which has been approved by the CER.

In Ireland, transmission revenue reviews are carried out by the CER every five years and are refined on an annual basis. The latest five year review covers the period 2011 to 2015 and sets out the total allowed revenues over that period for both the TSO and the TAO. Each year the allowed revenue is refined in an annual review that updates a range of assumptions. This determines the allowed revenue in the relevant year, which is then used to calculate tariffs and charges to users of the

transmission system. See further the section of this Prospectus entitled “*Description of ESB – ESB Networks – Networks Regulated Returns*”.

EirGrid’s subsidiary, SONI Limited, is the licensed operator of the Northern Ireland electricity transmission system.

NIE, which was acquired by ESB in December 2010, owns the electricity transmission system in Northern Ireland.

The transmission functions of planning and development of the transmission system are undertaken in conjunction with SONI (as TSO) in accordance with the arrangements set out in a Transmission Interface Agreement (**TIA**) as agreed by NIAUR. NIE is responsible for the construction and maintenance of the transmission system.

NIAUR sets the allowed revenues and tariffs for NIE. The principles applied in this regard by NIAUR are similar to those used by the CER and are based on the RPI-X UK regulatory model. As with Ireland, a price control review normally takes place every 5 years.

Electricity Distribution

The electricity distribution system is the combination of high, medium and low voltage electricity networks used to deliver electricity to individual users (other than those very large users connected directly to the transmission network, referred to above).

The Irish electricity distribution system (with a RAB value as at 31 December 2011 of approximately EUR4.9 billion) is owned and operated by separate entities within the Group. ESB Networks Limited is the licensed distribution system operator (**DSO**) in Ireland. The DSO is a wholly owned subsidiary of ESB and is subject to corporate governance oversight by the Board of ESB but operates independently of ESB in relation to its DSO functions. It has responsibilities which include the operation, maintenance and development of Ireland’s electricity distribution system in a safe, secure, reliable, economical and efficient manner. It offers terms and levies charges regulated by the CER for the connection to and use of the distribution system by market participants.

The Irish distribution system assets are owned by ESBN as the distribution asset owner (**DAO**). The interaction between ESB Networks Limited in its capacity as DSO and ESBN in its capacity as DAO is the subject of an agreement which has been approved by the CER.

Distribution revenue reviews are carried out by the CER every five years and are refined on an annual basis. The latest five year review covers the period 2011 to 2015 and sets out the total allowed revenues over that period for both the DSO and the DAO. Each year the allowed revenue is refined in an annual review that updates a range of assumptions. This determines the allowed revenue in the relevant year which is then used to calculate tariffs and charges to users of the distribution system. See further the section of this Prospectus entitled “*Description of ESB – ESB Networks – ESB Networks Regulated Returns*”.

NIE owns the electricity distribution system assets in Northern Ireland and is responsible for the planning, development, construction and maintenance of the entire distribution network, as well as the operation of the distribution network. NIE’s licence requires it to develop and maintain an efficient, coordinated and economical system of electricity distribution. In addition to the charges for transmission services levied on SONI, NIE’s revenue is also derived from charges for use of the distribution system levied on electricity suppliers. These charges are also regulated by NIAUR as outlined above.

Interconnection with Other Networks

On 21 September 2012 a new 500-megawatt power interconnector was officially opened between the Republic of Ireland and Wales (referred to as the **East-West Interconnector**). EirGrid is responsible for the operation of the East-West interconnector with the cost of the project recovered from end users.

In addition a 500-megawatt interconnector exists between Northern Ireland and Scotland (referred to as the **Moyle Interconnector**).

Electricity Generation

The SEM generation sector comprises approximately 10,400 MW of capacity connected to the system on an Island of Ireland 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 fuels including hydro, wind, peat and biomass.

To connect to the electricity network, a generator must hold (i) an Authorisation to Construct or Reconstruct a Generating Station and (ii) a Generation Licence. The CER is responsible for assessing and for granting, or refusing to grant, these permits. The conditions imposed in the Authorisation and in the Licence must be met by the generator and compliance is monitored by the CER on an ongoing basis.

Electricity Supply

The liberalisation of Ireland's electricity supply market began in February 2000, with a 28% market opening, allowing major consumers of electricity to select a supplier of their choice. A second phase brought market liberalisation to most non-domestic customers. Full market opening to all consumers occurred in February 2005.

The CER licences electricity suppliers in Ireland and NIAUR licences electricity suppliers in Northern Ireland.

Following a public consultation process commenced by the CER in December 2009, with effect from 4 April 2011, the CER removed price regulation previously imposed on ESB's retail electricity supply business in Ireland. In connection with the removal of such price regulation, ESB re-branded its retail electricity supply business in Ireland as 'Electric Ireland' and this business now operates in Ireland without price regulation.

The CER's conditions for the price deregulation of ESB's retail electricity supply business in Ireland required that ESB does not have a market share of more than 60% in Ireland's residential market and 50% market share for each of the small, medium and large business user segments.

With the entry of two significant new suppliers into the Irish residential retail electricity supply market in 2009, Electric Ireland's aggregate customer numbers fell from approximately 2.1 million at 31 December 2008 to approximately 1.4 million at 31 December 2011.

Electric Ireland holds the public electricity supply licence issued by the CER. See further the section of this Prospectus entitled "*Description of ESB – Services and Electric Ireland*".

DESCRIPTION OF ESB FINANCE LIMITED

Introduction

The Issuer was incorporated in Ireland on 26 January 2010 as a private limited company with registered number 480184. As an Irish incorporated company it operates under the Companies Acts 1963 to 2012 of Ireland. The Issuer's registered office is at 27 Lower Fitzwilliam Street, Dublin 2, Ireland and its telephone number is +353 1676 5831. The Issuer is a wholly owned subsidiary of ESB.

The Issuer was incorporated for the purpose of, *inter alia*, acting as a general financing vehicle for the Group, including lending or otherwise making available to other members of the Group the proceeds of fundraisings in which it engages from time to time.

The Issuer is managed in accordance with the Companies Acts 1963 to 2012 of Ireland and all other applicable provisions of Irish company law, its memorandum and articles of association, relevant provisions of the Electricity (Supply) Acts 1927 to 2004 of Ireland and the Code of Practice for the Governance of State Bodies published by the Department of Finance of Ireland.

Board of the Issuer

The Directors of the Issuer and their principal outside activities are:

Name	Principal Activities outside the Issuer
Deirdre Cowler	Director of certain other ESB subsidiaries and employee of ESB
Paul Stapleton	Director of certain other ESB subsidiaries and employee of ESB
Susan McCarthy	Director of certain other ESB subsidiaries and employee of ESB
Justin Johnston	Director of certain other ESB subsidiaries and employee of ESB

The business address of each of the Directors of the Issuer for the purposes of this Prospectus is 27 Lower Fitzwilliam Street, Dublin 2, Ireland.

There are no potential conflicts of interests between the duties of the Issuer's Directors in such capacity and their private or other professional interests.

The Issuer and ESB

As a wholly-owned subsidiary of ESB, the Issuer is dependent on the performance of ESB and the other members of the Group to generate sufficient income to enable the Issuer to perform and satisfy its payment obligations under the Notes.

Auditors

The auditors to the Issuer are KPMG Chartered Accountants and Registered Auditors whose office is at 1 Stokes Place, St Stephen's Green, Dublin 2, Ireland.

DESCRIPTION OF ESB

Overview

ESB was established on 11 August 1927 as a statutory corporation in Ireland under the Electricity (Supply) Act 1927 and it operates under the Electricity (Supply) Acts 1927 to 2004 of Ireland. ESB's head office is at 27 Lower Fitzwilliam Street, Dublin 2, Ireland and its telephone number is +353 1 676 5831. ESB is majority owned by the Government of Ireland through the Minister for Public Expenditure and Reform of Ireland (who holds 85% of its issued capital stock) and the Minister for Communications, Energy and Natural Resources of Ireland (who holds 10% of its issued capital stock). The remaining 5% of the issued capital stock of ESB is held by an Employee Share Ownership Trust.

The primary activities of ESB and its subsidiaries (together, the **Group**) are the ownership and/or operation of electricity distribution and transmission networks in Ireland and Northern Ireland and the generation and supply of electricity in Ireland and certain other countries. As at 31 December 2011, ESB was the sole owner of the electricity distribution and transmission networks in Ireland and Northern Ireland (providing it with a RAB of approximately EUR7.9 billion), owned 43% of total electricity generation capacity of the Island of Ireland and supplied electricity to approximately 1.4 million customers throughout the Island of Ireland. As at 31 December 2011, the Group employed approximately 8,212 people.

Having previously announced its intention to sell a minority stake in ESB as an integrated utility, on 22 February 2012, the Government of Ireland announced that following detailed analysis and further consideration, it had decided not to proceed with a sale of a minority stake in ESB, that ESB would remain as a vertically integrated utility in Irish State ownership, and that it would only consider the sale of some of ESB's non-strategic generation assets.

Further to its decision in February 2012, on 24 October 2012, the Government of Ireland requested ESB to develop proposals for the sale of some non-strategic generation capacity, with the specific objective of delivering special dividends to the Government targeted at up to €400m by the end of 2014.

In making this request, the Government of Ireland has reaffirmed its commitment that ESB will:

- remain as a vertically integrated utility (VIU) in State ownership;
- maintain its strong credit rating to ensure access to funding in order to deliver its investment in key infrastructure; and
- retain significant scale in Generation to compete in the All-Islands (Ireland and UK) market, while continuing to move to an appropriate market share in Ireland.

Summary Financial Information

The table below sets out summary consolidated financial data of the Group as at and for the years ended 31 December 2010 and 31 December 2011. This table should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements of ESB (including the notes thereto) for the years ended 31 December 2010 and 31 December 2011 (incorporated by reference into this Prospectus) which have been audited by the auditors to ESB, KPMG.

	Y/E 31.12.10 Audited	Y/E 31.12.11 Audited
Income Statement Data, €m	IFRS	IFRS
Revenue and other operating income	2,739.5	2,994.8
EBIT *	338.7	468.9
EBIT margin.....	12.4%	15.7%
Profit / (loss) after taxation **	(84.1)	100.0
Balance Sheet Data, €m		
Non-current assets (excl. cash).....	11,102.1	11,394.2
Current assets (excl. cash).....	810.0	867.5
Total assets (excl. cash)	11,912.1	12,261.7
Current liabilities (excl. debt).....	(999.5)	(985.6)
Non-current liabilities (excl. debt).....	(3,092.3)	(3,157.6)
Total liabilities (excl. debt).....	(4,091.8)	(4,143.2)
Net assets ***	7,820.3	8,118.5
Net cash / (debt).....	(3,943.6)	(4,323.8)
Total equity.....	3,876.7	3,794.8
Cash Flow Data, €m		
Cash generated from operations.....	858.4	850.5
Regulatory Data, €m		
ESB Networks Regulated Asset Base	6,121.4	6,241.0
NIE T&D Networks Regulated Asset Base	1,240.7	1,155.0

* EBIT stated before exceptional pension charge in 2010.

** Profit/(Loss) after exceptional pension charge in 2010.

***Total assets (excluding cash) less total liabilities (excluding debt).

The table below sets out summary unaudited consolidated financial data of the Group as at and for the six months ended 30 June 2012. This table should be read in conjunction with, and is qualified in its entirety by reference to, the unaudited consolidated financial statements of ESB for the six months ended 30 June 2012 (incorporated by reference into this Prospectus).

	Six months ended 30 June 2012 Unaudited
Income Statement Data	€m
Revenue and other operating income	1,659.7
EBIT	309.2
EBIT margin	18.6%
Profit after taxation	232.8
Balance Sheet Data	€m
Non-current assets (excl. cash)	11,423.4

Current assets (excl. cash)	816.3
Total assets (excl. cash)	12,239.7
Current liabilities (excl. cash)	(816.7)
Non-current liabilities (excl. cash)	(3,186.3)
Total liabilities (excl. debt)	(4,002.9)
Net assets*	8,236.8
Net cash/ debt	(4,210.8)
Total equity	4,026.0
Cash flow Data	€m
Cash generated from operations	584.3

* Total assets (excluding cash) less total liabilities (excluding debt)

The Group is party to a series of Retail Price Index or RPI linked swaps which hedge a large proportion of the Group's UK network assets. The value of the Group's UK network assets increases with inflation while the marked to market value of the RPI swaps typically falls when there are increases in inflation. These RPI swaps are effective economic hedges for the Group's UK network Regulated Asset Base. Despite this relationship of assets to liabilities, these swaps do not benefit from hedge accounting and therefore movements in the marked to market valuation of the swaps impact on the Group's income statement and reported profits (see also "*Risk Factors - Financial Risks - Financial Market Risks*").

Strategic Framework to 2020

In early 2008, the Group announced its "Strategic Framework to 2020" in which it set out key elements of the Group's strategy through to 2020 and beyond. This plan seeks to provide a platform for significant growth for the Group's core businesses, whilst addressing the challenges posed to the Group's businesses by climate change.

This strategic framework envisages a significant capital investment programme to be funded by a combination of retained earnings and borrowings over the period. Since its announcement, the plan has been refined to incorporate new initiatives and to reflect the current economic environment.

In July 2012, the ESB Board approved a renewed and refined strategy within the context of the Strategic Framework. This defined the key elements of ESB's strategic intent as follows:

- **Energy Focus:** ESB's core business is the generation and transport of electricity, and supply of electricity, gas and energy services to customers.
- **Vertically Integrated Utility:** ESB will maintain a robust and balanced mix of both regulated and unregulated businesses in this sector giving it overall scale and diversification of risk as well as optionality in an uncertain world.
- **Presence across the Value Chain:** A presence along each element of the electricity value chain is critical to enabling ESB to acquire the knowledge and manage the commercial risks associated with electricity generation, trading and supply.

- **All Islands Focus:** Ireland and Great Britain is ESB's home market. In this context, scale will be critical to its ability to compete and survive. ESB will achieve this by maintaining its strong position in Ireland, while investing to build its presence in Great Britain.

ESB's strategic priorities are further defined as:

- Deliver world-class and affordable networks to serve its customers and communities across the island of Ireland (ROI & NI).
- Create All Islands low carbon generation and supply business of scale able to compete and win in integrated Irish/British market.
- Transform its cost structure to meet competition and deliver value to its shareholders and customers at a time of economic challenge.
- Lead on sustainable innovation to survive and prosper in a rapidly changing post-carbon world.
- Develop an engaged and agile organisation to deliver a vibrant business that will ensure future success for ESB and its staff.

Performance Improvement Programme

In April 2012, as part of a wider ongoing performance improvement programme aimed at reducing ESB's cost base, ESB reached agreement with trade unions representing its employees in relation to a range of measures designed to deliver substantial savings in ESB's payroll costs. The target is for such savings to reach EUR140 million per annum by 2015. ESB aims to achieve these savings through a mix of headcount reductions and pay reductions and has now commenced implementing these measures across all of its business units.

Organisational Structure

The group is organised into the following five main operating divisions:

- *ESB Networks*, which consists of the ownership of the electricity distribution and transmission assets in Ireland and the operation, through ESB Networks Limited, of the electricity distribution system;
- *Northern Ireland Electricity*, which owns the electricity transmission networks, and operates and owns the distribution networks, in Northern Ireland;
- *ESB Generation & Wholesale Markets*, which consists of the Group's generation assets and related trading functions as well as its international generation activities;
- *Services and Electric Ireland*, which consists primarily of the Group's energy supply businesses and the business service centre for internal Group services; and
- *Innovation*, which includes ESB International (the Group's International Engineering and O&M Consultancy business), ESB Telecoms, ESB e-Cars (the Group's Electric Vehicle infrastructure business) and ESB Novusmodus Limited Partnership (ESB's eco-innovation investment fund).

The Group's generation and supply operational structure is motivated by an intention to implement a Generation, Trading and Supply business model, whilst observing applicable regulatory constraints. Regulatory developments may facilitate further movement towards this model in the future.

In addition, a Finance and Commercial Directorate is responsible for group financing, the assessment of investments, overall Group risk management and governance, and central accounting and reporting.

The primary activities of these five core operational divisions are described below.

ESB Networks

ESB Networks (**ESBN**) owns the electricity distribution and transmission systems in Ireland. The CER has issued to ESB (i) Distribution Asset Owner (**DAO**) and (ii) Transmission Asset Owner (**TAO**) licences. As a regulated monopoly ESBN is subject to ring-fencing arrangements and its activities are subject to regulation by the CER.

ESBN carries out its functions through an integrated asset management and work delivery organisational model that covers both distribution and transmission. It has a staff of approximately 3,500, who are supplemented by external resources when required. As at 31 December 2011, it had a RAB of approximately EUR6.2 billion.

ESB Networks Limited was established as a separate company to act as independent operator of the electricity distribution system in Ireland with effect from 1 January 2009. It holds a Distribution System Operator (**DSO**) licence from the CER. ESB Networks Limited is a wholly owned subsidiary of ESB and is subject to corporate governance oversight by the Board of ESB, but operates independently of ESB in the exercise of its DSO functions.

ESBN's role as TAO is carried out under an agreement entered into with EirGrid, a separate Irish State-owned company, which is the operator of the electricity transmission system in Ireland (Transmission System Operator – **TSO**). This agreement has been approved by the CER.

ESB, through ESB Networks, also owns and maintains transmission circuits interconnecting the Northern Ireland and Ireland transmission systems. ESB's role with respect to these existing circuits is restricted to ownership, maintenance and asset replacement. System operation is the responsibility of EirGrid (in conjunction with SONI in Northern Ireland).

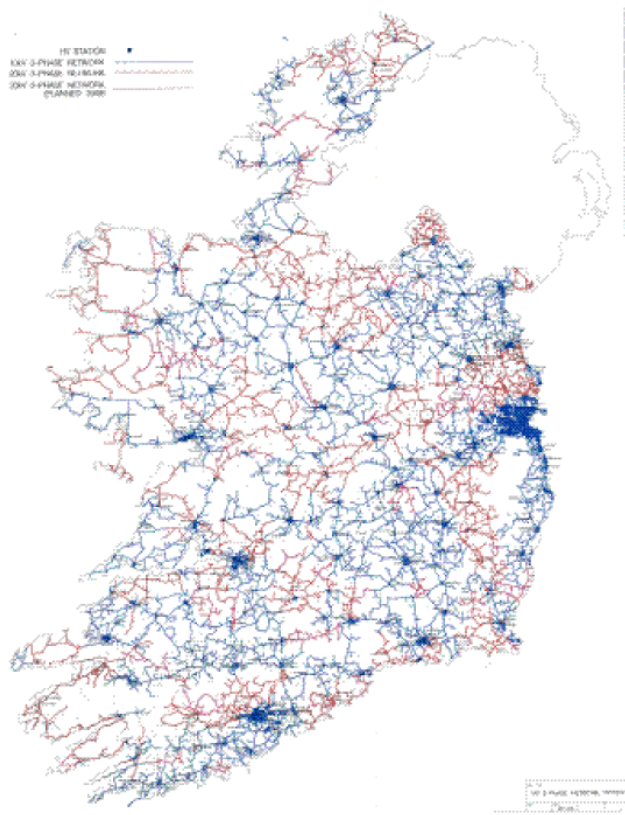
Distribution Business

As the holder of the DAO licence issued by the CER, ESBN is the sole owner of the electricity distribution network in Ireland.

As holder of the DSO licence issued by the CER, ESB Networks Limited is responsible for distribution system development and the construction, operation, and maintenance of over 245,000 transformers and over 160,000km of distribution networks. ESB Networks Limited is also responsible for the installation and maintenance of meters, for reading all end-user meters and for the processing of meter readings.

ESBN in its capacity as DAO and ESB Networks Limited in its capacity as DSO earn their respective revenues principally through charges for connection to and use of the distribution system, in each case as regulated by the CER.

Ireland Distribution Network Diagram



Source: ESBN

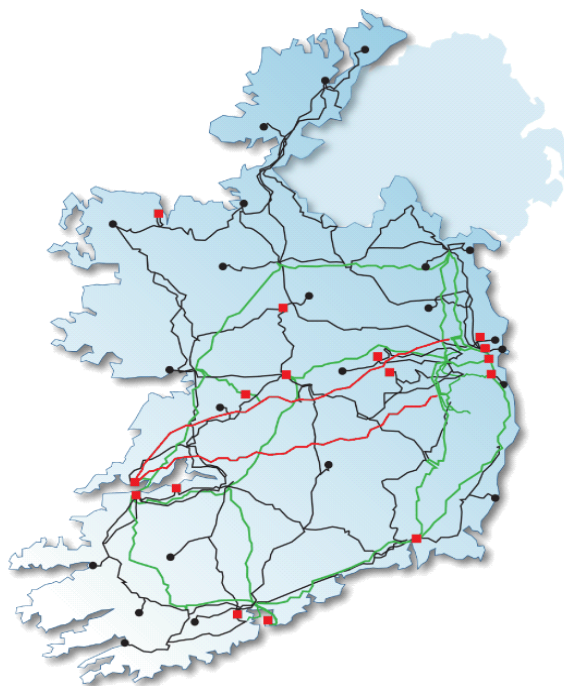
Transmission Business

As the holder of the TAO licence issued by the CER, ESBN is the sole owner of the electricity transmission network in Ireland and is responsible for the construction and maintenance of the transmission system, subject to the terms of an agreement with the TSO, which has been approved by the CER.

The transmission network comprises 30 large transmission stations and over 6,600km of lines at three voltage levels: 400 kV, 220 kV and 110 kV.

The TAO earns its revenue principally through charges for connection to and use of the transmission system, as regulated by the CER.

Ireland Transmission Network Diagram



Source: EirGrid

ESB Networks Regulated Returns

The returns which ESBN makes, in its respective capacities as TAO and DAO, are regulated by the CER. The CER sets the total revenues allowed to the TAO and DAO from the transmission system assets and distribution system assets, respectively, for consecutive five year periods (each a **Regulatory Price Control Period**). The current Regulatory Price Control Period, the third such period since inception of this legal regime in Ireland and termed Price Review 3 (**PR3**), covers the years 2011 to 2015 (inclusive). Each year the allowed revenue is refined in an annual review that updates a range of assumptions. This determines the allowed revenue in the relevant year which is then used to calculate tariffs and charges to users of the transmission and distribution systems.

As at 31 December 2011, the value of the RAB in respect of the transmission assets was approximately EUR1.3 billion and the value of the RAB in respect of the distribution assets was approximately EUR4.9 billion. The RAB value is adjusted annually for inflation or deflation. The CER has determined that the annual allowed return on the RAB (as so adjusted) for PR3 is 5.95%, which applies to both transmission and distribution assets. In light of the volatility in debt capital markets at the time of setting the allowed rate of return, the CER has committed to undertaking a mid-term review of this rate (i.e. in June 2013).

ESB Networks made an operating profit of EUR254 million in the financial year ended 31 December 2011.

Northern Ireland Electricity

On 21 December 2010, ESB acquired NIE, the regulated Northern Ireland electricity networks business, from Viridian Group Ltd. for approximately GBP1.3 billion. NIE is the sole owner and operator of the distribution network in Northern Ireland and the sole owner of the electricity transmission network in Northern Ireland (SONI Limited operates the Northern Ireland transmission system). NIE operates as a ring-fenced business within the Group. As at 31 December 2011, NIE accounted for 15% of the Group's overall assets.

NIE Regulated Returns

Under the terms of the licence granted to it by NIAUR, NIE is subject to a price control mechanism which limits the revenue it may earn and the prices it may charge.

If the amount of revenue recovered by NIE in any one year exceeds or falls short of the amount allowed by the applicable price control formula, a correction factor operates in the following year to give back any surplus with interest, or to recover any deficit with interest, as appropriate.

The transmission and distribution price control was reset with effect from 1 April 2007. The next Price Control period is effective from 1 January 2013. This is the fifth five year regulatory period since privatisation of NIE and it is referred to as Regulatory Period 5 (**RP5**).

NIAUR issued its final determination entitled "Northern Ireland Electricity Transmission and Distribution Price Controls 2012 - 2017" on 23 October 2012 setting out its proposals in relation to NIE's price control for RP5. NIE is due to respond to the final determination by 20 November 2012 and can choose to accept the final determination or refer it to the UK Competition Commission (see further the section of this Prospectus entitled "*Risk Factors - Political, regulatory and legal risks - Regulated Markets*").

As at 31 March 2012, NIE had a RAB value of GBP1.163 billion. For the year ended 31 March 2012, NIE made pro-forma profits (operating profit adjusted for K factor under or over recovery) of GBP92.6 million, revenue for the same period totalled GBP238.9 million and EBITDA GBP142.7 million.

ESB Generation & Wholesale Markets

ESB Generation & Wholesale Markets (**ESB GWM**) comprises ESB's Irish, UK and international generation portfolio.

The generation business invests in, manages and operates, ESB's power generation portfolio. ESB GWM currently has 6.4 GW of generation spread over a diverse range of fuels and technologies, 4.3 GW of which is in the SEM (for further details in relation to the SEM see the section of this Prospectus entitled "*Overview of the Electricity Markets in Ireland and Northern Ireland*").

ESB GWM also has (through its own assets and joint venture interests) a portfolio of 1.3 GW of generation capacity in Great Britain and a 755 MW CCGT plant in Amorebieta, Bilbao, Spain, which was Spain's first independent power plant.

Generation - SEM

ESB is the SEM's largest generator with an approximate 46% of volume in 2011.

Details of ESB's generation plants in operation as at 31 December 2011 are shown in the table below:

ESB GWM's Generation Capacity Breakdown – SEM

At 31 December 2011	MW
<i>“Regulated Portfolio”</i>	
Aghada	949
Lough Ree Power	91
Marina	85
Moneypoint	855
North Wall	109
Poolbeg	470
West Offaly Power	135
Ardnacrusha Hydro	86
Erne Hydro Plants (Clady/Cathleen's Falls/Cliff)	65
Lee Hydro Plants (Carrigdrohid / Inniscarra)	27
Liffey Hydro Plants (Lexlip/Golden Falls/Poulaphuca)	38
Turlough Hill	292
Total Regulated Portfolio	3,202
 <i>“Unregulated Portfolio”</i>	
Synergen	410
Coolkeeragh	462
Wind Portfolio	238
Total Unregulated Portfolio	1,110
 Total SEM Portfolio	 4,312

Source: ESB

Since 2007 ESB GWM's generation plant has operated in the SEM.

Output from power generation assets is sold into the market at the prevailing market price. The CER continues to direct the sale of a portion of the regulated portfolio's output to mitigate market power (see below under *“Trading – Regulated Activities”*). However, the volume of these contracts has reduced from c. 3,000 GWh to below 1,700 GWh in recent years and the price applied to these sales is not considered penal.

Most of the output from the unregulated portfolio's assets is sold to end-users through ESB Electric Ireland, ESB's unregulated electricity supply division (see below), with the remainder being sold into the SEM pool.

Generation - International Activities

ESB GWM has been actively developing investment projects in the international power sector since the early 1990s. Its first large scale development was Corby Power Limited, the first independent power plant project in the UK. Other notable developments include a 462 MW CCGT facility in Coolkeeragh, Derry, Northern Ireland, and development of a 755 MW CCGT plant in Amorebieta, Bilbao, Spain, which was Spain's first independent power plant. In 2005 ESB sold 50% of Bizkaia Energia to Japanese energy company Osaka Gas.

ESB GWM's most recently completed project (a joint venture project with Scottish and Southern Energy plc) was the construction of an 840 MW CCGT facility in Marchwood, Southampton, United Kingdom, which reached commercial operation on 10 December 2009.

In May 2011 ESB GWM purchased the remaining 50% of Corby Power Limited previously owned by EON UK and is now trading this plant in the UK market. This investment, in combination with the Marchwood power plant commissioned in 2009, has given ESB a strong position in the Great Britain market.

ESB GWM is currently constructing an 881MW power plant at Carrington in the United Kingdom which is planned to commence operation in 2016. The project will be financed and developed through Carrington Power Limited (CPL), a 100% owned subsidiary of ESB, with finance being structured on a 70/30 debt/equity basis, with all debt finance 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. This project involves a tolling agreement between CPL and ESB Independent Generation Trading Limited, a wholly owned subsidiary of the Issuer, which will trade the output of the plant in the market as part of ESB's overall power generation and trading position in Ireland and the United Kingdom. The overall construction contract has been awarded to the engineering consortium Alstom Duro Felguera and the plant is scheduled to be commissioned by 2016.

The table below outlines details of the international portfolio of assets as at 31 December 2011:

ESB Independent Generation Assets Operating Outside SEM				
Location	Type / Capacity	Operational Since	JV Partner	ESBI Ownership
Corby, England	Gas-Fired, 350 MW	1992	-	100%
Amorebieta, Spain	Gas-Fired, 755 MW	2005	Osaka Gas	50%
Marchwood, England	Gas-Fired, 840 MW	2009	SSE	50%
Wind Assets	Wind, 90 MW	2009 & 2011	-	100%

The Amorebieta and Marchwood plants are fully contracted under long-term tolling agreements to Shell Espana and SSE respectively.



Source: ESB

Trading

Regulated Activities

As part of the regulatory regime, and in order to mitigate ESB's market power, the CER mandates ESB GWM to sell directed volumes of contracts for differences at directed prices (**Directed CfDs**) annually to other participants in the SEM (amounting to less than 2 TWh in 2011).

In separate auctions, ESB GWM offers further contracts for differences at non-directed prices in the form of **Non-Directed CfDs**. In the first four years of operation of the SEM, the total volume of contracts for differences (**CfDs** - Directed and Non-Directed) entered into by ESB GWM has had the effect of auctioning approximately 80% of the regulated portfolio's output on an annual basis, with the balance sold at the SEM pool price. See further the section of this Prospectus entitled "*Overview of the Electricity Markets in Ireland and Northern Ireland*" for a description of the SEM.

When ESB GWM enters fixed price hedges in the power market, it fixes a high proportion of its fuel costs at the same time in order to lock in gross margin. It achieves this via a combination of commodity price CfDs, existing long term gas contracts and forward fixed price commodity purchases.

Unregulated Activities

ESB GWM manages power and fuel risk on behalf of the Group's unregulated generation stations (ESB Independent Generation) and the Group's unregulated supply company (ESB Independent Energy). ESB Independent Generation buys fuel and carbon allowances and sells power into the SEM. In addition, ESB GWM manages bilateral agreements between, respectively, the Synergen and Coolkeeragh power plants (owned by the Group) and ESB Independent Energy, which have the effect of hedging fuel and power price risk in connection with those power plants.

The development of new generation assets in Great Britain and trading of their output in the Great Britain market is a key element of ESB's growth strategy. Delivery of this goal requires a wholesale trading capability and therefore ESB commenced non-asset backed (proprietary) trading of gas and power in the UK over two years ago. Following on from this, ESB Independent Generation Trading (ESBIGT) took over the full trading operation of the Corby CCGT plant in the UK in May 2011.

Proposed Regulatory Changes

For regulatory reasons, ESB has been required to maintain a degree of ring-fencing between its regulated and unregulated generation businesses. On 1 February 2012, the SEM Committee announced its decision to allow consolidation of ESB's generation portfolio and the SEM Committee is currently working on draft licence modifications required to reflect this change. ESB GWM is preparing for the associated organisational and management changes which it is expected should lead to cost savings arising from the removal of duplication and improved risk management.

Development Activities

As part of its commitment to delivering a low-carbon balanced generation portfolio, ESB GWM has been investing in renewable technologies for a number of years. In 2011 96MW of new operating wind capacity was added to ESB GWM's generation portfolio, with the commissioning of Fullabrook (66MW), Curryfree (15MW) and Grouselodge (15MW). ESB GWM now has an operational wind portfolio of 328MW.

A further 55MW of capacity was under construction as at 31 December 2011. ESB GWM continues to progress a number of early-stage projects.

Services and Electric Ireland

In 2010, ESB rebranded its two previously separate energy supply businesses, the regulated ESB Customer Supply (**ESBCS**) and the unregulated ESB Independent Energy (**ESBIe**), as Electric Ireland. The rebranding was a regulatory requirement to facilitate the deregulation of ESBCS and the uniting of the two businesses into a single supply entity. Ring-fencing restrictions between ESBIe and ESBCS were lifted by the CER following full business market deregulation on 1 October 2010. From April 2011, Electric Ireland has been free to offer competitive, unregulated tariffs to all electricity and gas users in Ireland and all business users in Ireland and Northern Ireland.

As at 31 December 2011, Electric Ireland provided an electricity supply service to approximately 1.4 million customers in Ireland's retail market and had an Island of Ireland market share of approximately 39%.

The combined Electric Ireland business incurred an operating loss of EUR38 million in 2011, a reduction of EUR5 million on the 2010 loss. These losses in the last few years have been largely caused by the significant reduction in market share from early 2009.

Electric Ireland currently operates on a standalone basis from other businesses within the Group. It purchases electricity from the SEM in order to supply the electricity needs of its customers. Electric Ireland hedges a significant part of its purchasing requirements through contracts for differences (**CfDs**). ESB is working towards an integrated generation, trading and supply (**GTS**) model.

As the Public Electricity Supplier (**PES**), Electric Ireland is required to offer a supply of electricity to all customers in the Irish market with a demand level of less than 30kVA. In 2011, the CER has decided that the role of the Supplier of Last Resort (**SoLR**) should be offered to the market in a competitive process and that the costs of a SoLR event should be socialised. It is intended that all supply licenses will contain an obligation to serve as the SoLR, where directed by the CER.

To facilitate end user price stability Electric Ireland has a strategy of hedging, on a fixed price basis, a high proportion of demand, excluding Large Energy Users, through power CfDs.

Gas Market Entry

Electric Ireland entered the retail mass market for gas supply in April 2011.

There are approximately 620,000 residential gas customers in Ireland. A significant proportion of these have previously switched electricity supplier. They are, therefore, a critical customer grouping. The margins to be earned from the gas retail market are relatively low. However, entry into the retail gas market is intended to protect electricity margins by retaining and winning back customers. A dual fuel offering is considered essential to enhance product offerings and win back and retain electricity market position.

Electric Ireland is targeting a 20% residential gas market share over 5 years with approximately 70% of these being dual fuel.

Innovation

The Innovation Business Unit includes the following:

ESB International – its activities consist of a number of businesses, including the development and construction of thermal power plants and wind farms on behalf of internal and external clients, and

the provision of engineering and facility management services and strategic consultancy services, both in Ireland and internationally.

ESBI Engineering Solutions - offers a full range of engineering consultancy and operations and maintenance services to ESB Group and to utility customers around the world. ESBI Engineering Solutions currently operates and maintains approximately 3 GW of power generation plant worldwide. Approximately 80% of ESBI Engineering Solutions' revenues are generated from Group companies, with the remainder sourced from external clients.

ESB Novusmodus Limited Partnership - an investment fund established by the Group to provide capital, support and knowledge to companies, projects and management teams in the clean energy and energy efficiency sectors.

ESB Telecoms Ltd - provides telecommunications and fibre solutions in the wholesale market leveraging from ESB's electricity network infrastructure.

ESB ecars - the Group has also commenced a project aimed at the installation and operation of electric vehicle charging infrastructure in Ireland to meet the Irish Government's stated target of widespread electric vehicle penetration by 2020.

Board of ESB

The Board of ESB currently comprises a non-executive Chairman and eight other members. Five members of the Board of ESB (including the Chairman) have been appointed by the Government of Ireland for terms of up to five years. Four employees of ESB have been appointed to the Board by the Minister for Communications, Energy and Natural Resources of Ireland for a four year term under the Worker Participation (State Enterprises) Act 1977. The Government is expected to make three additional appointments to the Board in the near future, to replace two non-executive members whose terms recently concluded and to appoint Chief Executive Pat O'Doherty as a member of the Board, in line with practice for previous ESB Chief Executives.

The current Board members and their principal outside activities are:

Name	Title	Principal Activities outside ESB
Lochlann Quinn	Non-Executive Chairman	Member of the Board of Smurfit Graduate School at University College Dublin, Chairman, Merrion Hotel, Dublin.
Brendan Byrne	Non-Executive Member of the Board	Managing Partner of ClearVision Consulting, providing consulting services to the global aviation industry. Finance Director of Worldwide Flight Services (Ireland) Limited. Director of AWG Holdings Ltd, an investment holding company in the water industry. Executive Chairman of Air Cargo Software Ltd.
Ellvena Graham	Non-Executive Member of the Board	Executive Director of Business Services in Ulster Bank, Member of the Advisory Board of Womens' Executive Network in Ireland.
Noreen Wright	Non-Executive Member of the Board	Member of the Industrial and Fair Employment Tribunals, lay magistrate, member of the Northern Ireland Valuation Tribunal, director of Springvale Training, director of Cooperation Ireland and trustee of Garfield Weston Trust, University of Ulster.
Seamus Mallon	Non-Executive Member of the Board	Retired public representative in Ireland and Northern Ireland.
John Coleman	Worker Member of the Board	ESB employee.
Tony Merriman	Worker Member of the Board	ESB employee.
Sean Kelly	Worker Member of the Board	ESB employee.
Dave Byrne	Worker Member of the Board	ESB employee.

The business address of each member of the Board is 27 Lower Fitzwilliam Street, Dublin 2, Ireland.

Members of the Board of ESB may from time to time hold directorships of, or may otherwise be involved with or have interests in, third parties who may, or whose affiliates may, from time to time, in the ordinary course of business, enter into arm's length commercial arrangements with ESB or another Group company. Disclosure is provided to ESB as required under applicable corporate governance rules and procedures of any such interests. Save as disclosed above, there are no potential conflicts of interest between the duties of the members of the Board of ESB in such capacity and their private or other professional interests.

Senior Management of ESB

The executive management team at ESB is comprised of:

Name	Title	Biography
Pat O'Doherty	Chief Executive	<p>Pat O'Doherty was appointed Chief Executive in November 2011. Previously he held the position of Executive Director, ESB Energy International since February 2010, the position of Executive Director, ESB Networks since November 2009 and Executive Director ESB Power Generation since July 2005. He joined ESB in 1981 and has worked in various customer service, project management and general management roles. Prior to his appointment as Executive Director, Power Generation, he held the position of General Manager, Synergen. He has also held senior positions in ESB Networks.</p>
John Shine	Deputy Chief Executive and NIE	<p>John Shine was appointed Deputy Chief Executive in November 2009. He joined ESB in 1978 and has held a number of senior positions in Networks, Marketing, and Business Development. He left ESB in 1998 to develop a successful international services business. He rejoined ESB in November 2002 when he was appointed Executive Director of ESB Networks. In November 2008 he was appointed Chairman and Managing Director of ESB Networks Ltd. He holds a degree in electrical engineering and an MBA from University College Dublin.</p>
John Redmond	Company Secretary	<p>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 Limited. From 1980 to 1988 he worked in the Department of Foreign Affairs and the Department of Finance. He is a graduate of NUI Maynooth and of Napier University Edinburgh. He is a Fellow of the Institute of Chartered Secretaries.</p>

Donal Flynn	Group Finance and Commercial Director	Donal Flynn was appointed Finance and Commercial Director in August 2010. Prior to joining ESB, Mr Flynn worked in Airtricity for seven years and was its Chief Financial Officer since 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 having worked in both the London and Dublin practices of the firm between 1995 and 1998. Mr Flynn holds Bachelor of Commerce and Masters in accounting degrees from University College Galway and University College Dublin, respectively.
Pat Naughton	Executive Director, Group People & Sustainability	Pat Naughton was appointed Executive Director Group People & Sustainability in June 2012. Pat is a Mechanical Engineer and has worked in ESB since 1978, Pat has held a number of senior positions in the organisation, including Manager Hydro Stations, Strategy and Portfolio Development Manager and HR Manager, ESB Energy International.
Brid Horan	Executive Director, ESB Services and Electric Ireland	Brid Horan was appointed Executive Director ESB Services and Electric Ireland in 2010. Previously, she held the position of Executive Director ESB Energy Solutions from November 2009 and of ESB Customer Supply and Group Services from December 2006. Ms Horan was appointed a Non-Executive Director of FBD Holdings plc in December 2011. Ms Horan joined ESB in 1997 as Group Pensions Manager. She was a Commissioner of the National Pensions Reserve Fund from its establishment in 2001 until 2009 and was a Board member of IDA Ireland from 1996 to 2006. Before joining ESB she headed KPMG Pension & Actuarial Consulting.
Jerry O'Sullivan	Managing Director, ESB Networks	Jerry O'Sullivan was appointed Managing Director, ESB Networks in 2010. 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 McSweeney	Head of Innovation	John McSweeney was appointed Head of Innovation in 2012. He previously held senior positions as Executive Director of ESB Energy International in 2011, Manager of ESB Asset Development, Manager of Engineering and Facility Management at ESB International and Manager of ESB IT Solutions and Telecoms. A Physics graduate and mechanical engineer, Mr McSweeney joined ESB in 1992. Prior to his career in the energy sector, he held senior positions in the Irish Industrial Development Authority including Director, Germany and is a former Irish Army Officer.
Paddy Hayes	Executive Director, Generation & Wholesale Markets	Paddy Hayes was appointed Executive Director Generation & Wholesale Markets in June 2012. A Chartered Engineer, Paddy joined ESB in 1999 having previously worked with British Steel. Paddy has held senior positions throughout the Company, including Manager of Asset Development and Energy Portfolio, General Manager of Synergen and Head of Independent Generation.

Auditors

The auditors to ESB are KPMG Chartered Accountants and Registered Auditors whose office is at 1 Stokes Place, St Stephen's Green, Dublin 2, Ireland.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the Irish Stock Exchange or approved by the Central Bank shall be incorporated in, and form part of, this Prospectus:

- (a) the Offering Circular relating to the Programme dated 4 November 2011 (the **Offering Circular** and, as supplemented by the February 2012 Supplement and the June 2012 Supplement each as referred to below, the **Base Prospectus**). The Offering Circular is available on the website of the Irish Stock Exchange at http://www.ise.ie/debt_documents/Base%20Prospectus_6ea5098e-d1a8-447c-a73a-8cd2156a395e.PDF;
- (b) the Supplement to the Offering Circular dated 24 February 2012 (the **February 2012 Supplement**). The February 2012 Supplement is available on the website of the Irish Stock Exchange at http://www.ise.ie/debt_documents/Supplements_54dbe931-cbc9-4318-bff2-908c98e4464a.PDF;
- (c) the Supplement to the Offering Circular dated 5 June 2012 (the **June 2012 Supplement**). The June 2012 Supplement is available on the website of the Irish Stock Exchange at http://www.ise.ie/debt_documents/Supplements_ca75dfd8-6943-4a8d-9a76-31ac18df5563.PDF;
- (d) the auditors' report and audited consolidated financial statements of ESB for the financial year ended 31 December 2010. Such financial statements are available on the website of the Irish Stock Exchange at http://www.ise.ie/debt_documents/Accounts-ESB-311210_37a94de9-f59e-4f98-9ec2-959a0e7ce55a.PDF;
- (e) the auditors' report and audited consolidated financial statements of ESB for the financial year ended 31 December 2011. Such financial statements are available on the website of the Irish Stock Exchange at http://www.ise.ie/debt_documents/Accounts-311211-esb_04a85c18-0f86-453d-81fd-14e32a3d41cc.PDF; and
- (f) the unaudited consolidated interim financial statements of ESB as at and for the six months ended 30 June 2012. Such financial statements are available on the website of the Irish Stock Exchange at http://www.ise.ie/debt_documents/Half-yearly%20Financial%20Statement_e46b39c1-3008-4d52-a17f-545a4fe1acc6.PDF;
- (g) the auditors' report and audited financial statements of ESB Finance for the financial year ended 31 December 2010. Such financial statements are available on the website of the Irish Stock Exchange at http://www.ise.ie/debt_documents/Accounts-ESB%20Finance-311210_cc60b9f3-691e-4875-97e1-872487570679.PDF;
- (h) the auditors' report and audited financial statements of ESB Finance for the financial year ended 31 December 2011. Such financial statements are available on the website of the Irish Stock Exchange at http://www.ise.ie/debt_documents/Accounts-311211-ESB%20Finance_49548c47-1316-4548-968b-ac640016ca5b.PDF,

provided that:

- (i) none of:
 - (A) the section entitled "Risk Factors" commencing on page 10 of the Base Prospectus;
 - (B) the section entitled "Applicable Final Terms" commencing on page 24 of the Base Prospectus;

- (C) the section entitled "Overview of the Electricity Markets in Ireland and Northern Ireland" commencing on page 70 of the Base Prospectus;
- (D) the section entitled "Description of ESB Finance Limited" commencing on page 74 of the Base Prospectus;
- (E) the section entitled "Description of ESB" commencing on page 75 of the Base Prospectus;
- (F) the section entitled "Taxation" commencing on page 87 of the Base Prospectus; or
- (G) the sections entitled "Significant or Material Change" and "Litigation" on page 96 of the Base Prospectus,

are incorporated in this Prospectus (and any non-incorporated part of the Base Prospectus is either not relevant for an investor or is covered elsewhere in this Prospectus);

- (ii) any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication, or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus; and
- (iii) any documents incorporated by reference in the documents referred to at (a) to (h) above do not form part of this Prospectus.

Copies of the documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London.

TERMS AND CONDITIONS OF THE NOTES

The terms and conditions of the Notes shall consist of the terms and conditions set out on pages 37 to 68 (inclusive) of the Base Prospectus (the **Programme Conditions**) as amended or supplemented below. References in the Programme Conditions to Final Terms shall be deemed to refer to the terms set out below.

- | | | | |
|-----|-----|---|--|
| 1. | (a) | Issuer: | ESB Finance Limited |
| | (b) | Guarantor: | Electricity Supply Board (“ ESB ”) |
| 2. | (a) | Series Number: | 3 |
| | (b) | Tranche Number: | 1 |
| 3. | | Specified Currency or Currencies: | Euro (“ EUR ”) |
| 4. | | Aggregate Nominal Amount: | |
| | (a) | Series: | EUR 500,000,000 |
| | (b) | Tranche: | EUR 500,000,000 |
| 5. | | Issue Price: | 99.651 per cent. of the Aggregate Nominal Amount |
| 6. | (a) | Specified Denominations: | EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000. No Notes in definitive form will be issued with a denomination above EUR 199,000 |
| | (b) | Calculation Amount: | EUR 1,000 |
| 7. | (a) | Issue Date: | 21 November 2012 |
| | (b) | Interest Commencement Date: | Issue Date |
| 8. | | Maturity Date: | 21 November 2019 |
| 9. | | Interest Basis: | 4.375 per cent. Fixed Rate |
| 10. | | Redemption/Payment Basis: | Redemption at par |
| 11. | | Change of Interest Basis or Redemption/Payment Basis: | Step up provision in the event of a Step Up Rating Change (and step down provision in the event of any subsequent Step Down Rating Change) (as set out in the Appendix hereto). Not applicable in relation to Redemption/Payment Basis |
| 12. | | Put/Call Options: | Investor Put as specified in Condition 7.5 (further particulars specified below) |

13. (a) Status of the Notes: Senior
- (b) Date Board approval for issuance of Notes and Guarantee obtained: 7 November 2012 and 26 September 2012, respectively
14. Method of distribution: Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions: Applicable
- (a) Rate(s) of Interest: 4.375 per cent. per annum payable annually in arrear, subject to adjustment on the occurrence of a Step Up Rating Change or any subsequent Step Down Rating Change (as described in the Appendix hereto)
- (b) Interest Payment Date(s): 21 November in each year from and including 21 November 2013 up to and including the Maturity Date
- (c) Fixed Coupon Amount(s): EUR 43.75 per Calculation Amount, subject to adjustment on the occurrence of a Step Up Rating Change or any subsequent Step Down Rating Change (as described in the Appendix hereto)
- (d) Broken Amount(s): Not Applicable
(Applicable to Notes in definitive form.)
- (e) Day Count Fraction: Actual/Actual (ICMA)
- (f) Determination Date(s): 21 November in each year
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: Step up provision in the event of a Step Up Rating Change (as set out in the Appendix hereto) and step down provision in the event of any subsequent Step Down Rating Change (as set out in the Appendix hereto)
16. Floating Rate Note Provisions: Not Applicable
17. Zero Coupon Note Provisions: Not Applicable
18. Index Linked Interest Note Provisions: Not Applicable
19. Dual Currency Interest Note Provisions: Not Applicable

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: Not Applicable
21. Investor Put: Applicable. Condition 7.5 applies.
- (a) Optional Redemption Date(s): Event Risk Put Date
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): EUR 1,000 per Calculation Amount
- (c) Notice period (if other than as set out in the Conditions): As set out in Condition 7.5. For the avoidance of doubt, Condition 7.4 shall not apply
22. Final Redemption Amount: Redemption at par
23. Early Redemption Amount payable on redemption for taxation reasons, indexation reasons (if applicable) or on an event of default and/or the method of calculating the same (if required or if different from that set out in Condition 5.6 or 7.7 (*Redemption and Purchase – Early Redemption Amounts*)): As set out in Condition 7.7

GENERAL PROVISIONS APPLICABLE TO THE NOTE

24. Form of Notes:
- (a) Form: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event
- (b) New Global Note: Yes
25. Additional Financial Centre(s) or other special provisions relating to Payment Days: Not Applicable
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): No
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: Not Applicable

28. Details relating to Instalment Notes:
- (a) Instalment Amount(s): Not Applicable
- (b) Instalment Date(s): Not Applicable
29. Redenomination applicable: Redenomination not applicable
30. Other terms: See Appendix below

DISTRIBUTION

31. (a) If syndicated, names of Managers: Barclays Bank PLC
BNP Paribas
HSBC Bank plc
Merrill Lynch International
RBC Europe Limited
Société Générale
- (b) Date of Subscription Agreement: 20 November 2012
- (c) Stabilising Manager(s) (if any): BNP Paribas
32. If non-syndicated, name of relevant Dealer: Not Applicable
33. U.S. Selling Restrictions: Reg. S Compliance Category 2; TEFRA D
34. Additional selling restrictions: Not Applicable

APPENDIX

- (i) The Rate of Interest payable on the Notes will be subject to adjustment from time to time in the event of a Step Up Rating Change or Step Down Rating Change as the case may be in accordance with the following provisions.
- (ii) Subject to paragraphs (iv) and (vii) below, from and including the first Interest Payment Date following the date of a Step Up Rating Change, if any, the Rate of Interest payable on the Notes shall be increased by 1.25 per cent. per annum (the **Step Up Margin**).
- (iii) Subject to paragraphs (iv) and (vii) below, in the event of a Step Down Rating Change following a Step Up Rating Change, with effect from and including the first Interest Payment Date following the date of such Step Down Rating Change, the Rate of Interest payable on the Notes shall be decreased by the Step Up Margin back to the initial Rate of Interest.
- (iv) If a Step Up Rating Change and, subsequently, a Step Down Rating Change occur during the same Fixed Interest Period, the Rate of Interest payable on the Notes shall be neither increased nor decreased as a result of either such event.
- (v) The Issuer shall use all reasonable efforts to maintain credit ratings for the Notes from both Rating Agencies. If, notwithstanding such reasonable efforts, either Rating Agency fails to or ceases to assign a credit rating to the Notes, and at such time Fitch has assigned a credit rating to the Notes, then references in this Appendix to Moody's or S&P, as the case may be, or the credit ratings thereof, shall be to Fitch or, as the case may be, the equivalent credit ratings thereof. If at such time, Fitch has not assigned a credit rating to the Notes, the Issuer shall use all reasonable efforts to obtain a credit rating of the Notes from a substitute rating agency that shall be a Statistical Rating Agency, and references in this Appendix to Moody's or S&P, as the case may be, or the credit ratings thereof, shall be to such substitute rating agency or, as the case may be, the equivalent credit ratings thereof.
- (vi) The Issuer, failing which the Guarantor, will, on the occurrence of a Step Up Rating Change or a Step Down Rating Change giving rise to an adjustment to the Rate of Interest payable on the Notes pursuant to this Appendix, notify to the Trustee, the Principal Paying Agent, the Noteholders and any stock exchange on which the Notes for the time being are listed and publish the applicable notice in accordance with Condition 14 as soon as reasonably practicable after the occurrence of such Step Up Rating Change or Step Down Rating Change, but in no event later than the fifth London Business Day thereafter.
- (vii) A Step Up Rating Change (if any) and a Step Down Rating Change (if any), may only occur once each during the term of the Notes.
- (viii) If the rating designations employed by Moody's or S&P are changed from those which are described in this Appendix, the Issuer or the Guarantor shall determine, with the agreement of the Trustee (such agreement not to be unreasonably withheld or delayed) the rating designations of Moody's or S&P as are most equivalent to the prior rating designations of Moody's or S&P, as the case may be.

For the purposes of this Appendix:

Fitch means Fitch Ratings Ltd. or its successor;

Investment Grade means, in the case of a credit rating assigned by Moody's, Baa3 or higher and, in the case of a credit rating assigned by S&P, BBB- or higher or the equivalent credit rating assigned by a Statistical Rating Agency, if applicable;

Moody's means Moody's Investors Service Ltd., or its successor, established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended;

Rating Agency means either Moody's or S&P and **Rating Agencies** means both of them;

S&P means Standard and Poor's Credit Market Services Europe Limited, or its successor, established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended;

Statistical Rating Agency means Fitch or such other rating agency or their respective successors as may be proposed by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld or delayed;

a **Step Down Rating Change** occurs where after a Step Up Rating Change, both Rating Agencies publicly announce that the credit rating assigned to the Notes is Investment Grade, provided that, for the purposes of this definition, where:

- (ix) both Rating Agencies do not make the public announcements on the same date, the Step Down Rating Change shall be deemed to occur on the date of the later public announcement; and
- (x) a Rating Agency had not downgraded the Notes below Investment Grade, then written confirmation from such Rating Agency that the then current rating assigned to the Notes is Investment Grade shall be deemed to be a public announcement, made on the date of such confirmation, that the credit rating assigned to the Notes by such Rating Agency is Investment Grade.

For the avoidance of doubt, any further increase in the credit rating of the Notes above Investment Grade shall not constitute a Step Down Rating Change; and

Step Up Rating Change means the first public announcement by either Rating Agency or both Rating Agencies of a decrease in the credit rating assigned to the Notes to below Investment Grade. For the avoidance of doubt, any further decrease in the credit rating of the Notes below Investment Grade shall not constitute a Step Up Rating Change and the Rate of Interest on the Notes shall never be greater than 5.625 per cent. per annum.

OTHER INFORMATION

Listing and admission to trading

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market with effect from 21 November 2012. The estimated total expenses related to admission to trading are €2,541.20.

Interests of natural and legal persons involved in the issue

Save for any fees payable to the Managers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

Performance of index/formula and other information concerning the underlying

Not Applicable.

Yield

Indication of yield 4.434 per cent. per annum

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

Operational information

- | | | |
|-------|--|--|
| (i) | ISIN Code: | XS0856023493 |
| (ii) | Common Code: | 085602349 |
| (iii) | Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification number(s): | Not Applicable |
| (iv) | Delivery: | Delivery against payment |
| (v) | Names and addresses of additional Paying Agent(s) (if any): | Not Applicable |
| (vi) | Intended to be held in a manner which would allow Eurosystem eligibility: | Yes

Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. |

IRISH TAXATION

The following summary of the anticipated tax treatment in Ireland in relation to the payments on Notes is based on Irish tax law and the practices of the Revenue Commissioners of Ireland (the Irish tax authorities) as in force at the date of this Prospectus. It does not constitute tax or legal advice and it does not purport to be, and is not, a complete description of all of the tax considerations that may be relevant to a decision to subscribe for, buy, hold, sell, redeem or dispose of Notes. The summary relates only to the position of persons who are the absolute beneficial owners of Notes and the interest payable on them (**Noteholders**). Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Notes and the receipt of interest on Notes under the laws of the jurisdictions in which they may be liable to tax.

Withholding Taxes

Unless otherwise exempt, withholding tax at the standard rate of income tax (currently 20 per cent.) must be deducted from payments of yearly interest that are within the charge to Irish tax, which would include payments of interest on Notes. Yearly interest is interest that is capable of arising for a period of one year.

Quoted Eurobond exemption

Section 64 of the Taxes Act provides for the payment of interest in respect of Quoted Eurobonds without deduction of tax in certain circumstances. A **Quoted Eurobond** is defined in section 64 of the Taxes Act as a security which:

- (a) is issued by a company;
- (b) is quoted on a recognised stock exchange (the Irish Stock Exchange is a recognised stock exchange for this purpose); and
- (c) carries a right to interest.

There is no obligation to withhold tax from payments of interest on Quoted Eurobonds (**Exempted Quoted Eurobonds**) where:

- (a) the person by or through whom the payment is made is not in Ireland; or
- (b) the payment is made by or through a person in Ireland; and
 - (i) the Quoted Eurobond is held in a recognised clearing system (Euroclear and Clearstream, Luxembourg are recognised clearing systems for this purpose); or
 - (ii) the person who is the beneficial owner of the Quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made an appropriate declaration to this effect.

Section 246 of the Taxes Act (Section 246)

Section 246 provides certain exemptions from this general obligation to withhold tax including an exemption in respect of interest payments made by a company in the ordinary course of business carried on by it to a company resident for the purposes of tax in a relevant territory except where the interest is paid to the company in connection with a trade or business carried on in Ireland by that company through a branch or agency, provided that the relevant territory imposes a tax that generally applies to interest receivable in that relevant territory by companies from sources outside

that relevant territory; or the interest payable is exempted from the charge to income tax under a double taxation agreement between Ireland and the country in which the recipient of the interest is resident for tax purposes or would be exempted from the charge to income tax under a double taxation agreement signed between Ireland and the country in which the recipient of the interest is resident for tax purposes if such double taxation agreement had the force of law. In addition, section 246 includes an exemption in respect of interest payments made by a qualifying company within the meaning of section 110 of the Taxes Act (ESB Finance Limited is such a qualifying company) to a person who is resident for the purposes of tax in a relevant territory, except, in a case where the person is a company, where the interest is paid to the company in connection with a trade or business carried on in Ireland through a branch or agency. A relevant territory for this purpose is an E.U. Member State, other than Ireland, or not being such a Member State, a territory with which Ireland has signed into a double tax agreement. As of the date of this Prospectus, Ireland has signed a double tax agreement with each of Albania, Armenia, Australia, Austria, Bahrain, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, Canada, China, Chile, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Georgia, Greece, Hong Kong, Hungary, Iceland, Israel, India, Italy, Japan, Korea (Rep. of), Kuwait, Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Moldova, Montenegro, Morocco, the Netherlands, New Zealand, Norway, Pakistan, Panama, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, United Arab Emirates, United Kingdom, United States of America, Uzbekistan, Vietnam and Zambia.

Double tax agreements

In the event that none of the above exemptions apply a Noteholder may be exempt from income tax pursuant to the terms of an applicable double tax agreement that is in effect provided the required procedures are completed. Although Ireland has signed agreements with Armenia, Egypt, Kuwait, Panama, Qatar, Saudi Arabia and Uzbekistan, they are not as yet in effect.

Liability of Noteholders to income tax

Persons resident in Ireland for the purposes of tax are subject to corporation tax or income tax on their worldwide income, which would include interest payable and discounts realised on Notes.

Persons not resident in Ireland for the purposes of tax are subject to tax on the interest payable and discounts realised on Notes unless they qualify for one of the exemptions listed below.

Section 198 of the Taxes Act

- (a) A company which is not resident in Ireland for the purposes of tax will not be chargeable to income tax in respect of interest paid (in the ordinary course of business of the relevant Issuers) or discounts realised on Notes, if the company is resident in a Member State of the European Union or in a jurisdiction with which Ireland has signed a double tax agreement, and, either:
 - (i) such EU Member State or double taxation treaty territory imposes a tax that applies generally to interest receivable from sources outside that EU Member State or double taxation treaty territory, or
 - (ii) the interest paid would be exempted from the charge to Irish income tax under a double taxation treaty that is in effect, or if not yet in effect, that has been signed between Ireland and the territory in which the company is resident for tax purposes.
- (b) A person (whether or not a company) who is not resident in Ireland for the purposes of tax will not be chargeable to income tax in respect of discounts realised on Notes if

the person is resident in a Member State of the European Union or in a jurisdiction with which Ireland has signed a double tax agreement; or

- (c) A person will not be chargeable to income tax in respect of interest received in respect of an Exempted Quoted Eurobond where that person is:
 - (i) a person who is resident for the purposes of tax in a Member State of the European Union (other than Ireland) or in a jurisdiction with which Ireland has signed a double tax agreement; or
 - (ii) a company controlled, either directly or indirectly, by persons resident for the purposes of tax in a Member State of the European Union (other than Ireland) or in a jurisdiction with which Ireland has signed a double tax agreement, and who are not under the control, whether directly or indirectly, of a person who is, or persons who are not so resident; or
 - (iii) a company the principal class of shares of which is substantially and regularly traded on a recognised stock exchange.
- (d) A person (whether or not a company) who is not resident in Ireland for the purposes of tax will not be chargeable to income tax in respect of interest received or discounts realised on Notes if the person is resident in a Member State of the European Union or in a jurisdiction with which Ireland has signed a double tax agreement and the interest is paid by a qualifying company within the meaning of section 110 of the Taxes Act out of the assets of the qualifying company.

Double tax agreements

Ireland's double tax agreements, that are in effect, may exempt interest from Irish tax when received by a resident of the other territory provided certain procedural formalities are completed.

Interest and discounts realised on Notes that do not fall within the above exemptions are within the charge to income tax to the extent that a double tax agreement that is in effect does not exempt the interest or discount as the case may be.

However, it is understood that the Revenue Commissioners have, in the past, operated a practice (as a consequence of the absence of a collection mechanism rather than adopted policy) whereby no action will be taken to pursue any liability to such tax in respect of persons who are regarded as not being resident in Ireland for the purposes of tax except where such persons:

- (a) are chargeable in the name of a person (including a trustee) or in the name of an agent or branch in Ireland having the management or control of the interest; or
- (b) seek to claim relief and/or repayment of tax deducted at source in respect of taxed income from Irish sources; or
- (c) are chargeable to corporation tax on the income of an Irish branch or agency or to income tax on the profits of a trade carried on in Ireland to which the interest is attributable.

There can be no assurance that the Revenue Commissioners will apply this practice in the case of the holders of Notes and, as mentioned above, there is a statutory obligation to account for Irish tax on a self-assessment basis and there is no requirement for the Revenue Commissioners to issue or raise an assessment.

Encashment tax

Interest on any Note which is an Exempted Quoted Eurobond realised or collected by an agent in Ireland on behalf of a holder will generally be subject to a withholding at the standard rate of income tax (currently 20 per cent.). This is unless the beneficial owner of the Note that is entitled to the interest is not resident in Ireland and makes a declaration in the required form. This is provided that such interest is not for the purposes of tax deemed, under the provisions of tax legislation, to be the income of another person that is resident in Ireland.

Stamp Duty

No stamp duty is payable on the issue or the transfer by delivery of Notes.

Section 86 of the Stamp Duties Consolidation Act provides that no stamp duty will be chargeable on any instrument transferring Notes that are issued by ESB.

In the event of written transfer of Notes issued by ESB Finance, no stamp duty is chargeable provided that ESB Finance is a qualifying company within the meaning of section 110 of the Taxes Act, and the money raised by the Notes is used in the course of its business.

Where the above exemptions or another exemption does not apply, the instrument of transfer is liable to stamp duty at the rate of one percent of the consideration paid in respect of the transfer (or if greater, the market value thereof) which must be paid in Euro by the transferee (assuming an arm's length transfer) within 30 days of the date on which the transfer instrument is executed, after which interest and penalties will apply.

Capital Gains Tax

Section 607 of the Taxes Act provides that Notes issued by ESB are not chargeable assets for the purposes of Irish tax.

Separately, provided Notes are listed on a stock exchange, a holder will not be subject to tax on capital gains in respect of those Notes unless that holder is either resident or ordinarily resident for tax purposes in Ireland or that holder has an enterprise or an interest in an enterprise, which carries on business in Ireland through a branch or agency, or a permanent establishment, to which or to whom Notes are attributable.

If Notes issued by ESB Finance are at any time not listed on a stock exchange, then an exemption from tax on capital gains tax in respect of such Notes will continue to apply to the holders who are exempted in the circumstances referred to in the paragraph immediately above, insofar as Notes do not derive their value, or the greater part of their value, from Irish land or certain Irish mineral rights.

Capital Acquisitions Tax

If Notes are comprised in a gift or inheritance taken from a person resident or ordinarily resident for tax purposes in Ireland or if the disponent's successor is resident or ordinarily resident for tax purposes in Ireland, or if any of Notes are regarded as property situate in Ireland, the disponent's successor (primarily), or the disponent, may be liable to capital acquisitions tax. The Notes may be regarded as property situate in Ireland.

If Notes are comprised in a gift or inheritance taken from a person resident or ordinarily resident in Ireland for the purposes of tax or if the disponent's successor is resident or ordinarily resident in Ireland for the purposes of tax, the disponent's successor (primarily), or the disponent may be liable to capital acquisitions tax.

For the purposes of capital acquisitions tax, under current legislation a non-Irish domiciled person will not be treated as resident or ordinarily resident in Ireland for the purposes of the applicable legislation except where that person has been resident in Ireland for the purposes of tax for the 5 consecutive years of assessment immediately preceding the year of assessment in which the date of the gift or inheritance falls.

GENERAL INFORMATION

(1) Documents Available

For so long as any of the Notes are outstanding, copies of the following documents will be available for inspection (by physical and/or electronic means) from the registered office of the Issuer and ESB and from the specified offices of the Paying Agents for the time being in London:

- (a) the Electricity (Supply) Acts, 1927 to 2004 of Ireland establishing ESB as a body corporate in Ireland;
- (b) the constitutional documents of the Issuer;
- (c) the consolidated audited financial statements of ESB in respect of the financial years ended 31 December 2010 and 31 December 2011, together with the audit reports prepared in connection therewith and the unaudited consolidated interim financial statements of ESB as at and for the six months ended 30 June 2012. ESB currently prepares audited consolidated accounts on an annual basis;
- (d) the audited financial statements of the Issuer in respect of the financial years ended 31 December 2010 and 31 December 2011, together with the audit report prepared in connection therewith. ESB Finance Limited currently prepares audited accounts on an annual basis;
- (e) the Programme Agreement, the Trust Deed, the Agency Agreement, and the forms of the Global Notes and the form of the Notes in definitive form;
- (f) a copy of the Base Prospectus; and
- (g) a copy of this Prospectus.

In addition, a copy of this Prospectus, will, for a period of twelve months after the date of this Prospectus, be available on the Central Bank's website at www.centralbank.ie.

(2) Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or ESB since 30 June 2012 and there has been no material adverse change in the prospects of the Issuer or ESB since 31 December 2011.

(3) Litigation

Neither the Issuer nor ESB nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or ESB are aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer, ESB or the Group.

(4) Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

(5) Websites

No website referred to in this Prospectus forms part of this document for the purposes of the listing of any Notes on the Irish Stock Exchange.

(6) Additional terms not final terms

The additional terms set out on pages 43 to 48 (inclusive) of this Prospectus do not comprise final terms for the purposes of Article 5(4) of the Prospectus Directive.

(7) Conflicts of Interest Risks

In the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Guarantor or affiliates of the Issuer or Guarantor. Certain of the Managers or their affiliates that have a lending relationship with the Issuer or Guarantor routinely hedge their credit exposure to the Issuer or Guarantor consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

ISSUER

ESB Finance Limited
27 Lower Fitzwilliam Street
Dublin 2
Ireland

GUARANTOR

Electricity Supply Board
27 Lower Fitzwilliam Street
Dublin 2
Ireland

TRUSTEE

Citicorp Trustee Company Limited
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

ISSUING AND PRINCIPAL PAYING AGENT

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

LEGAL ADVISERS

To the Issuer and to the Guarantor as to Irish law

McCann FitzGerald
Riverside One
Sir John Rogerson's Quay
Dublin 2
Ireland

To the Managers and the Trustee as to English law

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One Bishops Square
London E1 6AD
United Kingdom

AUDITORS

To the Issuers and to the Guarantor

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JOINT LEAD MANAGERS

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5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

RBC Europe Limited
Riverbank House
2 Swan Lane
London EC4Y 3BF
United Kingdom

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

Société Générale
29 boulevard Haussmann
75009 Paris
France

LISTING AGENT

McCann FitzGerald Listing Services Limited
Riverside One
Sir John Rogerson's Quay
Dublin 2
Ireland