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Annual Report and Accounts
for the year ended 31 December 2001

ESB

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...reaching
1,000,000
people with
ESB community
games, we're
here for you

(COVER SHOT)

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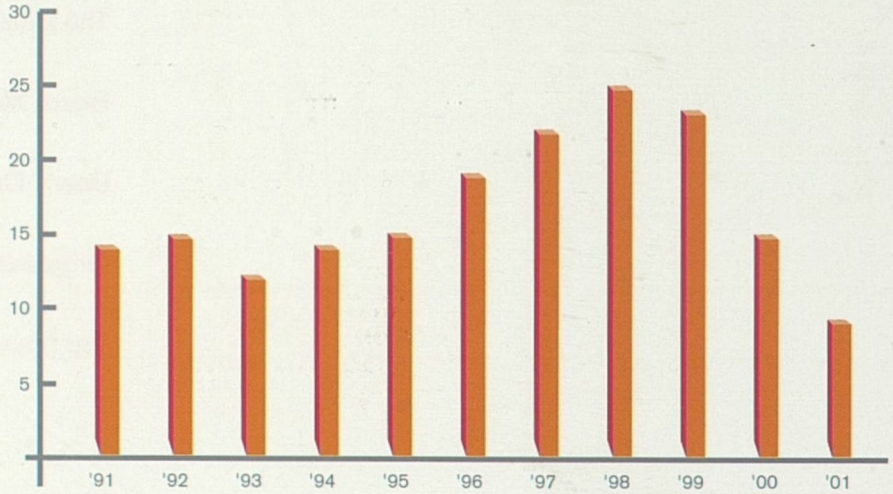
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HIGHLIGHTS

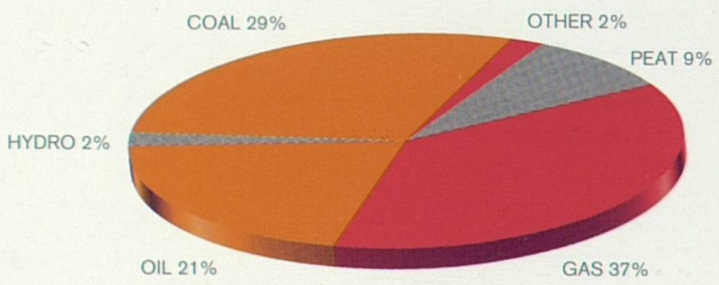
Financial Highlights

	€m 2001	€m 2000	Change on 2000
Turnover	2,040	1,894	7.7%
Profit for the Year	165	30	>100%
Assets in Commission (gross)	5,372	5,074	5.9%
Borrowings	791	839	(5.8%)
Sales (millions units)	18,907	19,257	(1.8%)
Total customers	1,671,321	1,631,488	2.4%

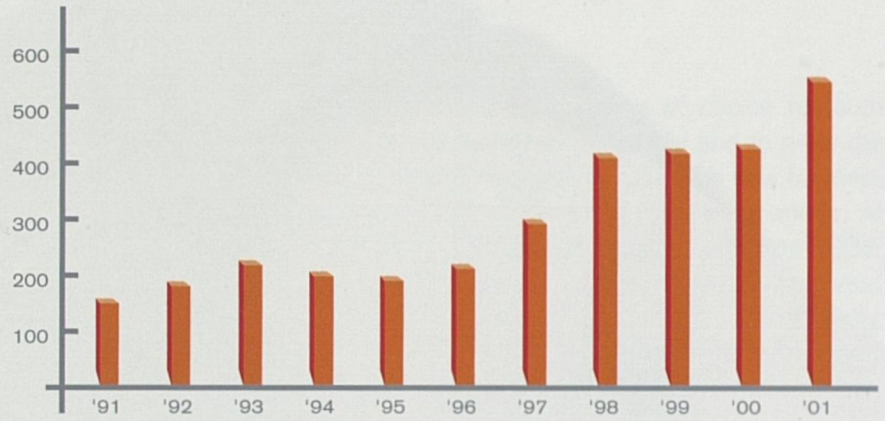
Operating Margin %



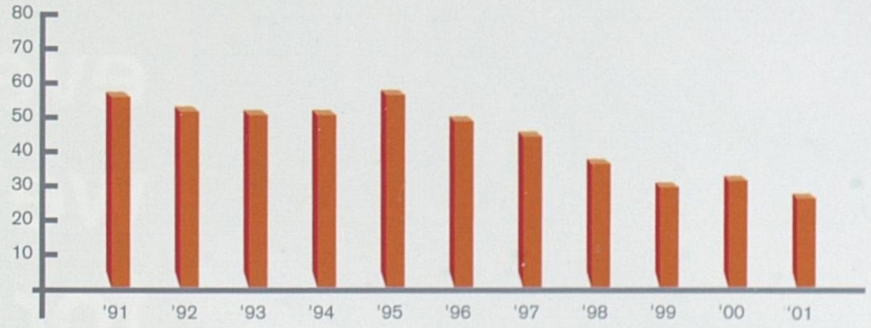
Fuel Source Analysis 2001



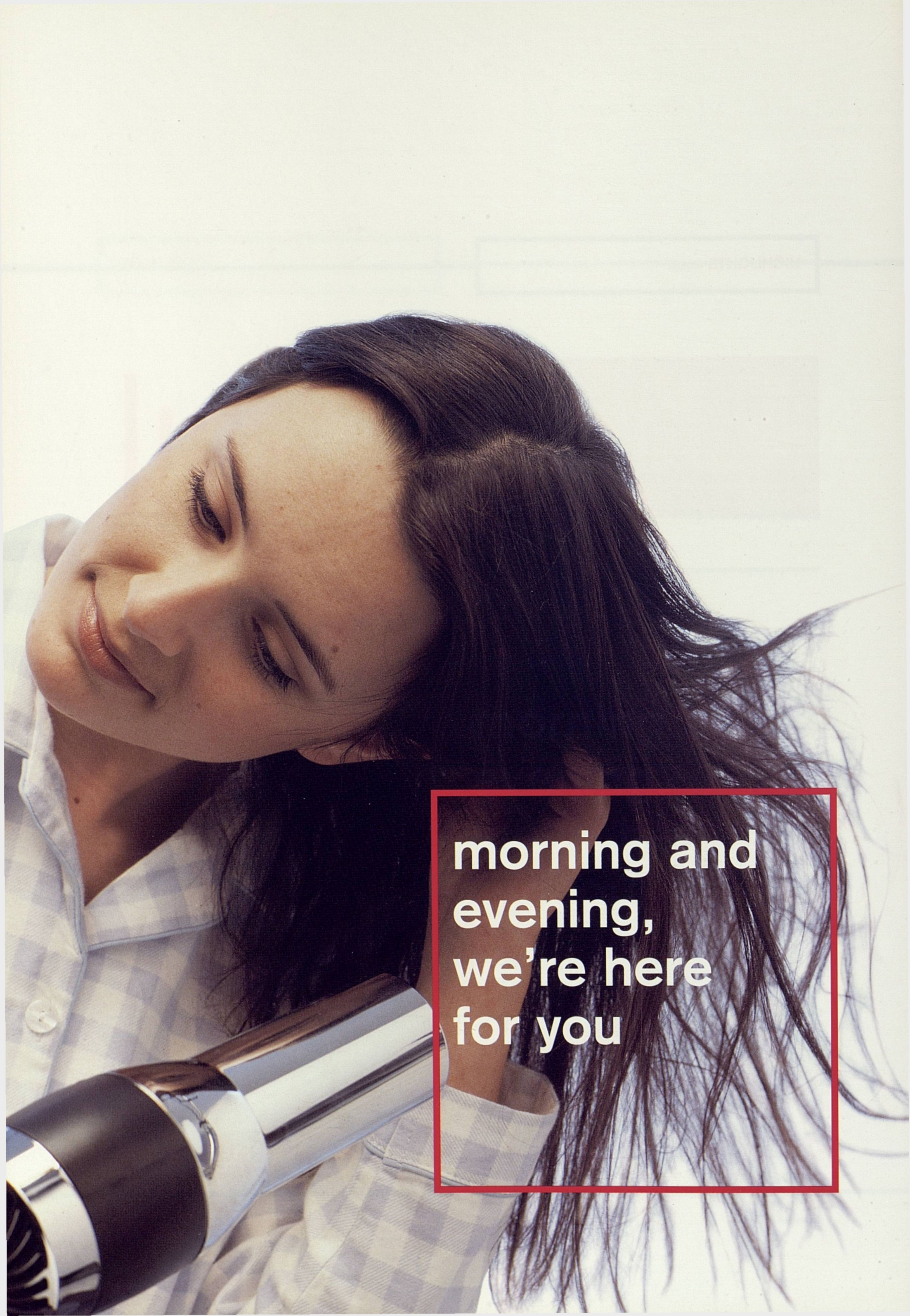
HIGHLIGHTS (contd)

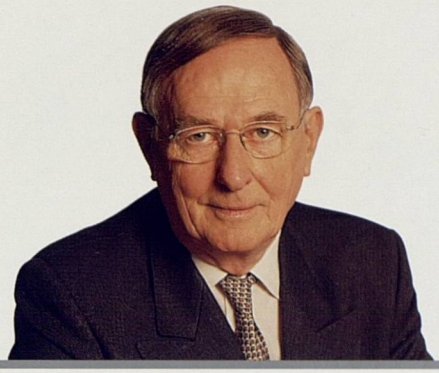


Capital Expenditure €m



Debt/Debt + Net Assets %


morning and
evening,
we're here
for you



CHAIRMAN'S REVIEW

In accordance with the provisions of the Electricity (Supply) Act 1927 (as amended), the Board presents its Annual Report and Accounts for the year ended 31 December 2001.

2001 was a significant year for the company, with progress and achievement across all fronts. We demonstrated our ability to compete robustly in the partially liberated new market, meeting the challenges head on. We continued to consolidate our business nationally and made progress internationally. We agreed and embarked upon a programme of significant internal change, which will secure the future of our company.

Against this background, ESB continues to ready itself for full competition while remaining synonymous with professionalism and high standards of service. Seventy-five years on, ESB remains the major supplier of electricity to homes, business and essential services throughout Ireland.

Now two years into the process of regulation, the electricity market will be fully open to competition by February 2005. We are on target to consolidate and build on our market strengths and take full advantage of this work with the advent of the totally liberated market.

In financial terms, 2001 was a difficult year for ESB. Increased costs, particularly those relating to fuel and purchased electricity, meant that our operating profit of €199m represented a reduction of €103m on the results for the previous year. In addition, although our total income from electricity rose during the year by €139m, our share of the total electricity market materially decreased, due to increased competition.

YEAR OF ACHIEVEMENT

Among the key achievements of 2001 was the successful negotiation and completion of PACT (Programme to Achieve Competitiveness and Transformation). It is a landmark achievement for the Company, its management, staff and unions. It has begun to deliver the necessary changes and flexibilities to expand and grow the company for the future. PACT will enable ESB to significantly improve the utilisation of company skills and resources in the run up to full market opening. Unions, staff and management have demonstrated flexibility and vision which is a tribute to all involved.

FOCUSED GROWTH

ESB's objective is to be the supplier of choice for both domestic and commercial users nationally and to grow the company internationally. We continue to pursue new business at every opportunity in the home and overseas markets. At home, a highly focussed business strategy underpins ESBIE (ESB Independent Energy), our competitive supply business, as lead supplier in the competitive market. Internationally, ESB continues to develop business despite our withdrawal from the G8 tender in Poland.

Our business development strategy is further reinforced by a very strong brand position among our customers. ESB's identity reflects the core values of our business and engenders heightened awareness and understanding of those values and of our mission.

EXPANSION AND DEVELOPMENT

Over €634m will be invested in 2002 to provide additional capacity and to modernise the network. ESB is building new generating plants, lines and cables in the most extensive upgrade ever undertaken by the company. Particular focus is being put on the Border, Midland and West (BMW) regions included in the National Development Plan. ESB investment will play a key role in economic and social progress over the coming years. By 2006, almost €2.7 billion will have been spent on the network infrastructure alone.

In keeping with our business growth strategy, ESB continues to develop opportunities in the technology sector. Our €51m fibre optic cable investment continues apace. When completed in early 2003, ESB will be able to offer state of the art broadband facilities to business through a 1,300 km network.

The success of our international consultancy business continues. ESBI now employs 850 people and has doubled its business volume since 1997. We have also made significant progress on major capital projects in Northern Ireland and Spain.

PARTNERSHIP APPROACH

The successful negotiation of PACT was achieved through consensus and dialogue. The partnership approach has demonstrated a vision and courage that will enable real competition in a market, which will see us reducing our share to 60% by 2005.


breakfast,
dinner, tea and
tea-breaks,
we're here
for you

STAFF AND SHAREHOLDERS

Staff throughout the company have contributed greatly to what ESB is today. At home and abroad, they have built the ESB brand, enhancing its reputation for innovation and excellence. Our work ethic is strong and is underpinned by professionalism, hard work and an exemplary sense of loyalty to our customers. Our staff have shown themselves to be flexible and willing to accept the changes necessary to secure the future of the business whilst delivering the required services to our customers.

Despite a slowing economy, ESB staff connected a record number of new customers in 2001. Once again the company responded ably to distress calls and worked particularly hard in February to restore supplies under difficult weather conditions.

2001 was among the most significant years in the history of ESB. Hard decisions were taken and great courage was shown. I am very grateful for the endeavour of staff and management in this regard. I would also like to acknowledge the hard work and commitment of the Board at a time of great challenge and change.

The support of the Minister for Public Enterprise and her officials continues to be greatly appreciated by ESB.

I would also like to pay a tribute to outgoing Chief Executive Ken O'Hara, and to thank him for the energy, drive and commitment he has demonstrated over a long and successful career in ESB.

To all in ESB, I am profoundly grateful for their help and support in this my first full year as Chairman.

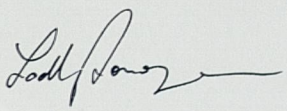
FUTURE BUILT ON SOLID ACHIEVEMENT

From rural electrification through to broadband infrastructure, ESB has and continues to transform people's lives and the business environment in which we operate. ESB is an integral part of Ireland and its communities. Over 75 years, generations of staff and management have played a key role in the social and economic development of this country.

Today, ESB remains at the cutting edge of achievement, both nationally and internationally. Our prices are still among the lowest in Europe. We have put in place the basis for the required changes to secure the future. We are already competing strongly in the partially deregulated market. The challenges full competition will bring in 2005 are awaited with confidence.

We also continue to grow the business internationally. New opportunities in the technology sector are being advanced and our retail division is being expanded.

Acutely aware of our legacy of public service, we will continue to be customer focused and commercially driven. As the deregulated market continues to roll out, we are determined to remain the electricity supplier of choice for the Irish consumer.



T O'Donoghue
Chairman

after hours,
we're here
for you

TUAIRISC AN CHATHAOIRLIGH

De réir fhorálacha an Achta um Sholáthar Leictreachais 1927 (faoi mar a leasaíodh é), fograítear Tuairisc Bhliantúil agus Cuntais an Bhoird Soláthair Leictreachais don bhliain dár críoch 31 Nollaig 2001.

Ba bhliain thabhachtach don chuideachta í an bhliain seo chaite le borradh agus fás ar ghach uile thaobh. Chruthaíomar ní hamháin go raibh sé ar ár gcumas dul in iomaíocht ghéar sa mhargadh leictreachais dírialaithe ach go rabhamar toilteanach agus réidh glacadh le pé dushlán a cuireadh os ár gcomhair. Bhí feidhmiú na cuideachtan láidir in Éirinn agus ar an gcoigrích. Shocraíomar ar athrú feidhme inmheánach a chur i gcrích a aimseofaí todhchaí na cuideachtan dá bharr.

Sa chomhthéacs seo is le gairmiúlacht agus éifeacht ar leith a bhfuil an BSL ag ullmhú chun dul i ngleic le hiomaíocht iomlán sa mhargadh oscailte. Le 75 bliain anuas tá an Bord mar phríomhsholáthraí leictreachais do theaghlaigh, do lucht ghnó agus do sheirbhisí riachtanacha ar fud na hÉireann.

Tá an próiséas leictreachais dírialaithe i bhfeidhm le dhá bhliain anuas anois agus cuirfear tús laniomaíochta sa mhargadh leictreachais i mí Feabhra 2005. Táimid thar a bheith réidh chun tairbhe a bhaint as an gcomhdhlúthú agus an neartú atá déanta againn agus sinn ag druidim ar an saormhargadh oscailte.

Taispeánann na torthaí iarmartacha don bhliain 2001 cuid de na deacrachtaí airgeadais a d'fhulaing an Bord i rith an tréimhse seo. Bhi méadú sa chostas breosla agus leictreachis ceannaithe. Bhi laghdu 103 milliun Euro ar ár mbrabús oibriúcháin, 199 milliún Euro i gcomparáid le torthaí na bliana seo chaite. Lena chois sin cé gur tháinig ardú 139 milliún Euro ar ár nioncam tuillte ó leictreachas i rith na bliana, laghdaíodh ar ár bpáirtiú margaí leictrigh de bharr méadú san iomaíocht.

BLIAIN ÉACHTA

Le linn na bliana 2001 d'éirigh linn PACT (Clár chun Iomaíochais agus Claochlú a bhaint amach) a réiteach agus a chur i gcrích. Is gaisce ar leith é seo don gcuideachta, dá bainistiocht, dá foireann agus do na ceardchumainn. Tá tús curtha leis na hathraithe atá riachtanach do bhorradh agus do fhás na heagraíochta san am atá le teacht dá bharr. Tabharfaidh PACT deis don mBord scileanna agus achmhainní na cuideachtan a fheabhsú agus a fhorbairt le dúshlán an mhargaidh oscailte mar sprioc againn. Is cúis omóis é an crúthú seo do shochomhairleacht agus do fhís na gceardchumann, na bhfostaithe agus an lucht bainistíochta.

TREOIRFHÁS

Is iad cuspoí an Bhoird ná bheith mar sholáthraí leictreachais do phobal na tire ar fad idir theaghlaigh agus lucht ghnó, chomh maith le fás thar chuimse a shaothrú go hidirnáisiúnta. Tá iarracht leanúnach á dhéanamh againn úrghnó a spreagadh ní hamháin i margadh na hÉireann ach sa mhargadh idirnáisiúnta chomh maith. Tá straitéis ghnó ar leith faoi lanseoil againn sa mbaile i láthair na huaire le BSLFN (Bord Soláthar Leictreachais Fuinneamh Neamhspleách) mar phríomhsholáthraí sa mhargadh iomaíoch. Cé gur tharraingíomar siar ó infheistíocht sa Pholainn leanaimid le gnó úrnua a chruthú agus a fhorbairt thar lear. Mar chuid den straitéis fhorbartha seo, tá branda soaitheanta i measc ár gcustaiméiri againn a mheabhraíonn dearcadh agus fealsúnacht an Bhoird dóibh agus a léiríonn fiúntas bunúsach ár ngno dóibh. Is léir gur gné luachmhar é an branda seo maidir lenár ngnó.

LEATHNÚ AGUS FORBAIRT

Infheisteofar breis is 634 milliún Euro i 2002 chun inniúlacht breise a chur ar fáil agus chun na lionraí dáilte a nuachóiriú. Mar chuid de thionscnamh gan réamhshampla, tá an BSL ag tabhairt faoi áiseanna nua gineadóireachta a thógáil maraon le línte agus cáblaí a shuiteáil. Tá fócas sonrach á dhiriú ar na ceantair BMW atá faoi chúram an Phlean Forbartha Náisiunta. Beidh infheistíocht an Bhoird chun tosaigh le forbairt eacnamaíoch shoisialta sna blianta atá romhainn. Beidh breis is 2.7 billiún Euro caite againn ar fhorbairt an bhonneagair faoin mbliain 2006.

Céim ar chéim lenár straitéis ghnó tá tuilleadh deiseanna á iniúchadh againn sa nuatheicneolaíocht. Tá 50.8 milliún Euro infheistithe againn sna sreangáin snáithínoptúlacha. Beidh lionra 1,300km den scoth ar fáil go luath i 2003 do lucht ghnó a bhfuil spéis acu sna gréasáin cumarsáide leathanbhanda.

Maidir le cursaí idirnáisiúnta tá deácháil ar ár gcomhairleacht idirnáisiunta. Tá 850 duine fostaithe ag ESBI i láthair na huaire agus tá gnó na cuideachtan dúbailte ó 1997 i leith. Lena chois sin tá dul chun cinn tabhachtach déanta againn ar mhórthionscadail caipitiúla i dTuaisceart na hÉireann agus sa Spáinn.


at work and at
home, we're
here for you

TUAIRISC AN CHATHAOIRLIGH

AN MODH COMHPHÁIRTÍOCHTA

Trí agallamh agus comhaontú a d'éirigh linn cuspóirí PACT (Clár Iomaíochais agus Claochlú a bhaint amach) a chur i bhfeidhm. Le cur chuige misniúil fadbhreathnaitheach na gcomhpháirtithe beidh sé ar ár gcumas dul in iomaíocht ghéar sa saormhargadh oscailte a mbeidh laghdu 60% ar ár ngnó ghiniúna ann faoin mbliain 2005.

BAILL FOIRNE AGUS SCAIRSHEALBHÓIRÍ

Leanann foireann an Bhoird ag gníomhú de shíor ar mhaithe na cuideachtan. Cuireann gairmiúlacht, diograis agus éifeachtacht a gcuid oibre ní hamháin le deácháil na cuideachtan féin ach le branda buan an Bhoird a bhfuil feabhas agus dilseacht dá chustaiméirí mar bhunchuspóir aige. Léirigh an fhoireann cheana fein go bhfuil siad toilteanach agus sásta glacadh le hathruithe riachtanacha chun todhchaí an ghnó a dhaingniú agus freastal ar riachtanais na gcustaiméir.

D'ainneoin an laghdú sa gheilleagar, bhí méadú arís ar lion na gcustaiméir i 2001. D'fhreastail an chuideachta ar dheisiucháin práinne go mormhór in aimsir an ghátair le linn mí Feabhra nuair a chuireamar caoi ar sheirbhisí a scriosadh de bharr na drochaimsire.

Bhí 2001 ar cheann de na tréimhsi is casta dúinn riamh. Ach d'éirigh linn dul i ngleic leis na dushláin. Cinneadh ar chomhairlí agus saraíodh ar na deacrachtaí. Gabhaim buíochas don bhfoireann agus don mbainistiocht. Tá mé go mór faoi chomaoin ag an Aire Fiontar Poibli agus a hoifigigh dá gcuid tacaíochta maraon le mo chomhleacaithe a d'oibrigh chun leasa an Bhoird le linn an chlaochlú agus na hathraithe.

Molaim Ken O'Hara, Priomhfheidhmeannach as ucht a chuid dúthrachta agus a shároibre.

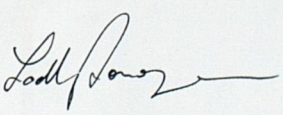
Tá mé thar a bheith buíoch do ghach uile dhuine sa mBord as ucht an chabhair a tugadh dom mar Chathaoirleach le linn na bliana seo.

TODHCHAÍ BUNAITHE AR GHNÍOMH

Ó leictriú na tuaithe go gréasán cumarsáide leathanbhanda, is léir go bhfuil an –thionchar ag an mBSL ar shaol an phobail agus ar an dtimpeallacht ghnó i gcoitinne. Glacann an Bord ról imeasctha i gceartlár an phobail. Glún i ndaidh glúin, tá na hoibrithe agus an bhainistíocht taréis a gcuid fhéin a dhéanamh go díograiseach d'fhorbairt shoisialta agus fás eacnamaíochta na tíre le 75 bliain anuas.

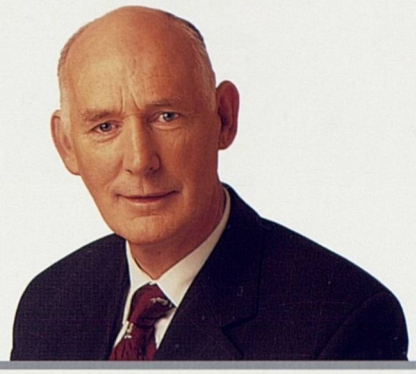
Sa lá atá inniu ann tá an BSL chun tosaigh i margadh na hÉireann agus sa mhargadh idirnáisiúnta thar lear. Níl ár sáru le fail san Eoraip ó thaobh costais de. Tá claochlú faoi lanseoil sa mBSL, claochlú ar a mbeidh todhchai sheasmhach na cuideachtan bunaithe. Cheana féin tá an Bord mar cheannródaí sa mhargadh dírialaithe agus táimid ag tnúth go mór le dushláin an lániomaíochais i 2005. Tá clú agus cáil tuillte againn thar lear agus tá ár bpunann sochmhainní ag forbairt ann de shíor. Tá dul chun cinn déanta againn sa teicneolaíocht agus tá méadú mór ar an roinn miondíoltóireachta.

Seasaimid ar son na dtraidisiúin is buaine a mbaineann le seirbhis phoiblí. Leanfaimid ag freastal go dícheallach ar ár gcustaimeiri maraon lenár bhfócas tráchtála a threisiú. Leis an margadh oscailte dírialaithe ag druidim go mear inár dtreo, táimid daingean diongbháilte go mbeimid mar phríomhrogha i measc na soláthróirí leictreachais do thomhaltoirí na hÉireann.



T O'Donoghue
Chairman


pushing the boundaries, meeting your needs, we're here for you



CHIEF EXECUTIVE'S FINANCIAL AND OPERATIONAL REVIEW

The operating surplus of the group for 2001 was €199m, a decline of €103m from the previous year. An increase in electricity sales has been more than offset by cost increases, particularly fuel and payroll. The post tax profit for the year was €165m, an increase of €135m on the result for 2000.

Group summary €m	2001	2000	Change
Turnover	2,040	1,894	146
Operating costs	(1,845)	(1,602)	(243)
Share of profits from associates and joint ventures	4	10	(6)
Operating profit before exceptional items, interest and tax	199	302	(103)
Exceptional items			
– Profit on sale of investments	-	208	(208)
– Restructuring charge	-	(300)	300
Profit before interest and tax	199	210	(11)
Interest	(39)	(32)	(7)
Taxation	5	(87)	92
Minority Interests	-	(61)	61
Profit for the financial year	165	30	135

The return on capital employed for 2001 is 4.8%. This is an increase on the 3.5% return achieved in 2000 and largely reflects the absence of any exceptional charges in the current year.

GENERATION COSTS

During 2001 fuel costs have increased substantially due to increased prices for gas and coal and increased usage of heavy fuel oil. Both hydro & gas outputs were replaced by heavy fuel oil due to lower than expected rainfall and to avail of relatively lower fuel prices.

EMPLOYEE SHARE OWNERSHIP PLAN

On 21 December 2001, ESB paid €59.4m to ESB ESOP Trustee Limited, representing 5% of profits for the years 1997 to 2000 accumulated by ESB on behalf of its employees. ESB ESOP Trustee Limited is a wholly owned ESB subsidiary company, which was established to act as Trustee for an ESB employee shareholding scheme. These funds were then used by the Trustees, together with a third party loan of €16.4m, to acquire 98,994,093 fully paid up capital stock of €1 each at a discount of €23.1m. This discount represents the agreed valuation for a minority shareholding. The acquisition by ESB ESOP Trustee Limited represents the full 5% shareholding made available to employees under the CCR Agreement, signed in 1996.

TAXATION AND INTEREST

The estimated tax bill for 2001 is €16m. The early adoption of FRS 19 - "Deferred Taxation" - has resulted in a further charge of €24m. However, a corporation tax refund of €45m has also been accounted for, following the issue of a


during special
moments,
we're here
for you

Revenue Statement of Practice on the tax treatment of provisions. This results in a net tax credit of €5m for the year. The net interest charge of €39m is a €7m increase on the charge for 2000 and largely reflects an increase in the financial charges on provisions.

BORROWINGS

Borrowings decreased by €48m during the year and stand at €791m at the end of 2001. Debt as a percentage of debt plus net assets is down from 33% in 2000 to 28%. To date, ESB has generated sufficient cash from operations to cover net loan repayments and meet the growing capital investment programme. However, the funding of the increased capital investment programme will result in a significant increase in borrowing over the next five years.

CAPITAL INVESTMENT

Capital investment for the year amounted to over €547m, a substantial increase of €121m on 2000. The 2001 capital work programme included:

- Continuation of the network renewal programme.
- Connection of 58,055 new customers.
- Significant transmission and distribution network projects to meet load growth and to improve supply quality.
- Continued investment, through our joint venture with Statoil, in the new 400MW Synergen gas turbine station at Ringsend, which will come into operation in 2002.

We expect to invest approximately €4 billion in the next five years, with the major part of that outlay on the transmission and distribution networks. The level of expenditure in the network businesses will be determined in agreement with EirGrid for the transmission system and the Commission for Electricity Regulation (CER).

TREASURY

ESB Group Treasury continued to ensure that borrowings were financed at very competitive terms and that facilities are available to cover all current funding requirements for the Group.

DEBT

At the year-end, ESB's total debt portfolio amounted to €791m. All currency exposure of the debt portfolio has been eliminated as all debt is either in Euro or swapped to Euro. 67% of the current portfolio is fixed to maturity. The weighted average cost of the overall debt portfolio is 5.1% and the average life is 5 years.

During 2001, ESB Group Treasury drew down €205m in new borrowings and expect to borrow a further €550m next year in order to meet its investment programme requirements. Financing facilities are either in place or at an advanced stage of discussion.

CASH

Cash balances have continued to fall during the year, from €303m at the end of 2000 to €158m at year-end, due to a number of significant expenditure items, including capital expenditure, loan principal and interest repayments. Cash was deposited at an average interest rate of approximately 4.4% with an average deposit period of 7 days.

FOREIGN EXCHANGE TRANSACTIONS

ESB Group Treasury also continued to actively manage foreign currency exposures, mainly US Dollars and Sterling, on fuel and other purchases so as to minimise costs and reduce volatility due to currency fluctuations. The US Dollar and Sterling hedging amounted to a gain of €1.6m compared to buying spot. It is our intention to continue to manage these large exposures in the future against a fuel price recovery mechanism currently being agreed with the CER.

All derivative transactions carried out by ESB Treasury are within the specifications set out by the Minister for Finance. Strong controls continue to be adopted within the Treasury function and these controls have been adhered to, throughout the year.

Throughout 2001, there was no material currency exposure, after taking account of the effects of forward foreign exchange contracts and currency swaps.

NON CORE BUSINESSES

The substantial part of ESB's revenue and profits still come from the electricity business here in Ireland, which is largely regulated by the CER.

ESB has significant business lines outside the regulated business both in Ireland and internationally.


helping create
a better future,
we're here
for you

INTERNATIONAL OPERATIONS

ESB has a history of international involvement stretching back over 25 years. This activity forms an integral part of our growth strategy. In Northern Ireland the proposed 400MW CCGT (Combined Cycle Gas Turbine) plant at Coolkeeragh in Derry, is moving forward to the construction phase. We have created a real presence in the deregulated Northern Ireland supply market.

Our project in Bilbao in Spain is well underway. This proposed 800MW CCGT plant has passed all the legislative and regulatory hurdles to date and is projected to reach financial closure in 2002.

RETAIL

The development of new superstores around the country and the refurbishment of other outlets has put a new impetus into the business. Performance has improved and both turnover and profits have increased over the previous year. FinancElectric, which provides credit for customers of ESB Retail, had another very successful year.

A CHANGING MARKET

The past year was one of solid progress and achievement for ESB. We are competing strongly in the partially deregulated market. We have adjusted well from being the sole operator and are on target to be the supplier of choice by 2005. ESB Independent Energy (ESBIE) our wholly owned subsidiary company, continues to compete successfully in the eligible market.

A quality infrastructure and supply network is essential to facilitate the challenges of a growing economy. The company has embarked on a massive investment programme which will transform our networks over the coming years.

A changing market brings new opportunities. We are determined to grow our business and will continue to pursue such opportunities vigorously.

We remain firmly focussed on the needs of our customers. Our long record of service stretching back to the 1920's is a strong motivating factor for us, combined with a progressive and determined approach to meet the challenges we now face. We are playing our part in supporting the development of competitive market structure.

FACING COMPETITION AND CHANGE

The PACT Agreement (Programme to Achieve Competitiveness and Transformation) concluded between the company and its unions in 2001 was another milestone for ESB and built on the success of previous change programmes. Through dialogue and discussion a consensus has been reached on the way forward for the company. The programme addresses ESB competitiveness, thus preparing the organisation for the future.

In arriving at this agreement, the partnership model in the company has been strengthened, demonstrating the flexibility of all parties in facilitating major change and to work towards a shared vision. In clear recognition that partnership should be the prevailing means of addressing the challenges throughout ESB, a review of partnership was initiated as part of PACT. This review will further reinforce the relationship between the company and the trade unions ensuring ESB is positioned to meet both the opportunities and the challenges ahead.

INVESTING IN THE COUNTRY'S ELECTRICITY INFRASTRUCTURE

The successful outcome of PACT has great significance for the development of our electricity infrastructure. The way is now clear for ESB to accelerate progress on delivering a network appropriate to the country's needs. Over the next five years, almost €4 billion will be invested in building new generating stations, upgrading lines and cables and increasing capacity. Already the new CCGT plant in Ringsend is coming on stream. Construction is due to begin on the new peat-fired plants at Shannonbridge and Lanesboro that will replace all of our existing peat fired plants.

ESB will meet its targets on infrastructural investment. We are placing particular emphasis on the Border, Midland and West (BMW) regions and are determined to bring a fully developed network to these regions. In 2002 our target is to connect around 50,000 new domestic and 5,500 commercial customers. We also intend to refurbish 5,000km of rural networks, as well as completing 132 separate transmission projects.

ASSET LEVERAGE

We intend to grow the business by vigorously exploiting our skills and asset bases. We are at an advanced stage in the

erection of a fibre optic cable on 1,300km of the company's line network. This project is due for completion in early 2003. We are playing a pivotal role in developing broadband capacity access across the country.

PROTECTING THE ENVIRONMENT

ESB has an obligation to carry out its activities at all levels with due regard to the environment. We are deeply conscious that we hold the environment in trust for future generations. As our organisation embarks on major infrastructural renewal, we are acutely aware that this must be undertaken in a responsible and sensitive way. We are building the business with full consideration for the environment, local communities and our staff. Integrated Pollution Control License applications have now been made to the EPA in respect of all thermal power stations other than the 5MW Cahirciveen peat plant, which is below the size threshold for licensing.

Environmental management systems have been in operation in ESB since 1994. We continue to constantly monitor and upgrade them. ESB is playing a full role in the Government's National Climate Strategy and is determined to respond positively on the Kyoto Accord emission targets. EU agreement has been reached on a "National Emissions Ceilings Directive" and revised "Large Combustion Plant Directive". We co-operated closely with the Department of Environment and Local Government in developing Ireland's input into the debate.

As part of our growth strategy, we continue to explore renewable energy opportunities. We are involved in a number of wind farm projects, including a joint venture with Bord na Mona in Mayo. We are committed to public consultation with local communities and will ensure that all projects proceed in an environmentally sustainable manner.

HEALTH AND SAFETY

The health and safety of our staff and customers is a core ESB value. We fully recognise our responsibility to ensure that staff work in a safe environment. Our staff operate in an environment in which strict health and safety standards are applied. These standards and work performance are subject to ongoing audit and where deficiencies are identified, remedial action is taken in consultation with staff. A review of the safety audit policy has been undertaken to ensure a vigorous compliance culture is embedded within ESB.

Our lost time accident rate fell by a further 16% in 2001 to 1.99 accidents per 100 staff. We are firmly committed to continuous improvement towards our objective of no injuries to staff, contractors or the public.

We are sensitive to the health concerns of the public and we are committed to open and transparent debate on such issues arising from our activities.

CUSTOMER FOCUS

ESB is associated with professionalism and high quality service. This has been carefully nurtured over the years. We are, first and foremost, a customer-focused organisation.

An 8.6% increase in our prices was approved by the CER in September. This was the first price increase in electricity charges since 1997, and was largely driven by very significant increases in fuel costs. Despite this increase ESB's prices still compare very favourably with those elsewhere in Europe. New customers continue to increase in number, although this is beginning to show signs of a slowdown due to prevailing economic conditions.

Our massive capital investment programme is primarily designed to upgrade the electricity network. It will substantially improve the quality and available capacity of supply, supporting industrial development and benefit all of our customers. The tight generation capacity margin, which has existed in recent times, will be eliminated when the new plant in Ringsend comes into operation in 2002.

In February 2001, over 1,000 network technicians braved blizzard conditions in the traditional style of personal and professional dedication, to re-connect supply to thousands of customers. Integral to the co-ordination of these and other endeavours continues to be our 24-hour customer call centres.

Our retail division undertook a major reorganisation and expansion of its stores network, increasing turnover considerably. We are giving customers, especially in the regions, a far greater choice at competitive prices and we intend to be the leading electrical retailer in the country.

There was more good news for our 1.6 million customers with the announcement that ESB bill payments facilities are to be widened to include Post Offices and PayPoint, adding an extra 2,000 outlets.

ELCOM, the independent customer arbitration service established by ESB, continues to offer a mediation service for customer complaints and has launched a major awareness campaign.

CUSTOMER CHARTER

Payments under the customer charter amounted to around €67,000 involving approximately 2,500 customers.

A COMMITTED STAFF

Over the last 75 years, ESB staff have built the company into the first class operation it is today. Their commitment to customers is unrivalled. They have demonstrated immense flexibility and belief in the future of the company through the negotiation of the PACT agreement. It is this dedication and belief in ESB that will see it compete effectively in the new market.

ESOP

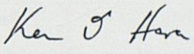
The Employee Share Ownership Plan agreed under the Cost & Competitiveness Review (CCR) was finally established.

This shareholding in the hands of the staff will align their goals with those of the company and will have a powerfully positive impact on ESB in the future.

CONCLUSION

2001 was a milestone year for ESB. Significant progress was made across all aspects of the business. Already competing strongly in the partially deregulated market, we are making the changes, which will allow us to face full competition with confidence. Our staff, management and unions have not shied away from tough decisions. It is their commitment and vision, which will underpin the future growth of ESB.

The year also saw the untimely death of Ted Dalton, MD Irish Electricity, whose commitment, dedication and good humour earned him the respect and affection of his colleagues and friends throughout ESB. He is sadly missed. Ar dheis, Dé go raibh, a anam.



K O'Hara
Chief Executive

ENVIRONMENTAL PROTECTION COSTS

The European Commission adopted a Recommendation in June 2001 on the recognition, measurement and disclosure of environmental issues in the annual accounts and reports of companies. While not yet in force, ESB is substantially complying with the requirements of this Recommendation in providing the information below.

In 2001 the cost of Group activities in Ireland included €10.2m in respect of measures taken to prevent, reduce and repair damage to the environment, comprising of the following:

- Specific environmental protection projects.
- Improving drains and bunding of oil containing plant and storage facilities.
- Power station demolition and site restoration.
- Renewable energy.
- General waste disposal costs.

ENVIRONMENTAL ISSUES

It is ESB's goal to act responsibly in its use of environmental resources and to support the sustainable development of the energy sector in Ireland. The company has in place formal policies on environmental protection, including waste management, environmental audit and renewable energy. Environmental management systems are in place in all power stations and the Networks area. Eight generating stations, responsible for 97% of electricity production from thermal plant, have been accredited to the International Standards Organisation's environmental management standard ISO 14001. Extension of this accreditation to other areas and activities is ongoing.

Our core activities involve the transformation of primary energy to electricity and its subsequent transmission, distribution and supply to customers. These activities, because of their very nature and scale, are nationally significant in terms of their impacts on air, water and the landscape.

A number of measures under development or awaiting implementation at national and EU level have the potential to affect the future financial position of the company. These relate to climate change, air protection and electromagnetic fields (EMF).

CLIMATE CHANGE

Policy measures to address climate change that will impact the sector include energy taxation, mandatory emissions ceilings with trading and requirements for increased penetration of renewables.

While progress on a harmonised EU regime of energy taxes remains deadlocked the proposal for a Directive has not been withdrawn. Similarly, at national level, the Government's Climate Change Strategy anticipates the introduction of an energy tax. Detailed proposals have been developed on taxation by Consultants for Forfas and the Department of Enterprise, Trade and Employment. It is likely that such taxes when introduced will have some impact on energy consumption and electricity sales.

The EU Commission issued a proposal for a Directive establishing an EU-wide carbon dioxide emissions trading regime in October 2001 which, if adopted as is, will require electricity producers to accept a cap on plant emissions but allow trading to facilitate compliance with this obligation. In this context, the National Climate Change strategy is seeking a 5.65 Mt reduction in emissions from the energy (primarily electricity) sector from business-as-usual projections of 18.82 Mt for the year 2010. This is in order to ensure overall national compliance with Ireland's Kyoto commitments. The future value of carbon dioxide emissions rights will be contingent on finalisation of the rules governing emissions trading and the other Kyoto instruments of Joint Implementation and the Clean Development Mechanism and on the effectiveness of the EU and global compliance and penalty regimes that are introduced.

The EU adopted a Directive on the development of renewable energy in September 2001. This places an indicative target of 13.2% of electricity production to be derived from renewable sources of energy in Ireland by 2010. The indicative target may be made mandatory at a later stage. The current system of support for renewable energy is the Alternative Energy Requirement (AER) with AER 5 now underway. Recovery of the excess cost of renewables will be by way of a Public Service Obligation. The type of support mechanism may change in the future in response to the requirements of the Directive.

AIR PROTECTION

Policy measures seeking to protect the environment and human health from emissions to air have been developed at an institutional level by the UN Economic Commission for Europe (Gothenburg Protocol, 1999) and the EU (revised Large Combustion Installation Directive and the National Emissions Ceilings Directive, 2001). All these measures require additional significant cuts in emissions of sulphur dioxide and nitrogen oxides from the electricity sector.

ESB currently operates under the requirements of the Oslo Protocol (limiting sulphur dioxide emissions from the sector to 82kt) and the Sofia Protocol (limiting emissions of nitrogen oxides from the sector to 42kt). ESB emissions in 2001 were approximately 69kt sulphur dioxide and 36kt nitrogen oxides.

The impact of the new constraints will be to increase production costs at coal, oil and peat plants as a result of the additional emissions control measures that will be required.

ELECTROMAGNETIC FIELDS (EMF)

Scientific evidence does not support the view that general exposure to electromagnetic fields from power lines or other electrical equipment is a likely cause of adverse health effects. However, EU and international standards do exist for public exposure to such fields that, in part, seek to address continuing public concerns on this issue. All ESB plant and equipment complies with these standards. Public concern continues to prompt policy responses at local, national and EU levels. ESB supports research on EMF's and provides an EMF measurement and information service to customers and the public. However, even in the absence of scientific support, the issue remains a high priority of the EU Commission. Possible further measures may be taken on foot of ongoing investigations by the Commission to limit public exposure to such fields and reduce public anxiety. These may add costs for the sector.

THE BOARD

There were 16 Board Meetings, 11 General Board Meetings and 5 Special Board Meetings during the year ended 31 December 2001. The number in brackets opposite each name represents the attendance by each Board member at General and Special meetings respectively, during the year.

The following is the 2001 disclosure.

BOARD MEMBER	GENERAL/SPECIAL	DATE OF COMPLETION OF TERM
Tadhg O'Donoghue, Chairman	(11,5)	
Ken O'Hara	(11,5)	
William M McCann	(1,0)	18.01.01
Bernard Byrne	(4,3)	
Jerry Carey	(3,0)	14.04.01
Larry Donald	(10,5)	
Eoin Fahy	(10,3)	
Sean Geraghty	(11,5)	
Joe LaCumbre	(10,4)	
Georgina Kenny	(10,5)	
John McGinley	(10,4)	
Caitriona Murphy	(8,5)	03.03.02
Pat Smith	(11,5)	
Paul Sweeney	(3,1)	02.04.01
Anne Taylor	(8,4)	

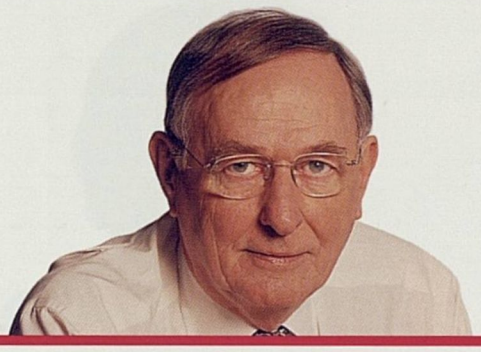
This report was approved by the Board at its meeting on 5 March 2002, for submission to the Minister for Public Enterprise.

T O'Donoghue
Chairman

K O'Hara
Chief Executive

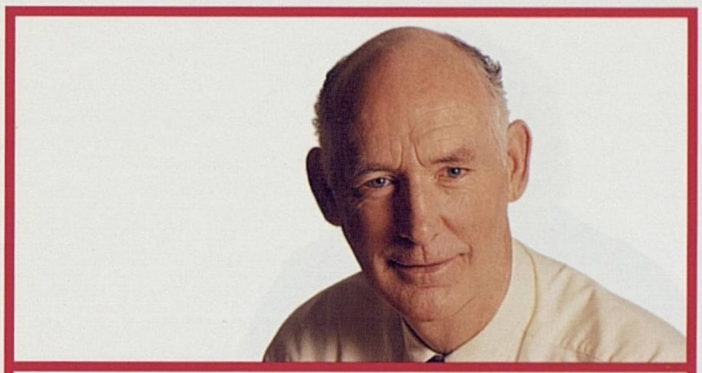
L Donald
Secretary

BOARD MEMBERS



TADHG O'DONOGHUE joined the Board of ESB in September 2000 and was appointed Chairman in January 2001.
Mr. O'Donoghue is a former Senior Tax Partner and Head of Technology Practice, PricewaterhouseCoopers. He is a council member of the Irish Management Institute and is a Director of Aer Rianta and the American Chamber of Commerce in Ireland.

Mr. O'Donoghue is Chairman of the Remuneration and Management Development Committee and a member of the Audit, the Capital Project and the Business Performance and Development Committees of Board Members.



KEN O'HARA was appointed Chief Executive in September 1997. He held a number of senior management positions and was involved in consultancy work in Bahrain during the 1970's. Mr. O'Hara was appointed District Manager, Cork in 1979 and was subsequently appointed Director, Customer Operations in 1987. He was appointed Managing Director of Power Generation in 1993. He is a fellow of the Institute of Engineers of Ireland, a member of the National Executive Council of IBEC and a Board Member and fellow of IMI. Mr.O'Hara is a member of the Business Performance and Development, Environment and Safety and Legislation Committees of the Board.



BERNARD BYRNE was appointed to the Board in July 2001.
A Chartered Accountant, he is Group Finance Director of IWP International Plc, the personal care and household products company.

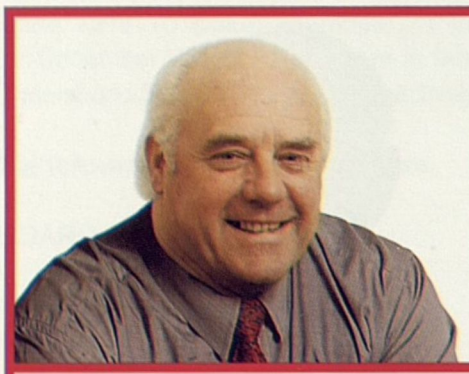
Bernard Byrne is Chairman of the Audit Committee and a member of the Remuneration and Management Development Committee of Board Members.



EOIN FAHY was appointed to the Board in January 2001. He is Chief Economist with KBC Asset Management Ltd. Dublin and is an established media commentator on economic issues.

Mr. Fahy is a member of the International Business and Investments, the Remuneration and Management Development and the ITSO Committees of Board Members.

BOARD MEMBERS



SEAN GERAGHTY was first appointed to the Board in 1988 under the Worker Participation (State Enterprises) Act. 1977 and is now serving his fourth term. A shift operative in Poolbeg Generating Station, he has worked in ESB since 1964. He has chaired the ESB Group of Unions and was staff representative on the Joint Industrial Council. He is also a member of the Chief Executive Safety Committee.

Mr. Geraghty is a member of the Business Performance and Development Committee and Chairman of the Environment and Safety Committees of Board Members.



GEORGINA KENNY was appointed to the Board in April 2000. A Solicitor, Ms. Kenny is Managing Director of Shannon Dry Cleaners. She has been a member of the Board of Athlone Community Task Force since 1994.

Ms. Kenny is Chairman of the Capital Projects Committee and a member of the Audit Committee of Board Members.



JOE LaCUMBRE was appointed Deputy Chairman of the Board in September 2000. He is now serving his fifth term on the Board, having first been appointed in January 1984 under the Worker Participation (State Enterprises) Act,1977. Mr LaCumbre is a member of the TEEU Executive Committee and is staff representative on both the ESB Superannuation Fund Administration Committee and the ESB Medical Provident Fund. Mr LaCumbre is a member of the Athlone Community Task Force. Mr LaCumbre is Chairman of the Business Performance and Development Committee and a member of the International Business and Investments and Legislation Committees of Board Members.



JOHN McGINLEY was first appointed to the Board in January 1995 under the Worker Participation (State Enterprises) Act, 1977 and was re-elected in 1998. A technologist in Distribution Department, he is a member of Kildare County Council and the Mid-East Regional Authority.

Mr. McGinley is Chairman of the Legislation Committee and a member of the Capital Projects and International Business and Investments Committees of Board Members.

BOARD MEMBERS



CAITRIONA MURPHY was appointed to the Board in February 1992 and was re-appointed for a second term in March 1997. Mrs. Murphy is Chairman of the Labour Relations Commission, she is a former Head of AIB Corporate Finance and is a director of a number of other companies.

She is Chairman of the ITSO and the International Business and Investments Committees of Board Members.



PAT SMITH was appointed to the Board in January 1999 under the Worker Participation (State Enterprises) Act, 1997. He joined ESB in 1981 and has been working as a Network Technician out of Wilton in Cork. Mr. Smith has served as Secretary of the Cork Branch, A.T.G.W.U. and National Secretary of the Network Technicians Category.

He is a member of the Environment and Safety, the Capital Projects and Audit Committee of Board Members.



ANNE TAYLOR was appointed to the Board in May 1997. Ms. Taylor is a Consultant Trainer and Facilitator.

She is a member of the Legislation and the Environment and Safety Committees of Board Members.

BOARD COMMITTEES

There are eight board committees. Each has formal terms of reference.

AUDIT COMMITTEE
The purpose of the Audit Committee is to oversee the financial reporting process and internal control system of ESB.

Members
Bernard Byrne, Chairman
Tadhg O'Donoghue
Georgina Kenny
Pat Smith

BUSINESS PERFORMANCE AND DEVELOPMENT COMMITTEE
The purpose of the Business Performance and Development Committee is to review the development and implementation of programmes aimed at ensuring the positioning of ESB for future success, in line with the Board's approved Corporate Strategy.

Members
Joe LaCumbre, Chairman
Ken O'Hara
Sean Geraghty
Tadhg O'Donoghue

CAPITAL PROJECTS COMMITTEE
The purpose of the Capital Projects Committee is to review the capital expenditure plans, to advise the Board on major capital expenditure proposals and to monitor progress.

Members
Georgina Kenny, Chairman
Tadhg O'Donoghue
John McGinley
Pat Smith

ENVIRONMENT AND SAFETY COMMITTEE
The purpose of the Environmental and Safety Committee is to advise the Board on safety and environmental matters.

Members
Sean Geraghty, Chairman
Pat Smith
Anne Taylor
Ken O'Hara

ITSO COMMITTEE
The function of the ITSO Committee is to facilitate the independent management of the TSO function undertaken by the National Grid Business Unit within ESB, in accordance with the requirements of the EU Electricity Directive, on a strictly ringfenced basis, pending the establishment of EirGrid as an independent legal entity.

Members
Caitriona Murphy, Chairman*
Eoin Fahy

INTERNATIONAL BUSINESS AND INVESTMENTS COMMITTEE
The purpose of the International Business and Investments Committee is to oversee the business strategy, risks, and investments in ESB's International businesses.

Members
Caitriona Murphy, Chairman*
Eoin Fahy
Joe LaCumbre
John McGinley

LEGISLATION COMMITTEE
The purpose of the Legislation Committee is to oversee the development and implementation of the Company's strategy on legislation and regulatory matters.

Members
John McGinley, Chairman
Joe LaCumbre
Ken O'Hara
Anne Taylor

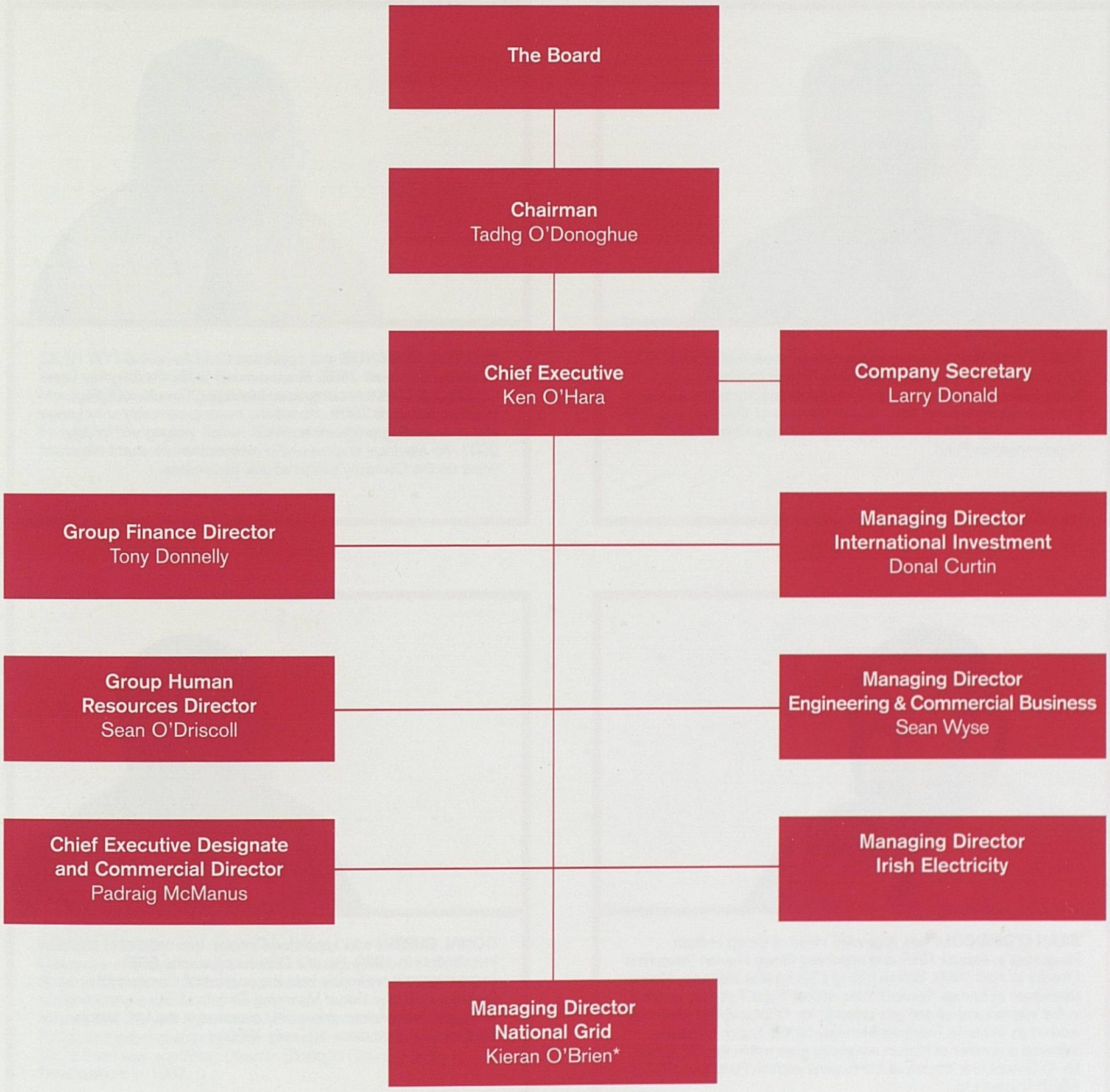
REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE
The purpose of the Remuneration and Management Development Committee is to

- Advise the Board on all aspects of the remuneration of the Chief Executive.
- Set the remuneration of the top management group following consultation with the Chief Executive.
- Monitor the development of current and future leaders of ESB.

Members
Tadhg O'Donoghue, Chairman
Bernard Byrne
Eoin Fahy

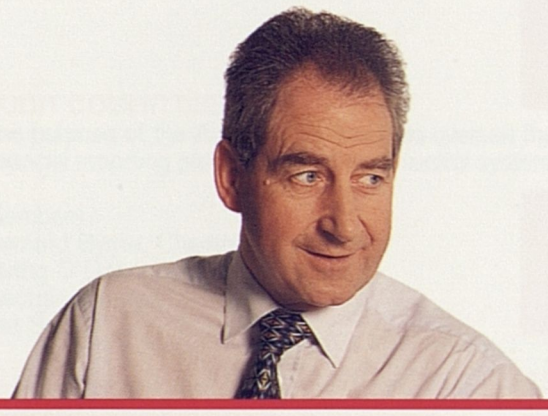
*Caitriona Murphy completed her term on the Board in March 2002.

ORGANISATION STRUCTURE

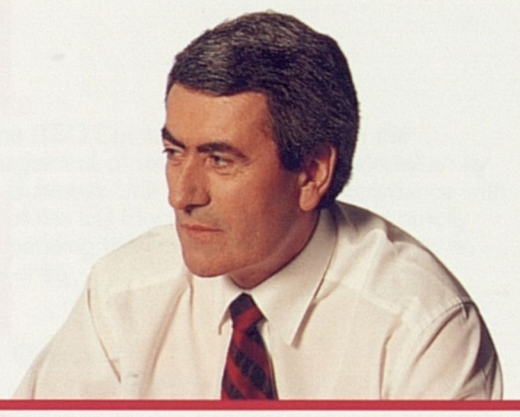


*Kieran O'Brien is Chief Executive Designate of EirGrid

TOP MANAGEMENT



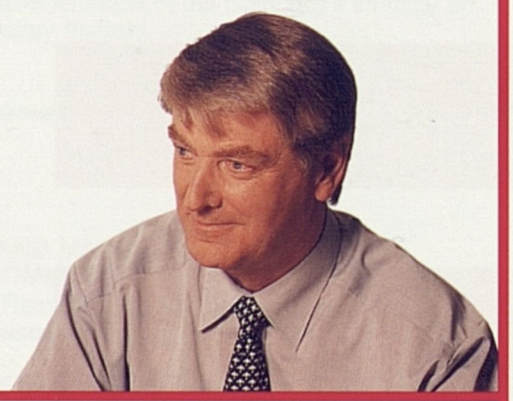
TONY DONNELLY was appointed Group Finance Director in December 1997. He held a number of senior financial management positions prior to his appointment, including Group Financial Controller. He was project manager of the Cost Competitiveness Review (CCR) and is a Trustee of the ESB Superannuation Fund.



PADRAIG McMANUS was appointed Chief Executive Designate in March 2002. Since January 2001 Padraig has been Commercial Director having been Managing Director of ESB International since 1997. He led the major cross company change and restructuring programme, PACT, which was agreed in July 2001. An electrical engineer by profession he has spent fifteen years on the Company's international businesses.



SEAN O'DRISCOLL was appointed Head of Group Human Resources in August 1997 and appointed Group Human Resources Director in April 1999. Before joining ESB he was Manager, Human Resources at Energy Services International/Solar Turbines, working in the international oil and gas industry. Mr. O'Driscoll had previously worked as Industrial Relations Manager for GE Super Abrasives following a number of human resources roles within the CIE Group. Mr. O'Driscoll is a Trustee of the Superannuation Fund and of ESB ESOP Trustee Ltd.

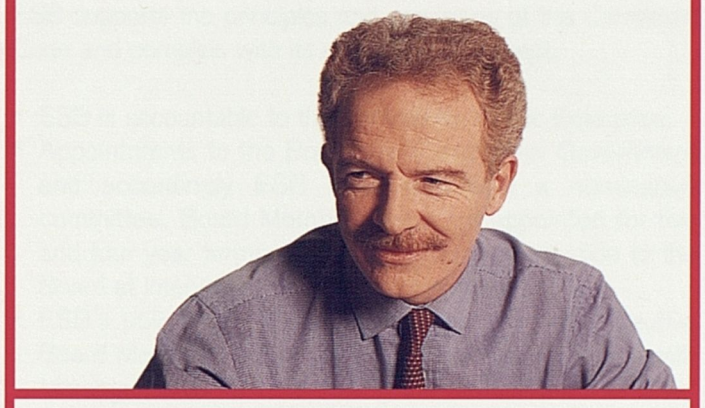


DONAL CURTIN was appointed Director, International Investments in 1999. He is a Director of several ESBI companies and previously held the position of Commercial Director, ESB and Group Managing Director, ESBI Contracting. Mr. Curtin has worked extensively overseas in the UK, Middle East and Far East since the early 1980's.

TOP MANAGEMENT



SEAN WYSE was appointed as Managing Director of Engineering/Commercial Businesses in 2000, having served as Managing Director of Customer Services since 1997. He held a variety of senior management positions in the Distribution areas throughout the country before his appointment as Group Manager, Power Generation, in 1994.



LARRY DONALD was appointed Company Secretary and Head of Corporate Affairs in 1997. He held a number of senior positions in the company before being appointed Public Relations Manager in 1986. Prior to his appointment to his current position Mr. Donald held the post of Manager, Corporate Affairs.



KIERAN O'BRIEN was recently appointed Chief Executive Designate of EirGrid having served as Managing Director of National Grid since 1993. He worked on a number of ESB's major construction projects during the seventies, including Turlough Hill and Moneypoint. He was appointed ESB's resident manager in Saudi Arabia and subsequently became Manager, Civil Works Department. Mr. O'Brien was appointed Director Strategic Planning and Development in 1987.

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The Board Members present their report together with the audited financial statements of the Parent Company and of the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activities of the ESB Group are the generation, transmission, distribution and supply of electricity. The Group also operates other businesses which include tele-communications, electrical retailing and international businesses.

Review of the Business and Future Developments

Detailed commentaries on performance for the year ended 31 December 2001, including information on recent events and likely future developments, are contained in the Chairman's Review and the Chief Executive's Financial and Operational Review.

Results for the Year

The financial results of the Group for the year show a profit after tax for the financial year amounting to €165m compared with €30m (restated) for 2000.

	2001 €m	2000 €m (As restated)
Group profit before taxation	160	178
Taxation	5	(87)
Minority interests – equity	-	(61)
Profit for the financial year	165	30

Details of the results for the year and restated results for the prior year are set out in the Group Profit and Loss account and related notes. The results for 2000 have been restated to include the effect of the new Financial Reporting Standard, FRS 19 "Deferred Taxation".

CORPORATE GOVERNANCE

The "Combined Code" sets out Principles of Good Governance and a Code of Best Practice and is derived from the final report of the Committee for Corporate Governance and from the Cadbury and Greenbury reports. Companies listed on the Irish Stock Exchange are required to report on compliance with all provisions of the code.

ESB is a statutory corporation established under the Electricity (Supply) Act 1927 and as a result the provisions of the Combined Code are not applicable to ESB. However, ESB supports the principles and provisions of the Combined Code and complies with its requirements except:

- ESB is accountable to the Minister for Public Enterprise.
- Appointments to the Board are a matter for Government and accordingly ESB does not have a nomination committee. Board Members, who are appointed for five and four year terms, are not subject to re-election to the Board at intervals not exceeding three years.
- ESB's policies in relation to remuneration of Executive Board Members (Chief Executive) are in accordance with "Arrangements for determining the remuneration of Chief Executives of Commercial State Bodies under the aegis of the Department of Public Enterprise" issued in July 1999.

PRINCIPLES OF GOOD GOVERNANCE

The Board

The Board comprises twelve members and includes the Chief Executive and eleven non-executive members, seven of whom are appointed by the Government for a five year term, and four worker members appointed by the Minister for Public Enterprise for a four year term following election by staff. There is at present a vacancy on the board for a government appointed non-executive member. The roles of the Chairman, who is part-time, and Chief Executive are separate.

Caitriona Murphy was Senior Independent Non-Executive Director, during the year.

The Board agrees a schedule of monthly meetings to be held in each calendar year and also meets on other occasions as necessary. The Board has a formal schedule of matters specifically reserved to it for decision at the Board meetings. The Board Members, in the furtherance of their duties, can take independent professional advice as required, at the expense of ESB. All Board Members have access to the advice and services of the Secretary.

The Board Members receive monthly financial statements for the Group and full Board papers are sent to each member a week before the Board meetings. The Board papers include the minutes of all Board sub-committee meetings which have been held since the previous Board meeting.

The relationship between ESB and the Department of Public Enterprise (DPE) is formally established in an "Agreement on Framework for Interaction between DPE and ESB" dated September 1998. This agreement provides a blueprint for the working relationship between the Department and ESB and the principles are set out under six priority areas – agreeing key policies, setting objectives, agreeing the high level strategy, agreeing special operating decisions, performance management and shaping/influencing the environment.

Board Committees

Committees are established to assist the Board in the discharge of its responsibilities. The committees comprise an Audit Committee (see below), Business Performance and Development Committee, Capital Projects Committee, Environment and Safety Committee, Independent Transmission System Operator (ITSO) Committee, International Business and Investments Committee, Legislation Committee and Remuneration and Management Development Committee. Their members and their terms of reference are listed on page 26.

The Audit Committee, a formally constituted committee of the Board with written terms of reference, is composed of four non-executive members and meets regularly. The Audit Committee reviews and discusses with the internal auditor and the external auditor, the Group's internal accounting controls, internal audit function, choice of accounting policies, internal and external audit programmes, statutory auditors' report, financial reporting and other related matters. The internal and external auditors have full and unrestricted access to the Audit Committee.

In accordance with the requirements of the EU Electricity Directive the Board established a separate committee, the ITSO Committee, to facilitate the independent management of the Transmission System Operator (TSO) function undertaken by ESB National Grid. The Commission for Electricity Regulation approved these ringfencing arrangements in accordance with regulations establishing a system of trading in electricity.

Internal Controls

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

The Combined Code introduced a requirement that directors of a listed company review the effectiveness of the company's systems of internal controls. This extends the existing requirements in respect of internal financial controls to cover all controls including financial and operational controls and compliance together with implementing a risk management framework.

ESB has in place a strong control framework which covers all areas of control. The Board Members are satisfied that ESB meets the requirements set out in the Turnbull guidance on internal control.

The systems of internal control include the following:

- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board which support the maintenance of a strong control environment;
- Comprehensive budgeting systems with an annual budget approved by the Board;
- Comprehensive system of financial reporting. Cumulative monthly actual results are reported against budget and considered by the Board on a monthly basis. Any significant changes and adverse variances are questioned by the Board, and remedial action taken where appropriate;
- Comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require the approval of the Board, and are closely monitored on an ongoing basis by the Capital Projects Committee of the Board;
- A corporate governance framework which includes risk analysis, financial control review and formal quarterly governance statements by the Managing Directors of Business Units. This is monitored by Group Internal Audit, which reports to the Audit Committee on an ongoing basis;
- Consideration of operational and financial issues by special Board Committees as described on page 26, including oversight by the ITSO Committee of the Transmission System Operator (TSO) activities of National Grid.

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

The Board, through the Audit Committee, has reviewed the effectiveness of the systems of internal control. The process used by the Audit Committee to review the effectiveness of the system of internal control includes:

- Review and consideration of the half-yearly risk review process;
- Review and consideration of certifications from management of satisfactory and effective operation of systems of internal controls, both financial and operational;
- A review of the programme of internal audit and consideration of their findings and reports. Group Internal Audit also report regularly on the status of issues raised previously from their own reports and reports from the external auditor;
- A review of reports of the external auditors, KPMG, which contains details of any material control issues identified arising from their work as auditors.

Executive Board Members' Remuneration
The only executive Board Member is the Chief Executive. The Chief Executive's remuneration is set within a range determined by the Ministers for Finance and Public Enterprise. It is determined annually, within the required range as set out above, by the Remuneration and Management Development Committee, which comprises three Non-Executive Board Members, and is approved by the Board. The Remuneration and Management Development Committee approves the remuneration of the top management group, following consideration of recommendations submitted by the Chief Executive.

The remuneration of the Chief Executive consists of basic salary, performance related bonus of up to 20% of annual basic salary, and a deferred bonus element of 5%, and a company car. In his role as a Board Member, the Chief Executive also receives a fee as determined by the Minister for Public Enterprise.

The retirement benefits for the Chief Executive are calculated on basic pay and pensionable allowances only and in general aim to provide benefits, by way of pension and gratuity, broadly equivalent to two-thirds of salary at retirement for full service. The increases in accrued pension and accrued gratuity excluding inflation during the year were €17,376 and €52,128 respectively. The total accrued pension at the end of the year was €145,525 and the total accrued gratuity was €436,573. The transfer value of the relevant increase was €324,700.

Non-Executive Board Members' Remuneration
Board Members appointed under the Worker Participation (State Enterprises) Act 1977 are remunerated in accordance with the provisions of the Act.

The remuneration of other Non-Executive Board Members is determined by the Minister for Public Enterprise and they do not receive pensions.

Remuneration	2001 €	2000 €
Executive Board Member (Chief Executive)		
Salary	267,691	239,350
Performance related pay	33,168	25,682
Taxable benefits (company car)	16,186	15,953
Pension contributions	34,109	29,804
Fees	12,697	6,349
Total	363,851	317,138
Non-Executive Board Members (eleven)		
Fees	170,055	95,230

The Chairman received fees of €62,631, while the remaining ten Non-Executive Board Members received a total of €107,424

Going Concern
The Financial Statements are prepared on a going concern basis as the Board, after making appropriate enquiries, is satisfied that ESB has adequate resources to continue in operational existence for the foreseeable future.

Safety, Health and Welfare at Work Act (1989)
The health and safety of our staff and members of the public is a core ESB value. The Group monitors on a continuous basis its compliance with the above Act and associated Regulations through safety reviews and a formalised safety audit system. Corrective actions are initiated where inadequacies or deficiencies are identified. The procedures confirm substantial compliance with policy, as laid down in ESB's Safety Statement. The Chief Executive's Safety Committee, Business areas and local safety committees, meet regularly to review and discuss relevant matters of policy and principle, covering the health and safety of staff and the public, safety performance, training needs and improvement plans and programmes. The Group Safety Policy and Safety Statement were reviewed and revised during the year.

Electoral Act, 1997
The Board made no political donations during the year.

Capital Stock
As outlined in note 17 to the financial statements, ESB issued 1,979,881,855 fully paid up Capital Stock units of €1 each during the year.

T O'Donoghue
Chairman

K O'Hara
Chief Executive

11 March 2002

STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

The Electricity Supply Acts 1927 to 2001 require the Board Members to prepare Financial Statements for each financial year in accordance with those Acts.

The Board Members consider that, in preparing the Financial Statements on page 37 to 69, appropriate accounting policies have been used and consistently applied, reasonable and prudent judgements and estimates have been made and all accounting standards considered applicable have been followed.

The Board Members have responsibility for keeping proper books of account and for taking such steps as are reasonably open to them to safeguard assets of the ESB and its subsidiaries and to prevent and detect fraud and other irregularities.

On behalf of the Board

T O'Donoghue
Chairman

K O'Hara
Chief Executive

11 March 2002

INDEPENDENT AUDITORS' REPORT

As auditors appointed by the Minister for Public Enterprise, with the consent of the Minister for Finance, under Section 7 of the Electricity (Supply) Act 1927, we have audited the financial statements of Electricity Supply Board on pages 37 to 69.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Board Members of Electricity Supply Board are responsible for preparing the Annual Report. As described on page 35, this includes responsibility for preparing the financial statements in accordance with the Electricity Supply Acts 1927 to 2001 and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by the Electricity Supply Acts 1927 to 2001, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Electricity Supply Acts 1927 to 2001. We also state whether we have obtained all the information and explanations we require for our audit, whether the Parent's balance sheet is in agreement with the books of account and report to you our opinion as to whether the Parent has kept proper books of account.

We review, at the request of the Board Members, whether the voluntary statement on pages 31 to 34 reflects the Board's compliance with the seven provisions of the Combined Code specified for our review, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risks and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We draw your attention to the "Basis of Accounting" note on page 37.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and of the Parent as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Electricity Supply Acts, 1927 to 2001.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, the Parent has kept proper books of account with which the balance sheet of the Parent at 31 December 2001 is in agreement.

KPMG

Chartered Accountants
Registered Auditors
1 Stokes Place
St Stephen's Green
Dublin 2

26 March 2002

STATEMENT OF ACCOUNTING POLICIES

1. **Basis of accounting**

The financial statements are prepared in Euro under the historical cost convention. With the exception of accounting policy 12, which reflects the requirements of the Electricity (Supply) Acts 1927 to 2001, the financial statements have been prepared in accordance with generally accepted accounting standards and comply with financial reporting standards of the Accounting Standards Board. The accounting policies are consistent with those applied in prior years with the exception of deferred taxation. A prior period adjustment has been reflected in the accounts, following the early adoption of FRS 19 "Deferred Taxation".

2. **Basis of consolidation**

The Group financial statements consolidate the financial statements of the Parent and of all subsidiary undertakings made up to 31 December 2001. The results of subsidiary undertakings acquired or disposed of in the year are included in the Group Profit and Loss account from the date of acquisition or up to the date of disposal. The financial statements of all subsidiary undertakings are drawn up to 31 December 2001.

3. **Financial fixed assets**

(a) Joint venture and associated undertakings

Joint venture undertakings (joint ventures) are those undertakings over which the Group exercises control jointly with another party.

Associated undertakings (associates) are those undertakings in which the Group has a participating interest in the equity capital and over which it is able to exercise significant influence.

Joint ventures and associates are accounted for using the gross equity method and equity method respectively. The Group's share of the profits less losses of joint ventures and associates are included in the Group Profit and Loss account. The Group's interests in their net assets or liabilities are included as financial fixed assets in the Group balance sheet at an amount representing the Group's share of the fair values of the net assets at acquisition plus goodwill and the Group's share of post acquisition retained profits or losses.

The amounts included in the Group financial statements in respect of post acquisition profits of joint ventures and associates are taken from their latest audited financial statements made up to the balance sheet date.

Investments in joint ventures and associates are shown in the Parent balance sheet as financial fixed assets and are valued at cost less provisions for impairment in value.

(b) Other financial fixed assets

Listed and unlisted investments are shown at cost less provisions for impairment in value. Income from financial fixed assets is recognised in the profit and loss account in the year in which it is receivable. A note is included as to the market value of listed investments.

4. **Goodwill**

Goodwill represents the excess of consideration paid for the acquisition of shares in associated undertakings and joint ventures over the fair value of the identifiable assets and liabilities. The useful life of goodwill related to acquired businesses, is determined by reference to the periods over which the values of the underlying businesses are expected to exceed the values of their identifiable net assets.

5. **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions or at the contracted rate. The resulting monetary assets and liabilities are translated at the rate ruling at the balance sheet date or the contracted rate and the exchange differences are dealt with in the profit and loss account.

The Group's net investments in overseas subsidiary undertakings, joint ventures and associates are translated at the rate ruling at the balance sheet date. The profits and losses of overseas subsidiary undertakings, joint ventures and associates are translated at average rates for the year. Exchange differences resulting from the re-translation of the opening balance sheets of overseas subsidiary undertakings, joint ventures and associates at closing rates, together with the differences on the translation of the profit and loss accounts, are dealt with through reserves and reflected in the statement of total recognised gains and losses.

6. **Turnover**
Turnover comprises net sales of electricity and other goods and services to customers outside the Group and excludes value added tax. Electricity turnover includes an estimate of the value of units supplied to customers between the date of the last meter reading and the year end. This estimate is included in debtors in the balance sheet as 'unbilled consumption'.

7. **Tangible fixed assets and depreciation**
Tangible fixed assets are stated at cost less accumulated depreciation and provisions for impairment of value. Cost includes prime cost, overheads and interest incurred in financing the construction of tangible fixed assets. Capitalisation of interest ceases when the asset is brought into use. The capitalisation rate applied approximately equates to the average cost of ESB's outstanding debt.

The charge for depreciation is calculated to write down the cost of tangible fixed assets to their estimated residual values over their expected useful lives using methods appropriate to the nature of the Group's business and to the character and extent of its tangible fixed assets. Major asset classifications and their allotted lifespans are:

Generation Plant and Thermal Station Structures	20 years
Distribution Plant and Structures	25/30 years
Transmission Plant and Structures	30 years
General Buildings and Hydro Stations	50 years

Depreciation is provided:

- On the straight-line method for Transmission, Distribution and General Assets.
- On a projected plant usage basis for Generating Units.
- On all assets from date of commissioning.

8. **Stocks**
Stocks are carried at average cost, other than:
(a) Spares held for major generating plant breakdowns, which are written down over plant lifetime; and
(b) Goods held for resale, which are carried at the lower of average cost and net realisable value. Net realisable value is based on normal selling price less further costs expected to be incurred to disposal.

Provision is made for damaged, deteriorated, obsolete and slow moving items where appropriate.

9. **Deferred payment contracts**
Profit on deferred payment contracts is taken in the year of sale. The total net investment in deferred payment contracts included in the balance sheet represents contract payments receivable, net of finance charges relating to future accounting periods. Finance charges are allocated to accounting periods on an annuity basis over the deferred payment term.

10. **Leased assets**
Tangible fixed assets acquired under finance leases are included in the balance sheet at their equivalent capital value and are depreciated over the shorter of the lease term and their expected useful lives. The corresponding liabilities are recorded as a creditor and the interest element of the finance lease payments is charged to the profit and loss account on an annuity basis. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

11. **Grants**
Capital grants received and receivable are shown as deferred income and credited to the profit and loss account on a basis consistent with the depreciation policy of the relevant assets.

12. **Non-repayable supply contributions**
Non repayable supply contributions from customers towards the cost of providing or upgrading electricity supply, which are levied to provide permanent capital, are credited directly to capital reserves.

13. **Sinking fund reserve for repayment of borrowings**
Section 5 of the Electricity (Supply) (Amendment) Act 1982 allows the Board appropriate such sums as it considers proper to be used for the repayment of borrowings. These sums are appropriated to the sinking fund reserve in accordance with the Act, by way of transfer from the profit and loss account. In 2001, as in 2000, an amount has been appropriated to cover repayment of ESB stock issues in accordance with contractual obligations.

14. Taxation

Corporation tax is provided at current rates and is calculated on the basis of the results for the year, taking account of manufacturing relief, where appropriate. The taxation charge in the profit and loss account includes taxation on the Group's share of profits of associated and joint venture Group's undertakings.

15. Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred, with the following exceptions:

- Provision is made for tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- Deferred tax assets are recognised only to the extent that the Board consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

16. Provision for generating station closure

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

The estimated costs of closing stations are recognised in full at the outset of the asset life, but discounted to present values using a risk free rate. These costs are capitalised in tangible fixed assets and depreciated over the useful economic lives of the stations to which they relate. The costs are credited to a provision as they are capitalised. As the costs are capitalised and initially provided on a discounted basis, the provision must be increased by a financing charge each year, which is calculated based on the provision balance and is included in the profit and loss account. In this way, the provision will equal the estimated closure costs at the end of the useful economic lives of stations. The actual expenditure is set against the provision as stations are closed.

17. Discounting of future commitments

Where the effect of the time value of money is material, provisions for future commitments are based on the discounted cost of meeting those commitments so that the provision balance at the year end is the present value of the expenditure required to settle the obligation. The discount rate is based on a risk free rate and the financing charge is included in the profit and loss account and added to the provision each year.

18. Superannuation scheme

The cost of providing pensions and other post retirement benefits is charged to the profit and loss account on a systematic basis over the service life of the employees, as recommended by the actuaries to the scheme.

19. Cash and liquid resources

For the purpose of the cash flow statement, cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at, or close to, their carrying values and are traded in an active market. They are comprised of term deposits, other than cash, invested for less than one year.

GROUP PROFIT AND LOSS ACCOUNT
Year ended 31 December 2001

	Notes	2001 €'000	2000 €'000 As restated
Turnover - group & share of joint ventures		**2,118,549**	1,943,763
Less: share of joint ventures' turnover		**(78,392)**	(49,398)
Turnover - continuing operations	1	**2,040,157**	1,894,365
Operating costs	2	**(1,845,302)**	(1,601,790)
Operating profit - continuing operations		**194,855**	292,575
Share of joint ventures operating profit		**937**	5,737
Share of associated undertakings' operating profit		**3,416**	4,071
Operating profit - group & share of associates & joint ventures		**199,208**	302,383
Exceptional Items:			
- Profit on disposal of subsidiary, joint venture and associate	5	**-**	207,902
- Increase in restructuring provision	5	**-**	(299,799)
Profit on ordinary activities before interest		**199,208**	210,486
Net interest cost and other financing charges	3	**(39,141)**	(31,837)
Profit on ordinary activities before taxation		**160,067**	178,649
Tax credit/(charge) on profit on ordinary activities	6	**4,594**	(86,980)
Profit on ordinary activities after taxation		**164,661**	91,669
Minority interests - equity		**(100)**	(61,396)
Profit for the financial year	7	**164,561**	30,273
Appropriation to sinking fund reserve	18	**(537)**	(489)
Retained profit for the financial year	19	**164,024**	29,784

Signed: **T O'Donoghue** Chairman

Signed: **K O'Hara** Chief Executive

Signed: **T Donnelly** Group Finance Director

11 March 2002

GROUP BALANCE SHEET
Year ended 31 December 2001

	Notes	2001 €'000	2001 €'000	2000 €'000 As restated	2000 €'000 As restated
Fixed assets					
Tangible assets	8		**3,172,008**		2,926,837
Investment in associates	9		**27,702**		24,522
Investments in joint ventures	9				
- Share of gross assets		**277,995**		219,842	
- Share of gross liabilities		**(118,899)**	**159,096**	(133,287)	86,555
Goodwill & other financial asset investments	9		**26,039**		26,474
			3,384,845		3,064,388
Current assets					
Stocks	10		**167,113**		174,430
Debtors	11		**514,501**		408,358
Investments	12		**51**		51
Cash at bank and in hand			**158,347**		303,066
			840,012		885,905
Creditors: amounts falling due within one year					
Borrowings and other debt	13		**(160,710)**		(266,320)
Other creditors	15		**(395,514)**		(418,517)
			(556,224)		(684,837)
Net current assets			**283,788**		201,068
Total assets less current liabilities			**3,668,633**		3,265,456
Creditors: amounts falling due after more than one year					
Borrowings and other debt	13		**(630,207)**		(572,673)
Other creditors	15		**(103,267)**		(128,153)
			(733,474)		(700,826)
Provision for liabilities and charges	16		**(932,745)**		(883,983)
			2,002,414		1,680,647
Capital Stock and Reserves					
Capital stock	17		**1,979,882**		-
Sinking fund reserve for repayment of borrowings	18		**1,563**		1,026
Profit and loss account and other reserves	19		**20,395**		1,679,147
Shareholders' funds - equity			**2,001,840**		1,680,173
Minority interests			**574**		474
			2,002,414		1,680,647

Signed: **T O'Donoghue** Chairman

Signed: **K O'Hara** Chief Executive

Signed: **T Donnelly** Group Finance Director

11 March 2002

PARENT BALANCE SHEET
Year ended 31 December 2001

	Notes	2001 €'000	2000 €'000 As restated
Fixed assets			
Tangible assets	8	**3,106,826**	2,895,956
Financial assets	9	**125,142**	118,891
		3,231,968	3,014,847
Current assets			
Stocks	10	**167,113**	174,430
Debtors	11	**507,357**	327,576
Investments	12	**51**	51
Cash at bank and in hand		**114,943**	274,661
		789,464	776,718
Creditors: amounts falling due within one year			
Borrowings and other debt	13	**(167,796)**	(266,066)
Other creditors	15	**(410,486)**	(419,199)
		(578,282)	(685,265)
Net current assets		**211,182**	91,453
Total assets less current liabilities		**3,443,150**	3,106,300
Creditors: amounts falling due after more than one year			
Borrowings and other debt	13	**(474,848)**	(517,023)
Other creditors	15	**(91,757)**	(127,881)
		(566,605)	(644,904)
Provision for liabilities and charges	16	**(932,745)**	(883,983)
		1,943,800	1,577,413
Capital Stock and Reserves			
Capital Stock	17	**1,979,882**	-
Sinking fund reserve for repayment of borrowings	18	**1,563**	1,026
Profit and loss account and other reserves	19	**(37,645)**	1,576,387
Shareholders' funds - equity		**1,943,800**	1,577,413

Signed: **T O'Donoghue** Chairman

Signed: **K O'Hara** Chief Executive

Signed: **T Donnelly** Group Finance Director

11 March 2002

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2001

	Notes	2001 €'000	2000 €'000 As restated
Profit for the financial year		**164,561**	30,273
Non repayable contributions	19	**57,807**	62,569
Translation differences on consolidation of foreign subsidiaries, joint ventures and associates	19	**305**	810
Total recognised gains and losses for the financial year		**222,673**	93,652
Prior year adjustment	16	**(200,213)**	-
Total recognised gains and losses since last Annual Report		**22,460**	93,652

Reconciliation of Movements in Shareholders' Funds	2001 €'000	2001 €'000	2000 €'000 As restated	2000 €'000 As restated
Total recognised gains and losses for the financial year		222,673		93,652
Subscription for capital stock		75,879		-
Discount on issue of capital stock		23,115		-
Employee shareholding scheme		-		14,602
Transfer of shareholding scheme reserve to other creditors		-		(59,423)
Opening shareholders' funds as previously stated	1,880,386		1,822,124	
Prior year adjustment	(200,213)		(190,782)	
Opening shareholders funds (restated)		1,680,173		1,631,342
Closing shareholders' funds		2,001,840		1,680,173

GROUP CASH FLOW STATEMENT
Year ended 31 December 2001

	Notes	2001 €'000	2000 €'000
Net cash inflow from operating activities	20(a)	**350,699**	519,024
Returns on investments and servicing of finance			
Interest received		**16,199**	22,168
Interest paid		**(38,873)**	(44,031)
Interest element of finance lease payments		**(5,528)**	(3,097)
Payments for capital stock		**(59,423)**	-
Dividends received from associated undertakings		**6,376**	3,311
Net cash outflow from returns on investments and servicing of finance		**(81,249)**	(21,649)
Taxation			
Corporation tax refund received		**45,000**	-
Corporation tax paid		**(25,476)**	(99,346)
		19,524	(99,346)
Capital expenditure & financial investment			
Purchase of tangible fixed assets		**(455,213)**	(317,474)
Sale of tangible fixed assets		**13,195**	3,699
		(442,018)	(313,775)
Acquisitions and disposals			
Exceptional item - disposal of subsidiary, joint venture and associate		**-**	215,943
Investment/purchase of subsidiary, joint venture and associate		**(78,093)**	(94,309)
Minority interest in exceptional item - disposal of subsidiary, joint venture and associate		**-**	(60,540)
		(78,093)	61,094
Net cash outflow from capital expenditure & financial investment		**(520,111)**	(252,681)
Net cash (outflow)/inflow before management of liquid resources and financing		**(231,137)**	145,348
Net cash inflow/(outflow) from management of liquid resources	20(b)	**126,004**	(186,253)
Financing			
(Repayment)/advance of loans and finance leases (net)	20(b)	**(47,770)**	7,667
Non repayable supply contributions		**59,329**	56,459
Minority interests		**-**	(3,546)
Cash received for capital stock		**75,879**	-
Net cash inflow from financing		**87,438**	70,580
(Decrease)/increase in cash	20(b)	**(17,695)**	29,675

1. TURNOVER

	2001 €'000	2000 €'000
(a) Business activity:		
Electricity	**1,750,646**	1,611,640
Retail, contracts and other services	**289,511**	282,725
	2,040,157	1,894,365
(b) Geographic markets		
Ireland	**1,900,399**	1,804,428
Europe	**94,927**	44,059
Others	**44,831**	45,878
	2,040,157	1,894,365

2. OPERATING COSTS

	2001 €'000	2000 €'000
Payroll	**412,241**	350,269
Fuel	**752,738**	580,716
Operations and maintenance	**647,432**	656,203
Employee shareholding scheme	**9,776**	14,602
Minority interest discount on issue of capital stock	**23,115**	-
	1,845,302	1,601,790

Since the Cost and Competitiveness Review Agreement (CCR Agreement) was signed in 1996, 5% of ESB's annual profits have been set aside each year to enable employees to purchase an interest (maximum 5%) in ESB.

Prior to the issue by ESB of capital stock units, on 21 December 2001, ESB paid €59.4m to ESB ESOP Trustee Limited, representing 5% of the profits for the years 1997 to 2000 accumulated by ESB on behalf of its employees. ESB ESOP Trustee Limited used these funds, together with a third party loan of €16.4m to acquire 98,994,093 fully paid units of capital stock of €1 each in ESB. The capital stock acquired by ESB ESOP Trustee Limited represents the full 5% of stockholding to be made available to employees under the CCR Agreement.

While the ESB ESOP Trustee Limited acquired 5% of the capital stock issued, an element of this still remains to be allocated to employees out of future profits of ESB. In 2001, a net charge of €9.8m has been made to the profit and loss account in respect of provision in full for profit share payable to ESB ESOP Trustee Limited. ESB will continue to fund 5% of annual profits to ESB ESOP Trustee Limited until such time as sufficient profit has been funded in profit share to allocate the full 5% of capital stock to employees.

In pricing the issue of capital stock to employees, a level of minority interest discount, on the price to be paid by ESB ESOP Trustee Limited in subscription for its stock, was agreed with the Departments of Finance and Public Enterprise. The discount from par value of €23.1m was funded by ESB and charged to the profit and loss account in 2001.

3. NET INTEREST COST AND OTHER FINANCING CHARGES

	2001 €'000	2000 €'000
Interest payable on borrowings	**39,563**	45,016
Interest payable on finance leases	**5,553**	4,934
Total interest payable	**45,116**	49,950
Total interest receivable	**(16,295)**	(22,287)
Net interest payable	**28,821**	27,663
Less: capitalised interest	**(23,869)**	(14,817)
Financing charges:		
- on restructuring provision (note 16)	**20,469**	2,736
- on station closure provision (note 16)	**13,720**	16,255
Net interest cost and other financing charges	**39,141**	31,837

The financing charges on provisions are calculated in accordance with the policy for discounting of future commitments on page 39.

4. EMPLOYEES

(a) Average number of employees in year by business activity:

	2001 Number	2000 Number
Electricity supply	**7,955**	7,953
Retail, contracts and other activities	**1,429**	1,365
	9,384	9,318

(b) Employee costs in year

	2001 €'000	2000 €'000
Pay (salaries/wages)	**448,066**	365,274
Social welfare costs (PRSI)	**15,196**	12,308
Pension costs	**33,743**	29,369
Other payroll benefits	**24,953**	25,041
	521,958	431,992

Employee costs above include capitalised payroll of €109.7m (2000: €81.7m). They do not include the charge of €9.8m (2000: €14.6m) in respect of the employee shareholding scheme disclosed separately in note 2, nor the minority interest discount of €23.1m on the issue of capital stock to ESB ESOP Trustee Limited, also disclosed in note 2.

5. EXCEPTIONAL ITEMS

	2001 €'000	2000 €'000
Profit on disposal of subsidiary, joint venture & associate	-	207,902
Restructuring provision for voluntary severance	-	(299,799)

In January 2000, ESBIT Ltd, a 60% subsidiary sold its 50% shareholding in Ocean Communications Ltd. ESB Fund Managers, a 100% subsidiary, and Renley Ltd, an associate company, were sold in February and May 2000 respectively.

It is envisaged that approximately 2,000 staff will leave ESB under voluntary severance over the next five years. The estimated cost in 2000 of restructuring programmes, including related adjustments to superannuation contributions was €299m, net of a portion of the de-manning element included in the existing station closure provision.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 €'000	2000 €'000 As restated
Corporation tax at 20% (2000: 24%)	20,117	49,684
Less: Manufacturing relief	(4,438)	(9,686)
	15,679	39,998
Corporation tax refund	(44,988)	-
Corporation tax overprovided in prior years	(6,694)	-
Capital gains tax	400	32,446
Overseas tax (excluding associated companies)	4,129	2,105
Tax (credit)/charge attributable to group	(31,474)	74,549
Tax attributable to associated companies	106	1,615
Tax attributable to joint ventures	3,092	1,384
Current year tax (credit)/charge	(28,276)	77,548
Deferred taxation		
Origination and reversal of timing differences	23,682	9,432
	(4,594)	86,980

ESB's profits are taxed at the standard corporation tax rate of 20% (2000: 24%) reduced by manufacturing relief where applicable.

The corporation tax refund of €45m relates to year ended 31 December 1999. The refund arose as a result of the 1999 corporation tax submission made to the Inspector of Taxes after the adoption of FRS12 "Provisions, Contingent Liabilities and Contingent Assets" for that year.

The charge for taxation is based on the profit for the year and takes into account deferred taxation arising from timing differences between the treatment of certain items for taxation and accounting purposes. ESB has adopted FRS 19 "Deferred Taxation" in the current year. Adoption is mandatory for accounting periods ending on or after 23 January 2002. ESB has elected for early adoption of the standard. Effective rates of taxation have been used to calculate the amount of deferred taxation. Provision has been made for all deferred taxation assets and liabilities in respect of transactions and events recognised in the financial statements in the current year and previous years. These deferred taxation assets and liabilities have not been discounted.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (contd)

	2001 €'000	2000 €'000 As restated
Factors affecting tax (credit)/charge for the year		
Group profit on ordinary activities before tax	**160,067**	178,649
Less: share of associates and joint ventures operating profit	**(4,353)**	(9,807)
	155,714	168,842
Taxable as follows:		
€152,254 @ 20% (2000: €168,842 @ 24%)	**30,451**	40,522
€3,460 @ 25%	**865**	-
Tax effects of:		
Expenses not deductible	**13,879**	43,423
Depreciation	**44,879**	51,353
Chargeable gains	**400**	32,446
Allowable deduction not charged to profit and loss account	**(24,022)**	(49,690)
Capital allowances	**(43,942)**	(36,281)
Manufacturing relief	**(4,438)**	(9,686)
Foreign withholding tax	**2,136**	2,462
Tax attributable to associates and joint ventures	**3,198**	2,999
Corporation tax refund and prior year over provision	**(51,682)**	-
Current year tax (credit)/charge before deferred tax	**(28,276)**	77,548

7. PROFIT FOR THE FINANCIAL YEAR

	2001 €'000	2000 €'000
The profit for the financial year is stated after charging:		
Depreciation	**224,393**	213,972
Operating lease charges	**12,429**	11,122
Amortisation of goodwill	**1,323**	992
Amortisation of grants	**(214)**	(175)
Loss on disposal of fixed assets	**128**	1,760
Auditor's remuneration - audit services	**244**	220
- ESOP related services	**269**	-
- Taxation	**173**	76
- Other non-audit services	**155**	13
ESB (Parent) Board Members' remuneration:		
- Fees	**183**	102
- Other remuneration (see page 33)		

8. TANGIBLE FIXED ASSETS

(a) GROUP	Land and buildings €'000	Plant and machinery €'000	Total assets in commission €'000	Payments on account and assets in course of construction €'000	Total €'000
Cost					
Balance at 1 January 2001	725,247	4,348,687	**5,073,934**	226,656	**5,300,590**
Additions/transfers	13,281	333,395	**346,676**	117,646	**464,322**
Increase in station closure provision	-	18,517	**18,517**	-	**18,517**
Retirements/disposals	(22,535)	(45,099)	**(67,634)**	(2,007)	**(69,641)**
Translation difference	26	102	**128**	-	**128**
Balance at 31 December 2001	716,019	4,655,602	**5,371,621**	342,295	**5,713,916**
Depreciation					
Balance at 1 January 2001	367,422	2,006,331	**2,373,753**	-	**2,373,753**
Charge for year	24,582	199,811	**224,393**	-	**224,393**
Retirements/disposals	(10,099)	(46,219)	**(56,318)**	-	**(56,318)**
Translation difference	8	72	**80**	-	**80**
Balance at 31 December 2001	381,913	2,159,995	**2,541,908**	-	**2,541,908**
Net book value at 31 December 2001	**334,106**	**2,495,607**	**2,829,713**	**342,295**	**3,172,008**
Net book value at 31 December 2000	357,825	2,342,356	2,700,181	226,656	2,926,837

Included above are fixed assets with a net book value of €65.2m (2000: €30.8m) relating to subsidiary undertakings.

The non depreciable element of land and buildings amounts to €0.1m (2000: €2.1m).

During the year the Group capitalised the sum of €23.9m (2000: €14.9m) in interest. The capitalisation rate was 6%.

Finance leases
All finance leases are held by the Parent Company

The net book value of tangible fixed assets includes an amount of €212.4m (2000: €227.8m) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the year amounted to €14.1m (2000: €13.5m)

FRS 15 "Tangible Fixed Assets"
This standard requires that where the tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. A review of ESB's fixed assets was carried out on this basis and concluded that any amendment to the current economic lives of the components within the fixed assets would be immaterial in the context of the financial statements.

8. TANGIBLE FIXED ASSETS (contd)

(b) PARENT	Land and buildings €'000	Plant and machinery €'000	Total assets in commission €'000	Payments on account and assets in course of construction €'000	Total €'000
Cost					
Balance at 1 January 2001	724,363	4,313,653	**5,038,016**	219,681	**5,257,697**
Additions/transfers	12,946	328,879	**341,825**	81,246	**423,071**
Increase in station closure provision	-	18,517	**18,517**	-	**18,517**
Retirements/disposals	(22,535)	(37,700)	**(60,235)**	-	**(60,235)**
Balance at 31 December 2001	714,774	4,623,349	**5,338,123**	300,927	**5,639,050**
Depreciation					
Balance at 1 January 2001	367,169	1,994,572	**2,361,741**	-	**2,361,741**
Charge for year	24,563	199,148	**223,711**	-	**223,711**
Retirements/disposals	(10,099)	(43,129)	**(53,228)**	-	**(53,228)**
Balance at 31 December 2001	381,633	2,150,591	**2,532,224**	-	**2,532,224**
Net book value at 31 December 2001	**333,141**	**2,472,758**	**2,805,899**	**300,927**	**3,106,826**
Net book value at 31 December 2000	357,194	2,319,081	2,676,275	219,681	2,895,956

9. FINANCIAL FIXED ASSETS

(a) GROUP	Associated undertakings shares €'000	Joint venture investments €'000	Sinking fund and other investments €'000	Goodwill & intangible assets €'000	Total €'000
Balance at 1 January 2001	24,522	86,555	1,153	25,321	137,551
Additions	1,123	78,867	537	-	80,527
Acquisition of intangible assets	-	-	-	351	351
Amortisation of goodwill	-	-	-	(1,323)	(1,323)
Retranslation/other movements	682	1,459	-	-	2,141
Share of retained profit/(losses)	2,121	(2,155)	-	-	(34)
Dividends received	(746)	(5,630)	-	-	(6,376)
Balance at 31 December 2001	**27,702**	**159,096**	**1,690**	**24,349**	**212,837**

9. FINANCIAL FIXED ASSETS (contd)

The carrying amount of goodwill after amortisation, at 31 December 2001 is €24.3m (2000: €25.3m) all of which relates to joint ventures.

Intangible assets of €351,000 comprise a land purchase option.

Sinking fund investments in the Group and Parent, are represented by short term bank deposits. The market value of sinking fund investments at 31 December 2001 is €1.563m (2000: €1.026m).

Subsidiary, associated and joint venture undertakings are listed in note 28.

(b) PARENT	Subsidiary undertakings			Sinking Fund	
	Shares	Loans	Total	Investments	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2001 at cost	15,090	102,775	**117,865**	1,026	**118,891**
Additions	8,586	2,805	**11,391**	537	**11,928**
Repayments	-	(5,677)	**(5,677)**	-	**(5,677)**
Balance at 31 December 2001 at cost	**23,676**	**99,903**	**123,579**	**1,563**	**125,142**

10. STOCKS

	2001	2000
	€'000	€'000
GROUP & PARENT		
Materials and spares	**86,315**	90,544
Fuel	**72,489**	77,562
Goods for resale (appliances)	**8,309**	6,324
	167,113	174,430

The estimated replacement cost of stocks is not considered to be materially different from the amounts stated above.

11. DEBTORS

	GROUP		PARENT	
	2001	2000	**2001**	2000
	€'000	€'000	**€'000**	€'000
Amounts falling due within one year				
Trade debtors	**131,852**	108,734	**92,748**	80,603
Unbilled consumption	**202,914**	155,769	**193,487**	149,547
Deferred payment contracts	**55,540**	47,251	**18,764**	14,474
Amounts owed by				
- Subsidiary undertakings	**-**	-	**111,736**	30,064
- Associated undertakings	**1,034**	33	**-**	-
Other debtors	**95,886**	69,526	**88,525**	52,191
	487,226	381,313	**505,260**	326,879
Amounts falling due after more than one year				
Deferred payment contracts	**27,275**	27,045	**2,097**	697
Total debtors	**514,501**	408,358	**507,357**	327,576

12. INVESTMENTS

GROUP & PARENT	**2001**	2000
	€'000	€'000
Listed investments at cost	51	51
Market value of listed investments	53	53

13. BORROWINGS AND OTHER DEBT

(a) GROUP	Short Term Borrowings €'000	Finance leases €'000	Borrowings €'000	2001 Total €'000	2000 Total €'000
Borrowings due within one year					
- Repayable by instalments	13,553	14,907	11,014	**39,474**	62,484
- Repayable other than by instalments	-	-	121,236	**121,236**	203,836
	13,553	14,907	132,250	**160,710**	266,320
Borrowings due after one year					
- Repayable by instalments					
Between one and two years	-	13,392	16,960	**30,352**	21,051
Between two and five years	-	25,631	44,784	**70,415**	59,807
After five years	-	109,771	164,234	**274,005**	225,784
	-	148,794	225,978	**374,772**	306,642
- Repayable other than by instalments					
Between one and two years	-	-	154,614	**154,614**	121,236
Between two and five years	-	-	77,768	**77,768**	127,381
After five years	-	11,220	11,833	**23,053**	17,414
	-	11,220	244,215	**255,435**	266,031
Total borrowings due after one year	-	160,014	470,193	**630,207**	572,673
Total borrowings outstanding	**13,553**	**174,921**	**602,443**	**790,917**	838,993

Borrowings totalling €112m (2000: €145m) are State guaranteed. Borrowings include €156m related to subsidiary undertakings.

The underlying debt, before swaps, was denominated in the following currencies.

Currency	2001	2000
Euro	77%	73%
Japanese Yen	12%	15%
Swiss Franc	5%	5%
US Dollar	4%	6%
Sterling	2%	1%
Total	100%	100%

13. BORROWINGS AND OTHER DEBT (contd)

	Short Term Borrowings* €'000	Finance leases €'000	Borrowings €'000	2001 Total €'000	2000 Total €'000
(b) PARENT					
Borrowings due within one year					
- Repayable by instalments	20,944	14,907	10,709	**46,560**	77,178
- Repayable other than by instalments	-	-	121,236	**121,236**	188,888
	20,944	14,907	131,945	**167,796**	266,066
Borrowings due after one year					
- Repayable by instalments					
Between one and two years	-	13,392	16,601	**29,993**	20,401
Between two and five years	-	25,631	44,784	**70,415**	59,807
After five years	-	109,771	9,234	**119,005**	159,563
	-	148,794	70,619	**219,413**	239,771
- Repayable other than by instalments					
Between one and two years	-	-	154,614	**154,614**	121,236
Between two and five years	-	-	77,768	**77,768**	127,381
After five years	-	11,220	11,833	**23,053**	28,635
	-	11,220	244,215	**255,435**	277,252
Total borrowings due after one year	-	160,014	314,834	**474,848**	517,023
Total borrowings outstanding	**20,944**	**174,921**	**446,779**	**642,644**	783,089

* Includes borrowings of €7.4m from subsidiary undertakings.

14. FINANCIAL INSTRUMENTS

(a) Overview

The main financial risks faced by the Group are exchange rate and interest rate risk. Treasury policies for these and other risk areas, such as liquidity risk and counterparty credit risk, are regularly reviewed and revised as appropriate and are approved by the Board. The Board has also approved the use of a range of financial instruments to manage these risks. Group Treasury, which is responsible for the day to day treasury activities of the Group, reports on a half yearly basis to the Board Audit Committee and is reviewed by Group Internal Audit annually. There were no policy changes during 2001. As at the year end, after taking into account the effects of forward foreign exchange and commodity contracts, currency and interest rate swaps, ESB had no material currency exposures.

(b) Financial instruments used

In terms of financial instruments, ESB uses borrowings to finance operations, fixed rate deposit instruments to invest surplus funds, interest rate and foreign exchange instruments to manage interest rate and currency risks arising from its operations and sources of finance, and commodity derivatives in the management of its fuel costs. All transactions in financial instruments are non-speculative. Treasury policies comply with the requirements of the 1992 Financial Transactions of Certain State Bodies Act, as applicable to ESB.

14. FINANCIAL INSTRUMENTS (contd)

(c) Funding and liquidity management

The Group's activities are financed by operating cashflows, borrowings and finance leases. Funding and debt management is carried out centrally by Group Treasury with the objective of securing finance at minimum cost (within acceptable risk parameters). Group Treasury also manages the financial risks associated with borrowing. Debt managment strategies are summarised as follows:

- To maintain ESB's debt in Euro, either by borrowing directly in Euro or via currency swaps.
- To maintain an acceptable portion of the debt portfolio at fixed rates of interest.
- To achieve a balanced debt maturity profile, considering the life time of underlying assets.
- To achieve a smooth annual debt repayment profile.

(d) Interest rate risk management

Current policy is to have a minimum of 50% of the debt portfolio at fixed rates of interest. This is achieved either by borrowing directly in fixed/floating or via interest rate swaps.

(e) Foreign currency risk management

ESB manages its foreign currency exposures, mainly US Dollar and Sterling, on fuel and other purchases so as to reduce volatility due to currency fluctuations and to minimise costs. These exposures are managed using foreign currency spot and forward purchase contracts, deposits and borrowings.

(f) Counterparty credit risk

ESB is exposed to credit risk relating to its cash and current financial assets. ESB only deposits cash surpluses with quality credit rated banks and institutions that meet certain criteria. ESB limits the amount of credit exposure to any one bank or institution.

ESB does not have significant credit risks in relation to its other current financial assets. The Group's trade debtors consist of a large number of domestic, commercial and industrial customers. Exposure to financial loss is actively monitored. Bad debts are not material in the context of the Group's turnover.

(g) Fair Value

The fair value of a financial instrument is the amount it could be exchanged for in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. The method used to get the fair value of the Group's financial instruments is discounted cash flow analysis.

This method enables the Group to discount the cashflows at a rate equal to the prevailing market rate of interest for the financial instruments having substantially the same terms, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal and the currency in which the payments are to be made.

On interest rate swaps the carrying amount equals zero. The fair value represents the fixed rate and market rate prevailing at the year end.

The carrying value of the currency swaps is affected by movements in foreign exchange rates, while the fair value is affected by movements in the foreign currency and interest rates.

The Group's floating rate financial assets and liabilities primarily bear interest rates based on the six month Euribor/Libor.

14. FINANCIAL INSTRUMENTS (contd)

(i) Cash Deposits

Currency	Book value €m	Fair value €m	Fixed %	Weighted Avg. Period	Weighted Avg. Rate
EUR	**101.4**	101.4	100%	3 days	3.58%
GBP	**7.6**	7.6	100%	22 days	3.91%
USD	**5.0**	5.0	100%	4 days	1.78%
SEK	**0.3**	0.3	100%	17 days	3.65%

The sinking fund investments amounts to €1.563m, there is no material difference between the book value and the fair value of this investment.

(ii) Short Term Borrowings	Book value €m	Fair value €m	Fixed %	Weighted Avg. Period	Weighted Avg. Rate
GBP	**13.6**	13.6	100%	31 days	4.13%

(iii) Debt Portfolio

67% of the Group's debt portfolio is fixed to maturity. The weighted average cost of the overall debt portfolio is 5.08% and the average life is 5.07 years.

Instruments	Book Value €m	Fair Value €m
Loans/Leases	802	856
Interest Rate Swaps	-	(15)
Currency Swaps	(25)	(39)
Total	777	802

(iv) Foreign Exchange Contracts

Currency	Book Value €m	Fair Value €m
USD	23.7	23.6
GBP	34.0	34.2
Total	57.7	57.8

(v) Commodity Derivative Contracts

	Book Value	Fair Value
Oil Swaps	$5.2m	$5.3m
Gas Swaps	GBP 0.7m	GBP 0.7m

(h) Liquidity Risk

The maturity profile of the carrying amount of the financial liabilities and the maturity profile of the material undrawn committed borrowing facilities of ESB are as follows:

	Existing Debt Maturing €m	Undrawn Facility Maturing €m
Maturity Profile		
- In one year or less	117	131
- Between one and two years	161	-
- Between two and five years	163	385
- In more than five years	336	-
	777	516

15. OTHER CREDITORS

	GROUP		PARENT	
Creditors falling due within one year	**2001 €'000**	2000 €'000	**2001 €'000**	2000 €'000
Progress payments on work in progress	**23,718**	19,366	**23,718**	19,366
Trade creditors	**144,788**	134,340	**140,929**	123,420
Other creditors	**49,986**	19,948	**44,247**	17,652
PAYE/PRSI	**7,606**	11,156	**7,463**	11,156
VAT	**15,669**	12,873	**15,447**	10,912
Accruals and deferred income	**101,171**	110,766	**66,250**	74,143
Employee shareholding scheme	**16,456**	59,424	**16,456**	59,424
Deferred capital grants	**410**	178	**410**	178
Amounts owed to subsidiary undertakings	**-**	-	**64,101**	59,180
Accrued interest on borrowings	**10,179**	9,489	**10,179**	9,489
Corporation tax	**25,531**	40,977	**21,286**	34,279
	395,514	418,517	**410,486**	419,199

Creditors falling due after more than one year	**2001 €'000**	2000 €'000	**2001 €'000**	2000 €'000
Accruals & deferred income	**21,058**	10,928	**9,548**	10,929
Deferred capital grants	**13,122**	8,133	**13,122**	8,133
Other creditors	**69,087**	109,092	**69,087**	108,819
	103,267	128,153	**91,757**	127,881

16. PROVISION FOR LIABILITIES AND CHARGES

GROUP & PARENT	Deferred taxation €'000	Generating station closure €'000	Restructuring costs €'000	2001 Total €'000	2000 Total €'000 As restated
Balance at 1 January 2001 (adjusted)	200,213	277,229	406,540	**883,983**	392,731
Prior year adjustment	-	-	-	**-**	190,781
Deferred tax charge for year	23,682	-	-	**23,682**	9,432
Transfer from profit & loss account					
- Increase in restructuring provision	-	-	-	**-**	299,799
- Financing charge (note 3)	-	13,720	20,469	**34,189**	18,991
Increase in station closure provision	-	18,517	-	**18,517**	-
Utilised during the year	-	(3,144)	(24,481)	**(27,625)**	(27,751)
Balance at 31 December 2001	**223,895**	**306,322**	**402,528**	**932,745**	883,983

Provision for generating station closure

The provision at 31 December 2001 of €306.3m for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2013. As the costs are provided on a discounted basis, a financing charge is included in the profit and loss account and added to the provision each year. The station closure provision has been re-examined and the liability recalculated in accordance with the current expected station closure dates. The increase in the station closure provision is capitalised in tangible fixed assets and depreciated over the remaining life of the assets.

Closure costs include physical dismantling costs and costs associated with de-manning the stations on closure.

Provision for restructuring

Following a Tripartite agreement between the Board of ESB, the Group of Unions and the Government, discussions on the implementation of a further business restructuring programme began in 2000. This initiative, the severance terms of which have been approved by Government and the Board of ESB, comprises a number of fundamental change programmes across ESB intended to significantly change the structures, work practices and competitiveness of the Group. This restructuring programme commenced with the re-organisation of internal business divisions and the implementation of structures to both operate and compete in the deregulated market. The provision for restructuring costs represents the voluntary severance liabilities under the restructuring plans. These exits will occur by 2005 and the majority of the liabilities will be discharged by 2013.

16. PROVISION FOR LIABILITIES AND CHARGES (contd)

Deferred Taxation

The prior year adjustment of €200m (€191m relating to the opening balance and €9m relating to the charge for 2000), to restate the opening balance on the provision, consists of the Group's deferred taxation liability.

	2001 €'000	2000 €'000
GROUP & PARENT		
Capital allowances in excess of depreciation	251,558	226,467
Timing differences arising on provisions	(27,663)	(26,254)
	223,895	200,213

ESB has adopted FRS 19 "Deferred Taxation" in the current year. Adoption is mandatory for accounting periods ending on or after 23 January 2002. ESB has elected for early adoption of the standard. Effective rates of taxation have been used to calculate the amount of deferred taxation. Provision has been made for all deferred taxation assets and liabilities in respect of accelerated capital allowances and short term timing differences, arising from transactions and events recognised in the financial statements in the current year and previous years. These deferred taxation assets and liabilities have not been discounted.

17. CAPITAL STOCK

GROUP & PARENT	**2001 €'000**	**2000 €'000**
Balance at 1 January 2001	-	-
Capital stock issued in year at €1 per unit	1,979,882	-
Balance at 31 December 2001	1,979,882	-
Comprised as:		
Stock issued from converted reserves	1,880,888	-
Stock issued for subscription by ESOT	98,994	-
	1,979,882	-

In accordance with the Electricity (Supply) (Amendment) Act 2001, on 30 December 2001, the capital and reserves of ESB were converted to capital stock and issued to the Department of Finance. At the same time, ESB ESOP Trustee Limited, established to act as Trustee for the ESB employee shareholding scheme, subscribed for 5% of the capital stock.

Of the 5% of total issued capital stock acquired by ESB ESOP Trustee Limited on behalf of the Employee Shareholding Scheme, 3.92% was allocated to ESB employees as at 31 December 2000 out of profit allocations in 2000 and prior years. Further allocations will be made to employees out of allocated profit shares in 2001 and future years until the full 5% has been allocated.

The principal rights attaching to each unit of capital stock include the rights to exercise a vote at annual meetings, entitlements to dividends from profits when declared and the rights to proportionate participation in a surplus on winding up.

18. SINKING FUND RESERVE FOR REPAYMENT OF BORROWINGS

GROUP & PARENT	2001 €'000	2000 €'000
Balance at 1 January 2001	**1,026**	537
Appropriation for repayment of borrowings	**537**	489
Sinking fund applied to repay borrowings	**-**	-
Balance at 31 December 2001	**1,563**	1,026
Represented by:		
Sinking fund investments (note 9)	**1,563**	1,026

19. PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

(a) GROUP	Repaid capital reserve €'000	Non-repayable supply contributions €'000	Profit & Loss Account €'000	Other *Reserves €'000	Total €'000
Balance at 1 January 2001 - as previously stated	990,276	551,650	323,476	13,958	**1,879,360**
Prior year adjustment	-	-	(200,213)	-	**(200,213)**
Restated balance at 1 January 2001	990,276	551,650	123,263	13,958	**1,679,147**
Non-repayable supply contributions	-	57,807	-	-	**57,807**
Profit retained in year	-	-	164,024	-	**164,024**
Conversion to capital stock	(990,276)	(609,457)	(281,155)	-	**(1,880,888)**
Translation differences on consolidation of foreign subsidiaries	-	-	-	305	**305**
Balance at 31 December 2001	-	-	6,132	14,263	**20,395**
(b) PARENT	-	-	(37,645)	-	**(37,645)**

*Other reserves are primarily comprised of foreign exchange movements on the conversion of subsidiary companies.

20. CASH FLOW STATEMENT

	2001 €'000	2000 €'000
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**194,855**	292,575
Depreciation	**224,393**	213,972
Utilisation of provision for liabilities & charges	**(27,625)**	(27,751)
Employee shareholding scheme	**32,891**	14,602
Loss on disposal of tangible fixed assets	**2,542**	2,259
Profit on disposal of tangible fixed assets	**(2,414)**	(499)
Amortisation of capital grants	**(214)**	(175)
Amortisation of goodwill	**1,323**	992
Translation differences	**486**	(1,934)
(Increase) in debtors	**(98,552)**	(33,734)
Decrease/(increase) in stocks	**13,154**	(12,413)
Increase in creditors	**9,860**	71,130
Net cash inflow from operating activities	**350,699**	519,024

	2001 €'000	2000 €'000
(b) Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash in the year	**(17,695)**	29,675
Repayment of loans	**235,347**	183,211
New loans in year	**(205,000)**	(114,999)
Capital element of finance lease payments	**17,423**	16,839
New finance leases	**-**	(102,718)
Cash outflow/(inflow) from change in debt and lease financing	**47,770**	(17,667)
Net change in sinking fund bank deposits	**410**	489
Net change in other bank deposits	**(126,414)**	185,764
Cash (outflow)/inflow from decrease in liquid resources	**(126,004)**	186,253
Change in net debt resulting from cashflows	**(95,929)**	198,261
Exchange differences	**(303)**	1,973
Movement in net debt in the year	**(96,232)**	200,234
Net debt at 1 January 2001	**(534,775)**	(735,008)
Net debt at 31 December 2001	**(631,007)**	(534,774)

20. CASH FLOW STATEMENT (contd)

(c) Reconciliation of net cash flow to movement in net debt

Analysis of changes in net debt

	At 1 January 2001 €'000	Cashflow €'000	Exchange movements €'000	At 31 December 2001 €'000
Cash at bank and in hand (see below)	55,161	(17,695)	(610)	**36,856**
Overdrafts	-	-	-	-
	55,161	(17,695)	(610)	**36,856**
Loans	(646,650)	30,347	307	**(615,996)**
Finance leases	(192,344)	17,423	-	**(174,921)**
	(838,994)	47,770	307	**(790,917)**
Other bank deposits (see below)	247,905	(126,414)	-	**121,491**
Sinking fund bank deposits & other investments	1,153	410	-	**1,563**
	249,058	(126,004)	-	**123,054**
Total	(534,775)	(95,929)	(303)	**(631,007)**

'Cash at bank and in hand' and 'other bank deposits' above are both included in 'cash at bank and in hand' in the balance sheet.

21. PENSION COMMITMENTS

The Group has continued to account for pensions in accordance with SSAP 24. The accounting requirements of FRS 17 "Retirement Benefits" will be adopted by the Group, as required, for the year ended 31 December 2003. Prior to this, phased transitional disclosures are required by the standard.

Pensions for employees in the electricity business and certain employees of subsidiary undertakings are funded through an independent defined benefit scheme called ESB General Employees' Superannuation Scheme. The fund is vested in trustees nominated by ESB and its members for the sole benefit of employees and their dependents.

While the regulations governing the ESB Pension Scheme lay down in considerable detail the benefits that are to be provided, they also stipulate the contributions to be paid by both ESB and the contributing members. This does not conform to the normal "balance of cost" defined benefit approach. Moreover, historically the contributions of both ESB and members have been fixed by regulations for long periods. These facts indicate that the ESB Pension Scheme is not typical of the defined benefit approach. However, the nature and history of the scheme indicate that a constructive obligation to provide benefits may exist, therefore the scheme could be treated as a defined benefit scheme for the purposes of FRS 17.

The scheme regulations also set out the steps to be taken if either a deficit or surplus for the scheme emerges. If a deficit is reported, the Board is required to consult with the Superannuation Committee, the Trustees and the Actuary to consider the necessity to amend the scheme. The regulations are silent on the nature of any such amendment. In the case of a surplus, this must be set aside to a reserve fund and/or used to reduce member and ESB contributions; and/or improve benefits.

21. PENSION COMMITMENTS (contd)

The pension costs of the scheme are assessed in accordance with the advice of independent actuaries obtained at three yearly intervals. The latest actuarial valuation for the scheme was at 31 December 2000 using the attained age method.

The principal actuarial assumption was that, over the long-term, the annual rate of return on investments would be 3% higher than the annual increase in pensionable remuneration and pensions in course of payment. At the date of the latest actuarial valuation, the market value of the assets of the scheme was €2,912m which exceeded the scheme's actuarial valuation of accrued liabilities based on current earnings.

The actuarial value of the assets was sufficient to cover 96% of the accrued liabilities allowing for expected future increases in earnings and pensions. Payment of the recommended funding rate is planned to increase the figure to 100% over time. The pension charge of the Group for the year was €33.7m (2000: €29.4m), based on the on-going contribution rates as advised by the actuaries. The actuarial report is available for inspection by members of the scheme only and is not available for public inspection.

FRS 17 "Retirement Benefits"

The valuation of the scheme used for the purpose of FRS 17 disclosures is based on the above mentioned most recent actuarial valuation. Independent actuaries have updated this valuation, to take account of the requirements of FRS 17 to assess the liabilities at the balance sheet date. If the resulting deficit or surplus (or a portion thereof) was included in the net assets of the Group, the Group net assets would be increased or decreased accordingly. The scheme assets are stated at their market value at the balance sheet date.

The valuation was carried out using the projected unit method. The key assumptions adopted were:

• Rate of interest applied to discount liabilities	6.25%	• Rate of return on equity investments	8.0%
• Price inflation	2.25%	• Rate of return on bond investments	5.0%
• Rate of increase of salaries	3.75%	• Rate of return on property investments	6.5%
• Rate of increase of pensions in payment	3.75%	• Agreed rate of ESB contribution	11.4%

As at 31 December 2001 the total value of assets held was €2,703m, comprising equities held of €1,994m, bonds held of €426m and property assets of €283m. On this basis, the liabilities in respect of post retirement benefits, exceeded the market value of the assets by €123m. Based on the last actuarial funding valuation, the future contributions as laid down in the scheme regulations are considered adequate to meet the totality of the benefits.

22. COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

Operating lease rentals payable within one year of the balance sheet date are in respect of leases expiring:	**2001 €'000**	2000 €'000
- Within one year	**8,700**	6,752
- Between two and five years	**1,613**	259
- After five years	**3,382**	4,649
Total payable within one year	**13,695**	11,660

(b) Capital commitments

	2001 €'000	2000 €'000
Contracted for	**224,700**	240,029
Authorised but not contracted for	**16,800**	68,899
	241,500	308,928

(c) Establishment of EirGrid plc

On 20 December 2000, Statutory Instrument 445, which concerns the establishment of EirGrid plc (EirGrid) was issued. The establishment of EirGrid will necessitate the transfer to that entity of certain assets and liabilities currently owned by ESB, which are necessary to the operations of that company. The financial implications of these transfers have yet to be established and the liability of ESB to fund the transfers in full has yet to be confirmed. It is not possible therefore, at the date of these accounts to quantify the cost to ESB of establishing EirGrid.

(d) Other

ESB has entered into a leasing transaction, early termination of which could expose ESB to a current estimated maximum net loss of €20.8m in present value terms (2000: €39.4m). No provision has been made in the financial statements for this amount as the Board considers the likelihood of such loss as remote.

At 31 December 2001, ESB has entered into forward contracts to the amounts of US$21m and Stg£21m (2000: US$25.4m) to cover future fuel purchases.

At year end, ESB had entered into commodity contracts to the value of US$5.2m to cover the commodity price of fuel.

23. RELATED PARTY TRANSACTIONS

Semi-State Bodies

In common with many other entities, ESB deals in the normal course of business with other Government sponsored bodies such as Bord Gais and Bord na Mona. Long term agreements are negotiated between ESB and Bord na Mona in relation to the purchase of peat for the Midland stations.

Board Members' interests

The Board Members and Secretary had no beneficial interest in ESB or its subsidiaries at any time during the year. For part of the year Mr. Tadhg O'Donoghue was a partner in the Irish practice of Pricewaterhouse Coopers and Mr. Jerry Carey, who retired during the year is a director of Irish Business Systems. Pricewaterhouse Coopers has been retained by the Group for a variety of advisory and consulting roles. Fees payable to them during the year amounted to €4.9m. Irish Business Systems have provided goods and services during the year to the value of €47k.

Associated undertakings

ESB has undertaken transactions at an arms length for the purchase and supply of goods and services to associated undertakings during the year. The most significant of these were contracts with Rousch (Pakistan) Power Ltd, and Americas and Caribbean Ltd for the provision of services, amounting to €6.7m and €4.4m respectively. The balances outstanding with these associated undertakings at year end are €1.5m and €1.2m respectively.

Joint Ventures

During the year the Group provided services and funding to its joint ventures, Synergen and Corby Power Ltd. ESB provided services to Synergen to the value of €10.2m and had to the year end advanced capital to the Partnership totalling €131m, funded through third party borrowings. Services to the value of €5.1m were provided to Corby Power Ltd and at year end, the balance outstanding from Corby Power Ltd was €0.8m.

24. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated during 2001. ESB has no ability or rights to exert control over the assets or management of the company. The Board of Directors is chaired by an independent professional director with four directors representing ESB employees and two directors appointed by ESB. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the company exist. In accordance with FRS 2 "Accounting for Subsidiary Undertakings", the accounts for ESB ESOP Trustee Limited are not consolidated with the results of ESB Group. The net assets at 31 December 2001 of ESB ESOP Trustee Limited, which represents capital stock allocated or to be allocated to employees, less borrowings, were €59m.

25. POST BALANCE SHEET EVENTS

There have been no events between the balance sheet date and the date on which the financial statements were approved by the Board, which would require adjustment to the accounts or any additional disclosures.

26. COMPARATIVE FIGURES

Where appropriate, previous year's figures have been regrouped or restated on a basis consistent with the current year and to include the effects of the adoption of the financial reporting standard FRS 19 "Deferred Taxation".

27. APPROVAL OF ACCOUNTS

The Board approved the accounts on 11 March 2002.

28. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
ESB International Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	Holding company
ESBI Engineering Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	Engineering
ESBI Engineering (Overseas) Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	Engineering
ESBI Contracting Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	Contracting
ESBI Consultants Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	Consultancy
ESBI Engineering UK Ltd	122 London Road Kingston on Thames Surrey KT2 6QJ.	100	Engineering and general consultancy
ESBI Computing Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	95	Computer services
ESB Ireland Holdings Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	Holding company
Electricity Supply Board Services B.V.	Wisma Cyclecarri 288 Jalan Raja Laut 50350 Kuala Lumpur Malaysia.	100	Facility management
Electricity Supply Board International Holding B.V.	Strawinskylaan 3105 7th Floor 1077 ZX Amsterdam The Netherlands.	100	Holding company
Electricity Supply Board International Investments B.V.	Strawinskylaan 3105 7th Floor 1077 ZX Amsterdam The Netherlands.	100	Holding company
ESBI Luxembourg S.A.	121 Avenue de la Faiencerie L.2010 Luxembourg.	100	Holding company

28. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS (contd)

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
ESBI Energy Company	2800 Post Oak Road Houston, Texas 77056 USA.	100	Engineering consultancy
ESBII Technology and Construction	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	Power generation
FinancElectric Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	Customer credit
ESB International Investments Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	International investments
Power Generation Technology Snd Bhd	Wisma Cyclecarri 288 Jalan Raja Laut 50350 Kuala Lumpur Malaysia.	100	Power generation
ESBI Alberta Ltd	1500, 885 2nd Street South West Calgary Alberta Canada.	100	Transmission management
ESBI Facility Management Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	Facility management
ESB Contracts Ltd	27 Lr. Fitzwilliam St. Dublin 2.	100	Contracting
ESB Power Generation Holding Company Ltd	27 Lr. Fitzwilliam St. Dublin 2.	100	Holding company
Ballyragget Power Ltd	27 Lr. Fitzwilliam St. Dublin 2.	100	Power projects
Crockahenny Wind Farm Ltd	27 Lr. Fitzwilliam St. Dublin 2.	75	Wind farm
Hibernian Hydro Ltd	27 Lr. Fitzwilliam St. Dublin 2.	95	Small hydro projects
Dublin Bay Power Ltd	27 Lr. Fitzwilliam St. Dublin 2.	100	Holding company
Tawnawully Power Ltd	27 Lr. Fitzwilliam St. Dublin 2.	100	Power generation

28. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS (contd)

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
Utilities O&M Services Ltd	27 Lr. Fitzwilliam St. Dublin 2	100	Operation & maintenance services
Hibernian Wind Power Ltd	27 Lr. Fitzwilliam St. Dublin 2	100	Wind power
Salmara Holdings Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	100	Holding company
ESB Independent Energy Ltd	58 Upper Mount Street Dublin 2.	100	Electricity sales
Neuwest Consultancy Services Ltd	27 Lr. Fitzwilliam St. Dublin 2.	100	Electricity sales
ESB Retail Ltd	27 Lr. Fitzwilliam St. Dublin 2.	100	Retail of electrical appliances
ESB Telecoms Ltd	27 Lr. Fitzwilliam St. Dublin 2.	100	Telecommunications
ESBII UK Ltd	122 London Road Kingston on Thames Surrey KT2 6QJ.	100	Power generation
Facility Management UK Ltd	122 London Road Kingston on Thames Surrey KT2 6QJ.	100	Facility management
Bizkaia Energia SL	Iparraguirre 29 2a Planta 48011 Bilbao Spain.	100	Power generation
Non-controlled subsidiary undertaking			
ESB ESOP Trustee Ltd	27 Lr. Fitzwilliam St. Dublin 2.	100	ESOP Trustee
Associated undertakings			
Transpower Ltd	Stephen Court 18-21 St. Stephen's Green Dublin 2.	50	Development of independent power projects
Saur Utilities Ltd	16 St. Stephen's Green, Dublin 2.	50	Water and sewerage treatment

28. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS (contd)

Company name	Registered office	Group share %	Nature of business
Associated undertakings (contd)			
Coolkeeragh Group Ltd	2 Electra Road Maydown Derry BT47 1 UL.	40	Power generation
Rousch (Pakistan) Power Ltd	94-W, 3rd Floor Admir Plaza Jinnah Ave. Blue Area Islamabad Pakistan.	7	Independent power producer
Americas and Caribbean Power Ltd	Craigmuir Chambers PO Box 71 Road Town Tortola British Virgin Islands.	20	Facility management
Joint venture undertakings			
Irish Power Systems Ltd	27 Lr. Fitzwilliam St. Dublin 2.	50	Power generation
Synergen	South Bank Road Ringsend Dublin 4.	70*	Power generation
Corby Power Ltd	Mitchell Road Phoenix Parkway Corby Northamptonshire NN17 1Q7.	50	Power generation

* Accounted for as a joint venture due to the terms of the Partnership deed.

APPENDIX I - KEY RATIOS AND ESB INPUT TO IRELAND'S ECONOMY

Key Financial Information		**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
			As restated				
Profit after tax (€m)		**165**	30	274	251	230	168
Operating profit margin (€m)		**195**	292	403	408	336	267
Energy sources of units generated							
	Oil	**21%**	19%	27%	23%	18%	14%
	Gas	**37%**	38%	31%	30%	33%	33%
	Peat	**9%**	8%	8%	8%	10%	12%
	Hydro	**2%**	3%	3%	4%	3%	4%
	Coal	**29%**	30%	29%	33%	35%	37%
	Other	**2%**	2%	2%	2%	1%	0%
	Total	**100%**	100%	100%	100%	100%	100%
Total fuel costs (€m)		**753**	581	423	380	390	376
Annual capital expenditure (€m)		**547**	425	418	410	298	211

Key Ratios	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
Return on average capital employed (%)	**4.8**	3.5	12.6	12.0	11.2	9.1
Debt/debt and net assets (%)	**28.3**	33.3	31.0	38.0	46.0	50.0
Current ratio (times)	**2.1**	2.1	1.8	1.9	1.9	2.0
Interest cover (times)(excluding interest capitalised)	**6.9**	10.9	7.2	6.3	4.2	3.1
Average electricity credit period (days from date billed)	**17.1**	16.4	16.4	15.7	16.3	16.2

Input to Ireland's economy	**2001 €m**	**2000 €m**	**1999 €m**	**1998 €m**	**1997 €m**	**1996 €m**
Fuel: gas, peat, excise duties	**360**	273	223	201	225	221
Irish suppliers of goods and services incl. capital work	**667**	496	395	386	321	288
Rates	**59**	57	52	50	48	46
Payroll costs	**392**	451	406	386	387	371
Interest paid to Irish lenders and stockholders	**3**	4	10	30	22	28
Other superannuation funding and voluntary severance payments	**24**	25	52	50	170	237
Total	**1,505**	1,306	1,138	1,103	1,173	1,191

APPENDIX II - REPORT OF BOARD MEMBERS' ON COMPLIANCE WITH THE PROMPT PAYMENTS OF ACCOUNT ACT, 1997

Introduction

The Prompt Payment of Accounts Act, 1997 came into effect on 2 January 1998, and is applicable to all goods and services supplied to ESB.

Statement of payment practices including standard payment periods

ESB operates a policy of paying all undisputed supplier invoices within the agreed terms of payment. The standard terms specified in the standard purchase order are net monthly. Other payment terms may apply in cases where a separate contract is agreed with the supplier.

Compliance with the Act

ESB complies with the requirements of the Act in respect of all external payments, with the exception of the two items referred to below. Due to current system limitations ESB is unable to comply with these two requirements:

a) Interest payments amounting to less than €1 are paid when there is cumulative interest due to a supplier of €1.
b) Interest payments are not made on the same day as the invoice payment.

In the opinion of the Board Members, the financial impact of the above for suppliers would not be material.

Procedures and controls in place

Appropriate internal financial controls have been implemented to ensure compliance with the Act, including clearly defined roles and responsibilities and monthly reporting and review of payment practices. These procedures can only provide reasonable and not absolute assurance against material non-compliance with the Act.

Details of interest payments in respect of 2001:

Total number of late payments	6,815
Total value of late payments	€25,371,269
Total value of late payments as a % of total value of payments made	3.1%
Total value of interest paid	€167,928

T O'Donoghue
Chairman

K O'Hara
Chief Executive

11 March 2002