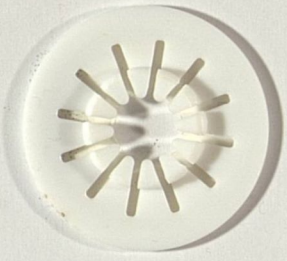


helping to realise the vision

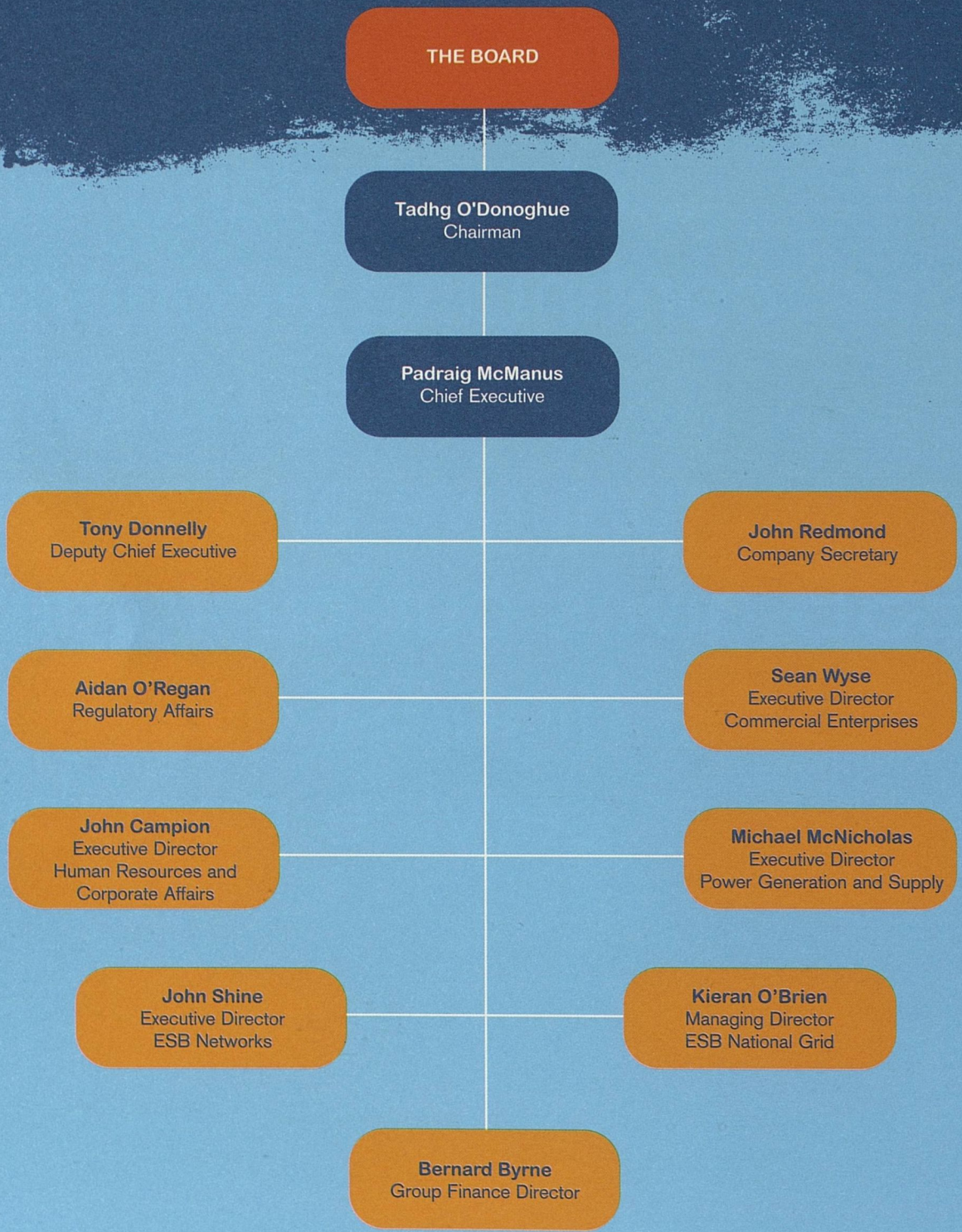
ESB Annual Report & Accounts 2003

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Chairman's Review	01
Chief Executive's Review	07
Group Financial Performance	12
Power Generation Review	17
Customer Supply Review	20
ESB Networks Review	22
Commercial Enterprises Review	25
Transmission System Operator Review	27
Corporate Social Responsibility	28
The Board	31
Board Committees	32
Board Members	33
Executive Team	35
Board Members' Report	39
Financial Statements and Notes	45

...of an Ireland with continuing economic growth, which is competitive and where ESB gives our customers the highest quality of service possible.

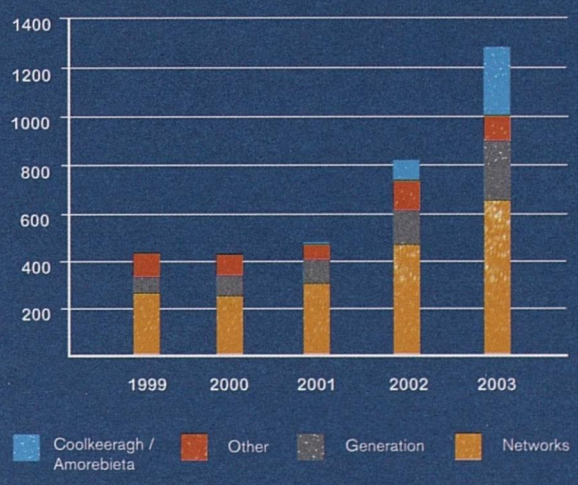

THE BOARD
Tadhg O'Donoghue
Chairman
Padraig McManus
Chief Executive
Tony Donnelly
Deputy Chief Executive
John Redmond
Company Secretary
Aidan O'Regan
Regulatory Affairs
Sean Wyse
Executive Director
Commercial Enterprises
John Campion
Executive Director
Human Resources and
Corporate Affairs
Michael McNicholas
Executive Director
Power Generation and Supply
John Shine
Executive Director
ESB Networks
Kieran O'Brien
Managing Director
ESB National Grid
Bernard Byrne
Group Finance Director

KEY FINANCIAL INFORMATION	1999 €'000	2000 €'000	2001 €'000	2002 €'000	2003 €'000
Turnover	1,720.3	1,894.4	2,040.2	2,150.8	2,341.8
Profit before interest & tax	391.8	210.5	199.2	250.4	354.0
Profit before tax	337.2	178.6	160.1	196.5	302.1
Dividends	-	-	-	39.7	67.1
Capital Expenditure	415.5	407.0	544.8	864.6	1,293.8
Net cash inflow from operating activities	521.5	519.0	350.7	563.3	530.7
Net Debt	735.7	535.9	632.6	902.4	1,602.8
EPS *	-	-	8.3	8.1	12.6
Return on capital employed (ROCE) **	12.7	8.8	4.6	5.5	6.8

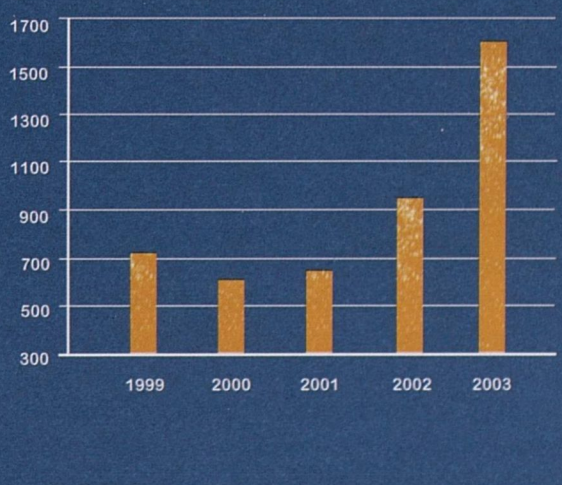
* Prior to 2001 ESB did not carry capital stock on its Balance Sheet. On the 30 December 2001, the capital and reserves of ESB were converted to capital stock and issued to the Department of Finance and ESB ESOP Trustee Limited.

** ROCE is calculated after deducting financing charges on provisions.

CAPITAL EXPENDITURE (€m)



NET DEBT (€m)





Tadhg O'Donoghue

Chairman's Review Dréacht Ráiteas an Chathaoirligh

"We in ESB have long been committed to growing and sustaining our business while making a positive contribution to both society and the environment"

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 31st December, 2003.

2003 Performance

Profitability

Group profit after tax increased by €89m to €249m, reflecting a number of factors, such as increased revenues, as well as the impact of reductions in staff numbers and other cost reduction initiatives, achieved to date under the Programme to Achieve Competitiveness and Transformation (PACT). To put this profit in context, the Return on Capital Employed was 6.8% compared to 5.5% in 2002. This level of return is still considered inadequate, in terms of the enormous level of capital investment being made and the comparable returns of European electricity companies.

Despite the increase in profitability, cash flow from operations was only sufficient to finance 41% of the Capital Programme for the year, resulting in increased net borrowing of €701m. As part of these increased borrowings, in December 2003 over US$1bn was successfully raised through a US Private Placement debt issue.

The Board is proposing a dividend for the year of 3.39 cents per share, or €67m, an increase of 1.38 cents per share, or €27m on 2002.

The Market

The market for electricity in Ireland grew by 3.3% in 2003, compared to 2.6% in 2002. This growth continues to put pressure on the systems capacity margin. The restrictions placed on ESB in relation to adding new generation capacity continue in place. To address the problem in the short-term, ESB has, in agreement with the Regulator, commissioned an additional 104MW of short term peaking capacity and entered into a contract to import 170MW of capacity from Northern Ireland. In the long term, we have also offered ten year off-take contracts to two new generators, Tynagh Energy and Aughinish Alumina, which should help address the capacity situation from 2006 onwards.

The Minister for Communications Marine and Natural Resources, Dermot Ahern TD is to be congratulated on his recent announcement of an electricity interconnector with Wales. This will facilitate the creation, in the future, of an all-islands market and ESB is fully supportive of this objective.

Market Opening

During 2003, 40% of the market, measured by electricity sales, was open to competition. Since 19th February 2004 this has increased to 56%. The market will fully open to competition in 2005, two years earlier than required under the EU Electricity Directive.

Broadband

We completed the national fibre optic network which now extends to 1,300kms, which makes a major contribution to the extension of broadband services nationwide.

Investing for the future

Capital expenditure in 2003 at €1,294m was again at record levels for ESB. A large part of this expenditure relates to investment in our networks where a record 77,121 new customers were connected in 2003.

It is disappointing that despite the urgent need for significant investment in our high-tension transmission network, expenditure in this area was lower than in the previous year due to planning and other delays.

ESB continues to invest in power generation plants in the Republic of Ireland, Northern Ireland and Spain. Construction is well advanced on two new peat burning stations in Shannonbridge and Lanesboro which will eventually cost approximately €460m. Closure agreements were completed with staff in the peat stations at Rhode, Shannonbridge, Lanesboro, Cahirciveen and Bellacorrick, which will allow for their orderly decommissioning as the two new plants come into full production.

The decision on the future of Moneypoint which requires an investment of over €200m in emissions cleaning technology, to comply with our environmental obligations, will be made during 2004. This investment decision can only be made in the context of best practice agreements for the installation of the equipment and the ongoing operation and maintenance of the plant.

A 400MW plant will be commissioned in early 2005 in Coolkeeragh near Derry, in Northern Ireland. When commissioned this plant will supply a significant share of the Northern Ireland market. We are also building a 755MW plant in Amorebieta, near Bilbao, in northern Spain. This plant is due for commissioning in late 2005.

Environment

ESB is firmly committed to the development of generation from renewable resources. At present, the growth in energy from renewable sources is constrained by the availability of connections to the national electricity grid. In order for this source of energy to grow, it is imperative that all industry participants, including EirGrid, the statutory body responsible for connections to the grid, address this issue as a matter of urgency.

The peat slippage at Derrybrien, County Galway stopped work on a wind-farm for an ESB subsidiary, Hibernian Wind Power Limited. A number of technical reports into the incident have been issued. Hibernian Wind Power Limited is carefully studying these reports and is fully committed to implementing their recommendations.

ESB is firmly committed to the development of generation from renewable resources

Corporate Social Responsibility

We in ESB have long been committed to growing and sustaining our business while making a positive contribution to both society and the environment. ESB supports the concept of corporate responsibility through our role in 'Business in the Community' (BITC), an organisation that provides advice to companies and organisations that choose to pursue a policy of corporate responsibility. In this regard we have committed, along with other leading Irish companies, to publish a 'Corporate Responsibility' report. The publication of this report, which will issue in Quarter 3 2004, will ensure that we present to our stakeholders a fair and accurate account of our contribution to our customers, staff, environment and community, as a responsible corporate citizen, and that we play our part in the creation of a fairer and more sustainable society.

Staff

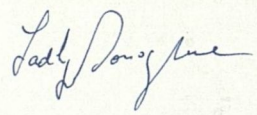
The deaths of two of our colleagues and the serious injury of another in a devastating accident in Tarbert Generating Station in July 2003 were traumatic for their families, their communities and the company. It was also deeply upsetting for both the staff in the station and throughout ESB. Two contractors working for ESB also lost their lives in accidents during the year. Our sincere condolences go to their families and friends on their tragic loss. These accidents bring home to us all the importance of ESB's drive towards a goal of zero injuries to staff, contractors and members of the public.

Board

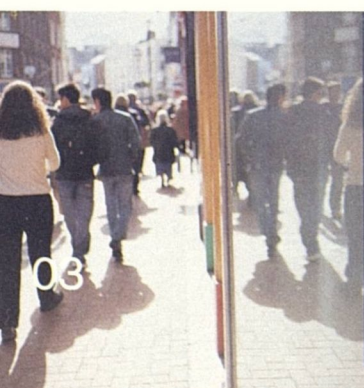
There were no changes to the composition of the Board during 2003.

Stakeholders

I would like to thank the Minister and officials of the Department for Communications, Marine and Natural Resources, for their continued assistance during the year. I would also like to acknowledge the contributions of the Board and staff of ESB, during 2003.



Tadhg O'Donoghue
Chairman
23 March 2004



>> The market will fully open to competition in 2005, two years earlier than required under the EU Electricity Directive.

De réir fhorálacha an Achta Leictreachais (Soláthar) 1927 (leasú) cuireann an Bord a Thuarascáil Bhliantúil agus Cuntais i láthair don bhliain dár críoch 31ú Nollaig, 2003.

Feidhmíocht i 2003

Brabúsacht

Tháinig méadú de €89m go €249m ar bhrabús grúpa tar éis cánach, ar léiriú é ar roinnt fachtóirí ar nós mhéadú ar ioncaim chomh maith leis an tionchar a bhí ag an laghdú ar líon na foirne agus ag tionscnaimh eile chun costais a laghdú, a baineadh amach go dtí seo faoin gclár 'Programme to Achieve Competitiveness and Transformation' (PACT). Chun an brabús sin a chur i gcomhthéacs ba é an tAischur ar Chaipiteal a húsáideadh ná 6.8% i gcomparáid le 5.5% i 2002. Fós féachtar ar an leibhéal aischuir sin mar leibhéal neamhleordhóthanach i gcomparáid leis an leibhéal ollmhór infheistíochta caipitil atáthar a dhéanamh agus i gcomparáid le haischuir cuideachtaí eile san Eoraip.

In ainneoin an mhéadaithe sin ar bhrabúsacht ní raibh an sreabhadh airgid thirim ó oibriúcháin dóthanach ach le maoiniú a dhéanamh ar 41% de Chlár Caipitil na bliana, rud a d'fhág gur tháinig méadú ar iasachtaí glan go €701m. Mar chuid de na hiasachtaí ardaithe sin, i Nollaig 2003, bailíodh os cionn SA$1bn trí eisiúint fhiach Láithriú Príobháideach sna SA.

Tá an bord ag moladh dibhinn de €67m don bhliain, ardú de €27m ar 2002.

An Margadh

Tháinig ardú 3.3% ar an margadh leictreachais in Éirinn i 2003 i gcomparáid le 2.6% i 2002. Leanann an t-ardú sin ag cur brú ar chorrlach toillte córais. Tá na srianta atá ar BSL maidir le toilleadh ginte nua fós i bhfeidhm. Chun tabhairt faoin bhfadhb sin sa ghearrtéarma tá buaicthoilleadh de 104WW breise coimisiúnaithe ag an BSL, i gcomhaontú leis an Rialtóir, agus tá sé i mbun conartha chun 170MW toillte a thabhairt isteach as Tuaisceart Éireann. San fhadtéarma, tá conarthaí 'tionscnamhacha' deich mbliana tairgthe againn do dhá ghineadóir nua, Tynagh Energy agus Aughinish Alumina agus ba chóir go gcuideodh sé sin chun aghaidh a thabhairt ar an bhfadhb toillte ó 2006 ar aghaidh.

Tá moladh mór ag dul don Aire Cumarsáide, Mara agus Acmhainní Daonna, Dermot Ahern T.D., de bharr an fhógra a rinne sé le deireanaí maidir le hidirnascaire leictreachais leis an mBreatain Bheag. Éascóidh sé sin, amach anseo, margadh uile-oileáin agus tacaíonn BSL go hiomlán leis an gcuspóir sin.

Oscailt an Mhargaidh

Le linn 2003, bhí 40% den mhargadh, tomhaiste de réir díolachán leictreachais, oscailte do chomórtas. Ón 19ú Feabhra 2004 tháinig ardú go 56% air sin. Beidh an margadh oscailte go hiomlán do chomórtas i 2005, dhá bhliain níos luaithe ná mar is gá faoi Threoir Leictreachais AE.

Leathanbhanda

Chuireamar críoch le líonra snáthoptaice a shíníonn anois 1300km agus a chuireann go go mór le síneadh seirbhísí leathanbhanda ar fud na tíre.

Infheistíocht sa Todhcaí

Bhí caiteachas caipitil BSL i 2003 ag leibhéil nach facthas riamh roimhe seo ag €1,294m. Bhain cuid mhór den chaiteachas sin le hinfheistíocht inár líonraí inár ceanglaíodh an líon is mó custaiméirí nua riamh, 77,121 i 2003.

In ainneoin an riachtanais práinne a bhí ann d'infheistíocht shuntasach in ár líonra tarchuir ardteannais ba chúis díomá a bhí ann go raibh an caiteachas a rinneadh anseo níos ísle ná an bhliain roimhe sin de bharr cúrsaí pleanála agus nithe eile a chuir moill ar chúrsaí.

Leanann BSL ag infheistiú i monarchana ginte cumhachta i bPoblacht na hÉireann, i dTuaisceart Éireann agus sa Spáinn. Tá tógáil á déanamh ar dhá stáisiún dóite móna i nDroichead na Sionainne agus i mBéal Átha Liag a chosnóidh timpeall €460m nuair a bheidh siad críochnaithe. Tugadh comhaontuithe dúnta chun críche le foireann i stáisiúin mhóna i Ród, i nDroichead na Sionainne, i mBéal Átha Liag, i gCathair Saidhbhín agus i mBéal Átha Chomhraic agus éascóidh na comhaontuithe sin díchoimisiúnú a dhéanamh orthu de réir a chéile nó go mbeidh an dá mhonarcha nua ag feidhmiú go hiomlán.

Déanfar cinneadh maidir le todhchaí Giniuna Ghob na Muine, a dteastaíonn infheistíocht de os cionn €200m do theicneolaíocht glanta astaíochta le go gcomhlíonfaidh sé ár n-oibleagáidí comhshaoil, le linn 2004. Ní féidir an cinneadh infheistíochta sin a dhéanamh ach i gcomhthéacs comhaontuithe deachleachtais do shuiteáil trealaimh agus oibríocht agus cothabháil leanúnach na monarchan. Déanfar coimisiúnú ar mhonarcha 400MW go luath i 2005 i gCúil Chaorach gar do Dhoire i dTuaisceart Éireann. Nuair a bheidh sé coimisiúnaithe soláthróidh an mhonarcha sin sciar shuntasach do mhargadh Thuaisceart Éireann. Táimid freisin ag tógáil monarcha 755 MW i Amorebieta, gar do Bilbao i dtuaisceart na Spáinne. Táthar ag tnúth go mbeidh an monarcha sin réidh le coimisiúnú ag deireadh 2005.

Comhshaol

Tá BSL tiomanta gineadh ó acmhainní inathnuaite a fhorbairt. Faoi láthair tá teorainn curtha le fás an fhuinnimh ó acmhainní inathnuaite de bharr an laghad fáil atá ar naisc chuig an griolla náisiúnta leictreachais. Chun go mbeidh ar chumas an fhoinse fuinnimh sin fás tá sé ríthábhachtach go dtabharfadh EirGrid, an comhlacht reachtúil le freagracht as naisc chuig an ngriolla, aghaidh ar an tsaincheist sin láithreach.

Chuir an sciorradh talún i nDoire Bhriain, Co. na Gaillimhe stop le hobair ar fheirm ghaoithe fhochuideachta de chuid BSL, Hibernian Wind Power Teoranta. Tá roinnt tuarascálacha teicniúla maidir leis an eachtra eisithe. Tá Hibernian Wind Power Teoranta ag déanamh staidéir go cúramach ar na tuarascálacha sin agus tá sé tiomanta go hiomlán na moltaí atá iontu a fheidhmiú.

Freagracht Shóisialta Chorparáideach

Táimidne i mBSL tiomanta le fada d'fhás agus d'imharthanacht ár ngnó agus ag an am céanna cur go dearfach leis an tsochaí agus leis an timpeallacht. Tacaíonn BSL leis an gcoinceap a bhaineann le freagracht chorparáideach tríd ár ról i 'Gnó sa Phobal', eagraíocht a sholáthraíonn comhairle do chuideachtaí agus d'eagraíochtaí a roghnaíonn leas a bhaint as polasaí maidir le freagracht chorparáideach. Ar an mbealach sin táimid tiomanta, chomh maith le cuideachtaí móra eile in Éirinn, tuarascáil 'Freagracht Chorporáideach' a fhoilsiú. Cinnteoidh foilseachán na tuarascála sin, a eiseofar sa 3ú Ráithe in 2004, go gcuirfimidne cuntas cruinn agus cothrom i láthair dár bpáirtithe leasmhara ar conas mar a chuirfimid le saol ár gcustaiméirí, ár bhfoirne, leis an gcomhshaol agus leis an bpobal mar shaoránach corparáideach freagrach agus cinnteoidh sé freisin le himirt ár róil maidir le sochaí níos inmharthanaí agus níos cothroime a chruthú.

Táimidne i mBSL tiomanta le fada d'fhás agus d'imharthanacht ár ngnó agus ag an am céanna cur go dearfach leis an tsochaí agus leis an timpeallacht.

An Fhoireann

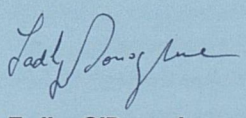
Ba mhéala mór dá muintir, dá bpobail agus don chuideachta ab ea bás beirt dár gcomhghleacaithe agus an dorchghortú a bhain do dhuine eile i dtimpiste thubaisteach i Stáisiún Ginte Tairbeart i mí Iúil 2003. Ghoill sé go mór ar fhoireann an stáisiúin agus ar gach duine i mBSL. Bhásaigh beirt chonraitheoirí a bhí ag obair do BSL de bharr timpistí le linn na bliana freisin. Déanaimid comhbhrón ó chroí lena muintir agus lena gcairde. Meabhraíonn na timpistí sin dúinn arís an tábhacht a bhaineann le sprioc BSL deireadh iomlán a chur le gortuithe i measc na foirne, conraitheoirí agus an phobail.

An Bord

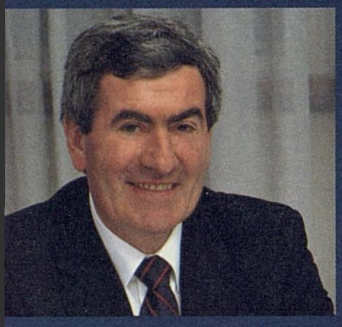
Níor tháinig aon athrú ar chomhdhéanamh an Bhoird le linn 2003.

Páirtithe Leasmhara

Ba mhaith liom buíochas a ghlacadh leis an Aire agus le hoifigigh na Roinne Cumarsáide, Mara agus Acmhainní Nádúrtha as an gcúnamh leanúnach a thug siad dúinn le linn na bliana. Ba mhian liom aitheantas a thabhairt freisin don obair mhór a rinne an Bord agus foireann BSL le linn 2003.



Tadhg O'Donoghue
An Cathaoirleach
23 Márta 2004



Padraig McManus

Chief Executive's Review

"We have positioned ESB to be a high performance company, as an integral part of a competitive electricity market in Ireland, which will generate value for its stockholders and customers..."

Introduction

I am pleased to report on our results for 2003, which demonstrate significant progress towards achieving our ambitious corporate objectives, to the benefit of customers and stockholders.

2003 was a landmark year for ESB. We achieved a record level of capital investment in the national electricity infrastructure, managed significant improvements in the way in which we carry out our business and maintained continuity of supply to our customers, despite operating under very tight power availability constraints. To facilitate the opening up of the electricity market to competition, we completed two separate power purchase agreements with new external generating companies and also invested heavily in IT systems required for full market opening. Importantly, we also delivered a creditable financial performance which will allow us to further invest in the business going forward.

Corporate Strategy

The current corporate strategy, which was launched in 2002, set the direction for group activities and provided the framework for the implementation of transforming plans across ESB. Arising from this strategy, during 2003 there was a focus on improving performance in existing businesses, significant investment in the Irish national infrastructure and targeted development of new business opportunities both at home and abroad.

The corporate strategy sets the strategic direction for ESB, as follows:

- focus is on the core electricity businesses,
- clear financial targets for the coming years,
- best practice leadership is to be achieved in health and safety issues and
- customers will be the focal point for the Group.

In order to realise this strategy, ESB must deliver on certain key business issues:

- renewal of the distribution and transmission networks,
- modernisation of the generation plant,
- development of a fully customer focused Customer Supply business,
- achievement of a successful international business,
- realisation of staff potential and
- empowerment of managers to deliver on this strategy.

In financial terms, these elements are aligned to ensure that all resources are focused on achieving an overall financial target of doubling the profitability of the Group in the period 2002 to 2007, which is imperative if we are to maintain a strong balance sheet, capable of funding the continued investment necessary in the businesses.

Our strategy clearly recognises that we must evolve with the process of liberalisation within the energy sector in Ireland. More importantly, we must actively promote the introduction of competition, while maintaining a core business of significant scale for stockholders. We have positioned ESB to be a high performance company in the competitive electricity market in Ireland, which will generate value for its stockholders and customers as the liberalisation process continues and as there is greater integration of energy markets across Europe.

Operational Review

In operational terms, ESB performed satisfactorily in 2003. This performance has been achieved through:

- Strong underlying operational performance in all areas, against key performance measures set for senior management under the five year corporate strategy.
- Continued record levels of capital investment (€1.3bn), particularly in the networks, which form a vital part of the national electricity infrastructure.
- Continuity of supply to our customers, despite very tight power availability conditions during the year and continued rising demand growth.
- Improved operating efficiency, combined with improvements in a wide range of business processes which gave rise to €95m in savings during 2003 under the PACT programme. This included a reduction of over 1,000 employees since 2001.
- Closure agreements in respect of five peat stations and the commencement of the construction of two new state of the art peat stations.
- Further development of new generation and supply business opportunities in Northern Ireland, Britain and the rest of Europe in recognition of the need to reduce market share in Ireland, while at the same time being positioned to operate with scale in an integrated European electricity market.
- Continuation of the partnership approach between management and employees within ESB.

It was disappointing that the SeTrans contract to operate a Transmission System in the US did not go ahead due to changes in their regulatory environment.

Additionally we have worked hard to promote competition in the market and delivered significant change in the year through:

- Obtaining approval from the Commission for Energy Regulation (CER), for the business separation arrangements. These will enable ESB Customer Supply and ESB Networks to operate as separate businesses in full compliance with regulatory requirements for confidentiality, non-discrimination and cost transparency.

- Developing major new information technology systems to support full market opening in 2005. These new systems will be required by all competitors in the new market, to enable customers to choose suppliers.
- Entry into purchase contracts equivalent to over 500MW of capacity with two new external entrants in the generation market, having facilitated an open competition for these contracts which was carried out independently by the CER.

The two key elements for competition in any electricity market are Generation and Supply. During 2003, the Generation market became 100% available for third party competition. On an all island basis, allowing for the new generation contracts in place, some 50% of the existing total production is owned by third party competitive generators. In supply, the market is now 56% open to competition and by 2005 when ESB will have completed an investment of over €100m in new systems on behalf of CER, the market will be 100% open. This will be a full two years ahead of the EU target of 2007.

Annual Price Adjustments

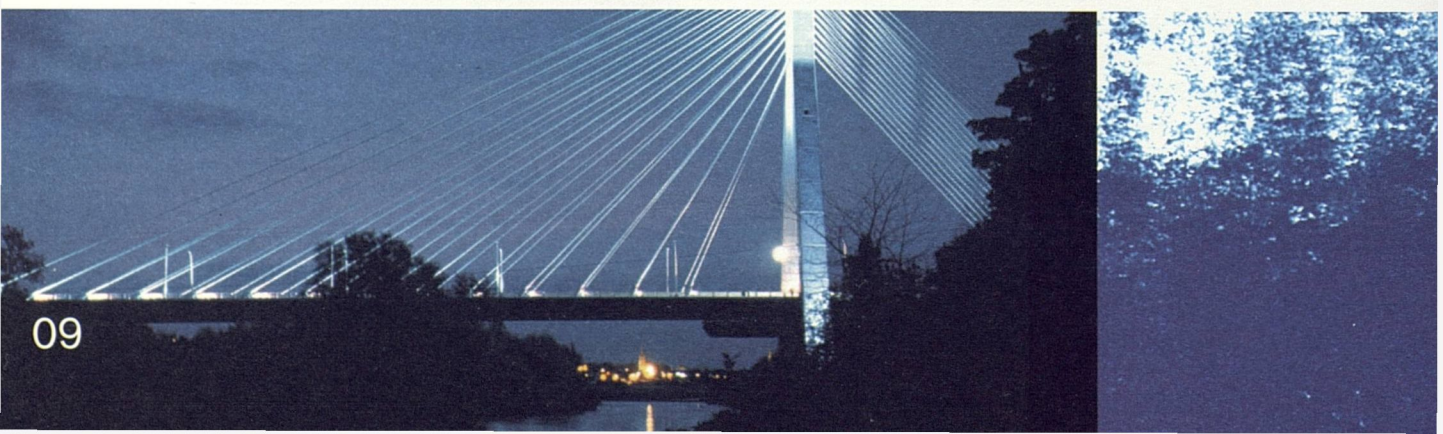
Approximately 80% of ESB's revenue is now regulated by the CER. Appendix 1 provides an overview of this regulatory process.

The requirement for electricity tariffs to be set in advance of the relevant year by the CER, based on a forecast of customer demand and relevant costs, almost invariably means that the actual out-turn for any year will result in either an under or over recovery of revenue by ESB. Any such under or over recovery of allowed revenue is adjusted by the CER in subsequent years' price determinations. These year-on-year adjustments can cause material variations in the annual profits earned by the regulated businesses. The current accounting practice in this area does not allow the "smoothing" of such adjustments between years. The year end segmental results of ESB therefore reflect both trading in the current year, as well as adjustments relating to prior years. In particular in 2003, this resulted in the ESB Customer Supply business reporting unusually high profits of €88m, reflecting the impact of €40m of prior year under recovery.

Investment Programme

ESB invested over €650 million in the development and renewal of the Network infrastructure in Ireland in 2003. As part of the Network Renewal Programme the ESB Networks business completed approximately 17,000km of distribution network in 2003. This was achieved by a mixture of internal and external resources, with a significant volume of work being completed by sub-contractors employed by international construction firms. This achievement exceeded the target for network investment set out in our corporate strategy and highlighted both our project management competence and also our ability to deliver major work programmes.

The renewal of ESB's generation portfolio is a key business objective. Implementation of this progressed during 2003, with agreements being reached on the closure of a number of older peat stations. The construction of two state of the art peat plants as replacements progressed well in 2003 and they are on



target to commence operation in the next twelve months. Full market opening in 2005 poses a significant challenge due to the scale of the process and the IT developments that are necessary to enable a competitive market to operate effectively for all customers. The systems to enable market opening are currently being put in place. Over 300 people (staff and consultants) are currently engaged in this project, which is the largest IT project ever undertaken by ESB.

ESB International successfully reached financial close on a major investment in a 755MW combined cycle power plant in Amorebieta in Spain. The plant will operate under trading arrangements with Shell and demonstrates ESB's ability to operate successfully in the international arena.

Safety

The safety of our staff, contractors and the public is of primary importance within ESB. Customer safety, as well as the safety of the public, employees and contractors is treated with the utmost seriousness by ESB. We continue to work towards increased public and staff awareness of this issue. The reduction of accidents and near misses is a key focus of management and the objective is to achieve a zero injuries environment.

Unfortunately, it is with deep regret that we report the death of two staff members in a single accident in Tarbert, Mike Healy and Pat McCrohan. The accident was investigated both by ESB and independently by the Health and Safety Authority and all recommendations arising from these investigations will be implemented in full. These accidents, in addition to the death during 2003 of two contractors working for ESB Networks, reinforce the need for continuous vigilance in our commitment to safety.

Customers

Our strong customer service ethos has served the country well since ESB was founded. Ireland is a small market in electricity terms. It has a small population spread over a wide geographical area. The competing needs of low price, security of supply and quality of service are more difficult to balance for us than many of our much larger European neighbours. The solution is to have a pragmatic mix of competition where possible and sensible regulation where lack of scale does not facilitate this.

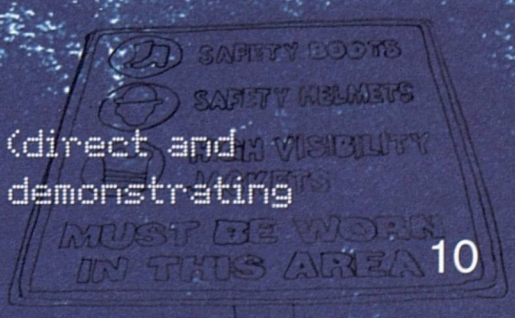
Prior to market opening, we had an effective monopoly on all aspects of the electricity industry. ESB recognised the significance that market opening would have on all our business lines and has reorganised accordingly. We have therefore been concerned to ensure that the changes in the electricity industry will ultimately bring benefits to customers and that customer service standards are maintained throughout the process of transition to full market opening. The individual business lines are discussed later in this report.

People

Our success to date is unquestionably due to the quality of our people and their dedication and commitment. We have high quality, well motivated and technically gifted staff, with a strong customer focus, who carry out their business to the highest professional and ethical standards. Our business has grown internationally and we have demonstrated time and again our ability to compete successfully abroad. It is encouraging that our expertise is now valued in so many countries overseas and in our home market.

HELPING TO REALISE THE VISION During 2003, ESB contributed approximately €2bn to the Irish economy, in the form of payroll, rates, energy purchases, interest charges, dividends and taxation.

This is significant in terms of both employment (direct and indirect) and expenditure in local communities, demonstrating ESB's commitment to Ireland.



Our success to date is unquestionably due to the quality of our people and their dedication and commitment

We are now in a rapidly changing business environment and we will need to ensure that our organisational capabilities continue to match the challenges of our business environment. We are committed to continuing to implement an effective partnership model with the Trade Unions and their representatives at all levels, to meet this challenge.

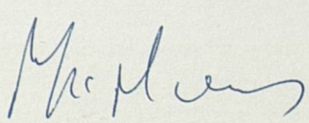
Reflecting this commitment, in 2003 ESB launched a new Human Resources strategy which is focused on ensuring that we support our personnel in meeting the challenge facing us, as we seek to implement our corporate strategy.

Conclusion

Following a landmark year in 2003, ESB faces further challenges in 2004 as we continue to invest in our asset base.

Our target of 20,000 kms of Network Renewal for 2004 is the most demanding to date. The commissioning of two new peat power stations in Ireland, the significant development of two international stations for completion in 2005 and the completion of the market opening programme, will present substantial challenges for ESB during 2004.

ESB is an Irish company that has served the Irish consumer for over 75 years. We are determined to achieve our strategic objectives, but are alert to the fact that these objectives need to be kept under review, particularly given the pace of change in the industry, to the benefit of our customers, our staff and owners.



Padraig McManus
Chief Executive
23 March 2004

Group Financial Performance

Group Financial Review

Retained profits rose by €62m to €182m, while net borrowings increased by over €700m to €1.6bn.

The significant increase in net borrowings has been driven by the substantial capital investment programme. This investment programme has been necessary because of the age and condition of the existing assets, as well as the phenomenal growth rates in electricity demand that Ireland has experienced over the last decades.

Looking forward, ESB is conscious of the need to maintain the financial health of the company, while achieving the national infrastructure objectives, consistent with Government policy. Recent price increases granted to ESB by the CER reflect both the agreed investment programme, as well as the funding needed to complete that programme.

Significant levels of capital investment can only be sustained in the long term if we continue to improve our profitability and control expenditure.

Highlights of 2003

Key financial indicators for 2003 and 2002 are shown in the table below:

	2003	2002	Change
Turnover from continuing operations	€2,342m	€2,151m	€191m
Profit before interest and tax	€354m	€251m	€103m
Dividend	€67.1m	€39.7m	€27.4m
Dividend per unit of Stock	3.39c	2.01c	1.38c
Capital Expenditure	€1,294m	€864m	€430m
Cash flow from operating activities	€531m	€563m	(€32m)
Net Debt	€1,603m	€902m	€701

Turnover

Turnover for the year increased by €191m. This was due to an increase of €159m in electricity income and an increase of €32m in other income. The increase in electricity income is due to a combination of factors including overall market growth, tariff increases in electricity sales to final customers by Customer Supply, and increased competitive sales in Northern Ireland. The tariff increases to final customers by Customer Supply include an amount of €40m, as an allowed adjustment for the under recovery of annual income prior to 2003.

The increase in other income reflects higher engineering project work in areas such as wind-farm construction, as well as greater activity in the UK utility market.

Profit before Interest and Tax

Profits for the year have increased by €103m to €354m. This was due to a number of factors, including increased electricity sales, recovery of income from prior years, growth in other income and higher profits from joint ventures, largely due to a full year of operation by the Synergen generating plant. In addition, there was a reduction in energy costs, which reflected lower output from ESB stations as independent producers entered the generation market.

These favourable variances were offset in 2003 by higher payroll costs, increased depreciation and increases in other operating costs. In addition, there were two asset impairment adjustments, in relation to the Telecoms Fibre-Optic asset and certain Hydro generation assets.

Dividend

2002 was the first year in which ESB paid a dividend. This amounted to 2.01 cents per unit of stock, totalling €39.7m. Based on the results for 2003, the Board proposes to pay a dividend of 3.39 cents, or €67.1m in aggregate.

Capital Expenditure

Capital investment increased by €430m to €1,294m, a record for ESB and a significant indication of the commitment by ESB to providing Ireland with a world class electricity infrastructure. Capital expenditure is set to increase further in 2004.

The following table illustrates the spread of capital expenditure during 2003, compared with that for 2002:

	2003 €m	2002 €m	Change €m
New connections	164	144	20
Distribution networks	375	260	115
Transmission networks	111	136	(25)
New generation/renewable energy	256	117	139
Coolkeeragh power station in NI	80	68	12
Amorebieta power station in Spain	200	18	182
IT Expenditure	61	38	23
Other investment in premises, transport, etc.	47	83	(36)
	1,294	864	430

Some operational statistics may put these numbers into context. New connections in the Distribution business totalled over 77,000, up from 63,000 in 2002. As part of the programme to renew the existing Distribution network, approximately 17,000 kilometres were replaced in 2003, compared to approximately 6,000 in 2002. The equivalent target for 2004 is 20,000 kilometres.

The investment in new generation and renewable energy projects in 2003 primarily represents expenditure on the new peat stations in the Midlands, peaking capacity plant as well as a number of wind-farm projects in Ireland.

The Coolkeeragh power station in Northern Ireland is due to be commissioned and commence commercial production in early 2005 and will complement our existing competitive supply business in Northern Ireland. The station in Amorebieta in Northern Spain is due to commence production in the Summer of 2005.

Capital investment increased by €430m to €1,294m, a record for ESB and a significant indication of the commitment by ESB to providing Ireland with a world class electricity infrastructure.

ESB is committed to facilitating the opening up of the electricity market in Ireland. For this reason, and after full consultation with the CER, over €40m of capital was spent on new IT systems, required to enable other electricity suppliers to compete in the Irish market.

Continued capital investment, particularly in the national infrastructure, is a key driver of the price of electricity and impacts directly on ESB's requirement to increase borrowings at home and abroad. As indicated in the table below ESB is currently funding the majority of its capital programme from new debt.

Cash Flow and Net debt

The table below illustrates the relationship between retained profit and the increase in net debt.

Profit & Loss Account €m		Cash Flow Statement €m
326	Operating Profit	326
28	Profit/Dividends from Joint Ventures	15
	Depreciation & amortisation	297
(105)	Interest and tax	(77)
(67)	Dividends	(20)
	Provisions & working capital	(91)
	Capital expenditure	(1,151)
182	Retained Profit/Higher Net Debt	**(701)**

Net borrowings have increased by €701m since December 2002.

Consideration had been given to a credit rating for ESB in order to raise funds via the public bond markets. The growing attractiveness and competitiveness of the US Private Placement market provided an alternative source of funds and negated the need for a credit rating, which had been envisaged. In December 2003, ESB announced the successful negotiation of one of Ireland's largest private placement financing deals. The US$1.034bn deal, which will fund major improvements in Ireland's power infrastructure, was finalised in the US on 15 December 2003.

In addition to the private placement, ESB also entered into a separate €500m revolving credit facility. The facility will be drawn on as and when necessary and was established to ensure liquidity is constantly available and assist the overall funding programme.

In early 2003, non-recourse project financing facilities of over €600m were finalised, for the Amorebieta project near Bilbao in Northern Spain. Where appropriate, non-recourse debt will be used to finance projects both at home and internationally in order to mitigate project risks, if funds can be raised at attractive rates.

ESB will continue to make substantial investment in infrastructure over the next five years. Accordingly net debt is expected to rise significantly in the short term, as the extent of the planned capital investment programme exceeds cash flows generated in the business. This will as a minimum necessitate further borrowing in 2004 and 2005.

Financial Risk Management

TREASURY MANAGEMENT

Framework for Treasury Operations

The Board has approved policies for the main areas of financial risk faced by the Group. These include market-related risks such as interest rates, liquidity and foreign exchange, and risks associated with the treasury control framework within the Group. Group Treasury is responsible for managing all treasury activities for the Group, in accordance with Board approved policy, including cash management, foreign exchange transactions, funding, debt and counterparty credit risk. Treasury activity is subject to regular review and monitoring by the Finance Committee, a sub-committee of the Board.

Derivative instruments are used to mitigate some financial risks, in compliance with the Specification of the Minister for Finance issued under the aegis of the Financial Transactions of Certain Companies and Other Bodies Act 1992. This Specification authorises semi-state companies to use certain specific derivative instruments and specifies the manner in which they should be transacted. The Group does not engage in speculative trading in derivative financial instruments.

Foreign Exchange Management and Interest Rate Management

The majority of the Group's business is transacted in Ireland or within Europe. Therefore, operating and investing cash flows are substantially denominated in Euro. Foreign currency exposure arises from payments for (i) fuel and other materials and services, (ii) foreign exchange payments and receivables where business is carried on outside the Euro zone, and (iii) foreign currency denominated debt.

The Group manages the majority of its fuel-related foreign exchange exposures against a fuel price recovery mechanism, based on indexation, which was agreed with the CER and approved by the Board in 2002. Other material foreign currency denominated payments and receivables are hedged as appropriate. The Group's policy is to borrow directly in Euro or to convert any foreign currency borrowing to Euro (through the use of derivative instruments), other than in specific instances where foreign currency denominated debt is matched by a foreign currency denominated asset or net revenue flow. At the end of 2003, 92% of ESB's debt was effectively denominated in Euro.

The Group's policy is to have a minimum of 50% of the debt portfolio at fixed rates of interest, subject to cost and market outlook. At the year-end, 92% of ESB's portfolio was at fixed interest rates, with an average coupon of 5% and average maturity of approximately 10 years.

Liquidity and Cash Management

The Group's policy is to hold cash levels as required to meet short-term business needs, other than in specific instances where favourable market conditions justify pre-funding, such as the private placement transaction completed in December, 2003. As a result of this transaction, the Group had cash balances amounting to €567m at the end of 2003.

The Group invests its excess cash in low risk investment accounts and spreads risk over a number of institutions.

Given the significant borrowing requirements of the Group over the next few years, substantial liquidity facilities have been put in place to bridge longer-term funding, such as public bond market or further private placement transactions. At the end of 2003, undrawn committed corporate facilities in excess of €1billion were in place.

Credit Risk related to Treasury Activities

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts cash investment, foreign exchange and derivative business. The Group's policy is to limit its exposure to each financial institution based on accepted credit rating. Exposures and related limits are subject to ongoing review and monitoring.

Dealing activities are controlled by putting in place robust dealing mandates with its counterparties.The Group has not experienced any losses due to failure of counterparties to deliver on their obligations.

Given the significant borrowing requirements of the Group over the next few years, substantial liquidity facilities have been put in place to bridge longer-term funding, such as public bond market or further private placement transactions.

Taxation

The taxation charge in 2003 represents current tax payable and deferred tax payable on profits earned for the financial year.

PACT Savings and Exits

The Programme to Achieve Competitiveness and Transformation (PACT) is an agreement between the Board of ESB and the ESB Group of Unions in 2001. The purpose of PACT is to increase cost efficiency, introduce new and more efficient work practices, reduce staff numbers and facilitate the employment of external contractors in core network and generation activities.

To date, PACT has delivered significant benefits to ESB. Internal resources have been complemented by external contractors, who have been used to carry out capital construction work in ESB Networks and station overhauls in Power Generation. Working practices have been rationalised and many administrative functions have been reorganised to facilitate best in class working practices and IT systems. Staff numbers, primarily in the core electricity businesses, have been reduced by over 1,000 since 2001.

Financial savings due to PACT reflect underlying payroll reductions of €48m and other savings, chiefly in the area of procurement and administrative costs, of €47m. ESB is committed to the full implementation of PACT and to the achievement of the financial savings and staff reductions planned.

Pension Scheme

The requirements of Financial Reporting Standard 17 have been included in the Notes to the Accounts, in accordance with the transitional rules for the adoption of this accounting standard. However, the long-term funding position of the Pension Scheme and required contributions are based on the formal triennial actuarial valuation. The Scheme actuary is currently carrying out such an actuarial valuation as at 31 December 2003.

Looking Ahead

Over the next number of years, ESB faces a number of operational and financial challenges. In financial terms, the following are key areas of attention for management:

- the rapidly increasing levels of debt, driven by the continuing capital investment programme,
- the control of costs,
- the full achievement of PACT targets and
- the managing of fuel volatility and environmental costs.

These will be key issues in future years, with serious implications for the price of energy in Ireland.

Power Generation Review

Financial Review

	2003 €m	2002 €m	Change €m
Turnover			
- Internal	883.6	856.3	27.3
- External	97.4	193.6	(96.2)
Profit before interest and tax	62.0	30.4	31.6
Capital expenditure	270.0	138.7	131.3

Turnover

In 2003, the main sources of income for Power Generation were sales to Customer Supply and Top Up sales to independent producers. Total turnover fell by €69m in 2003 reflecting Power Generation's decrease in market share from 85% in 2002 to 69% in 2003.

Profit before Interest and Tax

Power Generation, including Power Generation Holdings, achieved profits of €62m during 2003. This was considered a satisfactory performance in the context of a difficult year in terms of plant performance and is inclusive of costs which Power Generation should recover in future years under the prevailing regulatory regime.

Capital Expenditure

During 2003 Power Generation undertook a significant capital expenditure programme with the main investment taking place on the continued development of the new peat stations and the installation of peaking capacity plant. Looking ahead, this significant capital programme will continue for the next number of years with investment planned in the repowering of Aghada, upgrading plant to ensure environmental legislative compliance and further development of our wind programme.

This is a significant challenge for Power Generation, but we are confident that we have the expertise both technical and commercial to bring these plans to fruition and so deliver a competitive portfolio of efficient plant, for the benefit of our customers and the evolving energy market in which we participate.

Fuel

Fuel accounts for approximately 50% of Power Generation's operating costs and is one of the single biggest cost inputs into the price of electricity. Power Generation buys its fuel in the global fuel markets and is benchmarked independently by CER against published market price indices. As in 2002 Power Generation secured its fuel at or below published indices, thus contributing significantly to ensuring energy is delivered at least cost to the market and to our customers.

Fuel markets by their nature are volatile and with transparent cost reflective tariffs a feature of the new market, customers can expect this volatility to emerge as a factor impacting on electricity prices going forward.

Operational Review

ESB Power Generation includes all power generation assets owned and operated by ESB in the Republic of Ireland. At the end of 2003, these totalled 4,705MW of installed capacity, including ESB's 70% share of Synergen, a 400MW independent power plant located in Ringsend, Dublin.

Through the Power Generation Holdings Group, Synergen and a range of renewable energy projects operate separately from the rest of Power Generation under CER licences which require strict ringfencing of operations.

The following paragraphs outline progress against Power Generation's key strategic priorities during 2003.

Safety

Safety has always been a fundamental objective and our goal is to create and sustain a healthy and injury free environment. However, the event which overshadowed the year was the tragedy that occurred in our Tarbert plant on July 3rd which resulted in the death of two of our colleagues and the serious injury of another. This tragedy served to reinforce the importance of our fundamental objective of creating and sustaining an injury free environment in Power Generation. We have now completed a full investigation into the accident and appointed a project manager to ensure that all recommendations arising from the investigation will be fully implemented in all locations. Overall safety performance improved during 2003 with a continuation of the downward trend in lost time accidents.

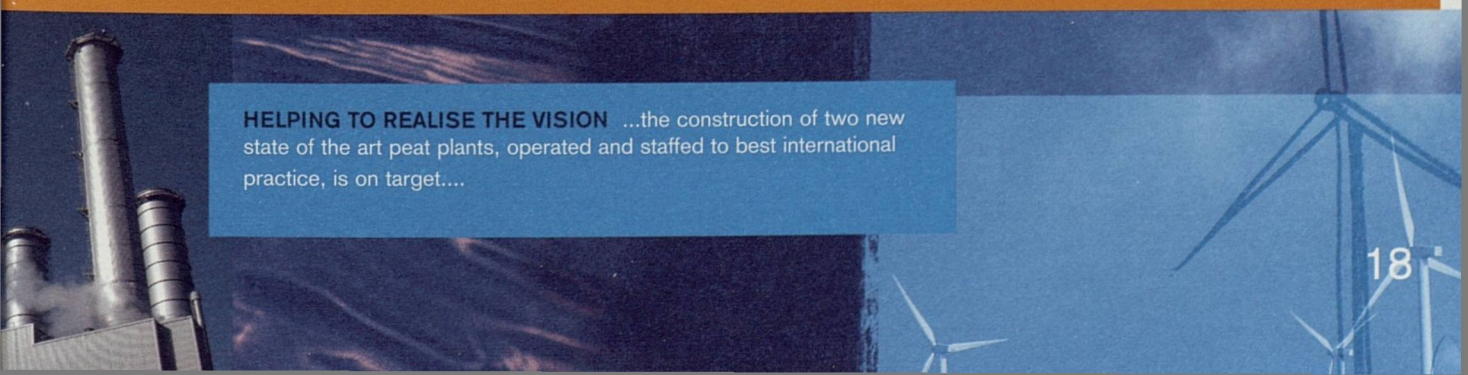
Plant

From a capacity perspective, 2003 continued to be a very difficult year with a decrease in plant availability (due to work required to keep ageing plant operational), the continued rise in the peak demand for electricity, as well as slower than anticipated entry into the generation market by competitors.

To meet demand, following approval by the CER, Power Generation entered into a contract with Northern Ireland Electricity to import power from Northern Ireland and also installed 104MW of peaking capacity plant in Cork and Mayo. This resulted in an additional combined total of 274MW of electricity generation being available by year end. Following several years of high station utilisation (to cope with demand growth) Power Generation had the opportunity to deliver its largest plant overhaul programme in five years during 2003. This significantly improved plant availability during the last quarter of the year, helping to meet overall system capacity requirements.

Power Generation also advanced its significant capital expenditure programme aimed at restructuring its plant portfolio. The construction of two new state of the art peat plants, operated and staffed to best international practice, is on target to come into operation in late 2004 and early 2005. Significant progress was made during 2003 in the planned closure of the old peat stations - Rhode, Cahirciveen and one unit in Lanesboro.

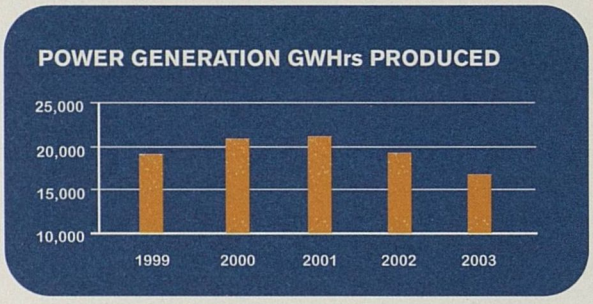
We continued to develop our renewable energy business and are currently progressing the construction of a number of wind farms. The recently introduced moratorium on new grid connections is likely to cause delay to other projects in the pipeline. Construction of a 60MW wind farm at Derrybrien suffered a set back in October when a peat slide occurred in the vicinity of the site. Power Generation through its subsidiary Hibernian Wind Power Limited is fully committed to implementing the recommendations of the various technical reports into the incident to ensure the site is safe into the future.



HELPING TO REALISE THE VISION ...the construction of two new state of the art peat plants, operated and staffed to best international practice, is on target....

Customers and the Energy Market

At year end, Power Generation's market share had reduced to 69% and with the planned entry of two new competitive power generators to the market we are on target to reduce our market share to 60% in the coming years. The following table illustrates the reduction in Power Generation output, primarily reflecting the entry of the Synergen and Huntstown stations into the market.



During 2003 Power Generation auctioned 400MW of discounted wholesale generation to independent suppliers, in order to support the continued development of a competitive electricity market in Ireland. Power Generation also provided additional power to competitors as required, at regulated prices. Electricity production by the competitive generation companies, in excess of their needs for their own customers, was also bought by ESB at a regulated price. These ESB purchase and sale arrangements are available to market participants, to facilitate their balancing of output and demand and to manage risk in the developing market.

During the year, Power Generation consolidated its newly developed capability in trading and risk management in the fuel markets, to minimise the overall cost of fuel and to deliver wholesale energy at least cost to our customers. Finally, 2003 was an active year in terms of contributing to the various industry fora on the development of the new wholesale market arrangements beyond 2005. Power Generation's objective is to help define arrangements which are fair to all market participants while ensuring best value for customers.

Environment

All Power Generation thermal power plants operate under a system of IPC licensing. All thermal power plants, other than Bellacorick and Lanesboro, have Environmental Management Systems (EMS) accredited to ISO 14001. Bellacorrick has a non-accredited EMS in place. Output of NOx and SO2 for 2003 is in accordance with emission limits agreed with Government. A significant amount of progress was made during the year evaluating the technical and financial implications of various EU environmental directives on Power Generation and also inputting to the national debate on these issues. A particular focus has been on agreeing the technical options for Moneypoint as key decisions will be required to be made regarding the future of this plant during 2004.

Looking Ahead

Power Generation is operating in a new environment, which continues to change at pace. In this context, 2004 will be another challenging year for the business.

Looking forward, key challenges facing the business include the following :

- Creating and sustaining a healthy and injury free environment,
- The completion of a large plant overhaul programme and advancement of the significant capital expenditure programme aimed at improving plant availability and restructuring the plant portfolio, so as to deliver a competitive portfolio of efficient plant that fully complies with environmental legislation.
- To put in place the systems, structures and competencies to deal with the new wholesale market, and;
- An ongoing drive to deliver improved financial performance and efficiencies.

Power Generation's objective is to help define arrangements which are fair to all market participants while ensuring best value for customers.

Customer Supply Review

Financial Review

	2003 €m	2002 €m	Change €m
Turnover			
- Internal	28.0	17.7	10.3
- External	1,632.4	1,487.7	144.7
Profit before interest and tax	88.7	(12.1)	100.8
Capital expenditure	2.8	2.0	0.8

Turnover

Electricity sales have increased by €145m in 2003 to €1,632m. The improvement reflects higher customer tariffs in 2003 offset by a 2% reduction in overall market share to 69%.

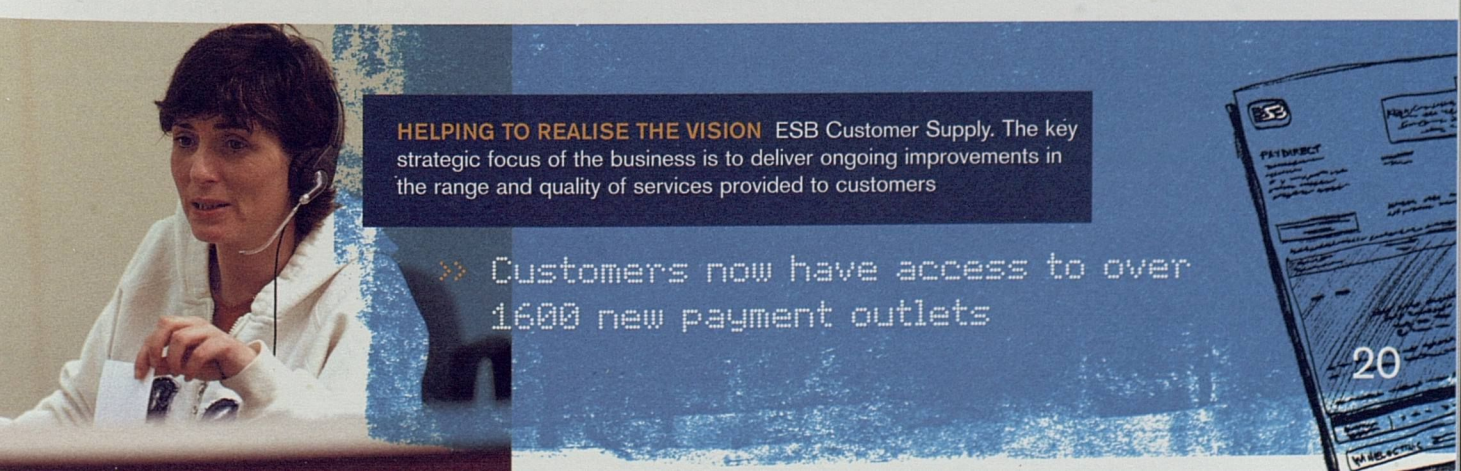
Profit before Interest and Tax

The financial performance of ESB Customer Supply improved from a loss of €12.1m in 2002 to a profit of €88.7m in 2003. The outturn reflects the impact of €40m of revenue deferred in prior years, the price increase and a smaller reduction in market share than that assumed when the electricity tariffs were set. This over-recovery of tariffs in 2003 due to higher market share will be returned to customers as part of the electricity price review process in 2004 and 2005.

The volatility in profits in Customer Supply year on year reflects the timing variations between costs and revenues that are encapsulated in the Regulatory formulae which govern tariff setting. The true underlying profitability of the business can only be seen over a 3 year period. The results for 2001-2003 indicate an underlying average annual profit on electricity sales of about €20m which corresponds to an allowed regulated margin of just over 1% on turnover.

Operational Review

Customer Supply provides electricity to all customers based on published tariffs which are approved by the CER. The published tariffs provide a market price against which Independent Suppliers may discount to secure market share from Customer Supply. During 2003 customer numbers grew by around 57,000, again demonstrating the high level of activity in new house building and the economy in general. Overall market share at 69% was slightly down on 2002 reflecting slower than anticipated entry of new market participants and a low level of uptake by Independent Suppliers of the discounted generation production made available by Power Generation during 2003. The overall Supply market opened to 40% in 2003 providing the opportunity to chose supplier to a further 1,200 eligible customers.



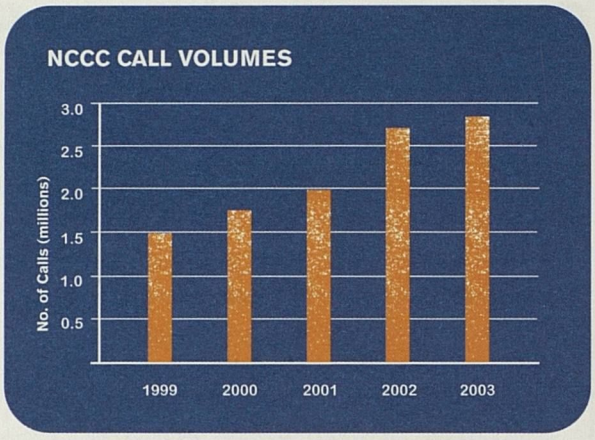
Customers

ESB Customer Supply provided a wide range of energy and related services to its 1.78m customers during 2003. The key strategic focus of the business is to deliver ongoing improvements in the range and quality of services provided to customers while reducing the 'cost to serve'. Further progress was made during 2003 against this objective as outlined below:

- ESB Customer Supply issued 11 million bills and collected €1.6bn in income on behalf of ESB Group during 2003. At the same time, the level of customer complaints as measured by ELCOM, the independent complaints commissioner, was considered "very small when related to the scale of commercial activities". Notwithstanding this a new Customer Complaints System was put in place during 2003. The focus is not just on capturing breakdowns in service that resulted in formal customer complaints, but capturing all issues that are resolved at the front line to ensure that systems and processes are changed to better meet customers' needs and expectations.

- During the year the provision of bill payment facilities was further expanded. Now, in addition to ESB shops, bills can be paid at Post Offices and Paypoint locations throughout the country. Customers now have access to over 1,600 new payment outlets. This expansion was a key element in allowing the business to close 27 service shops during 2003, contributing to reducing the overall costs while improving the level of service provided to customers.

- The National Customer Contact Centre (NCCC) has become the primary point of contact with customers. During 2003, the NCCC handled 2.85 million customer calls while continuing to deliver strong service performance. ESB Customer Supply is particularly proud to record that one of the NCCC agents, Joy Clifford, won the Irish Contact Centre Agent of the Year Award in November.



- ESB Customer Supply provides a wide range of energy awareness and efficiency advice to customers to ensure they get maximum value for money from the product. Each year actual energy savings are delivered for each customer group, against targets set by CER. In 2003 these targets for energy savings set by CER, were exceeded, helping customers to achieve over €3m in annual energy savings.

Looking Ahead

The 2004 tariff review, approved by the CER in September, resulted in an average increase of approximately 5% in ESB Customer Supply retail electricity prices. The new tariffs apply from January 2004.

In 2004 a key element of business strategy will be to continue to invest in technology and process change. This investment will leverage both the experience and commitment of staff, so that the business can continue to deliver the quality of service that meets customer expectations and the challenge of full market opening in 2005.

The implementation of a new billing system, required to support the development of the competitive market, is a key challenge in 2004. Delivering this major project will involve a significant resource commitment of experienced teams across the ESB Customer Supply business throughout the year.

ESB Networks Review

Financial Review

	2003 €m	2002 €m	Change €m
Turnover			
- Internal	689.9	620.4	69.5
- External	159.3	114.7	44.6
Profit before interest and tax	216.1	211.8	4.3
Capital expenditure	671.7	574.4	97.3

Turnover

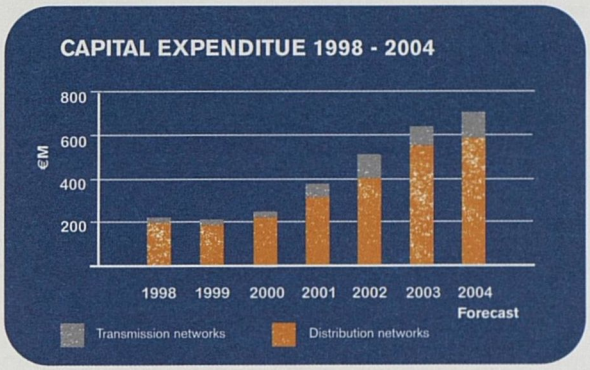
Turnover consists primarily of Distribution and Transmission use of system income, both of which are determined by the CER. Turnover increased by €114m in 2003, €43m of which is due to the pass through of the PSO levy in 2003. The balance of the increase is mainly due to inflation and increased investment in the networks.

Profit before Interest and Tax

The level of profits in the networks businesses reflects the capital intensive nature of the business and the current high investment levels. Under the regulatory income formula, the return earned by Networks is the minimum required, in order to finance the capital investment in the Distribution and Transmission networks. This return is considered modest, when compared to non-regulated investment yardsticks.

Capital Expenditure

ESB Networks is currently undertaking a significant investment programme to upgrade, develop and renew the distribution and transmission networks. Total spend in 2003 was €672m, the highest ever achieved in a year for the business. The drivers of this spend are set out in the operational review below.



Operational Review

ESB Networks comprises the transmission and distribution network infrastructure businesses in the Republic of Ireland. Activities include planning, construction, maintenance and operation of the networks. All electricity customers, as users of the distribution and transmission network, are customers of ESB Networks, regardless of their supplier. ESB Networks is regulated by the CER.

ESB Networks is also responsible for providing market services to all market participants to enable the functioning of the competitive electricity market. These services include the roles of meter operator, data collection (meter reading) and Meter Registration System Operator (MRSO). The supply market will be fully opened for all customers by February 2005. ESB Networks is now engaged in delivering a major IT investment program and wide-ranging business process change critical to the effective functioning of a fully open market.

As part of the market opening process and in compliance with European directives and national legislation, the operation of the transmission system will be conducted independently of ESB. The licence for Transmission System Operator (TSO) was issued in 2001, to EirGrid plc, an independent company. However, pending the coming into effect of the full TSO license, the TSO role continues to be performed by ESB National Grid on a ring fenced basis.

Safety

The safety of customers, staff and contractors is a core value for ESB Networks. While overall safety performance has improved significantly over the last number of years, 2003 was marked by the tragic deaths of two contractors in accidents. There is still a significant challenge to achieve the vision of having no one injured while working on or coming into contact with the networks.

The safety of the public is a key driver of all work programmes and the business will continue to work towards increased public awareness of the dangers of accidental contact with the networks.

Environment

During 2003, a dedicated Environment Manager was appointed in Networks to proactively manage Environmental and Waste Management obligations and to ensure the business has appropriate systems in place that comply with existing and emerging legislation.

Customers

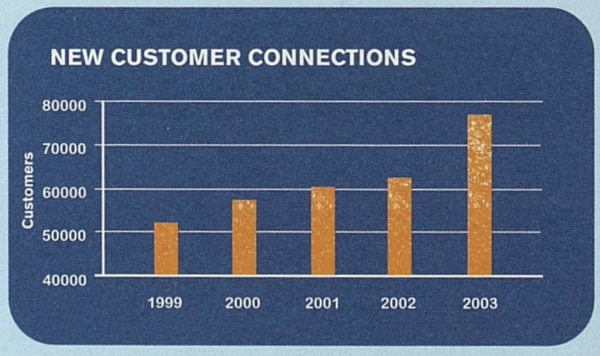
ESB Networks is dedicated to delivering service excellence to all electricity customers, regardless of their supplier. The quality and continuity of electricity supply are key drivers of the network investments programme. A number of specific initiatives were introduced during 2003 to improve customer service including reduced average connection times, a centralised bureau to streamline the handling of new connections and a 24 hours a day, 7 days a week query handling service for our largest customers.

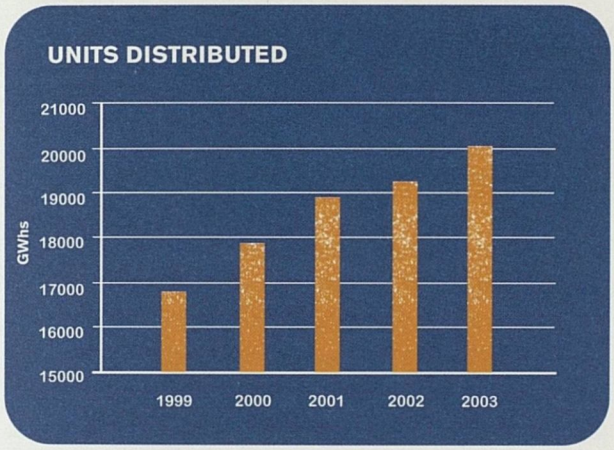
Infrastructure Investment

ESB Networks is expecting to invest approximately €3bn over the next five years on the distribution and transmission networks. ESB has shown through the growth in capital expenditure over the last few years that it has the capability to deliver major infrastructure projects to time and cost targets. This has been achieved through the combined efforts of Networks' staff complemented by increased use of external contractors.

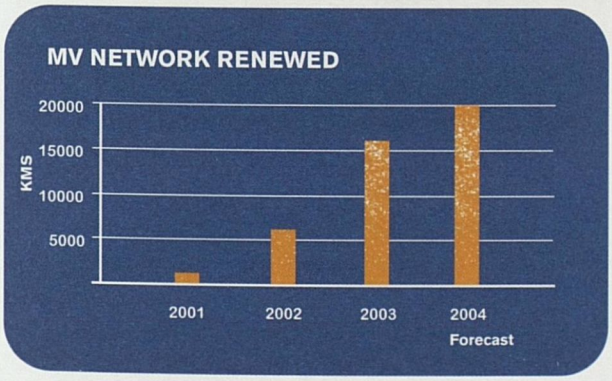
The key drivers of this investment are:

- To meet the continuing growth in new connections. The table below illustrates the trend in new connections over the last few years showing the record level of over 77,000 in 2003.





- To cater for growth in demand. The growth in demand for electricity continues to be high, illustrated by the increases in units distributed in the graph above. A number of major high voltage distribution and transmission projects across Ireland have been completed and more are planned to support economic development throughout the country and to support the governments' spatial strategy. This includes building the infrastructure to connect new generation capacity including wind-farms to the networks. During the year, a further 150kms of transmission lines and a number of new high voltage stations were constructed to increase the capacity of the transmission networks.



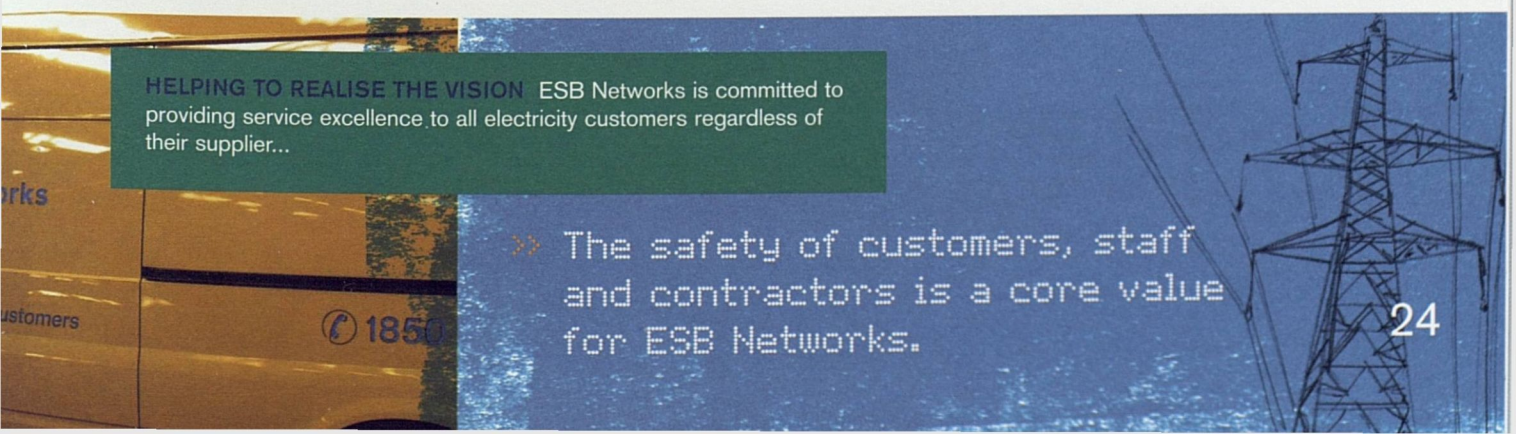
- To improve the quality of supply, reliability, safety and resilience. One of the biggest programmes currently underway to achieve this is the rebuilding of all medium voltage (MV) rural networks some of which are up to 70 years old. The total 75,000 kms of MV network will be renewed by the end of 2005. In 2003, 16,600 kms of this was achieved, which was a major step change on anything achieved in a single year before. It is intended to commence renewal of the low voltage networks in 2006. The table to the left illustrates the investment in the MV rural network renewal.

Looking Ahead

2004 will be another challenging year in terms of delivering further significant capital investment, to meet growth and deliver a quality service to customers.

Looking forward, other key challenges include:

- continuing to drive safety performance as an integral part of ESB Networks.
- enhanced customer service in terms of quality and reliability of supplies and improving response times to customer needs.
- delivery of the full range of market opening systems and services to ensure the successful introduction of full retail competition in February 2005, and
- ongoing drive for improved efficiencies and cost performance to ensure continued value for money for all customers and supply companies using ESB's networks.



Commercial Enterprises Review

Financial Review

	2003 €m	2002 €m	Change €m
Turnover			
- Internal	186.8	195.7	(8.9)
- External	473.2	449.9	23.3
Profit before interest and tax	13.9	27.1	(13.2)
Capital expenditure	308.3	153.4	154.9

Turnover

External turnover at €473.2 million has increased on the previous year by €23.3 million (5%). This change is primarily attributable to increased activity in ESB International.

Profit before Interest and Tax

The reported profit for the business decreased to €13.9m. However, the underlying performance of the business has improved significantly on the results for 2002, with profits increasing by €19.2 million, after excluding the exceptional write down in relation to the Fibre-Optic Network (see Note 8 in the Accounts). This improved result reflects increased turnover and continued investment in the business.

Capital Expenditure

Construction proceeded on gas fired generating plants at Coolkeeragh in Northern Ireland and Amorebieta in the Basque region of Spain. These plants, which involve a capital investment of over €800 million, will both begin commercial operation in 2005. In addition, the market opening project, which will provide the required IT infrastructure to support full electricity market opening, was mobilised during 2003 and is on track to be operational by 2005.

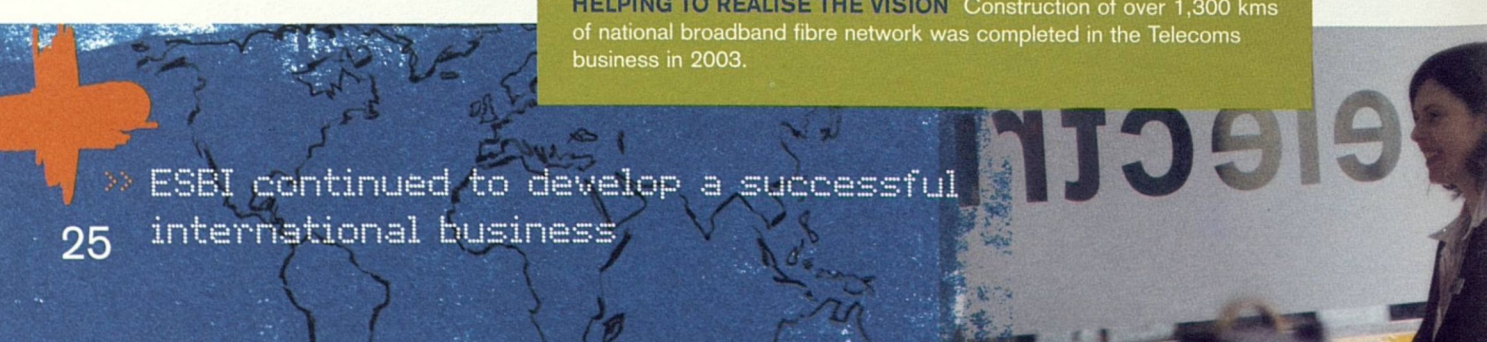
The ITS & Telecoms business area completed the construction of the 1,300km national broadband fibre telecoms network in 2003. This was achieved at lower cost than conventional means by wrapping 24 pairs of optical fibre on the ESB electricity transmission network.

Operational review

Commercial Enterprises is responsible for the non-regulated businesses in the Group. It has five main business areas:

- ESB International (ESBI) owns and manages the construction of the Coolkeeragh and Amorebieta stations and is also engaged in consultancy engineering, construction and investment activities in over 40 countries.
- ITS & Telecoms provides IT and communications services for ESB and external customers.
- Retail/FinancElectric operates a nationwide chain of electrical retail shops and provides credit financing for its customers.
- ESB Independent Energy (ESBIE) operates as a licensed supplier in the competitive electricity markets in Northern Ireland and the Republic of Ireland.
- Shared Services provides property, facilities management, training, human resources, payroll and other services to ESB Group.

HELPING TO REALISE THE VISION Construction of over 1,300 kms of national broadband fibre network was completed in the Telecoms business in 2003.



» ESBI continued to develop a successful international business

Commercial Enterprises' objective is to grow profitability in each individual business area, thereby providing a contribution to profit growth within ESB Group.

ESBI continued to develop a successful international business and in particular:

- was appointed as engineer for the construction of 2,000 MW of coal fired plant in Vietnam and Indonesia in association with partners ESKOM (South Africa),
- constructed 40 MW of wind generation as turnkey contractor in Ireland, and
- assumed responsibility for the operation and dispatch of the transmission grid in Georgia (former USSR). This five year contract is sponsored by the World Bank and includes management of the Georgian State Electro System which comprises 4,500 employees.

Customers

2003 was a year of significant achievements for the business. ESBIE's customers in the Republic of Ireland account for 8% of the total electricity market there, or 21% of the eligible market. ESBIE also provides a range of tailored value-added services to its large industrial customers. The most popular value-added services include Energy Management packages, Energy Efficiency advice and associated consulting services.

In preparation for the commissioning of Coolkeeragh in early 2005, ESBIE grew its Northern Ireland business by over 40% during 2003 and established a Belfast office. ESBIE now supplies electricity to most of the largest sites in Northern Ireland with its customers accounting for 14% of the total electricity market in Northern Ireland and 39% of the eligible market.

Safety

Commercial Enterprises apply best ESB safe business management standards and practices across all its businesses, both in Ireland and abroad.
The completion of safety audits and safety inspections was monitored throughout 2003. The emphasis on monitoring contributed significantly to the identification of areas for improvement, visibly demonstrating management commitment to working safely. In addition, there was steady progress on a number of safety actions and initiatives in 2003, with a significant amount of safety related training also delivered.

Commercial Enterprises is committed to achieving injury-free workplaces and worksites at home and abroad. Building on the safety lessons learned in 2003, a number of safety themes have been developed for inclusion in all 2004 local safety improvement plans. These themes include identification of root causes of injuries, more staff involvement, improved communications and getting more value from safety audits.

Looking Ahead

We expect that the current year will bring steady growth in Commercial Enterprises in terms of both turnover and profitability. The retail appliance sales business is currently undergoing a high level business review, which will be completed in the current year. ESBI will continue to focus on completing the Coolkeeragh and Amorebieta power plant projects on time and within budget. Other investment opportunities are currently being developed in the EU market.

In 2004, the electricity market in Northern Ireland will open further on a phased basis such that, by the end of 2004, it is expected that all business customers in Northern Ireland will be able to choose their electricity supplier. ESBIE is now positioning itself to meet the needs of customers in this market segment.

ESBIE is well positioned to grow its existing customer base in the Republic of Ireland, during 2004, due to the opportunities that will be provided by further market opening.

Transmission System Operator Review

Operational Review

National Grid is currently the Transmission System Operator and Market Operator for Ireland. The role of the Market Operator is to settle the balancing market for electricity, both constraints and imbalances. While 40% of the electricity market has been open to competition since 2002, independent demand settled under the trading and settlement codes has increased from 26% in 2002 to approximately 31% in 2003.

Non Transmission Capital Expenditure

Towards the end of the year National Grid commenced work on certain aspects of a new electricity settlement market in accordance with SI 304 of 2003, resulting from a review of the existing market performed by the CER. This project is scheduled to take in excess of three years to complete.

In addition a project to install and commission a new national energy management system and a business continuity centre for National Grid is progressing on schedule. Completion is expected in mid 2004.

System Operations

The continuing high growth in demand coupled with the pressure on system capacity margin has resulted in some operating difficulties during 2003. However, despite these difficulties a secure and reliable supply was maintained during the year. The highest ever gross system peak of 4,415MW was supplied on the evening of Tuesday 7th January 2003.

There were no major incidents on the transmission system during the period. Interconnection with Northern Ireland continues to play an important role in maintaining the security of both the Northern Ireland and Republic of Ireland systems. While transfer capacity from the Republic of Ireland to Northern Ireland is very limited there is significant capacity available from Northern Ireland to the Republic of Ireland which is being used for trading and generation capacity support for the Irish system.

Corporate Social Responsibility

In our Annual Report for 2002, we set out our intention to establish a Corporate Social Responsibility (CSR) framework to enable us to measure our social contribution as a company. The concepts that underpin CSR - integrating social, environmental, and ethical concerns into business processes and interaction with stakeholders – are not new to ESB. These concerns have always informed our policies and practices. What we are doing differently is developing mechanisms for measuring, reporting on, and improving the impact of our activities.

In developing our CSR framework, we are supported by our involvement with Business in the Community, Ireland (BITC). ESB is a founder member of BITC and in October 2003 signed the Corporate Social Responsibility Charter, formally committing to open and transparent dialogue with customers, employees, suppliers, business partners, Government and the community.

Managing in a responsible and ethical way assumes added importance as the complexity of our business grows and the demands on people, resources and the environment increase. We regard CSR as a source of significant benefits to the company and a means of building on our reputation. We have appointed a CSR Co-ordinator and have engaged in a review of the core values which underlie our behaviour. Outlined below are some of the actions currently being taken in the areas of Environment, Staff, Customers and Community.

Environment

One of our key objectives is to conduct our activities in an environmentally responsible manner. Our corporate concerns in this area transcend the legal obligations imposed upon us and our policy commits us to continuously improve our environmental performance. The following activities are central to the implementation of this policy:

- reduction of the levels and impact of "greenhouse gas" emissions through long-term restructuring of our portfolio of fossil fuel generating plant, development of wind and other renewable energy plant and promotion of energy efficiency,
- making the investment necessary to facilitate national compliance with the emission limits set by EU Directives on acid gasses - sulphur dioxide (SO_2) and nitrogen oxides (NO_x),
- development and maintenance of ISO accredited environmental management systems at power plants and in our networks business,
- development of a comprehensive waste management system, in line with EU and national policy and frameworks, and
- monitoring, applying and communicating the findings of the most up-to-date scientific research in relation to electric and magnetic fields, at all stages of design and operation of our systems.



HELPING TO REALISE THE VISION The seventh year of the ESB Environmental Photography Awards attracted a record number of entrants both Irish and International.

In line with our commitment to Corporate Social Responsibility, we ensure that all our major sites have procedures for handling both enquiries and complaints. Every effort is made to prevent environmental incidents, but when they do occur, they are reported and thoroughly investigated through the environmental management system. One such incident, a landslide in Derrybrien Co. Galway, has been investigated by independent consultants and the report has been made public.

Staff

We have long valued our position as an employer of first choice in Ireland. Our intention has been, and will continue to be, to provide a working environment where safety is a priority and where staff are motivated to excellent performance and continuous learning.

Some key elements of our human resource management activities are as follows:

- provision of an extensive range of employee benefits, many of which exceed the statutory minimum,
- fostering mature, trusting and progressive relationships with trade unions in order to implement an effective partnership culture,
- provision of working arrangements and facilities to assist staff who face challenges in managing their working lives due to family responsibilities, illness, or personal stress,
- implementation of equality measures to ensure that all staff have an opportunity to progress, regardless of gender, marital status, age, or disability,
- providing training programmes focused on building the capability and competencies required to ensure personal and organisational success,
- provision of educational opportunities for staff to achieve third level qualifications,
- provision of a programme of advice, support and training for staff who avail of voluntary redundancy or relocate within the company, and
- encouragement of retired staff to maintain contact with their former colleagues through company-supported events and provision of access for them to health care and employee assistance programmes.

In relation to safety, we are committed to a goal of zero injuries to staff, contractors and members of the public. During 2003 the Executive Team launched a series of initiatives targeted to deliver further significant reductions in the number of lost time injuries in the company and for the first time last year all of the executive team and their senior managers personally conducted safety audits.

Sadly, following a trend of reducing injuries in recent years, as already described, there were a number of deaths resulting from ESB Group activities in 2003. This was devastating for their families, communities and colleagues. Our initial concern was to offer support to the bereaved and then to carry out detailed investigations of the causes of the tragedies, with the intention that similar circumstances would never arise again. The rate of injury resulting in lost time has reduced each year since 1998 and is now at a historically low level.

Customers

With approximately 1.8 million customers, ESB is one of the largest service providers in Ireland. The Irish electricity market is one of the fastest growing in the developed world and has expanded by 40 per cent over the past 10 years. We are committed to providing electricity at competitive prices, while maintaining the long-term profitability necessary to underpin future investment and growth. A substantial investment programme is currently underway, designed to provide a quality electricity infrastructure for all users and to increase the reliability of the network.

We operate in a changing market which will be fully open to competition in 2005. A key element of our strategy is serving all our customers, ensuring that we respond appropriately to their needs, be they small domestic users or large commercial concerns. The initiatives in place in the area of customer service include the following:

- Customer Charters for both the Networks and Customer Supply businesses, specifying the level of service customers can expect and providing guarantees of payment in compensation for any failure by ESB to meet the specified standards,

- Customer complaint procedures with provision for complaints not resolved within the company to be referred to ELCOM, an independent and impartial arbitration service responsible for resolving complaints from customers of ESB,
- award winning National Customer Contact Centres providing service six days per week and a 24-hour emergency breakdown telephone service,
- energy awareness programmes, targeted at enabling both residential and business customers to make savings to their bills and benefit the environment through more efficient use of electricity,
- bill payment methods which maximise convenience for customers and, if appropriate, allow those having financial difficulties a certain flexibility,
- improved website design to facilitate access for people with disabilities, and provision of information booklets and audio tapes designed for customers with special needs,
- programmes designed to alleviate the problems faced by those at risk of hypothermia through old age or limited mobility, and
- an improved Application for Supply form which won the Crystal Mark Award for Plain English.

In our relations with suppliers, we operate in accordance with Government Guidelines, EU Directives, and the ESB Employee Code of Business Ethics which requires the highest standards of integrity, legality and confidentiality in all transactions.

Community

Since the foundation of the company, ESB has been a significant source of employment in local communities and has been well served by those communities. In recent years, station closures were necessary as an inevitable consequence of technological change. In implementing these business decisions we have always partnered with local communities in a process of fostering local enterprise, and job creation. We recently approved packages for community support in Rhode, and in Ferbane, Co. Offaly, where we had closed power stations. These funds are delivered to the community through an agreed process.

We are associated with a range of other community initiatives including the following:

- support for organisations and events involved in cultural and sporting life, locally and nationally,
- support for charities, both home and abroad, through "ElectricAid" a joint staff/ESB initiative which has raised over €2 million,
- building community links in international projects through information provision, sponsorship and employment of locally-based contractors and suppliers who meet certain set criteria including health and safety.

Since the foundation of the company, ESB has been a significant source of employment in local communities and has been well served by those communities.



HELPING TO REALISE THE VISION We regard Corporate Social Responsibility as a source of significant benefits to the company and a means of building on our reputation.

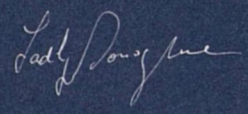
www.esb.ie

The Board

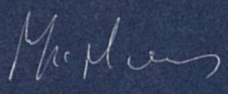
There were 14 Board Meetings (11 General Board Meetings and 3 Special Board meetings) during the year ended 31 December 2003. The number in brackets below opposite each name represents the attendance by each Board member at General and Special Board meetings respectively, during the year.

BOARD MEMBER	GENERAL / SPECIAL
Tadhg O'Donoghue, Chairman	(11,3)
Joe LaCumbre, Deputy Chairman	(10,3)
Bernard Byrne	(7,3)
Eamonn Connolly	(11,3)
Eoin Fahy	(10,2)
Georgina Kenny	(11,2)
John McGinley	(11,3)
Will McKee	(10,1)
Padraig McManus	(11,3)
Derry O'Donovan	(11,3)
Pat Smith	(11,3)
Anne Taylor	(10,2)

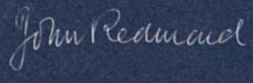
This report was approved by the Board at its meeting on 24 February 2004, for submission to the Minister for Communications, Marine and Natural Resources.



Tadhg O'Donoghue
Chairman



Padraig McManus
Chief Executive



John Redmond
Company Secretary

23 MARCH 2004

Board Committees

AUDIT COMMITTEE

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

During 2003 the Audit Committee reviewed the annual and the interim financial statements, the system of internal controls, the reports of the internal and external auditors, the appointment of the company auditors, risk management and treasury policies and procedures.

Members: Bernard Byrne, Chairman
Derry O'Donovan
Eamonn Connolly

BUSINESS DEVELOPMENT AND INTERNATIONAL COMMITTEE

The purpose of the Business Development and International Committee is to review investment proposals aimed at ensuring the positioning of ESB for future success consistent with the strategy approved by the Board.

The Business Development and International Committee reviewed major contracts relating to the network renewal programme, investments in the power generation portfolio, peaking capacity and international investments.

Members: Georgina Kenny, Chairman
Eoin Fahy
Joe LaCumbre
Will McKee
Padraig McManus

BUSINESS STRATEGY COMMITTEE

The purpose of this Committee is to monitor the delivery of performance and the achievement of targets in the corporate strategy approved by the Board.

During the course of 2003 the Business Strategy Committee reviewed performance against the strategic targets approved by the Board.

Members: Joe LaCumbre, Chairman
Derry O'Donovan
Pat Smith

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The purpose of the Health, Safety and Environment Committee is to advise the Board on health, safety and environmental matters.

During 2003 the Committee considered reports on accidents, including fatalities, involving staff, contractors and members of the public and ESB's compliance with health, safety and environmental legislation.

Members: Pat Smith, Chairman
Padraig McManus
Anne Taylor

FINANCE COMMITTEE

The purpose of the Finance Committee is to oversee strategy and policy on financial matters and to advise the Board as appropriate.

During 2003 the Finance Committee considered ESB's funding requirements in the context of its major capital investment programmes.

Members: Tadhg O'Donoghue, Chairman
Bernard Byrne
John McGinley

INDEPENDENT TRANSMISSION SYSTEM OPERATOR COMMITTEE

The ITSO Committee facilitates the independent management of the Transmission System Operator functions undertaken by the National Grid business within ESB on a strictly ring-fenced basis, pending the transfer of those functions to EirGrid as an independent legal entity.

Members: Eoin Fahy, Chairman
Derry O'Donovan

REGULATION COMMITTEE

The purpose of this Committee is to oversee the development and implementation of the corporate strategy on evolving legislation and regulatory matters and to oversee compliance with regulatory requirements.

The Regulation Committee, during the course of 2003, considered regulatory developments at EU and national level.

Members: John McGinley, Chairman
Eamonn Connolly
Georgina Kenny
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 executive management group following consultation with the Chief Executive and to monitor the development of current and future leaders of ESB.

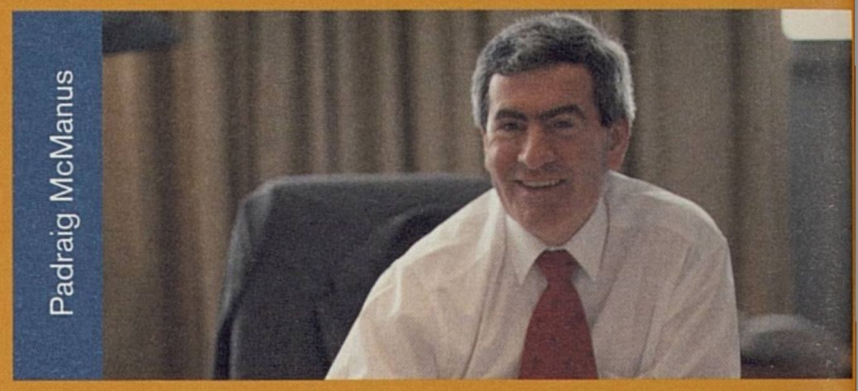
During 2003 the Committee considered the remuneration and targets of the Chief Executive and the senior executives and the developmental needs of the Company's senior managers.

Members: Tadhg O'Donoghue, Chairman
Eoin Fahy
Will McKee

Board Members



Tadhg O'Donoghue joined the Board of ESB in September 2000 and was appointed Chairman in January 2001. Mr O'Donoghue was previously a Senior International Partner with PricewaterhouseCoopers. He is a former Chairman of Board Iascaigh Mhara and a former President of the American Chamber of Commerce in Ireland. Mr O'Donoghue is Chairman of the Remuneration and Management Development Committee and Chairman of the Finance Committee.



Padraig McManus was appointed Chief Executive and Member of the Board in July 2002. He joined ESB in 1973 and spent fifteen years on the Company's international businesses and later became Managing Director ESB International and Commercial Director, ESB. He is a Board Member of the Irish Management Institute, Business in the Community, the Association of Edison Illuminating Companies and the Advisory Board of Ireland Aid. Mr McManus is a member of the Health, Safety & Environment and the Business Development & International Committees of the Board.



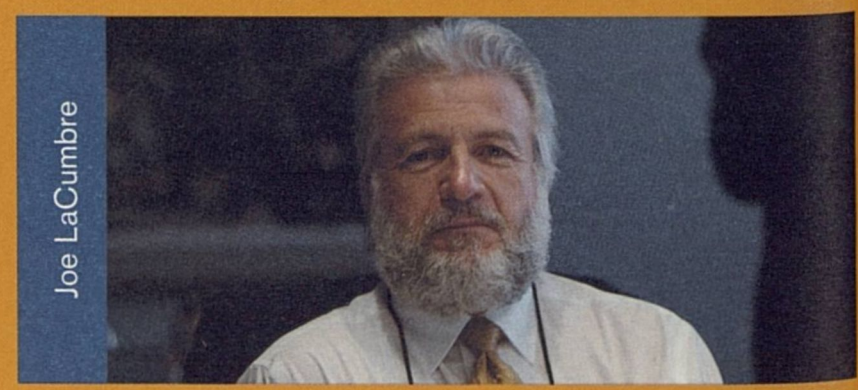
Eamonn Connolly was appointed to the Board in January 2003 under the Worker Participation (State Enterprises) Act, 1977. He is an electrical engineer working in ESB Networks in Dublin. He joined ESB in 1986 as a graduate engineer and worked in various locations throughout the company, including a number of years as a consultant with ESB International. He is a Fellow of the Institution of Engineers of Ireland and holds a Degree in Electrical Engineering from Kevin St, and a Master's Degree in Project Management from the University of Limerick. He is currently a Trustee of the ESB Superannuation fund. He is a member of the Audit Committee and of the Regulation Committee of the Board.



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 Business Development and International Committee and a member of the Regulation Committee.



Anne Taylor is currently serving a second term on the Board, having been re-appointed in May, 2002. Ms Taylor is the Senior Independent Director on the Board. She is a member of the Health Safety and Environment Committee and a member of the Regulation committee. She is Chairperson, Clonmel Community Resource Centre, and Chairperson, Clonmel Area Committee, Rehab Foundation. She is a former Chairperson of the National Womens Council of Ireland and President of the European Women's Lobby, Brussels. Ms Taylor is a Consultant working in the areas of Equality, Diversity and Coaching.



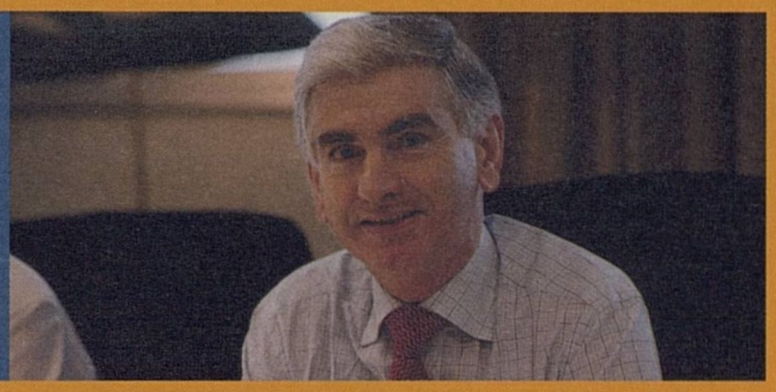
Joe LaCumbre was appointed Deputy Chairman of the Board in September 2000. He is now serving his sixth term on the Board, having first been appointed in January 1984 under the Worker Participation (State Enterprises) Act, 1977. Mr LaCumbre is a member of the TEEU Executive Committee and is staff representative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

John McGinley



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 and 2002. A technologist in Networks, he is a member of Kildare County Council and the Mid-East Regional Authority. Mr McGinley is Chairman of the Regulation Committee and a member of the Finance Committee.

Derry O'Donovan



Derry O'Donovan was appointed to the Board in May 2002. He is Senior Business Adviser with AIB Bank. He is a Director of St Luke's Hospital and First Step. Mr O'Donovan is a former Chairman of the Irish Red Cross Society and a former President of the Agricultural Science Association. He is a member of the Audit, ITSO, and Business Strategy Committees of the Board.

Will McKee



Will McKee was appointed to the Board in May 2002. He is Chairman of Amtec Medical and serves on the boards of companies involved in the hosiery, brewing and management consultancy industries. Mr McKee is a member of the Business Development and International Committee and the Remuneration and Management Development Committee.

Pat Smith



Pat Smith was appointed to the Board in January 1999 under the Worker Participation (State Enterprises) Act, 1977 and was re-elected in 2002. 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 Chairman of the Health, Safety & Environment Committee and is a member of the Business Strategy Committee.

Eoin Fahy



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 Remuneration and Management Development Committee, the Business Development and International Committee and Chairman of the ITSO Committee.

Executive Team

Tony Donnelly



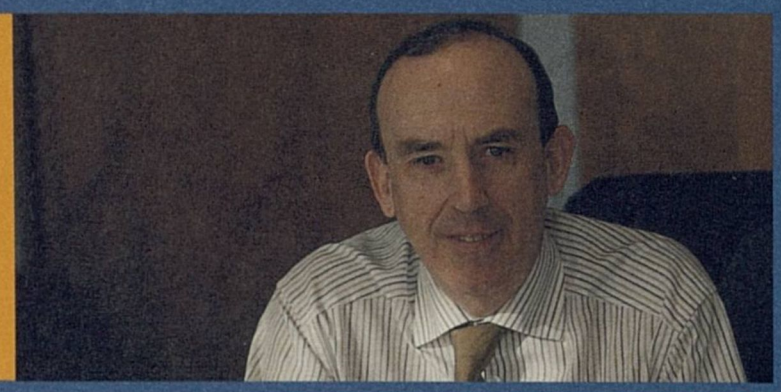
Tony Donnelly joined ESB in 1963. He was appointed Group Finance Director in December 1997. Prior to this appointment he worked in a number of senior financial management roles across the company, including Group Financial Controller. He is a trustee of the ESB Superannuation Fund and a member of the Board of Governors of Froebel College. He was appointed Deputy Chief Executive of ESB in November 2003.

John Redmond



John Redmond was appointed Company Secretary in 2002. He was previously Company Secretary of GPA Group Plc. He worked in the Irish Diplomatic Service from 1980 to 1988.

John Campion



John Campion was appointed Executive Director, Human Resources & Corporate Affairs in 2002. He joined ESB in 1978 and worked in various roles connected with industrial relations and personnel management, including Manager Human Resources in Power Generation. He also worked as a regional manager in both Sligo and Dublin. Prior to his appointment as Executive Director, he was Head of Network Projects.

Aidan O'Regan



Aidan O'Regan joined ESB in 1965. He was appointed Head of Regulatory Affairs in January 1997. He was Manager, Corporate Change during the Cost and Competitiveness Review. He has previously held senior management positions in the human resources, financial and project management areas and has managed international consultancy assignments.

Kieran O'Brien



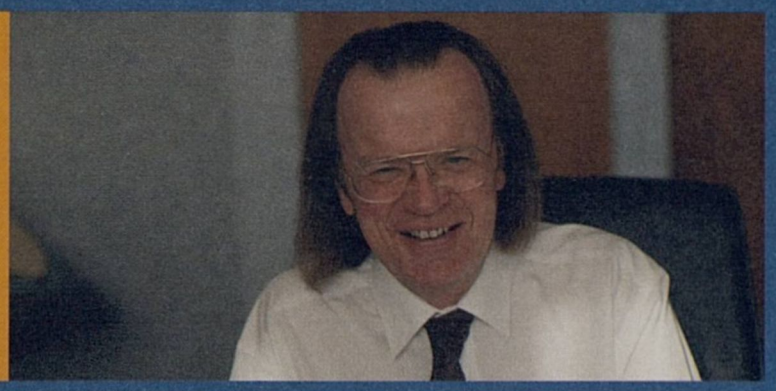
Kieran O'Brien, who is the Chief Executive Designate of EirGrid plc, has served as Managing Director of ESB National Grid since 1993. He joined ESB in 1971 and worked on a number of ESB's construction projects during the 1970s including Turlough Hill and Moneypoint. He held the position of ESB's resident manager in Saudi Arabia and subsequently became Manager, Civil Works Department. Mr O'Brien also served as Director Strategic Planning and Development.

Michael McNicholas



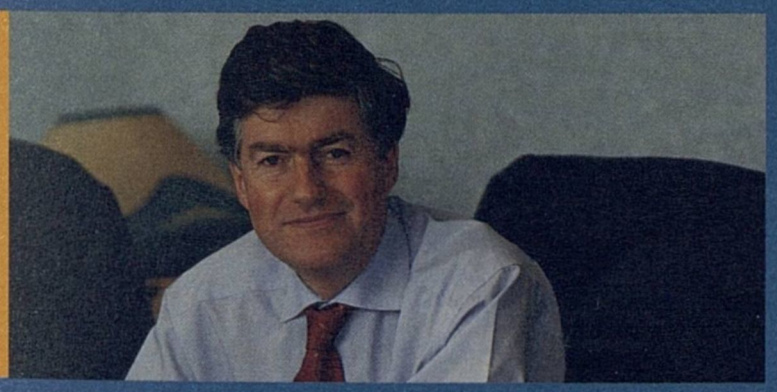
Michael McNicholas was appointed Executive Director, Power Generation & Supply in July 2002 having served as General Manager Power Generation since 1999. Prior to this he held senior positions in the company in Networks, Marketing and Power Generation, having joined ESB in 1982. He is also a Director of ESB ESOP Trustee Ltd.

Sean Wyse



Sean Wyse joined ESB in 1970. He was appointed Executive Director, Commercial Enterprises in July, 2002. He was Managing Director, Engineering and Commercial Businesses from 2000, having served as Managing Director, Customer Services since 1997. He held a number of senior management positions in the Distribution business throughout the country, prior to his appointment as Group Manager, Power Generation, in 1994.

John Shine



John Shine was appointed Executive Director Networks in November 2002. He joined ESB in 1978 and held a number of senior positions in the Networks, Marketing and Business Development areas of ESB. He spent some years outside ESB developing a successful international services business before rejoining in 2002. He is a Trustee of the ESB Superannuation Fund.

Bernard Byrne



Bernard Byrne was appointed to the Board in July 2001. A Chartered Accountant, he previously held the position of Deputy Chief Executive and Group Finance Director of IWP International Plc. He was appointed Group Finance Director in January 2004, having resigned from the Board.



Board Members' Report	39
Statement of Board Members' Responsibilities	43
Independent Auditors' Report to the Stockholders of Electricity Supply Board	44
Statement of Accounting Policies	45
Group Profit and Loss Account	49
Group Balance Sheet	50
Parent Balance Sheet	51
Statement of Total Recognised Gains and Losses	52
Group Cash Flow Statement	53
Notes to the Financial Statements	54
Appendices	86

Board Members' Report

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 2003.

Principal activities

The principal activities of the ESB Group are the generation, transmission, distribution and supply of electricity. The Group also operates internationally, in related activities.

Review of the Business and Future Developments

Commentaries on performance in the year ended 31 December 2003, including information on recent events and likely future developments, are contained in the Chairman's Review and the Chief Executive's Review.

Results for the Year

The financial results of the Group show a profit for the financial year, before dividends, amounting to €249m compared with €159m for 2002.

	2003 €m	2002 €m
Group profit before taxation	302	196
Taxation	(53)	(37)
Profit for the financial year	249	159

The Board Members recommend that a final dividend of 3.39 cents per unit of capital stock, amounting to €67.118m, be paid in 2004. The balance of the profit for the year has been transferred to reserves. A total dividend of 2.01 cents, amounting to €39.704m, was declared in respect of the year 2002.

Further details of the results for the year and results for the prior year are set out in the Group Profit and Loss Account and related notes.

Corporate Governance

ESB complies with the Code of Practice for the Governance of State Bodies approved by the Government on 2 October 2001. The Code sets out principles of corporate governance, which the Boards of State Bodies are required to observe. ESB also complies with the corporate governance and other obligations imposed by the Ethics in Public Office Act, 1995 and the Standards in Public Office Act, 2001.

The Combined Code sets out Principles of Good Governance and a Code of Best Practice. 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 Communications, Marine and Natural Resources. 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.

The revised Combined Code on Corporate Governance was published in July 2003. It derives from a review of the role and effectiveness of non-executive directors by Derek Higgs and a review of audit committees by a group led by Sir Robert Smith. Companies on the Irish Stock Exchange will be required to report on compliance with all provisions of the revised code in respect of reporting years beginning on or after 1 November 2003. ESB is currently reviewing the revised Combined Code on Corporate Governance and intends to comply with its principles and provisions to the fullest extent possible and to report on such compliance in the financial statements for the year ending 31 December 2004, the first ESB accounting year to which the revised Code would apply.

PRINCIPLES OF GOOD GOVERNANCE

The Board

The Board comprises twelve members including the Chief Executive and eleven non-executive members, seven of whom are appointed by the Government for a five year term, and four Worker Board Members appointed by the Minister for Communications, Marine and Natural Resources for a four year term following election by staff. The roles of the Chairman, who is part-time, and Chief Executive are separate. Anne Taylor is the Senior Independent Non-Executive Director. Bernard Byrne resigned as a Board Member after the year end on his appointment as ESB's Group Finance Director.

The Board agrees a schedule of monthly meetings (except August) 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 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 Communications, Marine and Natural Resources is formally established in an "Agreement on Framework for Interaction"

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 Development and International Committee, Business Strategy Committee, Health, Safety and Environment Committee, Independent Transmission System Operator (ITSO) Committee, Finance Committee, Regulation Committee and Remuneration and Management Development Committee. Their members and the terms of reference during 2003 are listed on page 32.

The Audit Committee, a formally constituted committee of the Board with written terms of reference, is composed of three non-executive members and meets regularly. During the year, the Audit Committee reviews and discusses with the Group Internal Auditor and the external auditor, the Group's internal 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.

Arising from the European Electricity Directive 96/92 EC and in accordance with the requirements of Statutory Instrument 49 of 2000, 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 Energy Regulation approved these ringfencing arrangements as part of the market framework for trade in electricity.

Internal Controls

The Board has overall responsibility for the Group's system of internal control and for monitoring its effectiveness. The system of internal control is designed to provide reasonable but not absolute assurance against 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.

Best practice corporate governance requires that directors review the effectiveness of the company's systems of internal control covering all material controls, including financial, operational and compliance controls and risk management systems. ESB has in place a strong control framework, which covers all areas of control. The Board Members are satisfied that the system of internal control in place is in accordance with the Combined Code requirements.

The system of internal control includes the following:

- The system is built on a code of ethics that requires all employees to maintain the highest ethical standards in conducting business;
- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board which support the maintenance of a strong control environment;
- A corporate governance framework which includes risk analysis, financial control review and formal annual governance statements by the management of Business Units and in the Corporate Centre. This is monitored by the Group Internal Audit department, which reports to the Audit Committee on an ongoing basis;
- 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 Business Development and International Committee of the Board;
- 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;
- Consideration of operational and financial issues by special Board Committees as described on pages 32, 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 system of internal control. The process used by the Board and the Audit Committee to review the effectiveness of the system of internal control includes:

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

Executive Board Members' Remuneration

The only executive Board Member is the Chief Executive. Mr Padraig McManus was Chief Executive during the year 2003. There were two executive members during the year 2002: Mr Padraig McManus became Chief Executive on 15 July 2002, replacing Mr Ken O'Hara who retired on 15 July 2002. The Chief Executive's remuneration is set within a range determined by the Ministers for Finance and Communications, Marine and Natural Resources. It is determined annually, within the 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 executive 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 18% of annual basic salary, a deferred bonus element of up to 7%, and a company car. In his role as a Board Member, the Chief Executive also receives a fee as determined by the Minister for Communications, Marine and Natural Resources.

The retirement benefits for the Chief Executive are calculated on basic pay only and aim to provide at retirement a pension of one-eightieth and a gratuity of three-eightieths of salary for each year of service as Chief Executive. The increases in accrued pension and accrued gratuity excluding inflation during the year were €5,600 and €16,799 respectively. The total accrued pension at the end of the year in respect of all of the Chief Executive's service was €72,714 and the total accrued gratuity was €218,412. The transfer value of the relevant increase was €50,329.

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. They participate in the ESB superannuation scheme on an equal basis with all other members of the scheme.

The remuneration of other Non-Executive Board Members is determined by the Minister for Communications, Marine and Natural Resources and they do not receive pensions.

Remuneration	2003 €	2002 €
Executive Board Member (Chief Executive)		
Salary	276,645	369,036
Performance related pay *	75,395	66,053
Taxable benefits (company car)	20,035	16,209
Pension contributions	32,921	33,773
Fees	12,697	12,298
Total	417,693	497,369
Non-Executive Board Members (eleven)		
Fees	190,461	181,780

*Included in respect of 2003 are amounts paid to Mr. Padraig McManus for services prior to his appointment as Chief Executive and to the Board.

The Chairman received fees of €63,487, while the remaining ten Non-Executive Board Members received a total of €126,974. The 2002 remuneration of the Chief Executive disclosed above includes remuneration paid to Mr Ken O'Hara and Mr Padraig McManus.

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 formalised safety audit systems. Corrective actions are initiated where inadequacies or deficiencies are identified. The procedures confirm substantial compliance with policy, as laid down in ESB's Group Safety Policy and Safety Statement. The Executive Director Team meet regularly to set Group safety objectives and strategy and review performance. The Chief Executive's Safety Committee, Business Area and local safety committees review and discuss relevant matters of policy and principle covering the health and safety of staff and the public, safety improvement plans and programmes and related matters.

In line with the requirement in Section 12 (6) of the 1989 Safety, Health & Welfare at Work Act an evaluation was carried out of the extent to which ESB Group Safety Policy and the undertakings set out in the accompanying ESB Group Safety Statement were fulfilled during 2003. The evaluation took the form of a formal safety review carried out in accordance with standards of best international practice.

Based on the evaluations carried out by the individual businesses against policies and assessed risks, a high standard of safety management practice and adherence to safety procedures was found to be in place. The review also found proactive programmes of safety improvement and safety auditing being implemented together with well developed safety communication channels and safety consultation with staff members and their safety representatives. Lessons are continuously being learned from thoroughly investigating the causes of injuries and near misses and are being fed in a structured way into successive safety improvement programmes and safety priorities.

The ESB Group Safety Review 2003 has been published as a separate report and is available on request.

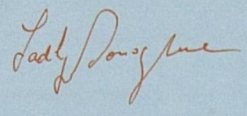
Accounting records

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

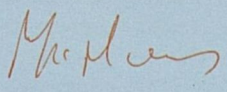
Electoral Act, 1997

The Board made no political donations during the year.

On behalf of the Board



Tadhg O'Donoghue CHAIRMAN



Padraig McManus CHIEF EXECUTIVE

23 MARCH 2004

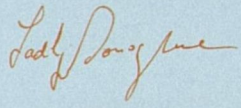
Statement of Board Members' Responsibilities

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

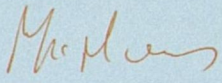
The Board Members consider that, in preparing the Financial Statements on pages 45 to 84, appropriate accounting policies have been used and consistently applied, reasonable and prudent judgements and estimates have been made and all accounting standards considered applicable have been followed.

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

On behalf of the Board



Tadhg O'Donoghue CHAIRMAN



Padraig McManus CHIEF EXECUTIVE

Date: 23 March 2004

Independent Auditors' Report to the Stockholders of Electricity Supply Board

As auditors appointed by the Minister for Communications, Marine and Natural Resources with the consent of the Minister for Finance, under Section 7 of the Electricity (Supply) Act 1927, we have audited the financial statements of Electricity Supply Board on pages 45 to 84.

This report is made solely to the stockholders of Electricity Supply Board as a body, in accordance with Section 193 of the Companies Act, made applicable to Electricity Supply Board by virtue of the Regulations adopted by it as its governing regulations under the Electricity (Supply) Act, 1927, as amended by the Electricity (Supply) (Amendment) Act 2001. Our audit work has been undertaken so that we might state to the stockholders of Electricity Supply Board those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Electricity Supply Board and its stockholders, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of Board Members and Auditors

The Board Members of Electricity Supply Board are responsible for preparing the Annual Report. As described on page 43, 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 (1) the voluntary statement on pages 39 to 42 reflects the Board's compliance with the seven provisions of the Combined Code specified for review by auditors and (2) the statement on the system of internal control on pages 40 and 41 reflects the Board's compliance with the provision of The Code of Best Practice for the Governance of State Bodies that is specified for review by auditors and we report if those statements do 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.

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 2003 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 2003 is in agreement.

KPMG

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

24 March 2004

Statement of Accounting Policies

1. BASIS OF ACCOUNTING

The financial statements are prepared in Euro under the historical cost convention. They 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 2002.

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 2003. The results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated 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 2003.

3. BUSINESS SEGMENT DEFINITIONS

For the purposes of the statutory financial statements ESB is required to follow Statement of Standard Accounting Practice 25 " Segmental Reporting". ESB has defined segments in accordance with this standard which are largely consistent with the separate accounts for generation, transmission, distribution and supply activities as defined and disclosed in the Regulatory Accounts, which have been submitted to the Commission for Energy Regulation (CER). These segments are as follows:

(a) Power Generation and Customer Supply

This business is concerned with the generation of electricity from the group's power stations and the purchase of external supplies of electricity for sale to customers, together with related billing, collection and customer care activities in the Republic of Ireland.

(b) Networks

The networks business is concerned with the construction, operation and maintenance of the transmission and distribution networks infrastructure required to ensure a quality supply of electricity to all electricity customers in the Republic of Ireland.

(c) Commercial Enterprises

The Commercial Enterprises business has responsibility for the non-regulated ESB businesses. The key activities include Engineering, Consultancy, Construction, International Investment, Retail, IT and Telecoms, Independent Energy and other service based activities. The business operates both in the home and international markets.

(d) Other

This category includes consolidation adjustments required to prepare group results. These adjustments include the elimination of inter-company sales and purchases.

4. INTERNAL TRADING AND APPORTIONMENT WITHIN ESB

In drawing up the separate accounts of its businesses, ESB adheres to a set of accounting procedures for the allocation of assets, liabilities, income and expenditure:

(a) Turnover

Turnover between group businesses is calculated in accordance with ESB's arrangements for internal trading which, where appropriate, provide for cost recovery or trading at arms length, based on market rates. Where applicable, income subject to regulation is calculated in accordance with the licence conditions or regulatory determinations applicable to each business.

(b) Expenditure

Certain ESB Group businesses provide services to other areas of the group, such as IT services and development, facilities management, telecommunications as well as other shared and corporate services.

Power Generation & Customer Supply, Networks and Commercial Enterprises are charged or allocated these service-related costs in accordance with ESB's internal trading arrangements. It is sometimes necessary to reasonably apportion certain group costs and overheads to each business.

(c) Assets & liabilities

Revenues, expenses and capital expenditure directly incurred by each business are recorded in the separate accounts of the businesses. A system of internal trading is operated to reflect internal transactions between the different businesses. Trade indebtedness as a result of such trading between the internal businesses is recorded as internal debtor and internal creditor balances in the accounts of each business as appropriate.

(d) Treatment of corporately managed and controlled balances

A number of balances and transactions are not attributed to individual businesses, as they are subject to corporate management and control. Such items generally include, but are not limited to, elements of net borrowings, taxation, dividends payable, interest payable and financial fixed assets.

5. 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 and equity method respectively. The group's share of the profits less losses of joint ventures and associates are included in the consolidated profit and loss account. The Group's interests in their net assets or liabilities are included as financial fixed assets in the consolidated balance sheet at an amount representing the Group's share of the fair values of the net assets, less any impairment, at acquisition plus goodwill and the group's share of post acquisition retained profits or losses.

The amounts included in the consolidated 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 impairments in value.

(b) Other financial fixed assets

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

6. 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 lives of goodwill on acquired businesses is up to 20 years. Useful life is determined by reference to the period over which the values of the underlying businesses are expected to exceed the values of their identifiable net assets.

7. FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions or at a 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 period. 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.

8. 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 period end and this estimate is included in debtors in the balance sheet as 'unbilled consumption'.

9. 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 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.

10. PRE-CONTRACT COSTS

Costs of planning for and developing capital investment projects, or bidding for and securing contracts, to supply products and services are recognised as expenses as incurred. However, directly attributable costs are capitalised as assets when it is virtually certain that a contract will be obtained, and the contract is expected to result in future net cash inflows, with a present value no less than all amounts recognised as an asset.

11. STOCKS

Stocks are carried at average cost, other than:

Spares held for major generating plant breakdowns, which are written down over plant lifetime; and 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 prior to disposal.

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

12. DERIVATIVE FINANCIAL INSTRUMENTS

Gains and losses arising on forward foreign exchange contracts which are used to hedge foreign transaction cash flows are recognised as an operating expense in the profit and loss account.

Interest rate swap agreements and similar contracts are used to manage interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised as an interest expense over the period of the contracts.

13. DEFERRED PAYMENT CONTRACTS

Profit on deferred payment contracts is taken in the period 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.

14. 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.

15. NON-REPAYABLE SUPPLY CONTRIBUTIONS AND CAPITAL GRANTS

Non-repayable supply contributions and capital grants received are recorded as deferred income and released to the profit and loss account on a basis consistent with the depreciation policy of the relevant assets. Prior to 2002 non-repayable supply contributions were credited directly to capital reserves. On 30 December 2001, in accordance with the Electricity (Supply) (Amendment) Act, 2001, all amounts then credited to reserves were converted to capital stock of ESB.

16. RESERVE FOR REPURCHASE OF LOAN STOCK

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.

17. TAXATION

Corporation tax is provided at current rates and is calculated on the basis of results for the period, 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 undertakings and deferred taxation.

18. DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences which 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 at the balance sheet date, 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 that are 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.

19. PROVISIONS 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 period, 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.

20. DISCOUNTING OF FUTURE COMMITMENTS

Where the effect of the time value of money is material, provisions for future commitments are, with the exception of deferred taxation, based on the discounted cost of meeting those commitments so that the provision balance at the period 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 period.

21. 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.

22. 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 comprise of term deposits, other than cash, invested for less than one year.

GROUP PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Notes	2003 €'000	2002 €'000
Turnover - group & share of joint ventures		**2,480,234**	2,271,413
Less: share of joint ventures' turnover		**(138,431)**	(120,572)
Turnover - continuing operations	1	**2,341,803**	2,150,841
Operating costs	2	**(2,016,201)**	(1,914,221)
Operating profit - continuing operations		**325,602**	236,620
Share of joint venture operating profit		**27,935**	11,417
Share of associated undertakings' operating profit		**416**	2,388
Profit on ordinary activities before interest		**353,953**	250,425
Net interest cost and other financing charges	3	**(51,845)**	(53,904)
Profit on ordinary activities before taxation		**302,108**	196,521
Tax charge on profit on ordinary activities	5	**(53,422)**	(37,016)
Profit on ordinary activities after taxation		**248,686**	159,505
Minority interests - equity	21	**1**	(125)
Profit for the financial year		**248,687**	159,380
Dividends	7	**(67,118)**	(39,704)
Profit retained for the financial year		**181,569**	119,676
Appropriation to reserve for the repurchase of loan stock	19	**(245)**	(565)
Transfer to profit & loss reserve	20	**181,324**	119,111

Signed: **Tadhg O'Donoghue** Chairman

Signed: **Padraig McManus** Chief Executive
Signed: **Bernard Byrne** Group Finance Director
23 March 2004

GROUP BALANCE SHEET

As at 31 December 2003

	Notes	2003 €'000	2002 €'000
Fixed assets			
Tangible assets	8	**4,725,100**	3,779,643
Investment in associates	9	**3,484**	3,707
Investments in joint ventures			
- Goodwill		**14,863**	23,033
- Share of gross assets		**265,308**	278,694
- Share of gross liabilities		**(85,884)**	(108,304)
Total investment in joint ventures	9	**194,287**	193,423
Other financial asset investments	9	**2,624**	2,465
		4,925,495	3,979,238
Current assets			
Stocks	10	**179,725**	178,586
Debtors	11	**508,480**	481,216
Investments	12	**54**	2,265
Cash at bank and in hand	22(c)	**566,508**	120,499
		1,254,767	782,566
Creditors: amounts falling due within one year			
Borrowings and other debt	13	**(98,336)**	(355,486)
Other creditors	15	**(568,009)**	(498,410)
		(666,345)	(853,896)
Net current assets / (liabilities)		**588,422**	(71,330)
Total assets less current liabilities		**5,513,917**	3,907,908
Creditors: amounts falling due after more than one year			
Borrowings and other debt	13	**(2,070,978)**	(667,375)
Other creditors	15	**(101,139)**	(94,952)
Deferred income	16	**(155,805)**	(95,368)
		(2,327,922)	(857,695)
Provision for liabilities and charges	17	**(887,409)**	(929,558)
		2,298,586	2,120,655
Capital Stock and Reserves			
Capital stock	18	**1,979,882**	1,979,882
Reserve for repurchase of loan stock	19	**2,373**	2,128
Profit and loss account and other reserves	20	**315,765**	138,078
Stockholders' funds - equity		**2,298,020**	2,120,088
Minority interests	21	**566**	567
		2,298,586	2,120,655

Signed: **Tadhg O'Donoghue** Chairman

Signed: **Padraig McManus** Chief Executive
Signed: **Bernard Byrne** Group Finance Director
23 March 2004

PARENT BALANCE SHEET

As at 31 December 2003

	Notes	2003 €'000	2002 €'000
Fixed assets			
Tangible assets	8	**4,260,526**	3,575,309
Financial assets	9	**165,819**	187,441
		4,426,345	3,762,750
Current assets			
Stocks	10	**179,725**	178,586
Debtors	11	**575,279**	459,028
Investments	12	**54**	2,265
Cash at bank and in hand		**502,361**	65,241
		1,257,419	705,120
Creditors: amounts falling due within one year			
Borrowings and other debt	13	**(83,744)**	(340,500)
Other creditors	15	**(555,143)**	(501,259)
		(638,887)	(841,759)
Net current assets / (liabilities)		**618,532**	(136,639)
Total assets less current liabilities		**5,044,877**	3,626,111
Creditors: amounts falling due after more than one year			
Borrowings and other debt	13	**(1,660,151)**	(484,699)
Other creditors	15	**(70,087)**	(62,056)
Deferred income	16	**(154,423)**	(85,038)
		(1,884,661)	(631,793)
Provision for liabilities and charges	17	**(889,411)**	(929,558)
		2,270,805	2,064,760
Capital Stock and Reserves			
Capital stock	18	**1,979,882**	1,979,882
Reserve for repurchase of loan stock	19	**2,373**	2,128
Profit and loss account and other reserves	20	**288,550**	82,750
Stockholders' funds - equity		**2,270,805**	2,064,760

Signed: **Tadhg O'Donoghue** Chairman

Signed: **Padraig McManus** Chief Executive
Signed: **Bernard Byrne** Group Finance Director
23 March 2004

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 2003

	Notes	2003 €'000	2002 €'000
Profit for the financial year		**248,687**	159,380
Translation differences on consolidation of foreign subsidiaries, joint ventures and associates	20	**(3,637)**	(1,428)
Total recognised gains and losses for the financial year		**245,050**	157,952

Reconciliation of Movements in Stockholders' Funds		2003 €'000	2002 €'000
Total recognised gains and losses for year		**245,050**	157,952
Dividends	7	**(67,118)**	(39,704)
Opening stockholders' funds		**2,120,088**	2,001,840
Closing stockholders' funds		**2,298,020**	2,120,088

GROUP CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	2003 €'000	2002 €'000
Net cash inflow from operating activities	22(a)	**530,731**	563,335
Dividends received from joint venture undertakings		**15,189**	4,637
Returns on investments and servicing of finance			
Interest received		**4,017**	9,263
Interest paid		**(49,031)**	(38,710)
Interest element of finance lease payments		**(7,597)**	(7,825)
		(52,611)	(37,272)
Taxation			
Corporation tax paid		**(24,044)**	(19,882)
		(24,044)	(19,882)
Capital expenditure & financial investment			
Purchase of tangible fixed assets		**(1,234,862)**	(835,079)
Sale of tangible fixed assets		**12,864**	1,162
Deferred income	16	**78,359**	80,454
		(1,143,639)	(753,463)
Acquisitions and disposals			
Disposal of associate		**-**	9,669
Investment/purchase of subsidiary, joint venture and associate		**(7,000)**	(16,254)
Minority interest in exceptional item - disposal of subsidiary, joint venture and associate		**-**	(132)
		(7,000)	(6,717)
Net cash outflow from capital expenditure & financial investment		**(1,150,639)**	(760,180)
Dividends paid		**(19,704)**	(20,000)
Net cash outflow before management of liquid resources and financing		**(701,078)**	(269,362)
Net cash (inflow)/outflow from management of liquid resources	22(b)	**(426,924)**	76,998
Financing			
Increase in loans and finance leases (net)	22(b)	**1,146,453**	231,944
Net cash inflow from financing		**1,146,453**	231,944
Increase in cash	22(b)	**18,451**	39,580

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENTAL INFORMATION

(a) By activity	2003 €'000	2002 €'000
Power Generation and Customer Supply		
- Power Generation		
Total turnover	**981,002**	1,049,846
Internal turnover	**883,617**	856,252
External turnover	**97,385**	193,594
Profit before interest and tax	**62,004**	30,403
Capital expenditure	**270,047**	138,732
- Customer Supply		
Total turnover	**1,660,390**	1,505,315
Internal turnover	**28,002**	17,655
External turnover	**1,632,388**	1,487,660
Profit before interest and tax	**88,693**	(12,067)
Capital expenditure	**2,755**	1,993
Networks		
Total turnover	**849,196**	735,022
Internal turnover	**689,935**	620,353
External turnover	**159,261**	114,669
Profit before interest and tax	**216,091**	211,849
Capital expenditure	**671,665**	574,418
Commercial Enterprises		
Total turnover	**659,983**	645,582
Internal turnover	**186,775**	195,693
External turnover	**473,208**	449,889
Profit before interest and tax	**13,899**	27,127
Capital expenditure	**308,267**	148,692
Other		
External turnover - consolidation adjustments	**(20,439)**	(94,971)
Consolidation adjustments and losses before interest and tax	**(26,734)**	(6,887)
Capital expenditure	**41,148**	748
Group Totals		
External turnover	**2,341,803**	2,150,841
Turnover from joint ventures	**138,431**	120,572
Profit before interest and tax	**353,953**	250,425
Capital expenditure	**1,293,882**	864,583

1. SEGMENTAL INFORMATION (continued)

	2003 €'000	2002 €'000
(b) Turnover by Geographic Market		
Ireland	**2,272,351**	2,064,796
UK & Europe	**156,574**	164,838
Other	**51,309**	41,779
Total	**2,480,234**	2,271,413

2. OPERATING COSTS

	2003 €'000	2002 €'000
Payroll	**481,142**	464,704
Fuel	**732,141**	746,309
Operations and maintenance	**483,864**	433,478
Depreciation	**286,455**	244,651
Employee shareholding scheme	**-**	6,679
Write down of investment in financial fixed assets (Note 9)	**-**	18,400
Impairment of assets (Note 8)	**32,599**	-
	2,016,201	1,914,221

3. NET INTEREST COST AND OTHER FINANCING CHARGES

	2003 €'000	2002 €'000
Interest payable on borrowings	**54,547**	39,162
Interest payable on finance leases	**7,612**	7,640
Total interest payable	**62,159**	46,802
Total interest receivable	**(3,943)**	(9,194)
Net interest payable	**58,216**	37,608
Less capitalised interest	**(39,490)**	(18,362)
Financing charges:		
- on restructuring provision	**18,425**	20,508
- on station closure provision	**14,694**	14,150
Net interest cost and other financing charges	**51,845**	53,904

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

4. EMPLOYEES

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

	2003	2002 (restated)
Power Generation & Customer Supply	**2,471**	2,599
Networks	**4,073**	4,208
Commercial Enterprises	**2,669**	2,610
Other	**374**	381
	9,587	9,798

(b) Employee costs in year

	2003 €'000	2002 €'000
Salaries	**551,062**	520,301
Social welfare costs (PRSI)	**22,355**	21,412
Pension costs	**39,566**	40,461
Other payroll benefits*	**31,359**	28,230
	644,342	610,404
Capitalised payroll	**(163,200)**	(145,700)
Charged to the Profit & Loss Account	**481,142**	464,704

* These benefits primarily include travel and subsistence expenses.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 €'000	2002 €'000
Corporation tax at 12.5% (2002: 16%)	**30,526**	18,860
Less manufacturing relief	**(2,344)**	(3,060)
	28,182	15,800
Capital gains tax	**-**	500
Overseas tax (excluding associated companies)	**3,904**	4,018
Tax attributable to group	**32,086**	20,318
Tax attributable to associated companies	**63**	825
Tax attributable to joint ventures	**2,183**	1,282
Current year tax charge	**34,332**	22,425
Deferred taxation		
Origination and reversal of timing differences	**18,774**	7,306
Deferred tax attributable to joint ventures	**316**	7,285
	53,422	37,016

5. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

	2003 €'000	2002 €'000
Factors affecting tax charge for the year		
Profit on ordinary activities before tax multipled at current trading rate (12.5%) (2002: 16%)	**37,764**	31,443
Tax effects of:		
Expenses not deductible for tax purposes	**13,923**	472
Foreign earnings subject to different rates of tax	**3,765**	3,450
Income and gains taxed at the higher rate of Irish tax	**316**	312
Income at the reduced Irish tax rate	**(2,344)**	(3,060)
Capital allowances in excess of depreciation	**(21,626)**	(7,080)
Other deferred tax timing differences	**2,534**	(3,293)
Origination and reversal of timing differences at a higher tax rate	**-**	3,067
Other prior year over provisions	**-**	181
Reconciling reversal of timing differences at a higher rate in 2002	**-**	(3,067)
Current year tax charge before deferred tax	**34,332**	22,425

ESB's profits are taxed at the standard corporation tax rate of 12.5% (2002:16%) reduced by manufacturing relief where applicable. A small percentage of the Group's profits are liable to foreign tax at rates ranging between 30% and 40%.

The charge for taxation is based on the profit before tax for the year and takes into account deferred taxation arising from timing differences between the taxation and accounting treatment of certain items. 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 period and previous periods. These deferred taxation assets and liabilities have not been discounted.

Future items that are likely to impact on the tax charge of the company relate mainly to the company's current investments in Combined Cycle Coal and Gas plants in Northern Ireland and the Basque region of Spain. These plants are currently under construction and are due to be fully operational by 2005. The current tax rate in Northern Ireland is 30% and in the Basque Region is 32.5%.

6. PROFIT FOR THE FINANCIAL YEAR

	2003 €'000	2002 €'000
The profit for the financial year is stated after charging/(crediting):		
Depreciation	**286,455**	244,651
Operating lease charges	**9,120**	15,018
Amortisation of goodwill	**15,170**	1,318
Amortisation of deferred income	**(4,876)**	(1,765)
Loss on disposal of fixed assets	**2,766**	2,476
(Profit) on disposal of fixed assets	**(10,312)**	(798)
(Profit) on disposal of investment in financial fixed asset	**-**	(4,105)
Loss on disposal of investment in financial fixed asset	**463**	-
Auditor's remuneration:		
-audit services	**356**	418
- ESOP related services	**-**	24
- taxation	**53**	269
- non-audit services	**29**	70
ESB (Parent) Board Members' remuneration:		
- fees	**203**	194
- other remuneration	**405**	485
Write down of investment in financial fixed assets (Note 9)	**-**	18,400
Impairment of fixed assets (Note 8)	**32,599**	-

7. DIVIDENDS

	2003 €'000	2002 €'000
Dividends on capital stock:		
No Interim dividend (2002: 1.01c) per capital stock unit paid	**-**	20,000
Proposed final dividend of 3.39 cents (2002: 1.00c) per capital stock unit	**67,118**	19,704
Total dividend of 3.39 (2002: 2.01) cents per capital stock unit	**67,118**	39,704

It is proposed to pay a dividend of 3.39c per capital stock unit issued (2002: 2.01c). The total number of capital units in issue are 1,979,881,855.

8. TANGIBLE FIXED ASSETS

(a) GROUP	Land and buildings €'000	Plant and machinery €'000	Total assets in commission €'000	Assets under construction €'000	Total €'000
Cost					
Balance at 1 January 2003	742,937	5,054,472	5,797,409	752,913	6,550,322
Additions/transfers	51,100	762,723	813,823	473,005	1,286,828
Retirements/disposals	(4,686)	(15,291)	(19,977)	-	(19,977)
Translation difference	(56)	(270)	(326)	(3,769)	(4,095)
Balance at 31 December 2003	789,295	5,801,634	6,590,929	1,222,149	7,813,078
Depreciation					
Balance at 1 January 2003	406,699	2,363,980	2,770,679	-	2,770,679
Charge	25,831	260,624	286,455	-	286,455
Retirements/disposals	(1,991)	(12,576)	(14,567)	-	(14,567)
Translation difference	(20)	(214)	(234)	-	(234)
Impairment adjustment	-	45,645	45,645	-	45,645
Balance at 31 December 2003	430,519	2,657,459	3,087,978	-	3,087,978
Net book value at 31 December 2003	**358,776**	**3,144,175**	**3,502,951**	**1,222,149**	**4,725,100**
Net book value at 31 December 2002	336,238	2,690,492	3,026,730	752,913	3,779,643

The non depreciable element of land and buildings amounts to €6.4m (2002: €2.5m).
During the year the group capitalised the sum of €39.5m (2002: €18.4m) in interest. The capitalisation rate was 5.3%.
Additions for 2003 include transfers from assets under construction which have been commissioned during 2003.

ESB Telecoms Limited, a subsidiary company, carried out reviews of its business strategy and fixed asset values during 2003. Arising from this, the value of its fibre-optic asset has been written down by €41.4m and the deferred government grant relating to this asset has been amortised by a further €13m. The value of the tangible assets in Hibernian Hydro Limited, a subsidiary company have been written down following an impairment review, reducing the carrying value of the assets by €4.2m.

Finance leases

All finance leases are held by the parent company. The net book value of tangible fixed assets includes an amount of €48.3m (2002: €52.7m) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the year amounted to €4.4m (2002: €4.4m).

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 seperately 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 (continued)

(b) PARENT	Land and buildings €'000	Plant and machinery €'000	Total assets in commission €'000	Assets under construction €'000	Total €'000
Cost					
Balance at 1 January 2003	741,874	4,991,410	5,733,284	598,473	6,331,757
Additions/transfers	46,255	741,057	787,312	181,872	969,184
Retirements/disposals	(4,686)	(14,060)	(18,746)	-	(18,746)
Balance at 31 December 2003	783,443	5,718,407	6,501,850	780,345	7,282,195
Depreciation					
Balance at 1 January 2003	406,454	2,349,994	2,756,448	-	2,756,448
Charge	25,818	252,844	278,662	-	278,662
Retirements/disposals	(1,991)	(11,450)	(13,441)	-	(13,441)
Balance at 31 December 2003	430,281	2,591,388	3,021,669	-	3,021,669
Net book value at 31 December 2003	**353,162**	**3,127,019**	**3,480,181**	**780,345**	**4,260,526**
Net book value at 31 December 2002	335,420	2,641,416	2,976,836	598,473	3,575,309

The non depreciable element of land and buildings amounts to €0.8m (2002: €1.7m).

During the year the Parent capitalised the sum of €30.3m (2002: €18.4m) in interest. The capitalisation rate was 5.3%.

NOTES TO THE FINANCIAL STATEMENTS

9. FINANCIAL FIXED ASSETS

(a) GROUP	Associated undertakings shares €'000	Joint venture investments €'000	Sinking fund and other investments €'000	Goodwill and intangible assets €'000	Total €'000
Balance at 1 January 2003	3,707	193,423	2,255	210	199,595
Disposals	(377)	-	-	(86)	(463)
Acquisition of goodwill	-	-	-	7,000	7,000
Amortisation of goodwill	-	(8,170)	-	(7,000)	(15,170)
Retranslation/other movements	(199)	(1,213)	245	-	(1,167)
Share of profit	353	25,436	-	-	25,789
Dividends received	-	(15,189)	-	-	(15,189)
Balance at 31 December 2003	**3,484**	**194,287**	**2,500**	**124**	**200,395**

The carrying amount of goodwill on subsidiaries after amortisation, at 31 December 2003 is €0.1m (2002: €0.2m). The goodwill acquired during the year relates to the acquistion of a wind investment, which it is considered prudent to amortise in full in 2003.

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 2003 is €2.373m (2002 : €2.128m). Subsidiary, associated and joint venture undertakings are listed in note 29.

In 2002 a provision for reducing the carrying value of Rousch Power Plant Limited (RPPL) and Americas and Caribbean Power Limited (ACP) was included in the accounts. This provision reflected the Board Members view of the underlying carrying value of these assets. It represented a full provision against the net asset value.

	Subsidiary undertakings			Sinking fund	
(b) PARENT	Shares €'000	Loans €'000	Total €'000	investments €'000	Total €'000
Balance at 1 January 2003	23,676	161,637	185,313	2,128	187,441
Additions	33,102	20,995	54,097	245	54,342
Repayments	-	(75,964)	(75,964)	-	(75,964)
Balance at 31 December 2003	**56,778**	**106,668**	**163,446**	**2,373**	**165,819**

NOTES TO THE FINANCIAL STATEMENTS

10. STOCKS

GROUP & PARENT

	2003 €'000	2002 €'000
Materials and spares	**98,607**	94,608
Fuel	**70,995**	72,623
Appliances and other goods for resale	**10,123**	11,355
	179,725	178,586

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

11. DEBTORS

	GROUP		PARENT	
	2003 €'000	2002 €'000	2003 €'000	2002 €'000
Amounts falling due within one year:				
Trade debtors	**124,535**	128,522	**106,347**	89,930
Unbilled consumption	**189,992**	138,800	**184,752**	145,799
Deferred payment contracts	**69,704**	61,376	**24,028**	24,106
Value added tax	**5,934**	-	**6,792**	-
Amounts owed by subsidiary undertakings	-	-	**195,309**	112,834
Other debtors	**94,876**	124,383	**56,694**	84,658
	485,041	453,081	**573,922**	457,327
Amounts falling due after more than one year:				
Deferred payment contracts	**23,439**	28,135	**1,357**	1,701
Total debtors	**508,480**	481,216	**575,279**	459,028

12. INVESTMENTS

GROUP & PARENT

	2003 €'000	2002 €'000
Listed investments at cost	**54**	2,265
Market value of listed investments	**68**	2,923

The investments in 2002 represented repurchases of ESB loan stock. This loan stock was cancelled following a Board resolution in January 2003.

13. BORROWINGS AND OTHER DEBT

(a) GROUP	Short term borrowings €'000	Finance leases €'000	Borrowings €'000	Non recourse borrowings €'000	2003 Total €'000	2002 Total €'000
Borrowings due within one year						
- Repayable by instalments	-	10,782	24,343	-	**35,125**	23,316
- Repayable other than by instalments	10,838	-	52,373	-	**63,211**	332,170
	10,838	10,782	76,716	-	**98,336**	355,486
Borrowings due after one year						
- Repayable by instalments						
Between one and two years	-	7,145	30,130	-	**37,275**	20,427
Between two and five years	-	23,923	110,100	12,816	**146,839**	66,676
After five years	-	93,576	491,766	159,650	**744,992**	358,449
	-	124,644	631,996	172,466	**929,106**	445,552
- Repayable other than by instalments						
Between one and two years	-	-	70,395	-	**70,395**	66,966
Between two and five years	-	-	125,404	-	**125,404**	69,173
After five years	-	11,220	934,853	-	**946,073**	85,684
	-	11,220	1,130,652	-	**1,141,872**	221,823
Total borrowings due after one year	-	135,864	1,762,648	172,466	**2,070,978**	667,375
Total borrowings outstanding	**10,838**	**146,646**	**1,839,364**	**172,466**	**2,169,314**	**1,022,861**

Borrowings totalling €87.6m (2002: €99.1m) are State guaranteed. Borrowings include €427.4m (2002: €197.7m) related to subsidiary undertakings of which €172.5m (2002: Nil) relates to the non-recourse financing for Biskaia Energia SL. Biskaia Energia SL is to build, own and operate a nominal 755MW combined cycle turbine power plant at Amorebieta, near Bilbao, Spain.

ESB stock accounts for €15m of the year-end borrowings.
At year end, ESB's total debt portfolio amounted to €2.169bn (2002: €1.023bn). The underlying debt, before swaps, was denominated in the following currencies.

Currency	2003	2002
Euro	**49%**	86%
Japanese Yen	**1%**	7%
Swiss Franc	**1%**	3%
US Dollar	**39%**	3%
Sterling	**10%**	1%
Total	**100%**	**100%**

In December ESB completed a private placement of US$1,034.5m (total euro equivalent €868m) in senior notes with institutional investors.

The notes were issued in US dollars and Sterling and comprised of US$49m, US$325m, US$256.5m, US$96.5m and US$273.5m in 7,10,12,15 and 20 year maturities respectively and also STG£10m in both the 15 and 20 year maturities.

The average maturity of this new US$ financing is 13.6 years and 17.5 years on the Sterling portion (or 13.7 years in total) while the average interest rates achieved were over 5% on average.
Proceeds from the issues have been used to fund part of the capital expenditure programme in 2004. All the US$ and STG financing was swapped to Euro.

13. BORROWINGS AND OTHER DEBT (continued)

(b) PARENT	Short term borrowings €'000	Finance leases €'000	Borrowings €'000	2003 Total €'000	2002 Total €'000
Borrowings due within one year					
- Repayable by instalments	-	10,782	9,751	**20,533**	23,316
- Repayable other than by instalments	10,838	-	52,373	**63,211**	317,184
	10,838	10,782	62,124	**83,744**	340,500
Borrowings due after one year					
- Repayable by instalments					
Between one and two years	-	7,145	15,538	**22,683**	20,427
Between two and five years	-	23,923	66,322	**90,245**	66,676
After five years	-	93,576	382,284	**475,860**	234,375
	-	124,644	464,144	**588,788**	321,478
- Repayable other than by instalments					
Between one and two years	-	-	70,395	**70,395**	52,373
Between two and five years	-	-	54,896	**54,896**	25,395
After five years	-	11,220	934,852	**946,072**	85,453
	-	11,220	1,060,143	**1,071,363**	163,221
Total borrowings due after one year	-	135,864	1,524,287	**1,660,151**	484,699
Total borrowings outstanding	**10,838**	**146,646**	**1,586,411**	**1,743,895**	**825,199**

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. 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.

(b) Financial instruments used

ESB uses borrowings and finance leases to finance operations, fixed rate deposit instruments to invest surplus funds, and interest rate and foreign exchange instruments and options to manage interest rate and currency risks arising from its operations and sources of finance. All transactions in financial instruments are non-speculative.

(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, which also manages the financial risks associated with borrowing. Debt management strategies are summarised as follows:

- To ensure adequate funding facilities are available to the Group on an ongoing basis to faciliate implementation of ESB business strategy.
- To ensure current funding requirements are met on a flexible, yet cost-effective basis.
- To utilise structured non-recourse and limited recourse financing while ensuring compatibility between funding cost and risk mitigation.
- To achieve a debt portfolio with a maturity, currency mix, cost of funds and interest rate profile consistent with ESB's business strategy.
- To maintain a diversity in ESB's lender base through accessing various sources of funding, as well as bank relationship management and a strategic spread of non-borrowing business.

(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 at fixed/floating interest rates or via interest rate swaps.

(e) Foreign currency risk management

ESB's fuel-related foreign currency exposures, mainly US Dollar and Sterling are managed through an indexation formula agreed with CER. This allows spot fuel market price and foreign exchange variations to be factored into CER price determinations.

For other foreign exchange purchases, foreign currency spot and forward purchase contracts, options, deposits and borrowings are used to reduce volatility arising from currency fluctuations and to minimise costs.

As at the year end, after taking into account the effects of forward foreign exchange, currency and interest rate swaps, ESB had no material currency exposures.

14. FINANCIAL INSTRUMENTS (continued)

(f) Counterparty credit risk

ESB is exposed to credit risk relating to its cash and current financial assets. It deposits cash surpluses with banks of appropriate credit rating and institutions that meet certain criteria. Also, there is a limit on 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.

(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, using the zero coupon discount curve.

This method enables the Group to discount the cashflows at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms such as credit rating and maturity dates.

On interest rate swaps, as the same notional principal is used for the paying and receiving sides, the carrying amount equals zero. The fair value takes into account the fixed rate and floating rate margins and market rate prevailing at the year end.

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

The Group's floating rate financial assets and liabilities primarily bear interest rates based on the six month Euribor/Libor.
Short term liabilities and assets are excluded from these disclosures.

(i) Cash Deposits

Currency - 2003

	Book value €m	Fair value €m	Fixed %	Weighted avg. period	Weighted avg. rate
EUR	**450.0**	**450.0**	**100%**	**15 days**	**2.1%**
GBP	**11.6**	**11.6**	**100%**	**5.8 days**	**3.9%**
USD	**11.7**	**11.7**	**100%**	**7.5 days**	**1.1%**

Currency - 2002

	Book value €m	Fair value €m	Fixed %	Weighted avg. period	Weighted avg. rate
EUR	38.0	38.0	100%	4 days	3.1%
GBP	7.9	7.9	100%	52 days	3.9%
SEK	0.2	0.2	100%	34 days	3.9%

The sinking fund investments amount to € 2.4m, there is no material difference between the book value and the fair value of these investments.

14. FINANCIAL INSTRUMENTS (continued)

(ii) Short Term Borrowings

		Book value €m	Fair value €m	Fixed %	Weighted avg. period	Weighted avg. rate
2003	**GBP**	**10.8**	**10.8**	**100%**	**86 days**	**4.1%**
2002	GBP	12.6	12.6	100%	91 days	4.1%

(iii) Debt Portfolio

92% of the Group's debt portfolio is fixed to maturity. The weighted average cost of the overall debt portfolio is approximately 5% and the average life is 10 years.

	2003		2002	
Instruments	**Book value €m**	**Fair value €m**	**Book value €m**	**Fair value €m**
Loans/Leases	**1,227.7**	**1,263.7**	1,010.3	1,084.0
Interest Rate Swaps	**0.0**	**(21.2)**	-	(3.0)
Currency Swaps	**930.8**	**955.6**	-	(11.0)
Total	**2,158.5**	**2,198.1**	1,010.3	1,070.0

(iv) Foreign Exchange Contracts

	2003			2002		
Currency	**Book value €m**	**Fair value €m**	**Mark-to-market Gain/(Loss) €m**	**Book value €m**	**Fair value €m**	**Mark-to-market Gain/(Loss) €m**
USD (Buy)	**45.4**	**38.8**	**(6.6)**	9.1	8.7	(0.4)
GBP (Buy)	**145.7**	**145.1**	**(0.6)**	0.2	0.2	-
GBP (Sell)	**(30.5)**	**(30.0)**	**0.5**	-	-	-
Total	**160.6**	**153.9**	**(6.7)**	**9.3**	**8.9**	**(0.4)**

(v) Commodity Contracts

ESB manages its commodity pricing risk on fuel in the context of indexation as set by the Commission for Energy Regulation. These exposures are managed using commodity spot and forward contracts.

At 31 December 2003, there were oil swaps - book value US$4.9m, fair value US$5.3m - Gain €0.4m. (There were no commodity swaps in place at 31 December 2002.)

14. FINANCIAL INSTRUMENTS (continued)

(h) Liquidity Risk

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

	2003		2002	
	Drawn Debt	Undrawn	Drawn Debt	Undrawn
	€m	€m	€m	€m
In one year or less	**73.9**	**-**	320.6	-
Between one and two years	**70.4**	**328.0**	74.0	-
Between two and five years	**169.4**	**1,085.0**	133.0	235.0
In more than five years	**1,855.6**	**-**	495.0	-
	2,169.3	**1,413.0**	1,022.6	235.0

(i) Other

ESB has entered into a leasing transaction, early termination of which could expose ESB to a current estimated maximum net loss of €5.7m in present value terms (2002: €11.8m). No provision has been made in the financial statements for this amount as the Board considers the likelihood of such a loss as remote.

At the 31 December 2003, ESB has no forward FX fuel contracts in place (2002: US$ 9.1m and Stg£0.2m).

Long term debtors and creditors of €23.4m (2002: €28.1m) and €101.1m (2002: €95.0m) respectively form part of the long term financing of the group.

15. OTHER CREDITORS

	GROUP		PARENT	
	2003	2002	2003	2002
Creditors falling due within one year:	€'000	€'000	€'000	€'000
Progress payments on work in progress	**32,919**	23,067	**32,919**	23,067
Trade creditors	**229,782**	208,076	**202,951**	199,560
Other creditors	**20,169**	39,191	**14,812**	34,056
Employment taxes	**11,170**	8,731	**10,318**	8,385
Value Added Tax	**-**	10,759	**-**	13,307
Dividends	**67,118**	19,704	**67,118**	19,704
Accruals	**160,070**	150,442	**108,697**	102,732
Amounts owed to subsidiary undertakings	**-**	-	**73,452**	63,792
Accrued interest on borrowings	**12,772**	12,473	**12,472**	10,631
Corporation tax	**34,009**	25,967	**32,404**	26,025
	568,009	498,410	**555,143**	501,259
Creditors falling due after more than one year	**101,139**	94,952	**70,087**	62,056

16. DEFERRED INCOME

	Capital grants	Non-repayable supply contributions	Total
GROUP	**€'000**	**€'000**	**€'000**
Balance at 1 January 2003	27,385	67,983	95,368
Receivable	6,498	71,861	78,359
Transferred to profit and loss account	(766)	(4,110)	(4,876)
Impairment of Asset (Note 8)	(13,046)	-	(13,046)
Balance at 31 December 2003	**20,071**	**135,734**	**155,805**
PARENT			
Balance at 1 January 2003	17,075	67,963	85,038
Receivable	2,016	71,881	73,897
Transferred to profit and loss account	(402)	(4,110)	(4,512)
Balance at 31 December 2003	**18,689**	**135,734**	**154,423**

Non-repayable supply contributions and capital grants received are recorded as deferred income and released to the profit and loss account on a basis consistent with the depreciation policy of the relevant assets.

It is estimated that €7.1m deferred income will be released to the profit and loss account in 2004 in accordance with the accounting policy on deferred income.

17. PROVISION FOR LIABILITIES AND CHARGES

GROUP & PARENT	Deferred taxation €'000	Generating station closure €'000	Restructuring costs €'000	2003 total €'000	2002 total €'000
Balance at 1 January 2003 (adjusted)	231,201	319,067	379,290	**929,558**	932,745
Transfer from profit & loss account:					
- Increase in restructuring provision	-	1,300	-	**1,300**	16,115
- Financing charge (note 3)	-	14,694	18,425	**33,119**	34,658
- Deferred tax charge for the year	18,774	-	-	**18,774**	7,306
Station closure provision capitalised in the year	-	-	-	-	4,690
Utilised during the year	-	(36,394)	(58,948)	**(95,342)**	(65,956)
Balance at 31 December 2003	**249,975**	**298,667**	**338,767**	**887,409**	**929,558**

Deferred Taxation	2003 €'000	2002 €'000
Capital allowances in excess of depreciation	**264,222**	242,914
Timing differences arising on provisions	**(14,247)**	(11,713)
	249,975	231,201

ESB first adopted FRS 19 "Deferred taxation" in the 2001 financial statements. Deferred taxation is recognised on all timing differences which have originated but not reversed at the balance sheet date. These timing differences relate to transactions that are recorded on the current year balance sheet that result either in an obligation to pay more or a right to pay less tax in the future. The deferred taxation assets and liabilities have not been discounted.

The provision for liabilities and charges for the Parent for 2003 is €889.4m (2002: €929.6m). The note above refers both to the Group and the Parent with the exception of deferred taxation. The charge for deferred taxation in the Parent for 2003 was €20.8m and the balance at year end is €252m.

Provision for Generating Station Closure

The provision at 31 December 2003 of €298.7m 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 re-calculated in accordance with the current expected station closure dates.

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

17. PROVISION FOR LIABILITIES AND CHARGES (continued)

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. 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 2017.

18. CAPITAL STOCK

GROUP & PARENT	2003 €'000	2002 €'000
Capital Stock	**1,979,882**	1,979,882
Comprised of:		
Stock issued from converted reserves	**1,880,888**	1,880,888
Stock issued for subscription by ESOT	**98,994**	98,994
	1,979,882	1,979,882

There are 1,979,881,856 units of capital stock in issue at a value of €1 each.

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 an ESB employee shareholding scheme, subscribed for 5% of the stock.

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

19. SINKING FUND RESERVE FOR REPAYMENT OF BORROWINGS

GROUP & PARENT	2003 €'000	2002 €'000
Balance at 1 January 2003	**2,128**	1,563
Appropriation for repayment of borrowings	**245**	565
Balance at 31 December 2003	**2,373**	2,128
Represented by:		
Sinking fund investments (note 9)	**2,373**	2,128

20. PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

(a) GROUP	Profit & Loss account 2003 €'000	Other reserves 2003 €'000	Total reserves 2003 €'000	Total reserves 2002 €'000
Balance at 1 January 2003	125,243	12,835	**138,078**	20,395
Profit retained in year	181,324	-	**181,324**	119,111
Translation differences on consolidation of foreign subsidiaries	-	(3,637)	**(3,637)**	(1,428)
Balance at 31 December 2003	**306,567**	**9,198**	**315,765**	**138,078**
Other reserves are primarily comprised of foreign exchange movements on the conversion of foreign subsidiaries.				
(b) PARENT	**288,550**	-	**288,550**	82,750

The retained profit in the parent accounts for 2003 amounted to €205.8m (2002: €120.4m).

21. MINORITY INTEREST

	2003 €'000	2002 €'000
Equity minority interest:		
Balance at 1 January 2003	**567**	574
Profit and loss account	**(1)**	125
Buyback of minority interest in ESBI Computing Limited	**-**	(132)
Balance at 31 December 2003	**566**	567

Minority interests at the end of 2003 relate to the minority shareholdings in Crockahenny Wind Farm Limited and Hibernian Hydro Limited.

22. CASH FLOW STATEMENT

(a) Reconciliation of operating surplus to net cash inflow from operating activities

	2003 €'000	2002 €'000
Operating profit	**325,602**	236,620
Depreciation	**286,455**	244,651
Utilisation of provisions for liabilities & charges	**(95,342)**	(65,956)
Increase in provisions for liabilities & charges	**1,300**	16,115
Employee shareholding scheme	**-**	(16,456)
Loss on disposal of tangible fixed assets	**2,766**	2,476
(Profit) on disposal of tangible fixed assets	**(10,312)**	(798)
Loss on disposal of investment in financial fixed assets	**463**	-
Profit on disposal of investment in financial fixed asset	**-**	(4,105)
Write down of investment in financial fixed asset	**-**	18,400
Amortisation of deferred income	**(4,876)**	(1,765)
Amortisation of goodwill	**15,170**	1,318
Translation differences	**1,391**	1,400
(Increase)/decrease in debtors	**(25,127)**	33,216
(Increase) in stocks	**(964)**	(6,099)
Increase in creditors	**1,606**	104,318
Provision for the impairment of fixed assets	**32,599**	-
Net cash inflow from operating activities	**530,731**	563,335

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

	2003 €'000	2002 €'000
Increase in cash in the year	**18,451**	39,580
Repayment of loans	**334,262**	98,284
New loans in year	**(1,494,000)**	(345,218)
Capital element of finance lease payments	**13,285**	14,990
Cash (inflow) from change in debt and lease financing	**(1,146,453)**	(231,944)
Net change in sinking fund bank deposits	**245**	565
Net change in other bank deposits	**426,679**	(77,563)
Cash inflow/(outflow) from change in liquid resources	**426,924**	(76,998)
Change in net debt resulting from cashflows	**(701,078)**	(269,362)
Exchange differences	**879**	135
Movement in net debt in the year	**(700,199)**	(269,227)
Net debt at 1 January 2003	**(900,234)**	(631,007)
Net debt at 31 December 2003	**(1,600,433)**	(900,234)

22. CASH FLOW STATEMENT (continued)

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

Analysis of changes in net debt

	At 1 January 2003 €'000	Cashflow €'000	Exchange movements €'000	At 31 December 2003 €'000
Cash at bank and in hand (see below)	76,436	18,451	-	**94,887**
Loans	(862,930)	(1,159,738)	-	**(2,022,668)**
Finance leases	(159,931)	13,285	-	**(146,646)**
	(1,022,861)	(1,146,453)	-	**(2,169,314)**
Other bank deposits (see below)	44,063	426,679	879	**471,621**
Sinking fund bank deposits & other investments	2,128	245	-	**2,373**
	46,191	426,924	879	**473,994**
Total	**(900,234)**	**(701,078)**	**879**	**(1,600,433)**
Cash at bank and in hand	76,436			**94,887**
Other bank deposits	44,063			**471,621**
Cash at bank and in hand per Group balance sheet	120,499			**566,508**

23. PENSIONS

(a) SSAP 24 ACCOUNTING FOR PENSION COSTS

The group has continued to account for pensions in accordance with SSAP 24. The pension charge of the Group for the year was €39.6m (2002: €40.5m), based on the on-going contribution rates as advised by the actuaries.

ESB General Employers' Superannuation Scheme

Pensions for employees in the electricity business 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 dependants.

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.

The scheme regulations set out the steps to be taken if either a deficit or surplus emerges. If a deficit is reported, ESB is required to consult with the Superannuation Committee, the scheme Trustees and the scheme 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.

Whilst not typical of a defined benefit scheme, the nature and history of the scheme indicate that a constructive obligation to provide the benefits may exist and on that basis the scheme, as in the prior year, has been treated as a defined benefit scheme for the purposes of disclosure under FRS 17 below.

Actuarial Valuation

The pension costs of the scheme are assessed in accordance with the advice of independent actuaries obtained at three yearly intervals. The Actuaries are currently completing an actuarial valuation as at 31st December 2003.

The previous 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 that 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 actuarial report is available for inspection by members of the scheme only and is not available for public inspection.

ESB Subsidiary Companies Pension Scheme

ESB also operates an approved defined contribution scheme called ESB Subsidiary Companies Pension Scheme for employees of ESB subsidiary companies. Contributions are paid by the member and employer at fixed rates. The benefits secured at retirement reflect each employee's accumulated fund and the cost of purchasing benefits at that time. Death benefits are insured on a group basis and may be paid in the form of a lump sum and/or survivor's pension. The assets of the scheme are held in a separate trustee administered fund. The pension charge for the year represents the defined employer contribution and amounted to €1.8m (2002: €1.4m)

23. PENSIONS (continued)

(b) FRS 17 RETIREMENT BENEFITS

It is anticipated that full adoption of FRS 17 - 'Retirement Benefits' will apply for the year ended 31 December 2005 in accordance with the expected recommendation of the Accounting Standards Board. Prior to this, the phased transitional disclosures required by the standard have been included.

The valuation of the scheme by independent actuaries for the purpose of FRS 17 disclosure is based on the data currently being compiled for the actuarial valuation referred to above. Independent actuaries are using this data to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at the balance sheet date. The scheme assets are stated at their market value at the balance sheet date. The valuation was carried out using the projected unit method.

If the resulting deficit or suplus, or a portion thereof, was included in the net assets or retained earnings of the Group, the Group net assets or retained earnings would be decreased or increased accordingly.

Assumptions

Financial Assumptions

The major assumptions used by the Actuary to calculate the scheme liabilities under FRS 17 are:

	2003	2002	2001
Rate of interest applied to discount liabilities	**5.50%**	5.75%	6.25%
Price inflation	**2.25%**	2.25%	2.25%
Rate of increase of salaries	**3.50%**	3.50%	3.75%
Rate of increase of pensions in payment	**3.50%**	3.50%	3.75%

Scheme Assets

Long term rates of return expected at 31st December 2003, 2002 and 2001 are set out below:

	2003	2002	2001
Rate of return on equity investments	**8.00%**	8.25%	8.00%
Rate of return on bond investments	**4.75%**	4.75%	5.00%
Rate of return on other investments	**5.75%**	5.75%	6.50%

23. PENSIONS (continued)

Assets in the Scheme at 31st December 2003, 2002 and 2001

	2003 €'000	2002 €'000	2001 €'000
Equities	**1,921,002**	1,554,443	1,936,055
Bonds	**243,937**	257,953	483,160
Other	**376,069**	430,668	287,034
	2,541,008	2,243,064	2,706,249
Actuarial value of scheme liabilities	**(3,608,805)**	(3,147,997)	(2,826,177)
Deficit	**(1,067,797)**	(904,933)	(119,928)
Related deferred tax	**133,475**	113,117	14,991
Net pension liability	**(934,322)**	(791,816)	(104,937)

Analysis of the amount that would have been charged to operating profit in 2003 under FRS 17

Impact on Group Operating Profit	2003 €'000	2002 €'000
Current service cost	**40,631**	31,723
Past service cost	**-**	-
Total Operating Charge	**40,631**	31,723

Analysis of the amount that would have been credited to other finance income in 2003 and 2002 under FRS 17

Impact on Other Finance Income		
Expected Return on pension scheme assets	**165,776**	197,700
Interest on pension scheme liabilities	**(179,826)**	(175,198)
Net Return	**(14,050)**	22,502
Total net impact on reported profits	**54,681**	**9,221**

23. PENSIONS (continued)

Analysis of amount which would be recognised in Statement of Total Recognised Gains and Losses (STRGL) under FRS 17

	2003 €'000	2002 €'000
Actual return less expected return on pension scheme assets	**145,111**	(641,683)
Experience gains and losses arising on the scheme liabilities	**(211,054)**	(104,546)
Changes in demographic and financial assumptions	**(132,083)**	(100,245)
Actuarial loss which would be recognised in STRGL	**(198,026)**	(846,474)

Movement in deficit during the year

	2003 €'000	2002 €'000
Deficit in scheme at beginning of the year	**(904,933)**	(119,928)
Movement in year:		
Current service cost	**(40,631)**	(31,723)
Contributions	**89,843**	70,690
Past service costs	**-**	-
Other finance income	**(14,050)**	22,502
Actuarial Loss	**(198,026)**	(846,474)
Deficit	**(1,067,797)**	(904,933)

History of experience gains / losses

	2003	2002
Experience gains and losses on scheme liabilities:		
Amounts (€' 000)	**(211,054)**	(104,546)
% of the present value of the scheme liabilities	**6%**	3%
Total amount recognised in STRGL:		
Amounts (€' 000)	**(198,026)**	(846,474)
% of the present value of the scheme liabilities	**5%**	27%

24. 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:	2003 €'000	2002 €'000
Within one year	**55**	122
Between two and five years	**2,486**	1,940
After five years	**7,382**	5,223
Total payable within one year	**9,923**	7,285

(b) Capital commitments

	2003 €'000	2002 €'000
Contracted for	**310,962**	545,091
Authorised but not contracted for	**76,549**	2,300
	387,511	547,391

The decrease in capital commitments contracted for is primarily due to the reduction in new peat station construction commitments for 2004.

(c) Fuel Contract Commitments

There are a number of long term gas supply arrangements in place for different periods up to 2014. These arrangements provide for pricing changes in line with changes in inbuilt energy market indicators.

25. 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

Other than agreed allocations under ESOP, Board Members had no beneficial interest in ESB or its subsidiaries at any time during the year.

Subsidiary undertakings

During the year ended 31 December 2003, ESB Parent purchased €62.3m (2002: €86m) from its subsidiaries. These purchases largely relate to engineering and consulting services, mainly by the electricity businesses.

During the year, ESB Parent sold €55.7m (2002: €114m) to subsidiaries. These sales mainly relate to management services, as well as electricity charges such as Use of System charges and sales of electricity.

Associated undertakings

ESB has undertaken transactions at 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 America and Caribbean Power for the provision of services amounting to €1.4m (2002: €15.3m).

Joint Ventures

During the year the Group provided services to its joint ventures, Synergen and Corby Power Ltd. ESB provided services to Synergen to the value of €7.5m (2002: €15.2m) and had to the year end advanced capital to the partnership totalling €134.3m (2002: €143.4m), funded through third party borrowings. The capital advanced fell during 2003 due to dividends received from Synergen. Synergen made sales of €79.8m (2002: €40.6m) to the Group. Services to the value of €5.14m (2002: €5.03m) were provided to Corby Power Ltd.

26. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated during 2001. Under the terms of the creation of ESB ESOP Trustee Limited, ESB has no ability or rights to exert control over the assets or management of the company. The Board of Trustees is chaired by an independent professional trustee with four directors representing ESB employees and two directors representing the Company. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the company exist. In accordance with FRS 2 "Accounting for Subsidiary Undertakings", the accounts for ESB ESOP Trustee are not consolidated with the results of ESB Group. The net assets of ESB ESOP Trustee Limited at 31 December 2003, were €76.5m (2002: €76m).

27. 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 Members, which would require adjustment to the accounts or any additional disclosures.

28. APPROVAL OF ACCOUNTS

The Board approved the accounts on 23 March 2004.

29. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
ESB International Ltd	*	100	Holding company
ESBI Engineering Ltd	*	100	Engineering
ESBI Engineering (Overseas) Ltd	*	100	Engineering
ESBI Contracting Ltd	*	100	Contracting
ESBI Consultants Ltd	*	100	Consultancy
ESBI Computing Ltd	*	100	Computer services
ESB Ireland Holdings Ltd	*	100	Holding company
ESBII Technology and Construction	*	100	Power generation
FinancElectric Ltd	*	100	Customer credit
ESB International Investments Ltd	*	100	International investments
ESBI Facility Management Ltd	*	100	Facility management
Salmara Holdings Ltd	*	100	Holding company
ESB Independent Energy Ltd	*	100	Electricity sales
ESB Contracts Ltd	**	100	Contracting
ESB Power Generation Holding Company Ltd	**	100	Holding company
Ballyragget Power Ltd	**	100	Power projects
Gort Windfarms Ltd	**	100	Wind Farm
Crockahenny Wind Farm Ltd	**	75	Wind Farm
Hibernian Hydro Ltd	**	95	Small hydro projects

29. SUBSIDIARY, JOINT VENTURE & ASSOCIATED UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
Dublin Bay Power Ltd	**	100	Holding company
Tawnawully Power Ltd	**	100	Power generation
Utilities O&M Services Ltd	**	100	Operation & maintenance services
Hibernian Wind Power Ltd	**	100	Wind power
ESB Independent Energy NI Ltd	*	100	Electricity sales
ESB Retail Ltd	*	100	Retail of electrical appliances
ESB Telecoms Ltd	*	100	Telecommunications
Bizkaia Energia SL	****	100	Power generation
Facility Management Espana SL	****	100	Facility management
ESBI Engineering UK Ltd	122 London Road Kingston on Thames Surrey KT2 6QJ	100	Engineering and general consultancy
Electricity Supply Board Services B.V.	Wisma Cyclecarri 288 Jalan Raja Laut 50350 Kuala Lumpur Malaysia	100	Facility management
ESBI US Transmission Inc.	2800 Post Oak Road Houston Texas, 77056	100	Holding Company
Electricity Supply Board International Investments B.V.	Strawinskylaan 3105 7th Floor 1077 ZX Amsterdam The Netherlands	100	Holding company

29. SUBSIDIARY, JOINT VENTURE & ASSOCIATED UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
Coolkeeragh ESB Ltd	2 Electra Road Maydown Derry BT47 6 UL	84	Power generation
ESBII UK Ltd	122 London Road Kingston on Thames Surrey KT2 6QJ	100	Power generation
ESBI Luxembourg SA.	121 Avenue de la Faiencerie L.1511 Luxembourg	100	Holding company
Power Generation Technology Snd Bhd	Wisma Cyclecarri 288 Jalan Raja Laut 50350 Kuala Lumpur Malaysia	100	Power generation
Facility Management UK Ltd	122 London Road Kingston on Thames Surrey KT2 6QJ	100	Facility management
ESBI Georgia Ltd	39 Gamsakhurdia Ave Suite 42 Tbilisi, Georgia	100	Transmission Management
Non-controlled subsidiary undertaking			
ESB ESOP Trustee Ltd	**	100	Staff Shareholding Scheme
Associated undertakings			
Transpower Ltd	*	50	Development of independent power projects
CPL Operations Ltd	***	50	Facility management
Saur Utilities Ltd	16 St. Stephen's Green, Dublin 2	49	Water and sewerage treatment

29. SUBSIDIARY, JOINT VENTURE & ASSOCIATED UNDERTAKINGS (continued)

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
Coolkeeragh Group Ltd	2 Electra Road Maydown Derry BT47 1 UL	40	Power generation
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	**	50	Power generation
Corby Power Ltd	***	50	Power generation
Synergen	South Bank Road Ringsend Dublin 4	70[1]	Power generation
Investments			
Rousch (Pakistan) Power Ltd	94-W, 3rd Floor Admir Plaza Jinnah Ave. Blue Area Islamabad Pakistan	7	Independent power producer

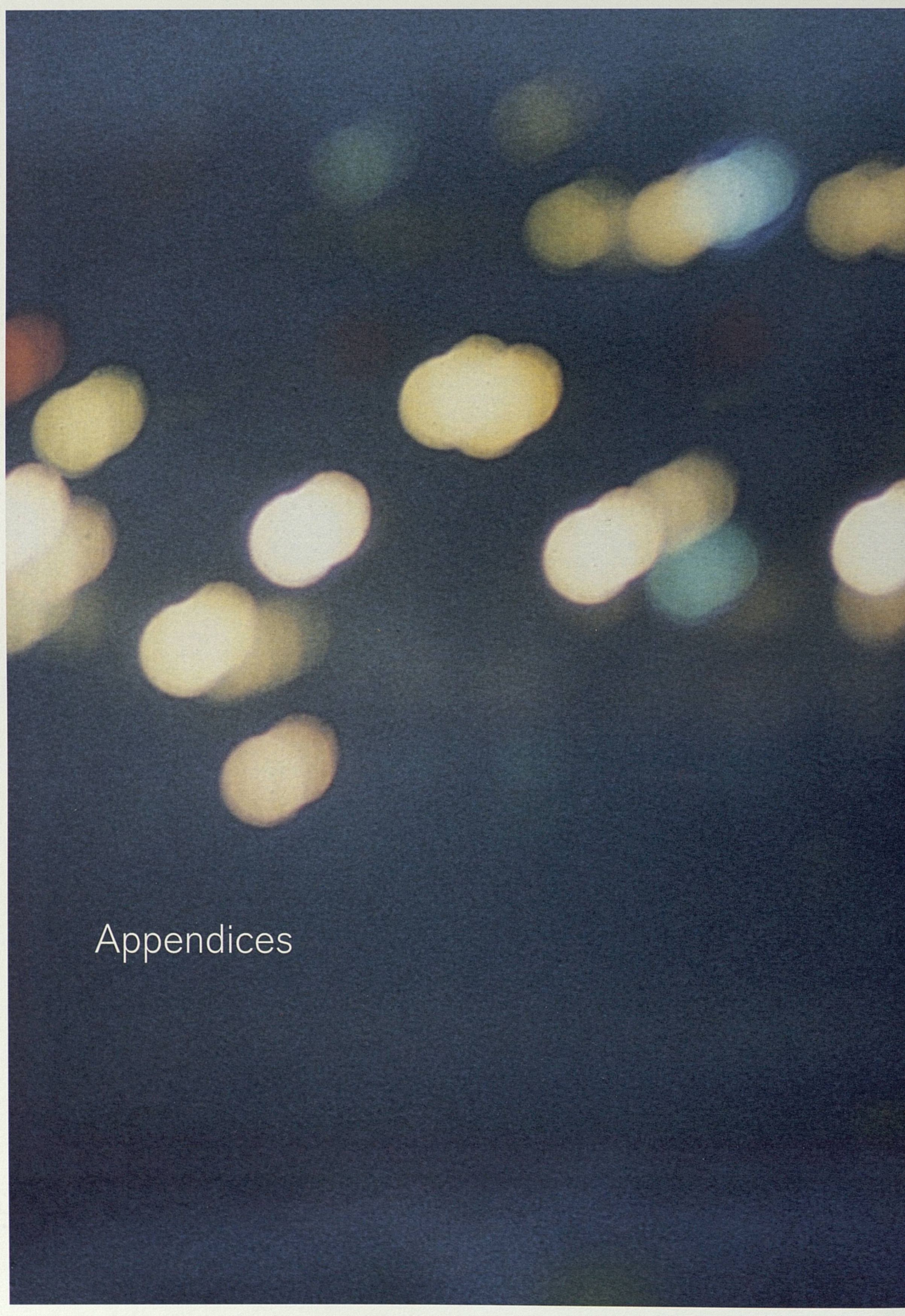
[1] Accounted for as a Joint Venture due to the terms of the Partnership deed.

* Stephen Court
18-21 St. Stephen's Green
Dublin 2.

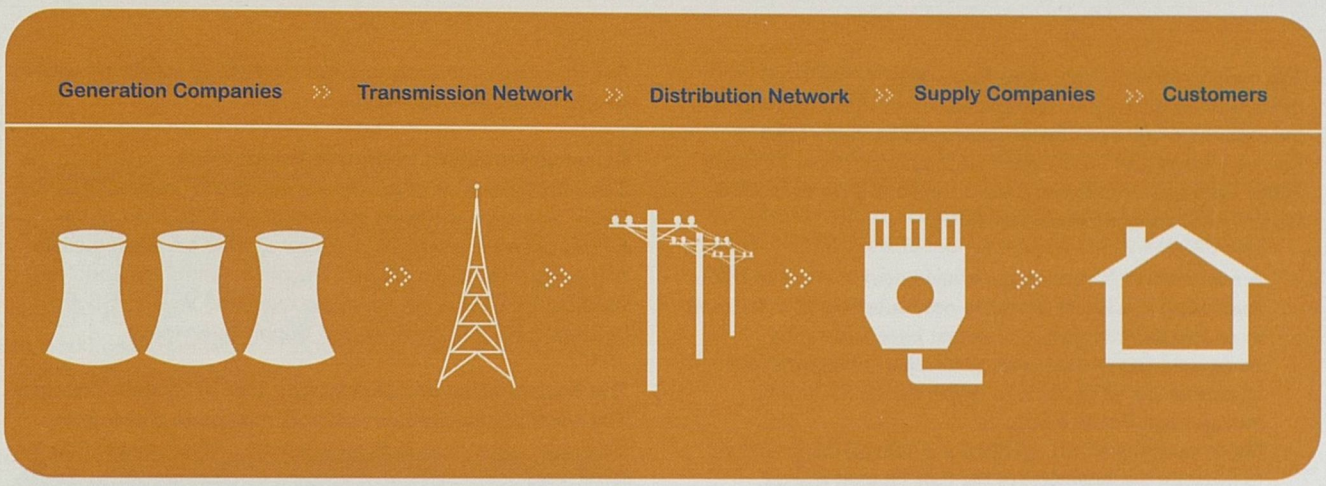
** 27 Lr. Fitzwilliam St.
Dublin 2

*** Mitchell Road
Phoenix Parkway
Corby
Northamptonshire
N17 1Q7

**** Iparraguirre 29
2a Planta
48011 Bilbao
Spain



Appendices



Appendix 1

HOW ESB IS REGULATED

Introduction

In order to understand how ESB operates, it is important to understand how the electricity industry in Ireland is regulated. Approximately 80% of ESB's turnover is from regulated businesses and this section explains how regulated electricity prices are set by the Regulator.

The electricity industry in Ireland is overseen by a Government appointed Regulator, known as the Commission for Energy Regulation (CER). The diagram above illustrates, in simple terms, how the electricity industry in Ireland is currently structured.

Electricity generation companies are on the left of the diagram. These companies, which include ESB Power Generation, independent generators, AER (Alternative Energy Resources) generators and wholesalers who import over the interconnector, transmit the electricity produced to supply companies via the transmission (high voltage) and distribution (lower voltage) networks.

The supply companies sell the electricity to final domestic, commercial and industrial customers. All customers are currently split into two categories (a) eligible, who are able to choose their supplier and (b) non-eligible, those supplied by ESB Customer Supply. In 2005, every customer will become eligible and thus be able to change to other suppliers. The CER oversees and regulates this market.

Regulatory Framework

CER
The CER regulates ESB in accordance with the powers vested in it under the 1999 Electricity Regulation Act and Statutory Instrument No. 445 of 2000. The Commission is required, inter alia, to:

- Protect the interests of customers,
- Promote competition,
- Ensure that electricity demand is met and
- Promote safety, security, renewable energy and energy efficiency.

The Commission's powers include the regulation of ESB's network investment, the determination of network charges, the authorisation of new generation plant, the issue of licences to market participants and the regulation of ESB Customer Supply's tariffs.

ESB is licensed by the CER to operate the Irish Transmission and Distribution networks. Under this licence, all aspects of the networks business are subject to regulation, including the setting of charges and technical standards.

All new generation/supply entrants can access ESB's networks at a published use-of-system (the cost of using the high and low voltage neworks) tariff which is regulated by the CER. Access by new generators to the Transmission network is controlled by the Transmission System Operator which is regulated and managed independently of other ESB functions. All investment in Transmission and Distribution networks is regulated by the CER which imposes financial penalties on ESB where performance targets are not met.

Competition in the market
ESB is fully committed to the opening up of the generation and supply markets to competition and is investing substantially in order to facilitate this.

The electricity generation market has been fully open to competition since 2000, with ESB prohibited by the CER from investing in new long term, green field generating capacity in Ireland.



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