

ESB Annual Report and Accounts

2005



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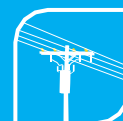
- In 2005 ESB Power Generation completed delivery of two new peat powered plants in the midlands – West Offaly Power (150MW) and Lough Ree Power (100MW)
- 2005 saw the commencement of the Moneypoint Environment Retrofit Project which will significantly reduce NO_x and SO₂ emissions from Moneypoint Power Station thereby delivering major benefit to the environment



- The ESB billing system, in place for more than 20 years, was replaced in 2005 by a state of the art billing system, which better facilitates operation of the new structures in the deregulated market
- In 2005, over 11 million bills were issued, over 15 million payments collected and over 3.5 million calls were received at the National Customer Contact Centre



- During 2005 ESB Networks successfully completed the change over to the new IT systems which support the fully opened market
- Total expenditure on Networks infrastructure in 2005 was almost €700m



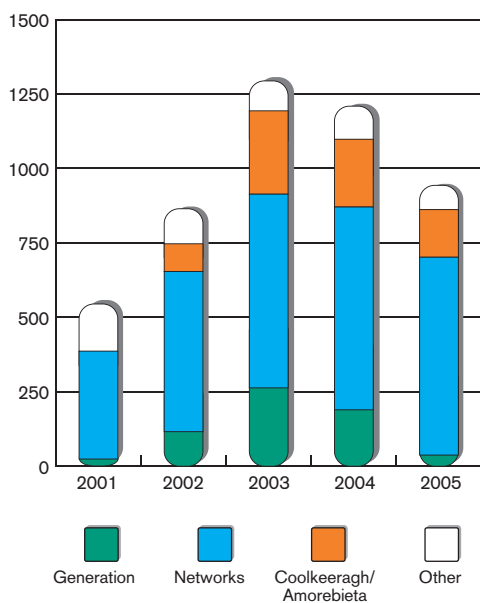
- ESBI's largest ever overseas investment, the 800MW CCGT plant at Amorebieta in Northern Spain, started commercial operation in 2005. ESBI also won an operations and maintenance management contract for the 2,100MW coal fired plant at Manjung in Malaysia
- Construction of the Coolkeeragh power plant in Northern Ireland and Derrybrien wind farm, one of the largest in Ireland, were completed by ESBI in 2005



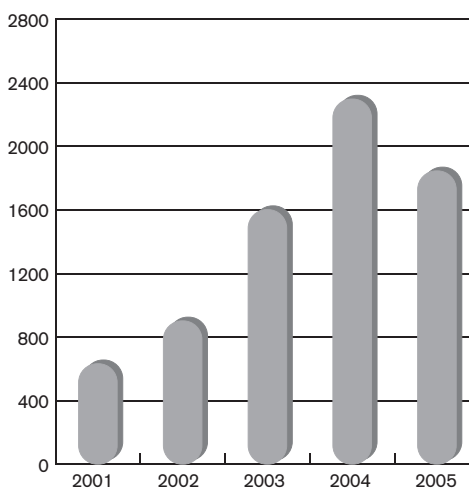
Facts at a Glance

	2005	2004	Change
Revenue €m	2,756	2,458	298
Profit after tax €m	241	157	84
Capital expenditure €m	943	1,209	(266)
Net debt €m	1,847	2,299	(452)
Customers connected	89,079	90,600	(1,521)
Average staff numbers	8,292	9,289	(997)

Capital Expenditure (€m)



Net Debt (€m)



Chairman's Review



Tadhg O'Donoghue

In accordance with the provisions of the Electricity (Supply) Act 1927 (as amended) the Board presents its Annual Report and Accounts for the year ended 31 December, 2005.

Performance in 2005

2005 was an excellent year for ESB.

ESB power stations achieved the plant availability target for the year of 83%. The two new peat stations, Lough Ree commissioned in late 2004 and West Offaly commissioned in early 2005 are having significant teething problems but I am confident that these will be resolved so that the stations will be making a full contribution before the start of next winter. Sustained investment in the generation portfolio, including replacement of very old stations, is essential for meeting critical availability targets.

ESB Networks in 2005 completed a further 16,000 kilometres of medium voltage network renewal throughout the country. This programme, which involves the renewal of all 75,000 kilometres of the medium voltage system, is on track for completion during 2006. Overall

ESB Networks has invested €3.3 billion in transmission and distribution infrastructure since 2000 – one of the biggest capital investment programmes in the history of the State. ESB International in 2005 pursued growth in other markets to balance falling market share at home. The construction of an 800MW combined cycle plant in Spain and of a 400MW combined cycle plant in Northern Ireland was completed in 2005. Other potential projects are being actively pursued.

Throughout 2005 ESB Customer Supply sought to improve communications with its 1.9 million customers and also to improve response times to customer queries.

ESB Retail, which at its height operated over 120 shops nationwide, closed its doors for the last time in 2005. Most of the shop premises were acquired by Bank of Scotland (Ireland) in a transaction which maximised value for ESB and also offered alternative employment opportunities to ESB Retail staff either with the Bank or within ESB. I want to recognise the contribution of ESB Retail staff over so many years to customer service in local communities throughout the country.

2005 Financial Performance

Profitability

Group profit after tax increased by €84 million to €241 million. In respect of 2005 the Board is proposing a final dividend of 30% of 2005 distributable profits which equates to a dividend of €72.4 million in aggregate or 3.66 cent per unit of capital stock.

Time of Change

The process of change in the electricity industry in Ireland continued in 2005 with full market opening. All electricity users, including domestic customers, are now able to pick their electricity supplier of choice. In this competitive market ESB Customer Supply market share on the supply side fell a further 6% during 2005 to 58%.

Competition will increase further with the introduction of the All Island Market scheduled for 2007. This will see ESB's market share in supply fall to a projected 50% and ESB's share of the generation market fall below 35%. Further down the road is the prospect of an all islands (Britain/Ireland) market and an integrated European market.

Price Increases

Average electricity prices increased by 3.5% during 2005. Fuel accounts for over 50% of our Power Generation costs and consequently fuel price inflation is putting great pressure on electricity prices.

Corporate Governance

ESB's Board and staff are committed to doing business in an ethical and socially responsible way. For the Board this includes adherence to the highest standards of corporate governance and to transparency and independence in the Board process.

Board, Shareholders and Staff

Joe LaCumbre resigned from the Board in early 2006 after over 21 years as a Worker Board Member. I wish Joe every happiness in his retirement after such long service. Seamus Mallon was appointed to the Board on 21 February 2006. I welcome Seamus to the Board.

I would like to thank the Minister for Finance and the Minister for Communications, Marine and Natural Resources and their respective officials, for their continued assistance during the year. I would also like to acknowledge the contribution of my Board colleagues during the year. My congratulations to the management and staff. They have achieved a great deal, delivering yet again on a very ambitious programme in 2005.



Tadhg O'Donoghue

Chairman

18 May 2006

Chief Executive's Review



Padraig McManus

Overview

On a global basis 2005 saw the profile of the energy sector raised dramatically. Driven by events in the Middle East, hurricanes in the Mexican Gulf, a growing awareness of the economic impact of CO₂ and elevated security of supply concerns across many fuels, the prices of all fuel commodities rose significantly. The volatility of these fuel prices has also increased with price spikes occurring frequently. This fundamental shift in the way global fuel commodities are priced has affected many industries and in particular it has dramatically effected the electricity sector in both the short and perhaps more significantly the long term.

At the same time there have been further changes in Ireland. The deregulation of the supply sector, the rapid change in ESB's market share in both the generation and supply business, continued record demand for new connections, the buoyant demand coupled with the age of the generation portfolio and genuine concerns over security of supply have placed an unprecedented strain on resources.

Staff numbers are 20% down on the level employed 10 years ago, but ESB is spending 5 times more per annum on capital, connecting 3 times as many new customers, while distributing significantly higher volumes of electricity to the growing market.

It is against this backdrop that the performance both financially and operationally in 2005 is particularly pleasing. ESB is reporting for the first time under the new International Financial Reporting Standards. Comparative figures for 2004 have been restated on the same basis.

ESB has exited from the Retail appliance business through the sale to Bank of Scotland (Ireland) (BOSI), and has disposed of the UK electrical contracting business (ESBI UK). The sale of 50% of the Spanish IPP to Osaka Gas of Japan has also been completed.

These transactions are all clear signs of ESB's commitment to keeping the focus on delivering long-term value by growing the electricity business while maintaining an acceptable risk profile. All of these one-off transactions have had a positive impact on 2005's financial performance.

During 2005 ESB staff demonstrated their capacity to deal with the changes facing the organisation

The scale of the financial and operational challenge that faces ESB cannot be underestimated. The continuing growth in the Irish economy is driving large capital expenditure in the Networks business. The renewal of an ageing generation portfolio is a priority, including the need to expand the thermal and renewable generation portfolio to meet the major demand growth in Ireland, in addition to investing to meet environmental targets. As a result, it is estimated that ESB will invest an average of €1 billion per annum over the next 5 years. Importantly, even with this level of spend ESB's share of the generation market will fall below 45% in 2006.

By late 2007 when the Single Electricity Market is formed, ESB Power Generation will generate approximately 30% of all electricity generated on the island. To compensate for this loss of market share ESB is pressing ahead with international growth more aggressively than before. International investments to date have been particularly successful and the Group's aim is to balance the reduced domestic market share by expanding the resources devoted to the international business. ESB has been separated from other activities to maintain the appropriate focus on such expansion. Through this approach, ESB can achieve significant profit growth, in line with its overall strategy.

The investment requirements in the ESB Networks, Power Generation and International businesses are challenging both financially and operationally. During the last 5 years ESB has debt funded capital investment of €5 billion. This has seen balance sheet gearing rise from 15% to 47% over that period. This cannot continue and other ways must be sought to complement this debt funding.

The agreement with staff and their Unions in early 2006 on a Pay, Pension and Change agreement

will address the actuarial deficit on the pension fund and will maintain a strong and relevant ESB into the future. Addressing the funding requirements of the business and continuing to adapt to market changes are issues that must be addressed over the next few years.

Operational Review

Irish economic growth continued strongly in 2005, resulting in a 3.7% rise in electricity demand. Over 89,000 new customer connections were made during the year, just short of the record level achieved in 2004. Since 2001, more than 370,000 new customer connections have been provided, the largest growth in customer numbers in ESB's history.

Capital expenditure for the year was in excess of €900 million with nearly €700 million spent on the networks infrastructure alone.

In 2005 over 1,300MW of generation plant was brought into commercial operation in Ireland and Spain.

- The 150MW West Offaly power plant commenced commercial operation at the beginning of 2005.
- The 800MW power station in Amorebieta in Spain was completed ahead of schedule and commenced commercial operation in August 2005. This plant is the first Independent Power Producer (IPP) in the Spanish market and clearly demonstrates ESB's ability to compete successfully in a liberated European market.
- A 400MW plant began generating in Coolkeeragh, near Derry, underlying ESB's support for the All Island Market.

ESB is a strong supporter of the All Island Market and has been fully participating in the development of arrangements for the Single Electricity Market, which is due to come into operation in 2007

Work has commenced on a €368 million environmental retrofit project at Moneypoint coal station, to meet its environmental targets over the next 10 years. The project will be completed in 2008.

The "Programme to Achieve Competitiveness and Transformation" (PACT) came to a successful conclusion at the end of 2005.

Over a number of years this major change programme achieved annual cost savings of over €135 million and total staff reductions of almost 2,000.

Power station availability improved and, at 83%, was in line with the target for the year. However, availability performance in 2006 is likely to be adversely affected by the environmental project in Moneypoint and an unavoidable extensive overhaul programme.

Challenging customer service targets have been set by the Commission for Energy Regulation (CER). While ESB's Network Renewal Programme and the investment in new market systems initially adversely affected the achievement of these targets, they are now bringing tangible long term benefits to all customers.

Safety

ESB is committed to ensuring the safety of staff, contractors and the public. Working safely is a core value for ESB. The target is to achieve zero lost time injuries and real progress is being made towards achieving this.

Public safety is of equal importance and it is immensely regrettable that three fatalities occurred during 2005 – one contractor and two members of the public.

These tragedies bring home the need for continuous vigilance by everyone dealing with electricity. There is an extensive safety leadership programme in place throughout ESB, with structured safety management systems. ESB continues to focus on contractor safety and in a new initiative has also introduced a comprehensive safe driving programme for the vehicle fleet.

ESB, in a unique development, has formed a strategic partnership with the Health and Safety Authority (HSA) to promote awareness of electrical hazards in the construction and agricultural sectors.

These initiatives covering staff, contractors and the public will continue to be pursued vigorously in 2006.

Regulatory Developments

The electricity market in the Republic of Ireland was opened fully to supply competition in February 2005. ESB played a major part in the achievement of this milestone by delivering a €120 million IT project to enable all suppliers equal access to the network and customers.

The company has also supported the development of the generation market by offering off-take agreements for 500MW of new capacity. This led to the development of generating plants at Tynagh (400MW) and Aghinish (150MW) both of which came into operation in early 2006.

Under the EU Electricity Directive, Ireland is pledged to producing 13.2% of its energy from renewables by 2010. ESB fully supports this target and is actively investing in the development of wind farm projects throughout the country.

Service to customers is critically important to ESB. This is about people delivering a service to other people and it is at this interface that ESB staff make one of their most important contributions to the reputation of the company

ESB is a strong supporter of the All Island Market and has been fully participating in the development of arrangements for the Single Electricity Market (SEM), which is due to come into operation in 2007. This is a positive development which can aid competition, improve system stability and minimise costs going forward. In the short term however it will require significant effort by all involved to achieve successful implementation.

Price Reviews

The first 5 year regulatory price review period concluded in 2005. The second 5 year review (2006 – 2010) was completed by the CER during the year. These reviews have resulted in a significant reduction in the allowed revenues of ESB's regulated businesses. This presents a challenge for these businesses which also have large ongoing capital investment programmes.

Recent electricity price increases have been mainly driven by surging fuel prices on international markets. It is not possible to protect customers from the impact of these rising prices. Future prices will be largely dependent on the direction of prices for the fuels used to generate electricity and there is an increased exposure to gas, one of the more volatile and now one of the highest priced fuels. The short term outlook is for continuing high prices.

People

During 2005 ESB staff have continued to demonstrate their capacity to deal with the changes facing the organisation. The pace of change has continued and the industry is becoming even more complex. As part of ESB's response to this, staff have delivered

a wide range of initiatives, from the investment in new and efficient networks through to investment in new cleaner technology that will extend the life of coal burning plant and thus ensure that Ireland continues to have fuel diversity.

Such change can only be delivered through the expertise, commitment and skills of all staff, underpinned by a willingness to embrace new ways of working, new ways of organising and new technologies. Achieving this is only possible through the operation of a genuine and robust partnership with the Trade Unions.

Service to customers is critically important to ESB. This is about delivering a consistently high quality of service to all customers and it is at this interface that ESB staff make one of their most important contributions to the reputation of the company, whether through the familiar yellow vans, through our Contact Centres or through 24 hour production of energy from our power stations.

The company also recognises the pressures on its staff in dealing with the changes in contemporary society and is fully aware that staff have, as well as their commitment to the company, increasing pressures in their private lives from issues such as longer commuting distances and times, as well as caring for both young and aged dependents. Over the last year ESB has concentrated on reinvigorating the approach to Life-Work balance and has elevated this issue to the highest levels in the organisation.

With the closure of the retail appliance shops and receipting facilities, it is important to acknowledge the tremendous service to customers, provided by the loyal and dedicated staff in these areas over many years.

Looking Ahead

The pace of change in the electricity industry is relentless and 2006 will bring its own set of challenges. The key operational priorities for the year will include:

- Continuing to embed in ESB the concept of safety as a core value.
- Driving performance improvement and delivering a competitive cost base.
- Enhancing customer service in all areas of the business.
- Delivering the significant capital investment programme.
- Ensuring that ESB businesses can compete successfully in the Single Electricity Market (SEM).
- Completing the separation of EirGrid from ESB.
- Supporting EU and national commitment to producing increased energy from renewable energy sources.
- Supporting the growth potential of ESB International (ESBI) and fostering a healthy pipeline of international electricity projects.

ESB has positioned its business to respond to the challenges ahead and can look to 2006 with every confidence. ESB looks forward to bringing customers world class service through the years ahead.

Finally I would like to pay tribute to our former Chief Executive, Joe Moran, who died in early 2006. Joe devoted a remarkable 47 years of his life to ESB. His foresight and an enduring legacy of partnership set the framework for the peaceful

introduction of enormous change in ESB. Joe is remembered with affection and respect throughout ESB.



Padraig McManus

Chief Executive

18 May 2006

Financial Review



International Financial Reporting Standards

In the interest of adhering to best practice in financial reporting, ESB has voluntarily elected to prepare the Group's 2005 financial statements in accordance with International Financial Reporting Standards as adopted by the EU (EU IFRS). In previous years the financial statements had been prepared in accordance with Irish Generally Accepted Accounting Principles (GAAP). As a result of adopting EU IFRS, changes to the Group's accounting policies have arisen and the 2004 comparative figures have had to be restated. Note 1 to the financial statements outlines in detail the impact the transition to EU IFRS has had on the previously reported figures of the ESB Group.

Of particular significance in the 2005 results is the inclusion of a pension liability in the balance sheet in accordance with EU IFRS. For financial reporting under EU IFRS, the full liability and pension costs have been considered in determining the appropriate liabilities to be recorded in the financial statements notwithstanding that the scheme is not a

typical balance of cost defined benefit scheme wherein the employer is liable to pay the balance of contributions required to fund the benefits.

Overview

The financial performance for the year has been satisfactory. In particular, good progress was made during 2005 in the rationalisation of non core activities. ESB has now exited from all retailing and credit financing activities, sold its utility contracting business in the UK and has embarked on a reorganisation of the contracting business in Ireland.

Profits after tax at €241 million are up €84 million on 2004. The rationalisation strategy, the disposal of surplus properties and the sale of 50% of our investment in the 800MW plant in Amorebieta, Spain have made a significant contribution to the increased profits. Notwithstanding the higher profits, return on capital employed at 5.7% is low and less than that being achieved and expected within the industry.

In the interest of adhering to best practice in financial reporting, ESB has prepared the Group's 2005 accounts in accordance with IFRS as adopted by the EU

Highlights of 2005

Key financial highlights are shown in the table below:

	2005 €m	2004 €m	Change €m
Revenue	2,756	2,458	298
Interest	(91)	(73)	(18)
Tax	1	(25)	26
Profit after tax	241	157	84
Capital expenditure	943	1,209	(266)
Net debt	1,847	2,299	(452)

Revenue

Revenue increased year on year by €298 million to €2,756 million. The majority of this increase relates to electricity turnover reflecting market growth of approximately 4%, higher sales in Northern Ireland and tariff increases, partially offset by a reduction in the market share in the Republic of Ireland held by ESB Customer Supply. This has decreased by 6% to 58%.

Interest

The net interest charge for the year was €91 million. The increase of €18 million (24%) on 2004 largely reflects a higher level of interest capitalised in 2004 with the construction of two power stations. Underlying EBITDA and EBIT interest cover for the year were 8 and 3 times respectively compared to 5 and 2 times in 2004.

Taxation

The effective tax rate for 2005, before the release of provisions, was 12.7% compared to 16.8% in 2004. The charge reflected in the Income Statement is offset by the release of taxation provisions of €31.6 million, of which €26.7 million arose as a result of the Revenue Commissioners decision on the treatment, for tax purposes, of certain items of generation station expenditure. In 2005 almost 100% of taxable profits arose in Ireland where the corporation tax rate is 12.5%.



Profit after Tax

Profit after tax at €241million is up €84 million on 2004. This is almost entirely attributable to one off events including business and property disposals.

Notwithstanding higher electricity revenues, energy costs for 2005 at €1,040 million are up €234 million on the previous year largely driven by higher fuel prices on world markets. In addition depreciation charges were up €98 million, mainly reflecting the impact of the significant capital investment programme while IT costs increased by €25 million arising from the operation of new systems required to facilitate the opening of the market in the Republic of Ireland to full competition.

Significantly, net payroll costs at €430 million were down €24 million year on year. This reduction reflects the cumulative impact of the major restructuring agreement - PACT.

Capital Expenditure

The significant capital investment programme continued during 2005 with expenditure of almost €1 billion. Nearly €700 million of this was invested in the transmission and distribution networks infrastructures, bringing the total investment in this area to over €3.3 billion since 2000. This investment is significantly improving the reliability and service standards of the networks for customers, as well as meeting the high level of new connections to the system. A further €260 million was spent in the generation area mainly on the completion of the independent generation plants in Coolkeeragh, Derry and Amorebieta, Spain and on renewable energy projects.

Net Debt and Gearing

Net debt was €1.8 billion at the year end, a reduction of €452 million on 2004 levels. The reduction in debt level is primarily attributed to the disposal of 50% of our investment in the 800MW power plant in Amorebieta, Spain.

At the year end gearing was 47%, while 77% of ESB's debt portfolio was at fixed interest rates, with an average coupon of 4.5% and an average maturity of approximately 8 years.

PACT

The Programme to Achieve Competitiveness and Transformation (PACT) has been successfully completed. Under this initiative, nearly two thousand staff left ESB over the last four years. These reductions in employee numbers, together with the implementation of operational efficiency initiatives, have enabled ESB to reduce payroll costs and achieve significant savings in operating costs and capital expenditure. PACT was a tremendous success for ESB and was achieved in partnership with staff and Unions.

Employee Benefits

In compliance with EU IFRS, a portion of the net assets and liabilities of ESB's defined pension scheme, computed in accordance with IAS 19 have been included in the balance sheet under employee related liabilities. In accounting for the pension deficit ESB has availed of both the retrospective look back application permitted under IFRS 1 and the option to defer the unrecognised portion of the pension deficit over future service lives. At the end of 2005 the recognised and unrecognised pension liability were €339 million and €1.2 billion respectively.

Profit after tax at €241 million is up €84 million on 2004. This is almost entirely attributable to one off events including business and property disposals

As mentioned above, for financial reporting under EU IFRS, the full liability and pension costs have been considered in determining the appropriate liabilities to be recorded in the financial statements, notwithstanding that the scheme is not a typical balance of cost defined benefit scheme wherein the employer is liable to pay the balance of contributions required to fund the benefits.

Regulation

Approximately 82% of ESB's revenue is now regulated by the CER.

Annual electricity tariffs are set in advance of the relevant year by the CER, based on a forecast of both customer demand and relevant costs. As with any forecast, there is almost invariably a difference with the actual outturn for the year. These differences may 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 setting the price determinations for subsequent years. Under and over recovery adjustments can cause material variations in the annual profits earned by the individual regulated businesses. This means that the year end results of ESB's regulated businesses reflect trading in both the current year, as well as adjustments relating to prior years. In particular in 2005, this resulted in the regulated businesses reporting profits which included approximately €42 million of income, relating to the net recovery of fuel and other regulated costs incurred (but not recovered) in prior years. This timing difference between the incurrence of costs and their recovery as income has a distorting impact in reviewing the performance of ESB's regulated businesses.

Price Reviews in 2005

During 2005 the CER carried out five year (2006-10) price reviews for the ESB Networks and ESB Customer Supply businesses and a two year (2006-07) price review for the Power Generation business. The term of the Power Generation price review is designed to bring it up to the start of the Single Electricity Market on 1st July 2007. The CER has recently begun re-examining the proposed methodology for determining the tariffs for all of 2007.

This was the second five year price review for the Networks business. The outcome of the review was that the CER reduced the value of the regulated asset base (RAB), reduced the allowed return on the RAB and reduced significantly the level of capital and operational expenditure to be recovered in the tariff. In addition the CER introduced penalties/incentives related to a number of operational targets. These measures resulted in a 10.7% reduction in the 2006 Distribution Use of System Charges (DUOS) compared to the 2005 level.

The CER reduced the level of capital and operational expenditure recoverable by Customer Supply and introduced penalties/incentives related to customer service targets. The CER also adjusted the 2006 revenue allowance for Customer Supply to reflect earlier over recoveries.

Group Treasury is responsible for managing all treasury activities within the Group including liquidity management, foreign exchange, funding and debt and counterparty credit risk

While the CER reduced the level of ongoing non-fuel operational expenditure recoverable by Power Generation, an increase in the 2006 generation price was allowed to cover the large increases in fuel prices including under-recoveries in prior years and the agreed overhaul expenditure on generation plant.

Derivative instruments are used to mitigate financial risks and are executed 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". The Group does not hold or trade derivative instruments for speculative purposes.

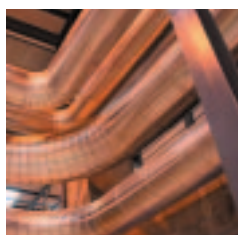
Financial Risk Management

Treasury Management - Framework for Treasury Operations

The Board sets the treasury policies and objectives of the Group which include controls over the procedures to manage financial and market risks. Group Treasury is responsible for managing all treasury activities within the Group which includes liquidity management, foreign exchange, funding and debt and counterparty credit risk. Treasury activity is subject to regular review and monitoring by the Finance Committee, a committee of the Board.

Foreign Exchange Management and Interest Rate Management

The majority of the Group's business is transacted in Ireland or within Europe. Operating and investing cash flows are mainly denominated in Euro. Foreign currency exposures arise from purchasing fuel and other materials or services, foreign currency denominated debt and from business that is carried on outside the Euro zone.





The Group manages the majority of its fuel related foreign currency 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 exposures 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. There are specific instances where foreign currency denominated debt is matched by a foreign currency denominated asset or net revenue flow. At the end of 2005, 92% of ESB's debt was effectively denominated in Euro.

It is also the Group's policy to have a minimum of 50% of the debt portfolio at fixed rates of interest, subject to cost and market outlook.

Liquidity and Cash Management

The Group's policy is to hold minimal levels of surplus cash, other than in specific instances where favourable market conditions justify pre-funding. In such cases, the Group invests its excess cash in low risk instruments. 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 and opportunities to revisit the private placement or enter the public bond

markets are available. At the end of 2005, undrawn committed corporate facilities of approximately €950 million 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 with in the financial markets. The Group's policy is to limit its exposure to each financial institution based on accepted credit ratings. 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.

Actuarial Pension Deficit

The actuarial funding valuation of the ESB Pension Scheme identified a projected deficit of €511 million as at the end of 2003. ESB engaged with the trade unions representing employees on measures to address the funding position. Following a long and detailed process, an integrated agreement on Pensions, Pay and Change was concluded and accepted by all parties in February 2006. The agreement combines additional funding (increased contributions to the Fund from ESB and members) with management of liability growth

ESB engaged with the trade unions on measures to address the pension funding position

ESB has performed well in 2005 with the rationalisation of non core activities and sale of assets and investments contributing significantly to the overall growth in profits

through agreement to limit increases in pensionable pay during the four year agreement. The Actuary has indicated that management of liability growth is critically important and that the agreement represents significant and acceptable progress towards addressing the funding position.

Summary

ESB has performed well in 2005. The rationalisation of non core activities and the sale of assets and investments contributed significantly to the overall growth in profits. The successful completion of the PACT programme during the year has resulted in annual savings of €135 million and a reduction of nearly 2,000 staff over the last five years. Gearing and interest

coverage is satisfactory. Looking forward, the key financial priorities for ESB include:

- Delivering value for stockholders in a challenging regulatory environment.
- Management of fuel costs to mitigate the volatility in the market prices for oil and gas.
- Continuing to effectively manage the significant capital expenditure programme.
- Maintaining acceptable interest cover and gearing ratios while funding growth and investment opportunities.
- Continuing with performance improvement initiatives to ensure an efficient, competitive and value for money cost base.



Power Generation Review



Overview

Power Generation owns and operates a number of power stations in the Republic of Ireland with an installed capacity of 4,651MW at the end of 2005.

Operational Review

Customers and the Energy Market

Power Generation's market share during 2005 was 63%. This was higher than anticipated for a number of reasons. The delays in the commissioning of the two new independent power plants resulted in Power Generation having to deliver higher production levels during the year. In addition the high gas prices in 2005 encouraged IPP generators at times to withdraw their generation facilities and replace them with price regulated generation from ESB Power Generation instead. Regulated power generation prices do not reflect the true cost differential between base load and mid merit production. This provides an economically false incentive to IPP generators to withdraw their capacity at times of system peak. This issue has been brought to the attention of the CER.

Power Generation has actively participated in regulatory discussions with the CER and the Northern Ireland Authority for Energy Regulation (NIAER) on the establishment and operation of an All Island Market in electricity. Power Generation remains committed to the development of this market. It will bring greater competitiveness and scale to the electricity generation business which will deliver benefits to customers on both sides of the border. Power Generation's projected market share will be around 30% in the All Island Market in 2008.

Capital Expenditure

Power Generation's capital expenditure programme amounted to €40 million. The main investment took place on the finalisation of the two new peat stations in the Midlands and the commencement of the Moneypoint Environmental Retrofit Project. This retrofit project comprises the Flue Gas Desulphurisation and Selective Catalytic Reduction initiatives on the first generating unit and is on target for completion in 2006. These initiatives will immediately begin to provide benefit to the environment in terms of reduced emissions of NO_x, SO₂ and dust



from the plant. The retrofit of the remaining two units in Moneypoint will take place in 2007 and 2008.

Looking ahead, the capital programme will increase over the next number of years with the continuation of major environmental investment as well as significant expenditure on new generating capacity. Power Generation is also spending significant amounts on planned maintenance programmes to deliver high levels of availability and a competitive portfolio of plant.

Fuel

Fuel accounted for over 50% of Power Generation's operating costs. Power Generation buys its fuel in the global fuel markets and the fuel prices it pays are benchmarked independently by the CER against published market price indices. As in 2004, Power Generation successfully secured its fuel at or below these benchmark indices, thus contributing significantly to ensuring energy is delivered at least cost for the benefit of our customers. Notwithstanding this, Power Generation, like other businesses dependent on the fuel markets, has been affected by the significant volatility and upward trend in fuel markets experienced over the last year.

Safety Performance

Safety performance remains the top priority within Power Generation; however a disappointing outcome in 2005 requires further focus and improvement. The twenty eight Lost Time Incidents (LTIs) comprised twenty one staff and seven contractor LTIs which compared to fifteen LTIs for staff and twenty six for contractors in 2004.

Plant Performance

Plant availability outturn was on target at 83%. The balance of outage time was accounted for by scheduled and forced outages. The high plant availability over the first half of the year (86.6%) reduced from August primarily due to forced outages of Tarbert Units 3 and 4 because of boiler tube corrosion fatigue. Over the year Tarbert accounted for 34% of the forced outage rate, with Poolbeg accounting for a further 26%. Excellent availability performance results were achieved by several stations including Poolbeg Combined Cycle (forced outage 1.17%), Aghada Unit 1 (1%) and Moneypoint (3.99%). The new peat stations commissioned in late 2004 and early 2005 have experienced a number of teething problems and these are being addressed. Tarbert Unit 4 returned to service with output restricted to 200MW (i.e. 78%) on 12th December and Unit 3 returned on a similar basis on 6th January. Several new Peak System Demand records occurred during the final quarter of 2005 and despite the forced outage rate, system demand was met at all times.

Environmental Performance

Power Generation thermal plants operate under an Integrated Pollution Control Licence (IPCL) and all plants have an environmental management system accredited to ISO14001 standard.

The Emissions Trading Directive (ETD) came into force on 1 January 2005 and Power Generation has strategies in place to meet its obligation to surrender CO₂ allowances equal to its emissions as required under this Directive. As with other thermal generators, Power Generation was allocated fewer allowances than it required in 2005. Power Generation has in place a strategy which addresses proactively the acquisition of allowances to meet the anticipated shortfalls.



Looking Ahead

Power Generation's business has changed dramatically over the past number of years and will continue to do so. The loss of market share to date and the projected continuing loss of market share pose considerable challenges for our business. The introduction of the new All Island Market scheduled for 2007 brings with it not only challenges but also opportunities. To address these challenges and exploit these opportunities we must continue to deliver on our strategy of becoming a competitive portfolio generator, operating flexibly and delivering to best international practice in every aspect of our business.

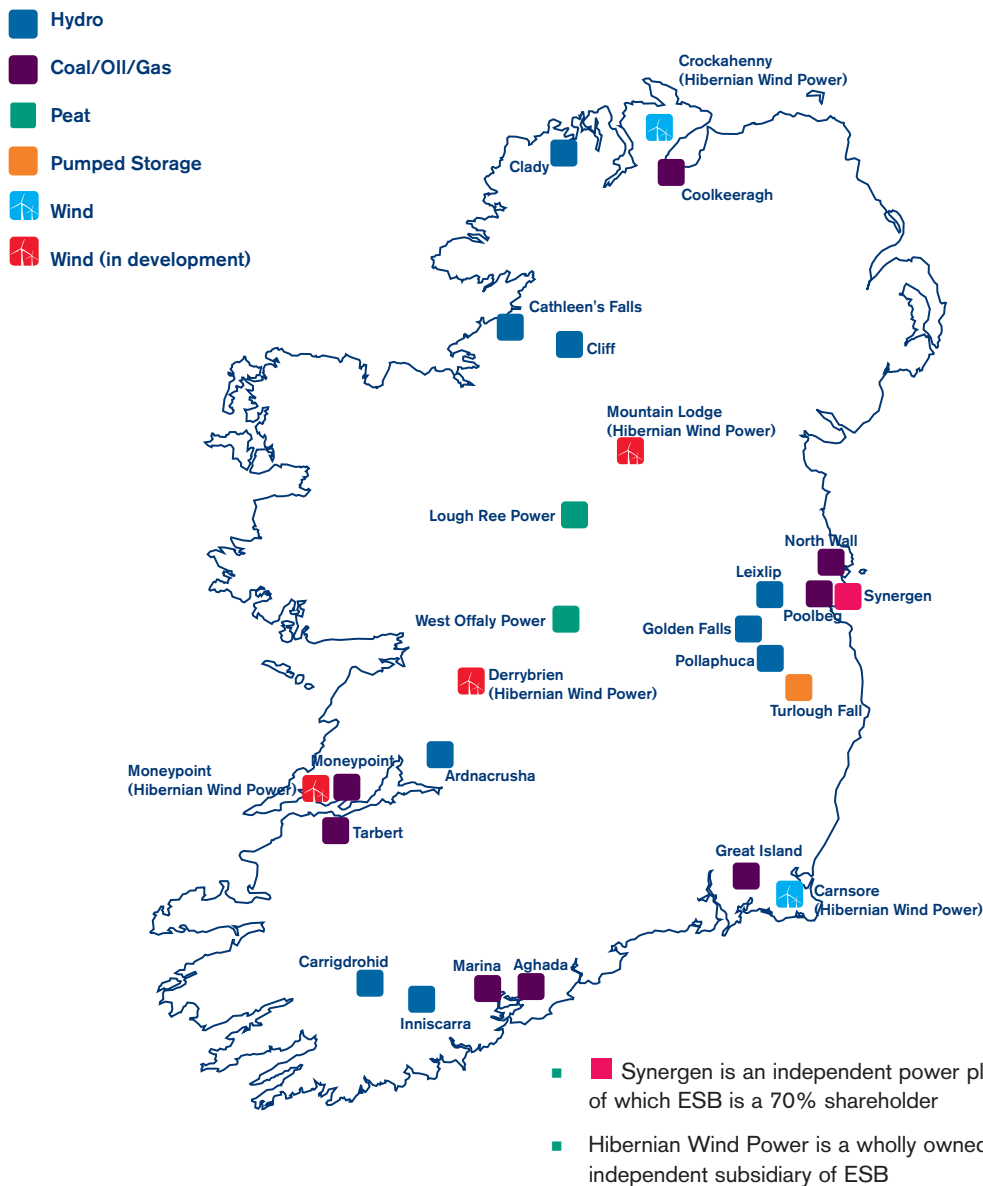
Looking ahead, 2006 will represent another challenging year and stretching targets have been set for the business, including:

- Creating and maintaining a healthy and injury free environment.
- Continuing improvements in plant performance and renewing the portfolio of plant by delivering on investment programmes in tandem with implementing best practice standards of operation.
- Enhancing the required trading competencies and influencing the evolving market structure to ensure it reflects efficient economic pricing for all products and services.
- Continuing the drive to deliver improved financial performance and efficiencies.
- Developing products and services to meet the demands of our customers.

We must continue to deliver on our strategy of becoming a competitive portfolio generator, with flexible operations



ESB Group Interests in Power Stations and Windfarms in Ireland



ESB Customer Supply and Group Services Review



Safety Review

The continuing drive towards an injury free workplace was maintained as a high priority for management and staff throughout 2005. The number of staff lost time injuries at 10 and the number of contractor lost time injuries at 1 represented improvement on our annual targets.

The development and implementation of a safety improvement plan for each business line was a key contributor to the overall improvement in performance. While taking account of business specific risks, common features of the plans included the revision of safety statements, management audits, near miss reporting and the active involvement of safety representatives. Ongoing monitoring and regular formal reviews of progress formed part of the management processes to ensure the delivery of the key items in each plan.

ESB Customer Supply Review

Overview

ESB Customer Supply provides electricity to all its customers based on published tariffs, which are approved by the Commission for Energy Regulation (CER). The published tariffs provide a market price against which Independent Suppliers may discount to secure market share from ESB Customer Supply.

Operational Review

Market share

Overall market share for ESB Customer Supply was down from 64% to 58% in 2005. The number of customers (business and residential) served by ESB Customer Supply has risen from 1.85 million to 1.89 million. This results from the high level of activity in the new housing market and general growth in the economy.

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

Customers

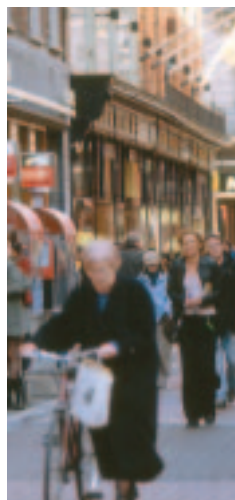
ESB Customer Supply continues to provide a wide range of energy and related services to its customers. The key strategic focus of the business is to deliver ongoing improvements in the range and quality of services provided to customers while reducing the cost to serve. In 2005, over 11 million bills were issued, over 15 million payments collected and over 3.5 million calls were received at the National Customer Contact Centre.

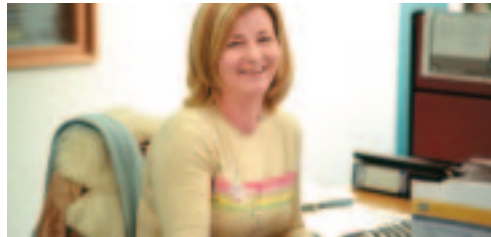
The billing system, which had been in place for more than 20 years, was replaced by a state of the art billing system, which better facilitates operation in the deregulated market. As part of the implementation of the new system, significant customer support and communications were put in place to ensure that customers experienced minimum inconvenience and continued to receive accurate and timely bills.

ESB Customer Supply continued to focus on service improvement for business and residential

customers. Its business energy efficiency team had over 10,000 contacts with key customers, while the Business Contact Centre processed over 50,000 business queries. A number of changes were also made in the area of e-service. All business accounts can now be accessed on-line and multi-site billing is also available on-line for business customers.

During 2005, ESB Customer Supply helped customers save more than 309GWh, or approximately €5.5 million in lifetime energy savings. In addition, on an ongoing basis, ESB Customer Supply works with Sustainable Energy Ireland (SEI) to create awareness of the importance of energy efficiency and to promote energy efficiency initiatives for both residential and business customers. In 2005, this activity included supporting Energy Awareness Week, during which over 20 different campaigns were run by ESB Customer Supply, and sponsoring SEI's Energy Efficiency Awards.





In promoting energy efficiency and as part of its Corporate Social Responsibility, ESB Customer Supply works with a large number of other key organisations. These include St Vincent de Paul, Age Action Ireland, Rehab, The ICOSA, Energy Action, and other rural partnerships. A number of initiatives were carried out with these organisations throughout 2005. Another such partnership saw ESB Customer Supply, SEI, the Department of Social and Family Affairs and the Health Boards join together to issue an advice booklet to the elderly on staying warm during the winter.

Regulation

The CER completed the second five year Revenue Review in 2005. This review effectively sets the allowed costs and margin for ESB Customer Supply for the period 2006 to 2010. As part of this process ESB Customer Supply is incentivised to improve both customer service and operational efficiency.

Legislative changes empowered the CER to license ESB Customer Supply as the Public Electricity Supplier (PES) and also transposed the provisions of the second EU Energy Directive into Irish law.

CER consulted publicly on the draft interim PES licence. Included amongst its provisions are the ring-fencing arrangements to apply to ESB Customer Supply within ESB, the obligation to purchase wholesale electricity economically and the requirement that CER approves the terms and conditions (including tariffs) under which ESB Customer Supply supplies its customers. Discussions have also taken place with the CER which will result in changes to our Customer Charter to embrace new guaranteed service levels and commitments to implementing agreed codes of practice in areas such as the Protection of Vulnerable Customers and Complaints Handling.

Group Services Review

Overview

Group Services has 3 business lines:

- Shared Services provides property, facilities management, training, human resources, payroll, procurement, supplier payments and other services to ESB Group.
- Electrical Contracting Services comprises the activities of ESB Contracts and ESBI Engineering UK. ESB Contracts operates mainly in core business niches of public lighting maintenance / construction and the installation of major electrical projects. ESBI Engineering UK provided electrical contractor services mainly to customers in the UK.
- ESB Retail /FinancElectric operated a nationwide chain of electrical appliance retail shops and provided credit financing for its customers.

Operational Review

2005 saw major rationalisation of the Group Services businesses - ESBI Engineering UK was sold and ESB Contracts was reorganised, resulting in the closure of a number of business lines.

Agreement was reached with Bank of Scotland (Ireland) for the sale of the Retail / FinancElectric loan book and a number of its retail properties. This resulted in the closure of all ESB shops before year-end. A comprehensive customer communications programme was put in place to ensure that customers were fully briefed on alternative means of contacting ESB and paying their bills through the many alternative payment



channels nationwide. These include post offices, paypoint outlets, billpay.ie and internet banking, direct debit and laser. A large number of staff transferred to Bank of Scotland (Ireland). Customer support is continuing through a designated call centre service.

Looking Forward

Further progress towards zero injuries is targeted in ESB Customer Supply and Group Services for 2006. Safety improvement plans will be updated with an emphasis on improving near miss reporting and further consolidating contractor safety management procedures.

Improvements in customer service by all business lines will be a key focus in 2006. This will include improvements in public lighting services to the local authorities by ESB Contracts, the improvement of internal services by Shared Services and the improvement in services to its customers by ESB Customer Supply. A particular

focus will be the National Customer Contact Centre where 4 million calls are anticipated.

Investments in technology are planned and will play a role in delivering these improvements. However, the continued development of our staff and their innovation in delivering change to our business processes will be key to driving customer satisfaction and cost efficiencies. 2006 will also be a year of preparation. The planned implementation date for the Single Electricity Market (SEM) is the 1st July, 2007. Significant work will be undertaken in 2006 to ensure the required changes in systems and processes are in place and the necessary skills developed for operation within the new trading structures. Throughout 2006 ESB Customer Supply will continue to support the development of the electricity market in Ireland for the benefit of all its customers.

Throughout 2006 ESB Customer Supply will continue to support the development of the electricity market in Ireland for the benefit of all its customers

ESB Networks Review



Overview

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 also responsible for providing market services to enable the functioning of the new fully opened electricity market. These services include the roles of meter operator, data collection (meter reading) and the Meter Registration System Operator (MRSO). The supply market was fully opened for all customers on 19 February, 2005.

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 assumption by EirGrid plc of the TSO functions, the TSO role continues to be performed by ESB National Grid on a strictly ring-fenced basis.

Operational Review

Customers

ESB Networks is dedicated to delivering service excellence to all electricity customers. The quality and continuity of electricity supply are key drivers of the network investments programme. A number of specific initiatives were introduced during 2005 to improve customer service including the development of a customer service improvement plan.

During 2005 ESB Networks successfully completed the change over to the new IT systems which support the fully opened market and serve all market participants. The new systems went live in January 2005 and are operating successfully. The introduction of full market opening, especially in the early months of 2005, presented a very significant customer service challenge. Education programmes targeted at specific customer groups and relevant representative bodies combined with an extensive staff training programme have successfully addressed these issues. A special project aimed at clearing new connection backlogs was developed and implementation began at the start of 2006.

Total expenditure on Networks infrastructure in 2005 was over €660 million. ESB Networks has invested €3.3 billion since 2000

Capital Expenditure

ESB Networks is currently undertaking a significant investment programme to upgrade, develop and renew the Distribution and Transmission networks. Total expenditure on networks infrastructure in 2005 was over €660 million with an additional €30 million invested in other capital assets.

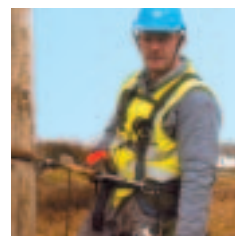
ESB Networks has invested €3.3 billion since 2000. There are two main categories of investment:

- New transmission and distribution infrastructure – to support continuing high levels of load growth driven by the buoyant Irish economy (new houses and industrial/commercial growth) and in support of government's spatial strategy. This investment has taken place throughout the country. New connections for 2005 came to 89,079, close to the record 90,600 connected in 2004, and up from 53,000 in 1999. New investment

also includes building the infrastructure to connect new generation capacity, including wind farms, to the networks.

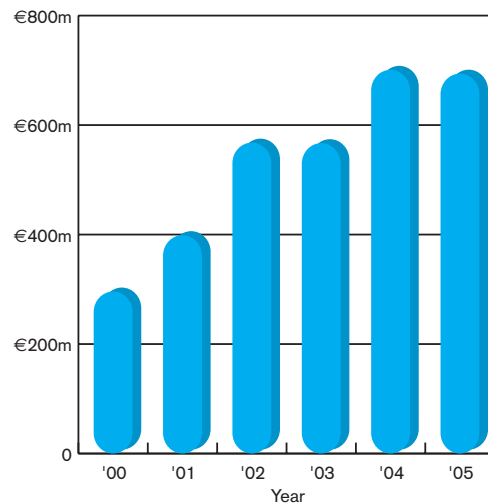
- Renewal and refurbishment of existing infrastructure - to improve the quality of supply, reliability, safety and resilience of the networks. ESB Networks is currently completing a major programme to renew all 75,000km's of medium voltage networks throughout the country, scheduled for completion in 2006.

The scale of the investment made to date by ESB Networks is significant and critical, comprising new and refurbished transmission and distribution lines and stations along with over 370,000 new connections in the five year period from 2001 to 2005. The delivery of this level of investment has been achieved through the combined efforts of ESB Networks' staff complemented by increased use of external contractors.





Networks Capital Expenditure

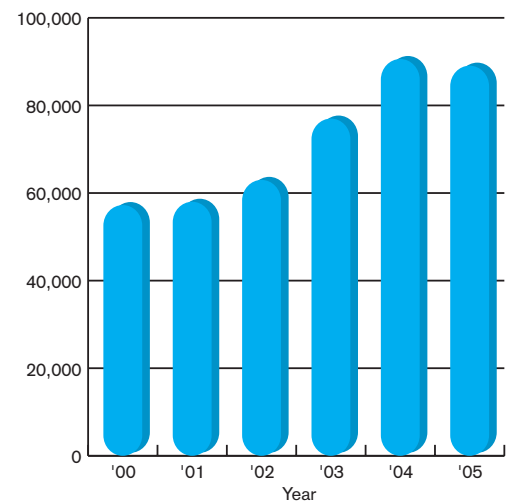


The above graphs show (i) the scale of the total capital investment by ESB Networks (excluding Market Opening IT systems) and (ii) the continuing high level of new connections. The €3.3 billion investment programme is delivering significant benefits in terms of network resilience and supply quality as well as ensuring that growing electricity demand can be met throughout the country.

Networks Price Reviews 2006-10

During 2005 CER completed its five year price reviews of Distribution and Transmission businesses. This has set the allowed regulatory revenues for ESB Networks for the next five years. The return earned by ESB Networks is determined to be the minimum required in order to finance the capital investment in the Distribution and Transmission networks, and recover what the regulator deems to be an appropriate level of operating costs. Revenues thus will vary depending on the level of capital investment, and are also influenced by economic

New Customer Connections



factors such as prevailing interest rates and equity returns. The review process approves levels of future operating and capital expenditures that can be recovered from customers and also reviews past performance.

Highlights of the CER's review are

- €3.1 billion of capital investment approved for the next five years.
- Very stretching targets for operating cost savings and customer performance measures.
- Reduced level of profits that ESB Networks can earn to fund its capital investment.

The overall outcome, combining reductions in profitability, stretching efficiency and performance targets, but with continuing need to deliver very significant levels of capital investment, represents a significant financial and organisational challenge for ESB Networks for the next five years.

The safety of staff, contractors, customers and the public is a core value for ESB Networks



Safety

The safety of staff, contractors, customers and the public is a core value for ESB 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. A number of different media and direct marketing campaigns were run in 2005 to increase public awareness of these dangers.

The Strategic Alliance with the Health & Safety Authority worked well during its first year. In October 2005 a seminar on construction safety near electricity networks was hosted jointly by the Health & Safety Authority and ESB Networks. The seminar was very well attended and more construction safety seminars are planned.

There were two fatalities associated with accidental contact with electricity networks in 2005. This is down from a figure of five in 2004. Discussions are in progress with the Health & Safety Authority in relation to the production of a

Code of Practice in relation to construction safety near electricity networks. Injuries to staff (i.e. incidents that resulted in time off work) fell in 2005 to a new low of thirty five, as shown below.

Environment

ESB Networks is fully committed to conducting all of its activities in an environmentally sensitive manner. During 2005, ESB Networks proactively managed its Environmental and Waste Management obligations. Significant progress was also made to ensure that appropriate systems are in place, so that the business complies with relevant existing and emerging environmental legislation.

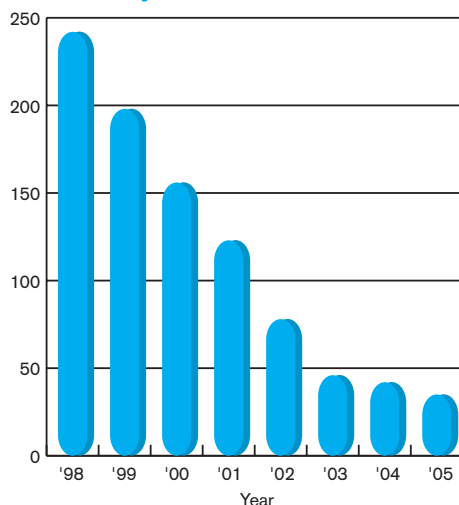
Looking Ahead

2006 will be another challenging year in terms of delivering further significant capital investment to meet growth and deliver a quality service to customers, as well as the financial challenges posed by the outcome of the CER's Price Reviews.

Looking forward, other key challenges include:

- Delivering enhanced customer service in terms of quality and reliability of supply and improving response times to customer needs.
- Delivering record levels of new connections.
- Continuing to improve safety performance as an integral part of all activities.
- Driving improved efficiencies and cost performance to ensure continued value for money for all customers and supply companies using ESB's networks.
- Delivering an acceptable financial outcome against the very stretching regulatory price reviews for Transmission and Distribution.

Lost Time Injuries



ESB International Review



Overview

ESB International's mission is to:

- Contribute to the growth ambition of ESB with a focus on International Investments.
- Provide engineering services to support ESB Group strategic objectives.

It has four main business areas:

- ESB Independent Generation (ESBIG) – includes Synergen (Republic of Ireland - 70% share), Coolkeeragh (Northern Ireland - 84% share), Amorebieta (Spain - 50% share) and Corby (UK - 50% share).
- ESB Independent Energy (ESBIE) operates as a licensed supplier in the competitive electricity markets in Northern Ireland and the Republic of Ireland.
- ESB Investments (ESBII) is responsible for the identification and development of international electricity investment opportunities. In addition,

ESBII is responsible for ESB Group's renewable energy business.

- ESB Engineering & Facility Management (ESBIE&FM) provides engineering consultancy services and facility management services to both the ESB Group and international clients. The business operates in over 30 countries worldwide.

Operational Review

Capital Investment

Amorebieta

The construction of an 800MW Combined Cycle plant in the Basque region of Spain was completed in August 2005. The total investment in the plant was over €500 million. This business is now successfully operating the first internationally owned independent power plant in the Spanish market. ESB completed the sale of 50% of its interest in the business to the Osaka Gas Group in 2005. The plant was officially opened by the Basque First Minister,



Lehendakari Juan Ibarretxe and Noel Dempsey, TD, Minister for Communications, Marine and Natural Resources on 19th October 2005.

Coolkeeragh

The construction of a 400MW plant in Coolkeeragh in Northern Ireland was completed in March 2005 at a total cost of £207 million (€298 million). The plant was officially opened on 22nd June 2005 by Angela Smith MP, Parliamentary Under Secretary of State for Northern Ireland and Noel Dempsey TD, Minister for Communications Marine and Natural Resources. The plant has faced a number of technical commissioning difficulties and a challenging commercial environment in Northern Ireland in its first year of operation.

Derrybrien

The 60MW windfarm project at Derrybrien, Co. Galway was completed in January 2006 at a total cost of €72m. Construction work on the 70 turbine windfarm had been suspended for a year following a peat slide in October 2003. Following a comprehensive review, construction recommenced with revised work practices and the project was successfully completed without further incident.

Key Achievements

The completion of the construction and commissioning of the Coolkeeragh and Amorebieta CCGT plants as well as the Derrybrien windfarm were key achievements in 2005.

During 2005, ESBIE&FM continued to develop a successful international engineering and consultancy business. Notable achievements during 2005 included winning the contract to run a 2,100MW coal fired plant in Malaysia, securing

an extension to the management contract to run the state owned electricity utility in Kosovo and signing a five year framework agreement for the provision of engineering services with the South African utility, ESKOM.

ESBIE continued to develop its market position in the Republic of Ireland during 2005. ESBIE extended its existing customer base by 60MW to 240MW including acquiring a number of important new customers during the year. ESBIE's customers now account for 11.7% of the Republic of Ireland market.

Following the commissioning of Coolkeeragh and the further opening of the Northern Ireland electricity market, ESBIE grew its Northern Ireland business to 20% of the total electricity market and 37% of the eligible market. ESBIE continues to supply electricity to most of the largest sites in Northern Ireland. ESBIE's customer retention rate for the period was over 95%.

Safety

ESBI is now a clearly defined business focusing on the safe operation of power plants, the safe delivery of construction projects and the safe delivery of generation, transmission, distribution and consultancy projects worldwide. This focus will facilitate a more central management of safety across the business.

There were three LTIs in 2005 against a target of zero. While none of the injuries were directly related to construction or operational projects, it does highlight the need for a continued focus on issues such as safe driving and the general safety awareness of all our staff.

Another element of ESBI's operations in 2005 was the safe deployment of staff in various overseas locations in Eastern Europe, the Middle



East, the Far East and Africa. There were no staff injuries arising from security, medical or transport incidents external to the project locations.

Looking Ahead

We expect that the current year will bring further growth in the profitability of ESBI, in particular:

- ESBI is focused on maintaining the excellent performance of its plant in Amorebieta and on further addressing the technical and commercial challenges faced by the Coolkeeragh plant during 2005.
- Preparation for the All Island Market will continue throughout 2006, with ESBI contributing to the All Island Market consultation process and implementing plans to ensure that the business is prepared for the introduction of the new market in 2007.
- Growth of our Engineering & Facility Management business through the pursuit of profitable new contracts worldwide.
- Growth of our International Investments business through continued development of windfarms both at home and internationally and other thermal development opportunities in the EU market.
- ESBI is well positioned to grow its existing customer base in both the Republic of Ireland and Northern Ireland markets during 2006, due to the opportunities that will be provided by further market opening.

The completion of the construction and commissioning of the Coolkeeragh and Amorebieta CCGT plants, and the Derrybrien windfarm, were highlights in 2005

Transmission System Operator Review

Operational Review

- ESB National Grid is currently the TSO and Market Operator for the Republic of Ireland. It is ringfenced in the performance of those roles and carries out its responsibilities on behalf of all customers, generators and suppliers in a fair, independent, and non-discriminatory manner. Under Statutory Instrument SI 445, those roles will in the future be carried out by a separate state-owned company, EirGrid plc.
- As TSO, ESB National Grid is responsible for operating, and for ensuring the maintenance and development of a safe, secure, reliable, economical and efficient electricity transmission system. Its objectives are to deliver quality connection, transmission and market services to customers and to develop the grid infrastructure required to support the development of Ireland's economy.
- In February 2005 the level of the electricity market open to competition increased from 56% to 100%. The proportion of electricity demand supplied by independent electricity supply companies increased from 34% in 2004 to an average of 41% in 2005. Seventeen new market participants joined the market during 2005.

Single Electricity Market

In addition to operating the present trading system, ESB National Grid is currently working with the CER, the NIAER and the System Operator for Northern Ireland to establish and implement the Single Electricity Market for the island of Ireland from 1st July 2007.

Transmission Capital Expenditure

€500 million has been invested in the transmission system over the last five years. ESB National Grid has recently published its Transmission Development Plan for the next five years. This is expected to involve a similar level of investment, to develop new transmission networks and stations, and to upgrade and maintain existing infrastructure.

System Operations

During 2005, the power system continued to be operated prudently and, while margins were tighter than normal in the latter part of the year, system security was maintained. In its Generation Adequacy Report 2006-2012, published in December 2005, the TSO stated that the medium-term generation adequacy position will be manageable up to 2009, provided that projections provided by the generation companies prove to be accurate.

The highest-ever gross system peak of demand on the Irish power system took place on the evening of Tuesday, December 13, 2005, when a peak of 4,828MW was supplied. The highest ever daily volume of energy carried by the power system (91,046 MWh) was also recorded on that day. A new midday peak in system demand of 4,227MW was recorded on Wednesday, December 7, 2005.

Connections

Connection and commissioning work continued on the Tynagh and Aughinish independent power plants in 2005 and over 120MW of wind generation was connected to the transmission system.

Corporate Social Responsibility

ESB's activities directly impact on the quality of life experienced by people at home, at work and at leisure. ESB challenges itself to be a responsible and trusted corporate citizen operating with integrity, compliance, respect and regard for the community and the natural environment.

In 2005 a senior manager with specific responsibility for Corporate Social Responsibility (CSR) was appointed and ESB is also participating in the Business In The Community (BITC) Corporate Responsibility Index. This will help to raise awareness of CSR in ESB and also bring an understanding of the key environmental and social issues that need to be managed.

ESB won the ACCA Award for Sustainability Reporting in 2005 and a second full spectrum report will be issued in 2006. A public reporting

process demonstrates ESB's commitment to continual improvement on the impact of its activities on its stakeholders.

Environment

- ESB fully met its reduction obligations under the EU CO₂ emissions trading scheme.
- The most recently constructed power station at Lough Ree, Co.Offaly, achieved the ISO 14001 Environmental Management Standard. All ESB's generating plants, including hydro, have now secured this important standard which is an exceptional performance among utilities worldwide.
- Investment in the retrofit programme in Moneypoint continues. This will significantly reduce NO_x and SO₂ emissions from Ireland's largest station.



ESB is a responsible and trusted corporate citizen operating with integrity, compliance, respect and regard for the community and the natural environment

Workplace

- Safety highlights include the continued reduction in Lost Time Injuries from a peak of 319 in 1997 to 87 in 2004 and 72 in 2005.
- Commitment to the partnership process with staff was highlighted by the signing of a significant agreement covering Pension, Pay and Change.
- The Health and Safety Authority and ESB formed a strategic alliance in 2005, the first such partnership between the national safety authority and industry. The aim is to promote best safety practice in the Agricultural and Construction sectors when working in proximity to ESB's networks.
- A safe business management programme, based on OHSAS18001, was launched in 2005 and a pilot programme is currently being evaluated with a view to extending the programme to all areas of the business.

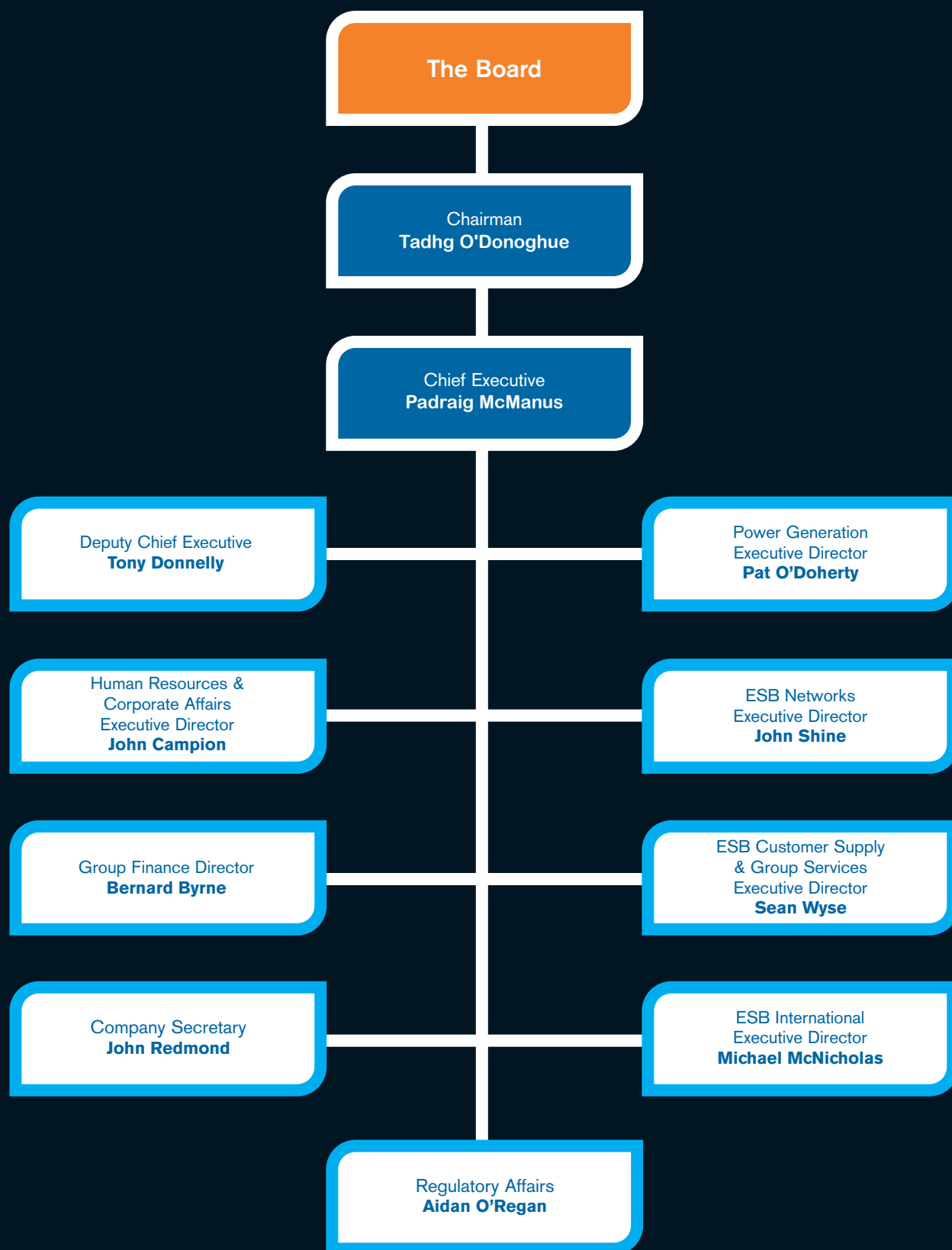
- ESB continued to inform local communities throughout Ireland, through their local representatives, of investment in electricity infrastructure in their areas and to provide an opportunity to receive views and concerns from the public about the impact of this investment.

Marketplace

- During 2005 ESB worked in partnership with urban and rural organisations such as; Age Action Ireland, St.Vincent de Paul, ICMSA, Rehab and Mabs to help vulnerable customers get the most from their electricity.
- ESB continued to assist all customers, including its international customers, in understanding how to do business with ESB Customer Supply and how to reduce their energy costs. An SMS text service to facilitate customers with a hearing disability was launched in 2005.

Community

- The "ESB Electricaid Ireland" fund was launched in 2005. This fund will provide €1 million per year for two areas that are a matter of immense concern – suicide prevention and care for the homeless. These areas were chosen by members of staff who voted in a company wide ballot.
- A fund of up to €3 million was approved in 2005 for the establishment of a community and enterprise fund to set up new industries in North Co. Mayo. The fund is in line with ESB's policy of supporting the local community at a time of the closure of a power station.



Board Members



Tadhg O'Donoghue



Padraig McManus



Eamonn Connolly



Georgina Kenny



John McGinley



Derry O'Donovan



Pat Smith



Brendan Byrne



Will McKee



Eoin Fahy



Seamus Mallon



Joe LaCumbre

Tadhg O'Donoghue joined the Board of ESB in September 2000 and was appointed Chairman in January 2001. He was reappointed for a second term in September 2005. Mr O'Donoghue was previously a Senior International Partner with PricewaterhouseCoopers. He is a former Chairman of Bord 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 a member of the Regulation Committee and 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 in 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. Mr McManus is a member of the Health, Safety & Environment Committee, the Business Development & International Committee and the Market and Customer Committee.

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 Regulation Committee and of the Business Development and International Committee.

Georgina Kenny was appointed to the Board in April 2000 and was reappointed in May 2005. 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 Market and Customer Committee.

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

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 Chairman of the Finance Committee and a member of the Audit and ITSO Committees of the Board.

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 in Wilton, 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 Development and International Committee.

Brendan Byrne was appointed to the Board in September 2004. Mr. Byrne has recently established a consultancy business providing financial and strategic planning services to a range of clients in the aviation sector. Mr. Byrne previously held a number of senior management positions in Aer Lingus and has worked extensively in the field of change management. He is a Chartered Accountant. Mr. Byrne is Chairman of the Audit Committee and a member of the Health, Safety and Environment Committee.

Will McKee was appointed to the Board in May 2002. He serves as Chairman of five companies in a range of industries - Amtec Medical, Linkubator, Garage Door Systems, Rockfield Developments and Edge plc. He is a director of Northern Bank. He also acts as a consultant to major corporate projects both national and international. Mr. McKee is Chairman of the Market and Customer Committee and a member of the Remuneration and Management Development Committee.

Eoin Fahy was appointed to the Board in January 2001 and reappointed in February 2006. 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.

Seamus Mallon was appointed to the Board in February 2006. He was elected to Armagh District Council in 1973, to the then Northern Ireland Assembly (1973-4) and to the Northern Ireland Convention (1975-76). He was a member of *Seanad Éireann* in 1981. From 1986 to 2005 he was MP for Newry and Armagh at Westminster. He was Deputy Leader of the SDLP and, subsequent to the signing of the Good Friday Agreement in April 1998, Deputy First Minister of Northern Ireland.

Joe LaCumbre was appointed Deputy Chairman of the Board in September 2000, having first been appointed as a Board Member 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 Deputy Chairman of the Athlone Institute of Technology and is a member of the Athlone Community Task Force. Mr LaCumbre resigned from the Board on 28 February 2006.

Executive Team



Tony Donnelly



John Redmond



Michael McNicholas



John Campion



John Shine



Aidan O'Regan



Sean Wyse



Bernard Byrne



Pat O'Doherty

Tony Donnelly joined ESB in 1963. He was appointed Deputy Chief Executive in November 2003. He was Group Finance Director from 1997. Prior to this appointment he held a number of senior financial 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.

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.

Michael McNicholas was appointed Executive Director, ESB International, in June 2005. Previous to that he held the position of Executive Director, ESB Power Generation & ESB Customer Supply since July 2002. Prior to this he held senior positions in the company in Power Generation, ESB Networks and ESB Supply having joined ESB in 1982. He is also a Director of ESB ESOP Trustee Ltd.

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.

John Shine was appointed Executive Director ESB 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 has Electrical Engineering and MBA degrees from University College Dublin.

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.

Sean Wyse was appointed Executive Director, Customer Supply & Group Services in 2005. He held a number of senior management positions in Networks, Marketing and Power Generation before he was appointed Managing Director, Customer Services in 1997. He is a Board Member of the Irish Blood Transfusion Service.

Bernard Byrne was appointed Group Finance Director in January 2004. A Chartered Accountant, he previously held the position of Deputy Chief Executive and Group Finance Director of IWP International plc. Mr Byrne had served as a non-executive Board member of ESB from July 2001 but resigned from the Board on his appointment as Group Finance Director.

Pat O'Doherty was appointed Executive Director, ESB Power Generation in July 2005. He joined ESB in 1981 and has worked in various customer service, project management and general management roles. Prior to his appointment as Executive Director, Power Generation, he held the position of General Manager Synergen. He has also held senior positions in ESB Networks.



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Board Members' Report

The Board Members present their report together with the audited financial statements of the Parent and of the Group for the year ended 31 December, 2005.

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.

Business Review

Commentaries on performance in the year ended 31 December 2005, including information on recent events and likely future developments, are contained in the Chairman's Review and the Chief Executive's Review. The performance of the business and its financial position together with the principal risks faced by the Group are reflected in the Financial Review as well as the Reviews for each major business line within the Group.

Results for the Year

The financial results of the Group show a profit for the financial year, amounting to €241 million compared with €157 million for 2004. The financial statements for 2004 have been restated to comply with the requirements of International Financial Reporting Standards as adopted by the EU.

No interim dividends were paid during 2005. The Board Members are recommending that a final dividend of 3.66 cent per unit of capital stock, amounting to €72.4 million in aggregate be paid in 2006 in respect of 2005. A total dividend per unit of stock of 3.91 cent, amounting to €77.4 million in aggregate, was paid in 2005 in respect of the year 2004. Further details of the results for the year and results for the prior year are set out in the Group Income Statement 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.

ESB conforms as far as possible and on a voluntary basis with the Combined Code of Corporate Governance of July 2003. Companies listed on the Irish Stock Exchange are required, as part of the listing rules, to describe how they apply the Code's principles and either to confirm that they comply with the Code's provisions or provide an explanation of non-compliance. ESB is a statutory corporation established under the Electricity (Supply) Act 1927 and, as a result, the Combined Code is not applicable to ESB. However, ESB supports the principles and provisions of the Combined Code and complies with them except for:

- (i) Appointments to the Board are a matter for Government and accordingly ESB does not have a nomination committee.
- (ii) Board Members are appointed for terms of four or five years and therefore are not subject to re-election to the Board at intervals not exceeding three years.
- (iii) 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 details of Board Members' remuneration on page 47 does not include amounts paid to the four Worker Board Members as employees of ESB, but does include amounts paid to them by way of fees.
- (iv) One Worker Board Member served on the Audit Committee for part of the year. On his resignation the Audit Committee comprised two independent non-executive Board Members.
- (v) The Chairman consults regularly with the non-executive Board Members, but not by way of formal meetings.
- (vi) Two independent Board Members are employees of companies which themselves, or through a Group company, provide credit

and other financial services to ESB but these business relationships are not viewed as compromising the independence of the Board Members concerned.

Principles of Good Governance

Attendance at Meetings

There were 12 Board Meetings (11 General Board Meetings and 1 Special Board Meeting) during the year ended 31 December, 2005. 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	(10,0)
Joe LaCumbre, Deputy Chairman	(10,1)
Brendan Byrne*	(11,1)
Eamonn Connolly	(11,1)
Eoin Fahy*	(11,0)
Georgina Kenny*	(10,0)
John McGinley	(11,1)
Will McKee*	(10,1)
Padraig McManus	(11,1)
Derry O'Donovan*	(11,1)
Pat Smith	(10,1)

* Independent Board Members

The Board

While day to day responsibility for the leadership and control of the company is delegated to the Chief Executive and his Senior Management Team, within pre-defined authority limits, the Board is ultimately responsible for the performance of the company. At 31 December 2005, the Board comprised eleven members including the Chief Executive. Seven Board Members including the Chief Executive have been appointed by the Government for a five-year term and four Worker Board Members are appointed by the Minister for Communications, Marine and Natural Resources for a four-year term following election by staff.

The Board has determined that the five Board Members identified above were independent during 2005. The Chief Executive and the four Worker Board Members are permanent employees of ESB and their employment periods are governed by their contracts of employment with the company.

Mr Tadhg O'Donoghue has been Chairman of the Board since January 2001. His responsibilities include leading the Board, determining its agenda, ensuring its effectiveness and facilitating full participation by each Board Member. He is also responsible as Chairman for ensuring effective communication with the Company's owners and stakeholders - the Ministers for Finance and for Communications, Marine and Natural Resources and their officials and with ESB ESOP Trustee Ltd - the Employee Share Ownership Plan for ESB. The roles of the Chairman, who is part-time, and the Chief Executive are separate.

Georgina Kenny is the Senior Independent Non-Executive 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 principal matters reserved to the Board include:

- Approval of Group strategy, annual budgets and annual and interim accounts.
- Reviewing operational and financial performance.
- Approval of major capital expenditure.
- Review of the Group's internal controls and risk management.
- Overall review of Group health and safety performance.
- Appointment of Chief Executive, Senior Management and Company Secretary.

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

The Board Members, in the furtherance of their duties, may take independent professional advice as required, at the expense of ESB. All Board Members have access to the advice and services of the Company Secretary. Insurance cover is in place to protect Board Members and Officers against liability arising from legal actions taken against them in the course of their duties. An induction programme is in place to familiarise new Board Members with the operations of the Group. The Board Members receive monthly financial statements for the Group and full Board papers are sent to each member on a timely basis before the Board meetings. The Board papers include the minutes of Board committee meetings.

During 2005 the Board completed a formal evaluation of its own performance and that of its Committees. The Chairman selected the process by which the evaluation was undertaken which involved the completion by Board Members of a detailed questionnaire and the use of an external adviser to present the results to the Board. This evaluation was undertaken in order to comply, so far as possible, with the Combined Code. The evaluation related to the Board's collective performance and not to the performance of individual Board Members.

The Board will keep under review the extent to which evaluations of individual Board Members are appropriate in ESB's circumstances.

Board Committees in 2005

Committees are established to assist the Board in the discharge of its responsibilities. The committees are set out below.

Audit Committee

The Audit Committee is a formally constituted committee of the Board with written terms of reference. To end June 2005 the Committee comprised three Board Members, two independent Board Members and one Worker Board Member. As from end June the Committee comprised two independent Board Members. The purpose of the Audit Committee is to oversee the financial reporting process and internal control system of ESB.

During 2005 the Audit Committee reviewed the annual and the interim financial statements, the system of internal controls, the reports of the internal and external auditors, risk management, and treasury policies and procedures. The Committee also monitored and reviewed;

- The effectiveness of the internal audit function
- The arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- Reviewed and oversaw the external auditor's independence and the effectiveness of the audit.

The Committee has developed a policy regarding the provision of non-audit services by the external auditors, whereby, other than as notified to the Committee, such services should be limited to advice in relation to accounting, taxation and compliance issues and the fees payable for non-audit services in any financial year should not exceed audit fees for that year. The internal and external auditors have full and unrestricted access to the Audit Committee. The Committee held six meetings during 2005 which were attended by all members. The Board is satisfied that at all times during the year at least one member of the Committee had recent and relevant financial experience.

Members:

Brendan Byrne, Chairman
Eamonn Connolly (up to 28 June 2005)
Derry O'Donovan

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. During 2005 the Committee reviewed major proposals relating to the network renewal programme, investments in renewable energy, in the power generation portfolio and international investments.

Members:

Georgina Kenny, Chairman
Eoin Fahy

Joe LaCumbre (to 28 June 2005)
Will McKee (to 28 June 2005)
Padraig McManus
Pat Smith (from 28 June 2005)
Eamonn Connolly (from 28 June 2005)

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 2005 the Committee considered ESB actions to improve safety and environmental compliance. It also considered reports on accidents, involving staff, contractors and members of the public and ESB's compliance with health, safety and environmental legislation.

Members:

Pat Smith, Chairman
Brendan Byrne (from 28 June 2005)
Padraig McManus

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 2005 the Finance Committee considered ESB's funding requirements in the context of its major capital investment programmes.

Members:

Derry O'Donovan, Chairman
Tadhg O'Donoghue
Eoin Fahy (to 28 June 2005)
Joe LaCumbre (from 28 June 2005)
John McGinley

Independent Transmission System Operator 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. 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.

The Commission for Energy Regulation approved these ring fencing arrangements as part of the market framework for trading in electricity.

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 2005, considered regulatory developments at EU and national level.

Members:

John McGinley, Chairman
Eamonn Connolly
Georgina Kenny (to 28 June 2005)
Tadhg O'Donoghue (from 28 June 2005)

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, to approve any changes to the remuneration of Worker Board Members, to 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 2005 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. The Committee held seven meetings during 2005 with all members attending all meetings.

Members:

Tadhg O'Donoghue, Chairman
Eoin Fahy
Will McKee

Market and Customer Committee

The Board established a Market and Customer Committee during 2005 to advise the Board on all aspects of customer service.

Members:

Will McKee, Chairman
Georgina Kenny
Joe LaCumbre
Padraig McManus

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.

The Board has reviewed the effectiveness of the Group's system 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. The system of internal control includes the following:

- 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 lines and in the Corporate Centre. This is monitored by the Group Internal Audit department, which reports to the Audit Committee on an ongoing basis.
- A 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. They are also subject to post completion audits.
- Comprehensive budgeting systems with an annual budget approved by the Board.
- A 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 Board Committees as described on pages 44 to 45.

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, supported by the Audit Committee, have 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:

- The establishment of a designated risk management function in ESB.
- Review and consideration of the half-yearly risk review process.
- Independent advice on the adequacy of the current risk management process in operation in ESB.
- Review and consideration of certifications from management of satisfactory and effective operation of systems of internal 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.

Board Members' remuneration

Remuneration	2005 €	2004 €
Chairman:		
Tadhg O'Donoghue		
Fees	63,487	63,487
Taxable benefits	7,991	2,859
	71,478	66,346
Chief Executive:		
Padraig McManus		
Salary	296,574	285,052
Performance related pay:		
- Annual bonus	45,685	48,224
- Long term incentive	62,588	-
Taxable benefits	24,801	26,138
Pension contributions	35,305	33,921
Fees	12,697	12,697
	477,650	406,032
Non-Executive Board Members:		
Joe LaCumbre *	12,697	12,697
Brendan Byrne	12,697	4,244
Bernard Byrne	-	1,357
Eamonn Connolly *	12,697	12,697
Eoin Fahy	12,697	12,697
Georgina Kenny	11,358	12,697
John McGinley *	12,697	12,697
Will McKee	12,697	12,697
Derry O'Donovan	12,697	12,697
Pat Smith *	12,697	12,697
Anne Taylor	4,232	12,697
	117,166	119,874

* In addition to their Board fees, the four Worker Board Members are paid as employees of ESB.

Executive Board Members' Remuneration

The only executive Board Member is the Chief Executive, Mr Padraig McManus. The Chief Executive's remuneration is set within a range determined by the Ministers for Finance and for Communications, Marine and Natural Resources. It is determined annually, within this range, by the Remuneration and Management Development Committee, which comprises three Non-Executive Board Members, and is approved by the Board.

The remuneration of the Chief Executive consists of basic salary, performance related bonus payments of up to 18% of basic salary, payments under a three year long-term incentive scheme of up to 7% of annual basic salary for each of the three years 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-eighths of salary for each year of service as Chief Executive. The increases in accrued pension and accrued gratuity excluding inflation during the year were €9,840 and €29,521 respectively. The total accrued pension at the end of the year in respect of all the Chief Executive's service was €92,233 and the total accrued gratuity was €276,701. The transfer value of the relevant increase was €70,765.

Non-Executive Board Members' Remuneration

Board Members appointed under the Worker Participation (State Enterprises) Act 1977 are remunerated as employees of ESB. They participate in the ESB superannuation scheme. The remuneration of the other, Non-Executive Board Members (including the Chairman) is determined by the Minister for Communications, Marine and Natural Resources and they do not receive pensions.

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 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 Senior Management 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 2005. 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 2005 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.

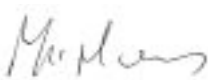
Conclusion

This report was approved by the Board on 18 May 2006 for submission to the Minister for Communication, Marine and Natural Resources.

On behalf of the Board



Tadhg O'Donoghue Chairman



Pdraig McManus Chief Executive

18 May 2006

Statement of Board Members' Responsibilities

The Board Members are responsible for preparing the Annual Report and the Group and Parent financial statements.

The Electricity Supply Acts 1927 to 2004 require the Board Members to prepare Group and Parent financial statements for each financial year. Under company law, made applicable to ESB by virtue of the Regulations adopted by it as its governing regulations under the Electricity (Supply) Act, 1927, as amended by the Electricity (Supply) (Amendment) Act, 2004, the Board Members have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the Parent financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2005.

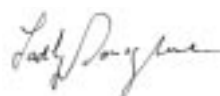
The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and the Parent; the Companies Acts 1963 to 2005 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent financial statements on pages 52 to 117, the Board Members are required to:

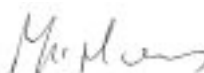
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent will continue in business.

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

18 May 2006

Independent Auditors' Report to the Stockholders of Electricity Supply Board (ESB)

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 Group and Parent financial statements (the "financial statements") of ESB for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Parent Balance Sheets, the Group and Parent Cash Flow Statements, the Group and Parent Statement of Recognised Income and Expense and the related notes on pages 52 to 117. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the stockholders of ESB as a body, in accordance with section 193 of the Companies Act 1990, made applicable to ESB by virtue of the Regulations adopted by it as its governing regulations under the Electricity (Supply) Act, 1927, as amended by the Electricity (Supply) (Amendment) Act 2004. Our audit work has been undertaken so that we might state to the stockholders of ESB those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than ESB and its stockholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Board Members and Auditors

The Board Members' responsibilities for preparing the Annual Report and the financial statements in accordance with the provisions of the Companies Acts 1963 to 2005, as applied by the Electricity Supply Acts 1927 to 2004 and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Board Members' Responsibilities on page 49.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and, in the case of the Parent as applied in accordance with the provisions of the Companies Acts 1963 to 2005 applied to the Board by the Electricity Supply Acts 1927 to 2004, and have been properly prepared in accordance with the provisions of those Acts and Article 4 of the IAS Regulation. We also report to you whether, in our opinion: proper books of account have been kept by the Parent; whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Parent's balance sheet is in agreement with the books of account.

We review at the request of Board members, whether (1) the voluntary statement on pages 42 to 48 reflects the Board's compliance with the nine provisions of the Combined Code specified for review by auditors and (2) the statement on the system of internal controls on page 46 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 risk and control procedures.

We read the other information, including the corporate governance statement, contained in the Annual Report 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the Board Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Parent'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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the Parent financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts 1963 to 2005 applied to the Board by the Electricity Supply Acts 1927 to 2004, of the state of the Parent's affairs as at 31 December 2005; and
- the financial statements have been properly prepared in accordance with the provisions of the Electricity Supply Acts 1927 to 2004 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Parent. The Parent balance sheet is in agreement with the books of account.



Chartered Accountants Registered Auditors

1 Stokes Place
St Stephens Green
Dublin 2

18 May 2006

Statement of Accounting Policies

1. Basis of Accounting

ESB is a statutory corporation established under the Electricity (Supply) Act, 1927 and is domiciled in Ireland. These financial statements are for the year ended 31 December 2005. They are prepared under IFRS (International Financial Reporting Standards) as adopted by the EU (EU IFRS). They are covered by International Financial Reporting Standard (IFRS) 1 "First-time Adoption of IFRS", because they are the Group's first EU IFRS compliant financial statements. They have been prepared in accordance with those EU IFRS standards and IFRIC interpretations issued and effective as at 31 December 2005.

The policies set out below have been consistently applied to all years presented except for those relating to the classification and measurement of financial instruments. The Group has made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from 1 January 2005. The policies applied to financial instruments for 2004 and 2005 are disclosed separately below.

The Group's consolidated and the Parent's individual financial statements were prepared in accordance with Irish Generally Accepted Accounting Principles (Irish GAAP) until 31 December 2004. These standards differ in some areas from EU IFRS. In preparing the Group's consolidated financial statements and the Parent financial statements, certain accounting, valuation and consolidation methods applied previously in the financial statements have been amended to comply with EU IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments, except in the case of financial instruments as mentioned above.

Reconciliations and descriptions of the effect of the transition from Irish GAAP to EU IFRS on the Group's and Parent's Balance Sheets and their net income's are provided in Note 1 to the financial statements.

These financial statements are prepared in Euro.

The preparation of financial statements in conformity with EU IFRS requires

management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

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

2. Basis of Consolidation

The Group's financial statements consolidate the financial statements of the Parent and of all subsidiary undertakings made up to 31 December 2005. The results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated Income Statement 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 2005.

Subsidiaries

Subsidiaries are entities controlled by ESB. Control exists when ESB has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Joint Venture and Associated Undertakings

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

Associated undertakings (associates) are those undertakings in which the Group has an interest in the equity capital and over which it is able to exercise significant influence. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee.

Joint ventures and associates are accounted for using the equity method of accounting. The Group's share of the profits after tax of joint ventures and associates are included in the consolidated Income Statement after interest and financing charges. The Group's interests in their net assets or liabilities are included as investments in joint ventures and associates on the face of 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 income and expenses.

The amounts included in the consolidated financial statements in respect of post acquisition results 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 investors balance sheet as financial fixed assets and are valued at cost less provisions for impairments in value.

3. Goodwill and Intangible Assets

(a) Goodwill

Goodwill represents the excess of consideration paid on the acquisition of a business over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is tested annually for impairment and carried as an asset at cost less accumulated impairment losses. Goodwill on acquisitions of associates and joint ventures is included in non current assets under investments in associates and joint ventures.

(b) Computer software

Acquired computer Software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years) on a straight line basis.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and the Parent, and that will probably generate economic benefits exceeding costs beyond

one year, are recognised as intangible assets. Direct costs include the costs of software development, employees and an appropriate portion of relevant overheads.

(c) Emissions Allowances

In accordance with the provisions of the European CO₂ emissions trading scheme, emissions allowances covering a percentage of the expected emissions during the year are granted to ESB at the beginning of each year by the relevant Government Authority.

Emission allowances issued to ESB are recorded as intangible assets at market value on the date of issue. At that date, the allowances are recorded as a government grant in deferred income, at the same market value as the intangible assets and are amortised to the Income Statement on the basis of actual emissions during the year.

As emissions arise, a provision is recorded in the Income Statement to reflect the amount required to settle the liability to the Authority. This provision will include the carrying value of the emission allowances issued, as well as the current market value of any additional allowances required to settle the obligation. These allowances, together with any additional allowances purchased during the year, are returned to the relevant Authority in charge of the scheme within four months from the end of that calendar year, in order to cover the liability for actual emissions of CO₂ during that year. Emissions allowances held as intangible assets are not amortised as they are held for settlement in the following year.

4. Foreign Currencies

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

The Group's entities are measured in their functional currencies and consolidation is presented in the presentational currency which is euro. The Group's net investments in overseas subsidiary undertakings, joint ventures, associates and related goodwill are translated at the rate ruling at the balance sheet date. The profits, losses and cashflows of overseas subsidiary undertakings, joint ventures and associates are translated at average rates for the period. Exchange differences resulting from the retranslation of the opening balance sheets of overseas subsidiary undertakings, joint ventures and associates at closing rates, together with the differences on the translation of the Income Statements, are dealt with through a separate component of equity (translation reserve) and reflected in the Statement of Recognised Income and Expenses. Translation differences held in this reserve are released to the Income Statement on disposal of the relevant entity.

Exchange differences arising from the translation of the investment in foreign operations, and of related borrowings are taken to the translation reserve. They are released into the Income Statement upon disposal.

5. Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at cost less accumulated depreciation and provisions for impairment in value, except for land which is shown at cost less impairment. Property, plant and equipment includes capitalised employee, interest and other costs that are directly attributable to the asset. The charge for depreciation is calculated to write down the cost of property, plant and equipment to its estimated residual value over its expected useful life using methods appropriate to the nature of the Group's business and to the character and extent of its property, plant and equipment. Major asset classifications and their allotted life spans 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.

Reviews of depreciation rates and residual values are conducted annually.

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

6. Borrowing Costs

Borrowing costs attributable to the construction of major assets, which necessarily take substantial time to bring into use, are added to the cost of those assets at the weighted average cost of borrowings, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the Income Statement in the period in which they are incurred. The capitalisation rate applied equates to the average cost of ESB's outstanding debt.

7. Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are tested for impairment whenever events or changes in circumstance indicate that the

carrying amount may not be recoverable. An impairment loss is recognised for the amount by which an assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

8. Inventories

Inventories are carried at average cost, other than 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, obsolete and unusable items where appropriate.

9. Financial Instruments

(a) Derivative Financial Instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investing activities.

(i) 2005 Policy applied to Derivative Instruments

The 2005 figures are compliant with IAS 39 which requires all derivatives to be included in the Balance Sheet at fair value at period end. The Group does not hold or issue derivative instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The Group enters into commodity contracts in the normal course of business. In certain instances such contracts could be classified as financial instruments under IAS 39. However, as these contracts are entered into to satisfy the Group's fuel usage requirements, they are not treated as financial instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, these instruments are stated at fair value. Movements during the financial year in the fair value of derivatives held for trading are recognised in the Income Statement in that financial year.

(ii) 2004 Policy applied to Derivative Instruments

As stated above, the comparative amounts included for derivative instruments in 2004 were prepared in accordance with Irish Generally Accepted Accounting Principles (GAAP), rather than IAS 39 Financial Instruments – Recognition and Measurement. Accordingly, derivative instruments were not included at fair value in the 2004 comparatives.

Where derivative instruments were used to fix interest rates or foreign exchange rates for debt, the value of the debt recorded on the Balance Sheet incorporated the effect of these hedges. Forward foreign exchange contracts which were used to hedge foreign currency cash flows were recognised as an operating expense in the Income Statement when the hedged transaction occurred. Interest rate swap agreements and similar contracts were 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.

(b) Hedging

(i) Fair value hedges

Where a derivative instrument hedges the changes in the fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the Income Statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the Income Statement. To the extent that the hedge is effective there will be no net impact on the Income Statement.

(ii) Cash flow hedges

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

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

(iii) Hedge of net investment in foreign entity

Where a foreign currency liability hedges a net investment in a foreign operation, foreign exchange differences arising on translation of the liability are recognised directly in equity, and taken to the translation reserve.

(c) Interest bearing borrowings

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

10. Deferred Payment Contracts

Profit on deferred payment contracts, which largely relate to extended credit to customers for purchases of electrical goods,

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.

11. Leased Assets

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

Non-current assets acquired under finance leases are included in the Balance Sheet at their equivalent capital value and are depreciated over the shorter of the lease term and their expected useful lives. The corresponding liabilities are recorded as a finance lease payable and the interest element of the finance lease payments is charged to the Income Statement on an annuity basis. Operating lease rentals are charged to the Income Statement on a straight-line basis over the lease term.

12. Non-Repayable Supply Contributions and Capital Grants

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

13. 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 retained earnings.

14. Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement, except to the extent that it relates to items

recognised directly in equity. Income 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 Income Statement does not include taxation on the Group's share of profits of associated and joint venture undertakings, as this is included within the separate line on the face of the Income Statement for profits from joint ventures and associates.

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

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

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

15. 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. The costs are capitalised in property, plant and equipment 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 Income Statement. In this way, the provision will equal the estimated closure costs at the end of the useful economic lives of stations. The actual expenditure is set against the provision as stations are closed.

The provision for station closure costs is included within short term or long term provisions as appropriate on the Balance Sheet.

16. Revenue

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

17. Employee Benefits

(a) Pension obligations

The Group operates a defined benefit pension scheme and a defined contribution pension scheme.

Despite the fact that the defined benefit scheme is not typical of a balance of cost defined benefit scheme (where the employer is liable to pay the balance of contributions required to fund the benefits), for the purposes of reporting under IAS 19 the scheme has been accounted for as if it was such a scheme.

Defined Benefit Pension Scheme

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The current service cost, interest cost and expected return on plan assets are recognised within the employee benefits expense in the Income Statement in the year in which they arise. Past service costs are recognised immediately in the Income

Statement, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period. Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation are spread to income over the active employees' expected average remaining working lives.

The liability recognised in the Balance Sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation at the Balance Sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Defined Contribution Pension Scheme

For the defined contribution scheme, the Group has no further payment obligations once the contributions have been made. The contributions are recognised as an employee benefit expense when they are due.

(b) Voluntary Termination benefits

Voluntary Severance Benefits are payable under a tripartite agreement between the Board of ESB, the Group of Unions and Government when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises severance benefits when it is demonstrably committed to providing severance benefits as a result of an offer of voluntary redundancy made to employees and accepted by those employees. Benefits falling due more than 12 months after Balance Sheet date are discounted to present value.

18. Cash and Cash Equivalents

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

19. New Accounting Standards and Pronouncements

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have adopted new standards and interpretations during 2005 which are not effective for the 2005 financial year.

IFRS 6 'Exploration for and evaluation of mineral resources' includes rules for accounting expenses related to the exploration and evaluation of minerals, oil and natural gas before their technological and economic production can be proven. IFRS 6 is effective from 1 January 2006 and is not expected to have any impact on the ESB's Parent and Group consolidated financial statements.

IFRS 7 'Financial Instruments: Disclosures', combines and expands disclosures on financial instruments previously required under IAS 32 and under IAS 30. Following from the developing of IFRS 7, an amendment was added to IAS 1 which includes additional disclosures about capital management. IFRS 7 and the amendment to IAS 1 are effective from 1 January 2007. This standard is likely to require increased disclosures in future years.

IAS 19 Amendment (2004) 'Actuarial gains and losses, group plans and disclosures', the amended IAS 19 introduces a new option for treating actuarial gains and losses, which allows them to be accounted for without impacting on the Income Statement. The Group will not avail of this option, but will adopt additional disclosure items.

IFRIC 4 'Determining whether an arrangement contains a lease' contains criteria for identifying lease elements in arrangements which are not formally referred to as leases. This interpretation is effective from 1 January 2006. This interpretation is not expected to have a significant impact on the financial statements.

IFRIC 5 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds' governs the recognition and measurement of claims and obligations from funds accrued for the decommissioning of plants and similar obligations. This interpretation is not expected to impact the Group's financial statements.

Additional amendments to IAS 39 were also adopted by the IASB, these become effective for ESB for the year starting on 1 January, 2006. These amendments relate to the option to classify financial instruments as 'financial assets or liabilities recognised at fair value through the Income Statement', to the recognition of cash flow hedges for hedging currency associated with forecast transactions that have a high probability of occurrence within a Group, and to the recognition of financial guarantees issued which will fall under the scope of IAS 39 in the future. It is not expected that these amendments will have a significant impact on the financial statements.

Group Income Statement

Year ended 31 December 2005

	Notes	2005 € '000	2004 € '000
Revenue	2	2,756,213	2,457,706
Other operating income	21	237,861	30,055
Operating costs	22	(2,694,517)	(2,263,913)
Operating profit		299,557	223,848
Interest cost and other financing charges	23	(93,299)	(79,453)
Interest Income	23	2,789	6,736
Net interest cost and other financing charges		(90,510)	(72,717)
Share of joint ventures' profit	6	31,294	31,605
Share of associated undertakings' profit	6	-	85
Share of joint venture and associated undertaking profit		31,294	31,690
Profit before taxation		240,341	182,821
Income tax credit/(expense)	25	957	(25,401)
Profit after taxation	12	241,298	157,420
Attributable to:			
Equity holders of the Parent		241,189	157,302
Minority interests		109	118
Profit for the financial year	12	241,298	157,420

Signed: **Tadhg O'Donoghue**

Chairman

Signed: **Padraig McManus**

Signed: **Bernard Byrne**

Chief Executive

Group Finance Director

18 May 2006

Group Balance Sheet

As at 31 December 2005

	Notes	2005 € '000	2004 € '000
ASSETS			
Non-current assets			
Property, plant & equipment	3	5,563,626	5,501,558
Intangible assets	4	246,611	131,307
Investment property	5	280	460
Investments in joint ventures	6		
- Goodwill		7,938	13,274
- Share of gross assets		674,192	244,219
- Share of gross liabilities		(641,285)	(78,431)
Total investment in joint ventures	6	40,845	179,062
Financial asset investments	6	3,083	2,886
Financial instruments	14	3,232	-
Deferred tax assets	18	81,294	62,228
Total non-current assets		5,938,971	5,877,501
Current assets			
Inventories	7	246,612	190,135
Trade and other receivables	8	607,763	591,175
Investments	9	78	78
Cash and cash equivalents	10	66,949	74,778
Financial instruments	14	63	-
Assets held for resale	11	9,924	12,158
Total current assets		931,389	868,324
Total assets		6,870,360	6,745,825
EQUITY			
Capital stock	12	1,979,882	1,979,882
Reserve for the repurchase of loan stock	12	3,011	2,687
Cumulative translation adjustment	12	2,489	(865)
Cash flow hedging & other reserves	12	(96,267)	5,613
Retained earnings	12	645,097	475,801
Equity attributable to equity holders of the Parent		2,534,212	2,463,118
Minority interests	12	962	853
Total equity		2,535,174	2,463,971
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	13	1,790,474	2,246,002
Employee related liabilities	19	470,136	354,233
Trade and other payables	15	47,171	51,703
Deferred income and government grants	20	377,249	254,899
Provisions	17	289,938	304,895
Deferred tax liabilities	18	298,339	295,813
Financial instruments	14	100,287	-
Total non-current liabilities		3,373,594	3,507,545
Current liabilities			
Borrowings and other debt	13	123,100	127,670
Employee related liabilities	19	57,092	57,387
Trade and other payables	15	550,651	444,896
Provisions	17	212,717	95,468
Current tax liabilities	16	17,592	48,888
Financial instruments	14	440	-
Total current liabilities		961,592	774,309
Total liabilities		4,335,186	4,281,854
Total equity and liabilities		6,870,360	6,745,825

Signed: **Tadhg O'Donoghue**

Chairman

Signed: **Padraig McManus**
Signed: **Bernard Byrne**

Chief Executive
Group Finance Director
18 May 2006

Parent Balance Sheet

As at 31 December 2005

	Notes	2005 € '000	2004 € '000
ASSETS			
Non-current assets			
Property, plant & equipment	3	5,193,513	4,794,862
Intangible assets	4	237,916	128,943
Investment property	5	280	460
Financial asset investments	6	154,130	190,652
Financial instruments	14	3,334	-
Deferred tax assets	18	76,812	53,170
Total non-current assets		5,665,985	5,168,087
Current assets			
Inventories	7	234,179	176,057
Trade and other receivables	8	808,459	709,770
Investments	9	78	78
Cash and cash equivalents	10	70,898	39,792
Financial instruments	14	319	-
Assets held for resale	11	2,261	1,147
Total current assets		1,116,194	926,844
Total assets		6,782,179	6,094,931
EQUITY			
Capital stock	12	1,979,882	1,979,882
Reserve for the repurchase of loan stock	12	3,011	2,687
Cash flow hedging & other reserves	12	(88,145)	-
Retained earnings	12	570,056	451,438
Equity attributable to equity holders of the Parent		2,464,804	2,434,007
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	13	1,790,474	1,667,010
Employee related liabilities	19	470,136	354,233
Trade and other payables	15	20,152	23,851
Deferred income and government grants	20	373,583	253,212
Provisions	17	289,938	304,895
Deferred tax liabilities	18	297,225	283,683
Financial instruments	14	100,287	-
Total non-current liabilities		3,341,795	2,886,884
Current liabilities			
Borrowings and other debt	13	123,100	113,078
Employee related liabilities	19	49,666	51,552
Trade and other payables	15	574,680	462,837
Provisions	17	206,633	95,468
Current tax liabilities	16	21,027	51,105
Financial instruments	14	474	-
Total current liabilities		975,580	774,040
Total liabilities		4,317,375	3,660,924
Total equity and liabilities		6,782,179	6,094,931

Signed: **Tadhg O'Donoghue**

Chairman

Signed: **Padraig McManus**
Signed: **Bernard Byrne**

Chief Executive
Group Finance Director
18 May 2006

Group Statement of Recognised Income and Expenses

Year ended 31 December 2005

	Notes	2005 € '000	2004 € '000
Translation differences on consolidation of foreign subsidiaries, joint ventures and associates	12	3,354	(865)
Fair value losses on cash flow hedges	12	(21,503)	-
Fair value gain on cashflow hedges in joint ventures	12	10,349	-
Tax on items taken directly to equity		(675)	-
Net income recognised directly in equity		(8,475)	(865)
Transferred to income statement on cash flow hedges	12	(9,308)	-
Tax on items transferred from equity		1,162	-
Profit for the financial year	12	241,298	157,420
Total recognised income and expenses for the financial year		224,677	156,555
Change in accounting policy - adoption of IAS 32 and 39		(81,905)	-
Total recognised income and expenses since the last Annual Report		142,772	156,555
Attributable to:			
Equity holders of the parent		224,568	156,437
Minority interest		109	118
Total recognised income and expenses for the financial year		224,677	156,555

Parent Statement of Recognised Income and Expenses

Year ended 31 December 2005

	Notes	2005 € '000	2004 € '000
Fair value losses on cash flow hedges	12	(21,919)	-
Tax directly to equity		2,690	-
Net income recognised directly in equity		(19,229)	-
Transferred to income statement on cash flow hedges	12	(9,308)	-
Tax in items transferred from equity		1,162	-
Profit for the financial year	12	190,511	148,736
Total recognised income and expenses for the financial year		163,136	148,736
Change in accounting policy - adoption of IAS 32 and 39		(60,770)	-
Total recognised income and expenses since the last Annual Report		102,366	148,736

Group Cash Flow Statement

Year Ended 31 December 2005

	Notes	2005 € '000	2004 € '000
Cash flows from operating activities			
Profit before tax		240,341	182,821
Adjustments for:			
Depreciation and amortisation	22	392,866	294,905
Amortisation of deferred income	20	(13,677)	(7,331)
Amortisation of emissions	20	(117,727)	-
Loss on disposal of property, plant and equipment	26	2,344	725
(Profit) on disposal of property, plant and equipment	26	(54,272)	(25,059)
(Profit) on disposal of subsidiaries and investments	21	(54,529)	-
Increase in provisions	17	135,929	45,989
Increase in employee related liabilities		250,786	180,355
Interest expense	23	90,510	72,717
Profits from associates and joint ventures	6	(31,294)	(31,690)
Operating profit before changes in working capital and provisions		841,277	713,432
Utilisation of provisions	17	(47,268)	(21,725)
Utilisation of employee related liabilities		(136,056)	(130,465)
Translation differences		(6,686)	576
(Increase) in trade and other receivables		(79,964)	(58,617)
(Increase) in inventories		(43,377)	(7,710)
Increase/(decrease) in trade and other payables		167,508	(20,456)
Cash generated from operations		695,434	475,035
Current tax paid		(27,226)	(29,324)
Interest paid		(106,647)	(108,013)
Net cash inflow from operating activities		561,561	337,698
Cash flows from investing activities			
Purchase of property, plant and equipment		(935,488)	(1,075,777)
Purchase of intangible property, plant and equipment		(27,630)	(66,850)
Sale of property, plant and equipment		69,698	28,167
Sale of intangible property, plant and equipment		1,175	-
Deferred income	20	134,300	106,425
Disposal of subsidiary, joint venture and associate		136,494	10,000
Dividends received from joint venture undertakings	6	48,145	32,232
Interest received		2,741	7,061
Net cash outflow from investing activities		(570,565)	(958,742)
Cash flows from financing activities			
Dividends paid	12	(77,413)	(67,118)
Increase in loans and finance leases (net)		86,981	204,105
Interest element of finance lease payments		(7,180)	(8,608)
Net cash inflow from financing activities		2,388	128,379
Net (Decrease) / Increase in cash and cash equivalents		(6,616)	(492,665)
Cash and cash equivalents at 1 January	10	74,778	566,508
Effect of exchange rate fluctuations on cash held		(1,213)	935
Cash and cash equivalents at 31 December		66,949	74,778

Parent Cash Flow Statement

Year Ended 31 December 2005

	Notes	2005 € '000	2004 € '000
Cash flows from operating activities			
Profit before tax		190,622	167,474
Adjustments for:			
Depreciation and amortisation	3/4/5	363,590	286,129
Amortisation of deferred income	20	(13,014)	(7,216)
Amortisation of emissions	20	(111,642)	-
Loss on disposal of property, plant and equipment	26	2,344	-
(Profit) on disposal of property, plant and equipment	26	(54,272)	(22,757)
Increase in provisions		147,194	46,824
Increase in employee related liabilities		278,391	210,805
Interest expense		79,400	65,007
Operating profit before changes in working capital and provisions		882,613	746,266
Utilisation of provisions	17	(47,268)	(21,725)
Utilisation of employee related liabilities		(170,140)	(164,166)
(Increase) in trade and other receivables		(98,689)	(122,983)
(Increase)/decrease in inventories		(58,122)	6,368
Increase in trade and other payables		135,567	30,208
Cash generated from operations		643,961	473,968
Current tax paid		(27,650)	(23,576)
Interest paid		(89,333)	(83,613)
Net cash inflow from operating activities		526,978	366,779
Cash flows from investing activities			
Purchase of property, plant and equipment		(762,071)	(857,451)
Purchase of intangible property, plant and equipment		(28,209)	(66,331)
Sale of property, plant and equipment		59,755	35,963
Sale of intangible property, plant and equipment		1,217	-
Deferred income	20	133,385	106,005
Interest received		15,791	15,709
Net cash outflow from investing activities		(580,132)	(766,105)
Cash flows from financing activities			
Dividends paid	12	(77,413)	(67,118)
Increase in loans and finance leases (net)		170,008	11,422
Interest element of finance lease payments		(7,122)	(8,541)
Net cash inflow from financing activities		85,473	(64,237)
Net (Decrease) / Increase in cash and cash equivalents		32,319	(463,563)
Cash and cash equivalents at 1 January	10	39,792	502,359
Effect of exchange rate fluctuations on cash held		(1,213)	996
Cash and cash equivalents at 31 December		70,898	39,792

Notes to the Financial Statements

1. TRANSITION TO EU IFRS

The following narrative applies to both the Group and the Parent company except where specifically stated otherwise.

1.1 Basis of Transition to International Financial Reporting Standards as adopted by the EU (EU IFRS)

1.1.1 Application of IFRS 1 (First-time Adoption of International Financial Reporting Standards)

Both the Group and Parent financial statements for the year ended 31 December 2005 are the first annual financial statements that comply with EU IFRS. The Group and Parent have applied IFRS 1, in preparing the year end financial statements.

The transition date for both the Group and the Parent is 1 January 2004. This is the date to which the opening balance sheets have been prepared.

In preparing these financial statements in accordance with IFRS 1, certain of the optional exemptions from full retrospective application of EU IFRS were availed of by the Group and the Parent.

1.1.2 Exemptions from full retrospective application of EU IFRS which the Group and the Parent have availed of in preparation of these accounts

ESB has elected to apply the following optional exemptions from full retrospective application.

- Business combinations exemption
The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to 1 January 2004 transition date. Consequently, goodwill at the date of transition is carried forward at its net book value and is subject to annual impairment reviews in subsequent years. Goodwill was assessed for impairment at the transition date and no impairment charges arose from this exercise. This exemption is not relevant to the Parent.
- Cumulative translation differences exemption
The Group has elected to set the previously accumulated cumulative translation reserve to zero at 1 January 2004. The application of this exemption is detailed in Section 1.3.3 (b). This exemption is not relevant to the Parent, which carries no translation differences.
- Exemption from restatement of comparatives for IAS 32 and IAS 39
The Group and the Parent elected to apply this exemption. It applies Irish Generally Accepted Accounting Principles (GAAP) rules to derivatives, financial assets and financial liabilities and to hedging relationships for the 2004 comparative information. The adjustments required to account for differences between GAAP and IAS 32 and IAS 39 are determined and recognised at 1 January 2005. The adjustments are explained in Note 1.3.8.

1.2 Reconciliations from Irish GAAP to EU IFRS

In preparing the opening EU IFRS position, the Group and Parent Balance Sheets and Income Statements as previously reported in accordance with GAAP have been adjusted. An explanation of how the transition from GAAP to EU IFRS has affected previously reported amounts is set out in the following tables and the notes that accompany the tables.

The reconciliations in Sections 1.2.1, 1.2.3, 1.2.5 and 1.2.7 contain the Group and Parent Balance Sheets as reported in the financial statements at 31 December 2003 and 31 December 2004 and the adjustments required to the various balance sheet classifications on transition to EU IFRS. These adjustments are explained in Section 1.3 of this note. Section 1.3.3 (k) contains a breakdown of the impact of the transition on retained earnings.

The reconciliations in Sections 1.2.2 and 1.2.6, contain the Group and Parent Income Statements as reported in the financial statements at 31 December 2004 and the adjustments required to those income statements to translate them to EU IFRS.

As noted above in Section 1.1.2, the Group has availed of an exemption from applying IAS 39 and IAS 32 in the 2004 comparative figures. Consequently, the date of transition to IAS 39 is 1 January 2005, Sections 1.2.4 and 1.2.8 contain the restated EU IFRS positions as at 31 December 2004 for the Group and the Parent and then show the adjustments required on the transition to IAS 39. This transition involves bringing the fair value of the derivative instruments outstanding at 1 January 2005 and the related deferred tax onto the Group and Parent Balance Sheet.

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

1.2.1 Reconciliation of Group Balance Sheet at 1 January 2004

	Note	GAAP € '000	Effect of transition to EU IFRS € '000	EU IFRS € '000
ASSETS				
Non-current assets				
Property, plant & equipment	1.3.1	4,725,100	(77,662)	4,647,438
Intangible assets	1.3.1	-	77,186	77,186
Investment property	1.3.1	-	476	476
Investment in associates		3,484	-	3,484
Investments in joint ventures	1.3.6	194,287	(4,641)	189,646
Financial asset investments		2,624	-	2,624
Deferred tax assets	1.3.3 (f)	-	49,244	49,244
Total non-current assets		<u>4,925,495</u>	<u>44,603</u>	<u>4,970,098</u>
Current assets				
Inventories		179,725	-	179,725
Trade and other receivables	1.3.2	508,480	11,337	519,817
Investments		54	-	54
Cash and cash equivalents		<u>566,508</u>	<u>-</u>	<u>566,508</u>
Total current assets		<u>1,254,767</u>	<u>11,337</u>	<u>1,266,104</u>
Total assets		<u>6,180,262</u>	<u>55,940</u>	<u>6,236,202</u>
EQUITY				
Capital stock		1,979,882	-	1,979,882
Reserve for the repurchase of loan stock		2,373	-	2,373
Cumulative translation reserve	1.3.3 (b)	3,585	(3,585)	-
Cash flow hedging and other reserves		5,613	-	5,613
Retained earnings	1.3.3 (k)	<u>306,567</u>	<u>79,364</u>	<u>385,931</u>
Total equity attributable to equity holders of the Parent		<u>2,298,020</u>	<u>75,779</u>	<u>2,373,799</u>
Minority interests	1.3.3 (j)	<u>566</u>	<u>169</u>	<u>735</u>
Total equity		<u>2,298,586</u>	<u>75,948</u>	<u>2,374,534</u>
LIABILITIES				
Non-current liabilities				
Borrowings and other debt		2,070,978	-	2,070,978
Employee related liabilities	1.3.3 (c)	320,067	(21,466)	298,601
Trade and other payables	1.3.4	101,139	-	101,139
Deferred income and government grants		155,805	-	155,805
Provisions	1.3.3 (g)	333,895	(10,900)	322,995
Deferred tax liabilities	1.3.3 (f)	<u>223,266</u>	<u>51,594</u>	<u>274,860</u>
Total non-current liabilities		<u>3,205,150</u>	<u>19,228</u>	<u>3,224,378</u>
Current liabilities				
Borrowings and other debt		98,336	-	98,336
Employee related liabilities	1.3.3 (d) & 4	18,700	37,119	55,819
Trade and other payables	1.3.4	459,847	(76,355)	383,492
Provisions		38,925	-	38,925
Current tax liabilities		<u>60,718</u>	<u>-</u>	<u>60,718</u>
Total current liabilities		<u>676,526</u>	<u>(39,236)</u>	<u>637,290</u>
Total liabilities		<u>3,881,676</u>	<u>(20,008)</u>	<u>3,861,668</u>
Total equity and liabilities		<u>6,180,262</u>	<u>55,940</u>	<u>6,236,202</u>

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

1.2.2 Reconciliation of Group Net Income for the year ended 31 December 2004

	Note	GAAP € '000	Effect of transition to EU IFRS € '000	EU IFRS € '000
Revenue	1.3.3 (h)	2,488,914	(31,208)	2,457,706
Other operating income	1.3.3 (h) & 1.3.5	-	30,055	30,055
Operating costs	1.3.3 (k)	<u>(2,126,062)</u>	<u>(137,851)</u>	<u>(2,263,913)</u>
Operating profit		362,852	(139,004)	223,848
Interest cost and other financing charges	1.3.3 (i)	(90,508)	11,055	(79,453)
Interest Income		<u>6,736</u>	-	<u>6,736</u>
Net interest cost and other financing charges		<u>(83,772)</u>	11,055	<u>(72,717)</u>
Share of joint ventures' profit	1.3.6	35,258	(3,653)	31,605
Share of associated undertakings' profit		<u>85</u>	-	<u>85</u>
Share of joint venture & associated undertakings profit		<u>35,343</u>	<u>(3,653)</u>	<u>31,690</u>
Profit before taxation		314,423	(131,602)	182,821
Income tax expense	1.3.3 (f) & 1.3.6	<u>(47,159)</u>	<u>21,758</u>	<u>(25,401)</u>
Profit after taxation		267,264	(109,844)	157,420
Attributable to:				
Equity holders of the Parent		267,152	(109,850)	157,302
Minority interests	1.3.3(j)	<u>112</u>	<u>6</u>	<u>118</u>
Profit for the financial year		<u>267,264</u>	<u>(109,844)</u>	<u>157,420</u>

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

1.2.3 Reconciliation of Group Balance Sheet at 31 December 2004

	Note	GAAP € '000	Effect of transition to EU IFRS € '000	EU IFRS € '000
ASSETS				
Non-current assets				
Property, plant & equipment	1.3.1	5,633,444	(131,886)	5,501,558
Intangible assets	1.3.1	-	131,307	131,307
Investment property	1.3.1	-	460	460
Investment in associates	1.3.7	3,491	(3,491)	-
Investments in joint ventures	1.3.6	191,127	(12,065)	179,062
Financial asset investments		2,886	-	2,886
Deferred tax assets	1.3.3 (f)	-	62,228	62,228
Total non-current assets		5,830,948	46,553	5,877,501
Current assets				
Inventories		190,135	-	190,135
Trade and other receivables	1.3.2	567,097	24,078	591,175
Investments		78	-	78
Cash and cash equivalents		74,778	-	74,778
Assets held for resale	1.3.7	-	12,158	12,158
Total current assets		832,088	36,236	868,324
Total assets		6,663,036	82,789	6,745,825
EQUITY				
Capital stock		1,979,882	-	1,979,882
Reserve for the repurchase of loan stock		2,687	-	2,687
Cumulative translation adjustment	1.3.3 (b)	2,720	(3,585)	(865)
Cash flow hedging and other reserves		5,613	-	5,613
Retained earnings	1.3.3 (k)	495,992	(20,191)	475,801
Total equity attributable to equity holders of the Parent		2,486,894	(23,776)	2,463,118
Minority interest	1.3.3 (j)	678	175	853
Total equity		2,487,572	(23,601)	2,463,971
LIABILITIES				
Non-current liabilities				
Borrowings and other debt		2,246,002	-	2,246,002
Employee related liabilities	1.3.3 (c)	246,993	107,240	354,233
Trade and other payables		51,703	-	51,703
Deferred income and government grants		254,899	-	254,899
Provisions	1.3.3 (g)	304,213	682	304,895
Deferred tax liabilities	1.3.3 (f)	249,337	46,476	295,813
Total non-current liabilities		3,353,147	154,398	3,507,545
Current liabilities				
Interest bearing loans and borrowings		127,670	-	127,670
Employee related liabilities	1.3.3 (d) & 1.3.4	20,443	36,944	57,387
Trade and other payables	1.3.2 & 1.3.4	529,848	(84,952)	444,896
Provisions		95,468	-	95,468
Current tax liabilities		48,888	-	48,888
Total current liabilities		822,317	(48,008)	774,309
Total liabilities		4,175,464	106,390	4,281,854
Total equity and liabilities		6,663,036	82,789	6,745,825

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

1.2.4 Reconciliation of Group Balance Sheet at 1 January 2005

	Note	EU IFRS 31 Dec 2004 € '000	Effect of transition to EU IFRS € '000	EU IFRS € '000
ASSETS				
Non-current assets				
Property, plant & equipment		5,501,558	-	5,501,558
Intangible assets		131,307	-	131,307
Investment property		460	-	460
Investments in joint ventures		179,062	-	179,062
Financial asset investments		2,886	-	2,886
Deferred tax assets		62,228	18,608	80,836
Financial instruments	1.3.8	-	4,847	4,847
Total non-current assets		5,877,501	23,455	5,900,956
Current assets				
Inventories		190,135	-	190,135
Trade and other receivables	1.3.8	591,175	4,316	595,491
Investments		78	-	78
Cash and cash equivalents		74,778	-	74,778
Financial instruments	1.3.8	-	5,971	5,971
Assets held for resale		12,158	-	12,158
Total current assets		868,324	10,287	878,611
Total assets		6,745,825	33,742	6,779,567
EQUITY				
Capital stock		1,979,882	-	1,979,882
Reserve for the repurchase of loan stock		2,687	-	2,687
Cumulative translation adjustment		(865)	-	(865)
Cash flow hedging and other reserves	1.3.8	5,613	(81,905)	(76,292)
Retained earnings	1.3.8	475,801	5,844	481,645
Total equity attributable to equity holders of the Parent		2,463,118	(76,061)	2,387,057
Minority interest		853	-	853
Total equity		2,463,971	(76,061)	2,387,910
LIABILITIES				
Non-current liabilities				
Borrowings and other debt	1.3.8	2,246,002	(110,492)	2,135,510
Employee related liabilities		354,233	-	354,233
Trade and other payables		51,703	-	51,703
Deferred income and government grants		254,899	-	254,899
Provisions		304,895	-	304,895
Deferred tax liabilities		295,813	-	295,813
Financial instruments	1.3.8	-	216,159	216,159
Total non-current liabilities		3,507,545	105,667	3,613,212
Current liabilities				
Borrowings and other debt		127,670	-	127,670
Employee related liabilities		57,387	-	57,387
Trade and other payables		444,896	-	444,896
Provisions		95,468	-	95,468
Current tax liabilities		48,888	-	48,888
Financial instruments	1.3.8	-	4,136	4,136
Total current liabilities	1.3.8	774,309	4,136	778,445
Total liabilities		4,281,854	109,803	4,391,657
Total equity and liabilities		6,745,825	33,742	6,779,567

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

1.2.5 Reconciliation of Parent Company Balance Sheet at 1 January 2004

	Note	GAAP € '000	Effect of transition to EU IFRS € '000	EU IFRS € '000
ASSETS				
Non-current assets				
Property, plant & equipment	1.3.1	4,260,526	(75,800)	4,184,726
Intangible assets	1.3.1	-	75,324	75,324
Investment property	1.3.1	-	476	476
Financial asset investments		165,819	-	165,819
Deferred tax assets	1.3.3 (f)	-	44,805	44,805
Total non-current assets		<u>4,426,345</u>	<u>44,805</u>	<u>4,471,150</u>
Current assets				
Inventories		179,725	-	179,725
Trade and other receivables	1.3.2	575,279	10,910	586,189
Investments		54	-	54
Cash and cash equivalents		<u>502,361</u>	<u>-</u>	<u>502,361</u>
Total current assets		<u>1,257,419</u>	<u>10,910</u>	<u>1,268,329</u>
Total assets		<u>5,683,764</u>	<u>55,715</u>	<u>5,739,479</u>
EQUITY				
Capital stock		1,979,882	-	1,979,882
Reserve for the repurchase of loan stock		2,373	-	2,373
Retained earnings	1.3.3 (k)	<u>288,550</u>	<u>81,585</u>	<u>370,135</u>
Total equity attributable to equity holders of the Parent		<u>2,270,805</u>	<u>81,585</u>	<u>2,352,390</u>
LIABILITIES				
Non-current liabilities				
Borrowings and other debt		1,660,151	-	1,660,151
Employee related liabilities	1.3.3 (c)	344,461	(21,466)	322,995
Trade and other payables		70,087	-	70,087
Deferred income and government grants		154,423	-	154,423
Provisions	1.3.3 (g)	309,501	(10,900)	298,601
Deferred tax liabilities	1.3.3 (f)	<u>225,267</u>	<u>47,155</u>	<u>272,422</u>
Total non-current liabilities		<u>2,763,890</u>	<u>14,789</u>	<u>2,778,679</u>
Current liabilities				
Borrowings and other debt		83,744	-	83,744
Employee related liabilities	1.3.3 (d) & 1.3.4	18,700	31,764	50,464
Trade and other payables	1.3.4	448,587	(72,423)	376,164
Provisions		38,925	-	38,925
Current tax liabilities		<u>59,113</u>	<u>-</u>	<u>59,113</u>
Total current liabilities		<u>649,069</u>	<u>(40,659)</u>	<u>608,410</u>
Total liabilities		<u>3,412,959</u>	<u>(25,870)</u>	<u>3,387,089</u>
Total equity and liabilities		<u>5,683,764</u>	<u>55,715</u>	<u>5,739,479</u>

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

1.2.6 Reconciliation of Parent Company Net Income for the year ended 31 December 2004

	Note	GAAP	Effect of transition to EU IFRS	EU IFRS
	€ '000	€ '000	€ '000	€ '000
Revenue	1.3.5	2,120,823	(29,940)	2,090,883
Other operating income	1.3.5	-	29,940	29,940
Operating costs		<u>(1,737,589)</u>	<u>(150,754)</u>	<u>(1,888,343)</u>
Operating profit		383,234	(150,754)	232,480
Interest cost and other financing charges	1.3.3 (i)	(91,681)	10,965	(80,716)
Interest income		<u>15,709</u>	-	<u>15,709</u>
Net interest cost and other financing charges		<u>(75,972)</u>	<u>10,965</u>	<u>(65,007)</u>
Profit before taxation		307,262	(139,789)	167,473
Income tax expense	1.3.3 (f)	<u>(36,840)</u>	<u>18,102</u>	<u>(18,738)</u>
Profit after taxation		<u>270,422</u>	<u>(121,687)</u>	<u>148,735</u>

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

1.2.7 Reconciliation of Parent Company Balance Sheet at 31 December 2004

	Note	GAAP € '000	Effect of transition to EU IFRS € '000	EU IFRS € '000
ASSETS				
Non-current assets				
Property, plant & equipment	1.3.1	4,924,384	(129,522)	4,794,862
Intangible assets	1.3.1	-	128,943	128,943
Investment property	1.3.1	-	460	460
Financial asset investments		190,652	-	190,652
Deferred tax assets	1.3.3(f)	-	53,170	53,170
Total non-current assets		<u>5,115,036</u>	<u>53,051</u>	<u>5,168,087</u>
Current assets				
Inventories		176,057	-	176,057
Trade and other receivables	1.3.2	697,545	12,225	709,770
Investments		78	-	78
Cash and cash equivalents		39,792	-	39,792
Assets held for resale	1.3.7	-	1,147	1,147
Total current assets		<u>913,472</u>	<u>13,372</u>	<u>926,844</u>
Total assets		<u>6,028,508</u>	<u>66,423</u>	<u>6,094,931</u>
EQUITY				
Capital stock		1,979,882	-	1,979,882
Reserve for the repurchase of loan stock		2,687	-	2,687
Retained earnings	1.3.3 (k)	481,245	(29,807)	451,438
Total equity attributable to equity holders of the Parent		<u>2,463,814</u>	<u>(29,807)</u>	<u>2,434,007</u>
LIABILITIES				
Non-current liabilities				
Borrowings and other debt		1,667,010	-	1,667,010
Employee related liabilities	1.3.3 (c)	246,993	107,240	354,233
Trade and other payables		23,851	-	23,851
Deferred income and government grants		253,212	-	253,212
Provisions	1.3.3 (g)	304,213	682	304,895
Deferred tax liabilities	1.3.3 (f)	246,265	37,418	283,683
Total non-current liabilities		<u>2,741,544</u>	<u>145,340</u>	<u>2,886,884</u>
Current liabilities				
Interest bearing loans and borrowings		113,078	-	113,078
Employee related liabilities	1.3.3 (d) & 1.3.4	20,443	31,109	51,552
Trade and other payables	1.3.2 & 1.3.4	543,056	(80,219)	462,837
Provisions		95,468	-	95,468
Current tax liabilities		51,105	-	51,105
Total current liabilities		<u>823,150</u>	<u>(49,110)</u>	<u>774,040</u>
Total liabilities		<u>3,564,694</u>	<u>96,230</u>	<u>3,660,924</u>
Total equity and liabilities		<u>6,028,508</u>	<u>66,423</u>	<u>6,094,931</u>

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

1.2.8 Reconciliation of Parent Company balance sheet at 1 January 2005

	Note	EU IFRS 31 Dec 2004 € '000	Effect of transition to EU IFRS € '000	EU IFRS € '000
ASSETS				
Non-current assets				
Property, plant & equipment		4,794,862	-	4,794,862
Intangible assets		128,943	-	128,943
Investment property		460	-	460
Financial asset investments		190,652	-	190,652
Deferred tax assets		53,170	8,789	61,959
Financial instruments	1.3.8	-	4,847	4,847
Total non-current assets		<u>5,168,087</u>	<u>13,636</u>	<u>5,181,723</u>
Current assets				
Inventories		176,057	-	176,057
Trade and other receivables	1.3.8	709,770	4,317	714,087
Investments		78	-	78
Cash and cash equivalents		39,792	-	39,792
Financial instruments	1.3.8	-	5,855	5,855
Assets held for resale		1,147	-	1,147
Total current assets		<u>926,844</u>	<u>10,172</u>	<u>937,016</u>
Total assets		<u>6,094,931</u>	<u>23,808</u>	<u>6,118,739</u>
EQUITY				
Capital stock		1,979,882	-	1,979,882
Reserve for the repurchase of loan stock		2,687	-	2,687
Cash flow hedging and other reserves	1.3.8	-	(60,770)	(60,770)
Retained earnings	1.3.8	451,438	5,844	457,282
Total equity attributable to equity holders of the Parent		<u>2,434,007</u>	<u>(54,926)</u>	<u>2,379,081</u>
LIABILITIES				
Non-current liabilities				
Borrowings and other debt	1.3.8	1,667,011	(110,492)	1,556,519
Employee related liabilities		354,233	-	354,233
Trade and other payables		23,850	-	23,850
Deferred income and government grants		253,212	-	253,212
Provisions		304,895	-	304,895
Deferred tax liabilities		283,683	-	283,683
Financial instruments	1.3.8	-	187,310	187,310
Total non-current liabilities		<u>2,886,884</u>	<u>76,818</u>	<u>2,963,702</u>
Current liabilities				
Borrowings and other debt		113,078	-	113,078
Employee related liabilities		51,552	-	51,552
Trade and other payables		462,837	-	462,837
Provisions		95,468	-	95,468
Current tax liability		51,105	-	51,105
Financial instruments	1.3.8	-	1,916	1,916
Total current liabilities		<u>774,040</u>	<u>1,916</u>	<u>775,956</u>
Total liabilities		<u>3,660,924</u>	<u>78,734</u>	<u>3,739,658</u>
Total equity and liabilities		<u>6,094,931</u>	<u>23,808</u>	<u>6,118,739</u>

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

1.3 Explanation of the effect of the transition to EU IFRS

1.3.1 Impact of transition on property, plant and equipment, intangible assets and investment property

- (a) The adjustments to property, plant and equipment relate primarily to reclassifications to other non current asset classes, such as intangible assets and investment property. There is a requirement under IAS 40, Investment Property to disclose as investment property, property which is held for a currently undetermined future use. The Group has also adopted an accounting policy which requires reclassification of software assets as intangible assets in line with IAS 38 on Intangible Assets.
- (b) In the 2004 Income Statement there is also a minor adjustment to property, plant and equipment which relates to the write back of depreciation (€1.2m) on land. This land has been separated identified as an asset under EU IFRS and is not depreciated. This has impacted the depreciation charge in the Group and Parent Income Statement and the carrying value of property, plant and equipment.
- (c) The final adjustment to property, plant and equipment arises from a reclassification to assets held for resale within current assets. These are assets which the Group is actively seeking to dispose of and hence the reclassification is necessary under IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

1.3.2 Impact of transition on trade and other receivables

The Group and Parent accounts contain a reclassification from trade and other trade receivables to trade and other payables, of amounts which were offset under GAAP in the balance sheet but may no longer be offset in accordance with the rules contained in IAS 1, Presentation of Financial Statements. The adjustments to trade and other receivables have no impact on retained earnings.

1.3.3 Impact of transition on retained earnings

The table at 1.3.3 (k) below summarises the impact of the transition to EU IFRS on retained earnings at 1 January 2004, 1 January 2005 and the Income Statement for 2004 for the Group and the Parent.

- (a) **Investment in Joint Venture** - The movement in the investment in joint venture at 1 January 2004 primarily relates to a change in accounting for deferred tax in the joint venture. Previously, the deferred tax provision was discounted. This is no longer permissible under IAS 12 Income Taxes and has given rise to the adjustment.
- (b) **Cumulative Translation Reserve** - The Group has elected to use the exemption of setting the previously cumulated translation adjustment to zero, this exemption has been applied to all of the subsidiaries, joint ventures and associates.
- (c) **Non-current Employee Related Liabilities** - The adjustments to long term employee liabilities are split between adjustments to the retirement benefits provision and adjustments to the defined benefit pension liability.

- **Defined Benefit Pension Liability**

The Group has adopted IAS 19, which deals with accounting for defined benefit obligations, on transition to EU IFRS. The transitional arrangements for IAS 19 provide for either:

Immediate recognition of all unrecognised actuarial gains or losses as a prior year adjustment, or

A retrospective application of IAS 19 which replicates as closely as possible the position that would have prevailed had the provisions of IAS 19 been adopted from the start of the pension scheme.

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

The Group has chosen the retrospective option to determine the opening pension liability at 1 January 2004. The actuaries performed this exercise on behalf of the Group.

The Group is also availing of the deferral option as stated in the accounting policies, whereby actuarial gains/losses are deferred and recognised over 15 years. The opening pension liability at 1 January 2004 is €236m and this is reflected as a movement in retained earnings at the date of transition to EU IFRS. The impact of EU IFRS on the 2004 Income Statement is €130m over and above the €40m previously charged to the Income Statement under GAAP.

- Retirement Benefits

The Group's liabilities to former employees who left under Voluntary Severance Schemes are included as part of Employee related liabilities in the Balance Sheets. This is in accordance with the requirements of IAS 19. The Group's accounting policy is to recognise the full cost of severance benefits payable to such leavers when it is demonstrably committed to providing these severance benefits as a result of both an offer of voluntary redundancy made to employees and also accepted by those employees. Accordingly, a liability for the cost of current and future payments is established in the year in which the employee accepts the severance terms and leaves employment. This is a change from the previous accounting policy, whereby a liability was established when a constructive obligation for such liabilities existed. In the financial statements prepared under GAAP in previous years, the constructive obligation which existed was based on a Tripartite agreement between the Board of ESB, the Group of Unions and the Government, relating to a business restructuring programme, which began in 2000. This change in accounting policy has given rise to a write back to reserves of €257m at 1 January 2004.

- (d) **Current Employee Benefit Liabilities** - On transition to EU IFRS the Group has calculated an accrual for annual leave untaken at each relevant year end in accordance with the requirements of IAS 19, this accrual for the Group at 1 January 2004 is €17m (Parent €15.6m). The movement in the accrual in 2004 is shown in the table below which reconciles the GAAP retained earnings with the revised EU IFRS retained earnings.
- (e) **Treatment of Dividends** - IAS 10, Events After the Balance Sheet Date states that dividends should not be accrued for until the stockholders have approved them. Consequently, the dividends proposed by the Board Members in 2003 and 2004 are now included as reserves movements in 2004 and 2005 respectively.
- (f) **Movement in Deferred Tax** - The basis of calculating deferred tax has changed with the transition to EU IFRS, the focus is on movements in Balance Sheet assets and liabilities and on temporary differences as opposed to timing differences. The main driver of the movement in deferred tax is the change in the pension liability and retirement benefit provision noted above. On the transition to IAS 39 at 1 January 2005, a deferred tax adjustment is also required to include in the Balance Sheet the deferred tax asset on the fair value of the derivative liabilities outstanding at that date.
- (g) **Movement in Provisions** - The movement in provisions at 1 January 2004 arises due to changes in the assumptions used to calculate the power station closure provision. These changes have given rise to a write back to the provision of €11m at the date of transition. The changes in assumptions were necessary to maintain consistency in the assumptions used for the power station closure provision, the retirement benefit liability and the pension liability.
- (h) **Movement in Revenue** - There is a minor movement in revenue in the 2004 accounts of €1m which flows from the requirement to impute interest on interest free sales. These sales were made in the Retail business which discontinued during 2005.
- (i) **Movement in Financing Charges** - Financing charges are calculated on the retirement benefit liability and the provision for Power Station Closure Costs. The charge in the 2004 Income Statement has been reduced following the changes in these balances noted above.
- (j) **Movement in Minority Interests** - EU IFRS does not allow the Group to carry negative minority interests unless the Group has a legal obligation in relation to the losses of the minority interest. Hence, the negative minority interest carried in the Group as at 1 January 2004 has been written back to reserves.

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

(k)	Summary of Impact on Group Retained Earnings	1 Jan 2004	31 Dec 2004	1 Jan 2005
		€ '000	€ '000	€ '000
	Previously reported balance	306,567	495,992	475,801
	Opening reserves adjustment for EU IFRS at 1 January 2004	-	79,364	-
	Imputing of interest in interest free sales	-	(1,153)	-
	Movement in cumulative translation reserve	3,585	-	-
	Movement in long term employee benefits			
	- Pension liability	(235,875)	(86,218)	-
	- Restructuring liability	257,341	(51,820)	-
	Movement in short term employee benefits	(16,972)	(627)	-
	Movement in provisions	10,900	(13,215)	-
	Movement in bad debt provision	427	13,001	-
	Depreciation on land	-	1,028	-
	Movement in joint ventures	(4,641)	93	-
	Movement in financing charges		10,965	-
	Deferred tax adjustment	(2,350)	18,102	-
	Movements in minority interests	(169)	(6)	-
	Dividends	67,118	10,295	-
	Transition to IAS 39	-	-	5,844
	Revised retained earnings	385,931	475,801	481,645
	Impact on Parent Retained Earnings	1 Jan 2004	31 Dec 2004	1 Jan 2005
		€ '000	€ '000	€ '000
	Previously reported balance	288,550	481,245	451,438
	Opening reserves adjustment for EU IFRS	-	81,585	-
	Movement in long term employee benefits			
	- Pension liability	(235,875)	(86,218)	-
	- Restructuring liability	257,341	(51,820)	-
	Movement in short term employee benefits	(15,549)	(529)	-
	Movement in power station closure costs	10,900	(13,215)	-
	Depreciation on land	-	1,028	-
	Movement in financing charges	-	10,965	-
	Deferred tax adjustment	(2,350)	18,102	-
	Dividends	67,118	10,295	-
	Transition to IAS 39	-	-	5,844
	Revised retained earnings	370,135	451,438	457,282

Notes to the Financial Statements

1. TRANSITION TO EU IFRS (Continued)

1.3.4 Impact of transition on other payables & short term employee benefits

Other payables has been adjusted to the extent that they contained elements which are classified under short term employee benefits in EU IFRS, these items are employee related liabilities such as accruals for bonuses. Other payables have also been adjusted following the reclassification from receivables as noted above.

1.3.5 Impact of transition on revenue and other operating income

Other operating income is a new classification under EU IFRS which contains income which is not associated with core activities. It contains items such as profits from sale of property and amortisation of deferred income and has been reclassified from revenue. Revenue has also been adjusted in the Group 2004 accounts by €1.1m for the impact of imputing interest on interest free sales in accordance with EU IFRS.

1.3.6 Impact of transition on share of joint venture profits

Under EU IFRS share of profit from joint ventures is shown net of interest and tax which has led to a reclassification from the tax figure in previously reported accounts.

1.3.7 Assets held for resale

Under IFRS 5 there is a requirement to classify as assets held for resale, assets which it is intended to dispose of within twelve months. To qualify as an asset held for resale there must be a definite decision made to dispose of the asset. In the transitional notes above there have been reclassifications from property, plant and equipment and investments in associates and joint ventures to assets held for resale.

1.3.8 Transition to IAS 39

The date of transition to EU IFRS for the purposes of IAS 39 is 1 January 2005, the adjustments recorded above in Sections 1.2.4 and 1.2.8 are the adjustments arising from this transition. IAS 39 requires the recognition on the Balance Sheet of the fair value of all derivatives in issue at the year end.

Under IAS 39 where a derivative is part of an effective hedging relationship, fair value movements in that derivative are reflected through the derivative assets or liabilities and the cash flow hedging reserves in the Balance Sheet. Deferred tax assets and liabilities are also recorded on derivative assets and liabilities. When these assets and liabilities are part of effective hedging relationships, the related deferred tax is recognised directly in equity.

This means that fair value movements in derivatives do not impact retained earnings until such time as the event that is hedged against occurs. Where derivative instruments are not part of effective hedging relationships the fair value movements on these instruments are reflected through the Income Statement.

Notes to the Financial Statements

2. REVENUE

(a) Revenue by Geographic Market	2005	2004
	€ '000	€ '000
Ireland	2,546,795	2,281,233
UK & Europe	174,776	153,392
Other	34,642	23,081
Total	2,756,213	2,457,706

(b) Revenue by Business Line	2005	2004
	€ '000	€ '000
Power Generation	222,759	108,555
ESB Customer Supply	1,816,522	1,719,692
ESB Networks	273,725	206,076
ESBI	472,830	314,284
Other	(29,623)	109,099
Group Totals	2,756,213	2,457,706

Note: Other mainly relates to non electricity income and consolidation adjustments. The latter amounted to €135m in 2005 (2004: €70m). The decrease in non electricity income year on year largely represents the reduction in Retail income in 2005.

Notes to the Financial Statements

3. PROPERTY, PLANT & EQUIPMENT

(a) GROUP		Land and buildings	Plant and machinery	Total assets in commission	Assets under construction	Total
		€ '000	€ '000	€ '000	€ '000	€ '000
Cost						
Balance at 1 January 2004		788,442	5,748,645	6,537,087	1,178,050	7,715,137
Additions		28,123	1,068,848	1,096,971	45,897	1,142,868
Retirements/disposals		(1,703)	(19,756)	(21,459)	-	(21,459)
Translation difference		1	(14)	(13)	-	(13)
Balance at 31 December 2004		814,863	6,797,723	7,612,586	1,223,947	8,836,533
Additions		319,258	888,555	1,207,813	(294,908)	912,905
Retirements/disposals		(14,863)	(24,876)	(39,739)	(487,336)	(527,075)
Translation difference		-	5	5	6,860	6,865
Balance at 31 December 2005		1,119,258	7,661,407	8,780,665	448,563	9,229,228
Depreciation						
Balance at 1 January 2004		430,143	2,637,556	3,067,699	-	3,067,699
Charge for the year		24,548	257,611	282,159	-	282,159
Retirements/disposals		(543)	(15,386)	(15,929)	-	(15,929)
Translation difference		-	1,046	1,046	-	1,046
Balance at 31 December 2004		454,148	2,880,827	3,334,975	-	3,334,975
Charge for the year		19,357	327,606	346,963	-	346,963
Retirements/disposals		(3,568)	(27,784)	(31,352)	-	(31,352)
Annual portfolio adjustment		-	15,000	15,000	-	15,000
Translation difference		16	-	16	-	16
Balance at 31 December 2005		469,953	3,195,649	3,665,602	-	3,665,602
Net book value at 31 December 2005		649,305	4,465,758	5,115,063	448,563	5,563,626
Net book value at 31 December 2004		360,715	3,916,896	4,277,611	1,223,947	5,501,558
Net book value at 1 January 2004		358,299	3,111,089	3,469,388	1,178,050	4,647,438

During the year the group capitalised the sum of €33.9m (2004: €60.7m) in interest. The capitalisation rate was 5% (2004:5%). Additions in 2005 include transfers from assets under construction which have been commissioned during 2005. On an annual basis a review is carried out, which compares the net book value of the non-current asset portfolio with their estimated future recoverable values, having regard to the age of the assets and assumptions regarding the future regulatory and economic environments. In 2005 this review resulted in an additional charge of €15m.

In 2005 assets under construction of €295m were completed and transferred to plant and machinery and assets of €487m were completed and transferred to joint ventures.

Transfers to investment properties are included in retirements/disposals.

Notes to the Financial Statements

3. PROPERTY, PLANT & EQUIPMENT (Continued)

Finance leases

All finance leases are held by the Parent. The net book value of non-current assets includes an amount of €39.5m (2004: €43.9m) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the year amounted to €4.4m (2004: €4.4m).

	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
(b) PARENT					
Cost					
Balance at 1 January 2004	782,589	5,668,686	6,451,275	736,246	7,187,521
Additions	14,533	1,078,487	1,093,020	-	1,093,020
Retirements/disposals	(1,703)	(31,542)	(33,245)	(196,260)	(229,505)
Balance at 31 December 2004	795,419	6,715,631	7,511,050	539,986	8,051,036
Additions	44,898	834,879	879,777	(140,612)	739,165
Retirements/disposals	(9,347)	(18,053)	(27,400)	-	(27,400)
Balance at 31 December 2005	830,970	7,532,457	8,363,427	399,374	8,762,801
Depreciation					
Balance at 1 January 2004	429,904	2,572,891	3,002,795	-	3,002,795
Charge for the year	24,535	248,849	273,384	-	273,384
Retirements/disposals	(543)	(19,462)	(20,005)	-	(20,005)
Balance at 31 December 2004	453,896	2,802,278	3,256,174	-	3,256,174
Charge for the year	11,281	321,406	332,687	-	332,687
Retirements/disposals	(3,311)	(16,262)	(19,573)	-	(19,573)
Balance at 31 December 2005	461,866	3,107,422	3,569,288	-	3,569,288
Net book value at 31 December 2005	369,104	4,425,035	4,794,139	399,374	5,193,513
Net book value at 31 December 2004	341,523	3,913,353	4,254,876	539,986	4,794,862
Net book value at 1 January 2004	352,685	3,095,795	3,448,480	736,246	4,184,726

During the year the Parent capitalised the sum of €15.7m (2004: €34.6m) in interest. The capitalisation rate was 5% (2004:5%).

Notes to the Financial Statements

4. INTANGIBLE ASSETS

(a) GROUP	Software costs € '000	Emission allowances € '000	Total intangible assets in commission € '000	Software under development € '000	Total € '000
Cost					
Balance at 1 January 2004	54,851	-	54,851	44,100	98,951
Additions	13,850	-	13,850	53,000	66,850
Retirements/disposals	-	-	-	-	-
Balance at 31 December 2004	68,701	-	68,701	97,100	165,801
Additions	123,966	120,508	244,474	(97,100)	147,374
Retirements/disposals	(1,196)	-	(1,196)	-	(1,196)
Balance at 31 December 2005	191,471	120,508	311,979	-	311,979
Amortisation					
Balance at 1 January 2004	21,765	-	21,765	-	21,765
Charge for the year	12,729	-	12,729	-	12,729
Retirements/disposals	-	-	-	-	-
Balance at 31 December 2004	34,494	-	34,494	-	34,494
Charge for the year	30,895	-	30,895	-	30,895
Retirements/disposals	(21)	-	(21)	-	(21)
Balance at 31 December 2005	65,368	-	65,368	-	65,368
Net book value at 31 December 2005	126,103	120,508	246,611	-	246,611
Net book value at 31 December 2004	34,207	-	34,207	97,100	131,307
Net book value at 1 January 2004	33,086	-	33,086	44,100	77,186

Software costs shown under both Group and Parent include both internally developed and externally purchased assets.

Emission allowances are not amortised as they are held for settlement in the following year. The emissions allowances included above were received by way of Government grant and are also included in deferred income, as shown in Note 20.

Amortisation of intangible assets is charged to the Income Statement as part of operating costs.

Notes to the Financial Statements

4. INTANGIBLE ASSETS (Continued)

	Software costs € '000	Emission allowances € '000	Total intangible assets in commission € '000	Intangible assets under construction € '000	Total € '000
(b) PARENT					
Cost					
Balance at 1 January 2004	52,989	-	52,989	44,100	97,089
Additions	13,348	-	13,348	53,000	66,348
Retirements/disposals	-	-	-	-	-
Balance at 31 December 2004	66,337	-	66,337	97,100	163,437
Additions	125,447	112,696	238,143	-	238,143
Retirements/disposals	(1,196)	-	(1,196)	(97,100)	(98,296)
Balance at 31 December 2005	190,588	112,696	303,284	-	303,284
Amortisation					
Balance at 1 January 2004	21,765	-	21,765	-	21,765
Charge for the year	12,729	-	12,729	-	12,729
Balance at 31 December 2004	34,494	-	34,494	-	34,494
Charge for the year	30,895	-	30,895	-	30,895
Retirements/disposals	(21)	-	(21)	-	(21)
Balance at 31 December 2005	65,368	-	65,368	-	65,368
Net book value at 31 December 2005	125,220	112,696	237,916	-	237,916
Net book value at 31 December 2004	31,843	-	31,843	97,100	128,943
Net book value at 1 January 2004	31,224	-	31,224	44,100	75,324

Notes to the Financial Statements

5. INVESTMENT PROPERTY

	2005 € '000	2004 € '000
GROUP & PARENT		
Cost		
Balance at 1 January 2005	854	854
Retirements/disposals	(172)	-
Balance at 31 December 2005	<u>682</u>	<u>854</u>
Depreciation		
Balance at 1 January 2005	394	378
Charge for the year	8	16
Balance at 31 December 2005	<u>402</u>	<u>394</u>
Net book value at 31 December 2005	<u>280</u>	<u>460</u>
Net book value at 31 December 2004	<u>460</u>	<u>476</u>

The fair value of investment property has been valued on an open market basis as at 31 December 2005 at €13.03m (2004: €14.33m).

Notes to the Financial Statements

6. FINANCIAL ASSET INVESTMENTS

(a) GROUP	Associated undertakings shares € '000	Joint venture investments € '000	Sinking fund and other investments € '000	Total € '000
Balance at 1 January 2004	3,484	189,646	2,624	195,754
Disposals	(78)	-	-	(78)
Additions	-	112	314	426
Retranslation/other movements	(52)	(2,497)	(52)	(2,601)
Reclassification to assets held for resale	(3,439)	(7,572)	-	(11,011)
Share of profit	85	31,605	-	31,690
Dividends received	-	(32,232)	-	(32,232)
Balance at 31 December 2004	-	179,062	2,886	181,948
Disposals	-	-	(127)	(127)
Additions	-	38,413	324	38,737
Retranslation/other movements	-	(159,779)	-	(159,779)
Share of profit	-	31,294	-	31,294
Dividends received	-	(48,145)	-	(48,145)
Balance at 31 December 2005	-	40,845	3,083	43,928

Sinking fund investments in the Group and Parent, are represented by short term bank deposits. Subsidiary, associated and joint venture undertakings are listed in Note 33.

The reclassification adjustment shown above consists of transfers to assets held for resale (note 11), mainly Irish Power Systems.

Retranslation/other movements consist primarily of the part disposal of Bizkaia Energie SL (see note 21), the transfer of debt associated with the Synergen Partnership from borrowings to investment in joint ventures (see note 13), and the movement on the fair value of interest rate swaps associated with Bizkaia Energia SL.

The Group's share of interests in joint ventures consists of €72m of current assets, €437m of non-current assets, €189m of current liabilities, and €254m of non-current liabilities.

The profits from joint ventures in 2005 relate to Synergen €22.8m (2004: €17.9m), Corby Power €8.5m (2004: €12.7m) and IPS, €nil in 2005 (2004: €1m). Dividends received relate to Synergen €20.3m (2004: €26m), Corby Power €5.8m (2004: €5.8m), Bizkaia Energia SL €22m (2004: €nil) and IPS, €nil in 2005 (2004: €0.4m).

(b) PARENT	Subsidiary Undertakings			Sinking fund investments	Total
	Shares € '000	Loans € '000	Subtotal € '000	€ '000	€ '000
Balance at 1 January 2004	107,373	56,073	163,446	2,373	165,819
Additions	33,924	22,121	56,045	314	56,359
Repayments	(9,975)	(21,551)	(31,526)	-	(31,526)
Balance at 31 December 2004	131,322	56,643	187,965	2,687	190,652
Additions	-	41,139	41,139	324	41,463
Repayments	(73,617)	(4,368)	(77,985)	-	(77,985)
Balance at 31 December 2005	57,705	93,414	151,119	3,011	154,130

Notes to the Financial Statements

7. INVENTORIES

	GROUP		PARENT	
	2005	2004	2005	2004
	€ '000	€ '000	€ '000	€ '000
GROUP				
Materials	115,699	102,241	103,735	102,241
Fuel	130,913	73,816	130,444	73,816
Appliances and other goods for resale	-	14,078	-	-
	246,612	190,135	234,179	176,057

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

8. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2005	2004	2005	2004
	€ '000	€ '000	€ '000	€ '000
Trade receivables	173,197	137,541	125,439	111,963
Unbilled consumption	360,100	277,873	325,115	253,444
Deferred payment contracts	586	62,821	586	2,345
Value added tax	-	21,503	-	-
Amounts owed by subsidiary undertakings	-	-	307,001	284,616
Other receivables	73,880	91,437	50,318	57,402
	607,763	591,175	808,459	709,770

9. INVESTMENTS

GROUP AND PARENT	2005	2004
	€ '000	€ '000
Listed investments at cost	78	78

Investments represent the repurchase of ESB loan stock, pending cancellation.

Notes to the Financial Statements

10. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2005 € '000	2004 € '000	2005 € '000	2004 € '000
Cash at bank and in hand	43,532	41,519	47,481	8,533
Other bank deposits	23,417	33,259	23,417	31,259
Cash and cash equivalents as restated	66,949	74,778	70,898	39,792

11. ASSETS HELD FOR RESALE

	GROUP		PARENT	
	2005 € '000	2004 € '000	2005 € '000	2004 € '000
Property	2,261	1,147	2,261	1,147
Other				
- Gross assets	11,297	15,534	-	-
- Gross liabilities	(3,634)	(4,523)	-	-
	9,924	12,158	2,261	1,147

The other assets held for resale are the cost of the Parent's investment in Irish Power Systems Limited, Transpower, Whitegate and Electra Group Limited.

Notes to the Financial Statements

12. CAPITAL AND RESERVES

(a) GROUP

Reconciliation of movements in capital and reserves

	Capital stock € '000	Translation reserve € '000	Reserve for the repurchase of loan stock € '000	Cash flow hedging & other reserves € '000	Retained earnings € '000	Total € '000	Minority interest € '000	Total equity € '000
Balance at								
1 January 2004	1,979,882	-	2,373	5,613	385,931	2,373,799	735	2,374,534
Income for the year	-	-	-	-	157,420	157,420	118	157,538
Dividends	-	-	-	-	(67,118)	(67,118)	-	(67,118)
Other changes	-	(865)	314	-	(432)	(983)	-	(983)
Balance at 31								
December 2004	1,979,882	(865)	2,687	5,613	475,801	2,463,118	853	2,463,971
Adoption of IAS								
39 and IAS 32	-	-	-	(100,513)	5,844	(94,669)	-	(94,669)
Tax impact of								
adopting IAS 39	-	-	-	18,608	-	18,608	-	18,608
Balance at								
1 January 2005	1,979,882	(865)	2,687	(76,292)	481,645	2,387,057	853	2,387,910
Income for the year	-	-	-	-	241,189	241,189	109	241,298
Dividends	-	-	-	-	(77,413)	(77,413)	-	(77,413)
Other changes	-	3,354	324	-	(324)	3,354	-	3,354
Cash flow hedges:	-	-	-	-	-	-	-	-
- Net fair value losses	-	-	-	(21,503)	-	(21,503)	-	(21,503)
- Transfers to								
Income Statement	-	-	-	(9,308)	-	(9,308)	-	(9,308)
- Fair value gains for								
hedges in joint	-	-	-	10,349	-	10,349	-	10,349
ventures	-	-	-	-	-	-	-	-
Tax on items taken	-	-	-	487	-	487	-	487
directly to equity	-	-	-	-	-	-	-	-
Balance at 31								
December 2005	1,979,882	2,489	3,011	(96,267)	645,097	2,534,212	962	2,535,174

Notes to the Financial Statements

12. CAPITAL AND RESERVES (Continued)

(b) PARENT

Reconciliation of movements in capital and reserves

	Capital stock € '000	Reserve for the repurchase of loan stock € '000	Cash flow hedge reserve € '000	Retained earnings € '000	Total € '000
Balance at 1 January 2004	1,979,882	2,373	-	370,135	2,352,390
Income for the year	-	-	-	148,735	148,735
Dividends	-	-	-	(67,118)	(67,118)
Other changes	-	314	-	(314)	-
Balance at 31 December 2004	<u>1,979,882</u>	<u>2,687</u>	<u>-</u>	<u>451,438</u>	<u>2,434,007</u>
Adoption of IAS 39 and IAS 32	-	-	(69,559)	5,844	(63,715)
Tax impact of adopting IAS 39	-	-	8,789	-	8,789
Balance at 1 January 2005	<u>1,979,882</u>	<u>2,687</u>	<u>(60,770)</u>	<u>457,282</u>	<u>2,379,081</u>
Income for the year	-	-	-	190,511	190,511
Dividends	-	-	-	(77,413)	(77,413)
Other changes	-	324	-	(324)	0
Cash flow hedges:	-	-	-	-	-
- Net fair value losses	-	-	(21,919)	-	(21,919)
- Transfers to income statement	-	-	(9,308)	-	(9,308)
Tax on items taken directly to equity	-	-	3,852	-	3,852
Balance at 31 December 2005	<u>1,979,882</u>	<u>3,011</u>	<u>(88,145)</u>	<u>570,056</u>	<u>2,464,804</u>

Notes to the Financial Statements

12. CAPITAL AND RESERVES (Continued)

(i) Capital stock - Group and Parent

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

2005 & 2004

€ '000

Comprised as:

Stock issued from converted reserves	1,880,888
Stock issued for subscription by ESOT	98,994
	<u>1,979,882</u>

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.

(ii) Minority interests

Minority interests at the end of 2005 and 2004 relate to the minority shareholdings in Crockahenny Wind Farm Limited and Hibernian Hydro Limited.

(iii) Cash flow hedging and other reserves - Group and Parent

Cash flow hedging reserves primarily represent the fair value of derivatives which are part of effective cashflow hedging relationships at year end. As the derivatives are held for hedging purposes as defined by IAS 39, their fair value movements are retained in equity instead of being released to retained earnings at year end.

(iv) Reserve for the repurchase of loan stock

This reserve comprises a sinking fund for the repayment of borrowings. This reserve is represented by the sinking fund investments referred to in note 6 to the financial statements.

(v) Dividends - Group and Parent

Dividends on capital stock:

	2005 € '000	2004 € '000
Total dividend paid of 3.91 (2004: 3.39) cents per capital stock unit	<u>77,413</u>	<u>67,118</u>

The Board Members are recommending that a final dividend of 3.66 cent per unit of capital stock, amounting to €72.4 million in aggregate to be paid in 2006, in respect of 2005.

Notes to the Financial Statements

13. BORROWINGS AND OTHER DEBT

	Short term borrowings	Finance leases	Borrowings	2005 Total	2004 Total
	€ '000	€ '000	€ '000	€ '000	€ '000
(a) GROUP					
Current borrowings					
- Repayable by instalments		8,867	16,522	25,389	37,275
- Repayable other than by instalments	4,129	-	93,582	97,711	90,395
- Total current borrowings	<u>4,129</u>	<u>8,867</u>	<u>110,104</u>	<u>123,100</u>	<u>127,670</u>
Non-current borrowings					
- Repayable by instalments					
Between one and two years	-	8,350	17,102	25,452	116,287
Between two and five years	-	23,370	105,701	129,071	180,438
After five years	-	<u>78,050</u>	<u>306,048</u>	<u>384,098</u>	<u>848,308</u>
	-	109,770	428,851	538,621	1,145,033
- Repayable other than by instalments					
Between one and two years	-	-	48,571	48,571	50,000
Between two and five years	-	-	248,077	248,077	161,716
After five years	-	<u>11,220</u>	<u>943,985</u>	<u>955,205</u>	<u>889,253</u>
	-	<u>11,220</u>	<u>1,240,633</u>	<u>1,251,853</u>	<u>1,100,969</u>
Total non-current borrowings	<u>-</u>	<u>120,990</u>	<u>1,669,484</u>	<u>1,790,474</u>	<u>2,246,002</u>
Total borrowings outstanding	<u>4,129</u>	<u>129,857</u>	<u>1,779,588</u>	<u>1,913,574</u>	<u>2,373,672</u>

Current borrowings

Short term borrowings of €4.1m refer to the drawdown of a short term uncommitted sterling facility at the year end.

Finance leases of €8.9m refers to the capital element of finance leases payables in the next 12 months. The borrowings of €110.1m relate to long term bank debt repayable within the year.

Non current borrowings

Non-current borrowings include ESB Stock of €15m, the capital element of finance leases payable after one year of €121m, private placement borrowings of €877.2m and other long term bank borrowings of €777.3m. The private placement debt was drawn down in December 2003. This debt consisted of senior notes with institutional investors. These 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.

Borrowings totalling €22.4m (2004: €53.3m) are State guaranteed. With the exception of borrowings related to finance leases, none of the borrowings are secured against the Group assets.

Group borrowings have decreased since 2004 due both to the transfer of the debt associated with the Synergen Partnership to investment in joint ventures following the restructuring of the partnership and the part disposal of Bizkaia Energia SL, with the result that it is now classified as an investment in joint venture.

Notes to the Financial Statements

13. BORROWINGS AND OTHER DEBT (Continued)

Future finance lease commitments are as follows:

	2005 Minimum lease payments € '000	2005 Present value of minimum lease payments € '000	2004 Minimum lease payments € '000	2004 Present value of minimum lease payments € '000
Amounts payable:				
Within one year	17,393	8,867	15,943	7,145
Between one and five years	61,481	31,720	64,267	31,308
After five years	101,529	89,270	114,995	97,355
	180,403	129,857	195,205	135,808
Less future lease charges	(50,546)		(59,397)	
Present value of lease obligations	129,857		135,808	

	Short Term Borrowings € '000	Finance leases € '000	Borrowings € '000	2005 Total € '000	2004 Total € '000
(b) PARENT					
Current borrowings					
- Repayable by instalments	-	8,867	16,522	25,389	22,683
- Repayable other than by instalments	4,129	-	93,582	97,711	90,395
Total current borrowings	4,129	8,867	110,104	123,100	113,078
Non-current borrowings					
- Repayable by instalments					
Between one and two years	-	8,350	17,102	25,452	21,489
Between two and five years	-	23,370	105,701	129,071	103,487
After five years	-	78,050	306,048	384,098	441,065
	-	109,770	428,851	538,621	566,041
- Repayable other than by instalments					
Between one and two years	-	-	48,571	48,571	50,000
Between two and five years	-	-	248,077	248,077	161,716
After five years	-	11,220	943,985	955,205	889,253
	-	11,220	1,240,633	1,251,853	1,100,969
Total non-current borrowings	-	120,990	1,669,484	1,790,474	1,667,010
Total borrowings outstanding	4,129	129,857	1,779,588	1,913,574	1,780,088

Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS

(a) Transition to IAS 39

Until 1 January 2005 the Group availed of an exemption allowed in IFRS 1 on First Time Adoption of IFRS to postpone the adoption of IAS 39 Financial Instruments: Recognition and Measurement and IAS 32 Financial Instruments: Disclosure and Presentation. As mentioned in Note 1 the 2004 comparative information included in Balance Sheet and Income Statement for financial instruments is compliant with Irish GAAP, while the 2005 financial statements are in compliance with IAS 39 & IAS 32. Narrative disclosures under Irish GAAP were governed by FRS 13 Derivatives and Other Financial Instruments: Disclosures, while IAS 32 governs disclosures under IFRS.

(b) Overview of Financial Risk Management

The main financial risks faced by the Group relate to foreign exchange and interest rate movements, as well as the recovery of fuel commodity prices through the price of electricity charged to customers. Treasury policies for foreign exchange and interest rate risk, and other risk areas, such as the borrowings strategy, are regularly reviewed, revised as appropriate and are approved by the Board. Group Treasury is responsible for the day to day treasury activities of the Group. The Board Finance Committee is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the Committee for review. The treasury activity is reviewed annually by Group Internal Audit.

In relation to the recovery of fuel commodity prices, annual electricity tariffs are set in advance of the relevant year by the Commission for Energy Regulation (CER), based on a forecast of both customer demand and relevant costs. As with any forecast, a variance may arise between the actual and forecast results for the year. These differences may result in either an under or over recovery of revenue by ESB. Any such under or over recovery of allowed revenue is adjusted for by the CER when setting the price determinations for subsequent years. In relation to fuel costs, ESB Power Generation buys its fuel in the global markets and the prices it pays are benchmarked by the CER against published market price indices.

ESB funds its operations with the use of borrowings and finance leases, uses fixed rate deposit instruments to invest surplus funds and uses interest rate and foreign exchange instruments to manage interest rate and currency risks that arise from its operational and financial activity. All transactions in financial instruments are non-speculative.

(c) Funding and liquidity management

In line with ESB's business strategy and ensuring continuity of funding, the debt management strategy targets a debt portfolio profile with a diverse mix of different counterparties, funding sources, maturities, currencies and interest rate mix. The utilisation of structured non-recourse and limited recourse financing is pursued while ensuring compatibility between funding costs and risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements and Group Treasury maintains a diversity in ESB's lender base in order to achieve a strategic spread of risk from borrowing and non-borrowing business.

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

	2005		2004	
	Drawn Debt	Undrawn Facility	Drawn Debt	Undrawn Facility
	€ m	€ m	€ m	€ m
In one year or less	123.1	-	127.7	154.2
Between one and two years	74.0	200.0	166.3	-
Between two and five years	377.2	-	342.1	941.0
In more than five years	1,339.3	747.0	1,737.6	-
	<u>1,913.6</u>	<u>947.0</u>	<u>2,373.7</u>	<u>1,095.2</u>

Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS (Continued)

(d) Counterparty credit risk

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts with in the financial markets. The Group's policy is to limit its exposure to each financial institution based on accepted credit ratings.

Trading in derivatives is performed to mitigate some financial risks and is executed in compliance with the Specification and Requirements of the Minister for Finance issued under the aegis of the "Financial Transactions of Certain Companies and Other Bodies Act 1992". The Specification and Requirements outline the type of derivatives which ESB can transact and the associated credit worthiness requirements which each derivative counterparty must satisfy. Dealing activities are controlled by putting in place robust dealing mandates with its counterparties. The Group does not hold or trade derivative instruments for speculative purposes. Exposures, related limits and compliance with the Minister's Specification and Requirements are subject to ongoing review and monitoring. The Group has not experienced any losses due to failure of counterparties to deliver on their obligations.

(e) Foreign currency risk management

Foreign currency exposures arise mainly through the purchase of fuel, other foreign currency purchases, borrowings in foreign currencies and investments in overseas activities.

As described in paragraph (b) above, foreign currency exposures in relation to the purchase of fuel commodities in either US Dollars or Sterling, are largely managed through a fuel cost recovery indexation formula agreed with the CER. This formula allows fuel market price and foreign exchange variations to be factored into future price determinations by the CER.

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

At year end, ESB's total debt portfolio amounted to €1.914bn (2004: €2.374bn). The underlying debt, before and after swaps, was denominated in the following currencies.

Currency	Before swaps		After swaps	
	2005	2004	2005	2004
Euro	46%	56%	91%	92%
Swiss Franc	1%	1%	0%	0%
US Dollar	43%	34%	0%	0%
Sterling	10%	9%	9%	8%
Total	100%	100%	100%	100%

As shown above the majority of the debt portfolio is swapped to euro for both principal and interest, thereby reducing the foreign currency risk exposure in the Group.

In managing its foreign operations the Group is cognisant of borrowing in currencies that match the functional currency of the foreign operation.

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.

(f) 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. At December year end 77% of the Group's debt is fixed to maturity.

In respect of financial assets and financial liabilities, the following table indicates their effective interest rates at the balance sheet date:

Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS (Continued)

	Effective interest rate %	Total € '000	Within one year € '000	1-2 years € '000	2-5 years € '000	More than five years € '000
Short term sterling facility (i)	4.82	4,129	4129	-	-	-
Cash on deposit (i)	2.25	24,970	24,970	-	-	-
Finance leases	5.57	129,857	8,866	8,350	23,370	89,271
Borrowings	3.89	915,988	114,233	65,673	353,778	382,304
Private Placement Dollar Borrowings (ii)	5.37	867,729	-	-	-	867,729

(i) These assets/liabilities bear interest at current floating rates.

(ii) At drawdown of the private placement borrowings, fixed US Dollar funding, at 5.37%, was swapped into fixed Euro funding at 5.11%.

(g) Fair Value

The fair value of a financial instrument is the amount it could be exchanged for at year end in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. The method used to calculate 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 taking into account maturity and credit margin.

In the case of interest rate swaps, as the same notional principal is used by the paying and receiving sides, the fair value takes into account the fixed and floating rate margins and the market rate prevailing at year end.

For trade receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS (Continued)

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	GROUP			PARENT		
	Nominal	Book	Fair	Nominal	Book	Fair
	Value	Value	Value	Value	Value	Value
	2005	2005	2005	2005	2005	2005
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Long term debt held to maturity	-	1,669,483	1,698,179	-	1,669,483	1,698,179
Long term finance lease liabilities	-	120,991	123,071	-	120,991	123,071
Short term borrowings (includes finance leases)	-	123,100	125,216	-	123,100	125,216
Sub total borrowings		1,913,574	1,946,466		1,913,574	1,946,466
Interest rate swaps:						
- LT Assets (Fair Value Hedge)	19,179	2,332	2,332	19,200	2,332	2,332
Currency swaps:						
- LT Liabilities	885,258	(100,287)	(100,287)	885,258	(100,287)	(100,287)
Foreign exchange contracts:						
- LT Assets		900	900		1,002	1,002
- ST Assets		63	63		319	319
- ST Liabilities		(440)	(440)		(474)	(474)
Trade and other payables	-	550,657	550,657	-	574,679	574,679
Trade and other receivables	-	607,763	607,763	-	808,459	808,459
Sinking fund investment	-	3,011	3,011	-	3,011	3,011
Cash and cash equivalents	-	66,949	66,949	-	70,898	70,898
		3,044,522	3,077,414		3,273,513	3,306,405

When interpreting the positive and negative fair values of derivative financial instruments, it should be taken into account that they are matched with underlying transactions with offsetting risks.

The nominal value in the table above is applicable only to the derivative financial instruments outstanding at year end. The level of the nominal volume enables estimates to be made regarding the scope of the use of derivatives in mitigating the risks to which the Group and Parent are exposed.

(i) Interest rate swaps

On interest rate swaps, as the same notional principal is used by 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.

ESB's interest rate swaps are part of effective hedging relationships. These hedges primarily fix the interest rate payments on the debt over its lifetime.

(ii) Currency swaps

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

ESB's currency swaps are primarily classified as cash flow hedges and relate mainly to the cross currency swaps entered into in connection with the private placement debt, which is described in note 13. These cross currency swaps were entered into in order to swap US Dollar and Sterling interest and principal repayments on the underlying debt to Euro, thereby hedging the risk on these payments over the periods to maturity from 2010 to 2023.

Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS (Continued)

(h) Sensitivity Analysis

In managing interest rate and currency risks, the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however permanent changes in interest rates will have an impact on consolidated earnings. The Group has no significant exposures to movements in foreign exchange as mentioned above in section (e) of this note.

At the 31 December 2005, 23% of the Group's debt is floating to maturity. At year end, it is estimated that a general increase of half of one percentage point in interest rates would decrease the Group's profit before tax by approximately €2.3m. Interest rate swaps have been included in this calculation.

(i) Other

Long term receivables and payables of Nil (2004: €17.1m) and €47.1m (2004: €51.7m) respectively form part of the long term financing of the Group.

(j) Disclosures required under Irish GAAP for financial instruments held at 31 December 2004

The fair values disclosed below are not reflected within the 2004 Balance Sheet or Income Statement but are presented for information purposes only.

(i) Cash Deposits

Currency	Book value € m	Fair value € m	Fixed %	Weighted Avg. Period	Weighted Avg. Rate
EUR	25.7	25.7	100%	1 day	2.1%
GBP	10.5	10.5	100%	11 days	4.8%
USD	0.7	0.7	100%	7 days	2.4%

The sinking fund investments amounts to €2.7m, there is no material difference between the book value and the fair value of this investment.

(ii) Short Term Borrowings

	Book value € m	Fair value € m	Fixed %	Weighted Avg. Period	Weighted Avg. Rate
GBP	20	20	100%	4 days	2.33%

(iii) Debt Portfolio

In 2004 86% of the Group's debt portfolio was fixed to maturity. The weighted average cost of the overall debt portfolio was approximately 5% and the average life was 9.25 years.

Instruments

	2004		
	Book Value € m	Fair Value € m	Gain/(Loss) € m
Loans/leases	1,434.6	1,462.8	(28.2)
Interest rate swaps	-	27.2	(27.2)
Currency swaps	919.1	999.6	(80.5)
Total	2,353.7	2,489.6	(135.9)

Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS (Continued)

(iv) Foreign Exchange Contracts

2004

	Book Value	Fair Value	Mark-to-market Gain/(Loss)
	€ m	€ m	€ m
USD	31.7	29.4	(2.3)
GBP	101.4	102.2	0.8
Total	133.1	131.6	(1.5)

(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 2004, there were four coal swaps in place for the period January to December 2004 - book value USD\$37.8m and fair value USD\$42.8m.

15. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2005	2004	2005	2004
	€ '000	€ '000	€ '000	€ '000
Current payables:				
Progress payments on work in progress	25,604	34,812	25,604	34,812
Trade payables	249,532	202,579	245,445	182,397
Other payables	33,845	66,380	18,293	59,818
Employment taxes	17,039	12,527	16,723	11,557
Value added tax	43,733	-	33,888	3
Accruals	173,331	113,401	64,956	26,870
Amounts owed to subsidiary undertakings	-	-	162,204	133,241
Accrued interest on borrowings	7,567	15,197	7,567	14,139
	550,651	444,896	574,680	462,837
	2005	2004	2005	2004
	€ '000	€ '000	€ '000	€ '000
Non-current payables:				
Other payables	47,171	51,703	20,152	23,851

16. CURRENT TAX LIABILITIES

	GROUP		PARENT	
	2005	2004	2005	2004
	€ '000	€ '000	€ '000	€ '000
Corporation tax	17,592	48,888	21,027	51,105

The current tax liability represents the amount of corporation taxes payable in respect of current and prior periods that exceed payments.

Notes to the Financial Statements

17. PROVISIONS

GROUP	Power station closure costs € '000	Emissions provisions € '000	Business separation € '000	Other € '000	Total € '000
Balance at 1 January 2004	287,767	-	17,200	56,953	361,920
Movement in provisions					
- Business separation	-	-	31,000	-	31,000
- Station closure	13,215	-	-	-	13,215
- Other	-	-	-	1,774	1,774
Utilised in the year	(18,239)	-	-	(3,486)	(21,725)
Financing charge	14,179	-	-	-	14,179
Balance at 31 December 2004	<u>296,922</u>	<u>-</u>	<u>48,200</u>	<u>55,241</u>	<u>400,363</u>
Movement in provisions					
- Station closure	(3,404)	-	-	-	(3,404)
- Emissions	-	139,647	-	-	139,647
- Other	-	-	-	(314)	(314)
Utilised in the year	(41,977)	-	-	(5,291)	(47,268)
Financing charge	13,631	-	-	-	13,631
Balance at 31 December 2005	<u>265,172</u>	<u>139,647</u>	<u>48,200</u>	<u>49,636</u>	<u>502,655</u>
Analysed as follows:					
Non current liabilities	246,302	-	-	43,636	289,938
Current liabilities	<u>18,870</u>	<u>139,647</u>	<u>48,200</u>	<u>6,000</u>	<u>212,717</u>
PARENT	Power station closure costs € '000	Emissions provisions € '000	Business separation € '000	Other € '000	Total € '000
Balance at 1 January 2004	287,767	-	17,200	56,953	361,920
Movement in provisions					
- Business separation	-	-	31,000	-	31,000
- Station closure	13,215	-	-	-	13,215
- Other	-	-	-	1,774	1,774
Utilised in the year	(18,239)	-	-	(3,486)	(21,725)
Financing charge	14,179	-	-	-	14,179
Balance at 31 December 2004	<u>296,922</u>	<u>-</u>	<u>48,200</u>	<u>55,241</u>	<u>400,363</u>
Movement in provisions					
- Station closure	(3,404)	-	-	-	(3,404)
- Emissions	-	133,563	-	-	133,563
- Other	-	-	-	(314)	(314)
Utilised in the year	(41,977)	-	-	(5,291)	(47,268)
Financing charge	13,631	-	-	-	13,631
Balance at 31 December 2005	<u>265,172</u>	<u>133,563</u>	<u>48,200</u>	<u>49,636</u>	<u>496,571</u>
Analysed as follows:					
Non current liabilities	246,302	-	-	43,636	289,938
Current liabilities	<u>18,870</u>	<u>133,563</u>	<u>48,200</u>	<u>6,000</u>	<u>206,633</u>

Notes to the Financial Statements

17. PROVISIONS (Continued)

Power station closure costs

The provision at 31 December 2005 of €265m (2004: €297m) 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 2020. As the costs are provided on a discounted basis, a financing charge is included in the Income Statement and added to the provision each year. The Power station closure provision is re-examined annually and the liability re-calculated in accordance with the current expected station closure dates. Closure costs include physical dismantling costs and costs associated with de-manning the stations on closure.

There are a number of uncertainties that affect the calculation of the provision for station closure, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The Group has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision.

Emissions provisions

In accordance with the provisions of the European CO₂ emissions trading scheme, a provision is recognised to cover the liability for actual emissions during the year. Under this scheme, emissions allowances covering a percentage of the expected emissions are granted at the beginning of each year by the relevant Authority. These allowances, together with any additional allowances purchased during the year, are returned to the relevant Authority in charge of the scheme within four months from the end of that calendar year, in line with the actual emissions of CO₂ during the year. The year end provision represents the obligation to return emissions allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO₂ emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability.

Business separation

As directed in Statutory Instrument 445 of 2000, the Transmission System Operator (TSO) is to be established as a separate company (EirGrid plc), independent from ESB. Under this Statutory Instrument, ESB is required to transfer assets, liabilities, contracts and necessary funding to EirGrid plc in order to finance its operations as the TSO. The liability at year end represents the cost to ESB of establishing EirGrid plc as a separate legal entity. The balance comprises working capital and capital funding required by the new company. It is expected that EirGrid plc will be vested in 2006 and therefore the provision has not been discounted.

Other

Other provisions represent prudent estimates of legal and constructive obligations, in respect of claims notified or provided for at year end. In accordance with normal commercial practice, the year end provision includes an estimate for liabilities incurred but not yet notified.

Notes to the Financial Statements

18. DEFERRED TAX ASSETS AND LIABILITIES

GROUP	2005	2004
Deferred tax assets	€ '000	€ '000
Property, plant and equipment	3,006	3,502
Pension liability	42,397	33,830
Provisions	22,168	23,133
Tax losses forward	1,082	1,763
Derivative financial instruments	12,641	0
Total	81,294	62,228
Deferred tax liabilities		
Property, plant and equipment	284,736	279,153
Provisions	12,318	15,430
Employee related liabilities	105	50
Capital gains tax	1,180	1,180
Total	298,339	295,813
Net deferred tax liability	217,045	233,585

The movement in temporary differences was as follows:

	Recognised	Transition	Recognised	Recognised	Recognised	Transfers	
	1 Jan	in income	31 Dec	to IAS 39	in income	in equity	to joint
	2004	2004	2004	in equity	2005	2005	ventures
	€ '000	€ '000	€ '000	2005	€ '000	€ '000	€ '000
Assets							
Property, plant, equipment and Intangible assets	751	2,751	3,502	-	(496)	-	-
Pension liability	29,484	4,346	33,830	-	8,567	-	-
Provisions	17,372	5,761	23,133	-	(965)	-	-
Tax losses forward	1,637	126	1,763	-	(681)	-	-
Derivatives	-	-	-	18,608	-	487	(6,454)
Total deferred tax assets	49,244	12,984	62,228	18,608	6,425	487	(6,454)
Liabilities							
Property, plant, equipment and Intangible assets	252,659	26,494	279,153	-	12,595	-	(7,012)
Retirement benefits	22,201	(6,771)	15,430	-	(3,112)	-	-
Provisions	-	50	50	-	55	-	-
Capital gains tax	-	1,180	1,180	-	-	-	-
Total deferred tax liabilities	274,860	20,953	295,813	-	9,538	-	(7,012)
Net deferred tax liability/(asset) for the year	225,616	7,969	233,585	(18,608)	3,113	(487)	(558)
							217,045

Transfers under deferred tax liabilities relate to the transfer of the deferred tax balance relating to the Synergen Partnership into investments in joint ventures.

Transfers under deferred tax assets relate to the transfer of the subsidiary Bizkaia Energia SL into investments in joint ventures.

Notes to the Financial Statements

18. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The following deferred tax assets have not been recognised in the Balance Sheet as it is not probable that they will be realised for the foreseeable future:

	2005 € '000	2004 € '000
Operating losses	6,900	-
Capital losses	1,192	1,951
Property, plant & equipment	-	4,805

There is no expiry date to when tax losses in the Group can be utilised.

Deferred tax has not been provided for in relation to unremitted reserves of our overseas subsidiaries as there is no intention for these reserves to be distributed in the foreseeable future. Nor has deferred tax been provided in relation to unremitted reserves of our overseas joint ventures as there is no current intention to permit the distribution of those reserves. Cumulative unremitted reserves of overseas subsidiaries and joint ventures totalled €104m.

	2005 € '000	2004 € '000
PARENT		
Deferred tax assets		
Pension	42,397	33,830
Provisions	21,774	19,340
Derivatives	12,641	-
Total	76,812	53,170
Deferred tax liabilities		
Property, plant and equipment	283,728	267,073
Retirement benefits	12,317	15,430
Capital gains tax	1,180	1,180
Total	297,225	283,683
Net deferred tax liability	220,413	230,513

Notes to the Financial Statements

18. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The movement in temporary differences was as follows:

	1 Jan 2004 € '000	Recognised in Income 2004 € '000	31 Dec 2004 € '000	1st time adoption of IAS 39 2005 € '000	Recognised in Income 2005 € '000	Recognised in Equity 2005 € '000	31 Dec 2005 € '000
Assets							
Pension liability	29,484	4,346	33,830	-	8,567	-	42,397
Provisions	15,321	4,019	19,340	-	2,434	-	21,774
Derivatives	-	-	-	8,789	-	3,852	12,641
Total deferred tax assets	44,805	8,365	53,170	8,789	11,001	3,852	76,812
Liabilities							
Property, plant, equipment and Intangible assets	250,222	16,851	267,073	-	16,655	-	283,728
Retirement benefits	22,201	(6,771)	15,430	-	(3,113)	-	12,317
Capital gains tax	-	1,180	1,180	-	-	-	1,180
Total deferred tax liabilities	272,423	11,260	283,683	-	13,542	-	297,225
Net deferred tax liability (asset) for the year	227,618	2,895	230,513	(8,789)	2,541	(3,852)	220,413

19. EMPLOYEE RELATED LIABILITIES

(a) PARENT AND GROUP

(i) 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 (see note 31). 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.

Despite the fact that the scheme is not typical of a balance of cost defined benefit scheme (where the employer is liable to pay the balance of contributions required to fund the benefits), for the purposes of reporting under IAS 19 the full liability and pension costs have been included in the financial statements.

Notes to the Financial Statements

19. EMPLOYEE RELATED LIABILITIES (Continued)

(ii) Valuation

The funding position of the scheme is assessed in accordance with the advice of independent actuaries obtained at three yearly intervals. An actuarial valuation was completed as at 31 December 2003.

The valuation for the scheme was prepared 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 €3,311m and the scheme's actuarial valuation of accrued liabilities based on current earnings was €3,822m. Hence, the scheme's liabilities exceeded the value of its assets by €511m.

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

(iii) Pension Benefits

The valuation of the scheme by independent actuaries for the purpose of IAS 19 disclosure is based on data from previous actuarial valuations. They have used this data to take account of the requirements of IAS 19 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.

(iv) Assumptions

Financial Assumptions

The assumptions used by the Actuary to calculate the IAS 19 liabilities at the Balance Sheet date are:

	2005	2004
Rate of interest applied to discount liabilities	4.25%	4.75%
Price inflation	2.00%	2.00%
Rate of increase of pensionable salaries	3.00%	3.00%
Rate of increase of pensions in payment	3.00%	3.00%
Expected long term return on plan assets	6.53%	6.53%

The discount rate used by the actuaries in the calculation of the pension liability at year end is 4.25%. This is determined by reference to market yields at the balance sheet date on high quality corporate bonds. The currency and term of the corporate bonds is consistent with the currency and estimated term of the post-employment benefit obligations. At the year end the iBoxx index of euro-denominated AA rated corporate bonds yielded just over 4% per annum (4.48% at 1 January 2005). Having regard to the duration of the liabilities the Board feel it is appropriate to adopt a discount rate of 4.25% at 31 December 2005.

Plan Assets

The weighted-average asset allocations during the year were as follows:

Asset Category	December 2005
Equities	76%
Bonds	8%
Real Estate	12%
Cash	4%
	<u>100%</u>

To develop the expected long-term rate of return on assets assumption, the board considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.53% assumption.

Notes to the Financial Statements

19. EMPLOYEE RELATED LIABILITIES (Continued)

The amounts recognised in the balance sheet as part of long term employee benefits are determined as follows:

	2005	2004	2003	2002	2001
	€ '000	€ '000	€ '000	€ '000	€ '000
Present value of funded obligations	4,884,093	4,230,795	3,644,869	3,147,997	2,826,177
Fair value of plan assets	(3,336,000)	(2,801,014)	(2,541,008)	(2,243,064)	(2,706,249)
Deficit for funded plan	1,548,093	1,429,781	1,103,861	904,933	119,928
Unrecognised net actuarial losses	(1,208,917)	(1,159,140)	(867,986)	(732,869)	87,753
Net liability	339,176	270,641	235,875	172,064	207,681

The movement in the net liability year on year (2005 movement: €68.3m, 2004 movement:€34.8m) can be seen below in the summary of employee related liabilities.

History of experience gains and losses

Difference between expected and actual return

	2005	2004	2003	2002	2001
on pension scheme assets					
Amount	379,579	94,322	147,141	(639,667)	(357,966)
Percentage	11.4%	3.4%	5.8%	(28.5%)	(13.2%)

Experience gains and losses arising on the scheme liabilities

Amount	(478,426)	(419,043)	(310,129)	(180,955)	(36,850)
Percentage	(9.8%)	(9.9%)	(8.5%)	(5.7%)	(1.3%)

Change in benefit obligation

	2005	2004
	€ '000	€ '000
Benefit obligation at beginning of the year	4,230,795	3,644,869
Movement in year:		
Current service cost	40,964	35,841
Plan members' contributions	23,786	24,631
Curtailements	29,951	27,391
Past service costs	32,395	19,951
Benefits paid	(149,633)	(137,612)
Interest cost	197,409	196,681
Actuarial loss	478,426	419,043
Benefit obligation at the end of the year	4,884,093	4,230,795

Change in plan assets

Fair value of plan assets at beginning of the year	2,801,014	2,541,008
Movement in year:		
Expected return on plan assets	179,564	186,139
Experience gains	379,579	94,322
Employer contributions	101,690	92,526
Member contributions	23,786	24,631
Benefits paid	(149,633)	(137,612)
Fair value of plan assets at the end of the year	3,336,000	2,801,014
Actual return on plan assets for the year	559,143	272,143

Analysis of the amounts recognised in the income statement, as part of employee benefit expenses were as follows:

Current service cost	40,964	35,841
Past service cost	32,395	19,951
Curtailement	29,951	27,391
Actuarial losses recognised in the year	49,071	33,567
Expected return on pension scheme assets	(179,564)	(186,139)
Interest on pension scheme liabilities	197,409	196,681
Total net impact on reported profits	170,226	127,292

Notes to the Financial Statements

19. EMPLOYEE RELATED LIABILITIES (Continued)

(b) 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 members 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 €2.3m (2004:€2.1m).

(c) Summary of Employee Related Liabilities

GROUP	Pension liability € '000	Restructuring liabilities € '000	Other € '000	Total € '000
Balance at 1 January 2004	235,875	81,426	37,119	354,420
Movements during the year:				
Charge to the income statement	-	53,238	(175)	53,063
Net pension movement	34,766	-	-	34,766
Utilised during the year	-	(37,939)	-	(37,939)
Financing charge	-	7,310	-	7,310
Balance at 31 December 2004	<u>270,641</u>	<u>104,035</u>	<u>36,944</u>	<u>411,620</u>
Movements during the year:				
Charge to the income statement	-	76,212	4,348	80,560
Net pension movement	68,535	-	-	68,535
Utilised during the year	-	(40,866)	-	(40,866)
Financing charge	-	7,379	-	7,379
Balance at 31 December 2005	<u>339,176</u>	<u>146,760</u>	<u>41,292</u>	<u>527,228</u>
Disclosed as part of:				
Non-current liabilities	339,176	130,960	-	470,136
Current liabilities	<u>-</u>	<u>15,800</u>	<u>41,292</u>	<u>57,092</u>
PARENT				
Balance at 1 January 2004	235,875	81,426	31,764	349,065
Movements during the year:				
Charge to the income statement	-	53,238	(655)	52,583
Net pension movement	34,766	-	-	34,766
Utilised during the year	-	(37,939)	-	(37,939)
Financing charge	-	7,310	-	7,310
Balance at 31 December 2004	<u>270,641</u>	<u>104,035</u>	<u>31,109</u>	<u>405,785</u>
Movements during the year:				
Charge to the income statement	-	76,212	2,757	78,969
Net pension movement	68,535	-	-	68,535
Utilised during the year	-	(40,866)	-	(40,866)
Financing charge	-	7,379	-	7,379
Balance at 31 December 2005	<u>339,176</u>	<u>146,760</u>	<u>33,866</u>	<u>519,802</u>
Disclosed as part of:				
Non-current liabilities	339,176	130,960	-	470,136
Current liabilities	<u>-</u>	<u>15,800</u>	<u>33,866</u>	<u>49,666</u>

Notes to the Financial Statements

19. EMPLOYEE RELATED LIABILITIES (Continued)

Restructuring liabilities

This provision represents the estimated cost of providing post employment payments to former employees, other than those amounts covered by the pension scheme. It includes liabilities for continuing payments to employees who left under past voluntary severance initiatives, as well as other constructive obligations. These liabilities are expected to be materially discharged by 2020.

Other

In accordance with the requirements of International Accounting Standard 19, provision has been made for employee remuneration liabilities, including accrued holiday leave, bonuses and profit share arrangements.

20. DEFERRED INCOME AND GOVERNMENT GRANTS

GROUP	Emissions allowances € '000	Supply contributions € '000	Total € '000
Balance at 1 January 2004	-	155,805	155,805
Receivable	-	106,425	106,425
Amortised to the income statement (Note 21)	-	(7,331)	(7,331)
Balance at 31 December 2004	-	254,899	254,899
Receivable	119,454	134,300	253,754
Amortised to the income statement (Note 21)	(117,727)	(13,677)	(131,404)
Balance at 31 December 2005	1,727	375,522	377,249
PARENT			
Balance at 1 January 2004	-	154,423	154,423
Receivable	-	106,005	106,005
Amortised to the income statement	-	(7,216)	(7,216)
Balance at 31 December 2004	-	253,212	253,212
Receivable	111,642	133,385	245,027
Amortised to the income statement	(111,642)	(13,014)	(124,656)
Balance at 31 December 2005	-	373,583	373,583

Emissions allowances received during the year are recorded as both intangible assets and deferred income. They are valued at market value on receipt and amortised to the Income Statement on the basis of actual emissions during the year.

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

It is estimated that €12m deferred income will be released to the Income Statement in 2006 in respect of the amortisation of Supply Contributions and €118m will be released in respect of the amortisation of emissions allowances. This is in accordance with the accounting policies on deferred income and emissions allowances.

Notes to the Financial Statements

21. OTHER OPERATING INCOME

	2005 € '000	2004 €'000
Amortisation of emissions allowances	117,727	-
Profit on disposal of businesses	54,529	-
Amortisation of supply contributions	13,677	7,331
Gain on disposal of property, plant and equipment	51,928	22,724
	237,861	30,055

During 2005, the Group disposed of its interest in an electrical contracting business in the UK (ESBI UK), sold its Retail Loan Book to Bank of Scotland (Ireland) and disposed of 50% of its interest in Bizkaia Energia SL (BESL). In aggregate, €563m of assets and €433m of liabilities were disposed of at a profit of €54m. The consideration for the disposals consists of cash of €146m (€136m in 2005, €10m in 2004). In addition the Group retained a continuing interest in the assets and liabilities of BESL, amounting to €38m.

22. OPERATING COSTS

	2005 € '000	2004 €'000
Employee costs (Note 24)	636,169	633,414
Energy costs	1,040,316	806,300
Emission costs	139,647	-
Operations and maintenance	485,519	529,294
Depreciation and amortisation of tangible/intangible assets	392,866	294,905
	2,694,517	2,263,913

23. NET INTEREST COST AND OTHER FINANCING CHARGES

	2005 € '000	2004 €'000
Interest payable on borrowings	99,075	110,114
Interest payable on finance leases	7,122	8,541
Interest payable	106,197	118,655
Less capitalised interest	(33,908)	(60,691)
	72,289	57,964
Financing charges:		
- on restructuring liabilities	7,379	7,310
- on power station closure costs	13,631	14,179
	21,010	21,489
Total interest payable	93,299	79,453
Total interest receivable	(2,789)	(6,736)
	90,510	72,717

The financing charges on provisions are calculated in accordance with the policy for discounting of future commitments. The effect of derivatives on the borrowings during 2005 was to reduce the interest payable figure by €1.9m.

Notes to the Financial Statements

24. EMPLOYEES

GROUP

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

	2005 Number	2004 Number
Power Generation	1,377	1,534
ESB Customer Supply	733	735
ESB Networks	3,758	4,008
ESBI	1,029	996
Other	1,395	2,016
	8,292	9,289

(b) Employee costs in year

	2005 € '000	2004 €'000
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Current staff costs (excluding pension)

Salaries	537,047	558,647
Social welfare costs (PRSI)	21,209	22,837
Contributions to defined contribution plans	2,300	2,100
Other payroll benefits*	42,183	42,018
Capitalised payroll	(172,329)	(171,300)
Net payroll cost for employees	430,410	454,302

(c) Pension & retirement benefit costs

Voluntary severance costs	35,533	51,820
Increase in pension liability	170,226	127,292
	205,759	179,112

Total employee related costs charged to the Income Statement

	636,169	633,414
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* These benefits primarily include travel and subsistence expenses and accruals for holiday leave balances remaining at year end.

Notes to the Financial Statements

24. EMPLOYEES

PARENT

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

	2005 Number	2004 Number
Power Generation	1,377	1,534
ESB Customer Supply	733	735
ESB Networks	3,758	4,008
Other	727	785
	6,595	7,062

(b) Employee costs in year

	2005 € '000	2004 €'000
Current staff costs (excluding pension)		
Salaries	457,597	471,598
Social welfare costs (PRSI)	16,279	16,993
Contributions to defined contribution plans	2,300	2,100
Other payroll benefits*	38,252	38,824
Capitalised payroll	(171,957)	(168,852)
Net payroll cost for employees	342,471	360,663

(c) Pension & retirement benefit costs

Voluntary severance costs	35,533	51,820
Increase in liability for defined benefits	170,226	127,292
	205,759	179,112

Total employee related costs charged to the Income Statement

548,230	539,775
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* These benefits primarily include travel and subsistence expenses and accruals for holiday leave balances remaining at year end.

Notes to the Financial Statements

25. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2005 € '000	2004 € '000
Current tax expense		
Current tax	22,764	18,856
Prior year over provision (see page 11)	(26,834)	(1,424)
Deferred tax expense		
Origination and reversal of temporary differences	7,918	12,006
Prior year (over) provisions	(4,805)	(4,037)
Total	(957)	25,401
Reconciliation of effective tax rate	2005 € '000	2004 € '000
Profit before tax	240,341	182,821
Taxed at 12.5%	30,043	22,853
Expenses not deductible/(income not taxable)	4,480	6,460
Income not taxable	(6,037)	-
Chargeable gains	1,517	1,830
Income taxed at higher rate of corporation tax	183	257
Manufacturing relief	(1,632)	(1,096)
Higher tax rates on overseas earnings	3,590	4,519
Prior year (over) provisions	(31,639)	(5,461)
Tax effect of joint ventures included in profit before taxation	(1,462)	(3,961)
Actual tax charge	(957)	25,401

Notes to the Financial Statements

26. PROFIT FOR THE FINANCIAL YEAR

	2005 € '000	2004 € '000
The profit for the financial year is stated after charging/(crediting):		
Depreciation	392,866	294,905
Operating lease charges	9,544	9,046
Amortisation of deferred income	(13,677)	(7,331)
Loss on disposal of property, plant & equipment	2,344	725
(Profit) on disposal of property, plant & equipment	(54,272)	(25,059)
Auditor's remuneration		
- audit services	415	382
- taxation	91	171
- non-audit services	240	223
- UK non-audit services	423	85
ESB (Parent) Board Members' remuneration:		
- fees	193	196
- other remuneration	473	396

27. COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

	2005 € '000	2004 € '000
Gross operating lease rentals payable in the future in respect of leases expiring:		
Within one year	2,453	55
Between two and five years	7,276	6,688
After five years	84,981	84,578
Total future lease payables	94,710	91,321

	2005 € '000	2004 € '000
(b) Capital commitments		
Contracted for	189,205	310,962

(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.

Notes to the Financial Statements

28. RELATED PARTY TRANSACTIONS

Semi-State Bodies

In common with many other entities, ESB deals in the normal course of business with other government sponsored bodies such as 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 2005, ESB Parent purchased €59.7m (2004: €78.9m) from its subsidiaries. These purchases largely relate to engineering and consulting services, mainly by the electricity businesses.

During the year, ESB Parent sold €142.7m (2004: €96.1m) to subsidiaries. These sales mainly relate to management services, as well as electricity income such as use of system charges and sales of electricity.

At 31 December 2005, ESB Parent owes €162.2m (2004: €133.2m) to its subsidiaries. These payables are due largely to the engineering and consulting services businesses and also relate to amounts held on deposit for subsidiaries.

At 31 December 2005, ESB Parent is owed €307.1m (2004: €284.6m) from its subsidiaries. These payables mainly relate to management services, as well as electricity income such as use of system charges and sales of electricity as well as loans to subsidiaries.

At 31 December 2005, balances outstanding between ESB Parent and its subsidiaries, in relation to loans, capital contributions and equity was €151.1m (2004: €188m).

Joint ventures

During the year the Group provided services to its joint ventures, Synergen, Bizkaia Energia SL and Corby Power Ltd. ESB provided services to Synergen Partnership and Synergen Power Ltd to the value of €39.7m (2004: €31.1m) and had to the year end advanced capital totalling €88m (2004: €108.3m), funded through third party borrowings. The capital advanced fell during 2005 due to dividends received from Synergen. Synergen Partnership and Synergen Power Ltd made sales of €97.4m (2004: €81.0m) to the Group.

For the year ended 31 December 2004, Bizkaia Energia SL was a subsidiary company. During 2005, ESB provided services to Bizkaia Energia SL to the value of €2.2m (2004: €nil) and had to the year end advanced capital totalling €15.9m (2004: €nil).

Services to the value of €4.8m (2004: €4.8m) were provided to Corby Power Ltd.

Key management compensation

	2005	2004
	€ '000	€ '000
Salaries and other short-term employee benefits	3,234	2,864
Post-employment benefits	218	197
	<u>3,452</u>	<u>3,061</u>

The key management compensation amounts disclosed above represent compensation to those people having the authority and responsibility for planning, directing and controlling the activities of the Group.

Notes to the Financial Statements

29. ESTIMATES AND JUDGEMENTS

Preparation of consolidated financial statements pursuant to EU IFRS requires a significant number of judgmental assumptions and estimates to be made. These impact on the income and expenses contained within the Income Statement and the valuation of the assets and liabilities in the Balance Sheet. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation.

It should be noted that the impact of variation in some assumptions and estimates can have a particularly material impact on the reported results. These include but are not limited to:

- (a) The assumptions used in the calculation of the pension liability at year end, as set out in Note 19.
- (b) Future costs required to settle current provisions and employee related liabilities, such as power station closure costs and voluntary severance obligations. These liabilities are disclosed in Notes 17 and 19.
- (c) The measurement of a number of assets, liabilities, income and costs at year end which require a high degree of estimation and judgement, including the calculation of unbilled electricity income and receivables, the valuation of fuel inventories, the cost of fuel consumed, the useful lives of non-current assets and also accruals for goods received or work carried out for which supplier invoices have not yet been received. These items are estimated in accordance with the accounting policies of the Group and current International Financial Reporting Standards as adopted by the EU.

30. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated by ESB during 2001, with a €1 investment, as trustee to the ESB Employee Ownership Trust (ESOT) and the ESB Approved Profit Sharing Scheme (APSS). Under the terms of the creation of ESB ESOP Trustee Limited, ESB has no ability or rights to exert control over the assets or management of the company. The trustee company is chaired by an independent professional trustee with four directors representing ESB employees and two directors representing the Company. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the company exist. In accordance with IAS 27 Consolidated and Separate Financial Statements, the accounts for ESB ESOP Trustee Limited are not consolidated with the results of the ESB Group.

31. POST BALANCE SHEET EVENTS

The actuarial valuation of the ESB Pension Scheme identified a projected deficit of €511 million as at end of 2003. ESB engaged with the trade unions representing employees on measures to address the funding position. Following a long and detailed process, an integrated agreement on Pensions, Pay and Change was concluded and accepted by all parties in February 2006. The agreement combines additional funding (increased contributions to the Fund from ESB and members) with management of liability growth through agreement to limit increases in pensionable pay during the four year agreement. The Actuary has indicated that management of liability growth is particularly significant and that the agreement represents significant and acceptable progress towards addressing the funding position.

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

32. APPROVAL OF ACCOUNTS

The Board approved the accounts on 18 May 2006.

Notes to the Financial Statements

33. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
ESB International Ltd	*	100	Holding company
ESBI Engineering and Facility Management 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
ESBI Technology and Construction	*	100	Power generation
Elfinance 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
Tawnawully Power Ltd	*	100	Power generation
Utilities O&M Services Ltd	*	100	Operation and maintenance services

Notes to the Financial Statements

33. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS (Continued)

Company name	Registered office	Group share %	Nature of business
Hibernian Wind Power Ltd	*	100	Wind power
ESB Independent Energy NI Ltd	*	100	Electricity sales
ESB Retail Ltd	*	100	Sale of electrical appliances
ESB Telecoms Ltd	*	100	Telecommunications
Facility Management Espana SL	****	100	Facility management
ESBI Engineering UK Ltd	*****	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
Coolkeeragh ESB Ltd	2 Electra Road Maydown Derry BT47 6 UL	84	Power generation
ESBII UK Ltd	*****	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	*****	100	Facility management

Notes to the Financial Statements

33. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS (Continued)

Company name	Registered office	Group share %	Nature of business
ESBI Georgia Ltd	39 Gamsakhurdia Ave Suite 42 Tbilisi Georgia	100	Transmission management
Marchwood Power Ltd	*****	100	Power generation
Marchwood Power Development Ltd	*****	100	Power generation
Menloe Two Ltd	**	100	Finance leasing
Menloe Investments Ltd	**	100	Finance leasing
Non-controlled subsidiary undertaking			
ESB ESOP Trustee Ltd Dublin 2	43 Merrion Square	100	Staff Shareholding Scheme
Associated undertakings			
CPL Operations Ltd	***	50	Facility management
Coolkeeragh Group Ltd	2 Electra Road Maydown Derry BT47 6 UL	40	Power generation
Joint venture undertakings			
Irish Power Systems Ltd (Note 1)	**	50	Power generation
Corby Power Ltd	***	50	Power generation
Synergen Power Ltd	South Bank Road Ringsend Dublin 4	70	Power generation
Bizkaia Energia SL	****	50	Power generation
Investments			
Rousch (Pakistan) Power Ltd	94-W, 3rd Floor Admir Plaza Jinnah Ave. Blue Area Islamabad Pakistan	7	Independent power producer

* 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

***** 122 London Road, Kingston on Thames, Surrey KT2 6QJ

***** 165 Queen Victoria Street, London EC4V 4DD

Note 1: Irish Power System Ltd was sold after the year end.

Appendix

Report of Board Members on Compliance with the Prompt Payment of Accounts Act, 1997 and European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002)

Introduction

Prompt payments during 2005 were governed by two items of legislation:

- The Prompt Payment of Accounts Act, 1997 came into effect on 2nd January 1998, and applied to goods and services supplied to ESB by Irish Suppliers after this date.
- European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002) to combat late payments in commercial transactions, amended the above when they came into effect on 7th August 2002. These Regulations apply to contracts made after 7th August 2002 for goods and services supplied to ESB by EU-based suppliers.

Statement of payment practices including standard payment periods

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

Compliance with the legislation

ESB complies with the requirements of the legislation in respect of external supplier payments within the EU in all material respects.

Procedures and controls in place

Appropriate internal financial controls have been implemented including clearly defined roles and responsibilities. These procedures provide reasonable and not absolute assurance against material non-compliance with the legislation.

Details of interest payments in respect of 2005

No interest payments were made during the year. When ESB receives a request from the supplier, it is ESB's policy to pay interest due on late payments. No such requests were received during 2005.

Tadhg O'Donoghue Chairman

Padraig McManus Chief Executive

18 May 2006

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