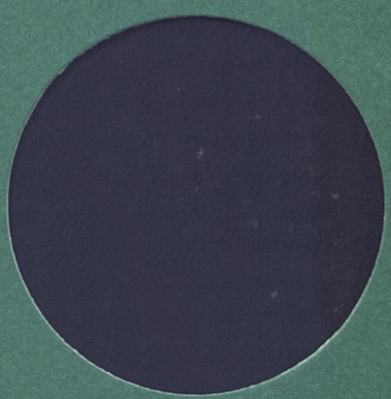


ESB ANNUAL REPORT AND ACCOUNTS 2007

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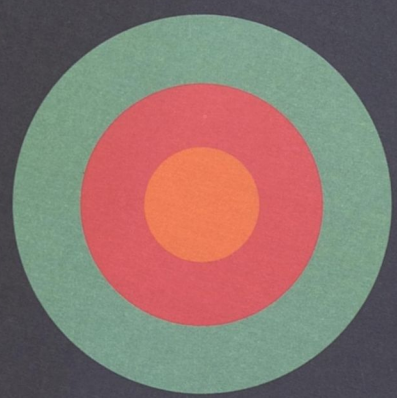
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Future Targets

“ESB has launched a Strategic Framework and is to embark on an unprecedented capital investment programme of €22 billion up to 2020.”



Reduced emissions

ESB will reduce its Carbon Emissions:

By 30% by 2010

By 50% by 2020

and be Net-Zero by 2035.

Leading renewables

€4 billion will be invested in renewable energy projects including wind, biomass and new technologies.

Energy Efficiency

ESB will focus on delivering energy conservation and new initiatives on energy efficiencies.

Domestic Generation

ESB will continue to enhance plant availability in power generation working towards a smaller, stronger business.

Sustainable Networks

€6.5 billion spend to facilitate renewables including smart metering and smart networks.

International

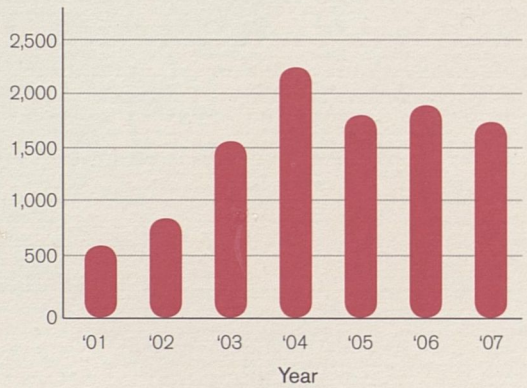
There will be increased focus on expansion in the British/Irish electricity market and further plants in Europe.

“The plan, which will establish ESB as a world class renewables company, makes emissions reduction and energy efficiency central to its ambitious targets.”

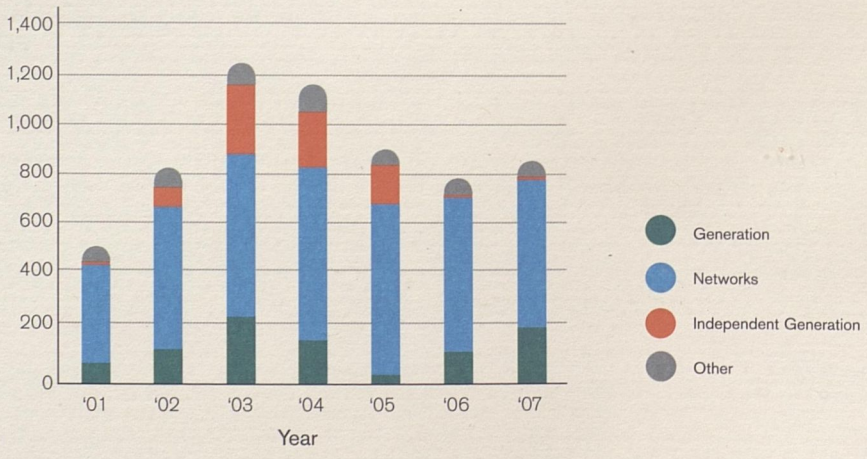
Facts at a glance

	2007	2006	Change
Revenue & Operating Income €m	3,570	3,396	174
Operating Profit €m	523	337	186
Profit after Tax €m	432	223	209
Capital Expenditure €m	903	831	72
Net Debt €m	1,797	1,960	(163)
Customers Connected	94,400	105,127	(10,727)
Average Staff Numbers	7,856	7,823	33

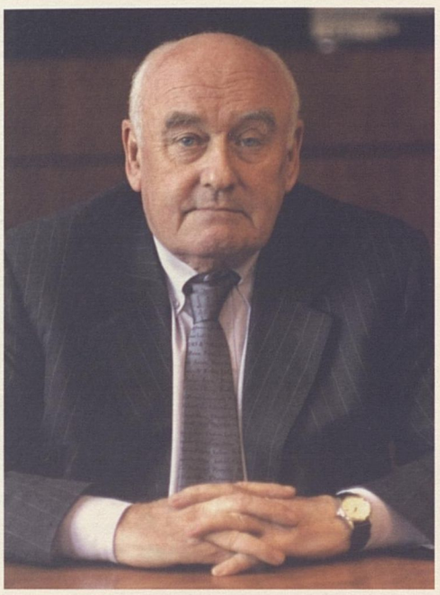
Net Debt (€m)



Capital Expenditure (€m)



Chairman's Review



Lochlann Quinn
Chairman

> "I am confident that given the strong support we have received from our owners for our new strategy and the enthusiasm shown by management and staff, ESB will in the future, as it has in the past, fully deliver its strategic goals."

In accordance with the provisions of the Electricity (Supply) Act 1927 as amended, the Board presents the annual report and accounts for the year ended 31 December 2007.

2007 was an excellent year for ESB. Profit attributable to stockholders is €432 million. The Board is recommending a final dividend of 6.54 cent per unit of stock, giving total dividend payments of €129.5 million (being 30% of distributable profits for 2007) and representing an increase of 94% on the amount paid in respect of 2006.

There were several changes to the ESB Board in 2007. Derry O'Donovan and Will McKee completed their terms of office. While I did not serve with them on the Board I know they both made a valued contribution to its work and I would like to thank them for that.

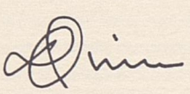
Seán Conlan and Garry Keegan joined the Board during 2007.

Tadhg O'Donoghue retired after seven years as Chairman of ESB in January 2008. Minister Eamon Ryan T.D., Tadhg's fellow Board members and ESB management have all acknowledged Tadhg's significant achievements in guiding ESB through a period of unprecedented change in the electricity industry. Based on the strong and dynamic company which I found on succeeding him as Chairman last January I also want warmly to acknowledge his contribution.

It is a very exciting time to join the ESB Board as the Company launches a new strategic framework to 2020 based around:

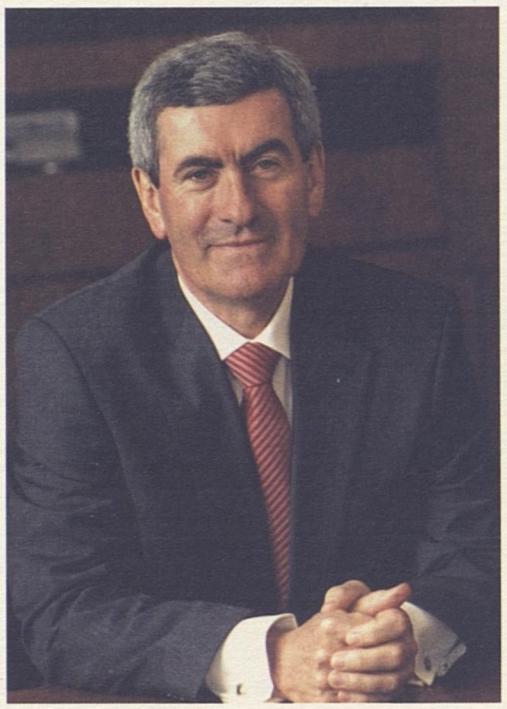
- A €22 billion investment programme which will make ESB the leading renewables company in Ireland.
- Ambitious expansion in Europe, notably in the UK.
- Continued focus on delivering growth in shareholder value and customer service.

I am confident that given the strong support we have received from our owners for our new strategy and the enthusiasm shown by management and staff, ESB will in the future, as it has in the past, fully deliver its strategic goals.



Lochlann Quinn
Chairman
29 April 2008

Chief Executive's Review



Padraig McManus
Chief Executive

> The mission of ESB has always been to provide a safe, efficient and cost effective supply of electricity in a socially responsible manner to all our customers.

Strategic Framework

The mission of ESB has always been to provide a safe, efficient and cost effective supply of electricity in a socially responsible manner to all our customers. Technologies change and develop – from hydro generation in the 1920s to 1940s, to peat and oil in subsequent decades, to coal fired generation as a response to the oil crisis of the 1970s and then cleaner and more efficient, combined cycle gas plants in more recent times – but ESB's fundamental goal of customer service remains the same.

A new and dynamic response is once again required from ESB as Ireland seeks to meet its environmental targets and as we all address the urgent challenge of climate change.

With the support of Government, of our Minister, of our owners and of our staff, ESB is determined to meet this challenge.

For this reason the Board has recently approved a Strategic Framework and an associated €22 billion investment programme for ESB to 2020. The main focus of the new strategy is on the sustainable and responsible use of scarce resources. The strategy will lead to the halving of ESB's carbon emissions within 12 years and to a carbon net-zero position by 2035. About half of the overall investment package is devoted to renewables; €4 billion by way of direct investments in renewable energy projects and €6.5 billion by way of initiatives which support sustainability such as smart metering and smart networks.

By 2020, ESB will be delivering one-third of its electricity from renewable generation. This will include over 1,400MW of wind generation. We will also exploit the potential of wave, tidal and biomass resources.

A further €11 billion will be invested by ESB Networks in vital infrastructure needed to support the Irish economy and to facilitate the development by all wind generators of up to 6,000MW of wind generation on the island.

Financial

ESB put in a very robust financial performance in 2007. As more fully described in the Financial Review section below, revenues and profits grew strongly. We maintained healthy levels of gearing, interest cover and return on capital. Capital investment was some €900 million. This stable financial performance is critical if we are to meet our ambitious investment programme and if we are to compete both in Ireland and abroad.

Single Electricity Market

The whole business environment for electricity changed radically in November 2007 with the introduction of the Single Electricity Market (SEM), which is an all-island wholesale market for electricity. In the past ESB Power Generation's revenues were determined by the Regulator. Now prices for all generators are determined by the market.

ESB Power Generation

Competition has resulted in a fundamental review of ESB Power Generation's strategy. The business is actively reducing its market share, which fell to 47% in the Republic of Ireland in 2007. The ongoing closure/divestment of 1,500MW of stations and sites will lead to further reduction in market share. ESB Power Generation's target is a market share of less than 30% in the SEM. It is of course unusual for a company to set reduced market share as a strategic target. However, ESB Power Generation will be smaller but stronger following this market share reduction. The addition of modern plant such as the new, combined cycle 430MW station currently under construction at Aghada in Cork will also improve the efficiency and availability performance of the Power Generation plant portfolio.

While fossil fuel will continue to play a significant but reducing role, ESB is determined to minimise the environmental impact of its power generation activities in every possible way. For this reason we are investing €368 million in environmental abatement at Moneypoint which

> By 2020, ESB will be delivering one-third of its electricity from renewable generation. This will include over 1,400MW of wind generation. We will also exploit the potential of wave, tidal and biomass technologies.



Windfarm, Carnsore

will reduce SO_x, NO_x and dust emissions at the plant by over 80%. The new Aghada gas-fired combined cycle plant will have the lowest CO_2 emissions in the market when it enters commercial operation in 2009.

ESB Customer Supply

In 2007 ESB Customer Supply had 51% of the supply market in the Republic. This reduced market share reflects the level of competition in the commercial/industrial sector.

For ESB Customer Supply, the priority is to provide excellent customer care, including direct customer service and services to increase the efficiency of customers' electricity use.

ESB Customer Supply issued 13 million bills in 2007 and collected over 15 million payments from customers. The National Customer Contact Centre handled nearly 4 million calls from customers.

ESB Networks

ESB Networks invested over €600 million in developing and upgrading its infrastructure and systems in 2007. The multi-billion Networks investment programme of recent years is paying off for our customers as more robust networks provide a more reliable supply and greater resilience in storm conditions.

In 2007 ESB Networks connected 94,400 new customers. This brings the total number of new connections between 2001 and 2007 to over 580,000.

ESB Networks also launched the *Sustainable Networks* programme in 2007. One of its aims is to provide every customer with a Smart Meter, enabling them to reduce electricity demand and carbon emissions, as well as saving money. The first phase, to include a technology trial and roll-out to the first 25,000 customers commenced in 2007 and will be rolled out during 2008.

By the end of 2007, over 800MW of wind generation was connected to ESB Networks transmission and distribution systems. It is planned that some 1,300MW of additional wind generation will be offered terms for connection. This will position ESB Networks as supporting one of the highest rates of wind penetration in the world.

ESB International

ESB International through its independent generation and supply businesses in Ireland and its generating stations in Britain and Spain is making an important contribution to the accelerating transformation of ESB from a regulated utility operating largely in its home market to a commercially focussed and competitive business operating in Ireland and abroad. The stations at Corby in the UK and at Amorebieta in Spain continue to operate efficiently. Further investment opportunities are being actively pursued in both countries including the 840MW Marchwood plant in the UK which we are building with our joint venture partners, Scottish & Southern Energy. In Northern Ireland our power station at Coolkeeragh is now operating satisfactorily following technical difficulties in January 2007.



Padraig McManus with the Senior Irish International Women's Hockey Team.

Corporate Responsibility

Safety is the top priority for ESB. Comprehensive safety programmes are in place for staff and contractors and also for the general public.

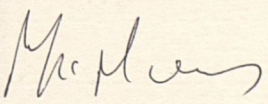
ESB is also actively contributing to meeting national environmental targets as set down by EU and Government policy. Sustainable use of resources and protecting the environment are the key components of our Strategic Framework to 2020 as referred to above.

ESB also has a wide ranging sponsorship programme in Ireland across the sporting and cultural fields and in conjunction with staff supports a number of community support projects in Ireland and abroad, specifically in Ghana, where a major school reconstruction project is underway strongly supported by ESB volunteer staff.

People

Over the last eight years ESB has implemented major change and efficiency programmes in partnership with our employees. Over the coming years, as set out in our Strategic Framework, ESB will continue to deliver substantial cost reductions in overheads across all its businesses and we will grow and develop ESB as the leading renewables company in Ireland.

Every year I acknowledge the enormous contribution by staff and this year is no exception. ESB staff have met the huge increase in demand for electricity and have provided an excellent and dedicated service to customers. Our people, their learned experience and the associated company ethos are not replaceable. ESB will continue to make heavy demands of staff over coming years as we implement the radical new sustainable strategies outlined above and I know our staff once again will be equal to those demands.



Padraig McManus
Chief Executive
29 April 2008

Financial Review

> Revenue and Profit after Tax for 2007 were €3.6 billion and €432 million respectively both up on 2006 reflecting a strong operational performance during the year. Close to €900 million was invested in capital programmes of which over €600 million was in the Networks business.

Overview

A strong operational performance was delivered in 2007 with Revenue and Profit after Tax at €3.6 billion and €432 million respectively, both up on 2006. Close to €900 million was invested in capital programmes of which over €600 million was in the Networks business. Net Debt levels decreased by €163 million to €1,797 million with gearing and EBIT interest cover strong at 40% and 5.0 times respectively. Return on Capital employed at 10% was in line with expectations.

Revenue

Revenue including operating income at €3,570 million is up €174 million on 2006, mainly reflecting overall market growth and higher electricity tariffs partly offset by reduced valuations for CO_2 emission allowances.

Operating Profit

Operating Profit for the year was €523 million compared to €337 million in 2006. The strong outturn reflects increased revenues, lower energy and employee costs, offset by reduced profits from property disposals.

Share of Joint Venture Profits

Joint ventures had a very good year, with profits at €47 million up €27 million on 2006. A major scheduled outage in the Synergen plant in 2006 combined with increased availability and revenues in 2007 contributed to the improved outturn.

Taxation

The Group Tax Charge for 2007 was €48 million (2006: €41 million) reflecting an effective tax rate of 11.2% (2006:17%). The reduction in the effective tax rate was mainly due to a non tax deductible item relating to asset impairment taken as a charge in 2006 and the release of tax provisions in 2007.

Profit after Tax

Profit after tax at €432 million compares with €223 million in 2006. The increased outturn primarily reflects the higher operating profit in addition to the improvement in the profits from Joint Ventures outlined above.

Segmental Performance

The Profit after Tax arises in Power Generation €232 million, Networks €139 million, Supply €13 million and the unregulated businesses €48 million.

Power Generation's profits have increased by €27 million on 2006 mainly due to lower pension and interest charges than in 2006. The impact of lower fuel costs in 2007 has been offset by a reduction in market share.

Network's profits, which are up €70 million on 2006 are in line with regulatory targets for 2007 and reflect the return required to meet the significant capital investment programme undertaken in recent years.

The year on year Supply profits are up €58 million due to adjustments from over and under recoveries in the regulatory framework. Specifically the 2006 profits were reduced by €62 million due to over recoveries in 2005 and previous years.

Profits from the unregulated business are up €54 million on 2006, mainly reflecting the improved outturn from the independent generation plants in 2007 offset by lower property disposals income in the current year.

Key Performance Indicators

Key Performance Indicators for the year include:

	2007 €m	2006 €m	Change €m
Revenue & Operating Income	3,570	3,396	174
Operating Profit	523	337	186
Profit after Tax	432	223	209
Capital Expenditure	903	831	72
Net Debt	1,797	1,960	(163)
EBIT Interest Cover (times)	5.0	3.7	1.3
Gearing %	39.5	46.9	(7.4)
ROCE %	10	6.4	3.6

Capital Expenditure

€903 million was invested in capital programmes in 2007. Over €600 million was spent on the Distribution and Transmission Infrastructure alone bringing the total investment in this area to over €4.3 billion since 2001. A further €122 million was invested by Power Generation in the Environmental Retrofit Project in Moneypoint Station. This project, with an overall cost of €368 million, will significantly reduce the SO_x and NO_x emissions from the station over the next ten years and is due for completion in 2008.

Net Debt and Gearing

Net debt at €1,797 million is down €163 million on 2006. A cash surplus of €89 million was generated during the year with cash generated from operations more than offsetting funding for the 2007 capital programme and other funding requirements. Debt and finance leases of €73 million were repaid out of the cash surplus. The revaluation of debt at year end foreign exchange rates, as required under IAS 39, further reduced the debt balance by €74 million due to the fall in value of the USD versus the Euro. Gearing was 40% at year end and 70% of the debt portfolio was at fixed interest rates. The average coupon rate was 4.9%.

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 the option to defer the unrecognised portion of the pension deficit over the future service lives of employees. At the end of 2007 the recognised and unrecognised pension liabilities were €326 million and €1 billion respectively.

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

Some 73% of ESB's revenue is subject to regulation by the Commission for Energy Regulation (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 which results 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. In addition, specific costs reflected in the income statement may be recovered in the tariff in different, or over a number of, accounting periods.



ESB International in South Africa.

Such timing differences can cause material variations in the annual profits earned by the individual regulated businesses and cause distortions in reviewing the year on year performance of ESB's regulated businesses. Timing differences have resulted in the year on year outturn being increased by €49 million mainly due to the 2006 tariff for Supply being reduced due to over recoveries in earlier years.

Prior to the commencement of the Single Electricity Market (SEM) on 1 November 2007, ESB Power Generation's allowed revenues were agreed annually by CER based on estimated costs and demand with under and over recoveries adjusted in subsequent years as outlined above. Post SEM, the wholesale price of electricity is market driven with all electricity generated sold into a market pool overseen jointly by CER and the Northern Ireland Utility Regulator. ESB Power Generation is participating in the electricity market on a basis similar to all other generators and as a result distortions to Power Generation's results caused by under/over recoveries will be limited going forward.

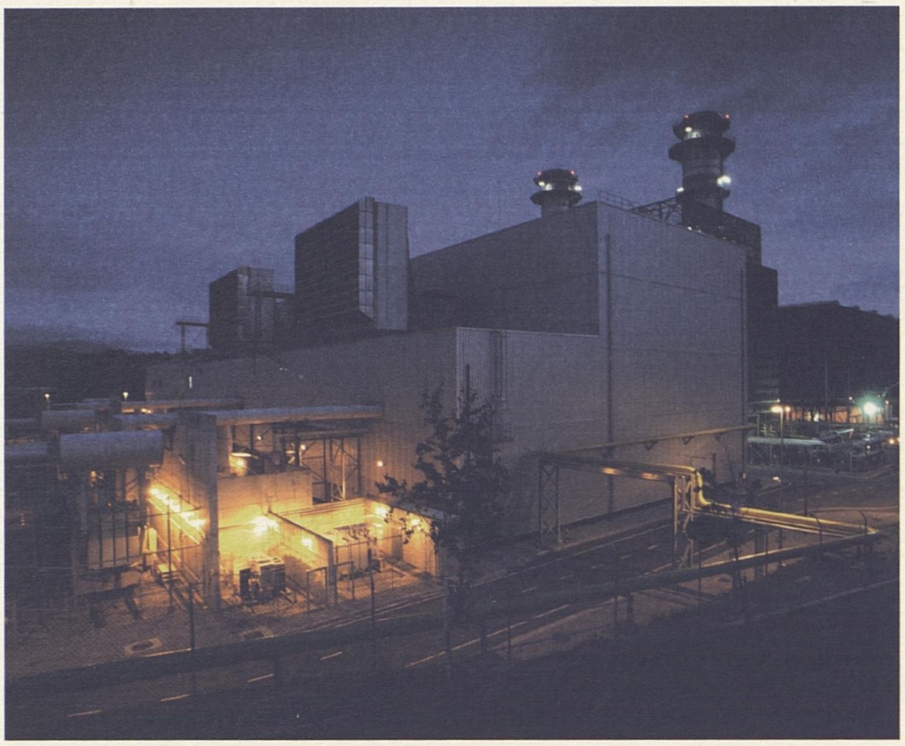
Financial Risk Management

Framework for Treasury and Trading Operations

The main financial risks faced by the Group relate to foreign exchange, interest rate, operational risk and commodity (electricity and fuel) price movements. Policies to protect the Group from these risks, and other risk areas, such as liquidity risk and counterparty credit risk, are regularly reviewed, revised and approved by the Board as appropriate. Group Treasury is responsible for the day to day treasury activities of the Group.

The 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. Commodity price risk is managed by the relevant business unit (Power Generation, Customer Supply and ESBI) in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit. The advent of the SEM has changed the nature of the risks posed by electricity and fuel price movements. As a result, the company has put in place a new Group Trading Risk Management function to ensure that the Group's market, credit and operational risks are managed in a way to protect the company from loss, while respecting the ring-fencing obligations in place between the business units.

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. Hedge accounting pursuant to IAS 39 is used for hedges of foreign currency liabilities, interest rate risks from borrowings and other debt and is also used to cover commodity and foreign exchange hedges arising from the SEM.



ESB International Power Station at Amorebieta, Spain.

> ESB will continue to maintain strong cashflow generation, interest cover and gearing ratios while funding growth and capital investments.

Counterparty Credit Risk
The Group is exposed to credit risk from its financial and banking counterparties. 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 counterparties.

ESB also has credit risks from commodity counterparties. These are managed in accordance with the Specification of the Minister for Finance. Credit exposures, potential exposures, and collateral requirements are monitored and reported on an ongoing basis.

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.

To 31 October 2007, the Group managed 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. With the commencement of SEM on 1 November 2007, the Group's hedging strategy in relation to fuel related currency exposures changed and the Group now manages the majority of its exposures using currency derivatives such as forward purchase contracts and options. 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 2007, 91% 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. At year end 70% of the debt portfolio was at fixed interest rates.

Funding and Liquidity Management
The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account the 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 diversity in ESB's lender base in order to achieve a strategic spread of risk.

ESB has in place adequate borrowing facilities in order to ensure that liquidity demands can be met as required. At year end ESB had over €550 million available in undrawn committed corporate facilities. 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.

With a significant capital investment programme planned over the next few years, further long-term funding facilities will be required going forward. The Group continuously assesses the availability of funding in the bank and capital markets and opportunities to avail of funding in these areas are available.

Future Outlook

ESB's recently announced Strategic Framework to 2020 incorporates an unprecedented capital investment programme of €22 billion with half the expenditure geared towards investment in renewable projects. Maintaining strong financial disciplines will be essential in this environment. Looking forward key financial priorities for the Group will include:

- Maintaining strong cashflow generation, interest cover and gearing ratios while funding growth and capital investments.
- Continuing with performance improvement programmes to deliver sustained growth in Shareholder value.
- Management of the trading risk arising from the SEM while respecting the ring-fencing obligations between business units.
- Successfully operating the Networks business within the agreed regulatory framework.
- Continuing to successfully deliver the significant capital expenditure programmes.
- Effective fuel management to mitigate the volatility in market prices for coal, oil and gas.

ESB Power Generation Review

Domestic Generation

ESB will continue to enhance plant availability in power generation working towards a smaller, stronger business.

> In early 2007, Power Generation's 2006 CO_2 emissions were independently verified. 2006 CO_2 emissions were 13% less than in 2005 and there was a further reduction of 8% in 2007.

Overview

ESB Power Generation owns and operates generating stations in the Republic of Ireland with an installed capacity totalling 4,651MW.

Operational Review

Safety Performance

During 2007, Power Generation made a number of enhancements to its safety management processes, including securing OHSAS Safety Management System accreditation in five work locations, with remaining locations to secure the accreditation in 2008. While the level of accidents in Power Generation reduced in 2007, 21 Lost Time Injuries (9 staff, 12 contractors) compared to 23 in 2006 (13 staff, 10 contractors), this performance requires further improvement. Safety and health remains our number one priority and we are committed to creating an injury free workplace.

Customers and the Energy Market

Power Generation's 2007 Republic of Ireland market share was 47%. This is 5% lower than our 2006 market share reflecting continuing growth of the independent generation sector.

As in 2006, Power Generation secured its fuel, which accounts for approximately 50% of its total operating cost base, at or below market indices independently benchmarked by the Commission for Energy Regulation (CER), thus contributing to ensuring energy is delivered at least cost for the benefit of our customers.

Following extensive preparation, Power Generation had the necessary systems, processes and people capabilities in place to successfully enter the new Single Electricity Market (SEM) which opened on 1 November 2007, marking the end of its Regulated Bulk Power Agreement with Customer Supply. In support of the development of the SEM, Power Generation administered an auction process to sell 2.9TWhs of Contracts for Differences (CFDs) as directed by the CER and also auctioned a further 4 TWhs of Non-Directed CFDs, which had the effect of offering fixed price power to other players in the market. Since market opening, Power Generation's market share has been approximately 32% on an All-Island Market basis.

Capital Expenditure

Power Generation's 2007 capital expenditure programme amounted to €225 million. This primarily related to spend on the Moneypoint Environmental Retrofit Project (MERP) which is targeted for completion in 2008. This investment will provide major environmental benefits as outlined below.

Another major capital spend in 2007 was construction of the 430MW CCGT plant in Aghada, Co. Cork, which is on target for commercial operation in 2009. The technology chosen for this project is one of the cleanest, most environmentally friendly and efficient in the world.

In addition to these major capital projects, Power Generation continues its planned maintenance programme to deliver a competitive portfolio plant capable of meeting the needs of the SEM.

Plant Performance

While most of Power Generation's stations performed to best international practice, plant availability outturn was 75% against a target 77% due to a higher forced outage rate than expected in 2007. Significant contributors to this outturn were "as found" conditions identified during the Aghada Combined Turbines scheduled overhauls, a generator failure in Turlough Hill and continued boiler corrosion problems in the peat plants. A long term solution for the Peat stations has been identified and is currently being finalised with the boiler manufacturer.

> The technology chosen for the 430MW CCGT plant in Aghada, Co. Cork, is one of the cleanest, most environmentally friendly and efficient in the world.



Inside an ESB Powerstation.

Environmental Performance

Power Generation is fully committed to conducting its activities in an environmentally sensitive manner. During 2007 Power Generation proactively managed its environmental obligations.

Environmental Management System (EMS) certification to ISO 14001 was retained at all Power Generation stations and ESB Fisheries during their biannual 2007 audits.

In early 2007, Power Generation's 2006 CO_2 emissions were independently verified. 2006 CO_2 emissions were 13% less than in 2005 and there was a further reduction of 8% in 2007. ESB was actively involved in inputting to the consultation process for a 2nd National Allocation Plan (NAP2) required to implement the UN Kyoto Protocol over the period 2008-2012. It is anticipated that less than 70% of baseline CO_2 emissions in 2003/2004 will be allocated by the Environmental Protection Agency (EPA) as free allowances to the power generation sector in NAP2. As a potential contributor to CO_2 reduction, the use of biomass fuels was investigated for Power Generation's peat and coal fired power stations during 2007. A decision on pilot trials is anticipated during 2008. Energy audits were also conducted at a number of stations and further audits will be done in 2008.

The implementation of the EU European Pollutants Release & Transfer Register (EPRTR) Regulation on a coherent and consistent basis has been discussed with the EPA. A Europe-wide utility initiative resulted in the production of a reporting guideline at the end of 2007. First reporting is required for 2007 emissions at the end of March 2008.

Demolition of Lanesboro Power Station was completed during 2007 in compliance with its Integrated Pollution Prevention & Control (IPPC) licence, with site remediation work continuing during 2008. Site remediation works will be completed during 2008. Preparatory work for demolition of the retired Bellacorick Power Station also took place during 2007 which included demolition of the cooling tower. Main demolition works at Bellacorick are expected to commence in late 2008. All demolition and remediation activities continue to be independently monitored and audited.
The Moneypoint Environmental Retrofit Project (MERP) progressed in 2007. This project involves the installation of SO_x and NO_x emission controls on the three boilers in Moneypoint and is required to meet the requirements of the EU Large Combustion Plant Directive (LCPD). The Government agreed to implement the LCPD through a National Emissions Reduction Plan (NERP) approach. This is the most cost-effective way to achieve the requirements of the LCPD and will deliver a greater emission reduction.



ESB Shannonbridge.

Finally, during 2007, Power Generation investigated the biodiversity impacts of its activities, the conclusions of which were predominantly positive. Also, the EU Eels Regulation was adopted. This requires the development of national eel management plans and ESB will fully participate in the development of these plans.

Going forward Power Generation will continue to take the steps necessary to protect our environment. This will be achieved by ensuring we operate our plants as efficiently as possible and continue to invest in technologies to improve plant environmental performance.

> "Building on the energy audits conducted in 2007, Power Generation will continue to improve energy use with a view to reducing its carbon footprint."

Asset Strategy

On 27 April 2007, ESB entered into an agreement with the CER which committed ESB to close or divest certain ESB generation facilities and sites and committed CER to authorise the construction of Aghada CCGT.

This agreement provides for a significant reduction in Power Generation's market dominance (over 30% of capacity), making generation sites available to facilitate further independent market entry, as well as proceeding with the Aghada new build to renew its portfolio.

Pursuant to this agreement expressions of interest were sought for the following assets:

- Tarbert Station
- Great Island Station
- Peaking Stations at Tawnaghmore, Rhode and Aghada; and
- Sites in the former Lanesboro and Shannonbridge Generating Station.

Selected parties were then invited to submit indicative bids before 31 January, 2008 and the process is ongoing.

Looking Ahead

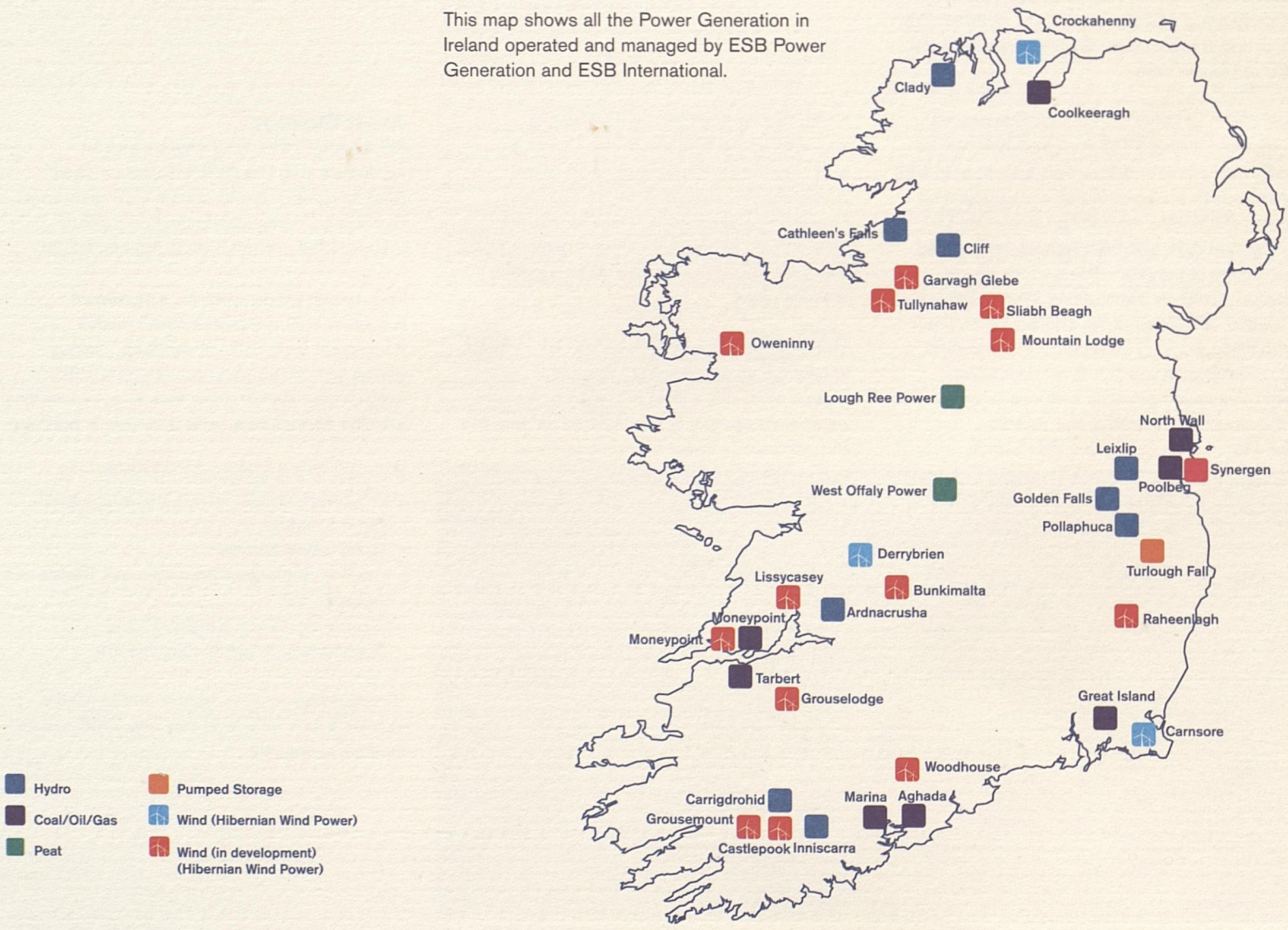
Looking forward to 2008 and beyond, key challenges for Power Generation include delivery of the Asset Strategy, continual repositioning of the business to successfully compete in the SEM and the need to continue to improve our environmental performance via the successful delivery of Power Generation's major projects (Aghada CCGT, peat plants and MERP) as well as other initiatives to protect our environment.

For 2008 Power Generation has set itself stretching targets including:

- Creating and sustaining a healthy and injury free workplace,
- Complete commissioning of the SO_x and NO_x emissions abatement systems at Moneypoint,
- Commencing a feasibility investigation of clean coal technologies and district heating,
- Improving plant performance through best practice operations and maintenance within our stations, to deliver a portfolio of flexible plant capable of competing successfully in the All Island Market,
- Renewing our generation portfolio through advancing the construction of a new baseload CCGT plant at Aghada, Co. Cork,
- Progressing the reduction of our market dominance through a programme of closure / divestment of stations / sites as agreed with the CER,
- Continuing to support the structure of the SEM consolidating and enhancing the new processes, systems, and competencies implemented in 2007; and
- Continuing to secure Power Generation's long term financial viability by significantly reducing our cost base, whilst ensuring Power Generation remains committed to the social and environmental dimensions of the business.

ESB Group – Power Generation Portfolio

This map shows all the Power Generation in Ireland operated and managed by ESB Power Generation and ESB International.



Customer focus

ESB is a growing, commercial, customer focussed company concerned for society, its impact on community and works in partnership with people.

ESB Customer Supply and Group Services Review

> During 2007 ESB Customer Supply helped customers to save electricity through the promotion of energy efficient products and awareness campaigns.

Safety Review

Customer Supply and Group Services continued to prioritise safety and health to deliver our goal of an injury free workplace.

During 2007 the implementation of the Safe Business Management programme continued with formal OHSAS assessments and safety leadership actions involving implementation of a focussed auditing programme and regular reviews of performance. A series of other initiatives relating to health and wellbeing were also launched during the year.

Despite the significant commitment and effort of all involved, there were 14 Lost Time Injuries in the business during 2007 (10 staff and 4 contractors). This demonstrates the ongoing challenge in delivering a healthy and safe working environment but this continues to be a key priority for us.

Customer Supply

Overview

ESB Customer Supply operates as the Public Electricity Supplier (PES) offering a supply of electricity to over 2 million mainly residential customers in the Republic of Ireland retail market on terms approved by the Commission for Energy Regulation (CER). In the deregulated electricity market, not all customers will be invited to become customers by other suppliers and so a 'public' electricity supplier is required to meet their needs. As PES, ESB Customer Supply also fulfils an important role in the market as the Supplier of First Resort (SoFR). This means that newly connected customers with a demand level of less than 30kVA are registered to the PES as a default supplier if they do not nominate a specific supplier.

Operational Review

Customers

While the number of customers (business and residential) served by ESB Customer Supply increased from 1.98 million to 2.04 million during 2007, our market share further reduced from 53% to 51%. This reflected increased competition in the commercial/industrial market offset by continued strong growth in house connections during 2007.

Our key priority is to maintain the highest standards of customer care, including both direct customer service and services to enhance customers' use of electricity.

ESB Customer Supply strives to enhance the quality and range of services to our customers, while reducing the cost to serve. In 2007, almost 13 million bills were issued and over 15 million payments collected. The primary contact point for customers is the National Customer Contact Centre which handled nearly 4 million customer contacts. As part of our focus on continuous improvement, the Contact Centre achieved the Customer Contact Association's Global Standard in 2007.

ESB Customer Supply continues to work with our customers to promote energy efficiency, the safe use of electricity and understanding metering and billing.

During 2007 ESB Customer Supply helped customers to save more than 367GWh of electricity through the promotion of energy efficient products and awareness campaigns. These included CFL lighting promotions, provision of energy efficiency advice and tips and the development of energy efficiency web based tools.

> ESB Customer Supply works on an ongoing basis with Sustainable Energy Ireland (SEI). In 2007 this activity included sponsorship of the Sustainable Energy Awards. We also work closely with the Department of Communications, Energy and Natural Resources to promote the Power of One initiative.

As part of our drive to improve energy efficiency and aligned with our Corporate Responsibility objectives, ESB Customer Supply works with a number of organisations including St Vincent de Paul, the Money Advice and Budgeting Service (MABS), and other social partnerships. We undertook a number of initiatives with these organisations to support fuel poor customers and those with special requirements. These initiatives included debt repayment programmes, provision of information on budgeting for electricity costs and advice on how to use energy more efficiently and to help manage electricity costs. ESB Customer Supply gave significant support to the SEI Warm Home scheme by supplying CFLs and hot water cylinder lagging jackets to fuel poor customers. We also worked closely with Age Action Ireland, with specific partnerships supporting Positive Ageing Week.

Regulation and the Single Electricity Market (SEM)

A major development and important milestone for the electricity market in Ireland was the successful introduction of the SEM on 1 November 2007. The SEM is a wholesale electricity pool market, into which all electricity generated on or imported into the island of Ireland must be sold, and from which all wholesale electricity must be purchased. Under regulatory requirements ESB Customer Supply participates in this market as a stand alone supply business. A comprehensive set of new processes, systems and capabilities were developed to facilitate ESB Customer Supply's participation in this wholesale energy trading environment for the benefit of its customers.



Group Services

Overview

Group Services is responsible for a number of unregulated activities and internal services for the various business lines within the ESB Group including:

- The ICT Group undertakes activities associated with Information and Communications Technology (ICT). Our aim is to achieve maximum value for all IT and Telecom investments through motivated and skilled employees. To do so, we work collaboratively with other ESB businesses to develop strategies and to implement solutions.
- A wholly-owned subsidiary of ESB and part of the ICT group, ESB Telecoms Ltd., provides telecommunications services and infrastructure to the telecommunications industry in Ireland.
- The Shared Services business provide property and facilities, human resources, payroll, accounting, legal, and procurement services for ESB businesses.
- The Pensions Office provides services to pension schemes within the ESB Group, including administration and investment supports.
- ESB Contracts Ltd. constructs and maintains public lighting for Local Authorities and installs major electrical projects for external commercial customers.

Operational Review

ICT Group continued to deliver essential services to the ESB Group. This included provision of on-going ICT infrastructure and services as well as supporting a number of projects across the organisation including those required for ESB businesses to operate in the SEM.

ESB Telecoms Ltd. is firmly positioned as the leading independent network provider in Ireland and continues to compete strongly in the wholesale telecoms market.

Shared Services has continued to focus on enhancing the efficiency of its services for the ESB Group and on promoting environmental awareness and initiatives in the management of property and facilities.

ESB is committed to contributing to the targets outlined in the National Energy Efficiency Action Plan. Our energy efficiency programme, launched in 2005, has driven energy usage reductions in the head office complex alone of 9% since the programme began. The issue of waste management continues to be closely managed with the focus on 'Reduce, Re-use and Recycle'. Almost 70% of the waste produced in our head office was recycled in 2007. Our strategy is to maintain recycling at this best practice level and to focus on reducing the production of waste.

New technology can contribute to improving our environmental performance. We have recently piloted a heat exchange system in Cork where water taken from wells is used to heat and cool air conditioning equipment in the office environment leading to substantial reductions in energy usage. This can be replicated in other locations if the topography is suitable and it is our intention to investigate this technology further in 2008. The use of solar panels to heat water for general use will be introduced where practical.

“We have recently piloted a heat exchange system in Cork where water taken from wells is used to heat and cool air conditioning equipment in the office environment leading to substantial reductions in energy usage.”

ESB Contracts Ltd. continued to improve customer service and maintains its drive to provide consistently high service standards. Working in partnership with a number of Local Authorities, new public lighting technology to reduce power consumption and light pollution has been piloted and further initiatives are planned.

> The development of Advanced Metering Technology (also referred to as Smart Metering) will enable electricity users to manage their consumption more efficiently with cost and environmental benefits.



In 2007 ESB Restaurant Staff produced a healthy eating cookbook for staff with all donations going to the ESB Charity ElectricAid.

Looking Forward

- In 2008 our safety and health plans reflect our drive to achieve an injury free workplace with increased emphasis on 'near miss' reporting and greater shared learning across the business lines. Strong safety leadership will be maintained with managers engaging with staff and contractors on a continuous basis through local safety audits and reviews.

- Given Ireland's national obligations to reduce carbon emission levels and reduce energy consumption, ESB Customer Supply will further develop our work in this vital area. We will achieve this by creating awareness among customers of the need to use electricity efficiently and by enabling customers to make the necessary changes through information and support on energy reduction measures and initiatives.

- To deliver on ESB's support for successful implementation of the National Energy Efficiency Action Plan and the achievement of the national energy efficiency target of a 20% reduction in energy demand by 2020, we have established an Energy Services Unit. This Unit will support ESB's drive to reduce its own energy use, will work with ESB Customer Supply to improve the energy efficiency of our customers and will develop a range of energy services for energy users which will further contribute to the Action Plan Objectives.

- Group Services are committed to providing our internal ESB customers with services, buildings and related facilities in a manner which continues to reduce the environmental impact, related to energy usage, waste generation and water management.

- We are also seeking to reduce staff travel with initiatives in the area of video conferencing and related technology. We will continue to support staff who move to public transport or reduce car usage in other ways.

- Improved customer service continues to be a key focus for all our businesses in 2008. This will include ESB Customer Supply continuing excellent service standards in the National Customer Contact Centre, sustained implementation of the revised Customer Charter and the introduction of e-billing to improve customer service further.

- The development of Advanced Metering Technology (also referred to as Smart Metering) will enable electricity users to manage their consumption more efficiently with cost and environmental benefits. ESB Customer Supply is playing a lead role in the assessment and rollout of this innovative technology so as to maximise the benefits for our customers.



National Call Centre Awards 2007.

ESB Networks Review

Sustainable Networks

€6.5 billion spend to facilitate renewables including smart metering and smart networks.

> 2007 was a successful year for ESB Networks in operational terms, with a significant investment in the national electricity infrastructure and the second highest number of customers ever connected to the electricity network.



Operational review

2007 was a successful year for ESB Networks in operational terms, with a significant investment in the national electricity infrastructure and the second highest number of customers ever connected to the electricity network. The ongoing investment programme to upgrade, develop and renew the Distribution and Transmission networks continued, with over €600 million invested in the infrastructure and other capital assets, including new IT systems.

Profit after tax for Networks at €139 million was up €70 million on 2006. Excluding the contribution from property disposals, profit after tax was €125 million. Under the regulatory income formula, the return earned by ESB Networks is the minimum required to fund the capital investment in the distribution and transmission networks. Profits in 2007 therefore reflect the consistently high investment in these networks over the last number of years.

Customers

Delivering excellent service to customers continues to be a key objective of the business. During 2007 the five year customer service improvement plan (2006 – 10) provided a clear focus for the business and phase one of the plan was successfully delivered on schedule. Significant customer service improvements were made in the areas of customer communication, connection lead times, continuity of supply performance through the use of live line working and other measures and the timely provision of metering services to electricity suppliers on behalf of customers. This improvement in customer service is illustrated by a significant drop in the number of customer charter defaults and customer complaints during the year. The ESB Networks internet site was also updated to provide an easier to navigate and more friendly interface with our customers.

Safety

Safety is a core value for ESB Networks in dealing with staff, contractors, and the public. In planning and completing all work programmes, safety is a key element and there is a continuing drive to build awareness with all stakeholders. Different media and direct marketing campaigns were run in 2007 to increase public awareness of the risks and dangers of inadvertent contact with electricity networks.

Internal staff safety campaigns included special near-miss briefings, the development of a Safety Excellence Audit Companion and a Team Safety Charter.

During 2007 there were a total of 28 Lost Time Injuries to staff and the drive to achieve the business goal of no injuries to staff continues.

Energy & Environment Sustainability

During 2007, ESB Networks launched the *Sustainable Networks* programme. This is an ambitious programme, with nine individual initiatives. Together they touch every aspect of our operations and our interaction with our environment.

Through *Sustainable Networks*, we aim to provide every customer with a Smart Meter, enabling them to reduce electricity demand and carbon emissions, as well as saving money. The first phase, to include a technology trial and roll-out to the first 25,000 customers commenced in 2007 and will be rolled out during 2008.

By the end of 2007, over 800MW of wind generation was connected to ESB Networks transmission and distribution systems. Nearly 1,300MW of additional wind generation will be offered terms for connection under the Gate 2 process. This will position ESB Networks as supporting one of the highest rates of wind penetration in the world.

Further savings in carbon emissions will emerge through a Gate 3 process, expected to commence in 2008.

Projects were established in 2007 to introduce all-electric vehicles and bio-diesel fuel to our 2,600 strong vehicle fleet. Most of our fleet were using a 5% bio-diesel (B5) fuel mix. During 2008 we aim to establish operational pilots running on 30% and 100% bio-diesel, using our in-house maintenance network and vehicle technologists to overcome any technical challenges we encounter.

By end of 2007, over 21,000 kilometres of our network were converted from 10kV to 20kV, saving 75,000 tonnes of CO_2 per annum.

In future, our networks will be smarter, more flexible and more sustainable. To deliver this potential, ESB are supporting the Dundalk 2020 project, part of Sustainable Energy Ireland's Research and Development programme.

Other key initiatives include:

- Reduction of our in-house energy consumption by 30%,
- Increasing our waste reuse/recycling rate from 87% to 95%,
- Certification of our Environmental Management System to ISO 14001 standard, and
- Adapting our field operations to harmonise with the local ecology and heritage.

Infrastructure Investment

In 2007, ESB Networks invested over €600 million in the transmission and distribution infrastructure, IT systems and other assets, bringing the total spend since 2001 to €4.3 billion. This nationwide investment has been made in order to support the continuing high growth levels in electricity demand in the Irish economy, refurbish the Irish networks to world class standards and also to facilitate regional development.

During the year, 94,400 new customers were connected to the electricity networks. This is the second highest level of new connections ever made in a year and brings the level of new connections between 2001 and 2007 to over 580,000.

The new investment includes the building of necessary infrastructure to connect new electricity generation plant, including wind farms, to the networks, as well as the renewal and refurbishment of existing infrastructure. This work will improve the quality of supply to customers and the reliability and safety of the networks.

> “During the year, 94,400 new customers were connected to the electricity networks. This is the second highest level of new connections ever made in a year and brings the level of new connections between 2001 and 2007 to over 580,000.”

As part of an on-going programme to reduce network losses and improve voltage quality to customers, during 2007 ESB Networks converted 2,727 km of 10kV network to operate at 20kV. The total length of network converted to 20kV now stands at 21,250 km. The conversion of these lines to a higher voltage level reduces the amount of electricity lost as it passes through the networks, with an annual saving of approximately 75,000 tonnes of CO_2, in terms of electricity generation avoided.

Approximately 170 old outdoor oil-filled medium-voltage switches were also replaced with new compact switches which do not contain oil. In addition, 90 km of old 38kV network were rebuilt using a more efficient design which improves voltage quality and reliability, and reduces the losses incurred on these lines.



Regulation

2007 was the second year of the Regulatory Price Control covering the period 2006 to 2010. This Price Control was set in 2005, following a detailed review by the CER of the planned investment and expenditure by ESB Networks over the five years to 2010. This review resulted in a significant reduction in the revenues and profits of the Networks business over the five year period.

Performance improvement plans are being implemented to address the financial and operational challenges posed by the Regulator. These plans include agreements with staff around greater organisational flexibility and future reductions in numbers employed through a process of voluntary exits.

Looking Ahead

Looking forward to 2008 and beyond, key business challenges include:

- Continued focus on improvements in safety. ESB Networks is committed to safety as a core value of the business and this focus will continue in 2008.
- Maintaining a strong and viable business. The financial health and strength of the business is essential to the achievement of the challenging investment, customer service and safety programmes.
- Delivering the Sustainable Networks programme. During 2008, ESB Networks will implement the initiatives necessary to deliver this programme, such as the introduction of Smart Meters and the connection of increased wind generation to the system.
- Continuing to deliver the capital investment programmes. The upgrading and extension of the existing electricity infrastructure will continue in 2008. This will be of benefit to all electricity customers, as well as facilitating economic growth and expansion throughout the country.
- Improving customer service. A key objective of the business in 2008 and beyond will be the delivery of excellent service to customers and the achievement of challenging customer service targets.
- Meeting customer demand for connection to the network. As part of the overall capital investment programme, ESB Networks will devote the internal and external resources required to meet the high levels of demand for connection by new customers.
- Achieving the current regulatory targets and preparing for the next Price Review. The achievement of the current regulatory targets and the preparation for future challenges is integral to the strategic objective of the business.

ESB International Review

Leading renewables

€4 billion will be invested in renewable energy projects including wind, biomass and new technologies.

> ESBI is committed to developing a renewables business of scale at home and in the UK and have a pipeline of 400MW of wind power currently under development.

Overview

ESB International (ESBI) is structured as a group of companies and consists of a range of businesses operating in the competitive market place. The key business activities are:

- ESB Independent Generation (ESBIG) and ESB Independent Energy (ESBIE) which provide competitive electricity solutions to customers. ESBIG is also responsible for operating our renewables portfolio in Ireland and our international generation assets, primarily in the UK and Spain.
- ESBI Engineering is an international engineering and consulting organisation which provides engineering and utility solutions to ESB Group and a wide range of international customers.
- ESBI Facility Management (ESBI*fm*) provides power plant operation and maintenance services to ESBIG and to international customers. At present ESBI*fm* is responsible for operating over 5,000MW of plant worldwide.
- ESBI New Investments (ESBI*i*) is our business development group and is responsible for identifying and delivering investment opportunities for ESB Group with a primary focus on European markets.

Operational Review

The Single Electricity Market (SEM) opened in November 2007 and ESBI successfully completed its implementation programme on time and to date has operated its trading systems effectively in the new market.

ESBIE maintained its strong presence in the Republic of Ireland and Northern Ireland segments of the SEM, retaining 15% and 20% market shares respectively. In 2007 ESBIE successfully deployed a new customer billing system which has delivered significant benefits in terms of operating efficiency and improved customer service. ESBIE's primary focus is on the industrial and large commercial sectors where it has achieved market shares of 35% in both markets. Its customers are predominantly high load factor customers to whom it provides tailored one-to-one customer service, supported with a range of energy efficiency services.

ESBIG's portfolio of plant performed in line with targets during the year with the exception of Coolkeeragh, which suffered a significant plant outage in January. The plant was repaired under warranty and while it resulted in material trading losses, through the efforts of the business, the financial impact of the outage was recovered by year end. Our Renewables business delivered to plan in 2007 in terms of operations of existing windfarms. In addition during 2007 ESBI sold its CHP business, Ballyragget Power.



ESB Independent Energy supply Croke Park with their electricity.

ESBI Engineering delivered good performance in 2007 with strong growth both at home and in international markets. Key projects at home during 2007 were the Moneypoint Environmental Retrofit Programme (MERP) and Aghada 430MW CCGT project. Abroad business remains strong, with key contracts during the year in South Africa, Vietnam and significant new business in Bahrain.

ESBI*fm* also performed well. It met or exceeded its contracted performance in each power plant and achieved larger than planned bonuses from a number of contracts. We are also pleased to have signed an extension of our contract for the operation and maintenance of the Manjung 2,100MW Coal power plant in Malaysia.

ESBI New Investments continued to progress a significant pipeline of opportunities both in the UK and Spain. It also finalised a review of the potential for renewable investments and progressed a range of wind projects in Ireland. The construction of the Marchwood 840MW gas-fired power plant near Southampton progressed to plan. In addition construction of a 34MW Windfarm in Mountain Lodge, Co. Cavan continued to plan and will go into commercial operation in 2008.

Safety

ESBI has 1,160 staff operating on three continents. We operate 5,000MW of power plant and were involved in two major construction projects during the year. There were three staff and nine contractor Lost Time Injuries across all operations in 2007. Safety Improvement programmes were implemented across the business with a particular emphasis on our construction sites. In 2007 all four power plants in which ESBI have an ownership position, achieved a certification under a formal externally recognised Safety Management System.

2007 saw the continued 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 these project locations.



Derrybrien wind farm.

Commitment to the Environment

ESBI operates its business with a focus on minimising environmental impact. All of our plants have ISO14001 accreditation and there were no environmental violations in 2007. Through our subsidiary Hibernian Wind Power we are committed to developing a renewables business of scale at home and in the UK. We have currently 77MW of wind power installed in Ireland, a further 34MW under construction and a pipeline of over 400MW currently under development. In addition ESBI have dedicated resources focused on emerging wave and solar technologies with a view to assisting the best potential technologies reach commercial application. With over 6,000MW of potential wave energy off the Irish Coast, ESBI is committed to playing its part in harnessing renewable energy.

> ESBI have dedicated resources focused on emerging wave and solar technologies with a view to assisting the best potential technologies reach commercial application.

Looking Ahead

We expect the current year will see ESBI continue to profitably operate its existing assets and bring opportunities to continue to further grow ESBI, in particular:

- ESBIE will continue to provide flexible competitive energy solutions to its customers and retain its position as the primary independent supplier in terms of customer service. ESBIE will expand its energy efficiency service offerings to customers and will look to significantly increase the uptake of green energy purchases by its customers through its 'Resource' product range.

- In Ireland ESBIG will continue to optimise its traded position in fuel and wholesale energy markets and maximise the availability of its plants to provide competitive energy for retail by ESBIE. It will also operate its international assets to the highest standard.

- ESBI Engineering will continue to provide key engineering services for ESB Group and will focus on developing ESBI Engineering as the centre of engineering capability for the Group. It will also continue to seek growth opportunities while meeting the needs of its existing international customers. A key challenge will be securing the additional skilled resources to meet these ambitions.

- ESBI*fm* will continue to operate on a profitable basis and will seek to strongly grow the business in selected markets in 2008.

- ESBI New Investments will continue to develop material growth options for ESB Group. In particular it will focus on achieving significant thermal power project opportunities in the UK and significantly expanding renewable business activities in Ireland and the UK. It will also seek to progress key investment opportunities in Europe.

- ESBI will complete the Mountain Lodge Windfarm in 2008 and start construction of two further windfarms with an additional capacity of 48MW. Major construction activity will continue on the Marchwood 840MW CCGT site with the project scheduled for commercial operation in 2009. Safety will be the highest priority on these projects while focussing on delivering them to quality, time and budget.

ESB in the community

> We want to grow,
> we want to be strong,
> we want to care for society
> and the community
> and we want to work in
> partnership with people
> – and people are our
> customers and our staff.

Padraig McManus, Chief Executive ESB,
April 2008.



ESB in the community

Since our foundation in 1927, ESB has played a key role at the forefront of Irish business in developing and managing critical national infrastructure. We have balanced the parallel objectives of achieving commercial success and supporting Ireland's economic development with the need to work in harmony with our stakeholders, customers and the wider Irish community through our management of the various environmental, social and commercial impacts of our activities.

At all times we are fully committed to the management of all aspects of our business to the highest standards.This is reflected in the achievements and targets we have met in our corporate responsibility activity during 2007.

Workplace

In parallel with our business development goals we have also always been concerned to ensure that we have provided a quality working environment for all our people and we have a culture that supports career long learning and development.

Community

ESB is deeply connected to communities and stakeholders across the country. Through our sponsorship, funding and voluntary donations we ensure that our contribution remains relevant and effective.

Marketplace

ESB has 2.04 million customers making us a unique company in Ireland in terms of our scale of activity. Our product – electricity – is an essential service and all our customers: residential, commercial and industrial – require us to deliver reliability and value for money.





Environment

ESB's total emissions of carbon dioxide fell within the allowed cap for 2007, improving on performance in 2006. We continued to input to critical climate and related energy policy formation during 2007 to position ESB to meet its obligations under the EU climate-energy strategy. ESB responded on consultations on the energy policy paper, national climate change strategy, energy efficiency plan, emission trading national allocation plan and the future of Dublin Port. The construction of Phase 1 and 2 of the Moneypoint improvement project was completed with Phase 3 scheduled for 2008. ESB's emissions of sulphur and nitrogen oxides were within target.

Safety

In 2007, ESB recorded reductions in the numbers of injuries, achieving yet again a new record low in reported injuries, and we have continued to deliver tangible improvements in our safety performance. In total, there were 50 lost time injuries to staff across ESB Group and 35 to contractors. ESB has now reduced its lost time injuries to staff by over 83% from its peak in 1997. We recognise, however that achieving the last 17% will require a further significant level of effort in our relentless pursuit of a zero injury workplace.

ESB in the community

Workplace

- The second annual Group wide survey of staff opinion took place in 2007. While staff opinion surveys have been taking place at business unit level for many years, 2006 was the first year that a group wide survey had been conducted since the early 1990s. The 2007 survey achieved a 74% response rate which was very encouraging. On foot of an analysis of the survey results, a number of specific action plans have been initiated.

- ESB operates in accordance with the principles of Partnership, and under the terms of a Partnership Agreement. This is supported by full time staff, who work to develop the Partnership model within ESB and to support the work of Partnership Groups throughout the organisation.

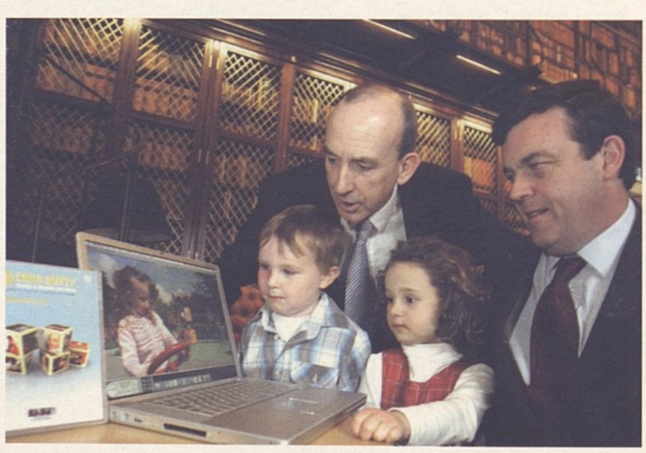
  During 2007, the ESB Partnership Strategy was reviewed and the new Strategy was launched at the annual National ESB Partnership Conference in September 2007. This review of Partnership took account of the various changes within the company and its business environment in the period since the last review in 2002.

  The review identified that Partnership is perceived to be working well at the top of the company as evidenced by the improved IR situation and enhanced relations and involvement across the Group. The review also identified that local Partnership groups are operating at varying levels of effectiveness. Effective Partnership is an important requirement for performance improvement and a wide range of actions are now being implemented to increase its relevance and effectiveness at all levels.

- Training and Development programmes continue to provide core skills (including mandatory technical and safety training), personal development and competence and proficiency in emerging areas, such as those associated with trading in the Single Electricity Market. We continue to encourage continuous professional development and work with accrediting professional bodies to support this and achieve rigorous external standards. Significant senior and middle management training and development was delivered during 2007, both in business unit led initiatives and via the completion of a two year management development programme run in conjunction with Ashridge, a leading international business school. In our employee survey, 38% of respondents acknowledge that they have an agreed development plan with their managers.

- Forty three members of staff were selected for support to pursue full time degree level courses as part of our educational scholarship scheme. Of these, eleven graduated in 2007. Sixteen are still studying and the final group will graduate in 2010.

- 2007 was the second year of a three year traineeship programme designed to give people with disabilities a six month work placement with ESB. Nine people participated in the programme this year. By the end of the three year programme thirty people will have completed work placements.







Environment

- ESB, representing the European electricity industry, participated with the EU Commission and a limited number of other stakeholders in assessing potential new legislative measures to address climate change culminating in the publication of the Energy-Climate package in January 2008.

- ESB Power Generation emitted 0.4 Mt carbon dioxide (CO2) less than its allowed cap of 33.1 Mt for the first Phase (2005-2007) of the EU's emissions trading scheme.

- Agreement was concluded with the Department of Environment, Heritage and Local Government and the EPA on a national plan for emissions of sulphur and nitrogen oxides and particulate matter which will deliver reductions beyond those required by current legislation and that provides operational flexibility to ESB.

- Major progress on the construction stage of the €368 million Moneypoint environmental refit project, which will reduce sulphur and nitrogen oxide emissions by over 80%, was achieved.

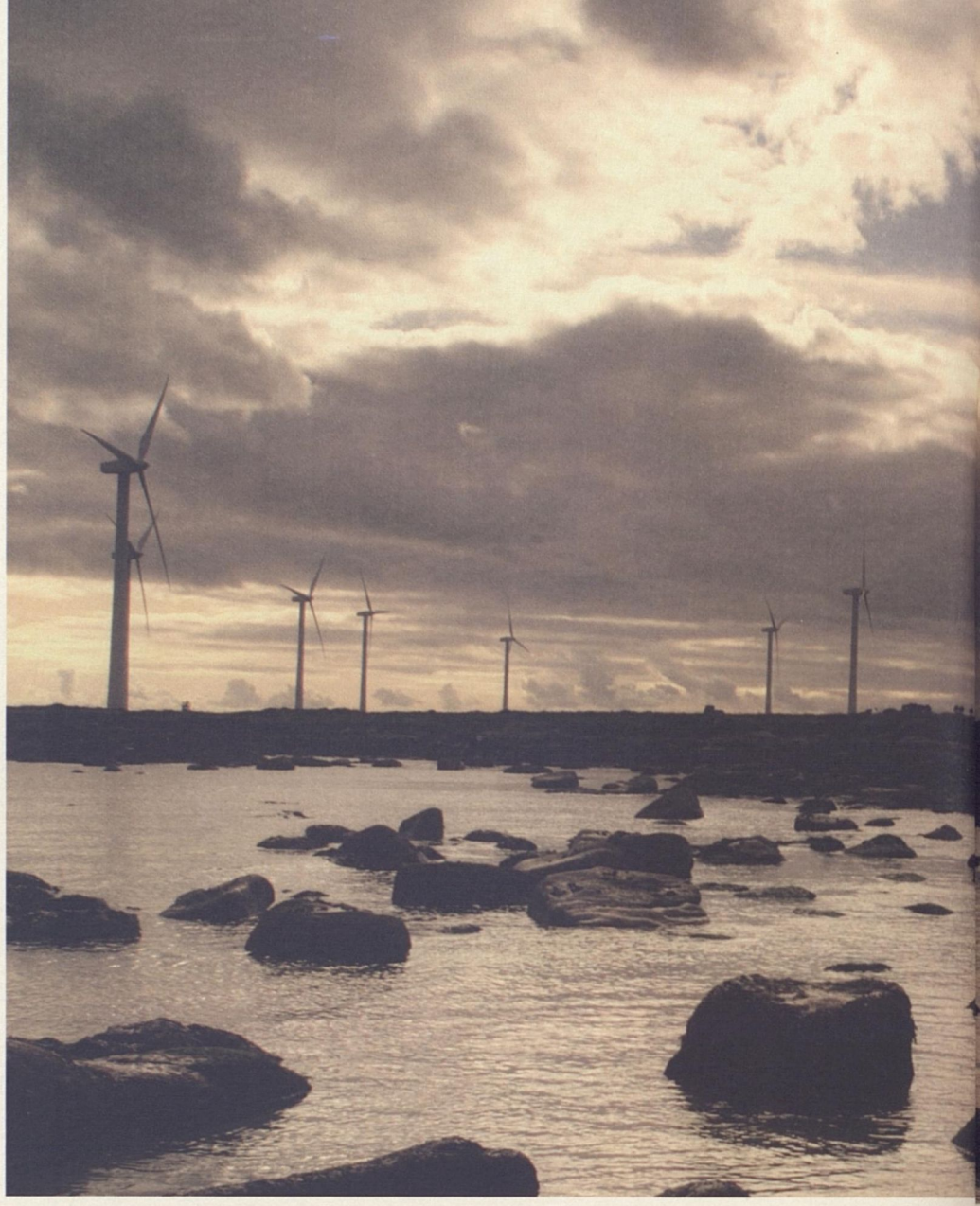
- An international work-shop on the preservation and protection of Atlantic eels was successfully organised with academic, government and electricity industry participation.

- Significant progress was made in connecting renewable generation sites to the networks to ensure delivery of the Government's revised target of 15% electricity from such sources by 2010. At end 2007 some 800 MW of wind generation was connected with connection offers for a further 1300 MW.

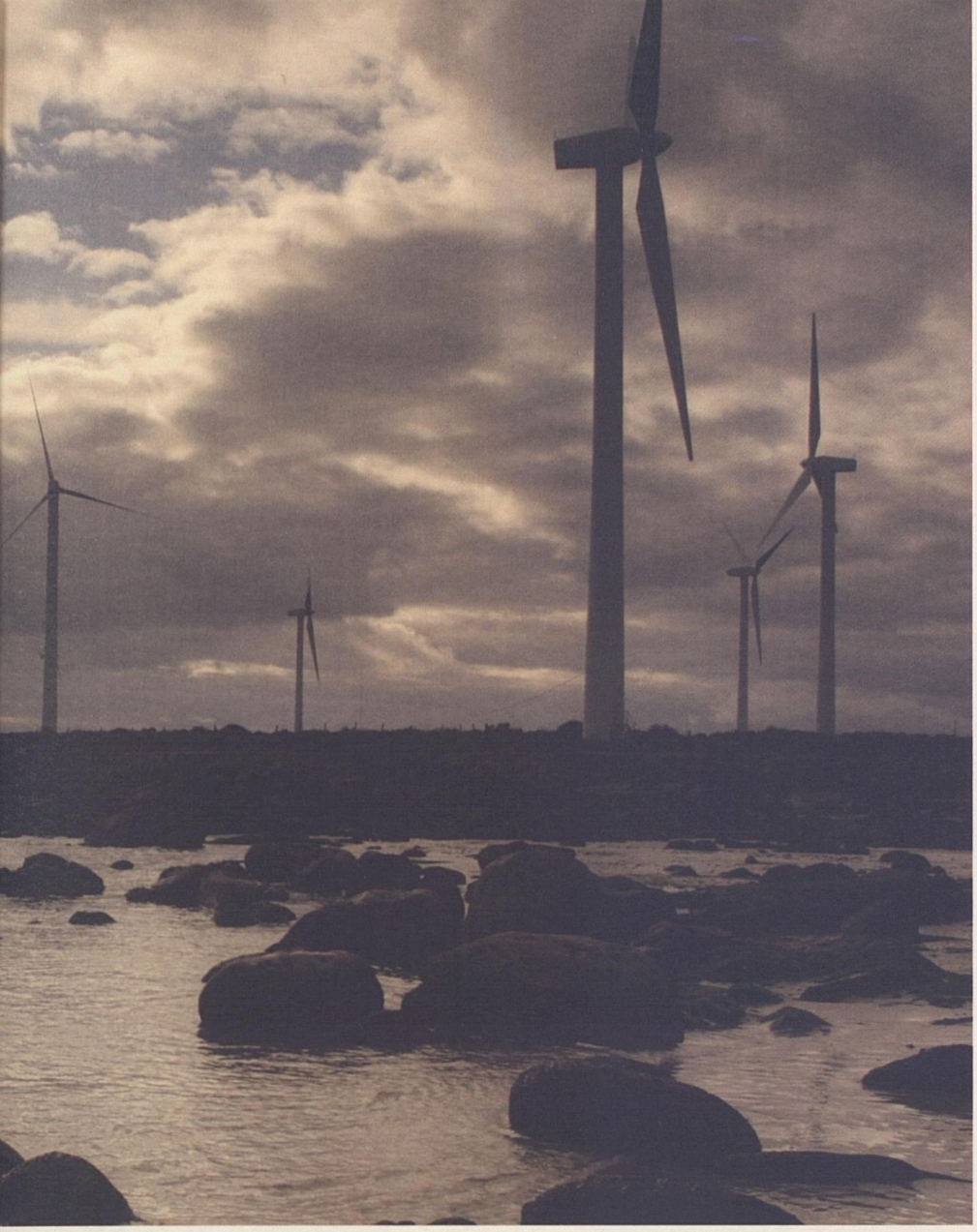
- ESB increased its portfolio of connected new renewable generation (wind) to 77 MW with a further 34 MW under construction for delivery in 2008.

- Accreditation to the ISO 14001 environmental management system standard was retained at all ESB generation sites and ESB fisheries. Progress was made in bringing ESB Networks' environmental management system to this international standard.

- We increased our customer energy efficiency promotion activities. At a broader level, a DVD was produced aimed at encouraging energy awareness among national school pupils. In addition we undertook an extensive range of energy audits across the business with the objective of early delivery of the Government's target of 33% improvement in energy efficiency by 2020. Savings in of 4.5% were achieved in the Head Office estate during 2007 on top of the 5% delivered in 2006.







Community

- In 2007, ESB continued to develop its suite of significant corporate sponsorships. These include the ESB Minor Football & Hurling Championships, ESB Ladies & Girls Hockey, ESB International Under 20 Rugby, ESB Medal Assist programme with Athletics Ireland and the ESB BEO Festival. Our aim is to be a pro-active supportive partner for the organisations we sponsor and we continue to develop our relationships with these organisations accordingly.

- ESB employees continue to develop their commitment and support for charitable causes, not least through their support for ElectricAid. This fund, where every staff contribution of €3 is matched by a company contribution of €2, disbursed €1.9 million during 2007, benefiting a wide range of national and international charities and communities.

- ESB Customer Supply continued as sponsor of the Macra na Feirme "Know your Neighbour" initiative during 2007. The initiative was designed to foster community spirit across the country through providing people with the opportunity to meet their neighbours at a variety of local social events.

- Since its establishment in 2005, a separate programme, ESB ElectricAid Ireland was launched, in order to facilitate our involvement on two key social issues in Ireland – suicide prevention and homelessness. These issues were selected by ESB staff. Since its foundation, the fund has disbursed over €2.6 million to 240 projects throughout the country.

- 2007 was the 80th Anniversary of ESB. To mark this important milestone a very significant ESB / ElectricAid project – the reconstruction of a school in Ghana, West Africa – was established. The project will see approximately 50 staff volunteers travel to Ghana to participate in the work. The project will be completed in mid-2008.

- Fifty ESB Networks staff travelled to the UK to assist in restoring power to thousands of homes left without electricity in the wake of the storms that swept across Europe in January 2007. This continued a tradition of ESB crews travelling to assist in repairs on many occasions in the past, including to other areas in the UK and in France.





Safety

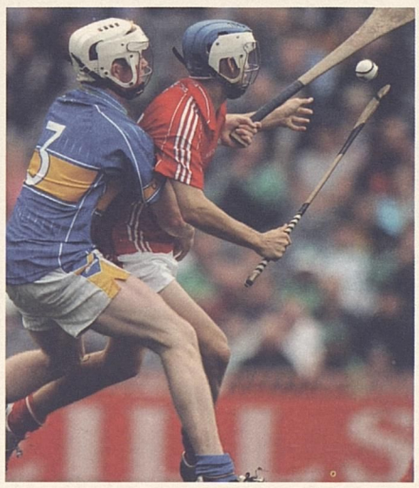
- ESB targeted a number of priority actions during 2007 including the safe business management programme. 2007 also saw immense progress in the area of OHSAS 18001 accreditation with six new locations receiving accreditation and several more applying for registration. In the 2007 staff survey, 92% of staff indicted that they were aware of their responsibilities in relation to health and safety in the workplace.
- Continued focus was placed on the reporting of near misses and hazards with almost 2,000 reported across ESB in 2007.
- On foot of the recent publication of The Baker Report on the Texas City Oil Refinery disaster, significant attention was focussed on the area of Process Safety with each Business Line developing and implementing specific process safety management initiatives.
- The Chief Executive's Safety Committee began a review of its activities in 2007 with full implementation of recommendations due in 2008. In the 2007 staff survey, 84% of staff indicated that they agreed with the statement "Management are fully committed to health and safety in the workplace".
- All Business Lines have now migrated to the Corporate Safety Auditing Recording System (SARS), with several thousand audits conducted and recorded.
- Attention was also focussed on a number of initiatives aimed at improving staff Health and Wellbeing, which seek to parallel in this area the advances made on staff safety. These are managed as part of ESB's Corporate programme called 'Energy for Living', launched during 2007. During 2007, 78% of ESB staff indicated that they had availed of one or more of the health screening / healthy living initiatives provided by ESB.
- 2007 was also an active year for the Safe Driving Bureau with a continued reduction in the number and severity of collisions for a third consecutive year.
- There was also significant progress in the area of Public Safety, notably the continuation of ESB's strategic alliance with the Health & Safety Authority and the joint production of a Code of Practice for the avoidance of hazards when working near overhead power lines. There was considerable progress made also in relation to agricultural safety as well as the commencement of a pilot public safety education programme in primary schools.

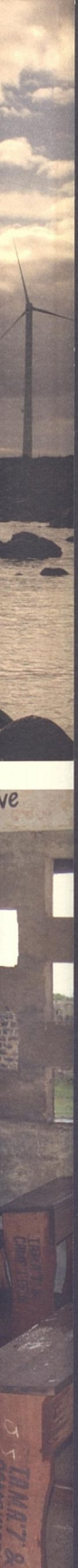




Marketplace

- In ESB Networks customer service standards are set out in the Networks Customer Charter. The Charter performance in 2007 of 8,322 charter payments was well inside the target set by the Commission for Energy Regulation of 11,000 payments and represents 55% fewer payments than made in 2006.
- The ESB Customer Supply Charter was launched in March 2007. The Charter contains 7 key commitments on customer service performance. Since its launch Customer Supply has paid €145,000 to customers under the charter. Business systems now contain measurement processes to automatically track time taken to deal with queries/complaints/refunds. From March to December 2007, the business achieved resolution of 88.6% of queries/complaints/refunds within 10 days. From 2008 onwards, there will be an agreed target with CER. This will be based on our charter performance from June 2007 to May 2008.
- 1 November, 2007 was a milestone date for the electricity industry in Ireland. The Single Electricity Market (SEM) came into operation, replacing the previous two wholesale electricity markets in the Republic of Ireland and Northern Ireland. The SEM will bring many benefits to customers, the island economy and the operation of electricity infrastructure. It is designed to attract investment and to promote competition, improve system security, increase industry efficiencies and minimise costs. ESB, a long term supporter of the SEM, had completed a major IT project to facilitate the implementation of the new market and to ensure that its businesses were ready and in a position to fully participate in the new trading environment.





Environment

ESB's total emissions of carbon dioxide fell within the allowed cap for 2007, improving on performance in 2006. We continued to input to critical climate and related energy policy formation during 2007 to position ESB to meet its obligations under the EU climate-energy strategy. ESB responded on consultations on the energy policy paper, national climate change strategy, energy efficiency plan, emission trading national allocation plan and the future of Dublin Port. The construction of Phase 1 and 2 of the Moneypoint improvement project was completed with Phase 3 scheduled for 2008. ESB's emissions of sulphur and nitrogen oxides were within target.

Safety

In 2007, ESB recorded reductions in the numbers of injuries, achieving yet again a new record low in reported injuries, and we have continued to deliver tangible improvements in our safety performance. In total, there were 50 lost time injuries to staff across ESB Group and 35 to contractors. ESB has now reduced its lost time injuries to staff by over 83% from its peak in 1997. We recognise, however that achieving the last 17% will require a further significant level of effort in our relentless pursuit of a zero injury workplace.

Board Members

Lochlann Quinn was appointed Chairman and Board member of ESB in January 2008. Mr. Quinn, a Chartered Accountant, was a partner with Arthur Andersen & Co. and is a former Chairman and Director of Allied Irish Banks. He was Deputy Chairman of Glen Dimplex. Mr. Quinn is a member of the Board of Smurfit Graduate School at University College, Dublin and Chairman of the National Gallery of Ireland.

Mr. Quinn is Chairman of the Remuneration and Management Development Committee and Chairman of the Finance Committee.

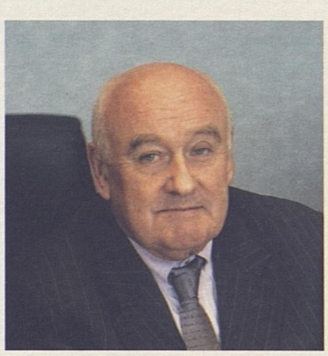
Georgina Kenny was appointed to the Board in April 2000 and was reappointed in May 2005. A Solicitor, Ms. Kenny is Managing Director of Shannon Dry Cleaners. She has been a member of the Board of Athlone Community Task Force since 1994. Ms Kenny is Chairman of the Business Development and International Committee and a member of the Remuneration and Management Development Committee.

John Coleman was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB in 1979 as a Day Worker in Ferbane Generating Station. He is the secretary of the ATGWU Day Workers Association. He is the current chairman of the ATGWU ESB Branch. Mr. Coleman is a member of the Business Development and International Committee and the Health, Safety and Environment Committee.

Brendan Byrne was appointed to the Board in September 2004. Mr. Byrne is a director of a number of companies in the aviation industry and is Managing Partner of ClearVision Consulting which provides financial and strategic planning services to a range of airline clients. 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 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 and a Trustee of the Conference Board of the United States. Mr McManus is a member of the Health, Safety & Environment Committee, the Business Development & International Committee and the Market and Customer Committee.

John Nugent was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB as an Executive Officer in 1967. He was a member of the ESB's Joint Industrial Council from 1991 to 2003. He was President of the Electricity Supply Board Officers' Association (ESBOA) from 2002 to 2006 and is currently a member of the ESB ESOT Board. Mr. Nugent is Chairman of the Regulation Committee and a member of the Finance Committee.



Lochlann Quinn



John Coleman



Padraig McManus



Georgina Kenny



Brendan Byrne



John Nugent

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 & International Committee and of the Audit Committee.

Seán Conlan was appointed to the Board in October 2007. An Electrical Engineer, he worked in a variety of engineering roles in Africa, Ireland and several countries in Europe before specialising in quality management, transformation, change management and education. He was Chief Executive of Excellence Ireland (the national independent quality association) from 1994 to 2003. He also served as President of EOQ (European Organisation for Quality). Other roles include Trustee of the Irish National Hygiene Partnership, a former Board member of the Irish National Accreditation Board, and member of the Consultative Council of the Food Safety Authority of Ireland.

Mr. Conlan is a member of the Audit Committee and of the Market & Customer Committee.

Garry Keegan was appointed to the Board in June 2007. He is a Director of Acumen, a company specialising in the provision of public consultation services for urban design and infrastructural projects.

Mr. Keegan has served as a Board member of a number of organisations, including: Temple Bar Properties, Dublin City Enterprise Board, Hugh Lane Gallery, St. James's, Hume St. and Holles St. hospitals. He also served as a Council Member on the Dublin Docklands Development Authority. In May 2007 he was appointed as a member of Expert Group of Future Skills Needs by the Minister of Enterprise, Trade and Employment.

Mr. Keegan is Chairman of the Market & Customer Committee and a member of the Regulation Committee.

Bobby Yeates was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB in 1967 and has worked on a range of ESB activities starting in Service Repair and is currently working as a Network Technician. He is an Executive Member Trustee of the TEEU and also a member of ESB Superannuation Committee. Mr. Yeates is a member of the Business Development and International Committee and the Market and Customer Committee.

Tony Merriman was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB in 1979 as a Network Technician. He has served as an officer with the ESB Group of Unions. Mr. Merriman is Chairman of the Health, Safety and Environment Committee and a member of the Regulation 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 (1973-74) 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. Mr. Mallon is a member of the Health, Safety and Environment Committee and of the Regulation Committee.



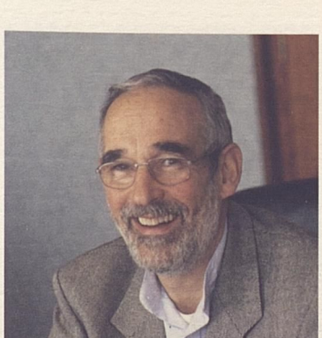
Eoin Fahy



Garry Keegan



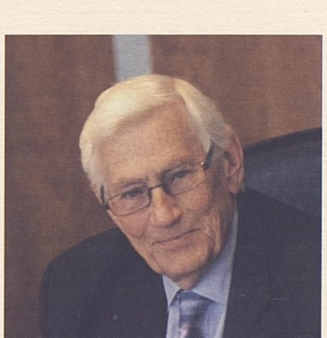
Tony Merriman



Seán Conlan



Bobby Yeates



Seamus Mallon

Executive Team

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, Sustainability in March 2008. Previously he had held the position of Executive Director, Human Resources & Corporate Affairs since November 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 and Deputy Chief Executive in January 2007. 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.

Brid Horan was appointed Executive Director ESB Customer Supply and Group Services in December 2006. She joined ESB in 1997 as Group Pensions Manager. She has been a Commissioner of the National Pensions Reserve Fund since it was established in 2001 and was a board member of IDA Ireland from 1996 to 2006. Before joining ESB she headed KPMG Pension & Actuarial Consulting.

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.



Michael McNicholas



John Shine



Brid Horan



John Campion



Aidan O'Regan



Bernard Byrne

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.

John Redmond is Company Secretary and Head of Corporate Affairs. He was appointed Company Secretary in 2002. He was previously Company Secretary of GPA Group plc. and worked in the Irish Diplomatic Service.



Pat O'Doherty

Luke Shinnors was appointed Executive Director, Human Resources in March 2008. Prior to his appointment he was Group Manager, Power Generation. He has also held other senior management positions across ESB including Manager, Corporate Change and HR Manager, Networks. He joined ESB in 1973 and holds an Electrical Engineering degree from UCD and an MBS in HR Strategies from DCU.

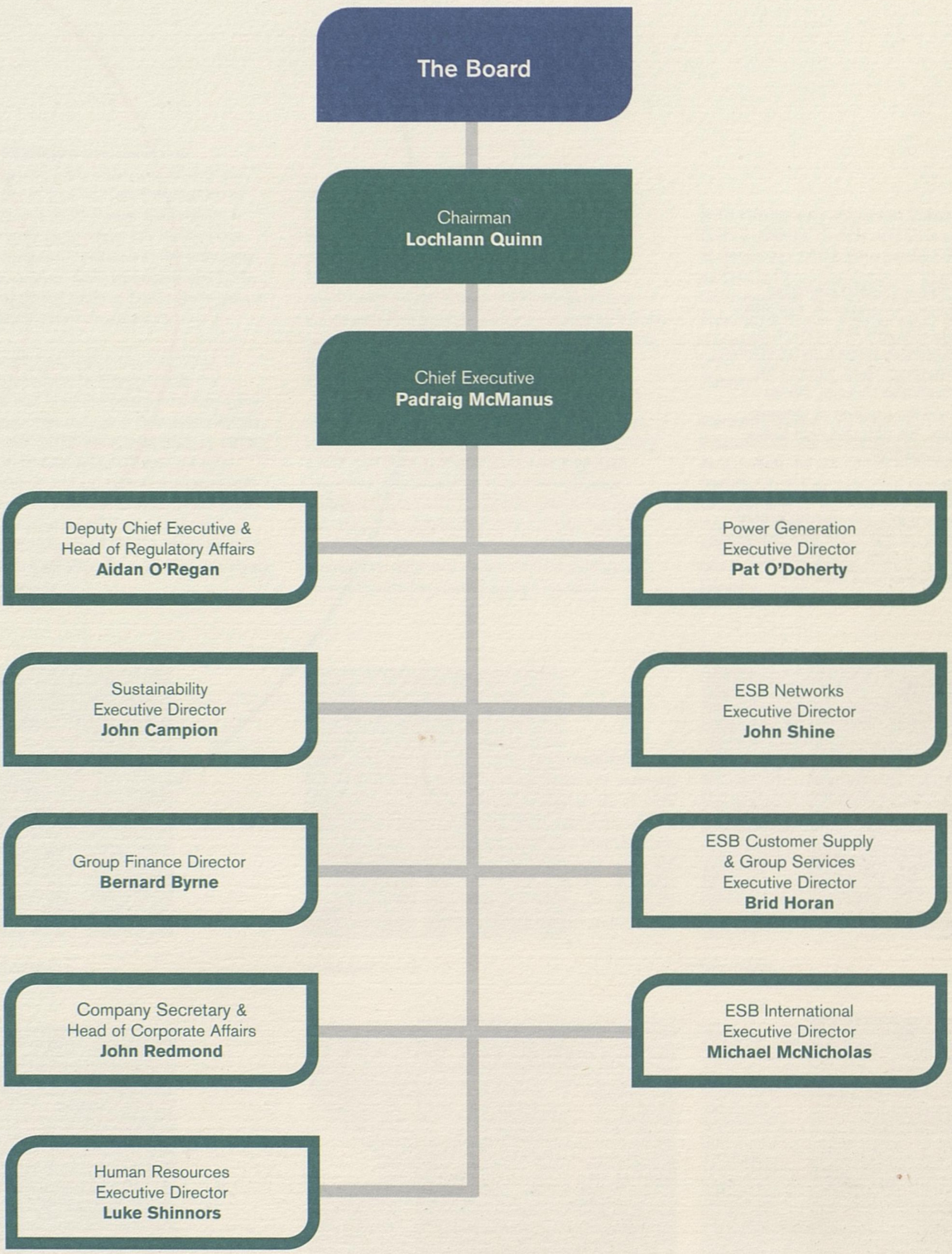


John Redmond



Luke Shinnors

Organisational Chart



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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 2007.

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 2007, 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 €432 million compared with €223 million for 2006.

No interim dividends were paid during 2007. The Board Members are recommending that a final dividend of 6.54 cent per unit of capital stock, amounting to €129.5 million in aggregate be paid in 2008 in respect of 2007. A total dividend per unit of stock of 3.37 cent, amounting to €66.7 million in aggregate, was paid in 2007 in respect of the year 2006. 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 2006 Combined Code of Corporate Governance. 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 and disclosures in relation to remuneration of Executive Board Members (Chief Executive) are in accordance with the State Body Guidelines issued by the Department of Finance. The details of Board Members' remuneration on page 37 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) The Board evaluation process does not evaluate the individual performance of Board Members.

(v) The Chairman consults regularly with the non-executive Board Members, but not by way of formal meetings.

(vi) The Board Chairman is also Chairman of the Remuneration and Management Development Committee.

(vii) One independent Board Member is an employee of a company which itself, or through a Group company, provides credit and other financial services to ESB but this is not viewed as compromising the independence of the Board Member concerned.

PRINCIPLES OF GOOD GOVERNANCE

Attendance at Meetings

There were eleven General Board Meetings and two Special Board Meetings during the year ended 31 December, 2007. The number in brackets below opposite each name represents the attendance by each Board Member at Board Meetings, during the year.

Board Members 2007	General	Special
Tadhg O'Donoghue, Chairman (retired January 2008)	(11)	(2)
Brendan Byrne*	(11)	(2)
John Coleman (appointed January 2007)	(11)	(2)
Eoin Fahy*	(11)	(2)
Séan Conlan* (appointed October 2007)	(1)	(1)
Garry Keegan* (appointed June 2007)	(6)	(1)
Georgina Kenny*	(11)	(2)
Seamus Mallon*	(10)	(1)
Will McKee* (retired May 2007)	(5)	(1)
Padraig McManus	(11)	(2)
Derry O'Donovan* (retired May 2007)	(5)	(1)
Tony Merriman (appointed January 2007)	(11)	(2)
John Nugent (appointed January 2007)	(11)	(2)
Bobby Yeates (appointed January 2007)	(11)	(2)

** Independent Board Members*

Changes to Board Membership

The terms of office of Mr. O'Donovan and Mr. McKee expired in May 2007. Two new Board Members - Mr. Keegan and Mr. Conlan were appointed to the Board in 2007.

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. Eight Board Members including the Chief Executive have been appointed by the Government for terms of up to five years and four Worker Board Members are appointed by the Minister for Communications, Energy and Natural Resources for a four year term following election by staff.

The Board has determined that the Board Members identified above were independent during 2007. 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 was appointed Chairman of the Board in January 2001 and retired in January 2008. He was succeeded as Chairman by Mr. Lochlann Quinn. The Chairman's responsibilities include leading the Board, determining its agenda, ensuring its effectiveness and facilitating full participation by each Board Member. The Chairman is also responsible for ensuring effective communication with the Company's owners and stakeholders - the Ministers for Finance and for Communications, Energy 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 meets monthly (except August) 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 2007 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 individual performance of 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 2007

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

Audit Committee

Members:
Brendan Byrne, Chairman
Eoin Fahy
Derry O'Donovan (part of year)
Georgina Kenny (part of year)
Seán Conlan (part of year)

The Audit Committee is a formally constituted committee of the Board with written terms of reference. The purpose of the Audit Committee is to oversee the financial reporting process and internal control system of ESB.

During 2007, the Audit Committee reviewed the annual and the interim financial statements, the system of internal controls, the reports of the internal and external auditors and risk management. The Committee also monitored:

- 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
- 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 2007 which were attended by all who were members at the time of the Committee, except that Ms. Kenny was absent from one meeting. The Board is satisfied that at all times during the year at least one member of the Committee had recent and relevant financial experience.

Business Development and International Committee

Members:
Georgina Kenny, Chairman
Bobby Yeates
Eoin Fahy
Padraig McManus
John Coleman

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.

Health, Safety and Environment Committee

Members:
Tony Merriman, Chairman
John Coleman
Seamus Mallon
Padraig McManus

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

Finance Committee

Members:
Derry O'Donovan, Chairman (part of year)
John Nugent
Tadhg O'Donoghue (Chairman, part of year)
Brendan Byrne (part of year)
Seán Conlan (part of year)

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

Regulation Committee

Members:
John Nugent, Chairman
Tony Merriman
Seamus Mallon
Brendan Byrne (part of year)
Garry Keegan (part of year)

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.

Remuneration and Management Development Committee

Members:
Tadhg O'Donoghue, Chairman
Eoin Fahy
Will McKee (part of year)
Georgina Kenny (part of year)

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 2007, 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 2007 which were attended by all who were Committee Members at the time of the meeting.

Market and Customer Committee

Members:
Will McKee, Chairman (part of year)
Georgina Kenny (part of year)
Padraig McManus (part of year)
Bobby Yeates
Garry Keegan (appointed Chairman November 2007)
Seán Conlan (part of year)

The Market and Customer Committee advises the Board on all aspects of customer service.

Internal Controls

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

The 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 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 as described on pages 34 to 35.

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:

- 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.

The Board's Enterprise Risk Management (ERM) Process

ESB ensures risk management is an integral part of all business activity and is managed in a consistent manner across the Business Units. To achieve this, the Group has adopted an enterprise wide approach to risk management. Across ESB Group, a consistent framework for the identification, assessment, management and reporting of risk applies.

This risk management framework is maintained and updated by the Group Risk Manager, overseen by the Board and Audit Committee, and implemented by management at all levels of the Group.

A Group Risk Committee from across the Group, chaired by the Group Finance Director, supports the Board in fulfilling its risk management responsibilities. The Committee oversees and directs risk policy and practice, considers risk assessments carried out at Business Unit and Group level, and reviews overall risk trends for the Group. The Committee reports to the Executive Director Team, the Audit Committee, and the Board on a regular basis.

The Group Internal Auditor is independent of the risk management process and has provided independent assurance to the Audit Committee on the adequacy of the risk management arrangements in place in the Group. In addition, the Group's risk management approach was subject to an external benchmarking review by KPMG during 2007. Their report to the Audit Committee concluded that ESB's risk management framework is very well embedded and operating in line with best practice.

Details of all risks are maintained and updated in the Corporate Risk Register. Risks are ranked by probability and potential consequences. The nature of each risk determines how the exposure is dealt with.

The enterprise approach provides ongoing assessment of the consolidated risk position for the Group. The combined risk plans of each Business Unit are reviewed to highlight trends and to identify common and interdependent risks across the Group. The Group Risk Committee provides a key input to the assessment and ranking of risk from a Group perspective.

For more information on the established risk management framework, including some of the Group's most significant risks, see the Risk Management Report on pages 40 to 41.

BOARD MEMBERS' REMUNERATION 2007

Remuneration	2007 €	2006 €
Chairman:		
Tadhg O'Donoghue (resigned January 2008)		
Fees	111,513	63,487
Taxable benefits	3,193	5,449
	114,706	**68,936**
Chief Executive:		
Padraig McManus		
Salary	376,879	346,134
Performance related pay:		
- Annual bonus	57,487	49,914
- Long term incentive	-	-
Taxable benefits	23,378	25,233
Pension contributions	59,754	56,446
Fees	17,500	17,500
	534,998	**495,227**
Non-Executive Board Members:		
Joe LaCumbre * (retired February 2006)	-	2,116
Brendan Byrne	17,500	17,500
John Coleman *	17,500	-
Séan Conlan (appointed October 2007)	3,356	-
Eamonn Connolly * (term expired December 2006)	-	17,500
Garry Keegan (appointed June 2007)	9,949	-
Eoin Fahy	17,500	15,990
Seamus Mallon	17,500	14,983
Georgina Kenny	17,500	17,500
John McGinley * (term expired December 2006)	-	17,500
Will McKee (term expired May 2007)	7,144	17,500
Derry O'Donovan (term expired May 2007)	7,144	17,500
Pat Smith * (term expired December 2006)	-	17,500
Tony Merriman *	17,500	-
John Nugent *	17,500	-
Bobby Yeates *	17,500	-
	167,593	**155,589**

* In addition to their Board fees, the Worker Board Members were 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, Energy 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 in 2007 consisted of basic salary, performance related bonus payments of up to 18% of basic salary, eligibility for a tri-annual payment under a long-term incentive scheme of up to 7% of 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, Energy and Natural Resources.

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, Energy 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.

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.

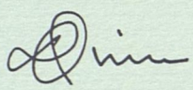
ELECTORAL ACT, 1997

The Board made no political donations during the year.

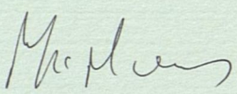
CONCLUSION

This report was approved by the Board on 29 April 2008 for submission to the Minister for Communications, Energy and Natural Resources.

On behalf of the Board



Lochlann Quinn Chairman



Padraig McManus Chief Executive

29 April 2008

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 2006.

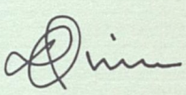
The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and the Parent; the Companies Acts 1963 to 2006 provide in relation to such financial statements that references in the relevant part of that Act to 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 43 to 94, the Board Members are required to:

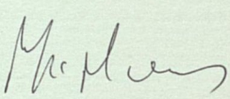
- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Parent will continue in business.

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



Lochlann Quinn Chairman



Padraig McManus Chief Executive

29 April 2008

Risk Management Report

ENTERPRISE APPROACH

Risk is an active element of the environment within which ESB operates. ESB is committed to successfully managing the Group's exposure to risk and to minimising its impact on the achievement of business objectives.

ESB has put in place a risk management framework comprising the following components:

- Processes for identifying and prioritising the Group's risks for Management and Board attention.
- Monitoring mechanisms to ensure proper execution of mitigation plans and strategies.
- Ongoing assessments to highlight trends and to identify new and emerging risk areas.
- Maintenance of a Group perspective on risk through a process of consolidating and aligning the various views of risk across the Group.

The risk management framework outlined above is based on an Enterprise Risk Management (ERM) model, which ESB adopted in 2005. ERM provides an integrated approach to risk and has become an established best practice model for risk management. ERM is increasingly seen as the de facto standard for increasing an organisation's competency in managing uncertainty and minimising threats.

The enterprise approach provides ongoing assessment of the consolidated risk position for the Group. The combined risk plans of each Business Unit are reviewed to highlight trends and to identify common and interdependent risks across the Group.

Health and Safety risk

ESB is committed to the highest possible safety standards to protect against the risk of injury to staff, contractors and the general public. Safety is a core value of ESB. There is a continuing drive to maintain awareness among all staff concerning the importance of safety. A health and safety culture is strongly promoted throughout the Group. ESB rigorously enforces its safety polices and standards to achieve its ultimate target of zero injuries.

In relation to public safety, ongoing media and direct marketing campaigns are run to increase public awareness of the risks and dangers. ESB has a Strategic Partnership with the Health and Safety Authority to improve electrical safety in the construction and agricultural sectors.

An extensive safety leadership programme, fully supported by the Board and management, is in place throughout ESB to address key strategic safety issues. Staff and management at all levels are involved in undertaking safety audits and reviews.

Regulatory risk

ESB regulatory risk relates to compliance with licence obligations, the impact of price reviews and the ongoing development of energy regulation. ESB is fully aware of all its compliance obligations in respect of regulatory issues. The scope of ESB activities subject to regulation make this a significant risk issue for the Group.

ESB manages these risks through Regulatory Functions in each of the regulated Business Units along with a Corporate Regulatory team. These functions provide input on the ongoing development of the regulatory, trading and pricing regimes relevant to their areas. ESB also has in place a monitoring and reporting regime in the relevant Business Units, overseen at Group Level, to ensure ongoing compliance with all regulatory requirements.

Single Electricity Market (SEM) Trading risk

The energy trading arrangements that came into effect in November 2007 under the SEM increased the risks posed by electricity and fuel price movements for all participants in the Market. ESB has adopted an appropriate trading and hedging strategy to manage potential price volatility and uncertainty in the SEM. Financial contracts are entered into and trading decisions are taken in line with this strategy. Business Units have strengthened their traditional energy trading functions to ensure the full extent of ongoing SEM trading positions is fully understood.

As apart of its SEM readiness programme, the Business Units participating in the market (Power Generation, ESB Customer Supply and ESBI) put in place the appropriate trading capability, structures and systems for effective management of risk in the SEM. The embedded risk management and controls covering trading activities that apply in the relevant Business Units are subject to strict governance and reporting regime, including regular review by Group Internal Audit.

Business performance risk

Business performance risk is the risk that one or more of the Group's businesses may not perform as expected either due to internal factors or due to competitive pressures in the markets in which it operates. Performance risks specific to each business are identified in individual risk plans, where specific mitigation actions are planned and assigned.

At Group level, the overall business performance risk is managed through a number of measures: ensuring the appropriate management team is in place for each business; rigorous budget and business planning; monthly reporting and variance analysis; financial controls; key performance indicators; and regular forecasting.

Knowledge/skills

ESB recognises it has a high dependency on the technical competence & credibility of its management and staff. The Group strongly appreciates the need to maintain high standards of competence and effectiveness in new and developing areas of the business. ESB is determined to maintain the necessary knowledge and skills for high levels of competitiveness both in the Irish market and abroad.

To this end, ESB continues to invest in staff training and development and in ongoing performance improvement. As part of a resource planning exercise, a future engineering resources study was completed during the year. A Resource Planning manager has been appointed to Group HR to drive enhanced resource and future skills planning at all levels in the business units. Group HR is also formulating a recruitment strategy to enhance the 'employment brand' and to attract, recruit and assimilate best fit candidates.

Plant performance risk

Relative to its more modern plant, ESB faces increased risk to plant performance and availability in respect of some of its older plant that for security of supply reasons has remained in commission.

To achieve the targeted performance and availability of existing generation plant, ESB has in place an overhaul investment programme, a generation asset management strategy and established polices and procedures covering the operation and maintenance of plant. While ESB plant can also be damaged as a result of incidents and breakdowns, such plant risks are minimised through ESB's well established plant safety and maintenance regimes, operating and technical procedures and staff training. The Group also has in place appropriate insurance contracts to protect itself against financial loss from outages arising from plant damage.

Operational risk (Business processes & IT)

ESB's enterprise risk management processes identify and address (escalating where appropriate) a wide range of potential operational risk from across the Group. Operational risk in this context is defined as the risk of incurring losses or reputation damage due to mistakes or shortcomings in the Group's business processes and IT systems.

Each Business Unit is responsible for limiting and managing operational risks within its area of responsibility by ensuring that well-documented routines, reliable IT systems and satisfactory internal controls are in place. The internal control framework is subject to internal and external audit. The planning of the Group's internal audit programme takes account of the potential operational risks identified by the risk management framework.

Financial/treasury risks

The main treasury risks faced by the Group relate to foreign exchange, interest rate and commodity (electricity and fuel) price movements. Policies to protect the Group from these risks, and other risk areas, such as liquidity risk and counterparty credit risk, are regularly reviewed, revised and approved by the Board as appropriate.

Group Treasury is responsible for the day to day treasury activities of the Group, including the trading of derivative instruments to mitigate these risks.

For a more detailed description of Group Treasury activities and the management of related financial risks, see the section on Financial Risk Management on pages 7 and 8.

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

As auditors appointed by the Minister for Communications, Energy and Natural Resources with the consent of the Minister for Finance, under Section 7 of the Electricity (Supply) Act 1927, we have audited the Group and Parent financial statements (the "financial statements") of ESB for the year ended 31 December 2007 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 43 to 94. 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 2006, 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 39.

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 2006 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 32 to 38 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 pages 35 and 36 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 2007 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 2006 applied to the Board by the Electricity Supply Acts 1927 to 2004, of the state of the Parent's affairs as at 31 December 2007; 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.

KPMG

Chartered Accountants
Registered Auditors
1 Stokes Place
St Stephens Green
Dublin 2

29 April 2008

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. The consolidated financial statements of ESB as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as ESB) and the Group's interests in jointly controlled entities.

The parent and consolidated financial statements are prepared under IFRS (International Financial Reporting Standards) as adopted by the EU (EU IFRS) and in the case of the Parent as applied in accordance with the Companies Acts 1963 to 2006. The Companies Acts 1963 to 2006, provide a parent company that presents its individual financial statements together with its consolidated financial statements, with an exemption for publishing an entity income statement which forms part of the parent financial statements prepared and approved in accordance with the Acts. They have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective for accounting periods ending on or before 31 December 2007.

The parent and consolidated financial statements have been prepared on the historical cost basis except for derivative financial statements which are measured at fair value.

The parent and consolidated financial statements are prepared in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Judgements made by management in the application of EU IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 30 to the financial statements.

The policies set out below have been consistently applied to all years presented in these consolidated financial statements and have been applied consistently by Group entities.

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 2007. 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 2007.

Subsidiaries

Subsidiaries are entities controlled by the ESB. Control exists when the ESB has the 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 Ventures

Joint venture undertakings (joint ventures) are those undertakings over which the ESB exercises contractual control jointly with another party. The parent's investments in subsidiaries in its balance sheet are recognised at cost.

Joint ventures are accounted for using the equity method of accounting. The Group's share of the profits after tax of joint ventures is included in the consolidated Income Statement after interest and financing charges. The Group's interests in their net assets or liabilities are included as investments in joint ventures on the face of the consolidated balance sheet at an amount representing the Group's share of the fair values of the net assets at acquisition plus goodwill, less any impairment 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 are taken from their latest audited financial statements made up to the balance sheet date.

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 joint ventures is included in non current assets under investments in joint ventures.

(b) Software Costs

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 Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development, employees and an appropriate portion of relevant overheads. These costs are amortised over their estimated useful lives (three to five years) on a straight line basis.

(c) Emission Allowances

In accordance with the provisions of the European CO_2 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 held, 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 of the end of that calendar year, in order to cover the liability for actual emissions of CO_2 during that year. Emissions allowances held at cost as intangible assets are not amortised as they are held for settlement of the emission liability 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 the consolidation is presented in the presentational currency which is euro. The Group's net investments in overseas subsidiary undertakings, joint ventures and related goodwill are translated at the rate ruling at the balance sheet date. The profits, losses and cashflows of overseas subsidiary undertakings and joint ventures are translated at average rates for the period. Exchange differences resulting from the retranslation of the opening balance sheets of overseas subsidiary undertakings and joint ventures at closing rates, together with the differences on the translation of the Income Statement, are dealt with through a separate component of equity (translation reserve) and reflected in the Statement of Recognised Income and Expense. Translation differences held in this reserve are released to the Income Statement on disposal of the relevant entity.

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

5. Property, Plant and Equipment and Depreciation

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. No depreciation is provided on freehold land or on assets in the course of construction.

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

Included in property, plant and equipment are strategic spares in relation to the Power Generation business. Capital stock in the Networks business is carried within Assets under Construction pending commissioning.

6. Borrowing Costs

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

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

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

9. Financial Instruments

(a) Non-Derivative Financial Instruments

Trade and other receivables

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

Provisions are made specifically where there is objective evidence of a dispute or an inability to pay. An additional provision is made on a portfolio basis to cover additional incurred losses based on an analysis of previous losses experienced.

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 of three months or less, less overdrafts payable on demand.

Trade and other payables

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

Loans to and receivables from Group Companies

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

(b) Derivative Financial Instruments

The Group uses derivative financial instruments and non-derivative financial instruments to hedge its exposure to foreign exchange, interest rate, and commodity price risk arising from operational, financing and investing activities. The principal derivatives used include interest rate swaps, currency swaps, forward foreign currency contracts, indexed swap contracts relating to the purchase of fuel, and contracts for differences in relation to sales and purchases through the electricity trading pool of the Single Electricity Market (SEM).

The 2006 and 2007 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 derivatives classified as trading 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. Arising from the commencement of the SEM during the year, the Group has entered into derivative financial instruments in respect of electricity sales and purchases, which in the main, qualify for hedge accounting under the terms of IAS 39 and are accounted for as such. In addition, certain other long term 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. Subsequently, these instruments are restated at fair values at the Balance Sheet date. Movements during the financial year in the fair value of derivatives classified as trading investments are recognised in the Income Statement in that financial year.

Derivatives are derecognised on settlement or sale.

(c) 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, with any ineffective portion recognised immediately in the Income Statement.

(d) 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.

(e) Insurance contracts

During the normal course of business, ESBI provides Parent company guarantees and bonds to its subsidiary companies. These guarantees and bonds are classified under IFRS 4 as insurance contracts. Where it is expected that no claims will be made on these contracts, no provision is made in the accounts.

10. 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.

11. 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.

12. Capital Stock

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

13. 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. Current 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 income tax expense in the Income Statement does not include taxation on the Group's share of profits of joint venture undertakings, as this is included within the separate line on the face of the Income Statement for profits from joint ventures.

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 the Board consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date. Deferred tax is charged or credited to the Income Statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

14. 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 reviewed each year and amended as appropriate. Amendments to the discounted estimated costs are capitalised into the relevant assets and depreciated over the remaining life of the relevant assets. As the costs are capitalised and initially provided on a discounted basis, the provision is increased by a financing charge each period, which is calculated based on the provision balance and discount rate applied at last measurement date 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 current or non-current provisions as appropriate on the Balance Sheet.

15. Revenue

(a) Electricity 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 the last meter reading and the period end and this estimate is included in trade and other receivables in the Balance Sheet as unbilled consumption.

Electricity revenue is recognised on consumption of electricity.

(b) Contract Revenue

Contract Revenue is recognised on a time apportionment basis by reference to the stage of completion of the contract at the Balance Sheet date.

16. Other Operating Income

Emissions Allowances

Emissions allowances granted to the Group are credited to the Income Statement on the basis of actual emissions during the year.

17. Profit on disposal of Property

The gain arising from the derecognition of an item of property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

18. Costs

(a) Energy Costs

Energy Costs comprise direct fuel, (primarily coal, oil and gas) and purchased electricity. Fuel and purchased electricity costs are recognised as they are utilised. The company has entered into certain long term power purchase agreements that are for fixed amounts and meet the definition of a derivative. Amounts payable under the contracts that are in excess of or below market rates are recoverable by the Company or repayable to the market under the public service obligation levy. These derivative contracts are designated as cash flow hedges of the public service obligation cash flows.

(b Operating and Other Maintenance Costs

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

19. Pension Obligations

Pension obligations

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

20. Employee Related Liabilities

Restructuring Liabilities
Voluntary termination 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 termination benefits when it is demonstrably committed to providing termination 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.

Other Short Term Employee Related Liabilities
The costs of vacation leave are recognised when employees render the service that increases their entitlement to future compensated absences.

21. New Accounting Standards and Pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements.

IFRS 8 ***Operating Segments*** changes the requirements for operating segments. It is effective for annual periods beginning 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

IFRIC 11 ***IFRS 2*** *– Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

Group Income Statement

Year ended 31 December 2007

	Notes	2007 €'000	2006 €'000
Revenue	1	**3,461,021**	3,087,504
Other operating income	3	**109,370**	308,500
Profit on disposal of property	2	**21,713**	75,372
Operating costs	4	**(3,068,896)**	(3,134,844)
Operating profit		**523,208**	336,532
Interest cost and other financing charges	5	**(91,998)**	(93,151)
Interest income	5	**1,840**	927
Net interest cost and other financing charges		**(90,158)**	(92,224)
Share of joint ventures' profit	12	**47,050**	19,674
Profit before taxation		**480,100**	263,982
Income tax expense	7	**(48,368)**	(41,364)
Profit after taxation	18	**431,732**	222,618
Attributable to:			
Equity holders of the Parent	18	**431,816**	222,468
Minority interests	18	**(84)**	150
Profit for the financial year	18	**431,732**	222,618

Signed: **Lochlann Quinn** Chairman

Signed: **Padraig McManus** Chief Executive
Signed: **Bernard Byrne** Group Finance Director
29 April 2008

Group Balance Sheet

As at 31 December 2007

	Notes	2007 €'000	2006 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**6,385,576**	6,000,493
Intangible assets	10	**223,225**	383,999
Investment property	11	**-**	260
Investments in joint ventures	12	**71,742**	30,418
Financial asset investments	12	**2,773**	11,164
Derivative financial instruments	20	**237,086**	1,926
Deferred tax assets	21	**64,569**	72,200
Total non-current assets		**6,984,971**	6,500,460
Current assets			
Inventories	13	**160,722**	150,822
Trade and other receivables	14	**630,486**	603,412
Investments	15	**79**	79
Cash and cash equivalents	16	**53,318**	37,733
Current tax asset	27	**5,901**	-
Derivative financial instruments	20	**49,675**	899
Assets held for sale	17	**31,373**	1,407
Total current assets		**931,554**	794,352
Total assets		**7,916,525**	7,294,812
EQUITY			
Capital stock	18	**1,979,882**	1,979,882
Translation reserve	18	**72**	5,025
Cash flow hedging and other reserves	18	**221,750**	(48,235)
Retained earnings	18	**1,163,281**	798,187
Equity attributable to equity holders of the Parent		**3,364,985**	2,734,859
Minority interests	18	**645**	729
Total equity		**3,365,630**	2,735,588
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	19	**1,707,515**	1,819,356
Pension liabilities	22	**325,693**	327,762
Employee related liabilities	23	**122,209**	127,763
Trade and other payables	24	**17,314**	42,552
Deferred income and government grants	25	**612,152**	490,548
Provisions	26	**291,766**	283,719
Deferred tax liabilities	21	**348,565**	310,225
Derivative financial instruments	20	**167,743**	146,015
Total non-current liabilities		**3,592,957**	3,547,940
Current liabilities			
Borrowings and other debt	19	**142,346**	178,588
Employee related liabilities	23	**65,802**	64,564
Trade and other payables	24	**629,993**	484,186
Provisions	26	**75,892**	266,558
Current tax liabilities	27	**-**	17,213
Derivative financial instruments	20	**43,905**	175
Total current liabilities		**957,938**	1,011,284
Total liabilities		**4,550,895**	4,559,224
Total equity and liabilities		**7,916,525**	7,294,812

Signed: **Lochlann Quinn** Chairman

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Signed: **Bernard Byrne** Group Finance Director
29 April 2008

Parent Balance Sheet

As at 31 December 2007

	Notes	2007 €'000	2006 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**6,069,251**	5,654,999
Intangible assets	10	**206,144**	353,769
Investment property	11	**-**	260
Financial asset investments	12	**72,982**	98,238
Derivative financial instruments	20	**260,435**	1,926
Deferred tax assets	21	**60,125**	67,677
Total non-current assets		**6,668,937**	6,176,869
Current assets			
Inventories	13	**159,636**	147,437
Trade and other receivables	14	**902,054**	899,600
Investments	15	**79**	79
Cash and cash equivalents	16	**25,130**	18,178
Current tax asset	27	**8,378**	-
Derivative financial instruments	20	**49,448**	321
Assets held for sale	17	**31,373**	1,407
Total current assets		**1,176,098**	1,067,022
Total assets		**7,845,035**	7,243,891
EQUITY			
Capital stock	18	**1,979,882**	1,979,882
Cash flow hedging and other reserves	18	**250,629**	(48,801)
Retained earnings	18	**1,120,276**	803,420
Equity attributable to equity holders of the Parent		**3,350,787**	2,734,501
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	19	**1,675,017**	1,782,428
Pension liabilities	22	**325,693**	327,762
Employee related liabilities	23	**122,209**	127,763
Trade and other payables	24	**12,760**	16,452
Deferred income and government grants	25	**595,750**	473,911
Provisions	26	**290,766**	283,547
Deferred tax liabilities	21	**351,382**	307,372
Derivative financial instruments	20	**152,622**	146,015
Total non-current liabilities		**3,526,199**	3,465,250
Current liabilities			
Borrowings and other debt	19	**137,914**	174,798
Employee related liabilities	23	**57,433**	57,111
Trade and other payables	24	**658,444**	560,058
Provisions	26	**70,419**	244,121
Current tax liabilities	27	**-**	7,877
Derivative financial instruments	20	**43,839**	175
Total current liabilities		**968,049**	1,044,140
Total liabilities		**4,494,248**	4,509,390
Total equity and liabilities		**7,845,035**	7,243,891

Signed: **Lochlann Quinn** Chairman

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Signed: **Bernard Byrne** Group Finance Director
29 April 2008

Group Statement of Recognised Income and Expense

Year ended 31 December 2007

	Notes	2007 €'000	2006 €'000
Translation differences on consolidation of foreign subsidiaries, and joint ventures	18	**(20,309)**	6,038
Transferred from Income Statement on hedge of a net investment	18	**15,356**	(3,502)
Fair value gains/(losses) on cash flow hedges	18	**210,600**	(42,888)
Fair value gains on cash flow hedges in joint ventures	18	**6,846**	13,938
Tax on items taken directly to equity	18	**(25,328)**	5,361
Net income recognised directly in equity		**187,165**	(21,053)
Transferred to Income Statement on cash flow hedges	18	**90,805**	88,096
Transferred to Income Statement on cash flow hedges in joint ventures	18	**421**	(1,927)
Tax on items transferred from equity	18	**(11,350)**	(11,054)
Tax on items taken directly to/transferred from equity for joint ventures	18	**(2,009)**	(3,494)
Profit for the financial year	18	**431,732**	222,618
Total recognised income and expense for the financial year		**696,764**	273,186
Equity holders of the Parent		**696,848**	273,036
Minority interest		**(84)**	150
Total recognised income and expense for the financial year		**696,764**	273,186

Parent Statement of Recognised Income and Expense

Year ended 31 December 2007

	Notes	2007 €'000	2006 €'000
Fair value gains/(losses) on cash flow hedges	18	**250,910**	(43,131)
Tax on items taken directly to equity	18	**(30,935)**	5,391
Net income recognised directly in equity		**219,975**	(37,740)
Transferred to Income Statement on cash flow hedges	18	**90,805**	88,096
Tax on items transferred from equity	18	**(11,350)**	(11,012)
Profit for the financial year	18	**383,578**	302,742
Total recognised income and expense for the financial year		**638,008**	342,086
Attributable to:			
Equity holders of the Parent		**638,008**	342,086

Group Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 €'000	2006 €'000
Cash flows from operating activities			
Profit before taxation		**480,100**	263,982
Adjustments for:			
Depreciation and amortisation	4	**433,554**	450,503
Amortisation and impairment of supply contributions and other deferred income		**(29,744)**	(22,293)
Amortisation and impairment of emissions allowances		**(70,746)**	(267,699)
Loss on disposal of property, plant and equipment	8	**1,879**	2,486
(Profit) on disposal of property, plant and equipment	8	**(21,713)**	(75,372)
(Profit) on disposal of businesses	3	**(2,267)**	(18,508)
Translation differences		**16,867**	(1,270)
Interest expense	5	**90,158**	92,224
Impact of fair value movements on financial instruments		**9,167**	-
Profits from joint ventures	12	**(47,050)**	(19,674)
Operating cashflows before changes in working capital and provisions		**860,205**	404,379
Charge in relation to provisions		**71,668**	245,520
Charge in relation to employee related liabilities		**130,397**	197,935
Utilisation of provisions		**(16,345)**	(20,638)
Utilisation of employee related liabilities		**(142,284)**	(210,208)
(Increase)/decrease in trade and other receivables		**(21,407)**	26,745
(Increase)/decrease in inventories		**(9,900)**	12,165
Increase/(decrease) in trade and other payables		**132,255**	(60,815)
Cash generated from operations		**1,004,589**	595,083
Current tax paid		**(65,327)**	(33,048)
Interest paid		**(84,742)**	(86,013)
Payment for business separation costs		**-**	(45,000)
Net cash inflow from operating activities		**854,520**	431,022
Cash flows from investing activities			
Purchase of property, plant and equipment		**(835,659)**	(768,992)
Purchase of intangible assets		**(61,592)**	(48,512)
Proceeds from sale of property, plant and equipment		**28,943**	68,854
Proceeds from sale of intangible assets		**707**	155
Proceeds from financial asset transactions		**8,327**	15,586
Supply contributions and other deferred income received	25	**152,483**	136,184
Proceeds from disposal of businesses		**10,798**	31,920
Dividends received from joint venture undertakings	12	**5,556**	8,321
Interest received		**1,840**	927
Net cash outflow from investing activities		**(688,597)**	(555,557)
Cash flows from financing activities			
Dividends paid	18	**(66,722)**	(72,389)
(Decrease)/increase in borrowings		**(62,316)**	180,479
(Decrease) in finance lease		**(11,009)**	(4,267)
Interest element of finance lease payments		**(9,555)**	(8,528)
Net cash (outflow)/inflow from financing activities		**(149,602)**	95,295
Net increase/(decrease) in cash and cash equivalents		**16,321**	(29,240)
Cash and cash equivalents at 1 January	16	**37,733**	66,949
Effect of exchange rate fluctuations on cash held		**(736)**	24
Cash and cash equivalents at 31 December	16	**53,318**	37,733

Parent Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 €'000	2006 €'000
Cash flows from operating activities			
Profit before tax		**434,809**	337,102
Adjustments for:			
Depreciation and amortisation		**412,562**	392,960
Amortisation of supply contributions and other deferred income	25	**(22,200)**	(16,199)
Amortisation and impairment of emissions allowances		**(66,854)**	(245,607)
Loss on disposal of property, plant and equipment		**1,879**	2,486
(Profit) on disposal of property, plant and equipment		**(21,713)**	(75,075)
Interest expense		**85,173**	82,113
Dividend receivable from subsidiary undertakings		**-**	(73,835)
Impact of fair value movements on financial instruments		**10,204**	-
Operating cashflows before changes in working capital and provisions		**833,860**	403,945
Charge in relation to provisions		**62,949**	223,258
Charge in relation to employee related liabilities		**129,117**	197,935
Utilisation of provisions		**(14,275)**	(20,638)
Utilisation of employee related liabilities		**(141,919)**	(210,208)
(Increase) in trade and other receivables		**(2,181)**	(21,009)
(Increase)/decrease in inventories		**(12,199)**	11,580
Decrease in trade and other payables		**52,475**	5,531
Cash generated from operations		**907,827**	590,394
Current tax paid		**(58,277)**	(33,824)
Interest paid		**(90,729)**	(87,667)
Payment for business separation costs		**-**	(45,000)
Net cash inflow from operating activities		**758,821**	423,903
Cash flows from investing activities			
Purchase of property, plant and equipment		**(763,539)**	(758,802)
Purchase of intangible assets		**(52,631)**	(41,945)
Proceeds from sale of property, plant and equipment		**29,963**	62,565
Proceeds from financial asset transactions		**25,256**	55,891
Supply contributions and other deferred income received	25	**144,039**	116,527
Interest received		**10,217**	13,813
Dividends received from subsidiary undertakings		**-**	20,464
Net cash outflow from investing activities		**(606,695)**	(531,487)
Cash flows from financing activities			
Dividends paid	18	**(66,722)**	(72,389)
(Decrease)/increase in borrowings		**(58,528)**	140,085
(Decrease) in finance leases		**(11,009)**	(4,267)
Interest element of finance lease payments		**(8,179)**	(8,589)
Net cash (outflow)/inflow from financing activities		**(144,438)**	54,840
Net increase/(decrease) in cash and cash equivalents		**7,688**	(52,744)
Cash and cash equivalents at 1 January	16	**18,178**	70,898
Effect of exchange rate fluctuations on cash held		**(736)**	24
Cash and cash equivalents at 31 December	16	**25,130**	18,178

Notes to the Financial Statements

1. REVENUE

(a) Revenue by Geographic Market

	2007 €'000	2006 €'000
Ireland	**3,158,448**	2,808,267
UK and Europe	**272,482**	247,843
Other	**30,091**	31,394
Total	**3,461,021**	3,087,504

(b) Revenue by Business Line

	2007 €'000	2006 €'000
Power Generation	**1,431,471**	1,371,600
ESB Customer Supply	**2,103,025**	1,849,466
ESB Networks	**828,710**	760,200
ESBI*	**794,517**	725,166
Inter Business Unit eliminations and Unregulated Income **	**(1,696,702)**	(1,618,928)
Total	**3,461,021**	3,087,504

The method of splitting revenues by business line has been revised in 2007 and the comparatives restated accordingly.
*Included in ESBI revenue is contracting revenue of €39.9 million (2006: €41.3 million).
**Included in this caption are inter business unit amounts eliminated on consolidation and other unregulated income.

2. PROFIT ON DISPOSAL OF PROPERTY

	2007 €'000	2006 €'000
Profit on disposal of property	**21,713**	75,372

Properties with a net book value of €4.4 million (2006: €4.5 million) at date of disposal were disposed of during the year at a profit of €21.7 million (2006: €75.4 million).

3. OTHER OPERATING INCOME

	2007 €'000	2006 €'000
Profit on disposal of businesses	**2,267**	18,508
Release of emissions allowances granted (Note 25)	**77,771**	267,699
Amortisation of supply contributions and other deferred income (Note 25)	**29,332**	22,293
Total	**109,370**	308,500

In 2007, the profits on the disposal of businesses are made up of the profits of €2.3 million on the sale of CHP plants (2006: €18.5 million relating to the sale of Irish Power System Limited, Hibernian Hydro Limited and the 50% share in Marchwood Power Limited).

4. OPERATING COSTS

	2007 €'000	2006 €'000
Employee costs (Note 6)	**560,519**	591,197
Energy costs	**1,621,942**	1,456,438
Emission costs including impairment charge	**74,971**	250,714
Operations and maintenance	**377,910**	385,992
Depreciation and amortisation of property, plant and equipment/intangible assets (Notes 9/10/11)	**433,554**	450,503
Total	**3,068,896**	3,134,844

Included in operations and maintenance costs above is a charge of €0.2 million (2006: Nil) relating to ineffectiveness on cash flow hedges. An amount of €83.7 million (2006: €88.1million) has been transferred from the cash flow hedge reserve to operations and maintenance costs in the Income Statement during the year (see note 18). This amount is largely offset by gains from the translation of the underlying hedged foreign currency borrowing at the prevailing exchange rates.

Notes to the Financial Statements

5. NET INTERNET COST AND OTHER FINANCING CHARGES

	2007 €'000	2006 €'000
Interest payable on borrowings	**79,358**	83,479
Interest payable on finance leases	**10,272**	7,611
Interest payable	**89,630**	91,090
Less capitalised interest	**(22,989)**	(14,304)
	66,641	76,786
Financing charges:		
- on restructuring liabilities	**5,434**	5,134
- on power station closure costs	**11,219**	8,545
- on other provisions	**2,245**	1,698
Fair value losses/(gains) on financial instruments:		
- currency/interest rate swaps: cash flow hedges, transfer from equity	**7,096**	1,716
- currency/interest rate swaps: fair value hedges	**(637)**	(728)
Total interest payable	**91,998**	93,151
Total interest receivable	**(1,840)**	(927)
	90,158	92,224

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

6. EMPLOYEES

(a) GROUP

(i) Average number of employees in year by business activity, including temporary employees:	2007 Number	2006 Number
Power Generation	**1,309**	1,317
ESB Customer Supply	**550**	562
ESB Networks	**3,638**	3,696
ESBI	**1,288**	1,131
Other	**1,071**	1,117
	7,856	7,823

(ii) Employee costs in year	2007 €'000	2006 €'000
Current staff costs (excluding pension)		
Salaries	**569,933**	548,910
Social welfare costs (PRSI)	**25,979**	24,460
Contributions to defined contribution plans	**3,186**	2,583
Other payroll benefits*	**38,955**	38,945
Capitalised payroll	**(170,216)**	(178,188)
Net payroll cost for employees (excluding pension)	**467,837**	436,710
(iii) Defined benefit pension and retirement benefit costs		
Voluntary severance costs	**9,927**	32,139
Increase in defined benefit pension liability	**82,755**	122,348
	92,682	154,487
Total employee related costs charged to the Income Statement	**560,519**	591,197

* These benefits primarily include travel and subsistence expenses and accruals for holiday leave balances remaining at year end.

Notes to the Financial Statements

6. EMPLOYEES

(b) PARENT

(i) Average number of employees in year by business activity, including temporary employees:	2007 Number	2006 Number
Power Generation	**1,309**	1,317
ESB Customer Supply	**550**	562
ESB Networks	**3,638**	3,696
Other	**1,071**	1,117
	6,568	6,692

(ii) Employee costs in year	2007 €'000	2006 €'000
Current staff costs (excluding pension)		
Salaries	**481,686**	471,610
Social welfare costs (PRSI)	**20,369**	19,926
Other payroll benefits*	**32,101**	33,113
Capitalised payroll	**(169,513)**	(176,116)
Net payroll cost for employees (excluding pension)	**364,643**	348,533

(iii) Defined benefit pension and retirement benefit costs		
Voluntary severance costs	**9,927**	32,139
Increase in defined benefit pension liability	**82,755**	122,348
	92,682	154,487
Total employee related costs charged to the Income Statement	**457,325**	503,020

* These benefits primarily include travel and subsistence expenses and accruals for holiday leave balances remaining at year end.

Notes to the Financial Statements

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2007 €'000	2006 €'000
Current tax expense		
Current tax	**51,160**	27,784
Prior year overprovision	**(8,948)**	(1,557)
Value of tax losses surrendered to joint ventures	**(4,000)**	–
Deferred tax expense		
Origination and reversal of temporary differences	**7,790**	13,295
Increase/(reduction) in tax rate	**10**	(46)
Prior year under provision	**2,356**	1,888
Total	**48,368**	41,364

Reconciliation of effective tax rate *in thousands of euro*	2007 €'000	2006 €'000
Profit before tax	**480,100**	263,982
Taxed at 12.5% (2006: 12.5%)	**60,012**	32,998
Expenses not deductible	**4,800**	3,854
Tax effect of deferred tax asset not provided	**1,608**	2,310
Impairments not deductible for tax purposes	**–**	4,375
Income not taxable	**(2,536)**	(3,524)
(Lower)/higher tax on chargeable gains	**(312)**	742
Income taxed at higher rate	**597**	516
Manufacturing relief	**(4,117)**	(1,047)
Higher tax rates on overseas earnings	**555**	3,643
Prior year (over) provisions	**(6,592)**	(343)
Other items	**234**	299
Tax effect of joint ventures included in profit before tax	**(5,881)**	(2,459)
Income tax expense	**48,368**	41,364

The value of tax losses surrendered to joint ventures relates to amounts surrendered to Corby Power Limited for cash.

8. PROFIT FOR THE FINANCIAL YEAR

	2007 €'000	2006 €'000
The profit for the financial year is stated after charging/(crediting):		
Depreciation and amortisation	**433,554**	450,503
Operating lease charges	**8,501**	8,453
Amortisation of deferred income	**(29,332)**	(22,293)
Loss on disposal of plant and equipment	**1,879**	2,486
Profit on disposal of property	**(21,713)**	(75,372)
Profit on disposal of business	**(2,267)**	(18,508)
Auditor's remuneration:		
- audit services	**448**	577
- taxation	**113**	96
- non-audit services	**197**	224
ESB (Parent) Board Members' remuneration:		
- fees	**297**	236
- other remuneration	**521**	486
Impairment of assets	**7,025**	35,000

Notes to the Financial Statements

9. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP	Land and buildings €'000	Plant and machinery €'000	Total assets in commission €'000	Assets under construction €'000	Total €'000
Cost					
Balance at 1 January 2006	1,119,258	7,661,407	8,780,665	448,563	9,229,228
Additions	2,613	20,847	23,460	760,649	784,109
Retirements and disposals	(10,225)	(105,616)	(115,841)	(225)	(116,066)
Transfers of assets held for sale	(2,556)	-	(2,556)	-	(2,556)
Transfers out of assets under construction	40,518	675,298	715,816	(715,816)	-
Other transfers	(278,775)	297,970	19,195	81,962	101,157
Translation difference	5,802	13	5,815	-	5,815
Balance at 31 December 2006	876,635	8,549,919	9,426,554	575,133	10,001,687
Additions	463	18,976	19,439	824,361	843,800
Retirements and disposals	(3,768)	(44,018)	(47,786)	-	(47,786)
Transfers of assets held for sale	685	(77,220)	(76,535)	-	(76,535)
Transfers out of assets under construction	42,495	526,453	568,948	(568,948)	-
Transfers from investment property (Note 11)	408	-	408	-	408
Translation difference	-	(24,566)	(24,566)	-	(24,566)
Balance at 31 December 2007	916,918	8,949,544	9,866,462	830,546	10,697,008
Depreciation					
Balance at 1 January 2006	469,953	3,195,649	3,665,602	-	3,665,602
Charge for the year	39,106	342,900	382,006	-	382,006
Retirements and disposals	(2,579)	(90,384)	(92,963)	-	(92,963)
Transfers of assets held for sale	(1,149)	-	(1,149)	-	(1,149)
Impairment	-	35,000	35,000	-	35,000
Other transfers	(23,022)	35,028	12,006	-	12,006
Translation difference	699	(7)	692	-	692
Balance at 31 December 2006	483,008	3,518,186	4,001,194		4,001,194
Charge for the year	25,844	367,223	393,067	-	393,067
Retirements and disposals	(478)	(29,668)	(30,146)	-	(30,146)
Transfers to assets held for sale	-	(46,569)	(46,569)	-	(46,569)
Transfers from investment property (Note 11)	148	-	148	-	148
Translation difference	-	(6,262)	(6,262)	-	(6,262)
Balance at 31 December 2007	508,522	3,802,910	4,311,432	-	4,311,432
Net book value at 31 December 2007	**408,396**	**5,146,634**	**5,555,030**	**830,546**	**6,385,576**
Net book value at 31 December 2006	393,627	5,031,733	5,425,360	575,133	6,000,493
Net book value at 1 January 2006	649,305	4,465,758	5,115,063	448,563	5,563,626

During the year the Group capitalised interest of €23 million (2006: €14.3 million). The capitalisation rate was 5% (2006: 5%).

The carrying value of non-depreciable assets at 31 December 2007 is €39.5 million (2006 €39.7 million).

Assets under construction of €568.9 million were completed during the year, with €526.5 million transferred to plant and machinery (2006: €675.3 million) and €42.5 million transferred to land and buildings (2006: €40.5 million).

Other transfers in 2006 include the transfer of capital stock from inventories to plant and machinery and assets under construction pending being brought into use (net book value €87.5 million) and the reclassification of Coolkeeragh plant from land and buildings to plant and machinery (net book value €256 million).

Finance leases

All finance leases are held by the Parent. The net book value of property, plant and equipment includes an amount of €33.6 million (2006: €34.8 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the year amounted to €6.9 million (2006: €4.9 million).

Notes to the Financial Statements

9. PROPERTY, PLANT AND EQUIPMENT(continued)

(b) PARENT	Land and buildings €'000	Plant and machinery €'000	Total assets in commission €'000	Assets under construction €'000	Total €'000
Cost					
Balance at 1 January 2006	830,970	7,532,457	8,363,427	399,374	8,762,801
Additions	468	19,261	19,729	738,260	757,989
Retirements and disposals	(6,429)	(99,140)	(105,569)	-	(105,569)
Transfers of assets held for sale	(2,556)	-	(2,556)	-	(2,556)
Transfers out of assets under construction	38,790	620,279	659,069	(659,069)	-
Other transfers	13,329	(842)	12,487	81,962	94,449
Balance at 31 December 2006	874,572	8,072,015	8,946,587	560,527	9,507,114
Additions	463	11,528	11,991	814,437	826,428
Retirements and disposals	(4,392)	(23,182)	(27,574)	-	(27,574)
Transfers of assets held for sale	685	(77,220)	(76,535)	-	(76,535)
Transfers out of assets under construction	42,495	525,271	567,766	(567,766)	-
Transfers from investment property (Note 11)	408	-	408	-	408
Balance at 31 December 2007	914,231	8,508,412	9,422,643	807,198	10,229,841
Depreciation					
Balance at 1 January 2006	461,866	3,107,422	3,569,288	-	3,569,288
Charge for the year	24,841	335,105	359,946	-	359,946
Retirements and disposals	(2,550)	(85,908)	(88,458)	-	(88,458)
Transfers of assets held for sale	(1,149)	-	(1,149)	-	(1,149)
Other transfers	-	12,488	12,488	-	12,488
Balance at 31 December 2006	483,008	3,369,107	3,852,115	-	3,852,115
Charge for the year	25,844	347,636	373,480	-	373,480
Retirements and disposals	(477)	(18,107)	(18,584)	-	(18,584)
Transfers of assets held for sale	-	(46,569)	(46,569)	-	(46,569)
Transfers from investment property (Note 11)	148	-	148	-	148
Balance at 31 December 2007	508,523	3,652,067	4,160,590	-	4,160,590
Net book value at 31 December 2007	**405,708**	**4,856,345**	**5,262,053**	**807,198**	**6,069,251**
Net book value at 31 December 2006	391,564	4,702,908	5,094,472	560,527	5,654,999
Net book value at 1 January 2006	369,104	4,425,035	4,794,139	399,374	5,193,513

During the year the Parent capitalised interest of €23 million (2006: €14.3 million) in assets under construction. The capitalisation rate was 5% (2006: 5%).

The carrying value of non-depreciable assets at 31 December 2007 is €39.5 million (2006 €39.7 million).

Assets under construction of €567.8 million were completed during the year, with €525.3 million transferred to plant and machinery (2006: €620.3 million) and €42.5 million transferred to land and buildings (2006: €38.8 million).

Other transfers in 2006 relate to capital stock transferred from inventories to plant and machinery and assets under construction pending being brought into use (net book value €82 million).

Finance leases

All finance leases are held by the Parent. The net book value of property, plant and equipment includes an amount of €33.6 million (2006: €34.8 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the year amounted to €6.9 million (2006: €4.9 million).

Notes to the Financial Statements

10. INTANGIBLE ASSETS

(a) GROUP	Software Costs €'000	Emission Allowances €'000	Software under development €'000	Total €'000
Cost				
Balance at 1 January 2006	191,471	120,508	-	311,979
Software additions	3,445	-	43,195	46,640
Allocation of emissions allowances	-	268,744	-	268,744
Software disposals	(19,750)	-	-	(19,750)
Settlement of emissions allowances	-	(140,804)	-	(140,804)
Transfers out of software under development	19,177	-	(19,177)	-
Other transfers	1,755	-	-	1,755
Translation differences	-	(846)	-	(846)
Balance at 31 December 2006	196,098	247,602	24,018	467,718
Software additions	27,615	-	31,113	58,728
Allocation of emissions allowances	-	77,478	-	77,478
Purchase of emissions allowances	-	2,865	-	2,865
Impairment of emissions allowances	-	(7,025)	-	(7,025)
Software disposals	(4,972)	-	(7)	(4,979)
Settlement of emissions allowances	-	(251,626)	-	(251,626)
Transfers out of software under development	33,769	-	(33,769)	-
Balance at 31 December 2007	252,510	69,294	21,355	343,159
Amortisation				
Balance at 1 January 2006	65,368	-	-	65,368
Charge for the year	33,491	-	-	33,491
Other transfers	482	-	-	482
Retirements and disposals	(15,622)	-	-	(15,622)
Balance at 31 December 2006	83,719	-	-	83,719
Charge for the year	40,487	-	-	40,487
Retirements and disposals	(4,272)	-	-	(4,272)
Balance at 31 December 2007	119,934	-	-	119,934
Net book value at 31 December 2007	**132,576**	**69,294**	**21,355**	**223,225**
Net book value at 31 December 2006	112,379	247,602	24,018	383,999
Net book value at 1 January 2006	126,103	120,508	-	246,611

Software costs include both internally developed and externally purchased assets. The majority of these costs however are represented by internally developed assets.

Emissions 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 25.

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

Notes to the Financial Statements

10. INTANGIBLE ASSETS (continued)

(b) PARENT	Software Costs €'000	Emission Allowances €'000	Software under development €'000	Total €'000
Cost				
Balance at 1 January 2006	190,588	112,696	-	303,284
Software additions	2,403	-	39,098	41,501
Allocation of emissions allowances	-	246,052	-	246,052
Software disposals	(19,280)	-	-	(19,280)
Settlement of emissions allowances	-	(134,719)	-	(134,719)
Transfers out of software under development	19,177	-	(19,177)	-
Balance at 31 December 2006	192,888	224,029	19,921	436,838
Software additions	22,421	-	31,113	53,534
Allocation of emissions allowances	-	71,978	-	71,978
Purchase of emissions allowances	-	966	-	966
Impairment of emissions allowances	-	(5,125)	-	(5,125)
Settlement of emissions allowances	-	(228,027)	-	(228,027)
Transfers out of software under development	31,369	-	(33,238)	(1,869)
Balance at 31 December 2007	246,678	63,821	17,796	328,295
Amortisation				
Balance at 1 January 2006	65,368	-	-	65,368
Charge for the year	33,008	-	-	33,008
Retirements/and disposals	(15,307)	-	-	(15,307)
Balance at 31 December 2006	83,069	-	-	83,069
Charge for the year	39,082	-	-	39,082
Balance at 31 December 2007	122,151	-	-	122,151
Net book value at 31 December 2007	**124,527**	**63,821**	**17,796**	**206,144**
Net book value at 31 December 2006	109,819	224,029	19,921	353,769
Net book value at 1 January 2006	125,220	112,696	-	237,916

Software costs include both internally developed and externally purchased assets. The majority of these costs however are represented by internally developed assets.

Emissions 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 25.

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

Notes to the Financial Statements

11. INVESTMENT PROPERTY

GROUP and PARENT	2007 Total €'000	2006 Total €'000
Cost		
Balance at 1 January	408	682
Disposals	-	(274)
Transferred to property, plant and equipment	(408)	-
Balance at 31 December	-	408
Depreciation		
Balance at 1 January	148	402
Charge for the year	-	6
Disposals	-	(260)
Transferred to property, plant and equipment	(148)	-
Balance at 31 December	-	148
Closing net book value	-	260
Opening net book value	260	280

Investment property is valued in the financial statements using the cost model, that is cost less depreciation.

The fair value of investment property for 2006 at €8.2 million was valued on an open market basis as at 31 December 2006. It was based on independent valuations carried out by external valuers. This property was transferred to property, plant and equipment during 2007 having come back into use.

Profit on property disposals at €21.7 million (2006: €75.4 million) arises primarily from the sale of properties which are not disclosed as investment properties as they are in use by the businesses up to the point of sale.

Notes to the Financial Statements

12. FINANCIAL ASSET INVESTMENTS

(a) GROUP

	Joint venture investments	Sinking fund and other investments	Total
	€'000	€'000	€'000
Balance at 1 January 2006	40,845	3,083	43,928
Share of profit	19,674	-	19,674
Fair value movement on cash flow hedges	6,254	-	6,254
Dividends received	(8,321)	-	(8,321)
Other movements	(28,034)	11,092	(16,942)
Utilisation of sinking fund	-	(3,011)	(3,011)
Balance at 31 December 2006	30,418	11,164	41,582
Share of profit	47,050	-	47,050
Fair value movement on cash flow hedges	4,452	-	4,452
Dividends received	(5,556)	-	(5,556)
Other movements	(4,622)	92	(4,530)
Repayments	-	(8,483)	(8,483)
Balance at 31 December 2007	**71,742**	**2,773**	**74,515**

Joint venture investments

The fair value movement on cash flow hedges relates to the interest rate swaps and Contracts for Differences associated with Bizkaia Energia SL, Synergen Power Limited and Marchwood Power Limited.

Dividends received from joint ventures relate to Synergen Power €2.8 million (2006: €2.8 million) and Corby Power €2.7 million (2006: €5.5 million).

Other movements for 2007 relate primarily to translation differences in Corby Power Limited (€4.2 million). Other movements for 2006 include the deferral of an Amorebieta construction bonus (€7.5 million), the assumption of liabilities on the establishment of Marchwood Power Limited as a joint venture (€5.7 million), the reclassification of a loan from ESBII BV to Bizkaia Energia SL (€15.9 million) to other investments and translation differences.

Interests in joint ventures

The following companies have been included in the ESB Group accounts as joint ventures using equity accounting:

Name of the company	Country	Holding 31 December 2007 % of share capital owned	Holding 31 December 2006 % of share capital owned
Synergen Power Limited	Ireland	**70%**	70%
Bizkaia Energia SL	Spain	**50%**	50%
Corby Power Limited	United Kingdom	**50%**	50%
Marchwood Power Limited	United Kingdom	**50%**	50%

Notes to the Financial Statements

12. FINANCIAL ASSET INVESTMENTS (continued)

	2007 €'000	2006 €'000
Non-current assets	**396,039**	461,913
Current assets	**108,077**	89,438
Derivative assets	**1,317**	-
Total assets	**505,433**	551,351
Equity	**85,183**	51,086
Cash flow hedging reserve	**(642)**	(7,155)
Total equity	**84,541**	43,931
Non-current liabilities	**256,551**	426,258
Current liabilities	**163,295**	75,125
Derivative liabilities	**1,046**	6,037
Total liabilities	**420,892**	507,420
Total equity and liabilities	**505,433**	551,351
Income	**274,493**	252,957
Expenses	**(214,849)**	(207,504)
Operating profit	**59,644**	45,453
Profit after interest and tax	**47,050**	19,674

The share of total equity of €84.5 million above reflects the individual Balance Sheets of the joint venture investments. The value of the joint venture investments on the Balance Sheet is €71.7 million. The difference is attributable to the receipt of a construction bonus for the completion of the power plant owned by Bizkaia Energia SL, which has been netted against the joint venture investments and the receipt of a contingency payment from Bizkaia Energia SL to ESBI Contracting Limited which has also reduced the value of the joint venture investments.

Sinking fund and other investments in the Group at 2007 year end relate primarily to an investment which is a loan of €2.7 million (2006: €10.9 million) provided by ESBII BV to Bizkaia Energia SL. The sinking fund investment, represented by short term bank deposits, was utilised fully in 2006. Subsidiary, associated and joint venture undertakings are listed in Note 33.

(b) PARENT

	Subsidiary Undertakings			Sinking fund	
	Shares €'000	Loans €'000	Subtotal €'000	investments €'000	Total €'000
Balance at 1 January 2006	57,705	93,414	151,119	3,011	154,130
Additions	11,050	-	11,050	-	11,050
Repayments	-	(63,931)	(63,931)	(3,011)	(66,942)
Balance at 31 December 2006	68,755	29,483	98,238	-	98,238
Additions	2,627	-	2,627	-	2,627
Repayments	-	(27,883)	(27,883)	-	(27,883)
Other	1,600	(1,600)	-	-	-
Balance at 31 December 2007	**72,982**	**-**	**72,982**	**-**	**72,982**

Notes to the Financial Statements

13. INVENTORIES

	GROUP		PARENT	
	2007	2006	**2007**	2006
	€'000	€'000	**€'000**	€'000
Materials	**30,004**	33,265	**30,004**	29,880
Fuel	**130,718**	117,557	**129,632**	117,557
	160,722	150,822	**159,636**	147,437

Inventories consumed during the year ended 31 December 2007 total €223 million (2006: €303 million).

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

14. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2007	2006	**2007**	2006
	€'000	€'000	**€'000**	€'000
Trade receivables	**233,217**	161,096	**207,042**	119,614
Unbilled consumption	**303,125**	330,200	**252,526**	294,123
Amounts owed by subsidiary undertakings	**-**	-	**395,512**	406,847
Amounts owed by joint venture undertakings	**16,450**	9,653	**-**	-
Other receivables	**77,694**	102,463	**46,974**	79,016
	630,486	603,412	**902,054**	899,600

Further analysis of these receivables can be found in note 20, section (c).

15. INVESTMENTS

GROUP AND PARENT	**2007**	2006
	€'000	€'000
Listed investments at cost	**79**	79

Investments represent the repurchase of ESB loan stock, pending cancellation. Their fair value is approximately equal to the carrying value on the balance sheet.

16. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2007	2006	**2007**	2006
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**53,318**	24,151	**4,260**	494
Other bank deposits	**-**	13,582	**20,870**	17,684
	53,318	37,733	**25,130**	18,178

17. ASSETS HELD FOR SALE

GROUP AND PARENT	**2007**	2006
	€'000	€'000
Property	**31,373**	1,407

The 2007 assets held for sale mainly comprise of three Peaking Capacity units and also two vacant sites at Shannonbridge and Lanesborough. These assets have a carrying value at 31 December 2007 of €30.7 million and are expected to be disposed of during 2008. The remaining balance relates to the carrying value of ESB Networks assets held for sale. The assets held for sale as at 31 December 2006 related to property.

Notes to the Financial Statements

18. CAPITAL AND RESERVES

(a) GROUP

Reconciliation of movement in capital and reserves

	Capital Stock	Translation Reserve	Reserve for the repurchase of loan stock	Cash Flow Hedging and Other Reserves	Retained Earnings	Total	Minority interest	Total Equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2006	1,979,882	2,489	3,011	(96,267)	645,097	2,534,212	962	2,535,174
Income for the year	-	-	-	-	222,468	222,468	150	222,618
Dividends	-	-	-	-	(72,389)	(72,389)	-	(72,389)
Other changes	-	2,536	(3,011)	-	3,011	2,536	(383)	2,153
Cash flow hedges:								
- Net fair value (losses)	-	-	-	(42,888)	-	(42,888)	-	(42,888)
- Other operating expenses	-	-	-	88,096	-	88,096	-	88,096
- Fair value gains for hedges in joint ventures	-	-	-	13,938	-	13,938	-	13,938
- Transfers to Income Statement for joint ventures	-	-	-	(1,927)	-	(1,927)	-	(1,927)
Tax on items taken directly to/transferred from equity	-	-	-	(5,693)	-	(5,693)	-	(5,693)
Tax on items taken directly to/transferred from equity for joint ventures	-	-	-	(3,494)	-	(3,494)	-	(3,494)
Balance at 31 December 2006	1,979,882	5,025	-	(48,235)	798,187	2,734,859	729	2,735,588
Balance at 1 January 2007	1,979,882	5,025	-	(48,235)	798,187	2,734,859	729	2,735,588
Income for the year	-	-	-	-	431,816	431,816	(84)	431,732
Dividends	-	-	-	-	(66,722)	(66,722)	-	(66,722)
Other changes	-	(4,953)	-	-	-	(4,953)	-	(4,953)
Cash flow hedges								
- Net fair value gains	-	-	-	210,600	-	210,600	-	210,600
- Transfers to Income Statement								
- Interest	-	-	-	7,096	-	7,096	-	7,096
- Other Operating Expenses	-	-	-	83,709	-	83,709	-	83,709
- Fair value gains for hedges in joint ventures	-	-	-	6,846	-	6,846	-	6,846
- Transfers to Income Statement for joint ventures	-	-	-	421	-	421	-	421
Tax on items taken directly to/transferred from equity	-	-	-	(36,678)	-	(36,678)	-	(36,678)
Tax on items taken directly to/transferred from equity for joint ventures	-	-	-	(2,009)	-	(2,009)	-	(2,009)
Balance at 31 December 2007	**1,979,882**	**72**	**-**	**221,750**	**1,163,281**	**3,364,985**	**645**	**3,365,630**

Notes to the Financial Statements

18. CAPITAL AND RESERVES (continued)

(b) PARENT

Reconciliation of movement in capital and reserves

	Capital Stock	Reserve for the repurchase of loan stock	Cash Flow Hedging Reserve	Retained Earnings	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2006	1,979,882	3,011	(88,145)	570,056	2,464,804
Income for the year	-	-	-	302,742	302,742
Dividends	-	-	-	(72,389)	(72,389)
Other changes	-	(3,011)	-	3,011	-
Cash flow hedges:					
- Net fair value (losses)	-	-	(43,131)	-	(43,131)
- Other operating expenses	-	-	88,096	-	88,096
- Fair value gains for hedges in joint ventures	-	-	-	-	-
Tax on items taken directly to/transferred from equity	-	-	(5,621)	-	(5,621)
Balance at 31 December 2006	1,979,882	-	(48,801)	803,420	2,734,501
Balance at 1 January 2007	1,979,882	-	(48,801)	803,420	2,734,501
Income for the year	-	-	-	383,578	383,578
Dividends	-	-	-	(66,722)	(66,722)
Other changes	-	-	-	-	-
Cash flow hedges:					
- Net fair value gains	-	-	250,910	-	250,910
- Transfers to income statement					
- Interest	-	-	7,096	-	7,096
- Other Operating Expenses	-	-	83,709	-	83,709
Tax on items taken directly to/transferred from equity	-	-	(42,285)	-	(42,285)
Balance at 31 December 2007	**1,979,882**	**-**	**250,629**	**1,120,276**	**3,350,787**

Notes to the Financial Statements

18. CAPITAL AND RESERVES (continued)

(i) Capital stock

There are 1,979,881,855 units of capital stock in issue at a value of €1 each.

	2007 €'000
Comprised as:	
Stock issued from converted reserves	**1,880,888**
Stock issued for subscription by ESOT	**98,994**
	1,979,882

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

The Energy (Miscellaneous Provisions) Act 2006 was passed into law on 24 December 2006. The Act amends Section 2 of the 2001 Act to provide that 10% of issued capital stock in ESB now stands vested in the Minister for Communications, Energy and Natural Resources, with the Minister for Finance retaining 85% of ESB's capital stock and the ESOP retaining 5% of the stock.

(ii) Minority interests - Group

Minority interests at 31 December 2007 relate to the minority shareholdings in Crockahenny Wind Farm Limited and Mountain Lodge Power Limited.

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

Fair value reserves primarily represent the fair value of derivatives which are part of effective cash flow hedging relationships at the 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 the year end.

Other reserves consist of €5 million which was created on the sale of Ocean in 2001.

(iv) Reserve for the repurchase of loan stock

This reserve comprised a sinking fund for the repayment of borrowings. This reserve was represented by the sinking fund investments referred to in note 12 to the financial statements. The related borrowings were repaid in 2006 and the reserve was released back to retained earnings.

(v) Dividends - Group and Parent

	2007 €'000	2006 € '000
Dividends on capital stock:		
Total dividend paid 3.37 cents (2006: 3.66 cents) cents per capital stock unit	**66,722**	72,389

The Board Members are recommending that a final dividend of 6.54 cent per unit of capital stock, amounting to €129.5 million in aggregate, be paid in 2008, in respect of 2007.

Notes to the Financial Statements

19. BORROWINGS AND OTHER DEBT

(a) GROUP	Finance Leases €'000	Recourse Borrowings €'000	Non Recourse Borrowings €'000	2007 Total €'000	2006 Total € '000
Current borrowings					
- Repayable by instalments	9,785	34,776	4,432	**48,993**	133,588
- Repayable other than by instalments	-	93,353	-	**93,353**	45,000
Total current borrowings	9,785	128,129	4,432	**142,346**	178,588
- Repayable by instalments					
Between one and two years	7,386	86,442	4,820	**98,648**	132,383
Between two and five years	30,462	92,995	16,364	**139,821**	390,917
After five years	55,728	228,644	11,314	**295,686**	428,247
	93,576	408,081	32,498	**534,155**	951,547
- Repayable other than by instalments					
Between two and five years	11,220	488,513	-	**499,733**	94,026
After five years	-	673,627	-	**673,627**	773,783
	11,220	1,162,140	-	**1,173,360**	867,809
Total non-current borrowings	104,796	1,570,221	32,498	**1,707,515**	1,819,356
Total borrowings outstanding	**114,581**	**1,698,350**	**36,930**	**1,849,861**	1,997,944

Current borrowings
Finance leases of €9.8 million refer to the capital element of finance leases payable in the next 12 months. The recourse borrowings of €128.1m include long term bank debt repayable within the next 12 months (€34.8 million) (2006: €118.8 million), short term debt of €45 million (2006: €45 million), together with an amount payable to a joint venture undertaking (Synergen Power Limited) of €48.3 million (2006: €Nil). The amount due to Synergen Power Limited is repayable on demand. Interest on borrowings from Synergen Power Limited amounting to €1.7 million (2006: €Nil) was paid by the Group during the year and is included within the interest payable on borrowings charge to the Income Statement. The non-recourse borrowings of €4.4 million relate to long term project finance debt repayable within the next 12 months.

Non-current borrowings
Non-current borrowings include ESB Stock of €10.3 million, the capital element of finance leases payable after one year of €104.8 million, private placement borrowings of €706.9 million, other long term bank borrowings of €853 million and €32.5 million of non-recourse long term project finance debt.

The private placement debt was drawn down in December 2003. This debt consists of senior notes with institutional investors. These notes were issued in US dollars and Sterling and comprised of US$49 million, US$325 million, US$256.5 million, US$96.5 million and US$273.5 million in 7, 10, 12, 15 and 20 year maturities respectively and also Stg£10 million in both the 15 and 20 year maturities.

Other long term bank borrowings include (a) a revolving credit facility has been drawn down to the value of €455 million – this is floating rate euro debt and is not due to be repaid before 2012 and the facility does not mature until May 2012; and (b) €427 million of fixed rate debt has been drawn down from another lender, €206 million of this is Sterling debt at a fixed interest rate, while the remainder is euro fixed interest debt.

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants.

Notes to the Financial Statements

19. BORROWINGS AND OTHER DEBT (continued)

Included in borrowings above is a Sterling denominated bank loan, which has been designated as a hedge of the Group's investment in a subsidiary in the United Kingdom. The carrying amount of the loan at 31 December 2007 was €169.2 million (2006: €184.5 million). A gain of €15.3 million (2006: €2.8 million) has been recognised in the Translation Reserve within Equity on the translation of the loan to euro in the books of the Sterling denominated subsidiary entity. Also recognised in the Translation Reserve is an offsetting loss of €9.8 million on the translation of a Euro denominated intragroup loan in the same Sterling denominated subsidiary entity, which has also been designated as part of the Group's investment in the subsidiary, and has accordingly been recognised directly in equity.

Borrowings totalling €5.8 million (2006: €11.6 million) are State guaranteed. With the exception of borrowings relating to finance leases and the non-recourse project finance debt relating to Gort Windfarms Limited, which are secured against specific assets, none of the borrowings are secured against the Group assets.

The Group has entered into a lease arrangement in connection with certain assets included within Property, Plant and Equipment. Payment obligations on both sides of this arrangement were fulfilled immediately, such that the Group has no future net payment obligations under the terms of the arrangement and continues to have unrestricted use of the assets concerned. Accordingly, the asset continues to be recognised in the Financial Statements and there is no corresponding lease obligation.

Future finance lease commitments are as follows:

	2007 Minimum Lease Payments	**2007 Present value of Minimum Lease Payments**	2006 Minimum Lease Payments	2006 Present value of Minimum Lease Payments
	€'000	**€'000**	€ '000	€ '000
Amounts payable:				
Within one year	**20,290**	**9,785**	19,336	11,009
Between one and five years	**69,096**	**49,068**	60,706	34,251
After five years	**59,024**	**55,728**	87,704	80,330
	148,410	**114,581**	167,746	125,590
Less future lease charges	**(33,829)**		(42,156)	
Present value of lease obligations	**114,581**		125,590	

(b) PARENT

	Finance Leases €'000	**Recourse Borrowings €'000**	**2007 Total €'000**	2006 Total € '000
Current borrowings				
- Repayable by instalments	9,785	34,776	**44,561**	129,798
- Repayable other than by instalments	-	93,353	**93,353**	45,000
Total current borrowings	9,785	128,129	**137,914**	174,798
Non-current borrowings				
- Repayable by instalments				
Between one and two years	7,386	86,442	**93,828**	127,952
Between two and five years	30,462	92,995	**123,457**	372,777
After five years	55,728	228,644	**284,372**	413,915
	93,576	408,081	**501,657**	914,644
- Repayable other than by instalments				
Between two and five years	11,220	488,513	**499,733**	94,026
After five years	-	673,627	**673,627**	773,758
	11,220	1,162,140	**1,173,360**	867,784
Total non-current borrowings	104,796	1,570,221	**1,675,017**	1,782,428
Total borrowings outstanding	**114,581**	**1,698,350**	**1,812,931**	1,957,226

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

(a) Overview of Financial Risk Management

The main financial risks faced by the Group relate to foreign exchange, interest rate, operational risk and commodity (electricity and fuel) price movements. Policies to protect the Group from these risks, and other risk areas, such as liquidity risk and credit risk, are regularly reviewed, revised and approved by the Board as appropriate. Group Treasury is responsible for the day to day treasury activities of the Group. The 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. Commodity price risk is managed by the relevant business unit (Power Generation, Customer Supply and ESBI) in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit.

The advent of the Single Electricity Market (SEM) has changed the nature of the risks posed by electricity and fuel price movements. As a result, the Group has put in place a Group Trading Risk Management function which ensures that the Group's market, credit and operational risks are managed in a way to protect the Group from loss, while respecting the ring-fencing obligations in place between the business units. Group Trading Risk Management provides regular reporting to the Board.

ESB funds its operations using a combination of borrowings and finance leases, uses deposit instruments to invest surplus funds and uses interest rate and foreign currency instruments to manage interest rate and currency risks that arise from its operational and financial activity. All transactions in financial instruments are non-speculative. Hedge accounting pursuant to IAS 39 is used primarily for hedges of foreign currency liabilities and interest rate risks from non current liabilities and also covers commodity and foreign exchange hedges arising from the SEM.

Financial instruments are derecognised on settlement or sale.

Risk Reporting Structure

Through the Chief Executive, the Board has delegated to the Group Trading Committee (GTC) the broader responsibility of managing ESB's trading risk in a manner consistent with the Group's risk tolerances and business strategies. The GTC have established risk limits to manage and limit trading risk exposure at Group and business unit level. These limits are documented in the ESB Group Trading Policy document which is applicable to all ESB businesses engaged in wholesale trading activities (Power Generation, Customer Supply and ESBI).

Within each of these business units, a Trading Risk Management Committee has been established to serve as the primary overseer of trading risk at individual ring fenced entity level. This committee includes the head of the Front Office function, the Trading Risk (Middle Office) Manager, a representative from Group Trading Risk Management, and the business unit Financial Controller. The Trading Risk Management Committees are responsible for formulating trading risk strategy in accordance with Group Trading Risk Management Policy and ensuring compliance with same, trading risk limit management, and reviewing collateral held for adequacy.

The Trading Risk Management Committee reports to the GTC. The Back Office function in each business unit maintains a separate reporting line to the Group Trading Risk Management function, which is responsible for ensuring that the Group's net exposure to movements in commodity or other price movements is adequately managed in accordance with Group Trading Risk Management Policy. The GTC reports regularly to the Chief Executive and Finance Director, and, separately, to the Board and its Sub Committees. The trading operations of the business units are subject to review by Internal Audit.

(b) Funding and Liquidity Management

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account the compatibility between funding costs and risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements. ESB is well positioned from a funding and liquidity perspective given the current turbulence in bank markets with over €550m available in committed bank facilities as well as a number of uncommitted facilities available. ESB has in place adequate borrowing facilities in order to ensure that liquidity demands can be met as required.

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

	2007		2006	
	Drawn Debt	**Undrawn Facility**	Drawn Debt	Undrawn Facility
Maturing	**€m**	**€m**	€m	€m
In one year or less	**142.3**	**-**	178.6	-
Between one and two years	**98.6**	**-**	132.4	-
Between two and five years	**639.6**	**354.3**	484.9	-
In more than five years	**969.4**	**200.0**	1,202.0	735.0
	1,849.9	**554.3**	1,997.9	735.0

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

The following are the contractual maturities of financial liabilities, including the interest payments:

	Carrying Amount	Contractual cash outflows/ (inflows) - net	Within 1 year	1- 2 years	2 - 5 years	More than 5 years
	€'000	€'000	€'000	€'000	€'000	€'000
31 December 2007						
Finance Leases	114,581	148,410	20,290	13,124	55,972	59,024
Recourse Borrowings	1,698,350	2,205,498	189,469	143,969	734,041	1,138,019
Non Recourse Borrowings	36,930	43,125	5,727	5,919	18,599	12,880
Total Borrowings	1,849,861	2,397,033	215,486	163,012	808,612	1,209,923
Trade and Other Payables	647,307	647,307	629,993	2,658	9,007	5,649
Currency Swaps	152,622	228,471	7,270	6,949	28,271	185,981
Contracts for Differences (SEM electricity trading)	23,566	23,838	23,223	615	-	-
Foreign Exchange Contracts	2,516	2,575	2,575	-	-	-
Forward Fuel Price Contracts	19,098	19,098	19,098	-	-	-
Forward Electricity Price Contracts	13,846	13,846	4,420	1,622	2,586	5,218
Total Liabilities	2,708,816	3,332,168	902,065	174,856	848,476	1,406,771
Interest Rate Swaps	(946)	(1,158)	(262)	(218)	(442)	(236)
Contracts for Differences (SEM electricity trading)	(13,316)	(13,316)	(13,316)	-	-	-
Foreign Exchange Contracts	(728)	(227)	(192)	(35)	-	-
Forward Fuel Price Contracts	(35,631)	(35,631)	(35,631)	-	-	-
Forward Electricity Price Contracts	(236,140)	(338,878)	(44,341)	(37,009)	(87,255)	(170,273)
Total Assets	(286,761)	(389,210)	(93,742)	(37,262)	(87,697)	(170,509)
	2,422,055	**2,942,958**	**808,323**	**137,594**	**760,779**	**1,236,262**
31 December 2006						
Finance Leases	125,590	167,747	19,336	20,290	40,417	87,704
Recourse Borrowings	1,831,661	2,183,422	145,195	80,505	294,105	1,663,617
Non Recourse Borrowings	40,693	52,256	5,748	6,464	19,808	20,236
Total Borrowings	1,997,944	2,403,425	170,279	107,259	354,330	1,771,557
Trade and Other Payables	526,738	526,738	484,186	29,792	5,346	7,414
Currency Swaps	146,015	111,797	10,682	2,658	11,242	87,215
Total Liabilities	2,670,697	3,041,960	665,147	139,709	370,918	1,866,186
Interest Rate Swaps	(578)	(200)	(39)	(35)	(77)	(49)
Foreign Exchange Contracts	(1,896)	(1,901)	(1,894)	(7)	-	-
Forward Fuel Price Contracts	(176)	(176)	(176)	-	-	-
Total Assets	(2,650)	(2,277)	(2,109)	(42)	(77)	(49)
	2,668,047	**3,039,683**	**663,038**	**139,667**	**370,841**	**1,866,137**

Notes to the Financial Statements

(c) Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial Assets

	2007		2006	
	Group	**Parent**	Group	Parent
	€'000	**€'000**	€'000	€'000
Investments in joint ventures	**71,742**	**-**	30,418	-
Financial asset investments	**2,773**	**72,982**	11,164	98,238
Listed investments at cost	**79**	**79**	79	79
Derivatives financial instruments	**286,761**	**309,884**	2,825	2,248
Trade and other receivables	**630,486**	**902,054**	603,412	899,600
Cash and cash equivalents	**53,318**	**25,130**	37,733	18,178
	1,045,159	**1,310,129**	685,631	1,018,343

Investments in joint venture and financial asset investments

These investments are detailed in note 12 and relate primarily to joint venture investments in Ireland, the UK and Spain No significant credit risk is perceived arising from these investments.

Treasury Related Credit Risk

Credit risk is managed on a portfolio basis. 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 financial risks and is executed in compliance with the Specification and Requirements of the Minister for Finance issued under the aegis of the "Financial Transactions of Certain Companies and Other Bodies Act 1992". The Specification and Requirements outline the type of derivatives which ESB can transact and the associated requirements which ESB must satisfy regarding each derivative counterparty. Dealing activities are controlled by putting in place robust dealing mandates with 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 such counterparties to deliver on their obligations. Total collateral held at year end was €275 million (2006: €155 million). Collateral, in the form of bonds and guarantees, is required by ESB business units from various parties, (predominately contractors) and since the advent of the SEM, specifically in the form of letters of credit from power Contract for Differences (CfD) counterparties (€17.2 million).

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Commodity Price Credit Risk

The Group also has credit risk associated with commodity positions. These arise from Contracts for Differences that are entered into to hedge energy and fuel price risks and are managed in accordance with the Specification and Requirements. The Group establishes counterparty credit risk limits to restrict uncollateralised exposure. Net exposures, collateral requirements and compliance are monitored on an ongoing basis.

Wholesale and Retail Credit Risk

Trade and Other Receivables can be divided into final retail electricity customers (billed and unbilled), SEM Pool related receivables, Use of System Receivables, and other (non-electricity) receivables.

	2007		2006	
	Group	**Parent**	Group	Parent
	€'000	**€'000**	€'000	€'000
Retail electricity receivables - billed	**125,384**	**115,108**	95,928	73,314
Retail electricity receivables - unbilled	**276,657**	**226,058**	330,200	294,123
Total retail electricity receivables	**402,041**	**341,166**	426,128	367,437
SEM Pool related receivables	**66,508**	**61,611**	-	-
Use of System receivables	**55,847**	**55,847**	46,300	46,300
Total electricity receivables	**524,396**	**458,624**	472,428	413,737
Trade receivables - non electricity	**11,946**	**944**	18,868	-
Other receivables	**94,144**	**46,974**	112,116	79,016
Amounts due from related undertakings	**-**	**395,512**	-	406,847
	630,486	**902,054**	603,412	899,600

The credit risk relating to final electricity retail customers is managed through the ongoing monitoring of debtors days, obtaining appropriate collateral and a collection policy based on the credit worthiness, size and duration of debt. Debt collection policy comprises a combination of internal debt follow up, the use of debt collection agencies and legal follow up including the publication of judgements. The largest single billed retail balance outstanding at 31 December 2007 was €197,268 (2006: €326,993). Unbilled electricity receivables represent estimates of consumption not yet invoiced. Controls around electricity receivables are focused on the full recovery of amounts invoiced. Electricity receivables arise largely in the Republic of Ireland, with 6% relating to Northern Ireland revenue.

Deposits are also held in respect of new customer accounts – the level of such deposits in place at 31 December 2007 was €15.4 million (2006: €11.5 milion).

The impairment provisioning policy is based on the historical experience of debts written off. In 2007, electricity receivables were impaired to the value of €11.5 million. Of this, the single largest customer amount written off during the year was €109,346 relating to a customer who went into liquidation during the year.

Credit risk in relation to SEM Pool related receivables is managed by the Trading functions within those business units engaged in electricity trading through the SEM Pool. Each of these functions is ring fenced from each other and segregation of responsibilities between the Back Office, Middle Office and Front Office functions is maintained in each case. The Trading Back Office function is responsible for invoicing customers and maintaining all accounts receivable. Payment terms for all trading balances relating to each of the SEM revenue streams are governed by the SEM settlement calendar.

Use of System income comprises Distribution Use of System (DUoS) income and Transmission Use of System (TUoS) income and arises almost entirely in the Republic of Ireland. DUoS Collection procedures are set out in the DUoS Framework Agreements, as approved by the CER, between ESB Networks and the various electricity suppliers. DUoS credit risk is managed through maintenance of the collection procedures set out in these agreements. All suppliers are required to supply a Letter of Credit or to have an approved credit rating, and adequate security cover is in place for all outstanding balances. The largest single balance outstanding at 31 December 2007 is €5.5 million (2006 : €3.9 million).

Collection procedures in relation to TUoS are set out in the Infrastructure Agreement between ESB Networks and EirGrid. This agreement provides that EirGrid shall pay in each year, in equal monthly payments, the amount determined by the CER as being due from EirGrid in respect of ESB Networks' activities as Transmission System owner. In the event of default by EirGrid the matter would be referred to the CER for determination. The amount due from EirGrid in respect of TUoS income at 31 December 2007 was €25.7 million (2006: €21.9 million).

Trade Receivables (non electricity) and Other Receivables relate to balances due in respect of the Group's non electricity trading and other operations. It includes amounts due in respect of the Group's telecommunications, contracting, consultancy, facility management and other ancillary operations, and amounts due in connection with the disposal of surplus properties during the year. Credit risk with regard to these balances is not considered to be significant. The largest single balance included within this category at 31 December 2007 is an amount of €14.3 million (2006: €3.5 million) due from a joint venture undertaking.

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

The maximum credit exposure of the Group at 31 December is set out below:

	Group					
	2007			2006		
	Gross Amount Receivable €'000	**Impairment €'000**	**Net Amount Receivable €'000**	Gross Amount Receivable €'000	Impairment €'000	Net Amount Receivable €'000
Not past due	507,455	-	507,455	494,762	4,679	490,083
Past due < 30 days	54,082	606	53,476	45,906	228	45,678
Past due 30 - 120 days	52,635	3,887	48,748	53,303	2,188	51,115
Past due > 120 days	19,848	6,639	13,209	16,158	7,693	8,465
Past due by more than one year	21,137	13,539	7,598	19,944	11,873	8,071
Total	**655,157**	**24,671**	**630,486**	630,073	26,661	603,412

	Parent					
	2007			2006		
	Gross Amount Receivable €'000	**Impairment €'000**	**Net Amount Receivable €'000**	Gross Amount Receivable €'000	Impairment €'000	Net Amount Receivable €'000
Not past due	808,538	-	808,538	810,475	4,600	805,875
Past due < 30 days	31,419	606	30,813	32,318	228	32,090
Past due 30 - 120 days	45,433	2,303	43,130	48,494	1,776	46,718
Past due > 120 days	19,400	6,491	12,909	15,651	7,693	7,958
Past due by more than one year	19,518	12,854	6,664	18,203	11,244	6,959
Total	**924,308**	**22,254**	**902,054**	925,141	25,541	899,600

Management does not expect any significant losses of receivables that have not been provided for as shown above. The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group €'000	**Parent €'000**
Balance at 1 January 2007	26,661	25,541
Impairment loss recognised	11,487	10,186
Release of provision	(13,477)	(13,473)
Balance at 31 December 2007	**24,671**	**22,254**

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(d) Foreign Currency Risk Management

Foreign currency exposures arise mainly through the purchase of fuel and power, other purchases denominated in foreign currencies, borrowings in foreign currencies including the private placement as described in note 19, and investments in overseas activities.

Foreign currency forward purchase contracts and cross country swaps, as well as options, are used to reduce volatility arising from foreign currency exposures. The foreign currency forward purchase contracts in place at 31 December 2007 relate to forecast cash flows expected to occur up to 15 December 2023. This was a negative fair value movement on foreign currency contracts of €15.8 million in 2007 (2006: gain of €1.9 million) of which €0.2 million (2006: €Nil) was recognised in the Income Statement and €15.6 million (2006: €1.9 million) was recognised directly in Equity. There was no ineffectiveness recognised in relation to foreign exchange contracts in 2007 or 2006.

As noted above the majority of receivable balances arise in the Republic of Ireland and accordingly no material foreign currency exposure arises in relation to these.

At year end, the Group's total debt portfolio amounted to €1.850 billion (2006: €1.998 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

	Before currency swaps		After currency swaps	
Currency	**2007**	2006	**2007**	2006
Euro	**50%**	48%	**91%**	89%
Swiss Franc	**1%**	1%	**0%**	0%
US Dollar	**38%**	39%	**0%**	0%
Sterling	**11%**	12%	**9%**	11%
Total	**100%**	100%	**100%**	100%

As shown above, the majority of the debt portfolio is swapped to euro for both principle 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.

A 10% strengthening of the euro against the following currencies at 31 December would have decreased equity and profit before taxation by the amounts set out below. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10% weakening of the euro against the same currencies would have had the equal but opposite effect, on the basis that all other variables remain constant. The analysis is performed on the same basis for 2006.

	2007		2006	
	Other Equity Gain/(loss)	**Profit before taxation Gain/(loss)**	Other Equity Gain/(loss)	Profit before taxation Gain/(loss)
	€'000	**€'000**	€'000	€'000
US Dollar	(5,976)	(990)	-	(1,242)
Sterling	(12,992)	662	(1,836)	(6,147)
Swiss Franc	(526)	-	(1,055)	-

The following assumptions were made in respect of the sensitivity analysis above:
- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement;
- changes in the carrying value of derivative financial instruments that are cash flow hedges, only impact other equity.
- changes in the carrying value of derivative financial instruments designated as net investment hedges arising from movements in the euro to Pounds Sterling exchange rate, are recorded directly in equity, with no ineffectiveness assumed.

The following table relates to foreign currency (translation) risk and to credit risk by geographic region at 31 December 2007:

	Trade and Other Receivables		**Trade and Other Payables**	
	€'000	**%**	**€'000**	**%**
Republic of Ireland	571,848	90.6%	597,994	92.4%
United Kingdom	48,344	7.7%	40,523	6.3%
Euro-zone countries	5,446	0.9%	2,145	0.3%
Rest of the World	4,848	0.8%	6,647	1.0%
	630,486	**100.0%**	**647,309**	**100.0%**

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(e) Interest Rate Risk Management

The Group's current interest rate 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 interest rates or via interest rate swaps. At 31 December 2007 year end 70% (2006: 70%) of the Group's debt was fixed to maturity. The fair value of interest rate swaps can be seen in paragraph (f).

In respect of income-earning financial assets and financial liabilities, the following table indicates their effective interest rates at the balance sheet date taking into account the effect of interest rates swaps and cross currencies swaps:

	Effective interest rate	Total	Within one year	1-2 years	2-5 years	More than five years
	%	€'000	€'000	€'000	€'000	€'000
Cash on deposit (variable interest rate)	4.13%	56,878	56,878	-	-	-
Finance leases (fixed interest rate)	5.54%	114,581	9,785	7,386	41,682	55,728
Private Placement Borrowings (fixed interest rate)	5.18%	867,729	-	-	41,090	826,639
Non Recourse Borrowings (fixed interest rate)	4.67%	36,930	4,432	4,820	16,364	11,314
Amounts due to Synergen Power Limited (variable rate)	4.40%	48,353	48,353	-	-	-
Other Long Term Borrowings (fixed and variable)	4.78%	826,485	80	86	582	825,737

Cash on deposit at 31 December 2007 consisted of EUR €39.4 million at 3.7%, GBP £15.6 million at 5.9% and USD $1.1 million at 3.9%. Included within Other Long Term Borrowings above are floating rate liabilities of €596.5 million (2006: €626.0 million). The principal floating rate facility is due to mature in 2012.

In managing interest rate risk, the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates will have an impact on consolidated earnings. It is estimated that a general increase of 50 basis points in interest rates at 31 December would have reduced equity and profit before taxation by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remained constant. The analysis is performed on the same basis for the prior year.

	Profit before taxation		Other Equity	
	50 bp increase €'000	50 bp decrease €'000	50 bp increase €'000	50 bp decrease €'000
31 December 2007				
Interest rate swaps	-	-	(6,935)	6,935
Net sensitivity	-	-	(6,935)	6,935
31 December 2006				
Interest rate swaps	-	-	(2,799)	2,799
Net sensitivity	-	-	(2,799)	2,799

The following assumptions were made in respect of the sensitivity analysis above:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives designated as cash flow hedges from movements in interest rates are assumed to be fully effective, recorded fully within equity with no impact on the income statement;
- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement; and
- the floating leg of any swap or any floating-rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(f) Commodity price risk management

The volatility of the fuel prices required for the Group's electricity generating activities has been significant in recent years and the resulting exposures to fuel price movements are managed by the Group on a selective hedging basis. The Group has entered into forward commodity price contracts in relation to the purchase of gas and coal required for electricity generation activities (see paragraph g below).

A general increase of 10% in the price of gas and coal at 31 December would increase equity and profit before taxation by the amount set out below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant, and includes the impact on the value of commodity swaps in place. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remained constant.

	31 December 2007		31 December 2006	
	Other Equity Gain/(Loss) €'000	**Profit before taxation Gain/(Loss) €'000**	Other Equity Gain/(Loss) €'000	Profit before taxation Gain/(Loss) €'000
Gain/(Loss) due to movement in gas and coal prices	11,182	4,771	-	-

A general increase of 10% in the system market price (SMP) of the Single Electricity Market at 31 December would have increased equity and profit before taxation by the amount sets out below. This analysis assumes that all other variables, in particular foreign exchange rates, remained constant, and includes the impact on the value of commodity swaps in place. A 10% reduction would have an equal and opposite effect, on the basis that all other variables remained constant.

	31 December 2007		31 December 2006	
	Other Equity Gain/(Loss) €'000	**Profit before taxation Gain/(Loss) €'000**	Other Equity Gain/(Loss) €'000	Profit before taxation Gain/(Loss) €'000
Gain/(Loss) due to movement in the SMP	180,174	-	-	-

(g) Fair Value

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

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 six months, the notional amount is deemed to reflect the fair value.

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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

	GROUP			PARENT		
	Nominal Value 2007 €'000	Carrying Value 2007 €'000	Fair Value 2007 €'000	Nominal Value 2007 €'000	Carrying Value 2007 €'000	Fair Value 2007 €'000
Long term debt held to maturity	-	1,602,719	1,634,821	-	1,570,221	1,601,875
Long term finance lease liabilities	-	104,796	111,083	-	104,796	111,083
Short term borrowings (includes finance leases)	-	142,346	98,417	-	137,914	93,941
Sub total borrowings	-	1,849,861	1,844,321	-	1,812,931	1,806,899
Interest rate swaps:						
- LT Assets	26,133	(946)	(946)	-	-	-
Currency swaps:						
- LT Liabilities	867,729	152,622	152,622	867,729	152,622	152,622
SEM related derivative financial instruments:						
- LT Assets	-	(236,140)	(236,140)	-	(260,435)	(260,435)
- ST Assets	-	(49,675)	(49,675)	-	(49,448)	(49,448)
- LT Liabilities	-	15,121	15,121	-	-	-
- ST Liabilities	-	43,905	43,905	-	43,839	43,839
Trade and other payables	-	647,307	644,028	-	671,204	668,203
Trade and other receivables	-	(630,486)	(630,486)	-	(902,054)	(902,054)
Cash and cash equivalents	-	(53,318)	(53,318)	-	(4,260)	(4,260)
		1,738,251	**1,729,432**		**1,464,399**	**1,455,366**

SEM related derivative financial instruments comprise directed and non-directed Contracts for Differences in connection with the SEM System Market Price, forward fuel price contracts and forward electricity price contracts. Where forward fuel price contracts relate to a underlying fuel price denominated in a currency other than euro, they include an associated foreign exchange contract.

	GROUP			PARENT		
	Nominal Value 2006 €'000	Carrying Value 2006 €'000	Fair Value 2006 €'000	Nominal Value 2006 €'000	Carrying Value 2006 €'000	Fair Value 2006 €'000
Long term debt held to maturity	-	1,704,741	1,677,134	-	1,667,887	1,639,546
Long term finance lease liabilities	-	115,241	120,136	-	115,241	120,136
Short term borrowings (includes finance leases)	-	177,962	175,446	-	174,138	171,596
Sub total borrowings	-	1,997,944	1,972,716	-	1,957,226	1,931,278
Interest rate swaps:						
- ST Assets (Cash Flow Hedge)	28,810	(578)	(578)	-	-	-
Currency swaps:						
- LT Liabilities (Fair Value Hedge)	24,783	7,736	7,736	24,783	7,736	7,736
- LT Liabilities (Cash Flow Hedge)	867,729	138,279	138,279	867,729	138,279	138,279
Foreign exchange contracts:						
- LT Assets	18,607	(1,750)	(1,750)	-	(1,750)	(1,750)
- ST Assets	81,243	(321)	(321)	-	(321)	(321)
- ST Liabilities	-	175	175	-	175	175
Forward fuel price contracts						
- LT Assets	3,744	(176)	(176)	-	(176)	(176)
Trade and other payables	-	484,172	484,172	-	560,044	560,044
Trade and other receivables	-	(603,412)	(603,412)	-	(899,600)	(899,600)
Cash and cash equivalents	-	(37,733)	(37,733)	-	(18,178)	(18,178)
		1,984,336	**1,959,108**		**1,743,435**	**1,717,487**

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

The fair value of Trade and Other Payables and of Trade and Other Receivables is calculated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date.

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

The interest rates used to discount future estimated cash flows, where applicable, are based on the EURIBOR yield curve at the reporting date plus an adequate constant credit spread, and were as follows:

	2007	2006
	%	%
Leases	5.2	4.7
Other loans and borrowings	5.3	4.8
Derivative financial instruments	4.6	3.8
Trade and other payables	5.2	4.7

As trade and other receivables are all due within one year, and have been provided for where impaired, their carrying value is considered to be materially in line with their fair value.

(i) Interest rate swaps
For 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.

Total fair value gains of €0.4 million (2006: €0.6 million) were recognised during the year in relation to interest rate swaps, all of which was recognised directly in Equity. No ineffectiveness relating to interest rate swaps was credited to the Income Statement in 2007 or 2006. ESB's interest rate swaps are part of effective hedging relationships. The purpose of these hedges is to 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 19. These cross currency swaps were entered into in order to swap US Dollar and Sterling interest and principal repayments on the underlying debt to Euro, thereby hedging the risk on these payments over the periods to maturity from 2010 to 2023.

In addition to foreign currency forward contracts entered into in relation to the Group's borrowings, the Group has entered into foreign currency contracts in relation to pool purchases through the SEM and in relation to its fuel purchase requirements. These contracts have maturities extending until October 2008.

Total negative fair value movements of €15.8 million (2006: gains of €1.9 million) were recognised during the year in relation to currency swaps, of which €15.6 million (2006: gains of €1.9 million) was recognised directly in equity and €0.2 million (2006: €Nil) was recognised in the Income Statement.

(h) Long Term Payables
Long term payables of €17.3 million (2006: €42.6 million) form part of the long term financing of the Group.

(i) Capital Management
The Group considers its capital to comprise Equity, being Capital Stock, Retained Earnings and Cash Flow Hedging and Other Reserves. Movements in Retained Earnings and Cash Flow Hedging and Other Reserves during the year are disclosed in Note 18 of these financial statements. Any changes in the composition of Capital Stock need shareholder approval.

Notes to the Financial Statements

21. DEFERRED TAX ASSETS AND LIABILITIES

GROUP

	2007	2006
Deferred tax assets	**€'000**	€'000
Property, plant and equipment	**1,080**	1,781
Pension liability	**40,703**	40,970
Provisions	**20,313**	20,074
Tax losses forward	**2,473**	2,427
Derivative financial instruments	**-**	6,948
Total	**64,569**	72,200
Deferred tax liabilties		
Property, plant and equipment	**311,278**	299,557
Retirement benefits	**6,093**	9,205
Provisions	**352**	283
Derivative financial instruments	**29,662**	-
Capital gains tax	**1,180**	1,180
Total	**348,565**	310,225
Net deferred tax liability	**283,996**	238,025

Notes to the Financial Statements

21. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The movements in temporary differences for the Group were as follows:

Assets	Balance 1 January 2006 €'000	Recognised in income 2006 €'000	Recognised in equity 2006 €'000	Deferred Tax balances written off in respect of disposals €'000	Balance 31 December 2006 €'000	Recognised in income 2007 €'000	Recognised in equity 2007 €'000	Deferred Tax balances written off in respect of disposals €'000	Balance 31 December 2007 €'000
Property, plant and equipment	3,006	(1,075)	-	(150)	1,781	(701)	-	-	1,080
Pension liability	42,397	(1,427)	-	-	40,970	(267)	-	-	40,703
Provisions	22,168	(2,094)	-	-	20,074	239	-	-	20,313
Tax losses forward	1,082	1,345	-	-	2,427	46	-	-	2,473
Derivative financial instruments	12,641	-	(5,693)	-	6,948	-	(6,948)	-	-
Total deferred tax assets	81,294	(3,251)	(5,693)	(150)	**72,200**	**(683)**	**(6,948)**	**-**	**64,569**
Liabilities									
Property, plant and equipment	284,736	14,821	-	-	299,557	12,516	-	(795)	311,278
Retirement benefits	12,318	(3,113)	-	-	9,205	(3,112)	-	-	6,093
Provisions	105	178	-	-	283	69	-	-	352
Derivative financial instruments	-	-	-	-	-	-	29,662	-	29,662
Capital gains tax	1,180	-	-	-	1,180	-	-	-	1,180
Total deferred tax liabilities	298,339	11,886	-	-	**310,225**	**9,473**	**29,662**	**(795)**	**348,565**
Net deferred tax liability/ (asset) for the year	217,045	15,137	5,693	150	**238,025**	**10,156**	**36,610**	**(795)**	**283,996**

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:

	2007	2006
	€'000	€ '000
Operating losses	**17,563**	22,785
Capital losses	**755**	-

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

Deferred tax has not been provided for in relation to unremitted reserves of the Group's overseas subsidiaries as there is no intention for these reserves to be distributed in the foreseable future. Nor has deferred tax been provided for in relation to unremitted reserves of the Group's overseas joint ventures as there is no current intention to permit the distribution of those reserves. Cumulative unremitted reserves of overseas subsidiaries, joint ventures and associates totalled €102 million (2006: €103 million).

Notes to the Financial Statements

21. DEFERRED TAX ASSETS AND LIABILITIES (continued)

PARENT	2007	2006
	€'000	€'000
Deferred tax assets		
Pension liability	**40,703**	40,970
Provisions	**19,422**	19,687
Derivative financial instruments	**-**	7,020
Total	**60,125**	67,677
Deferred tax liabilties		
Property, plant and equipment	**308,776**	296,987
Retirement benefits	**6,093**	9,205
Derivative financial instruments	**35,333**	-
Capital gains tax	**1,180**	1,180
Total	**351,382**	307,372
Net deferred tax liability	**291,257**	239,695

The movements in temporary differences for the Parent were as follows:

	Balance 1 January 2006	Recognised in income 2006	Recognised in equity 2006	Balance 31 December 2006	Recognised in income 2007	Recognised in equity 2007	Balance 31 December 2007
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Assets							
Pension liability	42,397	(1,427)	-	40,970	(267)	-	40,703
Provisions	21,774	(2,087)	-	19,687	(265)	-	19,422
Derivative financial instruments	12,641	-	(5,621)	7,020	-	(7,020)	-
Total deferred tax assets	76,812	(3,514)	(5,621)	**67,677**	**(532)**	**(7,020)**	**60,125**
Liabilities							
Property, plant and equipment	283,728	13,259	-	296,987	11,789	-	308,776
Retirement benefits	12,317	(3,112)	-	9,205	(3,112)	-	6,093
Derivative financial instruments	-	-	-	-	-	35,333	35,333
Capital gains tax	1,180	-	-	1,180	-	-	1,180
Total deferred tax liabilities	297,225	10,147	-	**307,372**	**8,677**	**35,333**	**351,382**
Net deferred tax liability for the year	220,413	13,661	5,621	**239,695**	**9,209**	**42,353**	**291,257**

Notes to the Financial Statements

22. PENSION LIABILITIES

(a) PARENT and GROUP

(i) ESB General Employees' Superannuation Scheme

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

While the regulations governing the ESB Pension Scheme lay down in considerable detail the benefits that are to be provided they also stipulate the contributions to be paid by both ESB and the contributing members. This does not conform to the normal "balance of cost" defined benefit approach. Moreover, historically the contributions of both ESB and members have been fixed by regulations for long periods. These facts indicate that the ESB Pension Scheme is not typical of the defined benefit approach.

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

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.

(ii) Actuarial 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 2006.

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 €4,841 million and the scheme's actuarial valuation of accrued liabilities based on current earnings was €4,964 million. Hence, the scheme's liabilities exceeded the value of its assets by €123 million.

(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:

	2007	2006
Rate of interest applied to discount liabilities	**5.50%**	4.60%
Price inflation	**2.25%**	2.00%
Rate of increase of pensionable salaries	**3.25%**	3.00%
Rate of increase of pensions in payment	**3.25%**	3.00%
Expected return on plan assets	**7.60%**	6.92%

The discount rate used by the actuaries in the calculation of the pension liability at year end is 5.50%. 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 5.50% per annum (4.60% at 1 January 2007). Having regard to the duration of the liabilities the Board feel it is appropriate to adopt a discount rate of 5.50% at 31 December 2007 (4.60% at 31 December 2006).

Mortality Assumptions

The assumptions relating to life expectancy at retirement for members who retire at ages 60 and 65 respectively are set out below:

	2007		2006	
	Males Years	**Females Years**	Males Years	Females Years
Current Pensioners aged 60	**25.3**	**28.4**	23.5	26.5
Current Pensioners aged 65	**20.7**	**23.7**	19.0	22.0

Plan Assets

The weighted average plan asset allocations at the year end were as follows:

Asset Category	**2007**	2006
Equities	**74%**	72%
Bonds	**8%**	8%
Real estate	**13%**	12%
Cash and other	**5%**	8%
	100%	100%

Notes to the Financial Statements

22. PENSION LIABILITIES (continued)

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 7.60% assumption (2006: 6.92%).

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

	2007	2006	2005	2004	2003
	€'000	€'000	€'000	€'000	€'000
Present value of funded obligations	**5,182,466**	5,416,310	4,884,093	4,230,795	3,644,869
Fair value of plan assets	**(3,830,027)**	(3,784,262)	(3,336,000)	(2,801,014)	(2,541,008)
Deficit for funded plan	**1,352,439**	1,632,048	1,548,093	1,429,781	1,103,861
Unrecognised net actuarial gains/losses	**(1,026,746)**	(1,304,286)	(1,208,917)	(1,159,140)	(867,986)
Net liability	**325,693**	327,762	339,176	270,641	235,875

History of experience gains and losses	**2007**	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:					
Amount (€m)	**(154,377)**	230,832	379,579	94,322	147,141
Percentage of scheme assets	**4.0%**	6.1%	11.4%	3.4%	5.8%
Experience gains and losses on scheme liabilities:					
Amount (€m)	**381,073**	(374,235)	(478,426)	(419,043)	(310,129)
Percentage of the present value of scheme liabilities	**7.4%**	6.9%	9.8%	9.9%	8.5%

Change in benefit obligation	**2007**	2006
	€'000	€'000
Benefit obligation at beginning of the year	**5,416,310**	4,884,093
Movement in year:		
Current service cost	**33,371**	38,107
Plan members' contributions	**31,747**	30,096
Curtailments	**8,102**	32,802
Past service costs	**3,546**	25,677
Settlement Costs	**-**	(10,743)
Benefits paid	**(174,843)**	(162,280)
Interest cost	**245,306**	204,323
Actuarial loss	**(381,073)**	374,235
Benefit obligation at the end of the year	**5,182,466**	5,416,310

Change in plan assets		
Fair value of plan assets at beginning of the year	**3,784,263**	3,336,000
Movement in year:		
Expected return on plan assets	**258,413**	215,852
Actuarial gains/(losses)	**(154,377)**	230,832
Employer contributions	**84,824**	133,762
Plan members' contributions	**31,747**	30,096
Benefits paid	**(174,843)**	(162,280)
Fair value of plan assets at the end of the year	**3,830,027**	3,784,262
Actual return on plan assets for the year	**103,719**	446,684

The expected employer contributions to the pension in 2008 are €67 million.

Notes to the Financial Statements

22. PENSION LIABILITIES (continued)

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

	2007 €'000	2006 €'000
Current service cost	**33,370**	38,107
Past service cost	**3,546**	25,677
Curtailment	**8,102**	32,802
Settlement costs	**-**	(10,743)
Actuarial losses recognised in the year	**50,844**	48,034
Expected return on pension scheme assets	**(258,413)**	(215,852)
Interest on pension scheme liabilities	**245,306**	204,323
Total net impact on reported profits	**82,755**	122,348

(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 €3.2 million (2006: €2.6 million).

23. EMPLOYEE RELATED LIABILITIES

(a) GROUP	Restructuring liabilities €'000	Other €'000	Total €'000
Balance at 1 January 2007	153,801	38,526	192,327
Movements during the year:			
Charge to the Income Statement	11,057	36,846	47,903
Utilised during the year	(26,215)	(31,438)	(57,653)
Financing Charge	5,434	-	5,434
Balance at 31 December 2007	**144,077**	**43,934**	**188,011**
Analysed as follows:			
Non current liabilities	122,209	-	122,209
Current liabilities	21,868	43,934	65,802

(b) PARENT			
Balance at 1 January 2007	153,801	31,073	184,874
Movements during the year:			
Charge to the Income Statement	11,057	35,565	46,622
Utilised during the year	(26,215)	(31,073)	(57,288)
Financing Charge	5,434	-	5,434
Balance at 31 December 2007	**144,077**	**35,565**	**179,642**
Analysed as follows:			
Non current liabilities	122,209	-	122,209
Current liabilities	21,868	35,565	57,433

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 liabilities in respect of former employees which may arise as part of other potential legal or constructive post retirement obligations. These liabilities are expected to be materially discharged by 2020.

Other

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

Notes to the Financial Statements

24. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
Current payables:	**2007**	2006	**2007**	2006
	€'000	€'000	**€'000**	€'000
Progress payments on work in progress	**3,544**	8,505	**3,544**	8,505
Trade payables	**446,487**	292,436	**408,677**	289,504
Other payables	**74,517**	42,891	**73,316**	29,565
Employment taxes	**18,343**	10,695	**17,634**	10,416
Value added tax	**13,096**	34,108	**16,721**	30,399
Accruals	**63,256**	89,399	**10,391**	16,855
Amounts owed to subsidiary undertakings	**-**	-	**123,483**	168,662
Accrued interest on borrowings	**10,750**	6,152	**4,678**	6,152
	629,993	484,186	**658,444**	560,058

	2007	2006	**2007**	2006
	€'000	€'000	**€'000**	€'000
Non-current payables:				
Other payables	**17,314**	42,552	**12,760**	16,452

25. DEFERRED INCOME AND GOVERNMENT GRANTS

(a) GROUP

	Emissions Allowances	Supply Contributions and Other	Total
	€'000	**€'000**	**€'000**
Balance at 1 January 2007	1,135	489,413	490,548
Receivable	77,651	152,483	230,134
Amortised to the Income Statement (Note 3)	(77,771)	(29,332)	(107,103)
Impairment	-	(412)	(412)
Translation differences	(1,015)	-	(1,015)
Balance at 31 December 2007	**-**	**612,152**	**612,152**

(b) PARENT

	Emissions Allowances	Supply Contributions and Other	Total
	€'000	**€'000**	**€'000**
Balance at 1 January 2007	-	473,911	473,911
Receivable	71,979	144,039	216,017
Amortised to the Income Statement	(71,979)	(22,200)	(94,178)
Balance at 31 December 2007	**-**	**595,750**	**595,750**

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.

Notes to the Financial Statements

26. PROVISIONS

(a) GROUP	Power Station Closure Costs	Emissions provisions	Other	Total
	€'000	€'000	€'000	€'000
Balance at 1 January 2007	250,769	251,058	48,450	550,277
Charged/(credited) to the income statement				
- Emissions	-	69,156	-	69,156
- Legal	-	-	1,973	1,973
- Station Closure	539	-	-	539
Utilised in the year	(11,033)	(250,599)	(5,312)	(266,944)
Financing Charge	11,219	-	2,245	13,464
Translation differences	(28)	(779)	-	(807)
Balance at 31 December 2007	**251,466**	**68,836**	**47,356**	**367,658**
Analysed as follows:				
Non current liabilities	250,122	-	41,644	291,766
Current liabilities	1,344	68,836	5,712	75,892

(b) PARENT	Power Station Closure Costs	Emissions provisions	Other	Total
	€'000	€'000	€'000	€'000
Balance at 1 January 2007	250,769	228,621	48,278	527,668
Charged/(credited) to the income statement				
- Emissions	-	63,363	-	63,363
- Legal	-	-	(215)	(215)
- Station Closure	(199)	-	-	(199)
Utilised in the year	(11,032)	(228,621)	(3,243)	(242,896)
Financing Charge	11,219	-	2,245	13,464
Balance at 31 December 2007	**250,757**	**63,363**	**47,065**	**361,185**
Analysed as follows:				
Non current liabilities	249,413	-	41,353	290,766
Current liabilities	1,344	63,363	5,712	70,419

Power station closure costs
The provision at 31 December 2007 of €251.5 million (2006: €250.8 million) for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 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 CO_2 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 (See Note 10 Intangible Assets). 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 CO_2 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 CO_2 emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability.

Other
Other provisions represent prudent estimates of liabilities that may or may not arise, to third parties, in respect of claims notified or provided for at year end. In accordance with normal commercial practice, the year end provision includes an estimate for liabilities incurred but not yet notified.

Notes to the Financial Statements

27. CURRENT TAX ASSET / (LIABILITY)

	GROUP		PARENT	
	2007	2006	**2007**	2006
	€'000	€'000	**€'000**	€'000
Corporation tax	**5,901**	(17,213)	**8,378**	(7,877)

The current tax asset arises due to payments in excess of corporation taxes payable in respect of the current period. In 2006, the current tax liability represented the amount of corporation tax payable in respect of 2006 and prior periods that exceeded payments.

28. COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

Gross operating lease rentals payable in the future in respect of leases expiring:	**2007** **€'000**	2006 €'000
Within one year	**8,587**	8,230
Between two and five years	**26,825**	29,611
After five years	**43,239**	35,425
Total payable within one year	**78,651**	73,266

Operating leases payable by the Group generally relate to the rental of land and buildings. These lease costs are based on open market value and are generally subject to rent reviews, on average, every five years. There are no significant or unusual restrictions imposed on the Group by the terms of the operating leases.

(b) Capital commitments

	2007 **€'000**	2006 €'000
Contracted for	**461,709**	286,817
Share of joint venture capital commitments		
Contracted for in Marchwood Power Limited	**137,000**	196,521

These commitments relate mainly to commitments under a turnkey construction contract, various interconnection contracts, long term maintenance contracts and a number of consultancy contracts which Marchwood Power Limited has entered into.

(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.

29. 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 Midlands 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 2007, ESB Parent purchased €55 million (2006: €60.4 million) from its subsidiaries. These purchases largely relate to engineering and consulting services, mainly by the electricity businesses.

During the year, ESB Parent sold €103.5 million (2006: €143.1 million) to subsidiaries. These sales mainly relate to management services, as well as electricity charges such as use of system charges and sales of electricity.

At 31 December 2007, ESB Parent owed €123.5 million (2006: €168.7 million) to its subsidiaries. These creditors are due largely to the engineering and consulting services businesses and also relate to amounts held on deposit for subsidiaries.

At 31 December 2007, ESB Parent is owed €395.5 million (2006: €406.8 million) from its subsidiaries. These debtors mainly relate to management services, as well as electricity charges such as use of system charges and sales of electricity as well as loans to subsidiaries.

At 31 December 2007, balances outstanding between ESB Parent and its subsidiaries, in relation to loans, capital contributions and equity was €73 million (2006: €98.2 million).

Notes to the Financial Statements

29. RELATED PARTY TRANSACTIONS (continued)

Joint ventures
During the year, the Group provided services to its joint ventures, Synergen Power Limited, Bizkaia Energia SL, Corby Power Limited and Marchwood Power Limited. ESB provided services to Synergen Power Limited to the value of €11.1 million (2006: €10 million) and had to the year end advanced no capital. Synergen Power Limited made sales of €278 million (2006: €155 million) to the Group.

During 2007, ESB provided services to Bizkaia Energia SL to the value of €5.9 million (2006: €14.5 million) and was owed €2.7 million (2006: €10.9 million) at year end for capital advanced.

Services to the value of €5.7 million (2006: €5.8 million) were provided to Corby Power Limited and €2.7 million (2006: €6.9 million) to Marchwood Power Limited. Capital funding to the value of €14.3 million (2006: €3.5 million) was also provided to Marchwood Power Limited during the year.

Key management compensation	**2007**	2006
	€'000	€'000
Salaries and other short-term employee benefits	**4,054**	4,046
Post-employment benefits	**370**	443
Termination benefits	**-**	320
	4,424	4,809

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.

30. ESTIMATES AND JUDGEMENTS

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

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

(a) The assumptions used in the calculation of the pension liability at year end, as set out in Note 22.

(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 26 and 23.

(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 trade and other receivables, the valuation of fuel stocks, the cost of fuel consumed, the useful lives of fixed 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.

(d) *Providing for doubtful debts*
ESB provide services to around two million individuals and businesses, mainly on credit terms. It is known that certain debts due to ESB will not be paid through the default of a small number of customers. Estimates, based on historical experience are used in determining the level of debts that is believed will not be collected. These estimates include such factors as the current state of the Irish economy and particular industry issues.

31. 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.

32. APPROVAL OF ACCOUNTS

The Board approved the accounts on 29 April 2008.

Notes to the Financial Statements

33. SUBSIDIARY, JOINT VENTURE and 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
ESBII Technology and Construction Ltd	*	100	Power generation
Elfinance Ltd	*	100	Customer credit
ESB International Investments Ltd	*	100	International investments
ESBI Contracts Engineering Ltd	*	100	Contracting
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
Gort Windfarms Ltd	*	100	Wind farm
Crockahenny Wind Farm Ltd	*	75	Wind farm
Utilities O&M Services Ltd	58 Upper Mount Street, Dublin 2	100	Operation and maintenance services
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 S.L.	****	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

Notes to the Financial Statements

33. SUBSIDIARY, JOINT VENTURE and ASSOCIATE UNDERTAKINGS (continued.)

Company name	Registered office	Group share %	Nature of business
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 S.A.	65 Boulevard Grand Duchesse Charlotte L-1391 Luxembourg	100	Holding company
Power Generation Technology Snd Bhd	10th Floor Wisma Havela Thakardos, No 1 Jalan Raja Laut 50350 Kuala Lumpur Malaysia.	100	Power generation
Facility Management UK Ltd	*****	100	Facility management
ESBI Georgia Ltd	39 Gamsakhurdia Ave Suite 42 Tbilisi Georgia	100	Transmission management
Marchwood Power Development Ltd	*****	100	Power generation
Menloe Two Ltd	**	100	Finance leasing
Menloe Investments Ltd	**	100	Finance leasing
Port Talbot Power Ltd	*****	100	Power generation
Asturias Generation de Electricidad S.L.	Calle Uria, No 50-4, Oviedo 33001, Asturias, Spain	100	Power generation
Mountainlodge Power Ltd	*	85.9	Power generation
Non-controlled subsidiary undertaking			
ESB ESOP Trustee Ltd	43 Merrion Square Dublin 2	100	Staff Shareholding Scheme
Joint venture undertakings			
Corby Power Ltd	***	50	Power generation
Synergen Power Ltd	Power Plant Pigeon House Road Ringsend Dublin 4	70	Power generation
Bizkaia Energia SL	****	50	Power generation
Marchwood Power Ltd	Oceanic Way Marchwood Industrial Estate, Marchwood, Southampton Hampshire SO40 4BD	50	Power generation
Subsidiary undertaking of Corby Power Ltd			
CPL Operations Ltd	***	50	Facility management

Notes to the Financial Statements

33. SUBSIDIARY, JOINT VENTURE and ASSOCIATE UNDERTAKINGS (continued.)

Company name	Registered office	Group share %	Nature of business
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
**** Poligono Industrial de Boroa, Insula A. I-1, 48340 Amorebieta, Spain
***** 165 Queen Victoria Street, London, EC4V 4DD

Note 1: ESB's principal place of business is 27 Lower Fitzwilliam Street, Dublin 2.

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 2007 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 2007

When ESB receives a request from the supplier, it is ESB's policy to pay interest due on late payments. No such payment was made in respect of late payments during the year (2006: one payment of €250).

Lochlann Quinn Chairman

Padraig McManus Chief Executive

29 April 2008

Notes

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