



Tadhg O'Donoghue

Chairman's Review Ráiteas an Chathaoirigh

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

In accordance with the provisions of the Electricity (Supply) Act 1927 (as amended) the Board presents its Annual Report and Accounts for the year ended 31st December, 2003.

2003 Performance

Profitability

Group profit after tax increased by €89m to €249m, reflecting a number of factors, such as increased revenues, as well as the impact of reductions in staff numbers and other cost reduction initiatives, achieved to date under the Programme to Achieve Competitiveness and Transformation (PACT). To put this profit in context, the Return on Capital Employed was 6.8% compared to 5.5% in 2002. This

level of return is still considered inadequate, in terms of the enormous level of capital investment being made and the comparable returns of European electricity companies.

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

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

The Market

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

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

Market Opening

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

Broadband

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

Investing for the future

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

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

ESB continues to invest in power generation plants in the Republic of Ireland, Northern Ireland and Spain.

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

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

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

Environment

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

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

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

Corporate Social Responsibility

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

Staff

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

Board

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

Stakeholders


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



Tadhg O'Donoghue

Chairman

23 March 2004



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