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Board Members' Report

The Board Members present their report together with the audited financial statements of the Parent Company and of the Group for the year ended 31 December 2003.

Principal activities

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

Review of the Business and Future Developments

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

Results for the Year

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

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

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

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

Corporate Governance

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

The Combined Code sets out Principles of Good Governance and a Code of Best Practice. Companies listed on the Irish Stock Exchange are required to report on compliance with all provisions of the code. ESB is a statutory corporation established under the Electricity (Supply) Act 1927 and as a result the provisions of the Combined Code are not applicable to ESB. However, ESB supports the principles and provisions of the Combined Code and complies with its requirements except:

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

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

PRINCIPLES OF GOOD GOVERNANCE

The Board

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

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

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

The relationship between ESB and the Department of Communications, Marine and Natural Resources is formally established in an "Agreement on Framework for Interaction"

dated September 1998. This agreement provides a blueprint for the working relationship between the Department and ESB and the principles are set out under six priority areas – agreeing key policies, setting objectives, agreeing the high level strategy, agreeing special operating decisions, performance management and shaping/influencing the environment.

Board Committees

Committees are established to assist the Board in the discharge of its responsibilities. The committees comprise an Audit Committee (see below), Business Development and International Committee, Business Strategy Committee, Health, Safety and Environment Committee, Independent Transmission System Operator (ITSO) Committee, Finance Committee, Regulation Committee and Remuneration and Management Development Committee. Their members and the terms of reference during 2003 are listed on page 32.

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

Arising from the European Electricity Directive 96/92 EC and in accordance with the requirements of Statutory Instrument 49 of 2000, the Board established a separate committee, the ITSO Committee, to facilitate the independent management of the Transmission System Operator (TSO) function undertaken by ESB National Grid. The Commission for Energy Regulation approved these ringfencing arrangements as part of the market framework for trade in electricity.

Internal Controls

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

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

The system of internal control includes the following:

- The system is built on a code of ethics that requires all employees to maintain the highest ethical standards in conducting business;
- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board which support the maintenance of a strong control environment;
- A corporate governance framework which includes risk analysis, financial control review and formal annual governance statements by the management of Business Units and in the Corporate Centre. This is monitored by the Group Internal Audit department, which reports to the Audit Committee on an ongoing basis;
- Comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require the approval of the Board, and are closely monitored on an ongoing basis by the Business Development and International Committee of the Board;
- Comprehensive budgeting systems with an annual budget approved by the Board;
- Comprehensive system of financial reporting. Cumulative monthly actual results are reported against budget and considered by the Board on a monthly basis. Any significant changes and adverse variances are questioned by the Board, and remedial action taken where appropriate;
- Consideration of operational and financial issues by special Board Committees as described on pages 32, including oversight by the ITSO Committee of the Transmission System Operator (TSO) activities of National Grid.

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

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

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

Executive Board Members' Remuneration

The only executive Board Member is the Chief Executive. Mr Pdraig McManus was Chief Executive during the year 2003. There were two executive members during the year 2002: Mr Pdraig McManus became Chief Executive on 15 July 2002, replacing Mr Ken O'Hara who retired on 15 July 2002. The Chief Executive's remuneration is set within a range determined by the Ministers for Finance and Communications, Marine and Natural Resources. It is determined annually, within the range as set out above, by the Remuneration and Management Development Committee, which comprises three Non-Executive Board Members, and is approved by the Board.

The Remuneration and Management Development Committee approves the remuneration of the executive management group, following consideration of recommendations submitted by the Chief Executive.

The remuneration of the Chief Executive consists of basic salary, performance related bonus of up to 18% of annual basic salary, a deferred bonus element of up to 7%, and a company car. In his role as a Board Member, the Chief Executive also receives a fee as determined by the Minister for Communications, Marine and Natural Resources.

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

Non-Executive Board Members' Remuneration

Board Members appointed under the Worker Participation (State Enterprises) Act 1977 are remunerated in accordance with the provisions of the Act. They participate in the ESB superannuation scheme on an equal basis with all other members of the scheme.

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

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

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

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

Going Concern

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

Safety, Health and Welfare at Work Act (1989)

The health and safety of our staff and members of the public is a core ESB value. The Group monitors on a continuous basis its compliance with the above Act and associated Regulations through safety reviews and formalised safety audit systems. Corrective actions are initiated where inadequacies or deficiencies are identified. The procedures confirm substantial compliance with policy, as laid down in ESB's Group Safety Policy and Safety Statement. The Executive Director Team meet regularly to set Group safety objectives and strategy and review performance. The Chief Executive's Safety Committee, Business Area and local safety committees review and discuss relevant matters of policy and principle covering the health and safety of staff and the public, safety improvement plans and programmes and related matters.

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

Based on the evaluations carried out by the individual businesses against policies and assessed risks, a high standard of safety management practice and adherence to safety procedures was found to be in place. The review also found proactive programmes of safety improvement and safety auditing being implemented together with well developed safety communication channels and safety consultation with staff members and their safety representatives. Lessons are

continuously being learned from thoroughly investigating the causes of injuries and near misses and are being fed in a structured way into successive safety improvement programmes and safety priorities.

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

Accounting records

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

Electoral Act, 1997

The Board made no political donations during the year.

On behalf of the Board



Tadhg O'Donoghue CHAIRMAN



Padraig McManus CHIEF EXECUTIVE

23 MARCH 2004

Statement of Board Members' Responsibilities

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

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

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

On behalf of the Board



Tadhg O'Donoghue CHAIRMAN



Pdraig McManus CHIEF EXECUTIVE

Date: 23 March 2004

Independent Auditors' Report to the Stockholders of Electricity Supply Board

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

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

Respective responsibilities of Board Members and Auditors

The Board Members of Electricity Supply Board are responsible for preparing the Annual Report. As described on page 43, this includes responsibility for preparing the financial statements in accordance with the Electricity Supply Acts 1927 to 2001 and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by the Electricity Supply Acts 1927 to 2001, the Auditing Practices Board and by our profession's ethical guidance.

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

We review, at the request of the Board Members, whether (1) the voluntary statement on pages 39 to 42 reflects the Board's compliance with the seven provisions of the Combined Code specified for review by auditors and (2) the statement on the system of internal control on pages 40 and 41 reflects the Board's compliance with the provision of The Code of Best Practice for the Governance of State Bodies that is specified for review by auditors and we report if those statements do not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risks and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and of the Parent as at 31 December 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Electricity Supply Acts, 1927 to 2001.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, the Parent has kept proper books of account with which the balance sheet of the Parent at 31 December 2003 is in agreement.



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

24 March 2004

Statement of Accounting Policies

1. BASIS OF ACCOUNTING

The financial statements are prepared in Euro under the historical cost convention. They have been prepared in accordance with Generally Accepted Accounting Standards and comply with Financial Reporting Standards of the Accounting Standards Board. The accounting policies are consistent with those applied in 2002.

2. BASIS OF CONSOLIDATION

The group financial statements consolidate the financial statements of the parent and of all subsidiary undertakings made up to 31 December 2003. The results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. The financial statements of all subsidiary undertakings are drawn up to 31 December 2003.

3. BUSINESS SEGMENT DEFINITIONS

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

(a) Power Generation and Customer Supply

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

(b) Networks

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

(c) Commercial Enterprises

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

(d) Other

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

4. INTERNAL TRADING AND APPORTIONMENT WITHIN ESB

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

(a) Turnover

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

(b) Expenditure

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

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

(c) Assets & liabilities

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

(d) Treatment of corporately managed and controlled balances

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

5. FINANCIAL FIXED ASSETS

(a) Joint venture and associated undertakings

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

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

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

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

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

(b) Other financial fixed assets

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

6. GOODWILL

Goodwill represents the excess of consideration paid for the acquisition of shares in associated undertakings and joint ventures over the fair value of the identifiable assets and liabilities. The useful lives of goodwill on acquired businesses is up to 20 years. Useful life is determined by reference to the period over which the values of the underlying businesses are expected to exceed the values of their identifiable net assets.

7. FOREIGN CURRENCIES

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

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

8. TURNOVER

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

9. TANGIBLE FIXED ASSETS AND DEPRECIATION

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

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

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

Depreciation is provided:

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

10. PRE-CONTRACT COSTS

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

11. STOCKS

Stocks are carried at average cost, other than:

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

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

12. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

13. DEFERRED PAYMENT CONTRACTS

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

14. LEASED ASSETS

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

15. NON-REPAYABLE SUPPLY CONTRIBUTIONS AND CAPITAL GRANTS

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

16. RESERVE FOR REPURCHASE OF LOAN STOCK

Section 5 of the Electricity (Supply) (Amendment) Act 1982 allows the Board appropriate such sums as it considers proper to be used for the repayment of borrowings. These sums are appropriated to the sinking fund reserve in accordance with the Act, by way of transfer from the profit and loss account.

17. TAXATION

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

18. DEFERRED TAXATION

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

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

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

19. PROVISIONS FOR GENERATING STATION CLOSURE

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

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

20. DISCOUNTING OF FUTURE COMMITMENTS

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

21. SUPERANNUATION SCHEME

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

22. CASH AND LIQUID RESOURCES

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

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

GROUP PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

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

Signed: **Tadhg O'Donoghue** Chairman

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

GROUP BALANCE SHEET

As at 31 December 2003

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

Signed: **Tadhg O'Donoghue** Chairman

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

PARENT BALANCE SHEET

As at 31 December 2003

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

Signed: **Tadhg O'Donoghue** Chairman

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 2003

	Notes	2003 €'000	2002 €'000
Profit for the financial year		248,687	159,380
Translation differences on consolidation of foreign subsidiaries, joint ventures and associates	20	<u>(3,637)</u>	<u>(1,428)</u>
Total recognised gains and losses for the financial year		<u>245,050</u>	<u>157,952</u>
Reconciliation of Movements in Stockholders' Funds			
Total recognised gains and losses for year		245,050	157,952
Dividends	7	(67,118)	(39,704)
Opening stockholders' funds		<u>2,120,088</u>	<u>2,001,840</u>
Closing stockholders' funds		<u>2,298,020</u>	<u>2,120,088</u>

GROUP CASH FLOW STATEMENT

Year ended 31 December 2003

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

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENTAL INFORMATION

(a) By activity

Power Generation and Customer Supply

- Power Generation

	2003 €'000	2002 €'000
Total turnover	981,002	1,049,846
Internal turnover	883,617	856,252
External turnover	97,385	193,594
Profit before interest and tax	62,004	30,403
Capital expenditure	270,047	138,732

- Customer Supply

Total turnover	1,660,390	1,505,315
Internal turnover	28,002	17,655
External turnover	1,632,388	1,487,660
Profit before interest and tax	88,693	(12,067)
Capital expenditure	2,755	1,993

Networks

Total turnover	849,196	735,022
Internal turnover	689,935	620,353
External turnover	159,261	114,669
Profit before interest and tax	216,091	211,849
Capital expenditure	671,665	574,418

Commercial Enterprises

Total turnover	659,983	645,582
Internal turnover	186,775	195,693
External turnover	473,208	449,889
Profit before interest and tax	13,899	27,127
Capital expenditure	308,267	148,692

Other

External turnover - consolidation adjustments	(20,439)	(94,971)
Consolidation adjustments and losses before interest and tax	(26,734)	(6,887)
Capital expenditure	41,148	748

Group Totals

External turnover	2,341,803	2,150,841
Turnover from joint ventures	138,431	120,572
Profit before interest and tax	353,953	250,425
Capital expenditure	1,293,882	864,583

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENTAL INFORMATION (continued)

(b) Turnover by Geographic Market

	2003 €'000	2002 €'000
Ireland	2,272,351	2,064,796
UK & Europe	156,574	164,838
Other	51,309	41,779
Total	<u>2,480,234</u>	<u>2,271,413</u>

2. OPERATING COSTS

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

3. NET INTEREST COST AND OTHER FINANCING CHARGES

	2003 €'000	2002 €'000
Interest payable on borrowings	54,547	39,162
Interest payable on finance leases	7,612	7,640
Total interest payable	<u>62,159</u>	<u>46,802</u>
Total interest receivable	<u>(3,943)</u>	<u>(9,194)</u>
Net interest payable	58,216	37,608
Less capitalised interest	(39,490)	(18,362)
Financing charges:		
- on restructuring provision	18,425	20,508
- on station closure provision	14,694	14,150
	<u>33,119</u>	<u>34,658</u>
Net interest cost and other financing charges	<u>51,845</u>	<u>53,904</u>

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

NOTES TO THE FINANCIAL STATEMENTS

4. EMPLOYEES

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

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

(b) Employee costs in year

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

* These benefits primarily include travel and subsistence expenses.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

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

NOTES TO THE FINANCIAL STATEMENTS

5. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

Factors affecting tax charge for the year

Profit on ordinary activities before tax multiplied at current trading rate (12.5%) (2002: 16%)

Tax effects of:

Expenses not deductible for tax purposes

Foreign earnings subject to different rates of tax

Income and gains taxed at the higher rate of Irish tax

Income at the reduced Irish tax rate

Capital allowances in excess of depreciation

Other deferred tax timing differences

Origination and reversal of timing differences at a higher tax rate

Other prior year over provisions

Reconciling reversal of timing differences at a higher rate in 2002

Current year tax charge before deferred tax

	2003 €'000	2002 €'000
	37,764	31,443
	13,923	472
	3,765	3,450
	316	312
	(2,344)	(3,060)
	(21,626)	(7,080)
	2,534	(3,293)
	-	3,067
	-	181
	-	(3,067)
	34,332	22,425

ESB's profits are taxed at the standard corporation tax rate of 12.5% (2002:16%) reduced by manufacturing relief where applicable.

A small percentage of the Group's profits are liable to foreign tax at rates ranging between 30% and 40%.

The charge for taxation is based on the profit before tax for the year and takes into account deferred taxation arising from timing differences between the taxation and accounting treatment of certain items. Provision has been made for all deferred taxation assets and liabilities in respect of transactions and events recognised in the financial statements in the current period and previous periods. These deferred taxation assets and liabilities have not been discounted.

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

NOTES TO THE FINANCIAL STATEMENTS

6. PROFIT FOR THE FINANCIAL YEAR

The profit for the financial year is stated after charging/(crediting):

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

7. DIVIDENDS

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

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

NOTES TO THE FINANCIAL STATEMENTS

8. TANGIBLE FIXED ASSETS

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

The non depreciable element of land and buildings amounts to €6.4m (2002: €2.5m).

During the year the group capitalised the sum of €39.5m (2002: €18.4m) in interest. The capitalisation rate was 5.3%.

Additions for 2003 include transfers from assets under construction which have been commissioned during 2003.

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

Finance leases

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

FRS 15 'Tangible Fixed Assets'

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

NOTES TO THE FINANCIAL STATEMENTS

8. TANGIBLE FIXED ASSETS (continued)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

9. FINANCIAL FIXED ASSETS

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

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

Sinking fund investments in the Group and Parent, are represented by short term bank deposits. The market value of sinking fund investments at 31 December 2003 is €2.373m (2002 : €2.128m). Subsidiary, associated and joint venture undertakings are listed in note 29.

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

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

NOTES TO THE FINANCIAL STATEMENTS

10. STOCKS

GROUP & PARENT

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

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

11. DEBTORS

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

12. INVESTMENTS

GROUP & PARENT

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

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

NOTES TO THE FINANCIAL STATEMENTS

13. BORROWINGS AND OTHER DEBT

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

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

ESB stock accounts for €15m of the year-end borrowings.

At year end, ESB's total debt portfolio amounted to €2.169bn (2002: €1.023bn). The underlying debt, before swaps, was denominated in the following currencies.

Currency

	2003	2002
Euro	49%	86%
Japanese Yen	1%	7%
Swiss Franc	1%	3%
US Dollar	39%	3%
Sterling	10%	1%
Total	<u>100%</u>	<u>100%</u>

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

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

The average maturity of this new US\$ financing is 13.6 years and 17.5 years on the Sterling portion (or 13.7 years in total) while the average interest rates achieved were over 5% on average.

Proceeds from the issues have been used to fund part of the capital expenditure programme in 2004. All the US\$ and STG financing was swapped to Euro.

NOTES TO THE FINANCIAL STATEMENTS

13. BORROWINGS AND OTHER DEBT (continued)

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

NOTES TO THE FINANCIAL STATEMENTS

14. FINANCIAL INSTRUMENTS

(a) Overview

The main financial risks faced by the Group are exchange rate and interest rate risk. Treasury policies for these and other risk areas, such as liquidity risk and counterparty credit risk, are regularly reviewed and revised as appropriate and are approved by the Board. Group Treasury, which is responsible for the day to day treasury activities of the Group, reports on a half yearly basis to the Board Audit Committee and is reviewed by Group Internal Audit annually.

(b) Financial instruments used

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

(c) Funding and liquidity management

The Group's activities are financed by operating cashflows, borrowings and finance leases. Funding and debt management is carried out centrally by Group Treasury, which also manages the financial risks associated with borrowing. Debt management strategies are summarised as follows:

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

(d) Interest rate risk management

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

(e) Foreign currency risk management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. FINANCIAL INSTRUMENTS (continued)

(f) Counterparty credit risk

ESB is exposed to credit risk relating to its cash and current financial assets. It deposits cash surpluses with banks of appropriate credit rating and institutions that meet certain criteria. Also, there is a limit on the amount of credit exposure to any one bank or institution. ESB does not have significant credit risks in relation to its other current financial assets. The Group's trade debtors consist of a large number of domestic, commercial and industrial customers. Exposure to financial loss is actively monitored.

(g) Fair Value

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

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

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

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

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

(i) Cash Deposits

Currency - 2003

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

Currency - 2002

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. FINANCIAL INSTRUMENTS (continued)

(ii) Short Term Borrowings

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

(iii) Debt Portfolio

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

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

(iv) Foreign Exchange Contracts

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

(v) Commodity Contracts

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. FINANCIAL INSTRUMENTS (continued)

(h) Liquidity Risk

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

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

(i) Other

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

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

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

15. OTHER CREDITORS

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

NOTES TO THE FINANCIAL STATEMENTS

16. DEFERRED INCOME

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

17. PROVISION FOR LIABILITIES AND CHARGES

	Deferred taxation	Generating station closure	Restructuring costs	2003 total	2002 total
	€'000	€'000	€'000	€'000	€'000
GROUP & PARENT					
Balance at 1 January 2003 (adjusted)	231,201	319,067	379,290	929,558	932,745
Transfer from profit & loss account:					
- Increase in restructuring provision	-	1,300	-	1,300	16,115
- Financing charge (note 3)	-	14,694	18,425	33,119	34,658
- Deferred tax charge for the year	18,774	-	-	18,774	7,306
Station closure provision capitalised in the year	-	-	-	-	4,690
Utilised during the year	-	(36,394)	(58,948)	(95,342)	(65,956)
Balance at 31 December 2003	<u>249,975</u>	<u>298,667</u>	<u>338,767</u>	<u>887,409</u>	<u>929,558</u>
Deferred Taxation				2003	2002
				€'000	€'000
Capital allowances in excess of depreciation				264,222	242,914
Timing differences arising on provisions				(14,247)	(11,713)
				<u>249,975</u>	<u>231,201</u>

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

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

Provision for Generating Station Closure

The provision at 31 December 2003 of €298.7m for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2013. As the costs are provided on a discounted basis, a financing charge is included in the profit and loss account and added to the provision each year. The Station Closure Provision has been re-examined and the liability re-calculated in accordance with the current expected station closure dates.

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

NOTES TO THE FINANCIAL STATEMENTS

17. PROVISION FOR LIABILITIES AND CHARGES (continued)

Provision for restructuring

Following a Tripartite agreement between the Board of ESB, the Group of Unions and the Government, discussions on the implementation of a further business restructuring programme began in 2000. This initiative, the severance terms of which have been approved by Government and the Board of ESB, comprises a number of fundamental change programmes across ESB intended to significantly change the structures, work practices and competitiveness of the Group. The provision for restructuring costs represents the voluntary severance liabilities under the restructuring plans. These exits will occur by 2005 and the majority of the liabilities will be discharged by 2017.

18. CAPITAL STOCK

GROUP & PARENT

Capital Stock

Comprised of:

Stock issued from converted reserves
Stock issued for subscription by ESOT

	2003 €'000	2002 €'000
Capital Stock	<u>1,979,882</u>	<u>1,979,882</u>
Stock issued from converted reserves	<u>1,880,888</u>	1,880,888
Stock issued for subscription by ESOT	<u>98,994</u>	<u>98,994</u>
	<u>1,979,882</u>	<u>1,979,882</u>

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

19. SINKING FUND RESERVE FOR REPAYMENT OF BORROWINGS

GROUP & PARENT

Balance at 1 January 2003
 Appropriation for repayment of borrowings
Balance at 31 December 2003

Represented by:

Sinking fund investments (note 9)

	2003	2002
	€'000	€'000
	2,128	1,563
	245	565
	2,373	2,128
	2,373	2,128

20. PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

(a) GROUP

Balance at 1 January 2003
 Profit retained in year
 Translation differences on consolidation
 of foreign subsidiaries
Balance at 31 December 2003

Other reserves are primarily comprised of foreign exchange movements on the conversion of foreign subsidiaries.

(b) PARENT

	Profit & Loss account	Other reserves	Total reserves	Total reserves
	2003	2003	2003	2002
	€'000	€'000	€'000	€'000
	125,243	12,835	138,078	20,395
	181,324	-	181,324	119,111
	-	(3,637)	(3,637)	(1,428)
	306,567	9,198	315,765	138,078
	288,550	-	288,550	82,750

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

21. MINORITY INTEREST

Equity minority interest:

Balance at 1 January 2003
 Profit and loss account
 Buyback of minority interest in ESBI Computing Limited
Balance at 31 December 2003

	2003	2002
	€'000	€'000
	567	574
	(1)	125
	-	(132)
	566	567

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

NOTES TO THE FINANCIAL STATEMENTS

22. CASH FLOW STATEMENT

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

Operating profit

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

22. CASH FLOW STATEMENT (continued)

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

Analysis of changes in net debt

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

NOTES TO THE FINANCIAL STATEMENTS

23. PENSIONS

(a) SSAP 24 ACCOUNTING FOR PENSION COSTS

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

ESB General Employers' Superannuation Scheme

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

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

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

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

Actuarial Valuation

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

The previous valuation for the scheme was at 31 December 2000 using the attained age method. The principal actuarial assumption was that, over the long-term, the annual rate of return on investments would be 3% higher than the annual increase in pensionable remuneration and pensions in course of payment. At the date of that actuarial valuation, the market value of the assets of the scheme was €2,912m which exceeded the scheme's actuarial valuation of accrued liabilities based on current earnings. The actuarial value of the assets was sufficient to cover 96% of the accrued liabilities allowing for expected future increases in earnings and pensions. Payment of the recommended funding rate is planned to increase the figure to 100% over time.

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

ESB Subsidiary Companies Pension Scheme

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

NOTES TO THE FINANCIAL STATEMENTS

23. PENSIONS (continued)

(b) FRS 17 RETIREMENT BENEFITS

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

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

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

Assumptions

Financial Assumptions

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

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

Scheme Assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

23. PENSIONS (continued)

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

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

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

Impact on Group Operating Profit

	2003 €'000	2002 €'000
Current service cost	40,631	31,723
Past service cost	-	-
Total Operating Charge	<u>40,631</u>	<u>31,723</u>

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

Impact on Other Finance Income

Expected Return on pension scheme assets	165,776	197,700
Interest on pension scheme liabilities	<u>(179,826)</u>	<u>(175,198)</u>
Net Return	<u>(14,050)</u>	<u>22,502</u>
Total net impact on reported profits	<u>54,681</u>	<u>9,221</u>

NOTES TO THE FINANCIAL STATEMENTS

23. PENSIONS (continued)

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

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

Movement in deficit during the year

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

Deficit

	<u>(1,067,797)</u>	<u>(904,933)</u>
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History of experience gains / losses

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

NOTES TO THE FINANCIAL STATEMENTS

24. COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

Operating lease rentals payable within one year of the balance sheet date are in respect of leases expiring:

Within one year
Between two and five years
After five years
Total payable within one year

	2003 €'000	2002 €'000
	55	122
	2,486	1,940
	7,382	5,223
	<u>9,923</u>	<u>7,285</u>
	310,962	545,091
	76,549	2,300
	<u>387,511</u>	<u>547,391</u>

(b) Capital commitments

Contracted for
Authorised but not contracted for

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

(c) Fuel Contract Commitments

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

NOTES TO THE FINANCIAL STATEMENTS

25. RELATED PARTY TRANSACTIONS

Semi-State Bodies

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

Board Members' interests

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

Subsidiary undertakings

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

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

Associated undertakings

ESB has undertaken transactions at arms length for the purchase and supply of goods and services to associated undertakings during the year. The most significant of these were contracts with America and Caribbean Power for the provision of services amounting to €1.4m (2002: €15.3m).

Joint Ventures

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

26. ESB ESOP TRUSTEE LIMITED

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

27. POST BALANCE SHEET EVENTS

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

28. APPROVAL OF ACCOUNTS

The Board approved the accounts on 23 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

29. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
Coolkeeragh Group Ltd	2 Electra Road Maydown Derry BT47 1 UL	40	Power generation
Americas and Caribbean Power Ltd	Craigmuir Chambers PO Box 71 Road Town Tortola British Virgin Islands	20	Facility management
Joint venture undertakings			
Irish Power Systems Ltd	**	50	Power generation
Corby Power Ltd	***	50	Power generation
Synergen	South Bank Road Ringsend Dublin 4	70 ¹	Power generation

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

Investments

Rousch (Pakistan) Power Ltd	94-W, 3rd Floor Admir Plaza Jinnah Ave. Blue Area Islamabad Pakistan	7	Independent power producer
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* Stephen Court
18-21 St. Stephen's Green
Dublin 2.

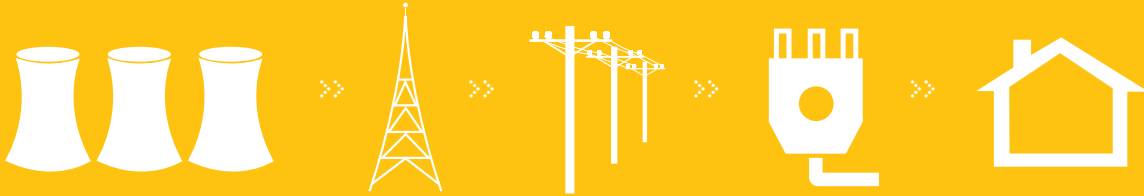
** 27 Lr. Fitzwilliam St.
Dublin 2

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

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



Appendices



Appendix 1

HOW ESB IS REGULATED

Introduction

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

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

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

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

Regulatory Framework

CER

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

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

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

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

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

Competition in the market

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

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

The supply market (direct sales to customers) has been opening progressively to competition since 2000, with 40% of the market (in unit sale terms) open in 2002, 56% open in February 2004 and 100% open to competition from February 2005. ESB has undertaken a number of initiatives to facilitate the entry of new competitors including:

- A commitment to reduce generation market share to 60%.
- Auctioning wholesale power to new suppliers at a discount to enable them to gain a customer base before the commissioning of their own generation. This process is known as the VIPP auction. VIPP stands for Virtual Independent Power Producer.
- Major investment in IT systems and related infrastructure to facilitate the operation of the fully opened market.
- Offering a 10 year contract to the winners of the competition for over 500 Megawatts of power, recently held by the CER.

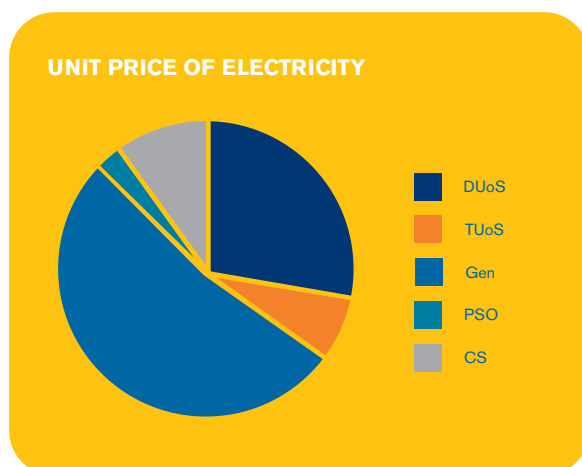
Revenue Regulation

The price charged on the domestic electricity bill is comprised of five separately regulated components;

1. The wholesale production cost of energy (GEN),
2. Transmission use of system charges (TUOS),
3. Distribution use of system charges (DUOS),
4. An operating cost recovery margin for the Customer Supply business (CS) and
5. A Public Service Obligation (PSO) levy.

Unit price of electricity

The pie chart below shows an analysis of the average unit price of electricity for 2003 into its five components. The generation component includes not only ESB's generation costs described below but also includes costs such as small scale generation, capacity margin and the costs of short term peaking capacity.



The following is an explanation of the form of regulation applied to each of these components:

Power Generation's wholesale energy price

The wholesale price of generation is currently regulated by the CER. The price set takes account of the CER view of the market price for electricity, a review of ESB generation costs and a regulated profit margin. The price control methodology used by the CER is set out in the regulated Vesting Contract between ESB's Generation and Supply businesses.

The Transmission and Distribution Use of System Charges

The electricity transmission network transports power from generating stations to bulk supply points, which connect to the lower voltage distribution system. As Transmission Asset Owner (TAO - licensed by CER in 2001) ESB Networks owns, and is responsible for the construction and maintenance of the transmission network. The electricity distribution network transports power from the bulk supply points to the electricity customer. As Distribution System Operator (DSO - licensed by CER in 2001) ESB Networks owns, and is responsible for the planning, construction, maintenance and operation of, the distribution network. The revenues of ESB Networks (Transmission and Distribution) are regulated on a five year basis with annual adjustments to reflect variables such as changing consumption levels, etc. The suppliers in turn, incorporate these charges in their customer bills.

Customer Supply Margin

The income of the ESB Customer Supply business is regulated on the basis of the sum of its operational costs, as approved by the CER and a small margin on the total value of its sales. The CER sets a range of efficiency and customer service targets, which the ESB Customer Supply business must achieve.

The Public Service Obligation Levy

ESB is required, under legislation, to contract from an independent generator and itself use a prescribed amount of peat generation and to award contracts to the successful bidders in the Government's Alternative Energy (renewables) competitions. The Public Service Obligation (PSO) Levy, which is shown separately on all customers' bills, regardless of their supplier, recovers the excess cost of contracting/utilising peat for electricity generation and purchasing renewable energy.

SUMMARY

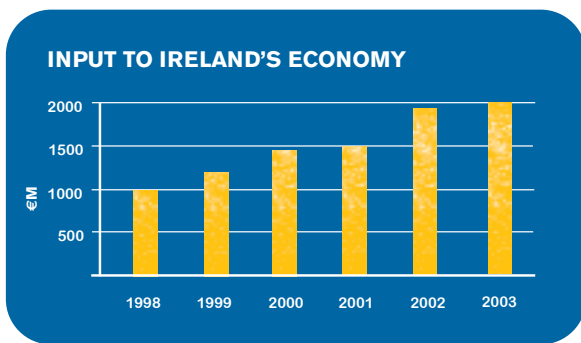
The aggregate of the separately regulated revenue streams for each of the above businesses forms the basis for the tariff shown in ESB bills. Recent price increases announced by the CER have been driven primarily by rising electricity production costs, Public Service Obligations (PSOs) and major refurbishment of ESB's ageing networks.

The latter reflects the need to refurbish and extend the national electricity infrastructure, which in many cases is unable to cope with the high levels of growth in system demand experienced over the last decade, particularly in the Northern and Western parts of the country.

Appendix 2

Contribution to Ireland's Economy

During 2003, ESB contributed approximately €2bn in Ireland, in the form of payroll, rates, energy purchases, interest charges, dividends and taxation. This is a significant input to the Irish economy in terms of both employment (direct and indirect) and expenditure in local communities, demonstrating ESB's commitment to Ireland.



Spend in the Irish Economy

In 2003, ESB spent over €1bn with Irish suppliers. The money was spent on a broad range of construction projects, goods and services. In addition, significant portions of this spend flows into the local communities in which ESB has a presence. A significant number of our top performing suppliers are indigenous companies, some of whom have manufacturing bases in Ireland.

Procurement and New Markets

As the ESB has grown and invested in its business, the company has expanded the range of services and materials it acquires. The Network Renewal Programme is an example of how new business opportunities for Irish and international suppliers have opened up for the first time. A number of Irish based contractors are now operating in the overhead line construction business thereby creating a new indigenous skilled resource for the home market. Approximately 250 new Irish contracting jobs will be created as a result.

Procurement and New Projects

Investments in new power projects also contribute to job creation and supplier opportunities. ESB is currently investing approximately €460m on two new peat fired generating stations in the midlands region. During the construction phase West Offaly Power and Lough Ree Power will create up to 1,200 jobs in the region and local contractors and suppliers will secure contracts valued in the region of €110m. This investment represents a significant boost to the local economy.

Payment Systems

A major concern for all our suppliers is that they get paid in accordance with their contracted terms. ESB is keen for suppliers to adopt the most efficient payment method appropriate to the category of spend. For lower value spend, we have issued Procurement Cards to 1,700 of our staff. In 2003, €3m in local spend was facilitated by this payment method.

Appendix 3

Report of Board Members on Compliance with the Prompt Payment of Accounts Act, 1997 and EU Directive 2000/35/EC

Introduction

Prompt payments during 2003 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.
- EU Directive 2000/35/EC to combat late payments in commercial transactions, replaced the above when it came into effect on 8th August 2002. This directive applies to 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 Directive

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

Procedures and controls in place

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

Details of interest payments in respect of 2003:

Total number of late payments	2,951
Total value of late payments	€23,914,106
Total value of late payments as a % of total value of payments made:	1.1%
Total value of interest paid:	€137,049

Tadhg O'Donoghue Chairman

Padraig McManus Chief Executive

23 March 2004