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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, 2004.

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 2004, 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 €267m compared with €249m for 2003.

	2004 €m	2003 €m
Group profit before taxation	314	302
Taxation	(47)	(53)
Profit for the financial year	267	249

No interim dividends were paid during 2004. The Board Members are recommending that a final dividend of 3.91 cents per unit of capital stock, amounting to €77.413 million, in aggregate be paid in respect of 2004. The balance of the profit for the year has been transferred to reserves. A total

dividend of 3.39 cents, amounting to €67.118 million, was paid in respect of the year 2003. 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.

ESB also conforms as far as possible and on a voluntary basis with the Combined Code of Corporate Governance July 2003. The Combined Code sets out Principles of Good Governance and a Code of Best Practice. Companies listed on the Irish Stock Exchange are required as part of the listing rules 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 of the listing rules in general and the Combined Code in particular and complies with its requirements except for as follows:

- (i) ESB is accountable to the Minister for Communications, Marine and Natural Resources.
- (ii) Appointments to the Board are a matter for Government and accordingly ESB does not have a nomination committee.
- (iii) Board Members, are appointed for terms of between four and five years and therefore are not subject to re-election to the Board at intervals not exceeding three years.

- (iv) ESB's policies in relation to remuneration of Executive Board Members (Chief Executive) are in accordance with "Arrangements for determining the remuneration of Chief Executives of Commercial State Bodies under the aegis of the Department of Public Enterprise" issued in July 1999. The details of Board Members' remuneration on page 48 does not include amounts paid to the four Worker Board Members as employees of ESB, but does include amounts paid to them by way of fees.
- (v) One worker Board Member served on the Audit Committee during the year. The Chairman also served on the Audit Committee for a period pending the appointment of a successor to Mr Bernard Byrne who resigned from the Committee on his appointment as Group Finance Director of ESB. It is planned that, for the future, all Audit Committee Members will be independent non-executive Board Members.
- (vi) The Chairman consults regularly with the non-executive Board Members, but not by way of formal meetings.
- (vii) Two independent Board Members are employees of companies which themselves, or through a group company, provide credit and other financial services to ESB but these business relationships are not viewed as compromising the independence of the Board Members concerned.

Principles of Good Governance

Attendance at Meetings

There were 12 Board Meetings (11 General Board Meetings and 1 Special Board meeting) during the year ended 31 December, 2004. The number in brackets below opposite each name represents the attendance by each Board member at General and Special Board meetings respectively, during the year.

Board Member	General / Special
Tadhg O'Donoghue, Chairman	(11,1)
Joe LaCumbre, Deputy Chairman	(11,1)
Brendan Byrne* (appointed 1 September 2004)	(4, 0)
Bernard Byrne* (resigned 8 February 2004)	(1,0)
Eamonn Connolly	(11,1)
Eoin Fahy*	(10,1)
Georgina Kenny*	(11,1)
John McGinley	(11,1)
Will McKee*	(11,1)
Padraig McManus	(11,1)
Derry O'Donovan*	(11,1)
Pat Smith	(11,1)
Anne Taylor (RIP)*	(9,0)

* *independent*

The Board

While day to day responsibility for the leadership and control of the company is delegated to the Chief Executive and his Senior Management Team, within pre-defined authority limits, the Board is ultimately responsible for the performance of the company. At 31 December 2004, the Board comprised twelve members including the Chief Executive. Eight Board Members including the Chief Executive are appointed by the Government for a five year term and four Worker Board Members are appointed by the Minister for Communications, Marine and Natural Resources for a four year term following election by staff.

The Board has determined that the seven Board Members, excluding the Chief Executive and the worker Board Members, identified above were independent during 2004.

The Chief Executive and the four worker Board Members are permanent employees of ESB and their employment periods are governed by their contracts of employment with the company.

Mr Tadhg O'Donoghue has been Chairman of the Board since January 2001. His responsibilities include leading the Board, determining its agenda, ensuring its effectiveness and facilitating full participation by each Board Member. He is also responsible as Chairman for ensuring effective communication with the Company's owners and stakeholders - the Ministers for Finance and for Communications, Marine and Natural Resources and their officials and with ESB ESOP Trustee Ltd - the Employee Share Ownership Plan for ESB. The roles of the Chairman, who is part-time, and Chief Executive are separate. Anne Taylor, RIP, was the Senior Independent Non-Executive Director during 2004. Bernard Byrne resigned as a Board Member in February 2004 and Brendan Byrne was appointed a Board Member in September 2004.

The Board agrees a schedule of monthly meetings (except August) to be held in each calendar year and also meets on other occasions as necessary. The Board has a formal schedule of matters specifically reserved to it for decision at Board meetings. The principal matters reserved to the Board include:

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

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

The Board Members, in the furtherance of their duties, 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. Insurance cover is in place to protect Directors and Officers against liability arising from legal actions taken against them in the course of their duties. An induction programme is in place, to familiarise new Board Members with the operations of the Group. The Board Members receive monthly financial statements for the Group and full Board papers are sent to each member 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. During 2004 the Board completed a formal evaluation of its own performance and that of its Committees. The Chairman selected the process by which the evaluation was undertaken which involved the completion by Board members of a detailed questionnaire and the use of an external adviser to present the results to the Board. This evaluation was undertaken in order to comply so far as possible with the revised Combined Code. The evaluation related to the Board's collective performance and not to the performance of the Chairman or individual Board Members. However the Board will keep under review the extent to which evaluations of individual Board members are appropriate in ESB's circumstances.

Board Committees in 2004

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

Audit Committee

The Audit Committee, a formally constituted committee of the Board with written terms of reference, is composed of three Board Members two of whom are independent and one of whom is a Worker Board Member.

The purpose of the Audit Committee is to oversee the financial reporting process and internal control system of ESB. During 2004 the Audit Committee reviewed the annual and the interim financial statements, the system of internal controls, the reports of the internal and external

auditors, risk management, energy trading and treasury policies and procedures. The Committee also developed a policy regarding the provision of non-audit services by the external auditors, whereby, other than as notified to the Committee, such services should be limited to advice in relation to accounting, taxation and compliance issues and that the fees payable for non-audit services in any financial year should not exceed audit fees for that year. The internal and external auditors have full and unrestricted access to the Audit Committee. The Committee held five meetings during 2004. Mr Bernard Byrne was Committee Chairman until 8 February 2004. Mr O'Donovan was Chairman from that date until the end of the year. The Board is satisfied that at all times during the year at least one Member of the Committee had recent and relevant financial experience. All members at the time attended all meetings except for Mr Brendan Byrne who was not present for one meeting.

Members: Derry O'Donovan, Chairman
Eamonn Connolly
Brendan Byrne (from 1 September 2004)
Bernard Byrne (resigned 8 February 2004)
Tadhg O'Donoghue (8 February to 31 August 2004)

Business Development and International Committee

The purpose of the Business Development and International Committee is to review investment proposals aimed at ensuring the positioning of ESB for future success consistent with the strategy approved by the Board. During 2004 the Committee reviewed major proposals relating to the network renewal programme, investments in the power generation portfolio and international investments.

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

Business Strategy Committee

The purpose of this Committee is to monitor the delivery of performance and the achievement of targets in the corporate strategy approved by the Board. During the course of 2004 the Business Strategy Committee reviewed performance against the strategic targets approved by the Board.

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

Health, Safety and Environment Committee

The purpose of the Health, Safety and Environment Committee is to advise the Board on health, safety and environmental matters. During 2004 the Committee considered ESB actions to improve safety and environment compliance. It also considered reports on accidents, involving staff, contractors and members of the public and ESB's compliance with health, safety and environmental legislation.

Members: Pat Smith, Chairman
Padraig McManus
Anne Taylor (RIP)

Finance Committee

The purpose of the Finance Committee is to oversee strategy and policy on financial matters and to advise the Board as appropriate. During 2004 the Finance Committee considered ESB's funding requirements in the context of its major capital investment programmes.

Members: Tadhg O'Donoghue, Chairman
Bernard Byrne (resigned 8 February 2004)
Derry O'Donovan (from 13 December 2004)
Eoin Fahy (from 13 December 2004)
John McGinley

Independent Transmission System Operator Committee

Arising from the European Electricity Directive 96/92 EC and in accordance with the requirements of Statutory Instrument 49 of 2000, the Board established a separate committee, the ITSO Committee, to facilitate the independent management of the Transmission System Operator. The ITSO Committee facilitates the independent management of the Transmission System Operator functions undertaken by the National Grid business within ESB on a strictly ringfenced basis, pending the transfer of those functions to EirGrid as an independent legal entity. The Commission for Energy Regulation approved these ringfencing arrangements as part of the market framework for trade in electricity.

Members: Eoin Fahy, Chairman
Derry O'Donovan

Regulation Committee

The purpose of this Committee is to oversee the development and implementation of the corporate strategy on evolving legislation and regulatory matters and to oversee compliance with regulatory requirements. The Regulation Committee, during the course of 2004, considered regulatory developments at EU and national level.

Members: John McGinley, Chairman
Eamonn Connolly
Georgina Kenny
Anne Taylor (RIP)

Remuneration and Management Development Committee

The purpose of the Remuneration and Management Development Committee is to advise the Board on all aspects of the remuneration of the Chief Executive, to approve any changes to the remuneration of worker Board Members, to set the remuneration of the executive

management group following consultation with the Chief Executive and to monitor the development of current and future leaders of ESB. During 2004 the Committee considered the remuneration and targets of the Chief Executive and the senior executives and the developmental needs of the Company's senior managers. The Committee held seven meetings during 2004 with all members attending all meetings.

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

Internal Controls

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

The Board has reviewed the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls and risk management systems. ESB has in place a strong control framework, which covers all areas of control. The system of internal control includes the following:

- A code of ethics that requires all employees to maintain the highest ethical standards in conducting business.
- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board which support the maintenance of a strong control environment.
- A corporate governance framework which includes risk analysis, financial control review and formal annual governance statements by the management of Business 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.

- A comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require the approval of the Board, and are closely monitored on an ongoing basis by the Business Development and International Committee of the Board.
- Comprehensive budgeting systems with an annual budget approved by the Board.
- A comprehensive system of financial reporting. Cumulative monthly actual results are reported against budget and considered by the Board on a monthly basis. Any significant changes and adverse variances are questioned by the Board, and remedial action taken where appropriate.
- Consideration of operational and financial issues by special Board Committees as described on pages 44 to 46, 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, have reviewed the effectiveness of the system of internal control. The process used by the Board and the Audit Committee to review the effectiveness of the system of internal control includes:

- Review and consideration of the half-yearly risk review process.
- Independent advice on the adequacy of the current risk management process in operation in ESB.
- Review and consideration of certifications from management of satisfactory and effective operation of systems of internal controls, both financial and operational.

- A review of the programme of Group Internal Audit and consideration of their findings and reports. Group Internal Audit also report regularly on the status of issues raised previously from their own reports and reports from the external auditor.
- A review of reports of the external auditors, KPMG, which contain details of any significant control issues identified, arising from their work as auditors.

Executive Board Members' Remuneration

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

The remuneration of the Chief Executive consists of basic salary, performance related bonus 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 €5,772 and €17,314 respectively. The total accrued pension at the end of the year in respect of all the Chief Executive's service was €80,383 and the total accrued gratuity was €241,150. The transfer value of the relevant increase was €60,429.

Board Members' remuneration - 2004

Remuneration	2004 €	2003 €
Chairman:		
Tadhg O'Donoghue		
Fees	63,487	63,487
Taxable benefits	2,859	-
	<u>66,346</u>	<u>63,487</u>
Chief Executive:		
Padraig McManus		
Salary	285,052	276,645
Performance related pay	48,224	75,395
Taxable benefits	26,138	20,035
Pension contributions	33,921	32,921
Fees	12,697	12,697
	<u>406,032</u>	<u>417,693</u>
Non-Executive Board Members:		
Joe LaCumbre *	12,697	12,697
Brendan Byrne	4,244	-
Bernard Byrne	1,357	12,697
Eamonn Connolly *	12,697	12,697
Eoin Fahy	12,697	12,697
Georgina Kenny	12,697	12,697
John McGinley *	12,697	12,697
Will McKee	12,697	12,697
Derry O'Donovan	12,697	12,697
Pat Smith *	12,697	12,697
Anne Taylor	12,697	12,697
	<u>119,874</u>	<u>126,970</u>

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

Non-Executive Board Members' Remuneration

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

Going Concern

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

Safety, Health and Welfare at Work Act (1989)

The health and safety of 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 Senior Management Team meet regularly to set Group safety objectives and strategy and review performance. The Chief Executive's Safety Committee, Business Area and local safety committees review and discuss relevant matters of policy and principle covering the health and safety of staff and the public, safety improvement plans and programmes and related matters.

In line with the requirement in Section 12 (6) of the 1989 Safety, Health & Welfare at Work Act an evaluation was carried out of the extent to which ESB Group Safety Policy and the undertakings set out in the accompanying ESB Group Safety Statement were fulfilled during 2004. 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 2004 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.

This report was approved by the Board on 28 June 2005 for submission to the Minister for Communication, Marine and Natural Resources.

On behalf of the Board



Tadhg O'Donoghue Chairman



Padraig McManus Chief Executive

Date 28 June 2005

Statement of Board Members' Responsibilities

The Electricity Supply Acts 1927 to 2004 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 53 to 93, appropriate accounting policies have been used and consistently applied, reasonable and prudent judgements and estimates have been made and all accounting standards considered applicable have been followed.

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

On behalf of the Board



Tadhg O'Donoghue Chairman



Padraig McManus Chief Executive

28 June 2005

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

As auditors appointed by the Minister for Communications, Marine and Natural Resources with the consent of the Minister for Finance, under Section 7 of the Electricity (Supply) Act 1927, we have audited the financial statements of ESB on pages 53 to 93.

This report is made solely to the stockholders of ESB as a body, in accordance with Section 193 of the Companies Act, made applicable to ESB by virtue of the Regulations adopted by it as its governing regulations under the Electricity (Supply) Act, 1927, as amended by the Electricity (Supply) (Amendment) Act 2001. Our audit work has been undertaken so that we might state to the stockholders of ESB those matters we are required to state to them in an 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 ESB and its stockholders, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of Board Members and Auditors

The Board Members of ESB are responsible for preparing the Annual Report. As described on page 50, this includes responsibility for preparing the financial statements in accordance with the Electricity Supply Acts 1927 to 2004 and applicable Irish accounting standards. Our responsibilities, as independent auditors, are established in Ireland by the Electricity Supply Acts 1927 to 2004, 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 2004. 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 42 to 48 reflects the Board's compliance with the nine provisions of the Combined Code specified for review by auditors and (2) the statement on the system of internal control on pages 46 and 47 reflects the Board's compliance with the provision of The Code of Best Practice for the Governance of State Bodies that is specified for review by auditors and we report if those statements do not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information 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 2004 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 2004.

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 2004 is in agreement.



**Chartered Accountants
Registered Auditors**

1 Stokes Place
St Stephen's Green
Dublin 2

28 June 2005

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 2003.

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 2004. 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 2004.

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 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 and 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 and 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 associates 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 repayment of borrowings**

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 by 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 term deposits, other than cash, invested for less than one year.

Group Profit and Loss Account

Year ended 31 December 2004

	Notes	2004 € '000	2003 € '000
Turnover - group and share of joint ventures		2,634,006	2,480,234
Less: Share of joint ventures' turnover		(145,092)	(138,431)
Turnover - continuing operations	1	2,488,914	2,341,803
Operating costs	2	(2,126,062)	(2,016,201)
Operating profit - continuing operations		362,852	325,602
Share of joint ventures' operating profit		35,258	27,935
Share of associated undertakings' operating profit		85	416
Profit on ordinary activities before interest		398,195	353,953
Net interest cost and other financing charges	3	(83,772)	(51,845)
Profit on ordinary activities before taxation		314,423	302,108
Tax charge on profit on ordinary activities	5	(47,159)	(53,422)
Profit on ordinary activities after taxation		267,264	248,686
Minority interests - equity	21	(112)	1
Profit for the financial year		267,152	248,687
Dividends	7	(77,413)	(67,118)
Profit retained for the financial year		189,739	181,569
Appropriation to reserve for the repurchase of loan stock	19	(314)	(245)
Transfer to profit and loss reserve	20	189,425	181,324

Signed: **Tadhg O'Donoghue**

Chairman

Signed: **Padraig McManus**

Signed: **Bernard Byrne**

Chief Executive
Group Finance Director

28 June 2005

Group Balance Sheet

As at 31 December 2004

	Notes	2004 € '000	2003 € '000
Fixed assets			
Tangible assets	8	5,633,444	4,725,100
Investment in associates	9	3,491	3,484
Investments in joint ventures			
> Goodwill		13,274	14,863
> Share of gross assets		256,284	265,308
> Share of gross liabilities		(78,431)	(85,884)
Total investment in joint ventures	9	191,127	194,287
Other financial asset investments	9	2,886	2,624
		5,830,948	4,925,495
Current assets			
Stocks	10	190,135	179,725
Debtors	11	567,097	508,480
Investments	12	78	54
Cash at bank and in hand	22(c)	74,778	566,508
		832,088	1,254,767
Creditors: amounts falling due within one year			
Borrowings and other debt	13	(127,670)	(98,336)
Other creditors	15	(655,468)	(568,009)
		(783,138)	(666,345)
		48,950	588,422
Total assets less current liabilities			
		5,879,898	5,513,917
Creditors: amounts falling due after more than one year			
Borrowings and other debt	13	(2,246,002)	(2,070,978)
Other creditors	15	(51,703)	(101,139)
Deferred income	16	(254,899)	(155,805)
		(2,552,604)	(2,327,922)
		(839,722)	(887,409)
Provision for liabilities and charges			
	17	2,487,572	2,298,586
Capital stock and reserves			
Capital stock	18	1,979,882	1,979,882
Reserve for repurchase of loan stock	19	2,687	2,373
Profit and loss account and other reserves	20	504,325	315,765
		2,486,894	2,298,020
Stockholders' funds - equity			
		678	566
Minority interests			
	21	2,487,572	2,298,586

Signed: **Tadhg O'Donoghue**

Chairman

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

Chief Executive
Group Finance Director

28 June 2005

Parent Balance Sheet

As at 31 December 2004

	Notes	2004 € '000	2003 € '000
Fixed assets			
Tangible assets	8	4,924,384	4,260,526
Financial assets	9	190,652	165,819
		<u>5,115,036</u>	<u>4,426,345</u>
Current assets			
Stocks	10	176,057	179,725
Debtors	11	697,545	575,279
Investments	12	78	54
Cash at bank and in hand		39,792	502,361
		<u>913,472</u>	<u>1,257,419</u>
Creditors: amounts falling due within one year			
Borrowings and other debt	13	(113,078)	(83,744)
Other creditors	15	(670,893)	(555,143)
		<u>(783,971)</u>	<u>(638,887)</u>
Net current assets		<u>129,501</u>	<u>618,532</u>
Total assets less current liabilities		5,244,537	5,044,877
Creditors: amounts falling due after more than one year			
Borrowings and other debt	13	(1,667,010)	(1,660,151)
Other creditors	15	(23,851)	(70,087)
Deferred income	16	(253,212)	(154,423)
		<u>(1,944,073)</u>	<u>(1,884,661)</u>
Provision for liabilities and charges	17	<u>(836,650)</u>	<u>(889,411)</u>
		2,463,814	2,270,805
Capital stock and reserves			
Capital stock	18	1,979,882	1,979,882
Reserve for repurchase of loan stock	19	2,687	2,373
Profit and loss account and other reserves	20	481,245	288,550
Stockholders' funds - equity		<u>2,463,814</u>	<u>2,270,805</u>

Signed: **Tadhg O'Donoghue**

Chairman

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

Chief Executive
Group Finance Director

28 June 2005

Statement of Total Recognised Gains and Losses

Year ended 31 December 2004

	Notes	2004 € '000	2003 € '000
Profit for the financial year		267,152	248,687
Translation differences on consolidation of foreign subsidiaries, joint ventures and associates	20	(865)	(3,637)
Total recognised gains and losses for the financial year		266,287	245,050
Reconciliation of Movements in Stockholders' Funds			
		2004 € '000	2003 € '000
Total recognised gains and losses for year		266,287	245,050
Dividends	7	(77,413)	(67,118)
Opening stockholders' funds		2,298,020	2,120,088
Closing stockholders' funds		2,486,894	2,298,020

Group Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 € '000	2003 € '000
Net cash inflow from operating activities	22(a)	<u>485,035</u>	<u>530,731</u>
Dividends received from joint venture undertakings		<u>32,224</u>	<u>15,189</u>
Returns on investments and servicing of finance			
Interest received		7,069	4,017
Interest paid		(108,013)	(49,031)
Interest element of finance lease payments		(8,608)	(7,597)
Net cash outflow from returns on investments and servicing of finance		<u>(109,552)</u>	<u>(52,611)</u>
Taxation			
Corporation tax paid		<u>(29,324)</u>	<u>(24,044)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,142,627)	(1,234,862)
Sale of tangible fixed assets		28,167	12,864
Deferred income	16	106,425	78,359
		<u>(1,008,035)</u>	<u>(1,143,639)</u>
Acquisitions and disposals			
Purchase of subsidiary, joint ventures' and associates		-	(7,000)
Net cash outflow from capital expenditure & financial investment		<u>(1,008,035)</u>	<u>(1,150,639)</u>
Dividends paid		<u>(67,118)</u>	<u>(19,704)</u>
Net cash outflow before management of liquid resources and financing		<u>(696,770)</u>	<u>(701,078)</u>
Net cash outflow/(inflow) from management of liquid resources	22(b)	<u>438,048</u>	<u>(426,924)</u>
Financing			
Increase in loans and finance leases (net)	22(b)	<u>204,419</u>	<u>1,146,453</u>
Net cash inflow from financing		<u>204,419</u>	<u>1,146,453</u>
(Decrease) / Increase in cash	22(b)	<u>(54,303)</u>	<u>18,451</u>

Notes to the Financial Statements

I > Segmental information

(a) By activity

Power Generation and Supply

> Power Generation

	2004 € '000	2003 € '000
Total turnover	1,065,387	981,002
Internal turnover	936,085	883,617
External turnover	129,302	97,385
Profit before interest and tax	72,680	62,004
Capital expenditure	192,940	270,047

> ESB Customer Supply

Total turnover	1,759,040	1,660,390
Internal turnover	39,348	28,002
External turnover	1,719,692	1,632,388
Profit before interest and tax	76,476	88,693
Capital expenditure	7,283	2,755

Networks

Total turnover	945,060	849,196
Internal turnover	728,760	689,935
External turnover	216,300	159,261
Profit before interest and tax	254,187	216,091
Capital expenditure	703,580	671,665

Commercial Enterprises

Total turnover	691,223	659,983
Internal turnover	200,458	186,775
External turnover	490,765	473,208
Profit before interest and tax	25,892	13,899
Capital expenditure	246,300	308,267

Other

External turnover - consolidation adjustments	(67,145)	(20,439)
Consolidation adjustments and losses before interest and tax	(31,040)	(26,734)
Capital expenditure	59,044	41,148

Group Totals

External turnover	2,488,914	2,341,803
Turnover from joint ventures	145,092	138,431
Profit before interest and tax	398,195	353,953
Capital expenditure	1,209,147	1,293,882

Notes to the Financial Statements

I > Segmental information (continued)

(b) Turnover by geographic market

	2004	2003
	€ '000	€ '000
Ireland	2,423,984	2,272,351
UK & Europe	186,941	156,574
Other	23,081	51,309
Total	<u>2,634,006</u>	<u>2,480,234</u>

2 > Operating costs

	2004	2003
	€ '000	€ '000
Payroll	494,749	481,142
Fuel	806,300	732,141
Operations and maintenance	528,034	483,864
Depreciation	295,933	286,455
Impairment of assets (Note 8)	1,046	32,599
	<u>2,126,062</u>	<u>2,016,201</u>

3 > Net interest cost and other financing charges

	2004	2003
	€ '000	€ '000
Interest payable on borrowings	110,205	54,547
Interest payable on finance leases	8,541	7,612
Total interest payable	<u>118,746</u>	62,159
Total interest receivable	<u>(6,769)</u>	<u>(3,943)</u>
Net interest payable	111,977	58,216
Less capitalised interest	(60,691)	(39,490)
Financing charges:		
> on restructuring provision	15,886	18,425
> on station closure provision	<u>16,600</u>	<u>14,694</u>
Net interest cost and other financing charges	<u>83,772</u>	<u>51,845</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 the year by business activity, including temporary employees:

Power Generation & Customer Supply
Networks
Commercial Enterprises
Other

2004 Number	2003 Number
2,269	2,471
4,008	4,073
2,652	2,669
360	374
<u>9,289</u>	<u>9,587</u>

(b) Employee costs in the year

Salaries
Social welfare costs (PRSI)
Pension costs
Other payroll benefits*

2004 € '000	2003 € '000
561,354	542,362
22,837	22,355
40,369	39,566
41,489	40,059
<u>666,049</u>	<u>644,342</u>

Capitalised payroll

(171,300) (163,200)

Charged to the Profit & Loss Account

494,749 481,142

* These benefits primarily include travel and subsistence expenses.

5 > Tax on profit on ordinary activities

Corporation tax at 12.5% (2003: 12.5%)
Less manufacturing relief

2004 € '000	2003 € '000
12,688	30,526
<u>(1,096)</u>	<u>(2,344)</u>
11,592	28,182

Capital gains tax
Chargeable gains
Overseas tax (excluding associated companies)
Tax attributable to group

4,817	-
52	-
2,395	3,904
<u>18,856</u>	<u>32,086</u>

Tax attributable to associated companies
Tax attributable to joint ventures
Prior year overprovision

-	63
3,972	2,183
<u>(1,424)</u>	<u>-</u>

Current year tax charge (continued overleaf)

21,404 34,332

Notes to the Financial Statements

5 > Tax on profit on ordinary activities (continued)

	2004 € '000	2003 € '000
Current year tax charge	21,404	34,332
Deferred taxation		
Origination and reversal of timing differences	30,108	18,774
Deferred tax attributable to joint ventures	(316)	316
Prior year overprovision	(4,037)	-
	<u>47,159</u>	<u>53,422</u>
Factors affecting tax charge for the year		
Profit on ordinary activities before tax multiplied at current trading rate (12.5%) (2003: 12.5%)	39,303	37,764
Tax effects of:		
Expenses not deductible for tax purposes	1,058	13,923
Foreign earnings subject to different rates of tax	4,519	3,765
Income and gains taxed at the higher rate of Irish tax	2,082	316
Income at the reduced Irish tax rate	(1,096)	(2,344)
Capital allowances in excess of depreciation	(25,246)	(21,626)
Other deferred tax timing differences	2,208	2,534
Prior year over provisions	(1,424)	-
	<u>21,404</u>	<u>34,332</u>

ESB's profits are taxed at the standard corporation tax rate of 12.5% (2003:12.5%) reduced by manufacturing relief where applicable. Capital gains made during the year have been taxed at 20%. Roughly 10% 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 investment in the new Coolkeeragh power station in Northern Ireland. It is expected that this plant will be fully operational during the year ended 2005. This plant is currently in the commissioning phase and is due to be fully operational in 2005. The current rate of corporate profits tax in Northern Ireland is 30%.

Notes to the Financial Statements

6 > Profit for the financial year

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

Depreciation

Operating lease charges

Amortisation of goodwill

Amortisation of deferred income

Loss on disposal of fixed assets

(Profit) on disposal of fixed assets

Loss on disposal of investment in financial fixed asset

Auditors' remuneration

> audit services

> taxation

> other non-audit services

ESB (Parent) Board Members' remuneration:

> fees

> other remuneration

Impairment of fixed assets (Note 8)

2004	2003
€ '000	€ '000
295,933	286,455
9,046	9,120
1,648	15,170
(7,331)	(4,876)
725	2,766
(25,059)	(10,312)
-	463
382	358
171	53
223	151
196	203
396	405
1,046	32,599

7 > Dividends

Dividends on capital stock:

Proposed final dividend of 3.91 cent (2003: 3.39 cent) per capital stock unit

2004	2003
€ '000	€ '000
77,413	67,118

It is proposed to pay a dividend of 3.91 cent per capital stock unit issued (2003: 3.39 cent). The total number of capital units in issue is 1,979,881,856. No interim dividend was paid in 2004 or 2003.

Notes to the Financial Statements

8 > Tangible fixed assets

	Land and buildings	Plant and machinery	Total assets in commission	Assets under construction	Total
	€ '000	€ '000	€ '000	€ '000	€ '000
(a) Group					
Cost					
Balance at 1 January 2004	789,295	5,801,634	6,590,929	1,222,149	7,813,078
Additions	28,123	1,082,440	1,110,563	98,584	1,209,147
Retirements/disposals	(1,703)	(20,632)	(22,335)	-	(22,335)
Translation difference	1	(14)	(13)	-	(13)
Balance at 31 December 2004	815,716	6,863,428	7,679,144	1,320,733	8,999,877
Depreciation					
Balance at 1 January 2004	430,519	2,657,459	3,087,978	-	3,087,978
Charge for the year	24,565	271,368	295,933	-	295,933
Retirements/disposals	(543)	(17,959)	(18,502)	-	(18,502)
Translation difference	1	(23)	(22)	-	(22)
Impairment adjustment	-	1,046	1,046	-	1,046
Balance at 31 December 2004	454,542	2,911,891	3,366,433	-	3,366,433
Net book value at 31 December 2004	361,174	3,951,537	4,312,711	1,320,733	5,633,444
Net book value at 31 December 2003	358,776	3,144,175	3,502,951	1,222,149	4,725,100

The non depreciable element of land and buildings amounts to €6.6m (2003: €6.4m).

During the year the group capitalised the sum of €60.7m (2003: €39.5m) in interest. The capitalisation rate was 5%/(2003: 5.3%). During 2004, Ballyragget Power Limited carried out an impairment review of its fixed assets and consequently wrote down the net book value by €1m.

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 asset was written down by €41.4m and the deferred government grant relating to this asset was amortised by a further €13m. The value of the tangible assets in Hibernian Hydro Limited, a subsidiary company was also written down following an impairment review in 2003, reducing the carrying value of the assets by €4.2m.

Additions for 2004 include transfers from assets under construction which have been commissioned during 2004.

Finance leases

All finance leases are held by the parent company. The net book value of tangible fixed assets includes an amount of €43.9m (2003: €48.3m) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the year amounted to €4.4m (2003: €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 2004	783,443	5,718,407	6,501,850	780,345	7,282,195
Additions	27,967	1,078,516	1,106,483	(143,256)	963,227
Retirements/disposals	(1,703)	(31,540)	(33,243)	-	(33,243)
Balance at 31 December 2004	809,707	6,765,383	7,575,090	637,089	8,212,179
Depreciation					
Balance at 1 January 2004	430,281	2,591,388	3,021,669	-	3,021,669
Charge for the year	24,552	261,578	286,130	-	286,130
Retirements/disposals	(543)	(19,461)	(20,004)	-	(20,004)
Balance at 31 December 2004	454,290	2,833,505	3,287,795	-	3,287,795
Net book value at 31 December 2004	355,417	3,931,878	4,287,295	637,089	4,924,384
Net book value at 31 December 2003	353,162	3,127,019	3,480,181	780,345	4,260,526

The non depreciable element of land and buildings amounts to €0.7m (2003: €0.8m)

During the year the Parent capitalised the sum of €34.6m (2003: €30.3m) in interest. The capitalisation rate was 5% (2003: 5.3%).

Notes to the Financial Statements

9 > Financial fixed assets

	Associated undertakings shares € '000	Joint venture investments € '000	Sinking fund and other investments € '000	Goodwill & intangible assets € '000	Total € '000
(a) Group					
Balance at 1 January 2004	3,484	194,287	2,500	124	200,395
(Disposals) / Additions	(78)	109	-	-	31
Amortisation of goodwill	-	(1,596)	-	(52)	(1,648)
Retranslation/other movements	-	(961)	314	-	(647)
Share of profit	85	31,512	-	-	31,597
Dividends received	-	(32,224)	-	-	(32,224)
Balance at 31 December 2004	3,491	191,127	2,814	72	197,504

The carrying amount of goodwill on subsidiaries after amortisation, at 31 December 2004 is €0.1m (2003: €0.1m).

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 2004 is €2.687m (2003 : €2.373m). Subsidiary, associated and joint venture undertakings are listed in Note 29.

	Subsidiary undertakings		Subtotal	Sinking fund investments	Total
	Shares € '000	Loans € '000	€ '000	€ '000	€ '000
(b) Parent					
Balance at 1 January 2004	56,778	106,668	163,446	2,373	165,819
Additions	-	56,045	56,045	314	56,359
Repayments	-	(31,526)	(31,526)	-	(31,526)
Balance at 31 December 2004	56,778	131,187	187,965	2,687	190,652

Notes to the Financial Statements

10 > Stocks

Group

Materials and spares

Fuel

Appliances and other goods for resale

2004	2003
€ '000	€ '000
102,241	98,607
73,816	70,995
<u>14,078</u>	<u>10,123</u>
<u>190,135</u>	<u>179,725</u>

Parent

Materials and spares

Fuel

Appliances and other goods for resale

102,241	98,607
73,816	70,995
<u>-</u>	<u>10,123</u>
<u>176,057</u>	<u>179,725</u>

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

11 > Debtors

Amounts falling due within one year:

Trade debtors

Unbilled consumption

Deferred payment contracts

Value added tax

Amounts owed by subsidiary undertakings

Other debtors

GROUP		PARENT	
2004	2003	2004	2003
€ '000	€ '000	€ '000	€ '000
125,562	124,535	111,963	106,347
277,873	189,992	253,444	184,752
45,746	69,704	2,345	24,028
21,503	5,934	-	6,792
-	-	284,616	195,309
79,337	94,876	45,177	56,694
<u>550,021</u>	<u>485,041</u>	<u>697,545</u>	<u>573,922</u>
Amounts falling due after more than one year:			
17,076	23,439	-	1,357
<u>567,097</u>	<u>508,480</u>	<u>697,545</u>	<u>575,279</u>

Amounts falling due after more than one year:

Deferred payment contracts

Total debtors

Notes to the Financial Statements

13 > Borrowings and other debt (continued)

At year end, ESB's total debt portfolio amounted to €2.373bn (2003: €2.169bn). The underlying debt, before swaps, was denominated in the following currencies:

Currency

Euro
Japanese Yen
Swiss Franc
US Dollar
Sterling
Total

2004	2003
%	%
56	49
0	1
1	1
34	39
9	10
100	100

(b) Parent

Borrowings due within one year

- > Repayable by instalments
- > Repayable other than by instalments

Borrowings due after one year

- > Repayable by instalments
 - Between one and two years
 - Between two and five years
 - After five years
- > Repayable other than by instalments
 - Between one and two years
 - Between two and five years
 - After five years

Total borrowings due after one year

Total borrowings outstanding

Short term borrowings	Finance leases	Borrowings	2004 Total	2003 Total
€ '000	€ '000	€ '000	€ '000	€ '000
-	7,145	15,538	22,683	20,533
20,000	-	70,395	90,395	63,211
<u>20,000</u>	<u>7,145</u>	<u>85,933</u>	<u>113,078</u>	<u>83,744</u>
-	7,727	13,762	21,489	22,683
-	23,581	79,906	103,487	90,245
-	86,190	354,875	441,065	475,860
-	<u>117,498</u>	<u>448,543</u>	<u>566,041</u>	<u>588,788</u>
-	-	50,000	50,000	70,395
-	-	161,716	161,716	54,896
-	11,220	878,033	889,253	946,072
-	<u>11,220</u>	<u>1,089,749</u>	<u>1,100,969</u>	<u>1,071,363</u>
-	128,718	1,538,292	1,667,010	1,660,151
<u>20,000</u>	<u>135,863</u>	<u>1,624,225</u>	<u>1,780,088</u>	<u>1,743,895</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 Finance 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 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 all borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements.
- > To ensure adequate funding facilities are available to the Group on an ongoing basis to facilitate implementation of ESB business strategy.
- > To achieve a debt portfolio with a maturity, currency mix, cost of funds and interest rate profile consistent with ESB's business strategy.
- > To utilise structured non-recourse and limited recourse financing while ensuring compatibility between funding costs and risk mitigation.
- > To maintain a diversity in ESB's lender base and a strategic spread of non-borrowing business.
- > To ensure all instruments used and terms and conditions negotiated, allow flexibility for future changes in business strategy.

(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.

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

(f) Counterparty credit risk

ESB is exposed to credit risk relating to its cash deposits, derivative transactions and current financial assets. It deposits cash surpluses and transacts derivative business with financial institutions which meet approved creditworthiness criteria. Also, there is a limit on the amount of credit exposure to any one bank or institution.

Notes to the Financial Statements

14 Financial instruments (continued)

(g) Fair value

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

This method enables the Group to discount the cashflows at a rate equal to the prevailing market rate of interest taking into account maturity and credit margin.

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

The carrying value of 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

2004	Currency	Book value	Fair value	Fixed %	Weighted avg. period	Weighted avg. rate %
		€ m	€ m			
	EUR	25.7	25.7	100	1 day	2.1
	GBP	10.5	10.5	100	11 days	4.8
	USD	0.7	0.7	100	7 days	2.4

2003	Currency	Book value	Fair value	Fixed %	Weighted avg. period	Weighted avg. rate %
		€ m	€ m			
	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

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

(ii) Short term borrowings

2004	Currency	Book value	Fair value	Fixed %	Weighted avg. period	Weighted avg. rate %
		€ m	€ m			
	GBP	20.0	20.0	100	4 days	2.3
2003	GBP	10.8	10.8	100	86 days	4.1

Notes to the Financial Statements

14 Financial instruments (continued)

(iii) Debt portfolio

86% 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 9.25 years.

Instruments	2004			2003		
	Book value	Mark-to-market		Book value	Mark-to-market	
		Fair value	Gain/(Loss)		Fair value	Gain/(Loss)
€ m	€ m	€ m	€ m	€ m	€ m	
Loans/Leases	1,434.6	1,462.8	(28.2)	1,227.7	1,263.7	(36.0)
Interest Rate Swaps	-	27.2	(27.2)	-	(21.2)	21.2
Currency Swaps	919.1	999.6	(80.5)	930.8	955.6	(24.8)
Total	2,353.7	2,489.6	(135.9)	2,158.5	2,198.1	(39.6)

(iv) Foreign exchange contracts

Currency	2004			2003		
	Book value	Mark-to-market		Book value	Mark-to-market	
		Fair value	Gain/(Loss)		Fair value	Gain/(Loss)
€ m	€ m	€ m	€ m	€ m	€ m	
USD	31.7	29.4	(2.3)	45.4	38.8	(6.6)
GBP	101.4	102.2	0.8	115.2	115.1	(0.1)
Total	133.1	131.6	(1.5)	160.6	153.9	(6.7)

(v) Commodity contracts

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

At 31 December 2004, there were no oil swaps - (2003: book value US\$4.9m, fair value US\$5.3m - Gain US\$0.4m).

At 31 December 2004, there were four coal swaps in place for the period from January to December 2004 - book value US\$37.8m, fair value US\$42.8 - loss US\$5m (2003: no coal swaps in place).

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:

	2004		2003	
	Drawn debt € m	Maturing € m	Drawn debt € m	Maturing € m
In one year or less	90.4	154.2	73.9	-
Between one and two years	122.2	-	70.4	328.0
Between two and five years	202.6	941.0	169.4	1,085.0
In more than five years	1,958.5	-	1,855.6	-
	2,373.7	1,095.2	2,169.3	1,413.0

(i) Other

ESB has entered into a leasing transaction, early termination of which could expose ESB to a current estimated maximum net loss of €0.1m in present value terms (2003: €5.7m). 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 2004, ESB had no forward foreign exchange fuel contracts in place (2003: None in place).

Long term debtors of €17.1m (2003: €23.4m) and creditors of €51.7m (2003: €101.1m) form part of the long term financing of the Group.

15 > Other creditors

	Group		Parent	
	2004 € '000	2003 € '000	2004 € '000	2003 € '000
Creditors falling due within one year:				
Progress payments on work in progress	34,812	32,919	34,812	32,919
Trade creditors	202,579	229,782	182,397	202,951
Other creditors	66,377	20,169	59,821	14,812
Employment taxes	12,527	11,170	11,557	10,318
Value added tax	-	-	3	-
Dividends	77,413	67,118	77,413	67,118
Accruals	224,384	160,070	133,114	108,697
Amounts owed to subsidiary undertakings	-	-	133,241	73,452
Accrued interest on borrowings	15,197	12,772	14,139	12,472
Corporation tax	22,179	34,009	24,396	32,404
	655,468	568,009	670,893	555,143
Creditors falling due after more than one year	51,703	101,139	23,851	70,087

Notes to the Financial Statements

16 > Deferred income

Group

Balance at 1 January 2004
Receivable
Transferred to profit and loss account
Impairment of Asset (Note 8)
Balance at 31 December 2004

Parent

Balance at 1 January 2004
Receivable
Transferred to profit and loss account
Balance at 31 December 2004

2004	2003
€ '000	€ '000
155,805	95,368
106,425	78,359
(7,331)	(4,876)
-	(13,046)
<u>254,899</u>	<u>155,805</u>
154,423	85,038
106,005	73,897
(7,216)	(4,512)
<u>253,212</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 €11m deferred income will be released to the profit and loss account in 2005 in accordance with the accounting policy on deferred income.

17 > Provisions for liabilities and charges

Group

Balance at 1 January 2004
Transfer from profit & loss account:
➤ Increase in station closure provision
➤ Financing charge (note 3)
➤ Deferred tax charge for the year
Utilised during the year
Balance at 31 December 2004

	Generating station closure	Restructuring costs	2004 Total	2003 Total
Deferred taxation	station closure	Restructuring costs	2004 Total	2003 Total
€ '000	€ '000	€ '000	€ '000	€ '000
249,975	298,667	338,767	887,409	929,558
-	-	-	-	1,300
-	16,600	15,886	32,486	33,119
26,071	-	-	26,071	18,774
-	(19,027)	(87,217)	(106,244)	(95,342)
<u>276,046</u>	<u>296,240</u>	<u>267,436</u>	<u>839,722</u>	<u>887,409</u>

Notes to the Financial Statements

17 > Provisions for liabilities and charges (continued)

Deferred Taxation

Group

Capital allowances in excess of depreciation
Timing differences arising on provisions

2004	2003
€ '000	€ '000
289,468	264,222
<u>(13,422)</u>	<u>(14,247)</u>
276,046	249,975

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 2004 is €836.7m (2003: €889.4m). 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 2004 was €21m (2003: €20.8m) and the balance at year end is €273m (2003: €252m).

Provision for generating station closure

The provision at 31 December 2004 of €296.2m (2003: €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 2020. 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 demanning the stations on closure.

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 the end of 2005 and the majority of the liabilities will be discharged by 2017.

Notes to the Financial Statements

18 > Capital stock

Group & Parent

Capital Stock

Comprised of:

Stock issued from converted reserves
 Stock issued for subscription by ESOT

	2004	2003
	€ '000	€ '000
	<u>1,979,882</u>	<u>1,979,882</u>
	<u>1,880,888</u>	1,880,888
	<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.

19 > Sinking fund reserve for repayment of borrowings

Group & Parent

Balance at 1 January 2004
 Appropriation for repayment of borrowings
Balance at 31 December 2004

Represented by:

Sinking fund investments (Note 9)

	2004	2003
	€ '000	€ '000
	<u>2,373</u>	2,128
	<u>314</u>	<u>245</u>
	<u>2,687</u>	<u>2,373</u>
	<u>2,687</u>	<u>2,373</u>

Notes to the Financial Statements

20 > Profit and loss account and other reserves

(a) Group

	Profit & Loss account	Other reserves	2004 Total	2003 Total
	€ '000	€ '000	€ '000	€ '000
Balance at 1 January 2004	306,567	9,198	315,765	138,078
Profit retained in year	189,425	-	189,425	181,324
Translation differences on consolidation of foreign subsidiaries	-	(865)	(865)	(3,637)
Balance at 31 December 2004	495,992	8,333	504,325	315,765

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

(b) Parent

	481,245	-	481,245	288,550
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The retained profit in the parent accounts for 2004 amounted to €192.7m (2003: €205.8m).

21 > Minority interest

Equity minority interest:	
Balance at 1 January 2004	
Profit and loss account	
Balance at 31 December 2004	

2004	2003
€ '000	€ '000
566	567
112	(1)
678	566

Minority interests at the end of 2004 and 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

	2004 € '000	2003 € '000
Operating profit	362,852	325,602
Depreciation	295,933	286,455
Utilisation of provisions for liabilities and charges	(106,244)	(95,342)
Increase in provisions for liabilities and charges	-	1,300
Loss on disposal of tangible fixed assets	725	2,766
(Profit) on disposal of tangible fixed assets	(25,059)	(10,312)
Loss on disposal of investment in financial fixed assets	-	463
Amortisation of deferred income	(7,331)	(4,876)
Amortisation of goodwill	1,648	15,170
Translation differences	576	1,391
(Increase) in debtors	(58,617)	(25,127)
(Increase) in stocks	(7,710)	(964)
Increase in creditors	27,216	1,606
Provision for the impairment of fixed assets	1,046	32,599
Net cash inflow from operating activities	485,035	530,731

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

(Decrease) / Increase in cash in the year

	2004 € '000	2003 € '000
(Decrease) / Increase in cash in the year	(54,303)	18,451
Repayment of loans	67,643	334,262
New loans in year	(282,900)	(1,494,000)
Capital element of finance lease payments	10,838	13,285
Cash (inflow) from change in debt and lease financing	(204,419)	(1,146,453)
Net change in sinking fund bank deposits	314	245
Net change in other bank deposits	(438,362)	426,679
Cash (outflow)/inflow from decrease in liquid resources	(438,048)	426,924
Change in net debt resulting from cashflows	(696,770)	(701,078)
Exchange differences	996	879
Movement in net debt in the year	(695,774)	(700,199)
Net debt at 1 January 2004	(1,600,433)	(900,234)
Net debt at 31 December 2004	(2,296,207)	(1,600,433)

Notes to the Financial Statements

22 > Cash flow statement (continued)

(c) Analysis of changes in net debt

	At 1 January 2004 € '000	Cashflow € '000	Exchange movements € '000	At 31 December 2004 € '000
Cash at bank and in hand (see below)	94,887	(54,303)	-	40,584
Loans	(2,022,668)	(215,257)	61	(2,237,864)
Finance leases	(146,646)	10,838	-	(135,808)
	(2,169,314)	(204,419)	61	(2,373,672)
Other bank deposits (see below)	471,621	(438,362)	935	34,194
Sinking fund bank deposits & other investments	2,373	314	-	2,687
	473,994	(438,048)	935	36,880
Total	(1,600,433)	(696,770)	996	(2,296,207)
Cash at bank and in hand	94,887			40,584
Other bank deposits	471,621			34,194
Cash at bank and in hand per balance sheet	566,508			74,778

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 €40.4m (2003: €39.6m), 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. An actuarial valuation was completed as at 31 December 2003.

The valuation for the scheme was prepared using the attained age method. The principal actuarial assumption was that, over the long-term, the annual rate of return on investments would be 3% higher than the annual increase in pensionable remuneration and pensions in course of payment. At the date of that actuarial valuation, the market value of the assets of the scheme together with the value of future contributions was €3,311m and the actuarial valuation of accrued liabilities allowing for expected future increases in earnings and pensions was €3,822m. Hence the scheme's liabilities exceeded the value of its assets by €511m.

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

ESB Subsidiary Companies Pension Scheme

ESB also operates an approved defined contribution scheme called ESB Subsidiary Companies Pension Scheme for employees of ESB subsidiary companies. Contributions are paid by the members and employer at fixed rates. The benefits secured at retirement reflect each employee's accumulated fund and the cost of purchasing benefits at that time. Death benefits are insured on a group basis and may be paid in the form of a lump sum and/or survivor's pension. The assets of the scheme are held in a separate trustee administered fund. The pension charge for the year represents the defined employer contribution and amounted to €2.08m (2003:€1.8m).

Notes to the Financial Statements

23 > Pensions (continued)

(b) FRS 17 Retirement Benefits

The phased transitional disclosures required by FRS 17 - 'Retirement Benefits' are included below.

The valuation of the scheme for the purposes of FRS 17 disclosures is based on the above mentioned most recent actuarial valuation. Independent actuaries have updated this valuation 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 increased or decreased accordingly.

> Assumptions

Financial Assumptions

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

	2004	2003	2002
	%	%	%
Rate of interest applied to discount liabilities	4.75	5.50	5.75
Price inflation	2.00	2.25	2.25
Rate of increase of salaries	3.00	3.50	3.50
Rate of increase of pensions in payment	3.00	3.50	3.50

> Scheme Assets

Long term rates of return expected at 31 December 2004, 2003 and 2002 are set out below:

	2004	2003	2002
	%	%	%
Rate of return on equity investments	7.50	8.00	8.25
Rate of return on bond investments	4.00	4.75	4.75
Rate of return on other investments	6.00	5.75	5.75

Notes to the Financial Statements

23 > Pensions (continued)

> Assets in the Scheme at 31 December 2004, 2003 and 2002

	2004	2003	2002
	€ '000	€ '000	€ '000
Equities	2,081,153	1,921,002	1,554,443
Bonds	254,892	243,937	257,953
Other	464,969	376,069	430,668
	2,801,014	2,541,008	2,243,064
Actuarial value of scheme liabilities	(4,151,765)	(3,608,805)	(3,147,997)
Deficit	(1,350,751)	(1,067,797)	(904,933)
Related deferred tax	168,844	133,475	113,117
Net pension liability	(1,181,907)	(934,322)	(791,816)

> Analysis of the amount that would have been charged to operating profit in 2004 under FRS 17

Impact on Group operating profit

Current service cost
Past service cost
Total operating charge

2004	2003
€ '000	€ '000
47,405	40,631
-	-
47,405	40,631

> Analysis of the amount that would have been credited to other finance income in 2004 under FRS 17

Impact on other finance income

Expected return on pension scheme assets
Interest on pension scheme liabilities
Net return
Total net impact on reported profits

2004	2003
€ '000	€ '000
186,139	165,776
(196,681)	(179,826)
(10,542)	(14,050)
57,947	54,681

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

	2004 € '000	2003 € '000
Actual return less expected return on pension scheme assets	94,322	145,111
Experience gains and losses arising on the scheme liabilities	(147,432)	(211,054)
Changes in demographic and financial assumptions	<u>(264,423)</u>	<u>(132,083)</u>
Actuarial loss which would be recognised in the STRGL	<u>(317,533)</u>	<u>(198,026)</u>

> Movement in deficit during the year

	2004 € '000	2003 € '000
Deficit in scheme at beginning of the year	(1,067,797)	(904,933)
Movement in year:		
Current service cost	(47,405)	(40,631)
Contributions	92,526	89,843
Past service costs	-	-
Other finance income	(10,542)	(14,050)
Actuarial Loss	<u>(317,533)</u>	<u>(198,026)</u>
Deficit	<u>(1,350,751)</u>	<u>(1,067,797)</u>

> History of experience gains / losses

	2004	2003	2002
Experience gains and losses on scheme assets:			
Amounts (€' 000)	94,322	145,111	(641,683)
% of the market value of the scheme assets	3%	6%	(29%)
Experience gains and losses on scheme liabilities:			
Amounts (€' 000)	(147,432)	(211,054)	(104,546)
% of the present value of the scheme liabilities	4%	6%	3%
Total amount recognised in the STRGL			
Amounts (€' 000)	(317,533)	(198,026)	(846,474)
% of the present value of the scheme liabilities	8%	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

2004	2003
€ '000	€ '000
26	55
1,672	2,486
7,108	7,382
8,806	9,923

(b) Capital commitments

Contracted for

Authorised but not contracted for

2004	2003
€ '000	€ '000
439,453	310,962
917,500	583,549
1,356,953	894,511

(c) Fuel contract commitments

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

25 > Related Party Transactions

Semi-State Bodies

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

Board Members' interests

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

Subsidiary undertakings

During the year ended 31 December 2004, ESB Parent purchased €78.9m (2003: €62.3m) from its subsidiaries. These purchases largely relate to engineering and consulting services, mainly by the electricity businesses.

During the year, ESB Parent sold €96.1m (2003: €55.7m) to subsidiaries. These sales mainly relate to management services, as well as electricity charges such as use of system charges and sales of electricity.

Notes to the Financial Statements

25 > Related party transactions (continued)

Associated undertakings

ESB undertook no transactions with its associated undertakings during the year. In 2003, contracts with America and Caribbean Power Limited for the provision of services amounted to €1.4m.

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 €31.1m (2003: €7.5m) and had to the year end advanced capital to the partnership totalling €108.3m (2003: €134.3m), funded through third party borrowings. The capital advanced fell during 2004 due to dividends received from Synergen. Synergen made sales of €81.0m (2003: €79.8m) to the Group. Services to the value of €4.8m (2003: €5.14m) were provided to Corby Power Ltd.

26 > ESB ESOP Trustee Limited

ESB ESOP Trustee Limited was incorporated by ESB during 2001, with a €1 investment, as trustee to the ESB Employee Ownership Trust (ESOT) and the ESB Approved Profit Sharing Scheme (APSS). Under the terms of the creation of ESB ESOP Trustee Limited, ESB has no ability or rights to exert control over the assets or management of the company. The trustee company is chaired by an independent professional trustee with four directors representing ESB employees and two directors representing the Company. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the company exist. In accordance with FRS 2 "Accounting for Subsidiary Undertakings", the accounts for ESB ESOP Trustee Limited are not consolidated with the results of the ESB Group.

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 28 June 2005.

Notes to the Financial Statements

29 > Subsidiary, Joint Venture & Associated undertakings

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
ESB International Ltd	*	100	Holding company
ESBI Engineering and Facility Management Ltd	*	100	Engineering
ESBI Engineering Overseas Ltd	*	100	Engineering
ESBI Contracting Ltd	*	100	Contracting
ESBI Consultants Ltd	*	100	Consultancy
ESBI Computing Ltd	*	100	Computer services
ESB Ireland Holdings Ltd	*	100	Holding company
ESBII Technology and Construction Ltd	*	100	Power generation
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	Sale 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	*****	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
Coolkeeragh ESB Ltd	2 Electra Road Maydown Derry BT47 6 UL	84	Power generation

Notes to the Financial Statements

29 ▸ Subsidiary, Joint Venture & Associated undertakings (continued)

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
ESBII UK Ltd	*****	100	Power generation
ESBI Luxembourg SA.	121 Avenue de la Faiencerie L.1511 Luxembourg	100	Holding company
Power Generation Technology Snd Bhd	Wisma Cyclecarri 288 Jalan Raja Laut 50350 Kuala Lumpur Malaysia.	100	Power generation
Facility Management UK Ltd	*****	100	Facility management
ESBI Georgia Ltd	39 Gamsakhurdia Ave Suite 42 Tbilisi Georgia	100	Transmission management
Marchwood Power Ltd	*****	100	Power generation
Marchwood Power Development Ltd	*****	100	Power generation
Menloe Two Ltd	**	100	Finance leasing
Menloe Investments Ltd	**	100	Finance leasing
Non-controlled subsidiary undertaking			
ESB ESOP Trustee Ltd	43 Merrion Square Dublin 2	100	Staff shareholding scheme
Associated undertakings			
Transpower Ltd	*	50	Development of independent power projects

Notes to the Financial Statements

29 ▸ Subsidiary, Joint Venture & Associated undertakings (continued)

Company name	Registered office	Group share %	Nature of business
Associated undertakings			
CPL Operations Ltd	***	50	Facility management
Saur Utilities Ltd.	16 St. Stephen's Green, Dublin 2	49	Water and sewerage treatment
Coolkeeragh Group Ltd	2 Electra Road Maydown Derry BT47 6 UL	40	Power generation
Joint venture undertakings			
Irish Power Systems Ltd	**	50	Power generation
Corby Power Ltd	***	50	Power generation
Synergen	South Bank Road Ringsend Dublin 4	70 (Note 1)	Power generation
Note 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

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

** 27 Lr. Fitzwilliam St.
Dublin 2

*** Mitchell Road
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**** Iparragirre 29
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