

Chairman's Review



Tadhg O'Donoghue

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

Performance in 2005

2005 was an excellent year for ESB.

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

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

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

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

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

2005 Financial Performance

Profitability

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

Time of Change

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

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

Price Increases

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

Corporate Governance

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

Board, Shareholders and Staff

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

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



Tadhg O'Donoghue

Chairman
18 May 2006