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Board Members' Report

The Board Members present their report together with the audited financial statements of the Parent and of the Group for the year ended 31 December, 2006.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Commentaries on performance in the year ended 31 December 2006, including information on recent events and likely future developments, are contained in the Chairman's Review and the Chief Executive's Review. The performance of the business and its financial position together with the principal risks faced by the Group are reflected in the Financial Review as well as the Reviews for each major business line within the Group.

RESULTS FOR THE YEAR

The financial results of the Group show a profit for the financial year, amounting to €223 million compared with €241 million for 2005.

No interim dividends were paid during 2006. The Board Members are recommending that a final dividend of 3.37 cent per unit of capital stock, amounting to €66.7 million in aggregate be paid in 2007 in respect of 2006. A total dividend per unit of stock of 3.66 cent, amounting to €72.4 million in aggregate, was paid in 2006 in respect of the year 2005. Further details of the results for the year and results for the prior year are set out in the Group Income Statement and related Notes.

CORPORATE GOVERNANCE

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

ESB conforms as far as possible and on a voluntary basis with the Combined Code of Corporate Governance. Companies listed on the Irish Stock Exchange are required, as part of the listing rules, to describe how they apply the Code's principles and either to confirm that they comply with the Code's provisions or provide an explanation of non-compliance. ESB is a statutory corporation established under the Electricity (Supply) Act 1927 and, as a result, the Combined Code is not applicable to ESB. However, ESB supports the principles and provisions of the Combined Code and complies with them except for:

- (i) Appointments to the Board are a matter for Government and accordingly ESB does not have a nomination committee.
- (ii) Board Members are appointed for terms of four or five years and therefore are not subject to re-election to the Board at intervals not exceeding three years.
- (iii) ESB's policies in relation to remuneration of Executive Board Members (Chief Executive) are in accordance with the "Guidelines on Contracts, Remuneration and other conditions of Chief Executives and Senior Management of Commercial State Bodies" approved by the Government on March 28, 2006. The details of Board Members' remuneration on page 55 does not include amounts paid to the four Worker Board Members as employees of ESB, but does include amounts paid to them by way of fees.
- (iv) The Board evaluation process does not evaluate the individual performance of Board members.
- (v) The Chairman consults regularly with the non-executive Board Members, but not by way of formal meetings.
- (vi) The Board Chairman is also Chairman of the Remuneration and Management Development Committee.
- (vii) 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 11 Board Meetings during the year ended 31 December, 2006. The number in brackets below opposite each name represents the attendance by each Board Member at Board Meetings, during the year.

Board Members 2006

Tadhg O'Donoghue, Chairman	(10)
Joe LaCumbre, (retired 28 February 2006)	(2)
Brendan Byrne*	(10)
Eamonn Connolly	(11)
Eoin Fahy* (term expired 21 January 2006 and re-appointed 21 February 2006)	(10)
Georgina Kenny*	(11)
Seamus Mallon* (appointed 21 Feb 2006)	(8)
John McGinley	(11)
Will McKee*	(11)
Padraig McManus	(11)
Derry O'Donovan*	(9)
Pat Smith	(11)

* *Independent Board Members*

Changes to Board Membership

Mr Joe LaCumbre retired as a Worker Board Member during the year. The terms of office of the three other Worker Board Members – Mr Eamonn Connolly, Mr John McGinley and Mr Pat Smith – expired on 31 December 2006. Four new Worker Board Members – Mr John Coleman, Mr Tony Merriman, Mr John Nugent and Mr Bobby Yeates – were appointed for four year terms commencing 1 January 2007 by the Minister for Communications, Marine and Natural Resources, following election by staff.

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 2006, the Board comprised eleven members including the Chief Executive. This increased to twelve as of 1 January 2007. Eight Board Members including the Chief Executive have been 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 six Board Members identified above were independent during 2006. 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 the Chief Executive are separate.

Georgina Kenny is the Senior Independent Non-Executive Director.

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

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

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

The Board Members, in the furtherance of their duties, may take independent professional advice as required, at the expense of ESB. All Board Members have access to the advice and services of the Company Secretary. Insurance cover is in place to protect Board Members and Officers against liability arising from legal actions taken against them in the course of their duties. An induction programme is in place to familiarise new Board Members with the operations of the Group. The Board Members receive monthly financial statements for the Group and full Board papers are sent to each member on a timely basis before the Board meetings. The Board papers include the minutes of Board committee meetings.

During 2006 the Board completed a formal evaluation of its own performance and that of its Committees. The Chairman selected the process by which the evaluation was undertaken which involved the completion by Board Members of a detailed questionnaire and the use of an external adviser to present the results to the Board. This evaluation was undertaken in order to comply, so far as possible, with the Combined Code. The evaluation related to the Board's collective performance and not to the individual performance of Board Members.

The Board will keep under review the extent to which evaluations of individual Board Members are appropriate in ESB's circumstances.

BOARD COMMITTEES IN 2006

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

Audit Committee

Members:

Brendan Byrne, Chairman
Derry O'Donovan
Georgina Kenny (May to December)

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

During 2006 the Audit Committee reviewed the annual and the interim financial statements, the system of internal controls, the reports of the internal and external auditors and risk management. The Committee also monitored and reviewed;

- The effectiveness of the internal audit function
- The arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- The external auditor's independence and the effectiveness of the audit.

The Committee has developed a policy regarding the provision of non-audit services by the external auditors, whereby, other than as notified to the Committee, such services should be limited to advice in relation to accounting, taxation and compliance issues and the fees payable for non-audit services in any financial year should not exceed audit fees for that year. The internal and external auditors have full and unrestricted access to the Audit Committee. The Committee held six meetings during 2006 which were attended by all members. The Board is satisfied that at all times during the year at least one member of the Committee had recent and relevant financial experience.

Business Development and International Committee

Members:

Georgina Kenny, Chairman
Eoin Fahy
Padraig McManus
Pat Smith
Eamonn Connolly

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 2006 the Committee reviewed major proposals relating to the network renewal programme, investments in renewable energy and protecting the environment, in the power generation portfolio and international investments.

Health, Safety and Environment Committee

Members:

Pat Smith, Chairman
Brendan Byrne
Padraig McManus
Seamus Mallon (from May 2006)

The purpose of the Health, Safety and Environment Committee is to advise the Board on health, safety and environmental matters. During 2006 the Committee considered ESB actions to improve safety and environmental 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.

Finance Committee

Members:

Derry O'Donovan, Chairman
Tadhg O'Donoghue
John McGinley

The purpose of the Finance Committee is to oversee strategy and policy on financial matters and to advise the Board as appropriate. During 2006 the Finance Committee considered ESB's funding requirements in the context of its major capital investment programmes.

Regulation Committee

Members:

John McGinley, Chairman
Eamonn Connolly
Tadhg O'Donoghue

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 2006, considered regulatory developments at EU and national level.

Remuneration and Management Development Committee

Members:

Tadhg O'Donoghue, Chairman
Eoin Fahy
Will McKee

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 2006 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 six meetings during 2006. Mr O'Donoghue and Mr Fahy attended six meetings and Mr McKee attended five meetings.

Market and Customer Committee

Members:

Will McKee, Chairman
Georgina Kenny
Joe LaCumbre (until February)
Padraig McManus

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

Internal Controls

The Board has overall responsibility for the Group's system of internal control and for monitoring its effectiveness. The 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 includes the following:

- A code of ethics that requires all employees to maintain the highest ethical standards in conducting business.
- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board which support the maintenance of a strong control environment.
- A corporate governance framework which includes risk analysis, financial control review and formal annual governance statements by the management of Business lines and in the Corporate Centre. This is monitored by the Group Internal Audit department, which reports to the Audit Committee on an ongoing basis.
- A comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require the approval of the Board, and are closely monitored on an ongoing basis by the Business Development and International Committee of the Board. They are also subject to post completion audits.
- Comprehensive budgeting systems with an annual budget approved by the Board.
- A comprehensive system of financial reporting. Cumulative monthly actual results are reported against budget and considered by the Board on a monthly basis. Any significant changes and adverse variances are questioned by the Board, and remedial action taken where appropriate.
- Consideration of operational and financial issues by Board Committees as described on pages 52 to 54.

These controls are reviewed systematically by Group Internal Audit. In these reviews, emphasis is focused on areas of greater risk as identified by risk analysis. The Board, supported by the Audit Committee, have reviewed the effectiveness of the system of internal control. The process used by the Board and the Audit Committee to review the effectiveness of the system of internal control includes:

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

BOARD MEMBERS' REMUNERATION

REMUNERATION	2006 €	2005 €
Chairman:		
Tadhg O'Donoghue		
Fees	63,487	63,487
Taxable benefits	5,449	7,991
	68,936	71,478
Chief Executive:		
Padraig McManus		
Salary	346,134	296,574
Performance related pay:		
- Annual bonus	49,914	45,685
- Long term incentive	-	62,588
Taxable benefits	25,233	24,801
Pension contributions	56,446	35,305
Fees	17,500	12,697
	495,227	477,650
Non-Executive Board Members:		
Joe LaCumbre *	2,116	12,697
Brendan Byrne	17,500	12,697
Eamonn Connolly *	17,500	12,697
Eoin Fahy	15,990	12,697
Seamus Mallon	14,983	-
Georgina Kenny	17,500	11,358
John McGinley *	17,500	12,697
Will McKee	17,500	12,697
Derry O'Donovan	17,500	12,697
Pat Smith *	17,500	12,697
Anne Taylor	-	4,232
	155,589	117,166

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

EXECUTIVE BOARD MEMBERS' REMUNERATION

The only executive Board Member is the Chief Executive, Mr Pdraig 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 payments of up to 18% of basic salary, tri-annual payments under a three year long-term incentive scheme of up to 7% of annual basic salary for each of the three years and a company car. In his role as a Board Member, the Chief Executive also receives a fee as determined by the Minister for Communications, 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 €5,592 and €16,777 respectively. The total accrued pension at the end of the year in respect of all the Chief Executive's service was €102,345 and the total accrued gratuity was €307,036. The transfer value of the relevant increase was €40,158.

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.

ACCOUNTING RECORDS

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

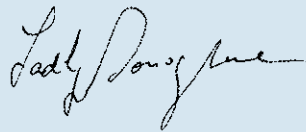
ELECTORAL ACT, 1997

The Board made no political donations during the year.

CONCLUSION

This report was approved by the Board on 19 April 2007 for submission to the Minister for Communications, Marine and Natural Resources.

On behalf of the Board



Tadhg O'Donoghue Chairman



Padraig McManus Chief Executive

19 April 2007

Statement of Board Members' Responsibilities

The Board Members are responsible for preparing the Annual Report and the Group and Parent financial statements.

The Electricity Supply Acts 1927 to 2004 require the Board Members to prepare Group and Parent financial statements for each financial year. Under company law, made applicable to ESB by virtue of the Regulations adopted by it as its governing regulations under the Electricity (Supply) Act, 1927, as amended by the Electricity (Supply) (Amendment) Act, 2004, the Board Members have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the Parent financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2006.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and the Parent; the Companies Acts 1963 to 2006 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent financial statements on pages 61 to 108, the Board Members are required to:

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

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

On behalf of the Board



Tadhg O'Donoghue Chairman



Padraig McManus Chief Executive

19 April 2007

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 Group and Parent financial statements (the "financial statements") of ESB for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Balance Sheets, the Group and Parent Cash Flow Statements, the Group and Parent Statement of Recognised Income and Expense and the related notes on pages 61 to 108. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the stockholders of ESB as a body, in accordance with section 193 of the Companies Act 1990, made applicable to ESB by virtue of the Regulations adopted by it as its governing regulations under the Electricity (Supply) Act, 1927, as amended by the Electricity (Supply) (Amendment) Act 2004. Our audit work has been undertaken so that we might state to the stockholders of ESB those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than ESB and its stockholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Board Members and Auditors

The Board Members' responsibilities for preparing the Annual Report and the financial statements in accordance with the provisions of the Companies Acts 1963 to 2006, as applied by the Electricity Supply Acts 1927 to 2004 and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Board Members' Responsibilities on page 58.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and, in the case of the Parent as applied in accordance with the provisions of the Companies Acts 1963 to 2006 applied to the Board by the Electricity Supply Acts 1927 to 2004, and have been properly prepared in accordance with the provisions of those Acts and Article 4 of the IAS Regulation. We also report to you whether, in our opinion: proper books of account have been kept by the Parent; whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Parent's balance sheet is in agreement with the books of account.

We review at the request of Board members, whether (1) the voluntary statement on pages 50 to 57 reflects the Board's compliance with the nine provisions of the Combined Code specified for review by auditors and (2) the statement on the system of internal controls on page 54 and 55 reflects the Board's compliance with the provision of The Code of Best Practice for the Governance of State Bodies that is specified for review by auditors and we report if those statements do not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information, including the corporate governance statement, contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Parent financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts 1963 to 2006 applied to the Board by the Electricity Supply Acts 1927 to 2004, of the state of the Parent's affairs as at 31 December 2006; and
- the financial statements have been properly prepared in accordance with the provisions of the Electricity Supply Acts 1927 to 2004 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Parent. The Parent balance sheet is in agreement with the books of account.



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

19 April 2007

Statement of Accounting Policies

1. Basis of Accounting

ESB is a statutory corporation established under the Electricity (Supply) Act, 1927 and is domiciled in Ireland. The consolidated financial statements of ESB as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as ESB) and the Group's interests in jointly controlled entities.

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

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

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

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

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

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

2. Basis of Consolidation

The Group's financial statements consolidate the financial statements of the Parent and of all subsidiary undertakings made up to 31 December 2006. The results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated Income Statement from the date of acquisition or up to the date of disposal. The financial statements of all subsidiary undertakings are drawn up to 31 December 2006.

Subsidiaries

Subsidiaries are entities controlled by the ESB. Control exists when the ESB has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The parent's investment in subsidiaries in its balance sheet are recognised at cost.

Joint Venture Undertakings

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

Joint ventures are accounted for using the equity method of accounting. The Group's share of the profits after tax of joint ventures are included in the consolidated Income Statement after interest and financing charges. The Group's interests in their net assets or liabilities are included as investments in joint ventures on the face of the consolidated balance sheet at an amount representing the Group's share of the fair values of the net assets, at acquisition plus goodwill less any impairment and the Group's share of post acquisition retained income and expenses.

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

3. Goodwill and Intangible Assets

(a) Goodwill

Goodwill represents the excess of consideration paid on the acquisition of a business over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is tested annually for impairment and carried as an asset at cost less accumulated impairment losses. Goodwill on acquisitions of associates and joint ventures is included in non current assets under investments in associates and joint ventures.

(b) Software Costs

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years) on a straight line basis.

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

(c) Emission Allowances

In accordance with the provisions of the European CO₂ emissions trading scheme, emissions allowances covering a percentage of the expected emissions during the year are granted to ESB at the beginning of each year by the relevant Government Authority.

Emission allowances issued to ESB are recorded as intangible assets at market value on the date of issue. At that date, the allowances are recorded as a government grant in deferred income, at the same market value as the intangible assets and are amortised to the Income Statement on the basis of actual emissions during the year.

As emissions arise, a provision is recorded in the Income Statement to reflect the amount required to settle the liability to the Authority. This provision will include the carrying value of the emission allowances issued, as well as the current market value of any additional allowances required to settle the obligation. These allowances, together with any additional allowances purchased during the year, are returned to the relevant Authority in charge of the scheme within four months of the end of that calendar year, in order to cover the liability for actual emissions of CO₂ during that year. Emissions allowances held at cost as intangible assets are not amortised as they are held for settlement in the following year.

4. Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. The resulting monetary assets and liabilities are translated at the rate ruling at the balance sheet date and the exchange differences are dealt with in the Income Statement. Non monetary assets and liabilities are carried at historical cost and not subsequently retranslated.

The Group's entities are measured in their functional currencies and consolidation is presented in the presentational currency which is euro. The Group's net investments in overseas subsidiary undertakings and joint ventures, and related goodwill are translated at the rate ruling at the balance sheet date. The profits, losses and cashflows of overseas subsidiary undertakings and joint ventures are translated at average rates for the period. Exchange differences resulting from the retranslation of the opening balance sheets of overseas subsidiary undertakings and joint ventures at closing rates, together with the differences on the translation of the Income Statements, are dealt with through a separate component of equity (translation reserve) and reflected in the statement of recognised income and expenses. Translation differences held in this reserve are released to the Income Statement on disposal of the relevant entity.

Exchange differences arising from the translation of the investment in foreign operations, and of related borrowings, are taken to the translation reserve. They are released into the Income Statement upon disposal.

5. Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at cost less accumulated depreciation and provisions for impairment in value, except for land which is shown at cost less impairment. Property, plant and equipment includes capitalised employee, interest and other costs that are directly attributable to the asset. The charge for depreciation is calculated to write down the cost of property, plant and equipment to its estimated residual value over its expected useful life using methods appropriate to the nature of the Group's business and to the character and extent of its property, plant and equipment. Major asset classifications and their allotted life spans are:

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

Depreciation is provided:

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

Reviews of depreciation rates and residual values are conducted annually.

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

6. Borrowing Costs

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

7. Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which an assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

8. Inventories

Inventories are carried at the lower of average cost and net realisable value. 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.

9. Financial Instruments

(a) Non-Derivative Financial Instruments

Trade and other receivables

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

Provisions are made specifically where there is objective evidence of a dispute or an inability to pay. An additional provision is made based on an analysis of balances by age and previous losses experienced.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes cash in hand, deposits repayable on demand and other short-term highly liquid investments with original maturities of three months or less, less overdrafts payable on demand.

Trade and other payables

Trade and other payables are not interest bearing and are stated at their nominal value.

Loans to and receivables from Group Companies

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

(b) Derivative Financial Instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investing activities.

The 2005 and 2006 figures are compliant with IAS 39 which requires all derivatives to be included in the Balance Sheet at fair value at period end. The Group does not hold or issue derivative instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The Group enters into commodity contracts in the normal course of business. In certain instances such contracts could be classified as financial instruments under IAS 39. However, as these contracts are entered into to satisfy the Group's fuel usage requirements, they are not treated as financial instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, these instruments are stated at fair value. Movements during the financial year in the fair value of derivatives held for trading are recognised in the Income Statement in that financial year.

Financial instruments are derecognised on settlement or sale.

(c) Hedging

(i) Fair value hedges

Where a derivative instrument hedges the changes in the fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the Income Statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the Income Statement. To the extent that the hedge is effective there will be no net impact on the Income Statement.

(ii) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from equity and recognised in the Income Statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the Income Statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the Income Statement immediately.

(iii) Hedge of net investment in foreign entity

Where a foreign currency liability hedges a net investment in a foreign operation, foreign exchange differences arising on translation of the liability are recognised directly in equity, and taken to the translation reserve.

(d) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these borrowings are stated at amortised cost using the effective interest rate method.

(e) Insurance Contracts

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

10. Leased Assets

Finance leases are leases where the Group assumes substantially all the risks and rewards of ownership, while operating leases are those in which the lessor retains those risks and rewards of ownership.

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

11. Non-Repayable Supply Contributions and Capital Grants

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

12. Reserve for Repurchase of Loan Stock

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

13. Capital Stock

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

14. Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement, except to the extent that it relates to items recognised directly in equity. Income 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 Income Statement does not include taxation on the Group's share of profits of joint venture undertakings, as this is included within the separate line on the face of the Income Statement for profits from joint ventures.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised only to the extent that the Board consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

15. Provisions for Generating Station Closure

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

The estimated costs of closing stations are recognised in full at the outset of the asset life, but discounted to present values using a risk free rate. The costs are capitalised in property, plant and equipment and depreciated over the useful economic lives of the stations to which they relate. The costs are 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 Income Statement. In this way, the provision will equal the estimated closure costs at the end of the useful economic lives of stations. The actual expenditure is set against the provision as stations are closed.

The provision for station closure costs is included within short term or long term provisions as appropriate on the Balance Sheet.

16. Revenue

(a) Electricity Revenue

Revenue comprises net sales of electricity and other goods and services to customers outside the Group and excludes value added tax. Electricity revenue includes the value of units supplied to customers between the date of the last meter reading and the period end and this estimate is included in trade and receivables in the balance sheet as unbilled consumption.

Electricity revenue is recognised on consumption of electricity.

(b) Contract Revenue

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

17. Other Operating Income

Emissions Allowances

Emissions allowances are amortised to the Income Statement on the basis of actual emissions during the year.

18. Profit on disposal of Property

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

19. Costs

(a) Energy Costs

Energy Costs comprise direct fuel, (primarily coal, oil & gas) and purchased electricity. Fuel and purchased electricity costs are recognised as they are incurred.

(b) Operating and Other Maintenance Costs

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

20. Employee Benefits

Pension obligations

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

Defined Benefit Pension Scheme

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The current service cost, interest cost and expected return on plan assets are recognised within the employee benefits expense in the Income Statement in the year in which they arise. Past service costs are recognised immediately in the Income Statement, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period. Cumulative actuarial gains and losses arising from experience adjustments and changes

in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation are spread to income over the active employees' expected average remaining working lives.

The liability recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Defined Contribution Pension Scheme

For the defined contribution scheme, the Group has no further payment obligations once the contributions have been made. The contributions are recognised as an employee benefit expense when they are due.

21. Employee Benefits

Voluntary Termination Benefits

Voluntary termination benefits are payable under a tripartite agreement between the Board of ESB, the Group of Unions and Government when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to providing termination benefits as a result of an offer of voluntary redundancy made to employees and accepted by those employees. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

22. New Accounting Standards and Pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require additional disclosures with respect to Group's financial instruments and capital stock.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of the goods or services received cannot be specifically identified. IFRIC 8, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

Group Income Statement

Year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
Revenue	1	3,087,504	2,756,213
Other operating income	3	308,500	185,933
Operating costs	4	(3,134,844)	(2,694,517)
Operating profit		261,160	247,629
Profit on disposal of property	2	75,372	51,928
Interest cost and other financing charges	5	(93,151)	(93,299)
Interest income	5	927	2,789
Net interest cost and other financing charges		(92,224)	(90,510)
Share of joint ventures' profit	12	19,674	31,294
Profit before taxation		263,982	240,341
Income tax (expense)/credit	7	(41,364)	957
Profit after taxation	18	222,618	241,298
Attributable to:			
Equity holders of the Parent	18	222,468	241,189
Minority interests	18	150	109
Profit for the financial year	18	222,618	241,298

Signed: **Tadhg O'Donoghue** Chairman

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

Chief Executive
Group Finance Director
19 April 2007

Group Balance Sheet

As at 31 December 2006

	Notes	2006 €'000	2005 €'000
ASSETS			
Non-current assets			
Property, plant & equipment	9	6,000,493	5,563,626
Intangible assets	10	383,999	246,611
Investment property	11	260	280
Investments in joint ventures	12	30,418	40,845
Financial asset investments	12	11,164	3,083
Derivative financial instruments	20	1,926	3,232
Deferred tax assets	21	72,200	81,294
Total non-current assets		6,500,460	5,938,971
Current assets			
Inventories	13	150,822	246,612
Trade and other receivables	14	603,412	607,763
Investments	15	79	78
Cash and cash equivalents	16	37,733	66,949
Derivative financial instruments	20	899	63
Assets held for sale	17	1,407	9,924
Total current assets		794,352	931,389
Total assets		7,294,812	6,870,360
EQUITY			
Capital stock	18	1,979,882	1,979,882
Reserve for repurchase of loan stock	18	-	3,011
Translation reserve	18	5,025	2,489
Cash flow hedging and other reserves	18	(48,235)	(96,267)
Retained earnings	18	798,187	645,097
Equity attributable to equity holders of the Parent		2,734,859	2,534,212
Minority interests	18	729	962
Total equity		2,735,588	2,535,174
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	19	1,819,356	1,790,474
Pension liabilities	22	327,762	339,176
Employee related liabilities	23	127,763	130,960
Trade and other payables	24	42,552	47,171
Deferred income and government grants	25	490,548	377,249
Provisions	26	283,719	289,938
Deferred tax liabilities	21	310,225	298,339
Derivative financial instruments	20	146,015	100,287
Total non-current liabilities		3,547,940	3,373,594
Current liabilities			
Borrowings and other debt	19	178,588	123,100
Employee related liabilities	23	64,564	57,092
Trade and other payables	24	484,186	550,651
Provisions	26	266,558	212,717
Current tax liabilities	27	17,213	17,592
Derivative financial instruments	20	175	440
Total current liabilities		1,011,284	961,592
Total liabilities		4,559,224	4,335,186
Total equity and liabilities		7,294,812	6,870,360

Signed: **Tadhg O'Donoghue** Chairman

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

Chief Executive
Group Finance Director
19 April 2007

Parent Balance Sheet

As at 31 December 2006

	Notes	2006 € '000	2005 € '000
ASSETS			
Non-current assets			
Property, plant & equipment	9	5,654,999	5,193,513
Intangible assets	10	353,769	237,916
Investment property	11	260	280
Financial asset investments	12	98,238	154,130
Derivative financial instruments	20	1,926	3,334
Deferred tax assets	21	67,677	76,812
Total non-current assets		6,176,869	5,665,985
Current assets			
Inventories	13	147,437	234,179
Trade and other receivables	14	899,600	808,459
Investments	15	79	78
Cash and cash equivalents	16	18,178	70,898
Derivative financial instruments	20	321	319
Assets held for resale	17	1,407	2,261
Total current assets		1,067,022	1,116,194
Total assets		7,243,891	6,782,179
EQUITY			
Capital stock	18	1,979,882	1,979,882
Reserve for the repurchase of loan stock	18	-	3,011
Cash flow hedging & other reserves	18	(48,801)	(88,145)
Retained earnings	18	803,420	570,056
Equity attributable to equity holders of the Parent		2,734,501	2,464,804
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	19	1,782,428	1,790,474
Pension liabilities	22	327,762	339,176
Employee related liabilities	23	127,763	130,960
Trade and other payables	24	16,452	20,152
Deferred income and government grants	25	473,911	373,583
Provisions	26	283,547	289,938
Deferred tax liabilities	21	307,372	297,225
Derivative financial instruments	20	146,015	100,287
Total non-current liabilities		3,465,250	3,341,795
Current liabilities			
Borrowings and other debt	19	174,798	123,100
Employee related liabilities	23	57,111	49,666
Trade and other payables	24	560,058	574,680
Provisions	26	244,121	206,633
Current tax liabilities	27	7,877	21,027
Derivative financial instruments	20	175	474
Total current liabilities		1,044,140	975,580
Total liabilities		4,509,390	4,317,375
Total equity and liabilities		7,243,891	6,782,179

Signed: **Tadhg O'Donoghue** Chairman

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

Chief Executive
Group Finance Director
19 April 2007

Group Statement of Recognised Income and Expenses

Year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
Translation differences on consolidation of foreign subsidiaries, joint ventures and associates	18	2,536	3,354
Fair value losses on cash flow hedges	18	(42,888)	(21,503)
Fair value gains on cash flow hedges in joint ventures	18	13,938	10,349
Tax on items taken directly to equity	18	5,361	(675)
Net income recognised directly in equity		(21,053)	(8,475)
Transferred to Income Statement on cash flow hedges	18	88,096	(9,308)
Transferred to Income Statement on cash flow hedges in joint venture investments	18	(1,927)	-
Tax on items transferred from equity	18	(11,054)	1,162
Tax on items transferred from equity for joint venture investments	18	(3,494)	-
Profit for the financial year	18	222,618	241,298
Total recognised income and expenses for the financial year		273,186	224,677
Attributable to:			
Equity holders of the parent		273,036	224,568
Minority interest		150	109
Total recognised income and expense for the financial year		273,186	224,677

Parent Statement of Recognised Income and Expenses

Year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
Fair value losses on cash flow hedges	18	(43,131)	(21,919)
Tax on items taken directly to equity	18	5,391	2,690
Net income recognised directly in equity		(37,740)	(19,229)
Transferred to Income Statement on cash flow hedges	18	88,096	(9,308)
Tax in items transferred from equity	18	(11,012)	1,162
Profit for the financial year	18	302,742	190,511
Total recognised gains and losses for the financial year		342,086	163,136
Attributable to:			
Equity holders of the parent		342,086	163,136

Group Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
Cash flows from operating activities			
Profit before taxation		263,982	240,341
<i>Adjustments for:</i>			
Depreciation and amortisation	4	450,503	392,866
Amortisation of supply contributions and other deferred income	3	(22,293)	(13,677)
Amortisation of emissions allowances	3	(267,699)	(117,727)
Loss on disposal of property, plant and equipment		2,486	2,344
(Profit) on disposal of property, plant and equipment	2	(75,372)	(54,272)
(Profit) on disposal of businesses	3	(18,508)	(54,529)
Translation differences		(1,270)	(6,686)
Interest expense	5	92,224	90,510
Profits from associates and joint ventures	12	(19,674)	(31,294)
Operating cashflows before changes in working capital and provisions		404,379	447,876
Charge in relation to provisions		245,520	135,929
Charge in relation to employee related liabilities		197,935	250,786
Utilisation of provisions		(20,638)	(47,268)
Utilisation of employee related and pension liabilities		(210,208)	(136,056)
Decrease/(increase) in trade and other receivables		26,745	(79,964)
Decrease/(increase) in inventories		12,165	(43,377)
Decrease/(increase) in trade and other payables		(60,815)	167,508
Cash generated from operations		595,083	695,434
Current tax paid		(33,048)	(27,226)
Interest paid		(86,013)	(106,647)
Payment for business separation costs		(45,000)	-
Net cash inflow from operating activities		431,022	561,561
Cash flows from investing activities			
Purchase of property, plant and equipment		(768,992)	(935,488)
Purchase of intangible assets		(48,512)	(27,630)
Proceeds from sale of property, plant and equipment		68,854	69,698
Proceeds from sale of intangible assets		155	1,175
Proceeds from financial asset transactions		15,586	-
Supply contributions and other deferred income received	25	136,184	134,300
Proceeds from disposal of businesses		31,920	136,494
Dividends received from joint venture undertakings	12	8,321	48,145
Interest received		927	2,741
Net cash outflow from investing activities		(555,557)	(570,565)
Cash flows from financing activities			
Dividends paid	18	(72,389)	(77,413)
Increase in loans and finance leases (net)		176,212	86,981
Interest element of finance lease payments		(8,528)	(7,180)
Net cash inflow from financing activities		95,295	2,388
Net (decrease) in cash and cash equivalents		(29,240)	(6,616)
Cash and cash equivalents at 1 January	16	66,949	74,778
Effect of exchange rate fluctuations on cash held		24	(1,213)
Cash and cash equivalents at 31 December	16	37,733	66,949

Parent Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
Cash flows from operating activities			
Profit before tax		337,102	190,622
<u>Adjustments for:</u>			
Depreciation and amortisation		392,960	363,590
Amortisation of supply contributions and other deferred income	25	(16,199)	(13,014)
Amortisation of emissions allowances	25	(245,607)	(111,642)
Loss on disposal of property, plant and equipment		2,486	2,344
(Profit) on disposal of property, plant and equipment		(75,075)	(54,272)
Interest expense		82,113	79,400
Dividend receivable from subsidiary undertakings		(73,835)	-
Operating cashflows before changes in working capital and provisions		403,945	457,028
Charge in relation to provisions		223,258	147,194
Charge in relation to employee related liabilities		197,935	278,391
Utilisation of provisions		(20,638)	(47,268)
Utilisation of employee related and pension liabilities		(210,208)	(170,140)
(Increase) in trade and other receivables		(21,009)	(98,689)
(Increase)/decrease in inventories		11,580	(58,122)
(Increase)/decrease in trade and other payables		5,531	135,567
Cash generated from the operations		590,394	643,961
Current tax paid		(33,824)	(27,650)
Interest paid		(87,667)	(89,333)
Payment for business separation costs		(45,000)	-
Net cash inflow from operating activities		423,903	526,978
Cash flows from investing activities			
Purchase of property, plant and equipment		(758,802)	(762,071)
Purchase of intangible assets		(41,945)	(28,209)
Proceeds from sale of property, plant and equipment		62,565	59,755
Proceeds from sale of intangible assets		-	1,217
Proceeds from financial asset transactions		55,891	-
Supply contributions and other deferred income received	25	116,527	133,385
Interest received		13,813	15,791
Dividends received from subsidiary undertakings		20,464	-
Net cash outflow from investing activities		(531,487)	(580,132)
Cash flows from financing activities			
Dividends paid	18	(72,389)	(77,413)
Increase in loans and finance leases (net)		135,818	170,008
Interest element of finance lease payments		(8,589)	(7,122)
Net cash inflow from financing activities		54,840	85,473
Net (decrease) / increase in cash and cash equivalents		(52,744)	32,319
Cash and cash equivalents at 1 January	16	70,898	39,792
Effect of exchange rate fluctuations on cash held		24	(1,213)
Cash and cash equivalents at 31 December	16	18,178	70,898

Notes to the Financial Statements

1. REVENUE

(a) Revenue by Geographic Market	2006 €'000	2005 €'000
Ireland	2,808,267	2,546,795
UK & Europe	247,843	174,776
Other	31,394	34,642
Total	3,087,504	2,756,213

(b) Revenue by business line	2006 €'000	2005 €'000
Power Generation	355,690	222,759
ESB Customer Supply	1,837,586	1,816,522
ESB Networks	249,275	273,725
ESBI	687,581	472,830
Other	(42,628)	(29,623)
Total	3,087,504	2,756,213

2. PROPERTY DISPOSALS INCOME	2006 €'000	2005 €'000
Profit on disposal of property	75,372	51,928

Properties with a net book value of €4.5 million at date of disposal were disposed of during the year at a profit of €75.4 million.

3. OTHER OPERATING INCOME	2006 €'000	2005 €'000
Amortisation of emissions allowances (Note 25)	267,699	117,727
Profit on disposal of businesses	18,508	54,529
Amortisation of supply contributions & other deferred income (Note 25)	22,293	13,677
	308,500	185,933

The profits on the disposal of businesses are made up of the profits on the sale of Irish Power Systems Limited, Hibernian Hydro Limited and the 50% share in Marchwood Power Limited

4. OPERATING COSTS	2006 €'000	2005 €'000
Employee costs (Note 6)	591,197	636,169
Energy costs	1,456,438	1,040,316
Emission costs (Note 26)	250,714	139,647
Operations and maintenance	385,992	485,519
Depreciation and amortisation of property, plant & equipment/intangible assets (Notes 9/10/11)	450,503	392,866
	3,134,844	2,694,517

Notes to the Financial Statements

5. NET INTEREST COST AND OTHER FINANCING CHARGES	2006 €'000	2005 €'000
Interest payable on borrowings	83,479	99,685
Interest payable on finance leases	7,611	7,851
Interest payable	91,090	107,536
Less capitalised interest	(14,304)	(33,908)
	76,786	73,628
Financing charges:		
- on restructuring liabilities	5,134	7,379
- on power station closure costs	8,545	13,631
- on other provisions	1,698	-
Fair value (gains)/losses on financial instruments:		
- currency/interest rate swaps: cash flow hedges, transfer from equity	1,715	(610)
- currency/interest rate swaps: fair value hedges	(728)	(729)
Total interest payable	93,151	93,299
Total interest receivable	(927)	(2,789)
	92,224	90,510

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

6. EMPLOYEES GROUP

(a) Average number of employees in year by business activity, including temporary employees:	2006 Number	2005 Number
Power Generation	1,317	1,377
ESB Customer Supply	562	733
ESB Networks	3,696	3,758
ESBI	1,131	1,029
Other	1,117	1,395
	7,823	8,292
(b) Employee costs in year	2006 €'000	2005 €'000
Current staff costs (excluding pension)		
Salaries	548,910	537,047
Social welfare costs (PRSI)	24,460	21,209
Contributions to defined contribution plans	2,583	2,300
Other payroll benefits*	38,945	42,183
Capitalised payroll	(178,188)	(172,329)
Net payroll cost for employees	436,710	430,410
(c) Pension & retirement benefit costs		
Voluntary severance costs	32,139	35,533
Increase in pension liability	122,348	170,226
	154,487	205,759
Total employee related costs charged to the Income Statement	591,197	636,169

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

Notes to the Financial Statements

6. EMPLOYEES (continued)

PARENT

(a) Average number of employees in year by business activity, including temporary employees:	2006 Number	2005 Number
Power Generation	1,317	1,377
ESB Customer Supply	562	733
ESB Networks	3,696	3,758
Other	1,117	1,214
	6,692	7,082
<hr/>		
(b) Employee costs in year	2006 €'000	2005 €'000
Current staff costs (excluding pension)		
Salaries	471,610	459,897
Social welfare costs (PRSI)	19,926	16,279
Other payroll benefits*	33,113	38,252
Capitalised payroll	(176,116)	(171,957)
	348,533	342,471
<hr/>		
Net payroll cost for employees		
	348,533	342,471
<hr/>		
(c) Pension & retirement benefit costs		
Voluntary severance costs	32,139	35,533
Increase in liability for defined benefits	122,348	170,226
	154,487	205,759
<hr/>		
Total employee related costs charged to the Income Statement	503,020	548,230

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

Notes to the Financial Statements

7. TAX ON PROFIT ON ORDINARY ACTIVITIES	2006	2005
	€'000	€'000
Current tax expense		
Current tax	27,784	22,764
Prior year overprovision	(1,557)	(26,834)
Deferred tax expense		
Origination and reversal of temporary differences	13,295	7,918
Reduction in tax rate	(46)	-
Prior year under/(over) provision	1,888	(4,805)
Total	41,364	(957)
Reconciliation of effective tax rate	2006	2005
<i>in thousands of euro</i>	€'000	€'000
Profit before tax	263,982	240,341
Taxed at 12.5% (2005: 12.5%)	32,998	30,043
Expenses not deductible	3,854	4,480
Tax effect of deferred tax asset not provided	2,310	-
Impairments not deductible for tax purposes	4,375	-
Income not taxable	(3,524)	(6,037)
Higher tax on chargeable gains	742	1,517
Income taxed at higher rate of corporation tax	516	183
Manufacturing relief	(1,047)	(1,632)
Higher tax rates on overseas earnings	3,643	3,590
Prior year (over) provisions	(343)	(31,639)
Other items	299	-
Tax effect of joint ventures included in profit before tax	(2,459)	(1,462)
Actual tax charge	41,364	(957)
8. PROFIT FOR THE FINANCIAL YEAR	2006	2005
	€'000	€'000
The profit for the financial year is stated after charging/(crediting):		
Depreciation, amortisation and impairment	450,503	392,866
Operating lease charges	8,453	9,544
Amortisation of deferred income	(22,293)	(13,677)
Loss on disposal of property, plant and equipment	2,486	2,344
(Profit) on disposal of property, plant and equipment	(75,372)	(54,272)
Auditor's remuneration		
- audit services	577	415
- taxation	96	91
- non-audit services	211	240
- UK non-audit services	13	423
ESB (Parent) Board Members' remuneration:		
- fees	236	193
- other remuneration	486	473

Notes to the Financial Statements

9. PROPERTY, PLANT & EQUIPMENT

(a) GROUP	Land and buildings €'000	Plant and machinery €'000	Total assets in commission €'000	Assets under construction €'000	Total €'000
Cost					
Balance at 1 January 2005	814,863	6,797,723	7,612,586	1,223,947	8,836,533
Additions	319,258	593,647	912,905	-	912,905
Retirements/disposals	(14,863)	(24,876)	(39,739)	-	(39,739)
Transfers out of assets under construction	-	294,908	294,908	(294,908)	0
Transfers out of assets under construction to joint ventures	-	-	-	(487,336)	(487,336)
Translation difference	-	5	5	6,860	6,865
Balance at 31 December 2005	1,119,258	7,661,407	8,780,665	448,563	9,229,228
Additions	2,613	20,847	23,460	760,649	784,109
Retirements/disposals	(10,225)	(105,616)	(115,841)	(225)	(116,066)
Transfers to assets held for resale	(2,556)	-	(2,556)	-	(2,556)
Transfers out of assets under construction	40,518	675,298	715,816	(715,816)	-
Other transfers	(278,775)	297,970	19,195	81,962	101,157
Translation difference	5,802	13	5,815	-	5,815
Balance at 31 December 2006	876,635	8,549,919	9,426,554	575,133	10,001,687
Depreciation					
Balance at 1 January 2005	454,148	2,880,827	3,334,975	-	3,334,975
Charge for the year	19,357	327,606	346,963	-	346,963
Retirements/disposals	(3,568)	(27,784)	(31,352)	-	(31,352)
Impairment	-	15,000	15,000	-	15,000
Translation difference	16	-	16	-	16
Balance at 31 December 2005	469,953	3,195,649	3,665,602	-	3,665,602
Charge for the year	39,106	342,900	382,006	-	382,006
Retirements/disposals	(2,579)	(90,384)	(92,963)	-	(92,963)
Transfers to assets held for sale	(1,149)	-	(1,149)	-	(1,149)
Other transfers	(23,022)	35,028	12,006	-	12,006
Impairment	-	35,000	35,000	-	35,000
Translation difference	699	(7)	692	-	692
Balance at 31 December 2006	483,008	3,518,186	4,001,194	-	4,001,194
Net book value at 31 December 2006	393,627	5,031,733	5,425,360	575,133	6,000,493
Net book value at 31 December 2005	649,305	4,465,758	5,115,063	448,563	5,563,626
Net book value at 1 January 2005	360,715	3,916,896	4,277,611	1,223,947	5,501,558

During the year the group capitalised the sum of €14.3 million (2005: €33.9 million) in interest. The capitalisation rate was 5% (2005: 5%).

Assets under construction of €715.8 million were completed during the year with €675.3 million transferred to plant and machinery (2005: €294.9 million) and €40.5 million transferred to land & buildings (2005: Nil). During 2005 the Amorebeita plant was commissioned and the assets transferred to joint ventures following the sale of 50% of the company to Osaka Gas.

Other transfers include the transfer of capital stock from inventories to plant & machinery and assets under construction pending being brought into use (NBV: €82 million) and the reclassification of Coolkeeragh plant from land & buildings to plant & machinery (NBV: €256 million).

Finance leases

All finance leases are held by the Parent. The net book value of property, plant & equipment includes an amount of €34.8 million (2005: €39.5 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the period amounted to €4.9 million (2005: €4.4 million).

Impairment

A review of impairment of the Coolkeeragh ESB CCGT plant in Northern Ireland was undertaken at the year end. An impairment loss of €35 million (2005: €15 million) has been recognised in the Income Statement in respect of this plant. This impairment has arisen as a result of a reduction in the technical performance of the plant. This impairment was calculated by comparing the net present value of future cashflows to the net book value of the plant as at 31 December 2006. The real discount rate applied to the cashflows to determine the net present value was 8.5%.

Notes to the Financial Statements

9. PROPERTY, PLANT & EQUIPMENT (Continued)

	Land and buildings	Plant and machinery	Total assets in commission	Assets under construction	Total
(b) PARENT	€'000	€'000	€'000	€'000	€'000
Cost					
Balance at 1 January 2005	795,419	6,715,631	7,511,050	539,986	8,051,036
Additions	44,898	694,267	739,165	-	739,165
Retirements/disposals	(9,347)	(18,053)	(27,400)	-	(27,400)
Transfers out of assets under construction	-	140,612	140,612	(140,612)	-
Balance at 31 December 2005	830,970	7,532,457	8,363,427	399,374	8,762,801
Additions	468	19,261	19,729	738,260	757,989
Retirements/disposals	(6,429)	(99,140)	(105,569)	-	(105,569)
Transfers to assets available for sale	(2,556)	-	(2,556)	-	(2,556)
Transfers out of assets under construction	38,790	620,279	659,069	(659,069)	-
Other transfers	13,329	(842)	12,487	81,962	94,449
Balance at 31 December 2006	874,572	8,072,015	8,946,587	560,527	9,507,114
Depreciation					
Balance at 1 January 2005	453,896	2,802,278	3,256,174	-	3,256,174
Charge for the year	11,281	321,406	332,687	-	332,687
Retirements/disposals	(3,311)	(16,262)	(19,573)	-	(19,573)
Balance at 31 December 2005	461,866	3,107,422	3,569,288	-	3,569,288
Charge for the year	24,841	335,105	359,946	-	359,946
Retirements/disposals	(2,550)	(85,908)	(88,458)	-	(88,458)
Transfers to assets available for sale	(1,149)	-	(1,149)	-	(1,149)
Other transfers	-	12,488	12,488	-	12,488
Balance at 31 December 2006	483,008	3,369,107	3,852,115	-	3,852,115
Net book value at 31 December 2006	391,564	4,702,908	5,094,472	560,527	5,654,999
Net book value at 31 December 2005	369,104	4,425,035	4,794,139	399,374	5,193,513
Net book value at 1 January 2005	341,523	3,913,353	4,254,876	539,986	4,794,862

During the year the Parent capitalised the sum of €14.3 million (2005: €15.7 million) in interest. The capitalisation rate was 5% (2005: 5%).

Assets under construction of €659.1 million were completed during the year, with €620.3 million transferred to plant and machinery (2005: €140.6 million) and €38.8 million transferred to land & buildings (2005: Nil).

Other transfers relate to capital stock transferred from inventories to plant & machinery and assets under construction pending being brought into use.

Finance leases

All finance leases are held by the Parent. The net book value of property, plant & equipment includes an amount of €34.8 million (2005: €39.5 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the period amounted to €4.9 million (2005: €4.4 million).

Notes to the Financial Statements

10. INTANGIBLE ASSETS

(a) GROUP	Software Costs €'000	Emission Allowances €'000	Software under development €'000	Total €'000
Cost				
Balance at 1 January 2005	68,701	-	97,100	165,801
Software additions	26,866	-	-	26,866
Allocation of emissions allowances	-	120,508	-	120,508
Software disposals	(1,196)	-	-	(1,196)
Transfers out of software under development	97,100	-	(97,100)	-
Balance at 31 December 2005	191,471	120,508	-	311,979
Software additions	3,445	-	43,195	46,640
Allocation of emission allowances	-	268,744	-	268,744
Software disposals	(19,750)	-	-	(19,750)
Settlement of emission allowances	-	(140,804)	-	(140,804)
Transfers out of software under development	19,177	-	(19,177)	-
Other transfers	1,755	-	-	1,755
Translation differences	-	(846)	-	(846)
Balance at 31 December 2006	196,098	247,602	24,018	467,718
Amortisation				
Balance at 1 January 2005	34,494	-	-	34,494
Charge for the year	30,895	-	-	30,895
Retirements/disposals	(21)	-	-	(21)
Balance at 31 December 2005	65,368	-	-	65,368
Charge for the year	33,491	-	-	33,491
Retirements/disposals	(15,622)	-	-	(15,622)
Other transfers	482	-	-	482
Balance at 31 December 2006	83,719	-	-	83,719
Net book value at 31 December 2006	112,379	247,602	24,018	383,999
Net book value at 31 December 2005	126,103	120,508	-	246,611
Net book value at 1 January 2005	34,207	-	97,100	131,307

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

Emission allowances are not amortised as they are held for settlement in the following year. The emissions allowances included above were received by way of Government grant and are also included in deferred income, as shown in Note 25.

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

Notes to the Financial Statements

10. INTANGIBLE ASSETS (Continued)

(b) PARENT	Software Costs €'000	Emission Allowances €'000	Software under development €'000	Total €'000
Cost				
Balance at 1 January 2005	66,337	-	97,100	163,437
Software additions	28,347	-	-	28,347
Allocation of emission allowances	-	112,696	-	112,696
Software disposals	(1,196)	-	-	(1,196)
Transfers out of software under development	97,100	-	97,100	-
Balance at 31 December 2005	190,588	112,696	-	303,284
Software additions	2,403	-	39,098	41,501
Allocation of emission allowances	-	246,052	-	246,052
Software disposals	(19,280)	-	-	(19,280)
Settlement of emission allowances	-	(134,719)	-	(134,719)
Transfers out of software under development	19,177	-	(19,177)	-
Balance at 31 December 2006	192,888	224,029	19,921	436,838
Amortisation				
Balance at 1 January 2005	34,494	-	-	34,494
Charge for the year	30,895	-	-	30,895
Retirements/disposals	(21)	-	-	(21)
Balance at 31 December 2005	65,368	-	-	65,368
Charge for the year	33,008	-	-	33,008
Retirements/disposals	(15,307)	-	-	(15,307)
Balance at 31 December 2006	83,069	-	-	83,069
Net book value at 31 December 2006	109,819	224,029	19,921	353,769
Net book value at 31 December 2005	125,220	112,696	-	237,916
Net book value at 1 January 2005	31,843	-	97,100	128,943

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

Emission allowances are not amortised as they are held for settlement in the following year. The emissions allowances included above were received by way of Government grant and are also included in deferred income, as shown in Note 25.

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

Notes to the Financial Statements

11. INVESTMENT PROPERTY

GROUP & PARENT	2006	2005
	Total	Total
	€'000	€'000
Cost		
Balance at 1 January	682	854
Additions	-	-
Retirements/disposals	(274)	(172)
Balance at 31 December	408	682
Depreciation		
Balance at 1 January	402	394
Charge for the year	6	8
Retirements/disposals	(260)	-
Balance at 31 December	148	402
Closing net book value	260	280
Opening net book value	280	460

This investment property is valued using the cost model, that is cost less depreciation.

The fair value of investment property at €8.2 million (2005: €13.03 million) has been valued on an open market basis as at 31 December 2006. The fair value is based on independent valuations carried out by external valuers.

Profit on property disposals at €75.4 million (2005: €51.9 million) arises primarily from the sale of properties which are not disclosed as investment properties being that they are in use by the businesses up to point of sale.

12. FINANCIAL ASSET INVESTMENTS

(a) GROUP	Joint venture investments	Sinking fund and other investments	Total
	€'000	€'000	€'000
Balance at 1 January 2005	179,062	2,886	181,948
Disposals	-	(127)	(127)
Additions	38,413	324	38,737
Other movements	(159,779)	-	(159,779)
Share of profit	31,294	-	31,294
Dividends received	(48,145)	-	(48,145)
Balance at 31 December 2005	40,845	3,083	43,928
Utilisation of sinking fund	-	(3,011)	(3,011)
Additions	-	-	-
Other movements	(28,034)	11,092	(16,942)
Fair value movement on derivatives	6,254	-	6,254
Share of profit	19,674	-	19,674
Dividends received	(8,321)	-	(8,321)
Balance at 31 December 2006	30,418	11,164	41,582

Joint venture investments

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

The fair value movement on derivatives relates to the interest rate swaps associated with Bizkaia Energia SL.

Dividends received from joint ventures relate to Synergen €2.8 million (2005: €20.3 million), Corby Power €5.5 million (2005: €5.8 million) and Bizkaia Energia SL €Nil (2005: €22 million).

Notes to the Financial Statements

12. FINANCIAL ASSET INVESTMENTS (Continued)

Interests in joint ventures

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

Name of the company	Country	Holding	Holding
		31 December 2006	31 December 2005
		% of share capital owned	% of share capital owned
Synergen Power Ltd	Ireland	70%	70%
Bizkaia Energia SL	Spain	50%	50%
Corby Power Ltd	United Kingdom	50%	50%
Marchwood Power Ltd	United Kingdom	50%	-

The Group's aggregate share of the non-current assets, current assets, non current liabilities, current liabilities, income and expenses related to its interests in these joint ventures are as follows:

	2006	2005
	€'000	€'000
Non current assets	461,913	478,434
Current assets	89,438	54,500
Total assets	551,351	532,934
Equity	51,086	54,253
Cashflow hedging reserve	(7,155)	(13,408)
Total equity	43,931	40,845
Non current liabilities	426,258	403,614
Current liabilities	75,125	74,966
Derivative liabilities	6,037	13,509
Total liabilities	507,420	492,089
Total equity and liabilities	551,351	532,934
Income	252,957	180,892
Expenses	(207,504)	(138,483)
Operating profit	45,453	42,409
Profit after interest and tax	19,674	31,294

The share of total equity of €43.9 million above reflects the individual Balance Sheets of the joint venture investments. The value of the joint venture investments on the Balance Sheet is €30.4 million. The difference is attributable to the receipt of a construction bonus for the completion of the power plant owned by Bizkaia Energia SL, which has been offset against the joint venture investments and the receipt of a contingency payment from Bizkaia Energia SL to ESBI Contracting Ltd which has also been offset against the joint venture investments.

Sinking fund and other investments

Sinking fund investments in the Group and Parent, are represented by short term bank deposits. Subsidiary, associated and joint venture undertakings are listed in Note 33.

Other investments include a loan of €10.9 million provided by ESBII BV to Bizkaia Energia SL.

Notes to the Financial Statements

12. FINANCIAL ASSET INVESTMENTS (Continued)

(b) PARENT	Subsidiary Undertakings			Sinking fund investments €'000	Total €'000
	Shares €'000	Loans €'000	Subtotal €'000		
Balance at 1 January 2005	131,322	56,643	187,965	2,687	190,652
Additions	-	41,139	41,139	324	41,463
Repayments	(73,617)	(4,368)	(77,985)	-	(77,985)
Balance at 31 December 2005	57,705	93,414	151,119	3,011	154,130
Additions	11,050	-	11,050	-	11,050
Repayments	-	(63,931)	(63,931)	(3,011)	(66,942)
Balance at 31 December 2006	68,755	29,483	98,238	-	98,238

13. INVENTORIES

	GROUP		PARENT	
	2006 €'000	2005 €'000	2006 €'000	2005 €'000
Materials	33,265	115,699	29,880	103,735
Fuel	117,557	130,913	117,557	130,444
	150,822	246,612	147,437	234,179

Inventories consumed during the year ended 31 December 2006 total €480.4 million (2005: €477.4 million).

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

Capital stock with a net book value of €82 million was transferred from inventories to assets under construction pending being brought to use. This stock relates to strategic spares within the Power Generation and Networks businesses.

14. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2006 €'000	2005 €'000	2006 €'000	2005 €'000
Trade receivables	161,096	173,197	119,614	125,439
Unbilled consumption	330,200	360,100	294,123	325,115
Amounts owed by subsidiary undertakings	-	-	406,847	307,001
Other receivables	112,116	74,466	79,016	50,904
	603,412	607,763	899,600	808,459

15. INVESTMENTS

GROUP & PARENT	2006 €'000	2005 €'000
Listed investments at cost	79	78

Investments represent the repurchase of ESB loan stock, pending cancellation.

Notes to the Financial Statements

16. CASH AND CASH EQUIVALENTS	GROUP		PARENT	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Cash at bank and in hand	24,151	43,532	494	47,481
Other bank deposits	13,582	23,417	17,684	23,417
	37,733	66,949	18,178	70,898
<hr/>				
17. ASSETS HELD FOR SALE	GROUP		PARENT	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Property	1,407	2,261	1,407	2,261
Other				
- Gross assets	-	11,297	-	-
- Gross liabilities	-	(3,634)	-	-
	1,407	9,924	1,407	2,261

The other assets held for sale at the end of 2005 represent the cost of the Parent's investment in Irish Power Systems Limited. The 2006 assets held for sale relates to property which will be disposed of over the next year.

Notes to the Financial Statements

18. CAPITAL & RESERVES

(a) GROUP

Reconciliation of movement in capital and reserves

	Capital Stock €'000	Translation Reserve €'000	Reserve for the repurchase of loan stock €'000	Cash Flow Hedging & Other Reserves €'000	Retained Earnings €'000	Total €'000	Minority interest €'000	Total Equity €'000
Balance at 1 January 2005	1,979,882	(865)	2,687	(76,292)	481,645	2,387,057	853	2,387,910
Income for the year	-	-	-	-	241,189	241,189	109	241,298
Dividends	-	-	-	-	(77,413)	(77,413)	-	(77,413)
Other changes	-	3,354	324	-	(324)	3,354	-	3,354
Cash flow hedges:								
- Net fair value (losses)	-	-	-	(21,503)	-	(21,503)	-	(21,503)
- Transfers to Income Statement	-	-	-	(9,308)	-	(9,308)	-	(9,308)
- Fair value gains for hedges in joint ventures	-	-	-	10,349	-	10,349	-	10,349
Tax on items taken directly to equity	-	-	-	487	-	487	-	487
Balance at 31 December 2005	1,979,882	2,489	3,011	(96,267)	645,097	2,534,212	962	2,535,174
Balance at 1 January 2006	1,979,882	2,489	3,011	(96,267)	645,097	2,534,212	962	2,535,174
Income for the year	-	-	-	-	222,468	222,468	150	222,618
Dividends	-	-	-	-	(72,389)	(72,389)	-	(72,389)
Other changes	-	2,536	(3,011)	-	3,011	2,536	(383)	2,153
Cash flow hedges								
- Net fair value gains/(losses)	-	-	-	(42,888)	-	(42,888)	-	(42,888)
- Transfers to Income Statement								
- Interest	-	-	-	-	-	-	-	-
- Other operating expenses	-	-	-	88,096	-	88,096	-	88,096
- Fair value gains for hedges in joint ventures	-	-	-	13,938	-	13,938	-	13,938
- Transfers to Income Statement for JV's	-	-	-	(1,927)	-	(1,927)	-	(1,927)
Tax on items taken directly to equity	-	-	-	(5,693)	-	(5,693)	-	(5,693)
Tax on items taken directly to equity for JV's	-	-	-	(3,494)	-	(3,494)	-	(3,494)
Balance at 31 December 2006	1,979,882	5,025	-	(48,235)	798,187	2,734,859	729	2,735,588

Notes to the Financial Statements

18. CAPITAL & RESERVES (Continued)

(b) PARENT

Reconciliation of movement in capital and reserves

	Capital Stock €'000	Reserve for the repurchase of loan stock €'000	Cash Flow Hedging Reserve €'000	Retained Earnings €'000	Total €'000
Balance at 1 January 2005	1,979,882	2,687	(60,770)	457,282	2,379,081
Income for the year	-	-	-	190,511	190,511
Dividends	-	-	-	(77,413)	(77,413)
Other changes	-	324	-	(324)	-
Cash flow hedges:					
Net fair value losses	-	-	(21,919)	-	(21,919)
Transfers to Income Statement	-	-	(9,308)	-	(9,308)
Tax on items taken directly to equity	-	-	3,852	-	3,852
Balance at 31 December 2005	1,979,882	3,011	(88,145)	570,056	2,464,804
Balance at 1 January 2006	1,979,882	3,011	(88,145)	570,056	2,464,804
Income for the year	-	-	-	302,742	302,742
Dividends	-	-	-	(72,389)	(72,389)
Other changes	-	(3,011)	-	3,011	-
Cash flow hedges:					
- Net fair value losses	-	-	(43,131)	-	(43,131)
- Transfers to Income Statement					
- Interest	-	-	-	-	-
- Other operating expenses	-	-	88,096	-	88,096
Tax on items taken directly to equity	-	-	(5,621)	-	(5,621)
Balance at 31 December 2006	1,979,882	-	(48,801)	803,420	2,734,501

Notes to the Financial Statements

18. CAPITAL & RESERVES (Continued)

(i) Capital stock

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

2006

€'000

Comprised as:

Stock issued from converted reserves

1,880,888

Stock issued for subscription by ESOT

98,994

1,979,882

In accordance with the Electricity (Supply) (Amendment) Act 2001, on 30 December 2001, the capital and reserves of ESB were converted to capital stock and issued to the Department of Finance. At the same time, ESB ESOP Trustee Limited, established to act as Trustee for an ESB employee shareholding scheme, subscribed for 5% of the stock. The principal rights attaching to each unit of capital stock include the rights to exercise a vote at annual meetings, entitlements to dividends from profits when declared and the rights to proportionate participation in a surplus on winding up.

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

(ii) Minority interests - Group

Minority interests at the end of December 2006 relate to the minority shareholdings in Crockahenny Wind Farm Limited.

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

Fair value reserves primarily represent the fair value of derivatives which are part of effective cashflow hedging relationships at year end. As the derivatives are held for hedging purposes as defined by IAS 39, their fair value movements are retained in equity instead of being released to retained earnings at year end.

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

(iv) Reserve for the repurchase of loan stock

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

(v) Dividends - Group & Parent

2006

2005

€'000

€'000

Dividends on capital stock:

Total dividend paid 3.66 (2005: 3.91) cents per capital stock unit

72,389

77,413

The Board Members are recommending that a final dividend of 3.37 cent per unit of capital stock, amounting to €66.7 million in aggregate be paid in 2007, in respect of 2006.

Notes to the Financial Statements

19. BORROWINGS AND OTHER DEBT

(a) GROUP	Finance Leases €'000	Recourse Borrowings €'000	Non Recourse Borrowings €'000	2006 Total €'000	2005 Total €'000
Current borrowings					
- Repayable by instalments	11,009	118,789	3,790	133,588	25,389
- Repayable other than by instalments	-	45,000	-	45,000	97,711
Total current borrowings	11,009	163,789	3,790	178,588	123,100
Non-current borrowings					
- Repayable by instalments					
Between one and two years	7,845	120,107	4,431	132,383	25,452
Between two and five years	26,406	346,371	18,140	390,917	129,071
After five years	69,110	344,805	14,332	428,247	384,098
	103,361	811,283	36,903	951,547	538,621
- Repayable other than by instalments					
Between one and two years		-	-	-	48,571
Between two and five years		94,026	-	94,026	248,077
After five years	11,220	762,563	-	773,783	955,205
	11,220	856,589	-	867,809	1,251,853
Total non-current borrowings	114,581	1,667,872	36,903	1,819,356	1,790,474
Total borrowings outstanding	125,590	1,831,661	40,693	1,997,944	1,913,574

Current borrowings

Finance leases of €11 million refer to the capital element of finance leases payable in the next 12 months. The recourse borrowings of €163.8 million relate to long term bank debt repayable within the next 12 months. The non-recourse borrowings of €3.8 million relate to long term project finance debt repayable within the next 12 months.

Non-current borrowings

Non-current borrowings include ESB Stock of €10.3 million, the capital element of finance leases payable after one year of €114.6 million, private placement borrowings of €789.4 million, other long term bank borrowings of €868.2 million and €36.9 million of non-recourse long term project finance debt. The private placement debt was drawn down in December 2003. This debt consists of senior notes with institutional investors. These notes were issued in US dollars and Sterling and comprised of US\$49 million, US\$325 million, US\$256.5 million, US\$96.5 million and US\$273.5 million in 7, 10, 12, 15 and 20 year maturities respectively and also Stg£10 million in both the 15 and 20 year maturities.

The private placement debt and some of the other facilities have covenants attached which require ESB to maintain certain interest cover and asset key performance indicators.

Included in borrowings above is a Sterling denominated bank loan, which has been designated as a hedge of the Group's investment in a subsidiary in the United Kingdom. The carrying amount of the loan at December 2006 was €164.4 million (2005: €161.6 million). A gain of €2.8 million (2005: €2.6 million) has been recognised within the Translation Reserve within equity on the translation of the loan to euro in the books of the Sterling denominated subsidiary entity.

Borrowings totalling €11.6 million (2005: €22.4 million) are State guaranteed. With the exception of borrowings related to finance leases and the non-recourse project finance debt, which are secured against specific assets, none of the borrowings is secured against the Group assets.

The Group has entered into a sale and lease back arrangement in connection with certain assets included within Property, Plant and Equipment. Payment obligations on both sides of this arrangement were fulfilled immediately, so that the Group has no future payment obligations under the terms of the arrangement, and continues to have unrestricted use of the assets concerned. Accordingly no liability or asset has been recognised in the Financial Statements in respect of this transaction.

Notes to the Financial Statements

19. BORROWINGS AND OTHER DEBT (Continued)

Future finance lease commitments are as follows:

	2006 Minimum Lease Payments €'000	2006 Present value of Minimum Lease Payments €'000	2005 Minimum Lease Payments €'000	2005 Present value of Minimum Lease Payments €'000
Amounts payable:				
Within one year	19,336	11,009	17,393	8,867
Between one and five years	60,706	34,251	61,481	31,720
After five years	87,704	80,330	101,529	89,270
	167,746	125,590	180,403	129,857
Less future lease charges	(42,156)		(50,546)	
Present value of lease obligations		125,590	129,857	

	Finance Leases €'000	Recourse Borrowings €'000	2006 Total €'000	2005 Total €'000
(b) PARENT				
Current borrowings				
- Repayable by instalments	11,009	118,789	129,798	25,388
- Repayable other than by instalments	-	45,000	45,000	97,712
Total current borrowings	11,009	163,789	174,798	123,100
Non-current borrowings				
- Repayable by instalments				
Between one and two years	7,845	120,107	127,952	25,452
Between two and five years	26,406	346,371	372,777	129,071
After five years	69,110	344,805	413,915	384,098
	103,361	811,283	914,644	538,621
- Repayable other than by instalments				
Between one and two years	-	-	-	48,571
Between two and five years	-	94,026	94,026	248,077
After five years	11,220	762,538	773,758	955,205
	11,220	856,564	867,784	1,251,853
Total non-current borrowings	114,581	1,667,847	1,782,428	1,790,474
Total borrowings outstanding	125,590	1,831,636	1,957,226	1,913,574

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Overview of Financial Risk Management

The main financial risks faced by the Group relate to foreign exchange, interest rate and commodity (electricity and fuel) price movements. Policies to protect the Group from these risks, and other risk areas, such as liquidity risk and counterparty credit risk, are regularly reviewed, revised and approved by the Board as appropriate. Group Treasury is responsible for the day to day treasury activities of the Group. The Board Finance Committee is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the Committee for review. Commodity price risk is managed by the relevant business unit (Power Generation, Customer Supply and ESBI) in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit. The advent of the Single Electricity Market (SEM) will potentially increase the risks posed by electricity and fuel price movements. As a result, the company has instigated a new Group Trading Risk Management function which will ensure that the Group's market, credit and operational risks are managed in a way to protect the company from loss, while respecting the ring-fencing obligations in place between the business units.

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

Financial instruments are derecognised on settlement or sale.

(b) Funding and Liquidity Management

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account the compatibility between funding costs and risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements and Group Treasury maintains diversity in ESB's lender base in order to achieve a strategic spread of risk. ESB has in place adequate borrowing facilities in order to ensure that liquidity demands can be met as required.

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

Maturing	2006		2005	
	Drawn Debt €m	Undrawn Facility €m	Drawn Debt €m	Undrawn Facility €m
In one year or less	178.6	200.0	123.1	-
Between one and two years	132.4	-	74.0	200.0
Between two and five years	484.9	-	377.2	-
In more than five years	1,202.0	535.0	1,339.3	747.0
	1,997.9	735.0	1,913.6	947.0

(c) Counterparty Credit Risk

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts with in the financial markets. The Group's policy is to limit its exposure to each financial institution based on accepted credit ratings.

Trading in derivatives is performed to mitigate financial risks and is executed in compliance with the Specification and Requirements of the Minister for Finance issued under the aegis of the "Financial Transactions of Certain Companies and Other Bodies Act 1992". The Specification and Requirements outline the type of derivatives which ESB can transact and the associated requirements which ESB must satisfy regarding each derivative counterparty. Dealing activities are controlled by putting in place robust dealing mandates with its counterparties. The Group does not hold or trade derivative instruments for speculative purposes. Exposures, related limits and compliance with the Minister's Specification and Requirements are subject to ongoing review and monitoring. The Group has not experienced any losses due to failure of counterparties to deliver on their obligations.

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(d) Foreign Currency Risk Management

Foreign currency exposures arise mainly through the purchase of fuel, other purchases denominated in foreign currency, borrowings in foreign currencies and investments in overseas activities.

Foreign currency forward purchase contracts, as well as options, are used to reduce volatility arising from foreign currency exposures.

At year end, ESB's total debt portfolio amounted to €1.998 billion (2005: €1.914 billion). The underlying debt, before and after swaps, was denominated in the following currencies.

Currency	Before swaps		After swaps	
	2006	2005	2006	2005
Euro	48%	46%	89%	91%
Swiss Franc	1%	1%	0%	0%
US Dollar	39%	43%	0%	0%
Sterling	12%	10%	11%	9%
Total	100%	100%	100%	100%

As shown above, the majority of the debt portfolio is swapped to euro for both principal and interest, thereby reducing the foreign currency risk exposure in the Group.

In managing its foreign operations the Group is cognisant of borrowing in currencies that match the functional currency of the foreign operation.

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

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

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

	Effective interest rate	Total	Within one year	1-2 years	2-5 years	More than five years
	%	€m	€m	€m	€m	€m
Overdrafts	-	-	-	-	-	-
Cash on deposit	3.60%	6,695	6,695	-	-	-
Finance leases	5.49%	125,590	11,009	7,845	26,406	80,330
Borrowings	4.36%	1,050,427	171,752	120,375	403,191	355,109
Private Placement Borrowings	5.18%	867,729	-	-	41,090	826,639
Non Recourse Borrowings	4.34%	40,693	3,790	4,431	18,140	14,332

(f) Fair Value

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

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

In the case of interest rate swaps, as the same notional principal is used by the paying and receiving sides, the fair value takes into account the fixed and floating rate margins and the market rate prevailing at year end.

For trade receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

	GROUP			PARENT		
	Nominal Value	Book Value	Fair Value	Nominal Value	Book Value	Fair Value
	2006 €'000	2006 €'000	2006 €'000	2006 €'000	2006 €'000	2006 €'000
Long term debt held to maturity	-	1,704,741	1,677,134	-	1,667,887	1,639,546
Long term finance lease liabilities	-	115,241	120,136	-	115,241	120,136
Short term borrowings (includes finance leases)	-	177,962	175,446	-	174,138	171,596
Sub total borrowings	-	1,997,944	1,972,716	-	1,957,226	1,931,278
Interest rate swaps:						
- ST Assets (Cashflow hedge)	28,810	578	578	-	-	-
Currency swaps:						
- LT Liabilities (Fair Value Hedge)	24,783	(7,736)	(7,736)	24,783	(7,736)	(7,736)
- LT Liabilities (Cashflow Hedge)	867,729	(138,279)	(138,279)	867,729	(138,279)	(138,279)
Foreign exchange contracts:						
- LT Assets	18,607	1,750	1,750	-	1,750	1,750
- ST Assets	81,243	321	321	-	321	321
- ST Liabilities	-	(175)	(175)	-	(175)	(175)
Forward fuel price contracts						
- LT Assets	3,744	176	176	-	176	176
Trade and other payables	-	484,185	484,185	-	560,058	560,058
Trade and other receivables	-	603,412	603,412	-	899,600	899,600
Cash and cash equivalents	-	37,733	37,733	-	18,178	18,178
		2,979,909	2,954,681		3,291,119	3,265,171

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks.

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

(i) Interest rate swaps

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

ESB's interest rate swaps are part of effective hedging relationships. The purpose of these hedges is to fix the interest rate payments on the debt over its lifetime.

(ii) Currency swaps

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

ESB's currency swaps are primarily classified as cash flow hedges and relate mainly to the cross currency swaps entered into in connection with the private placement debt, which is described in note 19. These cross currency swaps were entered into in order to swap US Dollar and Sterling interest and principal repayments on the underlying debt to Euro, thereby hedging the risk on these payments over the periods to maturity from 2010 to 2023.

Notes to the Financial Statements

20. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(g) Sensitivity Analysis

In managing interest rate and currency risks, the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates will have an impact on consolidated earnings. The Group has no significant exposures to movements in foreign exchange as mentioned above in section (d) of this note.

At 31 December 2006, 70% of the Group's debt is fixed to maturity. At year end, it is estimated that a general increase of half of one percentage point in interest rates would reduce the Group's profit before tax by approximately €3.1 million. Interest rate swaps have been included in this calculation.

(h) Other

Long term payables of €42.6 million (2005: €47.1 million) form part of the long term financing of the Group.

21. DEFERRED TAX ASSETS AND LIABILITIES

GROUP

	2006	2005
	€'000	€'000
Deferred tax assets		
Property, plant & equipment	1,781	3,006
Pension liability	40,970	42,397
Provisions	20,074	22,168
Tax losses forward	2,427	1,082
Derivative financial instruments	6,948	12,641
Total	72,200	81,294
Deferred tax liabilities		
Property, plant & equipment	299,557	284,736
Retirement benefits	9,205	12,318
Provisions	283	105
Capital gains tax	1,180	1,180
Total	310,225	298,339
Net deferred tax liability	238,025	217,045

Notes to the Financial Statements

21. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

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

	Balance 1 January 2005 €'000	Recognised in income 2005 €'000	Recognised in equity 2005 €'000	Transfers to joint ventures €'000	Balance 31 December 2005 €'000	Recognised in income 2006 €'000	Recognised in equity 2006 €'000	Deferred Tax balances written off in respect of disposals 2006 €'000	Balance 31 December 2006 €'000
Assets									
Property, plant & equipment & intangible assets	3,502	(496)	-	-	3,006	(1,075)	-	(150)	1,781
Pension liability	33,830	8,567	-	-	42,397	(1,427)	-	-	40,970
Provisions	23,133	(965)	-	-	22,168	(2,094)	-	-	20,074
Tax losses forward	1,763	(681)	-	-	1,082	1,345	-	-	2,427
Derivatives	-	-	19,095	(6,454)	12,641	-	(5,693)	-	6,948
Total deferred tax assets	62,228	6,425	19,095	(6,454)	81,294	(3,251)	(5,693)	(150)	72,200
Liabilities									
Property plant & equipment & intangible assets	279,153	12,595	-	(7,012)	284,736	14,821	-	-	299,557
Retirement benefits	15,430	(3,112)	-	-	12,318	(3,113)	-	-	9,205
Provisions	50	55	-	-	105	178	-	-	283
Capital gains tax	1,180	-	-	-	1,180	-	-	-	1,180
Total deferred tax liabilities	295,813	9,538	-	(7,012)	298,339	11,886	-	-	310,225
Net deferred tax (asset)/liability for the year	233,585	3,113	(19,095)	(558)	217,045	15,137	5,693	150	238,025

Transfers under deferred tax liabilities relate to the transfer of deferred tax balance relating to the Synergen Partnership into investments in joint ventures.

Transfers under deferred tax assets relate to the transfer of the subsidiary Bizkaia Energia SL into investments in joint ventures.

The following deferred tax assets have not been recognised in the Balance Sheet as it is not probable that they will be realised for the foreseeable future:

	2006 €'000	2005 €'000
Operating losses	22,785	6,900
Capital losses	-	1,192

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

Deferred tax has not been provided for in relation to unremitted reserves of our overseas subsidiaries as there is no intention for these reserves to be distributed in the foreseeable future. Nor has deferred tax been provided in relation to unremitted reserves of our overseas joint ventures as there is no current intention to permit the distribution of those reserves. Cumulative unremitted reserves of overseas subsidiaries, joint ventures and associates totalled €103 million (2005: €104 million).

Notes to the Financial Statements

21. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

PARENT	2006	2005
	€ '000	€'000
Deferred tax assets		
Pension	40,970	42,397
Provisions	19,687	21,774
Derivatives	7,020	12,641
Total	67,677	76,812
Deferred tax liabilities		
Property, plant & equipment	296,987	283,728
Retirement benefits	9,205	12,317
Capital gains tax	1,180	1,180
Total	307,372	297,225
Net deferred tax liability	239,695	220,413

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

	Balance 1	Recognised in	Recognised in	Balance 31	Recognised in	Recognised in	Balance 31
	January 2005	income 2005	equity 2005	December 2005	income 2006	equity 2006	December 2006
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Assets							
Pension liability	33,830	8,567	-	42,397	(1,427)	-	40,970
Provisions	19,340	2,434	-	21,774	(2,087)	-	19,687
Derivatives	-	-	12,641	12,641	-	(5,621)	7,020
Total deferred tax assets	53,170	11,001	12,641	76,812	(3,514)	(5,621)	67,677
Liabilities							
Property, plant & equipment & intangible assets	267,073	16,655	-	283,728	13,259	-	296,987
Retirement benefits	15,430	(3,113)	-	12,317	(3,112)	-	9,205
Capital gains tax	1,180	-	-	1,180	-	-	1,180
Total deferred tax liabilities	283,683	13,542	-	297,225	10,147	-	307,372
Net deferred tax liability/(asset) for the year	230,513	2,541	(12,641)	220,413	13,661	5,621	239,695

Notes to the Financial Statements

22. PENSION LIABILITIES

(a) PARENT & GROUP

(i) ESB General Employers' Superannuation Scheme

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

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

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

Despite the fact that the scheme is not typical of a balance of cost defined benefit scheme (where the employer is liable to pay the balance of contributions required to fund the benefits), solely for the purposes of reporting under IAS 19 the full liability and pension costs have been included in the financial statements.

(ii) Valuation

The funding position of the scheme is assessed in accordance with the advice of independent actuaries obtained at three yearly intervals. An actuarial valuation was completed as at 31st December 2003. The actuarial valuation as at 31 December 2006 is currently in progress.

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

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

(iii) Pension Benefits

The valuation of the scheme by independent actuaries for the purpose of IAS 19 disclosure is based on data from previous actuarial valuations. They have used this data to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. The scheme assets are stated at their market value at the balance sheet date. The valuation was carried out using the projected unit method.

(iv) Assumptions

Financial Assumptions

The assumptions used by the Actuary to calculate the IAS 19 liabilities at the Balance Sheet date are:

	2006	2005
Rate of interest applied to discount liabilities	4.60%	4.25%
Price inflation	2.00%	2.00%
Rate of increase of pensionable salaries	3.00%	3.00%
Rate of increase of pensions in payment	3.00%	3.00%
Expected return on plan assets	6.92%	6.53%

The discount rate used by the actuaries in the calculation of the pension liability at year end is 4.6%. This is determined by reference to market yields at the balance sheet date on high quality corporate bonds. The currency and term of the corporate bonds is consistent with the currency and estimated term of the post-employment benefit obligations. At the year end the iBoxx index of euro-denominated AA rated corporate bonds yielded 4.6% per annum (4.01% at 1 January 2006). Having regard to the duration of the liabilities the Board feel it is appropriate to adopt a discount rate of 4.6% at 31 December 2006 (4.25% at 31 December 2005).

Notes to the Financial Statements

22. PENSION LIABILITIES (Continued)

Plan Assets

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

Asset Category	December	December
	2006	2005
Equities	72%	76%
Bonds	8%	8%
Real estate	12%	12%
Cash and other	8%	4%
	100%	100%

To develop the expected long-term rate of return on assets assumption, the Board considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.92% assumption (2005: 6.53%).

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

	2006	2005	2004	2003	2002
	€'000	€'000	€'000	€'000	€'000
Present value of funded obligations	5,416,310	4,884,093	4,230,795	3,644,869	3,147,997
Fair value of plan assets	(3,784,263)	(3,336,000)	(2,801,014)	(2,541,008)	(2,243,064)
Deficit for funded plan	1,632,047	1,548,093	1,429,781	1,103,861	904,933
Unrecognised net actuarial (gains)	(1,304,285)	(1,208,917)	(1,159,140)	(867,986)	(732,869)
Net liability	327,762	339,176	270,641	235,875	172,064

History of experience gains and losses	2006	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets:					
Amount (€m)	230,832	379,579	94,322	147,141	(639,667)
Percentage of scheme assets	6.1%	11.4%	3.4%	5.8%	28.5%
Experience gains and losses on scheme liabilities:					
Amount (€m)	(374,235)	(478,426)	(419,043)	(310,129)	(180,955)
Percentage of the present value of scheme liabilities	6.9%	9.8%	9.9%	8.5%	5.7%

Notes to the Financial Statements

22. PENSION LIABILITIES (Continued)

	2006 €' 000	2005 €'000
Change in benefit obligation		
Benefit obligation at beginning of the year	4,884,093	4,230,795
Movement in year:		
Current service cost	38,107	40,964
Plan members' contributions	30,096	23,786
Curtailements	32,802	29,951
Past service costs	25,677	32,395
Settlement costs	(10,743)	-
Benefits paid	(162,280)	(149,633)
Interest cost	204,323	197,409
Actuarial loss	374,235	478,426
Benefit obligation at the end of the year	5,416,310	4,884,093
Change in plan assets		
Fair value of plan assets at beginning of the year	3,336,000	2,801,014
Movement in year:		
Expected return on plan assets	215,852	179,564
Actuarial gains/(losses)	230,832	379,579
Employer contributions	133,762	101,690
Member contributions	30,096	23,786
Benefits paid	(162,280)	(149,633)
Fair value of plan assets at the end of the year	3,784,262	3,336,000
Actual return on plan assets for the year	446,684	559,143

Analysis of the amounts recognised in the Income Statement, as part of employee benefit expenses were as follows:

Current service cost	38,107	40,964
Past service cost	25,677	32,395
Curtailement	32,802	29,951
Settlement costs	(10,743)	-
Actuarial losses recognised in the year	48,034	49,071
Expected return on pension scheme assets	(215,852)	(179,564)
Interest on pension scheme liabilities	204,323	197,409
Total net impact on reported profits	122,348	170,226

Notes to the Financial Statements

22. PENSION LIABILITIES (Continued)

(b) ESB Subsidiary Companies Pension Scheme

ESB also operates an approved defined contribution scheme called ESB Subsidiary Companies Pension Scheme for employees of ESB subsidiary companies. Contributions are paid by the members and employer at fixed rates. The benefits secured at retirement reflect each employee's accumulated fund and the cost of purchasing benefits at that time. Death benefits are insured on a group basis and may be paid in the form of a lump sum and/or survivor's pension. The assets of the scheme are held in a separate trustee administered fund. The pension charge for the year represents the defined employer contribution and amounted to €2.6 million (2005:€2.3 million).

23. EMPLOYEE RELATED LIABILITIES

GROUP	Restructuring liabilities €'000	Other €'000	Total €'000
Balance at 1 January 2006	146,760	41,292	188,052
Movements during the year:			
Charge to the Income Statement	37,061	38,526	75,587
Utilised during the year	(35,154)	(41,292)	(76,446)
Financing Charge	5,134	-	5,134
Balance at 31 December 2006	153,801	38,526	192,327
Analysed as follows:			
Non current liabilities	127,763	-	127,763
Current liabilities	26,038	38,526	64,564
PARENT			
Balance at 1 January 2006	146,760	33,866	180,626
Movements during the year:			
Charge to the Income Statement	37,061	(2,793)	34,268
Utilised during the year	(35,154)	-	(35,154)
Financing Charge	5,134	-	5,134
Balance at 31 December 2006	153,801	31,073	184,874
Analysed as follows:			
Non current liabilities	127,763	-	127,763
Current liabilities	26,038	31,073	57,111

Restructuring liabilities

This provision represents the estimated cost of providing post employment payments to former employees, other than those amounts covered by the pension scheme. It includes liabilities for continuing payments to employees who left under past voluntary severance initiatives, as well as liabilities in respect of former employees which may arise as part of other potential legal or constructive post retirement obligations. These liabilities are expected to be materially discharged by 2020.

Other

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

Notes to the Financial Statements

24. TRADE AND OTHER PAYABLES	GROUP		PARENT	
	2006	2005	2006	2005
Current payables:	€'000	€'000	€'000	€'000
Progress payments on work in progress	8,505	25,604	8,505	25,604
Trade payables	292,436	249,532	289,504	245,445
Other payables	42,891	33,845	29,565	18,293
Employment taxes	10,695	17,039	10,416	16,723
Value added tax	34,108	43,733	30,399	33,888
Accruals	89,399	173,331	16,855	64,956
Amounts owed to subsidiary undertakings	-	-	168,662	162,204
Accrued interest on borrowings	6,152	7,567	6,152	7,567
	484,186	550,651	560,058	574,680
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Non-current payables:				
Other payables	42,552	47,171	16,452	20,152

25. DEFERRED INCOME AND GOVERNMENT GRANTS

(a) GROUP	Emissions Allowances	Supply Contributions & Other	Total
	€000	€000	€000
Balance at 1 January 2006	1,727	375,522	377,249
Receivable	268,299	136,184	404,483
Amortised to the Income Statement (Note 3)	(267,699)	(22,293)	(289,992)
Translation differences	(1,192)	-	(1,192)
Balance at 31 December 2006	1,135	489,413	490,548
(b) PARENT	Emissions Allowances	Supply Contributions	Total
	€000	€000	€000
Balance at 1 January 2006	-	373,583	373,583
Receivable	245,607	116,527	362,134
Amortised to the Income Statement	(245,607)	(16,199)	(261,806)
Balance at 31 December 2006	-	473,911	473,911

Emissions allowances received during the year are recorded as both intangible assets and deferred income. They are valued at market value on receipt and amortised to the Income Statement on the basis of actual emissions during the year.

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

Notes to the Financial Statements

26. PROVISIONS

(a) GROUP	Power Station Closure Costs €'000	Emissions provisions €'000	Business Separation €'000	Other €'000	Total €'000
Balance at 1 January 2006	265,172	139,647	48,200	49,636	502,655
Charged/(credited to the Income Statement)					
- Emissions	-	250,714	-	-	250,714
- Legal	-	-	-	813	813
- Station closure	(6,007)	-	-	-	(6,007)
Utilised in the year	(16,941)	(139,648)	(48,200)	(3,697)	(208,486)
Financing Charge	8,545	-	-	1,698	10,243
Translation differences	-	345	-	-	345
Balance at 31 December 2006	250,769	251,058	-	48,450	550,277
Analysed as follows:					
Non current liabilities	240,269	-	-	43,450	283,719
Current liabilities	10,500	251,058	-	5,000	266,558
(b) PARENT	Power Station Closure Costs €'000	Emissions provisions €'000	Business Separation €'000	Other €'000	Total €'000
Balance at 1 January 2006	265,172	133,563	48,200	49,636	496,571
Charged/(credited to the Income Statement)					
- Emissions	-	228,621	-	-	228,621
- Legal	-	-	-	644	644
- Station closure	(6,007)	-	-	-	(6,007)
Utilised in the year	(16,941)	(133,563)	(48,200)	(3,697)	(202,401)
Financing charge	8,545	-	-	1,695	10,240
Balance at 31 December 2006	250,769	228,621	-	48,278	527,668
Analysed as follows:					
Non current liabilities	240,269	-	-	43,278	283,547
Current liabilities	10,500	228,621	-	5,000	244,121

Power station closure costs

The provision at 31 December 2006 of €250.8 million (2005: €265 million) for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2020. As the costs are provided on a discounted basis, a financing charge is included in the Income Statement and added to the provision each year. The Power Station Closure Provision is re-examined annually and the liability re-calculated in accordance with the current expected station closure dates. Closure costs include physical dismantling costs and costs associated with de-manning the stations on closure.

There are a number of uncertainties that affect the calculation of the provision for station closure, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The Group has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision.

Notes to the Financial Statements

26. PROVISIONS (Continued)

Emissions provisions

In accordance with the provisions of the European CO₂ emissions trading scheme, a provision is recognised to cover the liability for actual emissions during the year. Under this scheme, emissions allowances covering a percentage of the expected emissions are granted at the beginning of each year by the relevant Authority (See Note 10 Intangible Assets). These allowances, together with any additional allowances purchased during the year, are returned to the relevant Authority in charge of the scheme within four months from the end of that calendar year, in line with the actual emissions of CO₂ during the year. The year end provision represents the obligation to return emissions allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO₂ emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability.

Business Separation

As directed in Statutory Instrument 445 of 2000, the Transmission System Operator (TSO) was to be established as a separate company (EirGrid plc), independent from ESB. Under this Statutory Instrument, ESB was required to transfer assets, liabilities, contracts and necessary funding to EirGrid plc in order to finance their operations as the TSO. The liability at 31 December 2005 represented the cost to ESB of establishing EirGrid plc as a separate legal entity. The balance comprised working capital and capital funding required by the new company. As expected EirGrid plc was vested in 2006 and therefore the provision has been utilised.

Other

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

27. CURRENT TAX LIABILITIES

	GROUP		PARENT	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Corporation tax	17,213	17,592	7,877	21,027

The current tax liability represents the amount of corporation taxes payable in respect of current and prior periods that exceed payments.

28. COMMITMENTS AND CONTINGENCIES

(a) Operating lease obligations

Gross operating lease rentals payable in the future in respect of leases expiring:	2006	2005
	€'000	€'000
Within one year	8,230	2,453
Between two and five years	29,611	7,276
After five years	35,425	84,981
Total payable within one year	73,266	94,710

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

	2006	2005
	€'000	€'000
(b) Capital commitments		
Contracted for	286,817	189,205
	2006	2005
	€'000	€'000
Share of joint venture capital commitments		
Contracted for in Marchwood Power Limited	196,521	-

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

Notes to the Financial Statements

28. COMMITMENTS AND CONTINGENCIES (Continued)

(c) Fuel Contract Commitments

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

29. RELATED PARTY TRANSACTIONS

Semi-State Bodies

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

Board Members' interests

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

Subsidiary undertakings

During the year ended 31 December 2006, ESB Parent purchased €60.4 million (2005: €59.7 million) from its subsidiaries. These purchases largely relate to engineering and consulting services, mainly by the electricity businesses.

During the year, ESB Parent sold €143.1 million (2005: €142.7 million) to subsidiaries. These sales mainly relate to management services, as well as electricity charges such as use of system charges and sales of electricity.

At 31 December 2006, ESB Parent owes €168.7 million (2005: €162.2 million) to its subsidiaries. These creditors are due largely to the engineering and consulting services businesses and also relate to amounts held on deposit for subsidiaries.

At 31 December 2006, ESB Parent is owed €406.8 million (2005: €307.1 million) from its subsidiaries. These debtors mainly relate to electricity charges such as use of system charges and sales of electricity and loans to subsidiaries, as well as management charges.

At 31 December 2006, balances outstanding between ESB Parent and its subsidiaries, in relation to loans, capital contributions and equity were €98.2 million (2005: €151.1 million).

Joint ventures

During the year the Group provided services to its joint ventures, Synergen, Bizkaia Energia SL, Corby Power Ltd and Marchwood Power Ltd. ESB provided services to Synergen Power Ltd to the value of €10 million (2005: €39.7 million) and had to the year end advanced no capital.

During 2006, ESB provided services to Biskaia Energia SL to the value of €14.5 million (2005: €2.2 million) and had to the year end advanced capital totalling €10.9 million (2005: €15.9 million).

Services to the value of €5.8 million (2005: € 4.8 million) were provided to Corby Power Ltd. Marchwood Power Ltd became a joint venture in September 2006. Since September services to the value of €6.9 million were provided to Marchwood Power Ltd and capital funding to the value of €3.5 million.

Key management compensation	2006	2005
	€'000	€'000
Salaries and other short-term employee benefits	4,046	3,234
Post-employment benefits	443	218
Termination benefits	320	-
	4,809	3,452

The key management compensation amounts disclosed above represent compensation to those people having the authority and responsibility for planning, directing and controlling the activities of the Group. The 2006 figures reflect the one-off cost associated with the implementation of the company's decision to eliminate all company cars for staff.

Notes to the Financial Statements

30. ESTIMATES AND JUDGEMENTS

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

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

- (a) The assumptions used in the calculation of the pension liability at year end, as set out in Note 22.
- (b) Future costs required to settle current provisions and employee related liabilities, such as power station closure costs and voluntary severance obligations. These liabilities are disclosed in Notes 26 and 22.
- (c) The measurement of a number of assets, liabilities, income and costs at year end which require a high degree of estimation and judgement, including, the calculation of unbilled electricity income and trade and other receivables, the valuation of fuel stocks, the cost of fuel consumed, the useful lives of fixed assets and also accruals for goods received or work carried out for which supplier invoices have not yet been received. These items are estimated in accordance with the accounting policies of the Group and current International Financial Reporting Standards.
- (d) Providing for doubtful debts
ESB provide services to around two million individuals and businesses, mainly on credit terms. It is known that certain debts due to ESB will not be paid through the default of a small number of customers. Estimates, based on historical experience are used in determining the level of debts that is believed will not be collected. These estimates include such factors as the current state of the Irish economy and particular industry issues.

31. ESB ESOP TRUSTEE LIMITED

ESB ESOP Trustee Limited was incorporated by ESB during 2001, with a €1 investment, as trustee to the ESB Employee Ownership Trust (ESOT) and the ESB Approved Profit Sharing Scheme (APSS). Under the terms of the creation of ESB ESOP Trustee Limited, ESB has no ability or rights to exert control over the assets or management of the company. The trustee company is chaired by an independent professional trustee with four directors representing ESB employees and two directors representing the Company. As such, severe restrictions which substantially hinder the exercise of the rights of ESB over the assets and management of the company exist. In accordance with IAS 27 Consolidated and Separate Financial Statements, the accounts for ESB ESOP Trustee Limited are not consolidated with the results of the ESB Group.

32. APPROVAL OF ACCOUNTS

The Board approved the accounts on 19th April 2007.

Notes to the Financial Statements

33. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS

Company name	Registered office	Group share %	Nature of business
Subsidiary undertakings			
ESB International Ltd	*	100	Holding company
ESBI Engineering and Facility Management Ltd	*	100	Engineering
ESBI Engineering Overseas Ltd	*	100	Engineering
ESBI Contracting Ltd	*	100	Contracting
ESBI Consultants Ltd	*	100	Consultancy
ESBI Computing Ltd	*	100	Computer services
ESB Ireland Holdings Ltd	*	100	Holding company
ESBII Technology and Construction	*	100	Power generation
Elfinance 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
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
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

Notes to the Financial Statements

33. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS (Continued)

Company name	Registered office	Group share %	Nature of business
Electricity Supply Board International Investments B.V,	Strawinskylaan 3105 7th Floor 1077 ZX Amsterdam The Netherlands	100	Holding company
Coolkeeragh ESB Ltd	2 Electra Road Maydown Derry BT47 6 UL	84	Power generation
ESBII UK Ltd	*****	100	Power generation
ESBI Luxembourg SA.	65 boulevard Grande-Duchesse Charlotte L - 1331 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 Development Ltd	*****	100	Power generation
Menloe Two Ltd	**	100	Finance leasing
Menloe Investments Ltd	**	100	Finance leasing
Port Talbot Power Ltd	*****	100	Power generation
Asturias Generation de Electricidad S.L	Calle Uria, No 50-4, Oviedo 33001, Asturias, Spain	100	Power generation
Mountainlodge Power Ltd	*	85.9	Power generation
Non-controlled subsidiary undertakings			
ESB ESOP Trustee Ltd	43 Merrion Square Dublin 2	100	Staff Shareholding Scheme
Associated undertakings			
CPL Operations Ltd	***	50	Facility management

Notes to the Financial Statements

33. SUBSIDIARY, JOINT VENTURE & ASSOCIATE UNDERTAKINGS (Continued)

Company name	Registered office	Group share %	Nature of business
Joint venture undertakings			
Corby Power Ltd	***	50	Power generation
Synergen Power Ltd	Power Plant Pidgeon House Road Ringsend Dublin 4	70	Power generation
Bizkaia Energia SL	****	50	Power generation
Marchwood Power Ltd	*****	50	Power generation
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,

** 27 Lr. Fitzwilliam St., Dublin 2

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

**** Poligono Industrial de Boroa , Insula A. I-1, 48340 Amorebieta-, Spain

***** 165 Queen Victoria Street, London EC4V 4DD

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

Appendix

Report of Board Members on Compliance with the Prompt Payment of Accounts Act, 1997 and European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002)

INTRODUCTION

Prompt payments during 2006 were governed by two items of legislation:

- The Prompt Payment of Accounts Act, 1997 came into effect on 2nd January 1998, and applied to goods and services supplied to ESB by Irish Suppliers after this date.
- European Communities (Late Payments in Commercial Transactions) Regulations, 2002 (S.I. No. 388 of 2002) to combat late payments in commercial transactions, amended the above when they came into effect on 7th August 2002. These Regulations apply to contracts made after 7th August 2002 for goods and services supplied to ESB by EU-based suppliers.

STATEMENT OF PAYMENT PRACTICES INCLUDING STANDARD PAYMENT PERIODS

ESB operates a policy of paying all undisputed supplier invoices within the agreed terms of payment. The standard terms specified in the standard purchase order are net monthly. Other payment terms may apply in cases where a separate contract is agreed with the supplier.

COMPLIANCE WITH THE LEGISLATION

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

PROCEDURES AND CONTROLS IN PLACE

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

DETAILS OF INTEREST PAYMENTS IN RESPECT OF 2006

When ESB receives a request from the supplier, it is ESB's policy to pay interest due on late payments. One such payment of €250 was made in respect of a late payment in 2006.

Tadhg O'Donoghue Chairman

Padraig McManus Chief Executive

19 April 2007

