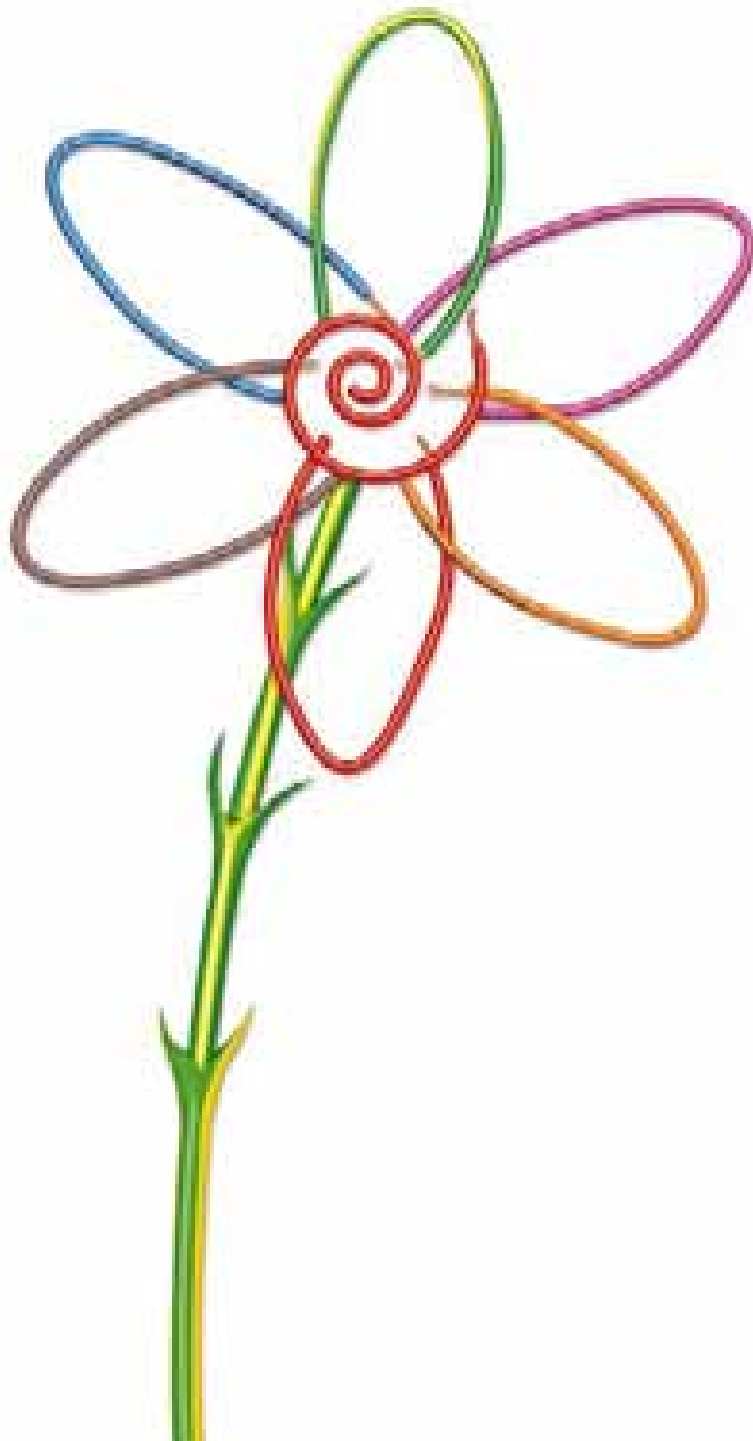


power.  
it's in our nature

ESB Annual Report and Accounts 2006



# Contents

3	Chairman's Review
5	Chief Executive's Review
10	Financial Review
<b>17</b>	<b>ESB Power Generation Review</b>
<b>23</b>	<b>ESB Customer Supply and Group Services Review</b>
<b>29</b>	<b>ESB Networks Review</b>
<b>35</b>	<b>ESB International Review</b>
40	Corporate Responsibility
43	Board and Executive Information
43	Organisational Structure
44	Board Members
46	Executive Team
50	Board Members' Report
58	Statement of Board Members' Responsibilities
59	Independent Auditors' Report
61	Financial Statements and Notes



**ESB supports the decision by Government to increase the target set for renewable electricity generation from 13.2% to 15% by 2010 and the new target set for 2020 of 33%.**

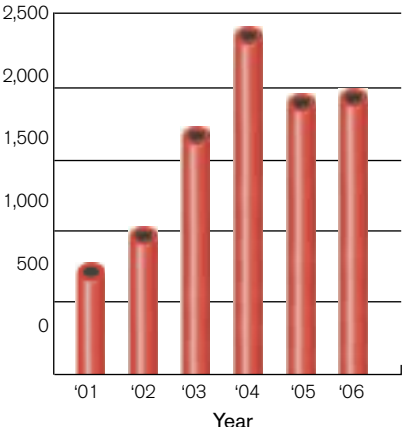


ESB Hydro electricity station at Turlough Hill, Co. Wicklow

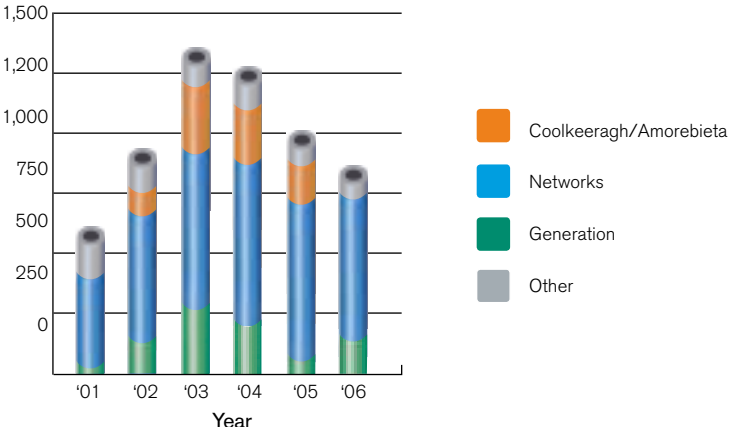
# FACTS AT A GLANCE

	2006	2005	Change
Revenue & Operating Income €m	3,396	2,942	454
Operating Profit €m	261	248	13
Profit after Tax €m	223	241	(18)
Capital Expenditure €m	831	943	(112)
Net Debt €m	1,960	1,847	113
Customers Connected	105,127	89,079	16,048
Average Staff Numbers	7,823	8,292	(469)

Net Debt (€m)



Capital Expenditure (€m)



# CHAIRMAN'S REVIEW



Tadhg O'Donoghue

In accordance with the provisions of the Electricity (Supply) Act 1927 (as amended) the Board presents the Annual Report and Accounts for the year ended 31 December 2006.

## FINANCIAL PERFORMANCE

I am pleased to report that ESB put in a strong financial performance in 2006, notwithstanding significant business challenges. Profit after tax in 2006 was €223 million. This result, while down €18 million on 2005 was, I think, satisfactory bearing in mind the impact of the regulatory review and the 40% increase in the Group's energy costs in 2006. The key financial indicators show that ESB remains financially strong, notably as regards debt levels, interest cover and gearing. The Board is determined to maintain this policy of prudent financial management.

## OPERATIONAL PERFORMANCE

ESB power stations' availability in 2006 was 78% against a target of 82% due in particular to problems with outdated plant. Of the total ESB Power Generation portfolio of 4,651 megawatts some 1,300 megawatts is accounted for by old and inefficient power stations which ESB would close if free to operate on an exclusively commercial basis. However ESB

is required to continue to operate these stations on grounds of security of supply. The longer this requirement is imposed the greater the resulting financial and operational cost to ESB.

After year end ESB Power Generation received the final approvals to build a new 430 megawatt gas fired generating station at Aghada, in Co. Cork. This was a very welcome outcome which now allows ESB to plan for the replacement of old plant. However the restrictive conditions attached to those approvals mean that this investment, considered on a stand alone basis, will be of marginal economic benefit to the Company.

In the year under review ESB Networks completed 105,127 new connections – another record year. Also in 2006 the six year programme to refurbish and upgrade 63,000 kilometres of the medium voltage distribution network was completed on time and on budget at a total cost of €870 million. I want to acknowledge this major achievement. ESB Networks has now launched a new programme to refurbish the low voltage distribution network – that part of the system which delivers electricity directly to the customer.

Throughout the year ESB Customer Supply continued to improve its service to its almost two million customers and the Board has established a Market and Customer Committee to oversee these efforts. The full opening of the market has seen

many business and large customers move to other suppliers. However, ESB Customer Supply continues to be the main supplier for most of the domestic customers in the State.

## GROWTH AND EXPANSION

Every company must pursue growth if it is to reward its owners, serve its customers and attract high calibre staff. It is for this reason that the Board has approved a strategy of addressing the obligatory decline in its home market by investing outside our traditional market, notably in power stations in Northern Ireland, Britain and Spain. In Northern Ireland the new power station owned by ESB International at Coolkeeragh experienced significant operational difficulties. Good progress has been made in resolving these but long term issues also need to be addressed in cooperation with the equipment manufacturer. The ESBI/Osaka Gas joint venture power plant at Amorebieta in Spain continues to operate extremely well. ESBI has also entered into a joint venture agreement with Scottish & Southern Energy plc to develop an 840 megawatt combined cycle facility at Marchwood near Southampton. These exciting investments should generate an increasing share in revenues and profits over the coming years.

## BUSINESS CHALLENGES

In line with policy objectives, ESB's market share continued to decline in 2006 with ESB Power Generation and ESB Customer Supply having about 50% of their respective markets. This reduction in market share will continue with the commencement of the Single Electricity Market scheduled for November 2007 when ESB Power Generation's market share will fall to some 33%.

This major down-sizing brings with it significant risks and challenges for ESB which are compounded by the fact that, as part of the new regulatory model, ESB entered into long term electricity purchase contracts with independent generators. Without the benefit of these off-take contracts with ESB the independent new stations would not have got off the ground. These contracts have a combined value of 2.5 billion euro in today's money and represent a significant exposure for ESB for years to come.

As regards price increases, ESB has the task of communicating to electricity users that it is only one of a number of market players. It needs to be clearly understood that price increases are no longer exclusively or even mainly

driven by ESB. Prices are determined by the independent Regulator and are designed to attract and reward new entrants to the market. In fact, ESB is currently not permitted to sell electricity to its customers at a price below that fixed by the Regulator. The sooner this restriction is lifted the sooner the efficiencies and savings achieved in recent years by ESB as well as any reduction in fuel costs can be passed on to our customers.

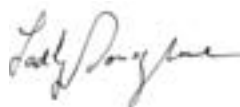
The Single Electricity Market (SEM) will in 2007 create a single wholesale electricity market north and south. If properly structured the SEM should lead to a reduction in prices for the consumer.

At the time of writing, the Minister has launched the long awaited White Paper on Energy Policy which contains a range of exciting and welcome proposals for the energy sector. However certain proposals specific to ESB will present significant challenges, notably the proposal to reduce the Company's asset base by more than one billion euro through the transfer of the transmission network to the state company Eirgrid and the proposal radically to alter the business model for our Network's business by moving to lower rates of return and lower dividends for stockholders.

## BOARD, STOCKHOLDERS AND STAFF

The terms of three worker board members – John McGinley (a board member since 1995), Pat Smith (a board member since 1999) and Eamonn Connolly (a board member since 2003) expired at the end of 2006. Each of these board members made his own individual and valued contribution. I welcome the four new worker board members John Nugent, Bobby Yeates, Tony Merriman and John Coleman. I would like to thank all my Board colleagues for their contribution during the year.

I would also like to thank the Minister for Finance and the Minister for Communications, Marine and Natural Resources and their respective officials, for their continued support and assistance during the year. My congratulations to the management and staff. They have achieved a great deal, delivering on very ambitious targets.



**Tadhg O'Donoghue**  
Chairman

19 April 2007

# CHIEF EXECUTIVE'S REVIEW



Padraig McManus

Progressive large scale investment in the electricity industry, regulatory and market reform, climate change, decreasing our size domestically while expanding abroad, meeting the growing needs of our customers – all are factors that coincided to make 2006 a highly demanding year for ESB. I am pleased to say that the company comprehensively rose to the many challenges it faced and continued successfully to support Ireland's economic and social development.

The electricity industry requires long-term perspectives and investment horizons. It is only through strategic planning that ESB can fulfil its primary and fundamental duty to the public – to deliver power safely to our homes, factories, hospitals, schools, businesses. The company continued to do this through 2006, and for the first time in a single year connected over 100,000 new customers to the electricity networks.

As a company dealing with a potentially lethal product, ESB refrains from making any claims of record results in relation to safety. Instead we concentrate on maximising safety insofar as is humanly possible through the most stringent operational standards. I am, however, heartened to report that last year we reached the kind of objectives that can be the basis of ongoing achievement. 2006 was the first year in over seven decades that passed without a fatality to a member of the public, employee or contractor.

It was all the more remarkable, given that the company connected record numbers of customers to our networks.

We are committed to the relentless pursuit of the kind of safety standards that we know can make zero fatalities achievable.

ESB's ethos is underpinned primarily by a strong commitment to its customers – now numbering two million. Between 2001 and 2006 the company connected almost 500,000 new customers, an unprecedented surge of demand growth in modern times.

Providing our customers and the economy in which they live with a state-of-the-art, safe and reliable service requires large investment in the electricity infrastructure and 2006 saw the conclusion – on time and on budget – of the refurbishment of the medium voltage networks. This was, in effect, the successful implementation of Rural Electrification 2. Yet, despite the sheer scale of work and the multi-billion euro investment involved, the Networks Renewal Project was, in a sense, a silent and unremarked-upon feat.

Against this background Networks profits fell 27% year-on-year due to the negative impact of the five-year Networks Price Review. The Review saw the allowed return on Network assets reduced by over 13% to 5.63% and a 20% reduction in allowed operating costs.

If 2006 marked significant achievement, it was also a year that signalled the many challenges ahead. Climate change now tops the global political, social and economic agenda and ESB is determinedly pro-active in meeting all its obligations in this crucial area. Apart from being the largest "green" generator in Ireland, ESB implements internationally accredited environmental management systems at all its major power plants and the company complies fully with licences issued to it by the Environmental Protection Agency. I am determined that ESB will play an increasingly active role in progressing the renewable energy agenda through the appropriate level and mix of generation. The use of renewables provides benefits in terms of low or no carbon costs but, if this is to work, we must be prepared to debate logically the complex issues involved at generation and networks level. To do otherwise would be to fail to meet the ambitious targets set out by Government.

Meanwhile, in addressing future security of supply issues, ESB progressed plans for the development of a new gas fired power plant at Aghada, Co. Cork. It also reached agreement with the Regulator to close and divest certain other plant in order to attract other investors to the market.

Downsizing ESB's generation and supply businesses in the domestic market is being conducted in parallel to the continuous growth abroad of ESB International. The highly successful international wing is continuing to build a strong portfolio of plant in Spain and Britain.

In Ireland we continue to operate in a market where the rate of regulatory reform evolved through 2006 and ESB addressed and directly met issues of costs, organisation structure and price. Several welcome key decisions were taken by Government, notably in relation to the passage of legislation facilitating the single electricity market – due for implementation in November 2007 – and the promotion of further interconnection. I must, however, express concern that progress on completion of interconnection with the UK remains slow. This development is critical to support the growth of renewables on the system. During 2006 Government produced a Green Paper on Energy Policy which led to the recently published White Paper. This policy poses many challenges for ESB.

ESB views 2006 as another important year when our business objectives had to be reached in an increasingly challenging and difficult environment. But achieve them we did and continued to position ourselves so that we can justifiably look forward with vigour and confidence to the years ahead.

## OPERATIONAL REVIEW

Capital expenditure from 2001 to 2005 was approximately €1,000 million per annum and a further €831 million was incurred in 2006. Of this, over €600 million was spent on maintaining and upgrading the Networks and €121 million was invested in Power Generation, primarily on the major environmental project at Moneypoint, Co Clare – a development that will reduce harmful emissions from the station by over 80%. A record number of new customers – 105,127 in total – were connected to ESB Networks compared to 496,000 for all of Britain.

The refurbishment and upgrading of 63,000 kilometres of medium voltage networks was successfully completed in 2006. The value of this investment was demonstrated in the resilience of the Networks during the winter storms. It will greatly enhance the reliability and robustness of our networks for decades to come and improve service to all electricity customers.

Power station availability was 78% against our target of 82%. While most of ESB's plant performed to best international standards, problems were experienced with older plant that would be retired, but for security of supply reasons. It was for this reason that during 2006 ESB sought and obtained approval for the construction of a new 430 MW combined cycle facility at Aghada, Co. Cork. Construction is due to begin later this year. This new plant, coupled with a programme of divesting/closing of older mid-merit plant, is an important step towards achieving our objective of becoming a smaller, more efficient and well diversified power generator. This will position ESB Power Generation to compete on equal terms with other generators who, by 2008, will account for more than 50% of the market.

ESB International's strategy of seeking growth opportunities abroad to compensate for reduced market share at home continued throughout 2006. To-date, generation plant has been commissioned in Northern Ireland (400 MW at Coolkeeragh) and Spain (800 MW at Amorebieta). During 2006 ESB International obtained all necessary consents and approvals for the construction of an 840 MW combined cycle facility at Marchwood near Southampton. This project will be developed on a joint venture basis by ESB International with Scottish & Southern Energy plc and construction is due to begin during 2007.

## PRICE REVIEWS

The price of electricity to be paid by customers is determined by the Regulator. The end-user price is made up of generation, supply, Public Service Obligation (PSO) and networks (transmission/distribution) components. The generation and supply components are applicable to all generators and suppliers whereas the networks' and PSO components accrue primarily to ESB. In 2006 the average price of electricity increased by 4.1%. The increase was limited to this level by the fact that the underlying Networks charges payable to ESB actually fell by 11%.

Fuel prices eased on international markets in the second half of 2006. This had a positive impact on electricity prices as from 1 January 2007.

## SINGLE ELECTRICITY MARKET

In December 2006 a Memorandum-of-Understanding was signed between the British and Irish governments for the establishment and operation of a Single Electricity Market ("SEM") north and south. The SEM provides for a single wholesale market for the sale of electricity by generators to suppliers on an all-island basis.

During 2006 ESB undertook a major investment in new business processes and systems in preparation for the SEM which is due to come into operation in November 2007. Statutory responsibility for security of supply rests with CER while the SEM will facilitate competition between all generators on equal terms.

## EIRGRID PLC

As of 1 July 2006 Eirgrid plc, a separate State-owned company, took responsibility from ESB National Grid for the operation and maintenance of the electricity transmission system. Prior to that, these functions were performed on a ring-fenced basis by ESB National Grid. I want to acknowledge the contribution of all who brought the establishment of Eirgrid to a successful conclusion.

## INTERCONNECTION

Following a 2006 Government decision, the Regulator initiated the design of a competition for the construction of an undersea electricity interconnector between Ireland and Britain. The interconnector will be owned by Eirgrid and is scheduled to become operational by 2012. A new north-south interconnector is also scheduled for completion by 2011-2012.

ESB welcomes these major and challenging interconnection projects as they will enhance competition and improve system stability to the benefit of all customers, including ESB customers.

## SAFETY

ESB is unremittingly committed to safety. In 2006, for the first year since 1934 there was no fatal injury to a member of staff, to contractors or the public. Significant progress was also made in reducing to 55 the number of injuries to staff resulting in an absence from work of over one day (lost time). This represents a reduction of over 80% in the past 9 years.

An extensive safety leadership programme, fully supported by the Board and management, is in place throughout ESB to address key strategic safety issues. All senior managers undertake safety audits and reviews. These assist in demonstrating our commitment to safety to staff and contractors.

The Strategic Partnership with the Health and Safety Authority to improve electrical safety in the construction and agricultural sectors continues to make good progress.

## ENVIRONMENT

Climate change presents one of the most significant challenges for the world today. In this context, a further 60 MW of renewable wind generation was commissioned in Ireland by ESB in 2006 bringing to 296 MW the total amount of renewable generation owned or contracted by ESB. This represents 29% of all renewable electricity generation in the State making ESB the largest generator of green electricity. We will continue to develop our renewable portfolio, including through international investments.



ESB is the National sponsor of Girls' and Women's hockey

ESB's emissions of carbon dioxide in Ireland reduced to 10.6 million tonnes (Mt) in 2006, down from 12.3 Mt in 2005. The reduction has resulted in ESB achieving its objective of limiting emissions to 11 Mt. ESB's specific emissions will fall further with the development of the new gas-fired plant at Aghada.

With the exception of two small emergency generation units, all ESB's thermal and hydro generating stations are now accredited to the ISO 14001 environmental management system standard. ESB has fully complied with the requirements of its Integrated Pollution Prevention and Control licenses issued by the Environmental Protection Agency. The €380 million environmental retrofit project at Moneypoint coal station will reduce its sulphur dioxide and oxides of nitrogen emissions by over 80%. The project is on schedule for completion in 2008.

ESB is reducing fuel consumption in our transport fleet through a policy of purchasing fuel-efficient vehicles, provision of video-conferencing facilities and encouraging staff to make use of public transport.

## CORPORATE RESPONSIBILITY

Corporate responsibility permeates our organisation culture, our planning and operational controls and our response to our legal and regulatory obligations. It sustains us as a prime energy provider and underpins our relationship with our customers, our staff and government. It is demonstrated at a practical level by our safety and environmental programmes and through community based projects dealing with suicide prevention and care for the homeless.

ESB engages in an extensive sponsorship programme including sponsorship of the GAA Minor Hurling and Minor Football Championships, National sponsor of Girls' and Women's hockey, ESB BEO Celtic music festival, the U20 Rugby Six Nations home International series as well as supporting Irish International athletes through the Athletics Ireland development programme.

## PEOPLE

I commend our staff who continue to meet the challenge of radical change in the industry. Just over 20 years ago, ESB had 13,500 staff in its core activities in Ireland. Today we have 6,700 in the core business and 1,100 in ESB International – notwithstanding the massive increase in activity levels brought about by our investment programme and dynamic growth in the economy. Few companies, whatever their ownership model, could change so much while delivering such performance improvements and infrastructure construction.

We owe this success to partnership and a shared understanding of the need for change. Through this joint approach with staff and unions we addressed our pension deficit in January 2006. We will continue to keep this situation under review in the knowledge that we can address the very real challenges that lie ahead.

In 2006, our esteemed colleague and friend, Tony Donnelly, retired as Deputy Chief Executive after a career of over 40 years of outstanding service to ESB. Another highly valued Director, Sean Wyse, was appointed Director of Elcom, the electricity complaints arbitrator.

Aidan O'Regan was appointed as the new Deputy Chief Executive and Brid Horan became Executive Director, Customer Supply and Group Services.

## LOOKING TO THE FUTURE

ESB celebrates its 80th birthday in 2007. Since its foundation ESB has been a fundamental pillar in the development of the Irish economy and ESB staff and management remain committed to this goal, regardless of the scale of the business challenges.

ESB continues to be a strong and viable company and we look forward to competing in the new all-island electricity market. We anticipate further changes with the arrival of new players and the construction of new interconnection and closer integration of the markets in Ireland, the UK and France.

ESB International will continue to grow strongly, making up for the inevitable loss in domestic market share.

The challenge for ESB is to continue to provide a world class service for all its customers while adapting to the new market realities and meeting its environmental and corporate responsibilities.

Our embedded knowledge, our experience, our heritage of interaction with our public and our commitment to public service will make all of the above a reality.



**Padraig McManus**

Chief Executive

19 April 2007

# FINANCIAL REVIEW

Profit after tax at €223 million is down €18 million on 2005. The financial performance for the year reflects the substantial real reduction in allowable revenues for the Networks business following the second five year regulatory price review.

## KEY PERFORMANCE INDICATORS:

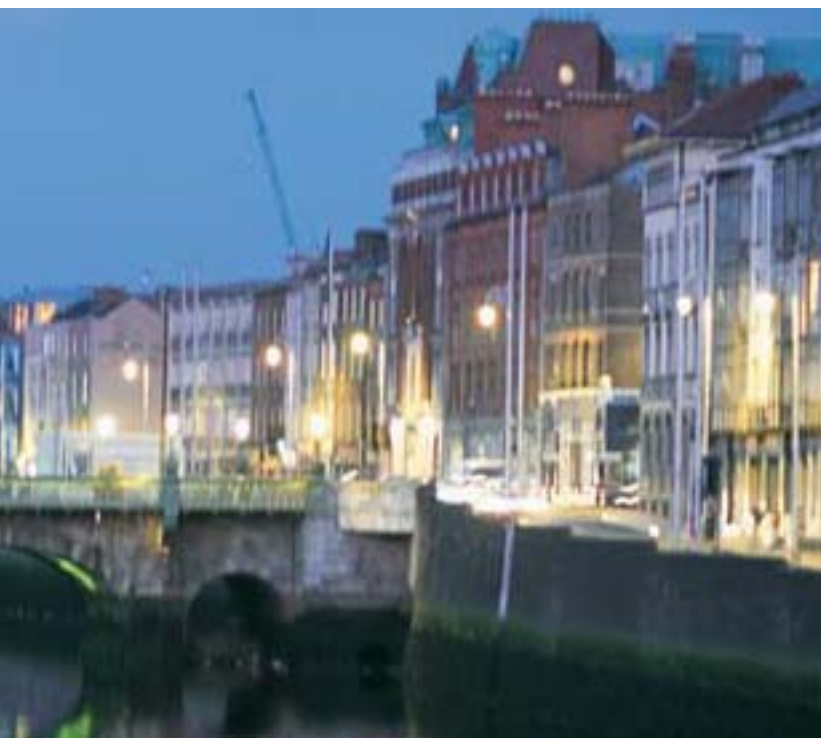
Key financial highlights for the year include:

	<b>2006</b>	2005	Change
	<b>€m</b>	€m	€m
Revenue and Operating Income	3,396	2,942	454
Operating Profit	261	248	13
Profit after tax	223	241	(18)
Capital expenditure	831	943	(112)
Net debt	1,960	1,847	113
EBIT Interest Cover (times)	3.7	3.0	0.7
Gearing (%)	46.9	47.0	(0.1)
ROCE (%)	6.4	5.7	0.7



## OVERVIEW

Profit after tax at €223 million is down €18 million on 2005. The financial performance for the year reflects the substantial real reduction in allowable revenues for the Networks business following the second five year regulatory price review. It also reflects the significant increases in energy costs during 2006 which resulted in overall energy costs for the group increasing by 40%. Additionally, the like for like tax charge was materially affected by the low 2005 charge which followed the agreement with the Revenue Commissioners on the tax treatment of specific generation expenditure. In addition, timing differences arising under the regulatory framework between the incurrence of costs, and their recovery through the electricity tariff, have decreased the year on year outturn in the regulated business by €42 million. The significant investment in capital expenditure continued in 2006 with spend in excess of €830 million resulting in net debt levels increasing to almost €2 billion by year end.



## REVENUE AND OPERATING INCOME

Revenue and Operating Income at €3,396 million is up €454 million on 2005. €354 million of the increase is attributed to electricity revenue reflecting overall market growth of approximately 4.9%, higher tariffs and increased sales to independent generators, partially offset by a reduction in market share for the supply businesses. Operating income has increased mainly due to the higher market valuations for CO<sub>2</sub> emission allowances.

## OPERATING PROFIT

Operating Profit at €261 million is up €13 million on last year. The adverse impact of the networks regulatory price review and higher fuel prices has been offset by the net impact of lower pension costs and higher CO<sub>2</sub> emissions allowances. Energy costs for 2006 at €1,456 million are up €416 million largely driven by higher fuel prices and increased purchased energy from independent generators. Depreciation and station overhauls costs are up €90 million, reflecting the impact of the significant investments in capital expenditure and increased level of plant overhauls within Power Generation. Significantly, employee costs at €591 million are down €45 million on 2005 reflecting the impact of lower pension and severance costs. These movements offset any payroll increases.

## PROFIT ON DISPOSAL OF PROPERTY

The Group Strategy for disposing of surplus properties contributed €75 million to the 2006 profits (2005: €52 million).

## INTEREST

Interest and financing charges for the year at €92 million are up €2 million on 2005 due to the net impact of less interest being capitalised in 2006. Significant interest was capitalised in 2005 during the construction of the Amorebieta and Coolkeeragh power plants. Underlying EBIT interest cover for the year at 3.7 times is within targets approved by the Board.

## TAXATION

The Group Tax Charge for 2006 is €41 million (2005: €1 million credit) reflecting an effective tax rate of 17%. The 2005 tax charge was offset by the release of taxation provisions of €31.6 million, of which €26.7 million arose as a result of the Revenue Commissioners decision on the tax treatment of certain items of generation station expenditure.

## PROFIT AFTER TAX

Profit after tax at €223 million is down €18 million on 2005. The increase in operating profit of €13 million and increase in profit on property disposals of €24 million is offset by a reduction of €12 million in profits from Joint Venture investments primarily arising from a large scheduled outage in the Synergen power plant and an increase of €42 million in the year on year tax charge.

## SEGMENTAL PERFORMANCE

The Profit after tax of €223 million consists of profits for Power Generation €205 million, Networks €69 million and the unregulated business of €12 million offset by losses in the Supply business and National Grid of €45 million and €18 million respectively.

Power Generations profits have increased by €62 million mainly due to the impact of tariff increases, higher emissions allowances, lower interest and net pension costs offset by higher fuel costs and tax charges.

Overall Networks profit after tax at €69 million is down €25 million on 2005. Operating profit is down €35 million primarily reflecting the impact of the second regulatory price determination of €60 million offset by lower pension costs of €25 million. The impact of the reduced operating profit in 2006 has been mitigated by significant profits from property disposals which at €29 million are up €18 million on last year. Excluding the contribution from property disposals profit after tax for Networks is €43 million down 48% on 2005.

The loss of €45 million for Supply mainly reflects the impact of the regulatory framework. Supply's revenue entitlement in 2006 was reduced by €62 million due to higher actual market activity in 2005 and 2004 than that assumed when the tariff for those years was determined. The loss of €18 million incurred by National Grid is mainly attributed to higher constraints payments which are recoverable under the regulatory framework. An overview of the regulatory framework is outlined in the Regulation section below.

The profits of the unregulated businesses at €12 million are down €23 million mainly due to the difficult trading conditions and technical performance of the Coolkeeragh Plant and lower profits from joint venture investments as mentioned above.

## CAPITAL EXPENDITURE

The significant capital investment programme continued during 2006 with capital expenditure of €831 million. €633 million was spent within Networks mainly on the Distribution and Transmission Infrastructure bringing the total investment in this area to over €3.7 billion since 2001. A further €121 million was incurred within Power Generation primarily on the Moneypoint Environmental Retrofit Project.

## NET DEBT AND GEARING

Net debt at €1,960 million is up €113 million on 2005. Gross debt increased by €177 million and cash balances decreased by €29 million. The revaluation of debt, at year end foreign exchange rates as required under IAS 21, reduced the debt balance by €86 million. Gearing was 46.9% at year end and 70% of the debt portfolio was at fixed interest rates. The average coupon rate was 4.6%.

## EMPLOYEE BENEFITS

In compliance with EU IFRS, a portion of the net assets and liabilities of ESB's defined pension scheme, computed in accordance with IAS 19 have been included on the balance sheet. In accounting for the pension deficit ESB has availed of both the retrospective look back application permitted under IFRS 1 and the option to defer the unrecognised portion of the pension deficit over future service lives. At the end of 2006 the recognised and unrecognised pension liability were €328 million and €1.3 billion respectively.

For financial reporting under EU IFRS, the full liability and pension costs have been considered in determining the appropriate liabilities to be recorded in the financial statements, notwithstanding that the scheme is not a typical balance of cost defined benefit scheme wherein the employer is liable to pay the balance of contributions required to fund the benefits.

## REGULATION

Approximately 78% of ESB's revenue is now regulated by the CER. Annual electricity tariffs are set in advance of the relevant year by the CER, based on a forecast of both customer demand and relevant costs. As with any forecast, there is almost invariably a difference to the actual outturn for the year which results in either an under or over recovery of revenue by ESB. Any such under or over recovery of allowed revenue is adjusted by the CER in setting the price determinations for subsequent years. In addition, specific costs reflected in the income statement may be recovered in the tariff in a different year or over a number of accounting periods. Such timing differences can cause material variations in the annual profits earned by the individual regulated businesses and cause distortions in reviewing the year on year performance of ESB's regulated businesses. Timing differences have resulted in a decrease in the year on year outturn of €42 million.

## FINANCIAL RISK MANAGEMENT

### Framework for Treasury Operations

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 units (Power Generation, ESB 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. Derivative instruments are used to mitigate financial risks and are executed in compliance with the Specification of the Minister for Finance issued under the aegis of the "Financial Transactions of Certain Companies and Other Bodies Act 1992". The Group does not hold or trade derivative instruments for speculative purposes. Hedge accounting pursuant to IAS 39 is used primarily to hedge foreign currency and interest rate risks on non current borrowings and in the future will also cover commodity and foreign exchange hedges arising from the SEM.



Carnsore Pt. Co Wexford

### **Foreign Exchange Management and Interest Rate Management**

The majority of the Group's business is transacted in Ireland or within Europe. Operating and investing cash flows are mainly denominated in Euro. Foreign currency exposures arise from purchasing fuel and other materials or services, foreign currency denominated debt and from business that is carried on outside the Euro zone.

The Group manages the majority of its fuel related foreign currency exposures against a fuel price recovery mechanism, based on indexation, which was agreed with the CER and approved by the Board in 2002. Other material foreign currency exposures are hedged as appropriate. The Group's policy is to borrow directly in Euro or to convert any foreign currency borrowing to Euro through the use of derivative instruments.

There are specific instances where foreign currency denominated debt is matched by a foreign currency denominated asset or net revenue flow. At the end of 2006, 89% of ESB's debt was effectively denominated in Euro. It is also the Group's policy to have a minimum of 50% of the debt portfolio at fixed rates of interest, subject to cost and market outlook.

### **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 are 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 Group's policy is to hold minimal levels of surplus cash, other than in specific instances where favourable market conditions justify pre-funding. In such cases, the Group invests its excess cash in low risk instruments. Given the significant borrowing requirements of the Group over the next few years, substantial liquidity facilities have been put in place to bridge longer-term funding and opportunities to revisit the private placement or enter the public bond markets are available. At the end of 2006, undrawn committed corporate facilities of approximately €735 million were in place.

#### **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. Exposures and related limits are subject to ongoing review and monitoring. Dealing activities are controlled by putting in place robust dealing mandates with its counterparties. The Group has not experienced any losses due to failure of counterparties to deliver on their obligations.

#### **ACTUARIAL PENSION DEFICIT**

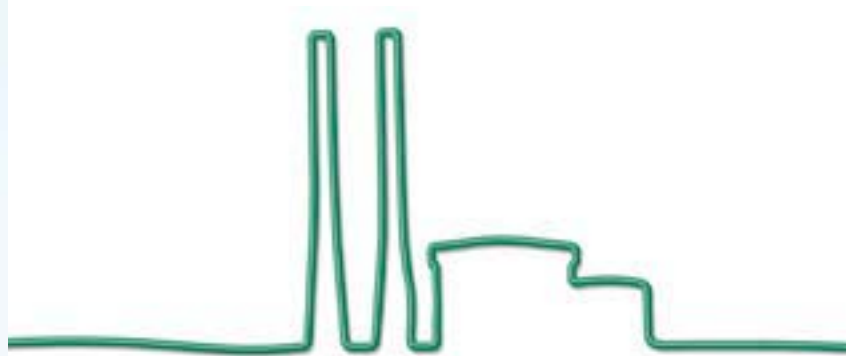
The actuarial funding valuation of the ESB Pension Scheme identified a projected deficit of €511 million as at the end of 2003. An integrated agreement between ESB and the trade unions on Pensions, Pay and Change was concluded and accepted by all parties in February 2006 which combined additional funding (increased contributions to the Fund from ESB and members) with management of liability growth through an agreement to limit increases in pensionable pay during the four year agreement. The pension scheme actuary is currently carrying out the triennial valuation of the long term funding position of the Pension Scheme as at 31 December 2006.

#### **LOOKING AHEAD**

Against the background of significant increases in fuel prices and the impact of the second regulatory price review on the networks business, the performance for the Group in 2006 has been strong. Looking forward, the key financial priorities for ESB will include:

- Managing the operational and credit risks arising from the new trading arrangements in the Single Electricity Market (SEM).
- Continuing to successfully manage the significant capital expenditure programme.
- Maintaining acceptable interest cover and gearing ratios while funding growth and investment opportunities, both in Ireland and internationally.
- Effective fuel management to mitigate the volatility in market prices.
- Continuing with performance improvement initiatives to ensure an efficient and competitive cost base.
- White Paper.





## ESB Power Generation Review

ESB is currently investing in excess of €380 million at the Moneypoint power plant in an environmental retrofit project which will **reduce emissions at the plant by over 80%**.

# ESB Power Generation Review

## OVERVIEW

ESB Power Generation owns and operates generating stations in the Republic of Ireland totalling 4,651MW.

## OPERATIONAL REVIEW

### Safety Performance

Whilst Power Generation welcomes the reduction in the level of accidents in 2006 with 23 Lost Time Incidents (LTIs) (13 staff, 10 contractor) compared to 28 in 2005 (21 staff, 7 contractor), this performance requires further improvement. Safety remains our number one priority and we are committed to creating an injury free workplace.

### Customers and the Energy Market

Power Generation's 2006 market share was 52%. This is 11% lower than our market share in 2005 and reflects the growth of the independent generation sector, but market share did not reduce to the extent previously anticipated primarily due to delays in the commissioning of new independent power plants in 2006.

Energy costs account for over 50% of Power Generation's operating costs. Power Generation buys its fuel in the global fuel markets and fuel prices are benchmarked independently by CER against published market price indices. As in 2005, Power Generation successfully secured its fuel at or below these benchmark indices, thus contributing to ensuring energy is delivered at the least cost for the benefit of our customers.

### Capital Expenditure

Power Generation's 2006 capital expenditure programme amounted to €121m, primarily relating to spend on the Moneypoint Environmental Retrofit Project (MERP). This project, which is on target for completion in 2008, will provide major environmental benefits in terms of very significant reductions in emissions of Nitrogen Oxides, Sulphur Dioxide and dust from the plant.

Over the next few years the completion of this project together with the new CCGT build at Aghada will account for the bulk of Power Generation's capital investment programme. Power Generation will also continue its planned maintenance programme to deliver a competitive portfolio of high performing plant.

We have actively engaged in the climate change debate at national and EU level (via Eurelectric, the EU electricity body) on how the issue might be best addressed by the electricity sector.

### Plant Performance

Plant availability outturn was 78% against a target 82% due to a higher than expected forced outage rate in 2006. Significant contributors to this outturn were “as found” conditions identified during the Poolbeg CCGT scheduled overhaul, boiler corrosion fatigue issues in the ageing Poolbeg Units 1/2 and Great Island Unit 3 and boiler corrosion problems in the Peat plants. A solution for the problems in the Peat plants is currently being finalised with the boiler manufacturer. Despite, the higher forced outage rate, system demand was met throughout 2006.

### Environmental Performance

EMS certification to ISO 14001 was retained at all power stations during their biannual 2006 audits and Fisheries were certified for the first time during the year.

Power Generation's 2005 CO<sub>2</sub> emissions were independently verified in February 2006 and it is anticipated that 2006 CO<sub>2</sub> emissions will be confirmed to have reduced by 13%.

Demolition of Lanesboro Power Station commenced in 2006 in compliance with its Integrated Pollution Prevention & Control (IPPC) licence. This followed discussions with the Environmental Protection Agency (EPA) on demolition procedures to be followed. Site clearance and remediation will be completed during 2007. Final demolition and clearance of the old Ringsend Power Station site commenced in late 2006 and will be completed in April 2007. All demolition and remediation activities continue to be independently monitored and audited.

Power Generation participated in a successful pilot Risk Based Methodology for Enforcement (RBME) exercise organised by EPA. This was intended to optimise the IPPC licence enforcement approach of EPA taking account of past environmental performance and process risk factors. This methodology will now be applied to all IPPC licensed power stations during 2007.



Lough Ree Peat Power Station, Lanesboro, Co Offaly

Demolition of Lanesboro Power Station commenced in 2006 in compliance with its Integrated Pollution Prevention & Control (IPPC) licence.

Joey McLoughney, captain of Tipperary with ESB Minor Hurling Championship Cup 2006



### Asset Strategy

During 2006, an Agreement was concluded with the Commission for Energy Regulation in relation to the Power Generation Asset Strategy aimed at renewing the plant portfolio and reducing Power Generation's market dominance.

This Agreement provides for a significant reduction in Power Generation's market share through closure and divestment of existing stations which make up a significant element of its portfolio (over 30%), making generation sites available to facilitate further independent market entry, as well as proceeding with the Aghada new build to renew the portfolio. Implementation of this Agreement will be progressed in 2007.

### LOOKING AHEAD

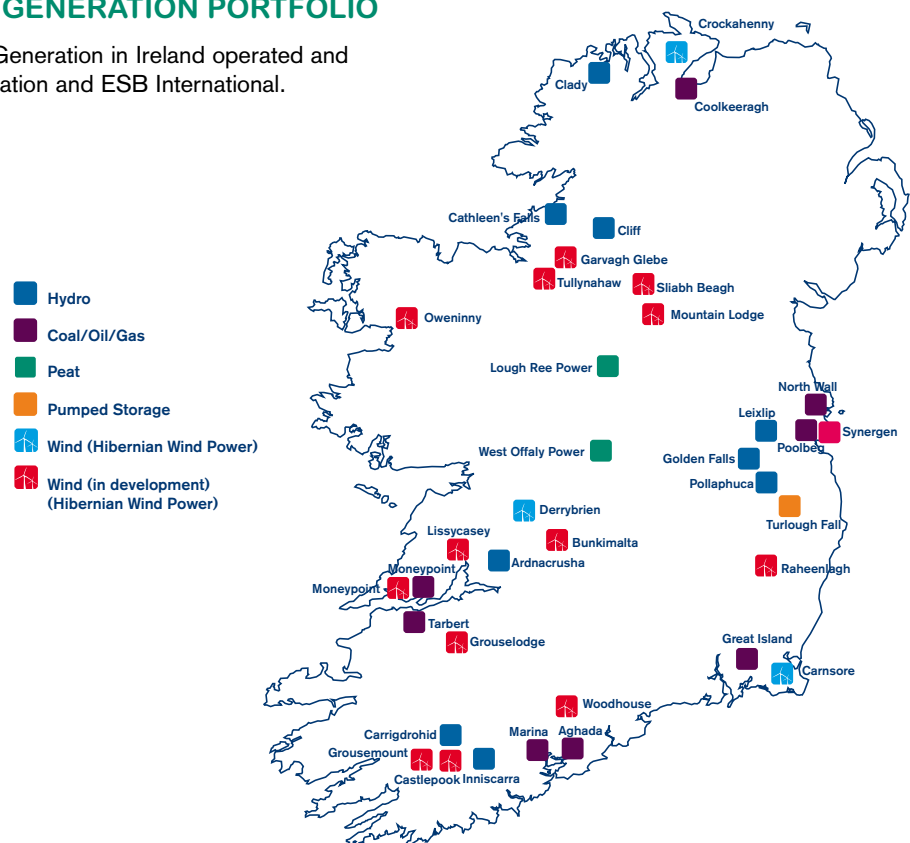
Key challenges for Power Generation include the opening of the Single Electricity Market (SEM), the renewal of our portfolio through new build and the closure or divestment programme and the need to continue to improve our environmental performance through the commissioning of emissions abatement (SO<sub>x</sub> and NO<sub>x</sub>) systems at Moneypoint coal-burning station, finalisation of phase two of the National Allocation Plan (NAP) on CO<sub>2</sub> allowances and the need for Power Generation to take further steps necessary to protect our environment. For Power Generation this will be achieved by ensuring we run our plants as efficiently as possible and by continuing to invest in technologies to improve plant environmental performance.

For 2007 Power Generation has set itself stretching targets including:

- Creating and sustaining a healthy and injury free workplace.
- Commissioning of the SO<sub>x</sub> and NO<sub>x</sub> emissions abatement systems at Moneypoint.
- Improving plant performance through best practice operations and maintenance within our stations, in order to deliver a portfolio of flexible plant capable of competing successfully in the SEM.
- Renewing our generation portfolio through commencing the construction of a new baseload CCGT plant at Aghada, Co. Cork.
- Progressing the reduction of our market dominance through a programme of closure or divestment of stations and or sites as agreed with the CER.
- Ensuring Power Generation is ready to compete in the SEM by putting in place the necessary systems, processes and people capabilities to optimise our performance in the new market.
- Continuing to secure Power Generation's long term financial viability by significantly reducing our cost base, whilst ensuring Power Generation meets its social responsibilities with regard to the environment.

## ESB GROUP – POWER GENERATION PORTFOLIO

This map shows all the Power Generation in Ireland operated and managed by ESB Power Generation and ESB International.







## ESB Customer Supply and Group Services Review

**Energy efficiency continues to be a key area of focus** and during 2006 ESB Customer Supply helped customers save more than 360GWh, or approximately €6.4 million in energy savings.

# ESB Customer Supply and Group Services Review

## SAFETY REVIEW

Customer Supply & Group Services continued to prioritise safety and health to deliver on our goal of an injury free workplace.

There was strong implementation of the Safe Business Management programme with four comprehensive assessments completed to Occupational Health & Safety Advisory Services (OHSAS) standard. Safety leadership continued with implementation of a widespread auditing and formal review programme.

The number of staff lost time injuries at 12 and contractor lost time injuries at 3 is, therefore, disappointing considering the commitment and effort of all involved. Comparison with 2005 figures of 12 and 2 respectively means that further improvement is necessary.

## CUSTOMER SUPPLY

### OVERVIEW

ESB Customer Supply, which currently serves almost two million customers, operates as the Public Electricity Supplier (PES) offering a supply of electricity in the Irish retail market on terms approved by the Commission for Energy Regulation (CER). In the deregulated electricity market, not all customers will be invited to become customers by other suppliers and, since such customers are entitled to be supplied with electricity, the PES is required to meet their needs.

ESB Customer Supply as PES also fulfils an important role in the market as the Supplier of First Resort (SoFR). This means that newly connected customers with a demand level of less than 30kVA are registered to the PES as a default supplier if they do not nominate a specific supplier.

ESB's campaign to promote more efficient lighting and greater awareness of energy efficiency was identified by Eurelectric, the international union of the electricity industry as the most effective project of its kind in Europe in reducing CO<sub>2</sub>.



## OPERATIONAL REVIEW

### Customers

While the number of customers (business and residential) served by ESB Customer Supply increased from 1.89 million to 1.98 million during 2006, our market share reduced from 58% to 53%. This reflects increased competition, continued strong growth in the housing market and general growth in the economy.

Maintaining and improving the quality and range of customer services, while reducing the cost to serve and meeting the growing service requirements, remain the priority issues for ESB Customer Supply. We also continue to provide a wide range of energy and related services to our customers. In 2006, over 12 million bills were issued and over 15 million payments collected. The primary contact point for customers is the National Customer Contact Centre which handled nearly 4 million calls. In addition, the Business Contact Centre processed over 50,000 queries. The main objective is to ensure best practice call answering times in the Contact Centres and, where possible, to deal with customer queries during the call.

Throughout the year ESB Customer Supply has adopted an active campaign of advising customers on various issues including energy efficiency, safety, how to read your meter and understanding changes to the bill.

Energy efficiency continues to be a key area of focus and during 2006, ESB Customer Supply helped customers save more than 360GWh, or approximately €6.4 million in energy savings.

ESB Customer Supply works on an ongoing basis with Sustainable Energy Ireland (SEI). In 2006 this activity included sponsorship of SEI's Energy Efficiency Awards.

In promoting energy efficiency and as part of its Corporate Responsibility, ESB Customer Supply also works with a number of other organisations including St Vincent de Paul, MABS, and other rural partnerships. A number of initiatives were carried out with these organisations throughout 2006. These included distributions of CFL bulbs and hot water cylinder lagging jackets to Fuel Poverty support Partnerships and the launch of a report which examined households in Ballyfermot affected by fuel poverty and assessed energy efficiency performance. ESB Customer Supply worked closely with Age Action Ireland with specific partnerships during Positive Ageing Week and in the Over 50's Show in the RDS. Finally, ESB Customer Supply joined with SEI, HSE, Age Action, Combat Poverty Agency and An Post to develop an information pack for older people on energy efficiency.

## Regulation

During the year CER issued the interim Public Electricity Supplier (PES) Licence to ESB. In addition to licence conditions which apply to all suppliers in the electricity market, this licence sets out a range of obligations that relate specifically to the Public Electricity Supplier. The CER also deemed ESB Customer Supply the Supplier of Last Resort, effectively a consumer protection measure that places an obligation on ESB Customer Supply to offer a service to customers in the event of an alternative supplier leaving the market.

In support of the development of the electricity market, ESB Customer Supply administered a green energy auction (GVIPP) for 191 MW of capacity that made green generation available to other electricity supply companies in the market. In addition, energy contracts between ESB Customer Supply and new generators, Aughinish Alumina Limited and Tynagh Energy Limited commenced during the year.

Detailed work has been carried out to prepare Customer Supply for the Single Electricity Market (SEM) which is to come into effect from 1<sup>st</sup> November, 2007.

## GROUP SERVICES

### OVERVIEW

Group Services is responsible for a number of unregulated activities and internal services within the ESB Group including:

- ESB Chief Information Officer (CIO) organisation, which is responsible for information technology and telecommunications strategy and services for the Group. ESB Telecoms provides communication services for external customers.
- ESB Shared Services, which provides property and facilities management, training, human resource services, financial administration and other services within ESB.
- ESB Contracts, which constructs and maintains public lighting for local authorities and installs major electrical projects for external commercial customers.



ESB Customer Supply administered a green energy auction that made green generation available to other electricity supply companies.



Diane O'Donovan of the ESB National Contact Centre at work in the NCC Cork

## OPERATIONAL REVIEW

CIO continued to strengthen ESB's technology environment during 2006 including the provision of centralised data storage and enhanced systems.

ESB Telecoms continued to deliver on its strategy of organic growth, with selective investments including upgrades to network coverage and capacity. This strategy is consistent with leveraging the assets and skills in ESB by competing in the Irish wholesale telecoms market and as Ireland's leading independent network provider.

ESB Shared Services further enhanced the efficiency of its services to its internal customers in support of overall Group objectives.

ESB Contracts enhanced public lighting services with the implementation of a new Public Lighting Maintenance IT system to improve customer service and work management.

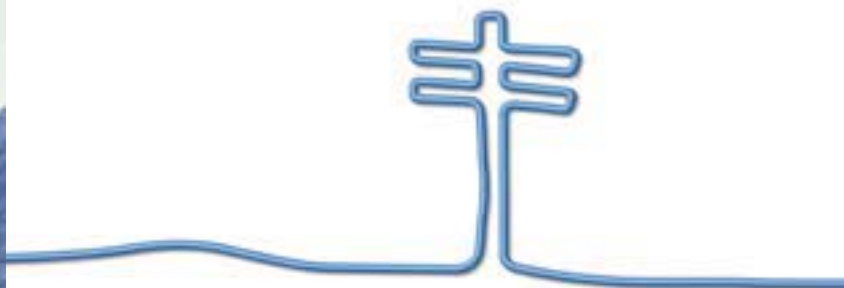
## LOOKING AHEAD

In 2007 our safety and health plans reflect our singular focus on achieving an injury free workplace with increased emphasis on 'near miss' reporting and greater shared learning across the business lines. Leadership of safety will continue with managers engaging with staff and contractors through local safety audits and reviews.

Improved customer service continues to be a key focus for all our businesses in 2007. This will include the launch of a new Customer Charter for Customer Supply and continued improvements in our Contact Centres and in public lighting services to local authorities.

Work will continue during 2007 to ensure the required systems and processes are in place for effective operation within the SEM. ESB Customer Supply will continue to support the development of the electricity market in Ireland for the benefit of all its customers.





## ESB Networks Review

The network renewal programme which was aimed at **meeting demand growth and improved supply quality** will have a positive effect in reducing percentage energy loss.

# ESB Networks Review

## OVERVIEW

ESB Networks owns, builds and maintains the Transmission and Distribution electricity networks for the country as a whole, and also provides necessary services to the electricity market. All electricity customers in the Republic of Ireland are customers of ESB Networks, regardless of their supplier.

The operation of the transmission system is conducted independently of ESB, by EirGrid plc.



ESB is reducing fuel consumption in the transport fleet through a policy of purchasing fuel-efficient vehicles, provision of video-conferencing facilities and encouraging staff to make use of public transport.

## OPERATIONAL REVIEW

Profit after tax for Networks at €69 million is down 27% on 2005. Excluding the contribution from property disposals profit after tax was €43 million down 48% on the comparable figure for 2005 mainly reflecting the impact of the regulatory price review.

Notwithstanding the reduced profits, 2006 was a successful year for Networks in operational terms, with a significant investment in the national electricity infrastructure and a record number of customers connected to the electricity network.

The ongoing investment programme to upgrade, develop and renew the Distribution and Transmission networks continued during the year, with €600 million invested in the infrastructure, in addition to over €30 million spent on other capital assets, including new IT systems.

### Customers

Delivering excellent service to customers is a key objective of the business. During 2006, significant customer service improvements were made, especially in the areas of customer communication and connection lead times, and a special project aimed at addressing the large increase in new connections was successfully implemented. Further, a five year customer service improvement plan 2006 – 2010 was launched, which sets out the road map for delivering customer service excellence over that period.

The electricity supply market has been fully opened to competition for all customers since 2005. To facilitate the functioning of this competitive market, ESB Networks is responsible for providing market services to all market participants. These services include the roles of meter operator, data collection (meter reading) and Meter Registration System Operator (MRSO).

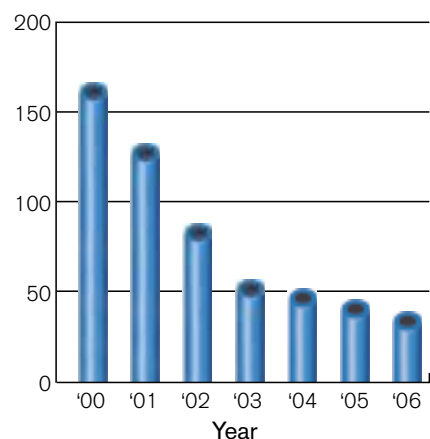
### Safety

Safety is a core value for ESB Networks in dealing with staff, contractors, and the public. In planning and completing all work programmes, safety is a key element and there is a continuing drive to build awareness among all groups concerning the importance of safety. Different media and direct marketing campaigns were run in 2006 to increase public awareness of the risks and dangers of inadvertent contact with electricity networks.

During 2006 there were no fatalities associated with accidental contact with electricity networks. Similarly there were no electrical fatalities at the customer side of the meter. This was the first year since 1934 that there were no electrical fatalities in Ireland. Discussions are continuing with the Health & Safety Authority in relation to the development of a Code of Practice for construction safety near overhead electricity networks.

At the end of 2006 there were 29 lost time injuries to ESB Networks staff, a reduction on a figure of 35 in 2005, and this trend continues the drive to achieving our goal of no injuries to staff in ESB Networks.

Lost Time Injuries



### Environment

ESB Networks is fully committed to conducting its activities in an environmentally sensitive manner. During 2006, ESB Networks proactively managed its environmental and waste management obligations.

Significant progress was made towards the consolidation of nation-wide waste management contracts. This initiative will facilitate enhanced supervision of waste that leaves ESB Network's premises, contribute to the collation of more accurate waste statistics and facilitate the development of focused waste minimisation programmes. Appropriate systems continue to be developed to comply with existing and emerging environmental legislation.

ESB is consolidating its nationwide waste management contracts to facilitate the effective management of waste leaving ESB premises.



ESB Network technicians Vincent Sellars and Alan Canney

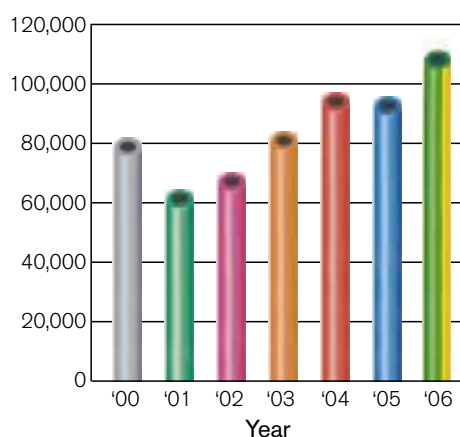
### Infrastructure Investment

ESB Networks has invested €3.7 billion since 2001. There are two main categories of investment:

- New Transmission and Distribution Network infrastructure – to support continuing high levels of load growth driven by the buoyant Irish economy (new houses and industrial/commercial growth) and in support of the national spatial strategy. This investment has taken place throughout the country. In 2006, 105,127 new connections were completed. This is the highest ever level of new connections in one year and represents an 18% increase on the 2005 volume and brings the level of new connections between 2001 and 2006 to over 486,000. New investment also includes building the Network infrastructure to connect new generation capacity, including wind farms, to the networks.
- Renewal and refurbishment of existing infrastructure – to improve the quality of supply, reliability, safety and resilience of the networks. In 2006 ESB Networks completed the Network Renewal Programme which was a major programme to refurbish and upgrade effectively the entire rural medium voltage networks (63,000kms). This was the largest network infrastructure project since Rural Electrification and was completed on time and within budget.

The scale of the investment made to date by ESB Networks is significant and critical to supporting economic development.

New Customer Connections



### Regulation

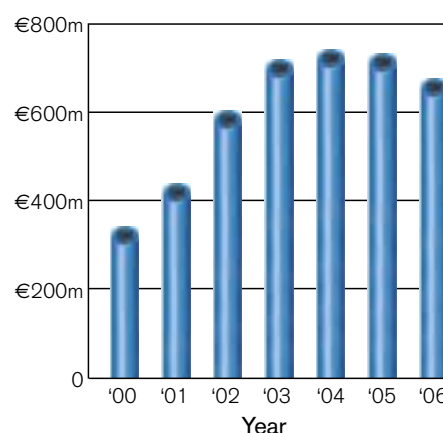
2006 was the first year of the new Regulatory Price Control which covers the period 2006 to 2010. This Price Control was set in 2005, after CER completed a detailed review of the planned investment and expenditure by ESB Networks over the period to 2010. The Price Control resulted in a significant reduction in the Networks portion of the electricity price in 2006, with consequent reductions in the revenues and profits of the Networks business. The business is implementing a five year performance improvement plan to address the financial and operational challenges posed by the Price Control.

### LOOKING AHEAD

Looking forward to 2007 and beyond, key challenges for the business include:

- Ensuring the viability and strength of the Networks business in the context of the challenges contained in the recently published White Paper on Energy Policy.
- Delivering the capital investment programme.
- Continuing to improve performance in safety.
- Delivering customer service improvement.
- Meeting the growth in customer demand for connection to the network, and
- Achieving an acceptable financial outcome in the context of the challenging regulatory targets set for the business.

Networks Capital Expenditure







## ESB International Review

The **renewable business delivered to plan in 2006**, with the Derrybrien 60 MW windfarm starting commercial operation in January and the 26 MW Mountain Lodge Windfarm starting construction in October.

# ESB International Review

## OVERVIEW

ESB International (ESBI) is structured as a group of companies and comprises a range of businesses operating in the competitive market place. The key business activities are:

- ESB Independent Generation (ESBIG) and ESB Independent Energy (ESBIE) which provide competitive electricity solutions to customers, both in the Republic of Ireland and Northern Ireland. ESBIG is also responsible for operating a Renewable portfolio in Ireland and the international generation assets, primarily in the UK and Spain.
- ESBI Engineering is an international engineering and consulting organisation which provides engineering and utility solutions to ESB Group and a wide range of international customers.
- ESBI Facility Management (ESBIFM) provides power plant operation and maintenance services to ESBIG and to international customers. At present ESBIFM is responsible for operating over 5,000MW of plant worldwide.
- ESBI New Investments (ESBII) is the business development group and is responsible for identifying and delivering investment opportunities for ESB Group with a primary focus on European markets.

Inside a wind turbine



The Marchwood Power Station will be the largest and most efficient in the ESB portfolio upon completion.



ESB sponsored the U20 Home International Rugby matches at Buccaneers RFC, Athlone

## OPERATIONAL REVIEW

ESB Independent Energy (ESBIE) continued to develop its market position in 2006 and now accounts for 14.7% of the Republic of Ireland market. In Northern Ireland ESBIE held its market share of 20% of the total market, i.e. 37% of the eligible market which includes many of the largest electricity users in Northern Ireland. ESBIE also secured a contract to supply 30MW of power to the British wholesale market, the first time ever a contract was put in place to export power from the island of Ireland to Great Britain. ESBIE's customer retention rate for 2006 was 98%, reflecting the high quality of service and value that ESBIE continues to offer customers in the market.

ESBIG's portfolio of plant performed ahead of target during the year with the exception of Coolkeeragh, which suffered a significant plant outage of its steam turbine.

While the plant was repaired under warranty, it resulted in trading losses and a challenging year for this business. The Renewables business delivered to plan in 2006 with Derrybrien 60MW windfarm starting commercial operation in January and a 26MW windfarm in Mountain Lodge, Co. Cavan starting construction in October.

ESBI Engineering delivered good performance in 2006 with strong growth both at home and in international markets. Notable achievements included winning two major contracts in Vietnam and also winning significant work under the framework agreement with the South African utility Eskom.

ESBIFM also performed well with the achievement of larger than planned bonuses from a number of contracts, and the extension of the contract for the operation and maintenance of the Kulim plant in Malaysia.



The ESB International Power Station at Amorebieta, in the Basque region of Spain.

**2007 will see an increased focus on building an international renewables portfolio.**

ESBI New Investments achieved Financial Close for the Marchwood project in December. This project is a joint venture with Scottish & Southern Energy (SSE) to build and operate an 840MW gas-fired power plant near Southampton in the UK. During 2006 the investments team sold 50% of Marchwood to SSE, delivered a significant construction bonus from the Amorebieta project in Spain and sold the landfill gas and small hydro businesses in Ireland.



## SAFETY

ESBI operated its full portfolio of businesses in both Ireland and internationally for eleven months of 2006 with no lost time injury to any of our staff of approximately 1,200 people. Unfortunately, we had two staff lost time injuries in December, one a traffic accident in Malaysia and the second to a staff member on an external training course in Dublin. Another element of ESBI's operations in 2006 was the safe deployment of staff in various overseas locations in Eastern Europe, the Middle East, the Far East and Africa. There were no staff injuries arising from security, medical or transport incidents external to these project locations.

## COMMITMENT TO THE ENVIRONMENT

ESBI operates its business with a focus on minimising environmental impact. All of our plants have ISO14001 accreditation and there were no significant environmental incidents in 2006. Through our subsidiary Hibernian Wind Power we are committed to developing renewable energy at home and internationally. We have currently 77MW of wind power installed in Ireland, a further 28MW under construction and a pipeline of 300MW under development. In addition ESBI have dedicated resources focused on emerging wave and solar energy technologies with a view to assisting the best potential technologies reach commercial application. With over 6,000MW of potential wave energy off the Irish coast ESBI is committed to playing its part in harnessing this renewable energy source.

## LOOKING AHEAD

We expect the current year will bring significant challenges, but also opportunities to continue to grow ESBI profitably, in particular:

- ESBI is well positioned to grow its customer base, both in the Republic of Ireland and Northern Ireland, particularly in the context of the introduction of the Single Energy Market in 2007.
- ESBI will focus on maintaining the excellent performance of its thermal plants in Ireland and internationally and its portfolio of windfarms in Ireland. A key challenge for this business is to fully address the technical challenges faced by the Coolkeeragh plant in 2007.
- ESBI Engineering and Facilities Management will continue to provide quality service to customers and will focus particularly on building the core engineering capability and profitable growth in key markets.
- ESBI New Investments will continue to pursue options for material growth for ESB Group with a focus on the UK market as a priority, followed by the Iberian and Polish markets. 2007 will also see an increased focus on building an international Renewables portfolio.
- ESBI will be engaged in significant construction activity in 2007 with both the Marchwood gas-fired plant and the Mountain Lodge windfarm under construction. Safety will be the highest priority on these projects while also focusing on delivering the projects to the required quality, time and budget.

# CORPORATE RESPONSIBILITY

Our continued commitment to the social and environmental dimensions of our business, over and above legal requirements, was reflected in the publication of our second Corporate Responsibility (CR) Report. Since publication of the first report in 2004, we have continued to deepen understanding of the concept of CR and to ensure that acting responsibly is a core value underlying all actions in the company.

In maintaining our commitment to acting responsibly, we face many new challenges. We continue to pursue the target of zero injuries, despite expansion of the range and complexity of our operations. We share the growing concerns about the global environment and are contributing to policy debate at EU level as well as investing significantly in technology to reduce emissions. We recognise how business changes can reduce our traditional links with the communities we serve and are finding new avenues to ensure our contribution remains meaningful and effective. Growing competition exposes us to new risks in the marketplace and we must sustain a dynamic, viable business, providing excellence in customer service. In the workplace, our priorities are to support morale and commitment in the face of change and to continue to develop policies and practices which reflect the needs of our workers and of our business.

## ENVIRONMENT

- › Our actions in addressing climate change include the following:
  - Promotion of energy awareness to our customers
  - Modernisation of our generating plant portfolio aimed at increased efficiency and lower CO<sub>2</sub> emissions per unit of electricity produced
  - Investment in renewable generating capacity
  - Network development to facilitate renewables and reduce energy losses on the network
- › We support the decision by Government to increase the target set for renewable electricity generation from 13.2% to 15% by 2010 and the new target set for 2020 of 33%. We are actively engaged in developing wind projects and are committed to playing our part in developing the electricity network to overcome challenges such as the intermittency of wind generation.
- › ESB's campaign to promote more efficient lighting and greater awareness of energy efficiency was identified by Eurelectric, the international union of the electricity industry as the most effective project of its kind in Europe in reducing CO<sub>2</sub>.

## HEALTH AND SAFETY

- › Significantly, 2006 was also the first year since 1934 in which there were no fatalities to Staff, Contractors or members of the public on either side of the meter.
- › During 2006 ESB also continued to maintain the downward trend of Lost Time Injuries with the outcome for the year at 55 being 10 less than the staff maximum target of 65. Contractor Lost Time Injuries at 30 were 37 less than the maximum target of 67.
- › As the number of injuries has reduced, greater attention is being paid to analysing near misses and to eliminating unsafe behaviour.
- › Contractor safety management standards were further revised and improvement plans were developed for public safety.

A comprehensive programme of safety audits and safety reviews continues throughout ESB group. The Chief Executive and his Executive Directors carried out 69 safety audits and 45 safety reviews throughout the organisation during 2006.

## COMMUNITY

- › ESB Electric Aid Ireland, a social initiative focused on suicide prevention and care for the homeless, funded 92 separate projects to a total value of almost €1 million in 2006. The projects funded were all over Ireland, North and South, and ranged from €900 to €30,000 in value.
- › In other communities surrounding our international operations, we are forging links through activities such as our support for the Kamakshi Child Home in Kulim, Malaysia.
- › ESB engages in an extensive sponsorship programme including sponsorship of the GAA Minor Hurling and Minor Football Championships, National sponsor of Girls' and Women's hockey, ESB BEO Celtic music festival, the U20 Rugby Six Nations home International series as well as supporting Irish International athletes through the Athletics Ireland development programme.



## MARKETPLACE

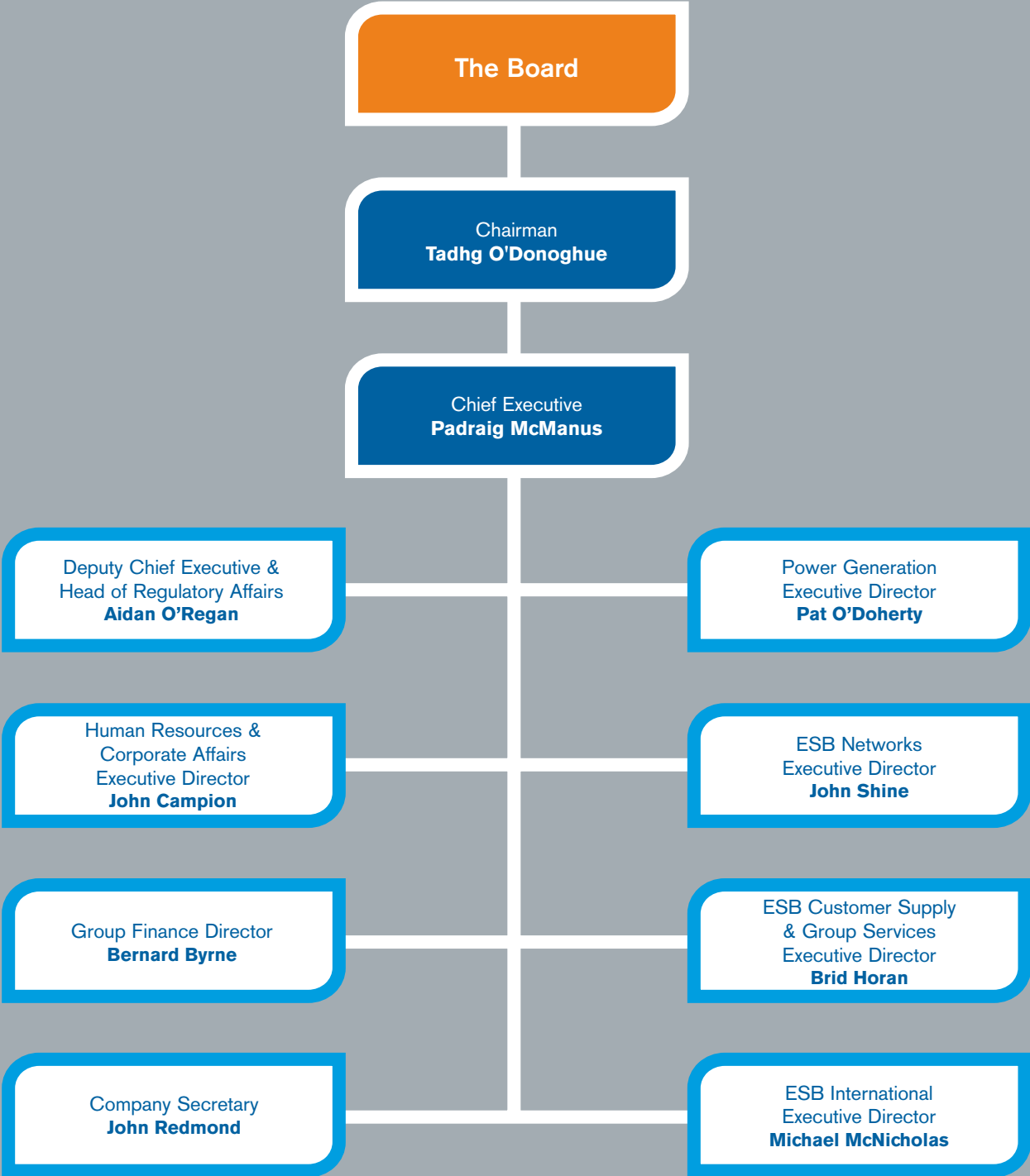
- › Customer service improvements are being undertaken in all areas of the company, including the Networks business which has no direct competitor. In international operations also, service excellence is a key factor in achieving growth.
- › ESB Customer Supply's National Contact Centre received over 3.9 million calls in 2006, and answered 80% within 20 seconds. There has been a significant improvement in call answering times and high standards have been achieved.
- › We provide customers with a range of information and advice services to help them achieve energy savings. We place particular emphasis on assisting vulnerable customers such as the elderly and those on low incomes.

## WORKPLACE

- › Significant progress has been made in the areas of gender equality. The number of women at senior level increased from 44 in 2001 to 75 in 2006 and in December 2006, Brid Horan was the first woman to be appointed to the Executive Team as Executive Director of Customer Supply and Group Services.
- › New human resource programmes have been launched in the areas of work-life balance, cultural diversity awareness, and training for people with disabilities.
- › In order to ensure that there is a consistent approach to the management of contracted staff, we have recently developed a new Contractor Employment Standards framework. Among the key objectives of this framework are fulfilment of ESB's social responsibility, upholding the rights of workers under Irish and European legislation and implementation of a consistent and demonstrable contractor employment management process.



# ORGANISATIONAL CHART



# Board Members



Tadhg O'Donoghue



Padraig McManus



Derry O'Donovan



Georgina Kenny



John Nugent



Bobby Yeates



John Coleman



Eoin Fahy



Tony Merriman



Brendan Byrne



Will McKee



Seamus Mallon

**Tadhg O'Donoghue** joined the Board of ESB in September 2000 and was appointed Chairman in January 2001. He was reappointed for a second term in September 2005. Mr O'Donoghue was previously a Senior International Partner with PricewaterhouseCoopers. He is a former Chairman of Bord Iascaigh Mhara and a former President of the American Chamber of Commerce in Ireland. Mr O'Donoghue is Chairman of the Remuneration and Management Development Committee and a member of the Finance Committee.

**Georgina Kenny** was appointed to the Board in April 2000 and was reappointed in May 2005. A Solicitor, Ms. Kenny is Managing Director of Shannon Dry Cleaners. She has been a member of the Board of Athlone Community Task Force since 1994. Ms Kenny is Chairman of the Business Development and International Committee and a member of the Market and Customer Committee.

**John Coleman** was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB in 1979 as a Day Worker in Ferbane Generating Station. He is the secretary of the ATGWU Day Workers Association. He is the current chairman of the ATGWU ESB Branch. Mr. Coleman is a member of the Business Development & International Committee and the Health and Safety Committee.

**Brendan Byrne** was appointed to the Board in September 2004. Mr. Byrne is a director of a number of companies in the aviation industry and is Managing Partner of ClearVision Consulting which provides financial and strategic planning services to a range of airline clients. Mr. Byrne previously held a number of senior management positions in Aer Lingus and has worked extensively in the field of change management. He is a Chartered Accountant. Mr. Byrne is Chairman of the Audit Committee and a member of the Regulation Committee.

**Padraig McManus** was appointed Chief Executive and Member of the Board in July 2002. He joined ESB in 1973 and spent fifteen years in the Company's international businesses and later became Managing Director ESB International and Commercial Director, ESB. He is a Board Member of the Irish Management Institute and a Trustee of the Conference Board of the United States. Mr McManus is a member of the Health, Safety & Environment Committee, the Business Development & International Committee and the Market and Customer Committee.

**John Nugent** was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB as an Executive Officer in 1967. He was a member of the ESB's Joint Industrial Council from 1991 to 2003. He was President of the Electricity Supply Board Officers' Association (ESBOA) from 2002 to 2006 and is currently a member of the ESB ESOT Board. Mr. Nugent is Chairman of the Regulation Committee and a member of the Finance Committee.

**Eoin Fahy** was appointed to the Board in January 2001 and reappointed in February 2006. He is Chief Economist with KBC Asset Management Ltd. Dublin and is an established media commentator on economic issues. Mr Fahy is a member of the Remuneration and Management Development Committee, the Business Development & International Committee and of the Audit Committee.

**Will McKee** was appointed to the Board in May 2002. He serves as Chairman of Amtec Medical Ltd, Linkubator Ltd, and Creditfix Ltd. He is a director of Northern Bank and Chambers Coach Hire Ltd. He also acts as an adviser to Garage Door Systems and Rockfield Developments and as a consultant to major corporate projects both national and international. Mr. McKee is Chairman of the Market and Customer Committee and a member of the Remuneration and Management Development Committee.

**Derry O'Donovan** was appointed to the Board in May 2002. He is Senior Business Adviser with AIB Bank. He is a Director of St Luke's Hospital and First Step. Mr O'Donovan is a former Chairman of the Irish Red Cross Society and a former President of the Agricultural Science Association. He is Chairman of the Finance Committee and a member of the Audit Committee.

**Bobby Yeates** was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined the ESB as an Apprentice Electrician in 1967 and has worked on a range of ESB activities starting in Service Repair and is currently working as a Network Technician. He is an Executive Member Trustee of the TEEU and also a member of ESB Superannuation Committee. Mr. Yeates is a member of the Business Development and International Committee and the Market and Customer Committee.

**Tony Merriman** was appointed to the Board in January 2007 under the Worker Participation (State Enterprises) Act, 1977. He joined ESB in 1979 as a Network Technician. He has served as an officer with the ESB Group of Unions. Mr. Merriman is Chairman of the Health, Safety and Environment Committee and a member of the Regulation Committee.

**Seamus Mallon** was appointed to the Board in February 2006. He was elected to Armagh District Council in 1973, to the then Northern Ireland Assembly (1973-4) and to the Northern Ireland Convention (1975-76). He was a member of Seanad Éireann in 1981. From 1986 to 2005 he was MP for Newry and Armagh at Westminster. He was Deputy Leader of the SDLP and, subsequent to the signing of the Good Friday Agreement in April 1998, Deputy First Minister of Northern Ireland. Mr. Mallon is a member of the Health, Safety and Environment Committee and of the Regulation Committee.

# Executive Team



John Redmond



John Shine



Bernard Byrne



Michael McNicholas



Aidan O'Regan



Pat O'Doherty



John Campion



Brid Horan

**John Redmond** was appointed Company Secretary in 2002. He was previously Company Secretary of GPA Group plc. and worked in the Irish Diplomatic Service.

**John Shine** was appointed Executive Director ESB Networks in November 2002. He joined ESB in 1978 and held a number of senior positions in the Networks, Marketing and Business Development areas of ESB. He spent some years outside ESB developing a successful international services business before rejoining in 2002. He has Electrical Engineering and MBA degrees from University College Dublin.

**Bernard Byrne** was appointed Group Finance Director in January 2004. A Chartered Accountant, he previously held the position of Deputy Chief Executive and Group Finance Director of IWP International plc. Mr Byrne had served as a non-executive Board member of ESB from July 2001 but resigned from the Board on his appointment as Group Finance Director.

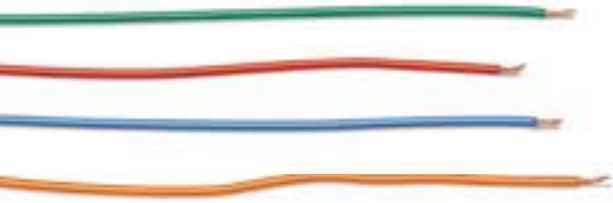
**Michael McNicholas** was appointed Executive Director, ESB International, in June 2005. Previous to that he held the position of Executive Director, ESB Power Generation & ESB Customer Supply since July 2002. Prior to this he held senior positions in the company in Power Generation, ESB Networks and ESB Supply having joined ESB in 1982. He is also a Director of ESB ESOP Trustee Ltd.

**Aidan O'Regan** joined ESB in 1965. He was appointed Head of Regulatory Affairs in January 1997 and Deputy Chief Executive in January 2007. He was Manager, Corporate Change during the Cost and Competitiveness Review. He has previously held senior management positions in the human resources, financial and project management areas and has managed international consultancy assignments.

**Pat O'Doherty** was appointed Executive Director, ESB Power Generation in July 2005. He joined ESB in 1981 and has worked in various customer service, project management and general management roles. Prior to his appointment as Executive Director, Power Generation, he held the position of General Manager Synergen. He has also held senior positions in ESB Networks.

**John Campion** was appointed Executive Director, Human Resources & Corporate Affairs in 2002. He joined ESB in 1978 and worked in various roles connected with industrial relations and personnel management, including Manager Human Resources in Power Generation. He also worked as a regional manager in both Sligo and Dublin. Prior to his appointment as Executive Director, he was Head of Network Projects.

**Brid Horan** was appointed Executive Director ESB Customer Supply and Group Services in December 2006. She joined ESB in 1997 as Group Pensions Manager. She has been a Commissioner of the National Pensions Reserve Fund since it was established in 2001 and was a board member of IDA Ireland from 1996 to 2006. Before joining ESB she headed KPMG Pension & Actuarial Consulting.



50	Board Members' Report
58	Statement of Board Members' Responsibilities
59	Independent Auditors' Report
61	Statement of Accounting Policies
68	Group Income Statement
69	Group Balance Sheet
70	Parent Balance Sheet
71	Group Statement of Recognised Income and Expenses
71	Parent Statement of Recognised Income and Expenses
72	Group Cash Flow Statement
73	Parent Cash Flow Statement
74	Notes to the Financial Statements
109	Appendix

# 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)
Pdraig 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 €
<b>Chairman:</b>		
Tadhg O'Donoghue		
Fees	63,487	63,487
Taxable benefits	5,449	7,991
	<b>68,936</b>	<b>71,478</b>
<b>Chief Executive:</b>		
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
	<b>495,227</b>	<b>477,650</b>
<b>Non-Executive Board Members:</b>		
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
	<b>155,589</b>	<b>117,166</b>

- 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 Pádraig 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-eighth and a gratuity of three-eighths 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.

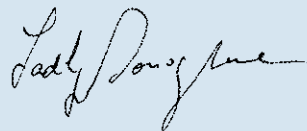
## ELECTORAL ACT, 1997

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



**Pdraig 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.

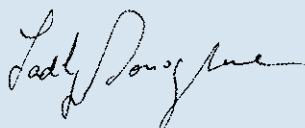
The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and the Parent; the Companies Acts 1963 to 2006 provide in relation to such financial statements that references in the relevant part of that Act to 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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:

<b>Generation Plant and Thermal Station Structures</b>	20 years
<b>Distribution Plant and Structures</b>	25/30 years
<b>Transmission Plant and Structures</b>	30 years
<b>General Buildings and Hydro Stations</b>	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	<b>3,087,504</b>	2,756,213
Other operating income	3	<b>308,500</b>	185,933
Operating costs	4	<b>(3,134,844)</b>	(2,694,517)
Operating profit		<b>261,160</b>	247,629
Profit on disposal of property	2	<b>75,372</b>	51,928
Interest cost and other financing charges	5	<b>(93,151)</b>	(93,299)
Interest income	5	<b>927</b>	2,789
Net interest cost and other financing charges		<b>(92,224)</b>	(90,510)
Share of joint ventures' profit	12	<b>19,674</b>	31,294
Profit before taxation		<b>263,982</b>	240,341
Income tax (expense)/credit	7	<b>(41,364)</b>	957
Profit after taxation	18	<b>222,618</b>	241,298
<b>Attributable to:</b>			
Equity holders of the Parent	18	<b>222,468</b>	241,189
Minority interests	18	<b>150</b>	109
Profit for the financial year	18	<b>222,618</b>	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
<b>ASSETS</b>			
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>6,500,460</b>	<b>5,938,971</b>
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>794,352</b>	<b>931,389</b>
<b>Total assets</b>		<b>7,294,812</b>	<b>6,870,360</b>
<b>EQUITY</b>			
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
<b>Equity attributable to equity holders of the Parent</b>		<b>2,734,859</b>	<b>2,534,212</b>
<b>Minority interests</b>	18	<b>729</b>	<b>962</b>
<b>Total equity</b>		<b>2,735,588</b>	<b>2,535,174</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
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
<b>Total non-current liabilities</b>		<b>3,547,940</b>	<b>3,373,594</b>
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>1,011,284</b>	<b>961,592</b>
<b>Total liabilities</b>		<b>4,559,224</b>	<b>4,335,186</b>
<b>Total equity and liabilities</b>		<b>7,294,812</b>	<b>6,870,360</b>

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
<b>ASSETS</b>			
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>6,176,869</b>	<b>5,665,985</b>
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>1,067,022</b>	<b>1,116,194</b>
<b>Total assets</b>		<b>7,243,891</b>	<b>6,782,179</b>
<b>EQUITY</b>			
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
<b>Equity attributable to equity holders of the Parent</b>		<b>2,734,501</b>	<b>2,464,804</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
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
<b>Total non-current liabilities</b>		<b>3,465,250</b>	<b>3,341,795</b>
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>1,044,140</b>	<b>975,580</b>
<b>Total liabilities</b>		<b>4,509,390</b>	<b>4,317,375</b>
<b>Total equity and liabilities</b>		<b>7,243,891</b>	<b>6,782,179</b>

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)
<b>Net income recognised directly in equity</b>		<b>(21,053)</b>	<b>(8,475)</b>
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
<b>Total recognised income and expenses for the financial year</b>		<b>273,186</b>	<b>224,677</b>
<b>Attributable to:</b>			
Equity holders of the parent		273,036	224,568
Minority interest		150	109
<b>Total recognised income and expense for the financial year</b>		<b>273,186</b>	<b>224,677</b>

# 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
<b>Net income recognised directly in equity</b>		<b>(37,740)</b>	<b>(19,229)</b>
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
<b>Total recognised gains and losses for the financial year</b>		<b>342,086</b>	<b>163,136</b>
<b>Attributable to:</b>			
Equity holders of the parent		342,086	163,136

# Group Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
<b>Cash flows from operating activities</b>			
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)
<b>Operating cashflows before changes in working capital and provisions</b>		<b>404,379</b>	<b>447,876</b>
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
<b>Cash generated from operations</b>		<b>595,083</b>	<b>695,434</b>
Current tax paid		(33,048)	(27,226)
Interest paid		(86,013)	(106,647)
Payment for business separation costs		(45,000)	-
<b>Net cash inflow from operating activities</b>		<b>431,022</b>	<b>561,561</b>
<b>Cash flows from investing activities</b>			
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
<b>Net cash outflow from investing activities</b>		<b>(555,557)</b>	<b>(570,565)</b>
<b>Cash flows from financing activities</b>			
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)
<b>Net cash inflow from financing activities</b>		<b>95,295</b>	<b>2,388</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(29,240)</b>	<b>(6,616)</b>
<b>Cash and cash equivalents at 1 January</b>	16	<b>66,949</b>	<b>74,778</b>
<b>Effect of exchange rate fluctuations on cash held</b>		<b>24</b>	<b>(1,213)</b>
<b>Cash and cash equivalents at 31 December</b>	<b>16</b>	<b>37,733</b>	<b>66,949</b>

# Parent Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
<b>Cash flows from operating activities</b>			
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)	-
<b>Operating cashflows before changes in working capital and provisions</b>		<b>403,945</b>	<b>457,028</b>
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
<b>Cash generated from the operations</b>		<b>590,394</b>	<b>643,961</b>
Current tax paid		(33,824)	(27,650)
Interest paid		(87,667)	(89,333)
Payment for business separation costs		(45,000)	-
<b>Net cash inflow from operating activities</b>		<b>423,903</b>	<b>526,978</b>
<b>Cash flows from investing activities</b>			
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	-
<b>Net cash outflow from investing activities</b>		<b>(531,487)</b>	<b>(580,132)</b>
<b>Cash flows from financing activities</b>			
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)
<b>Net cash inflow from financing activities</b>		<b>54,840</b>	<b>85,473</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(52,744)</b>	<b>32,319</b>
<b>Cash and cash equivalents at 1 January</b>	16	<b>70,898</b>	<b>39,792</b>
<b>Effect of exchange rate fluctuations on cash held</b>		<b>24</b>	<b>(1,213)</b>
<b>Cash and cash equivalents at 31 December</b>	16	<b>18,178</b>	<b>70,898</b>

# 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
<b>Total</b>	<b>3,087,504</b>	<b>2,756,213</b>

(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)
<b>Total</b>	<b>3,087,504</b>	<b>2,756,213</b>

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
	<b>308,500</b>	<b>185,933</b>

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
	<b>3,134,844</b>	<b>2,694,517</b>

# 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)
	<b>76,786</b>	73,628
<b>Financing charges:</b>		
- on restructuring liabilities	5,134	7,379
- on power station closure costs	8,545	13,631
- on other provisions	1,698	-
<b>Fair value (gains)/losses on financial instruments:</b>		
- currency/interest rate swaps: cash flow hedges, transfer from equity	1,715	(610)
- currency/interest rate swaps: fair value hedges	(728)	(729)
<b>Total interest payable</b>	<b>93,151</b>	93,299
<b>Total interest receivable</b>	<b>(927)</b>	(2,789)
	<b>92,224</b>	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
	<b>7,823</b>	8,292
(b) Employee costs in year	2006 €'000	2005 €'000
<b>Current staff costs (excluding pension)</b>		
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)
<b>Net payroll cost for employees</b>	<b>436,710</b>	430,410
(c) Pension & retirement benefit costs		
Voluntary severance costs	32,139	35,533
Increase in pension liability	122,348	170,226
	<b>154,487</b>	205,759
<b>Total employee related costs charged to the Income Statement</b>	<b>591,197</b>	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
	<b>6,692</b>	7,082
<hr/>		
(b) Employee costs in year	2006 €'000	2005 €'000
<b>Current staff costs (excluding pension)</b>		
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)
	<b>348,533</b>	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
	<b>154,487</b>	205,759
<hr/>		
<b>Total employee related costs charged to the Income Statement</b>	<b>503,020</b>	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
<b>Current tax expense</b>		
Current tax	<b>27,784</b>	22,764
Prior year overprovision	<b>(1,557)</b>	(26,834)
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	<b>13,295</b>	7,918
Reduction in tax rate	<b>(46)</b>	-
Prior year under/(over) provision	<b>1,888</b>	(4,805)
<b>Total</b>	<b>41,364</b>	(957)
<b>Reconciliation of effective tax rate</b>	<b>2006</b>	<b>2005</b>
<i>in thousands of euro</i>	<b>€'000</b>	<b>€'000</b>
<b>Profit before tax</b>	<b>263,982</b>	240,341
Taxed at 12.5% (2005: 12.5%)	<b>32,998</b>	30,043
Expenses not deductible	<b>3,854</b>	4,480
Tax effect of deferred tax asset not provided	<b>2,310</b>	-
Impairments not deductible for tax purposes	<b>4,375</b>	-
Income not taxable	<b>(3,524)</b>	(6,037)
Higher tax on chargeable gains	<b>742</b>	1,517
Income taxed at higher rate of corporation tax	<b>516</b>	183
Manufacturing relief	<b>(1,047)</b>	(1,632)
Higher tax rates on overseas earnings	<b>3,643</b>	3,590
Prior year (over) provisions	<b>(343)</b>	(31,639)
Other items	<b>299</b>	-
Tax effect of joint ventures included in profit before tax	<b>(2,459)</b>	(1,462)
<b>Actual tax charge</b>	<b>41,364</b>	(957)
<b>8. PROFIT FOR THE FINANCIAL YEAR</b>	<b>2006</b>	<b>2005</b>
	<b>€'000</b>	<b>€'000</b>
The profit for the financial year is stated after charging/(crediting):		
Depreciation, amortisation and impairment	<b>450,503</b>	392,866
Operating lease charges	<b>8,453</b>	9,544
Amortisation of deferred income	<b>(22,293)</b>	(13,677)
Loss on disposal of property, plant and equipment	<b>2,486</b>	2,344
(Profit) on disposal of property, plant and equipment	<b>(75,372)</b>	(54,272)
Auditor's remuneration		
- audit services	<b>577</b>	415
- taxation	<b>96</b>	91
- non-audit services	<b>211</b>	240
- UK non-audit services	<b>13</b>	423
ESB (Parent) Board Members' remuneration:		
- fees	<b>236</b>	193
- other remuneration	<b>486</b>	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
<b>Cost</b>					
<b>Balance at 1 January 2005</b>	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
<b>Balance at 31 December 2005</b>	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
<b>Balance at 31 December 2006</b>	876,635	8,549,919	9,426,554	575,133	10,001,687
<b>Depreciation</b>					
<b>Balance at 1 January 2005</b>	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
<b>Balance at 31 December 2005</b>	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
<b>Balance at 31 December 2006</b>	483,008	3,518,186	4,001,194	-	4,001,194
<b>Net book value at 31 December 2006</b>	<b>393,627</b>	<b>5,031,733</b>	<b>5,425,360</b>	<b>575,133</b>	<b>6,000,493</b>
<b>Net book value at 31 December 2005</b>	649,305	4,465,758	5,115,063	448,563	5,563,626
<b>Net book value at 1 January 2005</b>	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)				Total		
		Land and	Plant and	assets in	Assets under	Total
(b) PARENT		buildings	machinery	commission	construction	€'000
		€'000	€'000	€'000	€'000	€'000
<b>Cost</b>						
<b>Balance at 1 January 2005</b>		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)	-
<b>Balance at 31 December 2005</b>		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
<b>Balance at 31 December 2006</b>		874,572	8,072,015	8,946,587	560,527	9,507,114
<b>Depreciation</b>						
<b>Balance at 1 January 2005</b>		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)
<b>Balance at 31 December 2005</b>		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
<b>Balance at 31 December 2006</b>		483,008	3,369,107	3,852,115	-	3,852,115
<b>Net book value at 31 December 2006</b>		<b>391,564</b>	<b>4,702,908</b>	<b>5,094,472</b>	<b>560,527</b>	<b>5,654,999</b>
<b>Net book value at 31 December 2005</b>		369,104	4,425,035	4,794,139	399,374	5,193,513
<b>Net book value at 1 January 2005</b>		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
<b>Cost</b>				
<b>Balance at 1 January 2005</b>	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)	-
<b>Balance at 31 December 2005</b>	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)
<b>Balance at 31 December 2006</b>	196,098	247,602	24,018	467,718
<b>Amortisation</b>				
<b>Balance at 1 January 2005</b>	34,494	-	-	34,494
Charge for the year	30,895	-	-	30,895
Retirements/disposals	(21)	-	-	(21)
<b>Balance at 31 December 2005</b>	65,368	-	-	65,368
Charge for the year	33,491	-	-	33,491
Retirements/disposals	(15,622)	-	-	(15,622)
Other transfers	482	-	-	482
<b>Balance at 31 December 2006</b>	83,719	-	-	83,719
<b>Net book value at 31 December 2006</b>	<b>112,379</b>	<b>247,602</b>	<b>24,018</b>	<b>383,999</b>
<b>Net book value at 31 December 2005</b>	126,103	120,508	-	246,611
<b>Net book value at 1 January 2005</b>	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
<b>Cost</b>				
<b>Balance at 1 January 2005</b>	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	-
<b>Balance at 31 December 2005</b>	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)	-
<b>Balance at 31 December 2006</b>	192,888	224,029	19,921	436,838
<b>Amortisation</b>				
<b>Balance at 1 January 2005</b>	34,494	-	-	34,494
Charge for the year	30,895	-	-	30,895
Retirements/disposals	(21)	-	-	(21)
<b>Balance at 31 December 2005</b>	65,368	-	-	65,368
Charge for the year	33,008	-	-	33,008
Retirements/disposals	(15,307)	-	-	(15,307)
<b>Balance at 31 December 2006</b>	83,069	-	-	83,069
<b>Net book value at 31 December 2006</b>	<b>109,819</b>	<b>224,029</b>	<b>19,921</b>	<b>353,769</b>
<b>Net book value at 31 December 2005</b>	125,220	112,696	-	237,916
<b>Net book value at 1 January 2005</b>	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

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

<b>(a) GROUP</b>	<b>Joint venture investments</b>	<b>Sinking fund and other investments</b>	<b>Total</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Balance at 1 January 2005</b>	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)
<b>Balance at 31 December 2005</b>	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)
<b>Balance at 31 December 2006</b>	<b>30,418</b>	<b>11,164</b>	<b>41,582</b>

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

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	Total
	Shares	Loans	Subtotal		
	€'000	€'000	€'000	€'000	€'000
<b>Balance at 1 January 2005</b>	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)
<b>Balance at 31 December 2005</b>	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)
<b>Balance at 31 December 2006</b>	<b>68,755</b>	<b>29,483</b>	<b>98,238</b>	-	<b>98,238</b>

## 13. INVENTORIES

	GROUP		PARENT	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Materials	<b>33,265</b>	115,699	<b>29,880</b>	103,735
Fuel	<b>117,557</b>	130,913	<b>117,557</b>	130,444
	<b>150,822</b>	246,612	<b>147,437</b>	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	2005	2006	2005
	€'000	€'000	€'000	€'000
Trade receivables	<b>161,096</b>	173,197	<b>119,614</b>	125,439
Unbilled consumption	<b>330,200</b>	360,100	<b>294,123</b>	325,115
Amounts owed by subsidiary undertakings	-	-	<b>406,847</b>	307,001
Other receivables	<b>112,116</b>	74,466	<b>79,016</b>	50,904
	<b>603,412</b>	607,763	<b>899,600</b>	808,459

## 15. INVESTMENTS

GROUP & PARENT	2006	2005
	€'000	€'000
Listed investments at cost	<b>79</b>	78

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

# Notes to the Financial Statements

16. CASH AND CASH EQUIVALENTS	GROUP		PARENT	
	2006 €'000	2005 €'000	2006 €'000	2005 €'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
	<b>37,733</b>	66,949	<b>18,178</b>	70,898

17. ASSETS HELD FOR SALE	GROUP		PARENT	
	2006 €'000	2005 €'000	2006 €'000	2005 €'000
Property	1,407	2,261	1,407	2,261
Other				
- Gross assets	-	11,297	-	-
- Gross liabilities	-	(3,634)	-	-
	<b>1,407</b>	9,924	<b>1,407</b>	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	Translation Reserve	Reserve for the repurchase of loan stock	Cash Flow Hedging & Other Reserves	Retained Earnings	Total	Minority interest	Total Equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
<b>Balance at 1 January 2005</b>	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
<b>Balance at 31 December 2005</b>	1,979,882	2,489	3,011	(96,267)	645,097	2,534,212	962	2,535,174
<b>Balance at 1 January 2006</b>	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)
<b>Balance at 31 December 2006</b>	<b>1,979,882</b>	<b>5,025</b>	<b>-</b>	<b>(48,235)</b>	<b>798,187</b>	<b>2,734,859</b>	<b>729</b>	<b>2,735,588</b>

# 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
<b>Balance at 1 January 2005</b>	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
<b>Balance at 31 December 2005</b>	1,979,882	3,011	(88,145)	570,056	2,464,804
<b>Balance at 1 January 2006</b>	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)
<b>Balance at 31 December 2006</b>	<b>1,979,882</b>	<b>-</b>	<b>(48,801)</b>	<b>803,420</b>	<b>2,734,501</b>

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

### 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
	<b>167,746</b>	<b>125,590</b>	180,403	129,857
Less future lease charges	<b>(42,156)</b>		(50,546)	
Present value of lease obligations		<b>125,590</b>	129,857	

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

# 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
	<b>1,997.9</b>	<b>735.0</b>	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%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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
		<b>2,979,909</b>	<b>2,954,681</b>		<b>3,291,119</b>	<b>3,265,171</b>

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
<b>Deferred tax assets</b>		
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
<b>Total</b>	<b>72,200</b>	<b>81,294</b>
<b>Deferred tax liabilities</b>		
Property, plant & equipment	299,557	284,736
Retirement benefits	9,205	12,318
Provisions	283	105
Capital gains tax	1,180	1,180
<b>Total</b>	<b>310,225</b>	<b>298,339</b>
<b>Net deferred tax liability</b>	<b>238,025</b>	<b>217,045</b>

# 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	Recognised in income 2005	Recognised in equity 2005	Transfers to joint ventures	Balance 31 December 2005	Recognised in income 2006	Recognised in equity 2006	Deferred Tax balances written off in respect of disposals 2006	Balance 31 December 2006
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
<b>Assets</b>									
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
<b>Total deferred tax assets</b>	<b>62,228</b>	<b>6,425</b>	<b>19,095</b>	<b>(6,454)</b>	<b>81,294</b>	<b>(3,251)</b>	<b>(5,693)</b>	<b>(150)</b>	<b>72,200</b>
<b>Liabilities</b>									
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
<b>Total deferred tax liabilities</b>	<b>295,813</b>	<b>9,538</b>	<b>-</b>	<b>(7,012)</b>	<b>298,339</b>	<b>11,886</b>	<b>-</b>	<b>-</b>	<b>310,225</b>
<b>Net deferred tax (asset)/liability for the year</b>	<b>233,585</b>	<b>3,113</b>	<b>(19,095)</b>	<b>(558)</b>	<b>217,045</b>	<b>15,137</b>	<b>5,693</b>	<b>150</b>	<b>238,025</b>

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)

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

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

	<b>Balance 1 January 2005</b>	<b>Recognised in income 2005</b>	<b>Recognised in equity 2005</b>	<b>Balance 31 December 2005</b>	<b>Recognised in income 2006</b>	<b>Recognised in equity 2006</b>	<b>Balance 31 December 2006</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Assets</b>							
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
<b>Total deferred tax assets</b>	<b>53,170</b>	<b>11,001</b>	<b>12,641</b>	<b>76,812</b>	<b>(3,514)</b>	<b>(5,621)</b>	<b>67,677</b>
<b>Liabilities</b>							
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
<b>Total deferred tax liabilities</b>	<b>283,683</b>	<b>13,542</b>	<b>-</b>	<b>297,225</b>	<b>10,147</b>	<b>-</b>	<b>307,372</b>
<b>Net deferred tax liability/(asset) for the year</b>	<b>230,513</b>	<b>2,541</b>	<b>(12,641)</b>	<b>220,413</b>	<b>13,661</b>	<b>5,621</b>	<b>239,695</b>

# 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%
	<b>100%</b>	<b>100%</b>

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	<b>5,416,310</b>	4,884,093	4,230,795	3,644,869	3,147,997
Fair value of plan assets	<b>(3,784,263)</b>	(3,336,000)	(2,801,014)	(2,541,008)	(2,243,064)
Deficit for funded plan	<b>1,632,047</b>	1,548,093	1,429,781	1,103,861	904,933
Unrecognised net actuarial (gains)	<b>(1,304,285)</b>	(1,208,917)	(1,159,140)	(867,986)	(732,869)
Net liability	<b>327,762</b>	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)	<b>230,832</b>	379,579	94,322	147,141	(639,667)
Percentage of scheme assets	<b>6.1%</b>	11.4%	3.4%	5.8%	28.5%
Experience gains and losses on scheme liabilities:					
Amount (€m)	<b>(374,235)</b>	(478,426)	(419,043)	(310,129)	(180,955)
Percentage of the present value of scheme liabilities	<b>6.9%</b>	9.8%	9.9%	8.5%	5.7%

# Notes to the Financial Statements

## 22. PENSION LIABILITIES (Continued)

	2006 €' 000	2005 €'000
<b>Change in benefit obligation</b>		
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
<b>Benefit obligation at the end of the year</b>	<b>5,416,310</b>	<b>4,884,093</b>
<b>Change in plan assets</b>		
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)
<b>Fair value of plan assets at the end of the year</b>	<b>3,784,262</b>	<b>3,336,000</b>
<b>Actual return on plan assets for the year</b>	<b>446,684</b>	<b>559,143</b>

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
<b>Total net impact on reported profits</b>	<b>122,348</b>	<b>170,226</b>

# 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
<b>Balance at 1 January 2006</b>	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
<b>Balance at 31 December 2006</b>	<b>153,801</b>	<b>38,526</b>	<b>192,327</b>
<b>Analysed as follows:</b>			
Non current liabilities	127,763	-	127,763
Current liabilities	26,038	38,526	64,564
<b>PARENT</b>			
<b>Balance at 1 January 2006</b>	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
<b>Balance at 31 December 2006</b>	<b>153,801</b>	<b>31,073</b>	<b>184,874</b>
<b>Analysed as follows:</b>			
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
	<b>484,186</b>	<b>550,651</b>	<b>560,058</b>	<b>574,680</b>
	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
<b>Balance at 1 January 2006</b>	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)
<b>Balance at 31 December 2006</b>	<b>1,135</b>	<b>489,413</b>	<b>490,548</b>
(b) PARENT	Emissions Allowances	Supply Contributions	Total
	€000	€000	€000
<b>Balance at 1 January 2006</b>	-	373,583	373,583
Receivable	245,607	116,527	362,134
Amortised to the Income Statement	(245,607)	(16,199)	(261,806)
<b>Balance at 31 December 2006</b>	<b>-</b>	<b>473,911</b>	<b>473,911</b>

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
<b>Balance at 1 January 2006</b>	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
<b>Balance at 31 December 2006</b>	<b>250,769</b>	<b>251,058</b>	<b>-</b>	<b>48,450</b>	<b>550,277</b>
<b>Analysed as follows:</b>					
Non current liabilities	240,269	-	-	43,450	283,719
Current liabilities	10,500	251,058	-	5,000	266,558
<b>(b) PARENT</b>	<b>Power Station Closure Costs €'000</b>	<b>Emissions provisions €'000</b>	<b>Business Separation €'000</b>	<b>Other €'000</b>	<b>Total €'000</b>
<b>Balance at 1 January 2006</b>	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
<b>Balance at 31 December 2006</b>	<b>250,769</b>	<b>228,621</b>	<b>-</b>	<b>48,278</b>	<b>527,668</b>
<b>Analysed as follows:</b>					
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 CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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

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

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.

### (b) Capital commitments

	2006	2005
	€'000	€'000
Contracted for	286,817	189,205
<b>Share of joint venture capital commitments</b>		
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.

<b>Key management compensation</b>	<b>2006</b>	<b>2005</b>
	<b>€'000</b>	<b>€'000</b>
Salaries and other short-term employee benefits	<b>4,046</b>	3,234
Post-employment benefits	<b>443</b>	218
Termination benefits	<b>320</b>	-
	<b>4,809</b>	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
<b>Subsidiary undertakings</b>			
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
<b>Non-controlled subsidiary undertakings</b>			
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
<b>Joint venture undertakings</b>			
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
<b>Investments</b>			
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



design.www.fsc.ie