

Chief Executive's Review



Pdraig McManus
Chief Executive

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Strategic Framework

The mission of ESB has always been to provide a safe, efficient and cost effective supply of electricity in a socially responsible manner to all our customers. Technologies change and develop – from hydro generation in the 1920s to 1940s, to peat and oil in subsequent decades, to coal fired generation as a response to the oil crisis of the 1970s and then cleaner and more efficient, combined cycle gas plants in more recent times – but ESB's fundamental goal of customer service remains the same.

A new and dynamic response is once again required from ESB as Ireland seeks to meet its environmental targets and as we all address the urgent challenge of climate change.

With the support of Government, of our Minister, of our owners and of our staff, ESB is determined to meet this challenge.

For this reason the Board has recently approved a Strategic Framework and an associated €22 billion investment programme for ESB to 2020. The main focus of the new strategy is on the sustainable and responsible use of scarce resources. The strategy will lead to the halving of ESB's carbon emissions within 12 years and to a carbon net-zero position by 2035. About half of the overall investment package is devoted to renewables; €4 billion by way of direct investments in renewable energy projects and €6.5 billion by way of initiatives which support sustainability such as smart metering and smart networks.

By 2020, ESB will be delivering one-third of its electricity from renewable generation. This will include over 1,400MW of wind generation. We will also exploit the potential of wave, tidal and biomass resources.

A further €11 billion will be invested by ESB Networks in vital infrastructure needed to support the Irish economy and to facilitate the development by all wind generators of up to 6,000MW of wind generation on the island.

Financial

ESB put in a very robust financial performance in 2007. As more fully described in the Financial Review section below, revenues and profits grew strongly. We maintained healthy levels of gearing, interest cover and return on capital. Capital investment was some €900 million. This stable financial performance is critical if we are to meet our ambitious investment programme and if we are to compete both in Ireland and abroad.

Single Electricity Market

The whole business environment for electricity changed radically in November 2007 with the introduction of the Single Electricity Market (SEM), which is an all-island wholesale market for electricity. In the past ESB Power Generation's revenues were determined by the Regulator. Now prices for all generators are determined by the market.

ESB Power Generation

Competition has resulted in a fundamental review of ESB Power Generation's strategy. The business is actively reducing its market share, which fell to 47% in the Republic of Ireland in 2007. The ongoing closure/divestment of 1,500MW of stations and sites will lead to further reduction in market share. ESB Power Generation's target is a market share of less than 30% in the SEM. It is of course unusual for a company to set reduced market share as a strategic target. However, ESB Power Generation will be smaller but stronger following this market share reduction. The addition of modern plant such as the new, combined cycle 430MW station currently under construction at Aghada in Cork will also improve the efficiency and availability performance of the Power Generation plant portfolio.

While fossil fuel will continue to play a significant but reducing role, ESB is determined to minimise the environmental impact of its power generation activities in every possible way. For this reason we are investing €368 million in environmental abatement at Moneypoint which

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Windfarm, Carnsore

will reduce SO_x, NO_x and dust emissions at the plant by over 80%. The new Aghada gas-fired combined cycle plant will have the lowest CO₂ emissions in the market when it enters commercial operation in 2009.

ESB Customer Supply

In 2007 ESB Customer Supply had 51% of the supply market in the Republic. This reduced market share reflects the level of competition in the commercial/industrial sector.

For ESB Customer Supply, the priority is to provide excellent customer care, including direct customer service and services to increase the efficiency of customers' electricity use.

ESB Customer Supply issued 13 million bills in 2007 and collected over 15 million payments from customers. The National Customer Contact Centre handled nearly 4 million calls from customers.

ESB Networks

ESB Networks invested over €600 million in developing and upgrading its infrastructure and systems in 2007. The multi-billion Networks investment programme of recent years is paying off for our customers as more robust networks provide a more reliable supply and greater resilience in storm conditions.

In 2007 ESB Networks connected 94,400 new customers. This brings the total number of new connections between 2001 and 2007 to over 580,000.

ESB Networks also launched the *Sustainable Networks* programme in 2007. One of its aims is to provide every customer with a Smart Meter, enabling them to reduce electricity demand and carbon emissions, as well as saving money. The first phase, to include a technology trial and roll-out to the first 25,000 customers commenced in 2007 and will be rolled out during 2008.

By the end of 2007, over 800MW of wind generation was connected to ESB Networks transmission and distribution systems. It is planned that some 1,300MW of additional wind generation will be offered terms for connection. This will position ESB Networks as supporting one of the highest rates of wind penetration in the world.

ESB International

ESB International through its independent generation and supply businesses in Ireland and its generating stations in Britain and Spain is making an important contribution to the accelerating transformation of ESB from a regulated utility operating largely in its home market to a commercially focussed and competitive business operating in Ireland and abroad. The stations at Corby in the UK and at Amorebieta in Spain continue to operate efficiently. Further investment opportunities are being actively pursued in both countries including the 840MW Marchwood plant in the UK which we are building with our joint venture partners, Scottish & Southern Energy. In Northern Ireland our power station at Coolkeeragh is now operating satisfactorily following technical difficulties in January 2007.

Corporate Responsibility

Safety is the top priority for ESB. Comprehensive safety programmes are in place for staff and contractors and also for the general public.

ESB is also actively contributing to meeting national environmental targets as set down by EU and Government policy. Sustainable use of resources and protecting the environment are the key components of our Strategic Framework to 2020 as referred to above.

ESB also has a wide ranging sponsorship programme in Ireland across the sporting and cultural fields and in conjunction with staff supports a number of community support projects in Ireland and abroad, specifically in Ghana, where a major school reconstruction project is underway strongly supported by ESB volunteer staff.

People

Over the last eight years ESB has implemented major change and efficiency programmes in partnership with our employees. Over the coming years, as set out in our Strategic Framework, ESB will continue to deliver substantial cost reductions in overheads across all its businesses and we will grow and develop ESB as the leading renewables company in Ireland.

Every year I acknowledge the enormous contribution by staff and this year is no exception. ESB staff have met the huge increase in demand for electricity and have provided an excellent and dedicated service to customers. Our people, their learned experience and the associated company ethos are not replaceable. ESB will continue to make heavy demands of staff over coming years as we implement the radical new sustainable strategies outlined above and I know our staff once again will be equal to those demands.

Padraig McManus
Chief Executive
29 April 2008



Padraig McManus with the Senior Irish International Women's Hockey Team.