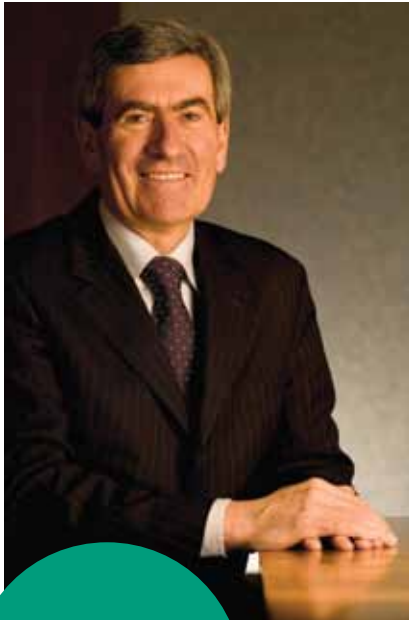


Chief Executive's Review



Padraig McManus
Chief Executive

ESB will continue investing in job creation through its green strategy

Overview

As a strong, innovative Irish energy company, ESB looks back on what was a profitable year and looks forward to continuing to make a major contribution to the Irish economy.

Well-resourced and delivering a secure and safe electricity service to all customers, ESB has an ambitious programme that will contribute to substantial job creation and to economic activity at home while growing abroad.

We are leading the way in delivering a clean environment and becoming a carbon-neutral generator by 2035, developing a smart grid and smart metering for the smart management of energy consumption and a network system to pave the way for electric transport. Promoting a clean and sustainable environment and helping Ireland meet its climate change targets is a key element of our strategy.

Renewable Energy

In 2008 ESB launched its Strategic Framework to 2020 based on investing in renewable energy, on halving of ESB's carbon emissions within twelve years and ultimately becoming a carbon net-zero generator. In spite of seismic changes in the global financial system, our determination remains to establish ESB as a world class renewables company.

We currently have 122 MW of wind power installed in Ireland with a further 70 MW in construction. ESB plans to expand its wind portfolio to 600 MW by 2012. By 2020 ESB will be generating one third of its electricity from wind and other renewables.

In 2008 ESB Networks launched its smart networks strategy, established two smart metering pilot projects and supported the development of microgeneration and an electric vehicle infrastructure.

ESB Power Generation continued to renew its generation portfolio, using the most environmentally friendly and efficient technology. Progress on building the new, energy efficient combined cycle gas turbine power station at Aghada in Cork and on the major environmental project to reduce emissions at Moneypoint means that these projects are planned to be delivered in 2009.

In 2008 we reached agreement with Endesa, the Spanish utility, on the sale of 1,000 MW of plant at Tarbert, Great Island, Rhode and

Tawnaghmore, together with other power generation sites. This is in line with ESB's strategy and with Government policy to encourage competition.

In 2008 the following was the market share for generation on an all island basis:

	2007	2008
ESB Power Generation	35%	30%
ESB Independent Energy	12%	14%
Independent Power Producers	53%	56%

On the supply side the following are the respective market shares in 2008 again on an all-island basis. These are in line with 2007.

	Residential	Industrial/ Commercial
ESB Customer Supply	73%	21%
ESB Independent Energy	–	23%
Other Independents	27%	56%

This increasing market share for independent companies shows the extent to which competition is now established in the Irish market.

While the residential supply market has been open to competition since 2005 it is only recently that competitors have emerged. We welcome this development. Of course we do not like losing customers but we want to encourage a range of suppliers so that the regulatory restrictions on ESB are removed.

Price

ESB's core mission is to provide excellence of service and value to all electricity customers. We are acutely aware of the impact of price on the customer and, unfortunately, mid-2008 saw immense volatility in fuel costs – the main driver in the price of electricity. Looking at comparable British utilities, price increases ranged from 24% to 36%. In Northern Ireland prices increased by 52%.

While Irish prices rose by 17.5% in 2008, they remained broadly in line with the eurozone average prices for domestic customers. Prices in Ireland for small and medium sized enterprises were below the eurozone average. Irish industrial prices for large energy users are significantly above the eurozone average. ESB Customer Supply has a small share of this sector – approximately 10% which it supplies on prices determined by the

Regulator. While competition has increased efficiency and transparency, it cannot on its own address higher Irish industrial prices relative to the eurozone average, principally because of Ireland's greater dependency on imported fossil fuel. The challenge for all market participants is to lessen that dependency by increasing investment in indigenous, renewable generation and by increased interconnection.

ESB Action on Price

In order to reduce the impact of price increases on the customers to the greatest possible degree, ESB has made a very large contribution to offset a potential rise. In agreement with the Regulator, ESB is providing over €400 million support in the period from January to September 2009. Of this, €300 million has been recognised as a provision at 31 December 2008. In addition, over €100 million of income has been temporarily deferred and will also contribute to lower prices in the short term. All electricity users will benefit from these contributions. Such support is obviously exceptional and the position as from 1 October 2009 will need to be addressed again.

Financial Performance

ESB performance in 2008 involved revenues of €3.5 billion and after tax profit of €273 million. A dividend of €82 million is proposed bringing total dividend payments to

the Exchequer since 2002 to €508 million. While capital expenditure is at €1.1 billion a year, we have managed our borrowings conservatively with net debt at €2.1 billion.

ESB International

2008 marked significant progress in delivering our growth programme internationally. All of our current international investments performed well during the year meeting or beating our profit targets. The construction of Marchwood, an 840 MW Combined Cycle Gas Turbine (CCGT) plant near Southampton in partnership with Scottish and Southern Energy, progressed well during the year. ESBI also acquired an 85% share in a development project which will facilitate the construction of an 860 MW CCGT plant near Manchester. We were also pleased to receive all the necessary environmental permits to facilitate the development of a new power plant project at Covera in the Asturias region of north west Spain.


Sponsorship and Corporate Responsibility

ESB's sponsorship programme is focussed on support for young people and the community. In particular we are promoting the All Ireland minor hurling and football championships, the international Irish womens hockey team and international Under 20s rugby. We have

recently and proudly become the named sponsor of the Feis Ceoil. Our major Cúl Green partnership with the GAA will meet its target of making Croke Park a net carbon-neutral stadium by the end of 2009.

I am immensely proud of the culture of social responsibility that permeates ESB. ElectricAid, the social justice fund to which staff contribute each month, has gone from strength to strength and last year saw further growth in membership and donations. The fund has contributed millions of euro to causes worldwide and in 2008, two teams of ESB volunteers travelled to Ghana in West Africa to work on the total refurbishment of a school in a township in the capital, Accra. As a result, thousands of children now have a better opportunity to find a way out of poverty through the only means at their disposal – education.

That ethos of service has underpinned ESB since its foundation over 80 years ago. It is an ethos that is particularly important today as we face unprecedented challenges as a company and as an economy.



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What was ESB's contribution to the Irish Economy in 2008?

