

Chairman's Statement

INVESTED IN MAKING A DIFFERENCE

Terence O'Rourke
Chairman



ESB's Board Invested in a Sustainable Future

Since the adoption of ESB's strategy; Driven to make a Difference: Net Zero by 2040 in December 2021, there have been major economic, political, market and policy developments. These include Russia's invasion of Ukraine, war in the Middle East, a sustained increase in inflation and borrowing costs, and a prolonged increase in fuel and power prices, albeit these have been lower and less volatile than 2022. We have also seen supply chain disruption and the growth of technologies such as artificial intelligence and, of course, more evidence of climate change with an unprecedented increase in temperatures making 2023 the hottest year on record.

Climate and energy policy at European and national level has continued to increase the impetus towards decarbonisation and electrification – increasing both the scale of the opportunities and the delivery requirements faced by ESB. And, in 2023, the Board maintained its focus to mitigate as far as possible the very real impact of the ongoing energy crisis on our customers, while continuing to oversee increased delivery of the infrastructure needed for the long-term secure and affordable provision of clean electricity.

Against this backdrop, ESB's role in delivering a more sustainable future for our customers and the communities we serve is critical. The Board remains steadfast in its commitment to ESB's strategy, and in stepping up to address a range of related social and environmental issues, cultivating a safe, sound and sustainable ethos in line with our values. As we work through this period of energy transition, ESB will navigate the challenges ahead, adapting where necessary while staying focused on our core objective to achieve net zero by 2040.

Board Oversight of Strategy Delivery

Progress was made in the delivery of ESB's strategy, with the Board approving major investments in solar generation, onshore and offshore wind projects, and ESB's partnership with Ørsted to develop offshore wind projects in Ireland. Temporary emergency generation arrangements with EirGrid and other energy security related measures were also approved. The Board also monitored progress relating to investments in the Republic of Ireland and Northern Ireland's electricity networks under the ESB Networks and NIE Networks' regulatory programmes.

ESB's strategy implementation is planned and driven through the annual Integrated Business Planning (IBP) process, which brings together strategy, finance, people, and sustainability considerations in the plan for delivery of ESB's strategic objectives. As part of the IBP process in 2023, greenhouse gas (GHG) emission projections have been developed for all business areas, with an ambitious target set to 2028. This brings a valuable perspective to the business planning process and highlights the challenges associated with achieving the necessary emissions reductions to achieve net zero by 2040. As a Board, we continue to monitor the work ongoing to ensure a credible pathway to that critical net zero target.

The Board dedicated two full meetings to strategy in 2023. In spring, the focus was on key external drivers, including the policy environment (particularly climate policy) and international energy markets. We also considered the perspectives of the stockholders' advisors and undertook a deep dive into the strategic objective of "Our People", looking at the labour market and workplace culture trends alongside ESB's People Strategy.

At the autumn strategy meeting, the Board reflected on the strategic landscape for networks businesses, external developments relevant to ESB's strategy, and the implications and challenges for ESB's climate ambitions. These sessions provided the Board with useful insight ahead of its review of the latest five-year Integrated Business Plan, to ensure a high level of alignment between the Business Plan and our strategy.

The Board will continue to closely monitor strategy implementation throughout 2024.

Financial Strength

ESB delivered record levels of capital investment in both 2022 and 2023 with aggregate capital expenditure through those years exceeding €3 billion. This level of investment, primarily in critical energy infrastructure, for the benefit of customers, the economy and wider society, is underpinned by continued strong financial performance of the Group. In this regard, ESB performed strongly in 2023, with operating profit of €1,121 million and profit after tax of €868 million.

ESB's financial capability is a foundational pillar of our strategy given its importance in enabling the delivery of net zero. A key measure of financial capability is the maintenance of a strong investment grade credit rating. The Board was pleased therefore to see that ESB maintained credit ratings at A-/A3 (BBB+ standalone) during 2023. It was also encouraging to see the bond market continue to respond well to ESB's strategic vision and growth ambition. Over €1.3 billion of additional funding was raised in 2023, €500 million of which was in the form of a green bond, recognising our continued investment in activities which contribute to sustainability objectives.

Dividends for our Stockholders

ESB's dividend policy, as agreed with the Government as majority stockholder, provides for targeted dividends of 40% of adjusted profit after tax. In line with this policy, the Board is recommending a dividend for 2023 of €220 million. This will bring the level of dividends declared by ESB over the past 10 years to over €1.4 billion.

Our Customers

The Board is acutely aware of the impact that electricity price increases over 2021 and 2022 have had on our customers. We remain committed to supporting them in whatever way we can and, in particular, protecting our vulnerable customers. After a period of sustained price increases, the Board was pleased to be able to approve a price reduction for over 1.1 million Electric Ireland residential electricity customer accounts in the Republic of Ireland in both September 2023 and January 2024 which is delivering an average cumulative electricity bill reduction of 17% for customers.

Board Engagement

Four new Worker Board Members, Karen Halpenny, Gráinne O'Shea, Trevor Walsh and Owen Kilmurray, became members of the Board in January while Annette Flynn and Aisling Curtis joined as Independent Board members later in the year. Together, they have brought fresh and valuable perspectives to the work of the Board through 2023.

The Board was delighted to welcome the Minister for Public Expenditure, NDP Delivery and Reform, Paschal Donohoe TD, to the April meeting of the Board. The Board had an engaging discussion with the Minister about the international energy markets and ESB's strategy as well as sustainability, energy security and supporting customers.

Our People

The delivery of our ambitious objectives depends on the knowledge and commitment of our people. At the end of 2023, ESB Group employed over 800 more people compared to the end of 2022. Ensuring that ESB has the right capability to deliver on our ambition is core to strategy delivery, and the Board was pleased to see the progress in growing and diversifying ESB's capability base during 2023.

Conclusions

While acknowledging the developments in ESB's business environment and potential implications for our strategy, the Board is confident that the Group's business model and strategic priorities can deliver on our net zero ambition, for the benefit of our stockholders, our customers and the communities in which we operate.

On behalf of the Board, I would like to pay tribute to all of the people in ESB for their relentless efforts and commitment in 2023. While this has been a difficult period for our customers, the Board acknowledges the contribution that all employees have made in supporting customers throughout an unprecedented time in the energy sector, and working to deliver a secure, reliable and sustainable future for all.

In accordance with the ESB Acts 1927-2014, the Board presents the Annual Report and Financial Statements for the year ended 31 December 2023.



Terence O'Rourke
Chairman
28 February 2024