EirGrid plc

2007 Annual Report and Accounts

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A 110 kV transmssion tower on the power system.

Chairperson's Report

It is with great pleasure that I present EirGrid's Annual Report for 2007, the first complete year of operation for EirGrid as Transmission System Operator (TSO), and a landmark year for the energy sector and the wholesale electricity market.

March 2007 saw the publication of the Government White Paper on Energy Policy, highlighting a number of areas which emphasise and reinforce the importance of EirGrid's role. These include sustaining and developing the market into the future, facilitation of new generation and the transfer of ownership of transmission assets to EirGrid. There is also a series of initiatives to improve generation adequacy margins and the required growth of renewables as an energy source for the Irish economy.

One of the key enablers in facilitating security of supply, diversification of energy sources and a competitive electricity market is the development and reinforcement of the national transmission network. In this regard, we intend to publish shortly EirGrid's Grid Development Strategy to 2025 which will set out a comprehensive blueprint for the future developments which are needed. Major progress was made during the year on the development of the East–West Interconnector project, with the issue of an Invitation to Negotiate to a short list of companies and the commencement of subsea surveys in the Irish Sea. This critical project demonstrates EirGrid's ability to mobilise rapidly, and to progress complex projects against very aggressive timelines.

The successful establishment of the Single Electricity Market (SEM) on 01 November was an historic achievement for the island of Ireland. It involved co-operation across a wide range of parties: the two TSO's – EirGrid and System Operator Northern Ireland (SONI) Ltd; two regulatory authorities – the Commission for Energy Regulation (CER) and the Northern Ireland Authority for Utility Regulation (NIAUR); two Departments – the Department of Communications, Energy and Natural Resources and the Department of Enterprise, Trade and Investment in Northern Ireland; and all Market participants. EirGrid's role, working with SONI, was critical to the success of the establishment and implementation of the new market on time and on budget.

The Government White Paper on Energy Policy set a target of 33% of electricity to be provided from renewable generation by 2020 and the recently published All-Island Grid Study indicates that it may be possible to go beyond 33%. In order for this to be realised national transmission capability must be significantly enhanced. Renewable sources now account for approximately 10% of all electricity generated.

I would like to express my appreciation to all of the members of the Board for their unceasing commitment and support throughout the year. I also wish to thank the Minister for Communications, Energy and Natural Resources, Eamon Ryan TD and his predecessor Noel Dempsey TD, for their support and assistance. The ongoing work of their officials is also greatly appreciated.

Since its establishment in 2006, EirGrid has demonstrated its commitment and capacity to deliver safe, secure, reliable, economic and efficient power in the interests of our customers and stakeholders. The new challenges posed by the White Paper and the All-Island Grid Study only serve to focus our energies and redouble our efforts in making EirGrid a world class TSO and Market Operator (MO) in the eyes of our customers and stakeholders.

Bernie Gray
Chairperson

9 May 2008

The Airtricity wind farm at Rathrussen, county Cavan.

Chief Executive's Report

The year 2007 marked EirGrid's first full year as Ireland's electricity TSO and MO. It also marked a period of consolidation, following the successful vesting of the Company on 01 July 2006.

Heading into 2007, we had created a clear vision for the future development of the Company, and three strategic priorities were identified:

1. To consolidate EirGrid's position as an effective and efficient electricity TSO and MO delivering quality services to its customers;

2. To grow the business through major investments in both the all-island SEM and the East-West Interconnector; and

3. To develop the Company's capability to take on the major challenges facing both EirGrid and the industry in the years ahead.

While the action plan to achieve these strategic priorities encompasses a five-year period, I am delighted to report that in each of the above priority areas significant progress was made during the past twelve months. In the core TSO business, the operational focus during 2007 was on maintaining security of supply, providing transmission access, developing the transmission grid and gearing up for the large scale integration of renewable generation. In the MO business the focus was on transitioning from the old bilateral power market to the new all-island SEM.

Security of Supply

Security of supply is measured by the extent of the margin between the load on the power system at any given time, and the capacity of the generation plant available to meet that load.

Throughout 2007, security of supply was maintained, and margins were satisfactory. The peak load of 4,906MW exported from power stations (equivalent to 5,085MW generated) occurred at 17.45pm on 18 December 2007. This demand was met successfully, with sufficient capacity in reserve to cater for the failure of any large generation unit.

A disappointment during the year was the continued poor availability performance of the generation portfolio. Despite some notable examples of good performance, the average availability for the portfolio as a whole (excluding wind plant) was just 77%. The timely commissioning in October 2007 of the new 412MW power plant at Huntstown contributed significantly to security of supply margins over the winter months.

During the year, we put in place a series of measures designed to ensure that greater transparency is incorporated into the analysis of security of supply. Firstly, EirGrid published its Winter Outlook report in August 2007. This report assessed each of the factors likely to impact on security of supply during the Winter 2007/2008 period, and concluded that operating margins should be satisfactory. Secondly, since September 2007 we have published on the EirGrid website a monthly analysis of generator availability, on a unit by unit basis, for the previous month and for the year to date.

The Generation Adequacy Report produced by EirGrid each year provides an analysis of security of supply in the medium to long term. The latest report, which was published in December 2007, analyses the various factors that could either exacerbate or alleviate security of supply concerns in the period to 2014. The development of two new large generators in the Cork area, together with significant developer interest in new projects elsewhere, augurs well for security of supply in the medium term. However, the uncertainty in relation to the closure or divestment of some 1,300MW of ESB plant, together with ongoing poor availability across the generation portfolio, may pose some risks in the short term.

Transmission Access

New customer plant connected to the transmission grid during 2007 included the Huntstown 412MW Combined Cycle Gas Turbine (CCGT) generation plant, and wind generation totalling 29.8MW at Glanlee, county Kerry.

By end 2007, the total wind capacity connected to the system was 805MW, of which 373MW is connected to the transmission network. This represents an increase of only 55MW over the 2007 level. This is due primarily to the fact that a number of the projects which were expected to be commissioned during the year will not now come on stream until some time in 2008.

During 2007, the bulk of the 'Gate 2' Connection Offer process, encompassing about 1,300MW of additional wind capacity, was completed successfully. EirGrid, in conjunction with ESB Networks, also undertook significant preparatory work for the next round of offers ('Gate 3'), and made a joint submission to the CER on a proposed methodology. This proposal is one of a number currently out to consultation with the industry and it is expected that the 'Gate 3' process will get underway by mid 2008.

Connection offers were accepted by both ESB and Bord Gáis respectively during the year for the connection of large (400+MW) CCGT generation plants. Both of the plants will be located in the Cork area.

Transmission Grid Development
Progress on the implementation of the transmission development programme continued to be made throughout 2007. Of particular note was the launch of the public consultation process in relation to the Meath-Cavan and Cavan-Tyrone 400kV projects. The Meath-Cavan project is required to provide essential reinforcement to the transmission grid in the North East. The Cavan-Tyrone project, which we are developing with Northern Ireland Electricity (NIE), is required to underpin the all-island electricity market and provide for the free flow of electricity between both jurisdictions.

Through the consultation process EirGrid has engaged with over 11,000 stakeholders, and this engagement is helping the project team to address the key issues and primary concerns raised. These relate principally to health, the possibility of putting the circuits underground, and the impact on landscape, the environment, property prices and cultural heritage. The additional knowledge gained during the consultation will be taken into consideration in the route selection process and will be further dealt with in the submission to the planning authority – the Strategic Infrastructure Board of An Bord Pleanála.

During 2007 EirGrid completed the first phase of the Grid Development Strategy, a major planning study to identify the shape of the grid required in 2025 to meet projected demand growth, significantly increased renewables access and balanced regional development. Consultations were held with the industry on the methodology, and first phase results were communicated. The Grid Development Strategy will be completed in mid-2008.

Renewable Energy Integration
A key initiative during 2007, building on EirGrid's ongoing dialogue with the renewable energy sector and also taking into account national targets for the sector, was the development and articulation of EirGrid's policy in relation to renewables, which states:

"As a core part of our corporate objective of becoming a World Class TSO, EirGrid intends to be a world leader in the facilitation of renewables. In order to achieve this, EirGrid is committed to proactively working with all stakeholders and customers to ensure all Government targets in relation to renewables are realised while ensuring the continued security, safety and reliability of the power system."

This policy is driving a detailed work programme across all aspects of our business that will over time deliver a successful outcome for the Company, the industry and the country.

The Single Electricity Market (SEM)
A ground-breaking achievement during 2007 was the successful transition from the old jurisdictional market arrangements that applied in Ireland and Northern Ireland to the new SEM. Together with our partner SONI, and working closely with the regulatory authorities and all market participants, EirGrid played a major role by delivering the central systems and processes that are required for the operation of the SEM. This development was extremely complex, requiring more than two years of detailed planning and project implementation, and ultimately involving 290 people in 86 separate work streams. The project was delivered successfully, on time and within budget, and the system went live on 01 November 2007.

The SEM provides an all-island platform for the wholesale trading of electricity, and represents a significant first step in developing a truly competitive industry which, ultimately, will put downward pressure on prices.

EirGrid and SONI are joint venture partners in operating the market; this is achieved through the SEM Operator function (SEMO).

Growing the Business
The completion of the SEM project also marks the completion of the first phase of EirGrid's growth strategy. Further investment in the SEM related systems and processes will be a feature during 2008, and a detailed work programme is being finalised with the regulatory authorities.

The East-West Interconnector, which will link the electricity grids of Ireland and Great Britain, represents the second phase of EirGrid's growth strategy. This project is of strategic national importance to Ireland and is recognised as such in the Energy White Paper and the National Development Plan. EirGrid has been entrusted with the development and ownership of this interconnector by Government. Working closely with the CER and with the Department of Communications, Energy and Natural Resources, significant progress has been made. During 2007 the interconnector termination points in Ireland and Wales were selected and secured, a sea bed survey was initiated, and Invitation to Negotiate documents were issued to pre-qualified tenderers. The project remains on track to meet the target completion date of 2012.

A key element of Government energy policy, as set out in the Energy White Paper and subsequently endorsed in the Programme for Government, is the establishment of EirGrid as the National Transmission Grid Company. This will be achieved through the transfer of the transmission assets to EirGrid. We believe that this will create significant efficiencies, and represents a further necessary step in the creation of a truly competitive market and the delivery of renewable targets. EirGrid stands ready to engage with Government and stakeholders to deliver on this policy objective.

Developing EirGrid's Capability

EirGrid's ability to deliver on its statutory and strategic mandate is entirely dependent on the quality of our people, processes and supporting systems. To deliver on this, the third pillar of our corporate strategy, and to deliver on our commitments to our customers and stakeholders, we are making significant investments in staff recruitment and training, in further developing the management capability within the Company, and in ensuring that we have the necessary IT support systems and skills in place.

During 2007 we recruited over 70 new staff to support business needs, including the establishment of the new SEMO function. A major achievement in 2007 was the finalisation of a new unified grading and remuneration system for staff that has performance excellence at its core.

In the Information Services area, in addition to the normal business support systems that would be a feature of all progressive companies, we also support and maintain a number of mission-critical systems that are essential to the operation of the power system and of the electricity market, 24 hours a day, and 365 days a year.

Finance

EirGrid's revenue for 2007, its first full year of operation, increased from €140m in 2006 to €291m. This reflects the fact that EirGrid was the TSO for twelve months in 2007, compared with six months the previous year. The operating profit of €8.8m compares to an operating profit of €12.6m for 2006. However, the 2006 results included regulatory over-recoveries of €9.6m reducing the estimated underlying profit to €3m. Following discussions with the CER, €35.4m of revenues from the old market arrangements has been ringfenced to be returned to TSO customers. This is detailed in the Financial Review.

Our Customers

At EirGrid our customers include directly-connected electricity consumers (these are among the largest electricity customers who receive power at high voltage), generators (both fossil fuel and renewable) and market participants. Our work is also critical to a wide range of stakeholders including the public, regulatory authorities, policy makers, government departments, state bodies, universities and research establishments, and other organisations. We prioritise good quality service and have taken measures during 2007 to review and improve our service, including increased regular contact with customers and stakeholders and the launch of our Customer Charter. The Charter, which is published on our website, outlines our commitment to providing a professional, efficient and courteous service to all our customers.

Our People

At the end of 2007, EirGrid employed 222 people. The nature of EirGrid's business means that our staff need to be highly qualified in a wide range of business and technical disciplines. EirGrid is privileged to have a diverse workforce, with employees from many countries.

EirGrid is committed to being a great Company to do business with and also a great place to work, leveraging and utilising the strengths, capabilities and potential of all of our staff.

Looking Ahead

The environment in which EirGrid operates is a very dynamic one, driven by key issues around security of supply, competitiveness and sustainability. 2007 saw major policy responses to these concerns at global, European and national levels. The need to address global warming was given added urgency through the published work of the Intergovernmental Panel on Climate Change, and the important decision which was taken at the UN Climate Change Conference in Bali to begin talks on a successor agreement to the Kyoto Protocol.

At EU level, following the publication of a strategic review of the energy sector, the Commission has brought forward its proposals for a third package of measures to promote energy market liberalisation and the development of a competitive energy market across Europe. Also at EU level the Commission has set out an ambitious plan for tackling climate change, and has adopted a proactive leadership role in the global debate on this issue.

The Irish Government's policy framework on the issues of security of supply, competitiveness and sustainability was set out in the Energy White Paper. It is clear from the proactive response to the White Paper on the part of Government departments, state agencies and the industry generally that policy in this area will evolve rapidly to best position Ireland to address the challenges ahead.

EirGrid has a key role in delivering some of the core elements of the policy framework; through completing the East–West Interconnector project, through facilitating the integration of increased quantities of renewable generation on to the power system, and through developing the transmission grid in a safe, reliable and affordable manner.

In the more immediate time-frame, a major milestone in EirGrid's development will take place in mid-2008, with the relocation of the entire business to new premises at The Oval in Ballsbridge. This move severs a link with the existing Fitzwillliam Street premises that have housed the transmission system operation function, and with it the National Control Centre, for more than 50 years. However I am confident that the strong culture of public and customer service inherited from those who operated the system over those 50 years will continue to be evident from an independent EirGrid operating from our own premises at The Oval.

Dermot Byrne

Dermot Byrne
Chief Executive

9 May 2008

Key Financial Highlights €m

	2007	2006
Revenue	290.4	139.9
Direct costs	235.6	103.6
Other operating costs	46.0	23.7
Operating profit	8.8	12.6

EirGrid's revenue for 2007, its first full year of operation, increased from €139.9m in 2006 to €290.4m. This reflects the fact that in 2006 EirGrid took on responsibility as TSO for the six months from 01 July.

The Company's revenue is primarily derived from regulated tariffs, specifically the Transmission Use of System (TUoS) tariff, a charge payable by all users of the transmission system and its share of the tariffs as joint MO for the SEM.

Direct costs consists of:

- The regulated charge payable to ESB as owner of the transmission system;
- The cost of purchasing from generators a range of services required for the secure operation of the system;
- Constraint costs payable when the secure operation of the system requires changes to be imposed on the market based schedules of generators; and
- The costs of implementing a range of energy demand reduction initiatives.

Other operating costs include employee costs, depreciation and other corporate costs.

Regulation

EirGrid's TSO activities are regulated by the CER. In advance of the tariff year EirGrid submits to the CER a forecast of customer demand and of its operating costs for the year ahead. Following a detailed review process the CER issues a formal determination of the allowed costs. As with any forecast there can be variations between the projections and the actual cost outturn, resulting in regulatory under or over recoveries. Any such under or over recoveries are adjusted for in the price determinations for subsequent years. This can give rise to some volatility in the reported statutory earnings of EirGrid, as accounting regulations do not permit results to be smoothed through the anticipation of under or over recoveries.

In its role as joint MO for the SEM EirGrid is jointly regulated by the CER and NIAUR.

Results for the year

The operating profit of €8.8m for 2007 compares to €12.6m for 2006. The 2006 results included regulatory over-recoveries of €9.6m, reducing the estimated underlying profit to €3m. There were no regulatory over or under recoveries of such magnitude affecting profits in 2007.

During 2007 €20.6m was invested in the central market systems for the SEM, bringing EirGrid's total investment to €34m. A further €3.4m was invested in the TSO systems required to support the SEM.

It is pleasing to note a reduction in the deficit on the Company's defined benefit pension scheme from €21m in 2006 to €18.5m at December 2007.

Cash on hand at the end of the year of €80.6m includes €8.4m that arose due to timing differences in the SEM which is held in trust for market participants. A further €35.4m is due to be returned to TSO customers as a result of circumstances related to the termination of the market arrangements that prevailed prior to the launch of the SEM on 01 November 2007. A liability for repayment of this amount was recognised on the basis of an instruction from the CER that any monies outstanding on termination of the old market should be ring-fenced, to be returned to customers over future tariff periods.

Operating the Power System


Staff member Harry McAlinden working in the National Control Centre

Operating the Power System

The safe, secure, reliable, economical and efficient operation of Ireland's power system lies at the very heart of EirGrid's day-to-day operations.

Electricity cannot be stored in bulk and must be available for use instantly – where and when it is needed. This means that as demand rises and falls, electricity generation plant output, and flows along the network must be monitored and adjusted accordingly. EirGrid staff monitor and control the flow of power across the high-voltage network from their operational base at the National Control Centre. From here, they manage the issuing of information to power plants across the country, giving minute-by-minute instructions on the precise level of output that each of these plants must release to the grid at any given time.

The power system is specifically designed to provide secure supplies to customers. In doing this, EirGrid must make the best use of renewable energy-sourced electricity supplies, must create opportunities for power generation companies and suppliers to do business together, and must ensure that the power system utilises the most economical methods for managing the overall power generation mix. This requires highly specialised IT systems as well as a telecommunications infrastructure that has complete redundancy and back-up facilities.

EirGrid has a number of teams whose sole responsibility is the optimum management and operation of the power system. These teams enable us to ensure continuous delivery of high quality supplies in terms of voltage, frequency and overall reliability.

Demand Growth

System demand continued to grow significantly throughout 2007, with energy consumption for the year totalling approximately 28,000GWh (gigawatt hours); this represents a 2.3% increase on 2006 figures. The maximum system demand of 4,906MW[1] occurred on 18 December 2007; this represents a relatively small increase on the 2006 peak demand figures.

During 2007, the commissioning of the new electricity generation unit at Huntstown in north county Dublin was completed and full commercial operation got underway. The new unit is a combined-cycle gas turbine with a capacity to export more than 400MW onto the transmission system. Huntstown has increased the total installed capacity of fully dispatchable generation by approximately 7%.

By the end of 2007, total installed capacity of fully dispatchable generation had reached a total of 6,246MW.

System Performance

The availability of the transmission system was maintained throughout 2007, at an overall average availability of 95.34%. During the year as a whole, the number of lost 'System Minutes' (an industry standard index which measures the severity of each system disturbance) was 3.48; this was within the system target of 4 System Minutes. The lost System Minutes occurred when parts of the transmission system were unavailable due to trippings or plant failure.

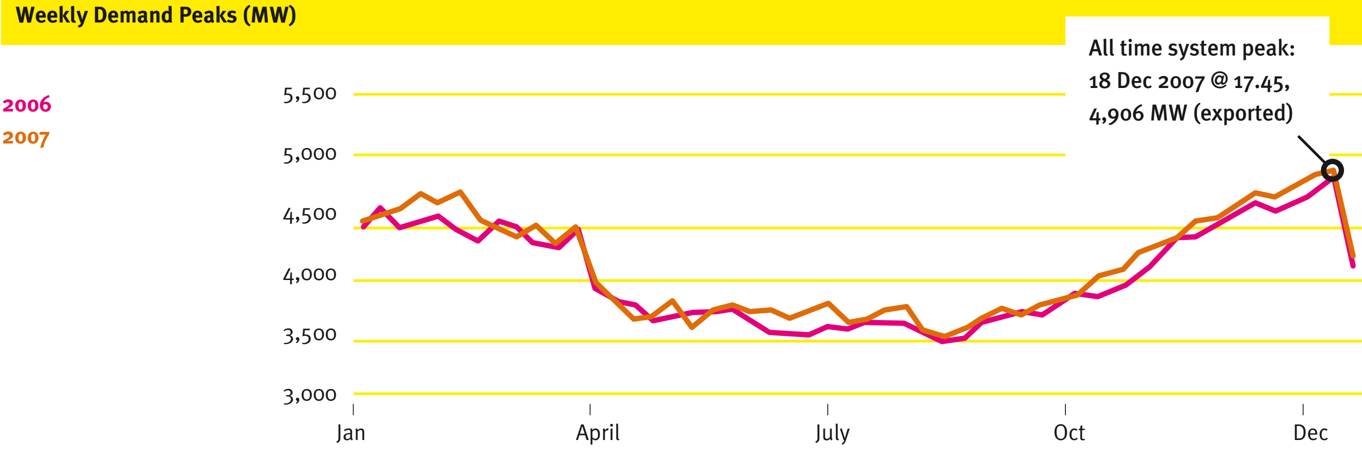
Overall, generation availability for 2007 remained low, averaging just 77%. The generation Forced Outage Rate (FOR) was 17% which represents an increase on previous year's FOR of 13%. The graphs show the rolling 52-week availability, and demonstrate how overall availability has decreased since the start of 2007. The graph also demonstrates that scheduled outages take place during the spring/summer and autumn periods. As a result, generation availability tends to be lower during those periods than during the winter.

EirGrid published the first annual Winter Outlook report in August 2007. The report assessed the adequacy of generation capacity throughout the peak winter period; it also assessed risks to security of supply during that period. In September 2007 – in a move aimed at further improving transparency – EirGrid published on its website the first in a series of monthly updates on generation availability. These updates are combined with commentary on any changes to the short-term security of supply outlook.

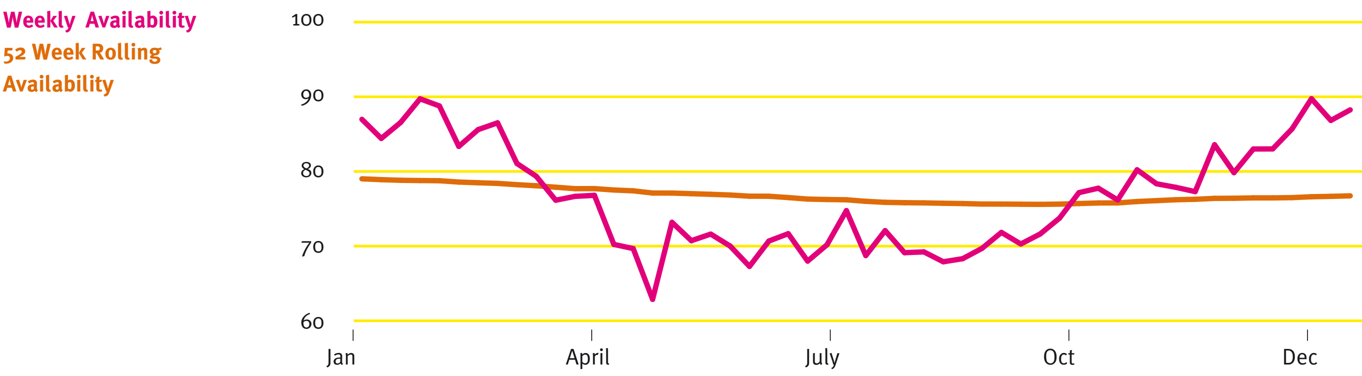
Low generation availability notwithstanding, reliability standards were maintained throughout 2007, and there was no disruption to supplies at any point due to shortages in generation capacity. The commissioning of the new 412MW unit in Huntstown, coupled with the fact that peak demand levels were slightly lower than expected, due primarily to mild weather conditions, also helped in maintaining reliability standards.

[1] With the introduction of the Single Electricity Market, recording of peak demand moved from a gross (or generated) to a net (or exported) basis. The equivalent exported peak demand in 2006 was 4,865MW which is equivalent to generated peak demand of 5035MW.

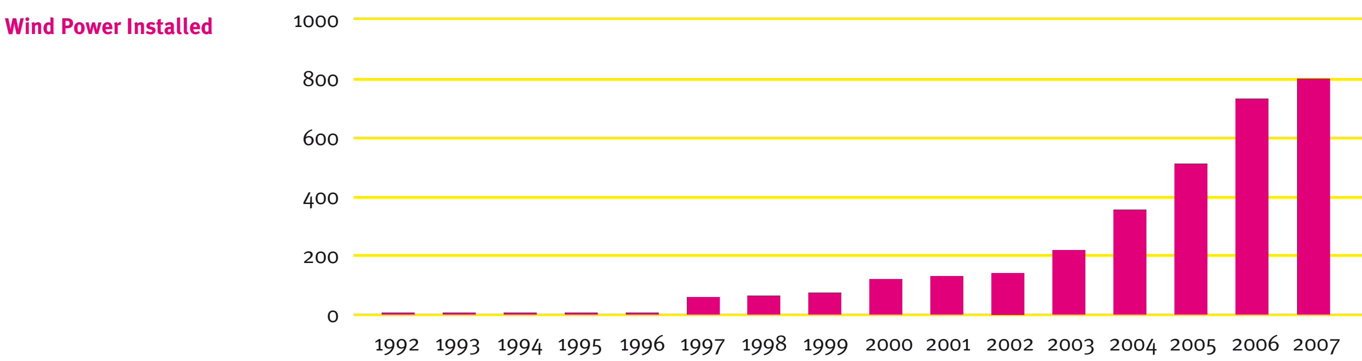
Weekly Demand Peaks (MW)



Generation Availability (%)



Installed Wind Power (MW)



Renewables
The primary renewable energy generation sources which export electricity to the Irish power system include hydro and wind. The beginning of 2007 saw approximately 750MW of wind capacity connected to the power system. As the year progressed, this increased by approximately 6%, such that by the end of 2007 805MW of wind capacity, in over 70 locations across the country, was connected to the system.

While several large wind farms were close to commissioning, and while projections for the level of connections continue to increase, the total number of new wind farms commissioned during 2007 was less than expected.

During 2007, EirGrid published its Renewables Policy which clearly stated the Company's ambition to be a world leader in the facilitation of renewables. The policy also commits EirGrid to working proactively with its stakeholders and customers to ensure that all national targets in relation to renewables are realised. Furthermore, EirGrid must achieve this while simultaneously ensuring the continuous delivery of a safe, secure and reliable transmission system.

Transmission and Market Services
There are a range of transmission and market-related services essential to the efficient operation of both the power system and the SEM, including:

- Transmission Use of System;
- Ancillary Services;
- The Winter Peak Demand Reduction Scheme;
- Interruptible Load; and
- Powersave.

These services cover the collection of charges for using the Transmission System and for securing the provision of ancillary services such as operating reserves. They also cover the provision of incentives for capacity to be available, as well as incentives for the promotion of overall efficiency through reductions in peak demand (as part of the Winter Peak Demand Reduction Scheme). In addition, the interruptible load arrangements make a key contribution in terms of delivering overall system security; the latter is achieved by way of contracts with major electricity consumers who have signed agreements to automatically reduce their electricity demand in the event of a significant dip in transmission system frequency.

The Single Electricity Market (SEM)
The SEM went live on 01 November 2007. The creation of the SEM represents a significant change in how the power system is operated. Moreover, increased levels of co-operation between EirGrid and SONI are now a feature in the operation of the all-island system, optimising the scheduling of generation units and managing system constraints.

Focus for 2008
Key areas of focus for 2008 include operating the system safely and maintaining security and quality of supply; continuing our work on the integration of renewables into the system; working to enhance and improve operations in the new SEM, and working with the regulatory authorities on the introduction of harmonised arrangements for ancillary services provision.

EirGrid's relocation during 2008 will involve moving the National Control Centre to the new headquarters at The Oval on Shelbourne Road, Ballsbridge. The move will be carried out while simultaneously ensuring that power continues to flow across the high-voltage network as and when it is needed. Most importantly, EirGrid will ensure that it continues to do so in a safe and secure manner.

Developing Transmission Infrastructure

The transmission station at Corduff, county Dublin.

The provision and management of a high quality electricity transmission system is an essential prerequisite for sustaining Ireland's social and economic development. EirGrid is responsible for developing and maintaining the transmission system, thereby ensuring the reliability and quality of supply, and the provision of connection opportunities to all customers.

EirGrid analyses Ireland's transmission development requirements, taking account of future growth in customer demand, new generation needs, cross-border interconnection requirements and other changes in patterns of usage across the transmission system. It identifies optimal solutions, develops transmission project specifications, brings projects through the public planning process, monitors and reviews project delivery, and ensures that projects are constructed to the required standards.

EirGrid ensures that its staff and appointed project contractors and subcontractors carry out their work safely at all times.

Transmission Planning

The need for major development of the transmission system was further crystallised and reinforced during 2007 by the All-Island Grid Study, EirGrid's own Grid Development Strategy, buoyant interest in the generation development sector and continued demand growth. During the period to 2025, electricity demand is expected to increase by 70% to 80%, and some 7000 MW of new generation capacity is likely to be connected to the system. This projected increase in demand and the addition of new generation, means that there is an ongoing need to expand and reinforce the transmission infrastructure.

In 2007 EirGrid completed Phase 1 of its Grid Development Strategy, and presented it to key stakeholders and industry participants in early 2008. Stakeholders had participated in the preparation of the assumptions for the study, and have welcomed the initiative and recognised it as a key element of planning the future development and direction of the transmission grid. Phase 2 of the Grid Development Strategy, which EirGrid will complete by mid-2008, will identify the strategies, projects and project options for the development of the transmission network to meet Ireland's needs for the period to 2025 and beyond.

Additionally, EirGrid produces and publishes annually its Transmission Forecast Statement, which provides data on the expected flows of power across the system and information on opportunities for customers to connect to the system, and its Transmission Development Plan which details the proposed transmission developments and upgrades for the next five years. The Transmission Forecast Statement published in August 2007 addressed the period from 2007 to 2013. The Transmission Development Plan for the period 2007 to 2011 was published for consultation in September 2007.

New Connections

2007 saw the completion of new connections for Huntstown Phase 2, a 412MW CCGT plant in north Dublin, and a 29.8 MW wind farm at Glanlee in county Kerry. Substantial progress was made on a number of of other wind farm connections which will complete in the first half of 2008. Increases in contracted capacity were accommodated for a number of wind farms and large industrial customers. The provision of a 110kV transmission connection to Wyeth Medica Ireland at Baroda, near Newbridge, county Kildare, was at an advanced stage at the end of 2007.

The "Gate 2" process which provides for the making of offers for connection to the transmission and distribution systems for approximately 1,300 MW of wind projects, was largely completed in 2007. The final offers will issue in early 2008. It is expected that Gate 2 will involve some 18 offers for connection directly to the transmission system, for approximately 630MW of generation.

Offers for the connection of two large combined-cycle generation plants (ESB Power Generation, 431MW, and Bord Gais Eireann, 445MW) located in the Cork area, were accepted by the respective applicants. This is an important element of security of supply over the coming years.

Major Transmission System Projects

Progress on the implementation of a significant transmission development programme continued throughout 2007. This involves some 200 projects which are currently at various stages of planning and design, in the public planning process, or undergoing construction. The total value of projects under development approximates to €1 billion.

A number of key projects were granted planning permission in 2007, including the Lodgewood 220/110kV project near Enniscorthy. This project will ensure the reliability of supply to the county Wexford area and provide a platform for future economic development in the South East area.

In the west of the country the looping in of the Dalton-Galway 110kV line into Cashla 220kV substation which now has planning permission will ensure an adequate transmission infrastructure is in place to meet the increasing electricity demand for the immediate future and facilitate the continued economic development of the Galway area.

The Viridian Power Station at Huntstown, county Dublin.

September 2007 marked the first phase of the public consultation process in relation to two 400kV projects in the north east of the country – the Meath-Cavan project and the Cavan-Tyrone project. The projects are vital for securing electricity supply and facilitating economic development of the north east region. EirGrid provided substantial information in relation to the project proposals, and through the consultation process invited and received feedback and views from stakeholders. There is considerable public debate regarding the proposals and issues raised including visual amenity, health, property value and undergrounding. The consultation process is ongoing.

The experience both on a European and international level, is that infrastructure projects of this nature will generate considerable public debate. The debate must also recognise and consider the need for reliable, affordable electricity infrastructure for social, economic and business reasons, so that policy decisions can be made in a balanced and considered way. The transmission system is of strategic national importance and the infrastructure developments required to meet increased demand and generation connections will require significant investment. EirGrid, in line with its mandate from the Government, is committed to delivering a safe, secure, reliable, economic and efficient transmission system. The independent study recently announced by the Minister for Communications, Energy and Natural Resources, which will examine issues relating to overground and underground installation of high voltage transmission circuits, is welcomed by EirGrid and will contribute significantly to the issues under discussion.

Interconnection with Great Britain

In late 2006, EirGrid was charged with the development of a 500MW High Voltage Direct Current (HVDC) interconnector to Great Britain. This project, scheduled for completion by 2012, will contribute to reliability and security of electricity supply, promote competition in the market and facilitate the integration of renewables in Ireland.

EirGrid mobilised a dedicated, multidisciplinary project team in January 2007 and the project has ramped up rapidly. All necessary marine, environmental, safety and HVDC technical expertise for this technically challenging project has been put in place.

Significant achievements in 2007 included selection of the connection points from Woodland in county Meath to Deeside in Wales, securing connection capacity in Great Britain through a connection agreement with National Grid (Transmission), securing a licence to operate an interconnector in Great Britain, design of the competition for procurement of the interconnector and the issue of 'invitation to negotiate' (ITN) documents to the short-listed bidders. A marine survey was commenced and will be completed in early 2008.

Work is continuing on route and site selection and preparation of the necessary planning applications in Ireland and Britain. Award of contract to the successful tenderer or tenderers is expected to occur during 2008.

Maintenance

EirGrid is responsible for ensuring the maintenance of the transmission system, including the development and review of maintenance policies and standards. Policies are subject to periodic review, reflecting the performance and condition of the transmission assets and the development of maintenance technology and best practice. In addition, EirGrid maintains a continuous focus on ageing plant as well as options for plant refurbishment or replacement.

EirGrid commenced a review of maintenance policy in 2007 which will complete in early 2008. This is being carried out in cooperation with ESB Networks, which as transmission asset owner is responsible for the carrying out of maintenance works.

Transitioning to the new Single Electricity Market

Transitioning to the new Single Electricity Market

A competitive electricity market is a key enabler for ensuring the delivery of economic and efficient supplies of electricity to all customers. The wholesale electricity market in Ireland saw major structural changes in November 2007, with the establishment of the Single Electricity Market (SEM). This represents a key step in the evolution of a competitive electricity market.

This section reviews the operation of the wholesale electricity market up to the establishment of the SEM in November 2007, as well as the successful project which delivered that market, and its operation by the Single Electricity Market Operator (SEMO).

EirGrid operated the previous electricity market in Ireland from January to October (inclusive) in 2007. From 01 November 2007, SEMO, a joint venture between EirGrid and System Operator Northern Ireland (SONI) Ltd, became responsible for operating the new all island market. The establishment of the new market involved close co-operation amongst key parties and stakeholders including the two system operators, the two regulators, both Energy Ministers north and south, the Department of Communications, Energy and Natural Resources and the Department of Enterprise, Trade and Industry, Northern Ireland, and market participants.

Market operations to 31 October 2007

EirGrid had another successful year in efficiently and effectively operating the electricity market prior to SEM Go-Live.

From January to 31 October 2007, the electricity market was operated on the basis of bilateral contracts between parties such as generators (or producers) and suppliers (traders and re-sellers). From SEM Go-Live in November, this changed to a "Gross Pool" system. Details of this system are described later in this section.

EirGrid continued, throughout 2007, to publish quarterly reviews and sought to expand the range of data published and made available to the market through its web site.

SEM Establishment Programme

When work on the SEM Establishment Programme first began in 2005, the clear objective was to create a single electricity market, thereby replacing the two previous bilateral trading arrangements. It was agreed that the new market would be operated jointly by EirGrid and SONI, and staff from both organisations worked on the SEM Establishment Programme.

The role of the SEM Establishment Programme team was to oversee the creation of the SEM and take responsibility for putting in place the various systems and processes that would be required to enable the new market to operate efficiently. The Programme encompassed a number of project areas: the implementation of the central market systems; the establishment of SEMO, the new market operator; and readiness projects within both EirGrid and SONI.

In order to implement the 'readiness' programme, more than 20 significant aspects of the various TSO areas of activity had to be modified and changed, including transmission planning, outage scheduling, power system dispatch, and Grid Code harmonization

As part of the project, the SEM Establishment Programme team organised and hosted a series of technical forums and business forums for market participants. These forums were followed by a three-and-a-half-month market testing period which involved a full-scale 'as live' operational trial of all market systems and processes – from bidding to billing. The trial programme was specifically designed to give market participants a risk-free opportunity to bed down their operations prior to the system going live.

The success of the project was shown when, following the successful completion of the market trial and confirmation by the CER and NIAUR, the market went live at midnight on Thursday, 01 November 2007. The programme was delivered on time and within budget.

The Single Electricity Market Operator (SEMO)
Since November, SEMO has been operating the new market from offices in Dublin and Belfast.

As part of its role as TSO, EirGrid continues to provide data feeds to SEMO on a daily basis. EirGrid is also responsible for meter data relating to all transmission-connected generation units. Since 01 November 2007, this data is transmitted on a seven days a week basis.

During 2007, the market operated in line with expectation and prices have been reflective of supply and demand. In addition, the performance of SEMO systems was satisfactory.

The market encompasses the wholesale trading of electricity in the Republic of Ireland and Northern Ireland. Each year, SEMO will oversee the processing of energy invoicing and settlement totalling approximately €4 billion in addition to processing capacity settlement totalling approximately €600 million. SEMO publishes market prices on a half-hourly basis every day through its web-based market systems.

Since commencing operation, SEMO has functioned as a single team operating across two jurisdictions. The SEM is managed and administered by 45 qualified and experienced staff from EirGrid and SONI.

Next year's Annual Report will review the first full year of operation of the Single Market.

By delivering greater transparency and information to market participants, the SEM serves to provide a basis for the further development of a competitive, sustainable and reliable electricity market.

The Single Electricity Market (SEM) is a centralised market with ex-post pricing (meaning that the trading price is determined after the trade occurs). More specifically, it is a gross mandatory pool. This means that all generators and suppliers at the wholesale level are obliged to buy and sell all of their energy through this market. The participants do this by submitting their bids and offers into the market operator up to 10:00 am the day before trading.

The Single Electricity Market Operator (SEMO) calculates a price in the days following the time that the energy has been physically generated and consumed, when necessary metered information has been collected. This is called the System Marginal Price (SMP), and is for each half hour in a 24 hour period starting from 06:00 am to 06:00 am the following day.

The calculation of this price is a complex function of the bid offer, technical offer and demand in the system at any particular point in time. The prices and volumes determine an energy payment or charge each half hour. Information is provided to participants on a daily basis. Following the calculation of price and metering of volumes, SEMO ensures the payment of invoices from different market participants who have bought or sold power.

Bernie Gray (Chairperson)
Bernie Gray was appointed to the Board in September 2005 for a five-year term. She was appointed Chairperson in April 2006. She formerly worked with Eircom between 1984 and 2002, holding a number of management positions within Finance and HR areas and latterly served as HR Director from 1998 to 2002. She also served as a Worker Director of the company between 1988 and 1992. Ms. Gray is currently Chairperson of EirGrid and a member of the Board of the Public Appointments Service, and works as an independent HR consultant working with a range of public and private sector companies.

Dermot Byrne (Chief Executive)
Dermot Byrne was appointed Chief Executive of EirGrid in July 2005. A graduate of University College Dublin he holds a Masters in Electrical Engineering and a Masters in Business Administration. Prior to joining EirGrid, he worked at senior management level in the electricity industry in Ireland and abroad; this included serving in a variety of engineering and management roles in the operation of transmission systems and working on consultancy assignments in Bahrain. From 1993 to 1997 he held the post of Manager, Power System Operation, ESB National Grid. In the late 1990s he worked in senior roles within the ESB's customer services and power generation areas. In 2000, he was appointed to the newly created post of Head of ESB Networks. While in this post, he oversaw the major ramp-up of the ESB's investment in transmission and distribution infrastructure. He is a Fellow of Engineers Ireland and he is also a distinguished member of the international electricity body CIGRE.

Emer Daly

Emer Daly was first appointed to the Board in March 2001. She was appointed for a second term of 3 years in March 2005, and was reappointed for a third term in April 2008. Emer is a Chartered Accountant who has over 23 years experience in both practice and industry. She is Chairperson of the Dublin Dental School and Hospital, a Director of the Property Registration Authority and of Friends Provident International Limited and a member of the Audit Committee of the Department of Justice, Equality and Law Reform. Emer also provides consultancy services to a number of private companies and lectures in Risk Management on the Corporate Governance Diploma in the Michael Smurfit Graduate Business School in UCD. From 1984 to 1999 Emer worked with PricewaterhouseCoopers where she gained a wide experience of audit, due diligence and consultancy work, carrying out assignments for a variety of clients including listed companies, public sector and private companies. She then worked as a Director with AXA Insurance until 2006 and was responsible for the Risk Management, Finance and Strategic Planning functions during her time there.

William Egenton

William Egenton was appointed to the Board in April 2006 for a period of five years. Currently, he is Managing Director of Dromone Engineering Ltd, Co Meath. He has also held a number of senior roles in multinational companies including Raychem Corporation, Tyco Electronics and Ingersol Rand. He has carried out numerous international assignments across Europe, North America, South Africa and the Asia Pacific region. He holds a Bachelors in Engineering from Dublin Institute of Technology, Bolton Street, a Masters in Industrial Engineering from National University Ireland, Galway and a Masters in Business Administration from London Business School. He is a Chartered Engineer and is a corporate member of the Institute of Engineering Technology.

Cormac MacDonnchadha

Cormac MacDonnchadha was appointed to the Board in December 2006 for a period of five years, following his election as the EirGrid staff representative. He has been involved in the electricity industry since 1993; this has included a period working with the Transmission System Operator (TSO), mainly in the power system planning and power system operation areas. Prior to joining the TSO team, he worked with ESB Networks on various projects associated with the distribution level voltage (i.e. 38kV and below). A graduate of University College Dublin, he holds an Honours Degree in Electrical Engineering, as well as a Diploma in Accounting and Finance from the ACCA and a Diploma in Project Management from Trinity College Dublin.

David Mackey

David Mackey was first appointed to the Board in March 2001. He was appointed for a second term of 3 years in March 2005, and was reappointed for a third term in April 2008. David spent over twenty years in the local government service where his positions included Assistant County Manager of South Tipperary and Cavan County Manager. In 1989, he moved into the private sector, spending over ten years with the Quinn Group, six years as Group General Manager, followed by four years as Group Chief Executive. In 1999 he went into business with the Elliott Family when Flag Properties Ltd was formed. Since 2002 he has also held the position of Chief Executive of P Elliott & Co Ltd, Cavan, which is one of the top five construction companies in Ireland. Other positions which he holds include Chairman of the Central Fisheries Board and a member of the Stadium Executive Committee of Croke Park.

Martina Moloney

Martina Moloney was appointed to the Board in September 2004 for a period of five years. A career official in the local government sector, she currently holds the position of County Manager with Galway County Council: it serves more than 160,000 people, has an annual spend in excess of €350 million, and has a staff of 1,400. Prior to joining Galway County Council, she worked with six other local authorities; these included Louth County Council where she held the position of County Manager, and Galway City Council where she was Director of Services with responsibility for corporate services, community and enterprise. She holds a BA in Public Administration and an MA in Public Management. She is a member of the Institute of Accounting Technicians. She is also a board member of both the Heritage Council and Irish Water Safety.

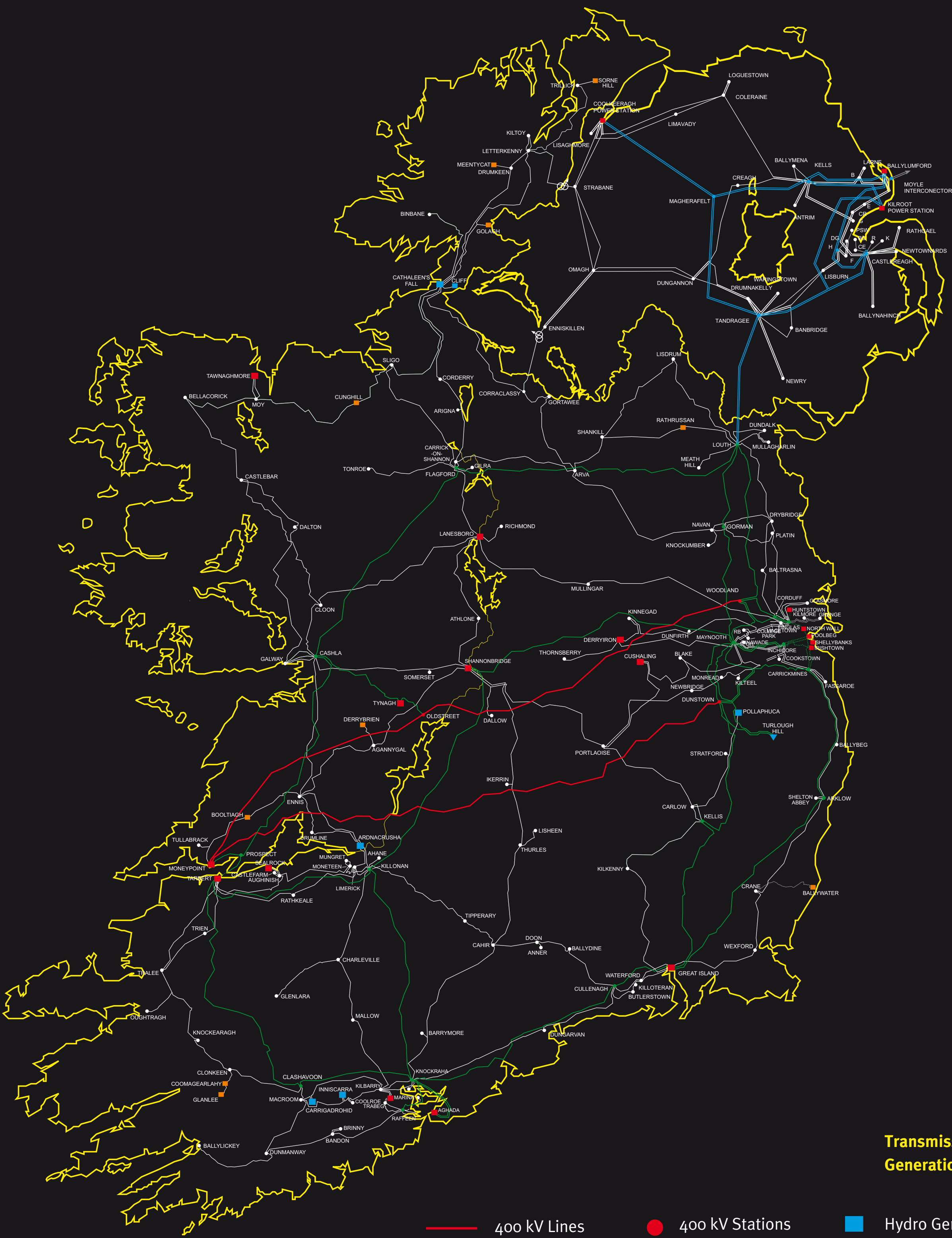
Jane Williams

Jane Williams was appointed to the Board in April 2006 for a period of five years. She is Managing Director of the Sia Group. She holds a Bachelors in Business Studies from Trinity College Dublin and a Masters in Psychology from Colombia University, New York. She is currently undertaking research at Trinity College Dublin for a PhD on the topic of gender in decision-making. Her career to date has included two years working in international banking with Banque Nationale de Paris; nine years working in financial analysis and international marketing and sales with the Industrial Development Authority, both in Dublin and New York; a year with DL Taffner, a New York-based TV production and animation company, and 20 years in business and organisational consultancy with the Sia Group. Her special area of expertise is strategy formulation, facilitation and training. She is a member of the Board of Forfás, a member of the Government's Decentralisation Implementation Group, and a Director of a number of private companies.

Niamh Cahill, Company Secretary and Company Lawyer

(See page 32)

Transmission System
400 kV, 275 kV, 220kV and 110 kV
October 2007



Transmission Connected Generation

400 kV Lines	400 kV Stations	Hydro Generation
275 kV Lines	275 kV Stations	Thermal Generation
220 kV Lines	220 kV Stations	Pumped Storage Generation
110 kV Lines	110 kV Stations	Wind Generation
220 kV Cables		
110 kV Cables		Phase Shifting Transformer

Organisational Structure

Board of EirGrid
Chairperson Bernie Gray

Chief Executive
Dermot Byrne

SEMO General Manager*
Sean McGoldrick

Operations
Fintan Slye

Grid Development and Commercial
Andrew Cooke

Information Services
Ann Scully

Human Resources
John Cloonan

Finance
Aidan Skelly

Legal
Niamh Cahill

* SEMO is a contractual joint venture between EirGrid and the System Operator Northern Ireland (SONI) Ltd.

Dermot Byrne, Chief Executive
(See page 26)

Niamh Cahill, Company Secretary and Company Lawyer
Niamh Cahill was appointed Company Secretary in August 2001. A qualified barrister, she was called to the Irish Bar in 1985 and to the UK Bar (Middle Temple Inn) in 1988. She has extensive experience of working both as a private practitioner (Four Courts, Ireland) and as an in-house legal counsel for a number of major international private and public companies in Ireland and the UK. Prior to joining EirGrid, she worked for eight years as a senior commercial lawyer within ESB Group where she held responsibility for managing and mitigating a wide range of commercial legal risks in the Irish electricity market and also in relation to ESB's international investments.

John Cloonan, Director, Human Resources
John Cloonan joined EirGrid in 2002 as Human Resources Director. Prior to taking up this position, he worked for a number of years as Human Resources Director of Lucent Technologies, where his role also encompassed a number of European-wide responsibilities. Prior to that, he worked with AT&T, Amdahl and EG&G in various management positions including operations and human resources. In conjunction with his current role as Human Resources Director of EirGrid, he also holds responsibility for the Company's communications and facilities functions.

Executive Team

Andrew Cooke, Director, Grid Development and Commercial
In his role as Director, Grid Development and Commercial, Andrew Cooke is responsible for the planning, development and maintenance of the transmission grid. He also holds responsibility for the design and implementation of transmission access and tariff arrangements, as well as responsibility for customer relations and regulatory relations. A graduate of Queens University Belfast, he holds a BSC in Electrical Engineering. He has more than 25 years' experience of working in the areas of transmission system operations and planning, market design, and regulation.

Aidan Skelly, Chief Financial Officer
Aidan Skelly joined EirGrid as Chief Financial Officer in June 2005. Prior to that, he held the position of Finance Director, Waterford Stanley. Before that, he worked with Waterford Crystal for 15 years, during which time he held a number of finance, sales and marketing positions both in Ireland and in the UK. He is a graduate of University College Dublin, from which he holds a degree in Commerce. He is also a qualified Chartered Accountant.

Ann Scully, Director, Information Services
Prior to becoming Director of Information Services, Ann Scully was Director of the All-island Project. Together with her counterpart in SONI, she was responsible for the programme to achieve the establishment of the all-Island Single Electricity Market (SEM) by the agreed 'go live' deadline of 01 November 2007. Prior to taking on this project , she held a number of managerial and project roles in ESB National Grid and ESB, including establishing the wholesale electricity market in Ireland in 2000 and CEO of ESBI Alberta Ltd, the Transmission Administrator in Alberta, Canada. A graduate of Trinity College, she holds a degree in Electrical Engineering.

Fintan Slye, Director, Operations
Fintan Slye assumed the position of Director of Operations in January 2007, having previously worked for McKinsey & Co in their Dublin office. Prior to that, he held a number of project and management roles in ESB National Grid and ESB International. He is a graduate of University College Dublin, from which he holds a Masters in Engineering Science and a Masters in Business Administration.

Financial Statements

The ESB Power Station at Turlough Hill, county Wicklow.

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The Directors present their Annual Report and the audited Financial Statements of EirGrid plc ('the Company') for the year ended 31 December 2007.

Principal Activities

The Company's principal activities are to deliver quality connection, transmission and market services to generators, suppliers and customers utilising the high voltage electricity system, and to put in place the grid infrastructure required to support the development of Ireland's economy. The Company is also jointly responsible for the operation of the wholesale electricity market for the island of Ireland. Since 01 November 2007 the Company discharges this responsibility through a contractual joint venture with SONI Ltd. On that date the old wholesale electricity market ceased and the new Single Electricity Market (SEM) commenced.

Results and Review of the Business

Details of the financial results of the Company are set out in the Income Statement on page 44 and the related notes.

Commentaries on performance during the year ended 31 December 2007, including information on recent events and future developments, are contained in the Chairperson's Report and the Chief Executive's Report.

Corporate Governance

The Company complies with the Code of Practice for the Governance of State Bodies ('the Code') approved by the Government on 02 October 2001. The Code sets out the principles of corporate governance which the Boards of State Bodies are required to observe. The Company 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.

The Company conforms as far as possible, and on a voluntary basis, with the principles of the Combined Code of Corporate Governance ('the Combined Code'). The Combined Code sets out the principles of Good Governance and a code of Best Practice. Companies listed on the Irish Stock Exchange are required to report on compliance with all provisions of the Combined Code as part of the listing rules. EirGrid is committed to achieving the highest standards of corporate governance and ethical business conduct and has implemented as appropriate the relevant principles of the Combined Code with the following exceptions:

- The Company is accountable to the Minister for Communications, Energy and Natural Resources;
- Appointments to the Board are a matter for Government and accordingly the Company does not have a Nomination Committee;
- Board members are appointed by Government and therefore are not subject to re-election to the Board;
- The Company's policy in relation to the remuneration of the Chief Executive is in accordance with "Arrangements for determining the remuneration of Chief Executives of Commercial State Bodies under the aegis of the Department of Public Enterprise" issued in July 1999; and
- It is the opinion of the Board that the appointment of a Senior Independent Director would not be appropriate in the context of the membership of the Board.

Principles of Good Governance

Board Members

The Board consists of a non-executive Chairperson, an executive Director and six non-executive Directors. One of the non-executive Directors is an employee of the Company. All Directors are appointed by the Minister for Communications, Energy and Natural Resources and their terms of office are set out in writing. The names of the Board Members and a short biographical note on each Member are set out on pages 26 to 29.

The Board

While day to day responsibility for the leadership and control of the Company is delegated to the Chief Executive and his Management Team, within defined authority limits, the Board is ultimately responsible for the performance of the Company.

The Directors are aware of, and have individually resolved to comply with, the Company's Code of Business Conduct for Directors.

Procedures are in place for the annual review of the performance of the Board and the Chairperson.

The Board has a formal schedule of matters specifically reserved to it for decision at the Board Meetings normally held monthly. Board papers, which include monthly Financial Statements, are sent to Board members in the week prior to Board Meetings.

The Board Members, in the furtherance of their duties, may avail of independent professional advice. 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.

The Board conducts an annual review of the effectiveness of the system of internal controls including financial, compliance and risk management.

Attendance at Meetings

There were 11 Board Meetings held during the year ended 31 December 2007. The Board Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Bernie Gray (Chairperson)	11	11
Dermot Byrne (Chief Executive)	11	11
Emer Daly	11	10
William Egenton	11	8
Cormac MacDonnchadha	11	11
David Mackey	11	8
Martina Moloney	11	9
Jane Williams	11	10

Board Committees in 2007

The Board has an effective committee structure to assist in the discharge of its responsibilities, consisting of three sub committees: an Audit Committee, a Remuneration Committee and a Transition Committee.

The Audit Committee's function is to assist the Board in fulfilling its oversight responsibilities relating to the financial reporting process, the system of internal control, the audit process, monitoring the independence of the auditors, compliance with laws and regulations and the Code of Practice for the Governance of State Bodies. The Board is satisfied that at all times during the year at least one member of the Committee had recent and relevant financial experience. The members of the Audit Committee are Emer Daly (Chairperson), William Egenton, Cormac MacDonnchadha and Martina Moloney.

The Remuneration Committee, with the consent of the Department of Communications, Energy and Natural Resources and the Department of Finance, determines the level of the Chief Executive's remuneration. The Committee also approves the structure of remuneration for Senior Management. The members of the Remuneration Committee are Bernie Gray (Chairperson), David Mackey and Jane Williams.

The Transition Committee was established to assist the Board in fulfilling its responsibilities in relation to the Transfer Scheme in respect of ESB transferring staff to the Company and any related associated agreements/arrangements to ensure compliance with the European Communities (Internal Market in Electricity) Regulations, No 445 of 2000 ("SI 445/2000"). The members of the Transition Committee were Martina Moloney (Chairperson), Emer Daly and Jane Williams. This Committee was ceased in January 2008, having duly achieved its objectives.

Risk Management

The Company has in place a comprehensive risk management programme that identifies the critical risks to which it is exposed and ensures that appropriate risk mitigation measures are taken. The Internal Audit Plan is integrated with the risk management programme in order to ensure its overall effectiveness.

Financial Risk Management

As a regulated business, operating in Ireland, the Company's Transmission System Operator activities do not involve any significant pricing or foreign exchange risks.

The Company discharges its Market Operator obligations through a contractual joint venture with SONI Ltd. Under the terms of the Trading and Settlement Code for the SEM each participant is required to provide credit cover at a level notified to it by the Market Operator. Such credit cover can be provided by means of an irrevocable standby letter of credit or a cash deposit held in a SEM Collateral Reserve account. Any bad debt arising in the SEM, to the extent that it exceeds the available credit cover, is shared by generators and is not borne by the Market Operator.

At present the Company does not have any interest rate exposure on borrowings.

The Company's principal financial risk is to ensure adequate liquidity in the event of a significant regulatory under-recovery. Substantial banking lines are in place to enable it to fund such a requirement, pending recovery in a subsequent regulatory pricing period.

Operational Risk Management

The Company is responsible for the secure operation of the Transmission System. A complete programme is in place to discharge this responsibility. This includes:

- A back-up site for the National Control Centre, which is regularly tested;
- Comprehensive power system operational procedures which are constantly reviewed and are in line with best international practice; and
- Appropriate grid maintenance standards and policies, supported by a detailed Infrastructure Agreement with ESB as the Transmission Asset Owner.

Internal Controls
An internal control system encompasses the policies, processes, tasks, behaviours and other aspects of a Company that, taken together:

- Facilitate effective and efficient operations by enabling the Company to respond to risks;
- Help ensure the quality of internal and external reporting; and
- Help ensure compliance with applicable laws, regulations and internal policies.

The Board has overall responsibility for the Company's systems of internal financial control and for monitoring their effectiveness and in this regard their objective is to maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets. These systems are designed to provide reasonable but not absolute assurance against material misstatement or loss. In order to discharge their responsibility in a manner which ensures compliance with legislation and regulations, the Board established an organisational structure with clear reporting procedures, lines of responsibility, authorisation limits, segregation of duties and delegated authority.

The key elements of the Company's internal financial control processes are:

- Defined policies and procedures in relation to expenditure and treasury matters;
- Suitable financial reporting on a monthly basis;
- Preparation of and monitoring performance against annual budgets;
- An internal audit function which reviews critical systems and controls;
- An Audit Committee that considers audit reports and approves financial statements before submission to the Board and Shareholders;
- Performance of a risk review process; and
- Procedures to ensure compliance with laws and regulations.

The Company has put in place a framework for monitoring and reviewing the effectiveness of internal financial controls, including the development of a risk management process. The Directors confirm that they have reviewed the effectiveness of the system of internal financial control operated during the year covered by these Financial Statements. During the course of this review, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

It is also the Company's aim, at all times, to comply with agreed reporting requirements of Government departments as required on a timely and accurate basis.

In 2007, the Board met formally on 11 occasions. The Board is satisfied that the direction and control of the Company is firmly in its hands.

Since January 2003, the Company has an Internal Audit and Compliance function. The internal controls system and the Internal Audit and Compliance function were extended during the year to incorporate the activities of the Single Electricity Market Operator (SEMO).

The Company's annual budget is reviewed and approved by the Board and the Board receives monthly management accounts on a timely basis.

Directors' Remuneration
The financial statements include a provision of €122,000 (2006: €118,763) for Chairperson and Directors' fees, in accordance with the Department of Finance approved levels of remuneration for the Chairperson and Board Members of State Bodies. Under the approved remuneration levels, the Chairperson's fees are €24,000 (2006: €24,000) per annum and the Directors' fees are €14,000 (2006: €14,000) each per annum.

The only executive Board Member is the Chief Executive, Dermot Byrne. The Chief Executive's remuneration is set within a range determined by the Minister for Finance and the Minister for Communications, Energy and Natural Resources. It is determined annually, within this range, by the Remuneration Committee, which comprises non-executive Board Members, and is approved by the Board.

The remuneration of the Chief Executive consists of basic salary, performance related bonus, certain retirement benefits 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, Energy and Natural Resources. The retirement benefits of the Chief Executive are calculated on basic pay only and aim to provide in retirement a pension of one-eightieth and a gratuity of three-eightieths of salary for each year of service as Chief Executive. The increases in accrued pension and accrued gratuity excluding inflation during the year were €2,708 (2006: €2,379) and €8,124 (2006: €7,137) respectively. The total accrued pension at the end of the year was €6,759 (2006: €3,559) and the total accrued gratuity was €20,277 (2006: €10,677). The transfer value of the relevant increase was €70,929 (2006: €62,105).

Chief Executive's Remuneration:	2007 €'000	2006 €'000
Salary	194	183
Performance related pay	40	33
Taxable benefits	19	19
Pension contributions paid	58	55
Director's Fees	14	14
Total	**325**	**304**

Dividends
The Directors of the Company do not propose the payment of a dividend for the year.

Directors' and Secretary's Interest In Shares
The Directors' and Secretary who held office at 31 December 2007 and 01 January 2007 had no beneficial interest in the shares of the Company.

Bernie Gray, Dermot Byrne and Niamh Cahill hold one share each on behalf of the Minister for Finance.

One ordinary share is held by the Minister for Communications, Energy and Natural Resources and the remainder of the issued share capital is beneficially held by the Minister for Finance, or on his behalf.

The ultimate controlling party is the Minister for Communications, Energy and Natural Resources.

Politicial Donations
The Company does not make political donations.

Going Concern
The financial statements are prepared on a going concern basis as the Board, after making appropriate enquiries, is satisfied that the Company has adequate resources to continue in operation for the foreseeable future.

Accounting records
The measures that the Directors have taken to ensure that proper books of account are kept are the employment of competent persons and the use of suitable systems and procedures. The Company's books of account are kept at 27 Lower Fitzwilliam Street, Dublin 2.

Health and Safety
In order to ensure the safety of the Company's staff and that of all persons that may be affected by its activities, a Safety Management System (certified to OHSAS 8001) has been approved and implemented. One of the key components of this Safety Management System is the preparation and issue of a Safety Statement. The Safety Statement, and its compliance with appropriate legislation, is reviewed on a continuous basis.

Auditors
The auditors, Deloitte & Touche, Chartered Accountants continue in office in accordance with Section 160(2) of the Companies Act, 1963.

Statement of Directors' Responsibilities
The Directors are responsible for preparing the Annual Report and the Financial Statements. The Directors have elected to prepare financial statements for the Company in accordance with International Financial Reporting Standards as adopted by the EU (IFRS's).

Company law requires the Directors to prepare such financial statements in accordance with IFRS's and the Companies Acts, 1963 to 2006. International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS's.

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS's is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the financial statements comply with IFRS's as adopted by the European Union; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which comply with the requirements of the Companies Acts, 1963 to 2006.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board:

Bernie Gray	Dermot Byrne
Chairperson	Chief Executive

9 May 2008

Independent Auditors' report to the members of EirGrid plc.

We have audited the financial statements of EirGrid plc for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Recognised Income and Expense, the Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors are responsible, as set out in the Statement of Directors' Responsibilities, for preparing the Annual Report, including the preparation of the Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union.

Our responsibility, as independent auditors, 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 IFRS's as adopted by the European Union, and are properly prepared in accordance with the Companies Acts, 1963 to 2006. We also report to you whether in our opinion: proper books of account have been kept by the Company; whether, at the Balance Sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the Company's Balance Sheet and Income Statement are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding Directors' remuneration and Directors' transactions is not given and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider whether it is consistent with the financial statements. The other information comprises only the Directors' Report, the Chairperson's Report and the Chief Executive's Report. Our responsibilities do not extend to 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 judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company'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 financial statements:

- give a true and fair view, in accordance with IFRS's as adopted by the European Union, of the state of the affairs of the Company as at 31 December 2007 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2006.

We have obtained all the information and explanations we consider necessary for the purpose of our audit. In our opinion proper books of account have been kept by the Company. The Balance Sheet and its Income Statement are in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the Company, as stated in the Balance Sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2007 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin
9 May 2008

Income Statement For The Year Ended 31 December 2007

	Notes	2007 €'000	2006 * €'000
Revenue	3	290,432	139,913
Direct costs	2	(235,620)	(103,647)
Gross profit		54,812	36,266
Other operating costs	5	(45,984)	(23,700)
Operating profit	2	8,828	12,566
Interest income	2	3,119	904
Profit before taxation	6	11,947	13,470
Income tax expense	7	(2,532)	(1,976)
Profit for the year from continuing operations		9,415	11,494

* The Company commenced operations as TSO on 01 July 2006

On behalf of the Board:

Bernie Gray
Chairperson

Dermot Byrne
Chief Executive

9 May 2008

Balance Sheet as at 31 December 2007

	Notes	2007 €'000	2006 €'000
ASSETS			
Non-current assets			
Property, plant & equipment	8	56,231	29,337
Deferred tax asset	7	1,971	2,526
Total non-current assets		58,202	31,863
Current assets			
Trade and other receivables	9	83,728	72,665
Current tax asset		1,035	-
Cash and cash equivalents	13	80,640	63,758
Total current assets		165,403	136,423
Total assets		**223,605**	**168,286**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	11	38	38
Capital reserve	17	49,182	49,182
Retained earnings	12	24,666	11,493
Total equity		73,886	60,713
Non-current liabilities			
Retirement benefit obligation	16	18,487	20,962
Total non-current liabilities		18,487	20,962
Current liabilities			
Trade and other payables	10	131,232	85,310
Current tax liability		-	1,301
Total current liabilities		131,232	86,611
Total liabilities		149,719	107,573
Total equity and liabilities		**223,605**	**168,286**

On behalf of the Board:

Bernie Gray
Chairperson

Dermot Byrne
Chief Executive

9 May 2008

Statement of Recognised Income and Expense for the Year Ended 31 December 2007

	Notes	2007 €'000	2006* €'000
Actuarial gain in retirement benefit scheme	16	4,035	7
Deferred tax attributable to actuarial gain	7	(277)	(8)
Net income/(expense) recognised directly in equity		3,758	(1)
Profit for the year		9,415	11,494
Total recognised income and expense for the year		13,173	11,493

* The Company commenced operations as TSO on 01 July 2006

Cash Flow Statement for the Year ended 31 December 2007

	Notes	2007 €'000	2006* €'000
Cash flows from operating activities			
Profit before taxation		11,947	13,470
Profit on disposal of property, plant and equipment		(8)	-
Depreciation of property, plant and equipment	8	5,631	2,193
Interest income		(3,119)	(904)
Net pension payments		1,141	(765)
		15,592	13,994
Movements in working capital			
Increase in trade and other receivables		(11,063)	(70,022)
Increase in trade and other payables		45,922	81,456
Cash generated from operations		50,451	25,428
Income taxes paid	7	(3,857)	(274)
Interest received		2,805	771
Net cash generated by operating activities		49,399	25,925
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(32,525)	(14,051)
Proceeds from disposal of property, plant and equipment		8	-
Net cash used in investing activities		(32,517)	(14,051)
Cash flows from financing activities			
Cash received under Transfer Scheme	17	-	49,494
Net cash generated by financing activities		-	49,494
Net increase in cash and cash equivalents		16,882	61,368
Cash and cash equivalents at 01 January	13	63,758	2,390
Cash and cash equivalents at 31 December		**80,640**	**63,758**

* The Company commenced operations as TSO on 01 July 2006

1. General Information

EirGrid plc ('the Company') is a public limited Company, incorporated in Ireland, established pursuant to S.I. No 445 of 2000 – European Communities (Internal Market in Electricity) Regulations, 2000. The Company is licenced by the Commission for Energy Regulation as the Transmission System Operator in the Republic of Ireland. The registered office of the Company is 27 Lower Fitzwilliam Street, Dublin 2.

2. Statement of Accounting Policies

Basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) and also in accordance with IFRS's as adopted by the European Union. They are prepared on the basis of all IFRS's and Interpretations that are mandatory for periods ending 31 December 2007 and in accordance with the Irish Companies Acts, 1963 to 2006.

The Financial Statements have also been prepared on an historical cost basis and are presented in euro.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The accounting policies set out below have been consistently applied to all periods presented in these Financial Statements.

Results for 2007 represent the first full year in which the Company operated as TSO. The Company assumed the responsibility of TSO on 01 July 2006.

Adoption of new Standards

In the current year, the Company has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 01 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these Financial Statements regarding the Company's financial instruments and management of capital.

The following Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) are effective for the current period:

- IFRIC 7: Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperflationary Economies;
- IFRIC 8: Scope of IFRS 2;
- IFRIC 9: Reassessment of Embedded Derivatives;
- IFRIC 10: Interim Financial Reporting and Impairment; and
- IFRIC 11: IFRS 2 – Group and Treasury Share Transactions.

The adoption of these Interpretations has not led to any changes in the Company's accounting policies.

At the date of authorisation of these Financial Statements, the following Standards and Interpretations which have not been applied in these Financial Statements were in issue but not yet effective:

- IFRIC 12: Service Concession Arrangements (Effective 01 January 2008);
- IFRIC 13: Customer Loyalty Programmes (Effective 01 July 2008);
- IFRIC 14: IAS 19 – The Limitation on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Effective 01 January 2008);
- IAS 23 (revised): Amendments to Require Capitalisation of Borrowing Costs (Effective 01 January 2009);
- IFRS 8: Operating segments (Effective 01 January 2009);
- IFRS 2 amendment: Vesting conditions and cancellations (Effective 01 January 2009);
- IAS 27/IFRS 3 (revised): Business combinations (Effective 01 July 2009); and
- IAS 1/IAS 32 (revised): Puttable instruments (Effective 01 January 2009).

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the Financial Statements of the Company, except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 01 January 2008.

Interests in joint ventures
Joint venture arrangements that involve the establishment of a separate asset in which each venturer has an interest are referred to as jointly controlled assets. The Company's share of the assets, liabilities, income and expenses of jointly controlled assets are combined with the equivalent items in the Financial Statements on a line-by-line basis.

Revenue
Revenue primarily represents the income derived from the provision of electricity transmission and Market Operator services to customers during the year and excludes value added tax. Other than in the circumstances of a fundamental change in market design, where transmission revenue received or receivable exceeds the maximum amount permitted by regulatory agreements and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

As joint Market Operator for the Single Electricity Market, the Company does not act on its own account in the sale or purchase of electricity. It does not take title to the electricity, nor is it exposed to credit risk on sale. Consequently the Company does not recognise as revenue monies derived from the sale of electricity. The payables and receivables associated with electricity trading are recognised in the Balance Sheet. Monies received from tariffs that are subject to regulatory determination are recognised as income.

Unbilled income represents income from electricity transmission services which, in compliance with the regulatory timetable, had not been billed. In accordance with this regulatory timetable, electricity transmission services are billed two months following the month in which they are supplied. Unbilled income is stated net of value added tax.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's carrying value.

Operating profit
The Company has adopted an Income Statement format which seeks to highlight significant items within the results for the year. Accordingly, operating profit is stated after charging direct costs and after other operating costs but before interest income.

Direct costs primarily represents the costs associated with the provision of electricity transmission services to customers during the year and excludes value added tax. Direct costs include customer credit charges, ancillary services, interruptible load and capacity margin. Direct costs are recognised as they are incurred.

Operating costs primarily represents employee costs, professional fees and contractors and establishment costs. Operating costs are recognised as they are incurred.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the user's benefit. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Foreign currencies
Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions. At each Balance Sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the Balance Sheet date.

Exchange differences are recognised in the Income Statement in the period in which they arise.

Retirement benefit costs
For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each Balance Sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the Statement of Recognised Income and Expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Employer contributions paid for employees engaged on capital projects are capitalised in the Balance Sheet as the cost is incurred.

Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the Balance Sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The depreciation periods for the principal categories of property, plant and equipment are as follows:

- Motor vehicles and equipment: 5 years
- IT and telecommunications equipment: 3 to 8 years
- Single Electricity Market: 5 years

The Single Electricity Market is the central IT system used to settle and administer the wholesale electricity market in Ireland.

Assets in the course of construction are carried at cost less any recognised impairment loss. Costs include professional fees and any other costs incurred exclusively for the construction of such assets. Depreciation of these assets commences when the assets are available for use.

The gain or loss arising on the disposal or retirement of a tangible asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Income Statement.

Impairment of tangible assets
At each Balance Sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Financial instruments
Financial assets and liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables are measured at initial recognition at invoice value, which approximates to fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the Income Statement when there is objective evidence that the carrying value of the asset exceeds the recoverable amount.

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables are measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

All financial instruments are classified as loans or receivables or other liabilities and are measured at amortised cost.

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Company's accounting policies the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities which are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key sources of estimation uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:
- Review of useful lives of property, plant and equipment; and
- Estimation of liabilities for pension and other post-retirement costs.

3. Revenue

Revenue by geographic market	2007 €'000	2006 €'000
Ireland	276,665	136,747
UK	13,767	3,166
Total	**290,432**	**139,913**

4. Employees

The average number of persons employed by the Company during the financial year was 203 (2006: 124), excluding staff engaged on capital projects. The total number of persons employed at 31 December 2007 was 222 (2006: 183).

Their total remuneration, including executive Director's salaries, comprised:

	2007 €'000	2006 €'000
Wages and salaries	16,136	9,564
Social Welfare costs	1,002	623
Pension costs	3,264	1,698
Total	**20,402**	**11,885**

Included within the average number of employees is staff seconded from ESB. The charge for the year for the seconded staff was €2.4m (2006: €1.8m) and it is included within the wages and salaries figure above.

5. Other operating costs

	2007 €'000	2006 €'000
Employee costs (note 4)	20,402	11,885
Depreciation of non-current assets	5,631	2,193
Operations and maintenance	19,951	9,622
Total	**45,984**	**23,700**

6. Profit before tax

The profit before tax is stated after charging the following:

	2007 €'000	2006 €'000
Depreciation	5,631	2,193
Directors' remuneration		
- fees	122	119
- other emoluments	311	290
Auditors' remuneration	55	40
Operating lease rentals	64	60
Foreign exchange loss	700	-

7. Income taxes

Charge to Income Statement:

	2007 €'000	2006 €'000
Current tax expense	2,047	1,787
Adjustments recognised in the current year in relation to the current tax of prior years	207	1
Deferred tax relating to the origination and reversal of temporary differences	278	188
Income tax expense for the year	2,532	1,976

The total charge for the year can be reconciled to the accounting profit as follows:

	2007 €'000	2006 €'000
Profit before tax from continuing operations	11,947	13,470
Taxation at standard rate of 12.5% (2006: 12.5%)	1,493	1,684
Effect of higher rates of tax on other income	381	111
Effect of depreciation in excess of capital allowances	245	-
Effect of income, expenses and credits excluded in determining taxable profit	173	-
Adjustment in respect of previous period	207	1
Effect of other timing differences	33	180
Income tax recognised in Income Statement	2,532	1,976

Deferred tax assets/(liabilities) arise from the following:

	Accelerated tax depreciation €'000	Retirement benefit obligation €'000	2007 Total €'000	2006 Total €'000
At beginning of year	(87)	2,613	2,526	183
(Credit)/charge to the Income Statement for the year	(246)	(32)	(278)	2,351
Charge to the Statement of Recognised Income and Expense	-	(277)	(277)	(8)
At end of year	(333)	2,304	1,971	2,526

8. Property, Plant & Equipment

	Motor vehicles & equipment €'000	IT, telecommunications equipment & other €'000	Single Electricity Market* €'000	Assets under construction €'000	Total €'000
Cost					
Balance as at 1 January 2006	38	-	-	-	38
Assets transferred **	42	15,862	-	1,566	17,470
Additions	-	138	-	13,913	14,051
Disposals	-	-	-	-	-
Balance as at 31 December 2006	80	16,000	-	15,479	31,559
Additions	-	604	-	31,921	32,525
Disposals	(38)	-	-	-	(38)
Transfers	-	6,067	34,043	(40,110)	-
Balance as at 31 December 2007	42	22,671	34,043	7,290	64,046
Depreciation					
Balance as at 1 January 2006	29	-	-	-	29
Charge	11	2,182	-	-	2,193
Disposals	-	-	-	-	-
Balance as at 31 December 2006	40	2,182	-	-	2,222
Charge	4	4,492	1,135	-	5,631
Disposals	(38)	-	-	-	(38)
Balance as at 31 December 2007	6	6,674	1,135	-	7,815
Net Book Value as at 31 December 2007	**36**	**15,997**	**32,908**	**7,290**	**56,231**
Net Book Value as at 31 December 2006	40	13,818	-	15,479	29,337
Net Book Value as at 1 January 2006	9	-	-	-	9

* The Single Electricity Market is the central IT system used to settle and administer the wholesale electricity market in Ireland.

** Assets transferred represents assets which were transferred to the Company from ESB during 2006 as part of the EirGrid capitalisation process. These assets were taken on at the net book value as at 01 July 2006. See note 17 for further details.

9. Trade and other receivables

	2007 €'000	2006 €'000
Trade receivables	29,966	2,603
Prepayments and accrued income	9,367	6,193
Unbilled receivables	41,646	60,810
VAT recoverable	1,513	830
Other receivables	1,236	2,229
	83,728	72,665

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Unbilled receivables primarily consists of income for the months of November and December 2007 which, in compliance with the regulatory timetable, had not been billed as at 31 December 2007.

Included in trade receivables is an amount of €23.7m relating to the Company's share of its joint venture activity (note 18). The credit risk on this balance is detailed in note 19.

10. Trade and other payables

	2007 €'000	2006 €'000
Trade payables	61,447	25,805
Accruals	30,806	58,763
Taxation and social welfare	1,441	742
Regulatory over-recoveries	35,400	-
Bank overdraft	2,138	-
	131,232	85,310
Taxation and social welfare comprises of the following:		
PAYE/PRSI	494	742
VAT	509	-
PSWT	438	-
	1,441	742

10. Trade and other payables (continued)

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates their fair value. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

€25.7m of the trade payables balance relates to the charge payable to ESB as Transmission Asset Owner. Accruals consists mainly of the direct costs of running the transmission system for the months of November and December 2007 for which invoices had not been received as at 31 December 2007.

Included in trade payables is an amount of €28.6m relating to the Company's share of its joint venture activity (note 18). Settlement of this balance is contingent on collection of the related receivable balance as detailed in note 9.

The liability in respect of regulatory over-recoveries relates to costs which were over-recovered during 2007 and which will be returned to (TSO) customers over the tariff periods up to 30 September 2009. The over-recovery occurred in the context of the termination of the wholesale electricity market arrangements that were in place prior to the commencement of the SEM on 01 November 2007. The CER issued an instruction that the sum of €35.4m was to be returned to (TSO) customers.

11. Issued Share Capital

	2007 €'000	2006 €'000
Authorised:		
30,000 ordinary shares of €1.25 each	38	38
Allotted, called-up and fully paid:		
30,000 ordinary shares of €1.25 each	38	38

12. Retained Earnings

	2007 €'000	2006 €'000
Balance at beginning of year	11,493	-
Profit for the year	9,415	11,494
Actuarial gain (note 16)	4,035	7
Deferred tax on actuarial gain	(277)	(8)
Balance at end of year	24,666	11,493

13. Cash and cash equivalents

	2007 €'000	2006 €'000
Cash and cash equivalents	80,640	63,758

Cash and cash equivalents comprises cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Included in the cash balance is €35.4m relating to the regulatory over-recoveries payable at year end (note 10). A further €6.3m is held on trust for market participants in the Single Electricity Market (SEM). Also included in the cash balance is €2.1m held in SEM Collateral Reserve Accounts (security accounts held in the name of market participants), with an equivalent amount included in trade payables. The Company had unutilised borrowing facilities of €98m at the Balance Sheet date.

14. Operating lease arrangements

Future minimum lease payments under non-cancellable operating leases, which are in respect of the Company's vehicle fleet, fall due as follows:

	2007 €'000	2006 €'000
Within one year	100	77
Between two and five years	130	112
	230	189

15. Capital Commitments

Expenditure contracted for not provided for in the Financial Statements is as follows:

	2007 €'000	2006 €'000
Relocation to new offices	10,626	-
East-West Interconnector	3,081	-
Single Electricity Market	-	25,600
Total	13,707	25,600

16. Retirement benefits obligations

The Company operates a defined benefit pension plan for employees and executive Directors. Retirement benefits payable are based on salary and length of service.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2007 under the requirements of International Accounting Standard 19: Employee Benefits (IAS 19). The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The amount included in the Balance Sheet arising from the Company's obligation in respect of its defined benefit plan is as follows:

	2007	**2006**
	€'000	**€'000**
Present value of funded defined pension obligations	43,564	39,149
Fair value of plan assets	(25,077)	(18,187)
Net liability before deferred tax	18,487	20,962
Deferred tax on net pension obligation	(2,304)	(2,613)
Net liability after deferred tax	16,183	18,349

The amounts recognised in the Income Statement are as follows:

	2007	**2006**
	€'000	**€'000**
Current service cost	3,175	1,271
Interest cost	1,873	884
Expected return on plan assets	(1,300)	(457)
Employer contributions capitalised	(484)	-
Amount included in other operating costs	3,264	1,698

The amounts recognised in the Statement of Recognised Income and Expense are as follows:

	2007	**2006**
	€'000	**€'000**
Actuarial gains	(4,035)	(7)
Amount included in Statement of Recognised Income and Expense	(4,035)	(7)

16. Retirement benefits obligations (continued)

Movements in the present value of the defined benefit obligation in the current period were as follows:

	2007 €'000	2006 €'000
Opening defined benefit obligation	39,149	1,969
Current service cost including employee contributions	4,165	1,809
Interest cost	1,873	884
Actuarial (gains)/losses	(2,215)	1,164
Benefits paid	(288)	(342)
Benifits received	880	-
Liabilities assumed on employee transfer (note 17)	-	33,665
Closing defined benefit obligation	43,564	39,149

Movements in the present value of the plan assets in the current period were as follows:

	2007 €'000	2006 €'000
Opening fair value of plan assets	18,187	1,933
Expected return on plan assets	1,300	457
Gains on plan assets	1,820	1,171
Employer contributions	2,188	1,087
Employee contributions	990	538
Benefits paid	(288)	(342)
Benefits received	880	-
Assets assumed on employee transfer (note 17)	-	13,343
Closing fair value of plan assets	25,077	18,187

16. Retirement benefits obligations (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2007	2006
Valuation method	Projected Unit	Projected Unit
Discount rate	5.50%	4.75%
State pension increase	4.50%	4.00%
Salary increases	4.50%	4.00%
	plus scale	plus scale
Pension increases	4.50%	4.00%
Inflation	3.00%	2.50%

The discount rate used by the plan actuary in the calculation of the pension liability at year end was 5.5%. This was based on the redemption yield on Euro denominated Corporate Bonds with an approximate duration of 15 years. The Directors believe that this is consistent with the estimated term of the post-retirement benefit obligation. Post-retirement life expectancy, for those retiring at age 65, is assumed to be 19.9 years for males and 22.8 years for females.

The major categories of plan assets, and the expected rate of return at the Balance Sheet date for each category, are as follows:

	Expected Return		Fair Value	
	2007 %	2006 %	2007 €'000	2006 €'000
Equities	7.50%	7.00%	15,564	14,006
Government Bonds	4.75%	3.75%	2.003	1,557
Corporate Bonds	5.50%	4.50%	4,385	-
Property	6.50%	6.00%	2,107	1,970
Cash	4.00%	3.00%	1,018	654
Fair value of plan assets			25,077	18,187

The expected long-term return on assets is based on the current level of expected returns on risk free investments, the historical level of risk premium associated with other asset classes and the expectation for future returns for each asset class.

The history of experience adjustments is as follows:

	2007 €'000	2006 €'000	2005 €'000	2004 €'000
Present value of defined benefit obligation	43,564	39,149	1,969	1,103
Fair value of plan assets	(25,077)	(18,187)	(1,933)	(1,150)
Deficit/(surplus)	18,487	20,962	36	(47)
Experience adjustments on plan liabilities	2,215	(1,164)	(97)	-
Experience adjustments on plan assets	1,820	1,171	(10)	-

17. Capital Reserve

In accordance with Regulation 13 of SI 445 of European Communities (Internal Market in Electricity) Regulations 2000, as amended by SI 60 of European Communities (Internal Market in Electricity) Regulations 2005 ('SI 445'), the Company and ESB entered into a Transfer Scheme dated 01 July 2006. Under the terms of the Transfer Scheme the Company received a capitalisation payment from ESB in the amount of €67m, consisting of assets with a value of €17.5m and cash of €49.5m.

Under the Transfer Scheme certain members of ESB staff transferred their employment to the Company and, in accordance with Regulation 17(13) of SI 445, the Company assumed responsibility for the pension entitlements of these transferring employees. Using the assumptions outlined in note 16, the Company's actuary valued the liabilities transferred to the EirGrid Fund at €33.7m, consistent with the methodology specified in IAS 19 'Employee Benefits'. Regulation 17(13) of SI 445 also specified the basis on which assets would be transferred from the ESB Pension Fund to the EirGrid Pension Fund. The value of the assets to be transferred was estimated at 30 June 2006 to be €13.3m. A deferred tax asset of €2.5m arose on the net pension obligation to be transferred. In accordance with the specified basis, the final valuation of pension assets transferred to the Company was carried out at 01 July 2007. The impact of the final settlement is reflected in note 16.

Reconciliation of the capital reserve:

	2007 €'000	2006 €'000
Opening balance	49,182	-
Capitalisation payment received from ESB under the Transfer Scheme:		
Cash	-	49,494
Property, plant and equipment (note 8)	-	17,470
		66,964
Pension obligation transferred	-	(33,665)
Fair value of pension plan assets transferred	-	13,343
Deferred tax asset on pension obligation transferred	-	2,540
Closing balance	49,182	49,182

18. Interest in Joint Venture

The Company has a 75% interest in SEMO, which came into operation on 01 November 2007. On that date the old wholesale electricity market in Ireland ceased and the new Single Electricity Market (SEM) commenced. SEMO was established as the contractual joint venture between the Company and SONI Ltd responsible for the operation of the wholesale electricity market for the island of Ireland from 01 November 2007 onwards. The Company's share of assets, liabilities, income and expenses has been included in the Financial Statements.

The Company's share of the assets, liabilities, income and expenses related to its interests in this joint venture is as follows:

18. Interest in Joint Venture (continued)

	2007 €'000	2006 €'000
Current assets	32,642	-
Total assets	32,642	-
Total equity	474	-
Current liabilities	32,168	-
Total liabilities	32,168	-
Total equity and liabilities	32,642	-

	(Two months from 01 November) 2007 €'000	2006 €'000
Revenue	16,843	-
Expenses	(16,369)	-
Oprating profit	474	-

19. Financial Instruments

Financial Risk Management
The Company's funding, liquidity and exposure to interest and foreign exchange rate risks are managed by the Company's treasury and accounting departments. The Company does not use complex financial instruments within the business, as it does not have significant exposure to interest and foreign exchange rate risks.

The key financial risk to which the Company is exposed relates to liquidity and capital risk both arising from day to day operations and from key capital expenditure projects.

The Company manages its liquidity and capital risk for day to day operations through the regulatory process for establishing tariffs with the Commission for Energy Regulation (CER) and through internal budgeting and monitoring of variances. The Company has negotiated stand-by facilities with external banks to support cash flow projections and requirements.

For capital expenditure, the Company has in place key expenditure approval processes and project management and cost centre analysis to monitor and manage expenditure.

The Company monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy, thereby limiting its exposure to any one party to ensure that they are within approved limits and that there are no significant concentrations of credit risk. The maximum exposure to credit risk for receivables and other financial assets is represented by the carrying amount.

The Company discharges its Market Operator obligations through a contractual joint venture with SONI Ltd. Under the terms of the Trading and Settlement Code for the SEM each participant is required to provide credit cover at a level notified to it by the Market Operator. Such credit cover can be provided by means of an irrevocable standby letter of credit or a cash deposit held in a SEM Collateral Reserve account. Any bad debt arising in the SEM, to the extent that it exceeds the available credit cover, is shared by generators and is not borne by the Market Operator.

19. Financial Instruments (continued)

The average credit period on trade receivables is two months. Included in the Company's trade receivable balance are debtors with a carrying amount of €3.1m which are past due at the reporting date for which the Company has not provided as the amounts are still considered recoverable.

Trade payables are paid at the end of the month following the month of the invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. All trade payables at the reporting date are within this credit timeframe.

20. Related Party Transactions

In common with many other entities, the Company deals in the normal course of business with other government sponsored bodies such as ESB and Bord Gais.

The Company is a public limited Company established pursuant to S.I. No. 445 of 2000 – European Communities (Internal Market in Electricity) Regulations, 2000.

An Infrastructure Agreement is in place between the Company and ESB under the auspices of the Commission for Energy Regulation (CER), in relation to the roles of owner and operator of the transmission system. During the year payments were made to ESB under this Agreement as follows:

	2007 €'000	2006 €'000
Transmission asset owner charge	138,714	56,227
Connection contributions	9,663	7,996
	148,377	64,223

At 31 December 2007 a total of €25.7m (2006: €25.3m) was payable to ESB under this Agreement.

Board members had no beneficial interest in the Company at any time during the year.

The remuneration of key management (those people having the authority and responsibility for planning, directing and controlling the activities of the Company) during the year was as follows:

	2007 €'000	2006 €'000
Short-term benefits	1,504	790
Post-employment benefits	225	124
	1,729	914

21. Approval of Financial Statements

The Board approved the Financial Statements on 9 May 2008.

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