Towards secure economic sustainable energy

EirGrid plc
Annual Report and Accounts 2008

EIRGRID

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CHAIRPERSON'S REPORT

It is with great pleasure that I present EirGrid's Annual Report for the nine months ended 30 September 2008, a period of progress and achievement in the electricity sector.

This report covers the accounts for the nine months to 30 September 2008 as part of the move to align the Company's reporting with the regulatory revenue periods in Ireland and Northern Ireland.

The year 2008 saw major change in international and Irish economic conditions, underlining the importance of the work of EirGrid in operating and developing a secure, sustainable and economic power system and efficiently and effectively operating the wholesale market.

Safe, secure, high quality electricity, delivered in a secure and affordable way – this is what EirGrid is about. EirGrid again delivered high quality and secure electricity throughout 2008, against a background of a continued increase in demand, and efficiently and transparently operated the wholesale market, on behalf of all customers and stakeholders. And these issues are even more important in a global environment of more difficult economic conditions, rapidly rising fuel and commodity prices, and the pressing need to address climate change.

The importance of keeping Ireland well-placed for economic recovery was an aspect of EirGrid's business during the year. Some of the key developments were:

- The launch of the Grid25 strategy, which sets the long-term direction of an upgraded transmission system. Grid25 involves an investment of €4 billion over the next 15-20 years through upgrading the high voltage system in all regions. It supports Ireland's future economic growth, provides a platform to achieving our targets regarding the use of renewable energy and enables the different regions to develop their potential in attracting new high-tech industry and accommodating population growth. A strong modern Grid is essential for foreign direct investment and indigenous industry, and Grid25 ensures that there will be a level playing field across all regions;
- Significant progress was made on the EirGrid East West Interconnector. The East West Interconnector will bring major benefits in terms of improved security of supply, further impetus for competition, and the facilitation of renewable energy;
- The divestment by Viridian of the System Operator Northern Ireland (SONI) Ltd provided the opportunity for EirGrid to consider an acquisition and significant progress on this was made during this financial year; and
- Becoming world class in the facilitation of renewable energy continued to be a major priority for EirGrid and this was evidenced by very significant strides in processing and connecting wind farms and in working on the Gate 3 process.

2008 will be remembered as the year in which EirGrid relocated all of its operations to new offices in Ballsbridge, underlining the separation and independence of its operations. This move was accomplished smoothly and efficiently and sets the stage for further progress in years ahead.

A key task ahead will be to continue the major reinforcement of the national transmission system in order to support economic development, competition and sustainable supplies. In addition, we will be working actively with the Government in relation to the transfer of the national transmission assets to EirGrid.

I would like to express my strong appreciation to all of the members of the Board for their commitment and support during the year. I also wish to thank the Minister for Communications, Energy and Natural Resources, Eamon Ryan TD, for his strong support and that of his officials.

The coming year 2009 will be another challenging year. In EirGrid we are fully prepared for the work ahead and we look forward to working with all stakeholders in order to deliver the electricity system which Ireland needs.

Bernie Gray

Bernie Gray
Chairperson

17 December 2008

CHIEF EXECUTIVE'S REPORT

In 2008 EirGrid consolidated and strengthened its capabilities, launched Ireland's first long term strategy for the development of the transmission grid, connected new wind generation, and took steps which will lead to increased efficiency and synergy in the running of the power system across the island.

The year 2008 also marked the first full year of operation of the Single Electricity Market (SEM), which has brought transparency and increased competition to the benefit of customers in Ireland and Northern Ireland. The SEM was operated efficiently and effectively. Prices in the market were reflective of supply and demand, and underlying commodity prices.

Further underpinning EirGrid's independence was the move of all operations to separate premises at The Oval during the year.

EirGrid's commitment to becoming a world leader in the facilitation of renewables was underlined during the year by the establishment of a group charged specifically with facilitating the integration of renewable energies onto the power system. This group will ensure that work right across the Company is co-ordinated and focused on this key area. By the end of September 2008, more than 900 megawatts of wind energy had been connected to the power system.

The vital nature of the work of EirGrid was underlined by the emphasis on electricity transmission, energy efficiency and renewable power in the Government's Framework for Economic Renewal "Building Ireland's Smart Economy". The document reiterated the specific commitment to progressing the restructuring of the electricity sector, by the transfer of the transmission assets to EirGrid. The move to establish EirGrid as the National Transmission Company is critical to delivering more competition, increased integration of renewable energy and the efficient development of high quality energy networks in all regions. The Framework also strongly backed EirGrid's development of the East West Interconnector and the Company's Grid**25** strategy for the development of the transmission grid.

Financial Report

The financial performance of the Company during the period reported on was satisfactory, and significant capital investments continued to be made. Details are given in the Financial Review and audited accounts.

This Annual Report covers the nine month period to 30 September 2008. The operating profit of €8.6m for this period compares to an operating profit of €8.8m for the twelve months to 31 December 2007. Revenue was €282.7m during the nine months to 30 September 2008. This compared to revenue of €290.4m in the twelve months to 31 December 2007.

Security of Supply

Security of supply is a key issue for all of our customers and stakeholders. Throughout 2008, security of supply was maintained, margins were satisfactory and standards for voltage and frequency on the power system were delivered.

Demand growth in the first half of 2008 was 3%. However since then demand growth has reduced in line with underlying economic conditions.

Generation availability over this period remained largely unchanged from 2007. This vital area will continue to be monitored closely.

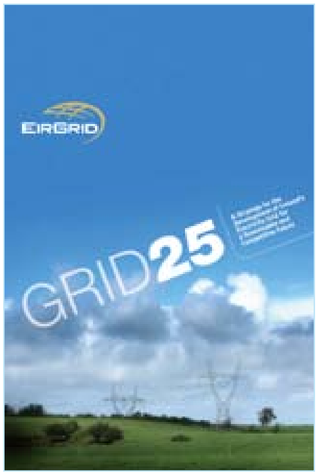
The Generation Adequacy Report produced by EirGrid each year provides an analysis of security of supply in the medium term. The latest report covers the period 2009-2015. This report indicates that under base case assumptions new generation would be needed after 2011. It also highlights that the completion of the second North-South tie line is critical if the security of supply benefits of the SEM are to be realised.

Renewables

The amount of renewable energy connected to the power system reached 921 MW at the end of Spetember 2008, showing continued progress towards national targets.

The "Gate 2" connection offer process, which provided connection offers to approximately 1,300 MW of wind generation, was completed in 2008. The year saw the completion of new connections for a number of transmission wind farm customers including Clahane, Mountain Lodge, and Coomacheo. EirGrid received a final direction from the CER on the 16th December 2008 to issue connection offers to approximately 3,900MW of new wind farms over the next two-and-half years. This will be based on the EirGrid Grid**25** strategy.

CHIEF EXECUTIVE'S REPORT



Grid25 Strategy

The launch of the Grid**25** strategy in October put in place a roadmap for the achievement of an energy grid to support economic growth in all regions, competitive supplies for consumers, and a renewable energy revolution.

Grid**25** stemmed from a robust analysis of the long term needs of electricity users nationwide. It identifies the need to double the capacity of the bulk transmission grid from now to 2025. Through adopting a policy of upgrading the existing transmission circuits and building new circuits at appropriate voltages which maximise power carrying capacity, this can be achieved by increasing the overall length of the transmission network by only 20% over today's system.

Grid**25** recognises the challenge of getting the right balance between reliability, cost and environmental impact. In recognition of this challenge it identifies practical and innovative approaches to delivering high quality, secure and economic power supplies in line with best international practice. Putting in place infrastructure is never easy and does require sensitivity to differing needs and concerns; EirGrid seeks to address those issues in a comprehensive way.

Transmission Grid Development

Progress on the implementation of a significant transmission development programme continued throughout 2008. Approximately 75 major projects are currently at various stages of design, in the public planning process, or undergoing construction. The total value of projects under development is approximately €900 million.

Key developments which achieved planning permission during the year included the looping of the Dalton-Galway 110kV line into Cashla 220kV station and the Arva-Shankhill 2 110kV line. These projects are essential to ensure that the electricity infrastructure in these areas can continue to support economic growth.

The Cavan-Tyrone and Meath-Cavan 400kV line projects progressed during the year, with intensive consultation involving submissions from thousands of members of the public, the publication of reports dealing with various aspects of the projects and the opening of public information centres. 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 SEM and provide for the free flow of electricity between Ireland and Northern Ireland.

The completion of the connection at Wyeth Medica Ireland at Baroda, near Newbridge, Co. Kildare, was achieved in March 2008. Substantial progress was made on a number of other connections including the two Combined Cycle Gas Turbine (CCGT) projects in Cork. It is anticipated that a significant number of conventional generator projects will also receive offers arising out of the Gate 3 process.

Interconnection

EirGrid's East-West Interconnector project, involving the development of a 500MW High Voltage Direct Current (HVDC) interconnector to Great Britain, advanced on programme in 2008 and is on target for delivery in 2012.

The marine survey which commenced in 2007 was completed in early 2008. Significant progress was made in relation to route selection for the on-land sections in Ireland and Wales; the relevant planning application was lodged in Ireland in December 2008 and planning applications in Wales will follow shortly. The competitive process for the selection of a contractor(s) to construct the interconnector proceeded on schedule, and it is expected that a contract or contracts will be awarded to successful tenderer(s) in early 2009. EirGrid has commenced its analysis of the economic and technical feasibility of further interconnection - to Great Britain or Europe. It is expected that this will be completed by mid 2009.

Market Operations

2008 was the first year of operation of the wholesale electricity market by the Single Electricity Market Operator (SEMO), a joint venture between EirGrid and SONI.

During its first financial tariff period, 1 November 2007 to 30 September 2008, the market operated in line with expectations and prices were reflective of supply and demand. In addition, the performance of SEMO's market settlements systems was satisfactory.

During 2008, SEMO oversaw the processing of energy invoicing and settlement totalling approximately €2.7 billion in addition to processing capacity settlement totalling approximately €500 million. SEMO calculates and publishes market prices on a half-hourly basis every day of the year through its web-based market systems.

SONI Acquisition

In August 2008 EirGrid agreed to the purchase of SONI Ltd from Northern Ireland Electricity plc. SONI is the Transmission System Operator (TSO) in Northern Ireland. SONI is responsible for ensuring the safe, secure and economic operation of the electricity transmission network in Northern Ireland. The sale is due to close in March 2009.

Our People

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.

During 2008, our staff relocated to EirGrid's new offices at the Oval building in Ballsbridge, Dublin. This relocation involved major work in the Information Systems and Power System Operations areas, among others, and was accomplished very efficiently while ensuring that the central IT and telecoms services continued to be delivered. Programmes of training and development commenced and will continue during 2009. Focus groups involving staff and managers continued to look at ways of bringing about improvements in the way EirGrid does business.

Looking ahead

The year 2009 is set to be another extremely busy year for EirGrid. The economic conditions mean that high quality power, delivered in an efficient way, and a competitive and effective market, become even more important. EirGrid is determined to put in place the power system that Ireland needs. Critical to the delivery of EirGrid's work is the implementation of the national policy to transfer the transmission assets to EirGrid and we look forward to progressing this during 2009.

By renewing the transmission system, by prioritising reliability and security, by facilitating renewables and by delivering further interconnection, EirGrid is committed to making a major contribution to building Ireland's platform for recovery.

Dermot Byrne

Chief Executive

17 December 2008


EIRGRID

FINANCIAL REVIEW

Key Financial Highlights €m

	9 months to 30 Sep 2008	12 months to 31 Dec 2007
Revenue	282·7	290·4
Direct costs	227·2	235·6
Other operating costs	46·9	46·0
Operating profit	8·6	8·8

The current period being reported on is for the nine months to 30 September 2008. The comparative figures are for the year ended 31 December 2007. The financial period was changed to align it with the regulatory tariff period which will run from 01 October to 30 September.

EirGrid's revenue for the nine months to 30 September 2008 was €282.7m, compared to €290.4m for the twelve months to 31 December 2007. The increase in underlying revenue was largely due to the fact that SEM tariffs were only applicable for the last two months of 2007.

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 Market Operator 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 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 Market Operator for the SEM EirGrid is regulated by the SEM Committee, which comprises the CER, NIAUR and an independent member.

Results for the period

The operating profit of €8.6m for the nine months to 30 September 2008 compares to an operating profit of €8.8 for the twelve months to 31 December 2007.

Cash on hand at the year end of €98.8m includes €7.3m that arose due to timing differences in the SEM which is held on trust for market participants, €6.6m held as cash collateral for SEM market participants and €10.4m due to be returned to TSO customers from regulatory over-recoveries which arose during 2007.


Operating
the power
system

OPERATING THE POWER SYSTEM

The safe, secure, reliable, economical and efficient operation of Ireland's power system is the core of EirGrid's business.

EirGrid monitor and control the flow of power across the high-voltage network from the National Control Centre. Electrical energy cannot be stored in bulk and must be available for use instantly – where and when it is needed. This means that as demand for electrical energy increases and decreases during the 24 hours of each day, the output of electricity generation plant must be adjusted accordingly. Equally, electrical power flows around the high voltage network must be monitored and managed.

The power system is designed to provide secure supplies to all customers. EirGrid is committed to optimising the use of renewable energy and facilitating the operation of the Single Electricity Market. EirGrid enables generation companies and suppliers to do business together. In serving the customer, EirGrid must ensure that the power system utilises the most economic methods for managing the overall power generation mix. To achieve this, EirGrid make use of a number of specialised IT systems, as well as a telecommunications infrastructure that requires complete redundancy and back-up facilities.

EirGrid has a number of teams responsible for the management and operation of the power system. These teams enable EirGrid to ensure continuous delivery of high quality supplies in terms of voltage, frequency and overall reliability.

Electricity Demand

System demand increased during the period from January to September 2008, with energy consumption for that period totalling approximately 20,899GWh (gigawatt hours); this represents a 3% increase on 2007 figures for the same period.

During that period in 2008, there was no new conventional thermal generation connected to the system. The total installed capacity of fully-dispatchable generation remained at 6,246MW. This figure included Turlough Hill Unit 1 (73MW) and Poolbeg Unit 3 (242MW) which were both on long-term outage for the entire period.

System Performance

From January to September 2008, the number of lost 'System Minutes' (an industry standard index which measures the severity of each system disturbance) was 0.70, which was well below the yearly system target of 3.5 System Minutes. Lost 'System Minutes' occur when supply to customers is disrupted when parts of the transmission system are unavailable due to trippings or plant failure.

Outage plans for transmission were constantly managed throughout the year to respond to changing circumstances on the power system and reflect the needs of demand customers, generators and ESB, as Transmission Asset Owner and operator of the Distribution System.

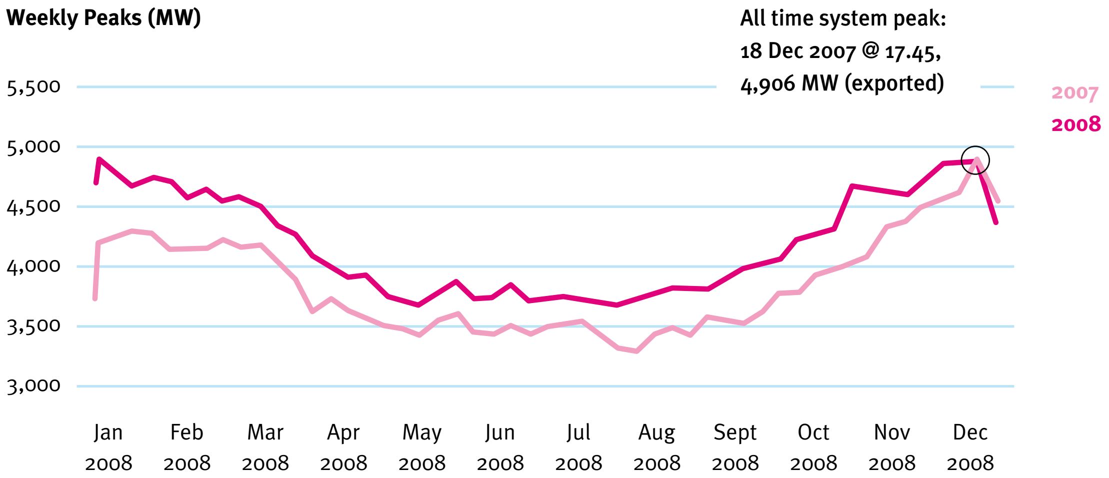
The outage plan for generators was also managed carefully by EirGrid, taking into consideration the outage requirements of all generators and the security of supply constraints of the power system. With SONI, harmonised all-island outage planning was achieved this year. All-island 2-month look-ahead outage plans are now agreed and published on a monthly basis.

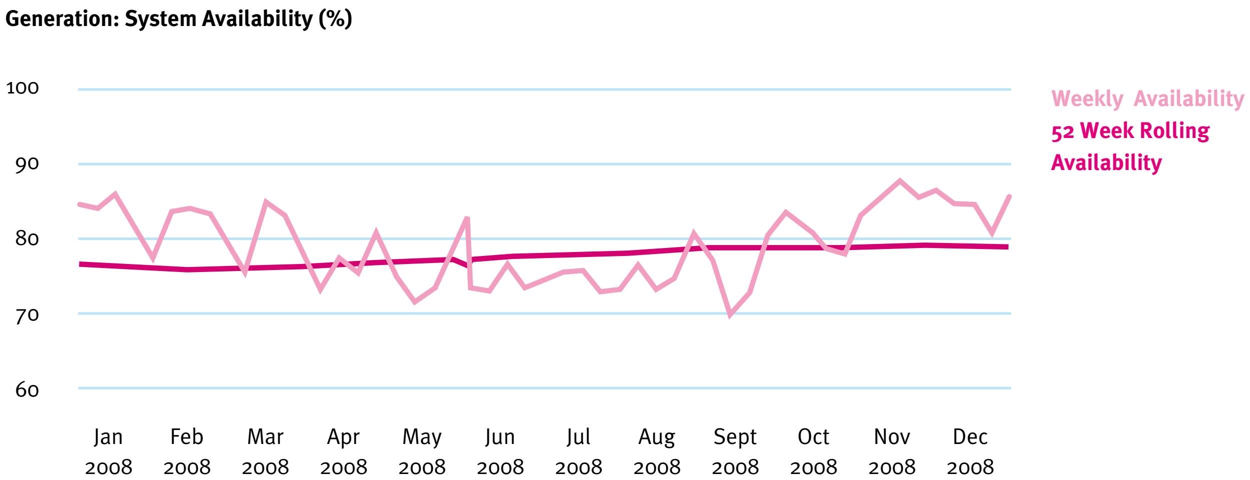
Reliability and security of supply standards were met throughout the period and there was no disruption to supplies at any point due to shortages in generation capacity. The peak demand levels were lower than expected, and this contributed in maintaining reliability standards.

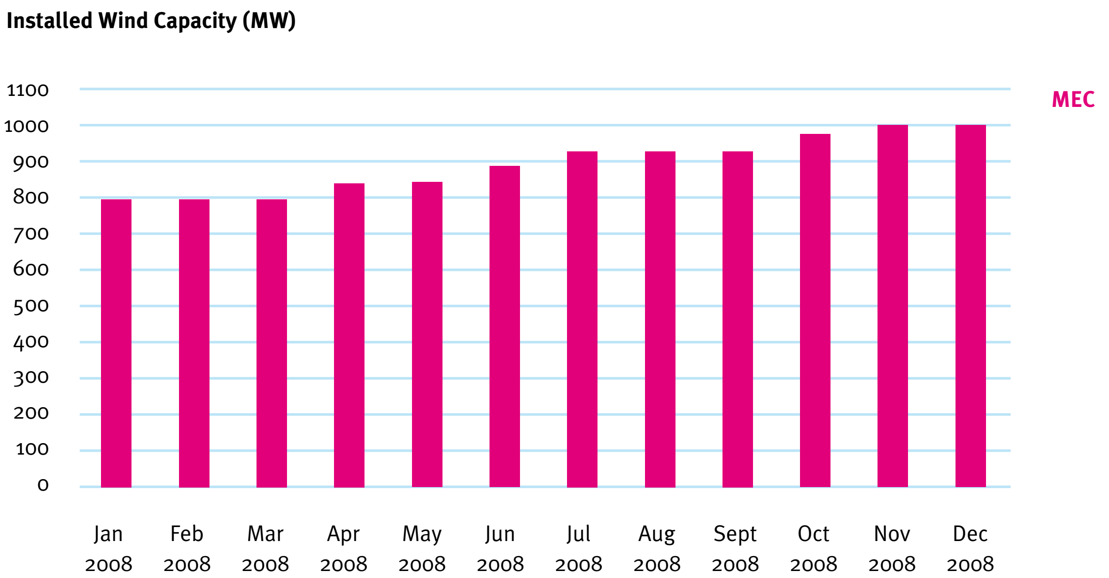
There was an improvement in the generation Forced Outage Rate compared to the same period in the previous year (reducing from 17% to 11%). Nevertheless overall generation availability, which includes both forced and scheduled outages, remained largely unchanged over the period at 77% on a rolling 52-week basis. This is shown on the graph which also illustrates how weekly availability can vary by up to 10% on a week-by-week basis.

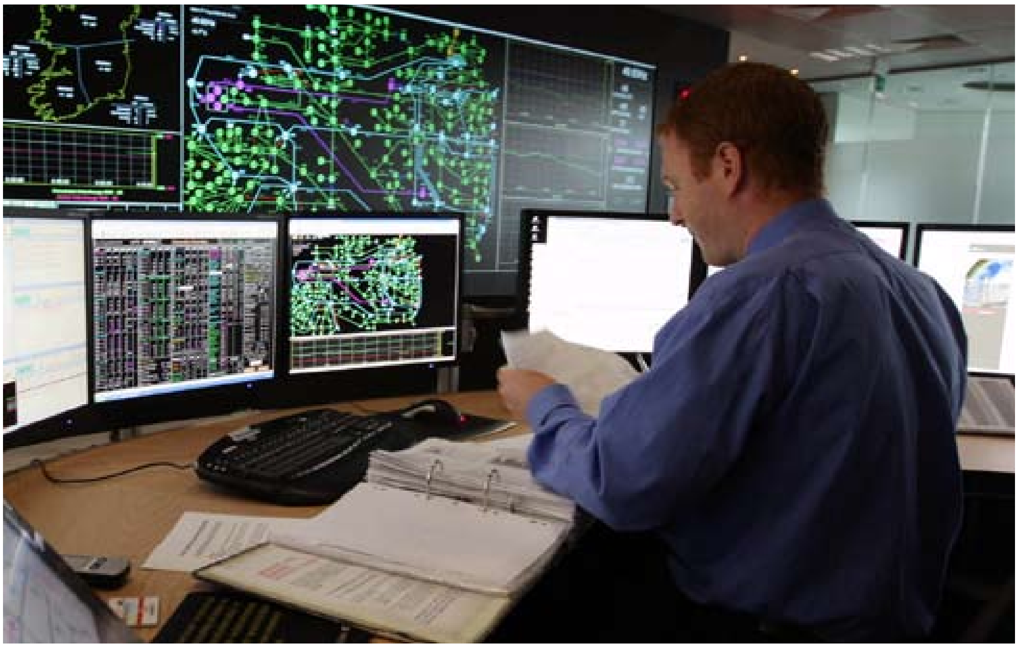
THE SAFE, SECURE, RELIABLE, ECONOMICAL AND EFFICIENT OPERATION OF IRELAND'S POWER SYSTEM LIES AT THE VERY HEART OF EIRGRID'S DAY-TO-DAY OPERATIONS.

OPERATING THE POWER SYSTEM









Renewables

The primary renewable energy generation sources, which export electricity to the Irish power system, are hydro and wind. In January 2008, the maximum export capacity (MEC) of the wind generation installed the system was 807MW. As the year progressed, this increased by approximately 12%, such that by the end of September 2008, there was 921MW of wind generation connected to the system. The maximum instantaneous wind generation output from January to September 2008 was 773MW and it occurred at 22:15 on Wednesday 10th September.

In accordance with EirGrid's Renewables Policy, EirGrid is focused on becoming a world leader in the facilitation of renewable energy sources. The policy also commits EirGrid to working proactively with its stakeholders and customers to ensure that all national targets in relation to renewables are achieved. Furthermore, EirGrid must facilitate this while ensuring the continuous operation and management of a safe, secure and reliable transmission system.

All-Island Harmonised Ancillary Services

In September 2008, EirGrid and SONI published a joint report detailing the TSO's proposals for harmonised arrangements for Ancillary Service, Other System Payments, Other System Charges, and Generator Performance Incentives for Ireland and Northern Ireland. The report shows the proposals for the harmonisation of the three existing Ancillary Services and describes three new potential Services. The procurement of these Ancillary Services facilitates the secure and economic operation of the power systems. It is expected that all Services will be defined and administered by the TSO, according to a common set of policies. On an annual basis, the TSO will propose a harmonised set of payments for each service. As part of the TSO's revenue submission to the relevant Regulatory Authorities, the TSO will propose an annual allowance for expenditure, which will be recovered through the Transmission Use of System tariff (in Ireland) and the System Support Service tariff (in Northern Ireland). The TSO will directly contract with the service providers in their respective jurisdictions in accordance with a set of harmonised principles. The implementation of the harmonised Ancillary Services arrangements is expected to take place in 2009.

Focus for 2009

Key areas of focus for 2009 include operating the power system safely and maintaining security and quality of supply; continuing our work on the integration of renewables into the system; working with the regulatory authorities on the introduction of harmonised arrangements for ancillary services provision; and facilitating the connection of approximately 900MW of gas-fired combined cycle generation at Aghada and Whitegate in Cork.

Developing transmission infrastructure

THE PROVISION AND MANAGEMENT OF A HIGH QUALITY ELECTRICITY TRANSMISSION SYSTEM IS AN ESSENTIAL PREREQUISITE FOR SUSTAINING IRELAND'S SOCIAL AND ECONOMIC DEVELOPMENT.

DEVELOPING TRANSMISSION INFRASTRUCTURE

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 security and quality of supply and connection opportunities to all customers.

In developing the transmission system, EirGrid is guided by its statutory mandate to develop a safe, secure, reliable, economic and efficient electricity transmission system. EirGrid ensures that its staff and appointed project contractors and subcontractors carry out their work safely at all times.

Transmission planning

In October 2008, we published our strategy for the development of the transmission grid to meet Ireland's needs into the future: Grid25. This landmark document sets out a development strategy taking into account the need for a reliable system capable of meeting economic growth on a national and regional basis, the development of Ireland's rich potential for large-scale renewable generation, and interconnectivity with UK and Europe in the future. EirGrid's analysis concludes that the capacity of the backbone transmission system needs to be doubled in the period from now to 2025. Through adopting a policy of upgrading the existing transmission circuits wherever appropriate, and building new circuits at appropriate voltages which maximise power-carrying capability, this can be achieved by increasing the overall length of transmission by about 20% over today's system.

Inherent in our Grid25 strategy is the need to achieve an appropriate balance between reliability of the transmission system, cost, and impact on society and the environment of new infrastructure. An unreliable system will not serve the needs of industry and the people of Ireland, and would place Ireland at an unacceptable disadvantage as against other countries. The cost of transmission infrastructure development is borne by all electricity consumers, including industrial and domestic users. It is important that developments are carried out in a cost-effective manner and that Ireland is not at a disadvantage against other countries when competing for inward investment. All infrastructure will have some impact on the environment and on local communities. EirGrid's development proposals will take full account of environmental and societal impacts.

In achieving the above aims, EirGrid will adopt best available technology solutions as appropriate to the needs of individual projects. EirGrid has a number of technology studies underway to ensure that the most up-to-date information is available to inform investment decisions.

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, and subsequently approved by the Commission for Energy Regulation in March 2008.

New connections

The "Gate 2" connection offer process, which provided connection offers to approximately 1,300 MW of wind generation, was completed in 2008. 16 out of 17 offers for connection to the transmission system were accepted, representing a take-up rate of 99 per cent in MW terms. Connections are being progressed for all Gate 2 projects which accepted transmission connection offers.

2008 saw the completion of new connections for a number of transmission wind farms including Clahane, Mountain Lodge, and Coomacheo. Substantial progress was made on a number of other connections including the two CCGT projects in Cork and the connection of Wyeth Medica Ireland at Baroda, near Newbridge, Co. Kildare, was completed in March.

EirGrid received a final direction from the CER on the 16th December 2008 to issue connection offers to approximately 3,900MW of new wind farms over the next two-and-half years. These will be based on the EirGrid Grid**25** strategy. Over 6,500MW of conventional generation will also be assessed in the Gate 3 connection processing scheme. The number of conventional (non renewable) offers to be issued is due to be determined by the CER in early 2009.

DEVELOPING TRANSMISSION INFRASTRUCTURE

Major transmission system projects

Progress on the implementation of a significant transmission development programme continued throughout 2008. Approximately 75 major projects are currently at various stages of design, in the public planning process, or undergoing construction. The total value of projects under development approximates to €900 million.

A number of key projects were granted planning permission in 2008, including the Arva-Shankill 2 110kV line after an oral hearing with An Bord Pleanála. Other key projects granted planning in 2008 included a number of reactive compensation projects and the Charlesland 110kV Project.

Two new substations were added to the network in 2008 – Clahane 110kV station and Baroda 110kV station. A new 400/200kV transformer was also installed in Woodland 400kV station.

Throughout 2008, there were a number of line up-ratings and refurbishment works carried out on the 110kV network, including completion of the Clashavoon-Clonkeen 110kV line. Construction is also underway on a number of projects including the Newbridge 110kV loop, Athy Loop, Banoge Loop and Flagford 220/110kV Project.

Consultation with stakeholders continued during 2008 on the Meath-Cavan and Cavan-Tyrone 400kV projects. The projects are vital for securing future power supplies to the North East and for enhancing power transfer capability between Ireland and Northern Ireland. They are also required to improve the efficient operation of the Single Electricity Market and to accommodate a greater quantity of renewable generation, particularly wind generation, on the island of Ireland.

Extensive environmental, technical and system studies in relation to these projects are being finalised, and these will be made available for consultation in early 2009, prior to moving forward to the next stages of the project.

Interconnection with Great Britain

EirGrid's East West Interconnector project, involving the development of a 500MW HVDC interconnector to Great Britain, advanced on programme in 2008 and is on target for delivery in 2012.

The marine survey which commenced in 2007, was completed in early 2008. Significant progress was made in relation to route selection for the on-land sections in Ireland and Wales; the relevant planning application was lodged in Ireland in November 2008 and planning applications in Wales will follow shortly. The competition process for provision of the interconnector proceeded as planned, and it is expected that a contract or contracts will be awarded to successful tenderer(s) in the near future.

EirGrid has commenced its analysis of the economic and technical feasibility of further interconnection to the UK and Europe, as outlined in the Government's Energy White Paper in 2007. It is expected that this study will be completed by mid-2009.

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 completed a review of the maintenance policy in 2008. This was carried out in cooperation with ESB Networks, which as Transmission Asset Owner is responsible for the carrying out of maintenance works.

EirGrid's interaction with ESB Networks, in its role as Transmission Asset Owner, is governed by the Infrastructure Agreement between the parties. EirGrid prepared and issued to CER, a formal report detailing its view of the implementation of the Infrastructure Agreement to date.

Operating the single electricity market

OPERATING THE SINGLE ELECTRICITY MARKET

The Single Electricity Market (SEM) is the wholesale electricity market operating on the island of Ireland. As a gross mandatory pool physical market operating with dual currencies and in multiple jurisdictions the SEM represents the first market of its kind in the world.

The SEM provides for a competitive, sustainable and reliable wholesale market in electricity aimed to deliver long-term economic and social benefits that are mutually advantageous to both jurisdictions.

The market encompasses approximately 2.5 million electricity consumers, 1.8 million in Ireland and 0.7 million in Northern Ireland.

The Single Electricity Market Operator (SEMO) facilitates the continuous operation and administration of the SEM. SEMO is a joint venture between EirGrid plc and SONI Limited.

About SEMO

SEMO is the market operator responsible for the administration of the SEM. The organisation is managed as a contractual joint venture between EirGrid, the Irish Transmission System Operator for, and the System Operator for Northern Ireland (SONI). SEMO is licensed and regulated cooperatively by the Commission for Energy Regulation (CER) in Ireland and the Northern Ireland Authority for Utility Regulation (NIAUR).

Market Operations

During its first financial tariff period 1 November 2007 to 30 September 2008, the market operated in line with expectations and prices have been reflective of supply and demand. In addition, the performance of SEMO market systems was satisfactory.

This year, SEMO oversaw the processing of energy invoicing and settlement totalling approximately €2.7 billion in addition to processing capacity settlement totalling approximately €500 million. SEMO publishes market prices on a half-hourly basis every day of the year through its web-based market systems.

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 hours to 06:00 hours the following day. The following graph shows the average monthly SMP from market commencement on 1st November 2007 until 30th September 2008.

A main focus for 2008 was the delivery of reliable and robust market systems. This has resulted in more reliable systems most notably because of database performance improvements but also due to improved monitoring systems and IT business processes and training. This has resulted in a System Availability figure for 2008 of 99.21% which is excellent for our first year of operation

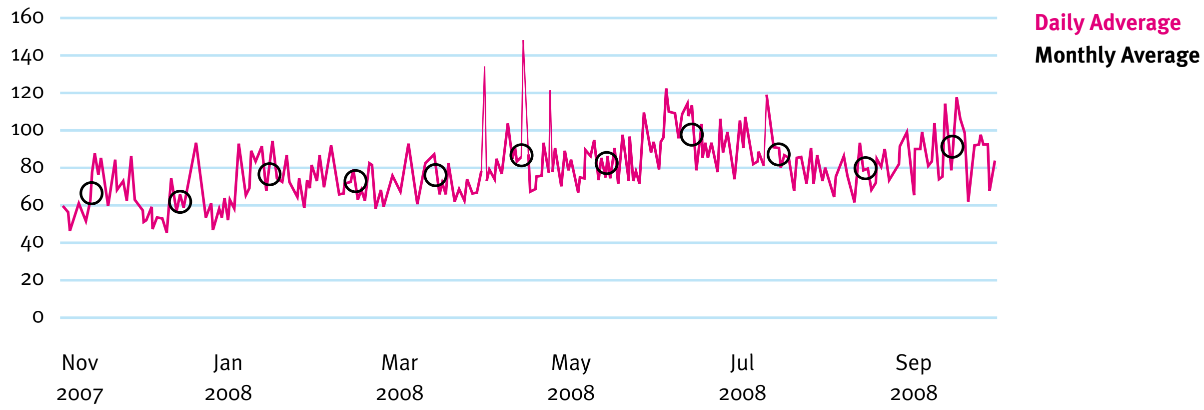
Market Development

Market Development is responsible for the administration and maintenance of the Trading and Settlement Code (TSC). During the year a significant amount of modifications, 155 for the period from July 2007 to September 2008, were processed for the Modifications Committee with the Regulator approving 38. This work continues to be addressed as renewable developments and associated procedures are progressed in the market.

SEMO continues to work closely with the Regulators and has fulfilled all of its licence requirements.

Another significant achievement during 2008 was the delivery of the Day 1+ project which has been completed on time and under budget and was deployed on the 16th of January 2009.

System Marginal Price €/MWh



Stakeholder Management

SEMO presented at the Association of Power Exchanges (APEX) conference in the first year of operation of SEM.

SEMO has been proactive in managing the requirements of Market Participants. In the past 11 months SEMO have organised, facilitated and presented in 8 general Market Operator User Groups, 12 Market Operator Single Topic Sessions and 15 bi-lateral participant conference calls. SEMO provided each Participant with daily individual controller contact for the first 2 weeks of the SEM, in order to ensure smooth transition from market trial to go-live. 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.

Challenges for 2009

The SEM commenced operation on time and within budget on 1st November 2007. It has been widely heralded as a success, being the first multi jurisdictional, dual currency, physical market in the world.

During this first year the market has operated smoothly, transparently setting prices, invoicing participants in a timely fashion and transferring funds securely. It remains fully collateralised with 50 participants, 16 having joined since commencement.

The challenge for our second year in operation is to operate and improve energy market services using the best of our talent and expertise in an open manner.

We aim to achieve this by engaging our stakeholders, maintaining the trust of our customers, developing our people, driving efficiency and innovation in our business, operating on a commercial basis and working proactively with our parent organisations.

TRANSMISSION SYSTEM 400 KV, 275 KV, 220KV AND 110 KV MARCH 2009

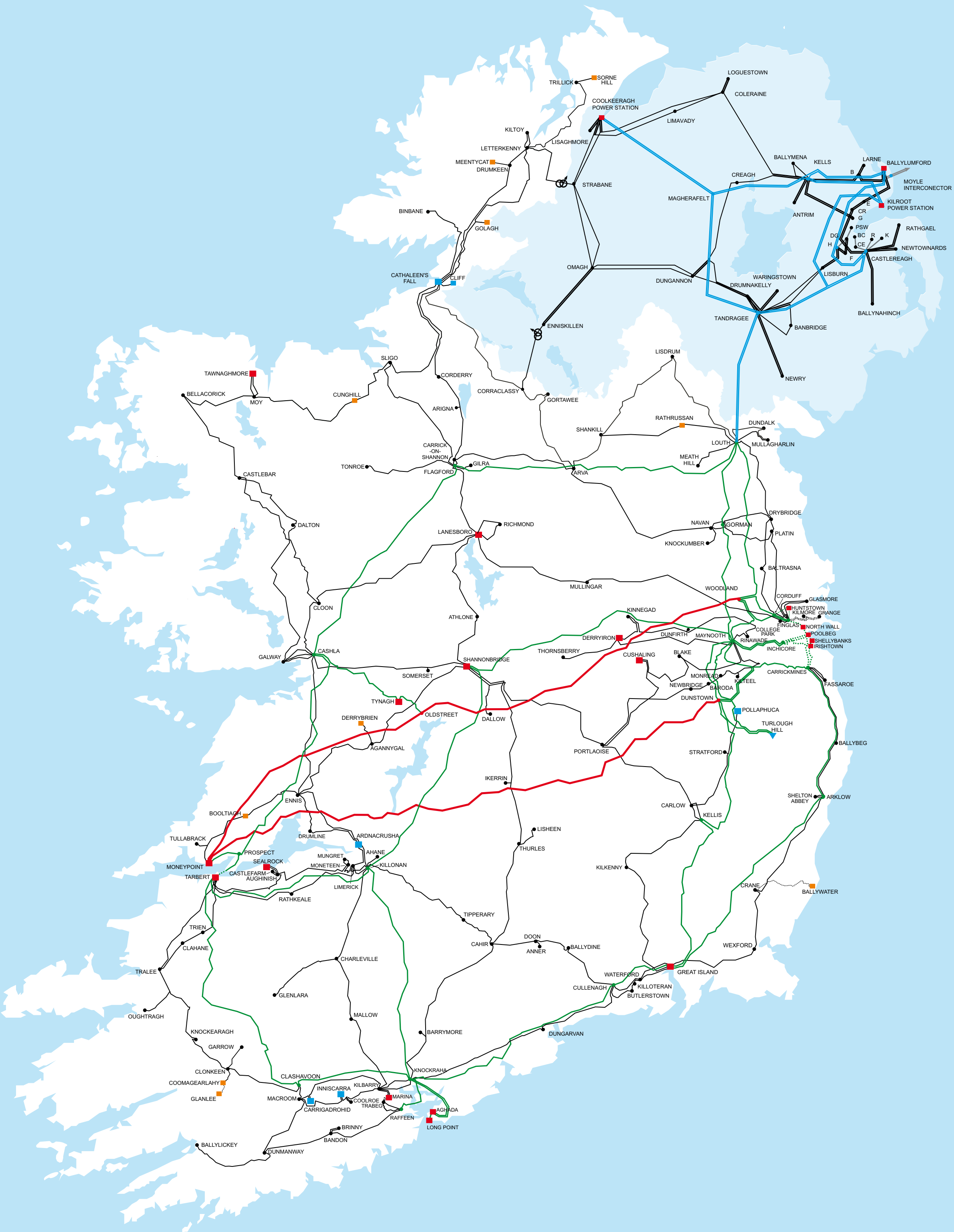
400 kV Lines
275 kV Lines
220 kV Lines
110 kV Lines
220 kV Cables
110 kV Cables

400 kV Stations
275 kV Stations
220 kV Stations
110 kV Stations

Transmission Connected Generation

Hydro Generation
Thermal Generation
Pumped Storage Generation
Wind Generation

Phase Shifting Transformer



WE AIM TO ENSURE THAT WE CONDUCT OUR BUSINESS HONESTLY, ETHICALLY, LEGALLY, SAFELY, AND IN AN ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE MANNER WHILE, AT THE SAME TIME, DELIVERING REAL VALUE FOR MONEY FOR CONSUMERS.

CORPORATE AND SOCIAL RESPONSIBILITY

In carrying out its responsibilities as Transmission System Operator and as Market Operator, EirGrid plays a key role in the economy and in society. EirGrid believes that its activities in the area of Corporate and Social Responsibility (CSR) are an important part of its business.

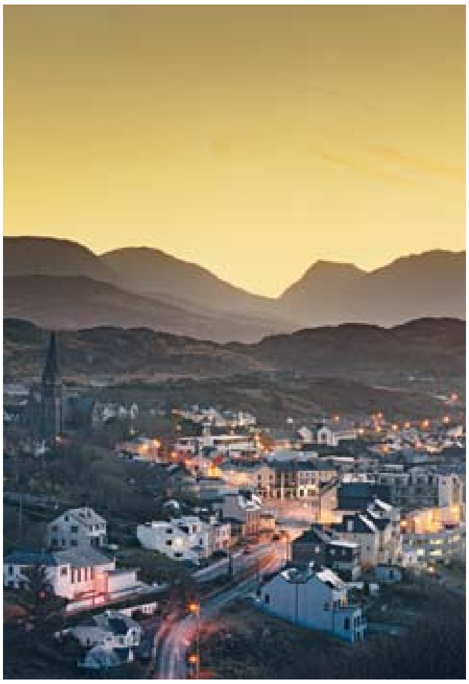
We aim to ensure that we conduct our business honestly, ethically, legally, and safely, and in an environmentally and socially responsible manner while, at the same time, delivering real value for money for consumers. In addition to the four CSR areas reported on below, EirGrid is considering further initiatives which will be reported on in the future.

How we do business

EirGrid conducts its business in an impartial, non-discriminatory and transparent manner. It is committed to operating the power system in a safe, secure and efficient way. EirGrid provides this service 24 hours a day, every day of the year. Customer service and commitment to the users of the power system are key objectives. The Company has strong corporate governance and risk management processes in place. It works to clear and specific objectives in delivering and operating infrastructure and market services in a secure, reliable, economic and efficient way. It aims to provide a very high standard in terms of reliability and of the quality of transmission and market services delivered to customers. The company has a comprehensive Customer Charter and a dedicated customer relations team and its objective is to deliver services efficiently, transparently and fairly. It engages with customers regularly, and runs an annual customer conference. EirGrid has a clear Code of Ethics governing the conduct of staff and covering integrity, loyalty, fairness and confidentiality. It has clear and fair processes for purchasing and procurement. The Company has a regularly updated website, which carries a wide range of information. EirGrid completed a project in 2008 to increase accessibility of its website to people with disabilities.

How we work with our employees

EirGrid is committed to equal opportunities in its recruitment and operations. It has a strong partnership ethos. The Company is privileged to have a diverse workforce, with employees from many countries. It is committed to facilitating access for disabled employees. EirGrid supports education, training and development for its employees. The Company provides an employee assistance programme and health and well being programmes. It encourages work life balance for employees and respect and dignity for individual employees. Staff and management participate in focus groups aimed at making EirGrid a great place to work and to do business with. Safety of our staff and everyone we have contact with is a priority. The Company has strong internal communications structures and processes and is committed to open, two way communication.



How we play our role in the Community

EirGrid provides support for community initiatives involving organisations in the sporting and health areas nominated by staff. In addition in 2008, EirGrid provided a significant contribution to the ElectricAid organisation which provides financial assistance to a range of projects in Ireland and abroad. The Company annually provides opportunities for secondary school students to visit its facilities to learn about engineering as a career, and EirGrid engineers also give talks and lectures to primary school pupils on technological issues. As a result of the move to its new building, EirGrid took the opportunity to make a difference to schools or voluntary groups by donating retired IT equipment to them. Through its work in developing vital infrastructure, EirGrid engages with communities and stakeholders. During 2008, it established two local information centres and operated feedback lines which provided information to thousands of people.

How we care for the environment

Renewable energy is used first by EirGrid in dispatching generation on the power system and rapid progress has been made in recent years in integrating larger quantities of wind power onto the electricity system. During 2008 strong progress was made towards Ireland's renewable targets. The Company engages in programmes to encourage national energy efficiency and has been a strong supporter of the Power of One campaign, and the Earth Hour campaign. Specific measures it implements include the Winter Peak Demand Reduction Scheme and the PowerSave scheme. EirGrid has an Environment Management System in place. It is committed to being compliant with environmental legislation and regulations and submits environmental studies/reports in relation to new projects. It promotes recycling and energy efficiency in its buildings. A management and staff group has been formed to look at reduction in the company's carbon footprint.

OUR CUSTOMERS

EirGrid aims to deliver quality services to all electricity customers. We define a customer as anyone to whom we provide a service. This includes all Demand customers, Renewable Generators and Conventional Generators, Suppliers, Stakeholders, Partners and all other interested parties. We are committed to the efficient, professional and non-discriminatory handling of all our customer needs and in doing so, strive to understand the requirements of our different customer groups and identify and provide the appropriate services required.

Our customers can be broken into the following main categories:

Generators

This includes all those customers connected to, or in the process of connecting to, the transmission system, including renewable and non-renewable generators. This includes Viridian, Airtricity, ESB Power Generation, SWS, Endesa and many others. It also includes large generators connected to the Distribution System liable for Transmission Use of System charges.

In 2008 there were three new wind farms connected to the Transmission System. These are

- Clahane, Co. Kerry
- Coomacheo, Co. Kerry
- Mountain Lodge, Co. Cavan

Demand

Large industrial customers connected to or in the process of connecting to the transmission system.
This includes Intel, Aughinish Alumina, Irish Cement and many others.

In 2008 Wyeth in Newbridge Co. Kildare became our newest demand customer

Suppliers

Licensed Suppliers of electricity. This includes Bord Gais, Energia, Airtricity, ESB Customer Supply and many others.

Stakeholders

Bodies such as the CER, IWEA, IBEC, IDA, SEI, and many others. This also includes the general public, universities and students who have an interest or requirement for information pertaining to the electricity industry.

Partners

Key partners who enable us to deliver on our organisational objectives, including ESB Networks, NIE, SONI and many others.

Shareholders

Minister and Department of Communications, Energy and Natural Resources, and Minister and Department of Finance.

Service Standards

Customer Charter

Our Customer Charter sets out the standards and procedures that we agree will govern our relationship with our customers and stakeholders. It demonstrates our commitment to providing high quality service to all people who interact with our organisation, and provides us with a benchmark to measure our performance.

Customer Relations

Our Customer Relations team aim to provide professional, reliable and efficient assistance and support to all users of the transmission system. We manage a customer line and a dedicated email address to manage all enquiries efficiently.

Customer Satisfaction Surveys

We survey our customer base annually to ensure we are providing high-quality service, and it allows us to highlight opportunities for improvement and recognise where efficiencies can be made. In 2008 we provided a presentation at our Annual Conference on the findings of the survey.

2008 Annual Customer Conference

We held our 3rd EirGrid Annual Customer Conference in October 2008. The main day provided key speakers from the energy industry including the Minister for Communications, Energy & Natural Resources Eamon Ryan, TD; Dermot Byrne, Chief Executive, EirGrid; and Alan Rainey, NIAUR, with 175 people in attendance. 110 people attended the half day workshop which covered topics such as Grid25, Gate 3 and the Connection Process.

Industry Workshops

We also organised a number of industry workshops throughout 2008 to present on issues of interest to the industry and facilitate discussion and feedback. These included:-

- Feb 2008 Grid Development Strategy - Technical Information Session;
- Apr 2008 EirGrid & SONI - Harmonised Ancillary Service Workshop;
- May 2008 EirGrid & SONI - Scheduling and Dispatch Workshop;
- Sep 2008 Winter Peak Demand Reduction Scheme Workshops.

Publications and Information

We produce regular publications and information. In 2008 we produced among other publications:

- Transmission Forecast Statement 2008-2014;
- Generation Adequacy Report 2009-2015;
- Transmission Development Plan 2007-2011 ;
- Transmission System Performance Report 2007;
- Grid**25**;
- Quarterly Reviews;
- Monthly Availability Reports;
- Winter Outlook Report

as well as numerous consultation reports, booklets and guides, and provided comprehensive system and market information on our website.

Renewables Policy

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. We have a Renewables Policy published on our website which provides information on the initiatives being undertaken in the organisation to support achievement of the Government targets for Renewables.

THE BOARD


William Egenton
Emer Daly
Jane Williams
Bernie Gray (Chairperson)
Niamh Cahill (Company Secretary)


Cormac MacDonnchadha
David Mackey
Martina Moloney
Dermot Byrne (Chief Executive)

THE BOARD

Bernie Gray (Chairperson)

Bernie Gray was appointed to the Board of EirGrid 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 1990's 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 three 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 Bachelor 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 three 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 Bachelor 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 public decision-making. Her career to date has included two years as a financial engineer in international banking with Banque Nationale de Paris; nine years as a financial analyst and in 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 specialist expertise includes strategy formulation and implementation, entrepreneurship policy and practice, and group process facilitation. 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 38)

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.

EXECUTIVE TEAM

Dermot Byrne, Chief Executive

(See page 34)

Niamh Cahill, Company Secretary and Company Lawyer

Niamh Cahill is the Company Secretary and Company Lawyer for EirGrid plc the electricity Transmission System Operator and jointly with SONI Ltd the Single Electricity Market Operator for the Island of Ireland. Niamh a graduate of NUI Galway BA (Hons) and LL B (Hons) and holds a BL from King's Inns, Dublin. She was called to the Bar in Ireland in 1985 and the UK Bar (Middle Temple Inn) in 1988. She has extensive experience both in private practice (Four Courts, Ireland) and as an in-house legal Counsel worked for a wide range of major international private and public companies in the Republic of Ireland and the UK. Prior to joining EirGrid, Niamh worked as a senior commercial Lawyer within ESB Group, where she had responsibility for managing and mitigating a wide range of commercial legal risks in the Irish electricity market and 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.

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

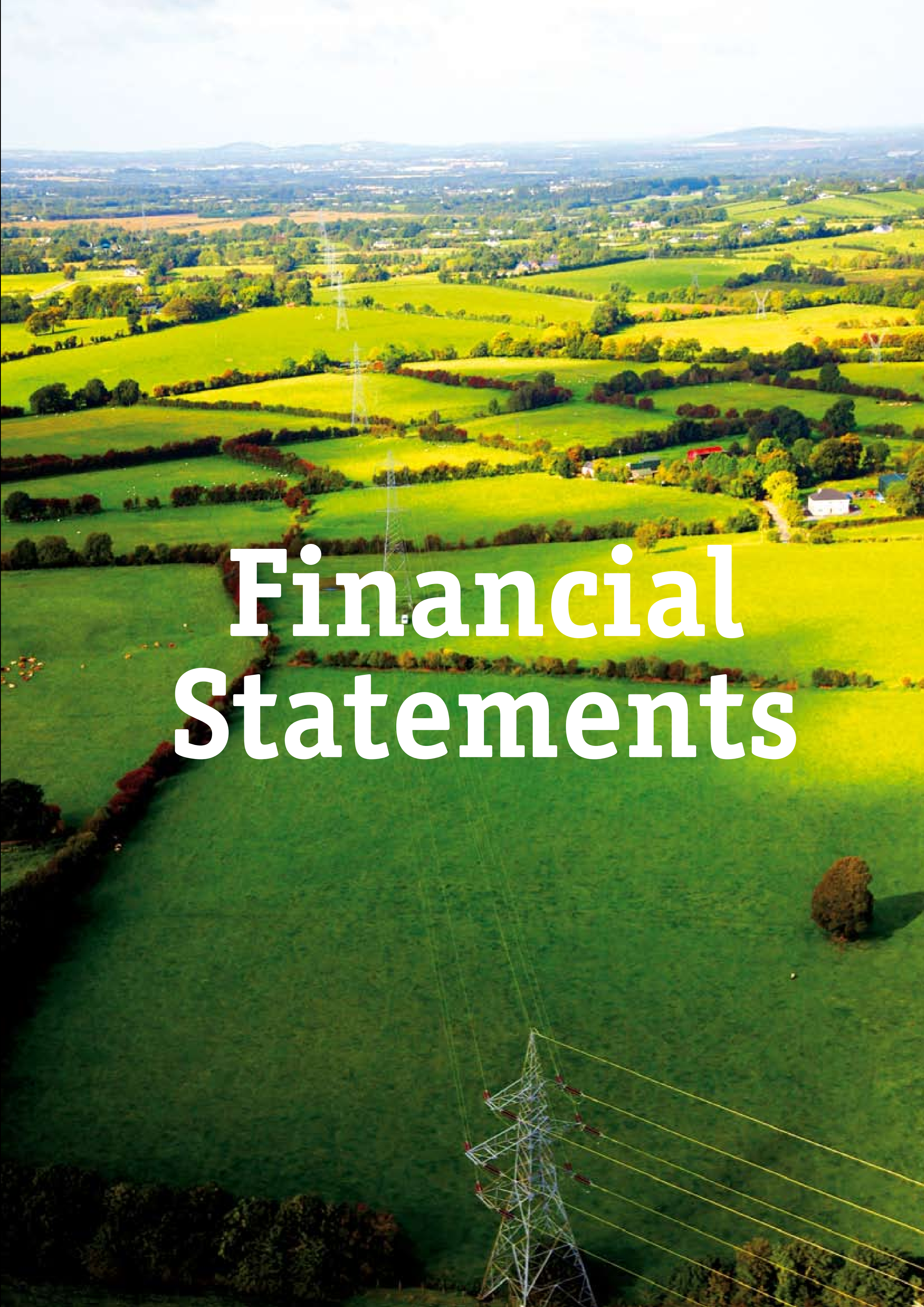
Aidan Skelly joined EirGrid as Chief Financial Officer in June 2005. He was previously Finance Director with Waterford Stanley Limited. He worked with Waterford Crystal from 1987 to 2002, during which time he held a number of finance and commercial positions in Ireland and in the UK. He trained as a Chartered Accountant with PricewaterhouseCoopers and is a Commerce graduate of University College Dublin. He also holds an MBS from Dublin City University.

Ann Scully, Director, Information Services

Prior to becoming EirGrid's 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 Collage, she holds a degree in Electrical Engineering.

Fintan Slye, Director, Operations

Fintan Slye assumed the position of Director of Operations at EirGrid 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

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DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of EirGrid plc ('the Company') for the period from 01 January to 30 September 2008.

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. The Company discharges this responsibility through a contractual joint venture with SONI Ltd.

Results and review of the business

Details of the financial results of the Company are set out in the Income Statement on page 52 and the related notes.

The current period being reported on is for the nine months to 30 September 2008. The comparative figures are for the year ended 31 December 2007. The financial period was changed to align it with the regulatory tariff period which runs from 01 October to 30 September every year.

Commentaries on performance during the period from 01 January to 30 September 2008, 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, who acts as employee representative on the Board. 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 34 to 35.

DIRECTORS' REPORT

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.

Board Committees in 2008

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

Attendance at Meetings

There were 10 Board Meetings held during the period from 01 January to 30 September 2008. The Board Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Bernie Gray (Chairperson)	10	10
Dermot Byrne (Chief Executive)	10	10
Emer Daly	10	10
William Egenton	10	8
Cormac MacDonnchadha	10	9
David Mackey	10	7
Martina Moloney	10	7
Jane Williams	10	7

There were 4 Audit Committee Meetings held during the period from 01 January to 30 September 2008. The Board Members' attendances at these Meetings were as set out below:

DIRECTORS' REPORT

	Eligible to Attend	Attended
Emer Daly (Chairperson)	4	4
William Egenton	4	4
Cormac MacDonnchadha	4	3
Martina Moloney	4	3

There were 9 Remuneration Committee Meetings held during the period from 01 January to 30 September 2008. The Board Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Bernie Gray (Chairperson)	9	9
David Mackey	9	6
Jane Williams	9	7

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 Company's internal audit function continually reviews the internal controls and systems throughout the business, makes recommendations for improvement and reports to the Audit Committee.

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 Single Electricity Market (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 (security accounts held in the name of market participants). 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.

The Company funds some of its operations using borrowings and uses interest rate instruments to manage interest rate risks that arise from its operational and financial activity. All transactions in financial instruments are non-speculative.

The Company is exposed to credit risk from the counterparties with whom it holds its bank accounts. The Company's policy is to limit its exposure by spreading funds across a number of financial institutions whose credit ratings meet levels approved by the Board.

The Company's principal financial risk is that there is inadequate liquidity in the event of a significant regulatory under-recovery. Adequate 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 regularly reviewed and are in line with best international practice;
- Grid maintenance standards and policies, supported by a detailed Infrastructure Agreement with ESB as the Transmission Asset Owner, which are in line with best international practice; and
- Continuous management focus on all aspects of health and safety. A Safety Management System (certified to OHSAS 8001) has been approved and implemented.

DIRECTORS' REPORT

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;
- Ensure the quality of internal and external reporting; and
- 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 shareholder's 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;
- 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;
- Regular performance of a risk management 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 its risk management process. The Directors confirm that they have reviewed the effectiveness of the system of internal financial control operated during the period 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.

The Board is satisfied that the direction and control of the Company is firmly in its hands.

The Company has an Internal Audit and Compliance function since January 2003.

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 €91,500 (12 months to 31 December 2007: €122,000) 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 (2007: €24,000) per annum and the Directors' fees are €14,000 (2007: €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 Department of Finance and the Department of 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 pay, taxable benefits and certain retirement benefits. 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 nine months to 30 September 2008 were €2,031 (12 months to 31 December 2007: €2,708) and €6,093 (12 months to 31 December 2007: €8,124) respectively. The total accrued pension at the end of the period was €8,790 (31 December 2007: €6,759) and the total accrued gratuity was €26,730 (31 December 2007: €20,277). The transfer value of the relevant increase was €52,245 (31 December 2007: €70,929).

DIRECTORS' REPORT

Chief Executive's Remuneration	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 € '000
Basic salary	162	194
Performance related pay	30	40
Taxable benefits	14	19
Pension contributions paid	51	58
Director's Fees	11	14
Total	268	325

Dividends

The Directors of the Company do not propose the payment of a dividend for the period (2007: nil).

Directors' and Secretary's interest in shares

The Directors' and Secretary who held office at 30 September 2008 and 01 January 2008 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 held by the Minister for Finance, or on his behalf.

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 The Oval, 160 Shelbourne Road, Ballsbridge, Dublin 4.

Auditors

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

DIRECTORS' REPORT

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 (IFRSs).

Company law requires the Directors to prepare such financial statements in accordance with IFRSs 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 IFRSs.

Directors are also required to:

- Properly select and apply accounting policies;
- Make judgements and estimates that are reasonable and prudent;
- 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 IFRSs 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 IFRSs 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

Bernie Gray	**Dermot Byrne**
Chairperson	Chief Executive

17 December 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EIRGRID PLC

We have audited the financial statements of EirGrid plc for the nine month period from 01 January to 30 September 2008 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 25. These financial statements have been prepared under the accounting policies set out therein.

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 (IFRSs) 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 IFRSs 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 disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EIRGRID PLC

Opinion

In our opinion, the financial statements:

- Give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the affairs of the Company as at 30 September 2008 and of its profit for the nine month period 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 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 30 September 2008 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
17 December 2008

INCOME STATEMENT FOR THE PERIOD FROM 01 JANUARY TO 30 SEPTEMBER 2008

	Notes	9 months to 30 Sep 2008 € '000	12 months to 31 Dec 2007 € '000
Revenue	2, 3	282,707	290,432
Direct costs	2	(227,198)	(235,620)
Gross profit		55,509	54,812
Other operating costs	2, 5	(46,948)	(45,984)
Operating profit	2	8,561	8,828
Interest income	2	3,481	3,119
Finance costs	2, 6	(1,052)	-
Profit before taxation	7	10,990	11,947
Income tax expense	2, 8	(1,774)	(2,532)
Profit for the period		9,216	9,415

On behalf of the Board:

Bernie Gray
Chairperson

Dermot Byrne
Chief Executive

17 December 2008

BALANCE SHEET AS AT 30 SEPTEMBER 2008

	Notes	30 Sep 2008 € '000	31 Dec 2007 € '000
Assets			
Non-current assets			
Property, plant & equipment	2, 9	74,273	56,231
Deferred tax asset	2, 8	3,033	1,971
Derivative - financial instruments	2, 22	497	-
Total non-current assets		77,803	58,202
Current assets			
Trade and other receivables	2, 10	79,128	83,728
Current tax asset	2	-	1,035
Cash and cash equivalents	2, 14	98,763	80,640
Total current assets		177,891	165,403
Total assets		**255,694**	**223,605**
Equity and liabilities			
Capital and reserves			
Issued share capital	12	38	38
Capital reserve	18	49,182	49,182
Hedging reserve	18	435	-
Retained earnings	13	29,304	24,666
Total equity		78,959	73,886
Non-current liabilities			
Borrowings	2, 20	28,500	-
Retirement benefit obligation	2, 17	24,555	18,487
Total non-current liabilities		53,055	18,487
Current liabilities			
Borrowings	2, 20	8,471	2,138
Trade and other payables	2, 11	113,321	129,094
Current tax liability	2	1,888	-
Total current liabilities		123,680	131,232
Total liabilities		176,735	149,719
Total equity and liabilities		**255,694**	**223,605**

On behalf of the Board: **Bernie Gray** Chairperson **Dermot Byrne** Chief Executive 17 December 2008

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE PERIOD FROM 01 JANUARY TO 30 SEPTEMBER 2008

	Notes	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 € '000
Actuarial (loss)/gain on retirement benefit scheme	17	(5,232)	4,035
Deferred tax attributable to actuarial (loss)/gain	8	654	(277)
Unrealised gain on cashflow hedges	22	497	-
Deferred tax attributable to unrealised gain on cash flow hedges	8	(62)	-
Net (expense)/income recognised directly in equity		(4,143)	3,758
Profit for the period		9,216	9,415
Total recognised income and expense for the period		5,073	13,173

CASH FLOW STATEMENT FOR THE PERIOD FROM 01 JANUARY TO 30 SEPTEMBER 2008

	Notes	9 months to 30 Sep 2008 € '000	12 months to 31 Dec 2007 €'000
Cash flows from operating activities			
Profit after taxation		9,216	9,415
Profit/(loss) on disposal of property, plant and equipment		76	(8)
Depreciation of property, plant and equipment	9	9,567	5,631
Interest income		(3,481)	(3,119)
Finance costs		1,052	-
Pension charge		2,557	3,264
Income tax expense		1,774	2,532
Pension contributions paid		(1,946)	(2,123)
		18,815	15,592
Movements in working capital			
Decrease/(increase) in trade and other receivables		5,332	(11,063)
(Decrease)/increase in trade and other payables		(15,773)	43,784
Cash generated from operations		8,374	48,313
Income taxes paid		-	(3,857)
Interest received		3,653	2,805
Finance costs paid		(1,052)	-
Net cash generated by operating activities		10,975	47,261
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(27,685)	(32,525)
Proceeds from disposal of property, plant and equipment		-	8
Net cash used by investing activities		(27,685)	(32,517)
Cash flows from financing activities			
(Decrease)/increase in bank overdrafts	20	(1,267)	2,138
Proceeds from borrowings	20	38,000	-
Borrowings repaid	20	(1,900)	-
Net cash generated in financing activities		34,833	2,138
Net increase in cash and cash equivalents		18,123	16,882
Cash and cash equivalents at start of period		80,640	63,758
Cash and cash equivalents at end of period	14	**98,763**	**80,640**

NOTES TO THE FINANCIAL STATEMENTS

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 licensed by the Commission for Energy Regulation as the Transmission System Operator (TSO) in the Republic of Ireland and as Market Operator for the wholesale electricity market on the island of Ireland, a role performed jointly with SONI Ltd. The registered office of the Company is The Oval, 160 Shelbourne Road, Ballsbridge, Dublin 4.

2. Statement of Accounting Policies

Basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and also in accordance with IFRSs as adopted by the European Union. They are prepared on the basis of all IFRSs and Interpretations that are mandatory for periods ending 30 September 2008 and in accordance with the Irish Companies Acts, 1963 to 2006.

The Financial Statements have also been prepared on a historical cost basis and are presented in euro, except for the revaluation of certain financial instruments which are held at fair value.

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.

The current period being reported on is for the nine months to 30 September 2008. The comparative figures are for the year ended 31 December 2007. The financial period was changed to align it with the regulatory tariff period which runs from 01 October to 30 September every year.

Adoption of new Standards

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

- IFRIC 11: IFRS 2: Group and Treasury Share Transactions.

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

The following Interpretations and Standards are effective for the current period. However, as they have not yet been adopted by the European Union, they have not yet been adopted by the Company:

- IFRIC 12: Service Concession Arrangements;
- IFRIC 13: Customer Loyalty Programmes;
- IFRIC 14: IFRS 19 - The Limitation on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; and
- IAS 39: IFRS 7 amendment: Reclassification of Financial Assets.

The adoption of these Interpretations and Standards will not lead 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:

- IAS 1 (revised): Presentation of Financial Statements (Effective 01 January 2009);
- IAS 1/IAS 32 (revised): Puttable Instruments (Effective 01 January 2009);
- IAS 23 (revised): Borrowing Costs (Effective 01 January 2009);
- IAS 27/IFRS 3 (revised): Business Combinations (Effective 01 July 2009);
- IAS 27: Consolidated and Separate Financial Statements (Effective 01 January 2009);
- IAS 39 amendment: Eligible Hedged Items (Effective 01 July 2009);
- IFRS 1: First Time Adoption of IFRS (revised and reinstructed) (Effective 01 January 2009);
- IFRS 2 amendment: Share Based Payments (Effective 01 January 2009);
- IFRS 8: Operating Segments (Effective 01 January 2009);
- IFRIC 15: Arrangements for Construction of Real Estate (Effective 01 January 2009);
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (Effective 01 October 2008); and
- IFRIC 17: Distribution of Non-Cash Assets to Owners (Effective 01 July 2009).

The Directors are currently assessing the impact of these Standards and Interpretations on the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

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 period and excludes value added tax. Revenue includes the regulatory allowance for the management of transmission constraint costs. 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, has 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 recognised on an accruals basis and is stated net of value added tax.

Interest income is earned on bank deposits and 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.

Direct costs

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 transmission asset owner charges, transmission system constraint costs, ancillary services and interruptible load. Direct costs are recognised as they are incurred.

Operating profit

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

Other operating costs primarily represents employee costs, professional fees and contractors and establishment costs. Other 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. Benefits receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the lease term.

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.

NOTES TO THE FINANCIAL STATEMENTS

Retirement benefit costs

For defined benefit plans, 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 benefits obligations recognised in the Balance Sheet represent the present value of the defined benefit obligation 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.

The retirement benefit costs for employees engaged on capital projects are capitalised in the balance sheet as the costs are 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 period. 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 periods 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 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 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 period 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:

- Buildings: 24 years;
- Fixtures and fittings: 5 years;
- IT, telecommunications equipment and other: 3 to 8 years; and
- 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, retirement benefit costs 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 property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

Impairment of property, plant and equipment

At each Balance Sheet date, the Company reviews the carrying amounts of its property, plant and equipment 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 assets and liabilities

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.

Where Market participants have entered into Settlement Reallocation Agreements the related receivables and payables are stated net.

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 initial recognition at invoice value, which approximates to fair value.

Derivative financial instruments

The Company enters into interest rate swaps to manage its exposure to interest rate risk. Further details of the interest rate swaps are disclosed in note 22.

Interest rate swaps are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the interest rate curves at reporting date and the credit risk inherent in the contract. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company designates its interest rate swaps as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The effective portion of changes in the fair value of interest rate swaps that are designated and qualify as cash flow hedges are deferred in equity. Any gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in Finance costs in the income statement. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, on the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Note 22 sets out details of the fair values of the interest rate swaps used for hedging purposes. Movements in the hedging reserve in equity are also detailed in note 18.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

NOTES TO THE FINANCIAL STATEMENTS

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at fair value which approximates amortised cost.

Finance costs

Finance costs, which comprise interest on borrowings and related hedging interest rate swaps, are recognised as an expense in the period in which they are incurred.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the Balance Sheet date and the amounts reported for revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The nature of estimation means that actual outcomes could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Key sources of estimation and uncertainty and critical accounting judgements are as follows:

Useful lives of property, plant and equipment

The depreciation charge for property, plant and equipment depends primarily on the estimated lives of each type of asset and, in certain circumstances, estimates of residual value. The useful lives of assets are determined by management at the time the assets are acquired and are reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Historically, changes in useful lives have not resulted in material changes to the Company's depreciation charge.

Retirement benefits obligations

The Company operates a defined benefit pension plan. The actuarial valuation of the pension plan's liability is based on various financial and demographic assumptions about the future including discount rates, inflation, salary increases, pension increases and mortality rates. The Company's obligation in respect of the plan is calculated by independent qualified actuaries and is updated at least annually. The obligation at 30 September 2008 is €47.2m (31 December 2007: €43.6m) and the fair value of plan assets is €22.6m (31 December 2007: €25.1m), giving a net pension deficit of €24.6m (31 December 2007: €18.5m).

Deferred tax

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which any unused tax losses and unused tax credits can be utilised. The Company estimates the most probable amount of future taxable profits, using assumptions consistent with those employed in impairment calculations. These calculations require the use of estimates.

3. Revenue

Revenue by geographic market	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Ireland	282,707	276,665
UK	-	13,767
Total	282,707	290,432

Revenue primarily relates to the provision of electricity transmission and Market Operator services.

NOTES TO THE FINANCIAL STATEMENTS

4. Employees

The average number of persons employed by the Company during the nine months to 30 September 2008 was 225 (12 months to 31 December 2007: 203), excluding staff engaged on capital projects. Their total remuneration, including executive Director's salaries, comprised:

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Wages and salaries	14,778	16,136
Social Welfare costs	1,137	1,002
Pension costs (note 17)	2,557	3,264
Total	18,472	20,402

Included within the average number of employees is staff seconded from ESB. The charge for the nine months to 30 September 2008 for the seconded staff was €1.5m (12 months to 31 December 2007: €2.4m) and it is included within the wages and salaries figure above.

The average number of persons engaged on capital projects during the nine months to 30 September 2008 was 26 (12 months to 31 December 2007: 22). The staff costs associated with these employees have been capitalised and totalled €1.7m for the nine months to 30 September 2008 (12 months to 31 December 2007: €1.4m).

5. Other operating costs

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Employee costs (note 4)	18,472	20,402
Depreciation of non-current assets	9,567	5,631
Operations and maintenance	18,909	19,951
Total	46,948	45,984

6. Finance costs

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Interest on borrowings and related interest rate swaps	1,052	-
Total	1,052	-

NOTES TO THE FINANCIAL STATEMENTS

7. Profit before taxation

The profit before taxation is stated after charging the following:

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Depreciation	9,567	5,631
Directors' remuneration		
- fees	92	122
- other emoluments	257	311
Auditors' remuneration		
- fees	85	55
- non audit services	5	5
Operating lease rentals	1,608	64
Foreign exchange loss	20	700

Auditors' remuneration - non audit services excludes amounts capitalised in Assets under Construction (note 9).

8. Income taxes

Charge to Income Statement:

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Current tax expense	2,244	2,047
Adjustments recognised in the current period in relation to the		
current tax of prior periods	-	207
Deferred tax relating to the origination and reversal		
of temporary differences	(470)	278
Income tax expense for the period	1,774	2,532

NOTES TO THE FINANCIAL STATEMENTS

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

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Profit before tax	10,990	11,947
Taxation at standard rate of 12.5% (31 December 2007: 12.5%)	1,374	1,493
Effect of higher rates of tax on other income	277	381
Effect of depreciation in excess of capital allowances	-	245
Effect of income, expenses and credits excluded in		
determining taxable profit	123	173
Adjustment in respect of previous period	-	207
Effect of other temporary differences	-	33
Income tax recognised in Income Statement	1,774	2,532

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

	Accelerated tax depreciation €'000	Retirement benefits obligations €'000	Cash flow hedges €'000	30 Sep 2008 Total €'000	31 Dec 2007 Total €'000
At beginning of period	(333)	2,304	-	1,971	2,526
Charge/(credit) to the Income					
Statement for the period	358	112	-	470	(278)
Credit/(charge) to the Statement of					
Recognised Income and Expense	-	654	(62)	592	(277)
At end of period	25	3,070	(62)	3,033	1,971

NOTES TO THE FINANCIAL STATEMENTS

9. Property, plant & equipment

	Buildings * €'000	Fixtures & fittings €'000	IT, telecommunications equipment & other €'000	Single Electricity Market ** €'000	Assets under Construction *** €'000	Total €'000
Cost						
Balance as at 1 January 2007	-	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
Additions	-	-	1,771	194	25,720	27,685
Disposals	-	-	(345)	-	-	(345)
Transfers	9,865	1,169	5,759	-	(16,793)	-
Balance as at 30 September 2008	9,865	1,211	29,856	34,237	16,217	91,386
Depreciation						
Balance as at 1 January 2007	-	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
Charge	102	53	4,270	5,142	-	9,567
Disposals	-	0	(269)	-	-	(269)
Balance as at 30 September 2008	102	59	10,675	6,277	-	17,113
Carrying amount as at 30 September 2008	**9,763**	**1,152**	**19,181**	**27,960**	**16,217**	**74,273**
Carrying amount as at 31 December 2007	-	36	15,997	32,908	7,290	56,231
Carrying amount as at 1 January 2007	-	40	13,818	-	15,479	29,337

* The cost of the Company's buildings represents leasehold improvements. See note 15 for details of the lease.

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

NOTES TO THE FINANCIAL STATEMENTS

*** Assets under Construction consist of the following:

	30 Sep 2008 €'000	31 Dec 2007 €'000
Fit-out and improvement of leased office building	-	3,861
IT and telecommunications equipment	3,232	1,322
East West Interconnector project (Note A)	8,435	2,107
SEMO IT system	4,550	-
Total	16,217	7,290

Note A: Included in the additions to the East West Interconnector project are fees of €40k (12 months to 31 December 2007: nil) paid to the Company's auditors.

10. Trade and other receivables

	30 Sep 2008 €'000	31 Dec 2007 €'000
Trade receivables	24,650	29,966
Prepayments and accrued income	12,567	9,367
Unbilled receivables	38,039	41,646
VAT recoverable	87	1,513
Other receivables	3,785	1,236
Total	79,128	83,728

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

Unbilled receivables primarily consists of income for the final two months of the accounting period, which, in compliance with the regulatory timetable, had not been billed as at the respective period ends.

Prepayments and accrued income includes deferred project costs of €12.1m (31 December 2007 €7.2m) all of which may not be recoverable within twelve months.

NOTES TO THE FINANCIAL STATEMENTS

11. Trade and other payables

	30 Sep 2008 €'000	31 Dec 2007 €'000
Trade payables	61,469	61,447
Accruals	40,652	30,806
Taxation and social welfare	800	1,441
Regulatory over-recoveries	10,400	35,400
Total	113,321	129,094
Taxation and social welfare comprises of the following:		
PAYE/PRSI	501	494
VAT	-	509
Withholding tax	299	438
Total	800	1,441

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.

€29.0m (31 December 2007: €25.7m) of the trade payables balance relates to the charge payable to ESB as Transmission Asset Owner. Accruals consist mainly of the direct costs of running the transmission system for the last two months of the accounting period.

The liability in respect of regulatory over-recoveries relates to costs which were over-recovered during 2007 and which are being returned to 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 customers. €25.0m of this amount was returned in the nine months to 30 September 2008.

12. Issued Share Capital

Authorised

	30 Sep 2008 €'000	31 Dec 2007 €'000
30,000 ordinary shares of €1.25 each	38	38

Allotted, called-up and fully paid:

	30 Sep 2008 €'000	31 Dec 2007 €'000
30,000 ordinary shares of €1.25 each	38	38

NOTES TO THE FINANCIAL STATEMENTS

13. Retained Earnings

	30 Sep 2008 €'000	31 Dec 2007 €'000
Balance at beginning of period	24,666	11,493
Profit for the period	9,216	9,415
Actuarial (loss)/gain (note 17)	(5,232)	4,035
Deferred tax on actuarial (loss)/gain	654	(277)
Balance at end of period	29,304	24,666

14. Cash and cash equivalents

	30 Sep 2008 €'000	31 Dec 2007 €'000
Cash and cash equivalents	98,763	80,640

Cash and cash equivalents primarily 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. In addition over 92% of bank deposits are held with banks whose debts have been guaranteed by the governments in their respective jurisdictions.

Included in the cash balance is a restricted amount of €10.4m (31 December 2007: €35.4m) relating to the regulatory over-recoveries payable at year end (note 11). A further €7.3m (31 December 2007: €6.3m) is held on trust for market participants in the SEM. Also included in the cash balance is €6.6m (31 December 2007: €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 €20.0m (31 December 2007: €98.0m) at the Balance Sheet date.

15. Operating lease arrangements

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

	30 Sep 2008 €'000	31 Dec 2007 €'000
Not longer than one year	2,692	100
Longer than one year and not longer than five years	10,496	130
Total	13,188	230

The operating lease for the Company's office building is for a term of 25 years which commenced on 01 March 2007. There is a rental holiday for the first three years of the lease term. The lease cost is based on open market value and is subject to rent review every 5 years.

The operating leases for the Company's vehicle fleet are for terms of 3.5 years per vehicle.

NOTES TO THE FINANCIAL STATEMENTS

16. Capital Commitments

Expenditure contracted for not provided for in the financial statements is as follows:

	30 Sep 2008 €'000	31 Dec 2007 €'000
Relocation to new offices	-	10,626
East West Interconnector	915	3,081
SEMO IT system	2,850	-
Total	3,765	13,707

17. Retirement benefits obligations

The Company operates a defined benefit pension plan for employees and the executive Director. 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 30 September 2008 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:

	30 Sep 2008 €'000	31 Dec 2007 €'000
Present value of funded defined pension obligations	47,188	43,564
Fair value of plan assets	(22,633)	(25,077)
Net liability before deferred tax	24,555	18,487
Deferred tax on net pension obligation (note 8)	(3,070)	(2,304)
Net liability after deferred tax	21,485	16,183

The amounts recognised in the Income Statement are as follows:

	30 Sep 2008 €'000	31 Dec 2007 €'000
Current service cost	2,382	3,175
Interest cost	1,790	1,873
Expected return on plan assets	(1,325)	(1,300)
Employer contributions capitalised	(290)	(484)
Amount included in other operating costs (note 4)	2,557	3,264

NOTES TO THE FINANCIAL STATEMENTS

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

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Actuarial (losses)/gains	(5,232)	4,035
Amount included in Statement of Recognised Income and Expense	(5,232)	4,035

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

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Opening defined benefit obligation	43,564	39,149
Current service cost including employee contributions	3,283	4,165
Interest cost	1,790	1,873
Actuarial gains	(1,118)	(2,215)
Benefits paid	(331)	(288)
Benefits received	-	880
Closing defined benefit obligation	47,188	43,564

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

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Opening fair value of plan assets	25,077	18,187
Expected return on plan assets	1,325	1,300
(Losses)/gains on plan assets	(6,296)	1,820
Employer contributions	1,957	2,188
Employee contributions	901	990
Benefits paid	(331)	(288)
Benefits received	-	880
Closing fair value of plan assets	22,633	25,077

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

NOTES TO THE FINANCIAL STATEMENTS

	30 Sep 2008	31 Dec 2007
Valuation method	Projected Unit	Projected Unit
Discount rate	5.75%	5.50%
State pension increase	4.00%	4.50%
Salary increases	4.00%	4.50%
	plus scale	plus scale
Pension increases	4.00%	4.50%
Inflation	3.00%	3.00%

The discount rate used by the plan actuary in the calculation of the pension liability at the period end was 5.75% (31 December 2007: 5.5%). This was based on the redemption yield on Euro denominated Corporate Bonds with an approximate duration of 20 years (31 December 2007: 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 24 years (31 December 2007: 19.9 years) for males and 26.4 years (31 December 2007: 22.8 years) for females.

There are inherent uncertainties surrounding the financial and demographic assumptions adopted by the Company. As an indication of the impact of changes in actuarial assumptions, a 50 basis point decrease in discount rates would increase the pension plan's liabilities by approximately 20%.

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	
	30 Sep 2008 %	31 Dec 2007 %	30 Sep 2008 €'000	31 Dec 2007 €'000
Equities	7.50%	7.50%	12,613	15,564
Government Bonds	4.75%	4.75%	3,021	2,003
Corporate Bonds	5.75%	5.50%	4,249	4,385
Property	6.00%	6.50%	913	2,107
Cash	4.00%	4.00%	1,837	1,018
Fair value of plan assets			22,633	25,077

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.

NOTES TO THE FINANCIAL STATEMENTS

During the year ending 30 September 2009 the Company expects to contribute approximately €2.7m to its defined benefit plan. The history of experience adjustments is as follows:

	2008 €'000	2007 €'000	2006 €'000	2005 €'000
Present value of defined benefit obligation	47,188	43,564	39,149	1,969
Fair value of plan assets	(22,633)	(25,077)	(18,187)	(1,933)
Deficit	24,555	18,487	20,962	36
Experience adjustments on plan liabilities	1,064	2,215	(1,164)	(97)
Experience adjustments on plan assets	(6,296)	1,820	1,171	(10)

18. Statement of changes in equity

	Share Capital €'000	Capital Reserve €'000	Hedging Reserve €'000	Retained Earnings €'000	Total €'000
Balance as at 1 January 2007	38	49,182	0	11,493	60,713
Total recognised income and expense for the period	-	-	-	13,173	13,173
Balance as at 31 December 2007	38	49,182	-	24,666	73,886
Total recognised income and expense for the period	-	-	-	4,638	4,638
Gain recognised on cash flow hedges	-	-	435	-	435
Balance as at 30 September 2008	38	49,182	435	29,304	78,959

Capital Reserve

The Capital Reserve arose on the vesting of the TSO operations from ESB to EirGrid under the Transfer Scheme dated 01 July 2006. There have been no movements in the Reserve since this date.

Hedging Reserve

The Hedging Reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges.

19. 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 using the proportionate consolidation method.

The following amounts are included in the Financial Statements as a result of the proportionate consolidation of SEMO:

NOTES TO THE FINANCIAL STATEMENTS

	30 Sep 2008 €'000	31 Dec 2007 €'000
Property, plant and equipment	3,846	-
Current assets	25,280	32,642
Total assets	29,126	32,642
Total equity	1,576	474
Current liabilities	27,550	32,168
Total liabilities	27,550	32,168
Total equity and liabilities	29,126	32,642

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Revenue	77,040	16,843
Expenses	(73,913)	(16,369)
Operating profit	3,127	474

20. Borrowings

	30 Sep 2008 €'000	31 Dec 2007 €'000
Repayable within one year:		
Bank overdrafts	871	2,138
Bank loans repayable by instalments	7,600	-
Total current borrowings	8,471	2,138
Repayable after more than one year by instalments:		
Between one and two years	19,000	-
Between two and five years	9,500	-
In five years or more	-	-
Total non-current borrowings	28,500	-
Total borrowings outstanding	36,971	2,138

The bank loans are unsecured loans. The loans have been converted from floating interest rate to fixed interest rate by using interest rate swap contracts, see note 22 for further details.

NOTES TO THE FINANCIAL STATEMENTS

21. Categories of financial assets and financial liabilities

	30 Sep 2008 €'000	31 Dec 2007 €'000
Financial assets classified as loans and receivables:		
Trade receivables	24,650	29,966
Cash and cash equivalents	98,763	80,640
	123,413	110,606
Financial assets designated as hedging instruments:		
Derivative financial instruments	497	-
	123,910	110,606
Financial liabilities classified as other liabilities:		
Trade payables	61,469	61,447
Borrowings and bank overdrafts	36,971	2,138
	98,440	63,585

22. Derivative financial instruments and financial risk management

Overview of 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 department. Policies to protect the Company from these and other risks are regularly reviewed and approved by the Board.

The key financial risks 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.

Credit risk management

The Company monitors its credit exposure on its cash and cash equivalents to 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 managed concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amounts in the Balance Sheet. In addition over 92% of bank deposits are held with banks whose debts have been guaranteed by the governments in their respective jurisdictions.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 €4.5m (31 December 2007: €3.1m) which are past due at the reporting date for which the Company has not provided as the amounts are still considered recoverable.

Ageing of past due but not impaired:

	30 Sep 2008 €'000	31 Dec 2007 €'000
60 to 90 days	537	1,569
90 to 120 days	3,973	1,530
Total	4,510	3,099

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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.

The Company has access to funding facilities, the total unused amount which is €20m at the Balance Sheet date. The Company expects to meet its other obligations from operating cash flows.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Less than 1 month €'000	1 to 12 months €'000	1 to 5 years €'000	5+ years €'000	Total €'000
30 Sep 08					
Non interest bearing	61,469	-	-	-	61,469
Borrowings and bank overdrafts	871	9,455	35,455	-	45,781
Total	62,340	9,455	35,455	-	107,250
31 Dec 07					
Non interest bearing	61,447	-	-	-	61,447
Borrowings and bank overdrafts	2,138	-	-	-	2,138
Total	63,585	-	-	-	63,585

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts.

The following interest rate swap contracts are in place at the period end:

NOTES TO THE FINANCIAL STATEMENTS

	30 Sep 2008 €'000	31 Dec 2007 €'000
Derivatives that are designated and effective as hedging instruments carried at fair value:		
Interest rate swaps	497	-
	497	-
Notional amount of interest rate swaps	36,100	-
	36,100	-

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk on the cash flow exposure on the issued variable rate debt on borrowings.

The interest rate swaps settle on a six monthly basis. The Company will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Company's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating rate interest payments on debt impact profit or loss.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the combined exposure to interest rates for borrowings and derivative instruments at the balance sheet date. A 100 basis point increase or decrease is used when reporting interest rate risk and represents management's assessment of the reasonably possible changes in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's:

- Profit for the nine months to 30 September 2008 would not be impacted as all debt is subject to fixed interest rates; and
- Other equity reserves would decrease/increase by €400k, mainly as a result of changes in the fair value of its cash flow hedges.

23. 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. The charges to the Income Statement under this Agreement were as follows:

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Transmission asset owner charge	114,907	138,714
Connection contributions	-	9,663
Total	114,907	148,377

At 30 September 2008 a total of €29m (31 December 2007: €25.7m) was payable to ESB under this Agreement. The movement in this balance was as follows:

NOTES TO THE FINANCIAL STATEMENTS

	30 Sep 2008 €'000	31 Dec 2007 €'000
Opening balance	25,692	22,187
Charges during the period	114,907	148,377
Payments made during the period	(111,590)	(144,872)
Closing balance	29,009	25,692

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

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

	9 months to 30 Sep 2008 €'000	12 months to 31 Dec 2007 €'000
Short-term benefits	1,270	1,504
Post-employment benefits	148	225
Total	1,418	1,729

24. Events after the Balance Sheet date

On 22 August 2008 the Company signed a conditional agreement for the acquisition of the Northern Ireland Transmission System Operator, SONI Limited, for a consideration of Stg£30m. It is expected that the outstanding conditions will be satisfied and that the transaction will be completed during the first quarter of 2009.

25. Approval of Financial Statements

The Board approved the Financial Statements on 17 December 2008.

The Oval,
160 Shelbourne Road,
Ballsbridge,
Dublin 4.

Tel +353 (0)1 677 1700
Fax +353 (0)1 661 5375

info@eirgrid.com
www.eirgrid.com

The Oval,
160 Bóthar Shíol Bhroin,
Droichead na Dothra,
Baile Átha Cliath 4.

Teil +353 (0)1 677 1700
Faics +353 (0)1 661 5375