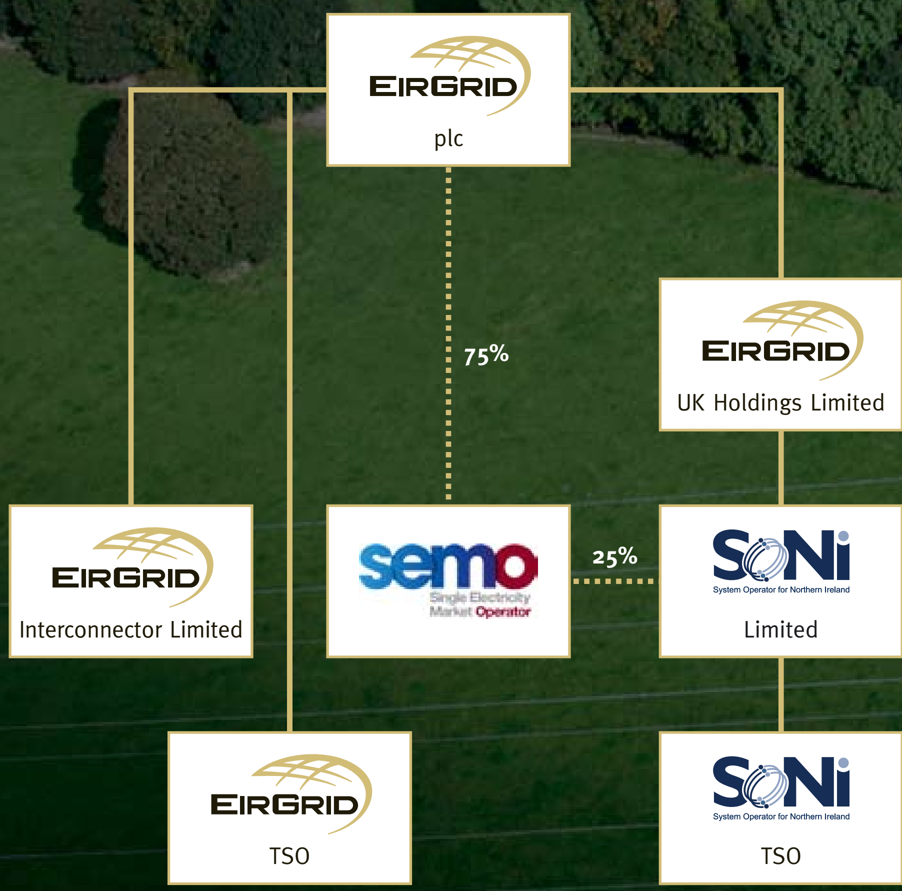
EirGrid

EirGrid plc Annual Report 2010

Securing Ireland's Electricity Supply

GROUP STRUCTURE



EirGrid plc is a leading energy company committed to delivering high quality services in Ireland and Northern Ireland. The Group includes the EirGrid Transmission System Operator (TSO) business in Ireland; System Operator Northern Ireland (SONI), the licensed TSO in Northern Ireland; the Single Electricity Market Operator (SEMO) which operates the Single Electricity Market on the island of Ireland; and EirGrid Interconnector Limited, the East West Interconnector asset owner.

Contents

Chairperson's Report

I am pleased to present EirGrid's Annual Report for the 12 months ended 30 September 2010 – in what was undoubtedly a period of rapid change and major challenges for the island of Ireland.

Our annual report covers our roles as Transmission System Operator in Northern Ireland and Ireland, and in the operation of the Single Electricity Market across the island. Our objective during the year has been to ensure that our ownership of businesses in both jurisdictions delivered synergies and benefits to all of our customers.

The year to 30 September 2010 was extremely busy for EirGrid, with significant additional resources focussed on the crucial work of developing upgraded transmission infrastructure. It is vital that the public accept and understand the benefits of a strong electricity transmission system and the need to build infrastructure, while meeting all public planning and environmental standards. If we do not succeed in this, our capacity in the future to operate the grid reliably and securely will be severely compromised due to limitations in grid availability, with implications for future economic development, competitiveness and our capacity to harness the opportunity created by renewable energy.

We also believe it is vital to transfer the transmission assets to EirGrid, to underpin transmission development and provide a more competitive electricity supply to customers. This transfer, which has been Government policy for the last four years, is backed by the EU and by all major independent national and international commentators in the interests of delivering significant benefits to customers and stakeholders, more efficient development of the grid, and the achievement of Ireland's renewable targets. During 2009/10 we engaged constructively with the independent chairman Mr Fergus Cahill, and with Frontier Economics who were retained by the Department of Communications, Energy and Natural Resources to look at the issue of the transfer of assets.

In the year to September 2010, EirGrid continued to make a stable return on assets, with an operating profit in the year in question of €15.7 million.

Group borrowings were €147.7 million in September 2010, reflecting our major investment in the East West Interconnector project, which is on schedule for delivery at the end of 2012. The certainty of the regulatory framework supporting the East West Interconnector allowed the Group to secure very competitive funding for the project.

I would like to thank all of the members of the EirGrid Board for their unstinting commitment and work during the year. In addition, I thank the Minister for Communications, Energy and Natural Resources during the period in question, Eamon Ryan TD, and his officials for their excellent support during the year.

And finally, at the core of our organisation are the expertise, commitment and hard work of our employees. I would like to thank our Chief Executive, Dermot Byrne, the management team, and all of the staff working in the Group for their contribution in the past year.

In EirGrid, we are very conscious of the need to continuously improve in all of our operations, so that we can play our role in the economic recovery which will benefit our customers. I can assure all of our customers and stakeholders of our commitment to this in the years ahead.

Bernie Gray

Chairperson

Bernie Gray

Chief Executive's Report

EirGrid's core mandate is the reliable and efficient operation of the power system and the wholesale power market on the island of Ireland, and the development of a fit for purpose electricity infrastructure. By focusing all our efforts on delivering on this core mandate effectively and efficiently we are assisting in the process of economic recovery. Key areas of delivery during the year included the following:

- Operating the power system in Ireland and Northern Ireland reliably and securely 24/7.
- Operating the Single Electricity Market efficiently and transparently seven days a week.
- Progressing implementation of the Grid**25** strategy for the development of the transmission network in Ireland and achieving key milestones.
- Securing funding for the East West Interconnector, with the project moving from the planning and permitting phase to the construction phase. The project remains on track for commissioning in 2012.
- Connecting significant wind generation in line with progress on the 2020 targets.

System Operation

During the year we continued to ensure security and reliability of supply in Ireland and Northern Ireland, meeting our security of supply performance indicators. The island experienced extremely cold weather conditions in December 2009 and early January 2010 which led to record high system peak demand. During the freezing temperatures there were a number of faults at power stations and on transmission lines in Ireland, but no customers were affected. This was in no small part due to the work and close co-operation of our staff in the Control Centres in Dublin and Belfast.

In Northern Ireland an ice storm occurred on 30 and 31 March 2010 which resulted in major challenges through weather related faults causing damage to transmission lines. However system stability and integrity was maintained through all these events. In this, the experienced operations staff in Castlereagh House Control Centre were facilitated by the recent investment in state of the art control centre facilities.

During the period from January to December 2010 energy consumption was 27 TWh (terawatt hours). This represented a 0.9% increase on consumption on the previous year. In Northern Ireland, demand increased by 2.7%.

Market Operation

All market activities occurred materially on time throughout 2010 and the market remained fully collateralised. An Independent Market Audit was completed and an unqualified Market Audit Report was received.

The systems of the Single Electricity Market Operator (SEMO) maintained a high level of availability, and wholesale electricity prices were reflective of supply and demand and the reduction in international fuel prices. SEMO oversaw invoicing and settlement totalling approximately €2,409 million. SEMO worked actively with market participants through user group meetings, and through the finalisation of a new SEMO website with additional functionality for customers.

Grid Development – Ireland

Further progress was made in implementing our Grid Development Strategy Grid**25** in Ireland. Projects completed included the Aghada – Raffeen 220kV circuit which improves supply to west Cork and facilitates access of the new Cork generation to the transmission system; connection of the Blake – Cushaling – Maynooth 110kV line into Newbridge which improves supply to Newbridge and supports the expanded operation at Wyeth Pharmaceuticals; and the completion of Lodgewood 220kV station which improves supply in the south-east region and facilitates the connection of renewable generation. Some 150km of new line circuits were completed or substantially completed during the year. The upgrading and/or refurbishment of 300km of existing circuits, representing about 5% of the total transmission circuit length in the country was also completed during the year. The first transmission line up-rate using the new high-temperature-low-sag (HTLS) conductor selected by EirGrid in 2009 commenced.

Two large gas-fired combined cycle combustion turbine (CCGT) plants at Aghada and Whitegate in Cork, connected in 2009, were commissioned during the year. Windfarm connections included Dromada, Boggeragh, Garvagh, Kingsmountain Phase 2 and Meentycat Phase 2. In addition two new peakers totalling 116MW were connected at Cushaling 110kV substation.

A number of planning applications for new projects were lodged and planning permission was granted for the Donegal 110kV project by An Bord Pleanála in October 2009. This was the first transmission line to be progressed through the new Strategic Infrastructure Act. EirGrid lodged an application for the 400kV North-South interconnector development in December 2009. It was with regret that EirGrid withdrew the planning application in June 2010 because of an error in the planning notice. We are committed to introducing a new application for this project in 2011.

East West Interconnector

During the year, work advanced to program on design, manufacture and installation of the East West Interconnector project. The Interconnector is on target for completion in 2012. Trenching and laying of ducts for almost the entire land route in Wales was completed and cable installation commenced. Installation of ducting for the land cable section in Ireland got underway in Co. Dublin and Co. Meath. Work on preparing the sites for the convertor stations in Wales and in Co. Meath is continuing, as is design and manufacturing of the convertor equipment, transformers, control and protection systems, and other associated equipment.

In May 2010 funding arrangements of €193 million for the Interconnector were concluded with a number of international commercial banks. We had previously secured a facility of €300 million from the European Investment Bank. These facilities, together with a grant of €110 million from the European Energy Programme for Recovery (EEPR), completed the funding for the project.

We also commenced a comprehensive Readiness Project for the operation of the Interconnector when commissioned. The Readiness Project includes working with the Regulatory Authorities and other key stakeholders to ensure that the Interconnector can operate in the markets in Ireland and Great Britain and putting in place all the necessary rules, systems and processes. This will involve significant changes to trading arrangements.

Chief Executive's Report

Renewable Energy

A 40% renewable target by 2020 applies in both Northern Ireland and Ireland. Progress continues to be made towards meeting this target and by December 2010 there was a total of 1,760MW (335MW in Northern Ireland and 1,425MW in Ireland) connected. This capacity is sufficient to meet a target in excess of 15% of electricity from renewables in typical wind conditions. However 2010 was a highly unusual year with a wind capacity factor of 23%, significantly lower than the comparative figure of 29-31% over the previous 10 years.

Connection offers continue to be issued for new wind farms, and the Gate 3 Group Process timetable agreed with the Commission for Energy Regulation (CER) has been met.

The inaugural EirGrid Group Annual Renewable Report was published in September 2010. This report reviewed developments and progress on renewables and set these developments in an international context. Already, at times, the Irish system has been operated with levels of up to 50% generation from renewables. In September 2010 EirGrid also launched an iPhone application – 'SmartGrid' – which shares information on system demand, wind forecasts and CO_2 intensity.

EirGrid launched a number of reports dealing with renewables this year. We launched the 'Facilitation of Renewables Study' in June 2010. This is a ground breaking study which investigated the technical limits to very large instantaneous penetration of wind generation on the all-island power system and which will assist in identifying operational strategies and the roadmap to achieve the 40% renewables target by 2020. In April 2010 we published the Pöyry Report on 'Low Carbon Generation Options for the All-Island Market', which provides authoritative analysis and input to the policy formation process in relation to key technology investment decisions.

Ireland and Northern Ireland's target for 2020 involves one of the highest penetrations of wind generation in Europe. The prominence of these achievements to date in renewables integration and the work being done to facilitate reaching this target is being recognised internationally. This was highlighted when US Energy Secretary Dr. Steven Chu visited the National Control Centre in the Autumn to see the progress being made by EirGrid in connecting, and operating with, large amounts of renewable energy.

Health, Safety and Environment

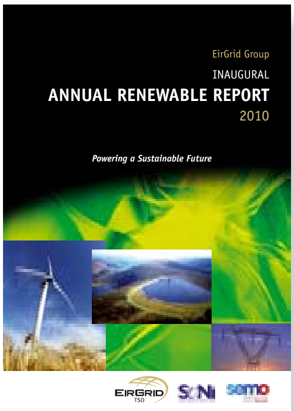
EirGrid is guided by its statutory mandate to develop a safe, secure, reliable, economic and efficient electricity transmission system. We insist on the highest standards of health, safety and welfare from our staff and contract partners, and take a proactive role in ensuring these standards are maintained through our Health Safety and Environment Management System. This system has been certified to OHSAS18001 for a number of years and in 2009 we succeeded in achieving ISO14001 certification for the first time. EirGrid is also externally audited annually as required by its operating licence. In 2010 the primary subject of the audit was the health & safety management arrangements pertaining to the East West Interconnector project, and a clean audit was achieved. In 2009/10 there were no lost time accidents.

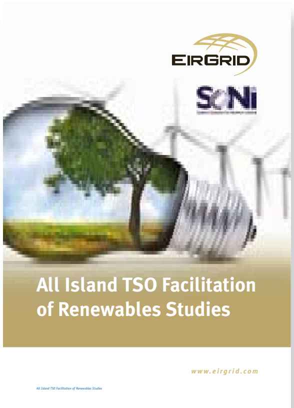
We targeted a relative reduction in our carbon footprint at our Dublin offices of 15% in 2010 and an independent evaluation showed we achieved that, in addition to a very significant decrease during 2009.

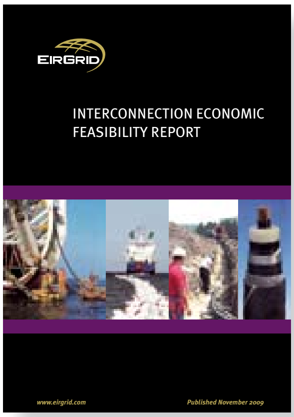
Our People

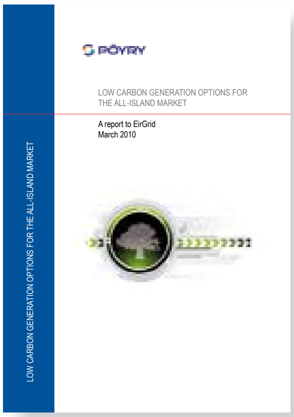
The continued development of our staff was a key focus for EirGrid during the year. The deployment of the staff development programme *EirSkills*, designed to develop the capabilities within the organisation, continued during the year with positive feedback from staff in relation to the content and delivery of the various training modules.

Staff were also engaged in various cross company projects outside of their core role, which provided them with opportunities to develop and demonstrate their talents and to contribute to the business. Many of our people were also involved in promoting EirGrid's role externally, taking part in our media advertisement campaign, and meeting members of the public to answer questions and give details on our projects at the National Ploughing Championships, Grid**25** Regional Forums and the Young Scientist Exhibition. The results from the EirGrid Group Customer Survey also highlighted the positive perception our customers have of the professionalism and high standard of support they receive from our staff.









Looking Forward

For 2011 and beyond, our key challenges are to complete the East West Interconnector on time and to budget, to build momentum on the roll-out of Grid**25**, to make changes to SEM to facilitate intra-day and interconnector trading, and to facilitate the integration of renewables in order to achieve the 40% target by 2020 in both Ireland and Northern Ireland. In addition we will continue to work with policy makers, regulators and the EU Commission on the implementation of the EU 3rd Energy Package. All of this while continuing to ensure a secure and reliable electricity supply on a 24/7 basis, and a reliable, efficient and transparent wholesale electricity market.

The general economic situation will continue to present significant challenges for our customers and for EirGrid. However, I am confident that we can continue to operate to best international standards and to provide value for money in all our activities. Through maintaining our focus on these key challenges, we are committed to playing our part in contributing to economic recovery.

Dermot Byrne

Chief Executive

Dermot Byrne

Financial Review

Key Financial Highlights €'m

	2010	2009
Revenue	443.8	410.7
Direct costs	346.9	330.7
Other operating costs	81.2	70.6
Operating profit	15.7	9.4

EirGrid's revenue for the year to 30 September 2010 was €443.8m, compared to €410.7m for the previous year. The increase in underlying revenue was largely due to the inclusion of a full year of turnover from SONI Limited, following its acquisition in March 2009.

The operating profit of €15.7m for the year to 30 September 2010 compares to an operating profit of €9.4m for the year to 30 September 2009, with the Group continuing to make a stable return on its asset base.

The Group's revenue is primarily derived from regulated tariffs, specifically the Transmission Use of System (TUoS) tariff, which is a charge payable by all users of the transmission systems, and tariffs as Market Operator for the Single Electricity Market (SEM).

Direct costs primarily consist of:

- The regulated charge payable to ESB and NIE as owners of the transmission system in Ireland and Northern Ireland respectively;
- The cost of purchasing from generators and others 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 initiatives.

Other operating costs include employee costs, professional fees, IT costs, depreciation and other corporate costs.

Regulation

The Group's TSO activities in Ireland and Northern Ireland are regulated by the Commission for Energy Regulation (CER) and the Northern Ireland Authority for Utility Regulation (NIAUR) respectively. In its role as Market Operator for the SEM, the Group is regulated by the SEM Committee, which comprises the CER, NIAUR, an independent member and a deputy independent member.

A revenue determination for the EirGrid TSO business for the 2011 to 2015 tariff periods was finalised with the CER in November 2010. The revenue determination for the SEMO business was finalised with the SEM Committee in December 2010. The revenue determination for SONI's TSO business is expected to be finalised in the near future.

In advance of each tariff period the Group submits to the regulatory authorities forecasts of customer demand and of its operating costs for the year ahead. Following a detailed review process the regulators will issue 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 the Group, as current accounting regulations do not permit results to be smoothed through the anticipation of under or over recoveries.

Financing

Largely as a result of the continuing spend on the East West Interconnector (EWIC) project, cash in hand has decreased during the year to September 2010 to €114.4m. Of this amount, €2.7m related to cash balances held on trust for market participants and €10.7m was held in SEM accounts in the name of market participants. The Group's cash resources represent a build up of capital which will be required in the near future for investment in the East West Interconnector (EWIC) project and for our ongoing capital and operational investment programme.

Commercial funding for the EWIC project totalling €193m was secured in May 2010. Drawdowns under this facility and a separate €300m facility agreed with the European Investment Bank have increased borrowings to €147.7m at 30 September 2010 (2009: €123.9m).

The EWIC project also has access to grant funding of €110m secured by the Irish Government as part of the European Energy Programme for Recovery (EEPR).

Looking ahead, as EirGrid continues to invest in line with the development of the industry, a key priority will be to ensure the ongoing financial strength of the Group.

Barclays selected EirGrid to be included in an extensive print media and outdoor campaign in Ireland and the UK.

Operating the Power System in Ireland

The safe, secure and reliable operation of Ireland's power system, while optimising performance and competitiveness is the primary function of EirGrid's TSO business.

EirGrid is focused on continuously delivering high quality services and value to all customers, including generators, suppliers and consumers across the transmission system. The transmission system consists of a meshed network of high voltage lines, cables and substations, together with 'smart' control and monitoring systems, which enable power to be transported in bulk and high quality from generators to areas of demand. The transmission system is the backbone of the electricity system and delivers services benefiting all electricity customers. As electricity cannot be stored in bulk, the generation of electricity must exactly match demand instantaneously throughout the day and night. EirGrid has a number of teams responsible for the management and operation of the power system, which enable EirGrid to ensure continuous delivery of high quality electricity supply that meets all applicable voltage, frequency and reliability standards.

The responsibility for operating the power system in real time is managed by the National Control Centre (NCC). The primary role of the NCC is to ensure that power flows safely through the high-voltage transmission network and that the demand for electricity is matched at all times by the generation of electricity at power stations across the country. The NCC optimises system operation in real time in conjunction with the SONI Control Centre by managing the demand-supply balance through the dispatch of power stations in economic merit order to increase or decrease their megawatt output. EirGrid is committed to the facilitation of renewables and optimises the use of renewable energy when dispatching power stations to maintain the demand-supply balance.

Electricity Demand

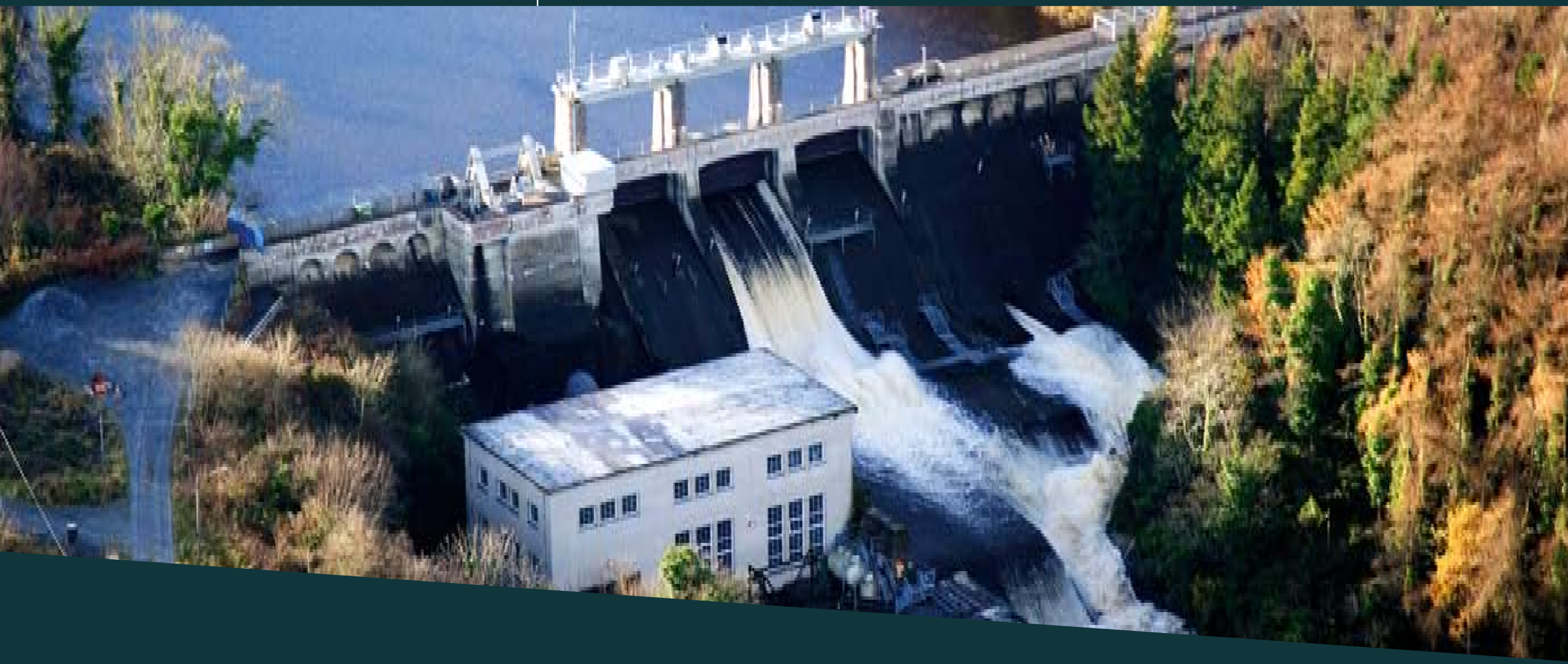
During the period from January 2010 to December 2010, system demand increased. Energy consumption for the period totalled approximately 27 TWh (terawatt hours) representing a 0.9% increase on the 12-month period from January 2009 to December 2009. A new all-time maximum system demand of 5,090 MW, occurred in December 2010.

System Performance

EirGrid's 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.

Weather conditions had a major impact on the operation of the power system during Winter 09/10 as Ireland experienced some of the coldest temperatures recorded in the last 50 years. Increased heating load caused by the unusually cold temperatures led to a then record high system demand in January 2010. The weather conditions also impacted on generators and their ability to maintain the availability of their units. Nevertheless, supply was maintained at all times through the extreme cold weather.

Our People | MIRIAM RYAN



Miriam is a principal engineer, leading the Testing and Commissioning Team within the Operational Services and Performance division. Since 2001, Miriam's work has been focussed on the commissioning and testing of newly-installed and existing conventional and renewable generation units, together with testing and ongoing monitoring of the particular characteristics of each generation unit on the Transmission System.

The Testing and Commissioning Team tests and assesses over 100 units in the country ranging from large conventional power stations to wind-farms of varying sizes.

Miriam says, "No-one knows more about a generation unit's capability than its own staff – but as TSO it is essential that we also know what to expect from each unit. Without that knowledge, we couldn't manage the system."

Traditionally, the majority of testing was carried out during the commissioning stage but Miriam says that the trend now is to carry out much more testing throughout the unit's life.

"This change in approach is partly due to changes in the Grid Code and the provision of new ancillary services, but more frequent testing also reflects the fact that the characteristics of electricity generating units – a bit like people – can change and evolve over their working lifetime", says Miriam.

Operating the Power System in Ireland

There was an improvement in the generation Forced Outage Rates this year compared to the same period in the previous year (reducing from 8% to 7%). Overall generation availability, which includes both forced and scheduled outages, improved during this period from 85% to 87% on a rolling 52-week basis.

From October 2009 to September 2010, the number of lost 'System Minutes' (an industry standard index which measures the severity of each system disturbance) was 1.32, which was below the yearly system standard of 3.5 System Minutes. Lost 'System Minutes' occur when customer demand is not served because of a disturbance on the transmission system (e.g. due to faults or plant failure).

Transmission outage plans, required to facilitate maintenance and new works, were managed throughout the year in accordance with the needs of demand customers, generators and ESB, as Transmission Asset Owner and Distribution System Operator (DSO).

Generator outage plans were also managed by EirGrid, taking into consideration the outage requirements of all generators and EirGrid's security of supply standards. A significant outage of the Turlough Hill pumped storage station started on 5 July 2010 and continued through the end of the year.

Thermal Generation

A number of new conventional thermal generation units have connected to the system in the last twelve months, including two new Combined Cycle Gas Turbine (CCGT) Generators in the Cork area, with the maximum size of a single generator increasing to 445 MW. In addition, generation in Poolbeg was decommissioned. The total installed capacity of fully-dispatchable generation stands at 6,829 MW at the end of September 2010. This figure includes the new Whitegate (BGÉ) and Aghada (ESB) CCGT units, which became operational during the year.

Renewables

The primary renewable energy generation sources, which provide electricity to the Irish power system, are hydro and wind. The maximum export capacity (MEC) of wind generation installed on the system increased from 1,161 MW at the start of October 2009 to 1,466 MW at the end of September 2010. The maximum wind generation output between October 2009 and September 2010 was 1,131 MW, occurring at 20:45 on Saturday 5 September 2010.

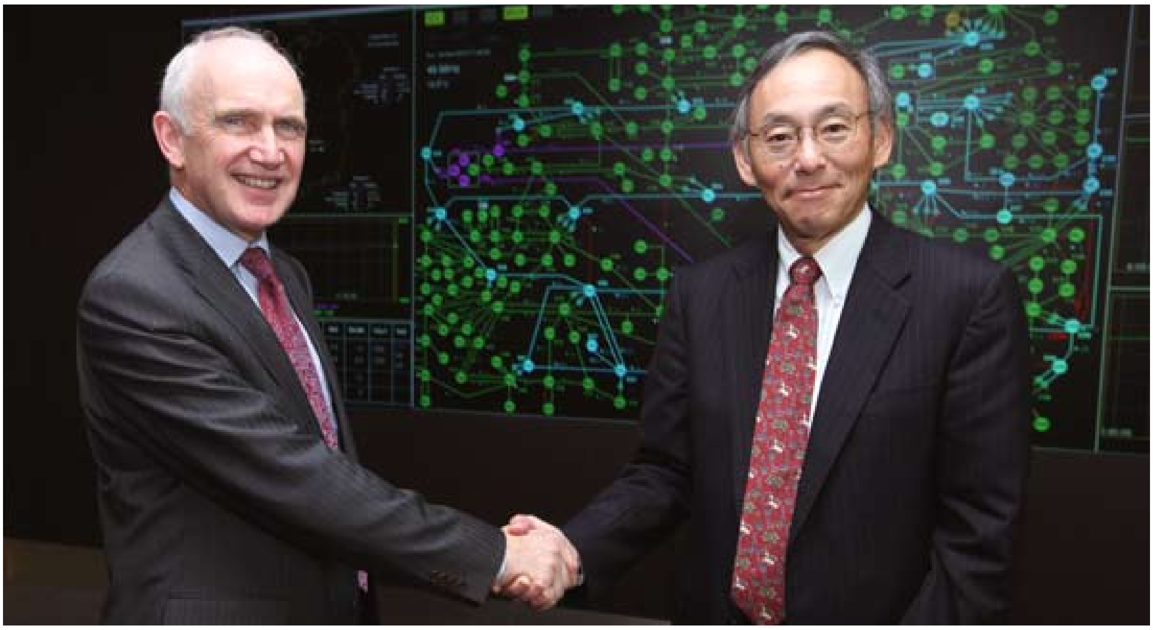
EirGrid is committed to working proactively with its stakeholders and customers to ensure that the national renewable target for electricity consumption of 40% by the end of 2020 is achieved, while ensuring the continuous operation and management of a safe, secure and reliable transmission system.

In 2010, EirGrid's inaugural Annual Renewable Report was published, which reviewed EirGrid's transition towards a more competitive, sustainable and low carbon electricity future in Ireland and Northern Ireland.

Operations Highlights

The following are the highlights during 2009-2010:

- Commissioning of new generation plant connecting to the system including:
  - The ESB 431MW CCGT plant at Aghada in Cork;
  - The BGÉ 445MW CCGT plant at Whitegate in Cork; and
  - Two Cushaling (Bord na Móna) 58MW peaking units at Edenderry.
- A full review of the Power System Restoration Plan, the plan in place to restore power in the event of a total system blackout, including extensive testing and training.
- A new leading edge Wind Security Assessment Tool (WSAT) was developed by EirGrid in conjunction with PowerTech, and deployed in the National Control Centre performing over 200,000 simulations each day and providing a real-time assessment of the stability of the power system to assist the NCC operators.



EirGrid Chief Executive Dermot Byrne meeting Dr Steven Chu, the US Energy Secretary, in the National Control Centre.

- EirGrid's 'Inaugural Annual Renewable Report 2010' and new SmartGrid iPhone application were launched.
- EirGrid hosted a visit by US Energy Secretary Dr Steven Chu and his team to the National Control Centre in November 2010 to discuss the work being done in EirGrid and Ireland on integrating large quantities of renewable energy onto the power system.

Focus Areas for 2010-2011

A number of opportunities and challenges exist for EirGrid in 2011. Key among them is the increasing levels of complexity in the operation of the power system, coupled with a dramatically changing generation portfolio and the arrival of large quantities of non-firm generation connecting in advance of transmission reinforcements. All this while ensuring the power flows where it is needed, safely and securely; the required information is fed to the market to allow it to run smoothly; and the bills, invoices and statements for all the transmission services issue accurately and on-time. More specifically, the following are key focus areas for 2011:

1. Delivering the systems and process changes required in association with the arrival of the East West Interconnector
2. Progressing towards the 2020 Renewables Targets and the next steps on Facilitation of Renewables
3. Identifying and delivering on synergies and efficiencies in the operation of the transmission system across the island
4. Testing Emergency Preparedness – improving the processes and procedures in place and ensuring there is appropriate testing and training across the industry

MICHAEL CALLAN

As a business analyst for planning and design within the Information Systems group, Michael has been deeply involved in the introduction of a cloud-based computing application to support EirGrid's Winter Peak Demand Reduction Scheme (WPDRS).

Up to 300 EirGrid customers and generators are currently using the system to provide information directly to EirGrid, in an efficient and automated manner. The WPDRS is an energy efficient programme which delivers savings to customers and helps the secure operation of the power system.

The system, which provides flexible response to the needs of the business and our customers, is managed off-site at a data centre. It provides flexibility, lower running and hosting costs, and delivers time savings for customers, as well as giving them quicker access to their data.

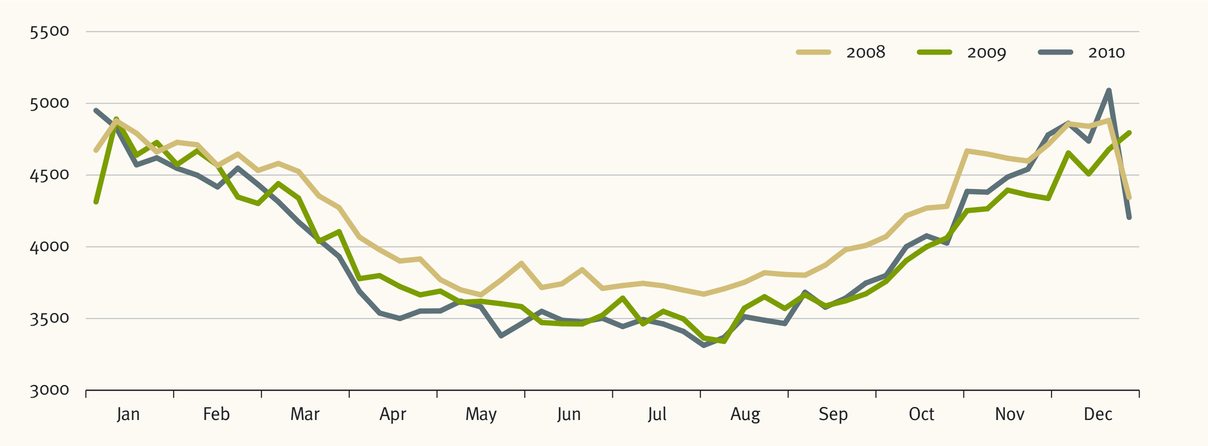
"Customers input information and also download our reports on generation activity. The new system facilitates generators to commit to specific levels and values by 12 noon for that day. From these minimum committed values we can then calculate energy outputs to meet with our WPDRS", says Michael.

He joined EirGrid four years ago as an IT business analyst having previously worked in information services in both Australia and Ireland. The planning and design team of which Michael is part look at new information technology (IT) solutions and strategy to improve EirGrid's business services.

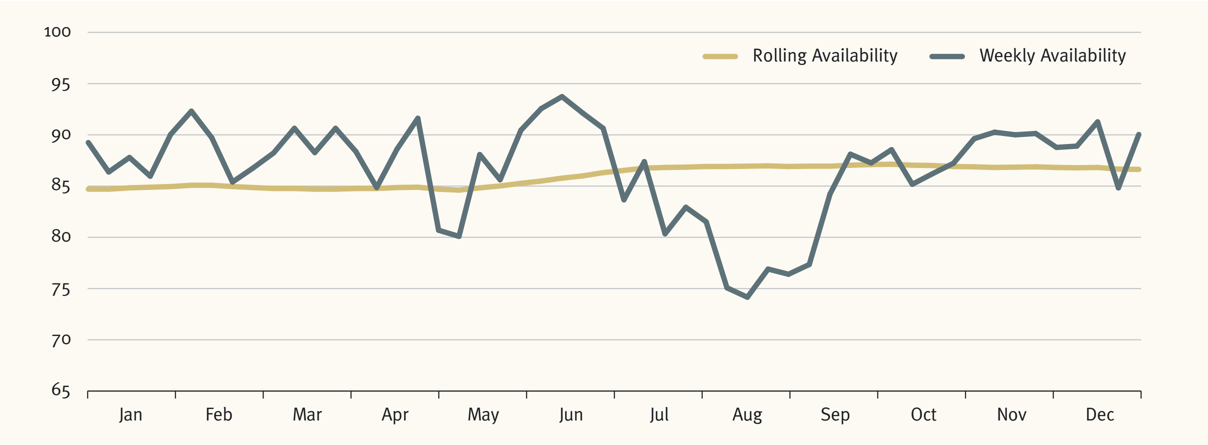
"The end result of adopting the new cloud-based computing platform is that it is more convenient for customers and we save about 200 administrative hours within EirGrid each winter, thereby boosting productivity and improving efficiency", says Michael.

Operating the Power System in Ireland

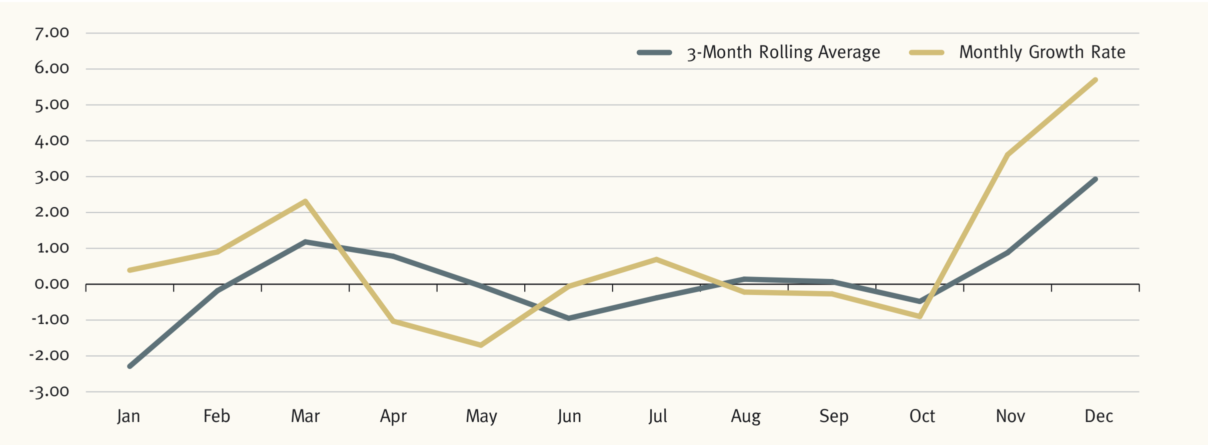
Weekly Peaks (MW)



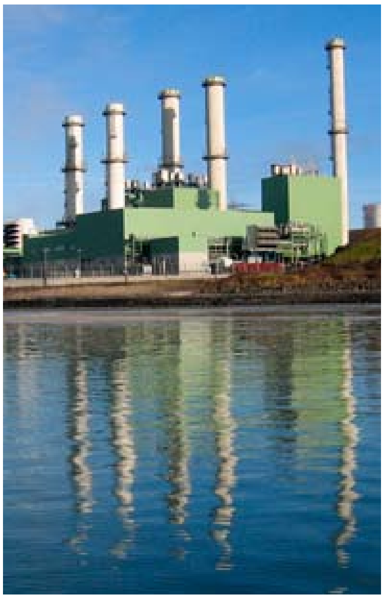
2010 Generation Availability (% Available)



2010 Energy Growth Rates (%)



Operating the Power System in Northern Ireland



Ballylumford power station in County Antrim.

Business Overview

Located in southeast Belfast, SONI's primary responsibility as a transmission system operator is to ensure the safe, secure, reliable, economic and efficient operation of the transmission system in Northern Ireland. This includes:

- The scheduling and dispatch of generating plant;
- Management of transmission network outages;
- Levying System Support Services (SSS) charges;
- Levying Transmission Use of System (TUoS) charges;
- Operation of settlements;
- Managing the power flow on the Northern Ireland transmission network and the Moyle interconnector with Scotland; and
- Meeting demand for electricity in Northern Ireland and maintaining the operating security standard.

In Northern Ireland, the Department of Enterprise, Trade and Investment (DETI) grant SONI a licence to participate in the transmission of electricity ("TSO Licence") with the Northern Ireland Authority for Utility Regulation having the statutory powers to ensure licence compliance.

The Northern Ireland transmission network is owned by NIE and operated by SONI and comprises approximately 2,100 km of circuits, including 400 km of 275kV double circuit lines and 1,700 km of 110kV double and single circuit lines, which link Northern Ireland's three principal power stations and external connectors to 30 main sub-stations across Northern Ireland. It is connected to Scotland via the high voltage direct current Moyle Interconnector which is owned by Mutual Energy and operated by SONI under an Agency Agreement. SONI is charged with meeting domestic, commercial and industrial demand requirements; demand for electrical energy increases and decreases over a 24 hour period and the output of electricity generation plants must be dispatched accordingly, ensuring that the power flow around the high-voltage network meets demand.

SONI is responsible for the management and operation of the transmission system in Northern Ireland. Managing the dispatch system through a specialised IT and telecommunications structure, SONI personnel ensure the continuous delivery of electricity across Northern Ireland which literally means "keeping the lights on".

Grid Operations – Real Time

The Grid Operations team manages the real-time operation of the Northern Ireland transmission network and the Moyle Interconnector on a 24/7 basis. Along with EirGrid, it schedules the generating units on the island of Ireland and dispatches the generating units in Northern Ireland. This is an optimised process with the aim being to minimise the production cost of energy within the physical boundaries presented by the system.

During the last year the addition of wind onto the system continued and a further 55MW of wind generation was commissioned making a total of 335MW of wind connected. On 4 July 2010 Northern Ireland had, for the first time, some 50% of the system load supplied from wind generators. Dealing with the increase in wind poses many challenges for the real time staff in the control room.

This year the Northern Ireland Transmission System experienced what is considered to be a 'one in 20 year event'. This was an ice storm during 30 and 31 March 2010: ice accreted onto the 275kV conductors causing them to sag; this reduced electrical clearances and resulted in circuits tripping. During the event, which lasted for approximately 15 hours, there were 139 faults recorded on the system, all but three of which were transient, and these faults resulted in over 400 circuit breaker operations on the 275kV system.

A number of black start tests were carried out as part of the continuous review of the Power System Restoration Plan.

Grid Operations – Planning

The Grid Operations Planning team are involved in a broad range of long-term strategic transmission/generation planning activities and shorter-term market driven activities. During 2010 they produced a Seven Year Generation Capacity Statement, a Seven Year Transmission Capacity Statement, a Transmission Performance Report and, in conjunction with EirGrid, issued the first all-island Winter Outlook Report. There was also a significant amount of interaction with the European Network of Transmission System Operators for Electricity (ENTSO-E) and SONI contributed to the production of the first European wide Ten Year Network Development Plan.

Work continued on the development of new TUoS tariff methodologies for both Generators (all-island) and Suppliers (Northern Ireland only) and annual tariffs were prepared and issued.

The Planning team manage all connections to the transmission network and an increasing amount of time has been spent dealing with wind farm connections to the distribution network and subsequent market registration. The publication of the Facilitation of Renewables report was a major step forward in developing our understanding of the system requirements necessary to accommodate the penetration of wind required to meet Government targets. Planning have co-operated closely with external groups and agencies such as DETI, Regulatory Authorities, NIE Transmission & Distribution and the generation companies.

Electricity Demand

System demand across Northern Ireland continued to decrease through to November 2010. However this then increased due to cold weather in December and led to an overall increase of 2.71% for the year. The maximum system demand was 1,777MW and occurred in December 2010.

System Availability

In 2009 the average generator availability was 84.7%. In 2010 the average system availability increased by 2.4% to 87.1%.

Renewables

Wind remains the primary renewable energy generation source in Northern Ireland. The wind farm connected capacity was 335MW and the average total wind output was 74.9MW. The maximum instantaneous wind generation output was 311MW; this occurred at 18:00 on Sunday 7 November 2010.

Ancillary Services

Harmonised Ancillary Services (HAS) was introduced on an all-island basis on 1 February 2010. This creates a level playing field on an all-island basis for payments and charges associated with system support services through the establishment of common designs and rates. The HAS includes Generator Performance Incentive charges which are intended to optimise generation plant performance with respect to the Grid Code. This replaced the System Support Services Agreements.

Stakeholder Management

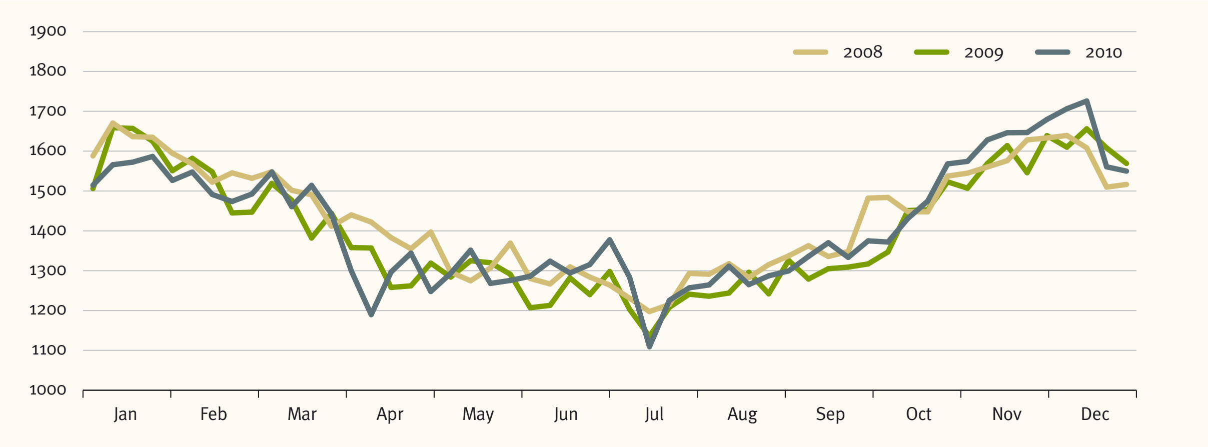
Central to our vision and values is engaging and working with our key stakeholders. Throughout the year the businesses have been facilitating, managing, attending and presenting at events across the island.

Focus for 2011

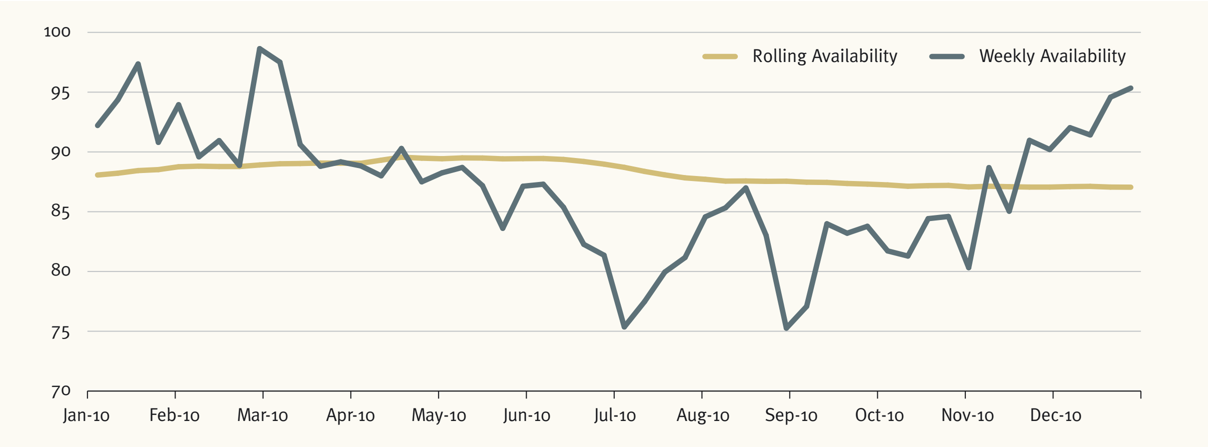
The safe, secure, reliable and economic operation of the transmission system remains the key driver for SONI, together with continuing to optimise the integration of renewable energy sources. SONI will continue to work with the Utility Regulator to ensure the continued provision of a reliable electricity supply. We expect to conclude a five and a half year price control with the Utility Regulator that continues to provide value for money for customers. We will also deliver on the implementation of the EU Third Energy Package and the DETI Strategic Energy Framework.

Operating the Power System in Northern Ireland

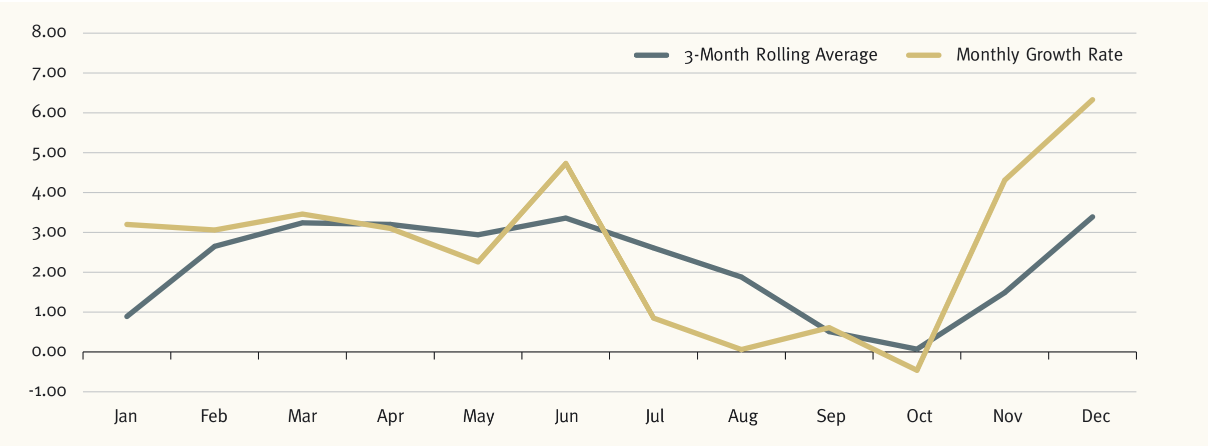
Weekly Peaks (MW)



2010 Generation Availability (% Available)



2010 Energy Growth Rates (%)



NICOLA CALVERT

Nicola works as a Project Analyst with the System Operator for Northern Ireland (SONI). "I work as part of a team on projects that are of key importance to our customers in generation and supply companies and to the development of competition benefiting all consumers."

A business graduate, Nicola became a Project Analyst in 2010 having previously been a Settlements Controller for the Single Electricity Market Operator (SEMO).

"Last year was one of significant personal change and opportunity for me as I moved to a project analyst development job within SONI. The change of role has greatly expanded my knowledge of SONI operations and allowed me to work on three main project work streams: modifications to the Trading and Settlement Code, developing new ancillary service products and also on the East West Interconnector project."

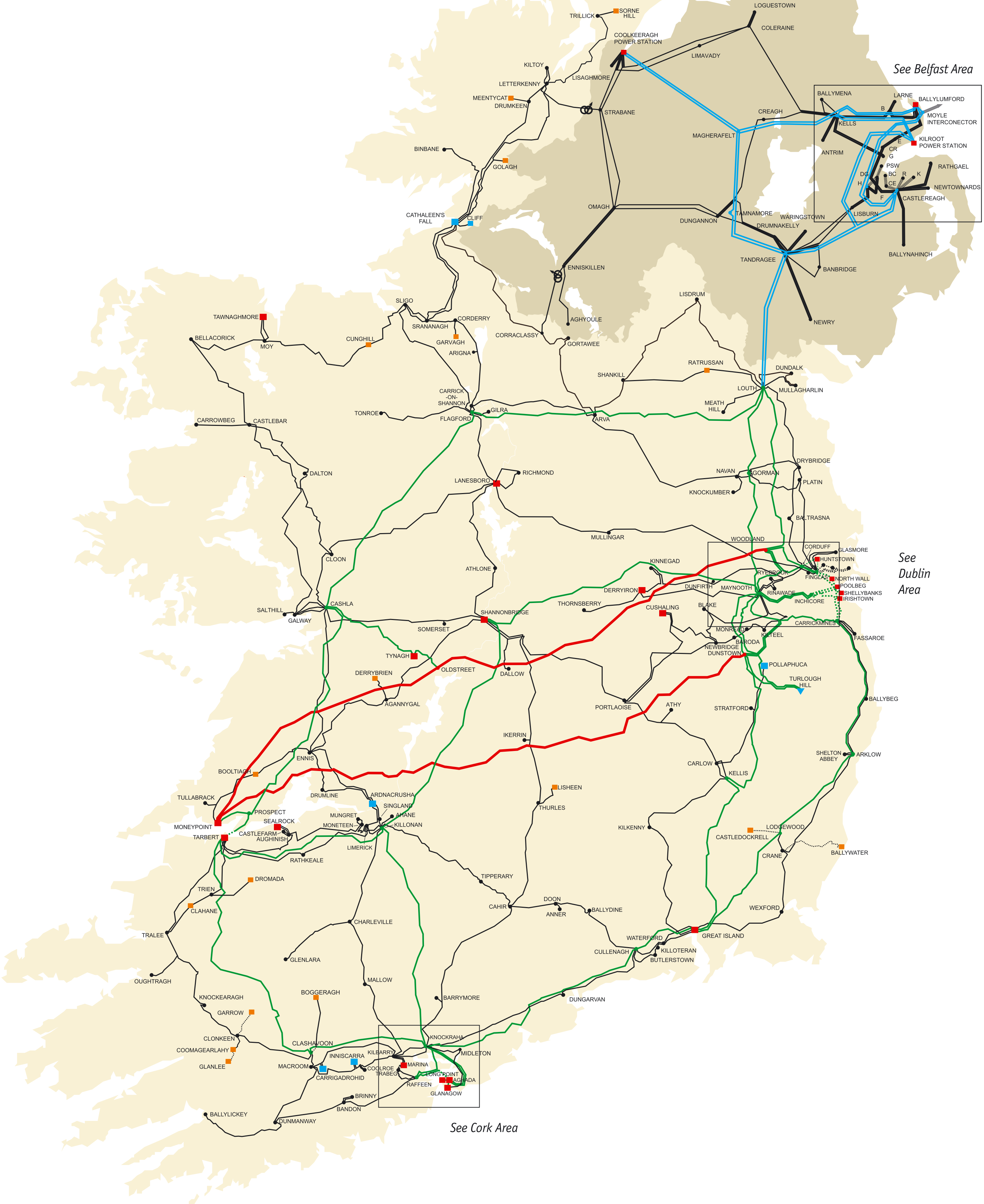
When working for SEMO, Nicola developed contacts across the Group, visiting the Dublin offices every few weeks to provide training for new staff, and enhancing cohesion between colleagues in the settlement teams in both Dublin and Belfast. She also became involved with the Market Operator User Groups (MOUGs) which, she says, helped her develop her presentation skills by providing regular updates to the customers and market participants on the operational performance within the Single Electricity Market.

"Looking back over my past year, I have had an opportunity to be involved in interesting work but it has been a steep learning curve. However, I feel more confident in my role as a Project Analyst as my knowledge increased and my communication and technical skills have been enhanced."

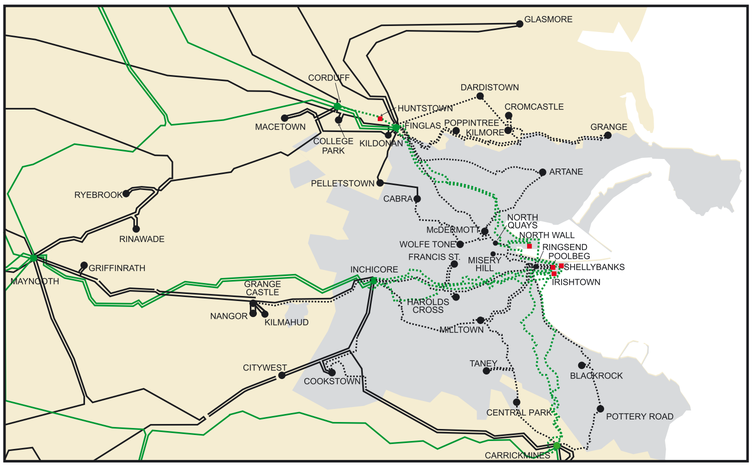
EIRGRID

SONI
System Operator for Northern Ireland

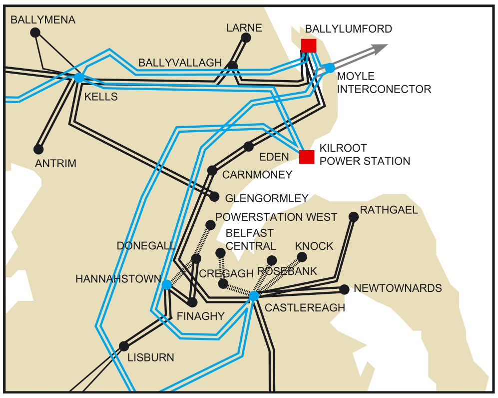
TRANSMISSION SYSTEM 400kV, 275kV, 220kV AND 110kV



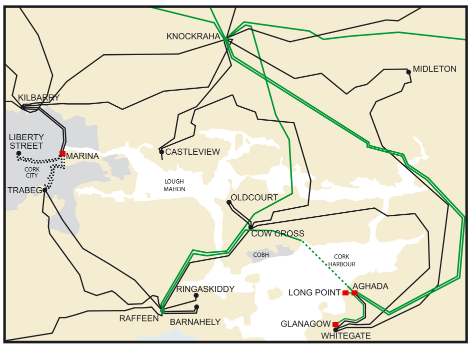
Dublin Area



Belfast Area



Cork Area



- 400kV Lines
- 275kV Lines
- 220kV Lines
- 110kV Lines
- 220kV Cables
- 110kV Cables
- 400kV Stations
- 275kV Stations
- 220kV Stations
- 110kV Stations
- Phase Shifting Transformer

Transmission Connected Generation

- Hydro Generation
- Thermal Generation
- Pumped Storage Generation
- Wind Generation

Developing Transmission Infrastructure

EirGrid is continuing to implement its Grid**25** strategy for the development of the electricity transmission system. The strategy is designed to be "flexed" to changing circumstance.

Since it was developed in 2008, we have made significant progress in optimising our investment plans, and in identifying new technical solutions.

During the year major progress was made both on building new transmission circuits, and on uprating existing circuits. Approximately 150km of new line circuits, mainly at 110kV, were either completed during the year or have been substantially completed, with conductor stringing and commissioning to complete in the coming weeks. The upgrading and/or refurbishment of approximately 300km of existing transmission circuits, representing about 5% of the total transmission circuit length in the country, was completed during the year. The first transmission line up-rated using the new high-temperature-low-sag (HTLS) conductor selected by EirGrid in 2009 is in progress; while some installation issues have arisen they are being addressed.

Projects completed in 2010 included:

- Aghada-Raffeen 220kV circuit, securing supply to west Cork and access of the new Cork generation to the transmission system;
- Diversion of the Blake - Cushaling - Maynooth 110kV line into Newbridge, securing supply to Newbridge and the surrounding area, and supporting the expanded operation at Wyeth Pharmaceuticals; and
- Lodgewood 220kV station, which is an important element in securing supply to the south-east region including Arklow and Wexford, into the future.

EirGrid continues to work with stakeholders at national and regional level to ensure that the solutions it is bringing forward meet the developing needs in each region. During the latter part of 2010, meetings were held with regional stakeholders in Killarney, Carlow, Waterford and Castlebar. Further meetings will be held in 2011.

It is important to note that the development of the transmission system throughout Ireland has major benefits for all regions as well as for customers nationally.

We have significant projects underway in the south west, the midlands, the south, the north west and the north east, as well as in Dublin. In addition, there are developments planned, in cooperation with SONI and Northern Ireland Electricity (NIE), in Northern Ireland.

In the south west, several new projects are currently undergoing pre-planning consultation and will be submitted to An Bord Pleanála's Strategic Infrastructure Board in 2011, including four new 220/110kV substation projects in Cork and Kerry. Other large projects in the region include the redevelopment of the Moneypoint 400kV Substation, refurbishment of Ardnacrusha 110kV Substation and a new 110kV transmission line from the existing Clashavoon 220/110kV Substation to the existing Dunmanway 110kV substation. All of these new substations and associated transmission connections will allow the south west to utilise its rich renewable energy resources and will secure supply for future growth in electricity demand in the region.

In the north west, construction of the 220kV Flagford-Srananagh project continued during 2010. This project is an essential network reinforcement project for the west and north west regions, and needs to be finished as soon as possible to ensure a secure and reliable electricity system in the region. It supports services and jobs in the region. Further important upgrades to the transmission system in the region are in development and will be brought forward in 2011.

Projects in development in the midlands also include a proposed 400/110kV substation in County Laois, which will provide significant reinforcement to support demand growth in Laois, Kilkenny, Carlow and Kildare. The Mullingar-Kinnegad/Derryiron 110kV project will provide necessary reinforcement to Mullingar and the surrounding area. Planning applications will be submitted for these projects in 2011.

In relation to Northern Ireland and the north west, the Renewable Integration Development Project (RIDP), a joint study by EirGrid and NIE, is investigating options for developing the transmission network. This is an important cross-border study which aims at finding an optimum transmission solution for the area, minimising costs to electricity customers north and south. The development of the RIDP will improve the quality and security of power supply to the region, as well as facilitating the development of renewable energy sources and strengthening the connectivity between the existing transmission grids on both sides of the border.

Significant developments are underway in the Dublin area, including major new supply points in the north and west of the city. Strategic transmission options to support the medium to long term development of the greater urban area are under investigation.

The second North-South Interconnector is of vital importance both on a national and regional level. The project will bring many benefits to Ireland, some of which include guaranteed security of supply for future decades, boost to existing industry, supporting growth, increase in competition and reliability for all electricity customers.

EirGrid and NIE each lodged an application for this Interconnector in December 2009 in their respective jurisdictions. However, in June 2010, it was necessary for EirGrid to withdraw its planning application due to a technical error in the application. Having carried out a process of re-evaluation, EirGrid will submit a new application in 2011. In August 2010, the Northern Ireland Environment Minister referred the NIE application to the Planning Appeals Commission (PAC) for a public enquiry. The date for this enquiry is yet to be confirmed.

New Connections

Two large gas-fired combined cycle combustion turbine (CCGT) plants at Aghada and Whitegate in Cork, connected in 2009, were commissioned during the year. Windfarm connections included Dromada, Boggeragh, Garvagh, Kingsmountain Phase 2 and Meentycat Phase 2. In addition two new peakers totalling 116MW were connected at Cushaling 110kV substation for Bord na Móna.

DEBORAH MEGHEN

Deborah is EirGrid's Manager, Transmission Projects West, and leads a team of eight engineers dedicated to upgrading and developing the network to ensure efficient delivery to our customer base. With over 13 years experience in developing both electricity and telecoms infrastructure, she is keenly aware of the challenges that face the industry in delivering these key projects.

"This year we are busy with the preparations for the final energisation of the Flagford-Srananagh 220kV power line (in Sligo and Roscommon) which will help boost not only the electricity supply to customers in the north-west but also play a significant role in facilitating the integration of renewables." In 2010 her team successfully delivered the Newbridge 110kV Project which has provided a vital transmission reinforcement for key industrial customers in the area and the expanding population in the Kildare-North Wicklow area.

Deborah spends a lot of time as part of the Grid**25** initiative, working with EirGrid's stakeholders like the Chambers of Commerce, local and regional development authorities as well as her direct involvement with landowners and regular consultation with local political representatives, residents' groups and representative bodies such as the Irish Farmers Association.

With an eye on the future and increased demand allied with economic recovery, Deborah and her team will focus on the delivery of key strategic projects in the west. By developing industry best practice in terms of environmental, technical and economic assessment, she intends to lead projects through the new strategic planning process to successful planning consents and onwards to timely construction.

Developing Transmission Infrastructure

The "Gate 3" connection offer process which will provide offers for connection to the transmission and distribution systems for approximately 4,000 MW of wind generation and a significant amount of conventional generation, continues on schedule. Connection offers have been issued for approximately 1,400 MW of wind and conventional generation. EirGrid is putting in place arrangements for the next phases of Gate 3 including implementation of connections, and offer modifications, building on its learning from Gate 2 and input from customers through ex-post project reviews, surveys, and other means.

East West Interconnector Project

The 500MW HVDC (High Voltage Direct Current) Interconnector Project between Ireland and Great Britain (the East West Interconnector), remains on target for completion in 2012. This project is an important part of implementing the Government strategy for security of supply, competitiveness and sustainability of energy.

During the year, work advanced to program on private landowner agreements, design, manufacture and installation of cable ducting. Approximately 150km of the required 520km of cable has been manufactured. Marine installation of the cable in the near shore sea-bed is expected to commence in 2011. In Wales, trenching and ducting of almost all of the 30km land route has been completed and cable installation has commenced. In Ireland some 15% of the 45km land route has been ducted. Work on preparing the sites for the convertor stations at Deeside and Woodland is continuing, as is design and manufacturing of the converter stations, transformers, control and protection systems, and other associated equipment.

European Integration

EirGrid continues to play a role in investigating the possible development of a number of national and international initiatives for further interconnection and off-shore grids. As a member of the European Network of Transmission System Operators for Electricity (ENTSO-E), EirGrid is an active participant in the development of a Regional Investment Plan for the North Sea Region, and of the Ten Year Network Development Plan for Europe. The first Ten Year Network Development Plan was published for consultation in March 2010 and the final version was issued in June 2010. EirGrid is one of four TSOs carrying out modelling of electricity flow projections in the North Sea region for ENTSO-E as an input to the next Ten Year plan, which will identify interconnection and off-shore grid requirements to support regional and pan-European electricity flows into the future.

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. As in previous years, EirGrid identified, prioritised and provided outages for maintenance activities designed to ensure that the transmission system continues to operate in a safe and secure manner.

Health and Safety

EirGrid is guided by its statutory mandate to develop a safe, secure, reliable, economic and efficient electricity transmission system. EirGrid insist on the highest standards of health, safety and welfare from its staff and contract partners and takes a proactive role in ensuring these standards are maintained through its HSE Management System certified to OHSAS18001 and ISO14001. EirGrid is also externally audited annually as required by its operating licence. In 2010, the primary subject of the audit was the health and safety management arrangements pertaining to the EWIC project.

Operating the Single Electricity Market

The ESB hydro-electric power station at Inniscarra, Co Cork.

The Single Electricity Market (SEM) is the wholesale electricity market operating in Ireland and Northern Ireland. As a gross mandatory pool 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 at delivering long-term economic and social benefits that are mutually advantageous to Northern Ireland and Ireland.

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.

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 plc and SONI Limited. SEMO is licensed and regulated cooperatively by the Commission for Energy Regulation (CER) in Ireland and the Northern Ireland Authority for Utility Regulation (NIAUR). SEMO is part of the EirGrid Group.

Market Operations

During its third financial tariff period 1 October 2009 to 30 September 2010, the market operated in line with expectations and prices have been reflective of supply and demand and international fuel prices, particularly gas. The performance of SEMO central market systems was satisfactory with high levels of availability throughout the year.

This financial year, SEMO oversaw the processing of energy invoicing and settlement totalling approximately €1.83 billion (including imperfections) in addition to processing capacity settlement totalling approximately €579 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 graph on page 29 shows the average monthly SMP from January 2010 to December 2010 and the relationship with gas prices.

Lendrum's Bridge wind farm in County Tyrone.

Market Development

Market Development is responsible for the administration and maintenance of the Trading and Settlement Code (TSC) and act as secretariat for the Modifications Committee. The team also carry out Market modelling and manage a Regulatory Interface function.

A significant number of modifications were processed through the Modifications Committee with the Regulator approving 29.

The Modifications Committee was particularly active in 2010. Two key modifications were Global Aggregation, approved in September 2010 after four Working Groups, and Intra-Day Trading, which was progressed through a series of Working Groups developing, in principle, the high level design requirements to be considered by the SEM Committee in late 2010.

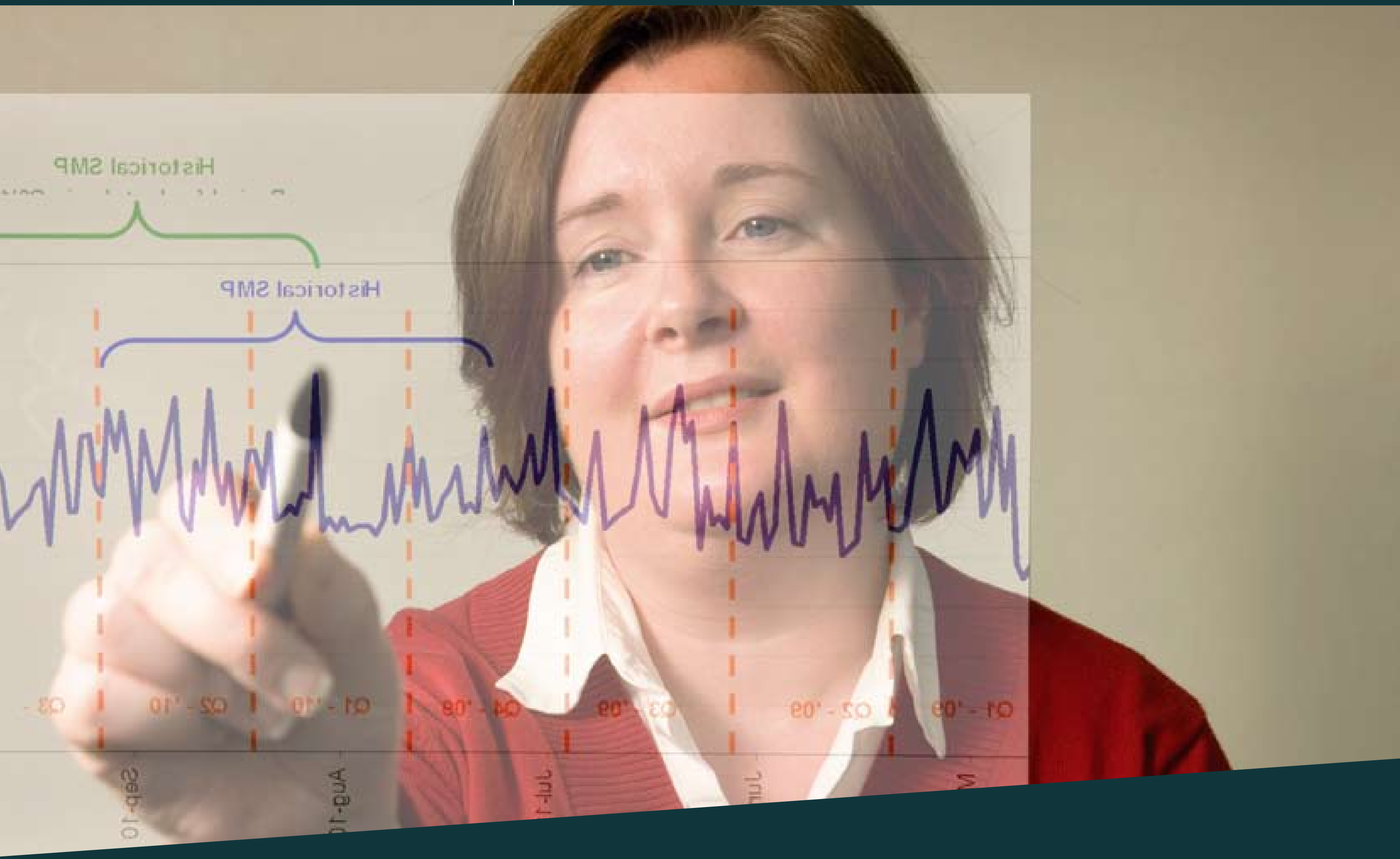
In addition, the Market Development team continued to work closely with the Regulators throughout 2010 to arrive at a three year revenue determination for the period from 2010 to 2013.

New Participants

This year we were delighted to welcome the following new Market Participants – Garvagh Glebe Power Ltd, Cushaling Power Ltd, Hunter's Hill Windfarm Ltd and Castledockrell Supply Ltd.

SEMO also developed further with the addition of 27 new units registered and effective in the Market in the past year.

MARY DOYLE



Mary co-ordinates the day-to-day operations of Credit Risk Management (CRM) within the Single Electricity Market Operator (SEMO). Mary has been working as a Senior Market Controller since the launch of SEM. She worked initially in the Settlement area, and since 2009 has worked in CRM ensuring that all market participants receive timely and accurate credit cover reports for every working day of the Single Electricity Market.

"A key aspect of my work is ensuring that all participants and their credit cover providers are in compliance with the Trading and Settlement Code and, of course, that we are also compliant in our dealings," Mary explained.

"As the SEM is a Gross Mandatory Pool, this means that all funds move through our accounts to Generators from Suppliers. With this in mind, CRM endeavours to ensure that the Market is fully collateralised and any financial risk to Participants due to potential payment defaults is minimised, especially in this current economic climate. We also have to do regular solvency assessments while keeping a keen eye on ratings agency assessments of the financial institutions in both the UK and Ireland."

"The Trading and Settlement Code is our bible and sometimes I have to walk people in financial agencies through our very specific templates as our letters of credit have to follow a regulated format which is often different from the letters of credit used in international trade transactions," says Mary.

Based at EirGrid's Dublin offices, she also supports and assists new participants in the market to become familiar with the procedures for trading and credit compliance.

Operating the Single Electricity Market

Stakeholder Management

SEMO hosted the 15th annual Association of Power Exchanges (APEx) conference in Dublin. This was the largest conference to date with Market Operators from all continents considering the development of electricity markets.

SEMO remains proactive in managing the requirements of Market Participants. In the last tariff year SEMO has organised seven general Market Operator User Groups, five training sessions for new market participants and numerous bi-lateral participant conference calls.

SEMO continues to provide each new Participant with individual controller contact as required, in order to ensure smooth market operation. By delivering greater transparency and information to Market Participants, SEMO serves to provide a basis for the further development of a competitive, sustainable and reliable electricity market.

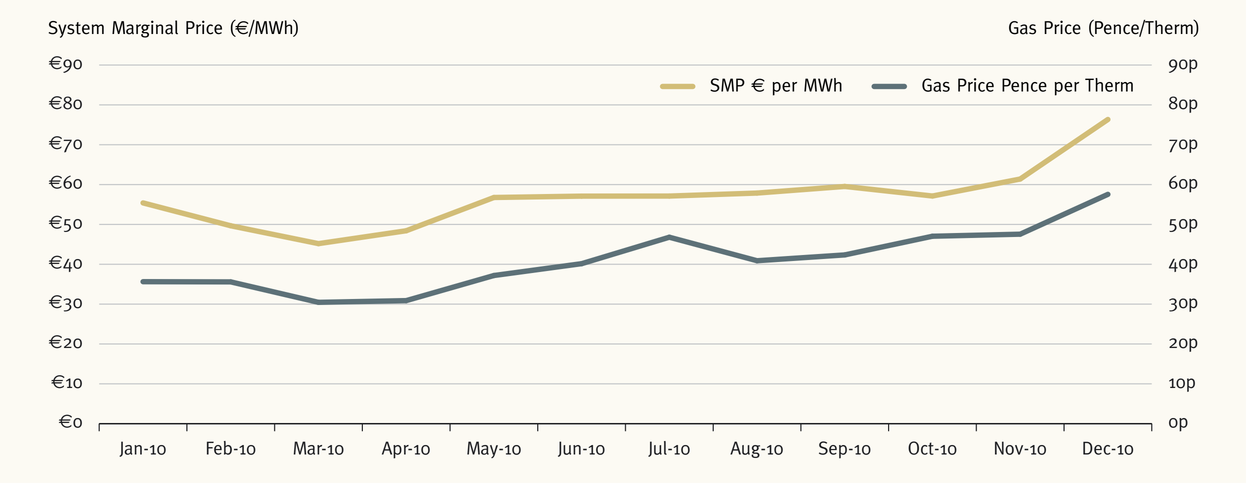
Challenges for 2011

During its third year, the market has operated smoothly, transparently setting prices, invoicing participants in a timely fashion and transferring funds securely. It remains fully collateralised with more than 55 Participants.

The challenge for our fourth year of operation remains to continue 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 utilising the findings in the customer survey, 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.

Average SMP vs Average Gas Price



Corporate and Social Responsibility

At EirGrid we are conscious that Corporate and Social Responsibility (CSR) obligations need to be at the heart of all of our operations.

We are an organisation with legal and regulatory responsibilities to our customers and end users of power throughout Northern Ireland and Ireland. We have a role of delivering a service which householders, businesses, hospitals and industries all rely upon 24/7.

We look at our CSR obligations under four headings – how we do business, how we work with our employees, how we play our role in the community and how we care for the environment.

We have the key role in designing and developing the transmission grid in Ireland and this is a very significant part of our CSR delivery.

Grid**25** is EirGrid's strategy to develop and upgrade the electricity transmission network from now until 2025. It involves extensive work throughout the country which includes building new power lines and upgrading existing lines, which will double the capacity of the electricity grid. Grid**25** is critical to Ireland's future from both an economic as well as an environmental standpoint, and will help secure Ireland's energy needs for future generations. It will enable Ireland to have a secure electricity supply, to continue to compete for investment in all regions, and to utilise Ireland's rich renewable energy resources. Key to the success of Grid**25** will be informing communities about the benefits of transmission infrastructure to their futures as well as their everyday lives and their support for the infrastructure in their community.

The Grid**25** programme involves a major commitment to public engagement and consultation, to communicating our activities transparently, and to supporting community initiatives in areas where infrastructure is being developed.

We view Corporate and Social Responsibility as an important part of living our core values – to be a great company, a great place to work, great to do business with and an authoritative independent voice in the industry. We aim to ensure that we conduct our business in our areas of operation 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.

Progress

During 2009/2010 a group comprising staff and managers from throughout the EirGrid Group was formed to examine our activities from the point of view of Corporate and Social Responsibility. This group was led by an Executive Director. As part of this work, we became members of the Business in the Community Ireland organisation and worked with them on measuring our progress and planning future activities. We now have a formal sponsorship policy in place.

How we do business

During the year reported on the EirGrid Group continued to operate the power system and wholesale market efficiently and reliably 24/7, thus delivering benefits to generators, suppliers, and all customers in Northern Ireland and Ireland. Our operations were conducted in an impartial, non-discriminatory and transparent manner and we provided comprehensive information on our websites in relation to grid connections, market data, information on demand and renewable energy. In addition we expanded our web presence with a new SEMO website and developed a new iPhone application which gives electricity usage in Ireland, provides data on the amount of electricity generated from wind and gives CO_2 emissions from generating stations. We initiated our first Group customer survey and put in place a customer service improvement programme.

As stated above, a key aspect of our CSR delivery is Grid**25**, both in terms of the benefits it will bring throughout Ireland, and in terms of the way in which we consult and communicate around this initiative.

We have initiated a review of how we conduct relationships with communities throughout Ireland, in relation to developing the high voltage transmission network. We are committed to developing a standard policy to ensure that we engage in a consistent and proactive manner with these communities.

How we work with our employees

EirGrid is committed to equal opportunities in its recruitment and operations. It has a strong partnership ethos, is committed to open two-way communications with employees and is a participant in the Great Place to Work programme. Within EirGrid, SONI and SEMO, we support education, training and development for employees. During the year 2009/10, a

Minister Eamon Ryan, Chief Executive Dermot Byrne and Chairperson Bernie Gray at the launch of the EirGrid iPhone app.

programme continued in EirGrid for the delivery of additional training to employees. The company provides employee assistance programmes 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 groups and forums aimed at improving the company, and dealing with areas such as internal communication, the environment, and Corporate and Social Responsibility. Safety of our staff and everyone we have contact with is a priority.

How we play our role in the Community

EirGrid is a main sponsor of 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.

During 2009/2010 we provided financial support to projects in Co Kerry and Co Cavan at the request of community representatives, as well as to a number of sporting and charitable organisations. We worked with County Councils in Co Meath and Fingal in relation to community investments.

How we care for the environment

Renewable energy is integral to the dispatch of generation by EirGrid on the power system. Rapid progress has been made in recent years in integrating larger quantities of wind power onto the electricity system. The company engages in programmes to encourage national energy efficiency and has been a strong supporter of the Power of One campaign. Specific measures it implements include the Winter Peak Demand Reduction Scheme (which was enhanced in 2010 to improve the customer interface) and the PowerSave scheme. EirGrid has an Environment Management System in place. It is committed to being compliant with environmental and associated planning legislation and regulations and submits environmental studies/reports in relation to new projects. It promotes recycling and energy efficiency in its buildings. We have shown a €25k reduction in energy use from 2009 to 2010.

EirGrid is committed to reducing its impact on the environment and engaging in energy efficient practices. In recognition of this an Environmental Committee was established in 2008, comprising staff from across the organisation.

Continuous improvements in energy efficiency are an integral part of the Health, Safety and Environment Management system within EirGrid plc, as required by our ISO14001 Environmental Management System Certification. EirGrid has made major improvements in this area in its Dublin offices, in areas including utilities, travel, purchasing and waste. Our key environmental objective for 2010 was to achieve a 15% relative reduction in CO_2 footprint on a 2009 baseline.

We engaged an external company to independently evaluate our progress and they concluded that we achieved our target of a 15% reduction.

Corporate and Social Responsibility

Our Customers

The EirGrid Group aims to deliver high 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, Market Participants, Stakeholders and all other interested parties in both jurisdictions. 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 five main categories: Generators, Demand (large industrial customers connected to or in the process of connecting to the transmission system), Suppliers (licensed suppliers of electricity), Stakeholders (Industry bodies such as the CER, NIAUR, DCENR, DETI, IWEA, IBEC, IDA, SEAI and many others, including general public, universities and students); and Partners (key partners who enable us to deliver on our organisational objectives, including ESB Networks, NIE and many others).

Customer Service

The EirGrid Group is committed to delivering the service that our customers need and expect. Customer service is of paramount importance within the Group and is integral to the successful operation of our businesses. Across the Group we combine dedicated customer service professionals with our technically experienced engineers to provide the support that our customers require.

Dedicated communication channels have been developed to allow our customers to contact us.

Also fundamental to our customer service delivery is provision of information and data as we strive to keep our customers informed and aware. We produce regular publications and provide a wide range of technical data on our websites.

EirGrid Group Customer Conference 2010

175 customers and stakeholders attended our Annual Conference on 3 and 4 November 2010 in the Ballymascanlon Hotel in Dundalk. The theme of the conference was *'Working together for a sustainable future'* and the key note address was given by Daniel Dobbeni, CEO of Elia and President of ENTSO-E. Mark Carruthers from BBC Northern Ireland chaired panel discussions on our Customer Survey Results and Regional Markets Integration. 70 delegates attended the Customer Forum on the second day with interesting presentations on *'Delivering Infrastructure for a Sustainable Future'*.

Other Events in 2010

Central to the vision and values of the EirGrid Group is engaging and working with our key stakeholders. Throughout the year the businesses have been facilitating, managing, attending and presenting at events across the island. The EirGrid Group organised a record number of events for customers and stakeholders in 2010:

- EirGrid hosted two Facilitation of Renewables Forums in February and June 2010. The high level results of the world-class Facilitation of Renewables Studies were presented at the June 2010 forum in Dundalk
- A Transmission Use of System (TUoS) Workshop took place in May 2010 in order to provide information on TUoS billing and give customers an opportunity to offer feedback
- In addition to the Grid**25** National Stakeholder Forum which took place in Dublin in May 2010, the first four regional Grid**25** Stakeholder Forums took place in Killarney, Waterford, Carlow and Castlebar. The purpose of these forums is to engage with stakeholders to discuss the future ambitions of the region in relation to transmission requirements in the future. These forums have been very successful and will continue in other locations throughout 2011
- A Generator and Power System Operations Workshop also took place in May 2010 in Dublin. The workshop offered customers the opportunity to meet members of our Operations Department, and included presentations from EirGrid staff on topics concerning current and future operations of the Power System
- The annual workshops for the Winter Peak Demand Reduction Scheme (WPDRS) were held in both Cork and Dublin in August/September 2010

Our Customers

- There was a Customer Forum held in September 2010 for generator customers. The purpose of the forum was to inform customers of the basic principles underpinning the planning and development of the transmission system and to give an overview of EirGrid's technical studies for generator connections and the commercial information provided to customers from these studies. This forum was the first of a number of Customer Forums planned for the coming months
- SEMO hosted the International APEx (Association of Power Exchanges) Conference at Clontarf Castle, Dublin in October 2010
- The EirGrid East West Interconnector Access Rules Workshop was held at Croke Park in October 2010. This provided stakeholders with an opportunity to input into the development of these Rules

Enterprise, Trade & Investment Committee Visits Castlereagh House

SONI and SEMO jointly hosted a public meeting of the Northern Ireland Assembly Enterprise Trade and Investment Committee at Castlereagh House on 15 April 2010. Following a briefing about the new Control Centre by Alex Baird and his team, Committee Members were briefed by SEMO Manager Sean McGoldrick and SONI General Manager Robin McCormick on a range of issues affecting both businesses.

This event was part of ongoing stakeholder engagement to help key decision and policy makers understand SEMO and SONI's contribution as the independent transmission system and market operator in Northern Ireland.

US Investors visit SMART SONI

SONI hosted business leaders and senior Government officials from Ireland and Northern Ireland as well as representatives of US companies and research institutes who were participating in the two-day energy workshop organised by the US embassy in Dublin and supported by the Department of Enterprise Trade and Investment. Delegates at the two day 'US and All-Island Renewable Marine Energy and Smart Grid Workshop' (11 May 2010) visited the SMART control room and Energy Management System (EMS) at the heart of the Northern Ireland electricity transmission network.

An aerial view of the Medite plant in Co Tipperary.

Chief Executive Dermot Byrne, Chairperson Bernie Gray and Daniel Dobbeni, Chief Executive Officer of Elia and President of ENTSO-E at the 2010 EirGrid Group Customer Conference.

2010 EirGrid Group Customer Survey

In order to continuously improve the service we provide and to gain a greater understanding of our customers needs the EirGrid Group conducted a Customer Survey in July 2010. The survey was conducted by a third party and 184 of our customers completed an online questionnaire covering all businesses within the EirGrid Group for the first time.

Key Findings:

- Overall satisfaction rating for the EirGrid Group – 72% satisfied or very satisfied, 10% dissatisfied;
- In terms of conducting business, customers scored the Group well on competence (78%) and consistency in dealing with its customers (65%); and
- Target areas for improvement include the lower scores recorded for understanding the pressures facing customers in the current economic climate (35%) and customer focus (43%).

We appreciate this valuable feedback and projects are already underway within the businesses to focus on areas identified in the survey and deliver the required improvements.

New Market Participants

The Single Electricity Market continues to develop and this year we were delighted to welcome the following new Market Participants – Garvagh Glebe Power Ltd, Cushaling Power Ltd, Hunter's Hill Windfarm Ltd and Castledockrell Supply Ltd.

SEMO also developed further with the addition of 27 new units registered and effective in the Market in the past year.

New Connections

Cushaling Power Ltd, a wholly-owned Bord na Móna company, completed the energisation of their peaking plant in June 2010. The plant comprises two peaking units with a combined MEC of 116MW and is located on the same site as the existing peat plant at Edenderry, Co. Offaly.

A new transmission-connected wind farm, Garvagh, in the Corrie Mountains in County Leitrim, energised in May 2010. The wind farm is owned by Hibernian Wind Power and Coillte, and has an MEC of 26MW.

SSE Renewables energised their 11MW extension to their existing transmission-connected wind farm at Kingsmountain, Co. Sligo in June 2010.

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www.soni.ltd.uk

EirGrid TSO
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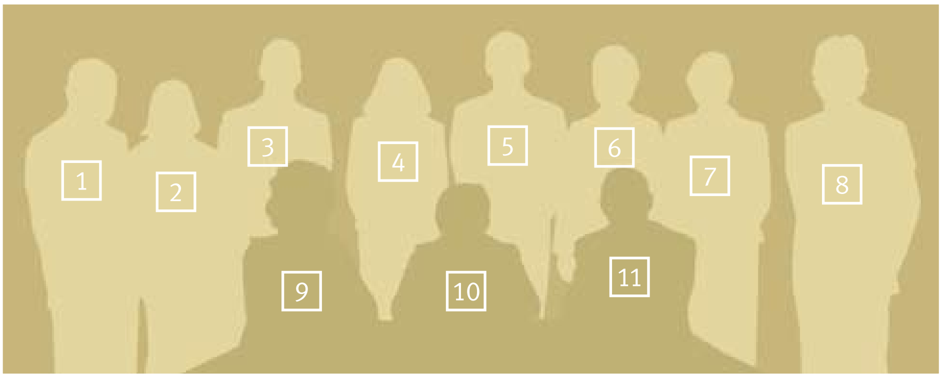
Email: info@eirgrid.com
www.eirgrid.com

SEMO
Tel: 1800 778111 (Ireland)
0800 0778111 (Northern Ireland)
Email: markethelpdesk@sem-o.com
www.sem-o.com

The Board



1. **David Mackey**
2. **Martina Moloney**
3. **William Egenton**
4. **Emer Daly**
5. **Cormac MacDonnchadha**
6. **Dr Joan Smyth**
7. **Jane Williams**
8. **Richard Sterling**
9. **Niamh Cahill**
   (Company Secretary)
10. **Bernie Gray**
    (Chairperson)
11. **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. Ms. Gray was reappointed as Chairperson and Board member in September 2010 for a second term of three years. 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 Business in the Community, 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. Dermot has extensive senior management experience in the electricity industry in Ireland and abroad. From 1993 to 1997 he was Manager, Power System Operation in ESB National Grid. In the late 1990s he worked in senior roles within ESB customer services and power generation areas. In 2000 he was appointed as the first Head of ESB Networks, where he oversaw the major ramp-up in investment in transmission and distribution infrastructure.

In his role as Chief Executive, Dermot has developed EirGrid into a group structure with responsibilities in Northern Ireland and Ireland, comprising EirGrid TSO, System Operator Northern Ireland (SONI), and the Single Electricity Market Operator (SEMO).

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 with 25 years experience in both practice and industry who works as an independent non-executive director and consultant. She is Chairperson of the Dublin Dental School and Hospital, a Director and Chairperson of the Audit and Risk Committee of Friends Provident International Limited, a Director of the Property Registration Authority and a member of the Audit Committee of the Department of Justice, Equality and Law Reform. She holds a Diploma in Corporate Governance from UCD and lectures in risk management at the Michael Smurfit Graduate Business School in UCD. Her career from 1984 to 2006 included six years as a Director with AXA Insurance with responsibility for Finance, Strategic Planning and Risk Management and fourteen years with PricewaterhouseCoopers where she gained a wide experience of audit, due diligence and consultancy work.

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. Cormac has worked with the Transmission System Operator (TSO) since 1999 mainly in the power system planning and power system operation areas. 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 Non Executive Director of the Quinn Group 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, and reappointed for a further five year term in September 2009. 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 1,100. 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 Irish Water Safety and the National Directorate for Fire and Emergency Management.

Dr Joan Smyth

Joan Smyth was appointed to the EirGrid Board in June 2009 for a five year term. She is Chairperson of the Progressive Building Society for the past five years and a Director of Trinity Housing Association. She is also President of the Red Cross, Northern Ireland. In 2009 she completed more than five years in office as Chair of the Chief Executives' Forum. She has served two terms as Chair of the Northern Ireland Transport Holding Company from 1 July 1999 to 30 June 2005 and was Chair of the Equal Opportunities Commission for NI from 1992 (Chair & Chief Executive until 1 October 1998) remaining in post until the new Equality Commission was established in October 1999. She was elected to the Board of the British Council in September 1999 and has chaired its Northern Ireland Committee. Dr Smyth has a BSc (Econ) from Queen's University, Belfast and is a Companion of the Institute of Personnel and Development. She was awarded an Honorary Doctor of Laws from the University of Ulster in 2000. She has been used as an Independent Assessor for Public Appointments. Dr Smyth is also a past Federation President of Soroptimist International of Great Britain and Ireland. She was awarded a CBE in the 1998 New Year's Honours List.

Richard Sterling

Richard Sterling was appointed to the EirGrid Board in June 2009 for a five year term. He is former Managing Director of Coolkeeragh Power Limited based in Derry and is a past President of Londonderry Chamber of Commerce. He was appointed a Board Member of Ilex, the Urban Regeneration Company for the Derry City Council area in 2003, and during his six year term he served as Acting Chairman and Deputy Chairman. Richard was awarded an OBE in 2003 for services to the Basic Skills Committee and to business in Northern Ireland.

Jane Williams

Jane Williams was appointed to the Board in April 2006 for a period of five years. Jane Williams is the managing director of The Sia Group, a business she started in 1988. Most recently, Jane stepped out of Sia to take up the role as Chief Executive of Forfás, the national enterprise and science policy agency, which she undertook on an interim basis for 9 months, having served for 8 years as a Board member from 2000 to 2008. Returning to her role as Managing Director of Sia in June 2010, Jane specialises in strategy, facilitation and training for clients in Ireland and Europe.

Jane's career includes two years in international banking with Banque Nationale de Paris, nine years in financial analysis and international marketing and sales with the Industrial Development Authority, both in Dublin and New York, a year with DL Taffner, New York, a TV production and animation company, and over twenty years in business and organisational consultancy with The Sia Group as Managing Director.

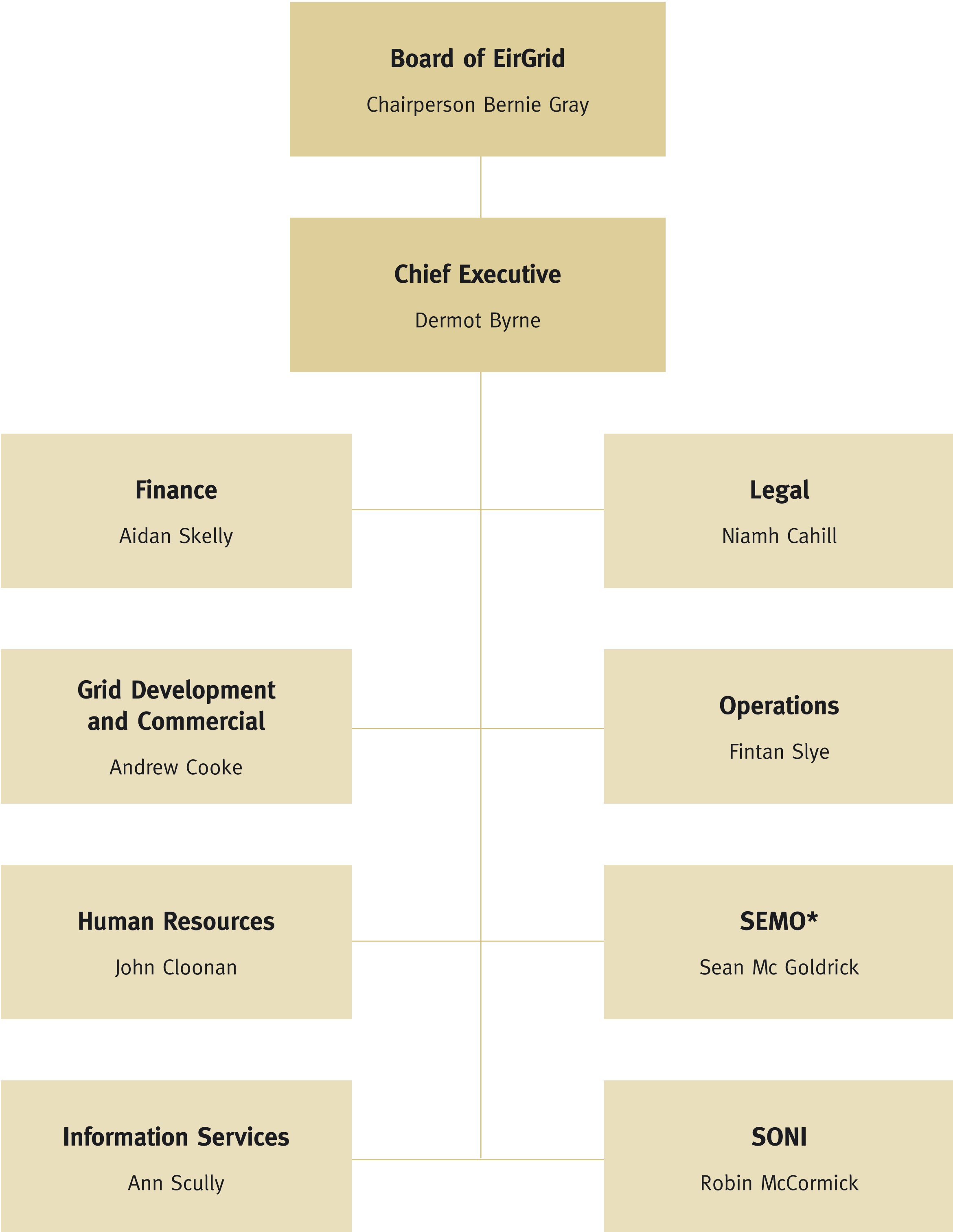
Jane holds a Business Studies degree from Trinity College ('76) and a masters degree in Psychology from Colombia University, New York ('87). Jane is finalising her thesis for a PhD in Gender in Decision-Making in the Public sphere at TCD.

Jane is the Chairperson of the Irish Pensions Board, and also serves as a Board member of the Decentralisation Implementation Group and a number of private boards and voluntary boards. She has served on a number of other boards including Forfás, the National Competitiveness Council, Irish Universities Quality Board, ERA Maptec, the Tourism Council, and others. Jane is the founder member of Dublin University Ladies Boat Club, Network, International Women's Forum - Ireland and the Leadership Initiative. Jane is a CEDR Accredited Mediator.

School students at the EirGrid stand at the BT Young Scientists Exhibition.

Organisation Structure

as at 30 September 2010



* SEMO is a contractual joint venture between EirGrid plc and SONI Limited.

Executive Team

as at 30 September 2010

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 Limited the Single Electricity Market Operator for the island of Ireland. Niamh is 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 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.

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 including the Ireland-Wales Interconnector project. He is responsible for the design and implementation of transmission access and tariff arrangements, and for customer relations. A graduate of Queens University Belfast, he holds a BSc in Electrical Engineering. He has more than 30 years' experience of working in the areas of transmission system operations and planning, market design, and regulation.

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.

Robin McCormick
Director, SONI Limited

In his role as Director, SONI Limited, Robin McCormick is responsible for both the safe, secure, economic and reliable operation of the transmission grid and for fulfilling the obligations of the System Operator and Market Operator licences in Northern Ireland. He has previously held a number of senior management positions within NIE including Business Strategy, Transmission Planning & Projects and Customer Service. He is a graduate of Queens University Belfast from which he holds a BSc in Electrical and Electronic Engineering. He also holds an MBA from University of Ulster and an MSc in Corporate Leadership from Napier University. He is a Fellow and active participant in the Institution of Engineering and Technology.

Sean Mc Goldrick
General Manager, SEMO

Sean Mc Goldrick is General Manager of the Single Electricity Market Operator for the island of Ireland. He has over 20 years experience working on Electrical Power Systems covering such diverse fields as research and development, construction, operation and planning of large scale transmission systems, management contracting, design, development and operation of electricity markets. He has worked, managed and consulted for utilities, transmission system operators and regulators in Ireland, Great Britain, Greece, Canada, Guyana, Croatia, Kazakhstan, Cyprus, Georgia and Kosovo. He is a former member of the WSCC reliability committee where he represented Canada. He is a member of the Institution of Engineers in Ireland.

Sean took up a new position with an external company in December 2010.

Aidan Skelly
Chief Financial Officer

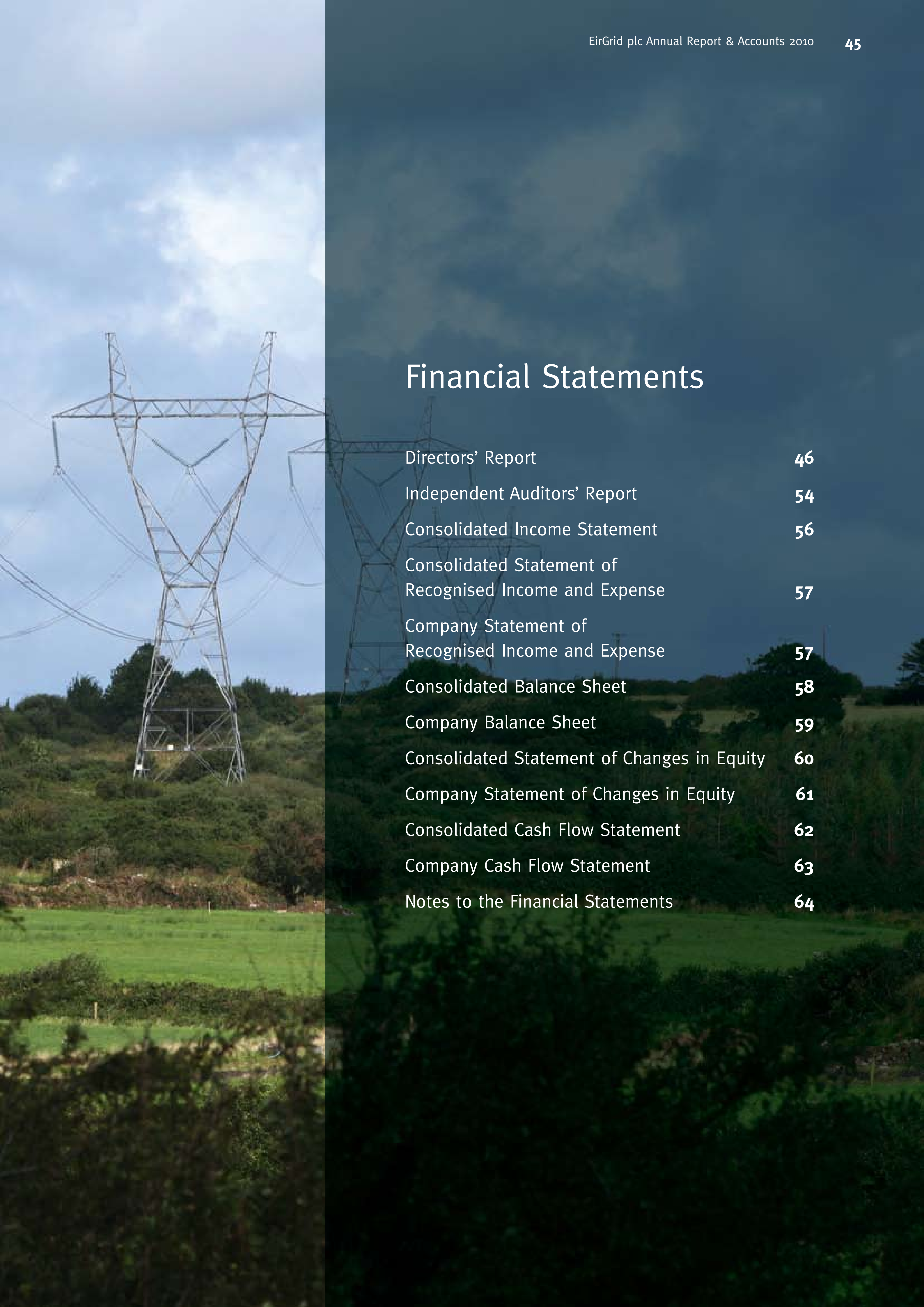
Aidan Skelly joined EirGrid as Chief Financial Officer in June 2005. He was previously Finance Director with Waterford Stanley Limited. He worked with Waterford Crystal from 1987 to 2002, during which time he held a number of finance and commercial positions in Ireland and in the UK. He trained as a Chartered Accountant with PricewaterhouseCoopers and is a Commerce graduate of University College Dublin. He also holds an MBS in Corporate Leadership 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 1 November 2007. Prior to taking on this project, she held a number of managerial and project roles in ESB National Grid and ESB, including establishing the wholesale electricity market in Ireland in 2000 and CEO of ESBI Alberta Ltd, the Transmission Administrator in Alberta, Canada. A graduate of Trinity College, she holds a degree in Electrical Engineering.

Fintan Slye
Director, Operations

Fintan Slye assumed the position of Director of Operations 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

Directors' Report

The Directors present their annual report and the audited Financial Statements of the Group for the year ended 30 September 2010.

PRINCIPAL ACTIVITIES

The Group's principal activities are to deliver quality connection, transmission and market services to generators, suppliers and customers utilising the high voltage electricity system in Ireland and Northern Ireland. EirGrid plc also has the responsibility to put in place the grid infrastructure required to support the development of Ireland's economy. The Group is also responsible for the operation of the wholesale electricity market for the island of Ireland.

RESULTS AND REVIEW OF THE BUSINESS

Details of the financial results of the Group are set out in the Income Statement on page 56 and the related notes.

The current period being reported on is the year ended 30 September 2010. The comparative figures are for the year ended 30 September 2009.

Commentaries on performance during the year ended 30 September 2010, including information on recent events and future developments, are contained in the Chairperson's Report and the Chief Executive's Report.

CORPORATE GOVERNANCE

During the year the Group was compliant with the revised and updated Code of Practice for the Governance of State Bodies ('the Code') issued by the Department of Finance on 15 June 2009. The Code sets out the principles of corporate governance which the Boards of State Bodies are required to observe. The Group 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 Group 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. The Group 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 Group is accountable to the Minister for Communications, Energy and Natural Resources;
- Appointments to the Board are a matter for the Department of Communications, Energy and Natural Resources and accordingly the Group does not have a Nomination Committee;
- Board members are appointed by the Department of Communications, Energy and Natural Resources and, therefore, are not subject to re-election to the Board;
- The Group'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 eight non-executive Directors. One of the non-executive Directors is an employee of the Group, 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 Board

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

The Directors are aware of, and have individually resolved to comply with, the Group'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. As noted in the Internal Controls section of the Directors' Report, the Board has not identified, nor been advised of, any failings or weaknesses which it has determined to be significant.

Board Committees in 2010

The Board has an effective committee structure to assist in the discharge of its responsibilities, consisting of a number of sub committees. The three principal standing sub committees are: the Audit Committee, the Remuneration Committee and the Infrastructure 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 Richard Sterling (Audit Committee Chairperson, appointed 26 May 2010), Emer Daly (resigned as Audit Committee Chairperson 26 May 2010), William Egenton, Cormac MacDonnchadha, Martina Moloney and Joan Smyth.

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 (Remuneration Committee Chairperson), Emer Daly (appointed 26 May 2010), David Mackey and Joan Smyth (appointed 26 May 2010). Jane Williams resigned as a member of the Remuneration Committee on 26 May 2010.

The Infrastructure Committee's function is to oversee the implementation of grid development strategy and review infrastructure projects which are expected to come forward for Stage 1 approval in the near future. The members of the Infrastructure Committee are Martina Moloney (Infrastructure Committee Chairperson, appointed 26 May 2010), William Egenton, David Mackey and Richard Sterling. Bernie Gray resigned as Infrastructure Committee Chairperson and from the Infrastructure Committee on 26 May 2010.

Directors' Report

Attendance at Meetings

There were 12 Board Meetings held during the year ended 30 September 2010. The Board Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Bernie Gray (Chairperson)	12	12
Dermot Byrne (Chief Executive)	12	12
Emer Daly	12	11
William Egenton	12	9
Cormac MacDonnchadha	12	12
David Mackey	12	8
Martina Moloney	12	11
Joan Smyth	12	12
Richard Sterling	12	11
Jane Williams	12	9

There were 6 Audit Committee Meetings held during the year ended 30 September 2010. The Committee Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Richard Sterling (Chairperson, appointed 26 May 2010)	2	1
Emer Daly (resigned as Chairperson 26 May 2010)	6	6
William Egenton	6	5
Cormac MacDonnchadha	6	6
Martina Moloney	6	5
Joan Smyth	6	6

There were 4 Remuneration Committee Meetings held during the year ended 30 September 2010. The Committee Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Bernie Gray (Chairperson)	4	4
Emer Daly (appointed 26 May 2010)	1	1
David Mackey	4	4
Joan Smyth (appointed 26 May 2010)	1	1
Jane Williams (resigned 26 May 2010)	3	2

There were 4 Infrastructure Committee Meetings held during the year ended 30 September 2010. The Committee Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Martina Moloney (Chairperson)	4	4
William Egenton	4	3
David Mackey	4	4
Richard Sterling	4	4
Bernie Gray (resigned as Chairperson and from the Committee 26 May 2010)	2	2

PRINCIPAL RISKS AND UNCERTAINTIES

Risk Management

The Group has in place an appropriate risk management programme that identifies the critical risks to which it is exposed and ensures that appropriate risk mitigation measures are taken. The Group'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

The main financial risks faced by the Group relate to liquidity risk, foreign exchange rate movements, commodity price movements, interest rate movements and credit risk. Policies to protect the Group from these risks are regularly reviewed, revised and approved by the Board as appropriate.

The Group'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.

Earlier in the year, the Group was also exposed to changes in commodity prices, principally copper, through its contractual commitment to undertake the East-West Interconnector project. The Group used an option to manage the commodity price risk arising from its commitments to this project. The transaction was non-speculative.

The Group discharges its Market Operator obligations through a contractual joint venture. 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. Appropriate arrangements are also in place to effectively manage the Group's credit risk arising from its Transmission System Operator activities.

As a regulated business, operating in Ireland, the Company's Transmission System Operator activities do not involve any significant pricing or foreign exchange risks. However, the Group derives approximately 17% of its revenues from the UK and hence has an exposure to Euro/Sterling currency fluctuations. This risk is partially mitigated by the majority of both revenue and expenditure from UK operations being denominated in Sterling. The Group has sought to further reduce this exposure by funding Northern Irish operations using Sterling borrowings.

The Group 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. The Group entered into significant interest rate swap agreements during the year, to fix interest rates on current and future East-West Interconnector project debt. Since inception of these financial instruments, forward interest curves have dropped, resulting in the fair value of these instruments being recognised as a liability. All transactions in financial instruments are non-speculative.

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts. The Group mitigates its exposure by spreading funds across a number of financial institutions which have a sovereign guarantee on customer deposits or have a credit rating consistent with the treasury policy approved by the Board. The Group is also exposed to counterparty risk on undrawn facilities and interest rate swap instruments. The Group deals only with counterparties with high credit ratings to mitigate this risk.

The Group's policy and practice is to settle invoices promptly according to terms and conditions agreed with suppliers.

Operational Risk Management

The Group is responsible for the secure operation of the transmission systems in Ireland and Northern Ireland, and for the operation of the all-island Single Electricity Market. A complete programme is in place to discharge this responsibility. This includes:

Directors' Report

- Back-up sites for the Control Centres in Dublin and Belfast, which are 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 in Ireland, which are in line with best international practice;
- Appropriate arrangements with Northern Ireland Electricity (NIE), the Transmission Asset Owner in Northern Ireland; and
- Continuous management focus on all aspects of health and safety. A Safety Management System (certified to OHSAS 18001) has been approved and implemented.

INTERNAL CONTROLS

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

- Facilitate effective and efficient operations by enabling the Group 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 Group's systems of internal control and for monitoring their effectiveness and in this regard the Board's objective is to maintain a sound system of internal control to safeguard shareholders' interests and the Group'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 Group's internal control processes are:

- Defined policies and procedures in relation to expenditure and treasury matters;
- Timely financial reporting on a monthly basis;
- Preparation of, and monitoring performance against, annual budgets which are reviewed and approved by the Board;
- 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 Group has put in place a framework for monitoring and reviewing the effectiveness of internal controls, including its risk management process. The Directors confirm that they have reviewed the effectiveness of the system of internal 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.

The Group has had an Internal Audit and Compliance function since January 2003. It is also the Group'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 Group is firmly in its hands.

DIRECTORS' REMUNERATION

The Financial Statements include €135,000 (2009: €120,201) for Chairperson's and Directors' fees, in accordance with the Department of Finance approved levels of remuneration for the Chairperson and Board Members of State Bodies. On 14 May 2009 the Department of Communications, Energy and Natural Resources issued an instruction that Chairperson and Directors' fees be reduced, effective 1 May 2009. Prior to this instruction being issued the Chairperson and Directors had already decided to take a voluntarily 10% reduction in their fees. Under the approved remuneration levels, the Chairperson's fees were equivalent to €21,600 per annum during the year (2009: €24,000 per annum during the first seven months of the year, reducing to €21,600 per annum for the final five months of the year). Directors' fees were equivalent to €12,600 each per annum during the year (2009: €14,000 each per annum during the first seven months of the year, reducing to €12,600 each per annum for the final five months of the year).

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. The performance related pay provides for a bonus payment of up to 35% of basic salary, of which up to 15% is related to multi-annual objectives. The level of performance related pay is determined by the Remuneration Committee, based on an evaluation of performance against an agreed set of objectives. In his role as a Board Member the Chief Executive also receives a fee, as determined by the Minister for Communications, Energy and Natural Resources. The retirement benefits of the Chief Executive are calculated on basic pay only and aim to provide in retirement a pension of one-eightieth and a gratuity of three-eightieths of salary for each year of service as Chief Executive. The increases in accrued pension and accrued gratuity excluding inflation during the year to 30 September 2010 were €2,845 (2009: €2,845) and €8,535 (2009: €8,535) respectively. The total accrued pension at the end of the year was €14,925 (2009: €12,080) and the total accrued gratuity was €44,775 (2009: €36,240). The transfer value of the relevant increase was €91,189 (2009: €81,782).

Chief Executive's Remuneration:	**Year to 30 Sep 2010 €'000**	**Year to 30 Sep 2009 €'000**
Basic salary	228	228
Less: 10% voluntary reduction (from 1 January 2009)	(23)	(17)
Performance related pay:		
- Long term incentive	-	57
- Annual bonus (net of voluntary reduction)	23	40
Taxable benefits	14	18
Pension contributions paid	68	68
Director's fees	13	13
Total	323	407

Directors' Report

DIVIDENDS

The Directors of the Group do not propose the payment of a dividend for the year (2009: €nil).

DIRECTORS' AND SECRETARY'S INTEREST IN SHARES

The Directors and Secretary who held office at 30 September 2010 and 1 October 2009 had no beneficial interest in the shares of the Group.

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

One ordinary share of the Company 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.

POLITICAL DONATIONS

The Group 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 Group has adequate resources to continue in operation for the foreseeable future.

ACCOUNTING RECORDS

The measures that the Directors have taken to ensure compliance with Section 202 of the Companies Act 1990 are the employment of appropriately qualified accounting personnel and the use of suitable accounting systems and procedures. The books of account are kept at The Oval, 160 Shelbourne Road, Ballsbridge, Dublin 4.

AUDITORS

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Financial Statements. The Directors have elected to prepare Financial Statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs).

Irish company law requires the Directors to prepare such Financial Statements in accordance with IFRSs and the Companies Acts, 1963 to 2009. International Accounting Standard 1 requires that Financial Statements present fairly for each financial year the Group'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:

- Select suitable accounting policies and apply them consistently;
- 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 Group'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 Group 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 Group, 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 complies with the requirements of the Companies Acts, 1963 to 2009.

The Directors are responsible for the maintenance and integrity of the Group's 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
Chairperson

Dermot Byrne
Chief Executive

15 December 2010

Independent Auditors' Report To The Members of EirGrid plc

We have audited the financial statements of EirGrid plc for the year ended 30 September 2010 which comprise the Group Financial Statements; the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and the Parent Company Financial Statements; the Company Statement of Recognised Income and Expense, the Company Balance Sheet, the Company Statement of Changes in Equity, the Company Cash Flow Statement, and the related notes 1 to 27. 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, for preparing the Financial Statements, including the preparation of the Group Financial Statements and the Parent Company Financial Statements, in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our responsibility, as independent auditor, 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 Group Financial Statements and the Parent Company 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 Irish statute comprising the Companies Acts, 1963 to 2009. 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 the information and explanations necessary for the purpose of our audit and whether the company's balance sheet is 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, the Chief Executive's Report and the Financial Review. 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 and the group'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 evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group 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 Group as at 30 September 2010 and of its profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009;
- the Parent Company Financial Statements give a true and fair view, in accordance with IFRSs, as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the Parent Company's affairs as at 30 September 2010; and
- the Parent Company Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the company. The company's balance sheet is 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 company 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 2010 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

16 December 2010

Consolidated Income Statement

for the year to 30 September 2010

	Notes	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Revenue	3	443,770	410,694
Direct costs	3	(346,884)	(330,686)
Gross profit		96,886	80,008
Other operating costs	5	(81,235)	(70,631)
Operating profit		15,651	9,377
Interest income		1,358	2,171
Finance costs	6	(3,148)	(2,144)
Profit before taxation	7	13,861	9,404
Income tax expense	8	(1,944)	(784)
Profit for the year		**11,917**	**8,620**

On behalf of the Board:

Bernie Gray Dermot Byrne

Bernie Gray
Chairperson

Dermot Byrne
Chief Executive

15 December 2010

Consolidated Statement of Recognised Income and Expense

for the year to 30 September 2010

	Notes	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Actuarial gain on retirement benefit schemes	21	1,419	5,060
Deferred tax attributable to actuarial gain	8	(522)	(608)
Unrealised loss on cash flow hedges	25	(42,411)	(1,901)
Deferred tax attributable to unrealised loss on cash flow hedges	8	5,381	238
Currency translation differences		173	(36)
Net (expense)/income recognised directly in equity		(35,960)	2,753
Profit for the year		11,917	8,620
Total comprehensive income for the year		(24,043)	11,373

Company Statement of Recognised Income and Expense

for the year to 30 September 2010

	Notes	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Actuarial (loss)/gain on retirement benefit scheme	21	(955)	5,218
Deferred tax attributable to actuarial (loss)/gain	8	119	(682)
Unrealised loss on cash flow hedges	25	(30,030)	(1,901)
Deferred tax attributable to unrealised loss on cash flow hedges	8	3,679	238
Net (expense)/income recognised directly in equity		(27,187)	2,873
Profit for the year		12,923	8,275
Total comprehensive income for the year		(14,264)	11,148

Consolidated Balance Sheet

as at 30 September 2010

	Notes	30 Sep 2010 €'000	30 Sep 2009 €'000
ASSETS			
Non-current assets			
Intangible assets	10	21,133	25,739
Property, plant & equipment	12	169,195	110,406
Deferred tax asset	8	9,318	3,088
Derivative financial instruments	25	-	1,732
Total non-current assets		199,646	140,965
Current assets			
Trade and other receivables	13	95,663	80,838
Current tax asset		2,615	1,426
Cash and cash equivalents	17	114,373	153,904
Total current assets		212,651	236,168
Total assets		**412,297**	**377,133**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	16	38	38
Capital reserve		49,182	49,182
Hedging reserve		(38,258)	(1,228)
Translation reserve		137	(36)
Retained earnings		55,190	42,376
Total equity		66,289	90,332
Non-current liabilities			
Derivative financial instruments	25	43,815	1,404
Deferred tax liability	8	3,745	3,827
Deferred income	15	2,318	-
Borrowings	23	131,369	50,252
Retirement benefit obligation	21	20,433	22,288
Total non-current liabilities		201,680	77,771
Current liabilities			
Borrowings	23	16,329	73,622
Trade and other payables	14	127,999	135,408
Total current liabilities		144,328	209,030
Total liabilities		346,008	286,801
Total equity and liabilities		**412,297**	**377,133**

On behalf of the Board:

Bernie Gray　　Dermot Byrne

Bernie Gray
Chairperson

Dermot Byrne
Chief Executive

15 December 2010

Company Balance Sheet

as at 30 September 2010

	Notes	30 Sep 2010 €'000	30 Sep 2009 €'000
ASSETS			
Non-current assets			
Investment in subsidiaries	11	32,676	-
Property, plant & equipment	12	53,675	98,088
Deferred tax asset	8	7,770	3,088
Derivative financial instruments	25	-	1,732
Trade and other receivables	13	65,416	-
Total non-current assets		159,537	102,908
Current assets			
Trade and other receivables	13	99,343	86,603
Current tax asset		2,549	1,360
Cash and cash equivalents	17	78,796	141,464
Total current assets		180,688	229,427
Total assets		**340,225**	**332,335**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	16	38	38
Capital reserve		49,182	49,182
Hedging reserve		(27,579)	(1,228)
Retained earnings		54,202	42,115
Total equity		75,843	90,107
Non-current liabilities			
Derivative financial instruments	25	31,434	1,404
Borrowings	23	100,641	24,967
Retirement benefit obligation	21	20,433	19,950
Total non-current liabilities		152,508	46,321
Current liabilities			
Borrowings	23	11,633	69,214
Trade and other payables	14	100,241	126,693
Total current liabilities		111,874	195,907
Total liabilities		264,382	242,228
Total equity and liabilities		**340,225**	**332,335**

On behalf of the Board:

Bernie Gray Dermot Byrne

Bernie Gray
Chairperson

Dermot Byrne
Chief Executive

15 December 2010

Consolidated Statement of Changes in Equity

for the year ended 30 September 2010

	Notes	Issued share capital €'000	Capital reserve €'000	Hedging reserve €'000	Translation reserve €'000	Retained earnings €'000	Total attributable to equity holders €'000
Balance as at 1 October 2008		38	49,182	435	-	29,304	78,959
Profit for the year after taxation		-	-	-	-	8,620	8,620
Actuarial gain on retirement benefit schemes	21	-	-	-	-	5,060	5,060
Deferred tax attributable to actuarial gain	8	-	-	-	-	(608)	(608)
Unrealised loss on cash flow hedges	25	-	-	(1,901)	-	-	(1,901)
Deferred tax attributable to unrealised loss on cash flow hedges	8	-	-	238	-	-	238
Currency translation differences		-	-	-	(36)	-	(36)
Total comprehensive income for the year		-	-	(1,663)	(36)	13,072	11,373
Balance as at 30 September 2009		38	49,182	(1,228)	(36)	42,376	90,332
Profit for the year after taxation		-	-	-	-	11,917	11,917
Actuarial gain on retirement benefit schemes	21	-	-	-	-	1,419	1,419
Deferred tax attributable to actuarial gain	8	-	-	-	-	(522)	(522)
Unrealised loss on cash flow hedges	25	-	-	(42,411)	-	-	(42,411)
Deferred tax attributable to unrealised loss on cash flow hedges	8	-	-	5,381	-	-	5,381
Currency translation differences		-	-	-	173	-	173
Total comprehensive income for the year		-	-	(37,030)	173	12,814	(24,043)
Balance as at 30 September 2010		**38**	**49,182**	**(38,258)**	**137**	**55,190**	**66,289**

Capital Reserve

The capital reserve arose on the vesting of the TSO operations from ESB to the Company under the Transfer Scheme dated 1 July 2006. There have been no movements in the reserve since this date.

Hedging Reserve

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instruments is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a base adjustment to a non-financial hedged item.

Translation Reserve

The translation reserve represents foreign exchange differences arising from the translation of the net assets of the Group's foreign operations from their functional currency into EirGrid's functional currency, being Euro, including the translation of the profits and losses of such operations from the average rate for the year to the closing rate at the Balance Sheet date.

Retained Earnings

Retained earnings comprise accumulated earnings in the current year and prior years.

Company Statement of Changes in Equity

for the year ended 30 September 2010

	Notes	Issued share capital €'000	Capital reserve €'000	Hedging reserve €'000	Retained earnings €'000	Total attributable to equity holders €'000
Balance as at 1 October 2008		38	49,182	435	29,304	78,959
Profit for the year		-	-	-	8,275	8,275
Actuarial gain on retirement benefit scheme	21	-	-	-	5,218	5,218
Deferred tax attributable to actuarial gain	8	-	-	-	(682)	(682)
Unrealised loss on cash flow hedges	25	-	-	(1,901)	-	(1,901)
Deferred tax attributable to unrealised loss on cash flow hedges	8	-	-	238	-	238
Total comprehensive income for the year		-	-	(1,663)	12,811	11,148
Balance as at 30 September 2009		38	49,182	(1,228)	42,115	90,107
Profit for the year		-	-	-	12,923	12,923
Actuarial loss on retirement benefit scheme	21	-	-	-	(955)	(955)
Deferred tax attributable to actuarial loss	8	-	-	-	119	119
Unrealised loss on cash flow hedges	25	-	-	(30,030)	-	(30,030)
Deferred tax attributable to unrealised loss on cash flow hedges	8	-	-	3,679	-	3,679
Total comprehensive income for the year		-	-	(26,351)	12,087	(14,264)
Balance as at 30 September 2010		**38**	**49,182**	**(27,579)**	**54,202**	**75,843**

Capital Reserve

The capital reserve arose on the vesting of the TSO operations from ESB to the Company under the Transfer Scheme dated 1 July 2006. There have been no movements in the reserve since this date.

Hedging Reserve

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instruments is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a base adjustment to a non-financial hedged item.

Retained Earnings

Retained earnings comprise accumulated earnings in the current year and prior years.

Consolidated Cash Flow Statement

for the year to 30 September 2010

	Notes	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Cash flows from operating activities			
Profit after taxation		11,917	8,620
Loss on disposal of property, plant and equipment		102	79
Depreciation of property, plant and equipment	12	18,668	15,645
Impairment of goodwill and intangible assets	10	1,939	-
Interest income		(1,358)	(2,171)
Finance costs		3,148	2,144
Pension charge		4,021	4,072
Section 75 pension expense		6,449	-
Income tax expense		1,944	784
Section 75 pension payment		(6,449)	-
Pension contributions paid		(5,434)	(4,141)
Impact of fair value movements on derivative financial instruments		(784)	762
		34,163	25,794
Movements in working capital			
(Increase)/decrease in trade and other receivables		(14,477)	9,866
Decrease in trade and other payables		(17,326)	(3,012)
Cash generated from operations		2,360	32,648
Income taxes paid		(4,551)	(3,758)
Interest received		935	2,449
Finance costs paid		(3,148)	(2,458)
Net cash (used in)/generated from operating activities		(4,404)	28,881
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		-	(30,467)
Adjustment to consideration – Section 75 indemnity		4,406	-
Purchase of property, plant and equipment		(65,615)	(27,538)
Capital grants received	15	2,318	-
Net cash used in investing activities		(58,891)	(58,005)
Cash flows from financing activities			
Increase/(decrease) in bank overdrafts		2,669	(729)
Proceeds from borrowings		135,122	93,943
Borrowings repaid		(111,768)	(6,311)
Payments in relation to loan arrangement fees		(4,142)	-
Sale/(purchase) of derivative financial instruments		2,515	(2,494)
Net cash generated from financing activities		24,396	84,409
Net (decrease)/increase in cash and cash equivalents		(38,899)	55,285
Cash and cash equivalents at start of year		153,904	98,763
Effect of foreign exchange on cash and cash equivalents		(632)	(144)
Cash and cash equivalents at end of year	17	**114,373**	**153,904**

Company Cash Flow Statement

for the year to 30 September 2010

	Notes	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Cash flows from operating activities			
Profit after taxation		12,923	8,275
Loss on disposal of property, plant and equipment		102	79
Depreciation of property, plant and equipment	12	14,851	14,327
Interest income		(1,600)	(2,137)
Finance costs		2,071	1,504
Pension charge		3,275	3,708
Income tax expense		1,371	1,707
Pension contributions paid		(4,473)	(3,881)
Impact of fair value movements on derivative financial instruments		(784)	762
		27,736	24,344
Movements in working capital			
Increase in trade and other receivables		(14,913)	(9,308)
(Decrease)/increase in trade and other payables		(23,435)	6,831
Cash (used in)/generated from operations		(10,612)	21,867
Income taxes paid		(3,444)	(3,758)
Interest received		1,177	2,415
Finance costs paid		(2,071)	(1,818)
Net cash (used in)/generated from operating activities		(14,950)	18,706
Cash flows from investing activities			
Investment in subsidiary		(22,875)	-
Purchase of property, plant and equipment		(47,769)	(30,721)
Capital grants received	15	2,318	-
Net cash used in investing activities		(68,326)	(30,721)
Cash flows from financing activities			
Increase/(decrease) in bank overdrafts		2,669	(729)
Proceeds from borrowings		122,496	64,250
Borrowings repaid		(107,072)	(6,311)
Sale/(purchase) of derivative financial instruments		2,515	(2,494)
Net cash generated from financing activities		20,608	54,716
Net (decrease)/increase in cash and cash equivalents		(62,668)	42,701
Cash and cash equivalents at start of year		141,464	98,763
Cash and cash equivalents at end of year	17	**78,796**	**141,464**

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 Ireland and as Market Operator (MO) for the wholesale electricity market on the island of Ireland. SONI Ltd is licensed by the Northern Ireland Authority for Utility Regulation as the TSO in Northern Ireland and also holds an MO licence for the island of Ireland. The registered office of EirGrid plc is The Oval, 160 Shelbourne Road, Ballsbridge, Dublin 4.

2. STATEMENT OF ACCOUNTING POLICIES

Basis of preparation

The Group and Company Financial Statements have been prepared in accordance with International Financial Reporting Standards (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 2010 and in the case of EirGrid plc Group and Company accounts, in accordance with the Irish Companies Acts, 1963 to 2009. The Directors are confident, on the basis of current financial projections and facilities available, that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the accounts.

The Financial Statements have been presented in Euro, the currency of the primary economic environment in which the Group and Company operate and have been prepared on a historical cost basis, except for the revaluation of certain financial instruments which are held at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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 the year to 30 September 2010. The comparative figures are for the year ended 30 September 2009.

Adoption of new standards

The Group has voluntarily adopted the provisions of IAS 24 (2009), as the Directors believe that the adoption of the accounting policy will provide users with reliable and more relevant information regarding related party transactions. IAS 24 (2009) is a revision to IAS 24, which requires disclosure of transactions and outstanding balances with related parties, to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties. This amendment has not led to any changes in the Group'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 for the accounting period reported on:

- Improvements to IFRSs 2009 (Effective 1 January 2010)
- IFRS 1 (Amendments) – Additional exemptions for first time adopters (Some amendments are effective from 1 January 2010, others are effective from 1 July 2010)
- IFRS 2 (Amendment) – Group cash-settled share-based payment transactions (Effective 1 January 2010)
- IAS 32 (Amendment) – Classification of rights issues (Effective 1 February 2010)
- IFRIC 19 – Extinguishing financial liabilities with equity instruments (Effective 1 July 2010)
- Improvements to IFRSs 2010 (Some improvements are effective 1 January 2010, others are effective 1 January 2011)
- IFRIC 14 (Amendment) – Prepayments of a Minimum Funding Requirement (Effective 1 January 2011)
- IFRS 9 – Financial instruments: classification and measurement (Effective 1 January 2013)

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

2. STATEMENT OF ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the Consolidated Income Statement from the effective date of acquisition.

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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.

Business combinations

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of the business combination is measured at the date of exchange as the aggregate of the fair values of assets given and liabilities incurred or assumed in exchange for control of the entity, together with any directly attributable costs. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying value of the unit, the impairment loss is allocated first to reduce the carrying value of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is recognised immediately in the Consolidated Income Statement. Impairments to goodwill are not subsequently reversed.

Revenue

Revenue primarily represents the income derived from the provision of electricity transmission and Market Operator services to customers during the year and excludes value added tax. Revenue includes the regulatory allowance received for the management of transmission constraint costs.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreements and adjustments will be made to future prices to reflect the 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. However, 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, a liability will be recognised. Similarly, where a regulatory agreement requires an adjustment to future prices as a result of uncertainty surrounding internal operating costs arising on the vesting of EirGrid plc and the fundamental change in market design, a liability will be recognised.

Notes to the Financial Statements

2. STATEMENT OF ACCOUNTING POLICIES *(continued)*

Revenue from connection offers is recognised by reference to the stage of completion of the contract activity at the Balance Sheet date. This is measured based on the proportion of costs incurred for work performed on the project to date relative to the estimated total costs of the project. Variations in contract work are included to the extent that they have been agreed with the customer. Contract costs are recognised as an expense in the period in which they are incurred. Where it is probable that the contract costs of the project will exceed total contract revenue, the expected loss would be recognised as an expense immediately.

Revenue streams relating to collection of customer credit charges, the public service obligation levy and renewable energy feed in tariffs are not recognised in the Financial Statements of the Group. In these situations the Group acts as an agent rather than a principal, assuming neither risks nor rewards on these revenue-cost neutral activities.

As Market Operator for the Single Electricity Market, the Group 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 Group 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. 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 Group 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, contractors and establishment costs. Other operating costs are recognised as they are incurred.

Leases

Leases are recognised from the date from which the lessee is entitled to exercise its right to use the leased asset.

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

The individual Financial Statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each Group entity are expressed in Euro, which is the functional currency of the Company and the presentation currency for the Consolidated Financial Statements.

2. STATEMENT OF ACCOUNTING POLICIES *(continued)*

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions. At each Balance Sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at that date, with exchange differences arising recognised in the Consolidated Income Statement as they occur.

On consolidation the Income Statements of the Group's two foreign currency subsidiaries are translated into Euro at the average exchange rate, which is a close approximation to the actual exchange rates for the year. The Balance Sheets of these subsidiaries are translated at rates of exchange ruling at the Balance Sheet date. Resulting exchange differences arising from the translation of the Group's foreign currency subsidiaries are taken directly to a separate component of shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of the foreign subsidiaries are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate.

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 obligations 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 current service 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 year. Taxable profit differs from profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group'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. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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 Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the Financial Statements

2. STATEMENT OF ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is shown at cost less impairment.

Depreciation is recognised 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:

- Leasehold building improvements: over the period of the lease;
- Freehold buildings and improvements: 5 to 15 years;
- Fixtures and fittings: 5 years;
- IT, telecommunications equipment and other: 3 to 8 years; and
- Single Electricity Market asset: 5 years.

No depreciation is provided on freehold land or on assets in the course of construction.

The Single Electricity Market asset 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, wages and salaries, retirement benefit costs and any other costs incurred directly attributable to the construction of such assets. These assets are reclassified to an appropriate category once the asset is capable of operating in the manner intended by management. Depreciation of these assets commences when the assets are ready for their intended 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Where variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the interest added to the cost of the qualifying asset is the net interest expense after the effect of hedging.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, these assets are reported at cost less accumulated amortisation and accumulated impairment losses. Where the intangible assets have a finite useful estimated life, amortisation is charged on a straight-line basis over their useful estimated lives.

The Directors are of the view that TSO and MO licence agreements for Northern Ireland have indefinite lives. The following key factors were considered in determining the useful lives of the above licence agreements; expected usage, typical product life cycles of similar assets used in a similar way, stability of the industry in which the asset is operated, period of control over the asset and expiry dates of licence agreements. The Directors consider it unlikely that the above licences will be cancelled and as the licences are open-ended and renewable and there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group, an indefinite life assumption is reasonable.

2. STATEMENT OF ACCOUNTING POLICIES *(continued)*

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of assets

At each Balance Sheet date, the Group reviews the carrying amounts of its intangible assets and property, plant and equipment to determine whether there is an indication that those assets have suffered an impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. 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). Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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 or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in the Income Statement, unless the relevant asset or CGU is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Grants

Grants of a capital nature are accounted for as deferred income in the Balance Sheet and are released to profit or loss over the expected useful lives of the assets concerned.

Grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Financial assets and liabilities

Financial assets and liabilities are recognised on the Balance Sheet when the Group 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.

Financial assets and liabilities are derecognised from the Balance Sheet when the Group ceases to be a party to the contractual provisions of the instrument.

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 and subsequently carried at amortised cost.

Derivative financial instruments

The Group enters into interest rate swaps and commodity contracts to manage its exposure to interest rate risk and commodity price risk respectively. Further details of derivative financial instruments are disclosed in note 25.

Interest rate swaps and commodity contracts are initially recognised at fair value at the date the 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 the reporting date. 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.

Notes to the Financial Statements

2. STATEMENT OF ACCOUNTING POLICIES *(continued)*

Hedging instruments

The Group designates its interest rate swaps as cash flow hedges. At the inception of the hedge relationship, the Group 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 Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in 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. The 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, or is included as a base adjustment to a non-financial hedged item.

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

Note 25 sets out details of the fair values of the Group's current interest rate swaps used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the Statement of Recognised Income and Expense.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at the value of proceeds received net of any directly attributable arrangement costs. Subsequent to initial recognition these borrowings are stated at amortised cost using the effective interest rate method.

Finance costs

Finance costs comprise interest on borrowings and related hedging interest rate swaps. Finance costs are recognised as an expense in the period in which they are incurred, except where finance costs are directly attributable to the acquisition, construction or production of qualifying assets.

Finance costs are calculated using the effective interest rate method, a method of calculating the amortised cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements requires management to make estimates and assumptions about the carrying amounts reported for assets and liabilities as at the Balance Sheet date and the amounts reported for revenue and expenses during the period that are not readily available from other sources. 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 useful 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 Group's depreciation charge.

- **Revenue**
  Revenue has been adjusted by the reduction in future tariffs required by the CER, as a result of uncertainty surrounding internal operating costs following the vesting of EirGrid plc in 2006. The reduction to revenue during the year to 30 September 2010 and corresponding liability is €9.2m (2009: €nil).

2. STATEMENT OF ACCOUNTING POLICIES *(continued)*

- Revenue from the Gate 3 project is based on an estimate of the project completed, being the proportion of costs incurred for work performed on the project to date relative to the estimated total costs of the project. Revenue related to the Gate 3 project during the year to 30 September 2010 totalled €2.7m (2009: €nil).
- **Retirement benefits obligations**
  The Group operates two defined benefit pension plans. The actuarial valuation of the pension plan liabilities are based on various financial and demographic assumptions about the future including discount rates, inflation, salary increases, pension increases and mortality rates. The Group's obligation in respect of the plans are calculated by independent qualified actuaries and are updated at least annually. The obligation at 30 September 2010 is €74.2m (2009: €65.3m) and the fair value of plan assets is €53.8m (2009: €43.0m), giving a net pension deficit of €20.4m (2009: €22.3m).
- **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 Group 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. The net deferred tax asset at 30 September 2010 was €5.6m (2009: net deferred tax liability of €0.7m).
- **Intangible assets**
  The Group tests annually whether its goodwill and licence agreement assets have suffered any impairment. The recoverable amount of the intangible assets allocated to a CGU has been determined by value in use calculations, which use budgets and forecasts covering the period to 30 September 2015. These calculations require the use of estimates and assumptions, which are discussed in detail in note 10. Intangible assets at 30 September 2010 were €21.1m (2009: €25.7m).

3. SEGMENT INFORMATION

The Group has voluntarily adopted the provisions of IFRS 8 Operating Segments with effect from 1 October 2008, as the Directors believe that the adoption of this Standard will provide users with reliable and more relevant information to assess their performance. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers in order to allocate resources to the segments and to assess their performance.

An operating segment is a component of the entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The Group is analysed into four main reportable segments for internal reporting purposes:

- EirGrid Transmission System Operator ("EirGrid TSO"), which derives its revenue from providing services as the TSO in Ireland and is regulated by the Commission for Energy Regulation.
- Single Electricity Market Operator ("SEMO"), which derives its revenue from acting as the Market Operator for the wholesale electricity market on the island of Ireland.
- SONI Transmission System Operator ("SONI TSO"), which is licensed by the Northern Ireland Authority for Utility Regulation and derives its revenue from acting as the TSO in Northern Ireland. Comparative SONI TSO segment results for the year to 30 September 2009 are those following the acquisition of SONI Limited on 11 March 2009. Trading from SONI Limited's share of the SEMO contractual joint venture has been included in the SEMO segment from the date of acquisition, as has trading in EirGrid UK Holdings Limited, the holding company of the SONI subsidiary.
- East-West Interconnector ("EWIC"), being the project to link the electricity grids of Ireland and Britain. This segment previously formed part of the EirGrid TSO segment, but now forms a separate reportable segment following the establishment of EirGrid Interconnector Limited.

Notes to the Financial Statements

3. SEGMENT INFORMATION *(continued)*

The segment results for the year ended 30 September 2010 are as follows:

	Notes	EirGrid TSO €'000	SEMO €'000	SONI TSO €'000	EWIC €'000	Total €'000
Income Statement items						
Segment revenue		249,027	119,860	74,883	-	443,770
Direct costs		(188,920)	(99,534)	(58,430)	-	(346,884)
Gross profit		60,107	20,326	16,453	-	96,886
Other operating costs		(48,955)	(17,359)	(14,888)	(33)	(81,235)
Operating profit/(loss)		11,152	2,967	1,565	(33)	15,651
Interest income						1,358
Finance costs						(3,148)
Profit before taxation						13,861
Income tax expense						(1,944)
Profit for the year						11,917
Balance Sheet items						
Segment assets		184,249	57,454	23,448	126,013	391,164
Goodwill and intangible assets	10					21,133
Total assets as reported in the Consolidated Balance Sheet						412,297
Segment liabilities		237,126	32,848	38,214	37,820	346,008
Total liabilities as reported in the Consolidated Balance Sheet						346,008

The comparative segment results for the year ended 30 September 2009 are as follows:

	Notes	EirGrid TSO €'000	SEMO €'000	SONI TSO €'000	EWIC €'000	Total €'000
Income Statement items						
Segment revenue		261,142	121,212	28,340	-	410,694
Direct costs		(204,031)	(101,919)	(24,736)	-	(330,686)
Gross profit		57,111	19,293	3,604	-	80,008
Other operating costs		(50,981)	(15,756)	(3,894)	-	(70,631)
Operating profit/(loss)		6,130	3,537	(290)	-	9,377
Interest income						2,171
Finance costs						(2,144)
Profit before taxation						9,404
Income tax expense						(784)
Profit for the year						8,620
Balance Sheet items						
Segment assets		259,213	72,640	19,541	-	351,394
Goodwill and intangible assets	10					25,739
Total assets as reported in the Consolidated Balance Sheet						377,133
Segment liabilities		214,205	35,956	36,640	-	286,801
Total liabilities as reported in the Consolidated Balance Sheet						286,801

3. SEGMENT INFORMATION *(continued)*

Geographical information

	Revenue		Non-current assets	
	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Ireland	338,922	362,932	161,080	97,487
UK	104,848	47,762	38,566	43,478
Total	443,770	410,694	199,646	140,965

Information about major customers

Included in EirGrid TSO segment revenues of €249.0m for the year to 30 September 2010 (2009: €261.1m) are revenues of approximately €139.0m (2009: €160.3m), €40.4m (2009: €38.5m), €31.0m (2009: €20.5m) and €26.5m (2009: €12.4m) which arose from sales to the segment's four largest customers.

Included in SEMO segment revenues of €119.9m for the year to 30 September 2010 (2009: €121.2m) are revenues of approximately €46.1m (2009: €59.7m), €31.7m (2009: €31.8m) and €12.7m (2009: €11.6m) which arose from sales to the segment's three largest customers.

Included in SONI TSO segment revenues of €74.9m for the year to 30 September 2010 (2009: €28.3m) are revenues of approximately €52.7m (2009: €20.5m) and €7.8m (2009: €3.5m) which arose from sales to the segment's two largest customers.

4. EMPLOYEES

The average number of persons employed by the Group during the year to 30 September 2010 was 324 (2009: 267), excluding staff engaged on capital projects.

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

	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Wages and salaries	25,196	22,253
Social welfare costs	2,305	1,857
Pension costs (note 21)	4,021	4,072
Total	31,522	28,182

Included within the average number of employees in 2009 are staff seconded from ESB. The arrangement to second staff from ESB was terminated during the year to 30 September 2009. There are no charges for seconded ESB staff included in the wages and salaries figure above for the year to 30 September 2010 (2009: €1.1m).

The average number of persons engaged on capital projects during the year to 30 September 2010 was 48 (2009: 38). The staff costs associated with these employees have been capitalised and totalled €4.6m for the year to 30 September 2010 (2009: €4.0m).

Notes to the Financial Statements

5. OTHER OPERATING COSTS

	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Employee costs (note 4)	31,522	28,182
Depreciation of non-current assets	18,668	15,645
Operations and maintenance	23,441	26,042
Section 75 pension expense	6,449	-
(Gain)/loss on commodity contract	(784)	762
Impairment of intangible assets (note 10)	1,939	-
Total	81,235	70,631

The gain on commodity contract has arisen from an increase in the fair value of a copper option held by the Group. This option was acquired by the Group in the previous year in connection with the East-West Interconnector project. The Group acquired this option to manage the commodity price risk arising from its commitment to the project. The Group's call position on copper was offset to nil during the year to 30 September 2010, as final notice to proceed on the project was granted. The transaction was non-speculative, refer to note 25 for details.

6. FINANCE COSTS

	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Interest on borrowings and related interest rate swaps	3,148	2,144

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

7. PROFIT BEFORE TAXATION

The profit before taxation is stated after charging/(crediting) the following:

	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Depreciation	18,668	15,645
Directors' remuneration		
- fees	135	120
- other emoluments	310	394
Operating lease rentals	1,833	2,380
Foreign exchange (gain)/loss	(1,177)	39

7. PROFIT BEFORE TAXATION *(continued)*

Auditors' remuneration in respect of the financial year is analysed as follows:

Group	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Audit fees	138	141
Other assurance services	33	-
Tax advisory services	101	288
Other non-audit services	692	583

Other non-audit services includes amounts of €692,000, all of which relate to the raising of finance for the East-West Interconnector project.

Company	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Audit fees	118	121
Other assurance services	33	-
Tax advisory services	73	288
Other non-audit services	692	583

Other non-audit services includes amounts of €692,000, all of which relate to the raising of finance for the East-West Interconnector project.

8. INCOME TAXES

Charge to Income Statement:

	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Current tax expense	3,344	2,040
Deferred tax relating to the origination and reversal of temporary differences	(1,248)	(1,256)
Effect of changes in tax rates and laws	(152)	-
Income tax expense for the year	1,944	784

Notes to the Financial Statements

8. INCOME TAXES *(continued)*

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

	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Profit before tax	13,861	9,404
Taxation at standard rate of 12.5% (2009: 12.5%)	1,733	1,176
Effect of higher rates of tax on other income	200	267
Effect of income and expenses excluded in determining taxable profit	140	(68)
Effect on deferred tax balances due to the change in the UK income tax rate from 28% to 27%	(152)	-
Effect of higher rates of tax on gains/(losses) in UK subsidiaries	195	(246)
Overprovision in prior years	(26)	(131)
Other differences	(146)	(214)
Income tax recognised in Income Statement	1,944	784

The United Kingdom Government has announced that the rate of corporation tax will reduce from 28% to 27% with effect from 1 April 2011. As this change was substantively enacted at 30 September 2010, the Group's deferred tax asset reflects the reduced 27% corporation tax rate. Had this change not been substantively enacted at 30 September 2010, the Group's deferred tax asset would have been reduced by €0.15m, with €0.01m credited to equity and €0.16m charged to the Consolidated Income Statement.

Further staggered reductions to a corporate tax rate of 24% by 1 April 2014 have been announced by the United Kingdom Government, but not substantively enacted as at 30 September 2010. Had this change been substantively enacted at 30 September 2010, the Group's deferred tax asset would have been increased by €0.43m, with €0.02m charged to equity and €0.45m credited to the Consolidated Income Statement.

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

Group	Intangible assets €'000	Accelerated tax depreciation €'000	Retirement benefits obligations €'000	Cash flow hedges €'000	Tax losses €'000	Section 75 payment €'000	Other differences €'000	Total €'000
Deferred tax asset/(liability) as at 1 October 2008	-	25	3,070	(62)	-	-	-	3,033
Arising on acquisition	(4,774)	(885)	573	-	382	-	46	(4,658)
(Charge)/credit to the Income Statement for the year	(85)	685	114	-	445	-	97	1,256
(Charge)/credit to the Statement of Recognised Income and Expense	-	-	(608)	238	-	-	-	(370)
Deferred tax (liability)/asset as at 30 September 2009	(4,859)	(175)	3,149	176	827	-	143	(739)
Credit/(charge) to the Income Statement for the year	127	640	(101)	-	(681)	1,558	(143)	1,400
(Charge)/credit to the Statement of Recognised Income and Expense	-	-	(522)	5,381	-		-	4,859
Exchange differences	-	(52)	29	7	41	28	-	53
Deferred tax (liability)/asset as at 30 September 2010	(4,732)	413	2,555	5,564	187	1,586	-	5,573

8. INCOME TAXES *(continued)*

Company	Accelerated tax depreciation €'000	Retirement benefits obligations €'000	Cash flow hedges €'000	Total €'000
Deferred tax asset/(liability) as at 1 October 2008	25	3,070	(62)	3,033
Credit to the Income Statement for the year	394	105	-	499
(Charge)/credit to the Statement of Recognised Income and Expense	-	(682)	238	(444)
Deferred tax asset as at 30 September 2009	419	2,493	176	3,088
Credit/(charge) to the Income Statement for the year	941	(57)	-	884
Credit to the Statement of Recognised Income and Expense	-	119	3,679	3,798
Deferred tax asset as at 30 September 2010	1,360	2,555	3,855	7,770

Analysis of deferred tax assets/(liabilities) by tax jurisdiction:

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Ireland	9,318	3,088	7,770	3,088
UK	(3,745)	(3,827)	-	-
Net deferred tax asset/(liability)	5,573	(739)	7,770	3,088

9. COMPANY INCOME STATEMENT

As permitted by section 148(8) of the Companies Act, 1963 and section 7(1A) of the Companies (Amendment) Act, 1986 the Parent Company is availing of the exemption from presenting its separate Income Statement in these Financial Statements. The consolidated profit for the year to 30 September 2010 includes a profit attributable to the Company of €12,923,000 (2009: €8,275,000). They have been prepared in accordance with those IFRS standards adopted by the EU and effective for accounting periods ending on or before 30 September 2010.

Notes to the Financial Statements

10. INTANGIBLE ASSETS

Group	Goodwill €'000	Licence Agreements €'000	Total €'000
Cost			
Balance as at 1 October 2008	-	-	-
Acquisition of businesses	8,249	17,051	25,300
Exchange differences	135	304	439
Balance as at 30 September 2009	8,384	17,355	25,739
Acquisition of businesses – Section 75 indemnity	(4,406)	-	(4,406)
Exchange differences	567	1,172	1,739
Balance as at 30 September 2010	4,545	18,527	23,072
Accumulated Impairment Losses			
Balance as at 1 October 2008 and 30 September 2009	-	-	-
Impairment charge	942	997	1,939
Balance as at 30 September 2010	942	997	1,939
Carrying amount as at 30 September 2010	**3,603**	**17,530**	**21,133**
Carrying amount as at 30 September 2009	8,384	17,355	25,739

At the Balance Sheet date, the value of capitalised goodwill and licence agreements was allocated to the Group's cash-generating units (CGUs) to assess possible impairment. A summary of intangible asset allocation by principal CGU, before recognition of any impairment to the assets, is as follows:

	30 Sep 2010 €'000	30 Sep 2009 €'000
SONI TSO	18,289	20,404
SEMO	4,783	5,335
Total	23,072	25,739

The recoverable amount of the intangible assets allocated to a CGU has been determined by value in use calculations, which use budgets and forecasts covering the period to 30 September 2015. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and anticipated regulatory recoveries arising from price controls.

The key assumptions used within the calculations include:

- SONI TSO and SEMO profitability levels have been based on anticipated regulatory recoveries;
- Discount rates of 5.31% and 5.52% have been assumed for the SEMO and SONI TSO CGUs;
- Growth rate of 2.0% assumed into perpetuity, reflecting management's expectation for long-term growth.

At 30 September 2010, before impairment testing, goodwill of €0.9m and licence agreements of €3.8m were allocated to SEMO, which derives its revenue acting as the Market Operator for the wholesale electricity market on the island of Ireland. On the basis of the above assumptions the Directors have concluded that there is an impairment to goodwill of €0.9m and an impairment of €1.0m to licence agreements. This impairment loss is recognised within operating costs in the Consolidated Income Statement.

Impairment testing is dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows, the discount rates applied to those cash flows and the expected long term growth rates. The Group has conducted a sensitivity analysis on the impairment test of each of the CGU's carrying values. An increase in the discount rate of 0.5% would result in a further impairment to the value of licences in the SEMO CGU of €0.6m. An increase in the discount rate of approximately 1.7% would be required before an impairment would be required in the SONI CGU.

11. INVESTMENT IN SUBSIDIARIES

Company	30 Sep 2010 €'000	30 Sep 2009 €'000
Investment in subsidiaries	32,676	-

Movements in the year relate to the incorporation of and investment in EirGrid Interconnector Limited.

During the year, the Company made a €11.0m injection of capital to EirGrid Interconnector Limited via an intercompany loan and on-lent €84.5m of debt. No interest is payable on these amounts under the intercompany loan agreement. The Company has recognised an investment of €32.7m in EirGrid Interconnector Limited, representing the present value estimate of the commercial rate of interest foregone by the Company over the life of these loans.

The Group's subsidiaries, all of which are wholly owned, are:

Subsidiary	Country of Incorporation	Primary Activity
EirGrid UK Holdings Limited	Northern Ireland	Holding company
SONI Limited	Northern Ireland	TSO
EirGrid Interconnector Limited	Ireland	Interconnection

EirGrid UK Holdings Limited and EirGrid Interconnector Limited are owned directly by the Company. SONI Limited is owned by EirGrid UK Holdings Limited.

EirGrid plc and EirGrid Interconnector Limited are parties to certain financing agreements regarding the construction of the East-West Interconnector which effectively require approval from lending banks for any distributions from EirGrid Interconnector Limited to EirGrid plc.

The registered office of EirGrid Interconnector Limited is The Oval, 160 Shelbourne Road, Ballsbridge, Dublin 4.

The registered office of EirGrid UK Holdings Limited and SONI Limited is Castlereagh House, 12 Manse Road, Belfast.

Notes to the Financial Statements

12. PROPERTY, PLANT & EQUIPMENT

Group	Land and Buildings * €'000	Fixtures & fittings €'000	IT, telecomm-unications equipment & other €'000	Single Electricity Market ** €'000	Assets under Construction *** €'000	Total €'000
Cost						
Balance as at 1 October 2008	9,865	1,211	29,856	34,237	16,217	91,386
Additions	370	59	7,544	2,285	24,781	35,039
Acquired through business combinations	1,048	14	2,958	7,184	5,491	16,695
Disposals	-	-	(164)	-	-	(164)
Transfers	-	-	5,200	5,124	(10,324)	-
Exchange differences	50	-	186	-	196	432
Balance as at 30 September 2009	11,333	1,284	45,580	48,830	36,361	143,388
Additions	50	72	177	-	76,607	76,906
Disposals	-	-	(540)	-	-	(540)
Transfers	161	125	10,626	-	(10,912)	-
Exchange differences	187	2	907	579	120	1,795
Balance as at 30 September 2010	11,731	1,483	56,750	49,409	102,176	221,549
Depreciation						
Balance as at 1 October 2008	102	59	10,675	6,277	-	17,113
Charge	458	241	6,883	8,063	-	15,645
Disposals	-	-	(85)	-	-	(85)
Exchange differences	30	-	279	-	-	309
Balance as at 30 September 2009	590	300	17,752	14,340	-	32,982
Charge	475	293	7,400	10,500	-	18,668
Disposals	-	-	(438)	-	-	(438)
Exchange differences	120	-	629	393	-	1,142
Balance as at 30 September 2010	1,185	593	25,343	25,233	-	52,354
Carrying amount as at 30 September 2010	**10,546**	**890**	**31,407**	**24,176**	**102,176**	**169,195**
Carrying amount as at 30 September 2009	10,743	984	27,828	34,490	36,361	110,406

* The cost of the Group's buildings include leasehold improvements. See note 18 for details of the lease.

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

*** Assets under Construction consist of the following:

	30 Sep 2010 €'000	30 Sep 2009 €'000
IT and telecommunications equipment	3,400	3,655
East-West Interconnector project	98,776	32,706
Total	102,176	36,361

Assets under Construction include capitalised interest costs of €0.7m.

12. PROPERTY, PLANT & EQUIPMENT *(continued)*

Company	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 October 2008	9,865	1,211	29,856	34,237	16,217	91,386
Additions	363	52	777	7,102	29,927	38,221
Disposals	-	-	(164)	-	-	(164)
Transfers	1,658	-	3,484	5,286	(10,428)	-
Balance as at 30 September 2009	11,886	1,263	33,953	46,625	35,716	129,443
Additions	50	72	57	-	47,271	47,450
Disposals	-	-	(540)	-	-	(540)
Transfers (including intra-Group)	(1,533)	125	9,486	(5,207)	(79,781)	(76,910)
Balance as at 30 September 2010	10,403	1,460	42,956	41,418	3,206	99,443
Depreciation						
Balance as at 1 October 2008	102	59	10,675	6,277	-	17,113
Charge	411	238	6,061	7,617	-	14,327
Disposals	-	-	(85)	-	-	(85)
Balance as at 30 September 2009	513	297	16,651	13,894	-	31,355
Charge	429	288	5,937	8,197	-	14,851
Disposals	-	-	(438)	-	-	(438)
Balance as at 30 September 2010	942	585	22,150	22,091	-	45,768
Carrying amount as at 30 September 2010	**9,461**	**875**	**20,806**	**19,327**	**3,206**	**53,675**
Carrying amount as at 30 September 2009	11,373	966	17,302	32,731	35,716	98,088

* The cost of the Company's buildings represents leasehold improvements. See note 18 for details of the lease.

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

*** Assets under Construction consist of the following:

	30 Sep 2010 €'000	30 Sep 2009 €'000
IT and telecommunications equipment	3,206	3,010
East-West Interconnector project	-	32,706
Total	3,206	35,716

Notes to the Financial Statements

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Amounts due in less than one year:				
Trade receivables	21,610	10,899	17,568	10,194
Prepayments and accrued income	27,146	22,214	26,917	22,087
Unbilled receivables	45,945	44,936	39,728	39,784
VAT recoverable	76	-	-	-
Other receivables	886	2,789	761	2,378
Amounts owed by subsidiary undertakings	-	-	14,369	12,160
Total	95,663	80,838	99,343	86,603
Amounts due in more than one year:				
Amounts owed by subsidiary undertakings	-	-	65,416	-
Total	95,663	80,838	164,759	86,603

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 year, which, in compliance with the regulatory timetable, had not been billed as at the respective period ends.

Group and Company prepayments and accrued income balances include deferred costs in respect of transmission projects of €24.8m (2009: €20.6m), all of which may not be recoverable within twelve months.

14. TRADE AND OTHER PAYABLES

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Trade payables	64,503	79,775	56,274	71,174
Accruals	50,579	46,820	29,004	42,310
Taxation and social welfare	3,767	6,733	3,482	5,670
Regulatory over-recoveries	9,150	2,080	9,150	2,080
Amounts owed to subsidiary undertakings	-	-	2,331	5,459
Total	127,999	135,408	100,241	126,693

Taxation and social welfare comprises of the following:

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
PAYE/PRSI	830	777	692	661
VAT	2,717	4,128	2,570	3,181
Withholding tax	220	1,828	220	1,828
Total	3,767	6,733	3,482	5,670

14. TRADE AND OTHER PAYABLES *(continued)*

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

€26.8m (2009: €33.7m) of the Group trade payables balance and €2.6m of the Group accruals balance relates to the charges payable to ESB and NIE as Transmission Asset Owners in Ireland and Northern Ireland respectively. €26.8m (2009: €29.2m) of the Company 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 and uninvoiced work performed by suppliers on the East-West Interconnector project during the final quarter of the year.

The liability in respect of regulatory over-recoveries as at 30 September 2010 relates to internal operating costs which were over-recovered in the period following the vesting of EirGrid plc in 2006. This over-recovery will be returned to customers over the 2011 tariff period. The over-recovery occurred in the context of regulatory uncertainty surrounding internal operating costs arising on the vesting of EirGrid plc and the fundamental change in market design. The CER issued the instruction that the sum of €9.2m is to be returned to customers.

The €2.1m liability in respect of regulatory over-recoveries as at 30 September 2009 related to costs which were over-recovered during 2007 and which were returned to customers over the 2008, 2009 and 2010 tariff periods. 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 1 November 2007. The CER issued an instruction that the sum of €35.4m was to be returned to customers. The remaining €2.1m was returned in the year to 30 September 2010 (2009: €8.3m). No liability exists at 30 September 2010.

15. DEFERRED INCOME

Group	**€'000**
Capital Grants	
Balance as at 1 October 2008 and 30 September 2009	-
Grants received	2,318
Balance as at 30 September 2010	2,318

Analysed as:	**€'000**
Current	-
Non-current	2,318
Balance as at 30 September 2010	2,318

Capital grants received during the year were related to the East-West Interconnector project. There are no unfulfilled conditions or other contingencies attaching to capital grants received.

16. ISSUED SHARE CAPITAL

Group and Company	**30 Sep 2010 €'000**	**30 Sep 2009 €'000**
Authorised:		
30,000 ordinary shares of €1.25 each	38	38
Allotted, called-up and fully paid:		
30,000 ordinary shares of €1.25 each	38	38

The Company has one class of ordinary share which carries no right to fixed income.

Notes to the Financial Statements

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Cash and cash equivalents	114,373	153,904	78,796	141,464

Cash and cash equivalents primarily comprises cash held by the Group 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 relatively high credit-ratings assigned by international credit-rating agencies or banks where customer deposits are Government guaranteed.

Included in the Group and Company cash balances are amounts of €9.2m (2009: €2.1m) relating to the regulatory over-recoveries payable at year end (note 14) and security deposits of €0.8m (2009: €0.9m). Included in the Group's cash balances is a further €2.7m (2009: €28.1m) held on trust for market participants in the SEM and €10.7m (2009: €4.1m) held in SEM collateral reserve accounts (security accounts held in the name of market participants), with an equivalent amount included in trade payables. Included in the Company's cash balances is €2.0m (2009: €21.1m) held on trust for market participants in the SEM and €8.0m (2009: €3.1m) held in SEM collateral reserve accounts (security accounts held in the name of market participants), with an equivalent amount included in trade payables.

During the year, the Company entered into two non-cash transactions which are shown net in the Company statement of cash flows as an investment in a subsidiary. The Company disposed of property plant and equipment to its subsidiary EirGrid Interconnector Limited for proceeds of €72.6 million and advanced an interest free loan of €84.5m to EirGrid Interconnector Limited.

The Group had unutilised borrowing facilities of €447.7m (2009: €85.9m) at the Balance Sheet date. The majority of these unutilised borrowings have been arranged in order that the Group has sufficient facilities in place to fund the East-West Interconnector project.

18. OPERATING LEASE ARRANGEMENTS

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

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Not longer than one year	2,661	2,685	2,661	2,685
Longer than one year and not longer than five years	10,494	10,490	10,494	10,490
Longer than five years	29,760	32,366	29,760	32,366
Total	42,915	45,541	42,915	45,541

The operating lease for the Group's office building is for a term of 25 years which commenced on 1 March 2007. There was 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 Group's vehicle fleet are typically for terms of 4 years per vehicle.

19. CAPITAL COMMITMENTS

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Expenditure contracted for, but not provided for in the Financial Statements	337,832	18,570	-	18,570

The Group has significant contractual commitments arising from the East-West Interconnector, a project to link the electricity grids of Ireland and Britain. The estimated total capital spend on the project is €601m.

During the year, the East-West Interconnector asset under construction was transferred from the Company to another Group subsidiary, EirGrid Interconnector Limited. The Company has entered into a contract with EirGrid Interconnector Limited to lease the East-West Interconnector asset once construction is completed.

20. CONTINGENT LIABILITIES

The Group has issued a letter of credit of €2.5m in respect of its commitments to the East-West Interconnector project. The Group does not expect any material loss to arise from this contingent liability.

21. RETIREMENT BENEFITS OBLIGATIONS

The Group operates a defined benefit pension plan for employees of the Company and the Executive Director ("EirGrid plan"). A second defined benefit pension plan ("SONI Focus plan") is operated for employees of SONI Limited. Retirement benefits payable are based on salary and length of service.

The most recent actuarial valuations of the assets and the present value of the defined benefit obligations were carried out at 30 September 2010 for both the EirGrid plan and the SONI Focus plan, under the requirements of International Accounting Standard 19: Employee Benefits (IAS 19). The present values of the defined benefit obligations, and the related current service costs and past service costs, were measured using the Projected Unit Credit Method.

The amount included in the Balance Sheet arising from the obligations in respect of these defined benefit plans are as follows:

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Present value of funded defined pension obligations	74,205	65,285	56,276	48,168
Fair value of plan assets	(53,772)	(42,997)	(35,843)	(28,218)
Net liability before deferred tax	20,433	22,288	20,433	19,950
Deferred tax on net pension obligation (note 8)	(2,555)	(3,149)	(2,555)	(2,493)
Net liability after deferred tax	17,878	19,139	17,878	17,457

Notes to the Financial Statements

21. RETIREMENT BENEFITS OBLIGATIONS *(continued)*

The amounts in the Income Statement may be analysed as follows:

	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Current service cost	3,875	3,635
Interest cost	3,648	3,149
Expected return on plan assets	(2,681)	(1,926)
Employer pension cost capitalised	(821)	(786)
Amount included in other operating costs (note 4)	4,021	4,072

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

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Actuarial gains/(losses)	1,419	5,060	(955)	5,218
Amount included in the Statement of Recognised Income and Expense	1,419	5,060	(955)	5,218

Movements in the present value of the defined benefit obligations in the current year were as follows:

	EirGrid plan		SONI Focus plan	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Opening defined benefit obligation	48,168	47,188	17,117	-
Assumed through business combinations	-	-	-	12,477
Current service cost including employee contributions	4,561	4,656	775	290
Interest cost	2,643	2,708	1,006	441
Actuarial losses/(gains)	1,152	(6,207)	(2,085)	3,834
Benefits paid	(247)	(177)	-	-
Benefits received	-	-	-	-
Exchange differences	-	-	1,115	75
Closing defined benefit obligation	56,277	48,168	17,928	17,117

21. RETIREMENT BENEFITS OBLIGATIONS *(continued)*

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

	EirGrid plan		SONI Focus plan	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Opening fair value of plan assets	28,218	22,633	14,779	-
Acquired through business combinations	-	-	-	10,429
Expected return on plan assets	1,857	1,623	824	303
Gains/(losses) on plan assets	197	(989)	289	3,676
Employer contributions	4,473	3,881	961	260
Employee contributions	1,346	1,247	116	64
Benefits paid	(247)	(177)	-	-
Benefits received	-	-	-	-
Exchange differences	-	-	959	47
Closing fair value of plan assets	35,844	28,218	17,928	14,779

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

	EirGrid plan		SONI Focus plan	
	30 Sep 2010	30 Sep 2009	30 Sep 2010	30 Sep 2009
Valuation method	Projected Unit	Projected Unit	Projected Unit	Projected Unit
Discount rate	4.25%	5.50%	5.30%	5.50%
State pension increase	2.50%	3.50%	3.40%	3.25%
Salary increases	2.50%	3.50%	4.40%	4.75%
	plus scale	plus scale		
Pension increases	2.50%	3.50%	3.40%	3.25%
Inflation	1.75%	2.50%	3.40%	3.25%
Post-retirement life expectancy for those retiring at age 65:				
- Men	24.0 years	24.0 years	22.0 years	24.1 years
- Women	26.4 years	26.4 years	24.2 years	26.6 years

The discount rate used by the plan actuaries in the calculation of the pension liabilities at the year end were 4.25% (2009: 5.50%) for the EirGrid plan and 5.30% (2009: 5.50%) for the SONI Focus plan. The EirGrid plan discount rate was based on the redemption yield on Euro denominated corporate bonds with an approximate duration of 20 years (2009: 20 years). The SONI Focus plan discount rate was based on the redemption yield on Sterling denominated corporate bonds with an approximate duration of 20 years (2009: 15 years). The Directors believe that this is consistent with the estimated term of the post-retirement benefit obligations.

There are inherent uncertainties surrounding the financial and demographic assumptions adopted by the Group. As an indication of the impact of changes in actuarial assumptions, a 50 basis point decrease in discount rates would increase the net pension plan liability by approximately 42%.

Notes to the Financial Statements

21. RETIREMENT BENEFITS OBLIGATIONS *(continued)*

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

EirGrid plan	Expected Return		Fair Value	
	30 Sep 2010 %	30 Sep 2009 %	30 Sep 2010 €'000	30 Sep 2009 €'000
Equities	7.00%	7.00%	23,334	16,958
Government bonds	3.70%	4.00%	4,770	4,477
Corporate bonds	4.25%	5.50%	4,157	4,053
Property	5.50%	5.50%	974	713
Cash	2.50%	3.00%	2,609	2,017
Fair value of plan assets			35,844	28,218

SONI Focus plan	Expected Return		Fair Value	
	30 Sep 2010 %	30 Sep 2009 %	30 Sep 2010 €'000	30 Sep 2009 €'000
Equities	7.00%	5.50%	6,443	11,701
Bonds	3.70%	4.00%	11,008	2,925
Cash	2.50%	0.50%	477	153
Fair value of plan assets			17,928	14,779

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

The actual return on Group scheme assets was €2.8m. The actual return on the EirGrid plan scheme assets was €1.8m.

During the year ending 30 September 2011 the Group expects to contribute approximately €5.2m to its defined benefit plans.

The history of experience adjustments is as follows:

	2010 €'000	2009 €'000	2008 €'000	2007 €'000	2006 €'000
Present value of defined benefit obligation	74,205	65,285	47,188	43,564	39,149
Fair value of plan assets	(53,772)	(42,997)	(22,633)	(25,077)	(18,187)
Deficit	20,433	22,288	24,555	18,487	20,962
Experience adjustments on plan liabilities	933	2,373	1,064	2,215	(1,164)
Experience adjustments on plan assets	486	2,687	(6,296)	1,820	1,171

The Group has an unrecognised pension asset of €0.05m. This pension asset has not been recognised as it is not believed that a refund will be available from the plan, nor will the pension asset result in a reduction to future contributions.

As the SONI Focus plan has been closed to new members since 1998, the Group also operates an approved defined contribution scheme, "SONI Options plan" for employees of SONI Limited. Contributions are paid by the members and employer at fixed rates. The benefits secured at retirement reflect each employee's accumulated fund and the cost of purchasing benefits at that time. Death benefits are insured on a group basis and may be paid in the form of a lump sum and/or survivor's pension. The assets of the scheme are held in a separate trustee administered fund. The pension charge for the year represents the defined employer contribution and amounted to €0.1m (2009: €0.1m).

22. INTEREST IN JOINT VENTURE

Group

The Group achieved control of SEMO through its acquisition of SONI Limited on 11 March 2009. From the effective date of the acquisition 100% of the results of SEMO are included in the Consolidated Income Statement.

Company

The Single Electricity Market (SEM) is the wholesale electricity market operating in Ireland and Northern Ireland, which came into operation on 1 November 2007. On that date the old wholesale electricity market in Ireland ceased and the new SEM commenced. SEMO was established as the contractual joint venture between the Company and SONI Limited responsible for the operation of the wholesale electricity market for the island of Ireland from 1 November 2007 onwards.

The Company has a 75% interest in SEMO. The Company's share of assets, liabilities, income and expenses has been included in the Company Financial Statements using the proportionate consolidation method.

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

	30 Sep 2010 €'000	30 Sep 2009 €'000
Property, plant and equipment	20,924	25,890
Current assets	23,634	28,590
Total assets	44,558	54,480
Total equity	4,427	2,663
Current liabilities	40,131	51,817
Total liabilities	40,131	51,817
Total equity and liabilities	44,558	54,480

	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Revenue	89,895	110,310
Expenses	(88,137)	(106,937)
Operating profit	1,758	3,373

23. BORROWINGS

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Repayable within one year:				
Bank overdrafts	2,811	142	2,811	142
Bank loans repayable by instalments	13,518	73,480	8,822	69,072
Total current borrowings	16,329	73,622	11,633	69,214

Notes to the Financial Statements

23. BORROWINGS *(continued)*

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Repayable after more than one year by instalments:				
Between one and two years	13,519	13,230	8,822	8,822
Between two and five years	34,746	33,538	14,295	16,145
In five years or more	83,104	3,484	77,524	-
Total non-current borrowings	131,369	50,252	100,641	24,967
Total borrowings outstanding	147,698	123,874	112,274	94,181

All borrowings by subsidiaries are guaranteed by EirGrid plc through a cross-guarantee structure. Bank loans are unsecured loans. A proportion of the loans have been converted from floating interest rate to fixed interest rate by using interest rate swap contracts, see note 25 for further details.

24. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Financial assets classified as loans and receivables:				
Trade receivables	21,610	10,899	17,568	10,194
Amount owed by subsidiary undertakings	-	-	79,785	12,160
Cash and cash equivalents	114,373	153,904	78,796	141,464
Total	135,983	164,803	176,149	163,818
Financial assets fair valued through profit and loss:				
Derivative financial instruments	-	1,732	-	1,732
Total	135,983	166,535	176,149	165,550
Financial liabilities classified as other liabilities:				
Trade payables	64,503	79,775	56,274	71,174
Amount owed to subsidiary undertakings	-	-	2,331	5,459
Borrowings and bank overdrafts	147,698	123,874	112,274	94,181
Total	212,201	203,649	170,879	170,814
Financial liabilities designated as hedging instruments:				
Derivative financial instruments	43,815	1,404	31,434	1,404
Total	256,016	205,053	202,313	172,218

24. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of the Group's and Company's interest rate swaps at the reporting date are determined by discounting the future cash flows using market observable interest rate curves at the reporting date and hence are considered to be Level 2 instruments. There have been no transfers between valuation levels during the year.

25. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Capital management

The Company, on vesting of the transmission system operator, had capital introduced under the Transfer Scheme dated 1 July 2006. This capital forms the core capital of the Company. There have been no changes to the core capital of the Company during the year. Any changes to the capital structure are subject to approval of the Department of Communications, Energy and Natural Resources.

The Company is funded on an ongoing basis through the regulatory tariff regime. The Company has put in place bank facilities to manage liquidity and cash flow to allow for timing mismatches between regulatory tariff receipts and working capital requirements. Significant capital expenditure projects are funded through external borrowings and subject to approval by the Department.

The Company's borrowing powers are set through legislation and individual borrowings are subject to approval by the Department. On 14 March 2008, the Electricity Regulation (Amendment) (EirGrid) Act 2008 was signed into Irish Law. Primarily this Act empowered the Company to construct the East-West Interconnector and also increased the borrowing powers of the Company to a limit of €750m.

The Company's policy is to secure a low, stable, acceptable cost of funds over time, subject to acceptable levels of risk. The Company also maintains a balanced maturity profile in relation to its core borrowing portfolio so as to avoid peaked repayments and refinancing risk.

During the year, the Company entered into a number of new borrowing facilities for the East-West Interconnector project. Further details of the borrowing facilities and the related hedging strategies are set out below.

Overview of financial risk management

The Group's funding, liquidity and exposure to interest and foreign exchange rate risks are managed by the Group's treasury and accounting department. Policies to protect the Group from these and other risks are regularly reviewed and approved by the Board.

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

The Group 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 the Northern Ireland Authority for Utility Regulation (NIAUR) and through internal budgeting and monitoring of variances. The Group has negotiated stand-by facilities with banks to support cash flow projections and requirements.

For capital expenditure, the Group has in place key expenditure approval and project management processes.

Credit risk management

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts. The Group mitigates its exposure by spreading funds across a number of financial institutions which have a sovereign guarantee on customer deposits or have a credit rating consistent with the treasury policy approved by the Board. The Group is also exposed to counterparty risk on undrawn facilities and interest rate swap instruments. The Group deals only with counterparties with high credit ratings to mitigate this risk.

The maximum exposure to credit risk is represented by the carrying amounts in the Balance Sheet.

Notes to the Financial Statements

25. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

The Company discharges its Market Operator obligations through a contractual joint venture with SONI Limited. 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. SEMO trade debtors included in Group trade debtors as at 30 September 2010 were €2.2m (2009: €2.2m). SEMO trade debtors included in Company trade debtors as at 30 September 2010 were €1.6m (2009: €1.7m).

The average credit period on trade receivables is two months. Included in the trade receivable balance are debtors which are past due at the reporting date which have not been provided as the amounts are still considered recoverable. The ageing profile of these past due but not impaired balances is:

	Group		Company	
	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
60 to 90 days	10	879	10	879
90 to 120 days	-	-	-	-
Greater than 120 days	1,519	4,953	1,519	4,953
Total	1,529	5,832	1,529	5,832

The credit quality of Group and Company financial assets that are neither past due nor impaired is considered good.

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 Group's short, medium and long-term funding and liquidity management requirements. The Group 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 Group 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. Where the Group or Company cause the late payment of an invoice, interest is paid to the supplier.

The Group has access to funding facilities, the total unutilised amount of which was €447.7m at the Balance Sheet date. The majority of these unutilised borrowings have been arranged in order that the Group has sufficient facilities in place to fund the East-West Interconnector project. The Group expects to meet its other obligations from operating cash flows.

The following table details the Group'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 Group can be required to pay. The table includes both interest and principal cash flows.

Group	Less than 1 month €'000	1 to 12 months €'000	1 to 5 years €'000	5+ years €'000	Total €'000
30 Sep 2010					
Non interest bearing – trade payables	64,503	-	-	-	64,503
Borrowings and bank overdrafts	2,811	18,970	67,890	123,195	212,866
Total	67,314	18,970	67,890	123,195	277,369
30 Sep 2009					
Non interest bearing – trade payables	79,775	-	-	-	79,775
Borrowings and bank overdrafts	240	76,860	51,107	3,609	131,816
Total	80,015	76,860	51,107	3,609	211,591

25. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

Company	Less than 1 month €'000	1 to 12 months €'000	1 to 5 years €'000	5+ years €'000	Total €'000
30 Sep 2010					
Non interest bearing – trade payables	56,274	-	-	-	56,274
Borrowings and bank overdrafts	2,811	13,439	37,697	110,636	164,583
Total	59,085	13,439	37,697	110,636	220,857
30 Sep 2009					
Non interest bearing – trade payables	71,174	-	-	-	71,174
Borrowings and bank overdrafts	240	71,608	26,634	-	98,482
Total	71,414	71,608	26,634	-	169,656

Market Risk

Commodity price risk management

The Group and Company were exposed to changes in commodity prices during the year, principally copper prices, through their contractual commitment to undertake the East-West Interconnector project. The Group and Company used a copper option to manage the commodity price risk arising from their commitment to the project. Under the terms of the commodity option, the Group and Company had the option to purchase copper at a specified price, on or before 31 October 2010. This option enabled the Group and Company to partially mitigate the risk on the commodity price exposure arising from their commitment to the East-West Interconnector project. The transaction was non-speculative.

The Group's call position on copper was offset to nil during the year to 30 September 2010 by entering into an equal and opposite copper put option following granting of final notice to proceed on the East-West Interconnector project. Changes in forward copper prices resulted in the Group and Company recognising a gain within operating expenses of €784,000 on reduction of the copper call position.

The following option was in place at the year end:

	30 Sep 2010 €'000	30 Sep 2009 €'000
Derivatives that are fair valued through the Income Statement:		
Commodity contract asset	-	1,732
Notional volume of commodity	-	5,568 Metric Tonnes

Commodity price sensitivity analysis

The sensitivity analyses below have been determined based on the combined exposure to commodity prices for copper and the Group's and Company's copper option at the Balance Sheet date. A 20% price increase or decrease is used when reporting commodity price risk and represents management's assessment of reasonably possible changes in copper prices.

If copper prices had been 20% higher or lower and all other variables were held constant, there would have been no impact on the Group's and Company's profit for the year to 30 September 2010 (2009: profit would increase or decrease by €1.8m and €1.3m respectively), as a result of changes in the fair value of its copper option.

Interest rate risk management

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

Notes to the Financial Statements

25. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

The following interest rate swap contracts were in place at the year end:

Group	Average contracted interest rate		Notional principal amount		Interest rate swap asset/ (liability)	
Derivatives that are designated and effective as hedging instruments carried at fair value, expiring in:	30 Sep 2010 %	30 Sep 2009 %	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Between two and five years	4.0%	4.0%	22,167	30,189	(936)	(1,404)
In five years or more	3.8%	-	97,122	-	(41,773)	-
Total active swap contracts	3.8%	4.0%	119,289	30,189	(42,709)	(1,404)
Total forward starting swap contracts	4.8%	4.8%	-	-	(1,106)	-
Total swap contracts	3.8%	4.0%	119,289	30,189	(43,815)	(1,404)

Company	Average contracted interest rate		Notional principal amount		Interest rate swap asset/ (liability)	
Derivatives that are designated and effective as hedging instruments carried at fair value, expiring in:	30 Sep 2010 %	30 Sep 2009 %	30 Sep 2010 €'000	30 Sep 2009 €'000	30 Sep 2010 €'000	30 Sep 2009 €'000
Between two and five years	3.8%	4.0%	22,167	30,189	(936)	(1,404)
In five years or more	4.0%	-	84,496	-	(30,498)	-
Total active swap contracts	3.8%	4.0%	106,663	30,189	(31,434)	(1,404)

The Group entered into two swap contracts in September 2009 which have a start date in 2011. Such contracts enable the Group to partially mitigate the risk of future cash flow exposure to variable rate interest on its borrowings.

The Group entered into four new interest rate swap contracts in May 2010, of which two are held by the Company, to manage the interest rate risk arising on the new borrowing facilities agreed for the East-West Interconnector project.

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

The Group's and Company's interest rate swaps settle between a three and six monthly basis. The Group and Company will pay or receive 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 Group's and 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 reasonably possible changes in interest rates.

25. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

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

- Profit for the year to 30 September 2010 would have been impacted by €0.3m (2009: €0.3m); and
- Other equity reserves would have been impacted by €42.0m (2009: €0.4m), mainly as a result of changes in the fair value of its cash flow hedges.

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

- Profit for the year to 30 September 2010 would have been impacted by €nil (2009: €0.3m); and
- Other equity reserves would have been impacted by €27.8m (2009: €0.4m), mainly as a result of changes in the fair value of its cash flow hedges.

Foreign currency exchange risk management

The Group is exposed to foreign currency risk through the operations of its two subsidiaries incorporated in Northern Ireland, which have a Sterling functional currency and through Sterling capital expenditure on the East-West Interconnector project. This risk is partially mitigated by the majority of both revenue and expenditure from UK operations being denominated in Sterling. The Group has sought to further reduce this exposure by funding Northern Irish operations using Sterling borrowings.

Foreign currency exchange sensitivity analysis

The sensitivity analyses below have been determined based on the Group's exposure to its Sterling operations as at the Balance Sheet date. The SONI TSO segment recorded an operating profit of €1.6m during the year to 30 September 2010 (2009: operating loss of €0.3m). A 20% increase or decrease has been used when reporting foreign currency exchange risk and represents management's assessment of reasonably possible changes in exchange rates.

If exchange rates had been 20% higher/lower and all other variables were held constant, the Group's profit before tax for the year to 30 September 2010 would be impacted by €0.1m (2009: €0.2m).

26. RELATED PARTY TRANSACTIONS

Group

The Group has voluntarily adopted the provisions of IAS 24 (2009) Related Parties, with effect from 1 October 2009, as the Directors believe that the adoption of the Standard will provide users with reliable and more relevant information regarding related party transactions. IAS 24 (2009) is a revision to IAS 24, which requires disclosure of transactions and outstanding balances with related parties, to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

EirGrid plc is an Irish commercial semi-state organisation, and as such is a related party of the Government of Ireland. Bernie Gray, Dermot Byrne and Niamh Cahill hold one share each in the share capital of the Company on behalf of the Minister for Finance, one ordinary share of the Company 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.

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

In common with many other entities, the Group deals in the normal course of business with other Government sponsored bodies such as ESB.

Notes to the Financial Statements

26. RELATED PARTY TRANSACTIONS *(continued)*

An Infrastructure Agreement is in place between the Group 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 Consolidated and Company Income Statements under this Agreement were as follows:

	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Transmission asset owner charge	144,614	153,889

At 30 September 2010 a total of €26.8m (2009: €29.2m) was payable to ESB under this Agreement. The movement in this balance was as follows:

	30 Sep 2010 €'000	30 Sep 2009 €'000
Opening balance	29,154	29,009
Charges during the year	144,614	153,889
Payments made during the year	(147,011)	(153,744)
Closing balance	26,757	29,154

This outstanding balance is unsecured and payable in cash and cash equivalents.

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

	Year to 30 Sep 2010 €'000	Year to 30 Sep 2009 €'000
Short-term benefits	1,768	1,779
Post-employment benefits	258	199
Total	2,026	1,978

Company

At 30 September 2010 €79.8m (2009: €12.2m) was due to the Company from its subsidiaries.

During the year, the Company made a €11.0m injection of capital to EirGrid Interconnector Limited via an intercompany loan and on-lent €84.5m of debt. The terms of these intercompany loan agreements are such that intercompany balances may only be repaid once commercial funding has been repaid. The Company has recognised an investment of €32.7m in EirGrid Interconnector Limited, representing the present value estimate of the commercial rate of interest foregone by the Company over the life of these loans (note 11). Over the life of these loans notional interest will be charged to EirGrid Interconnector Limited such that by the repayment date the balances reflect the initial amounts lent. During the year, €0.6m was recharged under this arrangement, with €0.4m accrued in EirGrid Interconnector Limited.

The Company has entered into a contract with another Group subsidiary, EirGrid Interconnector Limited, to lease the East-West Interconnector asset once construction is completed.

27. APPROVAL OF FINANCIAL STATEMENTS

The Board approved the Financial Statements on 15 December 2010.

Glossary

APEx – Association of Power Exchanges
CCGT – Combined Cycle Gas Turbine
CER – Commission for Energy Regulation
CGU – Cash Generating Unit
CIGRE – International Council on Large Electric Systems
CRM – Credit Risk Management
CSR – Corporate and Social Responsibility
DETI – Department of Enterprise, Trade and Investment
DSO – Distribution System Operator
EEPR – European Energy Programme for Recovery
EMS – Energy Management System
ENTSO-E – European Network of Transmission System Operators for Electricity
EWIC – East West Interconnector
HAS – Harmonised Ancillary Services
HTLS – High-Temperature Low-Sag
HVDC – High Voltage Direct Current
IBEC – Irish Business and Employers Confederation
IFRS – International Financial Reporting Standards
IWEA – Irish Wind Energy Association
kV – Kilovolts
MEC – Maximum Export Capacity
MO – Market Operator
MOUG – Market Operator User Group
MW – Megawatt
MWh – Megawatt Hours
NCC – National Control Centre
NIAUR – Northern Ireland Authority for Utility Regulation
PAC – Planning Appeals Commission
RIDP – Renewable Integration Development Project
SEAI – Sustainable Energy Authority of Ireland
SEM – Single Electricity Market
SEMO – Single Electricity Market Operator
SMP – System Marginal Price
SONI – System Operator Northern Ireland
SSS – System Support Services
TSC – Trading and Settlement Code
TSO – Transmission System Operator
TUoS – Transmission Use of System
TW – Terawatt
TWh – Terawatt hours
WACC – Weighted Average Cost of Capital
WPDRS – Winter Peak Demand Reduction Scheme
WSAT – Wind Security Assessment Tool

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