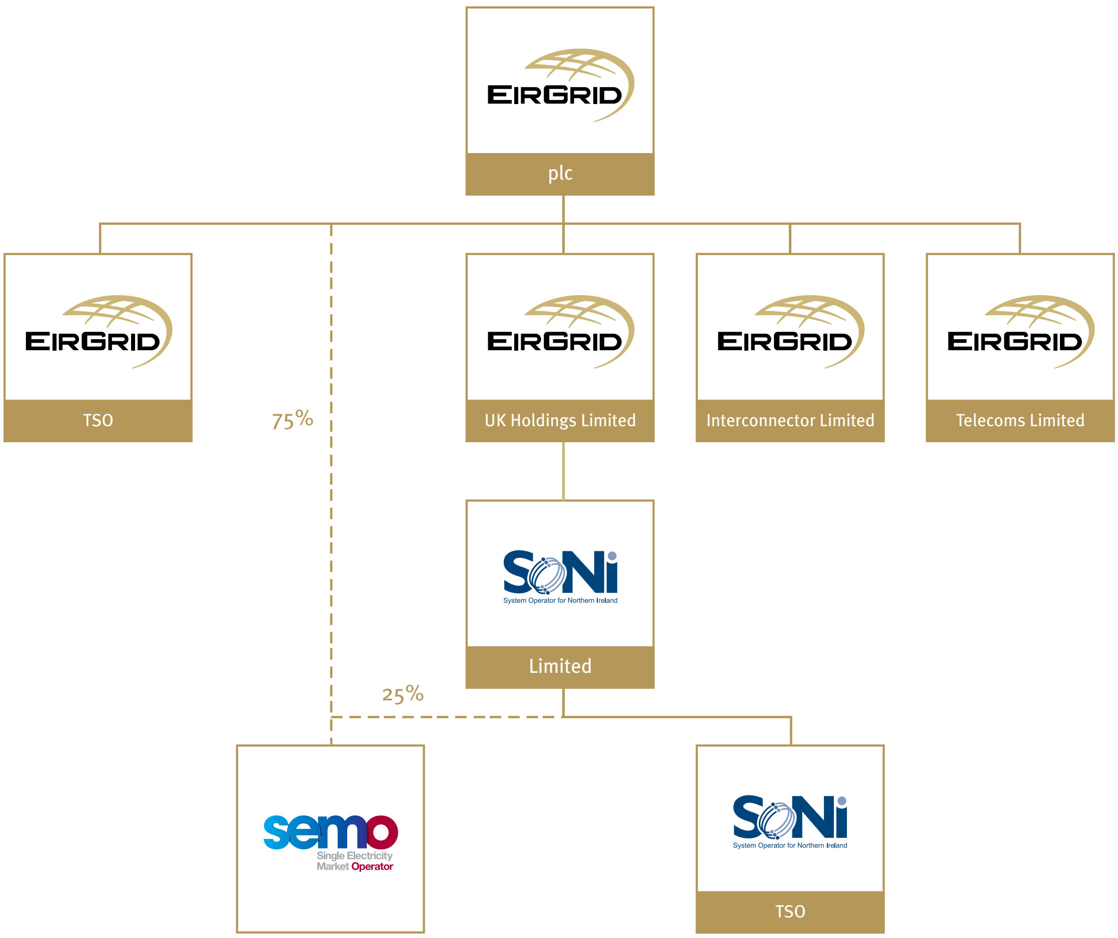
EirGrid plc

Annual Report 2011

Securing Ireland's Electricity Supply

Group Structure



The EirGrid Interconnector Project is co-financed by the European Union.

Co-financed by the European Union
European Energy Programme for Recovery

European Energy Programme for Recovery

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 developer and operator.

Contents


220kV double circuit transmission line

Chairperson's Report

I am pleased to present EirGrid's Annual Report for the 12 months ended 30 September 2011, a year in which EirGrid Group had significant achievements in its areas of responsibility in Ireland and Northern Ireland, against the background of continued uncertain times for our customers and for the economies of both jurisdictions.

The Group comprises EirGrid as Transmission System Operator in Ireland, SONI as Transmission System Operator in Northern Ireland, and SEMO as the Single Electricity Market Operator across the island of Ireland.

The last year has been a difficult one for our direct customers in the electricity industry and for the 2.5 million consumers of power in the household, SME and farming sectors across the island. This underlines the importance of our commitment to delivering high quality services efficiently and on a cost effective basis, as Transmission System Operator in Ireland and in Northern Ireland, and in operating the Single Electricity Market (SEM).

2011 saw the continued development of EirGrid as a mature company, with an enhanced capacity to deliver major infrastructure projects successfully. The year saw significant progress in the implementation of our grid development strategy, Grid25, with approximately 80km of new circuits completed and over 300km of existing circuits upgraded. The East West Interconnector Project (EWIC) which is co-financed by the European Union, also progressed significantly, in line with scheduled development plans and it remains on track for delivery in 2012. The implementation of these projects is vital for attracting inward investment, for providing essential services in all regions, and for integrating our significant renewable resources.

The electricity sector in Ireland, Northern Ireland and Europe continues to change. This is being driven by developments in environment and regulatory requirements, economic pressures and technological advancements. The European dimension of EirGrid's work is a vital and growing area and we work closely with our colleagues in the European Network of Transmission System Operators for Electricity (ENTSO-E), and with officials of the European Commission, and other organisations, on network planning, on meeting national and European renewables targets and on the opportunities for further interconnection. This involvement at European level has helped successfully position EirGrid and the island at the centre of important decisions on the future of electricity transmission.

In these challenging times in the economic sphere, the work of EirGrid, SONI and SEMO is even more vital. It is absolutely essential to ensure that the "lights stay on" and that revenue in the wholesale market flows and we continue to focus on these fundamental areas. The assurance our work provides in system operation and market operation is a strong platform for future economic growth and development, and inward investment in Ireland and Northern Ireland.

2012 will see the regulatory authorities and the European Commission deciding on the structure of the industry in order to ensure fair and transparent competition in Ireland and Northern Ireland.

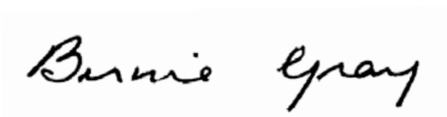
In Ireland, the Government announced its policy position during 2011 on the ownership of the transmission assets. This will now be followed by a certification process, with the Regulatory Authorities and the EU Commission, to examine whether the arrangements meet the independence requirements of the EU's Third Energy Package. In Northern Ireland there is a similar certification process underway with regards to the arrangements there. EirGrid Group will fully participate in these regulatory and certification processes, in line with its role as the System Operator in both Ireland and Northern Ireland.

The support of policy makers and our shareholder is critical in our work and I would like to thank the Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD, for his clear and strong support for EirGrid in fulfilling its role in Ireland, and also to thank his officials for their work during the year. We are also grateful for the support and assistance of the Minister for Enterprise, Trade and Investment in Northern Ireland, Arlene Foster MLA, and her officials.

During 2011, five of our Board Members' terms in office concluded. These Board Members were Emer Daly, William Egenton, Cormac MacDonnchadha, David Mackey and Jane Williams. All five were exemplary in their service as Directors, displaying a very high level of commitment, hard work and expertise during their periods in office which in total amounted to over thirty five years, and on behalf of the Board and the company I thank them most sincerely. I also wish to thank all of our other Board Members, including our new Board Members Doireann Barry, Gary Healy, Regina Moran, Liam O'Halloran and Bride Rosney, who were appointed during 2011.

EirGrid's role demands hard working, expert and committed staff and management. Our staff and management continued to demonstrate their skills and commitment throughout the year and I wish to record the strong appreciation of the Board for their work.

Finally I would like to assure all our customers and stakeholders that in 2012, and in the years ahead, our commitment to top class customer service and delivery will continue.



Bernie Gray CHAIRPERSON

Cable-laying, East West Interconnector Project

Chief Executive's Review

I am proud to report that EirGrid Group delivered successfully against all of its core areas of responsibility during 2011.

These included operating the transmission systems in Ireland and Northern Ireland reliably and securely, operating the Single Electricity Market efficiently and transparently, progressing vital infrastructure projects including the East West Interconnector, facilitating growing renewable energy levels, and contributing authoritative analysis on the future of the electricity sector.

At a time of uncertainty in other spheres, secure electricity supplies are vital for all of our customers in their homes and businesses, as well as for the growth and recovery of the economies of Ireland and Northern Ireland. The Group pays the highest attention to ensuring that "the lights stay on" across the island.

Secure System Operation

EirGrid's security of supply standards were met throughout the period. During the period from January 2011 to December 2011, all island system demand totalled approximately 35 terawatt hours (TWh), representing a 3% decrease on the previous 12-month period. The all island peak system demand for 2011 of 6,383 MW occurred in December 2011. However this peak demand level was down 7% on the record all island peak system demand of 6,845 MW which occurred in December 2010, largely attributable to the extreme weather conditions experienced in that month.

Financial Results

Revenue across the Group for the financial year to 30 September 2011 increased to €470.7 million, from €443.8 million the previous year, and operating profit rose to €30.3 million, compared to €15.7 million in 2010. This increase in statutory profit largely reflects actual outturns in costs and revenues different to the assumptions made in setting EirGrid's regulated tariffs, giving rise in this instance to an over-recovery. In accordance with normal regulatory practice, this over-recovery will be corrected for in future tariffs.

The Group has continued to maintain strong banking relationships, which have enabled it to continue to invest very substantially in the East West Interconnector Project and also to manage the variable liquidity requirements associated with constraint costs in the SEM.

Customer Service

A core aim of the EirGrid Group is to deliver high quality services to all electricity customers. Our customers include generators, suppliers, and traders in Ireland and Northern Ireland, as well as large directly-connected customers who need power in large quantities and who include many well-recognised names in industry. Our customers also include all of those who rely upon the high voltage system – that means every home, small business, factory, hospital and farm on the island – as well as stakeholders, external bodies, and those who depend upon us for authoritative analysis and information.

We are committed to providing an efficient, professional and high quality service at all times. We conduct regular surveys of our customer base, which provide us with a benchmark on our service levels, allowing us to identify priority areas for improvement. In 2010 the key areas identified for improvement, across the EirGrid Group, were responsiveness, communications and the need for mutual understanding of our respective businesses.

Throughout 2011 we implemented a series of initiatives in these key areas: we implemented improvements in our response times from our SEMO helpdesk and have rolled out a Query Management system in EirGrid; we provided regular communications on major projects such as Grid25, Gate 3, DS3 and EWIC; and we have implemented a series of improvements in the management of communications on customer projects.

To develop greater mutual understanding of our respective businesses, we conducted a series of six Power System Seminars to explain the day-to-day running of our business, and our staff engaged in increased numbers of stakeholder and customer meetings and visits, to gain a better understanding of our customers' businesses. A key event for dialogue with our customers and stakeholders is our Annual Customer Conference. In 2011 the conference took place in Dundalk, with the theme 'Delivering the Power System of Tomorrow' and was addressed by the Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD.

Developing Infrastucture

A significant challenge in both Ireland and Northern Ireland is to ensure that cost-effective transmission infrastructure is put in place, to provide a platform for economic growth and to provide a path to market for indigenous and sustainable renewable energy.

Grid25 is the programme for the development of the transmission system in Ireland, to meet future demands in the period to 2025 and beyond. Grid25 includes projects in construction, projects in public planning, and projects still under investigation and optimisation. The programme includes in the region of 800km of new transmission circuits, and the upgrade of over 2,000km of the existing transmission system.

During 2011, approximately 80km of new circuits were completed, over 300km of existing circuits were upgraded and 160km of new circuits were at an advanced construction stage and are expected to be complete in 2012. In addition there were a number of major new station and circuit projects completed during 2011 including significant transmission works in counties Wexford, Kildare and Kerry. Of major significance to the south west of the country was the completion of the Cork Harbour area development, representing an investment of over €150m in the south west.

New High Temperature Low Sag (HTLS) conductor technology was used for the first time on the Irish network in 2011, resulting in the ability to increase the rating of an existing circuit by 50% or more. The identification and use of this technology, together with the re-optimisation of the Grid25 programme, has enabled us to reduce the estimated cost of the programme from €4 billion to €3.2 billion – a 20% saving. This major investment will provide substantial increased capacity to the local areas and position them for the development of new electricity demands or generation.

The East West Interconnector is a €601m EirGrid project which is co-financed by the European Union to provide a submarine electricity link between the Irish and Great Britain power systems. Work progressed to schedule across all parts of the project in 2011 and it remains on schedule for completion, within budget, by September 2012.

Renewable Energy

The development of indigenous renewable energy resources is a cornerstone of energy policy at national, regional and European levels, in response to the challenges of climate change, economic renewal and volatility in fossil fuel markets. There are now more than 2,200 megawatts (MW) of renewable energy capacity connected to the power system in Ireland and Northern Ireland. In 2011, renewable energy accounted for about 17% of total customer demand across the island. The target in both jurisdictions is of course to reach 40% by 2020.

The DS3 Smart Grid programme put in place by EirGrid and SONI builds on the world-leading studies and analysis completed on the operation of the power system with very high levels of wind, and sets out definitive actions and milestones to address the challenges identified.

In parallel with this, EirGrid and SONI continue to roll-out their Smart Grid strategy – using advanced ICT to drive efficiencies and enable high levels of variable renewable energy to be integrated and managed efficiently and securely on the system. Key initiatives underway during 2011 include Dynamic Line Rating (DLR), the Wind Stability Assessment Tool (WSAT), and the iPhone 'Smart Grid' App.

The Single Electricity Market

This is the fourth year of the operation of the Single Electricity Market (SEM), and I am pleased to report that during the year the SEM operated efficiently, and in line with expectations. The System Marginal Price (SMP) has been reflective of supply and demand and of international fuel prices, particularly gas. The Single Electricity Market Operator (SEMO) delivered its services efficiently, transparently setting prices, invoicing participants in a timely fashion and transferring funds securely.

During the year, SEMO oversaw the processing of energy invoicing and settlement totalling approximately €2.36 billion in addition to processing capacity settlements of €547 million.

Our People

The performance of our 399 staff across the Group, in Ireland and Northern Ireland, was critical to our success during the year. The pace of change in the rapidly evolving electricity supply industry, and EirGrid's role operating at the heart of the industry, requires a high level of commitment and flexibility from our staff. This was in evidence again in 2011, across all areas of our business.

During the year we continued to invest in the development of our staff, through our staff development programme – EirSkills. This programme is essential to ensure that our managers and staff have the skills and competencies to take the company forward for the benefit of our customers and stakeholders. As part of this ongoing investment, all managers took part in a 360 degree feedback programme to highlight areas that require further development and to help us to achieve higher performance levels.

Corporate and Social Responsibility

The provision of excellent services to all our customers is central to our mission. By ensuring secure and reliable supplies across the island of Ireland, the Group enhances quality of life and enables economic development. Our corporate values underpin the importance we place on open communications and the highest standards of business ethics.

We recognise that, while our work in developing infrastructure delivers major benefits, there are at times other impacts on communities. In these instances we actively engage with and consult with communities, and we have introduced a consultation roadmap. As we place the highest possible emphasis on corporate and social responsibility (CSR), we will continue to work intensively in this area.

The EirGrid Group is committed to achieving business success while having a positive long term impact on all those that we interact with. We have put in place an active CSR group with representation from staff in all areas. This group, reporting to an Executive Director, monitors and analyses all our activities against best practice. The group uses this information to identify and drive initiatives and programmes within EirGrid, SONI and SEMO to constantly improve our performance in the area of CSR.

Planning began in 2011 on our Schools Science Programme, a partnership initiative with Dublin City of Science 2012. This programme is designed to help junior cycle students to develop an appreciation and understanding of the impact that electricity has on their lives and environment. The programme will be held in selected regional venues during 2012.

Recognising in addition, the needs of communities in areas where we do business, we provided funding during the year for projects in a number of areas.

Health and Safety

The appropriate management of Health, Safety and the Environment is critical to the operations of the company, and our management of these internal and external audits during the year. EirGrid operates a Health, Safety & Environmental (HS&E) Management System based on the requirements of the International Occupational Health & Safety Standard: OHSAS18001:2007 and the Environmental Management Standard ISO14001:2004. EirGrid adheres to all relevant national and international standards in its operation of the power system.

In relation to maintaining a safe workplace, I am pleased to report that there were no lost-time accidents across the Group and that all monitoring programmes have been completed against plan. In addition, as part of our 24/7 approach to the health, safety and welfare of all staff, we held a number of workshops on issues such as first aid, fire and gas safety in our Dublin and Belfast premises during the year.

Looking Ahead

In the energy sphere, the next five years will be transformational for the island of Ireland.
The completion of EirGrid's East West Interconnector in 2012 will bring interconnection capacity to 15% of peak demand. To enable the benefits of this interconnection to be fully realised, we are working in a coordinated way with the regulatory authorities to deliver Intraday Trading to the SEM during 2012, and beyond that to evolve the SEM to full compliance with the European Target Market Model by 2016.

There are still difficulties and challenges to be overcome to achieve the 40% target set for renewables in both jurisdictions by 2020. SONI and EirGrid are working jointly to address the technical challenges involved in operating a power system with up to 75% instantaneous renewable penetration, through the DS3 Smart Grid Programme, and other elements of our Smart Grid strategy. In this we are working closely with the industry and we have established a representative Advisory Council to ensure a joined-up approach across issues with industry.

A critical objective for EirGrid during 2012 and beyond is to build further momentum behind the Grid25 programme. In this we look forward to working with the Government to develop a national policy statement for transmission development, supported by a set of national planning guidelines for such critical infrastructure development.

In parallel, we will this year continue our intensive programme of engagement, consultation and public information, working with communities on the need for new and upgraded infrastructure and how this is best delivered - a key aspect of this work will be our education outreach and engagement programme.

I believe that putting in place a secure, sustainable and competitive electricity supply, and investing in vital infrastructure, is essential to the recovery of the economies in Ireland and Northern Ireland. All of us in the EirGrid Group will continue to work as hard as we can, alongside our customers and stakeholders, to ensure this is delivered.

Dermot Byrne

Dermot Byrne CHIEF EXECUTIVE

Financial Review

Key Financial Highlights €'m

	2011	2010
Revenue	470.7	443.8
Direct costs	362.9	346.9
Other operating costs	77.5	81.2
Operating profit	30.3	15.7

EirGrid's revenue for the year to 30 September 2011 was €470.7m, compared to €443.8m for the previous year.

The operating profit of €30.3m for the year to 30 September 2011 compares to an operating profit of €15.7m for the year to 30 September 2010. The operating profit figure has increased due to enhanced profitability at SONI and SEMO, and lower than expected Ancillary Service payments during the financial year.

The operating profit as reported for EirGrid includes a significant over-recovery on regulated tariffs. This was due to a number of uncertainties that are an inherent aspect of operating in a regulated environment, and the associated accounting treatment of these matters. In accordance with normal regulatory practice, this over-recovery will be corrected for in future tariffs. The operating profit for 2011 was €30.3m, however, excluding those over-recoveries management's estimate of the underlying operating profit for 2011 was €15m, subject to regulatory uncertainties.

The Group's revenue is primarily derived from regulated tariffs, specifically the Transmission Use of System (TUoS) tariff, a charge payable by all users of the transmission systems, and market operator tarriffs.

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 a range of services required for the secure operation of the system;
- Constraint costs payable when the secure operations 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 Utility Regulator of Northern Ireland (URegNI) respectively. In its role as Market Operator for the SEM, the Group is regulated by the SEM Committee, which comprises CER, URegNI, an independent member and a deputy independent member. The Group also holds two licences as Interconnector Operator, one from CER and one from Ofgem.

The Control Room at SONI, Belfast

A price control for the EirGrid TSO business for the 2011 to 2015 tariff period was finalised with the CER in November 2010. A price control for the SEMO business covering the period from 2011 to 2013 was finalised in December 2010. A price control determination for SONI's TSO business covering a period from 2010 to 2015 was issued by URegNI in May 2011.

In advance of each tariff period the Group submits to the relevant regulatory authority forecasts of customer demand, operating costs and other revenue requirements. Following a detailed review process the regulatory authority will issue a formal determination of the allowable revenue to be recovered by the business. As with any forecast there can be variations between the projections and the actual revenue recovery, or cost outturn, resulting in regulatory under or over recoveries. Any such under or over recoveries are adjusted for in the price determinations for subsequent periods. 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

In the current difficult financial environment a priority for the Group has been to maintain strong banking relationships. In the year to September 2011 this has enabled the Group to continue to invest very substantially in EWIC and also to manage the variable liquidity requirements associated with constraint costs in the SEM.

The EWIC project has a total budget of €601m and is supported by a €300m loan facility from the European Investment Bank, together with funding from a number of international commercial banks, and a €110m grant under the European Energy Programme for Recovery (EEPR). Cumulative expenditure on the project to September 2011 was €280m (2010: €99m) and consequently year end borrowings were €261.3m (2010: €147.7m). During the year €33m was received under the EEPR grant.

Looking ahead the Group expects to invest a further €321m in the EWIC construction project, most of which will be incurred in the year to September 2012. There will also be significant investment in the systems and processes required to support the operation of the Interconnector and in enhanced trading arrangements in the SEM.

Operations

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

EirGrid Group, the System Operator in Ireland and, through SONI, in Northern Ireland is responsible for efficiently matching electricity supply and demand second-by-second and controlling flows of power on the island's transmission system. The transmission system consists of a meshed network of high voltage lines, cables and substations which together transfer bulk power from generators to load centres. The transmission system or grid is the backbone of the electricity system. A strong grid is vital for inward direct investment in all regions, for competition in the electricity market and for connecting the island's rich renewable resources.

The grid is operated in real time by the National Control Centre (NCC) in Dublin and Castlereagh House Control Centre (CHCC) in Belfast. The objective of control centres is to operate the transmission system effectively and efficiently, consistent with safety, security, continuity, quality and environmental standards. Since electricity cannot be stored in bulk, the generation of electricity must exactly match demand instantaneously throughout the day and night. The control centres manage this demand-supply balance by dispatching power stations in economic merit order and managing the flow of power across the Ireland-Northern Ireland interconnectors, while also maintaining frequency, voltage and reliability standards within operating limits.

The two System Operators dispatch generation on the grid in accordance with the Single Electricity Market principles, using a single all island unit commitment solution to minimise production costs and optimise reserve sharing. The System Operators facilitate the operation of the Single Electricity Market by providing SEMO with the relevant data required to settle the electricity market.

Electricity Demand

During the period from January 2011 to December 2011, all island system demand decreased. Energy consumption for the period totalled approximately 35 TWh representing a 3% decrease on the previous 12-month period. The all island peak system demand in 2011 of 6,383 MW occurred in December 2011.

This peak was largely attributed to the cold weather conditions on the island, and was a decrease of 7% from the all island record peak system demand of 6,845 MW which occurred in December 2010.

No new conventional thermal generation was connected to the system during the year. The total installed capacity of fully dispatchable generation on the island is just over 9,000 MW.

System Performance

Security of supply standards were met throughout the period and generation margins remained within standards.

From January 2011 to December 2011, the number of EirGrid attributable 'System Minutes Lost' (an industry standard index which measures the severity of each system disturbance) was 0.18 , which was well below the yearly system target of less than 1.5

Customer Profile

John Weir Intel

Customer: **Intel Ireland**

Industry: Microprocessor Manufacturing

Category: Demand

Location: Global, Head Office in Arizona USA, Irish Operations in Leixlip, Co. Kildare.

"We have a very good relationship with EirGrid as power continuity is vital for us – making sure that we have a good, clean power supply is very important."

John Weir Head of Electrical Systems Intel Ireland

Ireland is Intel's centre of manufacturing excellence in Europe and since 1989, has invested €6bn (US$7.5 billion) in its campus at Collinstown Industrial Park, Leixlip, Co. Kildare. Employing over 4,000 people at the facility, Intel is Ireland's largest industrial employer.

Head of Electrical Systems on site at Intel, John Weir said *"We have a very good relationship with EirGrid as power continuity is vital for us – making sure that we have a good, clean power supply is very important. Our facility is the most technologically advanced in the world and operates 24 hours a day, 365 days a year and we rely on EirGrid to supply us with an uninterrupted service."*

As one of the largest demand customers in Ireland, and also one of the most sensitive to system events, the provision of high quality stable power to the Intel facility is essential. The issue of power continuity is so crucial that even a gap of a few milliseconds can be devastating causing equipment to be down.

John explains *"We have tools in the manufacturing process that are highly sensitive to power fluctuations and as a result we would condition certain supplies to ensure it is clean. If it sees any sort of ripple or any deviation the tool will go off-line and it can take days – even months sometimes – to get it back into operation."*

As one of EirGrid's directly connected customers, Intel has a dedicated Account Manager who provides professional support in relation to all aspects of their electricity supply. The Account Manager ensures the appropriate systems and procedures are in place to enable the management of customer information, both internally and externally, ensuring that a uniform, comprehensive and high-quality service is in place.

"We work closely with EirGrid meeting them on a quarterly basis to review power variations or interrupts and finding ways to constantly improve."

John continued by saying, *"As a result of this, we are constantly trending and monitoring our supply on site, alongside EirGrid who monitor for power outages and glitches. They warn us of adverse conditions such as lightning or potential issues in other parts of the country so that we are prepared for any situation. This constant, two-way communication is key to our success".*

In January 2011 Intel outlined details of a $500 million upgrade at the Leixlip facility. This major investment, which involves a total refit of one of the older factories, has created 850 construction jobs and an initial 200 technology workers being hired in advance of the new facility being completed.

System Minutes Lost. System Minutes Lost occur when supply to customers is disrupted, due to parts of the transmission system being unavailable, as a result of trippings or plant failure.

There was a slight deterioration in overall system generation availability, which includes both forced and scheduled outages, reducing during this period from 86% to 83.8% on a rolling 365 day basis. This reflects the forced outage of Turlough Hill Pumped Storage Station for the refurbishment of all four generating units.

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 the network owners (ESB and NIE). Generator outage plans were also managed by the System Operators, taking into consideration the outage requirements of all generators and EirGrid's security of supply standards. No system minutes were lost as a result of planned transmission or generation outages.

Renewables

The primary renewable energy generation sources which export electricity to the power system in Ireland and Northern Ireland are wind and hydro. The maximum export capacity (MEC) of wind generation installed on the island, as at December 2011 was 1,955 MW, which is an increase of 14% from the previous 12 months. A record maximum wind generation output of 1,839 MW occurred on 30 November 2011.

EirGrid is proactively developing the necessary infrastructure and operational capability to help meet Ireland's and Northern Ireland's renewable targets.

Following the publication of findings of the Facilitation of Renewables (FoR) studies in 2010, EirGrid and SONI have embarked upon a three-year work programme called: "Delivering a Secure, Sustainable Electricity System" (DS3) which considers the implications of operating the power system with high levels of variable renewable generation.

The following are the main highlights during 2010-2011:

- EirGrid is on track to deliver the systems and processes necessary to facilitate the commissioning and operation of the East West Interconnector in 2012.
- An Auction Management Platform (AMP) has been developed which will allow trading across the Moyle Interconnector and, when operational, the East West Interconnector. The AMP is a single open access trading platform on which market participants can buy and sell interconnector capacity.
- DS3, EirGrid's "Delivering a Secure Sustainable Electricity System" programme was launched with the key objectives of maintaining security of supply standards on the island in the context of a changing plant portfolio, and assisting in the delivery of the 2020 renewable policy targets by minimising curtailment of renewable generation.
- WSAT, a tool which assists in assessing the maximum levels of renewable generation that can be allowed on the system whilst maintaining system security at an acceptable level, was deployed in the NCC with deployment to follow in CHCC.

Customer Profile

George Sonneborn SonneBornWind

Customer: **SonneBornWind**

Industry: Wind Farm Construction & Operation

Category: Generation

Location: Germany & Ireland

"I've been in more or less constant contact with EirGrid. My relationship has been on a very professional basis and I'm very satisfied with it"

George Sonneborn SonneBornWind

Wind farm engineer, George Sonneborn of SonneBornWind has developed over 50 wind farms in Germany, Greece, Portugal, the UK and Ireland over the past 16 years. During his career to date, George has worked in power stations on electrical installation design, energy optimisation and energy management and was Managing Director of Energiekontor, overseeing the commercial development, construction and operation of wind farms in Germany.

George now operates his own company, SonneBornWind, and works, together with associated engineers, on wind farms, co-generation, solar- thermal and anaerobic digester projects for industrial customers in Germany and Ireland.

2011 saw George bring to completion the most recent wind farm to connect to the transmission network in Ireland, Castledockrell Wind Farm, located at Ballenahillan, Co. Wexford. *"We completed the final grid compliance testing just before Christmas,"* George explained. Castledockrell feeds into the grid through the new Lodgewood 220 kV sub-station, developed by EirGrid to reinforce the local network in Wexford.

The €57m project consists of eighteen 2.3 MW Enercon turbines with the capacity to generate 41.4 MW of power, the ongoing day to day operation of which also lies with George.

In addition to Castledockrell Wind Farm, George also managed the construction and now ongoing operation of Ballywater Wind Farm which is located near Kilmuckridge, Co. Wexford. Ballywater Wind Farm commenced operation in 2005 and has a capacity of 42 MW, provided by twenty-one 2 MW wind turbines.

"Since the development of Ballywater, which began in 2003, I've been in more or less constant contact with EirGrid. My relationship has been on a very professional basis and I'm very satisfied with it," said George.

During each of the construction projects, George worked with a dedicated EirGrid Project Manager. Throughout the projects and on an ongoing basis, George interacts with various aspects of the EirGrid business and has an EirGrid Account Manager to co-ordinate the overall business relationship.

"Of course, we have a few tricky points ensuring that we have mutual understanding but we overcome these," George continued.

George expects to direct further wind farm developments in Ireland but it is a bit too early to specify particular projects at this stage. He was involved in a major wind generation assessment in Europe and is convinced that Ireland is well suited, generally, for off-shore and on-shore wind generation.

"This is especially true when you consider the large wind resource available in Ireland and the potential presented by the large number of wind farms seeking connection to the grid here," he adds.

The EirGrid National Control Centre, Dublin

- The review of System Services commenced during the period. The objective of the process is to procure sufficient services for the secure operation of the power system.
- The Blackstart Emergency Communications Plan (BECP), which details roles and responsibilities around communications in an operational emergency in Ireland, was launched. A successful test of the BECP plan, in which all major external stakeholders were involved, was executed under “Exercise MW” in December 2011.

Focus Areas for 2012

Power system operation is in a period of transition due to national and European policy drivers, particularly with respect to renewable energy. External policy drivers are also changing the nature of power system operation, e.g. increasing interconnection, SEM Intraday Trading and the impact of increasing demand side management and Smart Grid initiatives. The challenges faced in the operation of the system are significant with increasing levels of complexity in the operation of this changing power system. More specifically, the following are key focus areas for 2012:

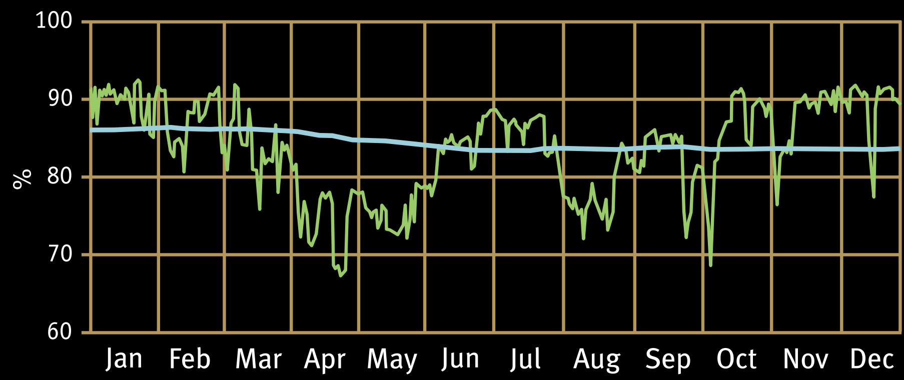
- Delivering the processes to operate, manage, and trade on the East West Interconnector;
- Progressing the DS3 Programme and delivering on the 2020 Renewable Targets; and
- Identifying and implementing efficiencies in operating the transmission system across the island.

All Island Weekly Peaks

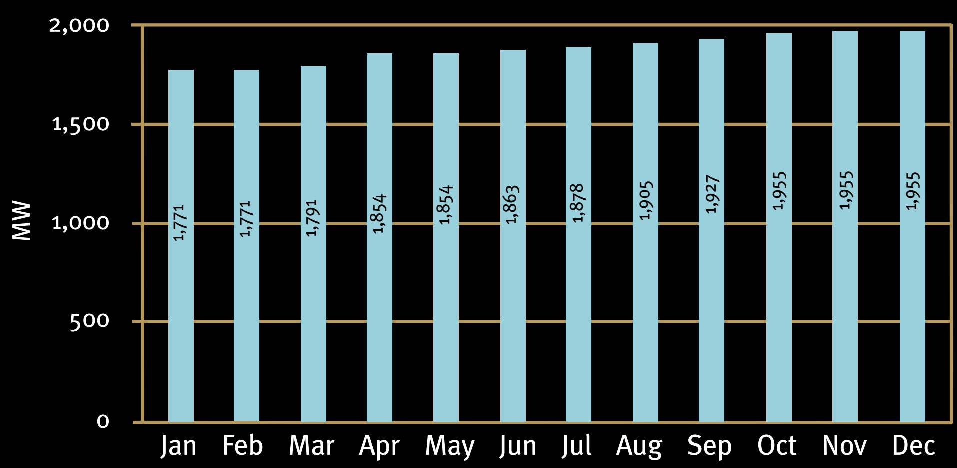
— 2010
— 2011

All Island Generation: System Availability

— Daily Availability
— 365 Day Rolling Availability



All Island Wind Capacity 2011



Operating the Single Electricity Market

The Single Electricity Market (SEM) is the wholesale electricity market operating in Ireland and Northern Ireland since 1 November 2007.

The SEM provides for a competitive, sustainable and reliable wholesale market in electricity aimed at underpinning long-term all island economic and social benefits.

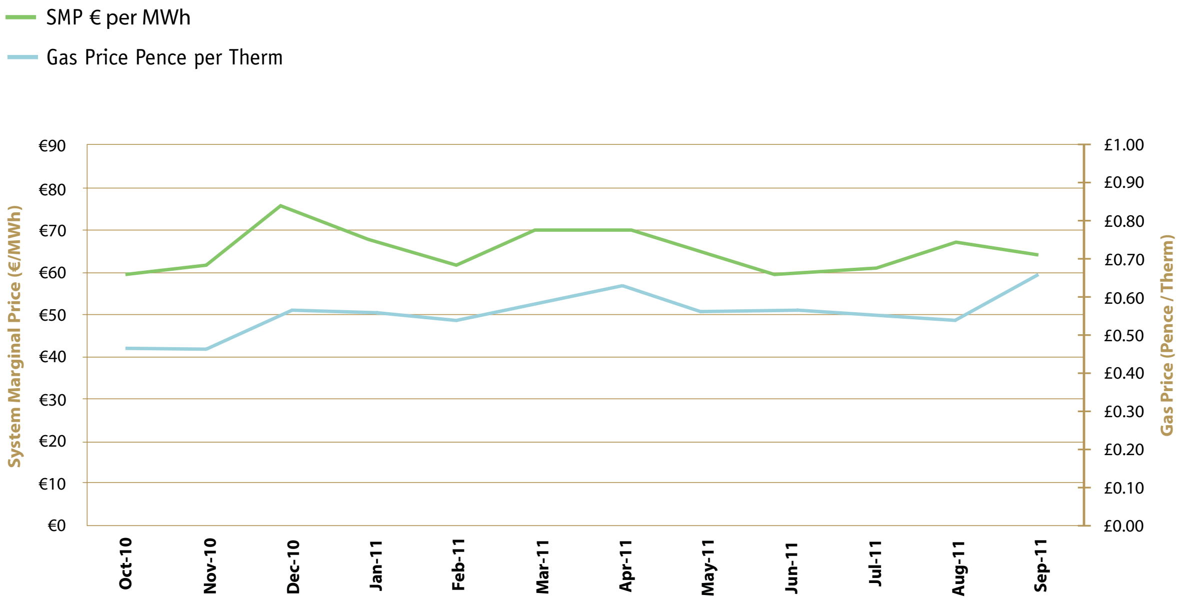
The SEM is operated and administered by the Single Electricity Market Operator (SEMO). SEMO is licensed and regulated by the Commission for Energy Regulation in Ireland and the Utility Regulator of Northern Ireland acting jointly through the SEM Committee.

Highlights

During the fourth financial tariff period 1 October 2010 to 30 September 2011, the SEM operated in line with expectations. The System Marginal Price (SMP) has been reflective of supply and demand and on international fuel prices, particularly gas. The graph below shows the average monthly SMP from October 2010 until September 2011 and the close alignment to changes in gas prices.

During this fourth year, the market has operated smoothly, transparently setting prices, invoicing participants in a timely fashion and transferring funds securely.

Average SMP vs Average Gas Price



Customer Profile

Bruce Kelly iPower

Customer: iPower

Industry: Power Generation

Category: Generation

Location: Belfast, Northern Ireland.

"It's testament to the foresight of SONI, EirGrid and the Regulatory Authorities that the structure and operation of the Single Electricity Market makes provision for the full integration of a small 'virtual power plant' alongside the large conventional power stations."

Bruce Kelly Managing Director iPower

iPower operates the only Aggregated Generating Unit (AGU) in Ireland which taps into the power-generating potential of the many stand-by generators used in commercial and industrial premises.

iPower's managing director, Bruce Kelly, explained that *"an AGU is a collection of on-site generators located on commercial and industrial premises. Their primary purpose is to provide emergency stand-by power generation but they are sitting idle 99% of the time. We put our 'black box' communications unit onto these generators and using a modern SCADA system we can then monitor and control the capacity in response to SONI dispatch instructions. In many cases iPower own the capacity but we also contract with other independent owners for their capacity. In this way we can grow the AGU which is now at a capacity of over 30 MW. We in iPower are in no doubt that central dispatch represents the most economic and environmentally friendly utilisation of such capacity."*

iPower is a small business providing employment for around 15 people. Like any other power station it has a 24/7 central control room in Belfast from which it operates a wide range of stand-by generators ensuring that the generators are available to provide a 24-hour secure electricity supply and to produce power when dispatched on to the electricity grid which is run by the Transmission System Operator for Northern Ireland (SONI).

Bruce believes that an AGU provides some of the fastest responding capacity on the system and is much more reliable and predictable than some of the more traditional forms of demand side capacity. Its true value will be seen with increased wind penetration making it a very valuable tool in the SONI toolkit. Bruce also believes that *"It's testament to the foresight of SONI, EirGrid and the Regulatory Authorities that the structure and operation of the Single Electricity Market makes provision for the full integration of a small 'virtual power plant' alongside the large traditional power stations."*

During the development of the AGU, modifications to the grid code, which governs connection to the transmission network, and other agreements, were required. iPower works closely with SONI on all aspects of AGU operations and outage planning for the network of generators it uses across Northern Ireland.

Bruce, who originally developed the AGU business within Viridian, says that over the next two years iPower will be looking closely at opportunities to build on its success to date particularly within the Demand Side Vision programme being promoted by the Regulatory Authorities. He added that iPower will seek to maximise its position in Northern Ireland over the next 12 months by contracting the last of the remaining on-site capacity before looking to tap into back-up diesel generator capacity in the Republic.

This year, SEMO oversaw the processing of energy invoicing and settlement totalling approximately €2.36 billion (including imperfections) in addition to processing capacity settlement totalling approximately €547 million, with the SEM collateral requirements fully maintained.

There was an improvement in SEMO's publication times and SEMO's responsiveness to participant and customer queries, with the annual Key Performance Indicators being exceeded.

A significant amount of modifications, 33 for the period from October 2010 to September 2011, were processed for the Modifications Committee, with the Regulator approving 30. Two new versions of the Trading and Settlement Code and Agreed Procedures were published during this period. The central focus of the Modifications Committee in this period was Intraday Trading.

SEMO continued to work on implementing the SEM Committee approved Modifications into the Central Market Systems and Market Operations, with particular focus on Intraday Trading.

SEMO remains proactive in managing the requirements of participants. In the last tariff year SEMO has organised, facilitated and presented in six general Market Operator User Groups. In addition six training sessions were held for new participants and numerous bi-lateral participant conference calls and working groups.

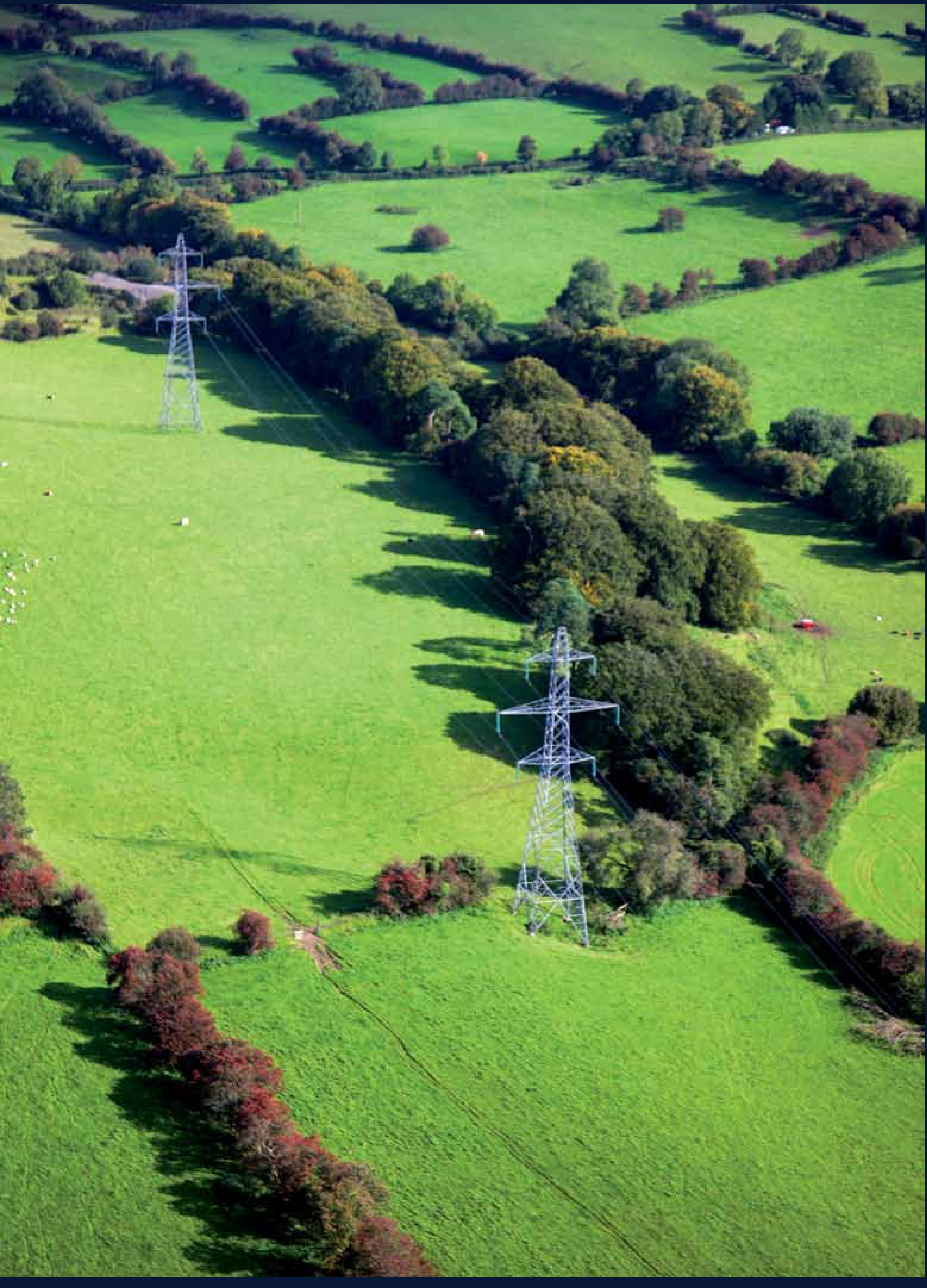
SEMO continues to provide each new participant with individual contact as required, in order to ensure smooth market operation. By delivering greater transparency and information to market participants, the SEM serves to provide a basis for the further development of a competitive, sustainable and reliable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

The SEM has continued to develop with 10 new Parties participating in the market and a total of 25 new units registered in the past year.

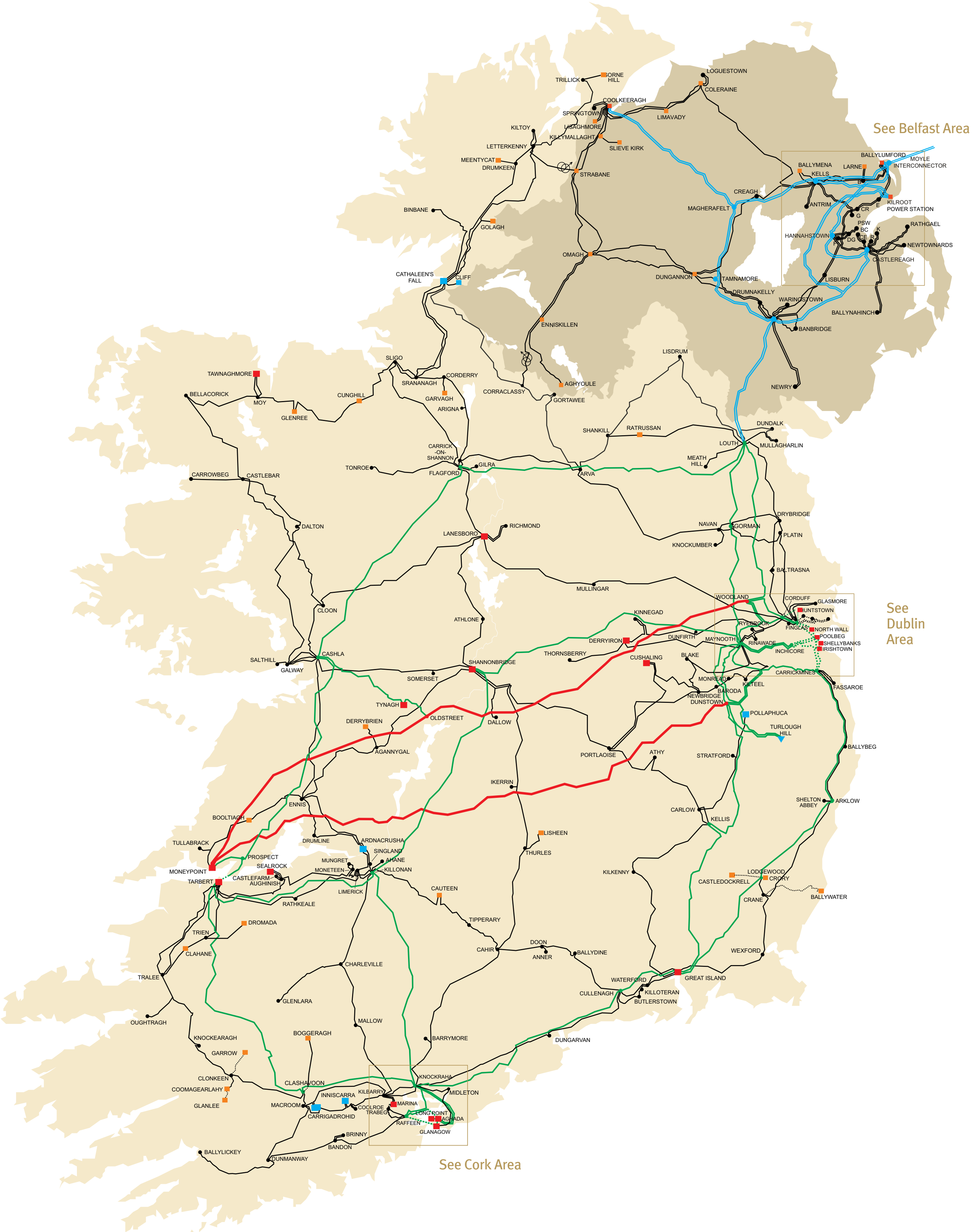
Focus Areas for 2011-2012

A number of challenges and opportunities exist for SEMO in the coming year. Key among them is the efficient and effective delivery of Intraday Trading, coupled with supporting the Regulatory Authorities in designing the target market for 2014-2016. All the while continuing to operate and improve the services we provide to our participants, stakeholders and customers.

We aim to achieve this by engaging our stakeholders, maintaining the trust of our participants, developing our people, driving efficiency and innovation in our business, operating on a commercial basis and working proactively with other elements of the EirGrid Group.

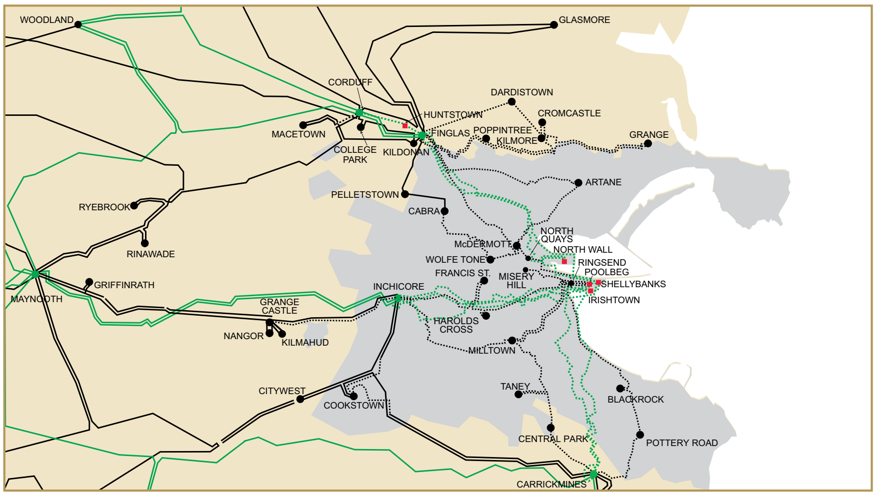


Transmission System
400kV, 275kV, 220kV & 110kV

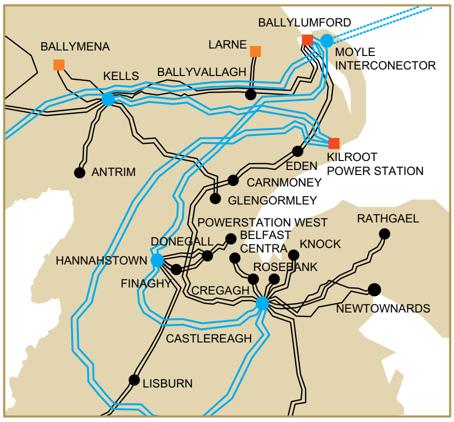


Dublin, Belfast, Cork

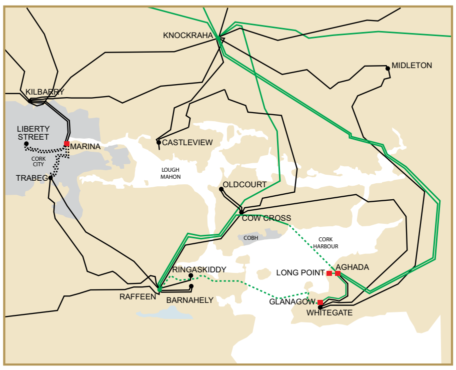
Dublin Area



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

Development

East West Interconnector

The East West Interconnector is an EirGrid project co-financed by the European Union, to provide a submarine electricity link between the Irish and UK power systems. The project is an HVDC (High Voltage Direct Current) link with a capacity of 500MW, running from Woodland in County Meath, to Deeside in North Wales, near Liverpool.

The project comprises an overall cable route length of approximately 260km (45km on land in Ireland, 180km submarine, and 35km land route in Wales), along with converter stations at each end of the cable, providing connection to the UK and Irish alternating current systems.

Work progressed to schedule across all parts of the project in 2011. Ducting of the land sections is largely complete, and cable installation, jointing and grouting are ongoing. The converter stations are well advanced with civil works largely completed and delivery of main electrical equipment to site well underway. Laying and burial of the marine cable section commenced in 2011, with approximately 80km of the marine section now complete, which is fully in line with expectations. Work on a storage facility to hold spare marine cable at Liverpool dock is also underway and proceeding to schedule.

Laying of the remaining 100km of marine cable will commence in April 2012, and the project remains on schedule for completion, within budget, by the end of 2012.

Grid25

Grid25 is the programme for the development of the transmission system in Ireland, to meet future demands in the period to 2025 and beyond. Grid25 includes projects in construction, projects in public planning, and projects still under investigation and optimisation. The programme includes construction of over 800km of new transmission circuits, and the upgrade of over 2,000km of the existing transmission system.

During 2011, approximately 80km of new circuits were completed, over 300km of existing circuits were upgraded and 160km of new circuits were at an advanced construction stage and expected to be complete in 2012.

There were a number of major new station and circuit projects completed during 2011 including significant transmission works in the Cork Harbour area and in counties Wexford, Kildare and Kerry. New High Temperature Low Sag (HTLS) conductor technology was used for the first time on the Irish network, resulting in the ability to increase the rating of an existing circuit by 50% or more. These major investments will provide substantial increased capacity to the local areas and position them for the development of new electricity demands or generation.

The introduction of the HTLS conductor, along with continued optimisation of the Grid25 programme has resulted in a re-estimation of the overall cost of Grid25 from €4 billion to €3.2 billion. This is an important saving which will result in lower tariffs for all electricity customers in Ireland.

Work progressed during the year on construction of projects which will ensure continued reliable supply, when complete, to towns and surrounding areas including Mullingar, Tullamore, Roscommon, Galway, Sligo, Meath, Cavan and Offaly. A number of major projects are in, or are entering, the public planning phase, including major developments to improve supply to and from the Mayo/Galway region, in counties Dublin, Laois and Kerry, and to increase capacity along the major power corridor between Dublin and Cork.

EirGrid's Director of Grid Development Andrew Cooke with the Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD viewing cable laying for the East West Interconnector

Co-financed by the European Union
European Energy Programme for Recovery
European Energy Programme for Recovery

Construction underway on the transmission grid in the north west

Public Consultation

Public consultation is an important feature and enabler of large infrastructure development, such as transmission projects required in Ireland under the Grid25 programme. With input from consultation experts and stakeholders, EirGrid has devised a new Public Consultation Project Development Road Map, aimed at best practice in project development combined with the facilitation of meaningful, constructive engagement and dialogue with all stakeholders and members of the public.

EirGrid continues to engage with stakeholders and the public on its project proposals through a wide variety of means including bulletins, advertising, mail shots and open days as well as direct engagement with public and landowners. The Public Consultation Road Map will set out clearly how and by what means members of the public can participate in the project development process, and is aimed at making participation as convenient as possible for all parties.

Gate 3 and Grid Access

June 2011 saw the completion on schedule of the Gate 3 round of connection offers, which involved the making of offers to approximately 4,000 MW of renewable generation and approximately 1,500 MW of conventional generation.

This 2-year programme involved EirGrid and ESB Networks Ltd (the Distribution System Operator) working closely together with CER, generation developers and other parties. A strong feature of the project was regular, structured communication, delivered through an industry Liaison Group, regular bulletins, workshops and meeting with sub-groups and individual developers

Further Interconnection and Off-Shore Grid Development

In addition to the development of the East West Interconnector, EirGrid is investigating the case for further interconnection, and is participating intensively in international initiatives investigating the potential development of a North Seas Grid. Initiatives in which EirGrid is involved include:

- Participation in ENTSO-E on the development of a North-Sea Regional Plan, which will input to the European Ten-Year Network Development Plan. The North Sea Regional Group comprises ten TSOs; EirGrid is one of three TSOs carrying out economic modelling of the North Seas Region in support of regional planning;
- Participation in the member-state led North Seas Countries Offshore Grid Initiative (NSCOGI). EirGrid is carrying out the network modelling work for the NSCOGI initiative;
- Further refinement of the case, cost, size and timing of further interconnection from Ireland to UK or France. EirGrid is currently completing a series of studies with RTE, the Transmission System Operator in France.

Corporate and Social Responsibility

EirGrid believes that Corporate and Social Responsibility is important across all of our businesses. In addition to our regulatory and commercial obligations, we are committed to taking CSR into account in our work with customers in the marketplace, in our work with communities, in ensuring we care for the environment, and in our engagement with our staff. We believe that having robust policies and implementation in the area of CSR is very important for the successful operation of our business, as well as being a vital part of our participation in society.

EirGrid recognises the importance of having management and communications processes and procedures in place to ensure our commitment to CSR is a real and living one, and we have put in place an active CSR Group within the company with representation from staff in all areas. This group, reporting to an Executive Director, monitors, analyses and drives initiatives and programmes within EirGrid, SONI and SEMO in the area of CSR.

The following is a summary of our work across key areas:

How we do Business

EirGrid has a Customer Charter which is publicly accessible on our website. In the past year we implemented a programme of Customer Service Improvements across all areas of the company, which are part of operational business plans.

We have processes in place to ensure that customers can make complaints and we carry out a survey of the views of customers on a bi-annual basis, which enables us to identify ways of improving our service. In addition to our Group Customer Conference held annually, open days and customer forums or panel sessions are held regularly during the year.

Targets in relation to our service are in place from a system operational perspective. A major contribution to CSR is through the publication of expert reports and papers which enable debate and informed decisions by policy-makers. We share information with other utilities and co-operate on research within Ireland and internationally, and regularly facilitate visits by groups interested in our operations. Public engagement and consultations are key areas of our business in relation to the development of large infrastructure projects and our commitment to this continued during 2011 on projects throughout Ireland.

Contributing to the Community

EirGrid and SONI and our staff support charitable causes throughout the year, through fundraising and other initiatives. A key area of our support for those in need is through the donations by staff and the company to ElectricAid, the electricity industry charity which provides strong support to people in over 40 countries. EirGrid and its staff have also contributed in the past year to organisations involved in helping the most disadvantaged in Ireland, the homeless, those at risk of suicide, and cancer sufferers. We also maintain contact with schools, facilitate visits and provide speakers and this work continued during 2011. Our Schools Programme is being intensified in 2012, with a regional programme of events.

Customer Profile

Tomás Hayes Kerry County Enterprise Board

Project: **Tarbert Tralee 2 – 110 kV Line**

Category: Transmission Reinforcement

Location: Co. Kerry, Ireland

"The North Kerry region needs a solid electricity infrastructure to ensure that the region meets the standards required for a safe and secure electricity system. Future proofing and a close examination of future demand have been undertaken as part of the process. The upgrade of the existing transmission system is critical to the industrial resource development and is welcomed."

Tomás Hayes Chief Executive
Kerry County Enterprise Board

Towards the end of 2011 the North Kerry area received a major boost to its electricity transmission system when a new 110 kV power-line, which connects Tarbert with Tralee, was energised. It formed part of a €21m enhancement of supply lines in Kerry and included the upgrading of sub-stations in both Tarbert and Tralee.

Deborah Meghen, Manager, Transmission Projects West, EirGrid, who managed the project, said that the 47 km transmission line "not only reinforces the network in the region but also allows the region to become a net exporter of renewable energy."

While a 110 kV line already linked Tarbert and Tralee, the increasing volumes of renewable generation connecting to the network in the south west and growth in demand in the region meant the limits of the line were being reached. In addition, a concern was growing that a loss of this line would lead to overloading of other circuits in the area and increased the risk of voltage collapse in the Kerry area. As a result it was determined that the best solution was to construct a second line linking Tarbert and Tralee.

Tomás Hayes, Chief Executive, Kerry County Enterprise Board, welcomed the new investment. *"The North Kerry region needs a solid electricity infrastructure to ensure that the region meets the standards required for a safe and secure electricity system. Future proofing and a close examination of future demand have been undertaken as part of the process. The upgrade of the existing transmission system is critical to the industrial resource development and is welcomed."*

He added that *"County Kerry has been awarded the title of European Entrepreneurial Region for 2011. Many local companies have grown internationally and have chosen to maintain their bases in Kerry including the global food ingredients company Kerry Group, the financial services company FEXCO and Dairymaster, a major international dairy equipment manufacturer. Multinationals have chosen to base their businesses in Kerry such as the leading global manufacturer of cranes and port equipment, Liebherr."*

"Key to attracting and maintaining these companies is a sustainable and cost effective energy supply. There has to be a competitive energy supply as the cost of energy is a key element in the competitiveness mix," Mr Hayes explained.

The completion of this second line brings significant benefits to the area, particularly in terms of connecting local wind energy generation and was completed both on time and within budget. Deborah notes that *"A key element of this success was the extensive local support, great cooperation from landowners and a widespread understanding in the county of the need to enhance the network."*

North Kerry TD and Minister for Arts, Heritage and the Gaeltacht, Jimmy Deenihan said *"This line is a great addition to the network in Kerry, as it enables us to exploit our clean, green energy sources and will help attract and retain industry."*

In addition it has secured power supply for families, industries and businesses in Kerry and greatly lowered the risk of over-loads and voltage collapse in the Tralee area.

Recognising the needs of communities in areas where we do business, we provided funding during the year for projects in areas including Co. Meath, Fingal County, and Co. Kerry. We also supported projects which provide national and local benefit including the Fleadh Cheoil in Co. Cavan and the Euro-toques rural food awards.

How we care for the Environment

EirGrid Group takes into account the environmental effects of our work both directly in our offices and in our operation of the power system and market.

Within EirGrid in our offices and control centres in Dublin and Belfast, we monitor energy usage and work to reduce it through energy efficient appliances and processes, ensuring for instance that lighting in areas not being used is switched off. To reduce transportation energy use, we promote the use of conference calls and video-conferencing for meetings and make available the proceedings of customer workshops by webinar.

In our operation of the power system, we run a number of schemes designed to encourage large energy users to reduce their usage where possible. Our work in developing the power system in Ireland and in supporting and designing grid upgrades in Northern Ireland, facilitates the development of renewable energy plants in areas where resources are plentiful, as well as the transfer of power from wind farms and other renewable generators to customers. This work in Ireland and Northern Ireland directly supports the targets of the respective governments and of the European Union in meeting targets for CO_2 and in combating the threat of global warming. In developing power lines and substations, environmental factors are always taken into account from the beginning, and our projects match Irish and international regulations.

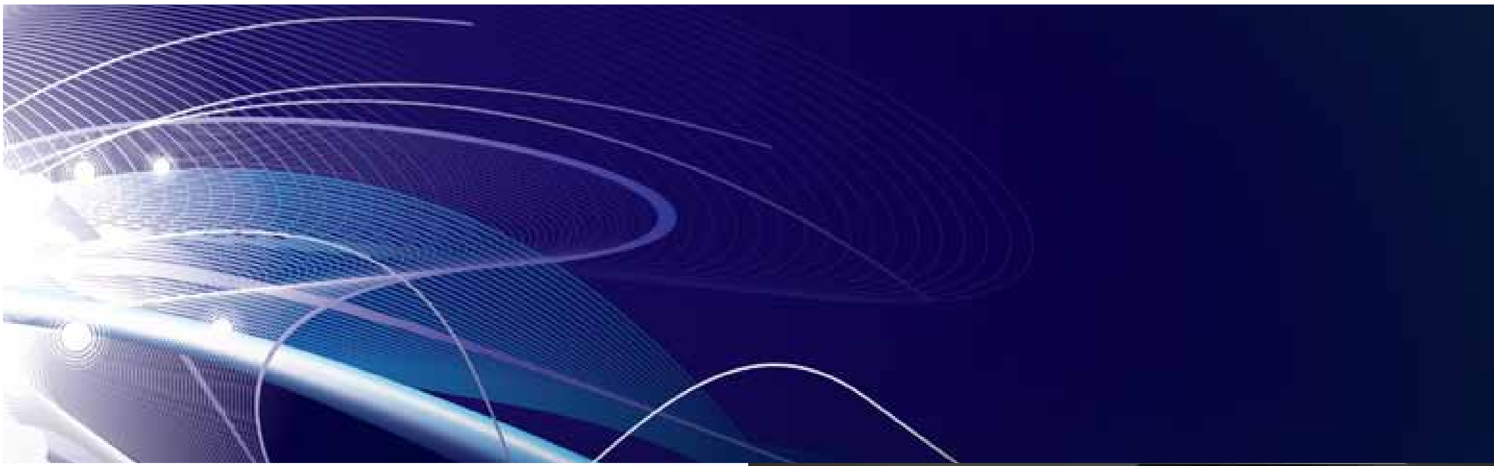
We apply for planning permission and supply the relevant environmental studies as part of the public planning process. Where power lines are proposed, careful consideration and study takes place in relation to potential effects on flora, fauna and the visual environment.

How we Engage with Our Staff

A key part of EirGrid's vision is to create a great working environment for all our staff. We believe that an open and clear channel of communication and engagement with staff is necessary. This will benefit the company and will ensure quality of service for our customers and stakeholders. During 2011, a review of team briefing processes took place.

We participated in the Great Place to Work © survey and any areas of improvement identified were addressed by action plans implemented in consultation with staff during the year. EirGrid is committed to equal opportunities in its recruitment and operations and supports education, training and development for employees. During 2011, a programme of additional training was rolled out. Programmes aimed at promoting good health among staff were also held, and a focus on health and safety in the workplace was once again emphasised.


Construction underway on the transmission grid in the north west




EIRGRID

Overview of Energy Usage in 2011

In 2011, EirGrid plc consumed 3,009 MWh of energy at its head office in the Oval Building, Ballsbridge consisting of:

- 2,262 MWh of electricity;
- 747 MWh of fossil fuels;
- 0 MWh from onsite renewable fuels.

274 MWh of the electricity used was made from renewable sources (grid average from CER fuel mix paper 2011).

Actions Undertaken in 2011

In 2011 EirGrid undertook a range of initiatives to improve its energy performance, using submetering data from its energy management system to identify opportunities to reduce consumption including:

- Lighting optimisation and server virtualisation which resulted in 37 MWh of annual electrical savings;
- Heating controls optimisation which resulted in 377 MWh of annual savings.

Altogether, these and other energy saving measures are saving EirGrid plc 415 MWh annually.

Actions Planned for 2012

In 2012 EirGrid plans to further improve our energy performance by over 5% (150 MWh) by undertaking the following initiatives:

- Optimise the IT datacentre environment;
- Further improve the building environment.

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. Our customers can be broken into five main categories: Generators (Conventional and Renewable generators connected or seeking a connection); Demand Customers (large industrial customers connected to or in the process of connecting to the transmission system); Suppliers (licensed suppliers of electricity); Stakeholders (Industry and Government bodies such as CER, URegNI, DCENR, DETI, NIRIG, IWEA, IBEC, CBI, IDA, SEAI, and many others, including the general public, universities and students); and Partners (key partners who enable us to deliver on our organisational objectives, including NIE, ESB Networks and many others).

We are committed to the efficient, professional and non-discriminatory handling of all our customers' needs and in doing so, strive to understand the requirements of our different customer groups and identify the appropriate services required. We will operate in an impartial, open and transparent manner at all times.

EirGrid Group Customer Conference 2011

The EirGrid Group Annual Customer Conference took place on Thursday 20 October in the Ballymascanlon House Hotel, Dundalk, Co. Louth. There were approximately 180 delegates in attendance. The theme of the conference was 'Delivering the Power System of Tomorrow.'

The keynote session included opening remarks by our Chairperson, Bernie Gray; a Ministerial Address by Pat Rabbitte, T.D., Minister for Communications, Energy and Natural Resources in which he supported and commended EirGrid on its work; an EirGrid Group and Industry Developments Update by our Chief Executive, Dermot Byrne; a presentation by José Antonio Hoyos Pérez from Security of Supply and Networks at the European Commission on the proposals from the EC on guidelines for the implementation of European energy and communications infrastructure priorities; and an address from Shane Lynch, Chief Executive of URegNI.

There were presentations provided by staff and management across the EirGrid Group on Grid Infrastructure Development, Markets – Today and Tomorrow; and Power Systems – Today and Tomorrow; and Anton Savage of The Communications Clinic and Today FM hosted a lively debate on 'Driving Down Costs'. The conference was very well received with attendees rating the overall value of the experience as 4/5 or higher.

Other Events since September 2010

Central to the vision and values of the EirGrid Group is engaging and working with our key customers and 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 since September 2010 as follows:

Customer Profile

Brendan McDonagh IDA

Customer: **IDA Ireland**

Industry: Agency responsible for attracting overseas investment

Category: Stakeholder

Location: Head Office in Dublin, with offices throughout Ireland, USA, Europe, Asia Pacific, and South America

"The provision of additional national and international connectivity for electricity and telecoms is a key enabler to supporting the FDI agenda. Ireland's infrastructure continues to be enhanced though State investments in electricity grid infrastructure by ESB, and EirGrid through its Grid25 strategy, and telecoms investment by Aurora and ESB Telecoms."

IDA Ireland End of Year Statement 2011

IDA Ireland is the Government Agency responsible for securing Foreign Direct Investment (FDI) for Ireland. IDA works with EirGrid on a number of fronts, primarily in supporting new large energy users looking to invest and locate in Ireland or those seeking to expand their operations here. IDA also supports Clean Technology companies who are seeking information on market opportunities here. Clean Tech companies particularly keen to talk to EirGrid are wind turbine manufacturers and ocean energy technologies.

"In terms of energy infrastructure Ireland continues to be a strong location for manufacturing companies who are high energy users. In 2011, Ireland had a high number of manufacturing investors and we see continued opportunities into 2012. Also, the whole services sector is a growing energy user, particularly within the data-centre area," Brendan McDonagh,

IDA Ireland Head of Planning and Strategy explains.

"It is a hallmark that EirGrid are very dynamic and flexible in producing a reliable and robust grid infrastructure to our clients. Their team works very hard to present a strong positive image of Ireland to investors," according to Mr McDonagh (pictured above with Claire Kane, EirGrid Customer Relations Manager).

"EirGrid has played a significant role in securing Foreign Direct Investment to Ireland as the availability of a modern electricity infrastructure is a key part of the FDI location decision. Multinational ICT companies with manufacturing facilities and data-centre activities along with multinationals in the Life Sciences sector with a large energy demand require a reliable competitive supply of electricity to power their operations. In my experience of liaising between companies like these and EirGrid, interaction begins with discussion between the company and EirGrid representatives. Such discussions often need to be set up at very short notice and EirGrid has always responded in a timely and efficient manner," according to John Nugent, North West Regional Manager, IDA Ireland.

According to the IDA a focus on the source of power-supply is a growing feature of the FDI location process, with many companies, now anxious as part of their Corporate and Social Responsibility programmes, to use an increasing proportion of energy from renewable sources. Security of supply, the volume of available electricity and renewable energy form the three priority areas for many high energy users investing in Ireland.

IDA believe that the investment in the Grid and the development of the new East West Interconnector ensures Ireland's capability to meet investors' energy requirements. Along with its commitment to deliver on the Governments target of 40% of electricity from renewables by 2020, EirGrid is addressing the priority areas for many high energy users investing in Ireland.

- EWIC Workshop – October 2010;
- Workshop on Offshore Studies and Programme for a Secure, Sustainable Power System – January 2011;
- Power System Seminars – a series of five seminars on the operation of the power system from January to September 2011. The topics for these events were decided in consultation with customers and covered the following areas:
  - Facilitation of Renewables – The Next Steps;
  - A day in the life of the NCC & Managing Power Flows;
  - Economic Dispatch & Unit Commitment;
  - Managing Dispatch Balancing Costs;
  - Wind Forecasting and Dispatch;
- All Island Generator Forum – February 2011;
- A Practical Guide to Participating in the SEM – This training course is being held quarterly by SEMO;
- SEMO Market Operator User Groups – November 2010, January, March, May and July 2011;
- SEMO Working Groups & Workshops – Events held every month to date;
- TUoS Workshop – May 2011;
- Auction Management Platform Information Session – May 2011;
- EirGrid National Stakeholders Forum – May 2011;
- All Island Generator TUoS Workshop – June 2011;
- Locational Signals Workshop – June 2011;
- EirGrid Customer Connections Forum – July 2011;
- Delivering a Secure Sustainable Electricity System (DS3) – August 2011;
- Winter Peak Demand Reduction Scheme Workshops – August 2011.

Customer Service Improvements

We conduct regular surveys of our customer base which provides us with a benchmark on our service levels, allowing us to identify priority areas for improvement. In 2006 and 2008 EirGrid conducted satisfaction surveys which assisted us in identifying areas for improvement. In 2010 we conducted our first survey as the EirGrid Group and presented the results at our Annual Customer Conference 2010. The key areas for improvement across the EirGrid Group were responsiveness, communications and the need for mutual understanding of our respective businesses.

We responded by implementing a series of initiatives across the EirGrid Group:

Responsiveness – We have implemented improvements in our response times from our SEMO helpdesk and have rolled out a Query Management system in EirGrid.

Communications – We have rolled out SONI and SEMO stakeholder plans, we deliver regular communications on major projects such as Grid25 and Gate 3, and we have implemented a series of improvements in the management of communications on customer projects in EirGrid.

Mutual Understanding – We conducted a series of Power System Seminars to explain the day-to-day running of our business, and engaged in increased numbers of stakeholders and customer meetings and visits, to gain a better understanding of our customers' businesses as well as hosting a large number of events and seminars.

Also during 2011, SEMO launched its customer charter which can be viewed on the SEMO website.

A brochure outlining the improvements that were delivered to date, the changes that had been implemented and the plans in place in order to address the findings of the survey, in particular across the key areas that were highlighted for improvement, was provided to customers in August 2011.

New Market Participants

The Single Electricity Market continues to develop and this year we were delighted to welcome the following new Market Participants – Ecopower Limited, Saporito Limited, Fuinneamh Gaoithe Teoranta, AWC Limited, Prepaypower, Crystal Energy Limited, iPower Solutions Limited, G.A.E.L Force Power Ltd, Budget Energy Limited, RWE Supply and Trading GmbH.

SEMO also developed further with the addition of 25 new units registered and effective in the Market in the past year.

New Connections

Slieve Kirk, a 27.6MW wind farm, was the first transmission connection handled by SONI and delivered by NIE for SSE Renewables.

The connection project consisted of establishing a new 110kV switching station and erecting 7km of 110kV overhead line to a new 110/20kV substation at the wind farm site developed by SSE Renewables. The wind farm was successfully connected and went live in the SEM on 13 October 2011.

A new transmission-connected wind farm, Castledockrell, located at Ballenahillan, Co. Wexford, energised in January 2011. The wind farm is owned by Castledockrell Wind Group Ltd and has an MEC of 41.4MW.

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 business. 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.

SONI
Tel: +44 (0) 28 **90794336**
Email: **enquiries@soni.ltd.uk**
www.soni.ltd.uk

EirGrid TSO
Tel: +353 (0)1 **702 6642**
Email: **info@eirgrid.com**
www.eirgrid.com

SEMO
Tel: 1800 778111 (ROI)/0800 0778111 (NI)
Email: **markethelpdesk@sem-o.com**
www.sem-o.com

The Board

1. **Regina Moran**
2. **Doireann Barry**
3. **Dr. Gary Healy**
4. **Dr. Joan Smyth**
5. **Richard Sterling**
6. **Bride Rosney**
7. **Liam O'Halloran**
8. **Niamh Cahill**
   Company Secretary
9. **Bernie Gray**
   Chairperson
10. **Dermot Byrne**
    Chief Executive
11. **Martina Moloney**

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 the 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 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.

Martina Moloney

Martina Moloney was appointed to the Board in September 2004 for a five year term, 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 175,000 people, has an annual spend in excess of €350 million, and has a staff of 1,000. 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.

Dr. Joan Smyth

Joan Smyth was appointed to the 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 Northern Ireland from 1992 (Chair and 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 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.

Regina Moran

Regina Moran was appointed to the Board in September 2011 for a five year term. Regina Moran, a chartered engineer, was appointed CEO of Fujitsu (Ireland) Ltd in 2009. She leads a 350 strong team focussed on delivering ICT services to the Irish marketplace.

Following her third level education in Engineering undertaken in Waterford and Cork, Regina's career began as an Electronics Engineer with Amdahl, a computer mainframe manufacturer progressing to become a co-founder of the services and consulting group there.

In 1997, Regina was co-founder of DMR Consulting Ireland where she held the role of Director of Operations responsible for Project Delivery. From there she moved to DMR Consulting, which became Fujitsu Consulting and subsequently merged with Fujitsu Services in April 2004. Regina was appointed CEO of Fujitsu Services in August 2006.

Regina is the current Chair of ICT Ireland within IBEC. She is an elected member of the Council of Dublin Chamber of Commerce and sits on the Executive. Regina is a member of the Dublin City University Governing Authority and sits on the Audit Committee. She is a Fellow of the Institution of Engineers Ireland (FIEI). Regina holds an MBA from Dublin City University, which she achieved with First Class Honours, coming first in her group. She was also awarded the 'Sir Charles Harvey Award' for outstanding contribution in her post-graduate studies.

Dr. Gary Healy

Dr. Gary Healy was appointed to the Board in September 2011 for a five year term. Dr. Gary Healy is the head of regulation and public policy at Telefonica O2 and vice-chair of the Telecommunications Internet Federation in IBEC. Dr. Healy was Director of Market Development in the Commission for Communication Regulation (ComReg) and a regulatory consultant with Jacobs & Associates and PriceWaterhouseCoopers.

Dr. Healy has advised clients in Ireland on regulatory and public policy and on projects supporting governments in Eastern Europe and the Middle East. Prior to joining ComReg, Dr. Healy was Country Manager with Thomson Reuters and CFO for a

Citibank subsidiary in the UK. Dr. Healy has a PhD in government and law from DCU, an MBA from DCU, a Masters in Modern History from Middlesex University and is a qualified accountant.

Liam O'Halloran

Liam O'Halloran was appointed to the Board in September 2011 for a five year term. Liam O'Halloran has senior management experience in electronics multinationals and telecommunications, he was previously Senior Vice President of DEX Europe, a US based company providing Repair and Logistics Services to major electronics multinationals. He was also Vice President of European Operations for Jabil Global Services, a global electronics services company.

Liam was Director of Customer Operations and Regulation at Magnet Networks and later served as Executive Chairman of ALTO, the Association of Alternative Telecommunications Operators.

Liam is currently a Director and Consultant to companies in Energy and Telecommunications markets.

Bride Rosney

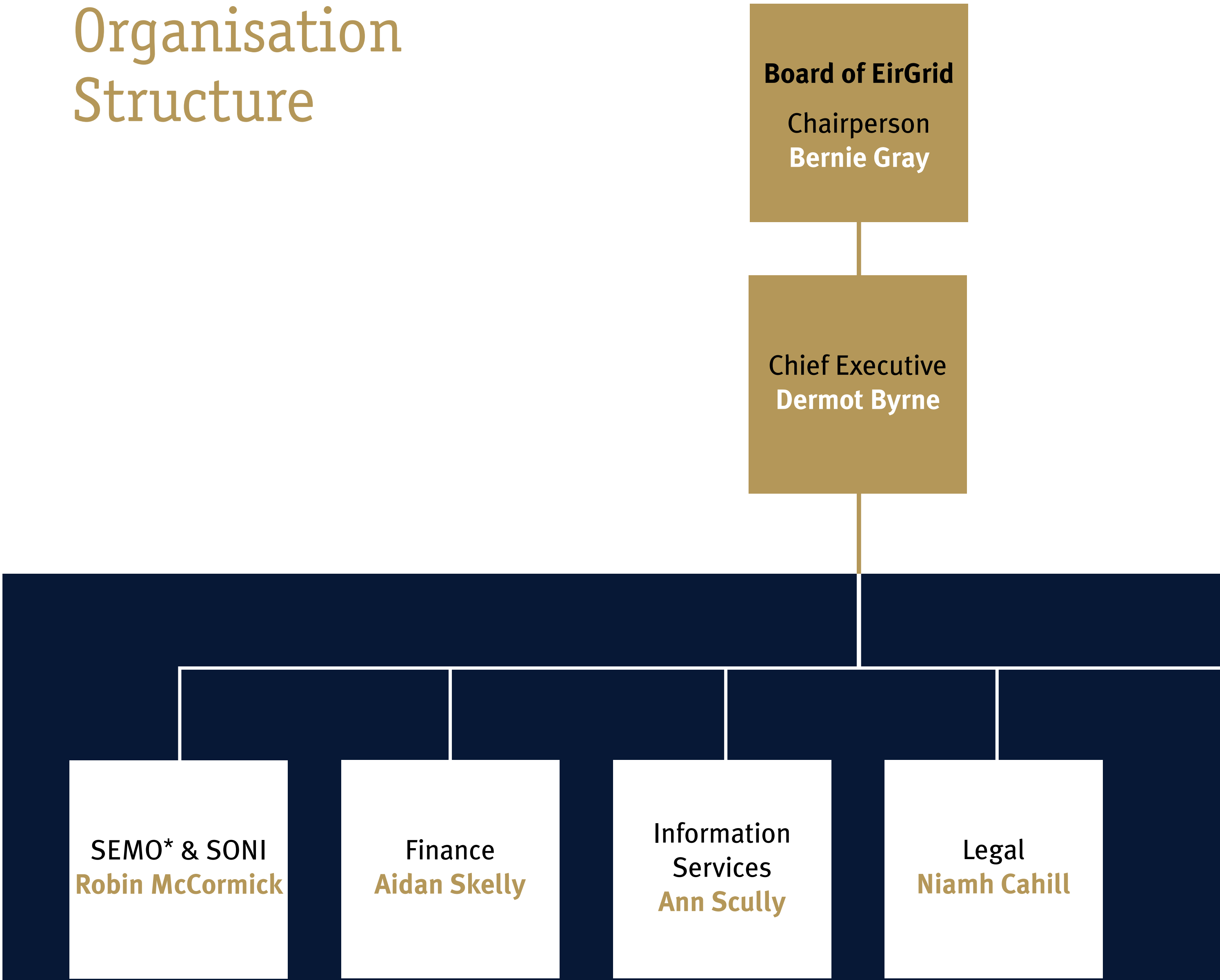
Bride Rosney was appointed to the Board in September 2011 for a five year term. Bride Rosney is currently the Secretary to the Board of Trustees of the Mary Robinson Foundation – Climate Justice of which she was the founding Chief Executive Officer. She was Director of Communications with RTÉ from 2001 to 2009 and worked in the private sector as a communications consultant in the spheres of new technologies and the arts from 1998 to 2001. Between 1990 and 1997, she worked as Special Advisor to Mary Robinson for an eight-year period, during her time as President of Ireland and United Nations High Commissioner for Human Rights. A graduate in Science from University College Dublin and Computer Practice from Trinity College Dublin, with over twenty years experience in education and educational research at both second and third levels, Bride previously worked as a teacher, educational researcher and school principal.

Doireann Barry

Doireann Barry was appointed to the Board of EirGrid in December 2011 for a five year term, following her election as the EirGrid staff representative. She has been involved in the electricity industry since 1999 and has worked in many areas across EirGrid. Her current role in the Operations department includes the coordination of generation outages, the publication of the Winter Outlook report and the development of system operational policies. This role involves interaction across the EirGrid Group including SONI and SEMO.

She has represented the company both nationally and internationally, as a speaker at conferences and as an active member of working groups in ENTSO-E. She is an Electrical Engineering graduate of University College Cork and is a member of Engineers Ireland.

Organisation Structure



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

Operations
Fintan Slye

Human Resources
John Cloonan

Grid Development
Andrew Cooke

Corporate Affairs & Strategy
Michael Walsh

Top left to right: Dermot Byrne, Niamh Cahill, John Cloonan, Andrew Cooke, Robin McCormick.
Bottom left to right: Ann Scully, Aidan Skelly, Fintan Slye, Michael Walsh.

Executive Team

Dermot Byrne

CHIEF EXECUTIVE

The Executive Team is headed by our Chief Executive, **Dermot Byrne**. A full biography for Dermot is included on page 42.

Niamh Cahill

COMPANY SECRETARY & COMPANY LAWYER

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

John Cloonan

DIRECTOR, HUMAN RESOURCES

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

Andrew Cooke

DIRECTOR, GRID DEVELOPMENT

In his role as Director, Grid Development, Andrew Cooke is responsible for the planning, development and maintenance of the transmission grid, including EirGrid's Grid25 programme and the Ireland-Wales Interconnector project. He is responsible for the design and implementation of transmission access and tariff arrangements.

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.

Robin McCormick

GENERAL MANAGER, SONI LTD, GENERAL MANAGER, SEMO

Robin McCormick has 28 years experience in the power industry in a regulated utility environment. EirGrid acquired SONI in 2009 and since then has further widened his current responsibilities as General Manager of the System Operator Northern Ireland (SONI Ltd) to take responsibility for SEMO, the single electricity market operator. SONI partnered with five organisations – EirGrid, DETI, DCENR, NIAUR and CER – to establish the Single Electricity Market in 2007. He leads a professional team of staff to deliver system and market operation services. He has participated in the board to establish the transmission system operators' regional association ENTSO-E. Robin is a fellow of the Institution of Engineering and Technology and Vice Chairman of the IET Engineering Policy Group – Northern Ireland. He holds an MBA from the University of Ulster, Jordanstown, and an MSc from Napier University, Edinburgh.








Ann Scully

DIRECTOR, INFORMATION SERVICES

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

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.

Fintan Slye

DIRECTOR OF OPERATIONS, EIRGRID & SONI

Fintan has responsibility for the operation of the power system in Ireland and Northern Ireland, with Control Centres and teams in Belfast and Dublin, ensuring security and continuity of electricity supply in real-time across the island. Fintan also has responsibility for managing EirGrid and SONI's programme of work to facilitate the integration of world-leading levels of renewables on the power system. Prior to working for EirGrid, Fintan worked for McKinsey & Co in their Dublin office, supporting companies across Ireland, UK and Europe. Fintan completed a Masters in Business Administration from UCD in 2001 and a Masters in Engineering Science in 1993.

Michael Walsh

DIRECTOR, CORPORATE AFFAIRS AND STRATEGY

Michael Walsh joined EirGrid as Director of Corporate Affairs and Strategy in September 2011. Prior to joining EirGrid, Michael was the Chief Executive of the Irish Wind Energy Association. Previous to this, Michael was Manager of Market Development at EirGrid where he played a key role in the successful development of the Single Electricity Market. His other previous roles include Manager of Ancillary Services at EirGrid and a lecturer in Electronic Engineering at UCD. Michael was a board member of the European Wind Energy Association between 2008 and 2011. Michael has a B.E., a Ph.D. and an MBA from UCD. He is a Fellow of Engineers Ireland.

Financial Statements

as at 30 September 2011

Directors' Report

The Directors present their annual report and the audited Financial Statements of the Group for the year ended 30 September 2011.

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.

The Group collects tariffs to support these activities. These tariffs allow for incentives and a regulated return for capital invested in the business, generating value for the Group over the longer term.

Results and Review of the Business

Details of the financial results of the Group are set out in the Consolidated Income Statement on page 64 and the related notes 1 to 28.

The current period being reported on is the year ended 30 September 2011. The comparative figures are for the year ended 30 September 2010.

Commentaries on performance during the year ended 30 September 2011, 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 UK Corporate Governance Code ('the Governance Code') issued in June 2010 and the new Irish Corporate Governance Annex ('the Irish Annex') issued in December 2010. 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 Governance Code and early adopted the Irish Annex with the following exceptions:

- The Group is accountable to the Minister for Communications, Energy and Natural Resources and the Minister for Public Expenditure and Reform;
- Appointments to the Board are a matter for the Government as shareholder and accordingly the Group does not have a Nomination Committee;
- Board members are appointed by the Government and are eligible for reappointment;
- The size and make-up of the Board are determined by legislation;
- 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, an employee representative Director and seven non-executive Directors. All Directors are appointed by the Minister for Communications, Energy and Natural Resources with the consent of the Minister for Public Expenditure and Reform 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 2011

The Board has an effective committee structure to assist in the discharge of its responsibilities, consisting of a number of sub committees. The four standing sub committees are: the Audit Committee; the Remuneration Committee; the Infrastructure Committee and the Pensions 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, and compliance with laws and regulations including 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.

EirGrid has regard to Government policy in relation to the total remuneration of the Chief Executive. The Remuneration Committee, with the consent of the Department of Communications, Energy and Natural Resources and the Department of Public Expenditure and Reform, determines the level of the Chief Executive's remuneration. The Committee also approves the structure of remuneration for Senior Management.

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 Pensions Committee's function is to monitor the sustainability of the various EirGrid Group pension obligations entered into and the ongoing viability of each of the schemes.

Attendance at Meetings

Board Meetings

There were 11 Board Meetings held during the year ended 30 September 2011. The Board Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Bernie Gray (Chairperson)	11	11
Dermot Byrne (Chief Executive)	11	11
Emer Daly (term expired 27 April 2011, term extended 17 May 2011 to 16 July 2011)	10	9
William Egenton (term expired 24 April 2011, term extended 17 May 2011 to 16 July 2011)	10	6
Gary Healy (appointed 15 September 2011)	-	-
Cormac MacDonnchadha (term expired 7 December 2011, extended 13 December 2011 to 22 December 2011)	11	11
David Mackey (term expired 27 April 2011, term extended 17 May 2011 to 16 July 2011)	10	3
Martina Moloney	11	11
Regina Moran (appointed 15 September 2011)	-	-
Liam O'Halloran (appointed 15 September 2011)	-	-
Bride Rosney (appointed 15 September 2011)	-	-
Joan Smyth	11	11
Richard Sterling	11	11
Jane Williams (term expired 24 April 2011, term extended 17 May 2011 to 16 July 2011)	10	8

Members of the Board at the date of signing of the financial statements were Bernie Gray (Chairperson), Dermot Byrne (Chief Executive), Gary Healy, Cormac MacDonnchadha, Martina Moloney, Regina Moran, Liam O'Halloran, Bride Rosney, Joan Smyth and Richard Sterling.

Audit Committee

There were 5 Audit Committee Meetings held during the year ended 30 September 2011. The Committee Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Richard Sterling (Chairperson)	5	5
Emer Daly (term expired 27 April 2011, term extended 17 May 2011 to 16 July 2011)	4	2
William Egenton (term expired 24 April 2011, term extended 17 May 2011 to 16 July 2011)	4	3
Cormac MacDonnchadha (term expired 7 December 2011, extended 13 December 2011 to 22 December 2011)	5	5
Martina Moloney (resigned 21 September 2011)	5	5
Joan Smyth	5	5

Members of the Audit Committee at the date of signing of the financial statements were Richard Sterling (Chairperson), Gary Healy, Cormac MacDonnchadha and Joan Smyth.

Remuneration Committee

There were 7 Remuneration Committee Meetings held during the year ended 30 September 2011. The Committee Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Bernie Gray (Chairperson)	7	7
Emer Daly (term expired 27 April 2011, term extended 17 May 2011 to 16 July 2011)	6	6
David Mackey (term expired 27 April 2011, term extended 17 May 2011 to 16 July 2011)	6	3
Martina Moloney (appointed 21 September 2011)	1	1
Joan Smyth	7	7

Members of the Remuneration Committee at the date of signing of the financial statements were Bernie Gray (Chairperson), Martina Moloney and Joan Smyth.

Infrastructure Committee

There were 5 Infrastructure Committee Meetings held during the year ended 30 September 2011. The Committee Members' attendances at these Meetings were as set out below:

	Eligible to Attend	Attended
Martina Moloney (Chairperson)	5	5
William Egenton (term expired 24 April 2011, term extended 17 May 2011 to 16 July 2011)	5	4
Bernie Gray (appointed 21 September 2011, resigned 16 November 2011)	-	-
David Mackey (term expired 27 April 2011, term extended 17 May 2011 to 16 July 2011)	5	1
Richard Sterling	5	5

Members of the Infrastructure Committee at the date of signing of the financial statements were Martina Moloney (Chairperson), Liam O'Halloran, Bride Rosney and Richard Sterling.

Pensions Committee

There was 1 Pensions Committee Meeting held during the year ended 30 September 2011. The Committee Members' attendance at this Meeting was as set out below:

	Eligible to Attend	Attended
Emer Daly (Chairperson, term expired 27 April 2011, term extended 17 May 2011 to 16 July 2011)	1	1
Dermot Byrne	1	1
Bernie Gray	1	1
Cormac MacDonnchadha (term expired 7 December 2011, extended 13 December 2011 to 22 December 2011)	1	1
Jane Williams (term expired 24 April 2011, term extended 17 May 2011 to 16 July 2011)	1	1

Members of the Pensions Committee at the date of signing of the financial statements were Bernie Gray (Chairperson), Dermot Byrne, Cormac MacDonnchadha and Regina Moran.

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, interest rate movements, cash flow risk 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.

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 14% 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 UK 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 has entered into interest rate swap agreements to fix interest rates on current and future East-West Interconnector project debt. 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:

- 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;
- Support of the pre-construction phase of the Grid25 Programme by a fully functioning Programme Management Office, which has effective and appropriate policies, processes and controls;
- 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 its 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 €127,000 (2010: €135,000) 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 voluntary 10% reduction in their fees. Under the approved remuneration levels, the Chairperson's fees were equivalent to €21,600 per annum during the year (2010: €21,600 per annum). Directors' fees were equivalent to €12,600 each per annum during the year (2010: €12,600 each per annum).

The only executive Board Member is the Chief Executive, Dermot Byrne. The Chief Executive's remuneration is set within a range determined by the Department of Public Expenditure and Reform 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 receives a fee, as determined by the Minister for Communications, Energy and National Resources with the consent of the Minister for Public Expenditure and Reform.

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 2011 were €2,845 (2010: €2,845) and €8,535 (2010: €8,535) respectively.

The total accrued pension at the end of the year was €17,770 (2010: €14,925) and the total accrued gratuity was €53,310 (2010: €44,775). The transfer value of the relevant increase, net of the Chief Executive's own personal pension contributions was €47,087 (2010: €43,893).

Chief Executive's Remuneration:

	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 €'000
Basic salary	228	228
Less: adjustments	(40)	(23)
Annual bonus (net of voluntary reduction)	-	23
Taxable benefits	14	14
Pension contributions paid	68	68
Director's fees	13	13
Total	283	323

Adjustments include a voluntary reduction of €18k (2010: €23k) and the impact of abatement which came into effect during the year.

Dividends

The Directors of the Group do not currently propose the payment of a dividend.

Directors' and Secretary's Interest in Shares

The Directors and Secretary who held office at 30 September 2011 and 1 October 2010 had no beneficial interest in the shares of the Group.

On 6 July 2011, the shares of the Group held by the Minister of Finance, were transferred to the new Minister for Public Expenditure and Reform, pursuant to the Minsters and Secretaries Act, 2011.

Following the transfer, 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 Public Expenditure and Reform, or on his behalf.

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

Political Donations

The Group does not make political donations.

Going Concern

The Financial Statements are prepared on a goingconcern 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 auditor s, Deloitte & Touche, Chartered Accountants, have indicated their willingness to 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 (IFRSs) as adopted by the European Union.

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 CHAIRPERSON

Dermot Byrne CHIEF EXECUTIVE

21 December 2011

Independent Auditor's Report to the Members of EirGrid plc

We have audited the financial statements of EirGrid plc for the year ended 30 September 2011 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 Cashflow Statement, and the Company Financial Statements: the Company Statement of Recognised Income and Expense, the Company Balance Sheet, the Company Statement of Changes in Equity, the Company Cashflow Statement, and the related notes 1 to 28. 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 auditor's 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.

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 2011 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 2011; 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 2011 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.

Marguerite Larkin

Marguerite Larkin

For and on behalf of **Deloitte & Touche**
Chartered Accountants and Registered Auditors
Dublin

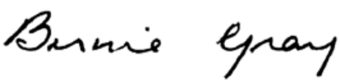
Date: 21 December 2011

Consolidated Income Statement

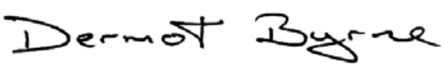
for the year to 30 September 2011

	Notes	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Revenue	3	470,679	443,770
Direct costs	3	(362,926)	(346,884)
Gross profit		107,753	96,886
Other operating costs	5	(77,467)	(81,235)
Operating profit		30,286	15,651
Interest and other income	6	4,224	1,358
Finance costs	6	(3,051)	(3,148)
Profit before taxation	7	31,459	13,861
Income tax expense	8	(4,875)	(1,944)
Profit for the year		**26,584**	**11,917**

On behalf of the Board:



Bernie Gray CHAIRPERSON



Dermot Byrne CHIEF EXECUTIVE

21 December 2011

Consolidated Statement of Recognised Income and Expense for the year to 30 September 2011

	Notes	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Actuarial gain on retirement benefit schemes	21	5,138	1,419
Deferred tax attributable to actuarial gain	8	(462)	(522)
Derecognition of net pension asset	21	(1,284)	-
Movement in unrealised loss on cash flow hedges	25	(9,459)	(42,411)
Deferred tax attributable to movement in unrealised loss on cash flow hedges	8	1,270	5,381
Currency translation differences		(51)	173
Net expense recognised directly in equity		(4,848)	(35,960)
Profit for the year		26,584	11,917
Total comprehensive income for the year		**21,736**	**(24,043)**

Company Statement of Recognised Income and Expense for the year to 30 September 2011

	Notes	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Actuarial gain/(loss) on retirement benefit scheme	21	3,693	(955)
Deferred tax attributable to actuarial gain/(loss)	8	(462)	119
Movement in unrealised loss on cash flow hedges	25	(5,378)	(30,030)
Deferred tax attributable to movement in unrealised loss on cash flow hedges	8	747	3,679
Net expense recognised directly in equity		(1,400)	(27,187)
Profit for the year		22,952	12,923
Total comprehensive income for the year		**21,552**	**(14,264)**

Consolidated Balance Sheet

as at 30 September 2011

	Notes	30 Sep 2011 € '000	30 Sep 2010 € '000
ASSETS			
Non-current assets			
Intangible assets	10	17,347	21,133
Property, plant & equipment	12	344,100	169,195
Deferred tax asset	8	11,338	9,318
Trade and other receivables	13	1,133	-
Total non-current assets		373,918	199,646
Current assets			
Trade and other receivables	13	161,897	95,663
Current tax asset		-	2,615
Cash and cash equivalents	17	109,531	114,373
Total current assets		271,428	212,651
Total assets		**645,346**	**412,297**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	16	38	38
Capital reserve		49,182	49,182
Hedging reserve		(46,447)	(38,258)
Translation reserve		86	137
Retained earnings		85,166	55,190
Total equity		88,025	66,289
Non-current liabilities			
Derivative financial instruments	24	53,302	43,815
Deferred tax liability	8	4,919	3,745
Deferred income	15	35,318	2,318
Borrowings	23	247,661	131,369
Retirement benefit obligation	21	15,746	20,433
Total non-current liabilities		356,946	201,680
Current liabilities			
Borrowings	23	13,613	16,329
Current tax liability		1,202	-
Trade and other payables	14	185,560	127,999
Total current liabilities		200,375	144,328
Total liabilities		557,321	346,008
Total equity and liabilities		**645,346**	**412,297**

On behalf of the Board:

Bernie Gray CHAIRPERSON

Dermot Byrne CHIEF EXECUTIVE

21 December 2011

Company Balance Sheet

as at 30 September 2011

	Notes	30 Sep 2011 € '000	30 Sep 2010 € '000
ASSETS			
Non-current assets			
Investment in subsidiaries	11	98,376	32,676
Property, plant & equipment	12	49,113	53,675
Deferred tax asset	8	8,258	7,770
Trade and other receivables	13	90,224	65,416
Total non-current assets		245,971	159,537
Current assets			
Trade and other receivables	13	151,661	99,343
Current tax asset		-	2,549
Cash and cash equivalents	17	58,815	78,796
Total current assets		210,476	180,688
Total assets		**456,447**	**340,225**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	16	38	38
Capital reserve		49,182	49,182
Hedging reserve		(32,210)	(27,579)
Retained earnings		80,385	54,202
Total equity		97,395	75,843
Non-current liabilities			
Derivative financial instruments	24	36,812	31,434
Borrowings	23	171,663	100,641
Retirement benefit obligation	21	15,746	20,433
Total non-current liabilities		224,221	152,508
Current liabilities			
Borrowings	23	8,988	11,633
Current tax liability		311	-
Trade and other payables	14	125,532	100,241
Total current liabilities		134,831	111,874
Total liabilities		359,052	264,382
Total equity and liabilities		**456,447**	**340,225**

On behalf of the Board:

Bernie Gray CHAIRPERSON

21 December 2011

Dermot Byrne CHIEF EXECUTIVE

Consolidated Statement of Changes in Equity

for the year to 30 September 2011

	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 2009	38	49,182	(1,228)	(36)	42,376	90,332
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
Total comprehensive income for the year	-	-	(8,189)	(51)	29,976	21,736
Balance as at 30 September 2011	**38**	**49,182**	**(46,447)**	**86**	**85,166**	**88,025**

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 to 30 September 2011

	Issued share capital € '000	Capital reserve € '000	Hedging reserve € '000	Retained earnings € '000	Total attributable to equity holders € '000
Balance as at 1 October 2009	38	49,182	(1,228)	42,115	90,107
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
Total comprehensive income for the year	-	-	(4,631)	26,183	21,552
Balance as at 30 September 2011	**38**	**49,182**	**(32,210)**	**80,385**	**97,395**

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 2011

	Notes	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Cash flows from operating activities			
Profit after taxation		26,584	11,917
Loss on disposal of property, plant and equipment		2	102
Depreciation of property, plant and equipment	12	20,473	18,668
Impairment of goodwill and intangible assets	10	3,453	1,939
Interest and other income		(4,224)	(1,358)
Finance costs		3,051	3,148
Pension charge		3,888	4,021
Section 75 pension expense		-	6,449
Income tax expense		4,875	1,944
Section 75 pension payment		-	(6,449)
Pension contributions paid		(5,374)	(5,434)
Impact of fair value movements on derivative financial instruments		-	(784)
		52,728	34,163
Movements in working capital			
Increase in trade and other receivables		(64,467)	(14,477)
Increase/(decrease) in trade and other payables		31,421	(17,326)
Cash generated from operations		19,682	2,360
Income taxes paid		(1,100)	(4,551)
Interest received		1,555	935
Finance costs paid		(3,051)	(3,148)
Net cash generated from/(used in) operating activities		17,086	(4,404)
Cash flows from investing activities			
Adjustment to consideration – Section 75 indemnity		-	4,406
Purchase of property, plant and equipment		(168,454)	(65,615)
Capital grants received	15	33,000	2,318
Net cash used in investing activities		(135,454)	(58,891)
Cash flows from financing activities			
(Decrease)/increase in bank overdrafts		(2,645)	2,669
Proceeds from borrowings		143,296	135,122
Borrowings repaid		(26,894)	(111,768)
Payments in relation to loan arrangement fees		-	(4,142)
Sale of derivative financial instruments		-	2,515
Net cash generated from financing activities		113,757	24,396
Net decrease in cash and cash equivalents		(4,611)	(38,899)
Cash and cash equivalents at start of year		114,373	153,904
Effect of foreign exchange on cash and cash equivalents		(231)	(632)
Cash and cash equivalents at end of year	17	**109,531**	**114,373**

Company Cash Flow Statement

for the year to 30 September 2011

	Notes	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Cash flows from operating activities			
Profit after taxation		22,952	12,923
Loss on disposal of property, plant and equipment		2	102
Depreciation of property, plant and equipment	12	16,143	14,851
Interest and other income		(4,771)	(1,600)
Finance costs		4,605	2,071
Pension charge		3,010	3,275
Income tax expense		3,210	1,371
Pension contributions paid		(4,753)	(4,473)
Impact of fair value movements on derivative financial instruments		-	(784)
		40,398	27,736
Movements in working capital			
Increase in trade and other receivables		(50,348)	(14,913)
Increase/(decrease) in trade and other payables		24,741	(23,435)
Cash generated from/(used in) operations		14,791	(10,612)
Income taxes paid		(552)	(3,444)
Interest received		2,137	1,177
Finance costs paid		(3,959)	(2,071)
Net cash generated from/(used in) operating activities		12,417	(14,950)
Cash flows from investing activities			
Advances to subsidiary		(89,844)	(22,875)
Purchase of property, plant and equipment		(10,931)	(47,769)
Capital grants received	15	-	2,318
Net cash used in investing activities		(100,775)	(68,326)
Cash flows from financing activities			
(Decrease)/increase in bank overdrafts		(2,645)	2,669
Proceeds from borrowings		89,844	122,496
Borrowings repaid		(18,822)	(107,072)
Sale of derivative financial instruments		-	2,515
Net cash generated from financing activities		68,377	20,608
Net decrease in cash and cash equivalents		(19,981)	(62,668)
Cash and cash equivalents at start of year		78,796	141,464
Cash and cash equivalents at end of year	17	**58,815**	**78,796**

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 2011 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 2011. The comparative figures are for the year ended 30 September 2010.

Adoption of new standards

The Group has early adopted the provisions of IAS 24 (2009), as the Directors believe early adoption will provide users with more reliable and 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 2010 – Improvements are effective for annual periods beginning on or after 1 January 2011

2. Statement of Accounting Policies *(continued)*

- IFRS 1 (Amendments) – Severe hyperinflation and removal of fixed dates for first-time adopters (Effective 1 July 2011)
- IFRS 7 (Amendments) – Transfers of financial assets (Effective 1 July 2011)
- IFRS 9 – Financial instruments: classification and measurement (Effective 1 January 2013)
- IFRS 10 – Consolidated financial instruments (Effective 1 January 2013)
- IFRS 11 – Joint arrangements (Effective 1 January 2013)
- IFRS 12 – Disclosure of interests in other entities (Effective 1 January 2013)
- IFRS 13 – Fair value measurement (Effective 1 January 2013)
- IFRIC 14 – Prepayments of a minimum funding standard (Effective 1 January 2011)
- IFRIC 20 – Stripping costs in the production phase of a surface mine (Effective 1 January 2013)
- IAS 1 (Amendments) – Presentation of items of other comprehensive income (Effective 1 January 2012)
- IAS 12 – Income taxes: limited scope amendment regarding recovery of underlying assets (Effective 1 January 2012)
- IAS 19 – Employee benefits (Effective 1 January 2011)
- IAS 27 – Consolidated and separate financial statements, reissued as separate financial statements (Effective 1 January 2013)
- IAS 28 – Investments in associates, reissued as investments in associates and joint ventures (Effective 1 January 2013)

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

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

Business combinations from 1 April 2010 are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in

2. Statement of Accounting Policies *(continued)*

the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through the Income Statement. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 in the Income Statement.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

Business combinations prior to 1 April 2010 were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Goodwill

Goodwill on acquisitions is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill acquired in a business combination is allocated, from the acquisition date, to the cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment is considered to exist, the goodwill impairment tests are undertaken at a consistent time in each annual period. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses arising in respect of goodwill are not reversed following recognition.

Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairments, is included in

2. Statement of Accounting Policies *(continued)*

determining the profit or loss arising on disposal.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the proportion of the cash-generating unit retained.

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. Tariff revenue is recognised when receivable from customers, based on metering data.

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.

Connection offer revenue from the Gate 3 project 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 the public service obligation levy, Large Energy User (LEU) customer credits and renewable energy feed in tariffs are not recognised in the Financial Statements of the Group. In collection of these levies and tariffs the Group acts as an agent rather than a principal, assuming neither risks nor rewards.

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

2. Statement of Accounting Policies *(continued)*

income is recognised on an accruals basis and is stated net of value added tax.

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.

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.

2. Statement of Accounting Policies *(continued)*

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.

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 the island of 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

2. Statement of Accounting Policies *(continued)*

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.

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.

2. Statement of Accounting Policies *(continued)*

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 an 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, as there is an intention to settle these simultaneously on a net basis under the trading and settlement code.

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 to manage its exposure to interest rate risk. The Group uses foreign exchange forward contracts to manage its exposure to foreign currency risk arising from Sterling VAT receivables relating to the East-West Interconnector project. Further details of derivative financial instruments are disclosed in note 25.

Derivative financial instruments 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 fair value of the foreign exchange forwards at the reporting date are determined by measuring quoted forward exchange rates matching the maturity of the contracts. 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.

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.

2. Statement of Accounting Policies *(continued)*

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 fair value, which equates to 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 income and costs

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.

Income is also earned through the charging of inflation adjusted interest on deferred costs in respect of transmission projects.

Finance costs comprise interest on borrowings and related 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, in which case they would be accounted for as borrowing costs.

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 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.

2. Statement of Accounting Policies *(continued)*

Historically, changes in useful lives have not resulted in material changes to the Group's depreciation charge.

- **Revenue**

  Connection fee 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 recognised during the year to 30 September 2011 totalled €1.6m (2010: €2.7m).

- **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 2011 is €75.0m (2010: €74.2m) and the fair value of plan assets is €60.5m (2010: €53.8m). A net pension asset arising on the SONI Focus plan of €1.3m (2010: €nil) is not recognised as it is not certain that a refund will be available from the plan, nor will the netpension asset result in a reduction to future contributions. This gives a net pension deficit of €15.7m (2010: €20.4m).

- **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 2011 was €6.4m (2010: net deferred tax asset of €5.6m).

- **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 2017. These calculations require the use of estimates and assumptions, which are discussed in detail in note 10. Intangible assets at 30 September 2011 were €17.3m (2010: €21.1m).

3. Segment Information

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 Board, the entity's chief operating decision maker, 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. Trading in EirGrid UK Holdings Limited, the holding company of the SONI subsidiary, has been included in the SONI segment.
- East-West Interconnector ('EWIC'), being the project to link the electricity grids of Ireland and Britain.

The segment results for the year ended 30 September 2011 are as follows:

	Notes	EirGrid TSO € '000	SEMO € '000	SONI TSO € '000	EWIC € '000	Total € '000
Income Statement items						
Segment revenue		265,952	136,833	67,894	-	470,679
Direct costs		(198,919)	(112,248)	(51,759)	-	(362,926)
Gross profit		67,033	24,585	16,135	-	107,753
Other operating costs		(45,516)	(18,708)	(13,047)	(196)	(77,467)
Operating profit/(loss)		21,517	5,877	3,088	(196)	30,286
Interest and other income						4,224
Finance costs						(3,051)
Profit before taxation						31,459
Income tax expense						(4,875)
Profit for the year						26,584
Balance Sheet items						
Segment assets		153,132	127,249	20,715	326,903	627,999
Goodwill and intangible assets	10					17,347
Total assets as reported in the Consolidated Balance Sheet						645,346
Segment liabilities		309,494	56,681	41,675	149,471	557,321
Total liabilities as reported in the Consolidated Balance Sheet						557,321

3. Segment Information *(continued)*

The comparative 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 and other 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

Geographical information

	Revenue		Non-current assets	
	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Ireland	368,577	338,922	341,160	161,080
UK	102,102	104,848	32,758	38,566
Total	470,679	443,770	373,918	199,646

Information about major customers

Included in EirGrid TSO segment revenues of €266.0m for the year to 30 September 2011 (2010: €249.0m) are revenues of approximately €138.3m (2010: €139.0m), €36.2m (2010: €31.0m), €35.3m (2010: €40.4m) and €35.3m (2010:€26.5m) which arose from sales to the segment's four largest customers.

Included in SEMO segment revenues of €136.8m for the year to 30 September 2011 (2010: €119.9m) are revenues of approximately €50.6m (2010: €46.1m), €39.6m (2010: €31.7m), €19.6m (2010: €12.7m) and €15.7m (2010: €13.6m) which arose from sales to the segment's four largest customers.

Included in SONI TSO segment revenues of €67.9m for the year to 30 September 2011 (2010: €74.9m) are revenues of approximately €33.7m (2010: €52.7m), €11.2m (2010: €5.0m) and €9.2m (2010: €7.8m) which arose from sales to the segment's three largest customers.

4. Employees

The average number of persons employed by the Group during the year to 30 September 2011 was 348 (2010: 324), excluding staff engaged on capital projects.

The average number of persons engaged on capital projects during the year to 30 September 2011 was 51 (2010: 48). The staff costs associated with these employees have been capitalised and totalled €5.7m for the year to 30 September 2011 (2010: €4.6m).

Average number of employees in year by business activity:

	30 Sep 2011 Number	30 Sep 2010 Number
EirGrid TSO	223	210
SONI TSO	74	64
SEMO	51	50
Capital projects	51	48
Total	399	372

Total remuneration charged to the Income Statement, including the executive Director's salary, comprised:

	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Wages and salaries	24,984	25,196
Social welfare costs	2,226	2,305
Pension costs	4,077	4,021
Total	31,287	**31,522**

5. Other Operating Costs

	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Employee costs (note 4)	31,287	31,522
Depreciation of non-current assets	20,473	18,668
Operations and maintenance	22,221	23,441
Section 75 pension expense	-	6,449
Loss/(gain) on derivative financial instruments	33	(784)
Impairment of intangible assets (note 10)	3,453	1,939
Total	77,467	81,235

The loss on derivative financial instruments in 2011 arose from purchases of foreign exchange rate forward contracts. These contracts were used to mitigate the foreign currency exchange risk on Sterling VAT receivables, which arose as a result of the East-West Interconnector project. The purchases of foreign exchange rate forward contracts were non-speculative.

The gain on derivative financial instruments in 2010 arose from an increase in the fair value of a copper option held by the Group. This option was acquired by the Group in 2009 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.

6. Interest and Other Income, and Finance Costs

	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Interest income:		
Interest income on deposits	1,161	1,358
Other income in respect of transmission projects	3,063	-
Total	4,224	1,358
Finance costs:		
Interest on borrowings and related interest rate swaps	3,051	3,148

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 2011 € '000	Year to 30 Sep 2010 € '000
Depreciation	20,473	18,668
Operating lease rentals	1,897	1,833
Foreign exchange loss/(gain)	531	(1,177)

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

	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
- for services as a Director	127	135
- for executive manager services	270	310

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

Group	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
- audit fees	126	138
- other assurance services	5	33
- tax advisory services	65	101
- other non-audit services	21	692

Other non-audit services includes amounts of €nil (2010:€692,000), all of which relate to the raising of finance for the East West Interconnector project.

Company	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
- audit fees	67	118
- other assurance services	5	33
- tax advisory services	49	73
- other non-audit services	-	692

Other non-audit services includes amounts of €nil (2010: €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 2011 € '000	Year to 30 Sep 2010 € '000
Current tax expense	4,851	3,344
Deferred tax relating to the origination and reversal of temporary differences	366	(1,248)
Effect of changes in tax rates and laws	(342)	(152)
Income tax expense for the year	4,875	1,944

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

	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Profit before tax	31,459	13,861
Taxation at standard rate of 12.5% (2010: 12.5%)	3,932	1,733
Effect of higher rates of tax on other income	635	200
Effect of income and expenses excluded in determining taxable profit	(109)	140
Effect of capitalised interest allowable for tax	(347)	-
Effect on deferred tax balances due to the change in the UK income tax rate	(342)	(152)
Effect of higher rates of tax on gains in UK subsidiaries	1,048	195
Under/(over) provision in prior years	50	(26)
Other differences	8	(146)
Income tax recognised in Income Statement	4,875	1,944

Corporation tax in respect of the Group's UK based operations is calculated at 27% (2010: 28%) of the estimated assessable profit for the year. The standard rate of UK corporation tax changed from 28% to 26% with effect from 1 April 2011.

The tax charge in future periods will be impacted by any changes to the corporation tax rate in force in the countries in which the Group operates. In the UK, the Finance Act (No. 2) 2010 included a reduction in the rate of corporate income tax from 28% to 26% (rather than 27% as previously enacted in July 2010). This change was substantively enacted on 5 July 2011. The rate reduction applied from 1 April 2011. Furthermore, the Finance Act 2011 promulgated and substantively enacted on 5 July 2011 a further reduction in the corporate income tax rate to 25% from 1 April 2012.

8. Income Taxes *(continued)*

Deferred tax balances must be recognised at the future tax rate applicable when the balance is expected to unwind. As such, the rate reduction to 25% is reflected in the closing deferred tax balance. Had this change not been substantively enacted at 30 September 2011, the Group's deferred tax asset would have been decreased by €0.30m, with €0.03m credited to equity and €0.33m charged to the Consolidated Income Statement.

Further annual reductions in the corporate tax rate of 1% annually reaching 23% on 1 April 2014 have been announced. The Finance Act 2011 did not include these additional rate reductions so they are not substantively enacted and therefore not reflected in the closing deferred tax balance. Had this change been substantively enacted at 30 September 2011, the Group's deferred tax asset would have been increased by €0.30m, with €0.03m charged to equity and €0.33m 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 (liability)/asset as at 1 October 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
Credit/(charge) to the Income Statement for the year	341	654	(125)	-	(68)	(826)	-	(24)
(Charge)/credit to the Statement of Recognised Income and Expense	-	-	(462)	1,270	-	-	-	808
Exchange differences	79	14	-	(5)	(2)	(24)	-	62
Deferred tax (liability)/asset as at 30 September 2011	(4,312)	1,081	1,968	6,829	117	736	-	6,419

8. Income Taxes *(continued)*

Company	Accelerated tax depreciation € '000	Retirement benefits obligations € '000	Cash flow hedges € '000	Total € '000
Deferred tax asset as at 1 October 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
Credit/(charge) to the Income Statement for the year	327	(124)	-	203
(Charge)/credit to the Statement of Recognised Income and Expense	-	(462)	747	285
Deferred tax asset as at 30 September 2011	1,687	1,969	4,602	8,258

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

	Group		Company	
	30 Sep 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Ireland	11,338	9,318	8,258	7,770
UK	(4,919)	(3,745)	-	-
Net deferred tax asset/(liability)	6,419	5,573	8,258	7,770

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 to the AGM and from filing it with the Companies Registration Office. The consolidated profit for the year to 30 September 2011 includes a profit attributable to the Company of €23.0m (2010: €12.9m).

10. Intangible Assets

Group	Goodwill € '000	Licence agreements € '000	Total € '000
Cost			
Balance as at 1 October 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
Exchange differences	(69)	(293)	(362)
Balance as at 30 September 2011	4,476	18,234	22,710
Accumulated Impairment Losses			
Balance as at 1 October 2009	-	-	-
Impairment charge	942	997	1,939
Balance as at 30 September 2010	942	997	1,939
Impairment charge	3,453	-	3,453
Exchange differences	(14)	(15)	(29)
Balance as at 30 September 2011	4,381	982	5,363
Carrying amount as at 30 September 2011	**95**	**17,252**	**17,347**
Carrying amount as at 30 September 2010	3,603	17,530	21,133

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 potential impairment to the assets arising in the current year, is as follows:

	30 Sep 2011 € '000	30 Sep 2010 € '000
SONI TSO	17,971	18,289
SEMO	2,829	4,783
Total	20,800	23,072

10. Intangible Assets *(continued)*

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 2017. This is the period to which management believe that discrete forecasts regarding expected cash flows can reasonably be made. 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 the regulatory price controls agreed in 2011 and 2010 respectively. The SONI price control covers the period from 2010-2015, the SEMO price control covers the period from 2010-2013. Estimated regulatory recoveries have been used to forecast profitability levels in the period beyond the current price controls;
- Discount rates of 5.25% and 4.95% (2010: 5.31% and 5.52%) have been assumed for the SEMO and SONI TSO CGUs respectively;
- Growth rates of 2.0% (2010: 2.0%) have been assumed into perpetuity for SEMO and SONI TSO regulatory asset bases (RAB). A nil% growth rate (2010: 2.0%) has been assumed into perpetuity for the SEMO and SONI TSO regulatory incentives. These assumptions reflect management's expectation for long-term growth.

At 30 September 2011, before impairment testing, goodwill of €3.5m and licence agreements of €14.5m were allocated to SONI TSO, which derives its revenue acting as the Transmission System Operator for Northern Ireland. On the basis of the above assumptions the Directors have concluded that there is an impairment to goodwill of €3.5m. This impairment loss is recognised within operating costs in the Consolidated Income Statement.

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 2010 assumptions, the Directors concluded that there was an impairment to goodwill of €0.9m and an impairment of €1.0m to licence agreements. This impairment loss was 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 an impairment to the value of the licence in the SEMO CGU of €0.2m and a further impairment to the value of the goodwill and license in the SONI TSO CGU of €0.1m and €2.5m respectively. A decrease in the RAB perpetuity growth rate of 1% would result in an impairment to the value of the licence in the SEMO CGU of €1.1m and a further impairment to the value of the goodwill and licence in the SONI CGU of €0.1m and €3.0m respectively.

11. Investment in Subsidiaries

Investment in Subsidiaries **Company**	**30 Sep 2011** **€ '000**	**30 Sep 2010** **€ '000**
Balance at start of year	32,676	-
Injections of capital to EirGrid Interconnector Limited	7,001	7,750
On-lending of debt	58,699	24,926
Balance at end of year	98,376	32,676

Movements in the year relate to further investments in EirGrid Interconnector Limited and to the incorporation of EirGrid Telecoms Limited.

During the year, the Company advanced €10.0m to EirGrid Interconnector Limited via an intercompany loan and on-lent €79.8m of debt. The Company has made total advances of €21.0m to EirGrid Interconnector Limited, and on-lent total debt of €164.3m. No interest is payable on these amounts under the intercompany loan agreement. The Company has recognised an investment of €98.4m 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 Telecoms Limited	Ireland	Telecommunications

EirGrid UK Holdings Limited, EirGrid Interconnector Limited and EirGrid Telecommunications 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 and EirGrid Telecommunications 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.

12. Property, Plant & Equipment

Group

	Land and buildings * € '000	Fixtures and fittings € '000	IT, telecommunications equipment and other € '000	Single Electricity Market ** € '000	Assets under Construction *** € '000	Total € '000
Cost						
Balance as at 1 October 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
Additions	-	2	104	-	195,439	195,545
Disposals	-	-	(8,545)	-	-	(8,545)
Transfers	31	175	7,420	-	(7,626)	-
Exchange differences	(47)	-	(287)	(144)	(17)	(495)
Balance as at 30 September 2011	11,715	1,660	55,442	49,265	289,972	408,054
Depreciation						
Balance as at 1 October 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
Charge	483	308	9,184	10,498	-	20,473
Disposals	-	-	(8,543)	-	-	(8,543)
Exchange differences	(30)	-	(184)	(116)	-	(330)
Balance as at 30 September 2011	1,638	901	25,800	35,615	-	63,954
Carrying amount as at 30 September 2011	**10,077**	**759**	**29,642**	**13,650**	**289,972**	**344,100**
Carrying amount as at 30 September 2010	10,546	890	31,407	24,176	102,176	169,195

* 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 2011 € '000	30 Sep 2010 € '000
IT and telecommunications equipment	10,030	3,400
East-West Interconnector project	279,942	98,776
Total	289,972	102,176

Assets under Construction include capitalised interest costs of €8.2m (2010: €0.7m).

12. Property, Plant & Equipment *(continued)*

Company

	Land and buildings * € '000	Fixtures and fittings € '000	IT, telecommunications equipment and other € '000	Single Electricity Market ** € '000	Assets under Construction *** € '000	Total € '000
Cost						
Balance as at 1 October 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
Additions	-	-	16	-	11,567	11,583
Disposals	-	-	(55)	-	-	(55)
Transfers	4	163	5,600	-	(5,767)	-
Balance as at 30 September 2011	10,407	1,623	48,517	41,418	9,006	110,971
Depreciation						
Balance as at 1 October 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
Charge	434	302	7,195	8,212	-	16,143
Disposals	-	-	(53)	-	-	(53)
Balance as at 30 September 2011	1,376	887	29,292	30,303	-	61,858
Carrying amount as at 30 September 2011	**9,031**	**736**	**19,225**	**11,115**	**9,006**	**49,113**
Carrying amount as at 30 September 2010	9,461	875	20,806	19,327	3,206	53,675

* 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 2011 € '000	30 Sep 2010 € '000
IT and telecommunications equipment	9,006	3,206

13. Trade and Other Receivables

	Group		Company	
	30 Sep 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Amounts due in less than one year:				
Trade receivables	72,022	21,610	55,432	17,568
Prepayments and accrued income	34,499	27,146	34,513	26,917
Unbilled receivables	45,521	45,945	39,635	39,728
VAT recoverable	9,321	76	2,773	-
Other receivables	534	886	396	761
Amounts owed by subsidiary undertakings	-	-	18,912	14,369
Total	161,897	95,663	151,661	99,343
Amounts due in more than one year:				
Prepayments and accrued income	1,133	-	-	-
Amounts owed by subsidiary undertakings	-	-	90,224	65,416
Total	163,030	95,663	241,885	164,759

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 year ends.

Group and Company prepayments and accrued income balances include deferred costs in respect of transmission projects of €33.1m (2010: €24.8m), all of which may not be recoverable within twelve months. Following a clarification from the regulatory authorities, management's assumptions regarding the recovery of working capital costs in respect of transmission projects in the period following vesting have changed. Previously, it was estimated that these amounts would not be recoverable. This has resulted in the Group and Company recognising other income of €3.1m, with a corresponding increase in the transmission projects asset.

Prepayments due after more than one year consists of an upfront payment made on an operating lease to secure the use of a docklands site in relation to the East-West Interconnector project. Further details of the lease are shown in note 18.

14. Trade and Other Payables

	Group		Company	
	30 Sep 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Trade payables	94,870	64,503	79,015	56,274
Accruals	86,331	50,579	36,204	29,004
Taxation and social welfare	2,071	3,767	1,871	3,482
Regulatory over-recoveries	2,288	9,150	2,288	9,150
Amounts owed to subsidiary undertakings	-	-	6,154	2,331
Total	185,560	127,999	125,532	100,241

14. Trade and Other Payables *(continued)*

Taxation and social welfare comprises of the following:	Group		Company	
	30 Sep 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
PAYE/PRSI	1,019	830	819	692
VAT	892	2,717	892	2,570
Withholding tax	160	220	160	220
Total	2,071	3,767	1,871	3,482

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.

€30.8m (2010: €26.8m) of the Group trade payables balance and €5.8m (2010: €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. €30.8m (2010: €26.8m) 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 2011 relates to internal operating costs which were over-recovered in the period following the vesting of EirGrid plc in 2006. This over-recovery is being 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 be returned to customers. In the year to 30 September 2011, €6.9m of this amount was returned, with €2.3m to be returned in the year to 30 September 2012.

15. Deferred Income

Group

Capital Grants	**€ '000**
Balance as at 1 October 2009	-
Grants received	2,318
Balance as at 30 September 2010	2,318
Grants received	33,000
Balance as at 30 September 2011	35,318

Analysed as:	**€ '000**
Current	-
Non-current	35,318
Balance as at 30 September 2011	35,318

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. Capital grants will be amortised in line with depreciation of the EWIC asset.

16. Issued Share Capital

Group and Company	30 Sep 2011 € '000	30 Sep 2010 € '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.

17. Cash and Cash Equivalents

	Group		Company	
	30 Sep 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Cash and cash equivalents	109,531	114,373	58,815	78,796

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 €2.3m (2010: €9.2m) relating to the regulatory over-recoveries payable at year end (note 14) and security deposits of €0.8m (2010: €0.8m). Included in the Group's cash balances is a further €0.4m (2010: €2.7m) held on trust for market participants in the SEM, €32.6m (2010: €10.7m) held in SEM collateral reserve accounts (security accounts held in the name of market participants), with an equivalent amount included in trade payables and €0.8m of Public Service Obligation levy (PSO) funds. Included in the Company's cash balances is €0.3m (2010: €2.0m) held on trust for market participants in the SEM, €24.5m (2010: €8.0m) held in SEM collateral reserve accounts (security accounts held in the name of market participants), with an equivalent amount included in trade payables and €0.8m of PSO funds.

During the year, the Company advanced interest free loans totalling €79.8m to EirGrid Interconnector Limited and injected equity of €10.0m. This is classified as an investment in subsidiary in the Company Cash Flow Statement.

The Group had unutilised borrowing facilities of €347.4m (2010: €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.

18. Operating Lease Arrangements

Future minimum lease payments under non-cancellable operating leases, which are primarily in respect of the Group's buildings and a land lease for the East-West Interconnector project, fall due as follows:

	Group		Company	
	30 Sep 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Not longer than one year	3,043	2,661	3,043	2,661
Longer than one year and not longer than five years	11,797	10,494	11,797	10,494
Longer than five years	43,843	29,760	43,843	29,760
Total	58,683	42,915	58,683	42,915

The operating lease for the Group's head 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 Group has agreed a lease of land in the port of Liverpool, secured via an upfront payment. The agreement includes a break clause after the first 30 years of the lease. After this 30 year term, lease payments will be subject to inflationary increases.

There are no significant or unusual restrictions imposed on the Group by the terms of the operating leases.

19. Capital Commitments

	Group		Company	
	30 Sep 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Expenditure contracted for, but not provided for in the Financial Statements	243,826	337,832	-	-

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

In 2010, the East-West Interconnector asset under construction was transferred from the Company to another Group subsidiary, EirGrid Interconnector Limited. The Company has entered into an agreement with EirGrid Interconnector Limited to licence the East-West Interconnector asset once construction is completed.

20. Contingent Liabilities

The Group has issued a letter of credit of €8.7m 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 2011 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 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Present value of funded defined pension obligations	74,971	74,205	57,079	56,276
Fair value of plan assets	(60,509)	(53,772)	(41,333)	(35,843)
Net liability	14,462	20,433	15,746	20,433
Derecognition of net pension asset	1,284	-	-	-
Net liability before deferred tax	15,746	20,433	15,746	20,433
Deferred tax on net pension obligation (note 8)	(1,968)	(2,555)	(1,968)	(2,555)
Net liability after deferred tax	13,778	17,878	13,778	17,878

The Group has not recognised a net pension asset of €1.3m, arising on the SONI Focus plan, as it is not certain that a refund will be available from the plan, nor will the net pension asset result in a reduction to future contributions.

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

	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Current service cost	4,336	3,875
Interest cost	3,342	3,648
Expected return on plan assets	(3,135)	(2,681)
Employer pension cost capitalised	(653)	(821)
Amount included in other operating costs relating to defined benefit schemes	3,890	4,021

21. Retirement Benefits Obligations *(continued)*

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

	Group		Company	
	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Actuarial gains/(losses)	5,138	1,419	3,693	(955)
Derecognition of net pension asset	(1,284)	-	-	-
Amount included in the Statement of Recognised Income and Expense	3,854	1,419	3,693	(955)

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

	EirGrid plan		SONI Focus plan	
	30 Sep 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Opening defined benefit obligation	56,277	48,168	17,928	17,117
Current service cost including employee contributions	5,032	4,561	825	775
Interest cost	2,387	2,643	955	1,006
Actuarial (gains)/losses	(6,441)	1,152	(1,503)	(2,085)
Benefits paid	(176)	(247)	(40)	-
Exchange differences	-	-	(273)	1,115
Closing defined benefit obligation	57,079	56,277	17,892	17,928

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

	EirGrid plan		SONI Focus plan	
	30 Sep 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Opening fair value of plan assets	35,844	28,218	17,928	14,779
Expected return on plan assets	2,261	1,857	874	824
(Losses)/gains on plan assets	(2,748)	197	(58)	289
Employer contributions	4,752	4,473	621	961
Employee contributions	1,400	1,346	121	116
Benefits paid	(176)	(247)	(40)	-
Exchange differences	-	-	(270)	959
Closing fair value of plan assets	41,333	35,844	19,176	17,928

21. Retirement Benefits Obligations *(continued)*

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

	EirGrid plan		SONI Focus plan	
	30 Sep 2011	30 Sep 2010	30 Sep 2011	30 Sep 2010
Valuation method	Projected Unit	Projected Unit	Projected Unit	Projected Unit
Discount rate	5.00%	4.25%	5.30%	5.30%
State pension increase	2.00%	2.50%	2.60%	3.40%
Salary increases	2.75% plus scale	2.50% plus scale	4.40%	4.40%
Pension increases	2.75%	2.50%	2.60%	3.40%
Inflation	2.00%	1.75%	3.40%	3.40%
Post-retirement life expectancy for those retiring at age 65 in 2031:				
- Men	25.4 years	24.0 years	24.1 years	22.0 years
- Women	26.7 years	26.4 years	26.6 years	24.2 years

The discount rate used by the plan actuaries in the calculation of the pension liabilities at the year end were 5.00% (2010: 4.25%) for the EirGrid plan and 5.30% (2010: 5.30%) for the SONI Focus plan. The EirGrid plan discount rate was based on the redemption yield on Euro denominated corporate bonds extrapolated to an approximate duration of 20 years (2010: 20 years). The SONI Focus plan discount rate was based on the redemption yield on Sterling denominated corporate bonds extrapolated to an approximate duration of 20 years (2010: 20 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 58%.

During the year the UK Government changed the link for pension increases from being linked to Retail Prices Index (RPI) inflation to Consumer Prices Index (CPI) inflation. This has resulted in an actuarial gain which has been reflected through equity.

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 2011 %	30 Sep 2010 %	30 Sep 2011 €'000	30Sep 2010 €'000
Equities	7.00%	7.00%	19,179	23,334
Bonds	4.00%	3.95%	6,324	8,927
Property	5.50%	5.50%	785	974
Cash	2.00%	2.50%	8,225	2,609
Alternatives	7.00%	-	3,224	-
Annuities	5.00%	-	3,596	-
Fair value of plan assets			41,333	35,844

21. Retirement Benefits Obligations *(continued)*

SONI Focus plan	Expected Return		Fair Value	
	30 Sep 2011 %	30 Sep 2010 %	30 Sep 2011 €'000	30 Sep 2010 € '000
Equities	6.50%	7.00%	6,250	6,443
Bonds	3.30%	3.70%	12,065	11,008
Cash	0.50%	2.50%	861	477
Fair value of plan assets			19,176	17,928

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 a gain of €0.3m. The actual return on the EirGrid plan scheme assets was a loss of €0.5m.

During the year ending 30 September 2012 the Group expects to contribute approximately €5.9m to its defined benefit plans.

The history of experience adjustments is as follows:

	2011 € '000	2010 € '000	2009 € '000	2008 € '000	2007 € '000
Present value of defined benefit obligation	74,971	74,205	65,285	47,188	43,564
Fair value of plan assets	(60,509)	(53,772)	(42,997)	(22,633)	(25,077)
Derecognition of net pension asset	1,284	-	-	-	-
Deficit	15,746	20,433	22,288	24,555	18,487
Experience adjustments on plan liabilities	7,944	933	2,373	1,064	2,215
Experience adjustments on plan assets	(2,806)	486	2,687	(6,296)	1,820

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 €0.2m (2010: €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 2011 € '000	30 Sep 2010 € '000
Non-current assets	19,210	20,924
Current assets	76,594	23,634
Total assets	95,804	44,558
Total equity	8,201	4,427
Current liabilities	87,603	40,131
Total liabilities	87,603	40,131
Total equity and liabilities	95,804	44,558

	Year to 30 Sep 2011 € '000	Year to 30 Sep 2010 € '000
Revenue	102,625	89,895
Expenses	(98,737)	(88,137)
Operating profit	3,888	1,758

23. Borrowings

	Group		Company	
	30 Sep 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Repayable within one year:				
Bank overdrafts	166	2,811	166	2,811
Bank loans repayable by instalments	13,447	13,518	8,822	8,822
Total current borrowings	13,613	16,329	8,988	11,633
Repayable after more than one year by instalments:				
Between one and two years	24,848	13,519	11,231	8,822
Between two and five years	30,717	34,746	14,571	14,295
In five years or more	192,096	83,104	145,861	77,524
Total non-current borrowings	247,661	131,369	171,663	100,641
Total borrowings outstanding	261,274	147,698	180,651	112,274

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 2011 € '000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
Financial assets classified as loans and receivables:				
Trade receivables	72,022	21,610	55,432	17,568
Amount owed by subsidiary undertakings	-	-	109,136	79,785
Cash and cash equivalents	109,531	114,373	58,815	78,796
Total financial assets	181,553	135,983	223,383	176,149
Financial liabilities classified as other liabilities:				
Trade payables	94,870	64,503	79,015	56,274
Amount owed to subsidiary undertakings	-	-	6,154	2,331
Borrowings and bank overdrafts	261,274	147,698	180,651	112,274
Total	356,144	212,201	265,820	170,879
Financial liabilities designated as hedging instruments:				
Derivative financial instruments (note 25)	53,274	43,815	36,812	31,434
Financial liabilities fair valued through profit and loss:				
Derivative financial instruments	28	-	-	-
Total derivative financial instruments	53,302	43,815	36,812	31,434
Total financial liabilities	409,446	256,016	302,632	202,313

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.

The fair value of the Group's foreign exchange forward contracts at the reporting date are determined by measuring quoted forward exchange rates matching the maturity of the contracts 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. During the year, the Company extended its existing working capital borrowing facilities in response to a shortfall between imperfections tariffs and associated constraint costs.

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.

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 Utility Regulator Northern Ireland (URegNI) and through internal budgeting and monitoring of variances. The Group has negotiated stand-by facilities with various 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.

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 2011 were €64.4m (2010: €2.2m). SEMO trade debtors included in Company trade debtors as at 30 September 2011 were €48.3m (2010: €1.6m).

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 2011 €'000	30 Sep 2010 € '000	30 Sep 2011 € '000	30 Sep 2010 € '000
60 to 90 days	21	10	21	10
90 to 120 days	6	-	6	-
Greater than 120 days	1,251	1,519	1,251	1,519
Total	1,278	1,529	1,278	1,529

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 Company causes 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 €347.4m 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.

25. Derivative Financial Instruments and Financial Risk Management *(continued)*

The following table details the Group's remaining contractual maturity for its 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 2011					
Non interest bearing – trade payables	94,870	-	-	-	94,870
Borrowings and bank overdrafts	-	25,538	93,558	280,621	399,717
Total	94,870	25,538	93,558	280,621	494,587
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

Company	Less than 1 month € '000	1 to 12 months € '000	1 to 5 years € '000	5+ years € '000	Total € '000
30 Sep 2011					
Non interest bearing – trade payables	79,015	-	-	-	79,015
Borrowings and bank overdrafts	-	16,335	52,052	212,407	280,794
Total	79,015	16,335	52,052	212,407	359,809
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

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.

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 2011 %**	**30 Sep 2010 %**	**30 Sep 2011 € '000**	**30 Sep 2010 € '000**	**30 Sep 2011 € '000**	**30 Sep 2010 € '000**
Between one and two years	4.0%	-	14,144	-	(404)	-
Between two and five years	4.8%	4.0%	18,443	22,167	(1,345)	(936)
In five years or more	3.8%	3.8%	219,862	97,122	(51,525)	(41,773)
Total active swap contracts	3.9%	3.8%	252,449	119,289	(53,274)	(42,709)
Total forward starting swap contracts	-	4.8%	-	-	-	(1,106)
Total swap contracts	3.9%	3.8%	252,449	119,289	(53,274)	(43,815)

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 2011 %**	**30 Sep 2010 %**	**30 Sep 2011 € '000**	**30 Sep 2010 € '000**	**30 Sep 2011 € '000**	**30 Sep 2010 € '000**
Between one and two years	4.0%	-	14,144	-	(404)	-
Between two and five years	-	4.0%	-	22,167	-	(936)
In five years or more	3.8%	3.8%	164,341	84,496	(36,408)	(30,498)
Total active swap contracts	3.8%	3.8%	178,485	106,663	(36,812)	(31,434)

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

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 periodically and the floating rates are reset 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 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.

25. Derivative Financial Instruments and Financial Risk Management *(continued)*

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.

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 2011 would have been impacted by €0.3m (2010: €0.3m); and
- Other equity reserves would have been impacted by €41.5m (2010: €42.0m), 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 2011 would have been impacted by €0.1m (2010: €nil); and
- Other equity reserves would have been impacted by €29.1m (2010: €27.8m), 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 and Sterling VAT receipts resulting from the East-West Interconnector project. The risk arising from subsidiaries with Sterling functional currencies 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 risk arising from Sterling VAT receivables arising from the East-West Interconnector project is partially mitigated by the Group entering into foreign exchange forward contracts.

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 €3.1m during the year to 30 September 2011 (2010: operating profit of €1.6m). 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 2011 would be impacted by €0.4m (2010: €0.1m). Other equity reserves would have been impacted by €0.2m (2010: €0.1m).

26. Related Party Transactions

Group

The Group has voluntarily early adopted the provisions of IAS 24 (2009) Related Parties, with effect from 1 October 2009, as the Directors believe adoption 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.

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 Public Expenditure and Reform, 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 Public Expenditure and Reform, 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.

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 2011 € '000	Year to 30 Sep 2010 € '000
Transmission asset owner charge	157,341	144,614

At 30 September 2011 a total of €30.8m (2010: €26.8m) was payable to ESB under this Agreement. The movement in this balance was as follows:

	30 Sep 2011 € '000	30 Sep 2010 €'000
Opening balance	26,757	29,154
Charges during the year	157,341	144,614
Payments made during the year	(153,333)	(147,011)
Closing balance	30,765	26,757

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

26. Related Party Transactions *(continued)*

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 2011 € '000	Year to 30 Sep 2010 € '000
Short-term benefits	1,433	1,768
Post-employment benefits	172	258
Total	1,605	2,026

Company

At 30 September 2011 €109.1m (2010: €79.8m) was due to the Company from its subsidiaries.

During the year, the Company advanced €10.0m to EirGrid Interconnector Limited via an intercompany loan and on-lent €79.8m of debt. The Company has made total advances of €21.0m to EirGrid Interconnector Limited, and on-lent total debt of €164.3m. Management estimate that on-lent interest free debt will be repaid on a schedule matching the terms of the on-lent debt. The terms of interest free intercompany debt are such that the intercompany debt portion may only be repaid once commercial funding has been repaid.

The Company has recognised an investment of €98.4m 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). Management's assumptions regarding the repayment profile of interest free intercompany loans arising from on-lent debt have changed. Management now estimate that on-lent interest free debt will be repaid on a schedule matching the terms of the on-lent debt. Previously, it was estimated that the first intercompany debt lent would be the first repaid. This has resulted in an increase in the value of the Company's investment in EirGrid Interconnector Limited of €18.7m.

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, €3.2m was recharged under this arrangement. If management's estimates regarding repayment of intercompany loans had not changed, €4.1m would have been recharged under the arrangement.

All borrowings by subsidiaries are guaranteed by EirGrid plc through a cross-guarantee structure.
The Company has issued letters of support for its EirGrid UK Holdings Limited and EirGrid Interconnector Limited subsidiaries.

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

27. Post Balance Sheet Events

There have been no significant events affecting the Group or Company since the year end.

28. Approval of Financial Statements

The Board approved the Financial Statements on 21 December 2011.

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