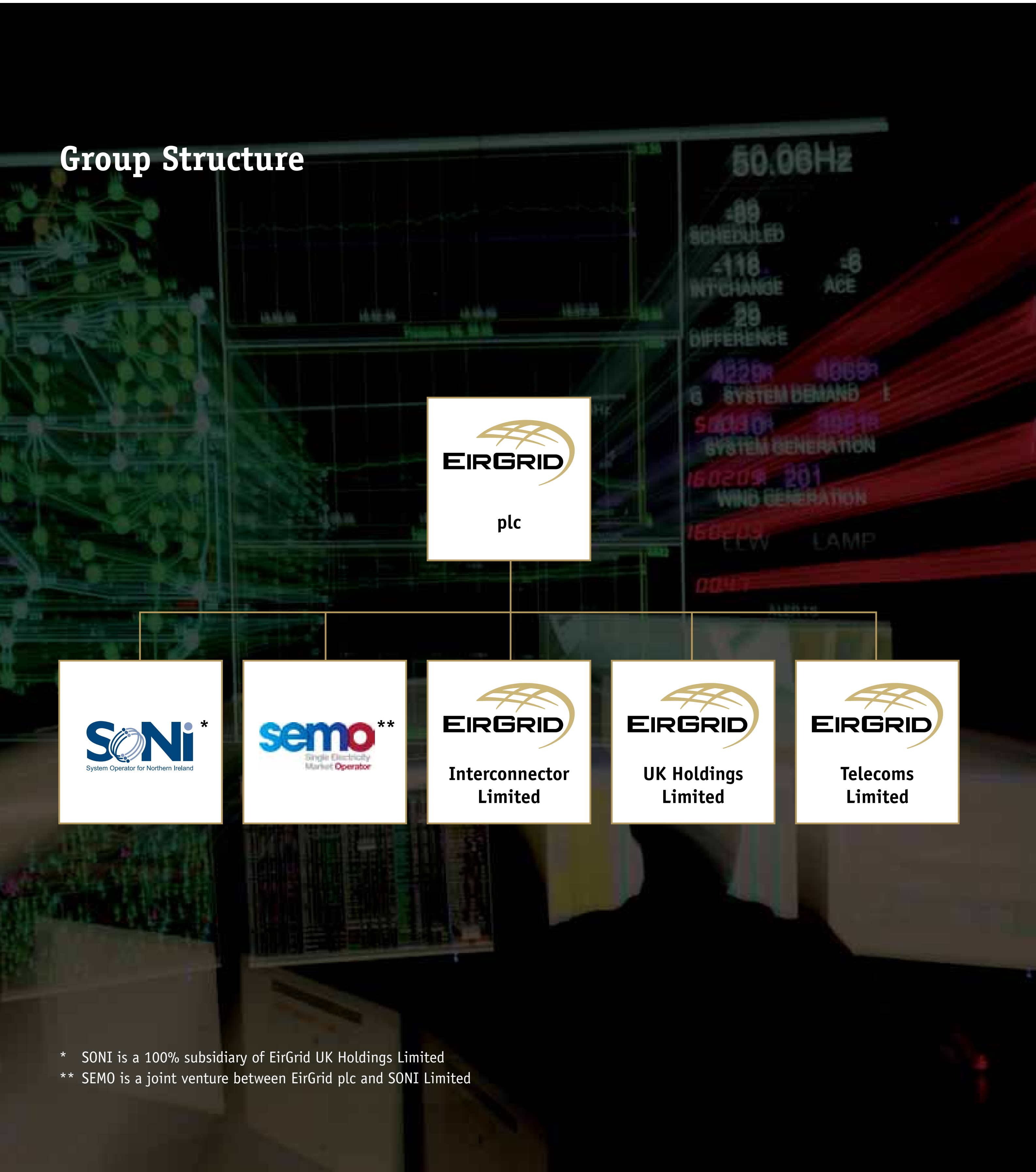
EirGrid plc
Annual Report 2012

Securing Ireland's Electricity Supply

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

European Energy Programme for Recovery

Cover shows a view of the valve hall at the East West Interconnector Converter Station, Woodland, County Meath.
The EirGrid East West Interconnector project is co-financed by the European Union.



Group Structure

- EirGrid plc
  - SONI System Operator for Northern Ireland *
  - semo Single Electricity Market Operator **
  - EirGrid Interconnector Limited
  - EirGrid UK Holdings Limited
  - EirGrid Telecoms Limited

* SONI is a 100% subsidiary of EirGrid UK Holdings Limited
** SEMO is a joint venture between EirGrid plc and SONI Limited

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; EirGrid Interconnector Limited, the East West Interconnector developer and EirGrid Telecoms Limited.





Contents

The National Control Centre, Ballsbridge, Dublin.

Chairperson's Report

On behalf of EirGrid, I am delighted to present our Annual Report for the 12-month period to 30 September 2012. It has been a year of major significance for EirGrid and one that has seen us continue to consolidate our progress in developing the major infrastructural projects which will provide the power system our customers need.

Progress was made right across the Group, which comprises EirGrid as Transmission System Operator in Ireland, SONI as Transmission System Operator in Northern Ireland, SEMO as the Single Electricity Market Operator across the island of Ireland and the operation and ownership of the East West Interconnector (EWIC).

Our operating profit for the year was €23m, compared to €30m for the previous period. This is accounted for by an over-recovery in SONI regulated profits in the previous period and reduced profitability in the SEMO business for 2012.

Despite this, we continued to invest in major projects such as the East West Interconnector Project and also to manage the liquidity requirements associated with the Single Electricity Market.

We have continued to grow as a corporate citizen and 2012 saw us publish our first ever Corporate Social Responsibility Annual Report and achieve the Business Working Responsibly Mark from Business in the Community Ireland. Business responsibility has always been central to our way of operating and a comprehensive structure is now in place to help us achieve our Corporate Social Responsibility (CSR) objectives in 2013 and beyond.

We don't regard CSR as an "add-on" to our business, but rather as an integral part of how we discharge our responsibilities to our broad-based community throughout the island of Ireland.

One of the highlights of our CSR activity is our Schools Science Programme, which saw major educational events held throughout the island during 2012.

The past year has also been noticeable in terms of our public profile. We have had a number of significant and high-profile visits by figures ranging from His Majesty King Letsie III, the King of Lesotho, to Congresswoman Nancy Pelosi, and the Oireachtas Energy Committee.

We have also been delighted to welcome the Taoiseach, Enda Kenny TD, to the launch of the Grid West Project and the EU Commissioner for Energy, Gunther Oettinger, to the ceremony marking EWIC. In addition, Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD, spoke at our Annual Group Customer Conference and at the launch of the Grid Link Project.

In Board matters, our Board, Executive and senior Departmental officials travelled to Brussels for highly informative and rewarding meetings with senior Commission officials, members of the Energy cabinet and leading industry principals.

2012 was also a significant year for EirGrid in that Dermot Byrne retired as Chief Executive and Board member. He is due an enormous debt of gratitude for his energy, vision and leadership and he has left an indelible and positive mark on the organisation.

I'd like to take this opportunity to welcome his successor, Fintan Slye, who I know will make an equally impressive contribution to the organisation.

I would also like to extend my deep appreciation to Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD, for his unstinting support for EirGrid. His personal involvement and that of his officials and staff, have been of enormous benefit to us. I'm equally grateful to Minister for Enterprise, Trade and Investment in Northern Ireland, Arlene Foster MLA, and her officials. It has been a pleasure to work with such professional and energetic individuals.

The success to date of EirGrid has been very firmly based on the hard work and ability of our staff and management and they are due enormous praise for their contribution during the year and indeed, from the inception of the Group.

I am also indebted to the tremendous work of my fellow Board members, who have made my task so easy.

And last but not least, I'd like to sign off by restating our commitment to all our customers and stakeholders. It is both our duty and our privilege to deliver a world class customer service to the entire island of Ireland.

Bernie Gray CHAIRPERSON

Left to right: Mr. Ben Hurley, the CEO of the NDRC (National Digital Research Centre), Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD, Bernie Gray, Chairperson and Fintan Slye, Chief Executive.

EirGrid's Chairperson Bernie Gray speaking at the Customer Conference 2012.

Cable laying vessel for the East West Interconnector.

A participant in the EirGrid Schools Science Programme during Maths Week, held at Intel, Leixlip, County Kildare.

Chief Executive's Review

It is with great pleasure that I deliver my first Chief Executive's Review, having taken up the position in October of 2012.

This has been a year of transition for EirGrid as well of one of continued progress. Not alone has the organisation seen a change of Chief Executive, following the retirement of Dermot Byrne after a highly distinguished career, but it has also seen the commencement of limited commercial operation of the East West Interconnector (EWIC), which will significantly transform the way in which we deliver energy to the entire island of Ireland.

System and Market Operations

On the Operations front, we have enjoyed a highly successful year, with further progress on the integration of renewables while at all times keeping the lights on and maintaining security of supply for our customers in Ireland and Northern Ireland. Considerable progress was also made in our preparations for operating the power system of tomorrow, as evidenced by the Delivering a Secure Sustainable Electricity System (DS3) programme and major improvements in wind generation controllability.

The Single Electricity Market (SEM) continued to operate smoothly and transparently, setting prices, invoicing participants in a timely fashion and transferring funds securely. During the year, Intra-Day Trading was introduced, which facilitates electricity trading closer to real time and ultimately will promote greater competition in the market. The successful implementation of Intra-Day Trading represents one of the most significant changes to the SEM since its inception, offering two additional opportunities to market participants to trade in the day ahead and within day timeframes.

Financial Results

EirGrid's revenue for the year to 30 September 2012 was €542m, compared to €471m for the previous year. The main factor in this significant increase in revenue was the increase in the Imperfections tariff collected by SEMO in respect of an under-recovery of constraint costs in the previous regulatory period.

The operating profit of €23m for the year to 30 September 2012 compares to an operating profit of €30m for the year to 30 September 2011. The operating profit figure has decreased due to the correction of a previous regulatory over-recovery of SONI regulated tariffs, along with reduced profitability in the SEMO business for 2012.

EirGrid 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.

Innovation

Innovation has been very much to the fore in 2012, as evidenced by a broad number of examples, including DS3, our programme for Delivering a Secure Sustainable Electricity System, and the establishment of our Smart Grid Programme. A key element of the Smart Grid Programme was the launch, in collaboration with the NDRC (National Digital Research Centre), of our Smart Grid Innovation Hub, which provides assistance to entrepreneurs, academics and SMEs.

We have been tremendously heartened by the progress of the Smart Grid Demonstration Projects commenced in 2012 and further such projects will continue to be rolled out during 2013 and beyond.

Another major innovation to come fully on-stream in 2012 was WSAT, an online Wind Security Assessment Tool. It was introduced in Ireland in late 2011 and extended to Northern Ireland and the SONI Control Centre in early 2012. It enables our power system controllers to maximise the utilisation of wind energy, while facilitating secure, reliable and economic operation of the power system of the entire island of Ireland.

We have also extended our use of High Temperature Low Sag (HTLS) conductors to upgrade the transmission system. This technology can provide significant increases in capacity faster and at a much lower cost than traditional solutions.

Minister for Finance, Michael Noonan TD, with EirGrid's Chief Executive, Fintan Slye.

Grid & Interconnector Delivery

2012 has seen the continued rollout of key infrastructural projects as part of our Grid25 programme. We launched comprehensive consultation programmes on our Grid West and Grid Link Projects, and in cooperation with ESB Networks, have built 130km of new line, uprating a further 215km and refurbishing another 200km.

We will continue to invest significantly throughout 2013, progressing the North South project and steering the Grid West Project, the Grid Link Project and others through the next stages.

In the East West Interconnector project, we have seen one of our most significant investments ever draw closer to a conclusion. As with all such projects, a comprehensive programme of testing was implemented in summer/autumn 2012. During the testing phase, potential telephone noise interference with telecommunications infrastructure in close proximity to the Interconnector was identified. The commercial operation of the East West Interconnector was temporarily deferred. EirGrid and its contractor worked cooperatively with the telecommunications network providers to address the issue. As a result, the interconnector commenced limited commercial operation in December, with full commercial operation planned for May 2013. The development of a permanent solution to potential telephone noise interference, such as will allow the Interconnector to operate in its intended mode at full capacity, is underway.

The European Dimension

EirGrid is highly conscious of our role not just within the domestic markets in Ireland and Northern Ireland, but also as part of a broader European network. Given the increasing scale and importance of this aspect of our role, we are establishing a department under Executive direction to manage our interactions and responsibilities in Europe.

This is a new departure for EirGrid and highlights our ongoing commitment to achieving our European energy objectives, including delivery and implementation of EU Network Codes and a new set of market arrangements across the island of Ireland, by 2016, compatible with the EU Target Model.

Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD, with Congresswoman Nancy Pelosi and Fintan Slye.

Our Customers and Stakeholders

As an organisation, we believe that our future can be best secured by delivering outstanding service to all our customers and stakeholders, and with each passing year we strive to improve the level of customer service we deliver.

In addition, we are committed to working constructively with all of our stakeholders including landowners, communities, public representatives, farming, business and environmental representatives, the academic sector, the media and other groups.

Our Annual Customer Conference and customer forums are central events for EirGrid during the year, allowing us to interact in a very direct fashion with our customers and stakeholders. We also conduct an extensive Customer Survey which allows our customers to let us know how we can better serve them and how we can adapt and fine-tune our service offerings and delivery.

As a regulated state-owned company, we are pleased to work closely with our shareholders, the Minister for Communications, Energy and Natural Resources and the Minister for Public Expenditure and Reform, and with our regulators, the Commission for Energy Regulation, the Utility Regulator Northern Ireland and Ofgem. We also cooperate closely with the Department for Enterprise Trade and Investment in Northern Ireland.

Corporate Social Responsibility (CSR)

There continues to be a very strong CSR ethos running right throughout EirGrid and we place a special importance on the areas of education and youth development. Our Schools Science Programme, for example, aims to continue to help Junior Cycle students to develop an appreciation and understanding of the impact that electricity has on their lives and their communities.

EirGrid's commitment to CSR received a strong boost during the year when we were awarded Business in the Community Ireland's (BITCI) "Business Working Responsibly" Mark, Ireland's only certification for responsible and sustainable business practices. We are committed to continuously improving in the area of CSR and we see the Business Working Responsibly Mark as very important in measuring our progress as we strive for excellence in this area.

Health, Safety & Environment

2012 was another successful year for the EirGrid Group in relation to health, safety, welfare and environmental protection. There were no accidents in the EirGrid Group during the year.

May saw SONI receive certification to the ISO14001 Environmental Standard, while in June, EirGrid received the prestigious Carbon Trust Standard, demonstrating actual year on year CO_2 reductions from its activities.

Our People

No organisation can succeed without the full commitment of its people, and we are superbly served by over 400 staff across the Group. In a very fast-changing world, their flexibility and willingness to embrace change have been key factors in our success. A balance of skills, experience, knowledge and diversity is central to an effective organisation, and will remain a priority as we continue to evolve.

We will continue to recruit new and diverse talent into the business and ensure our existing employees are developed and challenged to reach their full potential. We continue to invest in them through our staff development programme – EirSkills – a key component of which is developing and maintaining a high performing organisation. Developing talent is vital to our success and we recognise our role, through initiatives such as EirGrid's School Science Programme, in encouraging the next generation of young people to pursue science, technology and mathematics at school and beyond.

Finally, may I take this opportunity to thank my predecessor, Dermot Byrne, for his exceptional service to the organisation. I would also like to thank the EirGrid Chairperson, Bernie Gray, and the Board for their support and assistance during this period of transition for EirGrid, and for me personally.

Fintan Slye

Fintan Slye CHIEF EXECUTIVE

Financial Review

Key Financial Highlights €'m	2012	2011
Revenue	542.2	470.7
Direct costs	438.8	362.9
Other operating costs	80.1	77.5
Operating profit	23.3	30.3
Total non-current assets	610.1	373.9
Net borrowings	288.7	184.7

EirGrid's revenue for the year to 30 September 2012 was €542.2m, compared to €470.7m for the previous year. The main driver for this significant increase in revenue was the increase in the Imperfections tariff collected by SEMO in respect of an under-recovery of constraint costs in the previous regulatory period.

The operating profit of €23.3m for the year to 30 September 2012 compares to an operating profit of €30.3m for the year to 30 September 2011. The operating profit figure has decreased due to a regulatory adjustment of SONI profits in the previous period and reduced profitability in the SEMO business for 2012.

The operating profit for the Group includes a level of over-recovery on regulated tariffs. This was due to a number of uncertainties that are inherent in operating within a regulated environment, along with 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 2012 was €23.3m, but excluding those over-recoveries, management's estimate of the underlying operating profit for 2012 was €18.8m, 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 the Market Operator tariff.

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.

Further 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 CER and Utility Regulator Northern Ireland (URegNI) respectively. In its role as Market Operator for the SEM, the Group is regulated by the SEM Committee, which comprises the 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.

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 and formally codified in licence changes accepted by SONI in June 2012. In August 2012, the CER set out the basis of the provision of the revenue requirements for the East West Interconnector (EWIC).

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 regulator 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 2012, this has enabled the Group to continue to invest very substantially in the East West Interconnector project and also to manage the liquidity requirements associated with an unexpectedly high level of 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, EirGrid equity and a €110m grant under the European Energy Programme for Recovery (EEPR). Cumulative expenditure on the project to September 2012 was €511m (2011: €280m) and consequently, year end borrowings were €427.5m (2011: €261.3m). During the year, €44m (2011: €33m) was received under the EEPR grant.

Looking ahead, a further €59m capital expenditure is budgeted to be spent in the coming year to bring the East West Interconnector into full commercial operation.

Project Profile

East West Interconnector

Construction of Ireland's first electricity link with Great Britain was substantially completed in 2012 and the interconnector commenced limited commercial trading in December with flows of power in both directions.

The EirGrid East West Interconnector runs between Deeside in north Wales and Woodland, County Meath in Ireland. Approximately 260km in length, the underground and undersea link will have the capacity to transport 500 megawatts – enough energy to power 300,000 homes. It includes over 187km of submarine cable and was a very technically challenging project.

The Interconnector is capable of carrying electricity both ways, benefiting consumers by helping to improve security of supply, increase competitiveness and to encourage the growth of renewable energy generation.

When EirGrid was asked by Government to deliver this strategic infrastructure, the company put in place the necessary structures to deliver this major infrastructure on a tight timeline, with the appointment of a project team and the Project Director, John Fitzgerald.

The project was funded through a loan from the European Investment Bank and from a consortium of banks, as well as EirGrid equity and was grant-aided through the European Union's Energy Programme for Recovery.

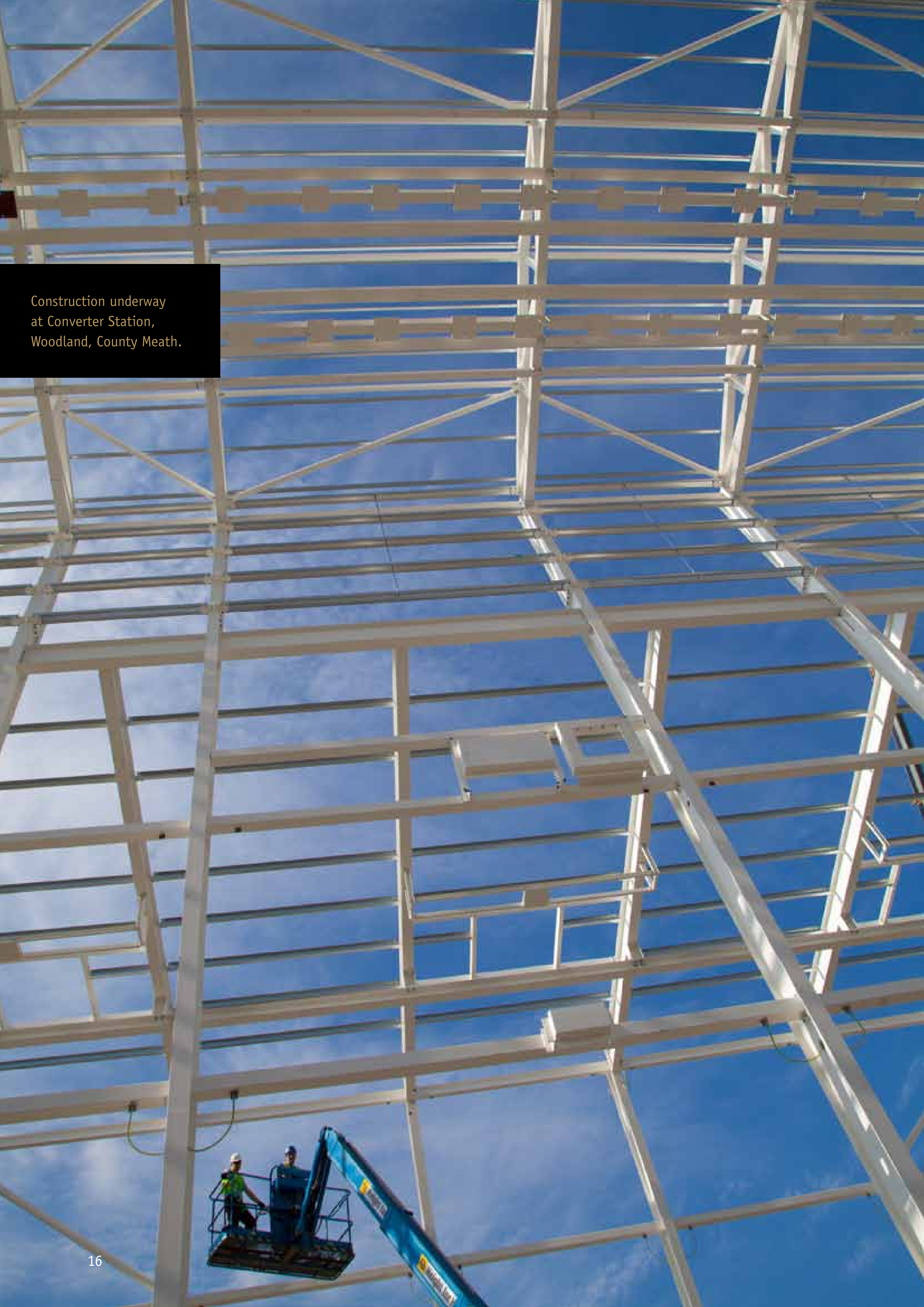
The Interconnector ties our energy markets closer together. It gives all concerned additional assurance of supply and it is the single most important step in allowing Ireland to exploit and to export its enormous resources of renewable energy. Critically it also allows us to access energy from Great Britain and from across the European continent which will result in more competition in the energy market and put downward pressure on prices.

Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD, said: "Energy infrastructure investment is a long term play. This Interconnector is part of a series of major grid development projects which the Government has charged EirGrid to complete over this decade. Delivering such projects on budget and on time is essential so as to keep consumer electricity prices as low as possible".

During the testing phase potential telephone noise interference with telecommunications infrastructure in close proximity to the Interconnector was identified. The commercial operation of the East West Interconnector was temporarily deferred. EirGrid and its contractor worked cooperatively with the telecommunications network providers to address the issue. At the end of 2012, limited commercial operation commenced and the development of a permanent solution to potential telephone noise interference, such as will allow the Interconnector to operate in its intended mode at full capacity, is underway.

Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD, with UK Secretary of State for Energy and Climate Change, Ed Davey MP, at the ceremony marking EWIC.

East West Interconnector Project Director, John Fitzgerald.



Construction underway at Converter Station, Woodland, County Meath.

Operating the Power System

European Commissioner for Research, Innovation and Science, Máire Geoghegan-Quinn, with staff at the Euroscience Open Forum (ESOF).

The safe, secure, reliable, economic and efficient operation of the all-island power system is the primary function of the EirGrid Group business.

As the Transmission System Operators (TSOs), EirGrid and SONI are responsible for managing electricity supply and demand in real-time 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 by the National Control Centre (NCC) in Dublin and Castlereagh House Control Centre (CHCC) in Belfast. Electricity demand requirements must be met in real-time by electricity generation. Maintaining this balance between electricity demand and supply is the responsibility of EirGrid and SONI. Electricity is generated at power stations located at various geographical points across the island as well as at wind farms and other smaller facilities. Electricity, generated in bulk, is transported around the country on the high voltage transmission network to the main load centres such as cities and large towns as well as to large industrial sites.

The dispatch of generation on the grid is performed in accordance with the Single Electricity Market principles, using a single all-island unit commitment solution to minimise production costs. The TSOs provide SEMO with the relevant data required to settle the electricity market.

Electricity Demand

During the period from January 2012 to December 2012, all-island system demand decreased. Energy consumption for the period totalled approximately 34.5 TWh (terawatt hours) representing a 1.6% decrease on the previous 12 months. The all-island maximum system demand in 2012 of 6,305 MW (megawatts) occurred in December.

System Performance

Security of supply standards were met throughout the period with generation margins remaining within standards.

From January 2012 to December 2012, the number of 'System Minutes Lost' (SML is an industry standard index which measures the severity of each system disturbance) which occur when supply to customers is disrupted due to transmission system or generating plant failure, was 0.3718 in Ireland and 1.307 in Northern Ireland. There was an improvement in the overall system generation availability in 2012, with the percentage of forced and scheduled outages down from 6.77% to 4.85% during the year.

Renewables

The largest share of renewable generation in Ireland and Northern Ireland is provided by wind and hydro. In 2012, the amount of wind generation installed on the island surpassed 2,100 MW, and the maximum instantaneous all-island wind generation in 2012 was 1,864 MW. Total installed renewables on the island has now reached a combined total of 2,497 MW – 2,006 MW in Ireland and 491 MW in Northern Ireland.

The main project in Operations designed to help deliver on the 2020 renewable electricity targets is the programme for Delivering a Secure and Sustainable Electricity System (DS3). At its core, this programme is designed to ensure the operational capabilities of the power system are developed in order to deliver on Ireland's 2020 renewable electricity targets in a safe, secure and economic manner.

Smart Grids

The Smart Grid is as a key enabler of a future low carbon electricity system that facilitates demand side efficiency, increases the share of renewable and distributed generation and enables consumer participation. At its core, EirGrid's Smart Grid programme is a series of projects to upgrade our current electricity system; to drive innovation and to deliver a low carbon energy future; while continuing to operate and maintain a safe, secure and reliable system.

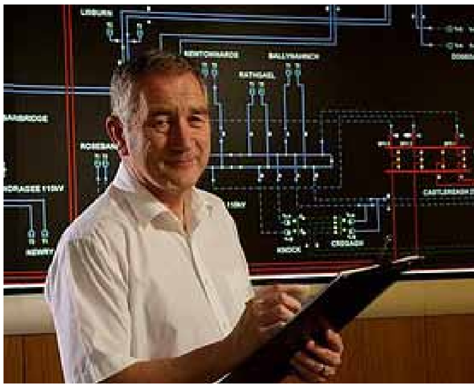
In 2012, EirGrid and SONI invited companies with Smart Grid technology capability to work with the TSOs to develop SMART technologies and trial their concepts on the island's power system. With the TSOs assistance, it is envisaged that this will lead to refinements and innovation that will support the development of a Smarter Grid in Ireland and Northern Ireland. The Glen Dimplex Greenway project aims to demonstrate how the Glen Dimplex Quantum space and water heating system can be used to remotely switch on and off a distributed population of energy stores in response to an operational command. The SSE Renewables/GE Fast Frequency Response Project aims to demonstrate GE's WindINERTIA™ Control, which enables a temporary increase in wind turbine electrical power output over a short period of time in response to an under frequency event, thus enhancing grid stability. The results generated from both of these demonstration projects will be made public. This initiative is on-going and as such other SMART concepts will be announced in 2013 and beyond.

The Smart Grid Innovation Hub is a collaborative initiative by EirGrid Group and the NDRC (National Digital Research Centre) to promote the development of innovative Smart Grid solutions. It has a focus on entrepreneurial initiatives by companies, academics and entrepreneurs on the island of Ireland. The hub provides access to the people, systems and data necessary to test ideas and concepts and enable them to develop from concept to commercial reality. The Smart Grid Innovation Hub presents a tremendous opportunity to build an expertise and knowledge base, spur domestic economic activity and create the real potential for high value exports.

Operational Review

The following are the main highlights during 2011-2012:

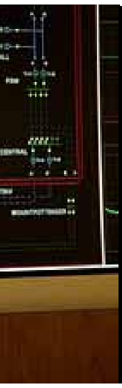
- All security of supply Key Performance Indicators (KPIs) were achieved throughout 2012.
- East West Interconnector was tested and the control room staff trained.
- There were some significant outcomes of the DS3 programme including: a detailed review of the System Services requirements; capability and remuneration levels on the island of Ireland; an assessment of the technical standards and Grid Code requirements for renewable generation and the introduction of the Wind Security Assessment Tool (WSAT) on an all-island basis.
- EirGrid and SONI continued to contribute to the development and drafting of the European Network Codes.
- EirGrid and SONI launched the Demonstration Projects and Smart Grid Innovation Hub in 2012 to trial advanced technologies on the system and promote the development of innovative new Smart Grid ideas on the island of Ireland.



Focus Areas for 2013

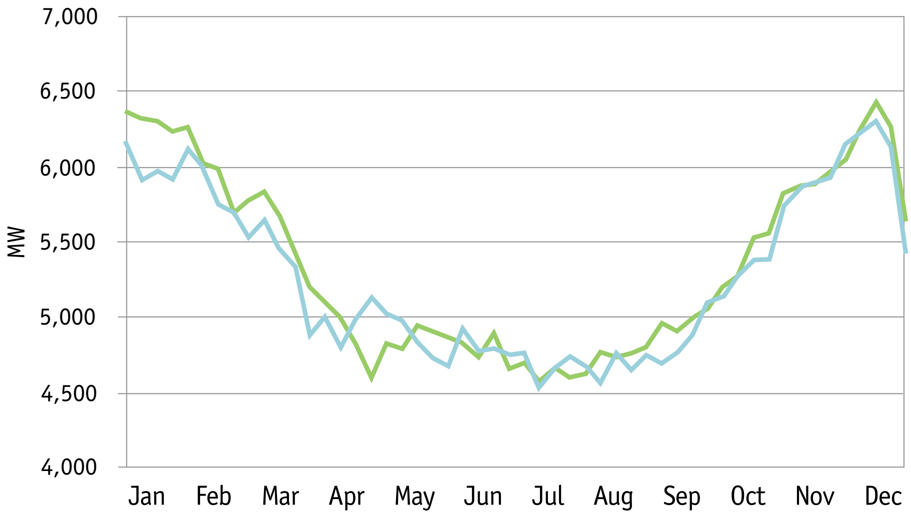
The integration of increasing levels of renewable generation continues to revolutionise the electricity landscape across the island. EirGrid and SONI are helping develop many of the necessary solutions to facilitate this paradigm shift and help fulfil energy policy obligations in Ireland, Northern Ireland and the European Union. The introduction of increasing amounts of non-synchronous variable renewable generation, further interconnection, Intra-Day Trading and Smart Grid initiatives means that System Operators face increasing levels of complexity in the safe operation of the power system. In this context, the following are key focus areas for 2013:

- Progressing the DS3 programme with the aim of completing the System Services review and ensuring the necessary system flexibility and generator performance to manage increasing amounts of non-synchronous variable renewable generation.
- Operation of the EWIC ensuring the Interconnector will be compliant with European Regulations on cross border trade.
- Facilitating the further integration of appropriate Smart Grid initiatives and demonstration projects onto the power system.
- Ensuring the appropriate development of the European Target Model and all other network codes related to operating the power system.
- Identifying and implementing efficiencies in operating the transmission system across the island.



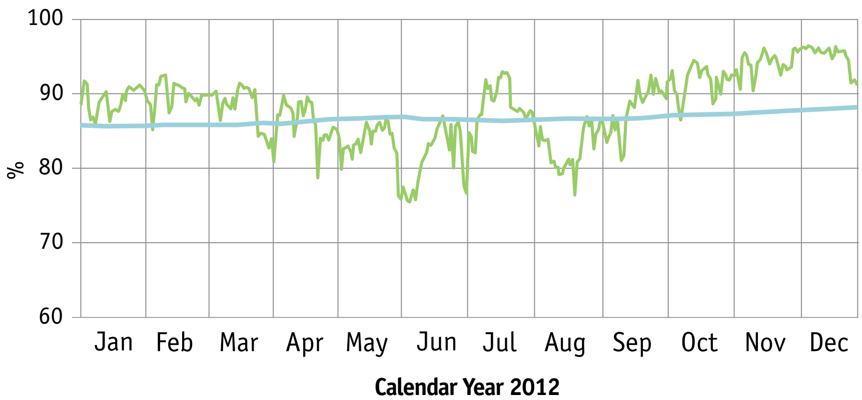
All Island Weekly Peaks

- 2011
- 2012



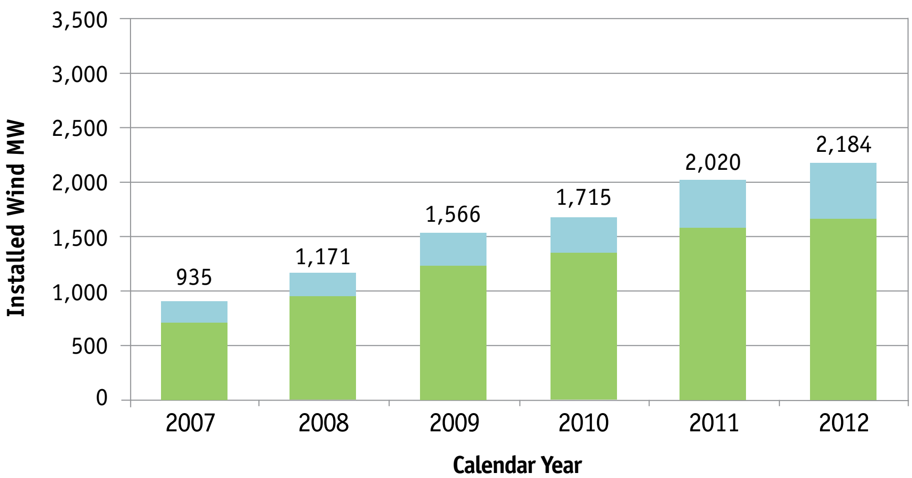
All Island Generation: System Availability

- Daily Availability
- 365 Day Rolling Availability



All Island Wind Capacity 2007-2012

- Ireland
- Northern Ireland



Project Profile

110kV Power Line, Tarbert Tralee II, County Kerry

On 12 December 2011, Minister for Arts, Heritage and the Gaeltacht, Jimmy Deenihan TD, energised the new 110kV power line that connects Tarbert to Tralee, including works at both substations in late December of 2011.

The 47km line, which started construction in March 2010, represents an investment of €21 million in Kerry and the greater south west region. It was a vital piece of electricity infrastructure which will ensure that the region meets the standards required of a reliable and secure electricity system, while utilising the south west region's rich renewable energy resources.

The investment will allow the region to become a net exporter of renewable energy and forms part of the overall Grid25 investment programme.

It will strengthen the existing electrical network in the region and also enable the region to exploit its clean, green energy sources and will make an important contribution to attracting and retaining industry.

This new line brings a level of security of supply to the area that helps to ensure a reliable and secure supply of electricity is available for all customers and gives the capacity for future customers to connect to the network.

Senior Project Manager, John Egan.

Operating the Single Electricity Market

The Single Electricity Market (SEM) is the wholesale electricity market which has operated in Ireland and Northern Ireland since 1 November 2007. The SEM provides for a competitive, sustainable and reliable wholesale market in electricity, aimed at delivering long-term all island economic and social benefits. The Single Electricity Market Operator (SEMO) operates and administers the SEM. SEMO is licensed and regulated by the Commission for Energy Regulation in Ireland and the Utility Regulator Northern Ireland, acting jointly through the SEM Committee.

Operational Review

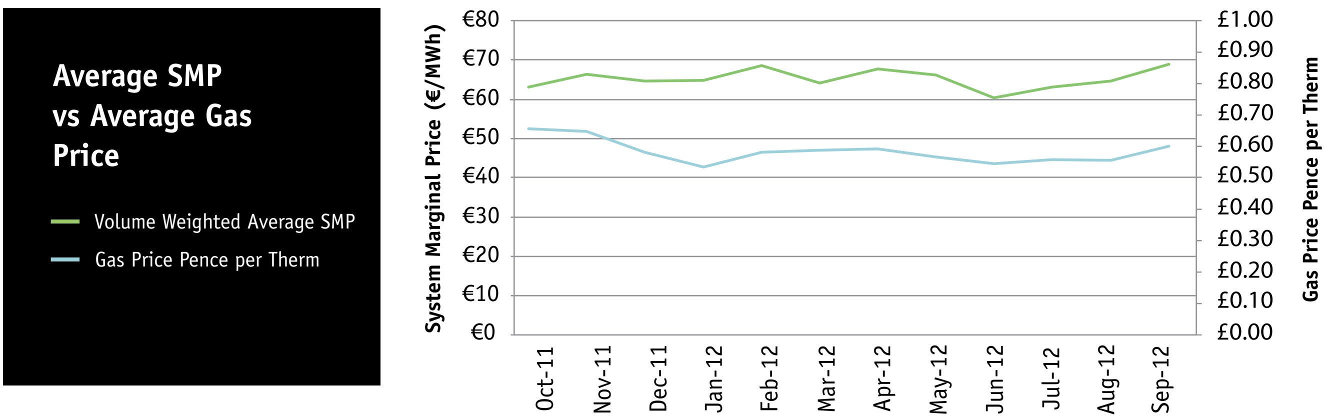
During the fifth financial tariff period (1 October 2011 to 30 September 2012), the SEM operated in line with expectations. The System Marginal Price (SMP) has been reflective of supply and demand and of international fuel prices, particularly gas. The graph below shows the average monthly SMP from October 2011 to September 2012, which closely aligns with changes in gas prices.

During its fifth year, the market has operated smoothly, transparently setting prices, invoicing participants in a timely fashion and transferring funds securely. A high level of operational performance was maintained, while implementing significant change to the market with the advent of Intra-Day Trading, which went live on 21 July 2012.

During the year in question, SEMO oversaw the processing of energy invoicing and settlement totalling approximately €2.3 billion (including imperfections) in addition to capacity settlement of approximately €569 million. All SEM collateral requirements were fully maintained.

SEMO continued to maintain a high level of performance with regard to publication times and responsiveness to participant and customer queries, despite an increased level (13%) of customer queries as a result of the Intra-Day Trading project. In addition, the availability of SEM central market system applications was maintained at a high level (99.79%).

SEMO also administers the Modifications Committee, which is the industry forum for considering change to the SEM. A significant number of modifications (28) for the period from October 2011 to September 2012, were raised by the Modifications Committee, with the SEM Committee approving 26 modifications of those new and existing. Particular focus in rule changes in the area of Demand Side Management facilitated the increased participation of Demand Side Units in SEM, while work continued on the development of



SEMO Staff members Robert McCarthy, Emma Kelly and Derek Lawler, Manager, Market Operations, The Oval, Ballsbridge, Dublin.

the rules and design for Intra-Day Trading. Two new versions of the Trading and Settlement Code incorporating market rule modifications were published during this period. SEMO also continued to translate SEM Committee approved modifications into changes in the central market systems, the most significant of which was Intra-Day Trading in July 2012.

SEMO remains proactive in managing the requirements of participants. During the last tariff year, SEMO organised and presented at four working groups related to significant modifications, in addition to six general market operator user groups. Three dedicated market training sessions were held for new SEM participants. Participation in the SEM continues to grow, with five new parties and 32 new units registering in the last year. This included an increased level of participation by Demand Side Units (two new units) and Interconnector users (seven new units).

The successful implementation of Intra-Day Trading represents one of the most significant changes to the SEM since its inception, offering two additional opportunities to market participants to trade in the day ahead and within day timeframes. The Intra-Day Trading project, which was delivered on time and under budget, comprised the development of market rules which ensure that Ireland and Northern Ireland have now become compliant with European Congestion Management Guidelines (CMG). The eventual design, developed in consultation with the wider electricity industry, offers additional trading opportunities not only to Interconnector users, as stipulated by the CMG, but to all participants in the SEM. SEMO worked with a number of stakeholders to translate the industry-agreed high-level design to changes to the market systems and processes. Engagement with industry included Modifications Committee working groups, programme management fora, system design workshops, market participant training and a committed period of market trial prior to Intra-Day go-live. Such preparation and cooperation with industry participants culminated in a transition to Intra-Day Trading which was smooth and transparent.

Focus Areas for 2013

Since 2007, the SEM has provided a stable and transparent platform for the wholesale trading of electricity in Ireland and Northern Ireland and will continue to do so for the coming year.

- SEMO will continue to work with new participants, ensuring equitable access to the SEM. European electricity market integration represents the next major development of the electricity trading arrangements on the island of Ireland.
- Supporting the Regulatory Authorities in developing an implementation strategy for the 'target model' of day ahead price coupling and continuous Intra-Day Trading will be a significant focus for SEMO, given the timeline for delivery (2016 for the SEM).
- Implementing the target model will contribute to enhanced cross-border trade and competition on the island of Ireland.
- Introducing a greater level of flexibility to the trading arrangements to accommodate increasing levels of variable renewable generation in the electricity market.
- Further examination of the EU regulations on wholesale energy market integrity and transparency (REMIT) introduced in 2011 and their implications for the SEM.

Project Profile

110kV Station, Banoge, County Wexford

On 15 April 2012, the new 110kV line loop into a new 110kV station at Banoge near Gorey, County Wexford was energised for the first time. The 6km circuit consisting of thirty three 110kV double circuit lattice steel towers is connected into the existing Arklow-Crane 110kV line, which was also recently upgraded.

The new line, including the upgrade, represents a total investment of €20 million in the north Wexford area, reinforcing the local network in the region and helping to ensure that a reliable supply of electricity is available for all customers; domestic, commercial and industrial.

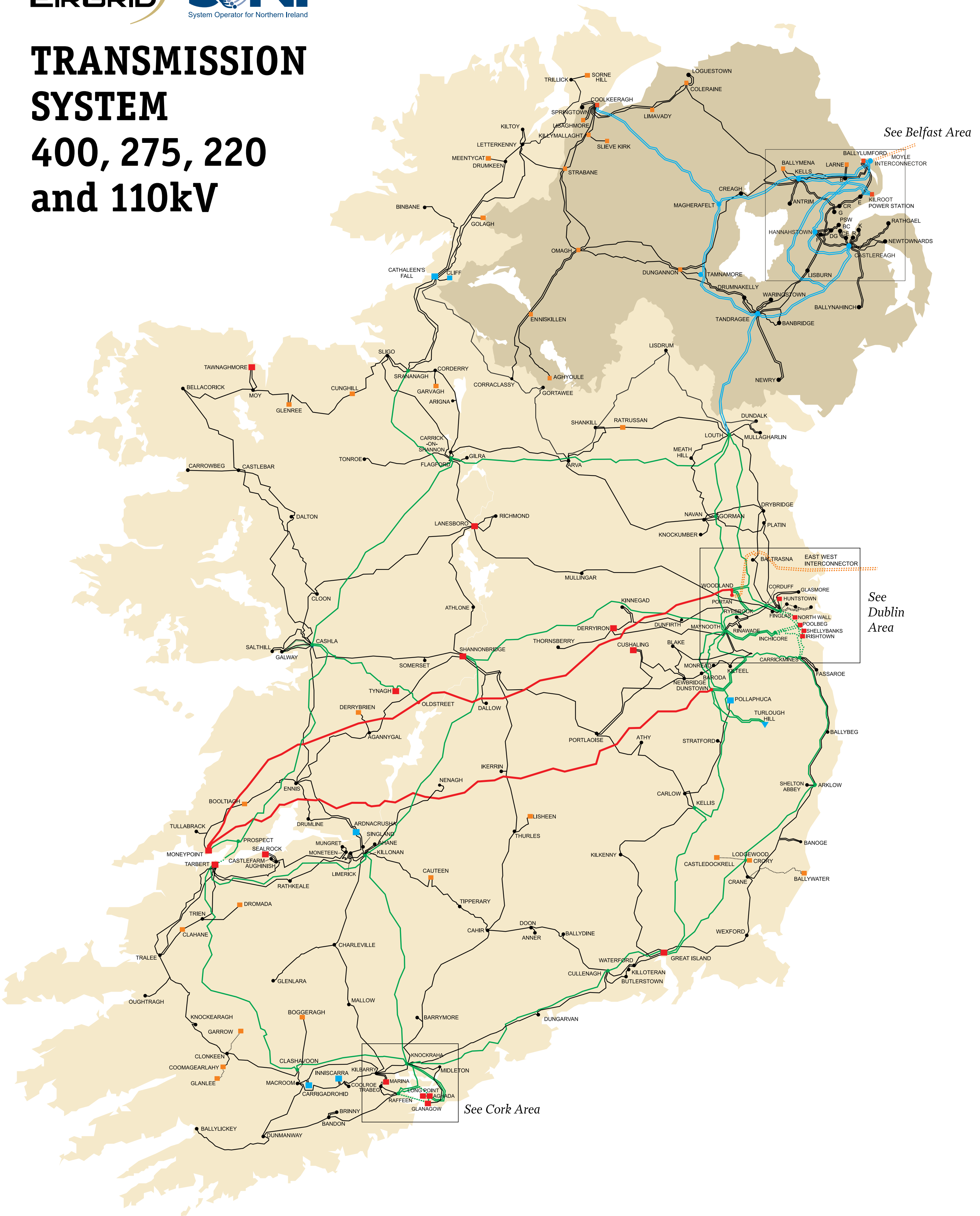
The project's success was due to the collaborative approach between EirGrid, ESB Networks and the landowners. The team engaged closely with landowners who are directly affected by the proposal, thereby ensuring that the construction activities - which occurred mainly during winter months - had a minimal impact on their farm practices.

The new 6km line loop was also the first new build in Ireland to use a High Tension Low Sag (HTLS) conductor. This brought its own unique set of challenges in terms of the stringing operation as there are a greater number of conductor joints with HTLS in comparison to traditional electricity overhead lines.

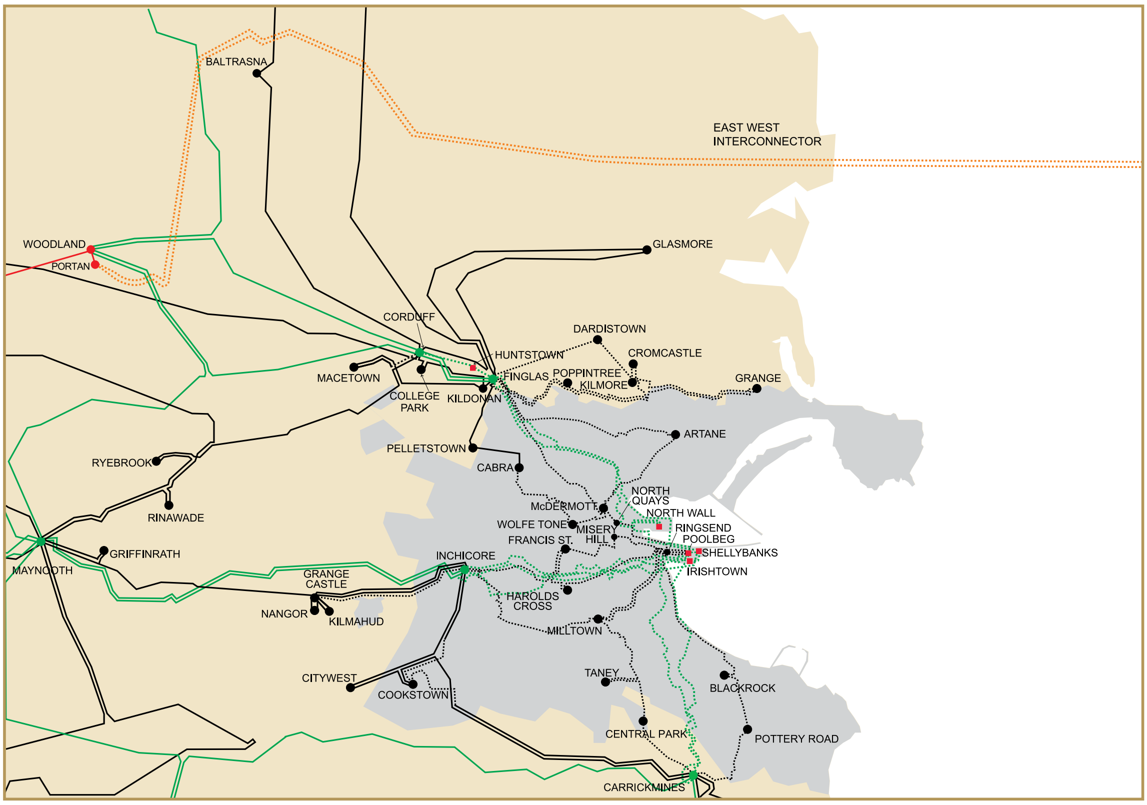
Senior Project Manager, Shane Brennan, consulting with a landowner.

System Operator for Northern Ireland

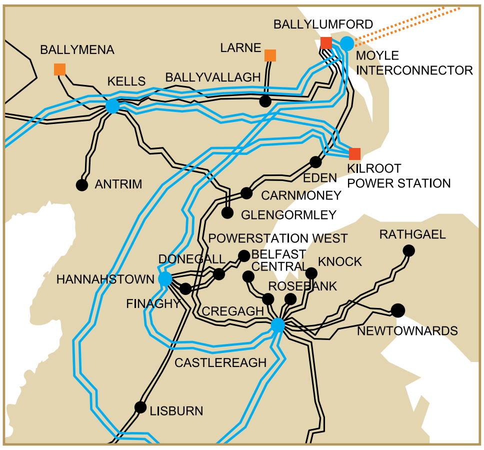
TRANSMISSION SYSTEM 400, 275, 220 and 110kV



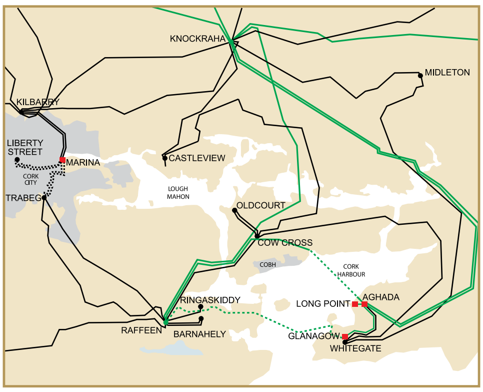
Dublin Area



Belfast Area



Cork Area



- 400kV Lines
- 275kV Lines
- 220kV Lines
- 110kV Lines
- 220kV Cables
- 110kV Cables
- HVDC Cables
- 400kV Stations
- 275kV Stations
- 220kV Stations
- 110kV Stations

Transmission Connected Generation

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

Grid Development

EWIC

The completion of the construction stage of the East West Interconnector (EWIC), Ireland's first electricity link with Great Britain, was marked by An Taoiseach, Enda Kenny TD, Irish and British Energy Ministers and EU Energy Commissioner Oettinger at a ceremony in County Meath. The EirGrid East West Interconnector runs between Deeside in north Wales and Woodland, County Meath, in Ireland. Approximately 260km in length, the underground and undersea link has the capacity to transport 500 megawatts - enough energy to power 300,000 homes. The Interconnector will carry electricity both ways, benefiting consumers by helping to improve security of supply, increase competitiveness and encourage the growth of renewable energy generation. It also ties the Irish and UK energy markets closer together and is the single most important step in allowing Ireland to exploit and to export its enormous resources of renewable energy.

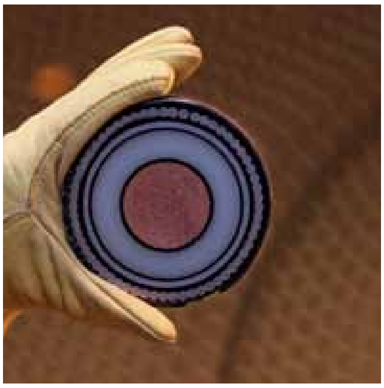
This development shows the benefit of Ireland working in a European context. EU Energy Commissioner Oettinger commented at the launch that, "The need for energy infrastructure development is one of the biggest energy challenges facing the EU. Ireland's East West Interconnector will double electricity interconnection between the UK and Ireland and will provide a greater opportunity to trade electricity between the two markets. It is a key part of building a single European energy market".

Grid25 Programme

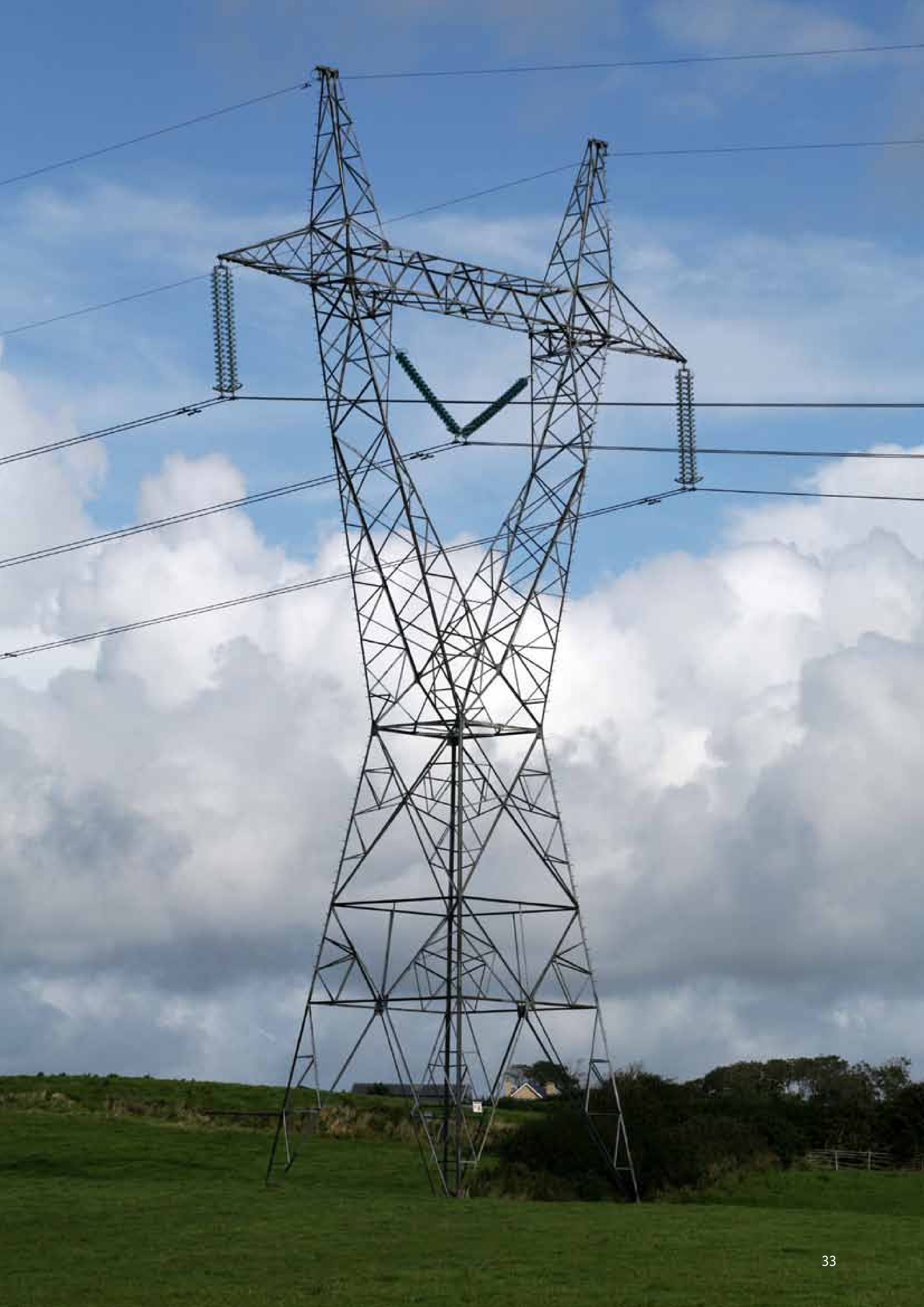
Grid25 is EirGrid's programme for the development of Ireland's transmission system. This includes the construction of 800km of new circuit at various high voltages and the upgrading of over 2,000km of existing transmission circuits using new and existing conductor technologies. During the year, EirGrid progressed transmission projects at various stages of development throughout the country. The Government Policy Statement on the Strategic Importance of Transmission and Other Energy Infrastructure, which was published in 2012, specifically endorses and supports the Grid25 programme and reaffirms that it is Government policy and in the national interest.

In 2012, significant progress was made in a number of areas with the construction of 130km of new circuits and the uprating of 215km of existing circuits. A precursor to the completion of these projects was the progress made in gaining the required access to land and successfully working with local landowners. A number of major transmission reinforcements were completed in 2012 including the new Flagford Srananagh 220kV circuit and five new 110kV circuits: Tarbert Tralee II, Gorman Navan III, Dalton Galway Loop into Cashla 220kV Station, Gorman Meath Hill and Arva Shankill II. The new Banoge 110kV station was also completed in County Wexford in early 2012. Several significant transmission projects progressed through the planning application phase in the past year.

An Taoiseach, Enda Kenny TD, at the ceremony marking EWIC.



Cross-section of an EWIC HVDC cable.



His Majesty King Letsie III, the King of Lesotho, with Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD, at EirGrid's offices in Ballsbridge, Dublin.

Strategic Planning

In May 2012, EirGrid launched a Report on the Strategic Environmental Assessment (SEA) of the Grid25 Implementation Programme (IP) 2011-2016 and the Natura Impact Statement for the Grid25 Implementation Programme. The SEA statement is the culmination of the SEA process, which is intended to demonstrate how environmental considerations have been integrated into the development activities.

Public Consultation

EirGrid published a Project Development Roadmap in 2012 which reflects best practice in project development, combined with the facilitation of meaningful, constructive engagement and dialogue with all stakeholders and members of the public.
The Roadmap sets out the ways in which members of the public can participate in the project development process and is aimed at making participation as convenient as possible for all parties.

Public consultation began on two of EirGrid's largest Grid25 projects, the Grid West and the Grid Link Projects, following their respective launches during 2012. The project teams engaged in extensive programmes of public consultation in keeping with the terms of the EirGrid project development roadmap, including a series of 18 open days which took place across the southern, eastern and western regions.

EirGrid also engaged with stakeholders and the public on a number of station and new circuit project proposals in counties Galway, Westmeath, Laois and Dublin through a wide variety of means including bulletins, advertising, mail shots and open days, as well as direct engagement with the public and landowners.

Evidence-based Environmental Studies

EirGrid is conducting a number of evidence-based studies on the effects on the environment of substations and high voltage transmission lines ranging from 110kV to 400kV. These robust, peer-reviewed, evidence-based studies are aimed at determining the actual impacts of the construction and existence of high voltage electricity transmission projects on the environment. The studies will also serve as a foundation for future guidelines on the development of high voltage electricity transmission projects in Ireland and will form part of EirGrid's Strategic Environmental Framework for delivering Grid25. The individual studies include ecology, landscape, noise, Electromagnetic Field (EMF), water, soils/geology and cultural heritage. The cultural heritage study was completed in 2012 and it is expected that the remaining studies will be completed in 2013.

Further Interconnection and Off-Shore Grid Development

EirGrid is investigating the appropriate next steps for further interconnection, including engagement with neighbouring TSOs in the UK and France, the identification of appropriate schemes and the investigation of the business cases for such development. EirGrid will engage with the regulators and governments and will ensure stakeholders are fully informed of project progress at the appropriate time. EirGrid also made a major contribution to the market and network modelling of the North Seas region under the aegis of European Network of Transmission System Operators for Electricity (ENTSO-E) and North Seas Countries' Offshore Grid Initiative (NSCOGI) and continues to be one of three market modellers for the North Seas region for ENTSO-E and for NSCOGI.

Aerial examination of the transmission system underway.

Grid25 Focus Areas for 2013

EirGrid has invested in a significant transmission development programme as evidenced by the volume of work which is currently in progress and which will be starting construction in the coming years. EirGrid will continue to focus in the coming year on the effective and efficient delivery of the suite of transmission projects within the Grid25 programme. This includes continued engagement with ESB Networks on multi-year programme planning and delivery of construction programmes.

The Grid25 programme is expected to progress significantly through 2013, with major advances planned for all projects through the different stages from planning to completion.

- EirGrid expects that approximately 100km of new build and 300km of line upratings will be completed in 2013. Having achieved planning permission for both the Mullingar Reinforcement and the Clashavoon-Dunmanway project in 2012, further studies will progress on both of these projects before construction begins, while both the West Galway project and the Laois Kilkenny project will enter the planning process.
- The Grid West and Grid Link Projects will enter Stage 2 of the public consultation process, while the North South project is expected to be resubmitted to An Bord Pleanála.
- The Donegal 110kV line will advance further though the construction stage, as will the Tarbert and Millstreet projects.
- A considerable amount of studies on the Renewable Integration Development Project (RIDP) have now been completed and this critical component in the electricity infrastructure in both Ireland and Northern Ireland will move on to the next stage in its development.

Senior Project Manager, Brian Mullins, and ESBI's David Reidy assessing the Tarbert Tralee II project.

Project Profile

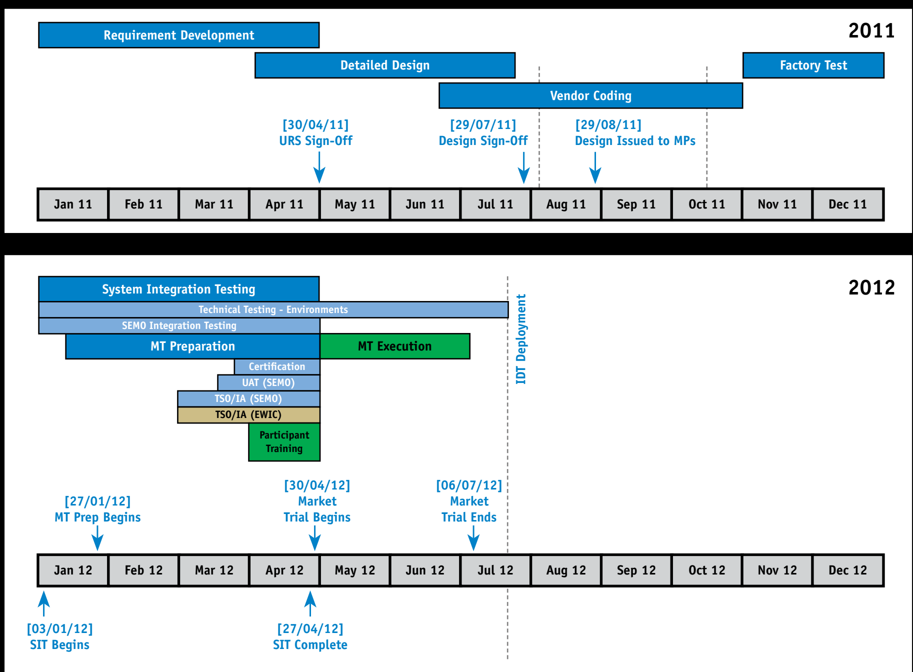
Intra-Day Trading Implementation Project

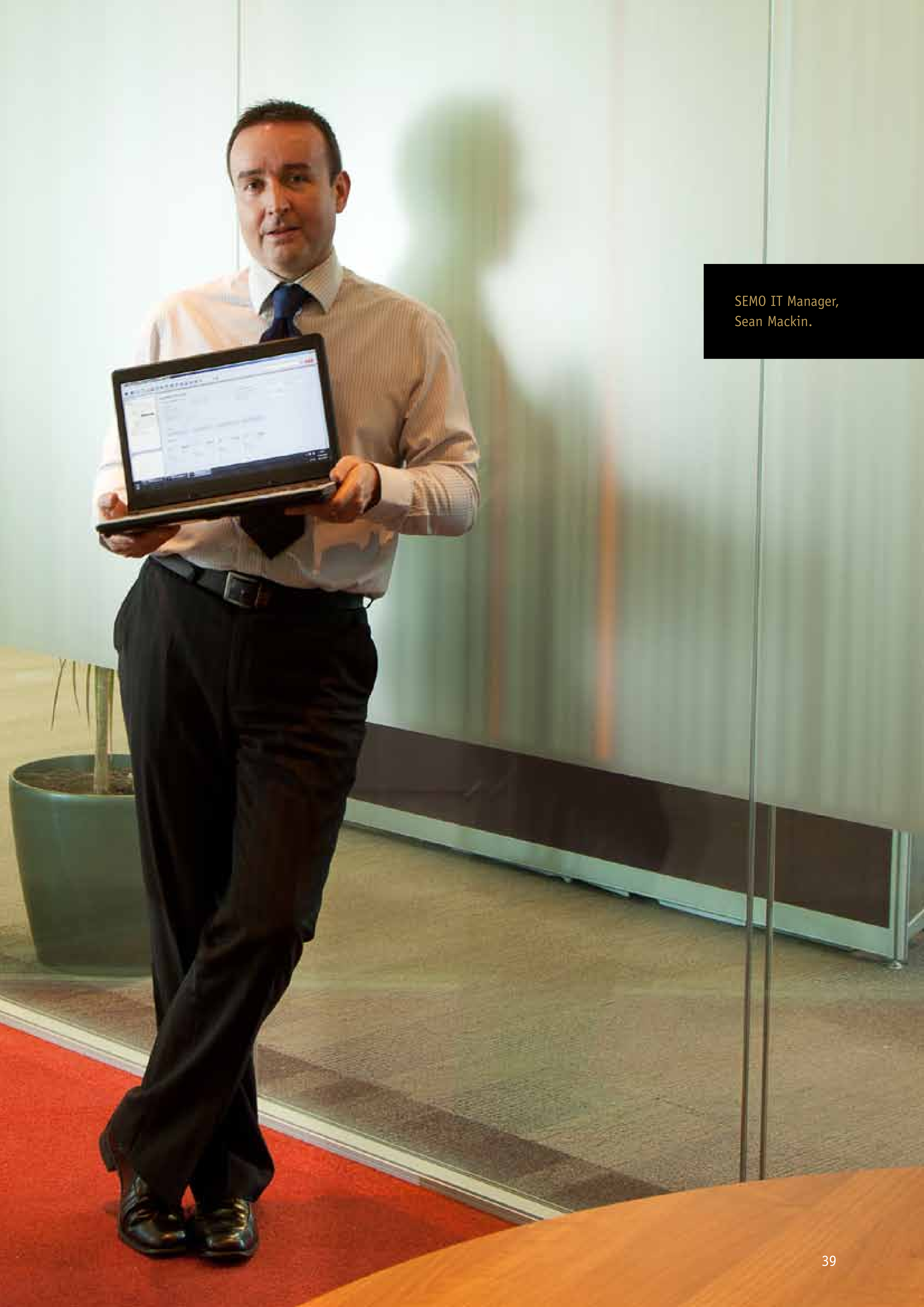
The EU is moving towards greater integration of electricity market arrangements, particularly to facilitate increased cross-border trading. The EU Congestion Management Guidelines (CMG) require re-allocation of unused interconnector capacity on both the day prior to the Trading Day and the Trading Day. The Intra-Day Trading (IDT) Implementation Project commenced in earnest in January 2011.

After detailed design, vendor coding and factory acceptance testing the software was delivered to SEMO to commence our own test effort in January 2012. All testing was completed on schedule by 6 July in time for go-live on 20 July 2012.

IDT was a major market change to the All Island Wholesale Electricity market, impacting all components of the Central Market Systems (pricing and scheduling, settlements, credit risk management) and included a complete refresh of all hardware (over 200 servers) on both the Belfast and Dublin sites. Given the scale and complexity of the project, a significant design and test effort was undertaken to ensure the software and hardware supplied by our vendors delivered on the high-level design agreed at industry level. Seven phases of testing were undertaken, each with a distinct focus and scope, resulting in over 8,000 test executions through all test phases. IDT went live on schedule and under budget.

Intra-Day Trading Project Implementation Plan





SEMO IT Manager,
Sean Mackin.

Corporate Social Responsibility

Business responsibility has always been central to the company's way of operating and during recent years, a comprehensive structure has been put in place to achieve our CSR objectives. We structure our work in the area of CSR around doing business responsibly in the community, environment and marketplace in which we operate.

We also place great emphasis on the well-being and development of staff across the Group and work to ensure the provision of a safe, more sustainable and encouraging environment within the workplace.

Proof of our commitment to achieving the highest standards in the area of CSR lie in the active involvement of our cross-company CSR Group, led by an Executive Director, the launch of our CSR charter, the roll-out of the EirGrid and SONI Schools Science Programme across the island of Ireland and accreditation to the Carbon Trust Standard, among other key achievements.

Seán Kenny presenting to young farmers at Ballyhaise Agricultural College in Cavan.

"Business Working Responsibly" Mark

During 2012, EirGrid achieved the Business in the Community Ireland's (BITCI) "Business Working Responsibly" Mark, Ireland's only certification for responsible and sustainable business practices. The "Business Working Responsibly" Mark gives any organisation, in various industry and service sectors, the opportunity to evaluate, certify, and benchmark its sustainable and responsible practices. EirGrid was awarded the Mark after an audit demonstrating its high standards in the areas of environment, workplace, marketplace, community, reporting and governance. EirGrid joins Intel Ireland, ESB, CRH Ireland, Microsoft Ireland, Accenture in Ireland, Veolia Transdev and Pfizer Healthcare Ireland as the only holders of the Mark in Ireland.

Anna Gethings of AG Education Services Limited presenting Michael Walsh, Director of Corporate Affairs & Strategy, with copies of the eighth edition of Science and Technology in Action, following EirGrid's sponsorship of "The Magic of Electricity" lesson.

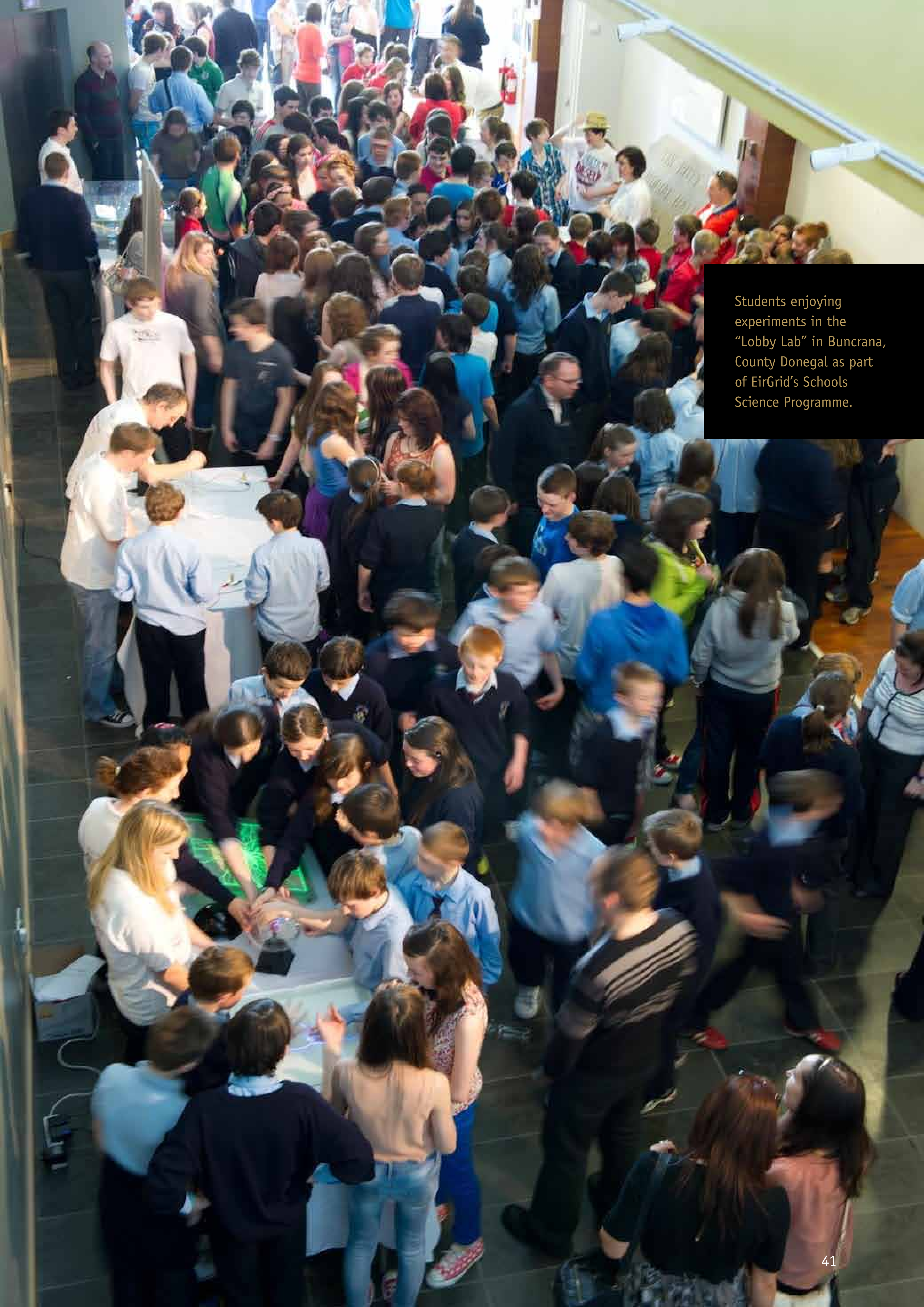
Supporting our Community

Accompanying our education outreach initiative and quality standard accreditations, the Group also supports and provides funding to ElectricAid, which works primarily in the developing world, as well as the Laura Lynn House/Children's Sunshine House in Ireland and the Alzheimer's Society in Northern Ireland.

EirGrid will continue to work in a spirit of cooperation with communities, recognising that they may be impacted by our work and that we must constantly seek to have a positive impact in the communities within which we operate.

CSR in the Marketplace

EirGrid operates and maintains a safe, secure, reliable, economical and efficient transmission system, as well as developing the transmission system in line with demand which is vital for the socio-economic development of Ireland and for ensuring value for money for electricity consumers. EirGrid has a social responsibility to ensure that it conducts its work within the marketplace in an efficient, sustainable manner, while being mindful of the concerns and requirements of those within the community in which it operates.



Students enjoying experiments in the "Lobby Lab" in Buncrana, County Donegal as part of EirGrid's Schools Science Programme.

Minister for Agriculture, Food and Marine, Simon Coveney TD, visits the EirGrid stand at the National Ploughing Championships.

Mark Durkan MP and SONI staff at the EirGrid Schools Science Programme in Derry.

Developments in the Single Electricity Market over the last five years have contributed to a greater number of market participants and greater diversity in the generation portfolio. Good market relations are key to creating confidence for investors in both the process for connection to the Grid and the ongoing day to day operation of the power system and the Single Electricity Market.

Caring for our Environment

EirGrid recognises that we have a responsibility to respect the environment, to demonstrate sound environmental management and to promote environmental sustainability. We are strongly committed to facilitating the delivery of renewable energy targets.

We are in line to meet the Government target of ensuring that 40% of Ireland's electricity is sourced from non-carbon sources by 2020. We will achieve this by facilitating the connection of renewable generation sources onto the electricity system and by developing and extending the transmission system through our Grid25 Programme.

Attainment of the 40% renewable target by 2020 will reduce Ireland's total carbon footprint by 16%. As a direct result of EirGrid activities in this area, we will have a significant positive impact on Ireland's carbon footprint. Impacts on carbon footprint within our offices are also referred to in EirGrid's Environment Policy which is a statement of intent to comply with the requirements of ISO14001, the Environmental Management Standard.

To ensure that we identify the aspects of our business activities that can have an impact on the environment, EirGrid has implemented an appropriate management system, linked directly to ISO14001. This system contains EirGrid's Policy in relation to environmental issues and details arrangements put in place to deliver continual improvements in environmental performance and management.

CSR in the Workplace

A key part of EirGrid's vision is to create a great working environment for all our staff. Working in highly technological and complex areas, EirGrid is only as good as its people. They provide the know-how, productivity, customer service and innovation necessary for our business.

We believe that an open and clear channel of communications and engagement with staff is essential. This will benefit the company and ensure quality of service for our customers and stakeholders alike.

EirGrid is acutely aware of its responsibility to provide a workplace which will allow for its highly talented workforce to achieve its potential and enable EirGrid to carry out its role to the highest degree. In response to this, we have established a company-wide group to champion, co-ordinate and communicate in relation to our CSR objectives and progress.

We are fully committed to providing excellent training and development opportunities for our staff. In a recent Great Place to Work (GPTW) survey, over 80% of staff indicated that they were receiving the training they needed to achieve their objectives. In addition, EirGrid operates an Education Support Programme, where employees are supported to avail of approved third level programmes.

We are also committed to helping our staff balance their work lives with their personal and family lives through our Work Life balance policies. These policies help all employees to reconcile their work with their lives outside of the workplace.

Aidan Corcoran, Grid25 Manager (right) at the Euro-toques Awards sponsored by EirGrid.

Working with our Customers

EirGrid has a dedicated Customer Relations team to manage its directly connected customer base and ensure a high level of customer service in accordance with the EirGrid Customer Charter. EirGrid surveys its customers regularly to ensure it identifies their requirements and any opportunities for improving service levels to customers.

A formal complaints procedure is in place to provide an opportunity for our customer base to raise any occurrences of dissatisfaction which are then addressed quickly and effectively by the Customer Relations team.

Health, Safety & Environment

2012 was another successful year for the EirGrid Group in relation to health, safety, welfare and environmental protection. It reflects great credit on the organisation that there were no accidents in the EirGrid Group during the year.

May saw SONI receive certification to the ISO14001 Environmental Management Standard, which further reflects our absolute commitment to adhering to the most demanding and comprehensive of independent standards.

In June, a further environmental highlight was recorded when EirGrid received the prestigious Carbon Trust Standard, demonstrating actual year on year CO_2 reductions from its activities.

Looking to the future

EirGrid is fully committed to constantly improving in the area of CSR and to achieving best in class status. We will 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 programme.

Overview of Energy Usage in 2012

In 2012, EirGrid plc consumed 3,778 MWh of energy at its offices in Ballsbridge and the Business Continuity Centre:

- 3,091 MWh of electricity.
- 687 MWh of fossil fuels.
- 0 MWh from onsite renewable fuels.

556 MWh of the electricity used was made from renewable sources (average renewable share of 18% in 2012).

The Oval,
Ballsbridge, Dublin.

Actions Undertaken in 2012

In 2012, EirGrid plc 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 PC Power Management.
- Green Procurement policy implemented.

Altogether, these and other energy saving measures have reduced EirGrid plc's energy intensity per employee by 3% during a period of IT growth required to support Grid Development.

Actions Planned for 2013

In 2013, EirGrid plc plans to further improve its energy performance by 2% by undertaking the following initiatives:

- Further optimisation of the IT datacentre environment.
- Further improve the building environment programme.

BUSINESS WORKING RESPONSIBLY

Project Profile

Flagford Srananagh 220kV Project

The Flagford to Srananagh 220kV Project was completed in August 2012 with the energisation of the new 220kV line. The project now provides a much needed 220kV boost for the north west region, meeting the requirements of demand growth and security of supply for industry, business and domestic customers.

The project is an integral and essential part of EirGrid's 'Grid25 Strategic Plan' and project components included:

- Construction of a new 220kV station at Srananagh, in County Sligo.
- Construction of a new 220kV line 56km in length from the existing station at Flagford, County Roscommon to the new station at Srananagh.
- The looping of two existing 110kV lines into Srananagh requiring 34km of new line build.
- The construction of 11km of new 110kV line from Srananagh to Sligo.

Planning for this major infrastructure project commenced with the preparation of an Environmental Impact Statement and planning applications were made to Roscommon, Sligo and Leitrim County Councils and planning consent granted by An Bord Pleanála after appeal.

Significant technical, landowner and stakeholder management challenges were encountered during the course of the construction. In total, the wayleaving team engaged with over 400 landowners along the routes of the new transmission lines. The successful completion of the project is attributable to a dedicated team from EirGrid, ESB Networks and ESB International.

Deborah Meghen, Manager,
Transmission Projects West.

Our Customers

The aim of the EirGrid Group is to deliver a high quality service to all of our electricity customers, who can be divided into four main categories:

- Generators (Conventional and Renewable generators connected or seeking a connection to the transmission system).
- Demand Customers (large industrial customers connected to or seeking a connection to the transmission system).
- Suppliers (licensed suppliers of electricity).
- Stakeholders.

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

Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD, Chairperson Bernie Gray and Chief Executive Fintan Slye at the EirGrid Customer Conference 2012.

EirGrid Group Annual Customer Conference 2012

The EirGrid Group Annual Customer Conference took place on 25 October 2012 in Dundalk, County Louth, with approximately 170 delegates attending on the day. The theme of the conference was 'Delivering the Power System of Tomorrow.'

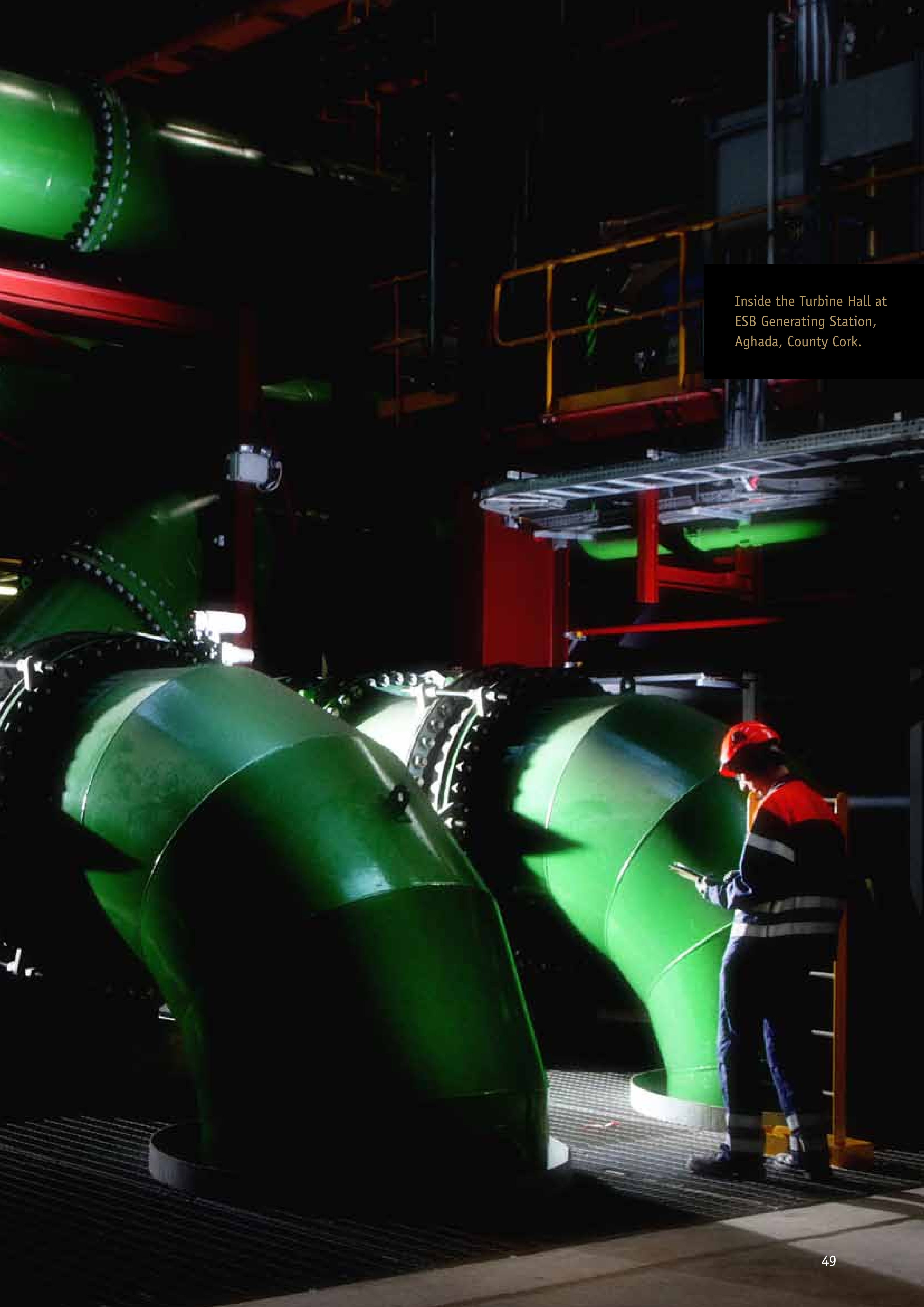
The keynote session included a Ministerial Address by Minister for Communications, Energy and Natural Resources, Pat Rabbitte TD, in which he supported and commended EirGrid on its work and launched the Smart Grid Innovation Hub - a collaboration between EirGrid and the NDRC (National Digital Research Centre).

It also featured a keynote presentation by Konstantin Staschus, Secretary General, European Network of Transmission System Operators for Electricity (ENTSO-E) and a regulatory and regional integration update by Dermot Nolan, Chairperson of CER and SEM Committee Member.

The Board and Executive Team visit European Networks and Transmission System Operators (ENTSO-E) in Brussels.

Sessions were also held on regional market developments including a presentation from Bente Hagem, Vice-President, Statnett SF on the North West Europe Project and a session on Smart Grids including a business pitching section, with University of Ulster's SolaCatcher voted by the audience as the most attractive investment.

Presentations delivered by staff and management across the EirGrid Group provided updates on system and market operations; Grid Development; the East West Interconnector; and Anton Savage of The Communications Clinic and Today FM hosted a lively debate on 'Regional integration to 2020 and beyond'. The conference was very well received, with attendees rating the overall value of the experience as four out of five or higher.


Inside the Turbine Hall at ESB Generating Station, Aghada, County Cork.

Central to the vision and values of the EirGrid Group is engaging and working with our key customers and stakeholders. Throughout the year, EirGrid, SONI and SEMO have been facilitating, managing, attending and presenting at events across the island. Since September 2011, the EirGrid Group held a record number of events for customers and stakeholders, including: East West Interconnector (EWIC) Trading Update, Customer Connections Forum, ENTSO-E Network Code Events, All Island Generator Forum, DS3 Forum, EWIC Trading Launch, Demand Side Unit (DSU) Forum, Wind Farm Availability Active Power Signal Workshop, Generator Testing Workshops, EWIC Technology Day, EWIC Launch and National Stakeholder Forum III.

Customer Relations Manager, Claire Kane, with Dr. Konstantin Staschus, Secretary General of the European Network of Transmission System Operators (ENTSO-E) and Director of Grid Development, Andrew Cooke.

Customer Service Improvements

SONI has engaged with several potential customers to aid the assessment of the connection of a range of diverse and innovative technologies including battery storage, compressed air and gas storage, offshore wind and large demand.

As part of SONI's ongoing Customer Initiatives, the new improved SONI website project will go live in early 2013. The website takes an innovative approach to system design which enables the publication of live data direct from the Control Room Energy Management System (EMS).

In addition, the website provides a highly detailed live map of the TSO network. The website project is in direct response to feedback from previous Customer Surveys which asked for an improved website layout offering a greater choice of data.

At the 2012 EirGrid Customer Conference: from left to right: Jonathan O'Sullivan, Manager, Sustainable Power Systems, EirGrid, Anton Savage, the Communications Clinic, Dr. Brian Motherway, Chief Executive of the Sustainable Energy Authority of Ireland (SEAI), Stephen Wheeler, Managing Director of Airtricity and Peter Baillie, Managing Director of Energia Renewables.

SEMO remains proactive in managing the requirements of participants. It facilitated six Market Operator User Groups, bi-monthly market conference calls, participant readiness calls for new participants, three training sessions for new participants and three special topic workshops.

As part of the commitment to reach out to Market Participants, SEMO organised eleven bi-lateral stakeholder meetings to discuss topics of relevance to the individual participant and their interaction with the market.

There was significant additional interaction as a result of the Intra-Day Trading project, including Programme Management forums, System Design workshops, Market Participant training, Cutover workshops, Market Trial workshops and daily conference calls.

To aid in the transition from a construction project to an operational project, EirGrid published a 'Becoming Operational Pack' providing an overview of the various considerations generators should take into account throughout the construction of their project.

EirGrid hosted a series of generator testing workshops to discuss and assess its approach with generation developers. This has identified a number of initiatives to improve the process and interaction with customers on their projects which are now being implemented.

The process for registration and participation as a Demand Side Unit (DSU) in the SEM was further established including a number of workshops held by EirGrid and SEMO. This has supported the introduction of initial DSU market entrants and has fostered further interest from other parties.

Customer Satisfaction Survey

In September 2012, the EirGrid Group conducted its Customer Satisfaction Survey. The purpose of the survey is to measure levels of satisfaction with EirGrid's service across the Group, compare information from previous surveys and identify key areas for improvement.

The survey consisted of both qualitative and quantitative elements and this approach delivered extremely useful information and feedback from which we can identify areas for improvement, as well as ensuring that we maintain focus on key aspects of our business.

Overall, the survey showed improvement in almost all areas. The results show that 84% of our customer base are either satisfied or very satisfied and 6% are dissatisfied with the EirGrid Group. We are now planning a Customer Survey Action Plan to address the main themes that were identified from the survey results and will communicate with customers on this in mid 2013.

New Customers

The SEM has continued to develop, with five new parties participating in the market. We were delighted to welcome Danske Commodities A/S, Church Hill Energy Limited, Crighshane Energy Limited, Gaelectric Energy Storage Ltd and ElectroRoute Energy Trading Limited. A total of 32 new units registered in the past year, including two Demand Side Units and seven EWIC users.

The new EirGrid Interconnector Limited (EIL) business has enabled EirGrid to expand its customer base to those focused on energy trading between the Irish and UK electricity markets (SEM and BETTA). The East West Interconnector (EWIC) has opened our market to new entrants and all of the EWIC customers will enhance competition in the SEM.

Currently, there are six customers registered to trade on the EWIC: Bord Gáis Eireann; ElectroRoute Energy Trading; ESB Independent Generation Trading; RWE Supply & Trading; SSE Energy Supply; and Viridian Energy Supply (Energia). There has been further interest from potential customers, which is a positive indicator for ongoing demand for capacity on the EWIC.

Customer Service

The EirGrid Group is committed to delivering the high quality 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. Central to this is an Account Management structure under which an Account Manager is made available to each of our customers as a single point of contact.

We also produce regular publications and provide a wide range of technical data on our websites.

Project Profile

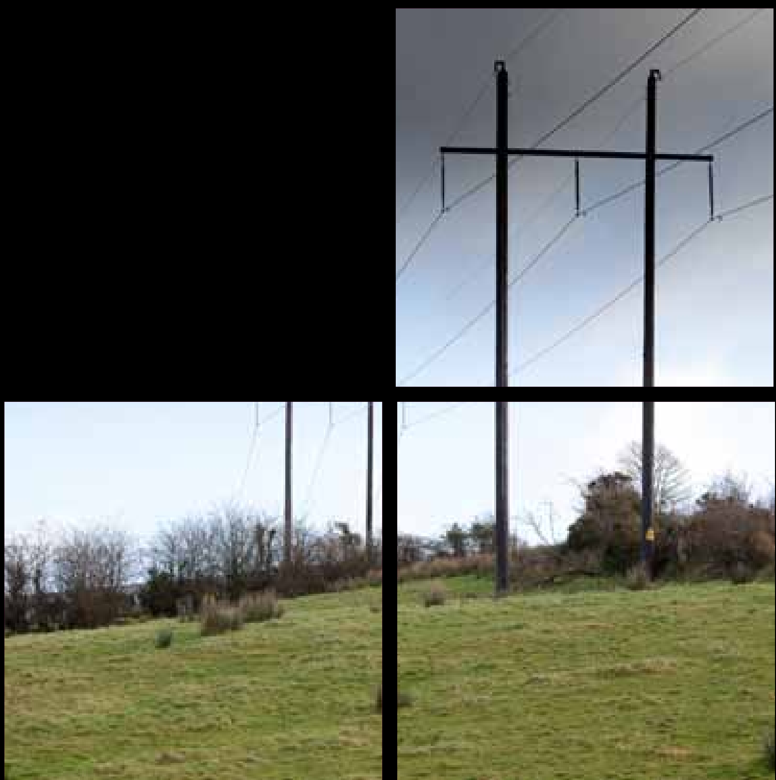
110kV Developments, Meath and Cavan

2012 has been a busy construction year in Counties Meath and Cavan with the construction of three 110kV reinforcement projects totalling approximately 55km in length. These are major system reinforcements which offer significant system benefits and facilitate almost 400 MW of firm access capacity or renewable generation in Gate 3.

The construction of these circuits has increased the system security in the north east and the construction of new transmission lines will allow for greater flexibility when maintaining and improving the adjoining grid. On an ongoing basis, the 110kV transmission lines provide for increased transmission of power into the north east from the surrounding regions.

“We met with the landowners, discussing the projects and how the line and construction activities would impact them. Our aim was to ensure that all of the landowners were happy for us to have access to the land to build the lines and that the lines were constructed with minimum impact to them,” said Peter Graham, Project Manager.

Each of these projects spanned a few years from planning, design, wayleaving and construction. At all stages, the team effort between ESB Networks and EirGrid were key to their successful energisation in 2011 and 2012.



Senior Project Manager,
Peter Graham.

The Board

Regina Moran

Bride Rosney

Richard Sterling

Doireann Barry

Bernie Gray
Chairperson

Fintan Slye	Dr. Gary Healy	Niamh Cahill	Liam O'Halloran	Martina Moloney	Dr. Joan Smyth
Chief Executive		Company Secretary			

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.

Fintan Slye CHIEF EXECUTIVE
Fintan Slye was appointed Chief Executive on 1 October 2012 (his appointment to the Board is pending). Prior to that Fintan was Director of Operations with 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 realtime across the island. Fintan also had 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 an MBA from UCD in 2001 and a Masters in Engineering Science in 1993.

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 Vice President of the Railway Preservation Society of Ireland and Chair of the Womans Fund for Northern Ireland. She is also a Director of Trinity Housing Association. In June 2012 after twelve years (five as Chairperson) she finished her term at the Progressive Building Society. She has also served previously as President of the Red Cross, Northern Ireland, and as Chair of the Northern Ireland Transport Holding Company, the Equal Opportunities Commission for Northern Ireland, and the Chief Executives' Forum. 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 was awarded a CBE in the 1998 New Year's Honours List.

The Oval,
Ballsbridge, Dublin.

Seán Kelly MEP, addresses the EirGrid Board in the European Parliament, Brussels.

SONI Offices, Castlereagh House, Belfast.

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, a chartered engineer, was appointed CEO of Fujitsu (Ireland) Ltd in 2009. Following her third level education in Engineering undertaken in Waterford and Cork, Regina's career began at Amdahl. In 1997, Regina was co-founder of DMR Consulting Ireland where she held the role of Director of Operations. From there she moved to DMR Consulting, which became Fujitsu Consulting and subsequently merged with Fujitsu Services. Regina was appointed CEO of Fujitsu Ireland in May 2009. Regina is the current Chair of ICT Ireland within IBEC. She is also a member of the Board of IBEC. 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) and is currently Vice President of IEI. Regina holds an MBA from Dublin City University. 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. 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 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.

Huntstown Generating Station in North County Dublin.

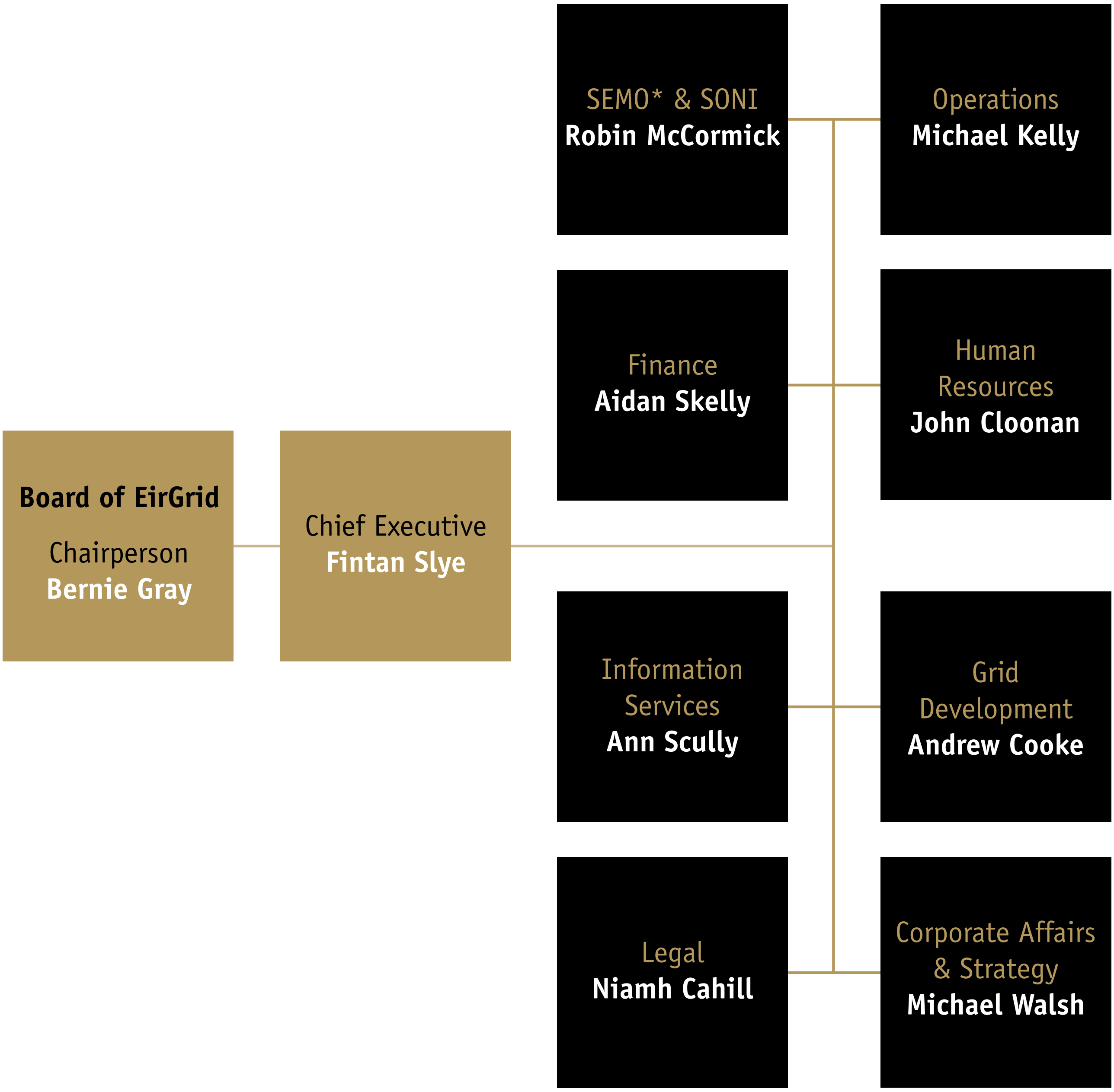
Bride Rosney

Bride Rosney was appointed to the Board in September 2011 for a five year term. Bride 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 co-ordination 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

Executive Team

The Executive Team is headed up by our Chief Executive, **Fintan Slye**.
A full biography for Fintan is included on page 56.

Niamh Cahill
Niamh Cahill is the Company Secretary and Company Lawyer for EirGrid plc. Niamh is a graduate of NUI Galway BA (Hons) and LL B (Hons) and holds a BL from King's Inns, Dublin. She was called to the Bar in Ireland in 1985 and the UK Bar (Middle Temple Inn) in 1988. She has extensive experience both in private practice (Four Courts, Ireland) and as an in-house legal Counsel worked for a wide range of major international private and public companies in 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.

Michael Kelly
Michael Kelly is acting Director of Operations. He is an electrical engineer with over 20 years' experience working in the electricity industry. Prior to his current role he was manager of Generation Analysis and Power System Control, thus having responsibility for the real time operation of the power system and the National Control Centre. As he is now responsible for the all island power system operations function, he divides his time between the Dublin and Belfast offices.

John Cloonan
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 has responsibility for the Company's facilities function.

Andrew Cooke
In his role as Director of Grid Development, Andrew Cooke is responsible for the planning, development and maintenance of the transmission grid. He also holds responsibility for the design and implementation of transmission access and tariff arrangements. A graduate of Queen's 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.




Fintan Slye	Ann Scully
Niamh Cahill	Aidan Skelly
Michael Kelly	Michael Walsh
John Cloonan	Robin McCormick
Andrew Cooke	

Ann Scully

Prior to becoming EirGrid's Director of Information Services, Ann Scully was Director of the All-island Project. Together with her counterpart in SONI, she was responsible for the programme to achieve the establishment of the all-Island Single Electricity Market (SEM) by the agreed 'go live' deadline of 1 November 2007. Prior to taking on this project, she held a number of managerial and project roles in ESB National Grid and ESB, including establishing the wholesale electricity market in Ireland in 2000 and CEO of ESBI Alberta Ltd, the Transmission Administrator in Alberta, Canada. A graduate of Trinity College, she holds a degree in Electrical Engineering.

Aidan Skelly

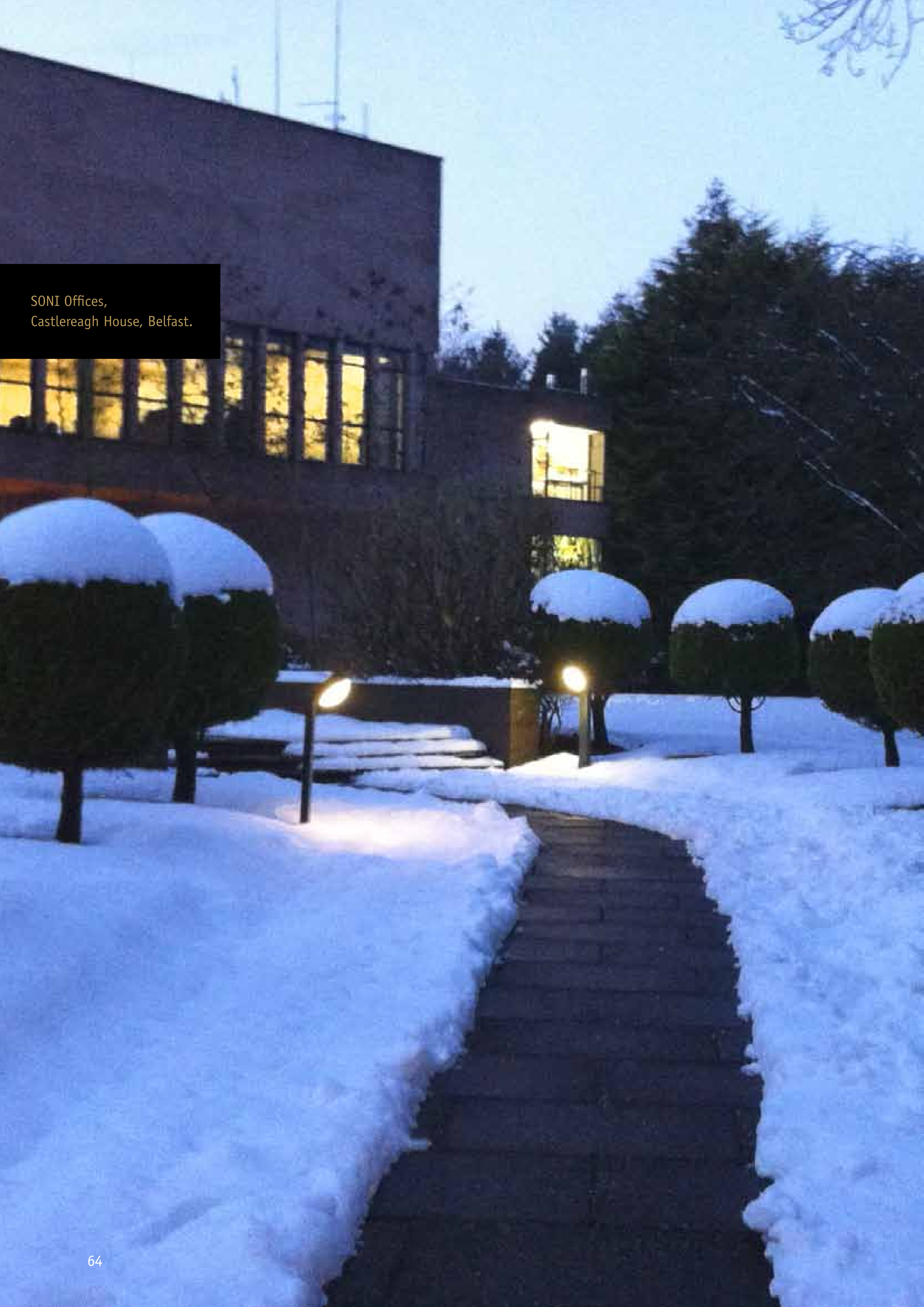
Aidan Skelly joined EirGrid as Chief Financial Officer in June 2005. His responsibilities include regulatory affairs. He was previously Finance Director with Waterford Stanley Limited. He worked with Waterford Crystal from 1987 to 2002, during which time he held a number of finance and commercial positions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

Michael Walsh

Michael Walsh joined EirGrid as Director of Corporate Affairs & Strategy in September 2011. He has responsibility for Customer Relations and Communications. 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 BE, a PhD and an MBA from UCD. He is a Fellow of Engineers Ireland.

Robin McCormick

Robin McCormick has 28 years' experience in the power industry in a regulated utility environment. He is General Manager of the System Operator Northern Ireland (SONI Ltd) and 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.



SONI Offices,
Castlereagh House, Belfast.

Financial Statements

Directors' Report

The Directors present their Annual Report and the audited Financial Statements of the Group for the year ended 30 September 2012.

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 78 and the related notes 1 to 28.

The current period being reported on is the year ended 30 September 2012. The comparative figures are for the year ended 30 September 2011.

Commentaries on performance during the year ended 30 September 2012, including information on recent events and future developments, are contained in the Chairperson's Report and the Chief Executive's Review.

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 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 adopted the Irish Annex with the following exceptions:

- The Group is accountable to the Minister for Communications, Energy and Natural Resources.
- Appointments to the Board are a matter for the Minister for Communications, Energy and Natural Resources and accordingly the Group does not have a Nomination Committee.
- Board members are appointed by the Minister for Communications, Energy and Natural Resources and, therefore, are not subject to re-election to the Board.
- 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 employee representative Director and seven non-executive Directors. All Directors are appointed by the Minister for Communications, Energy and Natural Resources and their terms of office are set out in writing.

The Board

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

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

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

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

The Board Members, in the furtherance of their duties, may avail of independent professional advice. All Board Members have access to the advice and services of the Company Secretary. Insurance cover is in place to protect Board Members and Officers against liability arising from legal actions taken against them in the course of their duties.

The Board conducts an annual review of the effectiveness of the system of internal controls including financial, compliance and risk management. As noted in the Internal Controls section of the Directors' Report, the Board has not identified, nor been advised of, any failings or weaknesses which it has determined to be significant.

Board Committees in 2012

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 Grid 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, 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 Grid 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 twelve Board Meetings held during the year ended 30 September 2012. The Board Members' attendances at these meetings were as set out below:

	Eligible to Attend	Attended
Bernie Gray (Chairperson)	**12**	**12**
Dermot Byrne (Chief Executive) (retired 30 September 2012)	**12**	**12**
Doireann Barry (appointed 22 December 2011)	**9**	**9**
Gary Healy	**12**	**11**
Cormac MacDonnchadha (term expired 7 December 2011, term extended 13 December 2011 to 22 December 2011)	**3**	**3**
Martina Moloney	**12**	**10**
Regina Moran	**12**	**10**
Liam O'Halloran	**12**	**12**
Bride Rosney	**12**	**12**
Joan Smyth	**12**	**12**
Richard Sterling	**12**	**12**

Fintan Slye was appointed Chief Executive on 1 October 2012.

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

Audit Committee

There were five Audit Committee Meetings held during the year ended 30 September 2012. The Committee Members' attendances at these meetings were as set out below:

	Eligible to Attend	Attended
Richard Sterling (Chairperson)	**5**	**5**
Doireann Barry (appointed 18 January 2012)	**3**	**3**
Gary Healy (appointed 16 November 2011)	**5**	**5**
Cormac MacDonnchadha (term expired 7 December 2011, term extended 13 December 2011 to 22 December 2011)	**1**	**1**
Joan Smyth	**5**	**5**

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

Remuneration Committee
There were eight Remuneration Committee Meetings held during the year ended 30 September 2012.
The Committee Members' attendances at these meetings are set out below:

	Eligible to Attend	Attended
Bernie Gray (Chairperson)	**8**	**8**
Martina Moloney	**8**	**6**
Liam O'Halloran (appointed 19 September 2012)	**0**	**0**
Joan Smyth	**8**	**8**

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

Grid Infrastructure Committee
There were six Grid Infrastructure Committee Meetings held during the year ended 30 September 2012.
The Committee Members' attendances at these meetings are set out below:

	Eligible to Attend	Attended
Martina Moloney (Chairperson)	**6**	**6**
Bernie Gray (retired 16 November 2011)	**1**	**1**
Liam O'Halloran (appointed 16 November 2011)	**5**	**4**
Bride Rosney (appointed 16 November 2011)	**5**	**5**
Richard Sterling	**6**	**6**

Members of the Grid 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 were two Pensions Committee Meetings held during the year ended 30 September 2012.
The Committee Members' attendances at these meetings are set out below:

	Eligible to Attend	Attended
Bernie Gray (Chairperson)	**2**	**2**
Doireann Barry (appointed 18 January 2012)	**1**	**1**
Dermot Byrne (retired 30 September 2012)	**2**	**2**
Cormac MacDonnchadha (retired 22 December 2011)	**1**	**1**
Regina Moran (appointed 16 November 2011)	**1**	**1**

Members of the Pensions Committee at the date of signing of the financial statements were Bernie Gray (Chairperson), Doireann Barry and Regina Moran.

Principal Risks and Uncertainties

Risk Management
The Group has in place an appropriate risk management process 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. The Board seeks to ensure that 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 and Northern Ireland, the Group's Transmission System Operator activities do not involve any significant pricing or foreign exchange risks. However, the Group derives approximately 23% 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 its 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. Consistent with our Treasury Policy 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.
- Support of the pre-construction phase of the Grid25 Program by a fully functioning Program 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.

Directors' Remuneration

The Financial Statements include €126,600 (2011: €127,000) 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 and the revised arrangements for payment of board fees to public sector employees under the Department of Public Expenditure and Reform's "One Person One Salary" Principle. On 14 May 2009 the Department of Communications, Energy and Natural Resources, on behalf of Government, 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 (2011: €21,600 per annum). Directors' fees were equivalent to €12,600 each per annum during the year (2011: €12,600 each per annum).

The only executive Board Member during the year was the Chief Executive, Dermot Byrne, who retired on 30 September 2012. 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. However, in line with Government policy, no payment in respect of a performance related payment was made. In his role as a Board Member the Chief Executive receives a fee, as determined by the Minister for Communications, Energy and Natural Resources. The retirement benefits of the Chief Executive are calculated on basic pay only and aim to provide in retirement a pension of one-eightieth and a gratuity of three-eightieths of salary for each year of service as Chief Executive. The increases in accrued pension and accrued gratuity excluding inflation during the year to 30 September 2012 were €2,840 (2011: €2,845) and €8,520 (2011: €8,535) respectively. The total accrued pension at the end of the year was €20,610 (2011: €17,770) and the total accrued gratuity was €61,830 (2011: €53,310). The transfer value of the relevant increase, net of the Chief Executive's own personal pension contributions was €47,003 (2011: €47,087).

Chief Executive's Remuneration:	**Year to 30 Sep 2012 €'000**	**Year to 30 Sep 2011 €'000**
Basic salary	228	228
Less: adjustments	(107)	(40)
Annual Bonus	-	-
Taxable benefits	34	14
Pension contributions paid	68	68
Director's fees	13	13
Total	**236**	**283**

Dividends

Having considered the available underlying cash position, underlying profits and future investments and liquidity requirements of the business, the Directors do not propose the payment of a dividend.

Directors' and Secretary's Interest in Shares

The Directors and Secretary who held office between 1 October 2011 and 30 September 2012 had no beneficial interest in the shares of the Group.

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. On retirement, Dermot Byrne transferred his shareholding to Fintan Slye.

Political Donations

The Group does not make political donations.

Going Concern

The Financial Statements are prepared on a going concern basis as the Board, after making appropriate enquiries, is satisfied that the Group has adequate resources to continue in operation for the foreseeable future.

Accounting Records

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

Post Balance Sheet Events

Details of significant post balance sheet events are set forth in Note 27 of the financial statements.

Auditors

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements. The Directors have elected to prepare Financial Statements for the Group in accordance with International Financial Reporting Standards (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 2012. 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 2012.

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
19 December 2012

Richard Sterling DIRECTOR

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 2012 which comprise the Group Financial Statements: the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cashflow Statement and the Company Financial Statements: the Company Statement of Comprehensive Income, 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 2012. 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 review whether the statement regarding the system of internal financial control required by the Code of Practice for the Governance of State Bodies ('the Code of Practice') made in the Corporate governance statement reflects the Group's and Company's compliance with paragraph 13.1 (iii) of the Code of Practice and is consistent with the information of which we are aware from our audit work on the financial statements and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's and Company's corporate governance procedures or its risk and control procedures.

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 Review 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 2012 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 2012;
- 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 2012, of the state of the Parent Company's affairs as at 30 September 2012; and
- the Parent Company Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2012.

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 2012 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.

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

19 December 2012

Consolidated Income Statement

for the year to 30 September 2012

	Notes	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Revenue	3	542,232	470,679
Direct costs	3	(438,797)	(362,926)
Gross profit		103,435	107,753
Other operating costs	5	(80,110)	(77,467)
Operating profit		23,325	30,286
Interest and other income	6	573	4,224
Finance costs	6	(3,082)	(3,051)
Profit before taxation	7	20,816	31,459
Income tax credit/(expense)	8	828	(4,875)
Profit for the year		**21,644**	**26,584**

On behalf of the Board:

Bernie Gray CHAIRPERSON

Richard Sterling DIRECTOR

Fintan Slye CHIEF EXECUTIVE

19 December 2012

Consolidated Statement of Comprehensive Income

for the year to 30 September 2012

	Notes	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Actuarial (loss)/gain on retirement benefit schemes	21	(7,289)	5,138
Deferred tax attributable to actuarial loss/(gain)	8	979	(462)
Derecognition of net pension asset	21	-	(1,284)
Movement in unrealised loss on cash flow hedges	25	(31,716)	(9,459)
Deferred tax attributable to movement in unrealised loss on cash flow hedges	8	3,859	1,270
Currency translation differences		(197)	(51)
Net expense recognised directly in equity		(34,364)	(4,848)
Profit for the year		21,644	26,584
Total comprehensive (expense)/income for the year		**(12,720)**	**21,736**

Company Statement of Comprehensive Income

for the year to 30 September 2012

	Notes	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Actuarial (loss)/gain on retirement benefit scheme	21	(6,717)	3,693
Deferred tax attributable to actuarial loss/(gain)	8	841	(462)
Movement in unrealised loss on cash flow hedges	25	(20,254)	(5,378)
Deferred tax attributable to movement in unrealised loss on cash flow hedges	8	2,531	747
Net expense recognised directly in equity		(23,599)	(1,400)
Profit for the year		22,782	22,952
Total comprehensive (expense)/income for the year		**(817)**	**21,552**

Consolidated Balance Sheet

as at 30 September 2012

	Notes	30 Sep 2012 €'000	30 Sep 2011 €'000
ASSETS			
Non-current assets			
Intangible assets	10	18,908	17,347
Property, plant & equipment	12	574,223	344,100
Deferred tax asset	8	15,903	11,338
Trade and other receivables	13	1,089	1,133
Total non-current assets		610,123	373,918
Current assets			
Trade and other receivables	13	164,372	161,897
Current tax receivable		3,293	-
Cash and cash equivalents	17	164,745	109,531
Total current assets		332,410	271,428
Total assets		**942,533**	**645,346**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	16	38	38
Capital reserve		49,182	49,182
Hedging reserve		(74,264)	(46,447)
Translation reserve		(111)	86
Retained earnings		100,460	85,166
Total equity		75,305	88,025
Non-current liabilities			
Derivative financial instruments	24	84,990	53,302
Deferred tax liability	8	4,516	4,919
Deferred income	15	79,280	35,318
Borrowings	23	403,812	247,661
Retirement benefit obligation	21	22,449	15,746
Total non-current liabilities		595,047	356,946
Current liabilities			
Borrowings	23	23,683	13,613
Current tax liability		-	1,202
Trade and other payables	14	248,498	185,560
Total current liabilities		272,181	200,375
Total liabilities		867,228	557,321
Total equity and liabilities		**942,533**	**645,346**

On behalf of the Board:

Bernie Gray Richard Sterling Fintan Slye

Bernie Gray CHAIRPERSON
19 December 2012

Richard Sterling DIRECTOR

Fintan Slye CHIEF EXECUTIVE

Company Balance Sheet

as at 30 September 2012

	Notes	30 Sep 2012 €'000	30 Sep 2011 €'000
ASSETS			
Non-current assets			
Investment in subsidiaries	11	161,821	98,376
Property, plant & equipment	12	48,239	49,113
Deferred tax asset	8	11,778	8,258
Trade and other receivables	13	146,981	90,224
Total non-current assets		368,819	245,971
Current assets			
Trade and other receivables	13	173,287	151,661
Current tax asset		1,610	-
Cash and cash equivalents	17	67,453	58,815
Total current assets		242,350	210,476
Total assets		**611,169**	**456,447**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	16	38	38
Capital reserve		49,182	49,182
Hedging reserve		(49,933)	(32,210)
Retained earnings		97,291	80,385
Total equity		96,578	97,395
Non-current liabilities			
Derivative financial instruments	24	57,066	36,812
Borrowings	23	277,928	171,663
Retirement benefit obligation	21	21,751	15,746
Total non-current liabilities		356,745	224,221
Current liabilities			
Borrowings	23	14,463	8,988
Current tax liability		-	311
Trade and other payables	14	143,383	125,532
Total current liabilities		157,846	134,831
Total liabilities		514,591	359,052
Total equity and liabilities		**611,169**	**456,447**

On behalf of the Board:

Bernie Gray CHAIRPERSON
19 December 2012

Richard Sterling DIRECTOR

Fintan Slye CHIEF EXECUTIVE

Consolidated Statement of Changes in Equity

for the year to 30 September 2012

	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 2010	38	49,182	(38,258)	137	55,190	66,289
Total comprehensive (expense)/ 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
Total comprehensive (expense)/ income for the year	-	-	(27,817)	(197)	15,294	(12,720)
Balance as at 30 September 2012	**38**	**49,182**	**(74,264)**	**(111)**	**100,460**	**75,305**

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 2012

	Issued share capital €'000	Capital reserve €'000	Hedging reserve €'000	Retained earnings €'000	Total attributable to equity holders €'000
Balance as at 1 October 2010	38	49,182	(27,579)	54,202	75,843
Total comprehensive (expense)/ 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
Total comprehensive (expense)/ income for the year	-	-	(17,723)	16,906	(817)
Balance as at 30 September 2012	**38**	**49,182**	**(49,933)**	**97,291**	**96,578**

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 2012

	Notes	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Cash flows from operating activities			
Profit after taxation		21,644	26,584
Loss on disposal of property, plant and equipment		-	2
Depreciation of property, plant and equipment	12	22,008	20,473
Impairment of goodwill and intangible assets	10	-	3,453
Interest and other income		(573)	(4,224)
Finance costs		3,082	3,051
Pension charge		4,446	3,888
Foreign Exchange		(24)	-
Income tax (credit)/expense		(828)	4,875
Pension contributions paid		(5,720)	(5,374)
		44,035	52,728
Movements in working capital			
Increase in trade and other receivables		(5,580)	(64,467)
Increase in trade and other payables		25,945	31,421
Cash generated from operations		64,400	19,682
Income taxes paid		(4,077)	(1,100)
Interest received		3,844	1,555
Finance costs paid		(20,149)	(13,749)
Net cash generated from operating activities		44,018	6,388
Cash flows from investing activities			
Purchase of property, plant and equipment		(197,011)	(157,756)
Capital grants received	15	43,962	33,000
Net cash used in investing activities		(153,049)	(124,756)
Cash flows from financing activities			
Decrease in bank overdrafts		(97)	(2,645)
Proceeds from borrowings		192,460	143,296
Borrowings repaid		(28,265)	(26,894)
Net cash generated from financing activities		164,098	113,757
Net increase/(decrease) in cash and cash equivalents		55,067	(4,611)
Cash and cash equivalents at start of year		109,531	114,373
Effect of foreign exchange on cash and cash equivalents		147	(231)
Cash and cash equivalents at end of year	17	**164,745**	**109,531**

Company Cash Flow Statement

for the year to 30 September 2012

	Notes	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Cash flows from operating activities			
Profit after taxation		22,779	22,952
Loss on disposal of property, plant and equipment		-	2
Depreciation of property, plant and equipment	12	17,132	16,143
Interest and other income		(1,371)	(4,771)
Finance costs		5,152	4,605
Pension charge		3,655	3,010
Income tax expense		921	3,210
Pension contributions paid		(4,998)	(4,753)
		43,270	40,398
Movements in working capital			
Increase in trade and other receivables		(14,283)	(50,348)
Increase in trade and other payables		18,407	24,741
Cash generated from operations		47,394	14,791
Income taxes paid		(2,985)	(552)
Interest received		4,485	2,137
Finance costs paid		(5,711)	(3,959)
Net cash generated from operating activities		43,183	12,417
Cash flows from investing activities			
Advances to subsidiary		(130,659)	(89,844)
Purchase of property, plant and equipment		(15,626)	(10,931)
Net cash used in investing activities		(146,285)	(100,775)
Cash flows from financing activities			
Decrease in bank overdrafts		(97)	(2,645)
Proceeds from borrowings		120,659	89,844
Borrowings repaid		(8,822)	(18,822)
Net cash generated from financing activities		111,740	68,377
Net increase/(decrease) in cash and cash equivalents		8,638	(19,981)
Cash and cash equivalents at start of year		58,815	78,796
Cash and cash equivalents at end of year	17	**67,453**	**58,815**

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. EirGrid Interconnector Ltd is licensed by the Commission for Energy Regulation and the Office of the Gas and Electricty Markets (Ofgem) as the operator of the East West Interconnector. 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 2012 and in the case of EirGrid plc Group and Company accounts, in accordance with the Irish Companies Acts, 1963 to 2012. 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 2012. The comparative figures are for the year ended 30 September 2011.

Adoption of new standards

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:

- IFRS 1 (Amendments) – Government loans and annual improvement cycle 2009-2011 (Effective periods beginning on or after 1 January 2013).
- IFRS 9 – Financial instruments: classification and measurement (Effective 1 January 2015).
- 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).

2. Statement of Accounting Policies (continued)

- IFRIC 20 – Stripping costs in the production phase of a surface mine (Effective 1 January 2013).
- IAS 16 – Property, plant and equipment: (Effective 1 January 2013).
- IAS 19 – Employee Benefits (Effective 1 January 2013).
- IAS 27 – Consolidated and separate financial statements, reissued as separate financial statements (Effective 1 January 2013).
- IAS 28 – Investments in associated, reissued as investments in associates and joint ventures (Effective 1 January 2013).
- IAS 32 – Financial instruments: annual improvements cycle 2009-2011 (Effective 1 January 2014).

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 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 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.

2. Statement of Accounting Policies (continued)

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. 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 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 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.

2. Statement of Accounting Policies (continued)

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 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

2. Statement of Accounting Policies (continued)

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.

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 Comprehensive Income.

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.

2. Statement of Accounting Policies (continued)

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.

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.

2. Statement of Accounting Policies (continued)

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

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

Intangible assets

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

The Directors are of the view that TSO and MO licence agreements for Northern Ireland have indefinite lives. The following key factors were considered in determining the useful lives of the above licence agreements; expected usage, typical product life cycles of similar assets used in a similar way, stability of the industry in which the asset is operated, period of control over the asset and expiry dates of licence agreements. It is 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.

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.

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.

2. Statement of Accounting Policies (continued)

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 Comprehensive Income.

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

2. Statement of Accounting Policies (continued)

- **Revenue**
  Connection fee revenue from the Gate 3 project is based on a percentage 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 2012 totalled €0.1m (2011: €1.6m).

- **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 2012 is €100.7m (2011: €75.0m) and the fair value of plan assets is €78.3m (2011: €60.5m). This gives a net pension deficit of €22.4m (2011: €15.7m).

- **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 2012 was €11.4m (2011: net deferred tax asset of €6.4m).

- **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 Cash Generating Unit (CGU) has been determined by value in use calculations, which use budgets and forecasts covering the period to 30 September 2018. These calculations require the use of estimates and assumptions, which are discussed in detail in note 10. Intangible assets at 30 September 2012 were €18.9m (2011: €17.3m).

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 2012 are as follows:

	Notes	EirGrid TSO €'000	SEMO €'000	SONI TSO €'000	EWIC €'000	Total €'000
Income Statement items						
Segment revenue		263,488	206,937	71,807	-	542,232
Direct costs		(191,622)	(183,054)	(64,121)	-	(438,797)
Gross profit		71,866	23,883	7,686	-	103,435
Other operating costs		(45,984)	(21,791)	(12,277)	(58)	(80,110)
Operating profit/(loss)		25,882	2,092	(4,591)	(58)	23,325
Interest and other income						573
Finance costs						(3,082)
Profit before taxation						20,816
Income tax credit						828
Profit for the year						21,644
Balance Sheet items						
Segment assets		181,431	114,178	20,907	607,110	923,626
Goodwill and intangible assets	10					18,908
Total assets as reported in the Consolidated Balance Sheet						942,534
Segment liabilities		440,793	91,296	33,430	301,709	867,228
Total liabilities as reported in the Consolidated Balance Sheet						867,228

3. Segment Information (continued)

The comparative 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)

Geographical information

	Revenue		Non-current assets	
	Year to 30 Sept 2012 €'000	Year to 30 Sept 2011 €'000	30 Sept 2012 €'000	30 Sept 2011 €'000
Ireland	418,690	368,577	575,595	341,160
UK	123,542	102,102	34,528	32,758
Total	542,232	470,679	610,123	373,918

Information about major customers
Included in EirGrid TSO segment revenues of €263.5m for the year to 30 September 2012 (2011: €266.0m) are revenues of approximately €124.6m (2011: €138.3m), €38.9m (2011: €35.3m), €34.3m (2011: €35.3m) and €31.1m (2011: €36.2m) which arose from sales to the segment's four largest customers.

Included in SEMO segment revenues of €206.9m for the year to 30 September 2012 (2011: €136.8m) are revenues of approximately €75.7m (2011: €50.6m), €54.2m (2011: €39.6m), €42.1m (2011: €15.7m) and €20.9m (2011:€19.6m) which arose from sales to the segment's four largest customers.

Included in SONI TSO segment revenues of €71.8m for the year to 30 September 2012 (2011: €67.9m) are revenues of approximately €40.7m (2011: €33.7m), €13.4m (2011: €11.2m) and €12.5m (2011: €9.2m) 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 2012 was 373 (2011: 348), excluding staff engaged on capital projects.

The average number of persons engaged on capital projects during the year to 30 September 2012 was 55 (2011: 51). The staff costs associated with these employees have been capitalised and totalled €5.5m for the year to 30 September 2012 (2011: €5.7m).

Average number of employees in year by business activity:

	30 Sep 2012 Number	30 Sep 2011 Number
EirGrid TSO	229	223
SONI TSO	83	74
SEMO	61	51
Capital projects	55	51
Total	428	399

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

	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Wages and salaries	28,661	24,984
Social welfare costs	2,860	2,226
Pension costs	4,636	4,077
Total	36,157	31,287

5. Other Operating Costs

	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Employee costs (note 4)	36,157	31,287
Depreciation of non-current assets	22,008	20,473
Operations and maintenance	21,913	22,221
Loss on derivative financial instruments	32	33
Impairment of intangible assets (note 10)	-	3,453
Total	80,110	77,467

The loss on derivative financial instruments in 2012 and 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.

6. Interest and Other Income and Finance Costs

	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Interest income:		
Interest income on deposits	573	1,161
Other (costs)/income in respect of transmission projects	-	3,063
Total	573	4,224
Finance costs:		
Interest on borrowings and related interest rate swaps	3,082	3,051

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 2012 €'000	Year to 30 Sep 2011 €'000
Depreciation	22,008	20,473
Operating lease rentals	2,004	1,897
Foreign exchange (gain)/loss	(84)	531

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

	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
- for services as a Director	127	127
- for executive manager services	223	270

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

Group	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
- audit fees	110	126
- other assurance services	5	5
- tax advisory services	50	65
- other non-audit services	8	21

Company	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
- audit fees	45	67
- other assurance services	5	5
- tax advisory services	39	49
- other non-audit services	3	-

8. Income Taxes

Charge to Income Statement:

	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Current tax (credit)/expense	(407)	4,851
Deferred tax relating to the origination and reversal of temporary differences	(84)	366
Effect of changes in tax rates and laws	(337)	(342)
Income tax (credit)/expense for the year	(828)	4,875

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

	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Profit before tax	20,816	31,459
Taxation at standard rate of 12.5% (2011: 12.5%)	2,602	3,932
Effect of higher rates of tax on other income	197	635
Effect of income and expenses excluded in determining taxable profit	12	(109)
Effect of R&D tax credit	(281)	-
Effect of capitalised interest allowable for tax	(1,934)	(347)
Effect on deferred tax balances due to the change in the UK income tax rate	(337)	(342)
Effect of higher rates of tax on (losses)/gains in UK subsidiaries	(631)	1,048
(Over)/under provision in prior years	(578)	50
Effect of losses forward on UK subsidiaries	144	-
Other differences	(22)	8
Income tax recognised in Income Statement	(828)	4,875

Corporation tax in respect of the Group's UK based operations is calculated at 25% (2011: 27%) of the estimated assessable profit for the year. The standard rate of UK corporation tax changed from 26% to 24% with effect from 1 April 2012.

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 2012 included a reduction in the rate of corporate income tax from 26% to 24% (rather than 25% as previously enacted in July 2011). This change was substantively enacted on 3 July 2012. The rate reduction applied from 1 April 2012. Furthermore, the Finance Act 2012 promulgated and substantively enacted on 3 July 2012 a further reduction in the corporate income tax to 23% from 1 April 2013.

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 23% is reflected in the closing deferred tax balance. Had this change not been substantively enacted at 30 September 2012, the Group's deferred tax asset would have been decreased by €0.16m, with €0.03m credited to equity and €0.19m charged to the Consolidated Income Statement.

A further reduction in the corporate tax rate of 1% to 22% on 1 April 2014 has been announced. The Finance Act 2012 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 2012, the Group's deferred tax asset would have been increased by €0.16m, with €0.03m charged to equity and €0.19m 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	Total €'000
Deferred tax (liability)/asset as at 1 October 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 Comprehensive Income	-	-	(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
Credit/(charge) to the Income Statement for the year	345	690	(73)	-	(122)	(419)	421
Credit to the Statement of Comprehensive Income	-	-	979	3,859	-	-	4,838
Exchange differences	(357)	(38)	5	44	5	50	(291)
Deferred tax (liability)/asset as at 30 September 2012	(4,324)	1,733	2,879	10,732	-	367	11,387
Deferred tax asset	-	1,925	2,879	10,732	-	367	15,903
Deferred tax liability	(4,324)	(192)	-	-	-	-	(4,516)
Total	**(4,324)**	**1,733**	**2,879**	**10,732**	**-**	**367**	**11,387**

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 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 Comprehensive Income	-	(462)	747	285
Deferred tax asset as at 30 September 2011	1,687	1,969	4,602	8,258
Credit/(charge) to the Income Statement for the year	237	(89)	-	148
Credit to the Statement of Comprehensive Income	-	841	2,531	3,372
Deferred tax asset as at 30 September 2012	1,924	2,721	7,133	11,778

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

	Group		Company	
	30 Sep 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Ireland	15,138	11,338	11,778	8,258
UK	(3,751)	(4,919)	-	-
Net deferred tax asset	11,387	6,419	11,778	8,258

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 2012 includes a profit attributable to the Company of €22,782,000 (2011: €22,952,000).

10. Intangible Assets

Group	Goodwill €'000	Licence agreements €'000	Total €'000
Cost			
Balance as at 1 October 2010	4,545	18,527	23,072
Exchange differences	(69)	(293)	(362)
Balance as at 30 September 2011	4,476	18,234	22,710
Exchange differences	385	1,637	2,022
Balance as at 30 September 2012	4,861	19,871	24,732
Accumulated Impairment Losses			
Balance as at 1 October 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
Exchange differences	377	84	461
Balance as at 30 September 2012	4,758	1,066	5,824
Carrying amount as at 30 September 2012	**103**	**18,805**	**18,908**
Carrying amount as at 30 September 2011	95	17,252	17,347

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, is as follows:

	30 Sep 2012 €'000	30 Sep 2011 €'000
SONI TSO	15,868	14,547
SEMO	3,040	2,800
Total	18,908	17,347

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 2018. 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% (2011: 5.25% and 4.95%) have been assumed for the SEMO and SONI TSO CGUs respectively.
- Growth rates of 2.0% (2011: 2.0%) have been assumed into perpetuity for SEMO and SONI TSO regulatory asset bases (RAB). A nil% growth rate (2011: nil%) has been assumed into perpetuity for the SEMO and SONI TSO regulatory incentives. These assumptions reflect management's expectation for long-term growth.

On the basis of the above assumptions the Directors have concluded that there is no impairment to goodwill.

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 (2011: €0.2m) and an impairment to the value of the goodwill and licence in the SONI TSO CGU of €0.1m (2011: €0.1m) and €1.3m (2011: €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 €1.9m (2011: €1.1m) and an impairment to the value of the goodwill and licence in the SONI CGU of €0.1m (2011: €0.1m) and €2.0m (2011: €3.0m) respectively.

11. Investment in Subsidiaries

Investment in Subsidiaries Company	30 Sep 2012 €'000	30 Sep 2011 €'000
Balance at start of year	98,376	32,676
Injections of capital to EirGrid Interconnector Limited	6,746	7,001
On-lending of debt	56,699	58,699
Balance at end of year	161,821	98,376

Movements in the year relate to further investments in EirGrid Interconnector Limited.

During the year, the Company advanced €10.0m (2011: €10.0m) to EirGrid Interconnector Limited via an intercompany loan and on-lent €120.7m (2011: €79.8m) of debt. The Company has made total advances of €31.0m (2011: €21.0m) to EirGrid Interconnector Limited and on-lent total debt of €285.0m (2011: €164.3m). No interest is payable on these amounts under the intercompany loan agreement. The Company has recognised an investment of €161.8m (2011: €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 Telecoms 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 Telecoms 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, telecomm-unications equipment and other €'000	Single Electricity Market ** €'000	Assets under Construction *** €'000	Total €'000
Cost						
Balance as at 1 Oct 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 Sep 2011	11,715	1,660	55,442	49,265	289,972	408,054
Additions	3	-	359	-	250,982	251,344
Disposals	-	-	(400)	-	-	(400)
Transfers	-	21	20,778	-	(20,799)	-
Exchange differences	263	4	999	798	13	2,077
Balance as at 30 Sep 2012	11,981	1,685	77,178	50,063	520,168	661,075
Depreciation						
Balance as at 1 Oct 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 Sep 2011	1,638	901	25,800	35,615	-	63,954
Charge	486	333	10,691	10,498	-	22,008
Disposals	-	-	(400)	-	-	(400)
Exchange differences	175	2	427	686	-	1,290
Balance as at 30 Sep 2012	2,299	1,236	36,518	46,799	-	86,852
Carrying amount as at 30 Sep 2012	**9,682**	**449**	**40,660**	**3,264**	**520,168**	**574,223**
Carrying amount as at 30 Sep 2011	10,077	759	29,642	13,650	289,972	344,100

* The cost of the Group's buildings include leasehold improvements.

** 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 2012 €'000	30 Sep 2011 €'000
IT and telecommunications equipment	9,032	10,030
East West Interconnector project	511,136	279,942
Total	520,168	289,972

Assets under Construction include capitalised interest costs of €25.5m (2011: €8.2m).

12. Property, Plant & Equipment (continued)

Company	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 Oct 2010	10,403	1,460	42,956	41,418	3,206	99,443
Additions	-	-	16	-	11,567	11,583
Disposals	-	-	(55)	-	-	(55)
Transfers (including intra-Group)	4	163	5,600	-	(5,767)	-
Balance as at 30 Sep 2011	10,407	1,623	48,517	41,418	9,006	110,971
Additions	-	-	-	-	16,258	16,258
Transfers	-	21	15,444	-	(15,465)	-
Balance as at 30 Sep 2012	10,407	1,644	63,961	41,418	9,799	127,229
Depreciation						
Balance as at 1 Oct 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 Sep 2011	1,376	887	29,292	30,303	-	61,858
Charge	433	325	8,162	8,212	-	17,132
Balance as at 30 Sept 2012	1,809	1,212	37,454	38,515	-	78,990
Carrying amount as at 30 September 2012	**8,598**	**432**	**26,507**	**2,903**	**9,799**	**48,239**
Carrying amount as at 30 September 2011	9,031	736	19,225	11,115	9,006	49,113

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

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

*** Assets under Construction consist of the following:

	30 Sep 2012 €'000	30 Sep 2011 €'000
IT and telecommunications equipment	9,799	9,006

13. Trade and Other Receivables

	Group		Company	
	30 Sep 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Amounts due in less than one year:				
Trade receivables	73,570	72,022	51,505	55,432
Prepayments and accrued income	50,440	34,499	46,204	34,513
Unbilled receivables	40,046	45,521	40,046	39,635
VAT recoverable	-	9,321	-	2,773
Other receivables	316	534	241	396
Amounts owed by subsidiary undertakings	-	-	35,291	18,912
Total	164,372	161,897	173,287	151,661
Amounts due in more than one year:				
Prepayments and accrued income	1,089	1,133	-	-
Amounts owed by subsidiary undertakings	-	-	146,981	90,224
Total	165,461	163,030	320,268	241,885

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 €45.0m (2011: €33.1m), all of which may not be recoverable within twelve months.

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 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Trade payables	116,451	94,870	94,568	79,015
Accruals	127,172	86,331	37,482	36,204
Taxation and social welfare	4,875	2,071	7,222	1,871
Regulatory over-recoveries	-	2,288	-	2,288
Amounts owed to subsidiary undertakings	-	-	4,111	6,154
Total	248,498	185,560	143,383	125,532

14. Trade and Other Payables (continued)

Taxation and social welfare comprises of the following:

	Group		Company	
	30 Sep 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
PAYE/PRSI	1,077	1,019	862	819
VAT	3,444	892	6,006	892
Withholding tax	354	160	354	160
Total	4,875	2,071	7,222	1,871

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.

€27.0m (2011: €30.8m) of the Group trade payables balance and €7.0m (2011: €5.8m) of the Group accruals balance relates to the charges payable to ESB and NIE as Transmission Asset Owners in Ireland and Northern Ireland respectively. €27.0m (2011: €30.8m) 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.

There were no regulatory over-recoveries recognised as at 30 September 2012. 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 was fully returned to customers at the end of 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 returned in the year to 30 September 2012.

15. Deferred Income

Group

Capital Grants	€'000
Balance as at 1 October 2010	2,318
Grants received	33,000
Balance as at 30 September 2011	35,318
Grants received	43,962
Balance as at 30 September 2012	79,280

Analysed as:	€'000
Current	-
Non-current	79,280
Balance as at 30 September 2012	79,280

Capital grants received during the year were related to the East West Interconnector project and were received from the EU Commission. 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 2012 €'000	30 Sep 2011 €'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 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Cash and cash equivalents	164,745	109,531	67,453	58,815

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 €nil (2011: €2.3m) relating to the regulatory over-recoveries payable at year end (note 14) and security deposits of €0.3m (2011: €0.8m). Included in the Group's cash balances is €89.3m (2011: €40.3m) which represents EWIC related loans, drawn during the availibilty period and EWIC grants. This cash can only be used for the purposes of the EWIC project. Included in the Group's cash balances is a further €17.3m (2011: €0.4m) held on trust for market participants in the SEM, €8.6m (2011: €32.6m) held in SEM collateral reserve accounts (security accounts held in the name of market participants), with an equivalent amount included in trade payables and €0.3m of Public Service Obligation levy (PSO) funds. Included in the Company's cash balances is €13.0m (2011: €0.3m) held on trust for market participants in the SEM, €6.5m (2011: €24.5m) held in SEM collateral reserve accounts (security accounts held in the name of market participants), with an equivalent amount included in trade payables and €0.3m of PSO funds.

During the year, the Company advanced interest free loans totalling €120.7m (2011: €79.8m) to EirGrid Interconnector Limited and injected equity of €10.0m (2011: €10.0m). This is classified as an investment in subsidiary in the Company Cash Flow Statement.

The Group had unutilised borrowing facilities of €144.0m (2011: €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.

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 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Not longer than one year	3,063	3,043	3,063	3,043
Longer than one year and not longer than five years	11,687	11,797	11,687	11,797
Longer than five years	40,992	43,843	40,992	43,843
Total	55,742	58,683	55,742	58,683

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. Following a scheduled rent review on 1 March 2012 no adjustment was made to rent payable.

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 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Expenditure contracted for, but not provided for in the Financial Statements	50,128	243,826	-	-

The Group has significant contractual commitments arising from the East West Interconnector, a project to link the electricity grids of Ireland and Britain. Expenditure incurred at 30 September 2012 was €511m.

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 nil (2011: €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

During the year the Group operated 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 2012 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 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Present value of funded defined pension obligations	100,712	74,971	76,130	57,079
Fair value of plan assets	(78,263)	(60,509)	(54,379)	(41,333)
Net liability	22,449	14,462	21,751	15,746
Derecognition of net pension asset	-	1,284	-	-
Net liability before deferred tax	22,449	15,746	21,751	15,746
Deferred tax on net pension obligation (note 8)	(2,879)	(1,968)	(2,719)	(1,968)
Net liability after deferred tax	19,570	13,778	19,032	13,778

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

	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Current service cost	4,175	4,336
Interest cost	3,858	3,342
Expected return on plan assets	(2,955)	(3,135)
Employer pension cost capitalised	(632)	(653)
Amount included in other operating costs relating to defined benefit schemes	4,446	3,890

21. Retirement Benefits Obligations (continued)

The amounts recognised in the Statement of Comprehensive Income are as follows:

	Group		Company	
	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Actuarial (losses)/gains	(8,676)	5,138	(6,717)	3,693
Recognition/(derecognition) of net pension asset	1,387	(1,284)	-	-
Amount included in the Statement of Comprehensive Income	(7,289)	3,854	(6,717)	3,693

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

	EirGrid plan		SONI Focus plan	
	30 Sep 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Opening defined benefit obligation	57,079	56,277	17,892	17,928
Current service cost including employee contributions	5,021	5,032	776	825
Interest cost	2,843	2,387	1,015	955
Actuarial losses/(gains)	11,737	(6,441)	3,311	(1,503)
Benefits paid	(550)	(176)	(108)	(40)
Exchange differences	-	-	1,696	(273)
Closing defined benefit obligation	76,130	57,079	24,582	17,892

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

	EirGrid plan		SONI Focus plan	
	30 Sep 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Opening fair value of plan assets	41,333	35,844	19,176	17,928
Expected return on plan assets	2,091	2,261	864	874
Gains/(losses) on plan assets	5,020	(2,748)	1,352	(58)
Employer contributions	4,998	4,752	724	621
Employee contributions	1,487	1,400	135	121
Benefits paid	(550)	(176)	(108)	(40)
Exchange differences	-	-	1,741	(270)
Closing fair value of plan assets	54,379	41,333	23,884	19,176

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 2012	30 Sep 2011	30 Sep 2012	30 Sep 2011
Valuation method	Projected Unit	Projected Unit	Projected Unit	Projected Unit
Discount rate	4.00%	5.00%	4.40%	5.30%
State pension increase	2.00%	2.00%	2.00%	2.60%
Salary increases	2.50% plus scale	2.75% plus scale	3.80%	4.40%
Pension increases	2.50%	2.75%	2.00%	2.60%
Inflation	2.25%	2.00%	2.80%	3.40%
Post-retirement life expectancy for those retiring at age 65 in 2032:				
- Men	26.3 years	25.4 years	24.1 years	24.1 years
- Women	27.6 years	26.7 years	26.7 years	26.6 years

The discount rate used by the plan actuaries in the calculation of the pension liabilities at the year end were 4.00% (2011: 5.00%) for the EirGrid plan and 4.40% (2011: 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 (2011: 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 (2011: 20 years). 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%.

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 2012 %	30 Sep 2011 %	30 Sep 2012 €'000	30 Sep 2011 €'000
Equities	7.00%	7.00%	26,571	19,179
Bonds	3.50%	4.00%	7,151	6,324
Property	5.50%	5.50%	846	785
Cash	1.00%	2.00%	8,404	8,225
Alternatives	7.00%	7.00%	7,627	3,224
Annuities	4.00%	5.00%	3,780	3,596
Fair value of plan assets			54,379	41,333

21. Retirement Benefits Obligations (continued)

SONI Focus plan	Expected Return		Fair Value	
	30 Sep 2012 %	30 Sep 2011 %	30 Sep 2012 €'000	30 Sep 2011 €'000
Equities	5.80%	6.50%	12,916	6,250
Bonds	3.50%	3.30%	10,613	12,065
Cash	0.50%	0.50%	355	861
Fair value of plan assets			23,884	19,176

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 €9.3m. The actual return on the EirGrid plan scheme assets was a gain of €7.1m.

During the year ending 30 September 2013 the Group expects to contribute approximately €6.2m to its defined benefit plans.

The history of experience adjustments is as follows:

	2012 €'000	2011 €'000	2010 €'000	2009 €'000	2008 €'000
Present value of defined benefit obligation	100,712	74,971	74,205	65,285	47,188
Fair value of plan assets	(78,263)	(60,509)	(53,772)	(42,997)	(22,633)
Derecognition of net pension asset	-	1,284	-	-	-
Deficit	22,449	15,746	20,433	22,288	24,555
Experience adjustments on plan liabilities	(15,048)	7,944	933	2,373	1,064
Experience adjustments on plan assets	6,372	(2,806)	486	2,687	(6,296)

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 (2011: €0.2m).

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 2012 €'000	30 Sep 2011 €'000
Non-current assets	16,452	19,210
Current assets	84,200	76,594
Total assets	100,652	95,804
Total equity	9,670	8,201
Current liabilities	90,982	87,603
Total liabilities	90,982	87,603
Total equity and liabilities	100,652	95,804

	Year to 30 Sep 2012 €'000	Year to 30 Sep 2011 €'000
Revenue	155,203	102,625
Expenses	(153,972)	(98,737)
Operating profit	1,231	3,888

23. Borrowings

	Group		Company	
	30 Sep 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Repayable within one year:				
Bank overdrafts	69	166	69	166
Bank loans repayable by instalments	23,614	13,447	14,394	8,822
Total current borrowings	23,683	13,613	14,463	8,988
Repayable after more than one year by instalments:				
Between one and two years	22,507	24,848	8,255	11,231
Between two and five years	44,433	30,717	25,625	14,571
In five years or more	336,872	192,096	244,048	145,861
Total non-current borrowings	403,812	247,661	277,928	171,663
Total borrowings outstanding	427,495	261,274	292,391	180,651

All borrowings by subsidiaries are guaranteed by EirGrid plc through a cross-guarantee structure, see note 26 for further details. 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 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Financial assets classified as loans and receivables:				
Trade receivables	75,212	72,022	53,147	55,432
Amount owed by subsidiary undertakings	-	-	182,272	109,136
Cash and cash equivalents	164,745	109,531	67,453	58,815
Total	239,957	181,553	302,872	223,383
Financial assets fair valued through profit and loss:				
Derivative financial instruments	4	-	-	-
Total financial assets	239,961	181,553	302,872	223,383
Financial liabilities classified as other liabilities:				
Trade payables	116,451	94,870	94,568	79,015
Amount owed to subsidiary undertakings	-	-	4,111	6,154
Borrowings and bank overdrafts	427,495	261,274	292,391	180,651
Total	543,946	356,144	391,070	265,820
Financial liabilities designated as hedging instruments:				
Derivative financial instruments (note 25)	84,990	53,274	57,066	36,812
Financial liabilities fair valued through profit and loss:				
Derivative financial instruments	-	28	-	-
Total derivative financial instruments	84,990	53,302	57,066	36,812
Total financial liabilities	628,936	409,446	448,136	302,632

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).

24. Categories of Financial Assets and Financial Liabilities (continued)

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.

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 function. 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.

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

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. Surplus cash is invested with counterparties who have at least an investment grade credit rating. 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 of financial assets as presented on the Balance Sheet.

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 2012 were €65.2m (2011: €64.4m). SEMO trade debtors included in Company trade debtors as at 30 September 2012 were €48.9m (2011: €48.3m).

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 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
60 to 90 days	6	21	6	21
90 to 120 days	104	6	104	6
Greater than 120 days	892	1,251	892	1,251
Total	1,002	1,278	1,002	1,278

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 €144m at the Balance Sheet date (2011: €nil). 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 non-derivative financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Group	Less than 1 month €'000	1 to 12 months €'000	1 to 5 years €'000	5+ years €'000	Total €'000
30 Sep 2012					
Non interest bearing – trade payables	116,451	-	-	-	116,451
Borrowings and bank overdrafts	-	44,029	138,553	489,369	671,951
Total	116,451	44,029	138,553	489,369	788,402
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

Company	Less than 1 month €'000	1 to 12 months €'000	1 to 5 years €'000	5+ years €'000	Total €'000
30 Sep 2012					
Non interest bearing – trade payables	94,568	-	-	-	94,568
Borrowings and bank overdrafts	-	27,323	81,011	357,241	465,575
Total	94,568	27,323	81,011	357,241	560,143
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

The cash flow hedges are expected to occur and effect the income statement over a period of 23 years. There are no forecast transactions no longer expected to occur.

The amounts recognised and reclassified out of the cash flow hedge reserve are as follows:

	Group		Company	
	30 Sep 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Losses arising during the year	(41,050)	(13,998)	(26,004)	(9,199)
Reclassified to income statement (included in finance costs)	951	556	5,750	3,821
Reclassified to Property, Plant and Equipment	8,483	3,967	-	-
Foreign Exchange	(100)	16	-	-
Total	(31,716)	(9,459)	(20,254)	(5,378)

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

Market Risk

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.

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

Group

Derivatives that are designated and effective as hedging instruments carried at fair value, expiring in:	Average contracted interest rate		National principal amount		Interest rate swap asset/(liability)	
	30 Sep 2012 %	30 Sep 2011 %	30 Sep 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Less than one year	4.0%	-	6,122	-	(150)	-
Between one and two years	4.7%	4.0%	6,015	14,144	(298)	(404)
Between two and five years	4.8%	4.8%	8,992	18,443	(714)	(1,345)
In five years or more	3.8%	3.8%	433,000	219,862	(83,828)	(51,525)
Total active swap contracts	3.9%	3.9%	454,129	252,449	(84,990)	(53,274)

Company

Derivatives that are designated and effective as hedging instruments carried at fair value, expiring in:	Average contracted interest rate		National principal amount		Interest rate swap asset/(liability)	
	30 Sep 2012 %	30 Sep 2011 %	30 Sep 2012 €'000	30 Sep 2011 €'000	30 Sep 2012 €'000	30 Sep 2011 €'000
Less than one year	4.0%	-	6,122	-	(150)	-
Between one and two years	-	4.0%	-	14,144	-	(404)
Between two and five years	-	-	-	-	-	-
In five years or more	3.8%	3.8%	260,870	164,341	(56,916)	(36,408)
Total active swap contracts	3.8%	3.8%	266,992	178,485	(57,066)	(36,812)

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.

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

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 net settlements under the interest rate swaps and the interest payments on the borrowings occur simultaneously. The amount deferred in equity is recognised in profit or loss over the period that the floating rate interest payments on debt impact profit or loss.

Interest rate sensitivity analysis
The sensitivity analysis 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 2012 would have been impacted by €0.1m (2011: €0.3m); and
- Other equity reserves would have been impacted by €42.6m (2011: €41.5m), 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 2012 would have been impacted by €0.1m (2011: €0.1m); and
- Other equity reserves would have been impacted by €29.7m (2011: €29.1m), 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 analysis 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 loss of €4.6m during the year to 30 September 2012 (2011: operating profit of €3.1m). 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 2012 would be impacted by €1.9m (2011: €0.4m). Other equity reserves would have been impacted by €1.4m (2011: €0.2m).

26. Related Party Transactions

Group

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. On retirement, Dermot Byrne transferred his shareholding to Fintan Slye.

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 2012 €'000	Year to 30 Sep 2011 €'000
Transmission asset owner charge	147,699	157,341

At 30 September 2012 a total of €27.5m (2011: €30.8m) was payable to ESB under this Agreement. The movement in this balance was as follows:

	30 Sep 2012 €'000	30 Sep 2011 €'000
Opening balance	30,765	26,757
Charges during the year	147,699	157,341
Payments made during the year	(151,019)	(153,333)
Closing balance	27,445	30,765

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 2012 €'000	Year to 30 Sep 2011 €'000
Short-term benefits	168	215
Post-employment benefits	68	68
Total	236	283

Company

Transactions between the Company and the related parties and the balances outstanding are disclosed below:

Year to 30 Sep 2012	Interest receivable €'000	Interest payable €'000	Revenue from related party €'000	Charges received from related party €'000	Amounts owed by related party €'000	Amounts owed to related party €'000
SONI Ltd	323	-	-	867	6,548	-
EirGrid Interconnector Ltd	-	-	-	-	161,182	-
EirGrid UK Holdings Ltd	543	-	-	395	10,444	-
	866	-	-	1,262	178,174	-

Year to 30 Sep 2011	Interest receivable €'000	Interest payable €'000	Revenue from related party €'000	Charges received from related party €'000	Amounts owed by related party €'000	Amounts owed to related party €'000
SONI Ltd	140	-	-	(1,022)	10,158	6,111
EirGrid Interconnector Ltd	-	-	-	-	90,080	-
EirGrid UK Holdings Ltd	237	-	-	352	8,754	-
	377	-	-	(670)	108,992	6,111

At 30 September 2012 €178.2m (2011: €102.9m) 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 €120.7m of debt. The Company has made total advances of €31.0m to EirGrid Interconnector Limited and on-lent total debt of €285.0m. 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.

26. Related Party Transactions (continued)

The Company has recognised an investment of €161.8m 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 estimate that on-lent interest free debt will be repaid on a schedule matching the terms of the on-lent debt.

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, €5.3m was recharged under this 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.

EirGrid plc has given a Parent Company Undertaking to SONI Limited to the value of £10m.

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 19 December 2012.

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