

Environmental Protection Agency,  
PO Box 3000,  
Johnstown Castle Estate,  
County Wexford.

28<sup>th</sup> August 2013

Bosca O.P. 51  
Bóthar na nOibreacha Gáis  
Corcaigh  
Éire

P.O. Box 51  
Gasworks Road  
Cork  
Ireland

T +353 21 453 4000

F +353 21 453 4001

W [www.bordgais.ie](http://www.bordgais.ie)

**Reg. No. W0281-01**

**Waste Licence Application for Gasworks Site Dock Road Limerick**

Dear Sirs,

With regard to Attachment L2, Financial Provision, under Section L for the above waste Licence Application, I attach a copy of Bord Gáis Éireann's most recent Annual Report & Accounts for 2012.

As you can see the company can adequately finance the proposed project given that in 2012 the company recorded a profit, before taxation, of €121 million on a turnover of €1,625 million. Cash and cash equivalents at 31 December 2012 was €337 million.

Bord Gáis Éireann currently has a strong investment grade rating. It has had a rating since early 2002. This rating is reviewed regularly by the relevant rating agencies and any change in the credit metrics of Bord Gáis Éireann or its liquidity position is adjusted for immediately in the rating. This rating is used by Bord Gáis Éireann to raise funds in the market place and it provides independent assurance to external trading parties that deal with Bord Gáis Éireann that it is financially secure and stable. The current rating of Bord Gáis Éireann is "BBB+" by Standard and Poor's and "Baa3" by Moody's.

Yours faithfully,



Rie McGowan  
Business Planning Manager  
Bord Gáis Networks

Annual Report and  
Financial Statements



Bord Gáis Éireann is a commercial semi-state enterprise supplying both gas and electricity to homes and businesses throughout the island of Ireland.

It also builds and operates one of the most modern and safe gas networks in the world, connecting all natural gas customers to this network.

In addition, following the Government's decision to reform the public water system, Irish Water, the new public water utility, will be set up within the Bord Gáis Group.

Headquartered in Cork, Ireland, Bord Gáis employs over 1,000 staff, providing a dynamic and modern place to work.

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### Glossary

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## Financial Highlights

### Revenue

€1,625 million



### Total Assets

(excluding derivatives)

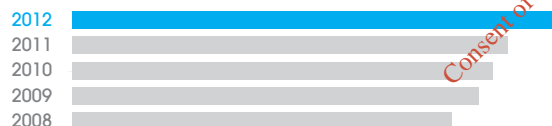
€4,677 million



### EBITDA

(before exceptional items)

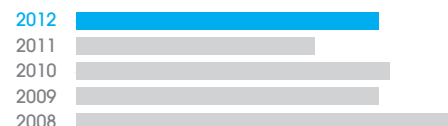
€380 million



### Profit Before Income Tax

(before certain remeasurements and exceptional items)

€121 million



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## Five Year Summary

	IFRS 2012*	IFRS 2011*	IFRS 2010*	IRISH GAAP 2009	IRISH GAAP 2008
	€'million	€'million	€'million	€'million	€'million
Revenue	1,625	1,608	1,525	1,349	1,379
Operating profit before depreciation and amortisation (EBITDA)	380	343	331	320	299
Profit before income tax	121	94	123	119	151
Total Assets (excl derivatives)	4,677	4,515	4,436	4,382	3,290
Net Debt	1,929	1,934	1,856	1,823	1,217
<b>Ratios</b>					
Profit before income tax/Revenue (%)	7%	6%	8%	9%	11%
EBIT Interest Cover (times)	2.4	2.1	2.6	3.0	4.3
Net Debt/Book Capitalisation (%)	55%	56%	56%	56%	48%

\* Figures are stated before the impact of certain remeasurements arising from the adoption of IAS 39 Financial Instruments: Recognition and Measurement.

## Bord Gáis at a Glance





### Who we are

Bord Gáis Éireann is a major energy provider, supplying gas and electricity to homes and businesses throughout the island of Ireland. A commercial enterprise owned by the Irish State, it builds and operates one of the most modern

and safe gas networks in the world, connecting all natural gas customers to this network. Bord Gáis is committed to growth, innovation and sustainability. Bord Gáis continues to be a major employer in Ireland, providing a dynamic

and modern place to work for over 1,000 direct employees. Bord Gáis meets its commitments to customers through its two main businesses, Bord Gáis Energy and Bord Gáis Networks.

### Bord Gáis Group At A Glance

Division	Market Sectors
 <p data-bbox="411 987 703 1279"><b>Bord Gáis Energy</b></p>	<p data-bbox="703 987 1594 1279">Bord Gáis Energy is a dual-fuel, all-island business that serves over 825,000 gas and electricity customers with exemplary service at competitive prices. Through its Trading team, it procures energy efficiently on wholesale markets. Its Assets unit operates and maintains a portfolio of energy assets, and invests and develops new assets, to support Bord Gáis' growth in the energy markets in Ireland.</p>
 <p data-bbox="411 1279 703 1570"><b>Bord Gáis Networks</b></p>	<p data-bbox="703 1279 1594 1570">Bord Gáis Networks, on behalf of Gaslink, develops, operates and maintains the natural gas transmission and distribution networks in the Republic of Ireland and provides gas transportation services to all gas suppliers and shippers, including Bord Gáis Energy.</p>
 <p data-bbox="411 1570 703 1861"><b>Gaslink</b></p>	<p data-bbox="703 1570 1594 1861">Gaslink is the independent gas system operator for Ireland, responsible for the development, maintenance and operation of the gas distribution and transmission networks. Gaslink uses Bord Gáis Networks as a service provider to perform the majority of this work. Ownership of the gas infrastructure remains with Bord Gáis.</p>
 <p data-bbox="411 1861 703 2134"><b>Irish Water/ Uisce Éireann</b></p>	<p data-bbox="703 1861 1594 2134">Irish Water is the new public water utility currently in the process of being established as a subsidiary of Bord Gáis Éireann. Irish Water will take over the public water services currently provided by 34 Local Authorities and will have full responsibility for delivering services to public water users; installing domestic water meters across the country; raising finance internationally to fund capital investment programmes; and maintaining, operating and upgrading the water infrastructure. In addition, Irish Water will be responsible for billing public water users from 2014.</p>



In April 2012, the Irish Government announced the formation of a new public water utility, Irish Water/Uisce Éireann to manage the operation and delivery of public water services in Ireland. This company will operate as a subsidiary of Bord Gáis Éireann.

EBITDA	Customers	Principal operating locations	Employees	Link to other sections
€79.4m	Supplier of gas and electricity to residential, business and industrial & commercial customers.	Republic of Ireland (under Bord Gáis Energy brand) and Northern Ireland (under firmus energy brand)	453	Bord Gáis Energy Review, page 20
€300.6m	All gas suppliers and shippers in Ireland.	Republic of Ireland	586	Bord Gáis Networks Review, page 32
n/a*	No direct customers. Operates through Bord Gáis Networks as its service provider.	Republic of Ireland	18	Gaslink Review, page 40
n/a	Will provide water and wastewater services to all households and businesses on the public water system.	Republic of Ireland	Irish Water has appointed a Managing Director and is currently recruiting for senior roles for the organisation.	Irish Water, page 14

\*The results of Gaslink are included in the Group's "Ancillary" operating segment. Refer to Note 1 of the Group financial statements for further analysis of segmental results.

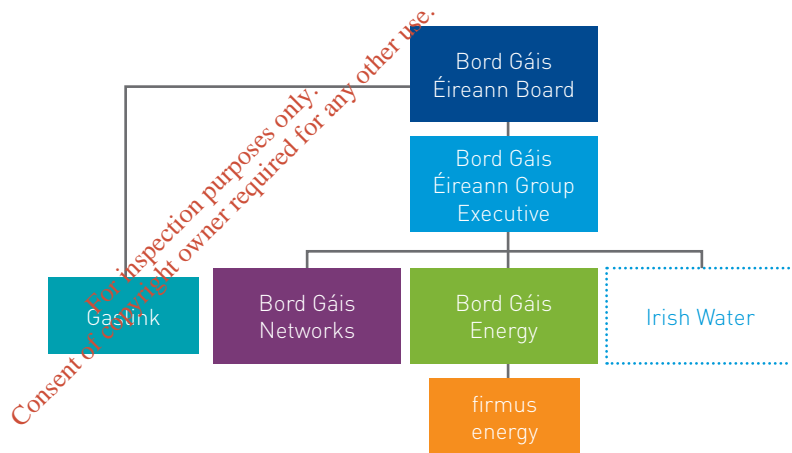
## Business Model & Strategy

Bord Gáis' core mission is to be Ireland's sustainable provider of customer-led energy solutions.

The key elements of the resultant vision are to provide efficient, competitive, and safe energy services to all our customers, and to generate returns for our shareholder whilst continuing to build the financial strength of the business to support ongoing investment. We are also committed to creating a safe and attractive place to work for all our employees.

### Business Model

Bord Gáis operates both regulated and non-regulated businesses in compliance with a number of EU Directives, whose main aims are to liberalise the gas and electricity markets across Europe. In addition, in April 2012 the Government announced the formation of a new public water utility for Ireland, Irish Water, which will be established as a subsidiary of Bord Gáis.



### Performance against strategy

Objective	Key Performance Indicators
Be a leading energy company	<ul style="list-style-type: none"> <li>• Dual-fuel offering to over 825,000 customers</li> <li>• Best in class customer service</li> <li>• Integrated supply business on the island of Ireland</li> <li>• Portfolio of renewable energy and electricity generation</li> <li>• Managing trading risk</li> <li>• Building brand awareness and loyalty</li> </ul>
Sustainable balance sheet growth	<ul style="list-style-type: none"> <li>• Complete electricity and gas assets investments in Ireland</li> <li>• Leverage balance sheet strength</li> <li>• While addressing sustainability agenda</li> </ul>
Outperform regulatory expectations	<ul style="list-style-type: none"> <li>• Outperform regulatory targets in Sales, OpEx, CapEx and Cost of Capital</li> <li>• Exceed Customer Charter requirements</li> <li>• Influence market arrangements and Security of Supply standards</li> <li>• Ensure safe operations</li> </ul>

**Bord Gáis Strategic Framework 2009-2014**

To be Ireland's sustainable provider of customer-led energy solutions

Be a leading energy company

Invest for sustainable balance sheet growth

Outperform regulatory expectations

Provide efficient, reliable & safe gas service to all customers

Provide competitive, dual-fuel & sustainable energy offerings

Invest in regulated and unregulated assets

Provide exemplary customer service

Be a great place to work

Develop our long-term capability & champion energy sustainability

Build a sustainable, self-funding business generating a return to the Exchequer

**Achievements 2012**

**2013 & beyond**

**Link to other sections**

- Launch of "Rewards Club" customer loyalty programme
- Continued expansion of wind farm portfolio
- Successfully awarded exclusive rights to develop 100MW tidal energy farm through joint venture Tidal Ventures Limited

- Realise value from the proposed sale of Bord Gáis Energy subject to appropriate conditions being met
- Successful establishment of Irish Water

Sponsorships, page 22  
 Assets, page 28

- EIB funding for wind farm assets development
- Raised €500 million through bond auction – Bord Gáis Éireann now fully funded to 2016
- Chosen by Government to establish Irish Water as a subsidiary of Bord Gáis Éireann
- Extension of natural gas network to Macroom completed and CER approval to connect Cootehill and Wexford

- CapEx growth for Bord Gáis Networks
- Establishment of Irish Water

Irish water, page 14

- Regulated revenue determinations completed by Bord Gáis Networks in Ireland & Northern Ireland
- Mobilisation of national Networks Services & Works Contract

- Deliver outputs within Price Control 3 allowances for Bord Gáis Networks
- Setting of initial regulatory standards for Irish Water

Networks, page 32  
 NSWC, page 35



## A strong financial and business performance in 2012



“Bord Gáis once again delivered a strong financial performance in 2012 despite a difficult economic climate.”

Bord Gáis continued to deliver a strong business and financial performance in 2012 in a climate of significant change for the Group.

In February 2012, the Government announced its intention to sell Bord Gáis Energy. Since then, together with our shareholder, Bord Gáis has undertaken preparations for an international sales process that commenced in February 2013. We will continue to work with the Government and other key stakeholders to ensure that the sale of Bord Gáis Energy will generate the maximum value to the State, whilst also ensuring the long term welfare of our skilled and loyal staff is given due consideration in the sales process.

In April 2012, the Government announced the creation of Irish Water as a publicly owned national water utility that will take over the provision of public water services from thirty four Local Authorities from 2014. Irish Water will be established as a subsidiary of Bord Gáis Éireann.

Bord Gáis has also undergone significant change within the senior management team, with the departure of John Mullins as our Group Chief Executive at the end of 2012. John made an immeasurable contribution to the business during his five years as Chief Executive, including the year under review in this report. At the time of writing, the company is being managed by John Barry who is acting as interim CEO for the Group, in addition to his role as Programme Director for the Irish Water Programme, until our new Group Chief Executive Michael McNicholas takes up office, by June 2013. Dr. John Tierney will take up office in April 2013 as the Managing Director of Irish Water.

Managing the proposed sale of Bord Gáis Energy and the establishment of Irish Water, change programmes of complexity and scale, is a significant undertaking in addition to delivering ongoing commercial objectives, but I am confident that Bord Gáis will deliver against all these objectives successfully.

### Financial Performance

Bord Gáis once again delivered a strong financial performance in 2012 despite a difficult economic climate. Total revenue, at €1,625 million for the year to 31st December 2012, was up 1% on the 2011 result. EBITDA increased by €37 million to €380 million, reflecting the strong underlying performance of the business. Profit Before Income Tax was €121 million, an increase of 29% from the 2011 figure of €94 million.

These are strong results, taking account of the current economic conditions as well as the continuing sustained rises in wholesale fuel costs and the continuing need to make provision for bad debts.

In addition, in 2012 Bord Gáis paid a dividend to the Exchequer of €23.8 million, based on 30% of the previous year's profit for the financial year before certain remeasurements and exceptional items. This brings the total dividends paid since the inception of Bord Gáis in 1976 to €854 million.

### Revenue

€1,625m

2011: €1,608m



### EBITDA

€380m

2011: €343m



“Bord Gáis paid a dividend to the Exchequer of €23.8 million”

## Strategic Changes

Bord Gáis is a company embarking on a further period of significant change. The decisions being made now will determine the future of the company for many years to come. We continue to operate the business against the objectives detailed in the Five Year Strategy 2009–2014, as approved by the Board and submitted to the Department of Communications, Energy and Natural Resources and the Department of Finance. However, while this strategy still forms the basis for the main activities of the company, in 2012 and for the foreseeable future, we will deliver on new objectives in the form of the proposed sale of Bord Gáis Energy, the establishment of Irish Water as a subsidiary of Bord Gáis Éireann, the implementation of the Third EU Energy Directive, and the required restructuring of the business resulting from these changes to maintain optimal efficiency and effectiveness.

### The Proposed Sale of Bord Gáis Energy

In February 2012, the Minister for Public Expenditure and Reform announced the Government's intention to sell Bord Gáis Energy. Since then, Bord Gáis has worked closely with NewERA, the Department of Public Expenditure and Reform, the Department of Communications, Energy and Natural Resources and the Department of Finance to progress preparations for the proposed sale. In late 2012, Bord Gáis appointed Royal Bank of Canada (RBC) to advise the Board and management of Bord Gáis in relation to the proposed sale of Bord Gáis Energy.

Subject to appropriate market conditions, it is expected that the proposed sale of Bord Gáis Energy could be concluded by late 2013. In the interim period, the company continues to operate business as usual to meet its existing obligations to its customers, suppliers and shareholder. Bord Gáis Energy is entering the next phase of development with its wind farm build out programme having successfully negotiated €155 million of funding from the European Investment Bank (EIB) in November 2012. The EIB support will contribute to the construction and operation of six onshore wind farms and is one element of an overall expansion programme representing a total investment of €311 million, which will continue into 2014.

### The Third EU Energy Directive

In recent years, Bord Gáis has been actively working to develop an Independent Transmission Operator (ITO) Model, as chosen by the Minister, in line with the requirements of the Third EU Energy Directive. Throughout 2011, we completed the operational separation of the Networks business from the Group and Energy businesses in preparation for the establishment of the ITO. Throughout 2012, work continued to transpose the Third Directive into Irish law. The announcement in February 2012 of the proposed sale of the Energy business raises the possibility that Bord Gáis could ultimately seek certification under the Third Directive via the Ownership Unbundling option rather than the ITO model. Since the proposed sale announcement, Bord Gáis has engaged with Regulators and the European Commission to ensure Third EU Directive compliance.

### The Establishment of Irish Water

In April 2012, the Government announced that it would create a publicly owned national water utility to manage and invest in the delivery of public water and wastewater services in Ireland. This new authority will operate as a subsidiary of Bord Gáis Éireann. The Government took the decision to establish Irish Water within Bord Gáis as it has extensive experience of managing a national gas network and it will bring these skills to managing the establishment and ongoing operations of the new public water utility. In addition, Bord Gáis has an excellent track record in delivering customer care, and attracting international finance. The expertise of Bord Gáis partnered with the knowledge and experience of the Local Authorities will create a company with the capacity to deliver world class water services. As a cohesive organisation, it will be able to take a strategic, national approach to planning, development, raising finance, investment and operations.

Setting up Irish Water is a complex task and will be undertaken in several phases up to 2017. The enactment of interim legislation in 2013 has given Irish Water a legal basis and has also determined the corporate governance requirements.

Since the announcement in April 2012, an Irish Water Programme has been established within Bord Gáis Group, with John Barry as Programme Director. There is regular engagement with the Department of the Environment, Community and Local Government on the progress of the programme and policy issues.

The Programme completed a 12 week Mobilisation Phase in July 2012 which established the initial scope and roadmap for Irish Water, and set out the framework for a major Establishment Programme to the end of 2013. For this implementation phase, experts from the Local Authorities, the utility sector within Bord Gáis, and the water sector, will bring together their collective strengths, expertise and experience to create a new national water utility that provides an excellent service to our communities for the future.

In January 2013, the Board was pleased to announce the appointment of Dr John Tierney as Managing Director of Irish Water. John will join Irish Water in April 2013 and comes to us with over 35 years experience in local government, most recently as City Manager for Dublin City Council. He has an impressive track record in the planning and delivery of major water services programmes and I am confident that he will do an outstanding job in this new role.

This new approach to the provision of water services will facilitate increased investment into the system, resulting over time in better water services. High quality water services benefit households and, importantly, help position Ireland as an attractive country in which to locate industries with high water usage. Investment in water infrastructure will ensure that Ireland is well positioned to attract foreign and indigenous investment, creating real potential for new jobs within the country.

## Strategic Performance

While planning proceeds to manage the successful transition of the Group to meet the future business requirements, Bord Gáis continues to meet its commitments under its strategic objectives.

## Chairman's Statement (continued)

### *Continuing to Attract Private Funding*

In 2012, Bord Gáis continued to attract strong interest from investors, culminating in the successful placement of a €500 million bond with a 5 year maturity at a coupon of 3.625% in November 2012. The transaction received total orders of more than €6.5 billion in just one hour. The company's last bond issue was in 2009 for €550 million and despite the turbulent economic environment in the interim, the company has achieved the same credit spread and a lower coupon with the new bond. The proceeds from the bond issue will be used to refinance some of Bord Gáis' existing debt. Following this bond issue, the company is now fully funded to 2016.

Within a week of the announcement of the successful bond sale, Bord Gáis confirmed that it had attracted €155 million of funding from the European Investment Bank (EIB). The EIB support will contribute to the construction and operation of six onshore wind farms in Counties Tipperary, Clare, and Kilkenny, with a total generation capacity of 141 MW.

These investments are evidence that investor confidence in Ireland and Irish companies has significantly improved. The bond deal, with over 400 institutional investors from a broad range of European countries, and the EIB's funding, are a clear vote of confidence in the financial strength and strategic direction of Bord Gáis.

### *Continuing to Diversify the Asset Portfolio*

Within a short space of time, Bord Gáis has funded and developed a substantial portfolio of additional assets to complement the gas network infrastructure. These include the CCGT Power Plant in Whitegate, significant operational wind farm capacity, and developments in tidal energy. To strengthen our overall asset base, we have also retrenched in certain areas where initial feasibility studies have deemed it imprudent to continue further.

Bord Gáis is a significant player in the wind energy industry in Ireland, operating over 15% of installed capacity and powering nearly 180,000 homes across the country. A major endorsement of our wind farm

expansion programme was received in November 2012 with EIB funding for the construction and operation of six onshore wind farms. This initiative represents a key step in increasing renewable energy in Ireland and in helping to reduce fossil fuel use. The programme will increase the operational wind capacity of Bord Gáis' wind farms, and the scheme will help Ireland to achieve the country's target of ensuring that 40% of energy production comes from renewable resources by 2020.

This continued development of a portfolio of diversified assets will help to ensure security of supply in a sustainable manner well into the future. The investment programme also has an important contribution to make to the creation of economic activity and employment in diverse parts of the country.

It is envisaged that wind energy will provide the largest source of renewable energy to achieve the renewable targets. However, Bord Gáis is also exploring other areas of energy development, most noticeably in the area of tidal energy.

Tidal Ventures Limited was established in 2010 as a joint venture between Bord Gáis and its tidal energy partner OpenHydro, with the objective of developing tidal farms. In October 2012, Tidal Ventures was awarded exclusive rights to develop a 100MW tidal energy farm off Torr Head on the north coast of Antrim. The project, potentially the first of its kind on the island of Ireland, is expected to be completed by 2020. The award was made by The Crown Estate to Tidal Ventures as part of Northern Ireland's Offshore Renewable Energy Strategic Action Plan. This project is a milestone for the development of tidal resources in Ireland and marks our ongoing commitment to renewable assets.

Bord Gáis Networks continued its expansion into telecoms through Aurora Telecom. In 2012, Aurora continued to expand its high-speed fibre optic backbone network with its national footprint now extending from Dublin to Cork, servicing major regional locations including Galway, Athlone, Mullingar, Tullamore, Shannon, Limerick, Charleville and Mallow. The Aurora national network signifies a major development for

these regions. It ensures that an open-access fibre optic network is available to both telecommunications carriers and corporate organisations, to support high speed data, voice and video services. Critical infrastructure such as this holds a pivotal role in Ireland's development as a driver of economic activity and foreign direct investment.

### *Continuing to Address Energy Affordability*

Customer debt remains a key concern for Bord Gáis, as it is for other utilities in the energy industry. Bord Gáis is committed to working with any customer experiencing constrained financial circumstances. The company makes every effort to assist with payment plans to clear debt, and also through the installation of Pay As You Go (PAYG) meters. It continues to be the policy that withdrawal of supply is only considered after all other options have been exhausted.

Bord Gáis remains active and vocal within the industry in progressing solutions for customers. A full PAYG metering solution has been operational in the gas market since 2008. Working with the CER, Bord Gáis Networks currently installs the meters on behalf of all suppliers who offer this solution to those in financial need. Networks is also working with suppliers not already offering this solution, to progress their entry into the PAYG market. This work resulted in 2012 in PAYG metering being a multi-supplier solution with the entry of two new suppliers into the PAYG market.

2012 continued to see changes in wholesale gas and electricity prices and continued market volatility. This resulted in price increases for gas and electricity customers in October 2012 for all suppliers. The increase was a direct result of upward trends in global fossil fuel prices and the impact of a weakening euro versus sterling. Through its purchasing strategy, Bord Gáis Energy endeavours to minimise the impact of volatile wholesale prices on customer tariffs. It reviews its tariffs on an ongoing basis to ensure that they are cost reflective and delivering value to customers, including an ongoing commitment to offering the lowest standard electricity prices for residential customers.



## Planning for the Future

Following the proposed sale of Bord Gáis Energy, and the establishment of Irish Water, Bord Gáis will become a company operating two regulated businesses. One of these, the Networks division, remains a regulated asset-focussed business which, into the future, will operate in a mature market with limited potential for growth in its core regulated business. The second, Irish Water, is a growing business requiring substantial funding to meet development needs and to achieve compliance with the Water Framework Directives.

The key challenge for Bord Gáis Networks is to identify opportunities for growth of the existing network business in its current market, including the continuation of the network infrastructure build out and the continued expansion into telecoms.

For Irish Water, the challenge is to meet all the necessary milestones required for the establishment of a national utility that will deliver world class water services to over 1.5 million households and businesses. This will continue to proceed in consultation with the Government and the CER.

Underpinning these plans is the need for Bord Gáis to continue as a commercial entity achieving strong business and financial performance and providing an acceptable return on capital to maintain a strong credit rating. Throughout 2012, Bord Gáis worked closely with the ratings agencies to ensure its best standing in credit terms. A sound credit rating is essential to enable Bord Gáis to continue to attract funds on the best terms on the international financial markets; to raise investment funds for capital projects; to purchase fuel on international markets; and to pay down existing debt as it comes due. As a semi-state entity, our credit rating is closely linked to the sovereign credit rating and during 2012 we have witnessed increased investor confidence in both Ireland and in Irish companies.

## Acknowledgements

I wish to thank John Mullins for his exceptional contribution to Bord Gáis Éireann over the past five years as CEO. Under his stewardship, the company has been transformed and has seen significant growth. I wish John every success in the future.

I am pleased that Michael McNicholas is joining us as the new Chief Executive of Bord Gáis later in the year. We are very fortunate to have secured a person of such ability and experience to drive the company forward. I am confident that Michael will provide outstanding leadership in guiding the company into the next phase of its development. I am also pleased that Dr. John Tierney will join the senior management team in April 2013 as the Managing Director of Irish Water and brings a wealth of experience to lead the creation and operation of a national water utility that will meet the needs of all public water users.

I would like to thank John Barry for his dedication and commitment as Acting Chief Executive Officer for the interim period pending the arrival of the new CEO. His experience and professionalism have ensured continued strong leadership of the company during this transition phase.

I also extend my thanks to Prionsias Kitt and Mike O'Hara who retired from the Board in 2012, for all their excellent work and the strong contributions they both made since joining the Board in 2002 and 2007, respectively. I would also like to welcome Finbarr Kennelly who joined the Board in December 2012. I also wish to thank my fellow Board members for their commitment, insights, time and work in guiding and governing the company during this period of considerable change.

On behalf of myself and my fellow Board members, I would like to thank Minister Pat Rabbitte T.D. and his officials at the Department of Communications, Energy and Natural Resources for their continued support and expertise during 2012. I would also like to thank the Minister for Environment, Community and Local Government, Mr Phil Hogan T.D., for his support of this company during the year. We are also indebted to his officials, at all levels, in his Department, for their continuing advice and active engagement in support of the common goal of the establishment of Irish Water. I would also like to thank the Director of NewERA, Dr. Eileen Fitzpatrick, and her colleagues, for the continuation of a productive and supportive relationship. The support of the Minister for Finance, Mr Michael Noonan T.D., and the Minister for Public Expenditure and Reform, Mr Brendan Howlin T.D., and their respective officials during the year, was also greatly appreciated.

Finally, and very importantly, I would also like to thank the management and staff of Bord Gáis for their hard work and dedication. It is because of them that the company continues to perform strongly, both commercially and financially.

**Rose Hynes**  
Chairman



## A strong contributor to the Irish economy in 2012



“We are operating a profitable business in the Irish market, realising value for our shareholder and contributing to the Exchequer.”

I am pleased to report on the operational and financial performance of Bord Gáis during 2012, in my role as Acting Chief Executive. I took over the stewardship of the company from John Mullins on 31st December 2012 after five years of solid growth and transformation. I did so at a time of enormous and ongoing change for Bord Gáis. I am happy to report a strong financial performance for the year, matched with robust operational results.

Over the course of 2012, while the business continued to operate in line with the stated Corporate Plan, it was recognised that the strategy also needed to reflect the changing objectives of the organisation as set by the shareholder. The key elements of this revised agenda are:

- The sale of Bord Gáis Energy
- The establishment of Irish Water
- The need to drive efficiencies in the existing business units and restructure the organisation in line with the above two events.

These objectives will be met while also delivering all our “business as usual” objectives, ensuring these major changes are enacted while continuing to deliver best in class services to our existing customer base.

Looking at what was achieved in 2012, the underlying fundamentals of the business remain solid.

### Strong Financial Performance

We are operating a profitable business in the Irish market, realising value for our shareholder and contributing to the Exchequer. We continue as a strong contributor to the Irish economy both as a substantial purchaser of goods and services and as a large employer.

#### Key Results

Revenue was €1,625 million for the year to 31 December 2012, relative to €1,608 million in 2011. The increase of €17 million is mainly attributable to increased gas sales partially offset by reduced electricity sales.

EBITDA has increased from €343 million in 2011 to €380 million in 2012, reflecting the strong underlying performance of the business. Profit before income tax also increased to €121 million in 2012. The year on year increase of €37 million in EBITDA was offset by increased finance costs and higher depreciation.

In 2011, the total asset figure (excluding derivatives) for Bord Gáis Éireann was €4,515 million. At 31 December 2012, this total asset figure increased to €4,677 million.

#### Total Assets (excl derivatives)

€4,677m

2011: €4,515m

2012  
2011



#### Profit Before Income Tax

€121m

2011: €94m

2012  
2011



“Closely following the announcement of the successful bond sale, Bord Gáis confirmed that it had attracted €155 million of funding from the European Investment Bank (EIB).”



### Continuing to Attract Private Funding

In 2012, Bord Gáis continued to attract strong interest from investors, culminating, in November 2012, in the successful placement of a €500 million bond with a 5 year maturity. The transaction received total orders of more than €6.5 billion in just one hour, a clear endorsement of the strategic direction and strong performance of the company.

Closely following the announcement of the successful bond sale, Bord Gáis confirmed that it had attracted €155 million of funding from the European Investment Bank (EIB). The EIB support will contribute to the construction and operation of six onshore wind farms in Counties Tipperary, Clare, and Kilkenny, with a total generation capacity of 141 MW. The expansion programme, representing a total investment of €311 million, is expected to be completed in 2014.

### Working with Customers in Arrears

Customer debt remains a key area of focus for Bord Gáis. We are committed to providing help, support and flexibility to any customer experiencing difficulty paying their gas or electricity bills. Payment plans are being put in place with customers who are in arrears and Pay As You Go (PAYG) meters are being installed as a payment alternative for those in financial difficulties. It continues to be our policy that withdrawal of supply is considered an absolute last resort after all other options have been exhausted. The scale of the issue remains significant, with 94,000 Bord Gáis Energy customer accounts in arrears at the end of 2012.

Throughout 2012, our Networks business, which installs PAYG meters, worked with the CER to extend this option to suppliers not already offering this solution. Bord Gáis Energy has been active in progressing this as a viable solution with its customers. At 31st December 2012, there were 62,625 PAYG meters installed, which is nearly 15% of Bord Gáis Energy's total gas customer base.

The industry has also been working with the Regulator to develop an electricity PAYG model which will be run by ESB Networks. The rollout of electricity PAYG meters is expected to increase in 2013 as this solution becomes embedded into the supplier process.

In October 2011, a process of debt flagging was introduced to the gas and electricity markets. This measure has been incorporated into the Change of Supplier processes and involves the new supplier being informed when a switching customer is in debt with their previous supplier. The purpose is not to impede the switching process, but to avoid a situation where a customer could build up debts with a number of suppliers and to enable the new supplier to make an appropriate risk assessment of the new customer. Initial volumes are low with a total of 3,429 customers receiving debt flags during the switching process in the period from October 2011 to end December 2012.

### Committed to Organisational Restructuring

We are committed to organisational restructuring to ensure that, in the future, Bord Gáis is structured to meet the strategic objectives of the company, while operating at optimal efficiency, and delivering cost savings to the business.

Following the announcement by the Government in April 2012 of the intention to establish Irish Water as a subsidiary of Bord Gáis Éireann, an Irish Water Programme has been established under Bord Gáis Group where I have also been working as Programme Director. Following an intensive twelve week Mobilisation

Phase to July 2012, the programme has entered the Establishment Phase which will continue until the end of 2013. Substantial resources were committed to the Mobilisation Phase and during the Establishment Phase, Bord Gáis is seconding subject matter experts from across its businesses to the Programme, as well as appointing external experts from the water industry to participate in this process. As part of the implementation plan, we will identify the skills needed, and expertise and experience from the Local Authorities will join the Irish Water team. There is regular engagement with DECLG on the progress of the programme and policy issues.

Bord Gáis has been actively working to develop an Independent Transmission Operator (ITO) Model in line with the requirements of the Third EU Energy Directive. The intention was to establish a new company within the Bord Gáis Group to undertake the activities of Bord Gáis Networks and Gaslink. Throughout 2011 we completed the operational separation of the Networks business from the Group and Energy businesses in preparation for the establishment of this ITO. The announcement by Government in February 2012 of its intention to sell the Energy business raised the possibility that Bord Gáis would ultimately seek certification under the Third Directive via the Ownership Unbundling option rather than the ITO model. Bord Gáis is in ongoing and continuous engagement with key stakeholders, including the Regulators and the EU Commission, to ensure EU Third Directive compliance.

### Diversification of our Asset Portfolio

We have continued to diversify our asset portfolio away from a dependence on imported oil and gas to renewable energy. With 240 MWs of operating wind capacity, stretching from Cork to Donegal, Bord Gáis now has one of the largest renewable energy portfolios in the country. In addition, it also has a significant pipeline of wind development projects. Major progress was made on the consents for these projects in 2012, supporting a build



## Acting Chief Executive's Review (continued)

out programme which has 174 MWs of wind projects in construction, 100 MWs to be brought to financial close within 24 months and a further 350 MWs of medium to long term wind development.

In October 2012, Bord Gáis and its Irish tidal energy partner, OpenHydro, were awarded exclusive rights to develop a 100 MW tidal energy farm off Torr Head on the north coast of Antrim. The project, potentially the first of its kind in the island of Ireland, is expected to be completed by 2020. Bord Gáis Energy's ability to manage large scale infrastructure projects such as Whitegate CCGT power plant and our wind farm portfolio, coupled with OpenHydro's specialism in tidal engineering, was instrumental in securing this milestone lease.

### Continuing to Add Value for our Customers

2012 was a period of increased competition in both the gas and electricity markets with heavy discounting by suppliers coupled with increased advertising. Following a period of rapid expansion by Bord Gáis Energy, the customer strategy in 2012 moved to an emphasis on customer consolidation and engagement. Bord Gáis Energy continues to focus on customer value, including an ongoing commitment to offering the lowest standard electricity prices for residential customers. In March 2012, Bord Gáis Energy launched its "Rewards Club" aimed at rewarding customers for their loyalty. The initial offerings were based around the sponsorship of the Bord Gáis Energy Theatre. In May 2012, these offerings were further enhanced by the inclusion of Tesco Clubcard. The offer, which is exclusive to Bord Gáis Energy, allows Rewards Club customers to pay for their energy using Tesco Clubcard vouchers, and also receive Clubcard points when they pay their energy bill.

Bord Gáis has always been conscious of the need to help customers to manage their energy usage efficiently. In 2012, Bord Gáis Energy undertook a review of the Home Energy Services business in response to changing customer demand, and a new operating model will be

launched in 2013 to meet the changing needs of our customers. For our business customers, Bord Gáis Energy launched the innovative new Business Energy Services in conjunction with Siemens, offering bespoke energy solutions designed to reduce their overall energy consumption and energy bills.

In 2012, Bord Gáis Networks completed the Networks Services and Works Contract, a result of a substantial review and redesign of its contracting model. This new model is based on a long term partnership approach with a single larger contractor. It offers substantial benefits to the organisation in terms of continued safety performance, improved customer service and cost savings. It delivers increased efficiencies and service levels while enhancing the existing high levels of customer service.

### Gas Business

The total amount of gas transported by Bord Gáis Networks in 2012 decreased by 7% compared with 2011 levels, to approximately 67,900 GWh. This reduction in overall gas demand was due to a combination of mild weather conditions during 2012, reduced gas demand for power generation and the continued uncertain economic conditions. Power generation gas demand was also 7% lower than 2011 because of reduced electricity demand and increased generation from coal and peat. Non Daily Metered (NDM) demand from domestic and business users was down 16% in 2012 from 2011.

Natural gas is now available in over 160 population centres within 19 counties throughout the country and the number of gas users increased to 657,500 by the end of 2012, mainly as a result of the new towns connections.

The majority of Ireland's gas demand (93%) continued to be met by imports from the UK. This dependence on imported gas leaves us vulnerable to changes in the cost of wholesale gas on the international markets.

### Electricity Business

2012 saw increased competitor activity in the electricity market following deregulation of the electricity sector. In response to these competitive pressures, Bord Gáis Energy continues to focus on customer value, including an ongoing commitment to offering the lowest standard electricity prices for residential customers.

Bord Gáis is committed to actively developing alternative sources of power generation to lessen our dependence on imports and to enable us to offer green electricity to our customers. Our Whitegate power plant has been in commercial operation since 9th November 2010. The plant has full firm access for its 445MW capacity and throughout 2012 was operating flexibly and reliably in the market.

In addition, Bord Gáis has one of the largest renewable energy portfolios in the country, and this wind power complements the output from Whitegate power plant to provide clean, sustainable sources of electricity for our customers.

### Irish Water

The creation of Irish Water is a new approach to the provision of public water services in Ireland. The utility approach is radically different to the current model, and has the ability to deliver many advantages in the realisation of economies of scale; the delivery of integrated operations; centralised capital expenditure and funding; and centralised policy and planning.

The provision of public water and wastewater services is a vital public service which has been professionally and expertly delivered by the Local Authorities to date. However, it is also a significant cost to the Exchequer and is in need of investment in both the short and the long term. A key aim of Irish Water will be to seek external funding for the major capital programmes to meet environmental and development needs of water services in Ireland.

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We do not in any way underestimate the major task we have undertaken to establish and make operational this new Irish utility. We recognise the significant challenge in winning public acceptance for water and wastewater as a utility, similar to gas and electricity, and paying for such a utility accordingly. Bord Gáis has extensive experience of successfully completing large infrastructural projects, for delivering exemplary customer service and for attracting international finance, and we hope to bring these strengths to Irish Water.

## Safety

Safety is at the core of all Bord Gáis activities and it is committed to further developing and maintaining the systems, processes and resources necessary to promote continuous safety improvement and performance.

Bord Gáis Networks, working with the Register of Gas Installers in Ireland (RGII), continued a training programme on the installation of carbon monoxide alarms. The successful programme, which commenced in 2011, has now trained over 1,500 Registered Gas Installers. In addition, 2012 saw the inaugural launch of Carbon Monoxide Awareness Week, an industry wide initiative to raise awareness of the dangers of Carbon Monoxide.

## Current Challenges

Never in the history of Bord Gáis has the organisation faced such major changes simultaneously. We are dedicating considerable resources to ensuring each challenge is met to the highest standards and achieves the desired output for all stakeholders.

The first of these challenges is the sale of Bord Gáis Energy. The management of Bord Gáis is engaging with the relevant Government departments and NewERA, to deliver on this Government objective. Our aim is to ensure that the sale of Bord Gáis Energy will generate the maximum value to the State, whilst also ensuring the long term welfare of our skilled and loyal staff is given due consideration in the sales process.

The establishment of a new utility for the Irish market of the scale of Irish Water is unprecedented. Bringing together and building on the workings and expertise of 34 Local Authorities into one new public water utility is a collaborative process that will take many years to complete. Bord Gáis is proud to have been chosen to implement this milestone project for the Irish State and is committed to ensuring its successful completion to the benefit of all.

Bord Gáis has already enacted substantial structural changes to meet its obligations under the Third EU Energy Directive. Bord Gáis continues to engage with regulators and the European Commission to ensure Bord Gáis meets the requirements of the Third Directive. This re-engineering of the existing business continues, to include delivering efficiencies within the business units, managing operational and trading risks, and maintaining our credit rating. Planning is also underway to prepare the organisation to transition to the optimal structure incorporating the sale of Bord Gáis Energy and the new Irish Water governance.

Bord Gáis has an ongoing need to raise funds on the international financial markets to fund the required investment in infrastructural projects, and to repay existing debt as it falls due. A sound credit rating is essential to enable us to do so, and this is dependent on the ratings agencies continuing to view Bord Gáis as a company that is performing financially, and managing its financial and business risk profile. Throughout 2012 we worked closely with the ratings agencies to ensure our best standing in credit terms, and we will continue to do so as the changes above unfold.

In summary, the current challenges for Bord Gáis are to ensure that Bord Gáis Energy continues with business as usual, pending a decision from the shareholder on the sale, including continued expansion of its asset portfolio; Bord Gáis Networks to continue its investment programmes in the gas pipeline infrastructure and telecoms; and the establishment of Irish Water to proceed under guidance from the Government and the CER.

## Acknowledgements

2012 was a period of unprecedented change and uncertainty for staff at all levels of the organisation. It is a testament to the professionalism of all our staff that they met each challenge with enthusiasm and energy and were instrumental in achieving the milestones set for both Bord Gáis Éireann and for the Irish Water Programme.

I would like to thank the Minister for Energy, Communications and Natural Resources for his support of the company during the year. We are also indebted to his officials, for their continuing advice and active engagement in support of the business. I would also like to extend my thanks to the Minister for the Environment, Community and Local Government, and his officials, for their close support and interaction involved in the challenging task of creating a new water utility for Ireland. Finally, I would also like to thank the Director, Dr. Eileen Fitzpatrick, and managers of NewERA for the continuation of a productive and supportive relationship.

I would like to thank Rose Hynes, Chairman, and all of the Board Members for their support of me in this role, their active engagement throughout 2012, and their continued support to the present day.

I would also like to extend my best wishes to Michael McNicholas as the future Group CEO of Bord Gáis. I look forward to handing over the reins to Michael when he takes up his position in June of this year.

**John Barry**

**Acting Chief Executive**

## Irish Water

Irish Water is the new public water utility that is in the process of being established within Bord Gáis. Irish Water will take over the responsibility for providing public water and wastewater services from 34 Local Authorities on a phased basis to 2017.

### Background

The Government announced major reform of the water sector on 17th April 2012. This comprised of three key elements:

1. The establishment of a new national water authority, Irish Water
2. The creation of an economic regulator for the public water system (the CER has been mandated to perform this role)
3. The establishment of a new funding model for the public water system including the introduction of domestic billing.

Following a process in which the Government assessed the benefits of setting up Irish Water within an existing semi-state company, compared with a completely new "green field" State company, the Government decided to create Irish Water within Bord Gáis. This was due to our skills and experience and track record as a successful utility provider, which included:

- extensive experience of operating a full scale national utility service;
- track record of delivery of large scale capital projects;
- ongoing delivery of quality services to customers in a regulated environment;
- expertise and track record in raising finance on international markets;
- ability to successfully implement change and transformation programmes.

Creating a new public water utility to serve over 1.5 million households and businesses is a task of significant scale and complexity. In April 2012, Bord Gáis embarked on a twelve week Mobilisation Phase, the output of which was a comprehensive framework outlining all key work streams and activities that need to be undertaken to create Irish Water. At that point, the project moved to the Establishment Phase and an Irish Water Programme team was created to deliver on the Implementation Plan, under the direction of John Barry as Irish Water Programme Director.

Throughout this period, there has been, and continues to be, extensive engagement with the Department of Environment, Community and Local Government, Local Authority management and other stakeholders. This is being undertaken to develop an overall implementation strategy for water sector reforms, setting out the roadmap for dealing with key issues and the associated milestones. Ongoing engagement with the Local Authorities is particularly important to ensure that their expertise and local knowledge forms the foundation of Irish Water. Working with the Water Services Transition Office, Bord Gáis and the Irish Water Programme is committed to working with the Local Authorities in an open and collaborative manner.

Irish Water will be a new full service public utility, with key areas of responsibility covering:

- the ongoing delivery of water services;
- upgrading the national water infrastructure;
- raising finance to fund ongoing investment; and
- establishing a billing and customer service operation for domestic and non-domestic customers.

On the issue of water charges, the rates and tariff structures for domestic customers will ultimately be determined by the Commission for Energy Regulation (CER) following policy decisions by Government and public consultation. Irish Water has been tasked with having a domestic billing capability in place for January 2014. The Government has not made a final decision on when domestic billing will be introduced although there will be no billing before 2014.

### The Key Elements of the Implementation Plan

Key elements of the Implementation Plan cover legal and compliance issues such as the establishment of Irish Water as a legal entity with an appropriate legislative basis and the development of an economic regulation model by the CER.

It also covers operational issues such as the development of a suitable organisation structure for Irish Water and the recruitment and appointment of key resources, ensuring an adequate IT infrastructure to meet water utility requirements, detailed plans and arrangements for the transition of activities to Irish Water, managing the important human resources issues arising from the transformation programme, and the development and implementation of the agency arrangements for continued operations by Local Authorities, pending full transfer of activities to Irish Water.

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“The establishment of a new public utility company of this scale is a substantial undertaking by Bord Gáis.”



Infrastructural requirements are also being scoped, including the infrastructure investments needed to meet environmental, development and operating needs, including, among other things, the reduction of leakage in the system. It also includes the development of a major national water meter installation programme.

Finally, customer relations and customer communications are also being looked at including the establishment of a customer database for account management and billing, development of a Communications Plan, and the development of a detailed Customer Relations Plan. The first element of engagement with the public was the national distribution of a public information booklet entitled “*Transforming Water Services in Ireland, A Guide to the Establishment of Irish Water*” a copy of which was delivered to every household in the State in early February 2013.

### Establishing Irish Water

There will be a number of stages to setting the legal and legislative base for Irish Water. Interim legislation was published in January 2013 and was enacted in March 2013. Comprehensive enduring legislation will be required to establish the entity with full powers of a water service authority and this is expected to be in approximately twelve months time. The legal provisions required to allow Bord Gáis to undertake a certain number of key tasks pending this comprehensive bill is currently provided for in the Interim Act.

A major advance in the establishment of Irish Water was the announcement in January 2013 of the appointment of Dr John Tierney as Managing Director of Irish Water. Dr Tierney is due to take up this position with effect from April 2013. Other senior positions with the new utility have been advertised in national media and are being filled through a process of open competition.

### The Capital Investment Priorities

Over the last 15 years most of the investment in water has gone to support compliance with the EU Urban Waste Water Treatment Directive which has resulted in the construction of many new wastewater treatment plants around the country. There will continue to be major projects to be completed, driven by revised River Basin Development Plans, among other things. Some of the focus will also shift to water supply, in particular to upgrading the existing water distribution system to reduce the water loss issue that arises from leaking pipes. Over the coming years, investment will therefore have to focus on:

- continuing to develop compliance with the Water Framework Directive;
- reducing leakage on the public network;
- ensuring compliance with statutory standards for drinking water quality and wastewater treatment; and
- providing capacity and security of supply required to underpin economic recovery and employment.

The establishment of a new public utility company of this scale is a substantial undertaking by Bord Gáis. We are still at the early stages of development of all elements, but we are committed to building a utility company that will, in the long term, be seen to deliver an excellent and rewarding return for its customers and for its shareholder, building on the excellent legacy of the Local Authorities in the delivery of water and wastewater services to the citizens of Ireland.

## Financial Review

## Key Highlights for 2012 include:

- Delivery of strong financial performance, showing a year on year increase in EBITDA despite a challenging economic and financial environment
- A number of successful financing initiatives totalling circa. €850 million, including the refinancing of a €500 million Eurobond, meeting the Group's financing needs until 2016
- Continued investment in energy and gas network infrastructure, including renewable investments
- Strong year end balance sheet and liquidity position, including continued growth in shareholder funds
- Continued as a strong contributor to the Irish economy and Exchequer through payroll, indirect taxes, dividends and purchases from Irish suppliers

## Summary Financial Highlights

	2012 €*million	2011 €*million	Change
Revenue	1,625	1,608	⬆️ 1%
Operating profit before depreciation and amortisation (EBITDA)	380	343	⬆️ 11%
Profit before income tax	121	94	⬆️ 29%
Total Assets (excl derivatives)	4,677	4,515	⬆️ 4%
Net Debt*	1,929	1,934	- 0%
Book Capitalisation†	3,505	3,427	⬆️ 2%
<b>Ratios</b>			
Profit before income tax /Revenue (%)	7%	6%	⬆️ 17%
Interest Cover (times)	2.4	2.1	⬆️ 14%
Net Debt /Book Capitalisation (%)	55%	56%	⬆️ 2%

\* Net debt represents total debt adjusted for impact of fair value hedges less free cash deposits

† Book Capitalisation represents net debt plus capital and reserves

**Certain Remeasurements**

The Group has disclosed additional information in respect of certain remeasurements on the face of the income statement to aid an understanding of the Group's financial performance. Certain remeasurements are remeasurements arising on commodity, interest rate and currency contracts which are accounted for as if held for trading, or as fair value hedges in accordance with the Group's accounting policy for such financial instruments. The figures included in the summary financial highlights table are stated before certain remeasurements, as this

reflects the underlying performance of the business and distinguishes the underlying performance from the reported volatility that could arise from the adoption IAS 39 Financial Instruments: Recognition and Measurement.

**Revenue**

Revenue is €1,625 million for the year to 31 December 2012, relative to €1,608 million in 2011. The increase of €17 million is mainly attributable to increased gas sales partially offset by reduced electricity sales.



**EBITDA (before certain remeasurements and exceptional items)**

EBITDA increased by €37 million to €380 million reflecting the strong underlying performance of the business.

EBITDA (€m)	
2012	380
2011	343

**Profit before Income Tax (before certain remeasurements and exceptional items)**

Profit before Income Tax has increased by €27 million to €121 million. The year on year increase in EBITDA of €37 million was offset by increased finance costs and higher depreciation charges.

**Exceptional Items**

In 2012, there was an exceptional gain of €39 million (pre tax):

- Following a strategic review of pension arrangements, the Group revised the benefits under the defined benefit schemes giving rise to an exceptional gain, in accordance with IAS 19, in the year of €30 million. The negative past service cost arises following changes in the level of discretionary pension increases targeted for pensions in payments for all members.
- During the year, the Group redeemed a number of financing arrangements early, on which the related net gains of €9 million has been classified as an exceptional gain. The financing arrangements included two Bilateral Loan Facilities and a lease arrangement falling within the scope of SIC 27.

**Liquidity and Capital Resources**

**Cashflows during 2012**

The cash generated from operating activities of €333 million, together with the excess of the proceeds of borrowings over repayments of €72 million, was mainly utilised as follows:

- €210 million invested in property, plant and equipment and intangible assets. Key projects included:
  - o Continuing to build out the development pipeline of renewable assets
  - o Ongoing development of the distribution network both in the Republic of Ireland and Northern Ireland
- Interest payments amounting to €108 million
- Dividend payments of €25 million.

Total Assets (€m) (excl derivatives)	
2012	4,677
2011	4,515

**Capital Resources**

At 31 December 2012, the Group had available bank facilities of €3,041 million (including €21 million in uncommitted facilities). Of this €2,270 million was drawn, leaving a further €771 million undrawn. As at 31 December 2012, the Group had a statutory borrowing limit of €3 billion, which sets the upper limit for drawn facilities. At 31 December 2012, the net debt to book capitalisation ratio was 55%.

Net Debt (€m)	
2012	1,929
2011	1,934

The Group's long term credit rating is BBB+ for Standard & Poor's (S&P) and Baa3 for Moody's Investors Services. The current rating level reflects the current Financial and Business Risk profile of the Group, both of which remain within rating criteria at year end.

**Treasury Policy**

Bord Gáis operates a centralised treasury function, which undertakes all treasury activities in the Group.

Responsibility for treasury activity and its performance rests with the Board, which exercises its responsibility through regular review. The Board Risk Committee reviews the appropriateness of the Treasury Policy and the Audit and Finance Committee reviews the effectiveness of the system of internal controls.

Treasury related risks faced by the Group are liquidity risk, interest rate risk, currency risk and counterparty risk. Derivatives are used to manage the Group's interest rate and foreign exchange exposures. In using derivatives, the Group complies with the requirements of the Minister for Finance under the Financial Transactions of Certain Companies and Other Bodies Act, 1992 and the Specification of the Minister for Finance. The Group's treasury function is not operated as a profit centre and treasury positions are managed in a risk averse manner. All treasury transactions have a valid underlying business reason and speculative positions are strictly prohibited.

During 2012, the Group continued to identify, review and address the impact of financial risks arising from ongoing global economic and credit market turbulence.



## Financial Review

### Liquidity Risk

Group policy is to secure a mix of funding sources at acceptable terms and conditions to finance the development of the business and to meet financial obligations as they fall due. The Group arranges its committed facilities to cover 120% of core projected needs over a one-year horizon. Facilities are arranged with appropriate financial and operating covenants ensuring that management has the necessary flexibility in the operation of its business.

The Group seeks to have a number of sources of funds at any particular time and it also maintains a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk.

The Group has a well diversified mix of funding sources consisting of bank facilities, US Private Placement funds and corporate bond issuance. Following on from the successful refinancing of €500 million Revolving Credit Facility in 2011, Bord Gáis issued a €500 million Eurobond with a maturity of five years. The 2012 bond issue was part of a liability management transaction. The majority of the proceeds from the issue were used to buy back the 2009 bond, that was due to mature in 2014, the total outstanding bond volume is currently €772 million. A €40 million loan from the European Investment Bank that was due to be repaid in March 2013 was repaid in 2012. These transactions provide a strong capital base to fund the development of energy and network infrastructure assets. The Group will continue to adopt a prudent pre-funding strategy in the current constrained financial environment by timely funding in advance of maturing facilities.

At 31 December 2012, the Group had €3,020 million in committed facilities and gross borrowings were €2,270 million.

### Interest Rate Risk

Interest costs are managed using fixed rate debt and interest rate swaps.

The Group's policy is to achieve a stable and low cost of debt, taking account of business risks in general and the regulatory price control environment in particular. The Group's policy is to secure a minimum level of fixed rate funding over a rolling three year timeframe, with at least 60% of the first 12 months net interest cost at fixed rates and at least 50% of the expected net interest cost for the rolling three year timeframe at fixed rates.

### Currency Risk

The Group's policy is to protect profitability by minimising the impact of material variations due to foreign exchange rate movements. Foreign exchange policy takes account of business risks and the regulatory environment.

The principal foreign exchange transactional risk relates to the sale and purchase of gas and electricity denominated in sterling and sterling related prices. The Group manages the net foreign currency cash flows using foreign exchange forward contracts.

The Group is exposed to foreign exchange translation risk arising from assets and liabilities of its UK subsidiaries, denominated in sterling. Hedging is achieved using borrowings in the same currency as the assets being hedged or through the use of other hedging methods such as currency swaps.

### Counterparty Risk

The Group's policy is to manage this risk through the use of counterparty credit limits, which take account of, among other relevant factors, published credit ratings.

The Group mainly deals with approved counterparties who maintain an investment grade rating. The Group closely monitors and measures its counterparty exposures and revises counterparty limits in the event of changes in counterparty credit status. Where the exposure on derivative instruments has the potential to be material to Group's net worth, the Group will consider entering into Credit Support Arrangements.

### Energy Trading Risk Management Policy

The Group operates a dedicated energy trading function, which undertakes all its energy procurement activities and asset optimisation. A portfolio optimisation team, interfacing between trading and retail businesses, ensures that robust integrated hedging strategies are put in place across the business, and that channel risks are quantified and understood.

The Board is responsible for approving a comprehensive Energy Trading Risk Management Policy on an annual basis, from which the Group has delivered a suite of best practice portfolio tools, book structures, risk measures and controls. There is functional separation of key control activities within the business, and an energy trading risk management system to calculate positions and provide robust risk reporting.

The Energy Trading Risk Management Committee, which reports to the Board Risk Committee, meets on a monthly basis, with accountability for monitoring commodity related risks, ensuring that controls are robust, approving modelling methodologies and assumptions, and making decisions in respect of commodity-related risks (or escalating issues to the Board). The Committee receives regular detailed reports on all aspects of the Group's integrated commodity risk, e.g. volume exposures, price risks, currency risks and counterparty risk.

#### **Commodity Price and Volume Risks**

The Group sells gas and electricity to bulk and mass market customers in the Republic of Ireland and Northern Ireland, participating in both regulated and unregulated markets. Products and pricing propositions vary between the different markets and their specific customer segments, and each has a tailored hedging strategy that is regularly reviewed. The Group seeks to continually develop its product portfolio, offering a variety of fixed priced and variable priced products to meet the needs of its customers.

As an integrated energy utility, the Group utilises both its physical assets as well as transacting in the Irish and UK wholesale spot and forward markets to optimise its short- and long- term portfolio value. The activity aims to provide an acceptable level of cost and revenue certainty for the business, by reducing risks. The wholesale and retail units of the business work on an integrated basis with a shared key objective of providing competitively priced energy for the Group's customers, and a stable financial platform for growth.

For retailers of energy products, customer demand fluctuations present a key source of risk. On an annual basis, the Group purchases sufficient flexibility in the gas market, such as storage products and swing, to cover expected volume variations due to temperature etc, and to ensure that appropriate security of supply levels are maintained. It also makes use of available wholesale markets and

traded instruments in the UK and Ireland to manage electricity shape and demand risks. A specialist quantitative analysis team supports the business in formulating power station bidding strategies and assessing the risk inherent in the Group's expanding portfolio of wind assets.

The Group is active in the national balancing point gas market, which is one of the most liquid gas markets in the world. The Group routinely reviews market liquidity levels to ensure that, at all times, it has access to a range of market instruments such that, it is able to manage its wholesale gas and power risks.

Energy trading also manages the Group's EU emissions trading scheme exposures arising from its retail and generation activities. These exposures are managed in accordance with endorsed hedging strategies.

#### **Counterparty Risk**

The group deals with a number of commodity trading counterparties, all of which are approved by the Energy Trading Risk Management Committee. These are typically companies that maintain an investment grade rating. On a regular basis, the Risk Management Committee is informed of counterparty credit exposures and will approve strategies to manage positions that are approaching agreed limits. Given that both the buyer and seller taking part in a wholesale transaction present a credit risk to each other, the group works actively with counterparties to manage both sides of any credit exposures.

#### **Currency Risk**

Currency risks arise across the retail and wholesale business from both gas and power activities. The trading business routinely calculates these exposures, and reports the net exposures to Treasury function. These exposures are hedged in line with treasury policy.

## A dual-fuel, all-island business that serves over 825,000 customers



“Bord Gáis Energy is a dual-fuel, all-island business that serves over 825,000 gas, electricity and home services customers with exemplary service at competitive prices. It procures energy efficiently on wholesale markets and invests in energy assets to support its growth objectives in Ireland.”

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### EBITDA

# €79.4m

2011: €44.3m



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“Through the challenging economic climate of 2012 Bord Gáis Energy has ensured that the customer focus is central to best practice service delivery.”



**Retail**

The retail arm of Bord Gáis Energy, selling gas and electricity to all market segments, with related activities including call centre management, billing, sales and marketing. Bord Gáis Energy entered the residential electricity market in Ireland in February 2009. The business now serves 427,000 gas customers and 348,000 electricity customers across residential, small business and industrial sectors. Through its Home Services Team it offers customers a range of products and services to meet their heating needs and help increase the overall energy efficiency of their homes. In 2012, Bord Gáis Energy also launched a business energy services offering, in partnership with Siemens, aimed specifically at helping business customers to reduce energy consumption and increase energy efficiency.

firmus energy is Bord Gáis Energy’s subsidiary in Northern Ireland and is responsible for both the development of the natural gas network in 10 key towns and cities across Northern Ireland and the supply of natural gas and electricity to over 48,000 customers across the Province.

**Trading**

Responsible for the procurement of gas, electricity and carbon; portfolio optimisation; risk management; hedging and trading strategies and market modelling. Gas and electricity are bought on wholesale markets by a dedicated Energy Trading team. Bord Gáis Trading operates in line with best international practice and is benchmarked against the market within a regulatory framework.

**Assets**

Assets was formed in 2010 by integrating the Investment Team of Bord Gáis Energy with SWS Natural Resources following its acquisition by Bord Gáis in 2009. The Assets role is to operate and develop a balanced portfolio of assets that will help the company meet current and future customer energy requirements. The Assets division has three main areas of focus – the operation and maintenance of its existing assets; the development of new assets; and the investigation and support of emerging energy technologies.

**Bord Gáis Energy Performance in 2012**

The result for 2012 was an EBITDA of €79.4 million The comparative figure for 2011 was €44.3m. The increase in EBITDA in 2012 from the 2011 outturn, reflects improved performance from the retail business as a result of lower discounting, tariff changes and a continued focus on costs. Assets continued to perform strongly in a difficult market whilst firmus energy delivered significant EBITDA growth year on year with higher gas volumes in Belfast and ten key towns

**Bord Gáis Energy - Retail**

**Electricity Sector**

Following the success of the Big Switch customer acquisition campaign, 2012 was a year of consolidation of our customer base. Increased competitor activity, including significant discounting and advertising activity by Electric Ireland following deregulation, coupled with the current economic environment, reduced our customer numbers to 327,000 residential customers and 21,000 business customers by the end of 2012. In response to competitive pressures, Bord Gáis Energy continues to focus on customer value including an ongoing commitment to offering the lowest standard electricity prices for residential customers. In 2012 Bord Gáis Energy also introduced a range of new competitive offerings to continually improve the value given back to customers, allowing customers to tailor the value offering that best suits their needs and allowing them control in managing their energy costs.

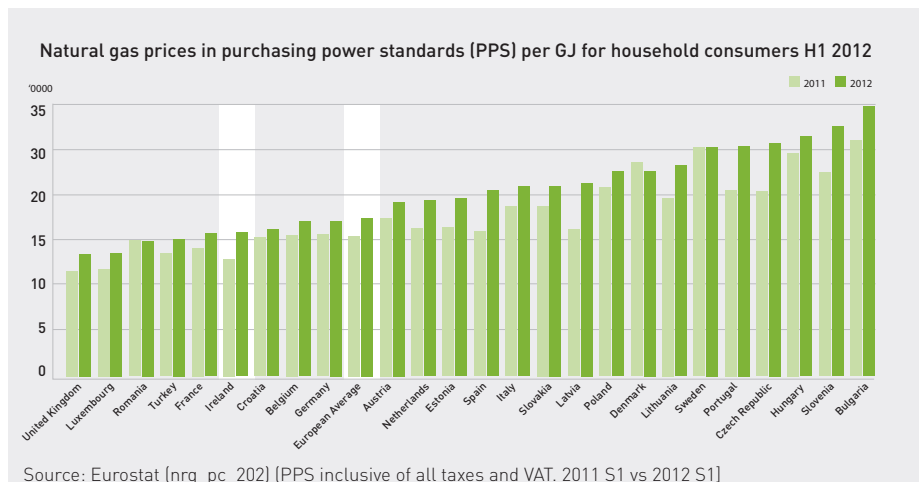
**Gas Sector**

In the Residential gas market, customer numbers decreased by 10% to 416,000 by the end of 2012. Bord Gáis Energy continues to be regulated in this sector and market share continues to decline in line with targets set by the CER for deregulation. Customer losses were largely driven by increased competitor activity, particularly in relation to significant dual fuel discounting by Electric Ireland and Airtricity.

Following full deregulation of the gas market for business customers on 1st October 2011, customer numbers declined to 11,096 by the end of 2012, an 8% net decrease compared to the previous year. This was driven largely by greater price competition. Lower volume sales in this sector were driven by the continuing economic downturn, as well as energy efficiency measures specifically aimed at reducing volume consumption.

**Retail Prices in 2012**

With respect to gas and electricity prices, 2012 continued to see changes in wholesale gas and electricity prices and continued market volatility. This resulted in price increases to our gas and electricity customers in October 2012. The increase was a direct result of upward trends in global fossil fuel prices and the impact of a weakening euro versus sterling. Through its purchasing strategy, Bord Gáis Energy endeavours to minimise the impact of volatile wholesale prices on customer tariffs and will review its tariffs



## Operating Review - Energy (continued)

on an ongoing basis to ensure that they are cost reflective and delivering value to customers.

Before the residential gas price increase of 8.5% on 1st October 2012, as approved by the CER, Ireland was placed below the EU average in the residential gas sector. Price increases were announced in 2012 in other EU countries due to the increases in international wholesale prices. Therefore the competitive position of Ireland's gas prices compared to other European prices has not significantly changed. We await Eurostat data for the second half of 2012, due to be published later in 2013, to see how Irish gas prices compare against the adjusted EU average.

### Gas Supply Competition

Competition and regulation of the gas market has progressed and changed considerably since market liberalisation in 2007. Competition has become well established with a number of market participants competing in all sectors of the retail gas market. These new entrants have built up their gas portfolios, allowing them to expand and establish sustainable competitive positions across all market sectors. This means that there are a number of competitors holding strong positions in the market, enabling them to compete equally with Bord Gáis Energy.

Specifically with respect to the residential gas market, which remains the only price regulated energy sector, competitors have expanded their positions in the market throughout 2012. This has largely evolved on the back of dual-fuel, gas and electricity, product offerings, which were pioneered by Bord Gáis Energy as part of our entry into the electricity market in 2009. To that extent, Bord Gáis Energy has made representations to the Regulator, the Commission for Energy Regulation, advocating for the deregulation of the residential gas market. Bord Gáis Energy believes that a deregulated residential gas market would allow it to provide more choice to customers in the market and in so doing enhance competition in the market further.

### Energy Customer Service

Throughout 2012, Customer Retail Operations continued to ensure that customer focus is central to our best practice service delivery while recognising the continuing serious financial challenges faced by many of our customers. Both internally and externally we have focused on ensuring that internal customer facing staff, and those in our service partners, ensure that any debt management issues faced by our customers are addressed in the most empathetic way possible.

Bord Gáis Energy's continuing commitment to offering its customers a wider range of options to help manage their accounts included the introduction of Electricity Pay As You Go metering in late 2012. This was accompanied by continued high volumes of Gas Pay As You Go meter installations as well as increased payment plan programmes for customers experiencing financial pressure in 2012.

Other options to enable customers to manage their accounts in a way that suits their individual needs, such as Level Payment Plan and Budget Direct Debit, saw a continued steady demand in 2012. These options allow customers to pay an equal amount off their bill every month thereby helping them to better manage their monthly household budgets. In 2012, Bord Gáis Energy became the first company in Ireland to be accredited by the Irish Institute of Credit Management in their Best Practice Initiative. Our aim is to achieve the "Best in Class" accreditation in 2013.

In 2012 we continued to engage positively with our customers and stakeholders to ensure that those customers who raised issues or complaints were dealt with successfully. Overall customer complaints have dropped by 12% in 2012 from 2011 numbers. This highlights the continued focus on addressing concerns, listening to feedback, and driving continuous improvement.

We continue to measure the effectiveness of our customer service levels through measurement of industry standard metrics. We benchmark these metrics across other industry segments to ensure we are delivering high quality service. We compliment these measurements with regular external customer satisfaction surveys, the results of which benchmark well against other providers.

### Sponsorship

2012 was a significant year for the sponsorship portfolio as we consolidated our efforts on sponsorship properties which provide the highest return on investment, in terms of media value attained and nationwide consumer awareness. We continued to grow our sponsorships related to books and reading through our "Rediscover Your Library" campaign, our Bord Gáis Energy Book Club, and the prestigious sponsorship of the Bord Gáis Energy Irish Book Awards. On the sports agenda, we refocused our sponsorship portfolio, renewing our GAA Hurling U21 Championship sponsorship in late 2012 for a further three years and withdrawing from our sponsorship of the Ladies Gaelic Football Association after a number of successful years.

In March 2012, Bord Gáis Energy launched a new customer Rewards Club, aimed at generating customer interest and engagement around our naming rights sponsorship of the Bord Gáis Energy Theatre. The sponsorship has provided us with innovative offers to reward customers through ticket offers for the Theatre, as well as supporting local communities and causes, and is a key contributor to our customer retention strategy. As part of the launch activity, comedian Bill Bailey headlined our charity opening night where we raised €200,000 for the Society of St Vincent de Paul. In the nine months since the launch, we have delivered discounted and presale ticketing offers to top shows such as the Lion King and Oliver, which have proved very popular with our customers throughout 2012.





In May 2012, the Rewards Club was further enhanced through the inclusion of Tesco Clubcard. The offer, which is exclusive to Bord Gáis Energy, allows Rewards Club customers to pay for their energy using Tesco Clubcard vouchers and receive Clubcard points when they pay their energy bill. As at the end of 2012, over 10% of Bord Gáis Energy customers had joined the Bord Gáis Energy Rewards Club.

### Energy Services for Homes and Businesses

In 2012, Bord Gáis Energy undertook a review of the Home Energy services business in response to changing consumer demand, driven by recessionary pressures. A revised business model for the delivery of energy services within the residential sector was undertaken in Quarter 4 2012 and a new operating model will be launched in 2013 to reflect the changing needs of our customers. In terms of Business customers, in 2012 Bord Gáis Energy launched the innovative new Business Energy Services in conjunction with Siemens. The new offer will allow Bord Gáis Energy business customers to avail of both energy audits and bespoke energy solutions designed to reduce their overall energy consumption and energy bills. A number of projects are in planning and are scheduled to commence in early 2013.

### Bord Gáis Energy - Trading

Gas, electricity, carbon and other renewable products are traded on wholesale energy markets by a dedicated Energy Trading team which operates 20 hours a day, 365 days a year. Bord Gáis Energy Trading operates in line with best international practice, is benchmarked against the market on a regulatory formula and has been proven to procure energy efficiently.

The Energy Trading Unit also publishes the Bord Gáis Energy Index, which is a price index that tracks developments in the wholesale energy markets across oil, gas, coal and Irish electricity prices. This energy index is published on a monthly

basis and provides a useful barometer of wholesale energy market developments and implications for businesses and consumers as a whole.

The Bord Gáis Trading procurement policy has evolved over time and is based on many years of trading experience. With the increasing complexity and volatility of wholesale international energy markets, the company continues to diversify its supply mix and sources of gas and electricity supply.

### Gas Supplies

In terms of gas supply, Bord Gáis Trading procures a proportion of its gas supply requirements from the Kinsale Area fields, where it also operates a storage agreement with Kinsale Energy Limited. The storage agreement enables Bord Gáis Trading to inject gas during summer months to help meet peak demand in the winter. There is also a strong reliance on procurement of gas supplies from the UK gas market, where Ireland sources over 93% of its gas requirements. Bord Gáis Trading has a portfolio of gas trading contracts with a variety of gas producers and traders operating in the UK wholesale gas market. The team also utilises gas storage products at facilities in the UK to optimise the management of peak demand and seasonal price volatility.

Bord Gáis Trading has developed and implemented sound hedging and risk management strategies to both mitigate exposure to short-term volatility and to enable Bord Gáis Energy to take advantage of price developments over a longer period.

### Wholesale Gas Prices

With over 93% import dependency on gas supplies from the UK, the wholesale price of gas in Ireland is naturally dictated by, and indexed to, the traded price and market developments/influences in the UK gas market. The UK gas market is the largest market in Europe with demand of c. 100bcm per annum. By comparison, Ireland uses c. 5bcm per annum.

The UK itself now operates as a net importer of gas throughout the year, not just during the peak winter months, and is dependent on supplies from Norway, Continental Europe and Liquefied Natural Gas (LNG). While the average UK import dependency stands at c. 57%, the actual dependency on a day varies between c. 35% and 75%, so any changes to import flows can have a significant effect on the market.

### Energy Market Developments in 2012

#### 1. Global Crude Oil Prices

2012 was a turbulent year for Brent crude oil prices as anxiety dominated the markets and prices fluctuated significantly. These anxieties translated into a second consecutive year of record Brent crude oil prices. In euro terms, the average annual price broke through the €85 a barrel for the first time ever, bringing up the cost of oil in euro-zone countries [Figure 1].

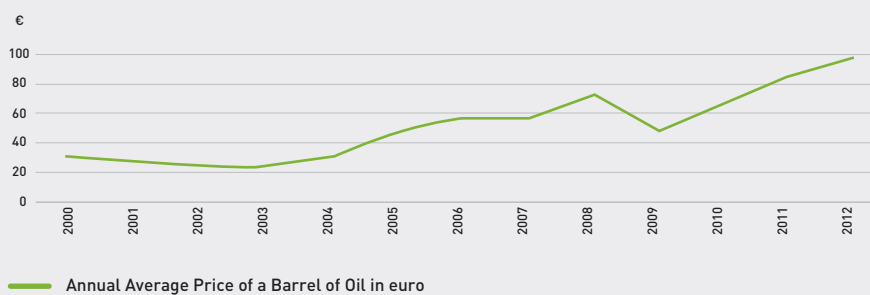
As illustrated in Figure 2, crude oil prices during 2012 were quite volatile and different price drivers were evident for oil during the four quarters of 2012:

- In Quarter 1 2012, oil prices rose in response to heightened tensions between the West and Iran. Traders feared global oil demand could not be met due to potential supply disruptions from the Middle East and the loss of Iranian oil due to EU and US sanctions.
- During Quarter 2 2012, the continued concerns about the euro and slowing global economic growth weighed on prices, with oil (in euro terms) hitting a low of €74/barrel.
- By Quarter 3 2012, geopolitical tensions re-emerged and pushed prices back up as the civil war in Syria intensified and oil prices rose in turn.
- Quarter 4 2012 was the most stable period for oil prices in 2012, trading between a range of €82-€87/barrel. The key driver appeared to be different signals and projections on world economic growth for 2013.



## Operating Review - Energy (continued)

Figure 1: Annual Average Price of a Barrel of Oil in euro



### 2. UK Gas Prices

In the UK gas market, spot prices in 2012 generally traded higher than 2011 levels. As can be seen from Figure 3, spot gas prices on the day traded at or above equivalent 2011 levels, with a significant peak occurring in early February 2012 when a period of cold weather across North Western Europe put a strain on the system supplies and its ability to meet rising demand. Prices peaked at c. £1/therm in that period compared to a 2012 year average of just under 60p.

Spot gas prices averaged 59.5 pence per therm in 2012, compared to 56 pence per therm the year before, so there was a 6% increase in spot prices on average, reflecting a general tightening of the UK's demand-supply balance.

A similar trend was evident on the forward markets. The forward markets are key for hedging purposes, as Bord Gáis purchases gas for future delivery to meet forecast customer requirements. In late 2011, the cost of a calendar year 2012 hedge would have been c. 57 pence per therm. By late 2012, a similar calendar year 2013 hedge would have been c. 63 pence per therm so forward hedging costs increased by c. 11% year on year.

The rise in wholesale gas prices in the UK across spot and forward markets was a major contributor to all major energy suppliers increasing their customer tariffs, and the CER approved an increase to Bord Gáis Energy's residential tariffs of 8.5% in October 2012.

Many factors influenced wholesale gas prices during 2012, including:

- Geopolitical tensions in the Middle East leading to higher oil prices (particularly in euro terms).
- Declines in UK indigenous supplies and the loss of LNG supplies to higher priced regions in Asia.
- The ongoing debt crisis in Europe.

Figure 2: Front Month Brent Crude Oil Prices in Euro Currency

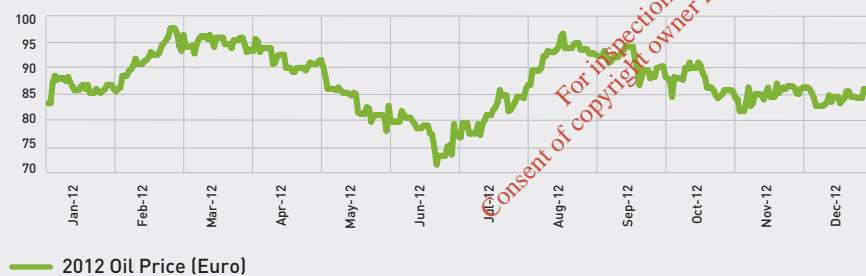
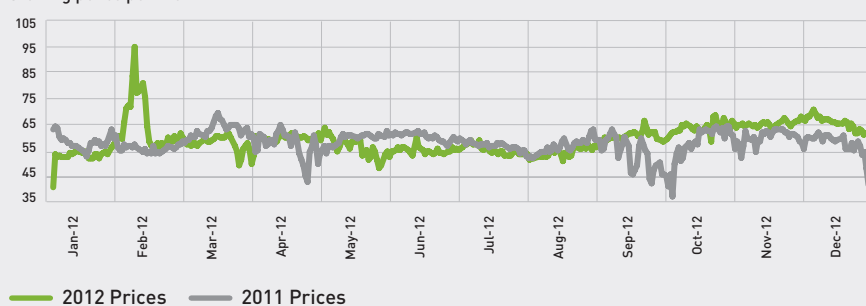


Figure 3: UK Daily System Average Gas Prices 2012 v 2011



The list below illustrates some of the key issues that arose during 2012:

**1. Crude Oil Prices**

As noted above, 2012 was a second consecutive year of record Brent crude oil prices. In euro terms, the average annual price broke through the €85 a barrel for the first time ever, bringing up the cost of oil in euro-zone countries. The volatility in oil markets fed through to other energy commodities. Concerns about continued weakness in the global economy provided protection against the upward price pressures from the escalation in Middle East tensions.

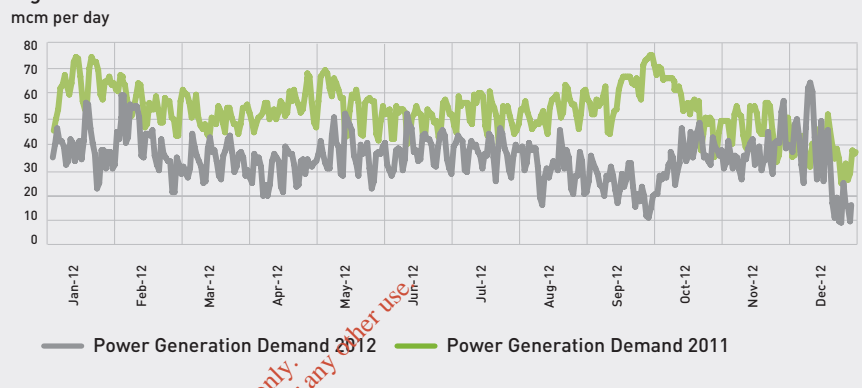
**2. Declining UK Indigenous Supplies**

UK indigenous supplies (primarily from the North Sea) have generally decreased year on year as many of the gas fields are in operation for many years and production is declining. During 2012, UK indigenous supplies (incorporating some of the flows from Norway) averaged 122mcm versus 129mcm the year before, so a 5% decline was evident year on year.

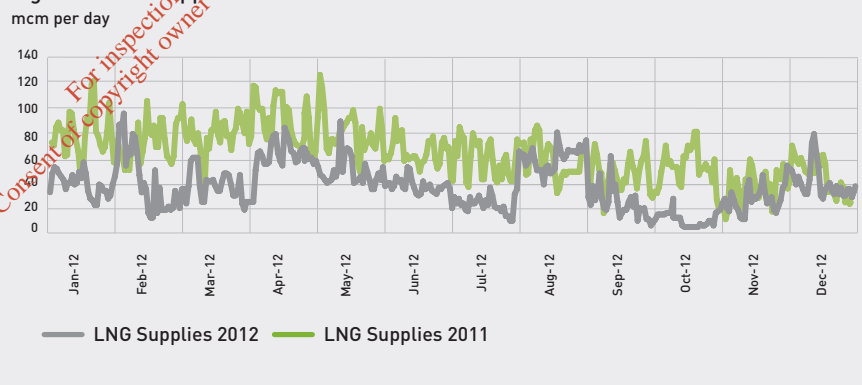
UK indigenous gas was reduced in March 2012 when a leak was discovered at the Elgin-Franklin gas field, which is situated 240km east of Aberdeen. This led to a loss of 10-15mcm of supplies to the UK and the field is currently undergoing repair work. The field is expected to be back on-line from Quarter 2 2013.

More importantly, the peak rate of UK indigenous gas supplies also dropped considerably. Peak indigenous supplies for the UK during 2011 was 225mcm, but this peak declined to 205mcm during 2012, illustrating that the indigenous supplies within the UK now have less flexibility to cope with higher demand periods. This increases the dependency of the UK on imported gas from continental Europe, Norway and Liquefied Natural Gas (LNG) from further afield.

**Figure 4: UK Gas Power Station Demand - 2012 v 2011**



**Figure 5: LNG Supplies to the UK- 2012 v 2011**



**3. Demand/Weather**

In general, UK gas demand in 2012 was weak with demand averaging 235mcm compared to 256mcm in 2011. There was a brief cold weather spell during early February, but in general UK gas demand during 2012 was below "seasonal norms". While generally mild weather played a part, the primary contributor to lower demand was a significant drop in gas demand in the gas fired power generation sector (Figure 4).

Lower carbon prices during 2012 contributed to coal fired generation being significantly more cost effective than gas fired generation in the UK, so gas demand in the power generation sector declined significantly. Power station demand averaged 55mcm in 2011, this average fell to 38mcm in 2012, a 30% decrease. This lower demand helped to reduce further upward pressure on prices already created by lower UK indigenous supplies and lower LNG flows.

## Operating Review - Energy (continued)

### 4. Lower Liquefied Natural Gas (LNG) Deliveries to the UK

During 2011, the UK suffered a reduction in LNG supplies following the tsunami in Japan, after which Japan's dependency on LNG supplies for power generation increased following the shutdown of nuclear generation.

The general trend of lower LNG supplies to the UK was even more evident during 2012. LNG flows to the grid averaged just 34mcm in 2012, compared to 65mcm during 2011, an almost 50% drop. During 2011, LNG supplies contributed to 25% of supplies, but during 2012, this contribution dropped to 15%. This increased the UK's vulnerability, especially during times of colder weather and higher gas demand (Figure 5).

The key reason for the drop in LNG supplies to the UK is that the prices achievable in Asian LNG importing regions, such as Japan and South Korea, are significantly higher than the prices achievable for LNG in the UK. While UK gas prices generally traded in the 60 to 70 pence per therm range during 2012, spot LNG cargo deliveries to Asian markets changed hands for over £1 per therm at times and reportedly averaged over 80 pence per therm. With very little additional LNG supplies coming on-stream globally during 2012, the availability of excess LNG to lower priced regions such as the UK decreased.

### 5. Re-Negotiations on Continental Oil Indexed Contracts

Traditionally, as the UK competes with continental Europe for gas supplies, the UK gas price would typically reference the oil indexed price implied by continental contracts. Otherwise, the UK would fail to attract the relevant gas supplies to meet its own demand. As supplies tighten in the UK, this is an increasingly important factor. During recent years however, the continental long term contracts have generally delivered higher prices than those evident at trading hubs such as the NBP in the UK. For this reason, there has been a significant amount of renegotiation of long term oil indexed contracts between Norway/Russian producers and continental buyers.

The impact of this is that generally the contractual oil indexed price structure is now lower than it was previously, but even with this change, general spot (and forward) prices in the UK remain below continental prices, so the incentive to send gas to the UK remains generally low, particularly in lower priced periods.

### 6. Lack of Seasonality in Prices

With gas demand typically lower in the summer months than in winter months, it would be expected that prices would be lower in summer months. During 2012 however, spot prices in the UK gas market were relatively flat and averaged 59p/therm for most of the year. A similar trend was evident in 2011, so it appears that alternating levers on demand and supply are ensuring prices remain relatively stable throughout the year and that prices prevailing over summer periods no longer trade at a heavy discount to higher demand periods in the winter.

The lack of seasonality was also evident in forward markets with the premium for winter contracts over summer contracts falling over 2012. This could lead to problems in the years to come as it reduces the signal to develop new UK storage sites to aid system flexibility.

### 3. Energy Market Outlook

The current outlook for 2013 energy prices would generally be in line with the levels evident in 2012. The key price drivers would be:

- o Global economic growth in 2013
- o Weather conditions
- o Exchange rate movements
- o Geopolitical tensions

In crude oil markets, until key global economies illustrate sustained economic growth over a number of quarters, global oil prices are likely to be capped at €97/barrel (\$130/barrel) as any sharp rises would lead to inflationary pressures across already weakened economies. But downward pressure on prices could be capped by geopolitical issues or supply responses by OPEC, the oil cartel which produces c. 40% of current oil production but also controls c. 75% of the world's oil reserves.

A key factor in the Irish context will be the relative moves of the euro and dollar currencies which will influence how much an oil movement will price into the economy. During 2012 the euro weakened versus the dollar and this amplified the rise in the price of oil during that year – a similar risk is evident in the coming year.

In the gas market, the signals for gas fired generation in the UK remain weak for 2013 based on current forward markets. The introduction of a carbon price floor in April 2013 by the UK Government should increase the attractiveness of gas fired generation, but coal fired generation is likely to remain the most cost effective, unless carbon prices rise substantially.



While there are no large gas supplies coming on-stream for the UK during 2013, a number of existing storage facilities are being enhanced along with the introduction of new storage sites, so system flexibility should increase in 2013.

The overall UK gas demand-supply position is likely to remain tight in 2013, with no significant supplies due to come on-stream and the Asian market is expected to continue to out-price the UK for LNG cargoes. There remains uncertainty on the return of nuclear power plants in Japan which could impact LNG deliveries to Europe. Peak demand periods (e.g. cold spells) could prove a significant test for the market and based on 2012 prices, significant jumps in demand could push prices up sharply in tight conditions.

**Electricity Supplies**

Bord Gáis Energy participates in the Single Electricity Market (SEM), both as a purchaser of electricity to meet its growing customer demand, and as a generator of electricity. In order to offer this growing customer base a long term, competitive offering, it has made significant investments in traditional and renewable power generation, including its highly efficient 445MW gas-fired power station at Whitegate in Co. Cork and its wind generation portfolio.

Given Bord Gáis Energy's current customer and asset base, in order to ensure an adequate demand versus supply balance, Bord Gáis Trading continued to be an active participant in the Contract for Difference (CfD) Auction rounds which were scheduled

throughout 2012 (such CfDs can be viewed as an effective fixed source of power supply). Bord Gáis Trading also imports a proportion of its power supply requirements from the UK through the Moyle Interconnector and more recently via the East-West Interconnector which commenced commercial imports on 21st December 2012. This enables it to diversify its power supplies, and procure competitive supplies from the UK. Further power supplies are secured through offtake agreements with indigenous wind farms, Combined Heat & Power (CHP) units and through a tolling arrangement with a gas-fired power station. Having acquired power from these diverse sources, Bord Gáis Trading mitigates exposure to daily pool prices in the SEM. These diverse and clean sources also enable it to offer its larger electricity customers the opportunity to hedge price risks within the SEM and for Bord Gáis Energy to offer competitive rates for residential customers.

**Irish Wholesale Electricity Prices**

Irish wholesale electricity prices continue to be significantly influenced by commodity prices, in particular by UK gas prices. In recent years, anywhere between 60-70% of electricity generation volumes in Ireland relates to gas fired power plants mainly using UK Gas. It should also be noted that Irish wholesale electricity prices are also impacted by Carbon prices given that generators are required to incorporate a carbon cost into their bid prices (given current market prices, gas has more of an influence on the overall wholesale electricity price than Carbon).

Figure 6: 20 Day Rolling Average SMP : 2011 vs 2012



Figure 7: European Union Allowance Prices

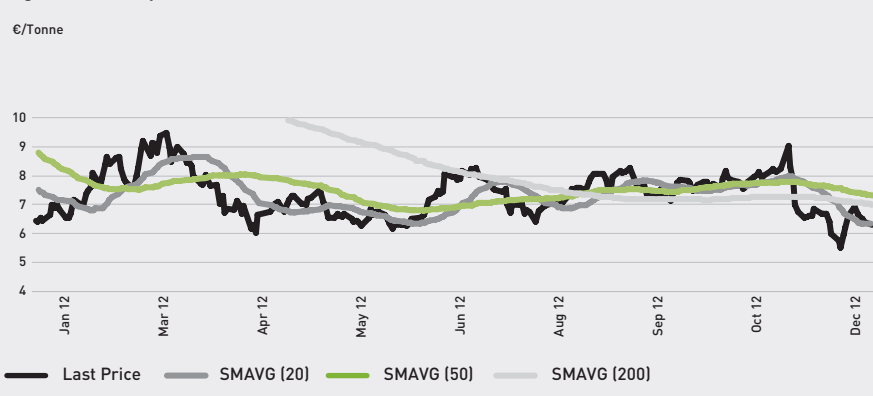


Figure 6 shows how the 20 day rolling average Irish Wholesale Electricity price evolved over 2012.

## Operating Review - Energy (continued)

Significant changes to the SEM in 2012 included:

- Roll out of Intraday Trading – this modification to the SEM rules provided additional bidding opportunities for generators to get into the market. It was largely driven by the need for the market to comply with European regulations on capacity and congestion management.
- Build out of the East West Interconnector – the East West Interconnector, which has an import/export capacity of 500MW, had a provisional go live date of 1st October 2012. It began operating on a commercial basis in December 2012 at a reduced capacity of 250MW and is being used primarily to import power from the UK to Ireland.

The most salient regulatory issue facing the SEM in the next one to two years is European Integration (i.e. the development of an electricity market model in Ireland which complies with the European Target Model). The roll out date of the target model in Ireland is 2016; the type of model and related rules are currently under consultation between the regulatory authorities and market participants.

### Carbon Market

Bord Gáis continues to be an active participant in the European Union Emissions Trading Scheme (EU ETS). The EU ETS is a cap and trade scheme that covers over 11,000 installations across Europe. The scheme, which started in 2005, is currently in its third phase. During the third phase of the market, the combustion sector will not receive any free allowances from the European Commission. While there was a flat cap on emissions during the second phase (2008 to 2012), the cap in phase three (2013 to 2020) will reduce linearly each year at a rate of 1.74%.

After a volatile 2011, EU carbon prices managed to stabilise in 2012, albeit at a lower price (Figure 7). The fundamentals of the market failed to change as the market continued to suffer from a glut of allowances and slowing electricity demand. It was a year that saw lower emissions from industrial units and increasing renewable electricity generation capacity. The market traded on the back of speculation for most of the year before the European Commission finally announced its intention to “backload” the market. As a short-term measure, the European Commission is seeking to postpone the auctioning of 900 million allowances from the years 2013-2015 until 2019-2020. It is expected that the demand for carbon allowances will recover post 2015. This process is termed “backloading”.

“Backloading” is viewed as an interim solution for market reform which could take much longer to implement. The European Commission has outlined six measures that could make the EU ETS more robust and sustainable during turbulent economic times in the future. The six options identified by the Commission are:

1. Increasing the EU’s greenhouse gas emissions reduction target for 2020 from 20% to 30% below 1990 levels;
2. Retiring a certain number of phase three allowances permanently;
3. Revising the 1.74% annual reduction in the number of allowances to make it steeper;
4. Bringing more sectors into the EU ETS, particularly more defensive sectors;
5. Limiting access to international credits (Certified Emission Reduction Units, Emission Reduction Units etc);
6. Introducing discretionary price management mechanisms such as a price management reserve.

There are a number of steps to go through for any of the options to be implemented.

### Bord Gáis Assets

The role of the Assets division is to develop and operate a balanced portfolio of assets that will help Bord Gáis Energy to meet current and future customer energy requirements. The division has three main areas of focus: the operation and maintenance of existing assets; the development of new assets; and the investigation and support of emerging energy technologies. Within the Division an Environment, Health and Safety function has been established, whose remit encompasses the wider Energy business.

The operating and development assets provide safe, reliable and competitive energy to our customers, while also contributing to the achievement of national renewable energy targets. Bord Gáis is committed to developing its own source of energy products so that the organisation can manage and control energy costs in an efficient manner that best supports the needs of our customers and the company. This mix of energy assets will enable Bord Gáis Energy to meet the needs of customers with sustainable and competitive electricity offerings.

### Environmental, Health and Safety

An Environment, Health and Safety (EHS) department was set up in Bord Gáis Energy during 2011 to establish, develop and enhance the Environment, Health & Safety function within Bord Gáis Energy.

The primary focus of the department is to ensure that all aspects of Bord Gáis Energy operations are conducted in a safe and environmentally responsible manner. To achieve this objective, an integrated EHS Management System for Bord Gáis Energy was established, ensuring the environmental, health and safety risks are identified and managed appropriately. The EHS team provides support across the business, applying best in class practices across all Bord Gáis Energy activities.





To date, the team has completed a full environmental, health and safety review of the business and our contractual partners. A new EHS Policy has been adopted and a new EHS Management System framework implemented. Enhanced systems for the reporting of incidents and the management of risk assessments, audits and EHS legal compliance have also been introduced.

### Operations and Maintenance

#### Whitegate Power Plant

The Whitegate power plant has been in commercial operation since 9th November 2010. Safety continues to be a key focus for management and there were no lost time incidents to report during 2012. The plant has now been accident free since March 2009. GE, who provide operations and maintenance services to Whitegate, are set to achieve ISO 18001 and 14001 rating for the plant in 2013.

The plant has performed extremely well in 2012 and has achieved or exceeded all of its technical targets during the year. Its availability performance continues to be excellent with its forced outage performance comparing very favourably with the industry norm (NERC) for such CCGT units. Day to day operation and maintenance activities are carried out under contract with GE who employ 30 staff on site, while long term plant maintenance is managed under a contractual services agreement, again with GE.

These agreements ensure that operational and technical risks are shared with GE and provide added incentives in terms of meeting safety, environmental and operational targets. The operation and maintenance activity is managed by the Asset Operations staff within Bord Gáis Energy.

### Wind Portfolio

With 240 MWs of operating wind capacity, stretching from Cork to Donegal, Bord Gáis has one of the largest renewable energy portfolios in the country. The wind fleet now consists of 132 wind turbines spread across 14 wind farms. This power output complements that from Whitegate to provide a clean, sustainable source of electricity for our customers. The operating assets are remotely monitored to enable the Asset Operations team to maximize the availability and efficiency of each turbine. The state of the art fleet includes wind turbines from world leading manufacturers such as GE, Nordex, Vestas and Enercon. Concentrated focus on the operation of the wind farms in 2012 ensured that overall fleet availability was 1.5% ahead of target.

### Business Development

#### Renewable

Bord Gáis has a significant pipeline of wind development projects. Major progress was made on the consents for these projects in 2012 supporting a build out programme which has 174 MWs of wind projects in construction, 100 MWs to be brought to financial close within 24 months and a further 350 MWs of medium to long term wind development. This build out programme will see Bord Gáis invest up to €400 million over this period, significantly enhancing the asset quality of its balance sheet.

#### Conventional

With considerable baseload power and renewable wind in its power portfolio, Bord Gáis intends to complement this power with high efficiency, flexible, fast acting Open Cycle Gas Turbine plant (OCGT). To this end, it has a joint venture with Mountside Properties, called Greener Ideas Limited (GIL), to progress OCGT developments. Greener Ideas Limited owns three sites with full planning permission and grid connection agreements that are located in Athlone, Cahir and Kilkenny. GIL appointed Owner Engineers in early 2010, and since then detailed designs and evaluations have been carried out for all three sites.

When these projects are developed, Bord Gáis will have a fast and flexible means of responding to customers' fluctuating usage requirements and will be a source of major support in stabilizing the high voltage transmission system. Furthermore, efficient OCGT plants will help maximise the amount of wind generation that can be accommodated on the Irish electricity grid. Gas turbine plants of this type offer major carbon savings, compared to less efficient, diesel fuelled flexible plant and, as a consequence, they will support the achievement of the Government's target in relation to renewables (40% of electricity demand to be met by renewables by 2020). These projects provide Bord Gáis Energy with options to develop gas fired fast response power generation when the market mechanisms are in place to reward this type of service.

### New Energy

Bord Gáis invested both capital and resources into specific companies and research reports, demonstrating its commitment to providing support to emerging technologies.

### Gas Storage

North East Storage, a consortium between Bord Gáis and Storengy, had been investigating the feasibility of a salt cavern gas storage facility in the Larne area of Northern Ireland. In 2011, one site was chosen for the test drill. Unfortunately, final test results during 2012 confirmed that the site did not meet the requirements for gas storage due to inadequate salt deposits.

### Micro CHP

Bord Gáis completed its trial of the six Baxi Ecogen Micro CHP devices in employees' homes. SEAI deployed Gastec to monitor the performance of the units over the course of a year and at the end of this period they compiled their findings into a report. It concluded that although the units performed very well over the period, in the absence of some form of financial support, the commercial case for installing the devices would remain challenging.

## Operating Review - Energy (continued)

In 2009 Bord Gáis entered an exclusive arrangement with Ceres Power who were developing a fuel cell based micro CHP device. Technical issues arose during field testing of the device in the UK in 2011 which impacted on the programme. In 2012 it became clear that they needed to raise more funds to finance their developments. As a consequence, 51% of the business has been sold to IP Group Limited, a company which specialises in commercialising IP.

### VP Power

In 2010 Bord Gáis completed a €1 million investment in VP Power, an Irish company dedicated to the development and utilisation of underground coal gasification as a means of commercially exploiting the known coal resource located in shallow waters in the Kish bank basin off Ireland's east coast. VP Power has carried out a seismic survey and a drilling programme in the area. Talks with potential partners regarding exploiting the resource are ongoing.

### Research & Development Initiatives

In April 2010 the Government (via Enterprise Ireland) announced a commitment of €20 million to the International Energy Research Centre (IERC) at the Tyndall National Research Institute in Cork. Bord Gáis Energy has joined a group of multinational companies, including United Technologies Corporation, Alcatel Lucent and Bilfinger Berger, as a Full Member of the IERC.

The IERC represents an exciting opportunity for Bord Gáis Energy to contribute to the search for some of the solutions to the energy challenges of the future for the benefit of Irish energy users. The centre will act as a conduit to research and develop innovative solutions to real industry issues in the energy sector by leveraging the knowledge base of all the Irish third level institutions including UCC, CIT, UL, UCD, TCD and LIT.

2012 saw a number of milestones for the IERC with the appointment of the first IERC Director and the centre moving into its own dedicated office and research space at Tyndall National Institute in Cork City. A Bord Gáis Energy employee is seconded to the IERC on a fulltime basis to sit on the Industry Steering Board and oversee projects of particular interest to Bord Gáis Energy. To date, five projects have been funded by the IERC to the value of €4.7 million.

One of these projects, which is being undertaken on Home Area Networks, is of particular interest to Bord Gáis Energy. The goal of the project is to develop, demonstrate and deploy an automated home area network infrastructure. Called Authentic, this system will help the home occupant manage and reduce their energy usage as well as controlling other home based systems such as security and entertainment.

### Marine Energy Research

Bord Gáis has committed to supporting the development of the Irish Maritime and Energy Resource Cluster (IMERC) and has committed €1.5 million to the development of the Beaufort building. IMERC is an initiative to develop a world leading research and commercial cluster in a new building alongside the National Maritime College in Cork.

### Northern Ireland

Northern Ireland is an important energy market for Bord Gáis: in 2012, over a fifth of all gas transported by the company was for the Northern Ireland market. The company is also active in both the gas and electricity retail markets.

firmus energy, a subsidiary of Bord Gáis operating in Northern Ireland, won the supply and distribution licences for ten towns along the routes of new transmission pipelines in 2005. It now supplies gas to around 17,000 industrial, commercial and domestic customers in these towns. In addition, firmus energy holds supply licences for both the natural gas market in greater Belfast and electricity across Northern Ireland, and supplies gas and electricity to over 48,000 customers across the Province.

### Ten Towns Development

Bord Gáis entered the Northern Ireland market in 2004 with the development of the North-West transmission pipe, followed in 2006 by the South-North transmission pipeline. These pipelines integrate the gas networks, North and South, and enable the operation of an all-island gas market.

firmus energy, a subsidiary of Bord Gáis operating in Northern Ireland, won the supply and distribution licences for ten towns along the routes of these new transmission pipelines in 2005. It now supplies gas to around 17,000 industrial, commercial and domestic customers in these towns and in 2012 added over 4,000 new connections to the 10 Towns network. In addition, firmus energy holds supply licences for both the natural gas market in greater Belfast and electricity across Northern Ireland. As at the end of 2012, firmus energy supplied gas to over 31,000 customers in the competitive greater Belfast gas market and supplied around one third of the gas used by industrial and small businesses in this market.



firmus energy is also continuing to develop the new gas network in its licence areas. At the end of 2012, a total of over 760km of gas mains had been constructed across the five North-West towns of Ballymena, Ballymoney, Coleraine, Limavady and Derry City, and in the five South-North towns, namely Antrim, Craigavon (including Lurgan and Portadown), Banbridge, Newry and Armagh. In 2012, 4,000 new customers were connected to the network including 275 new business customers. During the year, firmus energy also gained approval from the Utility Regulator in Northern Ireland to include a number of new areas for connection to the network, namely Bushmills, Bessbrook and Craigdoe Quarries. Gas was also made available in several new areas which had been approved by NIAUR in 2011, namely Warrenpoint and Ballyclare. Network construction continues to be executed on the basis of known gas loads, such as large industrial users, small commercial enterprises, new build developments and Northern Ireland Housing Executive (NIHE) estates, with owner occupied homes connecting where they are in the vicinity of existing mains.

The firmus energy Conveyance licence provides for a regulatory rate of return of 7.5% (real pre-tax) on network development related capital investment and underwrites this recovery over a thirty-year period.

Following extensive planning in 2012, including the development of a new 10 Towns Network Code, market opening within the large Industrial & Commercial sector took place in October 2012. The SME and domestic sectors are planned for market opening in April 2015 across all the towns.

### Competitive Supply Markets

firmus energy has taken advantage of the opening of the natural gas market in greater Belfast, providing competition and contracting with customers in this area since 2007. By the end of 2012, over 31,000 customers in greater Belfast had switched to firmus energy for their gas supply from the incumbent supplier. Currently over 34% of all gas consumed in both the large I/C contract and the SME sectors in greater Belfast is supplied by firmus energy.

The customer acquisition strategy in greater Belfast was based on a two-year discounted deal against Phoenix's (now Airtricity) gas published tariff and is currently being supported by significant advertising and marketing activity. Gas competition in greater Belfast is now available to both credit and PAYG residential customers.

The award of its electricity supply licence in late 2008 enabled firmus energy to launch dual-fuel energy contracts. It secured its first electricity customers in the industrial/commercial sector shortly thereafter in early 2009 and continues to offer electricity to customers in this sector.

## Develops, operates and maintains the natural gas transmission and distribution networks



“Natural gas is now available in over 160 population centres within 19 counties throughout the country and there are over 657,500 gas users in Ireland.”

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### EBITDA

# €300.6m

2011: €298.6m

2012  
2011



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“Since its establishment, Bord Gáis Networks has developed a national distribution pipeline network of 11,131km and a transmission pipeline network of 2,417km.”



Bord Gáis Networks, on behalf of Gaslink, develops, operates and maintains the natural gas transmission and distribution networks in Ireland and provides gas transportation services to suppliers and shippers.

Since its establishment, Bord Gáis Networks has developed a national distribution pipeline network of 11,131km and a transmission pipeline network of 2,417km. The transmission system is linked to the UK and Continental gas markets through two Interconnector pipelines with Scotland. Natural gas is now available in over 160 population centres within 19 counties throughout the country and there are over 657,500 gas users in Ireland.

### Networks Organisation Structure

Bord Gáis Networks is organised into seven operating units managing the natural gas networks and associated commercial arrangements in Ireland, Northern Ireland and Great Britain as follows:

#### Asset Management

Responsible for asset strategy; networks analysis and strategic planning; asset integrity; investment analysis and management; design and planning of all network solutions; programme management; and asset information management.

#### Asset Operations

Responsible for handling and progressing all customer contact and networks works activities; maintaining quality data and records; delivering capital construction contracts; executing field work to maintain and repair network assets; operating the networks safely and reliably; and the delivery of networks services, including connections, site works services and customer service.

#### Health, Safety, Quality & Environment

Responsible for safety management systems; training; risk management and business continuity; health, safety and environment planning; and quality and management systems.

#### Markets & Regulation

Responsible for regulatory affairs including the delivery of services to Gaslink; shipper and meter data services; customer and marketing strategy; and account management of large gas users

#### Corporate Services

Responsible for all aspects of human resources; legal affairs; corporate affairs; and facilities & property management.

#### Networks IT

Responsible for IT strategy & architecture; solution delivery; infrastructure & operations; service management and the Programme Management Office.

#### Networks Finance

Responsible for business planning; insurance and data protection; transaction services; procurement; financial planning & reporting; commercial including innovation and the fibre optic business Aurora.

#### Gaslink

Since 2008, Gaslink has been formally responsible for gas system operations on the Bord Gáis Transmission and Distribution systems. An Operating Agreement details the work which Bord Gáis Networks carries out for Gaslink relating to the Bord Gáis Irish Gas Transportation System and the Interconnectors.

#### Gas Transported in 2012

The total amount of gas transported by Bord Gáis Networks in 2012 decreased by 7% compared with 2011 levels to approximately 67,900 GWh. This reduction in overall gas demand was due to a combination of mild weather conditions during 2012, reduced gas demand for power generation and the continued uncertain economic conditions. Power generation gas demand was 7% lower than 2011 because of reduced electricity demand and increased generation from coal and peat. Non Daily Metered (NDM) demand from domestic and business users was down 16% in 2012 from 2011. Total system gas flows were at 2005/2006 levels with 79% of gas transported serving the Irish market and 21% utilised in Northern Ireland and the Isle of Man. The majority of Ireland's gas demand (93%) was met by UK imports with the remaining gas supplied from indigenous reserves in Inch\*.



## Operating Review - Networks (continued)

\*These figures assume that all gas received at Inch entry point was from indigenous reserves. Gas storage is carried out at Inch by Kinsale Energy Limited as well as production and so it is expected that a portion of the gas supplied at Inch has been originally sourced via Moffat and transported to Inch. In 2012, 1,670 GWh of gas was imported through the interconnectors and supplied to Inch.

### Markets & Regulation

Within Bord Gáis Networks, the Markets & Regulation unit is responsible for managing the regulatory affairs of Bord Gáis Networks across the three jurisdictions in which the business operates: Ireland, Northern Ireland and Great Britain, in addition to matters relating to EU Energy policy and legislation. Markets & Regulation is also responsible for shipper services, customer and marketing strategy, gas point registration, metering data services and pre-payment or Pay As You Go (PAYG) metering.

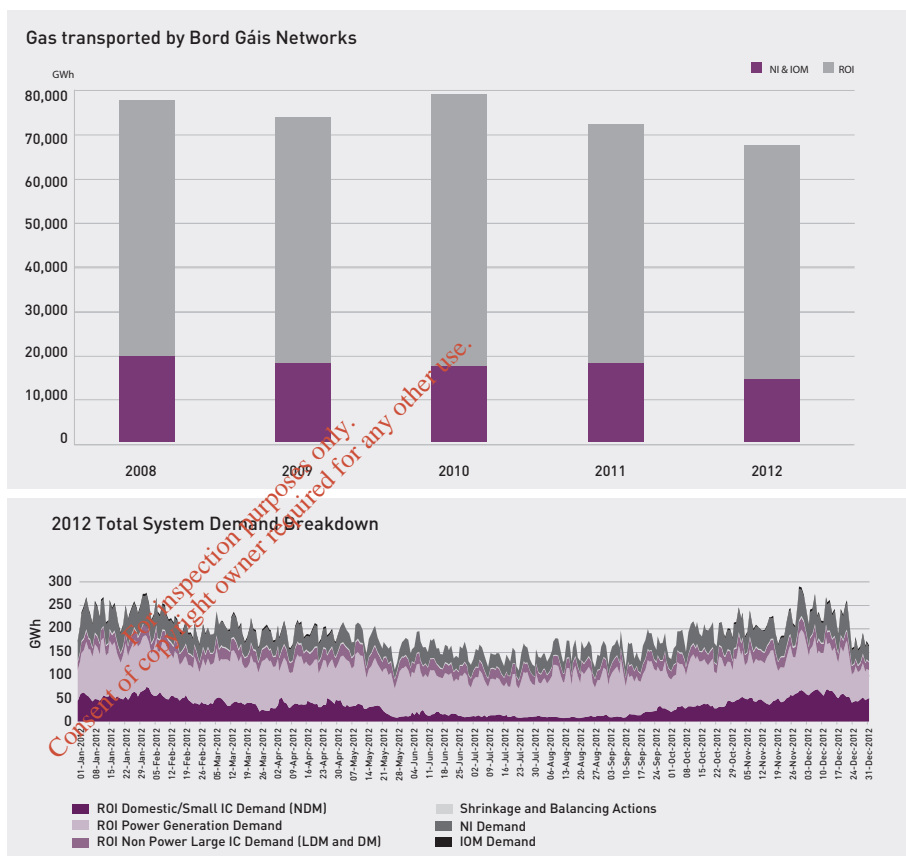
### Shipper Services

Bord Gáis Networks provides access to the gas pipeline system for Shippers on behalf of Gaslink. There are currently 16 Shippers active in the Irish gas market, shipping gas to customers in all segments of the market from power generation to residential. Bord Gáis Networks assists Shippers, via our dedicated Key Account Management team, with a wide range of operational and commercial issues.

During 2012, our Shipper Services team continued to develop Bord Gáis Networks' relationship with new and existing Shippers to facilitate and support their entry and expansion into the Irish gas market.

### Gas Point Registration Operator (GPRO)

The GPRO is the administrative service that supports the competitive natural gas market in Ireland. Bord Gáis Networks operates the GPRO function on behalf of Gaslink. The GPRO is responsible for the Change of Shipper process, which enables natural gas customers to efficiently change from one natural gas supplier



to another. The GPRO works on an independent basis and treats all shippers and suppliers in an equal, fair and non-discriminatory manner.

2012 saw continued high volumes in the GPRO workload, with approximately 110,000 Change of Shipper transactions processed during the year (v. 113,000 in 2011) due to ongoing competition among existing Shippers. This represents a Change of Shipper transaction at close to 17% of all Gas Points; this continues to rank Ireland as one of the most active markets for switching worldwide.

The GPRO continues to meet all Shippers entering the market as well as existing Shippers to advise on our processes and on industry best-practice to make the Change of Shipper process as seamless as possible for end-users.

### Gas Transportation Revenues & Tariffs

Bord Gáis Networks concluded a challenging regulated revenue determination in Ireland with the Commission for Energy Regulation in 2012. Allowed revenues for use of the Irish Transmission and Distribution networks for the five gas years covering the period October 2012 to September 2017 were determined by the CER. The determination provides for operating and capital expenditure allowances for both networks, together with an allowed rate of return on assets employed of 6.39% pre-tax real for the first year with an annual review and trigger mechanism in the event of significant changes in market conditions in Ireland.

While the allowed revenues for the five-year period were set in 2012, the actual revenues earned are reviewed against the Revenue Control Formula each year and the tariff levels adjusted to correct for any over- or under-recovery.



The regulated Transmission tariff for 2012/13 increased in real terms from the 2011/12 tariff by 18% for typical shippers through Moffat, the entry point from which 93% of gas used in Ireland is sourced. The 2012/13 Distribution tariff increased by 9% in real terms from 2011/12.

Revenues for use of our Northern Ireland Transmission network are determined by postalised tariffs approved by the Northern Ireland Authority for Utility Regulation (NIAUR). Following a robust revenue determination, a five-year revenue control for our network was set in 2012 for the period from October 2012 to September 2017. The allowed rate of return for the five year period is 5.83% pre-tax real on a vanilla basis.

Revenues from the Isle of Man spur pipeline derive from a commercial agreement with the Manx Electricity Authority.

A commercial agreement with the Corrib partners is also in place, covering the Mayo-Galway pipeline. This pipeline will serve as the means of access for Corrib gas entering the Irish market in the next number of years.

#### **Networks Customer Service**

Throughout 2012, Bord Gáis Networks continued to provide a range of customer services with high levels of compliance in respect of its published service standards and commitments.

During the year, Bord Gáis Networks handled almost 376,000 phone contacts, agreed and completed over 90,000 appointments, and conducted over 18,000 temporary and permanent surface reinstatements. It also attended over 18,000 gas escapes reported by the public. The connections business secured orders involving almost €5.2 million in capital expenditure for the installation of domestic and commercial gas meters to supply 608GWh of additional natural gas load. Combined, connections and site-works collected almost €3.4 million in contributions and charges to net off against the cost of providing these services to the benefit of the Distribution tariff.

Continued process and improvement initiatives were again reflected and recognised this year in nominations received in customer service awards events in Ireland and the UK. Bord Gáis Networks were successfully shortlisted for six awards schemes in 2012 including: the prestigious Customer Service Training Awards in London; the Process Excellence Awards (IQPC) in London; the European Call Centre Awards; the Irish CCMA awards; and the UK Customer Contact Awards where the businesslink team was highly commended.

#### **Satisfaction Monitoring**

Our programme of customer satisfaction monitoring across ten different Bord Gáis Networks activities continued in 2012. Our satisfaction results for all surveys showed a combined improvement of 20% on 2011. This year, for the first time, we asked customers about the level of effort it required to interact with our processes. Overall we scored very favourably across all processes, the least effort was the contact centre, while the activity requiring the highest level of customer effort was the complaints process. We will continue to monitor this to identify areas where customer effort can be reduced.

#### **Values Acceptance**

In 2012 Bord Gáis Networks asked over 3,000 customers if they felt we exhibited our values in our interaction with them. The results were extremely positive with acceptance of all values increasing on last year. 'Safety' and 'Honesty and Integrity' are our most accepted values, with 'Proactive' the least accepted although it has increased by 8% from 2011.

#### **Asset Management**

##### **Networks Services and Works Contract**

Bord Gáis Networks operates an outsourced business model to support its construction and operational works and historically utilised multiple smaller providers contracted individually. To take full advantage of the new systems and processes delivered through its Networks Transformation Programme, Bord Gáis Networks conducted a substantial review and re-design of this contracting model. The revised model is based on a long

term partnership approach with a single larger contractor. It offers substantial benefits to the organisation in terms of safety performance, improved customer service and cost savings. It delivers increased efficiencies and service levels while enhancing the existing high levels of customer service.

The Networks Services and Works Contract (NSWC) was tendered in compliance with European procurement rules and following a rigorous evaluation process, Bord Gáis Networks awarded the contract to BBCLG, an Irish and international Joint Venture. BBCLG provides a combination of the advanced management systems of an international utility contractor with the local and historical knowledge embedded in CLG Developments. CLG Developments has provided services to Bord Gáis Networks for over twenty five years.

##### **Network Metering**

Prudent investment in metering technology and data management solutions is a key aspect in the development of new and open market services for the industry and energy customers.

##### **Smart Metering Solution**

Bord Gáis Networks continues to support the CER National Smart Metering Programme which is focussed on a combined gas and electricity solution. In July 2012 the Commission for Energy Regulation published its decision to proceed to Phase 2 of the National Smart Metering Programme. This decision followed the positive findings of the comprehensive electricity and gas smart metering trials and cost benefit analyses. Phase 2 will involve the Design and Procurement of the technology components to deliver a national rollout of gas and electricity Smart Metering. Following this decision, Bord Gáis Networks has mobilised a project team to fulfil its role as a key stakeholder in the delivery of this programme in co-operation with the CER and ESB Networks.

## Operating Review - Networks (continued)

The design element will consist of specifying the high level business requirements of the Smart Metering system in collaboration with all energy industry stakeholders. Technical specifications will subsequently be developed to enable the procurement of the meters and IT systems which will form the Smart Metering solution. A key premise of the design is that the Smart Metering communications infrastructure will be shared between gas and electricity in order to benefit from combined efficiencies and leveraging of costs.

The final smart metering solution will allow householders to have more accurate and frequent meter readings. Furthermore, it will ultimately allow householders to better manage their energy consumption and costs, and will also enable householders to contribute towards national targets for improved energy efficiency and carbon emission reduction.

### Meter Replacement Programme

In 2010, Bord Gáis Networks commenced a Meter Replacement Programme aimed at replacing the oldest domestic gas meters with replacements that have 'Smart Ready' capabilities. These new meters can be upgraded to 'Smart Meters' when required in the future by the addition of a communications module to the meter.

The replacement programme is being carried out in sections by geographical area throughout the country. The upgrade is free of charge for the tenant / home owner and includes a free gas safety inspection within the property. The upgrade takes about 45 minutes to complete with minimum disruption to the customer. Bord Gáis Networks replaced 34,000 meters in 2012 with new smart-ready meters, bringing to 70,000 the number replaced in the programme.

Bord Gáis Networks commenced a programme in 2012 to replace almost 1,100 of the oldest industrial and commercial customer meters on the network and upgrade the telemetry at the remote installations. 600 premises were addressed in 2012 with minimum disruption to the business customers.

### Pay As You Go Metering

2012 saw Bord Gáis Networks continue to lead and champion the successful nationwide roll out of a prepayment metering service that facilitates 'Pay As You Go' (PAYG) energy tariffs for a wider customer base. Prepayment metering allows gas customers to purchase their credit at vending outlets and apply that credit to their meters. In this way, the customer can manage their energy expenditure in a controlled, regular way and is an alternative to receiving a bill from their supplier at the end of each billing period. As at 31st December 2012, there were over 67,000 PAYG gas meters installed, with over 12,000 of these being installed during 2012. There are over 1,000 outlets where gas card credit can be purchased. PAYG became a multi Shipper solution during 2012 with the entry of two new shippers into the market. At the end of 2012, 6.7% of market share was held by new entrants. Debt recovery functionality was also enabled by Bord Gáis Networks during 2012 on PAYG. This gives customers and suppliers a flexible means to work towards repayment of existing debt and a great benefit to customers in financial difficulty.

## Asset Operations

Bord Gáis Networks operates the gas transmission and distribution networks in Ireland on behalf of Gaslink.

### Transmission Network

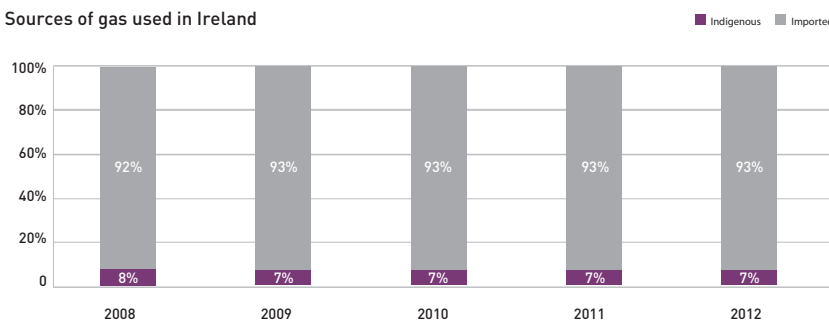
The total transmission network length at the end of 2012 was 2,417km. Total gas transported for Ireland, Northern Ireland and the Isle of Man was approximately 67,900 GWh, a decrease of 7% on 2011. 79% of this gas was delivered for use in the Republic of Ireland with the remaining 21% transported to the Isle of Man and to Northern Ireland. During the year, 93%\* of all gas requirements in the Republic of Ireland were imported through the UK.

\*These figures assume that all gas received at Inch entry point was from indigenous reserves. Gas storage is carried out at Inch by Kinsale Energy Limited as well as production and so it is expected that a portion of the gas supplied at Inch has been originally sourced via Moffat and transported to Inch. In 2012, 1,670 GWh of gas was imported through the interconnectors and supplied to Inch.

### Distribution Network

At the end of 2012, Bord Gáis Networks had 11,131km of distribution network through which it delivered gas to c. 657,500 premises. Over 101 km of new distribution mains were laid in 2012 to connect new customers and reinforce gas flows to areas that had been identified as likely to experience low network pressure during peak demand periods.

Sources of gas used in Ireland



**Management of the Pipeline Network**

Management of the Bord Gáis Networks gas pipeline network is a sophisticated 24-hour operation. It involves constant monitoring of transmission gas flows and system pressures from Grid Control at its headquarters in Cork through a Supervisory Control and Data Acquisition (SCADA) system and Gas Control management of the distribution system, through a separate SCADA system, including GIS and on-line access to Bord Gáis Networks systems.

Bord Gáis Networks presented a “Winter Outlook” to industry in October 2012. This indicated that there may be limited system flexibility to accommodate within-day shipper renominations at the Moffat Entry Point should severe weather conditions occur and that reinforcement may be required to meet peak demands in 2015.

**Networks Development**

In 2012, Bord Gáis Networks continued with its programme of development works, improving the security of the network, enhancing the capacity of the system and ensuring that safety remains the top priority for the business. 3,100 new services connections were installed in 2012, including domestic and industrial/commercial. Construction work commenced on three key transmission pipeline projects in 2012: the 47km Gas to Great Island Pipeline; the 9km East Warrington to Coolock Urban Replacement; and the 2km Waterford Urban Replacement.

**New Towns**

The extension of the natural gas network to the town of Macroom, Co. Cork was completed in 2012. The CER approved the extension of the gas network to Cootehill, Co. Cavan during 2012 and this project is now under construction. Contractual

discussions with commercial customers to facilitate the connection of Tuam, Co. Galway to the natural gas network continued through 2012. CER approved the connection of Wexford town to the gas network subject to Bord Gáis Networks securing contractual commitments from key energy users in the town. Bord Gáis Networks continues to work with the large energy users in the town to progress these contracts and continues to assess the economic viability of connecting new towns to the network.

**Capacity Upgrades**

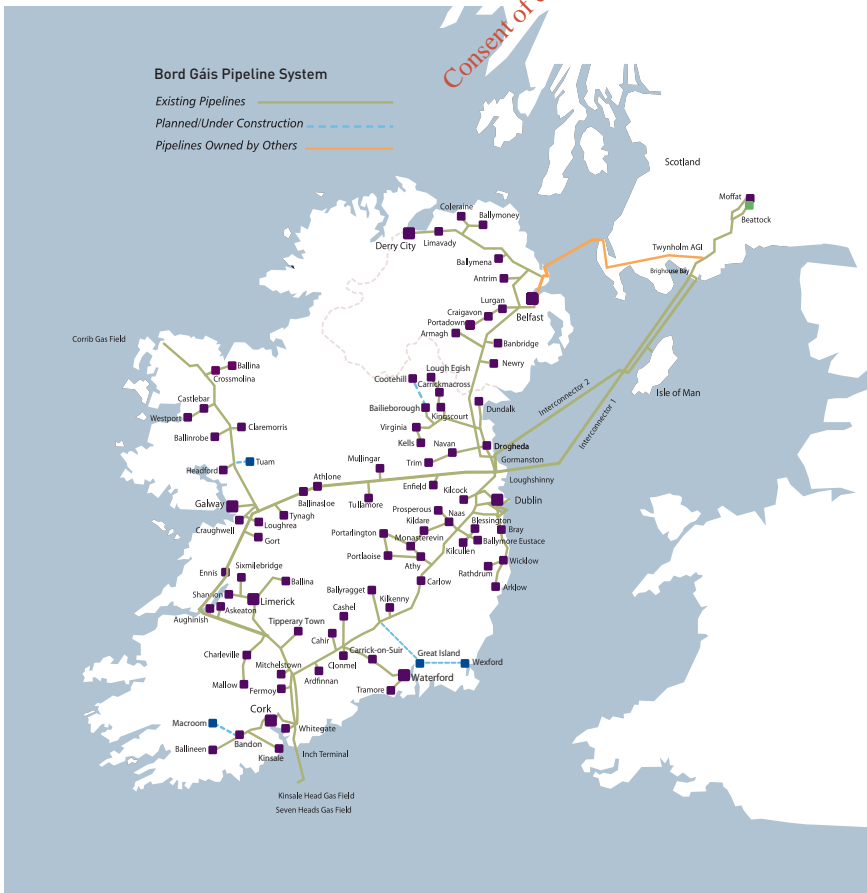
During 2012, capacity upgrades were commissioned at existing Above Ground Installations at Brinny (Co Cork), Suir Road (Dublin) and Blakestown (Co Louth) to facilitate gas demand growth in those areas.

**Health, Safety, Quality & Environment (HSQE)**

Safety is at the core of all Bord Gáis Networks’ activities and it is committed to further developing and maintaining the systems, processes and resources necessary to promote continuous safety improvement and performance.

Bord Gáis Networks has an active hazard identification and reporting system, ‘HAZCON’. Hazard reporting from our contracting partners has increased significantly, now exceeding our target level of 3 per 1000 man-hours. The strong 2011 performance in terms of the low Total Lost Time Accidents was maintained in 2012. High levels of safety and technical quality were maintained throughout and subsequent to the mobilisation of the Networks Services and Works Contract.

Bord Gáis Networks continued safety awareness media campaigns for the Gas Emergency Service, Dial-Before-You-Dig, promotion of Registered Gas Installers (RGI) and public awareness of the dangers of Carbon Monoxide. A key element of the 2012 Carbon Monoxide campaign was the inaugural national Carbon Monoxide Awareness Week which was launched by Minister Pat Rabbitte T.D. in September 2012. The week was organised in conjunction with the membership of the



## Operating Review - Networks (continued)

Commission for Energy Regulation Safety Promotion and Public Awareness Group and included participation from across the industry. Awareness levels amongst the general public of the dangers of Carbon Monoxide continued to increase, reaching 95% in 2012. A refreshed Gas Emergency Service advertising campaign was launched in September 2012.

The campaign objectives are to raise awareness of the Bord Gáis Networks 24 Hour Gas Emergency Service and to drive behaviours of members of the public in the event that they smell gas at home or on the street.

Bord Gáis Networks continues to work closely with Gaslink and the CER to ensure network safety remains a priority focus. In line with the relevant regulations, Bord Gáis Networks and Gaslink investigate natural gas incidents and submit reports to the CER with appropriate recommendations to improve safety within the gas industry. These investigation reports are reviewed by the Gas Safety Committee chaired by the CER as part of the Natural Gas Safety Framework. The operation of risk based Safety Cases for the gas network ensures the safe operation of the network and the integrity of the networks' assets. A review of our operational safety risk assessment took place in 2012 and will be further developed in 2013.

Bord Gáis Networks operates in compliance with quality procedures and recognised Irish and international standards. Its transmission operations and gas emergency service are accredited to ISO 9001. The Management Systems department centrally manages the change control for all Networks processes and procedures, ensuring the relevance, quality and consistency of all Networks documents.

Bord Gáis Networks, working with the Register of Gas Installers of Ireland (RGII), continued a training programme for Registered Gas Installers on the installation of Carbon Monoxide Alarms throughout 2012. This successful programme, which commenced in 2011, has now trained over 1,500 Registered Gas Installers.

In 2012 the Bord Gáis Networks Environmental Management System was successfully accredited to ISO 14001, the international standard for Environmental Management Systems. Demonstrating our commitment to the environment and to best practice, the system scope covers all Networks activities: the development, operation and maintenance of the network in Ireland, Northern Ireland and Scotland, including all associated ancillary and support services. We continue to focus on improving environmental performance and embedding sustainability in our business.

### Aurora Telecom

Aurora Telecom was established by Bord Gáis in 2000 as a carrier-neutral operator specialising in fibre optic network services for customers seeking a future-proof high bandwidth solution. Aurora is focused on the design and build of bespoke, dedicated fibre network solutions. This unique and flexible approach means that organisations can own and control their networks, ensuring that security, high bandwidth and resilience are guaranteed. Since its establishment, Aurora has been increasingly recognised as the leading provider of fibre networks to carriers and service providers. Aurora also provides private fibre solutions to large corporate, public sector and financial services organisations. As a division of Bord Gáis Networks, Aurora combines telecommunications expertise with that of advanced network design, construction and project management to offer a best-in-class fibre network.

Aurora Telecom has continued to expand its high-speed fibre optic backbone network with its national footprint now extending from Dublin to Cork. The first stage of Aurora's national expansion involved the installation of more than 330km of fibre optic cable that services major regional locations including Galway, Athlone, Mullingar, and Tullamore. The fibre optic cable has been inserted into ducting laid during construction of the Gas Pipeline to the West project.

The second phase of the Aurora national network was an ambitious 150km project which extended this network south from Galway to Cork, via Shannon, Limerick, Charleville and Mallow. As part of the scheme, Aurora constructed a metropolitan area network in Shannon. The provision of secure carrier-neutral co-location and repeater facilities along the network further enables Aurora to act as a carriers' carrier, providing an end-to-end high grade fibre offering to the telecommunications market.

The Aurora national network signifies a major development for these regions. It ensures that an open-access fibre optic network is available to both telecommunications carriers and corporate organisations to support high speed data, voice and video services. Critical infrastructure such as this holds a pivotal role in Ireland's development as a driver of economic activity and foreign direct investment. It is recognised as being a key enabler of the Smart Economy, driving competitiveness and growth through supporting Next Generation Networks and digitally-based services.





As an integral part of Bord Gáis Networks, the Aurora network also benefits from standards applied to safeguarding high-pressure gas pipelines, such as regular aerial and foot patrols, to ensure no outages through third party interference. Furthermore, the dual utility construction methodology and open access network model significantly reduces the environmental impact.

### Natural Gas as a Transport Fuel

In accordance with its objective to grow the size of the Irish natural gas market, Bord Gáis Networks is developing the application of natural gas as a transport fuel. Known as Compressed Natural Gas (CNG), this fuel is used across the world within Natural Gas Vehicles (NGV).

Since 2000, there has been substantial growth of NGVs worldwide, with an annual growth of over 11% in Europe. According to the Natural Gas Vehicle Association (NGVA) of Europe, there were over 14 million NGVs worldwide in 2012.

This growth of NGVs is driven by a number of important factors, in particular the economic and environmental benefits. According to NGVA Europe, CNG is typically 30% to 60% cheaper than traditional fuels (petrol or diesel) across Europe. CNG vehicles significantly reduce emissions including Carbon Dioxide, Particulate Matter and Nitrogen Oxide. The use of CNG will also reduce the dependency on oil and diversify the energy mix within the Irish transport system.

Bord Gáis Networks is dedicated to the development of a CNG market in Ireland. Significant analysis has shown that cost savings of between 30% and 50% are available from the use of gas as a transport fuel here. Bord Gáis Networks is planning a 'fast-fill' refuelling unit, which will refuel vehicles in approximately two to four minutes, for use with the NGVs within its own fleet. This facility will be commissioned in 2013. In addition, Bord Gáis Networks is working with interested parties to use CNG within captive fleets, along with consulting stakeholders to ensure a cross-functional industry partnership for developing a CNG market. In 2012, Bus Éireann, in conjunction with Bord Gáis Networks, undertook a highly successful trial of CNG within its bus fleet in Cork. Both parties are now examining the possibility of developing a CNG refuelling facility for the Cork city bus fleet.

"The Aurora national network signifies a major development for these regions. It ensures that an open-access fibre optic network is available to both telecommunications carriers and corporate organisations to support high speed data, voice and video services."

## Operating Review - Gaslink

Providing transportation services to all suppliers and shippers in Ireland in an efficient and independent manner



“Gaslink provides transportation services to all suppliers and shippers in Ireland in an efficient and independent manner. Gaslink’s vision is to provide gas network services to customers efficiently, safely and without discrimination and to make a significant impact on the development of the gas market in Ireland.”

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“Gaslink continued to progress the connection to the new power generating station at Great Island, Wexford.”



Gaslink is responsible for safely operating, maintaining and developing Ireland’s natural gas transmission and distribution systems. Gaslink is an independent subsidiary of Bord Gáis Éireann with its own Board and is subject to an annual financial plan approved by the main Bord Gáis Éireann Board. Gaslink is regulated by the Commission for Energy Regulation (CER).

Gaslink represents Ireland’s interests at European level and is working with Bord Gáis Éireann to implement the Third Gas Directive, which aims to facilitate a single European gas market. Bord Gáis Éireann had been working to develop an Independent Transmission Operator (“ITO”) model in line with the requirements of the Third Gas Directive. The intention was to establish a new company within the Bord Gáis Éireann group to undertake the activities currently undertaken by Bord Gáis Networks and Gaslink.

The announcement by Government in early 2012 of its intention to sell the Energy business raised the possibility that Bord Gáis Éireann would ultimately seek certification under the Third Directive via the Ownership Unbundling option rather than the ITO model. This scenario could see the re-integration of Gaslink back into Bord Gáis Éireann after any sale transaction has been completed.

Since the proposed sale announcement, Bord Gáis has engaged with Regulators and EU Commission representatives to gain clarity on how best to achieve Third Directive compliance. These deliberations are still ongoing.

## Key Achievements

2012 was a busy and productive year for Gaslink both on the island of Ireland and in Europe:

- Gaslink continued to progress the connection to the new power generating station at Great Island, Wexford and construction on the gas pipeline commenced during the autumn of 2012.
- Gaslink received approval from the CER to connect Cootehill, Co. Cavan and Wexford town to the natural gas network.

- During the year, competition was further enhanced by the entry into prepayment (PAYG) gas metering of Electric Ireland and Airtricity.
- Approximately 110,000 domestic customers switched gas providers in 2012.
- In July 2012, Gaslink published the Network Development Statement (NDS) to inform the gas market about gas usage, future demand; sources of supply and the capacity of the system.
- Further progress was made on the introduction of a single European Gas Market, with Gaslink representing Ireland’s best interests in Europe.
- Gaslink, as a member of the European Network of Transmission System Operators for Gas (ENTSO-G), participates in ENSO-G work groups and informs the Department of Communications, Energy and Natural Resources (DCENR), the Commission for Energy Regulation (CER) and industry of key developments. Significant progress was made regarding the development of a number of Harmonised Codes including Capacity Allocation Management, Congestion Management Procedures and Balancing.
- Gaslink, working with Bord Gáis Networks and BGE (UK), achieved compliance in respect of EC1775 infringements in the Republic of Ireland and Northern Ireland through the successful introduction of a number of commercial arrangements, North and South.
- Worked closely during 2012 with the Government and the CER to implement EU Regulation 994/2010 (Security of Supply) which requires each Member State to prepare a Risk Assessment, a Preventive Action Plan and an Emergency Plan.

- Gaslink submitted project proposals to the European Commission to be labeled as ‘Projects of Common Interest’ under the draft regulation on guidelines for trans-European energy infrastructure including twinning of the South West Scotland section of the pipeline.

## Connection of Great Island Power Generation

Gaslink continued to manage the progression of the gas connection to supply the Scottish and Southern Energy (formally Endesa Ireland) owned power station at Great Island, Co. Wexford. Construction on the 46.5km 400mm high pressure steel line commenced in September 2012, following notification of a successful planning application process with An Bord Pléanála in May 2012.

## New Towns

The extension of the natural gas network to the town of Macroom, Co. Cork was completed in 2012. The CER approved the extension of the gas network to Cootehill, Co. Cavan during 2012 and this project is now in construction. The CER also approved the connection of Wexford town to the gas network subject to securing contractual commitments from key energy users in the town.

## Single European Gas Market Unbundling

Statutory Instrument (SI 630 2011) which implements the Independent Transmission Operator (ITO) in Ireland, in accordance with the Third EU Energy Directive, was issued by the Minister for Communications, Energy and Natural Resources, on 9th December 2011.

The development of the ITO as an independent subsidiary of Bord Gáis Éireann would result in the integration of Gaslink into the new ITO business. Throughout 2012, Gaslink worked closely with Bord Gáis Networks and the wider Bord Gáis Éireann Group to implement the new ITO structure.

## Operating Review - Gaslink (continued)

### **Retail and Wholesale Gas Market Development**

Competition was further enhanced during 2012 with two more gas suppliers entering the pre-payment metering market. The market assurance strategy and processes were revised to better service today's open and competitive Irish market. Approximately 110,000 domestic customers switched gas providers during 2012.

A number of initiatives were implemented during 2012 to address issues aggravated by today's challenging economic climate. In light of concerns raised by suppliers, consumer organisations and social advocacy groups, a Debt Recovery function was introduced for pre-payment meters in 2012.

Smart Metering progress was made with analysis of customer trials supporting the roll out of smart meters in Ireland for gas and electricity. During 2012 the overall project plan was developed and the high level design stage completed.

### **Transmission Development**

In July 2012, Gaslink published the Network Development Statement (NDS) covering the 10 year period from 2011/12 to 2020/21. Ireland will continue to depend on the Moffat Entry Point and Interconnector System until such time as Corrib commences production.

However, it should be emphasised that if there is any significant change to the future supply/demand outlook, the existing onshore infrastructure in Scotland may need reinforcement.

Bord Gáis Networks and Gaslink continue to recommend reinforcing the 50km single section of pipeline in South West Scotland to provide additional capacity.

### **European Developments**

The objectives of the Third EU Energy Directive are to progress the liberalisation of gas markets across Europe and to facilitate the development of a single European gas market. Guidelines and codes for the implementation of the Third EU Energy Directive are currently being developed to achieve this goal.

The Third Directive provided for the establishment of ENTSOG, which is responsible for the development of Network Codes whereby market rules for the harmonisation of the European gas market are defined. Gaslink is a member of ENTSOG and is actively involved in ENTSOG's various working groups, ensuring the needs of the Irish gas market are represented at a European level. The two staff members from Gaslink seconded to work fulltime as members of the ENTSOG team continued to play a key role in the code development process.

In participating in the development of the codes, Gaslink makes strong representations to advance Irish gas interests. As Ireland is located at the periphery of the European transmission network, central European policies and developments may not always be appropriate for the Irish market. As such, it is vital that Irish market arrangements and interests are given strong representation by Gaslink at a European level.

In March 2011, the EU's Third Package (EC/715/2009) came into force formally instigating the development of European Network Codes in twelve topic areas in both gas and electricity. These European Network Codes are considered critical to enabling cross-border trade and competition to develop across the EU, and for an integrated EU energy market to become a reality. Once approved by the European Commission, the Network Codes will become legally binding in all Member States.

Gaslink is responsible for the implementation of any requirements arising from the Network Codes in Ireland and its Market Arrangements team actively participates in the development of these Codes. The Network Codes to be developed in the initial ENTSOG three-year plan include: Capacity Allocation Mechanism (CAM); Congestion Management; Balancing; Tariffs and Interoperability.

### **All-Island Gas Market**

Work on the establishment of an All-Island gas market continued during 2012 but with an emphasis on working with the regulatory authorities in both the Republic of Ireland and Northern Ireland to deliver changes needed to address EU infringements. Work in respect of these EU infringements was completed through the successful introduction of a number of commercial arrangements in both jurisdictions.

Bord Gáis Networks and Gaslink continued to work closely and support, where necessary, the regulatory authorities and the gas industry in both jurisdictions during 2012, to progress the All-Island gas market.

### **EU Infringements**

In October 2011, the regulatory authorities in the Republic of Ireland and Northern Ireland directed that efforts should initially be concentrated on addressing, by 1st October 2012, EU infringements issued to both the Republic of Ireland and Northern Ireland with respect to violations of Regulation EC 1775/2005.

A number of measures were taken that included the declaration of a 'Relevant Point of Interconnection' between the Republic of Ireland network and the Northern Ireland network on the South North Pipeline. Furthermore, commercial arrangements were developed in both jurisdictions to address these infringements.

### **Security of Supply**

In December 2010, EU Regulation 994/2010 came into force. This Regulation sets out measures to safeguard security of gas supply. The Regulation puts many obligations on Member States to deal with a gas supply interruption. During 2012, Gaslink worked closely with Government, the CER, and Bord Gáis Networks in preparing: a Risk Assessment; a Preventive Action Plan; and an Emergency Plan. During 2012, the CER, the Competent Authority in Ireland, consulted with industry on these documents and final versions were published at year end in accordance with the Regulation's timeframe.





The Regulation puts forward the principle of what is known as “N-1” which requires that the Member State’s Competent Authority shall ensure that, in the event of the loss of the single largest piece of gas infrastructure, the capacity of the remaining infrastructure can satisfy the total gas demand of the calculated area during a day of exceptionally high demand.

Gaslink and Bord Gáis Networks assisted the CER in completing the Risk Assessment by carrying out various N-1 calculations and producing a technical risk assessment which examined the principal failure modes that could threaten the security of supply through the Moffat Entry Point as Ireland’s largest piece of infrastructure.

The Risk Assessment shows that Ireland is unable to meet the N-1 standard in the short-term. The Regulation also provides that the Competent Authority may deem the obligation to be fulfilled at a regional level instead of at a national level, where appropriate, according to the completion of a Risk Assessment. Thus, the CER will progress a regional approach with the Competent Authority in the UK during 2013/14.

#### European Energy Infrastructure

On 19 October 2011, the European Commission (EC) adopted the proposal for a Regulation on “Guidelines for Trans-European Energy Infrastructure”, which aims to ensure that strategic energy networks and storage facilities are completed by 2020. The primary aim of the proposal was to establish a number of ‘Projects of Common Interest’ (PCIs) that will be able to benefit from specially designed fast-track permitting procedures. The proposal puts further pressure on national energy regulators to grant extra financial incentives to investors/TSOs and sets out conditions under which PCIs will get special EU subsidies.

During 2012, Gaslink prepared and submitted a paper notifying the European Commission of Ireland’s PCIs which were deemed to meet the categories set out in the draft infrastructure regulation. Each of the PCIs that Gaslink has identified has significant cross-border impact between Ireland and the United Kingdom (UK). Effectively, Gaslink is endeavouring to further develop regional gas market integration between Republic of Ireland, United Kingdom (Great Britain, Northern Ireland and Isle of Man) and Europe.

It is expected that the evaluation of the potential PCIs will be finalised in July 2013 when it is expected that 50 gas related projects will be granted PCI status.

#### Outlook 2013

It is anticipated that the sale of Bord Gáis Energy could occur in 2013, and that this will result in a change to the Bord Gáis Group. Once fully concluded, Gaslink will be integrated into a revised group structure. It is unlikely therefore that the originally envisaged ITO will progress. Despite the structural changes, Gaslink will continue to operate the network until such time as it is no longer licensed to do so. Projects such as the tunnelling works underway by the Corrib partners to facilitate the construction of the final phase of the Corrib pipeline, and the pipeline project to facilitate the new power station in Great Island, Co Wexford, will remain key areas of focus for Gaslink. The development of the ENTSOG codes, and where relevant, their implementation, will be a key priority for Gaslink. Finally, new connection opportunities within the Dairy Sector will also be progressed and prioritised for 2013.

“Bord Gáis Networks and Gaslink continued to work closely and support, where necessary, the regulatory authorities and the gas industry in both jurisdictions during 2012, to progress the All-Island gas market.”



## The Board



1.

### 1. Rose Hynes, Chairman

Rose Hynes was appointed to the Board in June 2006 and was appointed Chairman in July 2009. Ms. Hynes chairs the Remuneration Committee, the Irish Water Committee and the Bord Gáis Energy Sale Committee and is also a member of the Investment/Infrastructure Committee. Ms. Hynes, a lawyer, is Chairman of Shannon Airport Authority plc since December 2012. She is also a director of Total Produce plc, where she is the Senior Independent Director, Chairman of its Remuneration Committee and a member of its Audit and Nomination Committees. She is also a director of One Fifty One plc where she is its Senior Independent Director. Ms. Hynes previously held a number of senior executive positions with GPA Group plc and is a former board member of a number of companies including Bank of Ireland, Fyffes plc, Aer Lingus Group plc and Concern.



2.

### 2. Aidan Eames

Aidan Eames was appointed to the Board in March 2004 and was subsequently re-appointed in June 2009. Mr. Eames is the Senior Independent Non-Executive Director, Chairperson of the Risk Committee and a member of the Audit and Finance Committee, the Remuneration Committee, the Irish Water Committee and the Bord Gáis Energy Sale Committee. He is the Managing Partner of Eames Solicitors, Dublin. Mr. Eames has served as chairman and member of a number of state bodies and acts as advisor to leading commercial, technology and telecommunications companies. He is also a member of the Audit Committee of the Department of Foreign Affairs.



3.

### 3. Laurence K. Shields

Laurence K. Shields was appointed to the Board in June 2009. He is Chairperson of the Investment/Infrastructure Committee and a member of the Remuneration Committee and the Irish Water Committee. He founded LK Shields Solicitors in 1988, was Managing Partner to May 2005 and Chairman from May 2005 to April 2012. Mr. Shields has served as President of the Law Society of Ireland and as President of the Dublin Solicitors Bar Association. He is a former Director of the Irish Takeover Panel Limited and other companies. He is a fellow of the Chartered Institute of Arbitrators, an Accredited Mediator and a director of Tedcastle Holdings.



4.



5.



6.



7.

#### 4. Laurence Crowley

Laurence Crowley was appointed to the Board in August 2009. Mr. Crowley is a member of the Audit and Finance Committee and the Risk Committee. He is Chairman of Ecocem Materials and Realex Payments. He is a member of the board of Aer Lingus Group plc, O'Flaherty Holdings, the Gate Theatre, the Middletown Centre for Autism, and the Economic and Social Research Institute. Mr. Crowley previously served as a director and subsequently Governor of Bank of Ireland, as Executive Chairman of the Michael Smurfit Graduate Business School at University College Dublin and as a director of Rothmans International plc and Elan Corporation plc.

#### 5. Joe O'Flynn

Joe O'Flynn, General Secretary of SIPTU, was appointed to the Board in November 2008 as the ESOP nominated Board Member. Mr. O'Flynn is a member of the Audit and Finance Committee, the Investment/Infrastructure Committee and the Irish Water Committee. He is a former Lord Mayor of Cork and former City Councillor and is also a director of three SIPTU affiliated bodies - the Institute for the Development of Employment Advancement Services, the Irish Trade Union Trust and the Larcon Centre - the controlling body for the Liberty Hall Centre for Performing Arts. He is also Treasurer of Irish Congress of Trade Unions and a member of its Executive Council.

#### 6. Imelda Hurley

Imelda Hurley was appointed to the Board in November 2010. Ms. Hurley chairs the Audit and Finance Committee and is a member of the Risk Committee. Ms. Hurley is currently the Chief Financial Officer of PCH International, a customised supply chain management solutions company with a focus on the world's leading consumer electronics brands. She was previously the Group Finance Director at Greencore Group plc and prior to that, held various senior leadership positions in that organisation. Ms. Hurley also spent a number of years working with Arthur Andersen in both Ireland and Australia. She holds a Bachelor of Business Studies degree and is a Fellow of the Institute of Chartered Accountants in Ireland.

#### 7. Finbarr Kennelly

Finbarr Kennelly was appointed to the Board in December 2012. Mr. Kennelly is a member of the Investment/Infrastructure Committee. He is currently Finance and Operations Director of Golf Vacations Ireland, a company that has been organising golf tours for tourists coming to Ireland for the past 13 years. Previously he was with the Gardiner Group, distributors of hardware, hand and power tools to industrial and retail markets. At different times he served as Finance and Operations Director for two companies within the Group and as Group Financial Controller. Prior to that Mr. Kennelly held the position of Financial Controller, Company Secretary and Board member of telecommunications company Alcatel Business Systems Ireland Ltd. He has served as a member of the Board of The Housing Finance Agency plc. and also served as a mentor with Plato Ireland, the business development and support network for small and medium enterprises. He holds a B. Comm. degree and is a fellow of the Chartered Institute of Management Accountants.

## The Management Team

### 1. John Barry

Acting Group CEO & Programme Director,  
Irish Water Programme



### 2. Dave Kirwan

Managing Director, Energy



### 3. Sean Casey

Acting Managing Director, Networks



### 4. Liam O'Riordan

Company Secretary



### 5. Richard O'Sullivan

Assistant Company Secretary

### 6. Michael G O'Sullivan

Group Finance Director

### 7. Denis Cronin

Group Director Strategic Human  
Resources

### 8. Will Roche

Group Director Strategy & Regulation

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## Bord Gáis Values

In 2008 Bord Gáis affirmed its set of core values, and in 2012 these continued to underline how we interacted with our customers, suppliers, stakeholders and the general public:

### Safety

Safety is our priority. We operate in compliance with the highest Irish and international quality and safety procedures providing a safe and dependable service to all our customers.

### Empathy

We will get the job done with empathy and respect for everyone. We are a caring organisation that understands how our customers feel and respond accordingly with sensitivity and professionalism.

### Honesty & Integrity

We will conform to the highest ethical standards and be open, truthful and honest in all our dealings and in conducting business activities inside and outside Bord Gáis.

### Performance

We will create a performance culture in the organisation driven by the ambition to succeed. We will perform to the highest standards, achieve our strategic objectives and deliver on infrastructure and customer expectations.

### Proactivity

We will not wait to be asked but will be proactive in taking the initiative with our customers. We will anticipate customer needs and act accordingly so as to continuously improve how we provide our products and services.

## Report of the Board

Year Ended 31 December 2012

The Board presents its report together with the audited financial statements for the year ended 31 December 2012.

### Principal Activities

The principal activities of Bord Gáis Éireann are the transportation of natural gas, the generation of conventional and renewable energy, the sale of natural gas and electricity to residential and business customers and the establishment of Irish Water.

### Results and Business Review

The financial results show a profit before income tax, certain remeasurements and exceptional items for the financial year of €121 million compared to €94 million for 2011.

Details of the results for the year are set out in the Group Income Statement and in the related notes.

Further commentary on performance during the year ended 31 December 2012, including the financial position, information on recent events and likely future developments, are contained in the Chairman's Statement, the Acting Chief Executive's Review and the Financial Review.

On 17 April 2012, the Minister for the Environment, Community and Local Government announced the formation of a new public water utility, Irish Water/Uisce Éireann, to manage the operation and delivery of public water services in Ireland. This company will operate as a subsidiary of Bord Gáis Éireann.

A substantial project team has been put in place to support the establishment of Irish Water and work is continuing on recruitment of senior management, establishment of customer systems, asset management systems and carrying out of system surveys.

Further to the announcement in February 2012 of the Government's intention to sell Bord Gáis Energy engagement is continuing with the relevant Government departments

and other stakeholders to ensure that the sale of Bord Gáis Energy will generate the maximum value to the State, whilst also ensuring the long term welfare of our skilled and loyal staff is given due consideration in the sales process.

### Corporate Governance

Bord Gáis Éireann and its subsidiary companies have put appropriate measures in place to comply with the Code of Practice for the Governance of State Bodies, 2009 ("The Code of Practice"). The Code of Practice sets out principles of corporate governance which the Boards of State Bodies are required to observe. Bord Gáis Éireann continuously reviews and updates its policies and procedures to ensure compliance with best practice.

The UK Corporate Governance Code (2010) sets out standards of good practice in relation to issues such as the role of the board, board composition and development, remuneration, accountability and audit, and relations with shareholders, based on broad principles and more specific provisions. In December 2010 the Irish Stock Exchange published new Listing Rules which contain a new Irish Corporate Governance Annex (the "Irish Annex") that supplements the provisions of the UK Corporate Governance Code.

Bord Gáis Éireann is a body corporate established under the Gas Act, 1976, and, as a result, is not required to adhere to the UK Corporate Governance Code or the Irish Annex. However, the Board is committed to achieving the highest standards of corporate governance and ethical business conduct.

The principles of the UK Corporate Governance Code (2010) are applied with the following exceptions:

#### Section B: Effectiveness

The Composition of the Board: The composition of the Board is a matter for the Minister. At 31st December 2012 the Board had one executive Member as outlined below.

Appointments to the Board, Commitment and Re-election: The appointment and re-appointment of Board Members and the terms and conditions of their appointment is a matter for the Minister and therefore the matter of constituting a Nomination Committee does not require consideration by the Board. The Minister does not provide a reasoned explanation for appointments to the board including a description of the skills and expertise appointees bring to the board. In accordance with The Code of Practice where the Chairman is of the view that specific skills are required on the Board, he/she has the opportunity to advise the relevant Minister of this view for consideration sufficiently in advance of a time when Board vacancies are due to arise in order that the Minister may take the Chairman's views into consideration when making appointments. Where the Chairman is of the view that further diversity, including gender diversity, is required this will be communicated for consideration to the Minister at the relevant time.

#### Section D: Remuneration

Level and Components of Remuneration and Procedure: The Remuneration Committee, chaired by the Chairman, considers and makes recommendations to the Board on the remuneration of the Chief Executive. The Committee also considers the policy on determination of senior management remuneration (with the exception of the Chief Executive) in accordance with the requirements of The Code of Practice, to set the remuneration of senior management following consultation with the Chief Executive and to monitor succession planning of senior management. The remuneration of non-executive Board Members is a matter for the Minister.

#### Section E: Relations with Shareholders

Constructive use of the AGM: An Annual General Meeting is not held as it is not provided for under the Gas Acts 1976 to 2002.



A meeting of Capital Stockholders is held in accordance with the Capital Stock Scheme implemented as part of the Bord Gáis Employee Share Ownership Plan.

The Board has adopted the principles of the Irish Annex with certain exceptions including board composition, appointments, re-election and remuneration as these are matters determined by the Minister and the provisions of The Code of Practice.

A revision to the UK Corporate Governance Code was published in September 2012, with changes to apply to financial years beginning on or after 1 October 2012. The changes include:

- a requirement for FTSE 350 companies to put the external audit contract out to tender at least every ten years;
- Audit Committees to provide to shareholders information on how they have carried out their responsibilities, including how they have assessed the effectiveness of the external audit process;
- Board to explain in the annual report that they consider that the annual report and accounts taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy; and
- listed companies to report annually on their boardroom diversity policy.

Bord Gáis Éireann will report on its compliance with the UK Corporate Governance Code (2012) in next year's annual report.

On 21 December 2012 the Minister for Jobs Enterprise and Innovation published the Companies Bill 2012. The Bill seeks to simplify existing company law and will consolidate the existing Companies Acts and includes a refined requirement for a Directors Compliance Statement as

originally envisaged under the Companies (Auditing and Accounting) Act 2003. The provisions of the Bill will be considered once enacted.

Details of how the relevant principles of good governance contained in the UK Corporate Governance Code (2010) and the Irish Annex are voluntarily applied by Bord Gáis Éireann are set out below. Bord Gáis Éireann 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.

#### Board Membership

The names of the Board Members and a short biographical note on each Member, which highlight the range of experience they bring to the Board table, are as set out on pages 44 and 45.

At 31 December 2012, the Board comprised of the Chief Executive and seven independent non-executive Board Members (including the Chairman) who are appointed by the Minister. The only executive Board Member was the Chief Executive. There are currently two women (including the Chairman) and five men on the Board.

Board Members are generally appointed for five year terms and the terms and conditions of appointments and details of Board Members' fees are set out in writing.

#### The Board

The Board is responsible for the proper management of Bord Gáis Éireann and for the long-term success of Bord Gáis Éireann. It takes all significant strategic decisions and retains full and effective control while delegating day to day responsibility for leadership and control, within defined authority limits, to the Chief Executive and his Management Team.

The following matters are reserved for Board approval:

- Corporate Plan
- Annual Report and Financial Statements
- Treasury Policy
- Risk Management Policy
- Energy Trading Risk Management Policy
- General Tendering and Purchasing Procedures
- Review of Effectiveness of System of Internal Control
- Annual Budget
- Expenditure Authorisation Levels Including Terms of Major Contracts
- Code of Conduct
- Disaster Contingency Plans
- Policy on Determination of Senior Management Remuneration
- Appointment, Remuneration and Assessment of Performance of the Chief Executive
- Significant Amendments to Pension Benefits of the Chief Executive and Staff (which may require Ministerial approval).

The Board is assisted in carrying out its responsibilities by Committees of the Board, whose activities are described under 'Board Committees'.

The Board recognises the need to ensure that Board Members are aware of their statutory and fiduciary responsibilities and that they are kept up to date and fully informed of industry, economic and corporate governance developments and changes in best practice. Training and development requirements are reviewed and agreed with the Chairman on a regular basis.

An induction process is in place for new Board Members and a comprehensive set of briefing papers is issued to all Board Members on their appointment. Briefing meetings with members of Senior

## Report of the Board (continued)

Year Ended 31 December 2012

Management are also arranged.

The business of the Board is spread evenly across the year in accordance with a programme of work agreed at the beginning of each year. Board papers, which include monthly Management Accounts, are sent to Board Members in the week prior to Board Meetings which enables them to scrutinise performance against agreed objectives and briefings by specialist external speakers are provided at Board meetings on a regular basis. Board Members meet regularly with Senior Management and also have ongoing access to operations and staff via the senior management team. Board papers sent to Board Members prior to each meeting include the minutes of the most recent Committee meetings. If minutes are not available at the time the papers are circulated a verbal update is provided at the Board meeting and the Committee minutes are included in the Board papers for the subsequent Board meeting. The Chairman of each Committee is available to report and answer any questions on the Committees' proceedings at Board meetings, as required.

The Board Members, in the furtherance of their duties can, at the expense of Bord Gáis Éireann, take 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.

As outlined in further detail below, the Board effectively utilises Board Members' skills, experience, independence and knowledge through its committee structure to assist in the discharge of its responsibilities and it is satisfied that Board and Committee Members have recent and relevant experience that can be harnessed by the Board in addressing the major challenges for Bord Gáis Éireann.

### *The Roles of the Chairman and the Chief Executive*

The roles of the Chairman and Chief Executive are separate and there is clear division of responsibilities between them. The Chairman leads the Board in the determination of its strategy, the achievement of its objectives and in defining risk appetite and tolerance. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman facilitates the effective contribution of all Board Members and constructive relations between the Chief Executive and the other Board Members and ensures that Board Members receive relevant, accurate and timely information. The Chief Executive has direct charge of Bord Gáis Éireann on a day to day basis and is accountable to the Board for financial and operational performance.

The Board has delegated the following responsibilities to the Chief Executive:

- the development and recommendation of strategic plans for consideration by the Board that reflect the longer-term objectives and priorities established by the Board;
- implementation of the strategies and policies of the organisation as determined by the Board;
- monitoring the operating and financial results against plans and budgets;
- prioritising the allocation of technical and human resources;
- implementing risk management systems.

The Chief Executive is accountable to the Board for all authority delegated to executive management.

### *Senior Independent Director*

Mr. Aidan Eames is the Senior Independent Non-Executive Director.

### *Company Secretary*

The Company Secretary's responsibilities include ensuring that Board procedures are followed and applicable rules and regulations are complied with and assisting the Chairman in relation to corporate governance matters.

### *Board Members' Remuneration*

The Minister determines the fees payable to Board Members. Board Members' fees and expenses during 2012 are set out below:

Board Member	€
Rose Hynes (Chairman)	31,500
John Mullins (Chief Executive)	15,750
Laurence Crowley	15,750
Aidan Eames	15,750
Imelda Hurley	15,750
Finbarr Kennelly	0*
Proinsias Kitt	6,744*
Joe O'Flynn	3,938*
Mike O'Hara	15,104*
Laurence K. Shields	15,750

\* Mr. Proinsias Kitt's term of office expired on 5th June 2012 and Mr. Mike O'Hara's term of office expired on 18th December 2012. Mr. Finbarr Kennelly was appointed on 11th December 2012 and fees for this period will be paid in 2013. Mr. Joe O'Flynn opted to waive his Board fee from April 2012 on a discretionary basis.

Expenses paid to Board Members during 2012, which are disclosed in accordance with The Code of Practice, were €15,019 and related to mileage/other travel, subsistence and telephone expenses.

The remuneration of the former Chief Executive was in line with "Guidelines on Contracts, Remuneration and Other Conditions of Chief Executives and Senior Management of Commercial State Bodies" issued in March 2006 and is summarised in note 2 to the Financial Statements.

### *Board Members' Independence*

The Board is satisfied that its non-executive Directors are independent of management and independent in character and judgement and free from

relationships or circumstances which are likely to affect, or could appear to affect, the Board Members' judgement. Non-executive Board Members are required to declare any interests or relationship which could interfere with the exercise of their independent judgement.

#### Board Diversity

The appointment and re-appointment of Board Members and the terms and conditions of their appointment is a matter for the Minister. In accordance with The Code of Practice where the Chairman is of the view that specific skills are required on the Board, he/she has the opportunity to advise the relevant Minister of this view for consideration sufficiently in advance of a time when Board vacancies are due to arise in order that the Minister may take the Chairman's views into consideration when making appointments. Where the Chairman is of the view that further diversity, including gender diversity, is required this will be communicated to the Minister at the relevant time.

#### Board and Committee Evaluation

The Board has completed annual formal evaluations of its own performance, that of individual Board Members and of its Committees in order to confirm that the Board has the right balance of skills, experience, gender, independence and knowledge of the company, that the Board and Committees continue to perform effectively at a collective level and to verify whether each individual Board and Committee member is contributing effectively and demonstrating commitment to their role.

The process by which the Board and Committee evaluation was undertaken involved the completion by Board Members of a detailed questionnaire examining and rating matters such as Board/Committee competence/ composition, process, performance, access to and review of relevant

information, understanding of and engagement in company strategy/ key issues and risk management. A report was then prepared based on this evaluation and provided to the Board for review and implementation. Action items arising from the evaluations included delegation of additional matters to Board Committees for consideration and recommendation to the Board and further refinement of the Board paper process. In the case of individual Board Members performance, these evaluations were carried out by means of a one to one session with the Chairman. An external facilitator was not engaged to conduct performance evaluation of the Board. The evaluation methodology used is reviewed and refined by the Chairman in consultation with the Company Secretary on an annual basis.

The non-executive Board Members meet annually to carry out a performance evaluation of the Chairman taking into account the views of the Chief Executive.

The Board considers that it has an appropriate balance of skills, experience, independence and knowledge of Bord Gáis Éireann to allow it to discharge its duties and responsibilities effectively and that it is of sufficient size to ensure that this balance of skills and experience can be utilised appropriately for the requirements of the business and that changes to the Board's composition can be managed without undue disruption.

#### Attendance at Meetings

Board Member	Attendance at Scheduled Meetings	Attendance at Special Meetings
Rose Hynes (Chairman)	10/10	6/6
John Mullins (Chief Executive)	10/10	3/3 (p)
Laurence Crowley	10/10	5/6
Aidan Eames	9/10	6/6
Imelda Hurley	10/10	6/6
Proinsias Kitt	5/5 (p)	2/2 (p)
Joe O'Flynn	9/10	4/6
Mike O'Hara	10/10	4/5(p)
Laurence K. Shields	10/10	6/6

(p) refers to the number of meetings it was possible to attend relative to the dates of Board membership/ meeting agenda.

#### Board Committees in 2012

The Board has an effective committee structure to assist in the discharge of its responsibilities. At 31 December 2012, the Board had six committees, each of which has formal terms of reference.

The following table outlines membership of the committees and attendance at meetings during 2012:

#### AUDIT & FINANCE

I. Hurley (Chairperson)	6/6
L. Crowley	6/6
A. Eames	6/6
J. O'Flynn	4/6

#### RISK

A. Eames (Chairperson)	4/4
L. Crowley	4/4
I. Hurley	4/4
P. Kitt	2/2 (p)

#### INVESTMENT/ INFRASTRUCTURE

L. K. Shields (Chairperson)	8/8
R. Hynes	8/8
J. Mullins	8/8
J. O'Flynn	6/8
M. O'Hara	8/8

#### REMUNERATION

R. Hynes (Chairperson)	3/3
A. Eames	3/3
M. O'Hara	2/3
L. K. Shields	3/3

#### IRISH WATER

R. Hynes (Chairperson)	4/4
A. Eames	3/4
J. O'Flynn	3/4
M. O'Hara	3/4
L. K. Shields	4/4

#### BORD GÁIS ENERGY SALE COMMITTEE

R. Hynes (Chairperson)	3/3
A. Eames	3/3
D. Kirwan	3/3
M. G. O'Sullivan	3/3

(p) refers to the number of meetings it was possible to attend relative to the dates of Committee membership.

## Report of the Board (continued)

Year Ended 31 December 2012

### Audit and Finance Committee

The Audit and Finance Committee comprises four independent non-executive Board Members. The Board is satisfied that at all times during the year at least one Member of the Committee had recent and relevant financial experience.

The Committee meets at least on a quarterly basis. Meetings are normally attended by the Chief Executive and Head of Internal Audit and Risk. The Group Finance Director, other executives and representatives of the external auditors may be invited to attend all or part of any meeting. Other non-executive Board members have the right of attendance at meetings.

The Head of Internal Audit and Risk and External Auditors have full and unrestricted access to the Audit and Finance Committee and the Committee meets separately during the year with the Head of Internal Audit and Risk and the External Auditors, without other executive management being present. In relation to internal audit matters, the Head of Internal Audit and Risk reports functionally to the Audit and Finance Committee, administratively to the Group Finance Director and also has a direct line of communication with the Chief Executive.

The role and responsibilities of the Audit and Finance Committee are set out in its written terms of reference, which are reviewed annually and are available on the corporate website. They include:

- reviewing the annual financial statements and submitting a recommendation to the Board, focusing particularly on changes in accounting policies and practices; major judgemental areas; significant adjusted or unadjusted audit differences; the going concern assumption; compliance with accounting standards; ensuring compliance with legal requirements; consistency of other information presented alongside the financial statements;
- considering and recommending the appointment, reappointment and removal of the External Auditor, the audit fee and any questions of resignation or dismissal;
- developing and implementing a policy on the engagement or the award of contracts to the External Auditor or affiliate for non-audit work, taking into account relevant best practice and ethical guidelines;
- monitoring and reviewing at least annually the performance, qualifications, expertise, resources and independence of the External Auditor and assessing the effectiveness of the external audit process;
- assisting the Board in fulfilling its responsibilities in ensuring the appropriateness and completeness of the system of internal control, reviewing the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal control systems, including accounting control systems and thereby maintaining an effective system of internal control;
- reviewing and making a recommendation on BGE's statement on internal control systems prior to endorsement by the Board;
- reviewing the effectiveness of the Internal Audit function on an annual basis;
- monitoring and reviewing the effectiveness of the internal audit programme, ensuring co-ordination between the Internal and External Auditors and ensuring that the internal audit function is adequately resourced and that adequate attention is paid to value for money auditing;
- reviewing the policy by which staff may, in confidence, raise concerns about possible business, financial or other improprieties and ensure that arrangements are in place to investigate such matters;

- considering and making recommendations to the Board on the annual operating plan and budget for Bord Gáis Éireann.

In accordance with recommended best practice in corporate governance, there is appropriate overlap between the membership of the Audit and Finance Committee and the Risk Committee. The Audit and Finance Committee carries out its responsibilities in close liaison with the Risk Committee, which advises the Board in establishing the Board's risk appetite and setting standards for the Board's risk control framework. The responsibilities of the Audit and Finance Committee are discharged as detailed below.

The Committee reviews the annual reports as well as any formal announcements relating to the financial statements before submission to the Board. The review focuses in particular on any changes in accounting policy and practices, major judgmental areas and compliance with stock exchange, legal and regulatory requirements. No significant issues arose in relation to the financial statements for the year ended 31st December 2012. The Committee reviews the external audit plan in advance of the audit and meets with the external auditors to review the findings from the audit of the financial statements.

The Committee has a process in place to assess the effectiveness of the external audit process which comprises the completion of a detailed questionnaire by the External Auditors under the headings of qualifications, expertise and resources, effectiveness, independence and leadership which is subsequently reviewed with the auditor and senior management at a meeting of the committee.

The Committee has a process in place to ensure that the independence of the audit is not compromised, which includes monitoring the nature and extent of services provided by the external auditors through its annual review of fees paid to the external auditors for audit and

non-audit work and obtaining a written statement from the auditors that they are independent in terms of all relevant professional and regulatory requirements. In addition, the Committee has approved a policy on the engagement of the external auditors to provide non-audit services, which delegates responsibility to the Group Finance Director to pre-approve non-audit services performed by the independent auditor subject to a defined maximum spend in a calendar year subject to the principles of independence set out by the accountancy bodies and the Stock Exchange Codes. The Audit and Finance Committee receives a report on a quarterly basis giving details of any non-audit work carried out by the external auditor and the related fees paid for such work.

The contract for the engagement of External Auditors is put out to tender on a regular basis. The current External Auditor was appointed in 2010 for a period of up to three years.

The Committee receives regular quarterly reports from Group Internal Audit and Risk which include the planned work programme, summaries of the key findings of each internal audit undertaken in the period and a status report on outstanding internal audit recommendations. On an ongoing basis the Committee ensures that this function is adequately resourced and has appropriate standing within the Group.

The Committee conducts, on behalf of the Board, an annual review of the effectiveness of the system of internal controls that includes, financial, operational, compliance controls and risk management. The Committee carries out this responsibility in close liaison with the Board Risk Committee. The results of this assessment are reported to the Board.

The Chairman of the Audit and Finance Committee reports to the Board on all significant issues considered by the Committee.

#### **Risk Committee**

The role of the Risk Committee is to assist the Board in the effective discharge of its responsibilities for enterprise-wide risk management including, but not limited to, business, strategic, operational, trading, treasury, contract, reputational, information security, technical, legal and regulatory risk management. This includes approving and monitoring the organisation's risk management strategy, control processes and reporting systems. The Head of Internal Audit and Risk reports directly to the Risk Committee in relation to risk management in accordance with recommended best practice in corporate governance, there is an appropriate overlap between the membership of the Audit and Finance Committee and the Risk Committee, and the Risk Committee carries out its responsibilities in close liaison with the Audit and Finance Committee.

#### **Investment and Infrastructure Committee**

The Investment and Infrastructure Committee meets regularly to evaluate new development opportunities, review important contracts and commercial agreements and monitor projects involving significant capital expenditure. The Committee reports to the Board on a regular basis to ensure that new developments, opportunities and projects meet appropriate criteria including, amongst other considerations, shareholder return expectations.

#### **Remuneration Committee**

The Remuneration Committee operates under formal Terms of Reference, available on the corporate website. It assists the Board in implementing the performance related pay system applicable to the Chief Executive and selects the specific performance criteria applicable to this aspect of the Chief Executive's remuneration. Performance related elements of the Chief Executive's remuneration package comprise financial and non-financial metrics and also include targets designed to promote the long term success of Bord Gáis Éireann.

The Committee also considers the policy on determination of senior management remuneration (with the exception of the Chief Executive) in accordance with the requirements of The Code of Practice, to set the remuneration of senior management following consultation with the Chief Executive and to monitor succession planning of senior management. The Remuneration Committee completed the recruitment process for a new Chief Executive and the Irish Water Managing Director.

#### **Irish Water Committee**

During 2012 an Irish Water Committee was established to monitor and evaluate the strategic establishment of Irish Water and to make recommendations to the Board as appropriate with particular emphasis on strategy, framework policies and implementation plans for the establishment of Irish Water. In addition, amongst other responsibilities, the Committee reviews and considers status reports on material issues relating to risk, financial reporting, funding and the enduring business structure of Irish Water.

#### **Bord Gáis Energy Sale Committee**

Further to the Government announcement of its intention to sell Bord Gáis Energy the Board established a Bord Gáis Energy Sale Committee, the function of which is to monitor and evaluate the process surrounding the proposed sale of Bord Gáis Energy and to make recommendations to the Board as appropriate on strategy, key tactical decisions, and implementation plans relating to the sale process and to maintain an overview of the programme timeline and dependencies whilst providing support to the programme sponsor in delivering the programme to plan.

#### **Communication with the Principal Shareholder**

Through regular contact with the Department of Communications, Energy and Natural Resources, the Department of Public Expenditure and Reform and NewERA, the Board and management



## Report of the Board (continued)

Year Ended 31 December 2012

maintain an ongoing dialogue with the principal shareholder on strategic issues to ensure that Board Members are aware of, and kept up to date on, the views of the shareholder.

### Principal Risks and Uncertainties

Bord Gáis Éireann has a well established enterprise wide risk management process that ensures risks are consistently identified, assessed, recorded and reported across all Business Units and functions. Risk Registers, Risk Radars and Risk Reports are maintained and updated quarterly. The process is overseen by the Risk Committee and is based on both bottom-up and top-down assessments of operational, financial, regulatory, compliance and other business risks. This risk process has identified the following key risks and uncertainties that may affect the future development of Bord Gáis Éireann:

**Health, Safety and Environment:** A major health, safety or environmental incident could result in injury, loss of life, destruction of facilities or a security of supply issue. Bord Gáis Éireann regards health, safety and environmental protection as an integral part of its business practice and is committed to promoting best practice in managing all aspects of operations in a safe and environmentally responsible manner. A comprehensive health, safety and environmental programme in dealing with staff, customers, contractors and the public is in place. Rigorous and regular training takes place across the organisation in accordance with recommended best practice. A dedicated function with experienced staff, best in class systems and a focus on promoting continuous improvement and performance in these areas is in place in both Bord Gáis Energy and Bord Gáis Networks.

**Regulation:** Bord Gáis Éireann's business activities are subject to a broad range of legislative provisions and regulation. The scope of activities subject to regulation

makes this a significant risk issue for Bord Gáis Éireann as changes in the evolving regulatory climate and framework in which Bord Gáis Éireann operates may impact unfavourably. Directive 2009/73/EC of the European Parliament and of the Council (the Third Directive) concerning common rules for the internal market in natural gas came into effect on 3 September 2009 repealing the existing Second Gas Directive. Implementation of the Third Directive is however currently suspended pending the outcome of the proposed sale of Bord Gáis Energy.

The other main regulatory risks faced by Bord Gáis Éireann include licence compliance, the impact of price control reviews and other proposed European Union (EU) changes to market mechanisms such as the Single Electricity Market (SEM) and the Common Arrangements for Gas (CAG). Regulatory risks are managed by senior management within the relevant Business Units through comprehensive licence compliance programmes and through a pro-active approach to engaging with the Regulatory Authorities in Ireland, Northern Ireland, Great Britain and the EU on regulatory developments. These activities are overseen by regulatory and risk functions at Business Unit and corporate level to ensure continued compliance with all regulatory requirements.

**Financing:** Continuing financial market turmoil and the eurozone crisis has restricted Bord Gáis Éireann's ability to access capital markets and increased its exposure to interest rate, currency, liquidity, sovereign credit rating and counterparty risks throughout 2012. Financing risks are managed centrally by the Treasury function, within parameters set out in the Treasury Policy. In November 2012, Bord Gáis Éireann successfully secured funding through the issue of a €500m, five year bond at a favourable rate of 3.625%. Further information is contained in the Financial Review.

**Trading Risk:** Bord Gáis Éireann is subject to trading risks associated with the purchase and sale of gas and electricity. Bord Gáis Éireann's gas and electricity trading activities are managed in accordance with Board approved policies which incorporate best practice principles for managing risks. The Energy Trading Risk Management Policy is described in more detail in the Financial Review.

**Corporate Restructuring:** In April 2012, the Government announced the establishment of Irish Water, the new water authority, within the Bord Gáis Group. This is one of the largest industry reforming programmes to be undertaken in the history of the State and involves the amalgamation of water services currently provided by 34 local authorities into one national provider. Setting up Irish Water is a complex task and will be undertaken in several phases up to 2017. Failure to properly plan, execute and deliver the Irish Water Programme could lead to operational and financial issues for both Irish Water and the Bord Gáis Group. In addition, in February 2012 the Government announced its intention to dispose of Bord Gáis Energy, comprising the supply and generation activities of Bord Gáis Éireann. Both of these major restructuring events are being managed by dedicated programme teams, which are led by individuals who have extensive experience of managing major change programmes.

**Project Delivery:** Project delivery in general is subject to technical, commercial, contractor, planning permission, relevant approvals, financing and economic risks. Any of these risks could delay the project construction or commencement of operations. In particular, Bord Gáis Éireann is exposed to build out risk for wind farms under development. Stringent project management controls are in place to manage these and other risks on all projects. Bord Gáis Éireann actively engages with all relevant stakeholders and consenting bodies with regard to these risks. The controls, which include

detailed reporting on significant capital expenditure projects to the Investment and Infrastructure Committee, help to facilitate effective project delivery to achieve strategic objectives and operational excellence.

#### Electricity Power Generation Asset

**Performance:** Bord Gáis Éireann's power generation portfolio currently comprises 240MW of installed capacity of operating wind farms and a 445MW combined cycle gas turbine (CCGT) electricity generation plant in Whitegate, Co. Cork. In common with all operators, Bord Gáis Éireann is exposed to unplanned breakdowns or other performance issues with electricity assets. Its financial performance is also exposed to scheduling and dispatch risk related to the operation of the Single Electricity Market. These risks are minimised through rigorous monitoring and reporting of the performance of assets, contractual arrangements with experienced operators for operating and maintenance procedures and through insurance.

**Pensions:** Bord Gáis Éireann operates defined benefit pension schemes for its employees. In common with pension funds generally, risks to the overall cost of providing the benefits under the pension schemes include changes in long-term interest rates, price and salary inflation, changes in life expectancies and the level of returns achieved on the scheme's assets. The most recent Actuarial Valuation as at 1 April 2011 resulted in no changes to the employer and employee contribution rates.

**Information Systems:** Effective and secure information systems are critical for the efficient management and accurate billing of customers and to support other operational activities. The confidentiality and the integrity of customer and other data is also a priority. Business continuity plans are in place to manage the risk of any significant disruption to the information systems. A dedicated Information Security Team is in place, tasked with monitoring and reviewing the

adherence to information security policies and controls, to ensure high standards of information security and data protection expected within Bord Gáis Éireann are met. Investment in systems, supported by strong project management, is ongoing.

**Economic Climate:** Current volatile economic and financial market conditions are expected to continue during 2013. The potential impact of consequential risks including sovereign credit rating on Bord Gáis Éireann's operations and financial results is closely monitored and actively managed. Risk areas particularly impacted include refinancing, trade guarantees, customer collection, supplier performance, counterparty default and energy demand. Contingency plans and mitigating actions are in place to address these exposures. Appropriate actions are being taken by management to manage these risks. The enterprise wide risk process ensures that emerging risks are identified and that all known risks are continually assessed.

#### Internal Audit and Risk Management

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board maintains sound risk management and internal control systems in this regard. Internal Audit and Risk Management functions report directly to the Head of Internal Audit and Risk. The Head of Internal Audit and Risk reports directly to both the Audit and Finance Committee and the Risk Committee. This governance structure provides a stronger basis for assurance that key business risks are being mitigated to the level expected by the Board. The operational resource requirements for Internal Audit are supported by an external service provider. This facilitates a highly leveraged model for the provision of specialised internal audit services in key business areas such as Energy Trading and Treasury and reflects Bord Gáis Éireann's commitment to robust, high quality control and governance across the organisation.

#### Internal Controls

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

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

The Board has overall responsibility for the systems of internal control and for monitoring the effectiveness of internal controls. Management is responsible for the identification and evaluation of significant risks together with design and operation of suitable internal control systems. These systems are designed to provide reasonable but not absolute assurance against material misstatement or loss.

In order to discharge that responsibility in a manner which ensures compliance with legislation and regulations, the Board has established an organisational structure with clear operating and reporting procedures, secured the services of appropriately qualified personnel, designed suitable lines of responsibility, put in place appropriate authorisation limits, made arrangements in respect of segregation of duties and delegated the necessary authority for decision making.

The system of internal control includes the following:

- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board.
- Comprehensive budgeting systems with an annual budget which is subject to approval by the Board.
- Comprehensive system of financial reporting. Cumulative monthly actual results are reported against budget and considered by the Board on a

## Report of the Board (continued)

Year Ended 31 December 2012

monthly basis. The Board questions significant changes or adverse variances and remedial action is taken where appropriate.

- Comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require the approval of the Board, and are closely monitored on an ongoing basis by the Investment and Infrastructure Committee of the Board.
- Comprehensive set of management information and performance indicators which are produced quarterly using a series of interrelated balanced scorecards. This enables progress against longer-term objectives and annual budgets to be monitored, trends evaluated and variances acted upon.
- Risk management process which enables identification and assessment of risks that could impact the achievement of agreed business objectives and ensures that appropriate mitigating measures and controls are put in place. The process is led by an Executive Group Risk Management Committee chaired by the Chief Executive with regular reports to the Risk Committee.
- Code of ethics that requires all employees to maintain the highest ethical standards in conducting business.
- Comprehensive anti-fraud programme which includes an anti-fraud policy, employee training and communication and a fraud response plan.
- Responsibility by management at all levels for internal control over their respective business functions.
- Corporate governance framework, which includes risk analysis and financial control review. This is monitored by Internal Audit and Risk, which reports to the Audit and Finance Committee and the Risk Committee on an ongoing basis.
- Internal Audit and Risk conducts a systematic review of internal financial controls. In these reviews, emphasis is focused on areas of greater risk as identified by risk analysis.

Bord Gáis Éireann has a robust framework in place to review the adequacy and monitor the effectiveness of internal controls covering financial, operational, compliance controls and risk management. The Board is satisfied that the system of internal control in place is appropriate for the business.

An ongoing process for identifying, evaluating and managing significant risks has operated throughout the year and up to the date of approval of the financial statements. This process accords with the Turnbull Guidance and the application of the UK Corporate Governance Code and the Irish Corporate Governance Annex.

The Board has reviewed the effectiveness of the systems of internal control up to the date of approval of the financial statements. A detailed review was performed by the Audit and Finance Committee, which reported its findings back to the Board. The process used to review the effectiveness of the system of internal control includes:

- Review and consideration of the programme of Internal Audit and consideration of its reports and findings.
- Review of regular reporting from Internal Audit on the status of the internal control environment, and the status of issues raised previously from their own reports and reports from the External Auditors.
- Close liaison with the Risk Committee which reviews Risk Management Activity Reports from the Executive Group Risk Management Committee on risks, controls and implementation status of action plans.
- Review and consideration of the report by the Chief Executive on the effectiveness of the operation of the systems of internal control, both financial and operational.
- Review of reports from the External Auditors which contain details of any material internal financial control issues identified by them in their work as auditors.

### Compliance Statement

As noted above, in developing its corporate governance policy to ensure the Board carries out its role effectively, the Board has sought to give effect both to the Code of Practice for the Governance of State Bodies, issued by the Department of Finance, and to the relevant main and supporting principles of good governance outlined in the UK Corporate Governance Code and associated Irish Corporate Governance Annex.

The Chairman reports to the Minister for Communications, Energy and Natural Resources on compliance with The Code of Practice and the relevant main and supporting principles of the UK Corporate Governance Code and Irish Corporate Governance Annex throughout the financial year under review, with the exception of a number of areas noted above where voluntary compliance with provisions of the UK Corporate Governance Code and Irish Corporate Governance Annex is not, given the manner of appointment of Board Members, the legal and shareholding structure of Bord Gáis Éireann and existing Board procedures, considered appropriate.

### Going Concern

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

### Prompt Payments

The Board acknowledges its responsibility for ensuring compliance with the provisions of the EU Directive 2000/35/EC as transposed by the European Communities (Late Payment in Commercial Transactions) Regulations, 2002. Procedures have been put in place to identify the dates upon which invoices fall due for payment and for payments to be made on such dates, and accordingly, the Board is satisfied that Bord Gáis Éireann has complied with the requirements of the Regulations.

### Health and Safety

The well being of Bord Gáis Éireann's employees is safeguarded through the strict adherence to health and safety standards. The Safety, Health and Welfare at Work Act 2005 imposes certain requirements on employers and Bord Gáis Éireann takes the necessary action to ensure compliance with the Act.

### Raising Concerns

The mechanism whereby Bord Gáis Éireann's employees can raise concerns, which cannot be appropriately addressed through normal channels, is outlined within the Code of Business Conduct for Employees. In addition, a confidential email address is available to all employees for the submission of any concerns, including those of a financial nature. The Code of Business Conduct for Employees, including the email address, is published on the website.

### Interests of Board Members and Company Secretary

The non-executive Board Members had no interest in Bord Gáis Éireann or subsidiary companies during the year. The Former Chief Executive, Acting Chief Executive and Company Secretary are beneficiaries of the Employee Share Ownership Plan.

The Board is satisfied that its Members are free from any business or other relationship that could materially affect, or could appear to affect, the exercise of their independent judgement. Members of the Board may hold directorships or executive positions or have interests in third party companies, including certain banks and financial institutions, some of which (or their affiliates) may, in the normal course of business, undertake transactions on an arm's length basis with Bord Gáis Éireann. It is the practice that all Board members disclose any interest and absent themselves from Board discussions and decisions where they are conflicted or have a direct or indirect interest as required by The Code of Practice. In such cases, a separate record (to which the Board Member would not have access) is maintained. Disclosure is provided, as required, in note 26 "Related Parties" to the financial statements of related party transactions where the Board Member holds a material interest in the relevant entity. In accordance with company law, details of directorships of limited companies held by members of the Board are filed in the Companies Registration Office.

### Accounting Records

The Board has employed accounting personnel with appropriate expertise and provided adequate resources to the financial function to ensure compliance with the Board's obligation to keep proper books of account. The books of account of Bord Gáis Éireann are held at 6 Lapp's Quay, Cork.

### Political Donations

Bord Gáis Éireann did not make any donations to political parties during the year.

### Auditors

In June 2010, Bord Gáis Éireann received Ministerial approval in accordance with Section 15(2) of the Gas Act, 1976 for the appointment of Deloitte & Touche as Auditors for the years 2010, 2011 and 2012.

For and on behalf of the Board:



Chairman



Member of the Board

09 April 2013

Date of Approval

## Corporate Responsibility Review

Bord Gáis is committed to the responsible development of our society by managing all aspects of its operations in a socially responsible manner. In carrying out our strategy and operations, we believe long term business success can only be achieved through integrating our corporate development with the needs of our marketplace; the communities in which we operate; our people; and our impact on the environment.

During 2012, Bord Gáis Networks undertook a corporate responsibility benchmark process. From this, a Sustainability Programme for 2012 and 2013 was established. The purpose of this programme is to build on existing corporate responsibility practices within the Networks business, and fifty actions and initiatives were identified to drive change. The programme is supported and mobilised within all levels of the business and has a dedicated Sustainability Champions Team.

### 1. Marketplace

#### Customer Support

Bord Gáis continues to be acutely aware of the issue of energy affordability and is proactive in supporting customers who experience difficulty paying their energy bills through agreed payment plans or with the installation of a Pay As You Go meter. Bord Gáis works closely with statutory bodies such as the Department of Social, Family and Community Affairs; and Money Advice and Budgeting Service (MABS). We also work with a number of voluntary bodies such as the Society of St. Vincent de Paul and ALONE to assist customers who experience difficulties in paying their energy bill.

Bord Gáis makes specific provision for "Vulnerable Customers". Vulnerable customers include elderly customers living alone or with minors; mobility-impaired customers; visually and hearing impaired customers; and customers dependent on medical equipment. A facility is provided for these customers to register on our "Special

Services Register" which qualifies that customer for special provisions around disconnections in winter, gas supply outages and service delivery for the visually and hearing impaired.

#### Customer Service

Our core values of Empathy, Performance and Proactivity ensure that the customer is at the centre of everything that we do in Bord Gáis. We have developed our product offerings and our customer interaction processes around the needs of our customers.

Our customer contact centres are the main channels used for delivering customer service. We invest a huge amount of time and resources in developing the technology, business processes and people that support this critical customer contact point, to ensure our customer have a positive interaction with us. The call centre standards achieved in 2012 were:

- 97% of all calls were answered within 30 seconds
- Customer complaints received accounted for an average of 1.7% of all contacts
- 92% of all complaints were resolved within 10 working days, with 47% being resolved on first contact.

Highlighting our ongoing commitment to customer service, continued process and improvement initiatives were again reflected and recognised in 2012 in nominations received in customer service awards events in Ireland and the UK.

#### Customer Satisfaction Monitoring

Facilitating dialogue with customers is vital to the success of our customer service programme. Our customer monitoring programmes include web, postal and phone surveys; mystery shopper programmes; customer call reviews; website feedback options; and insights gathered from our contact centre agents. The valuable customer feedback obtained helps us to ensure that we continue to

deliver what our customers want.

However, we don't always get it right so we have invested resources in ensuring that we have robust processes in place to minimise inadequate customer service and, more importantly, to ensure that deficiencies are identified and addressed immediately.

In 2012, we continued to engage positively with our customers and stakeholders to ensure that those customers who raised issues or complaints were dealt with successfully. Overall customer complaints saw a drop of 12% in 2012 compared to 2011. This highlights our continuing focus on addressing concerns, listening to feedback, and driving continuous improvement.

Our customer charters and our codes of practice outline our commitment to our customers and plainly demonstrate our dedication to improving our customer experience. Our codes of practice include Customer Service; Bill Payment; Special Services Register; Vulnerable Customers; Marketing; Complaints Handling; and Disconnection.

#### Safety

Safety is the priority in Bord Gáis. As a result of extensive capital investment in recent years, together with very stringent operating and management procedures, the Irish natural gas pipeline network is amongst the most modern and safe in the world. In addition, we provide extensive assistance and technical support to the construction industry in terms of the best methods of installing natural gas in homes and businesses.

On behalf of the Commission for Energy Regulation (CER) and other industry players, Bord Gáis Networks carries out a safety awareness promotion each year to highlight the key issues concerning natural gas and safety to both natural gas customers and the general public. The programme operates under the four main headings of Gas Emergency Service; Dial-Before-You-Dig; promotion of Registered





Gas Installers; and public awareness of the dangers of Carbon Monoxide. In 2012, to generate greater public engagement on the subject of carbon monoxide, a dedicated Carbon Monoxide Awareness Week was held from September 24th to September 30th. The week was organised in conjunction with the CER Safety Promotion and Public Awareness Group, and the industry. The week was aimed at all carbon fuel users. Due to the success of the media campaigns planned around these promotions, the awareness level among the general public of the dangers of carbon monoxide was 95% in 2012.

### Energy Efficiency

In times of rising prices, Bord Gáis is committed to helping its customers to control their costs by controlling their usage and becoming more energy efficient. In 2012, Bord Gáis Energy undertook a review of its Home Energy services business in response to changing consumer demand. A revised business model for the delivery of energy services within the residential sector was developed in 2012, and a new operating model will be launched in 2013 to reflect the changing needs of our customers.

For Business customers, in 2012 Bord Gáis Energy launched the innovative Business Energy Services in conjunction with Siemens. The new offer will allow Bord Gáis Energy business customers to avail of both energy audits and bespoke energy solutions designed to reduce their overall energy consumption and energy bills.

Bord Gáis Networks continues to support the CER National Smart Metering programme which is focussed on a combined gas and electricity solution. In July 2012 the CER published its decision to proceed to Phase 2 of the National Smart Metering programme which involves the design and procurement of the technology components to deliver a national rollout of gas and electricity Smart Metering. Following this decision, Bord Gáis Networks has mobilised a project team to fulfil its role as a

key stakeholder in the delivery of this programme, in co-operation with the CER and ESB Networks. The final smart metering solution will ultimately allow householders to better manage their energy consumption and costs, and will also enable householders to contribute towards national targets for improved energy efficiency and carbon emission reduction.

Since 2010, Bord Gáis Networks has carried out a Meter Replacement Programme aimed at replacing the oldest domestic gas meters with replacements that have 'Smart Ready' capabilities. These new meters can be upgraded to 'Smart Meters' when required in the future by the addition of a communications module to the meter. The replacement programme is being completed in phases by geographical area throughout the country. The upgrade is free of charge for the tenant or home owner and includes a free gas safety inspection within the property. Bord Gáis Networks replaced 34,000 meters in 2012 with new smart-ready meters, bringing to 70,000 the number replaced in the programme to date.

In addition, Bord Gáis Networks commenced a programme in 2012 to replace almost 1,100 of the oldest industrial and commercial customer meters on the network and upgrade the telemetry at the remote installations. 600 premises were addressed in 2012 with minimum disruption to the business customers.

### Accessibility

In 2012 a number of changes were applied to support our commitment to accessibility. The Accessibility Team, Accessibility Champions and Access Officers work together to improve accessibility to information, services and office locations. The programme also aims to equip employees with an understanding of issues facing colleagues, customers, stakeholders and visitors that may be age, ability or circumstance related, and to provide all

staff and business partners with improved communication skills when dealing with people who may have a disability or are vulnerable in any way.

On World Disability Awareness Day 2012 in December, Kanchi announced that Bord Gáis Networks is on the list of 100 organizations in Ireland leading by example with a clear, progressive commitment to accessibility.

## 2. Community

Community involvement is always one of the most active elements of our Corporate Responsibility Programme. An important element of our community involvement was our corporate giving and staff volunteering which is centralised through the Bord Gáis Foundation. However, Bord Gáis was also active in its support of educational initiatives, particularly in the areas of science, technology, engineering and maths (STEM) as well as wider community interaction.

### Corporate Giving

It is a privilege for Bord Gáis to be able to support the work that so many charities and voluntary groups are doing to support local communities throughout Ireland. We hope that through our support young people, the elderly, people with special needs, those in ill-health, and the homeless may have had their lives enhanced in some small way.

### Bord Gáis Foundation

In 2009, the Bord Gáis Foundation was established to centralise the corporate giving activities of Bord Gáis. Since then it has become a pivotal feature of the Corporate Responsibility Programme. The Foundation operates under the guiding principles of the Bord Gáis Corporate Giving Policy and is run by a Committee of staff representatives. These staff members work internally with staff, and externally with charities and organisations, to ensure the best application of the Corporate Giving Policy.

## Corporate Responsibility Review (continued)

In 2012, the Foundation offered support through staff requests for nominated charities and through working in partnership with a small group of chosen charities.

### Staff Requests for Nominated Charities

In 2012, the Foundation supported over 100 charitable and voluntary organisations both at home and abroad, through the staff request process. An annual fund was allocated by the Foundation to support these requests. To apply for such support, staff completed a Foundation Funds Request Form nominating a charity or voluntary organisation to receive a donation. Applications were reviewed at the next monthly Foundation meeting and selected against the criteria, in line with the Foundation's support focus, staff involvement and current requirements. The maximum donation per charity or group per annum was €500.

### Charity Partners

The Bord Gáis Foundation formalised partnership agreements with selected Charity Partners in December 2011, for the calendar year 2012. These partnerships were developed to include a Bord Gáis financial contribution for a specific purpose within the organisation, to deliver real and quantifiable impact. Volunteering programmes for Bord Gáis staff were also embedded in the partnership agreements.

The Charity Partners in 2012 were

- Focus Ireland
- Irish Hospice Foundation
- Age & Opportunity's Cultural Companions programme, phase 2
- BITCI's Time to Read programme, phase 2

The Foundation does not accept applications for charity partners or advertise these positions. The Bord Gáis Foundation will seek further partners in the future as the company plans to commit a similar level of funds on an annual basis.

### Employee Charity Support Initiatives

In addition to the corporate giving initiatives of the organisation, staff were active in fundraising for a number of chosen charities throughout the year. Some of the fundraising initiatives were in support of the Irish Cancer Society and Action Breast Cancer, Our Lady's Children's Hospital, Crumlin, Cancer Research Ireland, Irish Guide Dogs for the Blind, Trócaire and Cork and Dublin Simon Communities.

The annual collection programmes of Cork Simon Community and Special Olympics Ireland were supported by Bord Gáis through the facilitation of staff volunteers from Networks during working hours. Community Childcare Services in Finglas and Cork City were supported by staff at Easter. Other initiatives were the Society of St. Vincent de Paul, Cork Penny Dinners and St. Helena's Family Resource Centre, Finglas at Christmas.

### Education

Education is a key element of the corporate citizenship activities of Bord Gáis. It is involved in a range of educational initiatives covering all levels of education.

Science, Technology, Engineering and Maths (STEM) play a key role in the development of the economy, society and the environment and therefore will be central to Ireland's recovery. Bord Gáis Networks supports STEM initiatives which have enduring impacts, by fostering and nurturing interest in the area. This assists in ensuring that students consider STEM career options, investment is made in STEM education, the industry has a sufficient supply of suitably qualified personnel, and that the development of new solutions and innovations are sustained.

In 2012 approximately eight hundred sixth class primary school students, from 25 participating schools in five counties, were introduced to the world of science

and technology through Bord Gáis Networks' [Science Forward Programme](#). In its second year of operation, Science Forward is delivered through hands-on experiments and interactive workshops hosted at third level institutes in Cork, Dublin, Galway, Limerick and Waterford. Science Forward aims to instil an interest in science and technology among participating students and encourages them to seriously consider science when making their secondary school subject choices. The participating students mainly attend schools that are part of the DEIS initiative (Delivering Equality of Opportunity to Schools). Programme delivery is facilitated by Junior Achievement Ireland and trained staff volunteers.

Bord Gáis supports Engineers Ireland's [STEPS Programme](#) which was established to promote STEM to primary and post-primary students and to advance engineering as a career choice. STEPS is a key element of the national Discover Science & Engineering (DSE) programme and is supported by the Department of Education and Skills and the Science Foundation of Ireland. Bord Gáis Networks supports the Engineers in the Classroom Programme at Primary level, and the Smart Futures Champions Programme at Post Primary Level. For both programmes, volunteers from Bord Gáis Networks visited schools in Cork and Dublin to talk to students of all ages about the path that led them to working in the area of STEM and to provide details of their respective roles.

[Engineers' Week 2012](#), facilitated by STEPS with Engineers Ireland, was a week long programme of nationwide events aimed at creating positive awareness of the engineering profession amongst primary and secondary school students. As part of this week-long programme, volunteers from Bord Gáis Networks delivered information sessions on engineering with the Library Council of Ireland, and developed and delivered specially tailored workshops



for primary school students in Cork and Dublin on 'Engineering – Connecting our Lives', in partnership with Junior Achievement Ireland. In addition, there was a competition on the Engineers Week website for a secondary school to visit the Networks Services Centre in Finglas, Co. Dublin. This purpose built, low-carbon, sustainable building presented the students from Castleknock Community College with the opportunity to see sustainable design as well as engineering at work at the Bord Gáis Networks facility.

For [Science Week 2012](#), Bord Gáis Networks sponsored a creative competition for primary school students in partnership with Discover Science & Engineering (DSE). DSE is Ireland's national science promotion programme, managed by Science Foundation Ireland on behalf of the Department of Jobs, Enterprise and Innovation. The theme of the competition was 'Everyday Experimenting' and it received 1,769 entries from primary schools around the country. For the competition, students submitted designs on their inventions that had the potential to improve everyday life.

Bord Gáis continued its sponsorship of the [Lifetime Lab Bus](#). This bus transported approximately 4,000 primary school children from across Cork City and County to attend science workshops at the Lifetime Lab unit. Lifetime Lab is a model of sustainable development, offering science-based workshops to support the primary school curriculum.

Over 100 primary school children descended on Knockawarriga wind farm in Co Limerick in June 2012 to celebrate [Global Wind Day](#). This is the second year Bord Gáis Energy has participated in this community initiative. Bord Gáis Energy organised the event to educate primary school children about wind energy, through a series of fun and interactive activities. Global Wind Day is coordinated by the European Wind Energy Association (EWEA) and the Global Wind Energy Council (GWEC) and thousands of events

were organised on the same day in nearly thirty countries to show people how wind can be part of a stable, clean energy future.

At secondary level, Bord Gáis continued to be actively involved in the [Schools Business Partnership Programme](#), an initiative run by Business in the Community Ireland that encourages businesses to link with a local designated secondary school. The Schools' Business Partnership aims to add value to the Department of Education and Science's (DES) School Completion Programme. In practice, the programme aims to provide students with an insight into the world of employment and to encourage them to remain in school. Bord Gáis Networks is partnered with Nagle Community College in Mahon, Cork, and Beneavin College in Finglas, Dublin. In 2012, Bord Gáis Networks also developed a [Management Excellence for Teachers programme](#) for the teaching staff at Nagle Community College. The programme was designed for the Principal and teaching staff at the school and guides them through the stages of developing personal effectiveness.

Bord Gáis Networks continues to work with [Junior Achievement Ireland](#) in delivering its 'Inspiring Young Minds' initiative through staff volunteers. Junior Achievement is a not-for-profit organisation that inspires and motivates students at primary and post primary level to realise their potential by valuing education and understanding how to succeed in the world of work. With the support of more than 150 leading organisations, Junior Achievement Ireland brings business into the classroom in 600 primary and secondary schools nationwide. The structured enterprise, science, maths and life skills programmes are delivered by business volunteers, including those of Bord Gáis Networks to over 70,000 students each year. In 2012, 31 Bord Gáis Networks volunteers delivered 'Inspiring Young Minds' programmes.

Bord Gáis Energy partnered with the Irish Wind Energy Association (IWEA) for a second year to run [KidWind](#), a four day renewable energy training course held in June 2012. The course was delivered by the Dundalk Institute of Technology and aims to train and equip teachers at primary and second level to teach their students about wind energy and to provide knowledge about the wind farm industry. The Kidwind programme also included a site tour of a Bord Gáis Energy wind farm at Lisheen, Co. Tipperary. As a result of the course, nearly 500 secondary school students will benefit directly as their teachers bring their learnings and experience back to the classroom. The programme is primarily targeted at science, maths and geography teachers. It equips teachers with the skills needed to teach their own students about wind energy, with a focus on specific lessons from basic turbine system concepts to the impact on wildlife and economics.

[Science and Technology in Action \(STA\)](#) is designed to support the teaching and learning of science curricula and related subjects and is delivered free of charge to all second level schools in Ireland. STA is supported by and partnered with some of Ireland's leading organisations, and is produced in close cooperation with the support services of the Department of Education and Skills and the Irish Science Teachers Association (ISTA). The resource presents accessible and functional material for use in the classroom which is based on lesson material provided by organisations where science and/or technology is core to their business. In 2012, Bord Gáis Networks developed a lesson on biomethane. The resource is available on [www.sta.ie](#).

Bord Gáis Networks also supports STA through delivering school quizzes which promote STEM careers. In 2012, over one hundred senior secondary school students in Cork and Dublin participated in the "Beat the Experts" quizzes. At the quizzes, students from a number of schools competed against professionals

## Corporate Responsibility Review (continued)

at work in the area of STEM at Bord Gáis Networks. For the Dublin quiz, Bord Gáis Networks partnered with Balfour Beatty CLG in delivering the quiz to schools local to the operational base of both organisations in Finglas, Co. Dublin. The challenge is based on the Leaving Certificate science curriculum and the STA education resource. The quiz in Dublin took place as part of a programme of activity organised for Science Week 2012.

ICT Ireland, the Irish Medical Devices Association (IMDA), the Irish Software Association and Engineers Ireland's STEPS programme, with the support of Discover Science & Engineering, developed the "Smart Futures" campaign, to highlight the opportunities within the STEM sectors in Ireland. Smart Futures delivers a number of initiatives to engage with students, teachers, guidance counsellors, parents, stakeholders and the wider community in order to stimulate an interest in STEM. In October 2012, Smart Futures ran an online career advice programme for students to address questions related to further education and STEM careers. The questions were addressed by employees of supporting organisations, including Bord Gáis Networks, who are working in these areas and shared information on their own educational and career paths that led them to their role in the sector.

In 2012 Bord Gáis continued its support of the [Cork Chamber Bursary Scheme in UCC and CIT](#). Within this scheme, Bord Gáis supports a science/engineering student for the duration of their four year degree programme. We also provide a term of work experience for such students during their third year of study.

The [DCU Access Scholarship Programme](#) was pioneered by Dublin City University in 1989 to provide equal access to third level education for all. Over the past 21 years it has grown to a national programme which provides financial and other supports to students from disadvantaged communities all over Ireland, enabling them to avail of the benefits of a third level education. Through the DCU Educational Trust, Bord Gáis Networks continues to support two scholarships for students participating in the DCU Access Scholarship Programme for a four year period which commenced in September 2011.

### Heritage

Two hundred years of tradition and generations of gas workers were remembered and permanently commemorated with the unveiling of 'GASWORK', a four metre high art installation on Dublin's Sir John Rogerson's Quay in June 2012. The installation, by renowned Irish artist John Kindness, was commissioned by Bord Gáis to mark the unique history and heritage of the gas industry in the area around Sir John Rogerson's Quay. It also marked the completion of the €170 million Dublin Gas Renewals Project, which involved replacing 1,200 kilometres of cast iron gas pipes with modern polyethylene piping. The ellipse-shaped structure is clad in vitreous enamel panels and depicts the history and usage of gas through the years based on anecdotes, observations and personal memories of the artist himself and of many who worked in the old Gasworks.

In addition, two significant artefacts celebrating three centuries of gas history in Limerick were restored to their former glory in a joint venture by Bord Gáis Networks and Limerick Civic Trust. The artefacts are available for public viewing on the grounds of the Limerick School of Art & Design in Clare Street, Limerick. The historic cast-iron gas meter was used to measure the quantities of gas produced at the Dock Road Gasworks for nearly a

century from the 1880s, while the steam-operated tar pump was also a key element of the gas-making process in its day.

### Community Engagement

Throughout 2012, the various business units within Bord Gáis continued to engage with local communities impacted by ongoing projects. In 2012, Bord Gáis Networks laid 101km of distribution mains to provide new supplies and reinforce supplies in urban areas, firmus energy continued to develop the new gas networks in its licence areas across Northern Ireland, and Bord Gáis Energy continued to develop its portfolio of wind farms.

Bord Gáis Networks also advanced a significant non-pipeline project in 2012 for the remediation of the former gasworks site on the Dock Road in Limerick. Early engagement with the local community for this project was deemed essential and will hopefully lead to a better understanding in the community of the works to be undertaken. The project is due for completion in 2015.

We believe that developing and maintaining good relationships are necessary to the success of any major construction project. For every project, we engage with local stakeholders in an honest and proactive manner, holding open meetings, providing information leaflets, and encouraging open dialogue throughout the project. This process helps ensure issues are addressed as they arise and are resolved, as effectively as possible, to the satisfaction of all involved.

### Sponsorships

Following a review of sponsorships activities in 2011, in 2012, sponsorship activities were concentrated under the two main pillars of reading and sport.

### Reading-Related Sponsorships

Bord Gáis supports a number of reading and book related initiatives including [Rediscover Your Library](#). This initiative is





run in partnership with the public library service. The core purpose of the campaign is to promote awareness of all the great amenities that local libraries have to offer to all members of the community.

The [Bord Gáis Energy Book Club](#) is an online 'book club' available to all staff and customers of Bord Gáis. Among the many features in the online book club are books of the month reviewed by guest panellists, and weekly blogs keeping members up to date with what's new and interesting in the world of books.

We are very proud of our continuing sponsorship of the [Bord Gáis Energy Irish Book Awards](#). This prestigious event honours the best of Irish literature published in the last year. The awards recognise and reward the talent of a range of authors in a variety of categories, from best non-fiction book, to Newcomer of the Year. In 2012, for the second year, the event was filmed for broadcast in a highlights show which aired on RTÉ One.

### Sports Sponsorships

Sport continues to play an important role in the wellbeing of Irish society. For 2012, Bord Gáis' portfolio of sports sponsorships was collectively designed to really make a difference in supporting local communities.

In 2012, Bord Gáis' completed its last year of sponsorship of the [Bord Gáis Energy Ladies National Football Leagues](#). Once again, all 32 counties were represented across four divisions, ensuring an all-island competition with an emphasis on promoting and developing ladies football in all counties. Bord Gáis is proud to have been involved in the development of this sport which has made such a positive impact on female participation in sport and has helped clubs and communities the length and breadth of Ireland.

The [Bord Gáis Energy GAA's Under 21 Hurling Championship](#) has been rightly praised as one of the most keenly

contested competitions around and we were delighted to sponsor this wonderful advertisement for Gaelic Games for a fourth year. This sponsorship includes a dedicated U-21 Hurling website [www.breakingthrough.ie](http://www.breakingthrough.ie). This site, in conjunction with a dedicated social media strategy, has raised awareness of this championship immensely.

Bord Gáis Networks continued its support of the [Cork Senior Camogie Team](#) for the 2012 League and All Ireland Championship competitions and delivered the 2012 programme of 'Fuelling Cork's Camogie Passion' in partnership with Cork Camogie County Board.

'Fuelling Cork's Camogie Passion' delivered an on-line competition to nurture and promote interest in the game for young players in Cork as well as a skills camp. It also saw 'Cork Camogie's Hall of Fame' enter into its second year, where legends associated with the game in Cork were honoured and acknowledged for their commitment and dedication to the sport.

Overall, we have been delighted with the impact our sports sponsorships have had on both communities and individuals alike.

### Business Community Involvement

Small businesses provide many essential services and are considered the lifeblood of local communities. Bord Gáis is very aware of the demands and challenges currently facing small businesses, and it is for this reason that it continues to sponsor the [Small Business Advice Programme](#). Throughout 2012, Bord Gáis continued to support this initiative which, in addition to now having an established presence in the Cork region, the South East (Waterford, Wexford, Carlow and Kilkenny) and the Mid West (Tipperary, Limerick and Clare) is now also established in the Dublin area. To date, over 500 applications from SMEs have been assisted by the programme and this number continues to grow. Approximately

100 professional advisors currently support the programme, providing free advice in their relevant area of expertise.

Bord Gáis Networks was the main sponsor of the 2012 [Engineers Ireland Annual Conference](#) entitled 'Engineering Enterprise in Times of Change'. Through its programme of engaging events and its line-up of distinguished speakers, the conference addressed the critical contribution that engineers will make to the creation of economic growth and the generation of a genuine enterprise culture based on productive, sustainable and life-enhancing industries.

## 3. Workplace

### Safety

Safety is at the centre of all Bord Gáis operations right up to the highest levels. The culture of safety encompasses all employees of Bord Gáis, all workplaces controlled by Bord Gáis, and all activities undertaken by, or on behalf of, Bord Gáis.

Within Bord Gáis there is a dedicated Safety Team within the Health, Safety, Quality and Environment (HSQE) unit in Networks and within the Environment, Health and Safety (EHS) unit in Energy and Group. These teams consist of specialist safety personnel who provide support to their respective business units. The teams are involved with virtually every aspect of the business, providing input and advice to office and site based personnel at all levels and supporting business processes to make sure that safety aspects are adequately understood and addressed. However, within the organisation, the message is clear – safety is everyone's responsibility.

Our Company Safety Statement outlines the policies and procedures for the management of the health and safety of employees and others affected by the company's activities and assets. This Safety Statement is based on national and international best practice guidelines and is reviewed regularly.



## Corporate Responsibility Review (continued)

A major milestone was achieved in March 2012 when the Whitegate Power Station recorded its third year working without a Lost Time Accident. This is a significant achievement, not just for those working on the site who contributed directly to this success, but also for Bord Gáis, as it shows the rewards to be had from the considerable efforts and resources that have been put into EHS over the past few years. The three year anniversary stretches back to March 2009, when the site was deeply embedded in construction activities. From the outset, Bord Gáis championed EHS as the leading benchmark for success on the Whitegate project and attaining world-class EHS standards.

### Safety Training and Awareness

The in-house team of qualified safety and occupational health professionals provided support and advice to all areas of the business throughout the year. Bord Gáis has a dedicated training facility with professional training instructors who, in 2012, provided health and safety training to Bord Gáis employees. Additional specialist technical and safety training is provided to staff engaged in safety critical activities.

Research has shown that successful companies have consistent safety leadership, with a proactive management structure that visibly demonstrates its commitment to safety on a daily basis. Safety leadership is a constant demonstration by the senior executives, key managers and others in Bord Gáis that health and safety is the critical element of daily operations.

Safety promotion, communication and consultation with staff on safety issues is essential in maintaining and improving the safety culture. Throughout the year, staff safety committees met regularly at local level, and twice during the year at national level, to discuss safety issues within the company. These meetings were attended by senior managers as well as safety personnel.

### Safety Measurement and Reporting

The HazCon® hazard reporting system was set up in September 2007. The hazard reports range from minor issues that can be contained immediately to more serious incidents that require further input from different parts of the organisation. For each hazard report received there is a corrective action taken. All the knowledge gained as a result of the reports is then applied elsewhere in the organisation, if possible.

### Contractor Safety

Bord Gáis continues to apply its high safety standards to all third party contractors and encourages all contractors to use the HazCon reporting structure. Hazard reporting from our contractors has increased significantly, now exceeding our target level of 3 per 1,000 man hours. High levels of safety and technical quality were maintained throughout the year, in particular around the mobilisation of the Networks Services and Works Contract.

### Excellence Through People

Bord Gáis is a major employer, providing a dynamic and modern place to work for over 1,000 employees throughout Ireland. As an organisation, we strive to be a responsible, committed and progressive employer. This is achieved through a number of policies and practices. We also monitor our performance against external benchmarks, where possible, to identify areas for improvement.

We consider our staff to be our greatest asset and we strive to support their development and progression through a number of initiatives.

### Equal Opportunities

Bord Gáis recognises that it is essential to provide equal opportunities to all persons without discrimination. We are committed to ensuring that equal opportunities exist in our Human Resources practices by promoting values, behaviours and work practices which

recognise and value the differences between people. Our Equal Opportunities Policy sets out the organisation's position on equal opportunities in all aspects of employment and provides guidance and encouragement to employees at all levels to act fairly and prevent discrimination.

### Disability Awareness

Bord Gáis is a registered "Ability Company" which actively promotes equal employment opportunities for people with disabilities. In compliance with the physical access requirements of the Disability Act 2005, Bord Gáis continues to audit and review the suitability of our physical access requirements. Bord Gáis is committed to improving the work environment for the benefit of employees with a disability.

The facilities departments in Bord Gáis have completed an upgrade to the reception areas of some of the larger offices for accessibility. In 2012, the reception area in Gasworks Road was upgraded. The purpose of these projects is to improve the accessibility and safety of the reception areas. The scope of the upgrade project included; installation of universal access swing gate, relocation of reception desk to facilitate the addition of an accessible counter, anti-slip treatment of floor tiles, replacement of existing doors with automated wheel chair accessible glazed doors with actuator and 'push to open' activation control, new universal access ramp with level landing area, all services (access card readers, door release buttons, time and attendance readers) were dropped to an accessible height.

### Learning and Development

We recognise that learning and development is important for each employee. It contributes to greater job satisfaction and career opportunities for the individual and benefits the company by ensuring we have the most relevant and up-to-date skills and competencies to meet the challenges of our work environment.



Essential training that all staff participate in includes: an induction programme for new employees, IT security awareness, safety workshops and briefings, and anti-fraud training. Where relevant, contractors and outsourced partners are also included in any training days and workshops.

The **Bord Gáis Leadership and Management Development Programme** plays an important role in ensuring that Bord Gáis has a strong cohort of skilled and knowledgeable leaders, committed to helping all employees in the company maximise their contribution, their development, and their career satisfaction. The programme, which commenced in late 2011, finished in June 2012. The programme comprised 18 development days and covered a wide range of knowledge and skills in areas such as personal, interpersonal, managerial, and leadership effectiveness; strategy; communication; employment law; and HR policies and procedures.

**Continuing Professional Development**  
 In recognition of the quality of the company's Learning and Development policies and procedures, and its commitment to CPD, Bord Gáis' accreditation credentials included:

**Accountancy Accreditations**

In 2010, Bord Gáis was awarded the status of "Employer Partner" by Chartered Accountants Ireland (CAI). This means that the company is now a certified member of CAI's Lifelong Learning Employer Partnership scheme.

In 2012, Bord Gáis was awarded the status of "Approved Employer – Professional Development" by the Association of Chartered Certified Accountants (ACCA). This was in recognition of the quality of the learning and development opportunities provided by Bord Gáis to its employees. The award lasts until May 2014, when this status will be reviewed with the aim of renewing this for a further three years. The reward means that

Bord Gáis employees automatically meet ACCA's CPD requirements.

**Graduate Development Programme**

In 2012, Bord Gáis continued its Graduate Development Programme. This is a two year initiative designed to develop the knowledge and skills of selected graduates through assignment to specially selected projects; six-month secondments into four different areas of the business; classroom modules on personal development and understanding the business; and ongoing individual support from senior employees who are assigned as mentors to individual graduates. This programme provides graduates with a broad understanding of the business; a deepened understanding of their personal strengths, career interests and career values; and the confidence to take ownership of their career development.

**Staff support**

**Health & Well-Being**

Encouraging and facilitating well-being and a healthy lifestyle for our staff is a significant feature in our workplace policy. For example, on an annual basis, employees can avail of the seasonal flu vaccine. The flu vaccine was made available to all staff again in November 2012 and nearly 200 staff availed of the opportunity to be vaccinated.

**Employee Assistance Programme**

Bord Gáis supports employees with personal difficulties that may affect their performance at work. An Employee Assistance Programme has been established to offer support to these employees, offering management of sickness absence and effective recovery and rehabilitation. All matters relating to our Employee Assistance Programme are managed in a professional and confidential manner.

**Sports & Social Activities**

To encourage employees to maintain a good work-life balance, Bord Gáis

supports the Sports & Social Clubs at all office locations and offers financial assistance to the sporting and social initiatives run by these clubs, in addition to the contributions from staff.

**Credit Union**

Bord Gáis facilitates the independent operation of the Bord Gáis Employees' Credit Union. The staff Credit Union offers loans and saving facilities at attractive rates, with the added benefit of payroll deduction, to members. The Bord Gáis Employees' Credit Union currently has a membership of 880 members.

**Staff Engagement**

**"Great Place to Work" Award**

Throughout 2011, in association with the Great Place to Work Institute Ireland (GPTW), Bord Gáis participated in a workplace survey and culture assessment to investigate exactly how Bord Gáis measured up as a 'Great Place to Work'. The findings of the staff survey were reported back to the company at the end of 2011, and during 2012, analysis of the results was used to identify areas where improvements could be made. On 22nd February 2012, Bord Gáis was awarded a coveted position on the list of "Best Workplaces in Ireland" under the category of Best Large Workplaces in Ireland 2012.

**Communication**

Bord Gáis recognises the importance of two-way dialogue in the organisation: keeping employees informed of developments within the organisation as well as external matters affecting the organisation; and enabling employees to raise issues and provide feedback. Every effort is made to communicate to staff in an open and transparent manner.

Communications include: email alerts to all staff on announcements and developments; unit newsletter; quarterly staff magazine; bulletins; intranet updates; the production of webcasts; annual staff briefing roadshows and more informal gatherings with employees by

## Corporate Responsibility Review (continued)

way of round table discussions in small groups.

### Employee Recognition Awards

Bord Gáis recognises the importance of recognising and rewarding instances where individual staff members exhibit exemplary commitment on a particular project or activity in their area or who deliver an outstanding service to a customer. The Employee Recognition Awards provide an opportunity for the company to reward individuals who deliver outstanding performance.

### Long Service Awards

Every year, Bord Gáis celebrates the loyalty of our employees through the Long Service Awards. In 2012 these awards took place for staff at two events, one in Dublin and the other in Cork. The award ceremonies provided the company with an opportunity to recognise the distinguished and dedicated service of our colleagues across the country.

### Employee Share Ownership Scheme

Most employees at Bord Gáis benefit from a Shared Ownership Plan whereby 3.27% of the capital stock of Bord Gáis has been transferred to an ESOP in return for operational savings achieved from 2005-2009 inclusive.

## 4. Environment

### Overview of Bord Gáis Energy Usage in 2012

Bord Gáis has committed support to the EU Energy End Use Efficiency & Energy Services Directive which requires member states to commit to 9% reduction in energy use by 2016. The Irish Government has committed a 33% efficiency target by 2020 with potential savings of 3,240 GWh. All public sector bodies, including Bord Gáis, are required to report annually from 1st January 2011 on their energy usage and actions taken to reduce consumption. Our report for 2012 is given below.

### Overview of Energy Usage in 2012

The prime energy uses within the organisation include heating, ventilation, air-conditioning, Data Centres and the fleet.

In 2012, Bord Gáis Éireann consumed 16.41 GWh of energy. Presented below is a high level breakdown.

#### Fleet Consumption

- Bord Gáis Networks Fleet Consumption in 2012 was 2.06 GWh of transport fuels including 2.05 GWh of Diesel and 0.01 GWh of Petrol.
- Bord Gáis Energy Fleet Consumption in 2012 was 0.58 GWh of transport fuels including 0.56 GWh of Diesel and 0.02 GWh of Petrol.
- This equates to a 16% increase over the Fleet Consumption in 2011.

#### Facilities Consumption

Bord Gáis Networks Facilities Consumption 2012 was 3.69 GWh of electricity and 2.40 GWh of natural gas. This equates to a 2% decrease over the electricity consumption in 2011 and a 3% decrease over the gas consumption in 2011.

Bord Gáis Energy Facilities Consumption 2012 (excluding the Facilities in Northern Ireland) was 2.63 GWh of electricity and 1.96 GWh of natural gas. This equates to a 38% increase over the electricity consumption in 2011 and a 54% increase over the gas consumption in 2011.

The increased consumption in 2012 can be attributed to the following:

- Foley Street premises, which had been vacated in 2011, has been established as the Project Office for the Irish Water Programme and is at full occupancy
- New offices have been leased in City Quarter, Cork
- Dual occupancy of existing and new facilities during the office relocation process

- Occupancy of the existing facilities has been increased.

### AGI Consumption

Bord Gáis Networks Above Ground Installation (AGI) Consumption 2012 was 3.09 GWh of electricity

AGI (Above Ground Installation) electricity consumption has been included for the first time in this annual report.

### Actions Undertaken in 2012

In 2012, Bord Gáis Éireann undertook a range of initiatives to improve our energy performance including:

- An Energy Management unit within Networks was established in 2012 to manage and co-ordinate energy action planning for Bord Gáis Networks activities. This unit, reporting to the National Head of Facilities, is headed up by the National Facilities Operations Manager, aided by facilities engineers and HSQE. In 2012, the responsibilities of the team included policy development, compliance, and establishment of an Energy Management System (EnMS).
- The consolidation of the existing Bord Gáis Networks Citywest, Sandyford and Donmoy House facilities within the new Networks Service Centre, which is currently undergoing BREEAM assessment. The BREEAM Standard (Building Research Establishment's Environmental Assessment Method) is one of the world's leading and most widely used environmental assessment methods for buildings. A preliminary BREEAM analysis was carried out on the competition design and an "Excellent" rating was achieved. Bord Gáis Networks continued the BREEAM assessment throughout the design and construction stages in order to maintain the "Excellent" rating.

The NSC building has the following features:

### User Control

- o The building employs a low technology and user friendly environmental system based on the passive principles of high thermal mass, radiant slab heating and cooling, natural and displacement ventilation and maximized natural daylight.

### Building Volume

- o Highly efficient volume:skin ratio which reduces heat loss and allows for Thermal and Solar Requirements
- o Building Fabric and Air tightness; the compact volume is wrapped in a thick layer of high level insulation with U-Values of the exposed building elements reaching the German "Passive House" standard. The super insulated envelope of the building with a U-Value of 0.15 for roof and walls exceeds current guidelines set out in Part L and achieves a verified air-tightness of 1.82m<sup>3</sup>/m<sup>2</sup>.hr
- o The building has an optimized ratio of opaque and transparent façade area; 40% glazing and 60% insulated wall.
- o Thermal Buffers; Workshop and stores are areas of lower temperature requirements and function as thermal buffers to the rest of the building reducing further the potential for heat loss.

### Ventilation

- o Open Plan Office: fresh air supply is via an AHU (Air Handling Unit). The Displacement Ventilation relies on natural air movement between the assisted fresh air supply at floor level and an extraction via a central chimney at the apex of the folding roof. It optimizes fresh air rates and ventilation comfort.
- o Heat Recovery: the chimney also contains a heat recovery system which provides the energy required for the pre-tempered fresh air supply through the AHU which is also located in the tower.

### Natural Day Light

- o Internal Gardens provide natural day light.
- o Any artificial light is controlled by detectors and dimmers.
- o Solar Gain is used in conjunction with high thermal building mass as a passive space conditioning system

### Space Conditioning

- o High Thermal Mass/Radiant Slab; the superstructure of the building is formed using an exposed concrete flat slab and column construction providing a high level of thermal mass for the building. The high thermal mass of the exposed concrete ceilings is used as a passive space conditioning system dampening temperature swings through the working day. Heat absorbed by the concrete ceilings throughout the day is released at night reducing the general heating requirement at the start of the working day.
- o Heating is supplied by ground source heat pumps (24-35°C) (winter mode).
- o Building is cooled by the cooling pipes in the ceiling (summer mode).

### Renewable Energy Technology

- o Photovoltaic; 100 m<sup>2</sup> of PV panels are fitted at an angle of 30 degrees to the south elevation of the tower generating approximately 10,000kWh of electricity per annum meeting approximately 15% of the heat pump power requirement for the year.
- o Solar Thermal Collector; the south elevation of the tower also contains 24 m<sup>2</sup> of a solar thermal collector unit generating approximately 6000kWh per annum meeting approximately 50% of the annual hot water demand and providing warm water for the tea kitchens, washrooms and showers.
- o Geothermal Piles; geothermal use of Piles (150m deep) with balanced heat and cooling input and output during the year.

- The installation of Outside Air Free Cooling for the data centre in Gasworks Road, Cork was operational in February 2012. Following the establishment of a hot aisle / cold aisle air flow regime this initiative is expected to save an estimated 170 MWh annually.
- Virtualisation of server cabinets in the Gasworks Road Data Centre resulted in a reduction in associated physical servers and associated power consumption.
- The control of the Gasworks Road HVAC system has been optimised.
- The following initiatives were introduced in Warrington Place:
  - o Replaced existing halogen down lighters with LEDs.
  - o All occupancy sensors have had the time delay adjusted to suit the area.
  - o The night time static guard uses the manual override to disable all lighting once a floor has been cleared of staff.
  - o The use of Fan Coil Units (FCUs) has been optimised by monitoring temperatures to reduce the likelihood that FCUs in close proximity are counteracting each other and therefore consuming more energy.
- Further supported the Networks Smarter Travel Workplace Programme to promote and support more sustainable travel habits among employees and visitors. As part of our Smarter Travel Workplace Programme, a number of initiatives were developed by our Smarter Travel Team to help us be more sustainable in our travel practices. These initiatives included:
  - o Launch of our car-sharing facility on [www.carsharing.ie](http://www.carsharing.ie)
  - o Event days held in Gasworks Road and the NSC
  - o Increased usage of video conferencing facilities
  - o Launch of dedicated smarter travel communication platform on the Intranet 'The Zone'

## Corporate Responsibility Review (continued)

- o The establishment of Bicycle User Groups (BUGs)
- o Provision of Dry Rooms at Gasworks Road and the NSC
- o The continued promotion of our Cycle to Work and TaxSaver schemes
- o Travel & Expenses policy amended.
- Planning permission has been received from Cork City Council for the installation of a Compressed Natural Gas (CNG) Fast Fill Station.
- Disposal of older fleet vehicles and purchase of new more energy efficient vehicles.
- Cylon energy monitoring software was installed in Gasworks Road and the NSC.
- Midleton Compressor Station:
  - o PIR lighting installed in the main office building
  - o Power Factor Corrections in place
  - o Energy saving blinds installed in the Comms Room to reduce the load on the HVAC system
  - o New condenser boiler for the main office building
  - o All outside lighting switched off at night

### Actions Planned for 2013

In 2013, Bord Gáis Éireann intends to further improve our energy performance by undertaking the following initiatives:

- Bord Gáis Networks is committed to improving its overall energy performance and hence has begun the implementation of an Energy Management System (EnMS). The system will be accredited to

ISO 50001:2011, the international standard for Energy Management. Energy Management Systems drive organisations to continually improve their energy performance, including energy efficiency, energy use and consumption. Using energy efficiently helps organisations save money as well as helping to conserve resources and tackle climate change.

- The supply and installation of new more energy efficient light fittings and PIRs in the kitchen area, plant room and Stores Building in Gasworks Road
- The supply and installation of new, more environmentally friendly Chiller Units, with higher performances and better energy efficiency, to replace the McQuay Chillers on the roof of the Gasworks Road Building.
- Ongoing virtualisation of server cabinets in the Data Centres.
- The supply and installation of a CNG Fast Fill Station in Gasworks Road, and the changeover of several fleet vehicles to CNG fuel.
- Disposal of older fleet vehicles and purchase of new more energy efficient vehicles.
- Further support the Networks Smarter Travel Workplace Programme to promote and support more sustainable travel habits among employees and visitors.

### • Above Ground Installations (AGIs):

- o Boiler Replacement Programme  
Replace inefficient modulating boilers with modulating condensing boilers. This project will replace the oldest and most inefficient boilers with modern condensing boilers that are approximately 90% efficient. This will result in significant fuel and CO<sub>2</sub> savings for the company. With new control systems the new boilers are capable of modulating their output to more carefully match the required thermal input at each installation.
- o Waterbath Replacement Programme  
Replacement of waterbath systems with modulating condensing boiler with modern control systems will again represent a significant decrease in the fuel used to operate these installations.
- o CHP Units  
As part of the boiler and waterbath replacement project, it is proposed to upgrade some boiler units with small CHP boilers. These units would replace a single boiler in the boiler houses, and operate as a base load boiler, while simultaneously producing electricity for the AGI. This has the potential to significantly reduce the electrical demand at the larger installations. Should this initiative be successful it will be rolled out to other installations.





In addition to the initiatives outlined in the overview of energy usage, additional environmental initiatives and activities were carried out by Bord Gáis throughout the year.

#### Accreditation of Environmental Management System

In 2012, the Bord Gáis Networks Environmental Management System was successfully accredited to ISO 14001, the international standard for Environmental Management Systems. Demonstrating our commitment to the environment and to best practice, the system scope covers all Networks activities: the development, operation and maintenance of the gas network in Ireland, Northern Ireland and Scotland, including all associated ancillary and support services. This is a testament to the continuing focus on improving environmental performance within our business.

#### Smarter Travel Workplace Programme

The Smarter Travel Workplace Programme at Bord Gáis promotes and supports sustainable travel habits for employees and visitors. Many of the activities have already been detailed in the Overview of Energy Usage - the introduction of a car-sharing programme, the establishment of a Bicycle User Group, new facilities to support staff cycling to work, cycle safety training programmes, bicycle maintenance demonstrations and pedometer challenges. The programme also incorporates and promotes some existing travel related initiatives facilitated at Bord Gáis including the Cycle to Work Scheme and TaxSaver Travel. A dedicated Smarter Travel Team is in place at Bord Gáis to support the Programme.

#### Travel by Train

Over the course of the year, the increase in business related rail travel by Bord Gáis staff continued, balanced by a reduction in road travel.

#### Video Conferencing

The increased use of meetings by video conferencing, thus reducing travel to and from meeting locations, was actively encouraged throughout the year. Additional resources in this regard were required and this was included as a key feature of the location specifications for any necessary office relocation.

#### Development of CNG as a Transport Fuel

Natural Gas Vehicles (NGVs) are refuelled with Compressed Natural Gas (CNG). This is a proven technology and readily available. Over the past five years the growth of NGVs in Europe has been significant. By the end of 2012, it is estimated that there were over one million NGVs in Europe and over 14 million NGVs worldwide.

Bord Gáis Networks is actively exploring the potential for CNG in Ireland. It has an active role in facilitating the development of the market through an industry-wide partnership approach; developing the refuelling infrastructure; ensuring the inclusion of CNG and NGVs within energy and transport policies; influencing the connections policy; and creating awareness.

Bord Gáis Networks has already invested in a Natural Gas Vehicle (NGV) for its fleet, and has also developed a refuelling facility at its Finglas premise, to demonstrate the application of Natural Gas as a transport fuel. In developing CNG there is a focus on heavy fuel users, including buses, trucks and vans, as benefits exist for these businesses from using CNG through reduced fuel costs and reduced vehicle emissions. In 2012, Bord Gáis Networks undertook a highly successful CNG bus trial with Bus Éireann.

There are wider environmental benefits of increased use of CNG as a transport fuel:

- Natural gas is one of the cleanest fossil fuels available today. Typically, CNG reduces CO<sub>2</sub> by 20% -25% over similar petrol vehicles. Studies have also shown up to 15% reduction when compared with diesel trucks
- In addition, NGVs produce lower tailpipe emissions including those harmful to air quality and health e.g. NGVs emit almost no particulate matter
- NGVs are also quieter vehicles, offering noise reduction benefits.

The development of CNG as an alternative transport fuel would aid in the achievement of EU targets for the reduction of Greenhouse Gas emissions by 2020.

Heading

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## Board Responsibilities Statement

for the year ended 31 December 2012

The Board is responsible for the preparation of the Annual Report and the accompanying financial statements, which in the opinion of the Board give a true and fair view of the state of affairs of both the Group and the Parent and of the Group's profit for the year. The Board has elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union. The Board maintains proper books of account in compliance with the obligations imposed by the Gas Acts 1976 to 2002. The Board is responsible for reviewing the effectiveness of the system of internal controls comprising Financial, Operational, Compliance and Risk Management, and for reporting thereon to the Minister for Communications, Energy and Natural Resources. The Board is also responsible for safeguarding the assets of Bord Gáis Éireann and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

In preparing the financial statements the Board is satisfied that:

- Suitable accounting policies have been selected and applied consistently.
- Judgments and estimates used are reasonable and prudent.
- Preparation of the financial statements on the going concern basis is appropriate.

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For and on behalf of the Board:



Chairman



Member of the Board

09 April 2013

Date of Approval

## Independent Auditor's Report to the Members of Bord Gáis Éireann

We have audited the financial statements of the Group for the year ended 31 December 2012 which comprise the Group Income Statement, the Group Statement of Other Comprehensive Income, the Group Statement of Financial Position, the Group Statement of Changes in Equity, the Group Statement of Cash Flows, the related Group notes 1 to 30, the Parent Statement of Financial Position, the Parent Statement of Changes in Equity, the Parent Statement of Cash Flows and the related Parent notes 1 to 15. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the members of Bord Gáis Éireann, in accordance with Section 15 of the Gas Act, 1976. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Bord Gáis Éireann and its members, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Board and auditors

As explained more fully in the Board Responsibilities Statement, the Board is responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Consolidated Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on 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 31 December 2012 and of its profit for the year then ended;
- the Parent statement of financial position gives a true and fair view, in accordance with IFRSs, as adopted by the European Union, of the state of the affairs of the Parent as at 31 December 2012; and
- the financial statements have been properly prepared in accordance with the requirements of the Gas Acts, 1976 to 2002.

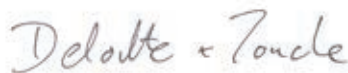
### Matters on which we are required to report

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of accounts have been kept by the Board.
- The Parent statement of financial position is in agreement with the books of account.
- In our opinion the information given in the Report of the Board is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report on the following:

Under the Code of Practice for the Governance of State Bodies ("the Code") we are required to report to you if the statement regarding the system of internal financial control required under the Code as included in the Corporate Governance Statement in the Report of the Board on pages 48 to 57 does not reflect the Group's compliance with paragraph 13.1 (iii) of the Code or if it is not consistent with the information of which we are aware from our audit work on the financial statements.



Chartered Accountants and Statutory Audit Firm  
Cork

09 April 2013

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Board but no control procedures can provide absolute assurance in this area. Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.



## Statement of Accounting Policies

### 1. Basis of Preparation

Bord Gáis Éireann is a corporate body established under the Gas Act 1976 and is domiciled in Ireland.

The Group financial statements consolidate the financial statements of the Parent and its subsidiaries, (together referred to as 'the Group'), up to 31 December each year, and incorporate the results of its share of joint ventures using the equity method of accounting.

The Group and Parent financial statements are presented in euro, rounded to the nearest thousand. These financial statements are prepared on a historical cost basis, except for certain financial assets and financial liabilities which are measured at fair value.

The Group and Parent financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, as endorsed by the EU (EU IFRS) and effective for accounting periods ending on or before 31 December 2012.

In the process of applying these accounting policies, judgments and estimates are necessarily used which affect the amounts recognised in the financial statements. These estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and assumptions are reviewed on an ongoing basis. The areas involving a higher degree of judgement, complexity or areas where assumptions and estimates are significant to the financial statements are described in note 30 to the financial statements.

The policies set out below have been consistently applied to all years presented in these financial statements, and have been applied consistently throughout.

### 2. New Accounting Standards and Interpretations

There are no new standards, amendments or interpretations that were effective for the first time in 2012 that have had a material impact on the Group.

The new standards, amendments to standards and interpretations, as set out in table 1, are not yet effective for the year ended 31 December 2012 and have not been applied in preparing these financial statements;

IAS 19 (2011), which was endorsed by the EU in June 2012 and which will be applicable for 2013, requires in particular that the expected return on plan assets be measured using the discount rate applied to measure the benefit obligation. Application of this revised standard will have a negative impact on net finance costs recorded in the Group income statement. If it had been applied in 2012, the negative impact on net finance costs would have been approximately €3.1 million (excluding impact of pension levy). In addition, under the revised standard, the past service cost arising from a plan amendment will be recognised as an expense for the period when the amendment occurs. Under the revised standard, the corridor method will no longer be allowed, but this will have no impact on the Group financial statements, as actuarial gains and losses are already recognised in full in other comprehensive income.

The Group is currently assessing the impact of adopting the standards/amendments which were endorsed by the EU on 29 December 2012.

### 3. Certain Remeasurements and Exceptional Items

As permitted by IAS 1 Presentation of Financial Statements, the Group has disclosed additional information in respect of certain remeasurements and exceptional items on the face of the income statement to aid understanding of the Group's financial performance.

Certain remeasurements are remeasurements arising on certain unrealised commodity, interest rate and currency contracts which are accounted for as if held for trading or as fair value hedges in accordance with the Group's policy for such financial instruments. The Group does not use derivatives for speculative purposes. For financial reporting purposes, the Group has classified the remeasurements as either arising from operating activities or financing activities. Operating activities include remeasurements on certain energy commodity contracts falling within the scope of IAS 39 Financial Instruments: Recognition and Measurement and related currency contracts. Financing activities include remeasurements on certain interest rate contracts not designated as part of an effective hedge relationship and accounted for as if held for trading or as fair value hedges. Further details of derivative financial instruments falling within the scope of IAS 39 are set out in accounting policy 13.

An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood.

Table 1: New standards, amendments, to standards, and interpretations

Standard/Amendment	Effective date (IASB)	Endorsed by the EU
IAS 19 (2011) Employee Benefits	1 January 2013	5 June 2012
Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	29 December 2012
IFRS 10 Consolidated Financial Statements	1 January 2013	29 December 2012
IFRS 11 Joint Arrangements	1 January 2013	29 December 2012
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013	29 December 2012
IFRS 13 Fair Value Measurement	1 January 2013	29 December 2012
IAS 27 (2011) Separate Financial Statements	1 January 2013	29 December 2012
IAS 28 (2011) Investments in Associates and Joint Ventures	1 January 2013	29 December 2012
Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2014	29 December 2012
IFRS 9 (2010 and 2009) Financial instruments	1 January 2015	(Outstanding)
Annual Improvements to IFRS 2011	1 January 2013	(Outstanding)

## 4. Basis of Consolidation

### *i. Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date (i.e. when control is transferred to the Group).

Goodwill is measured at the acquisition date as:

- the fair value of the consideration transferred, plus
- the recognised amount of any non-controlling interests in the acquiree, plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less
- the net recognised amount of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

As part of the transition to IFRS, and in line with the exemption set out in IFRS 1 First-time Adoption of International Financial Reporting Standards, the Group has elected not to restate business combinations prior to the transition date (1 January 2010).

### *ii. Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to directly or indirectly govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Group financial statements from the date control commences until the date control ceases.

In the Parent financial statements, investments in subsidiaries are carried at cost less any impairment charges.

### *iii. Joint ventures*

Joint ventures are those entities which the Group jointly controls. Joint ventures are accounted for using the equity method of accounting. The Group's share of profit/loss after tax of joint ventures is included in the Group income statement after net finance costs. The Group's share of items of other comprehensive income is shown in the Group statement of other comprehensive income. The Group's interests in the net assets or liabilities of joint ventures are included in "Investment in joint ventures" on the face of the Group statement of financial position at an amount representing the Group's share of the fair values of the net assets at acquisition plus goodwill, less any impairment and the Group's share of post acquisition retained income, expenses and other comprehensive income.

In the Parent financial statements, investments in joint ventures are carried at cost less any impairment charges.

### *iv. Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Group financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## 5. Foreign Currency

These financial statements are presented in euro, which is both the functional currency of the Parent and the reporting currency of the Group.

### *i. Foreign currency transactions*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into the functional currency at rates ruling at the reporting date. The resulting foreign currency gain or loss arising on translation is recognised in profit or loss. Non-monetary assets and liabilities in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction, and are not subsequently retranslated.

### *ii. Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The results of foreign operations are translated to euro at average exchange rates for the period, when they represent a reasonable approximation of the actual rates incurred. Exchange differences on retranslation of the opening net assets and the results are recognised in other comprehensive income and dealt with as a separate component of equity (translation reserve).

## 6. Property, Plant and Equipment

### *i. Recognition*

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses thereon. Cost includes direct costs (including direct labour), overheads, decommissioning or restoration costs and interest incurred in financing the construction of the asset when construction takes a substantial period of time to complete.

Assets under construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their productive use.

### *ii. Depreciation*

Items of property, plant and equipment are depreciated from the date they are available for use.

The charge for depreciation is calculated to write down the cost of property, plant and equipment, less estimated residual value, on a straight-line basis over their expected useful lives. Leased

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## Statement of Accounting Policies (continued)

assets are depreciated over the shorter of the lease term and their useful lives. Major asset classifications and their estimated useful lives are:

- Buildings 40 years
- Plant, pipeline and machinery 3-60 years

Depreciation is not charged on land or assets under construction.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### *iii. Subsequent expenditure*

Subsequent expenditure, for example, the cost of replacing a component of an item of property, plant and equipment, is recognised in the carrying amount of the item if it is probable that the future economic benefits associated with the item will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### *iv. Borrowing costs*

Borrowing costs are capitalised as a cost of an asset if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of interest ceases when the asset is commissioned or where active development has been interrupted for an extended period.

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

## 7. Intangible Assets

### *i. Goodwill*

Goodwill that arises on the acquisition of subsidiaries is presented within intangible assets. Refer to accounting policy 4 (i) for the measurement of goodwill at initial recognition. Thereafter, goodwill is measured at cost after impairment losses. Refer to accounting policy 8 below for the Group's accounting policy on impairment.

### *ii. Research and development*

Research and development expenditure is charged to the income statement as incurred, with the exception of certain development expenditure which is capitalised within intangible assets when the criteria set out in IAS 38 Intangible Assets are met.

### *iii. Wind farm developments*

Development costs (including direct labour and interest costs) which relate to specific wind farm projects, where the future recoverability can be foreseen with reasonable assurance, are capitalised within intangible assets when the criteria set out in IAS 38 are met. Costs capitalised represent the costs incurred in bringing individual wind farm developments to the consented stage.

At the point the development project reaches the consented stage and is approved for construction; the carrying value is tested for impairment and is then transferred to property, plant and equipment at the appropriate amount.

At the point a project is no longer expected to reach the consented stage; the carrying amount of the project is impaired.

### *iv. Software, software under development and other intangible assets*

Software costs include both internally developed and externally purchased assets.

Internally developed software refers to costs directly associated with the production of identifiable and unique software products which are controlled by the Group. These costs are recognised as intangible assets as it is considered probable that these products will generate economic benefits exceeding the recognised costs. These costs are capitalised only if the criteria set out in IAS 38 are met. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific assets.

Other intangible assets mainly include externally acquired contractual rights.

### *v. Amortisation of intangible assets*

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. Amortisation is not charged on goodwill or development assets that are not yet available for use. Software and other intangible assets are amortised, on a straight-line basis, over their estimated useful lives of up to seven years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### *vi. Borrowing costs*

Refer to accounting policy 6 (iv).

## 8. Impairment of Assets

### *i. Assets that are not subject to amortisation*

Intangible assets, including goodwill, with an indefinite useful life or which are not yet ready for use, are tested annually for impairment.

### *ii. Assets that are subject to depreciation/amortisation*

The carrying amounts of these assets are reviewed at each reporting date to determine whether there is any indication of impairment. If an indication of impairment exists, then the asset's recoverable amount is estimated.

### iii. Recognition of an impairment loss

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs).

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

### iv. Reversal of an impairment loss

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

A reversal of an impairment loss for a CGU shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. The reversal is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the reversal shall be treated as a revaluation increase. Using the asset's revised carrying amount, depreciation is provided on a straight-line basis over the estimated remaining useful life.

## 9. Assets Held for Sale or Held for Distribution

Non-current assets or disposal groups, comprising assets and liabilities, are classified as held-for-sale or held-for-distribution if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use.

Immediately before classification as held-for-sale or held-for-distribution, the assets or components of a disposal group are remeasured in accordance with the Group's other accounting policies. Thereafter, generally the assets or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill and then to the remaining assets and liabilities on a pro rata basis; except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets or investment property, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held-for-sale or held-for-distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity accounted investee is no longer equity accounted.

## 10. Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The fair value or, if lower, the present value of assets acquired under finance leases are included under property, plant and equipment and written off over the shorter of the lease term or the estimated useful life of the asset. The capital elements of future obligations are included as liabilities. Interest on the remaining lease obligation is charged to the income statement over the period of the lease. This charge is calculated so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

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 in which the economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives are recognised as a reduction of rental expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### i. Accounting for arrangements in the legal form of a lease that are in substance not a lease

In accordance with SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease, a series of transactions that involve the legal form of a lease is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. This is the case for example when the series of transactions are closely interrelated, negotiated as a single transaction and take place concurrently or in continuous sequence.

### ii. Accounting for arrangements that contain a lease

The determination of whether an arrangement contains a lease is dependent on whether the arrangement relates to the use and the control of a specific asset. Leases are classified as finance leases if the arrangement transfers substantially all the risks and rewards of ownership. All other leases are categorised as operating leases.

## 11. Inventories

Inventories are measured at the lower of cost and net realisable value, using the first-in, first-out (FIFO) cost formula in line with IAS 2 Inventories. Cost comprises purchase price and all direct costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the actual or estimated selling price less all costs to be incurred prior to disposal.

Specific allowance is made for damaged, deteriorated, obsolete and unusable items where appropriate.

## Statement of Accounting Policies (continued)

### 12. Deferred Costs

Costs incurred during the financial year that are directly attributable to Irish Water activities, are deferred on the basis of an ability to recover such costs under future billing or recovery arrangements. Deferred costs are reviewed at the end of each reporting period and are written-off where they are no longer considered to be recoverable.

### 13. Financial Assets and Liabilities

#### *i. Derivative financial instruments*

##### *Commodity derivatives*

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities, including gas and electricity. Where the contract was entered into and continues to be held for the purposes of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as 'own use' contracts and are treated as executory contracts. These contracts are not within the scope of IAS 39.

Derivative commodity contracts which do not meet the criteria of own use contracts are accounted for as trading derivatives and are recognised in the statement of financial position at fair value.

##### *Treasury related derivatives*

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are remeasured to fair value at the reporting date. The majority of derivative financial instruments are designated as being held for hedging purposes.

The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on remeasurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge.

Derivatives not part of effective hedging relationships are treated as if held for trading, with all fair value movements being recorded through profit or loss.

#### *[a] Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from other comprehensive income and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from other comprehensive income and recognised in profit or loss at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in other comprehensive income, is recognised in profit or loss immediately.

#### *[b] Fair value hedges*

Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the derivative are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item.

#### *ii. Interest bearing borrowings*

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings that are not in a fair value hedging relationship are stated at amortised cost using the effective interest rate method and borrowings in a fair value hedging relationship are adjusted for fair value movements in hedged risks.

#### *iii. Non-derivative financial assets and liabilities*

##### *Trade and other receivables*

Trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount net of transaction costs, and are subsequently carried at this value less an appropriate allowance for impairment losses.

Impairment losses are recognised where there is objective evidence of a dispute or an inability to pay. An additional allowance is made on a portfolio basis to cover additional incurred losses based on an analysis of previous losses experienced and adjusted to reflect current economic conditions.

##### *Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits repayable on demand and other short-term highly liquid investments with original maturities of three months or less, less overdrafts payable on demand.

##### *Trade and other payables*

Trade and other payables are initially recorded at fair value, which is usually the original invoiced amount net of transaction costs, and subsequently carried at amortised cost using the effective interest rate method.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets (in accordance with IAS 39). Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are



measured at fair value and changes therein are recognised in other comprehensive income (except for changes due to impairment losses and foreign currency differences, which are recognised in profit or loss). When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

#### 14. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The associated financing charge is recognised in finance costs.

##### *i. Restructuring*

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

##### *ii. Environmental and decommissioning*

Provision is made for estimated decommissioning costs at the end of the estimated useful lives of power generating assets on a discounted basis based on price levels and technology at the reporting date. Changes in these estimates and changes to the discount rates are dealt with prospectively and included in the cost of the asset. Capitalised decommissioning costs are depreciated over the estimated useful lives of the related assets.

Provision is also made for estimated costs to decontaminate legacy Gas Works sites, obligations for site remediation and costs to be incurred in compliance with environmental regulations and constructive obligations.

#### 15. Grants

A government grant is recognised in the statement of financial position initially as deferred revenue when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same years in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset to match the depreciation charge.

#### 16. Capital Stock

The units of capital stock are valued at the price at which they were issued to the Department of Finance, the Department of Communications, Energy and Natural Resources and Bord Gáis Employee Share Ownership Trust (ESOT).

#### 17. Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services in the normal course of business, net of discounts, VAT and other sales related taxes.

Gas and electricity revenue includes an estimate of the fair value of gas and electricity supplied to customers between the date of the last meter reading and the period end. This estimate is included in trade and other receivables in the statement of financial position as unbilled consumption.

Gas and electricity revenue is recognised on consumption of the product. Transportation capacity revenue is recognised in line with the underlying contract while any related commodity revenue is recognised based on throughput for the period for each customer.

A number of the Group's sources of revenue are dependent on being approved by the industry regulator, the Commission for Energy Regulation. Certain circumstances may result in the regulatory "allowed" revenue being over or under recovered in the financial year. Any over or under recovery may be included, within certain parameters, in the calculation of the following years' regulatory revenue. No adjustment is made for over or under recoveries in the year that they arise.

In line with IFRIC 18 Transfer of Assets from Customers, non-repayable supply contributions received are recognised in the income statement as revenue in accordance with IAS 18 Revenue. Contributions are recognised in deferred income when received, and are released to the income statement in accordance with fulfilment of performance obligations.

#### 18. Operating Profit

Operating profit is stated before net finance costs, taxation and the share of results of joint ventures.

#### 19. Net Finance Costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial asset investments, fair value gains on financial asset investments, and gains on financing hedging instruments that are recognised in profit or loss (refer to accounting policy 3 above). Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, financing charge on provisions, losses on disposal of financial asset investments, fair value losses on financial asset investments, impairment losses recognised on financial assets (other than trade receivables), and losses on financing hedging instruments that are recognised in profit or loss (refer to accounting policy 3 above).

## Statement of Accounting Policies (continued)

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

### 20. Income Tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured, at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it is probable that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying temporary differences can be deducted.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the intention is to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 21. Retirement Benefit Obligations

The Group operates both defined benefit and defined contribution pension schemes.

#### i. Defined benefit pension schemes

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme, which is detailed below.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial reviews being carried out at each reporting 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 other 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 current service cost and gains and losses on settlements and curtailments are charged to operating costs, or to provisions in the instances where the associated costs were provided for initially as part of the recognition of a restructuring provision. The interest cost and the expected return on assets are included as finance costs/income.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets.

#### ii. Defined contribution pension schemes

A defined contribution scheme is a post-employment benefit scheme under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

The contributions payable under the defined contribution schemes are charged to profit or loss in the periods during which services are rendered by employees.

### 22. Share Based Payments

Equity-settled share based payments to employees are measured at the fair value of the equity instruments at the grant date. The awards are subject to non-market vesting conditions. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss immediately to the extent that it relates to current or prior periods, with a corresponding adjustment to reserves.

### 23. Emissions Allowances

In accordance with the provisions of the EU CO<sub>2</sub> Emissions Trading Scheme, emissions allowances covering a percentage of the expected emissions during the year are granted to the Group at the beginning of each year by the Environmental Protection Agency (EPA).

As emissions arise, a provision is recorded in profit or loss to reflect the net amount required to settle the liability to the EPA. This provision will include the current market value of any additional allowances required to settle the obligation. These allowances, together with any allowances purchased during the year, are returned to the EPA within four months of the end of that calendar year, in order to cover the liability for actual emissions of CO<sub>2</sub> during that year.

### 24. Non-GAAP Measures

EBITDA is defined as earnings before interest, tax, depreciation and amortisation. The Group uses EBITDA before certain remeasurements and exceptional items (non-GAAP measure) to provide useful performance and liquidity information to management, stockholders and external stakeholders.

## Group Income Statement

for the year ended 31 December 2012

	Notes	Before certain remeasurements and exceptional items 2012 €'000	Certain remeasurements and exceptional items (note 4) 2012 €'000	Results for the year 2012 €'000	Before certain remeasurements and exceptional items 2011 €'000	Certain remeasurements and exceptional items (note 4) 2011 €'000	Results for the year 2011 €'000
<b>Continuing operations</b>							
Revenue	1	1,625,455	-	1,625,455	1,608,357	-	1,608,357
Cost of sales		(974,853)	-	(974,853)	(999,031)	-	(999,031)
<b>Gross profit</b>		<b>650,602</b>	<b>-</b>	<b>650,602</b>	<b>609,326</b>	<b>-</b>	<b>609,326</b>
Operating costs (excluding depreciation and amortisation)	2	(270,744)	-	(270,744)	(265,837)	-	(265,837)
Other operating income		-	29,617	29,617	-	-	-
<b>Operating profit before depreciation and amortisation (EBITDA)</b>		<b>379,858</b>	<b>29,617</b>	<b>409,475</b>	<b>343,489</b>	<b>-</b>	<b>343,489</b>
Net changes in fair value of operating derivatives		-	(699)	(699)	-	2,093	2,093
Depreciation and amortisation	3	(168,807)	-	(168,807)	(162,770)	-	(162,770)
<b>Operating profit</b>		<b>211,051</b>	<b>28,918</b>	<b>239,969</b>	<b>180,719</b>	<b>2,093</b>	<b>182,812</b>
Finance income	5	1,090	14,400	15,490	1,706	3,772	5,478
Finance costs	5	(91,178)	-	(91,178)	(87,887)	-	(87,887)
Net finance costs	5	(90,088)	14,400	(75,688)	(86,181)	3,772	(82,409)
Share of loss of joint ventures	9	(450)	-	(450)	(197)	-	(197)
<b>Profit before income tax</b>		<b>120,513</b>	<b>43,318</b>	<b>163,831</b>	<b>94,341</b>	<b>5,865</b>	<b>100,206</b>
Income tax expense	6	(15,322)	(6,048)	(21,370)	(12,278)	(733)	(13,011)
<b>Profit for the year</b>		<b>105,191</b>	<b>37,270</b>	<b>142,461</b>	<b>82,063</b>	<b>5,132</b>	<b>87,195</b>
<b>Profit attributable to:</b>							
Owners of the Parent		105,191	37,270	142,461	82,063	5,132	87,195
<b>Profit for the year</b>		<b>105,191</b>	<b>37,270</b>	<b>142,461</b>	<b>82,063</b>	<b>5,132</b>	<b>87,195</b>

For and on behalf of the Board:

Chairman

Member of the Board

09 April 2013

Date of Approval

## Group Statement of Other Comprehensive Income

for the year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
<b>Profit for the year</b>		<b>142,461</b>	87,195
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Defined benefit plan actuarial losses	17	(34,971)	(23,977)
Deferred tax credit relating to defined benefit obligations	11	4,371	2,997
<b>Total items that will not be reclassified to profit or loss</b>		<b>(30,600)</b>	(20,980)
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Translation differences on consolidation of foreign subsidiaries		(166)	(152)
Translation differences on consolidation of foreign joint ventures	9	53	51
Net change in fair value of cash flow hedges	21	(22,714)	(7,149)
Deferred tax on cash flow hedge movement	11	2,839	894
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>(19,988)</b>	(6,356)
<b>Total other comprehensive income for the year, net of income tax</b>		<b>(50,588)</b>	(27,336)
<b>Total comprehensive income for the year</b>		<b>91,873</b>	59,859
<b>Total comprehensive income attributable to:</b>			
Owners of the Parent		91,873	59,859
<b>Total comprehensive income for the year</b>		<b>91,873</b>	59,859

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For and on behalf of the Board:



Chairman



Member of the Board

09 April 2013

Date of Approval

## Group Statement of Financial Position


as at 31 December 2012

	Notes	31-Dec-12 €'000	31-Dec-11 €'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	3,628,813	3,593,396
Intangible assets	8	218,402	214,200
Investment in joint ventures	9	8,873	9,270
Financial asset investments	10	3,761	2,761
Trade and other receivables	13	802	220
Derivative financial instruments	21	11,986	17,643
Deferred tax assets	11	17,137	19,753
<b>Total non-current assets</b>		<b>3,889,774</b>	<b>3,857,243</b>
<b>Current assets</b>			
Inventories	12	48,711	48,864
Trade and other receivables	13	383,912	322,771
Cash and cash equivalents	14	336,940	253,446
Restricted deposits	14	29,896	47,825
Derivative financial instruments	21	7,089	24,271
Current tax assets	11	-	2,527
<b>Total current assets</b>		<b>806,548</b>	<b>699,704</b>
<b>Total assets</b>		<b>4,696,322</b>	<b>4,556,947</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Capital stock	15	(100,000)	(100,000)
Capital premium	15	(29,426)	(29,426)
Other reserves		51,499	31,511
Retained earnings		(1,436,891)	(1,349,649)
<b>Total equity attributable to equity holders of the Parent</b>		<b>(1,514,818)</b>	<b>(1,447,564)</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings and other debt	16	(2,064,488)	(2,126,683)
Retirement benefit obligations	17	(39,447)	(37,391)
Deferred revenue and government grants	18	(106,012)	(116,192)
Provisions	19	(15,183)	(12,432)
Trade and other payables	20	(26,686)	(28,709)
Derivative financial instruments	21	(79,095)	(53,947)
Deferred tax liabilities	11	(238,943)	(229,863)
<b>Total non-current liabilities</b>		<b>(2,569,854)</b>	<b>(2,605,217)</b>
<b>Current liabilities</b>			
Borrowings and other debt	16	(205,295)	(69,491)
Deferred revenue and government grants	18	(26,206)	(23,264)
Provisions	19	(2,150)	(6,644)
Trade and other payables	20	(369,360)	(371,721)
Derivative financial instruments	21	(6,737)	(33,046)
Current tax liabilities	11	(1,902)	-
<b>Total current liabilities</b>		<b>(611,650)</b>	<b>(504,166)</b>
<b>Total liabilities</b>		<b>(3,181,504)</b>	<b>(3,109,383)</b>
<b>Total equity and liabilities</b>		<b>(4,696,322)</b>	<b>(4,556,947)</b>

For and on behalf of the Board:



Chairman



Member of the Board

09 April 2013

Date of Approval



## Group Statement of Changes in Equity

for the year ended 31 December 2012

	Capital stock €'000	Capital premium €'000	Cash flow hedge reserve €'000	Translation reserve €'000	Total other reserves €'000	Retained earnings €'000	Total €'000
<b>Balance at 1 January 2011</b>	100,000	29,426	(24,716)	(439)	(25,155)	1,317,643	1,421,914
<b>Total comprehensive income for the year</b>							
Profit for the year	-	-	-	-	-	87,195	87,195
Other comprehensive income for the year, net of income tax	-	-	(6,255)	(101)	(6,356)	(20,980)	(27,336)
<b>Total comprehensive income for the year</b>	-	-	(6,255)	(101)	(6,356)	66,215	59,859
<b>Transactions with owners, recorded directly in equity</b>							
Dividends paid	-	-	-	-	-	(34,209)	(34,209)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	(34,209)	(34,209)
<b>Balance at 31 December 2011</b>	100,000	29,426	(30,971)	(540)	(31,511)	1,349,649	1,447,564
<b>Total comprehensive income for the year</b>							
Profit for the year	-	-	-	-	-	142,461	142,461
Other comprehensive income for the year, net of income tax	-	-	(19,875)	(113)	(19,988)	(30,600)	(50,588)
<b>Total comprehensive income for the year</b>	-	-	(19,875)	(113)	(19,988)	111,861	91,873
<b>Transactions with owners, recorded directly in equity</b>							
Dividends paid	-	-	-	-	-	(24,619)	(24,619)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	(24,619)	(24,619)
<b>Balance at 31 December 2012</b>	100,000	29,426	(50,846)	(653)	(51,499)	1,436,891	1,514,818

All attributable to equity holders of the Parent.

## Group Statement of Cash Flows

for the year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
<b>Cash flows from operating activities</b>			
Profit for the year		142,461	87,195
Adjustments for:			
Depreciation and amortisation	3	168,807	162,770
Gain on sale of property, plant and equipment		(26)	(17)
Share of loss of joint ventures	9	450	197
Net finance costs	5	75,688	82,409
Income tax expense	6	21,370	13,011
Operating derivatives loss/(gain)	4	699	(2,093)
Other operating income	4	(29,617)	-
		<b>379,832</b>	<b>343,472</b>
Working capital changes:			
Change in inventories		153	(14,687)
Change in trade and other receivables		(60,940)	27,167
Change in trade and other payables		16,846	(13,534)
Change in deferred revenue		(2,327)	5,287
Cash outflows in respect of:			
- Third Directive provision		(1,549)	(8,294)
- Other provisions		(298)	(6,926)
Change in self-insured claims provision		918	(585)
<b>Cash generated from operating activities</b>		<b>332,635</b>	<b>331,900</b>
Interest paid		(108,037)	(98,021)
Income tax refund/(paid)		2,565	(25)
<b>Net cash generated from operating activities</b>		<b>227,163</b>	<b>233,854</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		229	149
Movements in restricted deposits		17,952	(16,280)
Payments for property, plant and equipment		(178,961)	(180,383)
Payments for intangible assets		(31,448)	(35,211)
Payments to acquire financial asset investments		(1,000)	-
Payments in relation to acquisitions net of cash acquired		-	(553)
Payments in relation to acquisitions - deferred consideration paid		-	(26,654)
Dividends received from financial asset investments		-	600
Interest received		2,023	1,578
<b>Net cash used in investing activities</b>		<b>(191,205)</b>	<b>(256,754)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		476,225	202,385
Repayment of borrowings		(404,145)	(121,640)
Dividends paid	15	(24,619)	(34,209)
<b>Net cash from financing activities</b>		<b>47,461</b>	<b>46,536</b>
<b>Net increase in cash and cash equivalents</b>	14	<b>83,419</b>	<b>23,636</b>
Cash and cash equivalents at 1 January	14	253,446	229,654
Effect of exchange rate fluctuations on cash held	14	75	156
<b>Cash and cash equivalents at 31 December</b>	14	<b>336,940</b>	<b>253,446</b>

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## 1. Segmental Information

The Group has adopted IFRS 8 Operating Segments in the financial statements. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In the Group's case the chief operating decision maker has been identified as the Board.

The Group's operating segments are therefore those used internally by the Board to run the business and make strategic decisions. The operating segments are also the Group's reportable segments.

The Group's operating segments along with the types of products and services from which each reportable segment derives its revenues, are as follows:

Segment	Geographical location	Description of products and services
Networks	Ireland and UK	The Networks segment, on behalf of Gaslink, develops, operates and maintains the natural gas transmission and distribution networks in the Republic of Ireland and provides gas transportation services to suppliers and shippers including the Group's Energy segment. The Networks segment is ring-fenced through regulation from the Group's generation and supply business and all services provided are on an arm's length basis. The Networks segment also operates and owns the two Interconnector gas pipelines between Scotland and Republic of Ireland and has Network infrastructure assets in Northern Ireland and the Isle of Man. Revenues are principally derived from gas transportation services.
Energy	Ireland and UK	The Energy segment is a dual-fuel, all-island business that serves its customer base with exemplary service at a competitive price, procuring energy efficiently on wholesale markets and investing in energy assets (including a power station and wind farms) to support its growth objectives in the energy markets in Ireland. The Group views this as a single value chain within a vertically integrated business. Revenues are principally derived from sales to gas and electricity customers. The Energy segment is ring-fenced through regulation from the Group's Networks segment and all services procured/provided are on an arm's length basis.
Ancillary	Ireland	Ancillary business includes areas not falling within the Networks and Energy segments. Most notably this includes Gaslink, the independent system operator of the natural gas transmission and distribution network.

### (a) Revenue by segment

	Gross segment revenue 2012 €'000	Inter segment revenue 2012 €'000	Group revenue 2012 €'000	Gross segment revenue 2011 €'000	Inter segment revenue 2011 €'000	Group revenue 2011 €'000
Networks revenue	456,495	160,782	295,713	453,976	183,540	270,436
Energy revenue						
- retail	1,433,692	124,623	1,309,069	1,410,029	119,522	1,290,507
- generation	209,394	188,963	20,431	224,015	176,721	47,294
Ancillary revenue	3,429	3,187	242	4,150	4,030	120
<b>Total</b>	<b>2,103,010</b>	<b>477,555</b>	<b>1,625,455</b>	<b>2,092,170</b>	<b>483,813</b>	<b>1,608,357</b>

## Notes to the Group Financial Statements (continued)

**1. Segmental Information (continued)**

External revenue split by geographic location is as follows:

	2012 €'000	2011 €'000
Ireland	1,472,530	1,509,018
UK (including Northern Ireland and Isle of Man)	152,925	99,339
<b>Total</b>	<b>1,625,455</b>	<b>1,608,357</b>

The Group is not reliant on any major external customers.

**(b) Operating profit****Operating profit/(loss) by segment before depreciation and amortisation (EBITDA)**

The primary measure of profit used by the Board in assessing business performance is operating profit before depreciation and amortisation (EBITDA).

	2012 €'000	2011 €'000
Networks	300,594	298,617
Energy	79,363	44,273
Ancillary	(99)	599
<b>Segment result reported to the Board</b>	<b>379,858</b>	<b>343,489</b>
Certain remeasurements and exceptional items	29,617	-
<b>Total</b>	<b>409,475</b>	<b>343,489</b>

**Operating profit/(loss) by segment (before interest and tax)**

Operating profit of the Group is reported before the impact of certain remeasurements and exceptional items.

	2012 €'000	2011 €'000
Networks	191,279	194,343
Energy	19,896	(14,142)
Ancillary	(124)	518
<b>Segment result reported to the Board</b>	<b>211,051</b>	<b>180,719</b>
Certain remeasurements and exceptional items	28,918	2,093
<b>Total</b>	<b>239,969</b>	<b>182,812</b>

**(c) Assets and liabilities**

Segmental analysis of assets and liabilities is not disclosed as this information is not presented to the Board.



## 1. Segmental Information (continued)

### (d) Capital expenditure

	Capital additions to property, plant and equipment (note 7)		Capital additions to intangible assets (note 8)	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Networks	84,938	101,649	5,180	14,469
Energy	96,996	87,320	21,028	20,797
Ancillary	40	2	-	-
<b>Total</b>	<b>181,974</b>	<b>188,971</b>	<b>26,208</b>	<b>35,266</b>

The 2011 capital expenditure of the Energy segment includes 100% of the fair value of the property, plant and equipment acquired on the acquisition of Booltiagh Wind Limited.

### (e) Depreciation and amortisation, included within operating profit

	2012 €'000	2011 €'000
Networks	109,316	104,274
Energy	59,464	58,415
Ancillary	27	81
<b>Total</b>	<b>168,807</b>	<b>162,770</b>

### (f) Impairment of financial and non-financial assets

	2012 €'000	2011 €'000
Networks	27	130
Energy	11,395	9,606
Ancillary	-	-
<b>Total</b>	<b>11,422</b>	<b>9,736</b>

The only impairment losses recognised by the Group during the year were impairments of trade receivables. Refer to note 21 for further details.

### (g) Non-current assets by geographic location

	31-Dec-12 €'000	31-Dec-11 €'000
Ireland	3,421,898	3,383,213
UK (including Northern Ireland and Isle of Man)	438,753	436,634
<b>Total</b>	<b>3,860,651</b>	<b>3,819,847</b>

Non-current assets for this purpose consists of property, plant and equipment, intangible assets, trade and other receivables, investment in joint ventures and financial asset investments. Derivative financial instruments and deferred tax assets are excluded.

## Notes to the Group Financial Statements (continued)

## 2. Operating Costs (excluding depreciation and amortisation)

	2012 €'000	2011 €'000
Payroll expense	79,370	77,955
Impairment of trade receivables	11,422	9,736
Other operating costs	179,952	178,146
<b>Total</b>	<b>270,744</b>	<b>265,837</b>

<b>Payroll costs</b>	2012 €'000	2011 €'000
Wages and salaries	78,883	78,245
Social welfare costs	8,382	8,199
Pension costs - defined benefit plans	6,947	5,374
Pension costs - defined contribution plans	251	215
	94,463	92,033
Capitalised payroll	(15,093)	(14,078)
<b>Payroll costs charged to profit or loss</b>	<b>79,370</b>	<b>77,955</b>

## Average number of employees in year, analysed by category, including temporary employees:

	2012	2011
Networks	586	601
Energy	453	462
Corporate	45	40
Other	18	20
<b>Total</b>	<b>1,102</b>	<b>1,123</b>

## Operating costs are stated after charging:

	2012 €'000	2011 €'000
Auditor's remuneration		
- statutory audit services	359	355
- other audit related assurance services	146	179
- tax advisory services	61	40
- other non audit services***	125	250
<b>Total</b>	<b>691</b>	<b>824</b>

Board members' emoluments		
- fees	136	159
- remuneration of the Chief Executive*	330	343
<b>Total</b>	<b>466</b>	<b>502</b>

Details of the all-in cost of the remuneration package of the Chief Executive is made up as follows:

	2012 €'000	2011 €'000
Chief Executive's annual basic salary	250	278**
Actual payments under performance related pay scheme	-	-
Other benefits including pension costs, cost of company car, holiday pay and health insurance	80	65
<b>Total</b>	<b>330</b>	<b>343</b>

\* Remuneration details relate to the former Chief Executive who left office on 31 December 2012.

\*\* Effective from 1 August 2011, the former Chief Executive's annual basic salary reduced to €250,000 per annum.

\*\*\* Excluding €350,000 for services in relation to Irish Water which were included in deferred costs (refer to note 26).

### 3. Depreciation and Amortisation

	2012 €'000	2011 €'000
Depreciation	152,586	153,910
Amortisation of intangible assets	22,017	14,534
Grant amortisation	(5,796)	(5,674)
<b>Total</b>	<b>168,807</b>	<b>162,770</b>

### 4. Certain Remeasurements and Exceptional Items

		2012 €'000	2011 €'000
Other operating income	(a)	29,617	-
<b>Impact on operating profit before depreciation and amortisation (EBITDA)</b>		<b>29,617</b>	<b>-</b>
Net changes in fair value of operating derivatives	(b)	(699)	2,093
<b>Impact on operating profit</b>		<b>28,918</b>	<b>2,093</b>
Net changes in fair value of financing derivatives	(b)	5,290	3,772
Other finance income	(c)	9,110	-
<b>Impact on finance income</b>		<b>14,400</b>	<b>3,772</b>
<b>Impact on profit before income tax</b>		<b>43,318</b>	<b>5,865</b>
Taxation impact of certain remeasurements and exceptional items		(6,048)	(733)
<b>Impact on profit for the year</b>		<b>37,270</b>	<b>5,132</b>

(a) Following a strategic review of pension arrangements, the Group revised the benefits under the defined benefit schemes giving rise to an exceptional gain, in accordance with IAS 19, in the year of €29.6 million. The negative past service cost arises following changes in the level of discretionary pension increases targeted for pensions in payments for all members. The change in the level of increases being targeted has been communicated to all stakeholders. Further details are set out in note 17.

(b) For financial reporting purposes, the Group has classified the remeasurements as either arising from operating activities or financing activities. Operating activities include remeasurements on certain unrealised energy commodity contracts falling within the scope of IAS 39 and related unrealised currency contracts. Financing activities include remeasurements on certain unrealised interest rate contracts not designated as part of an effective hedge relationship and accounted for as if held for trading or as fair value hedges. Further details on derivative financial instruments falling within the scope of IAS 39 are set out in accounting policy 13.

(c) During the year, the Group redeemed a number of financing arrangements early, on which the related net gains were taken to the income statement. The financing arrangements included two Bilateral Loan Facilities and a lease arrangement falling within the scope of SIC 27 (refer to note 23 for further details). In accordance with the Group's policy on exceptional items, the net gain arising of €9.1 million has been classified as an exceptional gain in the Group income statement.

## Notes to the Group Financial Statements (continued)

## 5. Net Finance Costs

	2012 €'000	2011 €'000
<b>Before certain remeasurements and exceptional items</b>		
<b>Finance income</b>		
Interest income on short-term deposits	1,090	1,706
<b>Total finance income</b>	<b>1,090</b>	<b>1,706</b>
<b>Finance costs</b>		
Interest on borrowings	(91,647)	(91,614)
Interest capitalised	10,188	8,434
Financing charge	(986)	(985)
Expected return on pension scheme assets	14,821	17,078
Interest on pension scheme liabilities	(15,313)	(15,218)
Other finance costs	(8,241)	(5,582)
<b>Total finance costs</b>	<b>(91,178)</b>	<b>(87,887)</b>
<b>Before certain remeasurements and exceptional items</b>		
Finance income	1,090	1,706
Finance costs	(91,178)	(87,887)
<b>Net finance costs before certain remeasurements and exceptional items</b>	<b>(90,088)</b>	<b>(86,181)</b>
<b>Certain remeasurements and exceptional items (note 4)</b>		
<b>Finance income</b>		
Other finance income	9,110	-
Net changes in fair value of financing derivatives	5,290	3,772
<b>Total finance income from certain remeasurements and exceptional items</b>	<b>14,400</b>	<b>3,772</b>
<b>After certain remeasurements and exceptional items</b>		
Finance income	15,490	5,478
Finance costs	(91,178)	(87,887)
<b>Net finance costs after certain remeasurements and exceptional items</b>	<b>(75,688)</b>	<b>(82,409)</b>

Refer to note 21 for details of finance income/costs recognised in the statement of other comprehensive income.

## 6. Income Tax Expense

	2012 €'000	2011 €'000
<b>Current tax expense/(credit)</b>		
Current tax	2,233	54
Adjustments in respect of previous years	20	(18)
	<b>2,253</b>	<b>36</b>
<b>Deferred tax expense/(credit)</b>		
Origination and reversal of temporary differences	19,495	13,243
Adjustments in respect of previous years	(378)	(268)
	<b>19,117</b>	<b>12,975</b>
<b>Total expense</b>	<b>21,370</b>	<b>13,011</b>
<b>Reconciliation of effective tax rate</b>	2012 €'000	2011 €'000
Profit before tax	163,831	100,206
Add: After tax share of loss of joint ventures	450	197
<b>Profit before tax (excluding share of loss of joint ventures)</b>	<b>164,281</b>	<b>100,403</b>
Taxed at 12.5% (2011: 12.5%)	20,535	12,550
Expenses not deductible for tax purposes	1,551	2,847
Tax effect of additional losses forward	(2)	(583)
Tax benefit on investment in renewable energy	(1,588)	(1,191)
Income not taxable	(582)	(1,073)
Profits/(losses) taxed at higher rates	486	(502)
Exchange adjustments	(304)	(285)
Effect of tax rate change	1,632	1,534
Adjustments to tax charge in respect of previous years	(358)	(286)
<b>Income tax expense</b>	<b>21,370</b>	<b>13,011</b>

Refer to the Group statement of other comprehensive income for details of tax impacts therein.

## Notes to the Group Financial Statements (continued)

## 7. Property, Plant and Equipment

	Land and buildings €'000	Plant, pipeline and machinery €'000	Assets under construction €'000	Total €'000
<b>Cost</b>				
<b>At 1 January 2011</b>	76,022	4,405,248	137,828	4,619,098
Additions	1,479	79,942	72,757	154,178
Acquisitions	124	34,669	-	34,793
Effect of movement in exchange rates	215	7,719	77	8,011
Transfers in year	19,817	27,975	(47,792)	-
Disposals	-	(3,232)	-	(3,232)
<b>At 31 December 2011</b>	<b>97,657</b>	<b>4,552,321</b>	<b>162,870</b>	<b>4,812,848</b>
Additions	-	63,359	118,615	181,974
Effect of movement in exchange rates	-	7,754	101	7,855
Transfers in year	-	18,367	(18,367)	-
Disposals	-	(3,076)	-	(3,076)
<b>At 31 December 2012</b>	<b>97,657</b>	<b>4,638,725</b>	<b>263,219</b>	<b>4,999,601</b>
<b>Accumulated depreciation</b>				
<b>At 1 January 2011</b>	18,638	1,048,229	-	1,066,867
Depreciation for the year	5,444	148,466	-	153,910
Effect of movement in exchange rates	71	1,704	-	1,775
Disposals	-	(3,100)	-	(3,100)
<b>At 31 December 2011</b>	<b>24,153</b>	<b>1,195,299</b>	<b>-</b>	<b>1,219,452</b>
Depreciation for the year	(2,635)	155,221	-	152,586
Effect of movement in exchange rates	-	1,623	-	1,623
Disposals	-	(2,873)	-	(2,873)
<b>At 31 December 2012</b>	<b>21,518</b>	<b>1,349,270</b>	<b>-</b>	<b>1,370,788</b>
<b>Carrying amounts</b>				
At 31 December 2011	73,504	3,357,022	162,870	3,593,396
<b>At 31 December 2012</b>	<b>76,139</b>	<b>3,289,455</b>	<b>263,219</b>	<b>3,628,813</b>

During the year, the Group capitalised the sum of €7.2 million (2011: €5.5 million) in interest. The capitalisation rate was 4.78% (2011: 4.71%). The Group also capitalised the sum of €13.5 million in payroll costs during the year (2011: €11.7 million).

BGE (IOM) Limited, a subsidiary of the Parent, entered into a project financing arrangement in 2003. The balance outstanding of €22.6 million at 31 December 2012 (2011: €25.6 million) on this limited recourse loan facility is secured over the assets of BGE (IOM) Limited (note 16).

A number of subsidiaries acquired as part of the acquisition of the SWS group of companies in December 2009 have project finance facilities in place. The balance outstanding at 31 December 2012 of €183.0 million (2011: €202.6 million) is secured over the assets of the underlying subsidiaries.



## 8. Intangible Assets

	Goodwill €'000	Wind farm developments €'000	Software under development €'000	Software and other €'000	Total €'000
<b>Cost</b>					
<b>At 1 January 2011</b>	41,706	62,339	9,872	153,813	267,730
Additions (incl internally developed)	-	7,064	26,907	1,295	35,266
Transfers in year	-	-	(8,862)	8,862	-
Effects of movement in exchange rates	-	-	-	50	50
<b>At 31 December 2011</b>	<b>41,706</b>	<b>69,403</b>	<b>27,917</b>	<b>164,020</b>	<b>303,046</b>
Additions (incl internally developed)	-	4,058	17,375	4,775	26,208
Transfers in year	-	-	(34,587)	34,587	-
Effects of movement in exchange rates	-	-	-	59	59
Disposals	-	-	-	(388)	(388)
<b>At 31 December 2012</b>	<b>41,706</b>	<b>73,461</b>	<b>10,705</b>	<b>203,053</b>	<b>328,925</b>
<b>Amortisation</b>					
<b>At 1 January 2011</b>	-	-	-	74,268	74,268
Amortisation for the year	-	-	-	14,534	14,534
Effects of movement in exchange rates	-	-	-	44	44
<b>At 31 December 2011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>88,846</b>	<b>88,846</b>
Amortisation for the year	-	-	-	22,017	22,017
Effects of movement in exchange rates	-	-	-	48	48
Disposals	-	-	-	(388)	(388)
<b>At 31 December 2012</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>110,523</b>	<b>110,523</b>
<b>Carrying amounts</b>					
At 31 December 2011	41,706	69,403	27,917	75,174	214,200
<b>At 31 December 2012</b>	<b>41,706</b>	<b>73,461</b>	<b>10,705</b>	<b>92,530</b>	<b>218,402</b>

During the year, the Group capitalised the sum of €3.0 million (2011: €2.9 million) in interest. The capitalisation rate was 4.78% (2011: 4.71%). The Group also capitalised the sum of €1.6 million in payroll costs during the year (2011: €2.4 million).

### Wind farm developments

Costs capitalised as wind farm developments represent the costs incurred in bringing individual wind farm projects to the consented stage. Costs associated with reaching the consented stage include planning application costs and environmental impact studies.

At the point the development project reaches the consented stage and is approved for construction, the carrying value is tested for impairment and is then transferred to property, plant and equipment at the appropriate amount. At the point a project is no longer expected to reach the consented stage, the carrying amount of the project is impaired.

The consented stage refers to the point at which the wind farm has received all necessary permissions, such as planning permission and approval from the appropriate regulatory authority.

For the purposes of impairment testing the Group has allocated the wind farm developments as a cash-generating unit (CGU).

The recoverable amount of the wind farm CGU is based on the value in use methodology. The method applied is to determine fair value by assessing the discounted pre tax cash flows expected to be earned by the wind farm projects within the CGU. Discount rate (pre tax) applied for 2012: 8.0% - 10.0% (2011: 8.0% - 10.0%).

Cash inflows, for all developments, are based on forecasted commercial operation dates, expected generation output (which includes assumptions regarding forecasted windspeeds and electrical losses), forecasted electricity prices (taking account of guaranteed floor prices where applicable), inflation and economic growth while applying a discount factor. Cash outflows are based on planned capital expenditure and expected operational costs (including turbine maintenance costs and other running costs).

## Notes to the Group Financial Statements (continued)

**8. Intangible Assets (continued)**

Outcome of Tests: The recoverable amounts of the wind farm CGU exceeded the respective carrying values at the time of the impairment test. While cash flows are subject to inherent uncertainty, reasonable possible changes in the key assumptions applied in assessing value in use would not cause a change to the conclusion reached.

**Software, software under development and other intangible assets**

Software costs include both internally developed and externally purchased assets. Amortisation of software is charged to the income statement as part of depreciation and amortisation. Software under development has been reviewed for impairment at each reporting date and will be reviewed on at least an annual basis into the future. Other intangible assets also included within this category mainly includes externally acquired rights and brands. Expenditure on internally generated brands is expensed as incurred.

**Goodwill**

Goodwill represents the future economic benefits arising from wind farm developments acquired in business combinations. Goodwill has been reviewed for impairment at each reporting date and will be reviewed on at least an annual basis into the future.

**9. Joint Ventures**

The following entities have been included in the Group financial statements as joint ventures using equity accounting:

Name of the company	Business activity	Country	% holding 31-Dec-12	% holding 31-Dec-11
Greener Ideas Limited	Electricity Generation	Ireland	50%	50%
Owenreagh Power Partners Limited	Renewable Electricity Generation	Northern Ireland	50%	50%
Owenreagh Wind Farm Limited	Renewable Electricity Generation	Northern Ireland	50%	50%
SWS Lisavaird NI Limited	Renewable Electricity Generation	Northern Ireland	50%	50%
Tidal Ventures Limited	Site Development for Tidal Projects	Ireland	50%	50%
Oisín Power Generation Limited	Non Trading	Ireland	50%	50%

In 2012 and 2011, the Group did not receive dividends from its investments in joint ventures.

**Joint venture summary financial information**

	31-Dec-12 €'000	31-Dec-11 €'000
Non-current assets	15,552	15,571
Current assets	3,781	3,531
<b>Total assets</b>	<b>19,333</b>	<b>19,102</b>
<b>Equity</b>	<b>8,873</b>	<b>9,270</b>
Non-current liabilities	1,825	2,098
Current liabilities	8,635	7,734
<b>Total liabilities</b>	<b>10,460</b>	<b>9,832</b>
<b>Total equity and liabilities</b>	<b>19,333</b>	<b>19,102</b>

## 9. Joint Ventures (continued)

	2012 €'000	2011 €'000
Income	1,469	2,409
Operating costs (excluding depreciation and amortisation)	(712)	(921)
<b>Operating profit before depreciation and amortisation (EBITDA)</b>	<b>757</b>	<b>1,488</b>
<b>Share of loss of joint venture (after interest and tax)</b>	<b>(450)</b>	<b>(197)</b>
<b>Translation differences on consolidation of foreign joint ventures - other comprehensive income</b>	<b>53</b>	<b>51</b>

### Reconciliation of investment in joint ventures

	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>9,270</b>	<b>14,783</b>
Share of loss of joint venture for the year	(450)	(197)
Translation difference	53	51
Conversion of Booltiagh Wind Limited to full subsidiary company	-	(5,367)
<b>At 31 December</b>	<b>8,873</b>	<b>9,270</b>

## 10. Financial Asset Investments

	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>2,761</b>	<b>2,761</b>
Acquisitions	1,000	-
<b>At 31 December</b>	<b>3,761</b>	<b>2,761</b>

In the view of the Board, the carrying value of these financial asset investments is not significantly different to their fair value.

## 11. Tax Assets and Liabilities

### Current tax assets and liabilities

	31-Dec-12 €'000	31-Dec-11 €'000
<b>Current tax assets</b>	<b>-</b>	<b>2,527</b>
<b>Current tax liabilities</b>	<b>(1,902)</b>	<b>-</b>

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## Notes to the Group Financial Statements (continued)

## 11. Tax Assets and Liabilities (continued)

## Deferred tax assets and liabilities

	Retirement benefit obligation €'000	Tax losses forward €'000	Derivative financial instruments €'000	Property, plant and equipment and intangible assets €'000	Other €'000	Total €'000
<b>At 1 January 2011</b>	2,612	42,737	3,531	(263,412)	15,665	(198,867)
Acquisitions	-	-	-	(2,822)	-	(2,822)
Transfer from non-current tax (Expense)/credit to income statement	-	442	-	-	-	442
Recognised in equity	(935)	4,051	-	(10,646)	(5,445)	(12,975)
Exchange adjustments	2,997	-	894	-	-	3,891
	-	-	-	(461)	682	221
<b>At 31 December 2011</b>	<b>4,674</b>	<b>47,230</b>	<b>4,425</b>	<b>(277,341)</b>	<b>10,902</b>	<b>(210,110)</b>
Transfer from non-current tax (Expense)/credit to income statement	-	85	-	-	-	85
Recognised in equity	(4,114)	(19,588)	-	8,705	(4,120)	(19,117)
Exchange adjustments	4,371	-	2,839	-	-	7,210
	-	-	-	(470)	596	126
<b>At 31 December 2012</b>	<b>4,931</b>	<b>27,727</b>	<b>7,264</b>	<b>(269,106)</b>	<b>7,378</b>	<b>(221,806)</b>

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	31-Dec-12 €'000	31-Dec-11 €'000
Deferred tax assets	17,137	19,753
Deferred tax liabilities	(238,943)	(229,863)
<b>Net deferred tax liabilities</b>	<b>(221,806)</b>	<b>(210,110)</b>

The following deferred tax assets have not been recognised in the statement of financial position as it is not probable that they will be realised for the foreseeable future:

	2012 €'000	2011 €'000
Capital losses realised	96	87
Losses forward	142	142
Provisions	63	63

There is no expiry date as to when tax losses in the Group can be utilised.

There are no material distributable reserves in any of the Group's overseas subsidiaries and joint ventures. Therefore no deferred tax has been provided for in relation to unremitted reserves of foreign subsidiaries and joint ventures.

A deferred tax provision has been made in respect of accelerated capital allowances and other temporary differences, net of recognised deferred tax assets arising as a result of trading losses carried forward. The assets relate to BGE (UK) Limited, firmus energy (distribution) Limited and firmus energy (supply) Limited (all wholly owned subsidiary companies) and as these companies are in a separate tax jurisdiction, it is recognised separately in the statement of financial position. As required by IAS 12 Income Taxes, deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. As encouraged by IAS 12, deferred tax asset recognition is regularly reassessed.

## 12. Inventories

	31-Dec-12 €'000	31-Dec-11 €'000
Gas	34,374	35,602
Engineering materials/others	14,337	13,262
<b>Total</b>	<b>48,711</b>	<b>48,864</b>

In 2012 inventories recognised as cost of sales amounted to €51.5 million (2011: €30.6 million). There were no write-downs of inventories to net realisable value in 2012 (2011: €nil).

## 13. Trade and Other Receivables

	31-Dec-12 €'000	31-Dec-11 €'000
Trade receivables	107,669	92,217
Unbilled consumption	171,490	172,030
Amounts owed by joint ventures	4,724	4,127
Prepayments	20,993	19,619
Other receivables	79,838	34,998
<b>Total</b>	<b>384,714</b>	<b>322,991</b>
Non-current	802	220
Current	383,912	322,771
<b>Total</b>	<b>384,714</b>	<b>322,991</b>

Trade receivables are stated net of impairment allowances. When management considers the recovery of a receivable to be improbable, an allowance is made against the carrying value of the receivable. The Group's exposure to credit and currency risks related to trade and other receivables is set out in note 21.

Unbilled consumption relates to consumption of gas and electricity which has not yet been invoiced to customers. For the mass market sector (predominantly residential and SME) it is calculated for the period from the customer's last bill to the financial year-end with reference to the customer's profile, their estimated usage for the time period in question incorporating scaling factors and degree days and lastly the applicable tariffs. For large volume customers, actual meter reads/daily allocated volumes are used together with the applicable tariffs.

## 14. Cash, Cash Equivalents and Restricted Deposits

### Cash and cash equivalents

Cash equivalents are held for the purpose of meeting liquidity requirements.

	31-Dec-12 €'000	31-Dec-11 €'000
Short-term deposits	290,550	206,313
Cash	46,390	47,133
<b>Total</b>	<b>336,940</b>	<b>253,446</b>
	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>253,446</b>	<b>229,654</b>
Increase in cash and cash equivalents in the statement of cash flows	83,419	23,636
Effect of exchange rate fluctuations on cash held	75	156
<b>At 31 December</b>	<b>336,940</b>	<b>253,446</b>

## Notes to the Group Financial Statements (continued)

**14. Cash, Cash Equivalents and Restricted Deposits (continued)****Restricted deposits**

Restricted deposits include amounts held in respect of collateral held by third parties, credit support agreements and gas network related security deposits.

	31-Dec-12 €'000	31-Dec-11 €'000
Current	29,896	47,825
<b>Total</b>	<b>29,896</b>	<b>47,825</b>

**15. Equity****Capital stock**

There are 100,000,000 units of capital stock in issue at a nominal value of €1 each, comprised of:

	31-Dec-12 €'000	31-Dec-11 €'000
Stock issued to the Exchequer	96,730	96,730
Stock issued for subscription by ESOT	3,270	3,270
<b>Total</b>	<b>100,000</b>	<b>100,000</b>

Since 2008, Bord Gáis Éireann, has issued 96,730,400 units of capital stock at €1 per unit to the Exchequer from retained earnings, pursuant to section 7B of the Gas Act, 1976. Since 2008, 269,600 units at €1 each were issued to Bord Gáis Employee Share Ownership Trust (ESOT).

The principal rights attaching to each unit of capital stock include the right to exercise a vote at annual meetings of capital stockholders, entitlement to dividends from profits when declared and the right to proportionate participation in a surplus on winding up.

**Capital premium**

	2012 €'000	2011 €'000
<b>At 1 January and at 31 December</b>	<b>29,426</b>	<b>29,426</b>

**Other reserves***Cash flow hedge reserve*

The hedging reserve primarily represents the fair value of derivatives which are part of effective cash flow hedging relationships at year-end. As the derivatives are held for hedging purposes as defined by IAS 39, their fair value movements are retained in equity instead of being charged to the income statement during the year and will be charged to profit or loss in the same year as the corresponding hedged transaction. Refer to note 21 for further details.

*Translation reserve*

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements for foreign operations.

**Dividends paid**

	2012 €'000	2011 €'000
To the Exchequer	23,814	33,091
To Bord Gáis ESOT	805	1,118
<b>Total</b>	<b>24,619</b>	<b>34,209</b>

The dividend paid during the year amounted to 30% (2011: 30%) of the previous year's profit for the financial year, before certain remeasurements and exceptional items, as directed by the Department of Communications, Energy and Natural Resources. The dividend was apportioned between the Exchequer (€23.8 million) and Bord Gáis Employee Share Ownership Trust (ESOT) (€0.8 million) in accordance with the amounts of issued capital stock held by the Minister for Finance (86.73%), the Minister for Communications, Energy and Natural Resources (10%) and Bord Gáis Employee Share Ownership Trust (3.27%).



## 16. Borrowings and Other Debt

This note provides information about the contractual terms of the Group's interest-bearing borrowings. For more information about the Group's exposure to interest rate, exchange rate and liquidity risk, see note 21.

### Maturity of borrowings and other debt by type (including associated fees)

	Bonds 31-Dec-12 €'000	Loans from financial institutions * 31-Dec-12 €'000	Total 31-Dec-12 €'000	Total 31-Dec-11 €'000
Less than one year	-	205,295	205,295	69,491
<b>Current borrowings</b>	-	205,295	205,295	69,491
Between one and five years	771,519	468,540	1,240,059	1,292,821
More than five years	-	824,429	824,429	833,862
<b>Non-current borrowings</b>	771,519	1,292,969	2,064,488	2,126,683
<b>Total borrowings</b>	771,519	1,498,264	2,269,783	2,196,174

\* including Private Placement.

Total borrowings include €827.8 million (2011: €918.3 million) of floating rate debt, €22.6 million (2011: €25.6 million) of inflation linked debt and €1,419.4 million (2011: €1,252.3 million) of fixed rate debt which has been drawn down from various lenders. The inflation linked debt is secured over the assets of BGE (IOM) Limited, which primarily comprises a gas transmission pipeline to the Isle of Man. The revenues from this pipeline are indexed to the U.K. Retail Price Index (UK RPI). Accordingly, to mitigate the risk of low inflation, this debt is also linked to the UK RPI using an index-linked hedge.

Included in borrowings are sterling denominated bank loans, which have been used as a hedge of the Group's investment in a sterling denominated subsidiary in the United Kingdom. The carrying amount of the loans at 31 December 2012 was €221.5 million (2011: €216.0 million).

## 17. Retirement Benefit Obligations

### Group and Parent

The Group operates either defined benefit or defined contribution pension schemes for all qualifying employees.

### Defined benefit schemes

The Group operates seven externally funded defined benefit schemes in the Republic of Ireland which provide defined benefits based on final pensionable pay. The assets of these schemes are held separately from those of the Group.

The schemes are subject to independent valuations at least every three years. The latest valuations of the defined benefit schemes were carried out as at 1 April 2011.

The size of the defined benefit obligation is sensitive to judgmental actuarial assumptions. These include assumptions covering discount rates, benefit increases, price inflation and mortality.

The principal actuarial assumptions were as follows:

	2012	2011
Discount rate	4.20%	5.20%
Inflation	2.00%	2.00%
Future salary increases *	2.75%	2.75%
Future pension increases	2.00%	2.75%

\* Plus salary scale to allow for promotional increases.

During the period, the Group refined its estimate of the discount rate used for the purposes of the computation of the defined benefit liabilities. The refinement included a significant extension of the bond data included in the population from which the discount rate is derived as well as a refinement of the approach used to extrapolate the available bond data out to the duration of the pension scheme obligations.

## Notes to the Group Financial Statements (continued)

## 17. Retirement Benefit Obligations (continued)

The expected return for the major categories of plan assets and the proportion of each asset category relative to the fair value of total plan assets at the end of the reporting year are as follows:

Plan assets	Expected Return		% of Plan Assets	
	2012	2011	2012	2011
Equities	8.00%	8.50%	48.10%	47.60%
Bonds	3.00%	3.70%	39.10%	38.00%
Property/forestry	6.00%	6.00%	0.80%	3.40%
Private equity/venture capital	8.00%	8.50%	1.80%	2.10%
Diversified alpha	6.00%	6.00%	7.60%	8.90%
Cash	1.20%	n/a	2.60%	0.00%
			100.00%	100.00%
Weighted average expected return	5.70%	6.40%		
Effect of pension levy	(0.6%)	(0.6%)		
<b>Revised weighted average expected return</b>	<b>5.10%</b>	<b>5.80%</b>		

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

**Mortality assumptions**

The assumptions relating to life expectancy at retirement for members who retire at age 65 are as follows:

	2012	2011
<b>Retiring today</b>		
Males	23.3	23.2
Females	24.7	24.6
<b>Retiring in 25 years</b>		
Males	26.3	26.3
Females	27.4	27.3

**Amounts recognised in the statement of financial position**

	31-Dec-12 €'000	31-Dec-11 €'000
Present value of funded obligations	(343,127)	(289,862)
Fair value of plan assets	303,680	252,471
<b>Deficit for funded plans</b>	<b>(39,447)</b>	<b>(37,391)</b>

**Movement in the present value of the defined benefit obligation**

	2012 €'000	2011 €'000
<b>Opening defined benefit obligation</b>	<b>(289,862)</b>	<b>(270,788)</b>
Service cost - charged to profit or loss	(6,947)	(5,374)
Service cost - charged to provisions	(1,403)	(1,208)
Interest cost	(15,313)	(15,218)
Plan members' contributions	(3,759)	(3,618)
Amendments - negative past service costs	29,617	-
Actuarial loss	(65,226)	(606)
Benefits paid	14,691	9,029
Curtailments	(4,925)	(2,079)
<b>Closing defined benefit obligation</b>	<b>(343,127)</b>	<b>(289,862)</b>

## 17. Retirement Benefit Obligations (continued)

	2012 €'000	2011 €'000
<b>Movement in the fair value of plan assets</b>		
<b>Opening fair value of plan assets</b>	252,471	249,889
Expected return on plan assets	14,821	17,078
Actuarial gain/(loss)	30,255	(23,371)
Employer contributions	17,065	14,286
Member contributions	3,759	3,618
Benefits paid from plan	(14,691)	(9,029)
<b>Closing fair value of plan assets</b>	<b>303,680</b>	252,471
	2012 €'000	2011 €'000
<b>Actual return on plan assets</b>	<b>45,076</b>	(6,293)
	2012 €'000	2011 €'000
<b>Analysis of amount recognised in the income statement</b>		
Current service cost	(6,947)	(5,374)
Interest cost	(15,313)	(15,218)
Expected return on plan assets	14,821	17,078
Amendments - negative past service costs	29,617	-
<b>Total pension gain/(cost) recognised in the income statement</b>	<b>22,178</b>	(3,514)
	2012 €'000	2011 €'000
<b>Analysis of amount charged to provisions</b>		
Current service cost	(1,403)	(1,208)
Loss on curtailments	(4,925)	(2,079)
<b>Amount charged to provisions</b>	<b>(6,328)</b>	(3,287)
	2012 €'000	2011 €'000
<b>Actuarial gains/(losses) recognised in other comprehensive income</b>		
Actual return less expected return on assets	30,255	(23,371)
Experience (losses)/gains on liabilities	(1,765)	3,491
Changes in assumptions underlying the present value of the schemes' liabilities	(63,461)	(4,097)
<b>Total pension loss recognised in other comprehensive income</b>	<b>(34,971)</b>	(23,977)
	2012 €'000	2011 €'000
<b>Cumulative actuarial losses recognised in other comprehensive income</b>		
<b>At 1 January</b>	<b>(92,099)</b>	(68,122)
Recognised during the year	(34,971)	(23,977)
<b>At 31 December</b>	<b>(127,070)</b>	(92,099)

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## Notes to the Group Financial Statements (continued)

## 17. Retirement Benefit Obligations (continued)

Movements in deficit during the year	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>(37,391)</b>	(20,899)
Credit/(charge) to the income statement	22,178	(3,514)
Charged to provisions	(6,328)	(3,287)
Employer contributions	17,065	14,286
Actuarial losses	(34,971)	(23,977)
<b>At 31 December</b>	<b>(39,447)</b>	(37,391)

History of experience gains/(losses)	2012 €'000	2011 €'000	2010 €'000	2009 €'000	2008 €'000
Present value of the defined benefit obligation	(343,127)	(289,862)	(270,788)	(242,079)	(221,449)
Fair value of plan assets	303,680	252,471	249,889	218,949	182,695
<b>Deficit</b>	<b>(39,447)</b>	(37,391)	(20,899)	(23,130)	(38,754)

	2012 €'000	2011 €'000	2010 €'000	2009 €'000	2008 €'000
Experience gains/(losses) on plan assets:	30,255	(23,371)	810	18,954	(74,018)
Percentage of plan assets	10.0%	(9.3%)	0.3%	8.7%	(40.5%)
Experience (losses)/gains on plan liabilities:	(1,765)	3,491	4,817	(2,921)	(1,105)
Percentage of defined benefit obligation	(0.5%)	1.2%	1.8%	(1.2%)	(0.5%)

The Group expects to contribute €12.0 million to its pension plan in 2013.

## Sensitivity analysis for principal assumptions used to measure scheme liabilities

The impact on the scheme liabilities of changing major assumptions is as follows:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Decrease/increase by 4.9%
Pension increases	Increase/decrease by 0.25%	Increase/decrease by 2.8%
Salary increases	Increase/decrease by 0.25%	Increase/decrease by 1.9%
Mortality	Increase/decrease by one year	Increase/decrease by 2.2%

## 18. Deferred Revenue and Government Grants

### Deferred revenue

	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>44,044</b>	38,757
Received in year	13,837	20,096
Recognised as revenue in year	(16,164)	(14,809)
<b>At 31 December</b>	<b>41,717</b>	44,044

Advanced payment of customer contributions are recorded as deferred revenue, then upon completion of the services rendered, the contributions are recognised in full in the income statement as revenue.

### Government grants

	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>95,412</b>	100,224
Amortised in year	(5,796)	(5,674)
Effects of movement in exchange rates	885	862
<b>At 31 December</b>	<b>90,501</b>	95,412

In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to. There are no unfulfilled conditions attaching to government grants received.

### Analysed as follows:

	31-Dec-12 €'000	31-Dec-11 €'000
Non-current	106,012	116,192
Current	26,206	23,264
<b>Total deferred revenue and government grants</b>	<b>132,218</b>	139,456

## 19. Provisions

### Group and Parent

	Environmental and decommissioning €'000	Restructuring €'000	Self-insured claims €'000	Total €'000
<b>At 1 January 2012</b>	<b>10,023</b>	3,750	5,303	19,076
Financing charge	326	-	-	326
Provisions made/(released) in the year	1,061	(1,061)	2,772	2,772
Provisions used in the year	(298)	(1,549)	(1,854)	(3,701)
Transfer to other payables	-	(1,140)	-	(1,140)
<b>At 31 December 2012</b>	<b>11,112</b>	-	6,221	17,333

### Analysed as follows:

	31-Dec-12 €'000	31-Dec-11 €'000
Non-current	15,183	12,432
Current	2,150	6,644
<b>Total provisions</b>	<b>17,333</b>	19,076

## Notes to the Group Financial Statements (continued)

## 19. Provisions (continued)

**Environmental and decommissioning**

The year-end provision includes appropriate estimates of various liabilities that are expected to arise, including;

- an appropriate estimate of the cost of decontamination of legacy Gas Works sites, obligations for site remediation and costs to be incurred in compliance with environmental regulations and constructive obligations. These liabilities are expected to be substantially discharged by 2015, and
- the present value of the current estimated costs of closure of the Whitegate gas fired power station at the end of its useful economic life. The provision is expected to be utilised within a period not exceeding 25 years.

**Restructuring**

In September 2009, the EU Parliament and European Council enacted legislation in respect of the common rules for the internal market in natural gas. The Directive's stated main objective is to enhance the regulatory framework in order to make market opening fully effective and pave the way for a single EU gas market. The Directive contains options for further organisational changes of vertically integrated utilities such as Bord Gáis Éireann. Provision was made in 2009 for an appropriate estimate of the business separation costs where a constructive or legal obligation exists. These liabilities were fully discharged during 2012.

**Self-insured claims**

The Group is self-insured in respect of certain injury and damage claims. The year-end provision is for the estimated costs of incidents that have occurred up to 31 December 2012. Payments are made as the cases are settled. The charge is included in the income statement under operating costs. The nature of these claims is such that a settlement date is uncertain but the Group expects the claims to be substantially settled by 2015.

## 20. Trade and Other Payables

	31-Dec-12 €'000	31-Dec-11 €'000
Trade payables due	110,227	107,405
Accrued expenses	136,867	134,479
Other payables	132,635	136,194
Taxation and social welfare creditors*	16,317	22,352
<b>Total</b>	<b>396,046</b>	<b>400,430</b>
<b>Analysed as follows:</b>		
Non-current	26,686	28,709
Current	369,360	371,721
<b>Total</b>	<b>396,046</b>	<b>400,430</b>
<b>* Taxation and social welfare creditors</b>		
PAYE/PRSI/social welfare	2,722	3,850
VAT	13,595	18,502
<b>Total</b>	<b>16,317</b>	<b>22,352</b>

## 21. Financial Risk Management and Financial Instruments

**Nature and extent of risks**

The main financial risks that the Group is facing and actively monitoring and managing are the following:

- credit risk derived from the possible default of a counterparty,
- liquidity risk derived from the risk that suitable sources of funding for the Group's operations may not be available, and
- market risk derived from exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and its management of capital. Further quantitative disclosures are included throughout these financial statements.



## 21. Financial Risk Management and Financial Instruments (continued)

The Group's financial risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Financial risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### Risk management framework

Responsibility for treasury activity and its performance rests with the Board, which exercises its responsibility through regular review. The Board Risk Committee reviews the appropriateness of the Treasury Policy and the Audit and Finance Committee reviews the effectiveness of the system of internal controls.

In using derivatives, the Group complies with the Requirements of the Minister for Finance under the Financial Transactions of Certain Companies and Other Bodies Act 1992 and the Specification of the Minister for Finance. The Group's Treasury function is not operated as a profit centre and treasury positions are managed in a risk averse manner. All treasury transactions have a valid underlying business reason and speculative positions are strictly prohibited.

Responsibility for setting a Risk Management and Control Policy, in the Energy Trading Function, rests with the Board, which exercises its responsibilities through regular review. The Board annually approves an updated Energy Trading Risk Management Policy under which the Group has delivered a suite of best practice portfolio tools, book structures and risk measures. The Energy Trading Risk Management Committee meets on a monthly basis and is responsible for monitoring and making decisions in respect of commodity related risks.

### Determination of fair value

#### i) Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated as the difference between the contractual forward price and the current forward price for the residual maturity of the contract.

The fair value of interest rate swaps and cross currency rate swaps takes into account the fixed, floating and market rates prevailing at the year end. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the relevant Group entity and counterparty when appropriate. The fair value of inflation linked swaps is determined using a valuation technique<sup>1</sup>.

The fair value of commodity derivatives is calculated based on the market value as at the reporting date converted at forward FX rates as at the reporting date. The market value is determined by reference to the market forward curve for the commodity.

#### ii) Non-derivative financial liabilities

The fair value of the fixed rate debt is estimated by discounting the future cash flows to net present values using market rates prevailing at the reporting date.

#### iii) Debt securities

The fair value of debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique<sup>1</sup>.

<sup>1</sup> valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate.

## Notes to the Group Financial Statements (continued)

## 21. Financial Risk Management and Financial Instruments (continued)

The fair values of the primary financial assets and liabilities of the Group, together with their carrying values excluding provisions can be analysed as follows:

	Assets and liabilities at amortised cost or other	Derivatives in hedging relationship	Derivatives not in hedging relationship	Total carrying value	Fair value
	31-Dec-12	31-Dec-12	31-Dec-12	31-Dec-12	31-Dec-12
	€'000	€'000	€'000	€'000	€'000
<b>Assets</b>					
<b>Non-current financial assets</b>					
Financial asset investments	3,761	-	-	3,761	3,761
Trade and other receivables (excluding prepayments)	802	-	-	802	802
Derivative financial instruments	-	11,753	233	11,986	11,986
<b>Total non-current financial assets</b>	<b>4,563</b>	<b>11,753</b>	<b>233</b>	<b>16,549</b>	<b>16,549</b>
<b>Current financial assets</b>					
Trade and other receivables (excluding prepayments)	362,919	-	-	362,919	362,919
Cash and cash equivalents	336,940	-	-	336,940	336,940
Restricted deposits	29,896	-	-	29,896	29,896
Derivative financial instruments	-	797	6,292	7,089	7,089
<b>Total current financial assets</b>	<b>729,755</b>	<b>797</b>	<b>6,292</b>	<b>736,844</b>	<b>736,844</b>
<b>Total financial assets</b>	<b>734,318</b>	<b>12,550</b>	<b>6,525</b>	<b>753,393</b>	<b>753,393</b>
<b>Liabilities</b>					
<b>Non-current financial liabilities</b>					
Borrowings and other debt	(2,060,370)	(4,118)	-	(2,064,488)	(2,119,501)
Trade and other payables	(26,686)	-	-	(26,686)	(26,686)
Derivative financial instruments	-	(65,810)	(13,285)	(79,095)	(79,095)
<b>Total non-current financial liabilities</b>	<b>(2,087,056)</b>	<b>(69,928)</b>	<b>(13,285)</b>	<b>(2,170,269)</b>	<b>(2,225,282)</b>
<b>Current financial liabilities</b>					
Borrowings and other debt	(205,788)	493	-	(205,295)	(205,295)
Trade and other payables	(369,360)	-	-	(369,360)	(369,360)
Derivative financial instruments	-	(1,204)	(5,533)	(6,737)	(6,737)
<b>Total current financial liabilities</b>	<b>(575,148)</b>	<b>(711)</b>	<b>(5,533)</b>	<b>(581,392)</b>	<b>(581,392)</b>
<b>Total financial liabilities</b>	<b>(2,662,204)</b>	<b>(70,639)</b>	<b>(18,818)</b>	<b>(2,751,661)</b>	<b>(2,806,674)</b>
<b>Net financial liabilities</b>	<b>(1,927,886)</b>	<b>(58,089)</b>	<b>(12,293)</b>	<b>(1,998,268)</b>	<b>(2,053,281)</b>

## 21. Financial Risk Management and Financial Instruments (continued)

	Assets and liabilities at amortised cost or other	Derivatives in hedging relationship	Derivatives not in hedging relationship	Total carrying value	Fair value
	31-Dec-11	31-Dec-11	31-Dec-11	31-Dec-11	31-Dec-11
	€'000	€'000	€'000	€'000	€'000
<b>Assets</b>					
<b>Non-current financial assets</b>					
Financial asset investments	2,761	-	-	2,761	2,761
Trade and other receivables (excluding prepayments)	220	-	-	220	220
Derivative financial instruments	-	14,777	2,866	17,643	17,643
<b>Total non-current financial assets</b>	<b>2,981</b>	<b>14,777</b>	<b>2,866</b>	<b>20,624</b>	<b>20,624</b>
<b>Current financial assets</b>					
Trade and other receivables (excluding prepayments)	303,152	-	-	303,152	303,152
Cash and cash equivalents	253,446	-	-	253,446	253,446
Restricted deposits	47,825	-	-	47,825	47,825
Derivative financial instruments	-	4,850	19,421	24,271	24,271
<b>Total current financial assets</b>	<b>604,423</b>	<b>4,850</b>	<b>19,421</b>	<b>628,694</b>	<b>628,694</b>
<b>Total financial assets</b>	<b>607,404</b>	<b>19,627</b>	<b>22,287</b>	<b>649,318</b>	<b>649,318</b>
<b>Liabilities</b>					
<b>Non-current financial liabilities</b>					
Borrowings and other debt	(2,111,522)	(15,161)	-	(2,126,683)	(2,139,232)
Trade and other payables	(28,709)	-	-	(28,709)	(28,709)
Derivative financial instruments	-	(38,426)	(15,521)	(53,947)	(53,947)
<b>Total non-current financial liabilities</b>	<b>(2,140,231)</b>	<b>(53,587)</b>	<b>(15,521)</b>	<b>(2,209,339)</b>	<b>(2,221,888)</b>
<b>Current financial liabilities</b>					
Borrowings and other debt	(75,583)	6,092	-	(69,491)	(69,491)
Trade and other payables	(371,721)	-	-	(371,721)	(371,721)
Derivative financial instruments	-	(8,250)	(24,796)	(33,046)	(33,046)
<b>Total current financial liabilities</b>	<b>(447,304)</b>	<b>(2,158)</b>	<b>(24,796)</b>	<b>(474,258)</b>	<b>(474,258)</b>
<b>Total financial liabilities</b>	<b>(2,587,535)</b>	<b>(55,745)</b>	<b>(40,317)</b>	<b>(2,683,597)</b>	<b>(2,696,146)</b>
<b>Net financial liabilities</b>	<b>(1,980,131)</b>	<b>(36,118)</b>	<b>(18,030)</b>	<b>(2,034,279)</b>	<b>(2,046,828)</b>

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## Notes to the Group Financial Statements (continued)

### 21. Financial Risk Management and Financial Instruments (continued)

#### Derivatives and hedge accounting

The Group applies the criteria defined by IAS 39 in classifying derivatives as hedges;

- the instrument must hedge changes in fair value or cash flows attributable to the risk hedged, and the effectiveness of the hedge (i.e. the degree to which changes in the value of the hedging instrument offset changes in the value of the hedged item or future transaction) must be between 80% and 125%,
- in the case of cash flow hedges, the future transaction being hedged must be highly probable,
- reliable measurement of the retrospective and prospective effectiveness of the hedge must be possible, and
- the hedge must be supported by appropriate documentation from its inception.

The hedging relationship ends when;

- a derivative instrument ceases to be an effective hedging instrument
- a derivative instrument expires, or is sold, terminated or exercised
- the hedged item expires, is sold or redeemed
- a future transaction ceases to be considered as highly probable

Only derivative instruments external to the Group qualify for hedge accounting.

The derivatives used for hedging are; foreign exchange forward contracts and currency swaps to manage currency exposure, interest rate swaps are put in place to manage interest rate exposure and cross currency interest rate swaps are used to hedge the currency exposure arising under certain international funding.

The Group uses the following categories for hedges:

#### (i) Fair value hedges

These instruments hedge the exposure to changes in the fair value of an asset or liability recorded in the statement of financial position, or a firm commitment to purchase or sell an asset. Changes in the fair value of the hedged item attributable to the hedged (risk) component of that item are recorded in profit or loss and are offset by corresponding variations in the fair value of the hedging instrument. Only the ineffective portion of the hedge has an impact on profit or loss.

When necessary the Group uses cross currency rate swaps to hedge the exposure to changes in the fair value of fixed rate debts in foreign currencies.

The ineffective portion of fair value hedges was €0.7 million for 2012 (2011: no material ineffective portion).

The fair value of hedging derivatives in a fair value hedge in the statement of financial position as at 31 December 2012 was €3.6 million (2011: €8.3 million).

#### (ii) Cash flow hedges

These instruments hedge highly probable future transactions where the variability in cash flows generated by the hedged transaction is offset by changes in the value of the hedging instrument. The effective portion of accumulated changes in the hedge's fair value is recorded in equity, and the ineffective portion (i.e. changes in the fair value of the hedging instrument in excess of changes in the fair value of the hedged item) is recorded in profit or loss. The amounts recognised in other comprehensive income are recycled to profit or loss in the same period that the hedged item affects profit or loss.

The Group uses cash flow hedging principally for the following purposes:

- to hedge its floating rate debt, using interest rate swaps (floating/fixed rate).
- to hedge currency risk associated with future cash flows related to expected sales and purchases of electricity and gas, using forwards and swaps.
- to hedge certain foreign exchange risks associated with foreign currency borrowings.

At 31 December 2012, the ineffective portion of cash flow hedges was €nil (2011: €nil) and during 2012 €nil was reclassified from equity to profit of loss due to ineffectiveness on cash flow hedges (2011: €nil).

## 21. Financial Risk Management and Financial Instruments (continued)

### Impact of cash flow hedging derivatives on equity

Changes in the fair value of hedging derivatives included in the statement of other comprehensive income over the year are as follows:

	Changes in fair value recorded in equity <sup>1</sup> 2012 €'000	Tax impact of changes recorded in equity 2012 €'000	Total changes recorded in equity 2012 €'000	Changes in fair value recorded in equity <sup>1</sup> 2011 €'000	Tax impact of changes recorded in equity 2011 €'000	Total changes recorded in equity 2011 €'000
Interest rate hedging	(17,330)	2,166	(15,164)	(13,706)	1,713	(11,993)
Exchange rate hedging	(5,384)	673	(4,711)	6,557	(819)	5,738
<b>Cash flow hedging derivatives</b>	<b>(22,714)</b>	<b>2,839</b>	<b>(19,875)</b>	<b>(7,149)</b>	<b>894</b>	<b>(6,255)</b>

<sup>1</sup> included in "Net change in fair value of cash flow hedges" in the statement of other comprehensive income.

### Maturity profile of cash flow hedges

The periods when cash flow hedges are expected to occur and as such affect profit or loss are as follows:

	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000	Total €'000
<b>At 31 December 2012</b>					
Interest rate swaps	-	-	(20,185)	(32,727)	(52,912)
Cross currency swaps	(4)	(304)	(461)	(4,431)	(5,200)
Exchange rate contracts	42	(40)	-	-	2
<b>Cash flow hedging derivatives</b>	<b>38</b>	<b>(344)</b>	<b>(20,646)</b>	<b>(37,158)</b>	<b>(58,110)</b>
<b>At 31 December 2011</b>					
Interest rate swaps	(2,300)	-	(10,847)	(24,844)	(37,991)
Cross currency swaps	(35)	(14)	(708)	(2,034)	(2,791)
Exchange rate contracts	5,104	282	-	-	5,386
<b>Cash flow hedging derivatives</b>	<b>2,769</b>	<b>268</b>	<b>(11,555)</b>	<b>(26,878)</b>	<b>(35,396)</b>

### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: 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: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 2 31-Dec-12 €'000	Level 2 31-Dec-11 €'000
<b>Financial derivative assets</b>		
Commodity derivatives	4,116	17,904
Forward exchange contracts	3,216	9,516
Cross currency rate swaps	11,743	14,494
<b>Total financial derivative assets</b>	<b>19,075</b>	<b>41,914</b>
<b>Financial derivative liabilities</b>		
Commodity derivatives	(3,641)	(19,441)
Forward exchange contracts	(2,677)	(2,771)
Interest rate derivatives	(66,161)	(55,844)
Cross currency rate swaps	(13,353)	(8,937)
<b>Total financial derivative liabilities</b>	<b>(85,832)</b>	<b>(86,993)</b>
<b>Net financial derivative liabilities</b>	<b>(66,757)</b>	<b>(45,079)</b>

There have been no transfers between levels in 2012 or 2011.

## Notes to the Group Financial Statements (continued)

**21. Financial Risk Management and Financial Instruments (continued)****Credit risk**

Credit risk is defined as the total loss that the Group would sustain on its business and market transactions if a counterparty defaulted and failed to perform its contractual obligations. These include assets held with banks and financial institutions, transactions in relation to derivative financial instruments and credit exposures arising from trading relationships with customers.

The objective of credit risk management is to manage and control credit risk exposures within acceptable parameters, while optimising the return.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31-Dec-12 €'000	31-Dec-11 €'000
Trade and other receivables (excluding prepayments)	363,721	303,372
Cash and cash equivalents	336,940	253,446
Restricted deposits	29,896	47,825
Financial asset investments	3,761	2,761
Derivative financial instruments	19,075	41,914
<b>Total</b>	<b>753,393</b>	<b>649,318</b>

**Treasury related credit risk**

The Group's policy is to manage treasury related credit risk through the use of counterparty credit limits which take account of, among other relevant factors, published credit ratings. Exposure to credit risk on cash and derivative financial instruments is monitored by the Group's Treasury function. It is the Group's policy that cash is mainly placed on deposit with institutions who maintain an investment grade rating. The Group regularly evaluates and measures its treasury counterparty exposures. Where the exposure on derivative instruments has the potential to be material to the Group's net worth, the Group will consider entering into credit support arrangements.

The Group develops and maintains relationships with a small number of key relationship banks who have a long-term commitment to the Group, who understand the business, and who provide funding at competitive terms. The Group ensures that banking and treasury services are obtained at competitive prices. The Head of Group Treasury, supported by the Group Finance Director, the Chief Executive and other appropriate senior managers, are responsible for managing and maintaining relationships.

**Trade related credit risk**

The credit risk on trade receivables is managed through credit vetting of customers, putting appropriate collateral in place and proactive monitoring and management of trade receivable balances. Accounts in arrears are actively managed by the Group's credit collection team through customer follow up including the provision of repayment plans and Pay as you Go meters. Failure to meet the terms of these payment arrangements can lead to disconnection followed by the use of debt collection agencies and legal action where necessary.

For significant contracts, the Group typically only deals with counterparties who maintain an investment grade rating and have been approved by the Risk Management Committee. However, if necessary and where appropriate, the Risk Management Committee may approve otherwise.

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region is as follows:

	31-Dec-12 €'000	31-Dec-11 €'000
Domestic	323,052	283,181
United Kingdom	40,669	20,191
<b>Total</b>	<b>363,721</b>	<b>303,372</b>



## 21. Financial Risk Management and Financial Instruments (continued)

The maximum exposure to credit risk for trade and other receivables at the reporting date can be analysed as follows:

	31-Dec-12 €'000	31-Dec-11 €'000
Retail customers - billed	87,724	88,747
Retail customers - unbilled	171,490	172,030
Use of system receivables	17,667	9,464
Amounts due from joint venture undertakings	4,724	4,127
Other receivables	82,116	29,004
<b>Total</b>	<b>363,721</b>	<b>303,372</b>

The aging of trade and other receivables, net of impairment, is as follows:

	Net receivable 31-Dec-12 €'000	Net receivable 31-Dec-11 €'000
Not past due	311,597	245,319
0 – 30 days	32,890	33,219
31 – 120 days	10,944	14,251
> 120 days	8,290	10,583
<b>Total</b>	<b>363,721</b>	<b>303,372</b>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>32,890</b>	<b>29,847</b>
Impairment loss recognised	11,422	9,736
Provision utilised	(14,488)	(6,693)
<b>At 31 December</b>	<b>29,824</b>	<b>32,890</b>

The allowance for impairment in respect of trade receivables is collective rather than specific in nature. The allowance for credit losses is determined by the application of expected default and loss factors to the various residential and business customers on a portfolio basis, in addition to impairment allowances taken against individual accounts.

The collection of outstanding balances remains challenging in the current economic environment. However our team of over 90 people, in credit collections and the customer contact centre, work proactively with our customers to ensure payment of arrears. We installed in excess of 10,000 Pay as you Go meters in 2012 and in excess of 99,000 payment plans were established with our customers compared with 82,000 repayment plans and 21,000 Pay as you Go meters in 2011.

### Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group may not be available, or the Group is unable to sell its assets on the market place and as a result is unable to meet short-term finance requirements and to settle obligations. Such a situation would negatively impact the Group's results as it could result in the incurrence of higher borrowing expenses to meet obligations.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group seeks to ensure it has a mix of funding sources at acceptable terms and conditions to finance the development of the business and to meet financial obligations as they fall due. The Group maintains a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk. At 31 December 2012, the Group had €3,019.6 million in committed facilities (2011: €2,711.4 million). Borrowings at 31 December 2012 were €2,269.8 million (2011: €2,196.2 million).

## Notes to the Group Financial Statements (continued)

### 21. Financial Risk Management and Financial Instruments (continued)

The Group arranges its committed facilities to cover 120% of core projected needs over a one-year horizon. Facilities are arranged with appropriate financial and operating covenants ensuring that management has the necessary flexibility in the operation of its business.

The Group's Treasury function negotiate the appropriate pricing and terms for all relevant financial transactions. Cash and liquidity management are undertaken centrally by Treasury. Cash pooling is carried out and account balances netted where possible to minimise cash leakage and to minimise the interest expense. The Group's Treasury function undertake cash forecasting and planning in conjunction with the Business Units/Departments on a regular basis. Cash flow forecasts are updated on a daily and weekly basis and used to manage liquidity.

Cash surpluses are used primarily to reduce the level of debt. The Group does not systematically and continually deposit and borrow funds, although circumstances will arise from time to time where it is necessary or advantageous to hold cash on deposit. Cash surpluses may be invested in, but not limited to; Deposit Accounts, Time Deposits, Commercial Paper, Exchequer Bills, Government Gilts, Money Market Funds and Certificates of Deposit. The Group will invest surplus cash in euro or in the currency of overseas operations.

The Group's policy is to develop and maintain relationships to facilitate its long-term liquidity, access to capital and availability of risk management facilities.

The Group's policy is that the priority in investing surplus cash is safety. Where funds are available for investment the Group will seek to optimise the return, taking into account the liquidity of the instrument, the interest rate yield curve, market conditions at the time of the transaction, the relative risk of the investment product and the approved credit limits under the Group's Treasury Policy. The Group seeks to minimise the cost of short-term borrowing, subject to achieving appropriate terms and conditions. The Group monitors the level of bank charges and seeks to minimise such costs whilst ensuring that its banking services meet operational requirements.

The actions implemented as part of the Group's financial planning have enabled the Group to maintain access to the credit market. In particular in 2012, the Group issued a €500 million Eurobond. In doing so, the Group has pursued an efficient balance of finance debt in terms of maturity and composition leveraging on the structure of its lines of credit particularly the committed ones. At present, the Group believes it has access to sufficient funding and has both committed and uncommitted borrowing facilities to meet currently foreseeable requirements.

The following are the contractual maturities of financial liabilities (and assets of a similar nature), including the undiscounted interest payment associated with borrowings and the undiscounted net cash flows attributable to financial instruments. The disclosure includes cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward exchange contracts.

## 21. Financial Risk Management and Financial Instruments (continued)

	Carrying amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
<b>At 31 December 2012</b>						
Borrowings	(2,269,783)	(2,687,974)	(299,926)	(623,513)	(879,417)	(885,118)
Trade and other payables	(396,046)	(397,726)	(369,360)	(8,735)	(10,357)	(9,274)
<b>Non-derivative financial liabilities</b>	<b>(2,665,829)</b>	<b>(3,085,700)</b>	<b>(669,286)</b>	<b>(632,248)</b>	<b>(889,774)</b>	<b>(894,392)</b>
Interest rate derivatives	(66,161)	(69,027)	(13,941)	(12,787)	(26,316)	(15,983)
Cross currency rate swaps	(1,610)	60,319	17,030	16,962	20,768	5,559
Exchange rate contracts	539	539	554	(15)	-	-
Net commodity derivatives*	475	(8,242)	(27,628)	17,454	1,932	-
<b>Net derivative financial (liabilities)/assets</b>	<b>(66,757)</b>	<b>(16,411)</b>	<b>(23,985)</b>	<b>21,614</b>	<b>(3,616)</b>	<b>(10,424)</b>
<b>Net financial liabilities</b>	<b>(2,732,586)</b>	<b>(3,102,111)</b>	<b>(693,271)</b>	<b>(610,634)</b>	<b>(893,390)</b>	<b>(904,816)</b>
<b>At 31 December 2011</b>						
Borrowings	(2,196,174)	(2,637,760)	(156,124)	(344,224)	(1,186,253)	(951,159)
Trade and other payables	(400,430)	(400,430)	(371,721)	(4,107)	(14,292)	(10,310)
<b>Non-derivative financial liabilities</b>	<b>(2,596,604)</b>	<b>(3,038,190)</b>	<b>(527,845)</b>	<b>(348,331)</b>	<b>(1,200,545)</b>	<b>(961,469)</b>
Interest rate derivatives	(55,844)	(61,055)	(14,720)	(9,436)	(21,839)	(15,060)
Cross currency rate swaps	5,557	(7,566)	169	11,947	(11,960)	(7,722)
Exchange rate contracts	6,745	6,745	6,347	398	-	-
Net commodity derivatives*	(1,537)	(58,850)	(28,837)	(30,013)	-	-
<b>Net derivative financial liabilities</b>	<b>(45,079)</b>	<b>(120,726)</b>	<b>(37,041)</b>	<b>(27,104)</b>	<b>(33,799)</b>	<b>(22,782)</b>
<b>Net financial liabilities</b>	<b>(2,641,683)</b>	<b>(3,158,916)</b>	<b>(564,886)</b>	<b>(375,435)</b>	<b>(1,234,344)</b>	<b>(984,251)</b>

\* It should be noted that the contractual cash flows associated with forward commodity contracts which are not financial instruments under IAS 39, are not included in this analysis.

### Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or commodity prices will adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Within the Group, the Energy Trading function is responsible for managing market risk with respect to commodity prices and the Treasury function is responsible for managing market risk with respect to interest rates and currency exchange rates.

The principles for operational management of energy market risks for operationally controlled entities are based on clearly-defined responsibilities for managing those risks, distinguishing between management of assets (generation and supply) and trading.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Treasury Policy. Generally the Treasury function seeks to apply hedge accounting in order to manage volatility in profit or loss.

IFRS 7 Financial Instruments: Disclosures requires disclosure of a sensitivity analysis for market risks that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables impacting upon the fair value or cash flows associated with the Group's financial instruments. Therefore, each sensitivity analysis provided in this note discloses the effect on profit or loss and equity at the reporting date assuming that a reasonably possible change in the relevant market variable had occurred, and had been applied to the risk exposures in existence at that date. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

## Notes to the Group Financial Statements (continued)

### 21. Financial Risk Management and Financial Instruments (continued)

Each sensitivity analysis provided in this note is hypothetical only and should be used with caution. The impacts provided are not necessarily indicative of the actual impacts that would be experienced, because each analysis is based on calculations and assumptions which do not consider all interrelationships, consequences and effects of such a change in the relevant market variables. Refer to each individual analysis for further details of the assumptions applied to that analysis.

#### (a) Exchange rate risk

Exchange rate risk derives from the fact that some of the Group's operations are conducted in currencies other than euro (mainly sterling).

Revenues and expenses denominated in foreign currencies may be significantly affected by exchange rate fluctuations and conversion of foreign currency denominated trade and financing payables and receivables. Exchange rate fluctuations also affect the Group's reported results and net equity where financial statements of subsidiaries denominated in currencies other than euro are translated from their functional currency into euro.

The objective of exchange rate risk management is to protect profitability by minimising the impact of material variations due to foreign exchange rate movements.

The potential exposure to exchange rate risk can be summarised as follows:

#### (i) Subsidiaries operating in foreign currency (sterling)

The Group has a number of subsidiaries operating in the UK and Northern Ireland, therefore the Group has exposure arising from the translation of the statement of financial position for each of these activities.

The Group enters into foreign currency borrowings and derivatives, such as currency swaps, to manage this foreign currency exposure.

#### (ii) Transaction exposure

The purchase and sale of gas and electricity give rise to exposure to foreign currency. The Group's policy is to protect profitability by locking in exchange rates as soon as practical in order to minimise downside risk to profitability due to future movements in currency. The broad policy approach adopted in relation to exchange rate risk is to match the exchange rate used in gas and electricity sales contracts as closely as possible to the rate achieved in buying or hedging the underlying exchange rate exposure. The Group's Treasury function is responsible for designing and executing appropriate foreign exchange hedging strategies. Specific strategies will depend on the gas and electricity market segment, the nature of the power supply as well as the power demand. A detailed foreign exchange hedging policy exists for gas and electricity purchases and each policy is supported by a gas and electricity catalogue which outlines in detail the various exposures and associated hedging strategies.

From time to time the Group makes purchases in foreign currencies. The Group's policy is to manage these transaction exposures by seeking to match purchases and sales denominated in foreign currencies as far as possible. Where this is not possible, exposures will be hedged using derivatives permitted under the Group's Treasury Policy. Exposures will be hedged taking account of the business risks and the regulatory environment.

Also, the Group's Treasury Policy is that all expected exposures in excess of €300,000 equivalent in foreign currencies will be evaluated with respect to the business risks and, where appropriate, currency risks will be hedged to minimise the potential for adverse variances arising from currency movements.

#### (iii) Debt in a foreign currency

The Group has US dollar denominated Private Placements that have been converted to euro using cross currency rate swaps. Sterling debt is used to hedge the investment in sterling denominated subsidiaries.

## 21. Financial Risk Management and Financial Instruments (continued)

An analysis of the Group's exposure to exchange rate risk that would impact profit or loss and equity is set out below. Certain items are excluded, such as;

- US dollar is excluded from the below as the exposure is hedged using offsetting cross currency swaps.
- Foreign currency instruments entered into as an economic hedge against investments in foreign operations are excluded from the below due to offsetting currency movements on intra group loans.
- Commodity derivatives, as recognised on the statement of financial position (in line with IAS 39), are excluded from the below as the exposure to exchange rate risk is not material. The underlying commodity contracts, that have been delivered are included below, however those to be delivered into the future are excluded.

	31-Dec-12 €'000	31-Dec-11 €'000
Cash and cash equivalents	2,520	5,241
Restricted deposits	591	28,895
Trade and other receivables	67,892	20,191
Trade and other payables	(74,853)	(42,120)
<b>Gross statement of financial position exposure</b>	<b>(3,850)</b>	<b>12,207</b>
Forward exchange contracts	199,389	206,867
FX swaps	(64,561)	(90,358)
<b>Net exposure</b>	<b>130,978</b>	<b>128,716</b>

A strengthening or weakening of the euro, as indicated below, against sterling at 31 December would have increased/(decreased) other comprehensive income and profit or loss by the amounts shown below. This analysis is based on exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for the previous year.

	Profit before taxation gain/ (loss) 31-Dec-12 €'000	Other comprehensive income 31-Dec-12 €'000	Profit before taxation gain/ (loss) 31-Dec-11 €'000	Other comprehensive income 31-Dec-11 €'000
5% Strengthening	(819)	(5,729)	3,737	(10,489)
5% Weakening	819	5,729	(3,737)	10,489

The following assumptions were made in respect of the sensitivity analysis above:

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only, and
- changes in the carrying value of derivative financial instruments that are cash flow hedges impact other comprehensive income only.

### (b) Interest rate risk

Interest rate risk derives from changes in interest rates which affect the market value of financial assets and liabilities of the Group and the level of finance charges.

The Group's objective is to achieve a stable and low cost of debt, taking account of business risks in general and the regulatory price control environment in particular.

The Group's exposure to interest rate fluctuations covers two types of risk:

- a risk of change in the cash flows related to floating rate financial assets and liabilities, and
- a risk of change in the value of fixed rate financial assets and liabilities.

The Group monitors exposure to interest rate risk on a calendar year basis. The Group's policy is to monitor open interest rate exposure positions, taking into account the current and expected shape of the yield curve, with a view to taking advantage of low interest rate environments to fix the Group's interest rate obligations and increase certainty as to the Group's interest rate expense profile. The Group uses a number of methods, including interest rate derivatives to manage the interest rate risk on its debt portfolio.

## Notes to the Group Financial Statements (continued)

**21. Financial Risk Management and Financial Instruments (continued)**

The percentage of the Group's fixed and floating rate debt at 31 December was as follows:

	2012 €'000	2012 %	2011 €'000	2011 %
At fixed rates <sup>1</sup>	1,419,367	62.5%	1,252,291	57.0%
At floating rates	827,785	36.5%	918,313	41.8%
Inflation linked debt	22,631	1.0%	25,570	1.2%
<b>Total</b>	<b>2,269,783</b>	<b>100.0%</b>	2,196,174	100.0%

<sup>1</sup> including swaps but excluding forward starting interest rate swaps.

The Group had €1,008.5 million of fixed rate debt (excluding interest rate swaps) at 31 December 2012 (2011: €830.9 million).

At 31 December 2012, the Group had outstanding interest rate swaps with a notional principal of €287.8 million and €100.0 million. €49.5 million of amortising interest rate swaps which commenced on 28 May 2008 was swapped for eighteen years at an average rate of 4.77%, and €85.2 million of amortising interest rate swaps which commenced on 30 June 2009 was swapped for eighteen years at an average rate of 4.13%. €60.0 million which commenced on 31 January 2012 was swapped for four years at an average rate of 3.2%, €50.0 million which commenced on 17 September 2012 was swapped for four years at an average rate of 3.4%, and €43.1 million which commenced on 31 October 2012 was swapped for five years at an average rate of 1.7%. €40.0 million on 30 April 2012 was swapped for four years at an average rate of 3.3%, and €60.0 million which commenced on 31 October 2012 was swapped for five years at an average rate of 1.8%.

At 31 December 2012, the weighted average interest rate of the fixed debt portfolio was 4.04% (2011: 4.98%), which comprised European Investment Bank debt of €237.0 million, bonds of €777.5 million and an interest rate swap portfolio of €287.8 million and €100.0 million.

Interest costs on variable rate loans are reset on a periodic basis for one, three or six months over the prevailing market rate.

On 31 December 2012, the Group had US\$670.0 million fixed rate debt outstanding (€551.4 million equivalent) in a US\$220.0 million US dollar Private Placement transaction (€194.0 million equivalent) which was completed on 22 October 2003 and US\$450.0 million (€357.4 million equivalent) which was completed on 31 March 2009. In order to fully hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating, on 31 December 2012 the Group had a number of cross currency interest rate swaps which match the maturity profile of the debt.

**Cash flow sensitivity analysis for floating rate debt**

The Group's policies and processes for the management and control of interest rate risk, as set out above, aims to reduce the impact of short-term interest rate fluctuations on the Group's earnings. Nevertheless, long-term changes in interest rates will have an impact on the Group's earnings.

It is estimated that a general increase of 50 basis points in interest rates at 31 December would impact profit before taxation by the amounts shown below:

	Profit before taxation Gain/(loss) 31-Dec-12 €'000	Profit before taxation Gain/(loss) 31-Dec-11 €'000
50 bp increase	(3,558)	(4,407)
50 bp decrease	3,511	4,407



## 21. Financial Risk Management and Financial Instruments (continued)

The fair value change on cash flow hedges and their impact on other comprehensive income would be as shown below:

	Other comprehensive income 31-Dec-12 Gain/(loss) €'000	Other comprehensive income 31-Dec-11 Gain/(loss) €'000
<i>50 bp increase</i>	12,541	9,121
<i>50 bp decrease</i>	(11,351)	(9,165)

The following assumptions were made in respect of the sensitivity analysis above:

- all other variables, in particular foreign currency rates, remain constant,
- relates only to derivative financial instruments and floating debt,
- derivatives designated as cash flow hedges against movements in interest rates are assumed to be fully effective, recorded fully within equity with no impact on the income statement,
- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only, and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

The above analysis is performed on the same basis for the previous year.

The impact on other comprehensive income and the income statement, of a 50bp increase/decrease, is opposite but is not equal in amount because the rate changes in the sensitivity analysis also impacts the discount curves used on the relevant cash flows for interest rate derivatives.

### (c) Commodity risk

The Group's results of operations are affected by changes in the prices of commodities. Gas price risks vary for Non Daily Metered (NDM – Residential and Small and Medium Enterprises), Industrial and Commercial and Power Generation markets. The NDM market is charged within a regulated benchmark framework, where prices are generally reset annually at the beginning of each gas year. Fixed price gas and storage capacity (to cover demand fluctuations) are procured for this market on a gradual basis both in advance of, and during, the gas year, the aim being to minimise procurement costs and provide value to customers. Individual contract prices are set for the Industrial and Commercial and Power Generation markets and gas prices are hedged to closely match price risk within these contracts.

The Group is involved in the UK wholesale gas market, which is recognised as one of the most liquid gas markets in the world, but is also impacted by other global gas markets. Given that market prices are generally driven by prevailing global and local supply and demand conditions, the Group maintains a robust strategy to manage its price risk, particularly during periods of tight supply (e.g. cold weather/supply interruptions).

Small and Medium Enterprise electricity sales prices are based on standard tariffs which are typically fixed on an annual basis based on forecast costs. Individual contract prices are set for the Industrial and Commercial sector as with gas. The bulk of procurement costs arise from fixed price contracts; however the Group remains exposed to volume mismatches in electricity, which are traded out in the wholesale pool. There is also volume variability in relation to renewables contracts.

The Irish electricity market, under the SEM, facilitates access to physical power but is illiquid with regard to managing price risk on a forward basis.

The Group manages exposure to commodity price risk arising in normal trading and commercial activities with a view to achieving stable margins.

The Group also manages its price risk exposure through a range of Contracts for Differences, made available annually as part of the SEM market regulation, but also uses the UK wholesale gas and electricity markets; offtake agreements with indigenous wind farms and CHP units; and tolling arrangements with CCGT power stations as a means to hedge electricity price risk.

## Notes to the Group Financial Statements (continued)

**21. Financial Risk Management and Financial Instruments (continued)****Commodity derivatives not classified as hedges**

The Group routinely enters into sale and purchase transactions for physical delivery of gas and power. A large portion of these transactions take the form of contracts which are entered into and continue to be held for the purpose of the receipt or delivery of the physical commodity in accordance with the Group's expected sale, purchase or usage requirements, and accordingly are not within the scope of IAS 39.

**Commodity derivatives classified as hedges**

Certain purchase and sales contracts for the physical delivery of gas and power are within the scope of IAS 39 as they are either traded or may be closed out from time-to-time as required (i.e. delivery is not taken by the Group) or because those contracts contain certain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the statement of financial position at fair value with gains and losses arising from changes in fair value taken directly to profit or loss.

The Group does not apply hedge accounting to commodity derivatives.

**Commodity price risk management**

Commodity price risk is managed by the Group's Energy Trading front and middle office functions. This is done in accordance with the Group's overall Risk Management Policy and Framework. The activities of the Energy Trading Team are reported periodically to the Board's Risk Management Committee, which is responsible for ensuring that market risk is effectively managed.

A number of types of contracts are entered into in order to hedge exposures arising from the generation and sale of electricity and the sale of gas. The key hedging contracts entered into are:

- Forward gas purchase contracts
- Forward electricity purchase contracts
- Foreign exchange contracts
- Gas supply agreements
- Power purchase agreements
- Certain bilateral electricity contracts

**Sensitivity analysis**

The Group sells gas and electricity to bulk and mass market customers in the Republic of Ireland and Northern Ireland, participating in both regulated and unregulated markets. As a consequence there is exposure to volatile commodity and fuel markets which is managed by a hedging strategy that is regularly reviewed. The Group enters into contracts for the purchase of gas at fixed prices and also enters into contracts for the purchase of electricity.

	Profit before taxation gain/ (loss) 31-Dec-12 €'000	Profit before taxation gain/ (loss) 31-Dec-11 €'000
10% increase	849	(4,151)

A 10% decrease would have an equal but opposite impact to that shown above.

The figures shown above are based on an increase of 10% in commodity prices (including carbon) at 31 December and would increase/(decrease) profit before tax by the amount shown. The calculation assumes all other price components (e.g. currency) are unchanged.

This sensitivity analysis has been calculated on the basis that the proportion of commodity contracts that are IAS 39 financial instruments remains consistent. Excluded from this analysis are all commodity contracts that are not financial instruments under IAS 39. Thus, and as previously noted, this sensitivity analysis is hypothetical in nature and should be used with caution. The impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing as the portfolio of energy contracts changes.

## 22. Operating Leases

### Non-cancellable operating lease rentals receivable

	31-Dec-12 €'000	31-Dec-11 €'000
Less than one year	53,665	60,095
Between one and five years	162,429	178,480
More than five years	266,453	296,254
<b>Total</b>	<b>482,547</b>	<b>534,829</b>

Operating leases receivable by the Group relate to arrangements falling within the scope of IFRIC 4 Determining Whether an Arrangement Contains a Lease as follows;

- (a) Agreements to allow third parties the use of parts of the Gas Network Transportation system. The unexpired lease terms range from 11 to 15 years, and
- (b) Power purchase agreements with third parties (agreements acquired as part of subsidiary acquisition in 2009). The average unexpired lease term is 8 years. All lease arrangements are at an arm's length basis.

### Non-cancellable operating lease rentals payable

The following operating leases are payable by the Group and generally relate to the rental of land and buildings. There are no significant or unusual restrictions imposed by the terms of the operating leases. All lease arrangements are at an arm's length basis.

	31-Dec-12 €'000	31-Dec-11 €'000
Less than one year	5,184	3,845
Between one and five years	17,494	18,673
More than five years	21,926	25,042
<b>Total</b>	<b>44,604</b>	<b>47,560</b>

Amounts included in the income statement in respect of land and building lease arrangements were €5.4 million (2011: €3.9 million).

### Non-cancellable operating lease rentals payable under Power Purchase Agreements (PPAs)

As part of its policy to secure competitive and diverse supplies of power, the Group enters into PPAs with indigenous wind farms which fall within the scope of IFRIC 4. It has been determined that each of these arrangements within the scope of IFRIC 4 represent operating leases. Revenues in respect of the obligations disclosed will be recognised in future years as the power subject to the lease arrangements are ultimately delivered to the Group and utilised within the Group's Energy retail business as sales to end consumers.

The following relates to commitments payable by the Group under PPAs. The average unexpired lease term is 10 years. All lease arrangements are at an arm's length basis.

	31-Dec-12 €'000	31-Dec-11 €'000
Less than one year	20,289	18,143
Between one and five years	77,196	71,807
More than five years	64,401	73,042
<b>Total</b>	<b>161,886</b>	<b>162,992</b>

Amounts included in the income statement in respect of the PPA lease arrangements were €17.8 million (2011: €18.1 million).

## Notes to the Group Financial Statements (continued)

**23. Transactions in the Legal Form of a Lease**

In accordance with SIC 27, a series of transactions that involve the legal form of a lease is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. This is the case for example when the series of transactions are closely interrelated, negotiated as a single transaction, and take place concurrently or in continuous sequence.

In December 1993, the Group sold and leased back part of the first Ireland-UK Interconnector gas pipeline. The lease term was for a period of 32 years and 9 months. As part of the sale and lease back arrangement, the Group placed the sale proceeds on restricted deposit for the period of the lease. The repayment profile of the restricted deposit matched, with respect both to the timing and amount, the Group's obligations to pay rentals under the lease. Further, the security and payment arrangements were structured in such manner that funds released from the restricted deposit were applied directly in discharge of the Group's obligations under the lease.

Having regard to the lease arrangements and the detailed considerations of SIC 27, the Group determined that these transactions should be accounted for as a single transaction to enable an understanding of the overall economic effect thereof.

Accordingly the lease and the restricted deposit were linked and accounted for as a single transaction in the 2011 statement of financial position. In addition the lease interest payable and the interest income receivable on the restricted deposit were linked and accounted for as a single transaction in the 2011 income statement.

During 2012, the Group terminated the lease arrangements as described above refer to note 4.

**24. Capital Commitments****(a) Capital commitments**

	Group 2012 €'million	Parent 2012 €'million	Group 2011 €'million	Parent 2011 €'million
Contracted for	457	295	277	197

**(b) Gas purchase contract commitments**

Gas purchase contracts have been entered into which provide for the purchase of certain gas quantities in the years 2013 to 2025. These arrangements provide for pricing changes in line with changes inbuilt in energy market indicators.

**(c) Electricity purchase contract commitments**

Electricity purchase contracts for the purchase of certain electricity capacities have been entered into for the years 2013 to 2026. These arrangements provide for pricing changes in line with changes inbuilt in energy market indicators.

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## 25. Contingencies

### Group and Parent

Contingent liabilities may arise in respect of contractual agreements to which the Group or the Parent is a party. These are estimated based on information available of the potential cost associated with the outturn of any such events which exist at the reporting date. Liabilities over and above those provided for in the financial statements could arise as a result of the occurrence or non-occurrence of one or more uncertain future events but given the nature of the contingencies it is not practicable to make an estimate of the financial impact.

Liabilities in respect of environmental and decommissioning costs and financial instruments have been provided for as disclosed in notes 19 and 21. Contingent liabilities with respect to government grants are disclosed in note 18.

In the normal course of its business, the Group or the Parent enters into certain undertakings and commitments to third parties in respect of obligations to perform under contractual arrangements. In certain cases obligations to third parties are guaranteed by letters of credit or performance bonds issued by financial institutions and are counter indemnified by the Group or the Parent. At 31 December 2012, €93.6 million (2011: €100.3 million) was provided by the Group by way of guarantees by financial institutions to third parties. €88.3 million (2011: €95.0 million) of guarantees have been counter indemnified by the Parent.

On 25 September 2012, the Parent issued a guarantee in favour of BGE (UK) Limited for an amount not to exceed €3.1 million in respect of the payment of obligations of firmus energy (supply) Limited (in its capacity as a shipper of gas) arising from their use of the gas transmission pipelines owned and operated by BGE (UK) Limited in Northern Ireland.

## 26. Related Parties

### Group and Parent

#### Semi-state bodies

In common with many other entities, the Group and the Parent deals in the normal course of business with other Government sponsored bodies, such as the Electricity Supply Board and Eirgrid.

#### Banks owned by the Irish State

In the normal course of business, the Group and the Parent transacts with certain Irish banks which have become wholly or partially controlled by the Irish Government. All of the Group and the Parent's transactions with such banks are on normal commercial terms. The Group and the Parent had no material concentration of borrowings with any such banks during the year ended or at 31 December 2012. The Group's cash and cash equivalents and restricted deposits sitting on deposit with such banks was €28.6 million at 31 December 2012 (2011: €29.6 million). The Parent's cash and cash equivalents and restricted deposits sitting on deposit with such banks was €15.0 million at 31 December 2012 (2011: €16.9 million).

#### Board members' interests

Non-executive Board members had no beneficial interests in the Parent or its subsidiaries at any time during the year or at 31 December 2012. The former Chief Executive, Acting Chief Executive and Secretary are beneficiaries of the Employee Share Ownership Plan.

#### Irish Water

On 17 April 2012, the Minister for the Environment, Community and Local Government announced that the Government had agreed to establish a State owned subsidiary within the Group to undertake water sector activities ("Irish Water"). The Minister requested the Group to undertake specified activities related to the preparatory work for establishment of Irish Water in advance of the enactment of the Water Services Bill 2012.

On foot of that request; during 2012 and since the year end, the Group has entered into financial commitments and incurred costs in connection with water sector activities. In that regard, the Group incurred costs of €16.4 million during 2012. The Minister has set out a clear basis by which costs incurred on permitted activities are to be recovered in full by the Group. On that basis the costs incurred to date have been recognised as deferred costs in the Group financial statements. In addition capital commitments have been entered into by the Group, details of which have been included in the disclosures set out in note 24.

## Notes to the Group Financial Statements (continued)

## 26. Related Parties (continued)

## Group

## Subsidiary and joint venture undertakings

The Group financial statements consolidate the results of the Parent and its subsidiaries and incorporates the results of its share of joint ventures as documented in the accounting policies. A listing of the subsidiaries and joint ventures is provided in note 27. Transactions with related parties are entered into in the normal course of business on an arm's length basis. Sales to and from, together with outstanding payables and receivables to and from subsidiaries are eliminated in the preparation of the consolidated financial statements, in accordance with IAS 27 Consolidated and Separate Financial Statements.

The Group provided funding and certain limited services during 2012 to a number of trading joint venture undertakings. At 31 December 2012, €4.7 million (2011: €4.1 million) in aggregate was receivable from joint ventures.

## Parent

## Subsidiary and joint venture undertakings

	Transaction value (income)		Balance receivable	
	2012 €'000	2011 €'000	31-Dec-12 €'000	31-Dec-11 €'000
Subsidiaries	89,459	64,526	632,625	548,359
Joint ventures	-	-	4,704	4,057
<b>Total</b>	<b>89,459</b>	<b>64,526</b>	<b>637,329</b>	<b>552,416</b>

	Transaction value (expense)		Balance payable	
	2012 €'000	2011 €'000	31-Dec-12 €'000	31-Dec-11 €'000
Subsidiaries	53,880	41,598	30,966	34,110
Joint ventures	-	-	-	-
<b>Total</b>	<b>53,880</b>	<b>41,598</b>	<b>30,966</b>	<b>34,110</b>

## Subsidiaries

During the year the Parent had sales of €69.5 million (2011: €46.1 million) to subsidiaries. These sales predominantly related to gas sales and management services. During the year the Parent had interest receivable totaling €20.0 million (2011: €18.4 million) from subsidiaries on intercompany loan facilities.

During the year the Parent purchased services and supplies of €53.9 million (2011: €41.6 million) from subsidiaries. This expenditure primarily related to transportation and power generation supply services.

At 31 December 2012, the Parent had amounts receivable of €632.6 million (2011: €548.4 million) from its subsidiaries. The balances receivable mainly related to loan facilities to fund capital investment.

At 31 December 2012, the Parent had amounts payable of €31.0 million (2011: €34.1 million) to its subsidiaries. The outstanding payable primarily related to amounts due in respect of services and supplies provided.

## Group and Parent

## Key management compensation

	2012 €'000	2011 €'000
Salaries and other short-term employee benefits	1,969	1,993
Other benefits including pension costs, costs of company car and health insurance	408	385
<b>Total</b>	<b>2,377</b>	<b>2,378</b>

The key management compensation amounts disclosed above represent compensation to those people having the authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel includes Board members and senior executives.



## 27. Subsidiaries and Joint Ventures

At 31 December 2012, the Group had the following subsidiaries and joint ventures:

	Company	Nature of Business	Group Share
1	City of Waterford Gas Company	Non Trading	100%
2	Clonmel Gas Company Limited	Non Trading	100%
3	Cork Gas Company	Non Trading	100%
4	Limerick Gas Company Limited	Non Trading	100%
5	Sudanor Limited	Non Trading	100%
6	Aurora Telecom Limited	Non Trading	100%
7	BGE (IOM) Limited	Gas Transmission	100%
8	Natural Gas Finance Limited	Project and Financing Services	100%
9	BGE Finance Public Limited Company	Non Trading	100%
10	Conservation Engineering Limited	Combined Heat and Power	100%
11	Platin Power Trading Limited	Non Trading	100%
12	Bord Gáis Energy Trading Limited	Non Trading	100%
13	BGE Holdings Limited	Non Trading	100%
14	Oisín Power Generation Limited	Non Trading	50%
15	Keelderry Wind Farms Limited	Renewable Electricity Generation	100%
16	Keelderry Windfarm Supply Limited	Non Trading	100%
17	Sorne Wind Limited	Renewable Electricity Generation	100%
18	Kilhills Windfarm Limited	Renewable Electricity Generation	100%
19	Greener Ideas Limited	Electricity Generation	50%
20	Ballymartin Windfarm Limited	Renewable Electricity Generation	100%
21	Smithstown Windfarm Limited	Renewable Electricity Generation	100%
22	BGE Renewables Holdings Limited	Non Trading	100%
23	Falleenafinnoga Windfarm Limited	Non Trading	100%
24	Garracummer Wind Farm Limited	Renewable Electricity Generation	100%
25	Inish Wind Limited	Renewable Electricity Generation	100%
26	Lisheen Windfarm Limited	Renewable Electricity Generation	100%
27	Lisheen Windfarm II Limited	Renewable Electricity Generation	100%
28	Mienvee Energy Limited	Renewable Electricity Generation	100%
29	Mienvee Energy (Nominees) Limited	Non Trading	100%
30	Newmarket Windfarms Limited	Non Trading	100%
31	Reisk Windfarm Limited	Non Trading	100%
32	SWS Glentanemacelligot Wind Farm Limited	Renewable Electricity Generation	100%
33	SWS Gneevs Wind Farm Limited	Renewable Electricity Generation	100%
34	SWS Green Energy Limited	Energy Supply	100%
35	SWS Inchincoosh Wind Farm Limited	Renewable Electricity Generation	100%
36	SWS International Energy Limited	Non Trading	100%
37	SWS Kilgarvan Wind Farm Limited	Renewable Electricity Generation	100%
38	SWS Knockacummer Wind Farm Limited	Renewable Electricity Generation	100%
39	SWS Knockawarriga Wind Farm Limited	Renewable Electricity Generation	100%
40	SWS Natural Resources Holdings Limited	Holding Company	100%
41	SWS Wind Farms Limited	Project Financing	100%
42	Tooreen Windfarm Limited	Non Trading	100%
43	SWS Energy Limited	Renewable Electricity Generation	100%
44	Booltiagh Wind Limited	Renewable Electricity Generation	100%
45	BW2 Windfarm Limited	Renewable Electricity Generation	100%
46	Tidal Ventures Limited	Site Development for Tidal Projects	50%
47	BGE (UK) Limited	Gas Transmission	100%
48	firmus energy (distribution) Limited	Conveyance of Gas	100%
49	firmus energy (supply) Limited	Supply of Gas	100%
50	Craignagapple Windfarm Limited	Non Trading	100%

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## Notes to the Group Financial Statements (continued)

## 27. Subsidiaries and Joint Ventures (continued)

	Company	Nature of Business	Group Share
51	Owenreagh Power Partners Limited	Renewable Electricity Generation	50%
52	Owenreagh Wind Farm Limited	Renewable Electricity Generation	50%
53	SWS Lisavaired NI Limited	Renewable Electricity Generation	50%
	<b>Independent subsidiary undertaking</b>		
54	Gaslink Independent System Operator Limited	Independent Gas System Operator	100%
	<b>Non-controlled undertaking</b>		
55	Bord Gáis ESOP Trustee Limited	Trustee for Employee Share Ownership Plan	100%
	The registered office of 1 to 7, 54 and 55 is:	Gasworks Road Cork Ireland	
	The registered office of 8 to 46 is:	6 Lapps Quay Cork Ireland	
	The registered office of 47 to 49 is:	6 St. Andrew Street 5th Floor London EC4A 3AE United Kingdom	
	The registered office of 50 to 53 is:	21 Arthur Street Belfast BT1 4GA Northern Ireland	

## 28. Subsequent Events

There have been no events between the reporting date and the date on which the financial statements were approved by the Board, which would require adjustment to the financial statements or any additional disclosures.

In February 2012, the Minister for Public Expenditure and Reform announced the Government's decision to proceed with the sale of Bord Gáis Energy. On 14 February 2013, the launch of the formal sale process was announced in a notice to the Irish Stock Exchange, inviting potential buyers to contact the Group's appointed financial advisors. The Group has considered and determined that the Bord Gáis Energy business does not meet the definition of "available for sale" as set out in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as of the date of approval of these financial statements. Consequently, no adjustment to the financial statements or any additional disclosures are required.

## 29. Bord Gáis ESOP Trustee Limited

Bord Gáis ESOP Trustee Limited was incorporated as trustee of the Bord Gáis Employee Share Ownership Trust and the Bord Gáis Approved Profit Sharing Scheme. The Group has no ability or rights to exert control over the assets or management of the company. The Board of Directors is chaired by an independent professional director with four directors representing Bord Gáis Éireann employees and two directors appointed by Bord Gáis Éireann. In accordance with IAS 27, the accounts for Bord Gáis ESOP Trustee Limited are not consolidated with the results of the Group.

## 30. Estimates and Judgements

### Group and Parent

In the process of preparing these financial statements, judgments and estimates are necessarily used which affect the amounts recognised in the financial statements. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation.

When there is no standard or interpretation applicable to a specific transaction, the Group exercises judgement to determine the most appropriate accounting policy that will supply relevant, reliable information for preparation of its financial statements.

It should be noted that the impact of variation in some assumptions and estimates can have a particularly material impact on the reported results. These include but are not limited to the following:

- (a) The measurement of certain assets, liabilities, income and costs which require a high degree of estimation and judgement including; the calculation of unbilled consumption, impairment allowance in respect of trade and other receivables, the useful lives of property, plant and equipment/intangible assets and various operating accruals. These items are estimated in accordance with relevant IFRS and the Group's accounting policies. Further detail is set out in the relevant notes.
- (b) The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. In particular, the measurement of the provision for environmental and decommissioning costs is sensitive to assumptions concerning costs, inflation rate, long-term discount rate, and disbursement schedules. A revised estimate is therefore established at each reporting date to ensure that the amounts accrued correspond to the best estimate of the costs eventually to be borne by the Group. Any significant differences resulting from these revised estimates could entail changes in the amounts accrued.
- (c) The value of retirement benefit obligations is based on actuarial valuations that are sensitive to assumptions concerning discount rates, wage increase rates, inflation rates, mortality assumptions and any other actuarial assumptions used. The principal actuarial assumptions used to calculate these retirement benefit obligations at 31 December 2012 are presented in the retirement benefit obligations note. These assumptions are updated annually. The Group considers the actuarial assumptions used at 31 December 2012 appropriate and well-founded, but changes in these assumptions may have a significant effect on the amount of the retirement benefit obligations and the Group's reported results.
- (d) Impairment tests on goodwill and long-term assets are sensitive to the macro-economic and segment assumptions used, and medium-term financial forecasts. The Group therefore revises the underlying estimates and assumptions based on regularly updated information.
- (e) The Group has entered into a number of arrangements which fall within the scope of IFRIC 4, as they relate to use and control of a specific asset. At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. It has been determined that each of these arrangements represent operating leases. All receipts from these arrangements, within the scope of IFRIC 4, are deemed to be earned as part of the Group's core operations and accordingly the lease income is recognised as revenue in the income statement. All lease payments made in accordance with these arrangements are recorded within cost of sales.
- (f) In measuring the fair value of unlisted financial instruments the Group uses valuation models involving a certain number of assumptions. Refer to note 21 for further details.

# Parent Statement of Financial Position

as at 31 December 2012

	Notes	31-Dec-12 €'000	31-Dec-11 €'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1	2,577,346	2,595,004
Intangible assets	2	100,928	102,138
Investment in subsidiary undertakings	3	430,747	418,047
Investment in joint ventures	3	11,200	11,200
Financial asset investments	3	2,025	1,025
Trade and other receivables	6	-	-
Derivative financial instruments	14	11,986	17,643
Deferred tax assets	4	-	-
<b>Total non-current assets</b>		<b>3,134,232</b>	<b>3,145,057</b>
<b>Current assets</b>			
Inventories	5	47,100	47,413
Trade and other receivables	6	962,204	835,814
Cash and cash equivalents	7	304,669	221,092
Restricted deposits	7	21,389	38,856
Derivative financial instruments	14	7,089	24,271
Current tax assets	4	-	2,899
<b>Total current assets</b>		<b>1,342,451</b>	<b>1,170,345</b>
<b>Total assets</b>		<b>4,476,683</b>	<b>4,315,402</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Capital stock	8	(100,000)	(100,000)
Capital premium	8	(29,426)	(29,426)
Other reserves	8	22,211	9,233
Retained earnings	8	(1,519,493)	(1,442,042)
<b>Total equity attributable to equity holders of the Parent</b>		<b>(1,626,708)</b>	<b>(1,562,235)</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings and other debt	9	(1,871,935)	(1,909,893)
Retirement benefit obligations	10	(39,447)	(37,391)
Deferred revenue and government grants	11	(74,435)	(83,581)
Provisions	12	(15,183)	(12,432)
Trade and other payables	13	(26,940)	(23,359)
Derivative financial instruments	14	(33,119)	(16,109)
Deferred tax liabilities	4	(195,052)	(186,183)
<b>Total non-current liabilities</b>		<b>(2,256,111)</b>	<b>(2,268,948)</b>
<b>Current liabilities</b>			
Borrowings and other debt	9	(192,193)	(55,458)
Deferred revenue and government grants	11	(24,336)	(21,440)
Provisions	12	(2,150)	(6,644)
Trade and other payables	13	(366,759)	(367,631)
Derivative financial instruments	14	(6,737)	(33,046)
Current tax liabilities	4	(1,689)	-
<b>Total current liabilities</b>		<b>(593,864)</b>	<b>(484,219)</b>
<b>Total liabilities</b>		<b>(2,849,975)</b>	<b>(2,753,167)</b>
<b>Total equity and liabilities</b>		<b>(4,476,683)</b>	<b>(4,315,402)</b>

For and on behalf of the Board:



Chairman



Member of the Board

09 April 2013

Date of Approval

## Parent Statement of Changes in Equity

for the year ended 31 December 2012

	Capital stock €'000	Capital premium €'000	Cash flow hedge reserve €'000	Total other reserves €'000	Retained earnings €'000	Total €'000
<b>Balance at 1 January 2011</b>	100,000	29,426	(11,144)	(11,144)	1,418,584	1,536,866
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	78,647	78,647
Other comprehensive income for the year, net of income tax	-	-	1,911	1,911	(20,980)	(19,069)
<b>Total comprehensive income for the year</b>	-	-	1,911	1,911	57,667	59,578
<b>Transactions with owners, recorded directly in equity</b>						
Dividends paid	-	-	-	-	(34,209)	(34,209)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	(34,209)	(34,209)
<b>Balance at 31 December 2011</b>	100,000	29,426	(9,233)	(9,233)	1,442,042	1,562,235
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	132,670	132,670
Other comprehensive income for the year, net of income tax	-	-	(12,978)	(12,978)	(30,600)	(43,578)
<b>Total comprehensive income for the year</b>	-	-	(12,978)	(12,978)	102,070	89,092
<b>Transactions with owners, recorded directly in equity</b>						
Dividends paid	-	-	-	-	(24,619)	(24,619)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	(24,619)	(24,619)
<b>Balance at 31 December 2012</b>	100,000	29,426	(22,211)	(22,211)	1,519,493	1,626,708

All attributable to owners of the Parent.

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## Parent Statement of Cash Flows

for the year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
<b>Cash flows from operating activities</b>			
Profit for the year		132,670	78,647
Adjustments for:			
Depreciation and amortisation		117,476	115,358
Gain on sale of property, plant and equipment		(24)	(21)
Net finance cost		54,509	52,793
Income tax expense		17,167	11,370
Operating derivatives loss/(gain)		699	(2,093)
Other operating income		(29,617)	-
		292,880	256,054
Working capital changes:			
Change in inventories		313	(14,573)
Change in trade and other receivables		(94,066)	39,301
Change in trade and other payables		11,523	(7,896)
Change in deferred revenue		(2,327)	5,287
Cash outflows in respect of:			
- Third Directive provision		(1,549)	(8,294)
- Other provisions		(298)	(6,926)
Change in self-insured claims provision		918	(585)
<b>Cash generated from operating activities</b>		207,394	262,368
Interest paid		(95,461)	(86,875)
Income tax refund/(paid)		2,565	(25)
<b>Net cash generated from operating activities</b>		114,498	175,468
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		82	76
Movements in restricted deposits		17,467	(15,549)
Payments for property, plant and equipment		(82,579)	(131,455)
Payments for intangible assets		(26,864)	(34,368)
Payments to acquire financial asset investments		(1,000)	-
Payments in relation to acquisitions and subsidiary capital contributions		(12,700)	(13,752)
Payments in relation to acquisitions - deferred consideration		-	(26,654)
Dividends received from financial asset investments		-	600
Interest received		2,001	1,578
<b>Net cash used in investing activities</b>		(103,593)	(219,524)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		476,225	202,385
Repayment of borrowings		(378,978)	(105,219)
Dividends paid		(24,619)	(34,209)
<b>Net cash from financing activities</b>		72,628	62,957
<b>Net increase in cash and cash equivalents</b>	7	83,533	18,901
Cash and cash equivalents at 1 January	7	221,092	202,066
Effect of exchange rate fluctuations on cash held	7	44	125
<b>Cash and cash equivalents at 31 December</b>	7	304,669	221,092

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## Notes to the Parent Financial Statements (continued)

## 1. Property, Plant and Equipment

	Land and buildings €'000	Plant, pipeline and machinery €'000	Assets under construction €'000	Total €'000
<b>Cost</b>				
<b>At 1 January 2011</b>	58,498	3,342,336	15,631	3,416,465
Additions	1,169	63,966	40,280	105,415
Transfers in year	19,817	16,735	(36,552)	-
Disposals	-	(3,152)	-	(3,152)
<b>At 31 December 2011</b>	<b>79,484</b>	<b>3,419,885</b>	<b>19,359</b>	<b>3,518,728</b>
Additions	-	48,777	33,201	81,978
Transfers in year	-	14,646	(14,646)	-
Disposals	-	(1,377)	-	(1,377)
<b>At 31 December 2012</b>	<b>79,484</b>	<b>3,481,931</b>	<b>37,914</b>	<b>3,599,329</b>
<b>Depreciation and impairment losses</b>				
<b>At 1 January 2011</b>	16,315	806,390	-	822,705
Depreciation for the year	5,172	98,944	-	104,116
Disposals	-	(3,097)	-	(3,097)
<b>At 31 December 2011</b>	<b>21,487</b>	<b>902,237</b>	<b>-</b>	<b>923,724</b>
Depreciation for the year	(2,972)	102,550	-	99,578
Disposals	-	(1,319)	-	(1,319)
<b>At 31 December 2012</b>	<b>18,515</b>	<b>1,003,468</b>	<b>-</b>	<b>1,021,983</b>
<b>Carrying amounts</b>				
At 31 December 2011	57,997	2,517,648	19,359	2,595,004
<b>At 31 December 2012</b>	<b>60,969</b>	<b>2,478,463</b>	<b>37,914</b>	<b>2,577,346</b>

During the year, the Parent capitalised the sum of €0.3 million (2011: €0.3 million) in interest. The capitalisation rate was 4.78% (2011: 4.71%). The Parent also capitalised the sum of €11.8 million in payroll costs during the year (2011: €10.4 million).

## 2. Intangible Assets

	Software under development €'000	Software and other €'000	Total €'000
<b>Cost</b>			
<b>At 1 January 2011</b>	9,872	151,225	161,097
Additions (incl internally developed)	26,906	1,125	28,031
Transfers in year	(8,861)	8,861	-
<b>At 31 December 2011</b>	27,917	161,211	189,128
Additions (incl internally developed)	17,375	3,236	20,611
Transfers in year	(34,587)	34,587	-
Disposals	-	(388)	(388)
<b>At 31 December 2012</b>	10,705	198,646	209,351
<b>Amortisation</b>			
<b>At 1 January 2011</b>	-	72,639	72,639
Amortisation for the year	-	14,351	14,351
<b>At 31 December 2011</b>	-	86,990	86,990
Amortisation for the year	-	21,821	21,821
Disposals	-	(388)	(388)
<b>At 31 December 2012</b>	-	108,423	108,423
<b>Carrying amounts</b>			
At 31 December 2011	27,917	74,221	102,138
<b>At 31 December 2012</b>	10,705	90,223	100,928

The Parent capitalised the sum of €1.3 million in payroll costs during the year (2011: €2.4 million).

## 3. Investments

	Investment in subsidiary undertakings €'000	Investment in joint ventures €'000	Financial asset investments €'000	Total €'000
<b>Cost</b>				
<b>At 1 January 2011</b>	394,114	18,486	1,025	413,625
Acquisitions and capital contributions	20,060	-	-	20,060
Conversion of joint venture to a fully owned subsidiary	7,286	(7,286)	-	-
<b>At 31 December 2011</b>	421,460	11,200	1,025	433,685
Acquisitions and capital contributions	12,700	-	1,000	13,700
<b>At 31 December 2012</b>	434,160	11,200	2,025	447,385
<b>Impairment</b>				
<b>At 1 January 2011</b>	2,600	-	-	2,600
Impairment recognised during the year	813	-	-	813
<b>At 31 December 2011</b>	3,413	-	-	3,413
Impairment recognised during the year	-	-	-	-
<b>At 31 December 2012</b>	3,413	-	-	3,413
<b>Carrying amounts</b>				
At 31 December 2011	418,047	11,200	1,025	430,272
<b>At 31 December 2012</b>	430,747	11,200	2,025	443,972

## Notes to the Parent Financial Statements (continued)

## 4. Tax Assets and Liabilities

## Current tax assets and liabilities

	31-Dec-12 €'000	31-Dec-11 €'000
Current tax assets	-	2,899
Current tax liabilities	(1,689)	-

## Deferred tax assets and liabilities

	Retirement benefit obligation €'000	Tax losses forward €'000	Derivative financial instruments €'000	Property, plant and equipment and intangible assets €'000	Other €'000	Total €'000
At 1 January 2011	2,612	-	1,593	(183,095)	1,362	(177,528)
(Expense)/credit to income statement	(935)	1,673	-	(8,673)	(3,443)	(11,378)
Recognised in equity	2,997	-	(274)	-	-	2,723
At 31 December 2011	4,674	1,673	1,319	(191,768)	(2,081)	(186,183)
(Expense)/credit to income statement	(4,114)	641	-	(8,854)	(2,767)	(15,094)
Recognised in equity	4,371	-	1,854	-	-	6,225
At 31 December 2012	4,931	2,314	3,173	(200,622)	(4,848)	(195,052)

## 5. Inventories

	31-Dec-12 €'000	31-Dec-11 €'000
Gas	34,374	35,602
Engineering materials/others	12,726	11,811
<b>Total</b>	<b>47,100</b>	<b>47,413</b>

In 2012 inventories recognised as cost of sales amounted to €51.5 million (2011: €30.6 million). There were no write-downs of inventories to net realisable value in 2012 (2011: €nil).

## 6. Trade and Other Receivables

	31-Dec-12 €'000	31-Dec-11 €'000
Trade receivables	90,059	78,841
Unbilled consumption	160,684	164,890
Amounts owed by subsidiary undertakings	632,625	548,359
Amounts owed by joint ventures	4,704	4,057
Prepayments	10,708	11,296
Other receivables	63,424	28,371
<b>Total</b>	<b>962,204</b>	<b>835,814</b>
Current	962,204	835,814
<b>Total</b>	<b>962,204</b>	<b>835,814</b>

Trade receivables are stated net of provisions. When management considers the recovery of a receivable to be improbable, a provision is made against the carrying value of the receivable. The Parent's exposure to credit and currency risks, and impairment losses related to trade and other receivables is included in note 14.

## 7. Cash, Cash Equivalents and Restricted Deposits

### Cash and cash equivalents

Cash equivalents are held for the purpose of meeting liquidity requirements.

	31-Dec-12 €'000	31-Dec-11 €'000
Short-term deposits	289,700	205,313
Cash	14,969	15,779
<b>Total</b>	<b>304,669</b>	<b>221,092</b>
	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>221,092</b>	<b>202,066</b>
Increase in cash and cash equivalents in the statement of cash flows	83,533	18,901
Effect of exchange rate fluctuations on cash held	44	125
<b>At 31 December</b>	<b>304,669</b>	<b>221,092</b>

### Restricted deposits

The restricted deposits include amounts held in respect of collateral held by third parties, credit support agreements and gas network related security deposits.

	31-Dec-12 €'000	31-Dec-11 €'000
Current	21,389	38,856
<b>Total</b>	<b>21,389</b>	<b>38,856</b>

## 8. Equity

### Capital stock

Refer to note 15 of the Group financial statements for further details.

### Capital premium

Refer to note 15 of the Group financial statements for further details.

### Other reserves

#### Cash flow hedge reserves

The hedging reserve primarily represents the fair value of derivatives which are part of effective cash flow hedging relationships at year-end. As the derivatives are held for hedging purposes, as defined by IAS 39, their fair value movements are retained in equity instead of being charged to the income statement during the year and will be charged to profit or loss in the same period as the corresponding hedged transaction. Refer to note 14 of the Parent financial statements for further details.

	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>(9,233)</b>	<b>(11,144)</b>
Net change in fair value of cash flow hedges	(14,832)	2,185
Deferred tax on cash flow hedge movement	1,854	(274)
<b>At 31 December</b>	<b>(22,211)</b>	<b>(9,233)</b>

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## Notes to the Parent Financial Statements (continued)

## 8. Equity (continued)

## Retained earnings

	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>1,442,042</b>	1,418,584
Profit for the year	132,670	78,647
Net income recognised directly in other comprehensive income		
- defined benefit plan actuarial losses	(34,971)	(23,977)
- deferred tax credit relating to defined benefit obligations	4,371	2,997
Net income recognised directly in equity		
- dividends paid	(24,619)	(34,209)
<b>At 31 December</b>	<b>1,519,493</b>	1,442,042

## 9. Borrowings and Other Debt

This note provides information about the contractual terms of the Parent's interest-bearing borrowings. For more information about the Parent's exposure to interest rate, foreign currency and liquidity risk, see note 14.

## Maturity of borrowings and other debt by type (including associated fees)

	Bonds 31-Dec-12 €'000	Loans from financial institutions * 31-Dec-12 €'000	Total 31-Dec-12 €'000	Total 31-Dec-11 €'000
Less than one year	-	192,193	192,193	55,458
<b>Current borrowings</b>	<b>-</b>	<b>192,193</b>	<b>192,193</b>	<b>55,458</b>
Between one and five years	771,519	427,006	1,198,525	1,242,468
More than five years	-	673,410	673,410	667,425
<b>Non-current borrowings</b>	<b>771,519</b>	<b>1,100,416</b>	<b>1,871,935</b>	<b>1,909,893</b>
<b>Total</b>	<b>771,519</b>	<b>1,292,609</b>	<b>2,064,128</b>	<b>1,965,351</b>

\* including Private Placement.

Total borrowings includes €779.5 million (2011: €858.8 million) of floating rate debt and €1,284.6 million (2011: €1,106.6 million) of fixed rate debt which has been drawn down from various lenders.

Included in borrowings are sterling denominated bank loans, which have been used as a hedge of the Parent's investment in a sterling denominated subsidiary in the United Kingdom. The carrying amount of the loans at 31 December 2012 was €221.5 million (2011: €216.0 million).

## 10. Retirement Benefit Obligations

Refer to note 17 of the Group financial statements for analysis of both Group and Parent retirement benefit obligations.



## 11. Deferred Revenue and Government Grants

Deferred revenue	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>44,044</b>	38,757
Received in year	13,837	20,096
Recognised as revenue in year	(16,164)	(14,809)
<b>At 31 December</b>	<b>41,717</b>	44,044
<b>Government grants</b>	<b>2012 €'000</b>	<b>2011 €'000</b>
<b>At 1 January</b>	<b>60,977</b>	64,899
Amortised in year	(3,923)	(3,922)
<b>At 31 December</b>	<b>57,054</b>	60,977
<b>Analysed as follows:</b>	<b>31-Dec-12 €'000</b>	<b>31-Dec-11 €'000</b>
Non-current	74,435	83,581
Current	24,336	21,440
<b>Total deferred revenue and government grants</b>	<b>98,771</b>	105,021

## 12. Provisions

Refer to note 19 of the Group financial statements for analysis of both Group and Parent provisions.

## 13. Trade and Other Payables

	31-Dec-12 €'000	31-Dec-11 €'000
Trade payables due	109,928	106,042
Accrued expenses	103,136	113,037
Other payables	126,673	118,937
Amounts due to subsidiary companies	30,966	34,110
Taxation and social welfare creditors*	22,996	18,864
<b>Total</b>	<b>393,699</b>	390,990
Non-current	26,940	23,359
Current	366,759	367,631
<b>Total</b>	<b>393,699</b>	390,990
<b>* Taxation and social welfare creditors</b>		
PAYE/PRSI/social welfare	2,545	3,704
VAT	20,451	15,018
Other taxes	-	142
<b>Total</b>	<b>22,996</b>	18,864

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## Notes to the Parent Financial Statements (continued)

## 14. Financial Instruments

The fair values of the primary financial assets and liabilities of the Parent, together with their carrying values excluding provisions can be analysed as follows:

	Assets and liabilities at amortised cost or other 31-Dec-12 €'000	Derivatives in hedging relationship 31-Dec-12 €'000	Derivatives not in hedging relationship 31-Dec-12 €'000	Total carrying value 31-Dec-12 €'000	Fair value 31-Dec-12 €'000
<b>Assets</b>					
<b>Non-current financial assets</b>					
Financial asset investments	2,025	-	-	2,025	2,025
Derivative financial instruments	-	11,753	233	11,986	11,986
<b>Total non-current financial assets</b>	<b>2,025</b>	<b>11,753</b>	<b>233</b>	<b>14,011</b>	<b>14,011</b>
<b>Current financial assets</b>					
Trade and other receivables (excluding prepayments)	951,496	-	-	951,496	951,496
Cash and cash equivalents	304,669	-	-	304,669	304,669
Restricted deposits	21,389	-	-	21,389	21,389
Derivative financial instruments	-	797	6,292	7,089	7,089
<b>Total current financial assets</b>	<b>1,277,554</b>	<b>797</b>	<b>6,292</b>	<b>1,284,643</b>	<b>1,284,643</b>
<b>Total financial assets</b>	<b>1,279,579</b>	<b>12,550</b>	<b>6,525</b>	<b>1,298,654</b>	<b>1,298,654</b>
<b>Liabilities</b>					
<b>Non-current financial liabilities</b>					
Borrowings and other debt	(1,867,817)	(4,118)	-	(1,871,935)	(1,926,948)
Trade and other payables	(26,940)	-	-	(26,940)	(26,940)
Derivative financial instruments	-	(33,083)	(36)	(33,119)	(33,119)
<b>Total non-current financial liabilities</b>	<b>(1,894,757)</b>	<b>(37,201)</b>	<b>(36)</b>	<b>(1,931,994)</b>	<b>(1,987,007)</b>
<b>Current financial liabilities</b>					
Borrowings and other debt	(192,686)	493	-	(192,193)	(192,193)
Trade and other payables	(366,759)	-	-	(366,759)	(366,759)
Derivative financial instruments	-	(1,204)	(5,533)	(6,737)	(6,737)
<b>Total current financial liabilities</b>	<b>(559,445)</b>	<b>(711)</b>	<b>(5,533)</b>	<b>(565,689)</b>	<b>(565,689)</b>
<b>Total financial liabilities</b>	<b>(2,454,202)</b>	<b>(37,912)</b>	<b>(5,569)</b>	<b>(2,497,683)</b>	<b>(2,552,696)</b>
<b>Net financial (liabilities)/assets</b>	<b>(1,174,623)</b>	<b>(25,362)</b>	<b>956</b>	<b>(1,199,029)</b>	<b>(1,254,042)</b>

#### 14. Financial Instruments (continued)

	Assets and liabilities at amortised cost or other 31-Dec-11 €'000	Derivatives in hedging relationship 31-Dec-11 €'000	Derivatives not in hedging relationship 31-Dec-11 €'000	Total carrying value 31-Dec-11 €'000	Fair value 31-Dec-11 €'000
<b>Assets</b>					
<b>Non-current financial assets</b>					
Financial asset investments	1,025	-	-	1,025	1,025
Derivative financial instruments	-	14,777	2,866	17,643	17,643
<b>Total non-current financial assets</b>	<b>1,025</b>	<b>14,777</b>	<b>2,866</b>	<b>18,668</b>	<b>18,668</b>
<b>Current financial assets</b>					
Trade and other receivables (excluding prepayments)	824,518	-	-	824,518	824,518
Cash and cash equivalents	221,092	-	-	221,092	221,092
Restricted deposits	38,856	-	-	38,856	38,856
Derivative financial instruments	-	4,850	19,421	24,271	24,271
<b>Total current financial assets</b>	<b>1,084,466</b>	<b>4,850</b>	<b>19,421</b>	<b>1,108,737</b>	<b>1,108,737</b>
<b>Total financial assets</b>	<b>1,085,491</b>	<b>19,627</b>	<b>22,287</b>	<b>1,127,405</b>	<b>1,127,405</b>
<b>Liabilities</b>					
<b>Non-current financial liabilities</b>					
Borrowings and other debt	(1,894,732)	(15,161)	-	(1,909,893)	(1,922,443)
Trade and other payables	(23,359)	-	-	(23,359)	(23,359)
Derivative financial instruments	-	(13,581)	(2,528)	(16,109)	(16,109)
<b>Total non-current financial liabilities</b>	<b>(1,918,091)</b>	<b>(28,742)</b>	<b>(2,528)</b>	<b>(1,949,361)</b>	<b>(1,961,911)</b>
<b>Current financial liabilities</b>					
Borrowings and other debt	(61,550)	6,092	-	(55,458)	(55,458)
Trade and other payables	(367,631)	-	-	(367,631)	(367,631)
Derivative financial instruments	-	(8,250)	(24,796)	(33,046)	(33,046)
<b>Total current financial liabilities</b>	<b>(429,181)</b>	<b>(2,158)</b>	<b>(24,796)</b>	<b>(456,135)</b>	<b>(456,135)</b>
<b>Total financial liabilities</b>	<b>(2,347,272)</b>	<b>(30,900)</b>	<b>(27,324)</b>	<b>(2,405,496)</b>	<b>(2,418,046)</b>
<b>Net financial liabilities</b>	<b>(1,261,781)</b>	<b>(11,273)</b>	<b>(5,037)</b>	<b>(1,278,091)</b>	<b>(1,290,641)</b>

The Parent uses the following categories for hedges:

##### (i) Fair value hedges

The ineffective portion of fair value hedges was €0.7 million for 2012 (2011: no material ineffective portion).

The fair value of hedging derivatives in a fair value hedge in the statement of financial position as at 31 December 2012 was €3.6 million (2011: €8.3 million).

##### (ii) Cash flow hedges

At 31 December 2012, the ineffective portion of cash flow hedges was €nil (2011: €nil) and during 2012 €nil was reclassified from equity to profit or loss due to ineffectiveness on cash flow hedges (2011: €nil).

## Notes to the Parent Financial Statements (continued)

## 14. Financial Instruments (continued)

Changes in the fair value of hedging derivatives included in the statement of other comprehensive income over the year are as follows:

	Changes in fair value recorded in equity <sup>1</sup> 31-Dec-12 €'000	Tax impact of changes recorded in equity 31-Dec-12 €'000	Total changes recorded in equity 31-Dec-12 €'000	Changes in fair value recorded in equity <sup>1</sup> 31-Dec-11 €'000	Tax impact of changes recorded in equity 31-Dec-11 €'000	Total changes recorded in equity 31-Dec-11 €'000
Interest rate hedging	(9,448)	1,181	(8,267)	(4,372)	545	(3,827)
Exchange rate hedging	(5,384)	673	(4,711)	6,557	(819)	5,738
<b>Cash flow hedging derivatives</b>	<b>(14,832)</b>	<b>1,854</b>	<b>(12,978)</b>	<b>2,185</b>	<b>(274)</b>	<b>1,911</b>

<sup>1</sup> included in "Net change in fair value of cash flow hedges" in the statement of other comprehensive income.

## Maturity profile of cash flow hedges

The periods when cash flow hedges are expected to occur and as such affect profit or loss are as follows:

	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000	Total €'000
<b>At 31 December 2012</b>					
Interest rate swaps	-	-	(20,185)	-	(20,185)
Cross currency swaps	(4)	(304)	(461)	(4,431)	(5,200)
Exchange rate contracts	42	(40)	-	-	2
<b>Cash flow hedging derivatives</b>	<b>38</b>	<b>(344)</b>	<b>(20,646)</b>	<b>(4,431)</b>	<b>(25,383)</b>
<b>At 31 December 2011</b>					
Interest rate swaps	(2,300)	-	(10,846)	-	(13,146)
Cross currency swaps	(35)	(14)	(708)	(2,034)	(2,791)
Exchange rate contracts	5,104	282	-	-	5,386
<b>Cash flow hedging derivatives</b>	<b>2,769</b>	<b>268</b>	<b>(11,554)</b>	<b>(2,034)</b>	<b>(10,551)</b>

## Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: 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: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 2 31-Dec-12 €'000	Level 2 31-Dec-11 €'000
<b>Financial derivative assets</b>		
Commodity derivatives	4,116	17,904
Forward exchange contracts	3,216	9,516
Cross currency rate swaps	11,743	14,494
<b>Total financial derivative assets</b>	<b>19,075</b>	<b>41,914</b>
<b>Financial derivative liabilities</b>		
Commodity derivatives	(3,641)	(19,441)
Forward exchange contracts	(2,677)	(2,771)
Interest rate derivatives	(20,185)	(18,006)
Cross currency rate swaps	(13,353)	(8,937)
<b>Total financial derivative liabilities</b>	<b>(39,856)</b>	<b>(49,155)</b>
<b>Net financial derivative liabilities</b>	<b>(20,781)</b>	<b>(7,241)</b>

There have been no transfers between levels in 2012 or 2011.

## 14. Financial Instruments (continued)

### Credit risk

Refer to note 21 of the Group financial statements for details of the Group's objectives, policies and processes for managing credit risk and the methods used to measure credit risk. These objectives, policies and processes are also adopted by the Parent.

### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31-Dec-12 €'000	31-Dec-11 €'000
Trade and other receivables (excluding prepayments)	951,496	824,518
Cash and cash equivalents	304,669	221,092
Restricted deposits	21,389	38,856
Financial asset investments	2,025	1,025
Derivative financial instruments	19,075	41,914
<b>Total</b>	<b>1,298,654</b>	<b>1,127,405</b>

Amounts owed by subsidiary undertakings of €632.6 million at 31 December 2012 (2011: €548.4 million) are excluded from the analysis of credit exposure below.

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region is as follows:

	31-Dec-12 €'000	31-Dec-11 €'000
Domestic	318,871	276,159
United Kingdom	-	-
<b>Total</b>	<b>318,871</b>	<b>276,159</b>

The maximum exposure to credit risk for trade and other receivables at the reporting date can be analysed as follows:

	31-Dec-12 €'000	31-Dec-11 €'000
Retail customers - billed	78,543	80,811
Retail customers - unbilled	160,684	164,890
Use of system receivables	11,500	6,567
Amounts due from joint venture undertakings	4,704	4,057
Other receivables	63,440	19,834
<b>Total</b>	<b>318,871</b>	<b>276,159</b>

The aging of trade and other receivables, net of impairment, at the reporting date was:

	Net receivable 31-Dec-12 €'000	Net receivable 31-Dec-11 €'000
Not past due	270,784	220,586
0 - 30 days	30,079	31,501
31 - 120 days	10,868	13,760
> 120 days	7,140	10,312
<b>Total</b>	<b>318,871</b>	<b>276,159</b>

## Notes to the Parent Financial Statements (continued)

## 14. Financial Instruments (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2012 €'000	2011 €'000
<b>At 1 January</b>	<b>31,721</b>	28,892
Impairment loss recognised	<b>10,963</b>	9,498
Provision utilised	<b>(14,365)</b>	(6,669)
<b>At 31 December</b>	<b>28,319</b>	31,721

Refer to note 21 of the Group financial statements for further analysis of impairments.

## Liquidity risk

Refer to note 21 of the Group financial statements for details of the Group's objectives, policies and processes for managing liquidity risk and the methods used to measure liquidity risk. These objectives, policies and processes are also adopted by the Parent.

The Parent seeks to ensure it has a mix of funding sources at acceptable terms and conditions to finance the development of the business and to meet financial obligations as they fall due. The Parent seeks to have a number of sources of funds at any particular time and it also maintains a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk. At 31 December 2012, the Parent had €2,802.8 million in committed facilities (2011: €2,467.1 million). Borrowings at 31 December 2012 were €2,064.1 million (2011: €1,965.4 million).

The following are the contractual maturities of financial liabilities (and assets of a similar nature), including the undiscounted interest payment associated with borrowings and the undiscounted net cash flows attributable to financial instruments. The disclosure includes cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward exchange contracts.

	Contracting amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
<b>At 31 December 2012</b>						
Borrowings	(2,064,128)	(2,409,112)	(277,538)	(604,560)	(820,277)	(706,737)
Trade and other payables	(393,699)	(395,379)	(366,759)	(8,735)	(10,357)	(9,528)
<b>Non-derivative financial liabilities</b>	<b>(2,457,827)</b>	<b>(2,804,491)</b>	<b>(644,297)</b>	<b>(613,295)</b>	<b>(830,634)</b>	<b>(716,265)</b>
Interest rate derivatives	(20,185)	(21,234)	(6,255)	(6,149)	(8,830)	-
Cross currency rate swaps	(1,610)	60,319	17,030	16,962	20,768	5,559
Exchange rate contracts	539	539	554	(15)	-	-
Net commodity derivatives*	475	(8,242)	(27,628)	17,454	1,932	-
<b>Net derivative financial (liabilities)/assets</b>	<b>(20,781)</b>	<b>31,382</b>	<b>(16,299)</b>	<b>28,252</b>	<b>13,870</b>	<b>5,559</b>
<b>Net financial liabilities</b>	<b>(2,478,608)</b>	<b>(2,773,109)</b>	<b>(660,596)</b>	<b>(585,043)</b>	<b>(816,764)</b>	<b>(710,706)</b>
<b>At 31 December 2011</b>						
Borrowings	(1,965,351)	(2,556,268)	(146,116)	(334,188)	(1,156,994)	(918,970)
Trade and other payables	(390,990)	(390,990)	(367,631)	(4,107)	(8,822)	(10,430)
<b>Non-derivative financial liabilities</b>	<b>(2,356,341)</b>	<b>(2,947,258)</b>	<b>(513,747)</b>	<b>(338,295)</b>	<b>(1,165,816)</b>	<b>(929,400)</b>
Interest rate derivatives	(18,006)	(19,939)	(8,832)	(3,252)	(7,855)	-
Cross currency rate swaps	5,557	(7,566)	169	11,947	(11,960)	(7,722)
Exchange rate contracts	6,745	6,745	6,347	398	-	-
Net commodity derivatives*	(1,537)	(58,850)	(28,837)	(30,013)	-	-
<b>Net derivative financial liabilities</b>	<b>(7,241)</b>	<b>(79,610)</b>	<b>(31,153)</b>	<b>(20,920)</b>	<b>(19,815)</b>	<b>(7,722)</b>
<b>Net financial liabilities</b>	<b>(2,363,582)</b>	<b>(3,026,868)</b>	<b>(544,900)</b>	<b>(359,215)</b>	<b>(1,185,631)</b>	<b>(937,122)</b>

\* It should be noted that the contractual cash flows associated with forward commodity contracts which are not financial instruments under IAS 39, are not included in this analysis.

## 14. Financial Instruments (continued)

### Market risk

#### (a) Exchange rate risk

Refer to note 21 of the Group financial statements for details of the Group's objectives, policies and processes for managing exchange rate risk and the methods used to measure exchange rate risk. These objectives, policies and processes are also adopted by the Parent.

An analysis of the Parent's exposure to exchange rate risk that would impact profit or loss and equity is set out below. Certain items are excluded, such as;

- US dollar is excluded from this analysis as the exposure is hedged using offsetting cross currency swaps.
- Foreign currency instruments entered into as a hedge against fixed asset investments in the same currency are excluded from the below due to the offsetting impact of a currency movement on the financial statements.
- Commodity derivatives, as recognised on the statement of financial position (in line with IAS 39), are excluded from the below as the exposure to exchange rate risk is not material. The underlying commodity contracts, that have been delivered are included below, however those to be delivered into the future are excluded.

	31-Dec-12 €'000	31-Dec-11 €'000
Cash and cash equivalents	2,002	(2,526)
Restricted deposits	591	25,455
Trade and other receivables	44,097	-
Trade and other payables	(63,015)	-
<b>Gross statement of financial position exposure</b>	<b>(16,325)</b>	<b>22,929</b>
Forward exchange contracts	199,389	206,867
FX swaps	(64,561)	(90,358)
<b>Net exposure</b>	<b>118,503</b>	<b>139,438</b>

A strengthening or weakening of the euro, as indicated below, against sterling at 31 December would have increased/(decreased) other comprehensive income and profit or loss by the amounts shown below. This analysis is based on exchange rate variances that the Parent considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for the previous year.

	Profit before taxation gain/ (loss) 31-Dec-12 €'000	Other comprehensive income 31-Dec-12 €'000	Profit before taxation gain/ (loss) 31-Dec-11 €'000	Other comprehensive income 31-Dec-11 €'000
5% Strengthening	(196)	(5,729)	3,180	(10,489)
5% Weakening	196	5,729	(3,180)	10,489

The following assumptions were made in respect of the sensitivity analysis above:

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only, and
- changes in the carrying value of derivative financial instruments that are cash flow hedges impact other comprehensive income only.



## Notes to the Parent Financial Statements (continued)

## 14. Financial Instruments (continued)

**(b) Interest rate risk**

Refer to note 21 of the Group financial statements for details of the Group's objectives, policies and processes for managing interest rate risk and the methods used to measure interest rate risk. These objectives, policies and processes are also adopted by the Parent.

The percentage of the Parent's fixed and floating rate debt at 31 December was as follows:

	2012 €'000	2012 %	2011 €'000	2011 %
At fixed rates <sup>1</sup>	1,284,649	62.2%	1,106,610	56.3%
At floating rates	779,479	37.8%	858,741	43.7%
<b>Total</b>	<b>2,064,128</b>	<b>100.0%</b>	1,965,351	100.0%

<sup>1</sup> including swaps but excluding forward starting interest rate swaps.

The Parent had €1,008.5 million of fixed rate debt (excluding interest rate swaps) at 31 December 2012 (2011: €826.6 million).

At 31 December 2012, the Parent had outstanding interest rate swaps with a notional principal of €153.1 million and €100.0 million. €60.0 million which commenced on 31 January 2012 was swapped for four years at an average rate of 3.2%, €50.0 million which commenced on 17 September 2012 was swapped for four years at an average rate of 3.4%, and €43.1 million which commenced on 31 October 2012 was swapped for five years at an average rate of 1.7%. €40.0 million on 30 April 2012 was swapped for four years at an average rate of 3.3%, and €60.0 million which commenced on 31 October 2012 was swapped for five years at an average rate of 1.8%.

At 31 December 2012, the weighted average interest rate of the fixed rate debt portfolio was 4.01% (2011: 5.06%), which comprised European Investment Bank debt of €237.0 million, bonds of €771.5 million and an interest rate swap portfolio of €153.1 million and €100.0 million.

Interest costs on variable rate loans are reset on a periodic basis for one, three or six months over the prevailing market rate.

On 31 December 2012, the Parent had US\$670.0 million fixed rate debt outstanding (€551.4 million equivalent) in a US\$220.0 million US dollar Private Placement transaction (€194.0 million equivalent) which was completed on 22 October 2003 and US\$450.0 million (€357.4 million equivalent) which was completed on 31 March 2009. In order to fully hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating, on 31 December 2012 the Parent had a number of cross currency interest rate swaps which match the maturity profile of the debt.

**Cash flow sensitivity analysis for floating rate debt**

The policies and processes for the management and control of interest rate risk aim to reduce the impact of short-term interest rate fluctuations on earnings. Nevertheless, long-term changes in interest rates will have an impact on the Parent's earnings.

It is estimated that a general increase of 50 basis points in interest rates at 31 December would impact profit before taxation by the amounts shown below:

	Profit before taxation Gain/(loss) 31-Dec-12 €'000	Profit before taxation Gain/(loss) 31-Dec-11 €'000
50 bp increase	(3,897)	(3,981)
50 bp decrease	3,897	3,981

The fair value change on cash flow hedges and their impact on other comprehensive income would be as shown below:

	Other comprehensive income Gain/(loss) 31-Dec-12 €'000	Other comprehensive income Gain/(loss) 31-Dec-11 €'000
50 bp increase	6,551	3,393
50 bp decrease	(5,013)	(3,423)

#### 14. Financial Instruments (continued)

The following assumptions were made in respect of the sensitivity analysis above:

- all other variables, in particular foreign currency rates, remain constant,
- relates only to derivative financial instruments and floating debt,
- derivatives designated as cash flow hedges against movements in interest rates are assumed to be fully effective, recorded fully within equity with no impact on profit or loss,
- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only, and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

The above analysis is performed on the same basis for the previous year.

The impact on other comprehensive income, of a 50bp increase/decrease, is opposite but is not equal in amount because the rate changes in the sensitivity analysis also impacts the discount curves used on the relevant cash flows for interest rate derivatives.

#### (c) Commodity risk

Refer to note 21 of the Group financial statements for details of the Group's objectives, policies and processes for managing commodity risk and the methods used to measure commodity risk. These objectives, policies and processes are also adopted by the Parent.

#### 15. Operating Leases

##### Non-cancellable operating lease rentals receivable

	31-Dec-12 €'000	31-Dec-11 €'000
Less than one year	29,334	34,543
Between one and five years	85,900	96,835
More than five years	175,098	183,015
<b>Total</b>	<b>290,332</b>	<b>314,393</b>

Operating leases receivable by the Parent relate to arrangements to allow third parties the use of parts of the Gas Network Transportation system. These arrangements fall within the scope of IFRIC 4. The unexpired lease term is 15 years. All lease arrangements are at an arm's length basis.

##### Non-cancellable operating lease rentals payable

The following operating leases are payable by the Parent and generally relate to the rental of land and buildings. There are no significant or unusual restrictions imposed by the terms of the operating leases. All lease arrangements are at an arm's length basis.

	31-Dec-12 €'000	31-Dec-11 €'000
Less than one year	4,101	2,742
Between one and five years	13,377	14,420
More than five years	5,520	7,650
<b>Total</b>	<b>22,998</b>	<b>24,812</b>

## Notes to the Parent Financial Statements (continued)

**15. Operating Leases (continued)****Non-cancellable operating lease rentals payable under Power Purchase Agreements (PPAs)**

As part of its policy to secure competitive and diverse supplies of power, the Parent enters into PPAs with indigenous wind farms which fall within the scope of IFRIC 4. It has been determined that each of these arrangements within the scope of IFRIC 4 represent operating leases. Revenues in respect of the obligations disclosed will be recognised in future periods as the power subject to the lease arrangements are ultimately delivered to the Parent and utilised within the Parent's Energy retail business as sales to end consumers.

The following relates to commitments payable by the Parent under PPAs. The average unexpired lease term is 8 years. All lease arrangements are at an arm's length basis.

	31-Dec-12 €'000	31-Dec-11 €'000
Less than one year	<b>27,386</b>	25,651
Between one and five years	<b>105,586</b>	101,843
More than five years	<b>108,803</b>	118,834
<b>Total</b>	<b>241,775</b>	246,328

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## EU Directive 2000/35/EC - Late Payments in Commercial Transactions Regulations 2002

Payments made during 2012 were governed by EU Directive 2000/35/EC to combat late payments in commercial transactions. This Directive applies to goods and services supplied to the Group by EU based suppliers.

### Statement of payment practices including standard payment periods

The Group operates a policy of paying all undisputed supplier invoices within the agreed terms of payment. The standard terms specified in the standard purchase order are 45 days. Other payment terms may apply in cases where a separate contract is agreed with the supplier.

### Compliance with the Directive

The Group complies with the requirements of the legislation in respect of all supplier payments. Procedures and systems, including computerised systems have been modified to comply with the Directive. The procedures operated well during the year. These procedures ensure reasonable and not absolute assurance against non-compliance.

### Information on payments in 2012:

- Standard payment terms are 45 days.
- The total number of invoices in excess of €250 paid late was 91 (2011: 28) with a value €1.4 million (2011: €0.7 million). On average late payments were 59 days late (2011: 58 days).
- Late payments constituted less than 0.12% of total payments (in monetary terms) made during the year.
- Total interest paid in respect of late payments amounted to €7,683 (2011: €3,855).

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For and on behalf of the Board:

CHAIRMAN

MEMBER OF THE BOARD

09 April 2013

Date of Approval

## Glossary

<b>AGI</b>	An Above Ground Installation (AGI) is where the gas pipeline is brought to ground to facilitate operation and maintenance
<b>BBCLG</b>	Balfour Beatty CLG, the current provider under the NWSC
<b>Bcm</b>	Gas reserves are usually measured in Billion Cubic Meters (bcm)
<b>Book Capitalisation</b>	Net debt plus capital and reserves (before certain remeasurements)
<b>Bord Gáis</b>	Bord Gáis Éireann, a body corporate established under the Gas Act 1976. This definition to encompass any references within the report to "business", "company", "organisation", "we", "us", "our"
<b>CER</b>	The Commission for Energy Regulation (CER) is the regulator for the electricity and natural gas sectors in Ireland. It has also been mandated to perform the role of the economic regulator for the public water system.
<b>CfD</b>	Contracts for Difference
<b>CHP</b>	Combined Heat and Power
<b>CGU</b>	Cash-generating unit
<b>CNG</b>	Compressed Natural Gas, a natural gas transport fuel
<b>DECLG</b>	Department of Environment, Community and Local Government
<b>DCENR</b>	Department of Communications, Energy and Natural Resources
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>EHS</b>	Environment, Health and Safety Unit within Bord Gáis Energy
<b>EIB</b>	The European Investment Bank
<b>EU ETS</b>	European Union Emissions Trading Scheme
<b>FTTW</b>	Fibre To The West project completed by Aurora Telecoms
<b>FX</b>	Foreign Exchange
<b>GPRO</b>	The Gas Point Registration Operator (GPRO) manages the register of all gas points in the Republic of Ireland on behalf of all suppliers.
<b>GW</b>	Giga Watt (GW) is a unit of power equal to one billion watts
<b>HSQE</b>	Health, Safety, Quality and Environment unit with Bord Gáis Networks
<b>IAS</b>	International Accounting Standard
<b>IAS 1</b>	IAS 1 Presentation of Financial Statements
<b>IAS 12</b>	IAS 12 Income Taxes
<b>IAS 18</b>	IAS 18 Revenue
<b>IAS 19</b>	IAS 19 Employee Benefits
<b>IAS 2</b>	IAS 2 Inventories
<b>IAS 21</b>	IAS 21 The Effects of Changes in Foreign Exchange Rates
<b>IAS 27</b>	IAS 27 Consolidated and Separate Financial Statements
<b>IAS 36</b>	IAS 36 Impairment of Assets
<b>IAS 38</b>	IAS 38 Intangible Assets
<b>IAS 39</b>	IAS 39 Financial Instruments: Recognition and Measurement
<b>IAS 7</b>	IAS 7 Statement of Cash Flow
<b>IASB</b>	International Accounting Standard Board
<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>IFRIC 18</b>	IFRIC 18 Transfer of Assets from Customers
<b>IFRIC 4</b>	IFRIC 4 Determining Whether an Arrangement Contains a Lease
<b>IFRS</b>	International Financial Reporting Standards

<b>IFRS 1</b>	IFRS 1 First-time Adoption of International Financial Reporting Standards
<b>IFRS 2</b>	IFRS 2 Share-based Payment
<b>IFRS 3</b>	IFRS 3 (Revised) Business Combinations
<b>IFRS 5</b>	IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
<b>IFRS 7</b>	IFRS 7 Financial Instruments: Disclosures
<b>IFRS 8</b>	IFRS 8 Operating Segments
<b>Irish GAAP</b>	Irish Generally Accepted Accounting Principles
<b>Irish Water / Uisce Éireann</b>	Irish Water/Uisce Éireann is the new public water utility initially established under the Water Services Act 2013.
<b>Irish Water Programme</b>	The Programme team put in place within Bord Gáis Éireann to establish Irish Water.
<b>ITO</b>	Independent Transmission Operator
<b>Km</b>	Kilometers
<b>MABS</b>	The Money Advice and Budgeting Service (MABS) is a free, confidential and independent service for people in debt, or in danger of getting into debt, in Ireland.
<b>MW</b>	Megawatt (MW) is a unit of power equal to 1 million watts (W) or 1,000 kilowatts (kW).
<b>NDM</b>	Non-Daily Metered is a gas tariff for domestic gas users.
<b>Net Debt</b>	Total debt adjusted for impact of fair value hedges less free cash deposits
<b>NewERA</b>	New Economy and Recovery Authority (NewERA), a division within the NTMA with oversight of the commercial State sector in Ireland.
<b>NGV</b>	Natural Gas Vehicle which is refuelled with Compressed Natural Gas (CNG)
<b>NSWC</b>	Networks Services and Works Contract
<b>PAYG</b>	Pay As You Go meters are pre-payment meters. There are gas PAYG meters and electricity PAYG meters. In both cases, credit can be purchased for the meter from any PayPoint outlet in Ireland.
<b>PPA</b>	Power Purchase Agreements
<b>Rewards Club</b>	The Bord Gáis Energy Rewards Club is a special online club for customers of Bord Gáis Energy
<b>RGII</b>	Register of Gas Installers of Ireland
<b>RPI</b>	Retail Price Index
<b>SEM</b>	Single Electricity Market
<b>SIC</b>	Standing Interpretations Committee
<b>SIC 27</b>	SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease
<b>SME</b>	Small Medium Enterprises
<b>Third EU Energy Directive</b>	The Third Energy Package is a legislative package for an internal gas and electricity market in the European Union.
<b>Tidal Ventures Ltd</b>	A joint venture company between OpenHydro and Bord Gáis Energy
<b>UK</b>	United Kingdom
<b>Whitegate CCGT</b>	Bord Gáis' Combined Cycle Gas Turbine power plant in Whitegate, Co. Cork.

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P.O. Box 835  
6 Lapps Quay  
Cork  
T: +353 21 465 8700  
F +353 21 465 8701  
[www.bordgais.ie](http://www.bordgais.ie)

