

GAS NETWORK EXTENSIONS
IN NORTHERN IRELAND

GAS TO THE WEST

LICENCE SUBMISSION – *ACCOUNTS*

MAY 2014

 **BGE** (UK) Ltd.



BGE (UK) LIMITED

FINANCIAL STATEMENTS

For The Year Ended

31st DECEMBER 2013

BGE (UK) LIMITED

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BGE (UK) LIMITED

DIRECTORS AND ADVISORS

BOARD OF DIRECTORS:

R Jemmett
C J Beattie
J Barry
S Casey (appointed as alternate Director to J
Barry on 10th July 2013)

SECRETARY AND REGISTERED OFFICE:

L O'Riordan
5th Floor
6, St. Andrew Street
London
EC4A 3AE
Company Registration Number 2827969

AUDITOR:

Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
No. 6 Lapps Quay
Cork
Ireland

SOLICITORS:

McCann Fitzgerald
St Michael's House
1 George Yard
Lombard Street
London
EC3V 9DH

BANKERS:

Barclays Commercial Bank
Donegall House
7 Donegall Square North
Belfast
BT1 5GB

Allied Irish Bank (GB)
Bankcentre
Belmont Road
Uxbridge
Middlesex
UB8 1SA

AIB Group (UK) plc trading as First Trust Bank
Head Office
92 Ann Street
Belfast
BT1 3AY

BGE (UK) LIMITED

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year from 1 January 2013 to 31 December 2013.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the business is the carriage of gas. This carriage is provided by a pipeline from Moffat in Scotland to Loughshinny in Ireland, a pipeline in Northern Ireland from Belfast to Derry (North-West) that supplies the Coolkeeragh power station and a pipeline from Gormanstown, Ireland to Belfast (South-North) that underpins security of gas supply for Northern Ireland.

The company had net liabilities of £35,769,871 at 31 December 2013. The directors expect the company to continue trading for the foreseeable future. The company has three facility agreements with the parent company, Bord Gáis Éireann, to finance the operations of BGE (UK) Limited; an interest free facility of £110 million in respect of general BGE (UK) Limited corporate purposes and an interest bearing facility of £140 million arising from the purchase of Interconnector 1 in connection with the termination of the leasing arrangements. Both these facilities were converted to Euro functional currency on 31st December 2013. The company also has an interest bearing facility of £165 million in respect of the North-West and South-North pipelines. Each of the facility agreements will mature on 31 December 2014. The agreements provide that Bord Gáis Éireann will not terminate the loans unless BGE (UK) Limited has alternative committed financing arrangements in place.

There have been no significant events affecting the company since the year end.

RESULTS AND DIVIDENDS

The profit for the financial year amounted to £9,563,837 (2012: £4,116,404).

The Directors are not permitted to pay a dividend as BGE (UK) Limited has insufficient Distributable Reserves.

PRINCIPAL RISKS AND UNCERTAINTIES

Safety: BGE (UK) Limited is exposed to the usual risks associated with ownership of onshore and subsea transmission pipelines. A major safety incident could result in injury, loss of life, or a security of supply issue. Attention to safety is the key priority and BGE (UK) Limited operates a comprehensive safety programme.

Regulation: BGE (UK) Limited business activities are subject to a broad range of legislation and regulation. Changes in the regulatory climate and framework in which BGE (UK) Limited operates may impact unfavourably.

The Board has analysed these and other risks. Appropriate actions are being taken by management to mitigate these risks. Not all of these risks are within BGE (UK) Limited's control and other factors besides those listed above may also have an adverse effect.

DIRECTORS

The directors are as set out on page 2.

None of the directors had any interest in the shares of the company. J Barry and the company secretary are beneficiaries of the Bord Gáis Éireann Employee Share Ownership Plan.

SECRETARY

The secretary is as set out on page 2.

BGE (UK) LIMITED

DIRECTORS' REPORT (CONTINUED)

CREDITOR PAYMENT POLICY

It is BGE (UK) Limited's policy in respect of all suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction and also to ensure that those suppliers are aware of the terms of payment. The standard terms specified in the standard purchase order are 45 days and BGE (UK) Limited operates a policy of paying all undisputed supplier invoices within these terms.

POLITICAL DONATIONS

There were no donations made during the year to any political party.

POST BALANCE SHEET EVENTS

There have been no significant events between the balance sheet date and the date on which the financial statements were approved.

AUDITOR

The auditor, Deloitte & Touche Chartered Accountants and Statutory Audit Firm has expressed its willingness to continue in office as auditor and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

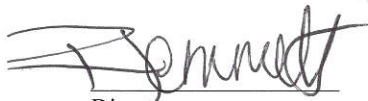
DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:


- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act, 2006.

For and on behalf of BGE (UK) Limited :



Director



26/03/14
Date of Approval

BGE (UK) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of BGE (UK) Limited :


Director

26/03/14
Date of Approval



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BGE (UK) LIMITED

We have audited the financial statements of BGE (UK) Limited for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BGE (UK) LIMITED**

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Kevin Butler (Senior Statutory Auditor)
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Cork
Ireland

Date: 1/4/14

BGE (UK) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2013

	<i>Note</i>	2013 £	2012 £
Turnover – continuing operations	2	49,715,536	44,672,053
Cost of sales		<u>(28,388,396)</u>	<u>(26,193,727)</u>
Gross Profit		21,327,140	18,478,326
Administrative costs		<u>(1,931,936)</u>	<u>(1,811,452)</u>
Operating Profit – continuing operations	3	19,395,204	16,666,874
Interest payable and similar charges	5	<u>(5,470,025)</u>	<u>(9,752,536)</u>
Profit on ordinary activities before taxation		13,925,179	6,914,338
Tax on profit on ordinary activities	6	<u>(4,361,342)</u>	<u>(2,797,934)</u>
Profit for the financial year after taxation	16	<u>9,563,837</u>	<u>4,116,404</u>

The notes on pages 10 to 20 form part of these financial statements.

There were no recognised gains or losses other than those dealt with in the profit and loss account.


BGE (UK) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2013

	<i>Note</i>	2013 £	2012 £
Fixed Assets			
Tangible fixed assets	7	225,465,917	238,830,569
Current Assets			
Stocks	8	1,281,992	1,291,707
Debtors - Receivable within one year	9	8,015,107	27,657,744
- Receivable after more than one year	9	8,092,847	12,454,189
Cash at bank		<u>5,193,676</u>	<u>3,243,121</u>
		22,583,622	44,646,761
Creditors - Amounts falling due within one year	11	<u>(10,890,535)</u>	<u>(20,254,041)</u>
Net Current Assets		<u>11,693,087</u>	<u>24,392,720</u>
Total Assets Less Current Liabilities		237,159,004	263,223,289
Creditors - Amounts falling due after more than one year	12	<u>(272,928,875)</u>	<u>(308,556,997)</u>
Net Liabilities		<u>(35,769,871)</u>	<u>(45,333,708)</u>
Share Capital And Reserves			
Called up share capital	15	400,000	400,000
Profit and loss reserves		<u>(36,169,871)</u>	<u>(45,733,708)</u>
Shareholders' Deficit	16	<u>(35,769,871)</u>	<u>(45,333,708)</u>

The notes on pages 10 to 20 form part of these financial statements.

For and on behalf of BGE (UK) Limited :


Director

26/03/14
Date of Approval

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The significant accounting policies adopted by the company are as follows:

Basis of Accounting and Preparation of Financial Statements

The financial statements are prepared in sterling, under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practice. The policies set out below have been consistently applied to all years presented in these financial statements.

In preparing the financial statements, estimates and assumptions are made that affect the reported amounts included in the profit and loss account for the year and assets and liabilities in the balance sheet. Actual results could differ from those estimates. Estimates are used principally when accounting for unbilled revenue, pension costs, depreciation and provisions.

Going Concern

The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business. The directors expect the company to continue trading for the foreseeable future. The company has three facility agreements with the parent company, Bord Gáis Éireann, to finance the operations of BGE (UK) Limited; an interest free facility of £110 million in respect of general BGE (UK) Limited corporate purposes and an interest bearing facility of £140 million arising from the purchase of IC1 in connection with the termination of the leasing arrangements. Both these facilities were converted to Euro functional currency on 31st December 2013. The company also has an interest bearing facility of £165 million in respect of the North-West and South-North pipelines. Each of the facility agreements will mature on 31 December 2014. The agreements provide that Bord Gáis Éireann will not terminate the loans unless BGE (UK) Limited has alternative committed financing arrangements in place.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation and provision for impairment of value thereon, net of customer contributions where applicable. Cost includes direct costs (including direct labour), overheads and interest incurred in financing the construction of tangible fixed assets. Capitalisation of interest ceases when the asset is commissioned or where active development has been interrupted for an extended period.

The charge for depreciation is calculated to write down the cost of tangible fixed assets over their expected useful lives. Major asset classifications and their depreciation rates are:

Buildings		3%
Pipeline Systems	Owned Assets	3% - 5%
Plant & Equipment		14% - 33.3%

Depreciation is provided on a straight-line basis.

Projects in progress represent the cost of purchasing, constructing and installing tangible fixed assets ahead of their productive use. No depreciation is charged on projects in progress.

Replacement Expenditure

Replacement expenditure represents the cost of planned maintenance of the company's pipeline systems. This expenditure is principally undertaken to repair and maintain the safety of the network and is written off as incurred. Expenditure that results in increased capacity and extends the useful economic life of an asset is capitalised within tangible fixed assets.

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Turnover comprises capacity and transportation charges receivable under service agreements with the parent undertaking, Bord Gáis Éireann, and third parties and is exclusive of value added tax.

Revenue is recognised as income in the financial statements on the accruals basis under Turnover, exclusive of value-added tax. Transportation capacity revenue is recognised in line with the underlying contract while any related commodity revenue is recognised based on output for the year for each customer.

Finance leases

Where tangible fixed assets are financed by leasing agreements which give rights approximating to ownership ("finance leases") they are treated as if they had been purchased outright at the present values of the minimum lease payments and the corresponding leasing liabilities are shown in the balance sheet as finance lease obligations. The interest element of payments under finance leases is charged to the profit and loss account over the lease period using the actuarial method.

Depreciation on leased assets is calculated on a straight-line basis over the life of the lease, which is 33 years and is equivalent to the expected useful life of the assets.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions or at a contracted rate. Assets and liabilities denominated in foreign currencies have been retranslated into sterling at rates ruling at the balance sheet date or by reference to currency management contracts rates. Profits and losses arising on translation are taken to the profit and loss account.

Current tax and Deferred taxation

Current tax is provided at amounts expected to be paid (or recovered) under current tax legislation.

Deferred tax is recognised in respect of all timing differences which relate to transactions or events that have originated but not reversed at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted. Deferred tax is measured, on an undiscounted basis, at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Stocks

Stocks, which comprise engineering materials, are valued at the lower of cost and net realisable value. Cost comprises invoice price plus freight and duty where appropriate. Net realisable value is the actual or estimated selling price less all costs to be incurred prior to disposal.

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

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Capital Grants

Capital grants received in respect of the purchase of tangible fixed assets are treated as a deferred credit, a portion of which is amortised to the profit and loss account annually over the useful economic life of the asset to which it relates.

2. TURNOVER

Turnover arose solely in the United Kingdom.

3. OPERATING PROFIT

	2013	2012
	£	£
Operating Profit is stated after charging/(crediting):		
Depreciation – Owned assets	15,116,241	12,402,608
Depreciation – Leased assets	-	<u>2,695,622</u>
	<u>15,116,241</u>	15,098,230
Amortisation of Capital Grants	(1,519,920)	(1,519,920)
Auditors' remuneration		
Audit services	16,385	16,261
Other assurance	-	-
Tax advisory	-	-
Any other non-audit service	-	-
Foreign exchange (gain)	(5,811)	(15,883)

4. DIRECTORS' FEES AND STAFF COSTS

	2013	2012
	£	£
Directors' Fees and Expenses	<u>20,208</u>	<u>20,698</u>
Staff Costs:		
Wages and salaries	-	-
Social security costs	-	-

The average number of employees during the year was Nil (2012: Nil).

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2013	2012
	£	£
Net finance charge in respect of finance lease	-	7,003,252
Interest payable to parent undertaking	5,470,025	2,726,384
Other charges	-	22,900
	<u>5,470,025</u>	<u>9,752,536</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

No liability to United Kingdom corporation tax arises as a result of losses forward. At 31 December 2013 a deferred tax asset arises on taxable losses carried forward netted against accelerated capital allowances of £8,092,847 (2012: £12,454,189).

The net deferred tax asset has been recognised in the financial statements in accordance with FRS 19.

(a) Analysis of tax charge in year

	2013	2012
	£	£
The tax comprises:		
Corporation Tax Charge	-	-
Deferred Tax:		
Effect of change in reversing corporation tax rate	(1,625,134)	(1,116,812)
Prior year charge over/(under)provided	5,171	(23,009)
Origination and reversal of timing differences	<u>(2,741,379)</u>	<u>(1,658,113)</u>
Tax on profit on ordinary activities	<u>(4,361,342)</u>	<u>(2,797,934)</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

(b) Factors affecting tax charge for the year

The difference between the tax assessed for the year and the amount calculated by applying the standard rate of corporation tax in the UK (23.25%) (2012: 24.5%) is explained below:

	2013	2012
	£	£
Profit on ordinary activities before taxation	<u>13,925,179</u>	<u>6,914,338</u>
Profit on ordinary activities at the standard rate of corporation tax of 23.25% (2012: 24.5%)	3,237,604	1,694,013
Effects of:		
Expenses (deductible)/not deductible for tax purposes	(493,926)	19,878,720
Capital allowances in excess of depreciation on owned assets	(2,791,829)	(5,128,994)
Losses carried forward/(utilised)	<u>48,151</u>	<u>(16,443,739)</u>
Total current tax charge for the year	<u><u>-</u></u>	<u><u>-</u></u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. TANGIBLE FIXED ASSETS

	Freehold Land & Buildings	Assets under Construction	Pipeline Systems	Plant & Equipment	Total
At Cost	£	£	£	£	£
At 1 January 2013	6,958,971	475,881	401,820,016	1,492,163	410,747,031
Additions in year	-	1,427,573	324,016	-	1,751,589
Transfers in year	-	(1,438,440)	1,438,440	-	-
At 31 December 2013	<u>6,958,971</u>	<u>465,014</u>	<u>403,582,472</u>	<u>1,492,163</u>	<u>412,498,620</u>
Depreciation					
At 1 January 2013	2,400,216	-	168,563,536	952,710	171,916,462
Charge in year	189,324	-	14,821,822	105,095	15,116,241
At 31 December 2013	<u>2,589,540</u>	<u>-</u>	<u>183,385,358</u>	<u>1,057,805</u>	<u>187,032,703</u>
Net Book Value					
At 31 December 2013	<u>4,369,431</u>	<u>465,014</u>	<u>220,197,114</u>	<u>434,358</u>	<u>225,465,917</u>
At 1 January 2013	<u>4,558,755</u>	<u>475,881</u>	<u>233,256,480</u>	<u>539,453</u>	<u>238,830,569</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. STOCKS

	2013	2012
	£	£
Engineering materials	<u>1,281,992</u>	<u>1,291,707</u>

There is no material difference between the balance sheet amount of stocks and its replacement cost.

9. DEBTORS

	2013	2012
	£	£
(a) Receivable within one year		
Trade Debtors	2,955,858	4,573,085
Prepayments and Accrued Income	4,254,772	2,858,197
VAT	804,477	20,226,462
	<u>8,015,107</u>	<u>27,657,744</u>
(b) Receivable after more than one year		
Deferred Tax Asset (Note 10)	8,092,847	12,454,189
	<u>8,092,847</u>	<u>12,454,189</u>

10. DEFERRED TAX

	2013	2012
	£	£
Deferred tax asset		
Accelerated capital allowances	(2,650,520)	152,758
Losses carried forward	10,743,367	12,301,431
	<u>8,092,847</u>	<u>12,454,189</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. DEFERRED TAX (CONTINUED)

	2013	2012
	£	£
At 1 January	12,454,189	15,252,123
Deferred tax credit to profit and loss account	<u>(4,361,342)</u>	<u>(2,797,934)</u>
At 31 December	<u>8,092,847</u>	<u>12,454,189</u>

Deferred tax has been recognised on losses carried forward. After due consideration of the losses incurred by the company to date, the directors consider the deferred tax asset of £8,092,847 (2012: £12,454,189) to be recoverable given the high degree of certainty in respect of future profitability of the company, which is based on the long term contractual nature of the company's income and costs. The deferred tax asset is not discounted.

11. CREDITORS – Amounts falling due within one year

	2013	2012
	£	£
Trade Creditors	1,827,463	59,470
Accruals	6,392,994	15,494,803
Value Added Tax	1,150,158	3,179,848
Government Grants (Note 13)	1,519,920	1,519,920
	<u>10,890,535</u>	<u>20,254,041</u>

12. CREDITORS – Amounts falling due after more than one year

	2013	2012
	£	£
Amount due to parent undertaking	248,791,056	282,899,258
Government Grants (Note 13)	24,137,819	25,657,739
	<u>272,928,875</u>	<u>308,556,997</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. GOVERNMENT GRANTS

	2013	2012
	£	£
At 1 January	27,177,659	28,697,579
Amortised in year	(1,519,920)	(1,519,920)
At 31 December	<u>25,657,739</u>	<u>27,177,659</u>
Amount falling due within one year	1,519,920	1,519,920
Amount falling due after more than one year	24,137,819	25,657,739
At 31 December	<u>25,657,739</u>	<u>27,177,659</u>

The capital grants are from the Northern Ireland Department of Enterprise, Trade & Investment in respect of the North-West pipeline connecting Belfast with Derry which was commissioned in October 2004 and the South-North pipeline from Dublin to Belfast which was commissioned in November 2006. The grants are being amortised to the Profit and Loss Account over the life of the pipeline. In certain circumstances the grants may become repayable if conditions laid down in the grant agreements are not adhered to. Total grants received as at 31 December 2013 is £38,000,000.

14. CALLED UP SHARE CAPITAL

	2013	2012
	£	£
Authorised 400,000 ordinary shares of £1 each	<u>400,000</u>	<u>400,000</u>
Allotted and fully paid 400,000 ordinary shares of £1 each	<u>400,000</u>	<u>400,000</u>

15. SHAREHOLDERS' DEFICIT

	Share Capital	Profit & Loss Reserves	Total
	£	£	£
At 1 January 2013	400,000	(45,733,708)	(45,333,708)
Profit for the year	-	9,563,837	<u>9,563,837</u>
At 31 December 2013	<u>400,000</u>	<u>(36,169,871)</u>	<u>(35,769,871)</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2013	2012
	£	£
Opening shareholders' deficit	(45,333,708)	(49,450,112)
Profit for the year	<u>9,563,837</u>	<u>4,116,404</u>
Closing shareholders' deficit	<u>(35,769,871)</u>	<u>(45,333,708)</u>

17. COMMITMENTS

	2013	2012
	£	£
Capital Expenditure		
Contracted for but not provided in the financial statements	<u>1,827,790</u>	<u>932,608</u>
Approved by the Parent Company Board but not contracted for	<u>2,441,908</u>	<u>3,630,232</u>

18. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking and controlling party, for which group financial statements are drawn up, is Bord Gáis Éireann, established in Ireland under the Gas Act, 1976.

Copies of the group financial statements can be obtained from the Secretary of Bord Gáis Éireann at PO Box 51, Gas Works Road, Cork, Ireland.

19. RELATED PARTY TRANSACTIONS

The directors expect the company to continue trading for the foreseeable future. The company has three facility agreements with the parent company, Bord Gáis Éireann, to finance the operations of BGE (UK) Limited; an interest free facility of £110 million in respect of general BGE (UK) Limited corporate purposes and an interest bearing facility of £140 million arising from the purchase of IC1 in connection with the termination of the leasing arrangements. Both these facilities were converted to Euro functional currency on 31st December 2013. The company also has an interest bearing facility of £165 million in respect of the North-West and South-North pipelines. Each of the facility agreements will mature on 31 December 2014. The agreements provide that Bord Gáis Éireann will not terminate the loans unless BGE (UK) Limited has alternative committed financing arrangements in place. Other transactions with companies within the group are not disclosed as the company is a wholly owned subsidiary of Bord Gáis Éireann and disclosure of such transactions is not required under Financial Reporting Standard 8 (Related Party Disclosures).

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. POST BALANCE SHEET EVENTS

There have been no events between the balance sheet date and the date on which the financial statements were approved by the Directors, which would require adjustment to the financial statements or any additional disclosures.

21. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements were approved and authorised for issue by the Directors on 26th March 2014.

BGE (UK) LIMITED

FINANCIAL STATEMENTS

For The Year Ended

31st DECEMBER 2012

BGE (UK) LIMITED

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BGE (UK) LIMITED

DIRECTORS AND ADVISORS

BOARD OF DIRECTORS:

F D Wilson (resigned 6th December 2012)
R Jemmett (appointed 6th December 2012)
C J Beattie
J Barry

SECRETARY AND REGISTERED OFFICE:

L O'Riordan
5th Floor
6, St. Andrew Street
London
EC4A 3AE
Company Registration Number 2827969

AUDITOR:

Deloitte & Touche
Chartered Accountants & Statutory Audit Firm
No. 6 Lapps Quay
Cork
Ireland

SOLICITORS:

McCann Fitzgerald
St Michael's House
1 George Yard
Lombard Street
London
EC3V 9DH

BANKERS:

Barclays Commercial Bank
Donegall House
7 Donegall Square North
Belfast
BT1 5GB

BANKERS:

Allied Irish Bank (GB)
Bankcentre
Belmont Road
Uxbridge
Middlesex
UB8 1SA

BANKERS:

AIB Group (UK) plc trading as First Trust Bank
Head Office
92 Ann Street
Belfast
BT1 3AY

BGE (UK) LIMITED

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year from 1 January 2012 to 31 December 2012.

PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the business is the carriage of gas. This carriage is provided by a pipeline from Moffat in Scotland to Loughshinny in Ireland, a pipeline in Northern Ireland from Belfast to Derry (North-West) that supplies the Coolkeeragh power station and a pipeline from Gormanstown, Ireland to Belfast (South-North) that underpins security of gas supply for Northern Ireland.

The company had net liabilities of £45,333,708 at 31 December 2012. The directors expect the company to continue trading for the foreseeable future. The company has three facility agreements with the parent company, Bord Gáis Éireann, to finance the operations of BGE (UK) Limited: an interest free facility of £110 million in respect of general BGE (UK) Limited corporate purposes, an interest bearing facility of £165 million in respect of the North West and South North pipelines and an interest bearing facility of £140 million arising from the purchase of IC1 in connection with the termination of the leasing arrangements. Each of the facility agreements will mature on 31 December 2013. The agreements provide that Bord Gáis Éireann will not terminate the loans unless BGE (UK) Limited has alternative committed financing arrangements in place.

There have been no significant events affecting the company since the year end.

RESULTS AND DIVIDENDS

The profit for the financial year amounted to £4,116,404 (2011: £849,501).

The Directors are not permitted to pay a dividend as BGE (UK) Limited has insufficient Distributable Reserves.

PRINCIPAL RISKS AND UNCERTAINTIES

Safety: BGE (UK) Limited is exposed to the usual risks associated with ownership of onshore and subsea transmission pipelines. A major safety incident could result in injury, loss of life, or a security of supply issue. Attention to safety is the key priority and BGE (UK) Limited operates a comprehensive safety programme.

Regulation: BGE (UK) Limited business activities are subject to a broad range of legislation and regulation. Changes in the regulatory climate and framework in which BGE (UK) Limited operates may impact unfavourably.

The Board has analysed these and other risks. Appropriate actions are being taken by management to mitigate these risks. Not all of these risks are within BGE (UK) Limited's control and other factors besides those listed above may also have an adverse effect.

DIRECTORS

The directors are as set out on page 2.

None of the directors had any interest in the shares of the company. J Barry and the company secretary are beneficiaries of the Bord Gáis Éireann Share Ownership Plan.

SECRETARY

The secretary is as set out on page 2.

BGE (UK) LIMITED

DIRECTORS' REPORT (CONTINUED)

CREDITOR PAYMENT POLICY

It is BGE (UK) Limited's policy in respect of all suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction and also to ensure that those suppliers are aware of the terms of payment. The standard terms specified in the standard purchase order are 45 days and BGE (UK) Limited operates a policy of paying all undisputed supplier invoices within these terms.

POLITICAL DONATIONS

There were no donations made during the year to any political party.

AUDITOR

The auditor, Deloitte & Touche has expressed its willingness to continue in office as auditor and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.


DISCLOSURE OF INFORMATION TO THE AUDITOR

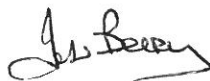
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act, 2006.

For and on behalf of BGE (UK) Limited :


Director




Date of Approval

BGE (UK) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT


The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

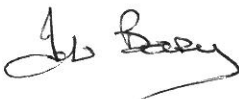
- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of BGE (UK) Limited :


Director

26/03/17
Date of Approval



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BGE (UK) LIMITED

We have audited the financial statements of BGE (UK) Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report 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 financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

(Continued on next page)

Members of
Deloitte Touche Tohmatsu

(Continued from previous page)

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BGE (UK) LIMITED**

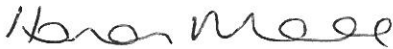
OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Honor Moore
for and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditor
Cork, Ireland

Date: 8 April 2013

BGE (UK) LIMITED


PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

	<i>Note</i>	2012 £	2011 £
Turnover – continuing operations	2	44,672,053	45,699,817
Cost of sales		<u>(26,193,727)</u>	<u>(26,028,719)</u>
Gross Profit		18,478,326	19,671,098
Administrative costs		<u>(1,811,452)</u>	<u>(1,633,847)</u>
Operating Profit – continuing operations	3	16,666,874	18,037,251
Interest payable and similar charges	5	<u>(9,752,536)</u>	<u>(14,759,759)</u>
Profit on ordinary activities before taxation		6,914,338	3,277,492
Tax on profit on ordinary activities	6	<u>(2,797,934)</u>	<u>(2,427,991)</u>
Profit for the financial year after taxation	16	<u>4,116,404</u>	<u>849,501</u>

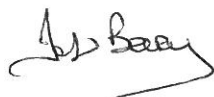
The notes on pages 10 to 20 form part of these financial statements.

There were no recognised gains or losses other than those dealt with in the profit and loss account.

For and on behalf of BGE (UK) Limited :


Director

26/03/13
Date of Approval




BGE (UK) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2012

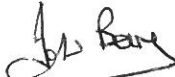
	<i>Note</i>	2012 £	2011 £
Fixed Assets			
Tangible fixed assets	7	238,830,569	250,941,310
Current Assets			
Stocks	8	1,291,707	1,208,874
Debtors - Receivable within one year	9	27,657,744	5,738,095
- Receivable after more than one year	9	12,454,189	15,544,123
Cash at bank		<u>3,243,121</u>	<u>5,064,943</u>
		44,646,761	27,556,035
Creditors - Amounts falling due within one year	11	<u>(20,254,041)</u>	<u>(23,850,854)</u>
Net Current Assets		<u>24,392,720</u>	<u>3,705,181</u>
Total Assets Less Current Liabilities		263,223,289	254,646,491
Creditors - Amounts falling due after more than one year	12	<u>(308,556,997)</u>	<u>(304,096,603)</u>
Net Liabilities		<u>(45,333,708)</u>	<u>(49,450,112)</u>
Share Capital And Reserves			
Called up share capital	15	400,000	400,000
Profit and loss reserves		<u>(45,733,708)</u>	<u>(49,850,112)</u>
Shareholders' Deficit	17	<u>(45,333,708)</u>	<u>(49,450,112)</u>

The notes on pages 10 to 20 form part of these financial statements.

For and on behalf of BGE (UK) Limited :


Director

26/03/13
Date of Approval



BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

I. ACCOUNTING POLICIES

The significant accounting policies adopted by the company are as follows:

Basis of Accounting and Preparation of Financial Statements

The financial statements are prepared in sterling, under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Principles. The policies set out below have been consistently applied to all years presented in these financial statements.

In preparing the financial statements, estimates and assumptions are made that affect the reported amounts included in the profit and loss account for the year and assets and liabilities in the balance sheet. Actual results could differ from those estimates. Estimates are used principally when accounting for unbilled revenue, pension costs, depreciation and provisions.

Going Concern

The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business. The directors expect the company to continue trading for the foreseeable future. The company has three facility agreements with the parent company, Bord Gáis Éireann to finance the operations of BGE (UK) Limited; an interest free facility of £110 million in respect of general BGE (UK) Limited corporate purposes an interest bearing facility of £165 million in respect of the North West and South North pipelines and an interest bearing facility of £140 million arising from the purchase of IC1 in connection with the termination of the leasing arrangements. Each of the facility agreements will mature on 31 December 2013. The agreements provide that Bord Gáis Éireann will not terminate the loans unless BGE (UK) Limited has alternative committed financing arrangements in place.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation and provision for impairment of value thereon, net of customer contributions where applicable. Cost includes direct costs (including direct labour), overheads and interest incurred in financing the construction of tangible fixed assets. Capitalisation of interest ceases when the asset is commissioned or where active development has been interrupted for an extended period.

The charge for depreciation is calculated to write down the cost of tangible fixed assets over their expected useful lives. Major asset classifications and their depreciation rates are:

Buildings		3%
Pipeline Systems	Owned Assets	3% - 5%
Pipeline Systems	Leased Assets	3.03%
Plant & Equipment		14% - 33.3%

Depreciation is provided on a straight-line basis.

Projects in progress represent the cost of purchasing, constructing and installing tangible fixed assets ahead of their productive use. No depreciation is charged on projects in progress.

Replacement Expenditure

Replacement expenditure represents the cost of planned maintenance of the company's pipeline systems. This expenditure is principally undertaken to repair and maintain the safety of the network and is written off as incurred. Expenditure that results in increased capacity and extends the useful economic life of an asset is capitalised within tangible fixed assets.

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Turnover comprises capacity and transportation charges receivable under service agreements with the parent undertaking, Bord Gáis Éireann, and third parties and is exclusive of value added tax.

Revenue is recognised as income in the financial statements on the accruals basis under Turnover, exclusive of value-added tax. Transportation capacity revenue is recognised in line with the underlying contract while any related commodity revenue is recognised based on output for the year for each customer.

Finance leases

Where tangible fixed assets are financed by leasing agreements which give rights approximating to ownership ("finance leases") they are treated as if they had been purchased outright at the present values of the minimum lease payments and the corresponding leasing liabilities are shown in the balance sheet as finance lease obligations. The interest element of payments under finance leases is charged to the profit and loss account over the lease period using the actuarial method.

Depreciation on leased assets is calculated on a straight-line basis over the life of the lease, which is 33 years and is equivalent to the expected useful life of the assets.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions or at a contracted rate. Assets and liabilities denominated in foreign currencies have been translated into sterling at rates ruling at the balance sheet date or by reference to currency management contracts rates. Profits and losses arising on translation are taken to the profit and loss account.

Current tax and Deferred taxation

Current tax is provided at amounts expected to be paid (or recovered) under current tax legislation.

Deferred tax is recognised in respect of all timing differences which relate to transactions or events that have originated but not reversed at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted. Deferred tax is measured, on an undiscounted basis, at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Stocks

Stocks, which comprise engineering materials, are valued at the lower of cost and net realisable value. Cost comprises invoice price plus freight and duty where appropriate. Net realisable value is the actual or estimated selling price less all costs to be incurred prior to disposal.

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

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Capital Grants

Capital grants received in respect of the purchase of tangible fixed assets are treated as a deferred credit, a portion of which is amortised to the profit and loss account annually over the useful economic life of the asset to which it relates.

2. TURNOVER

Turnover arose solely in the United Kingdom.

3. OPERATING PROFIT

	2012	2011
	£	£
Operating Profit is stated after charging/(crediting):		
Depreciation – Owned assets	12,402,608	12,144,541
Depreciation – Leased assets	<u>2,695,622</u>	<u>2,795,176</u>
	15,098,230	14,939,717
Amortisation of Capital Grants	(1,519,920)	(1,519,920)
Auditors' remuneration		
Audit services	16,261	16,142
Other assurance	-	-
Tax advisory	-	-
Any other non-audit service	-	-
Foreign exchange (profit)/losses	(15,883)	1,719

4. DIRECTORS' FEES AND STAFF COSTS

	2012	2011
	£	£
Directors' Fees and Expenses	<u>20,698</u>	<u>20,316</u>
Staff Costs:		
Wages and salaries	-	-
Social security costs	-	-

The average number of employees during the year was Nil (2011: Nil).

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2012	2011
	£	£
Net Finance charge in respect of finance lease	7,003,252	11,952,917
Interest payable to parent undertaking	2,726,384	2,783,942
Bank loans and overdrafts	-	-
Other charges	<u>22,900</u>	<u>22,900</u>
	<u>9,752,536</u>	<u>14,759,759</u>

Included within Net Finance Charges in respect of finance leases is a gain associated with the termination of a finance lease arrangement during the year. This exceptional gain recorded within the profit or loss account amounted to £4,895,433.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

No liability to United Kingdom corporation tax arises as a result of losses forward. At 31 December 2012 a deferred tax asset arises on taxable losses carried forward of £12,454,189 (2011: £15,252,123). The net deferred tax asset has been recognised in the financial statements in accordance with FRS 19.

(a) Analysis of tax charge in year

	2012	2011
	£	£
The tax comprises:		
Corporation Tax Charge	-	-
Deferred Tax:		
Effect of change in reversing corporation tax rate	(1,116,812)	(1,309,638)
Prior year charge underprovided	(23,009)	-
Origination and reversal of timing differences	<u>(1,658,113)</u>	<u>(1,118,353)</u>
Tax on profit on ordinary activities	<u>(2,797,934)</u>	<u>(2,427,991)</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

(b) Factors affecting tax charge for the year

The difference between the tax assessed for the year and the amount calculated by applying the standard rate of corporation tax in the UK (24.5%) (2011: 26.5%) is explained below:

	2012	2011
	£	£
Profit on ordinary activities before taxation	<u>6,914,338</u>	<u>3,277,492</u>
Profit on ordinary activities at the standard rate of corporation tax of 24.5% (2011: 26.5%)	1,694,013	868,535
Effects of:		
Expenses not deductible/(deductible) for tax purposes	19,878,720	(406,150)
Capital allowances in excess of depreciation on owned assets	(5,128,994)	(515,385)
Losses carried (utilised)/forward	<u>(16,443,739)</u>	<u>53,000</u>
Total current tax charge for the year	<u> -</u>	<u> -</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. TANGIBLE FIXED ASSETS

	Freehold Land & Buildings	Assets under Construction	Pipeline Systems	Plant & Equipment	Total
At Cost	£	£	£	£	£
At 1 January 2012	6,958,971	1,949,507	397,436,120	1,414,944	407,759,542
Additions in year	-	2,181,227	729,043	77,219	2,987,489
Transfers in year	-	(3,654,853)	3,654,853	-	-
At 31 December 2012	<u>6,958,971</u>	<u>475,881</u>	<u>401,820,016</u>	<u>1,492,163</u>	<u>410,747,031</u>
Depreciation					
At 1 January 2012	2,210,892	-	153,757,299	850,041	156,818,232
Charge in year	189,324	-	14,806,237	102,669	15,098,230
At 31 December 2012	<u>2,400,216</u>	<u>-</u>	<u>168,563,536</u>	<u>952,710</u>	<u>171,916,462</u>
Net Book Value					
At 31 December 2012	<u>4,558,755</u>	<u>475,881</u>	<u>233,256,480</u>	<u>539,453</u>	<u>238,830,569</u>
At 1 January 2012	<u>4,748,079</u>	<u>1,949,507</u>	<u>243,678,821</u>	<u>564,903</u>	<u>250,941,310</u>

During 2012, the finance lease over certain pipeline infrastructure assets was terminated. BGE (UK) purchased the assets which were previously subject to the finance lease for a consideration of GBP120m subsequent to an independent third party valuation of the open market value of the assets. The Directors of BGE (UK) have elected not to adopt a policy of revaluation as permitted by *FRS 15 Tangible Fixed Assets*. Instead, the assets continue to be carried at their original historic cost as determined initially on inception of the lease under *SSAP 21 Accounting for Lease and Hire Purchase Contracts* and subject to accumulated depreciation thereon as permitted by *FRS 15 Tangible Fixed Assets*.

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. STOCKS

	2012	2011
	£	£
Engineering materials	<u>1,291,707</u>	<u>1,208,874</u>

There is no material difference between the balance sheet amount of stocks and its replacement cost.

9. DEBTORS

	2012	2011
	£	£
(a) Receivable within one year		
Trade Debtors	4,573,085	2,072,266
Prepayments and Accrued Income	2,858,197	3,215,829
VAT	20,226,462	450,000
	<u>27,657,744</u>	<u>5,738,095</u>
(b) Receivable after more than one year		
Deferred Tax Asset (Note 10)	12,454,189	15,252,123
Prepayments and Accrued Income	-	292,000
	<u>12,454,189</u>	<u>15,544,123</u>

Prepayments and accrued income (after one year) includes the prepayment of a guarantee that is being amortised to the profit and loss account over the period of the guarantee.

10. DEFERRED TAX

	2012	2011
	£	£
Deferred tax asset		
Accelerated capital allowances	152,758	(14,950,972)
Losses carried forward	12,301,431	30,203,095
	<u>12,454,189</u>	<u>15,252,123</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. DEFERRED TAX (CONTINUED)

	2012	2011
	£	£
At 1 January	15,252,123	17,680,114
Deferred tax credit to profit and loss account	<u>(2,797,934)</u>	<u>(2,427,991)</u>
At 31 December	<u>12,454,189</u>	<u>15,252,123</u>

Deferred tax has been recognised on losses carried forward. After due consideration of the losses incurred by the company to date, the directors consider the deferred tax asset of £12,454,189 (2011: £15,252,123) to be recoverable given the high degree of certainty in respect of future profitability of the company, which is based on the long term contractual nature of the company's income and costs. The deferred tax asset is not discounted.

11. CREDITORS – Amounts falling due within one year

	2012	2011
	£	£
Finance lease obligations (Note 14)	-	12,054,093
Trade Creditors	59,470	296,665
Accruals	15,494,803	9,066,973
Value Added Tax	3,179,848	913,203
Government Grants (Note 13)	1,519,920	1,519,920
	<u>20,254,041</u>	<u>23,850,854</u>

12. CREDITORS – Amounts falling due after more than one year

	2012	2011
	£	£
Finance lease obligations (Note 14)	-	123,288,426
Amount due to parent undertaking	282,899,258	153,630,518
Government Grants (Note 13)	25,657,739	27,177,659
	<u>308,556,997</u>	<u>304,096,603</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. GOVERNMENT GRANTS

	2012	2011
	£	£
At 1 January	28,697,579	30,217,499
Amortised in year	(1,519,920)	(1,519,920)
At 31 December	<u>27,177,659</u>	<u>28,697,579</u>
Amount falling due within 1 year	1,519,920	1,519,920
Amount falling due after more than one year	25,657,739	27,177,659
At 31 December	<u>27,177,659</u>	<u>28,697,579</u>

The capital grants are from the Northern Ireland Department of Enterprise, Trade & Investment in respect of the North-West pipeline connecting Belfast with Derry which was commissioned in October 2004 and the South North pipeline from Dublin to Belfast which was commissioned in November 2006. The grants are being amortised to the Profit and Loss Account over the life of the pipeline. In certain circumstances the grants may become repayable if conditions laid down in the grant agreements are not adhered to. Total grants received as at 31 December 2012 is £38,000,000.

14. FINANCE LEASE OBLIGATIONS

During 2012, the finance lease over certain pipeline infrastructure assets was terminated. BGE (UK) purchased the assets which were previously subject to the finance lease.

Obligations under finance leases due to the parent undertaking fall due as follows: -

	2012	2011
	£	£
Within one year	=	<u>12,054,093</u>
Between two and five years inclusive	-	44,154,083
In five years or more	=	<u>79,134,343</u>
	=	<u>123,288,426</u>
At 31 December	=	<u>135,342,519</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. CALLED UP SHARE CAPITAL

	2012	2011
	£	£
Authorised 400,000 ordinary shares of £1 each	<u>400,000</u>	400,000
Allotted and fully paid 400,000 ordinary shares of £1 each	<u>400,000</u>	<u>400,000</u>

16. SHAREHOLDERS' DEFICIT

	Share Capital	Profit & Loss Reserves	Total
	£	£	£
At 1 January 2012	400,000	(49,850,112)	(49,450,112)
Profit for the year	<u>-</u>	<u>4,116,404</u>	<u>4,116,404</u>
At 31 December 2012	<u>400,000</u>	<u>(45,733,708)</u>	<u>(45,333,708)</u>

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2012	2011
	£	£
Opening shareholders' deficit	<u>(49,450,112)</u>	(50,299,613)
Profit for the year	<u>4,116,404</u>	<u>849,501</u>
Closing shareholders' deficit	<u>(45,333,708)</u>	<u>(49,450,112)</u>

18. COMMITMENTS

	2012	2011
	£	£
Capital Expenditure		
Contracted for but not provided in the financial statements	<u>932,608</u>	<u>2,659,624</u>
Approved by the Parent Company Board but not contracted for	<u>3,630,232</u>	<u>4,199,516</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking and controlling party, for which group financial statements are drawn up, is Bord Gáis Éireann, established in Ireland under the Gas Act, 1976.

Copies of the group financial statements can be obtained from the Secretary of Bord Gáis Éireann at PO Box 51, Gas Works Road, Cork, Ireland.

20. RELATED PARTY TRANSACTIONS

The company has three facility agreements with the parent company, Bord Gáis Éireann, to finance the operations of BGE (UK) Limited: an interest free facility of £110 million in respect of general BGE (UK) Limited corporate purposes, an interest bearing facility of £165 million in respect of the North West and South North pipelines and an interest bearing facility of £140m arising from the purchase of IC1 in connection with the termination of the leasing arrangements. These facility agreements will mature on 31 December 2013. The agreements provide that Bord Gáis Éireann will not terminate the loans unless BGE (UK) Limited has alternative committed financing arrangements in place.

Other transactions with companies within the group are not disclosed as the company is a wholly owned subsidiary of Bord Gáis Éireann and disclosure of such transactions is not required under Financial Reporting Standard 8 (Related Party Disclosures).

21. COMPARATIVE FIGURES

Prior year comparative figures have been re-analysed to be comparable with the current year's presentation.

22. POST BALANCE SHEET EVENTS

There have been no events between the balance sheet date and the date on which the financial statements were approved by the Directors, which would require adjustment to the financial statements or any additional disclosures.

23. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements were approved and authorised for issue by the Directors on

BGE (UK) LIMITED

FINANCIAL STATEMENTS

For The Year Ended

31st DECEMBER 2011

BGE (UK) LIMITED

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BGE (UK) LIMITED

DIRECTORS AND ADVISORS

BOARD OF DIRECTORS:

F D Wilson
C J Beattie
J Barry (appointed 14th April 2011)
J Mullins (resigned 14th April 2011)

SECRETARY AND REGISTERED OFFICE:

L O'Riordan
6, St. Andrew Street
5th Floor
London
EC4A 3AE
Company Registration Number 2827969

AUDITOR:

Deloitte & Touche
Chartered Accountants & Registered Auditors
No. 6 Lapps Quay
Cork
Ireland

SOLICITORS:

McCann Fitzgerald
St Michael's House
1 George Yard
Lombard Street
London
EC3V 9DH

BANKERS:

Barclays Commercial Bank
Donegall House
7 Donegall Square North
Belfast
BT1 5GB

BANKERS:

Allied Irish Bank (GB)
Bankcentre
Belmont Road
Uxbridge
Middlesex
UB8 1SA

BANKERS:

AIB Group (UK) plc trading as First Trust Bank
Head Office
92 Ann Street
Belfast
BT1 3AY

BGE (UK) LIMITED

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year from 1 January 2011 to 31 December 2011.

PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the business is the carriage of gas. This carriage is provided by a pipeline from Moffat in Scotland to Loughshinny in Ireland, a pipeline in Northern Ireland from Belfast to Derry (North-West) that supplies the Coolkeeragh power station and a pipeline from Gormanstown, Ireland to Belfast (South-North) that underpins security of gas supply for Northern Ireland.

The company had net liabilities of £49,450,112 at 31 December 2011. The directors expect the company to continue trading for the foreseeable future. The company has two facility agreements with the parent company, Bord Gáis Éireann, to finance the operations of BGE (UK) Limited; an interest free facility of £110 million in respect of general BGE (UK) Limited corporate purposes and an interest bearing facility of £165 million in respect of the North West and South North pipelines. The facility agreement for £110m will mature on 31 December 2012 and the facility agreement for £165m will mature on 31 December 2012. The agreements provide that Bord Gáis Éireann will not terminate the loans unless BGE (UK) Limited has alternative committed financing arrangements in place.

There have been no significant events affecting the company since the year end.

RESULTS AND DIVIDENDS

The profit for the financial year amounted to £849,501 (2010: £2,176,355).

The Directors are not permitted to pay a dividend as BGE (UK) Limited has insufficient Distributable Reserves.

PRINCIPAL RISKS AND UNCERTAINTIES

Safety: BGE (UK) Limited is exposed to the usual risks associated with ownership of onshore and subsea transmission pipelines. A major safety incident could result in injury, loss of life, or a security of supply issue. Attention to safety is the key priority and BGE (UK) Limited operates a comprehensive safety programme.

Regulation: BGE (UK) Limited business activities are subject to a broad range of legislation and regulation. Changes in the regulatory climate and framework in which BGE (UK) Limited operates may impact unfavourably.

The board has analysed these and other risks. Appropriate actions are being taken by management to mitigate these risks. Not all of these risks are within BGE (UK) Limited's control and other factors besides those listed above may also have an adverse effect.

DIRECTORS

The directors are as set out on page 2.

None of the directors had any interest in the shares of the company. J Barry and the company secretary are beneficiaries of the Bord Gáis Éireann Share Ownership Plan.

SECRETARY

The secretary is as set out on page 2.

BGE (UK) LIMITED

DIRECTORS' REPORT (CONTINUED)

CREDITOR PAYMENT POLICY

It is BGE (UK) Limited's policy in respect of all suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction and also to ensure that those suppliers are aware of the terms of payment. The standard terms specified in the standard purchase order are 45 days and BGE (UK) Limited operates a policy of paying all undisputed supplier invoices within these terms. BGE (UK) Limited estimate that average creditor payment days in 2011 were 59 days, this increase arose due to administration changes in implementing the Third Directive. The 2012 data is expected to reflect normal credit terms.

POLITICAL DONATIONS

There were no donations made during the year to any political party.

AUDITOR

The auditor, Deloitte & Touche has expressed its willingness to continue in office as auditor and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

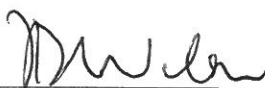
DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

For and on behalf of BGE (UK) Limited :



Director



Date of Approval



BGE (UK) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

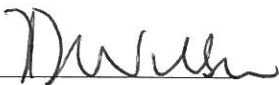
The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of BGE (UK) Limited :


Director

12th April 2012
Date of Approval



BGE (UK) LIMITED**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BGE (UK) LIMITED**

We have audited the financial statements of BGE (UK) Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

(Continued on next page)
Deloitte Touche Tohmatsu

BGE (UK) LIMITED

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BGE (UK) LIMITED**

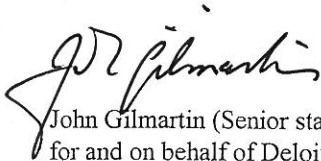
OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



John Gilmartin (Senior statutory auditor)
for and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditor
Cork, Ireland

Date: 18th April 2012

BGE (UK) LIMITED

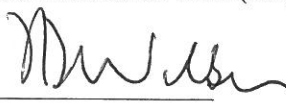
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

	<i>Note</i>	2011 £	2010 £
Turnover – continuing operations	2	45,699,817	45,049,070
Cost of sales		<u>(26,028,719)</u>	<u>(25,619,470)</u>
Gross Profit		19,671,098	19,429,600
Administrative costs		<u>(1,633,847)</u>	<u>(1,438,131)</u>
Operating Profit – continuing operations	3	18,037,251	17,991,469
Interest payable and similar charges	5	<u>(14,759,759)</u>	<u>(14,748,354)</u>
Profit on ordinary activities before taxation		3,277,492	3,243,115
Tax on profit on ordinary activities	6	<u>(2,427,991)</u>	<u>(1,066,760)</u>
Profit for the financial year after taxation	16	<u>849,501</u>	<u>2,176,355</u>

The notes on pages 10 to 20 form part of these financial statements.

There were no recognised gains or losses other than those dealt with in the profit and loss account.

For and on behalf of BGE (UK) Limited :


 Director

12th April 2012
 Date of Approval



BGE (UK) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2011

	<i>Note</i>	2011 £	2010 £
Fixed Assets			
Tangible fixed assets	7	250,941,310	261,480,484
Current Assets			
Stocks	8	1,208,874	977,679
Debtors - Receivable within one year	9	5,738,095	5,697,811
- Receivable after more than one year	9	15,544,123	17,995,014
Cash at bank		<u>5,064,943</u>	<u>3,600,848</u>
		27,556,035	28,271,352
Creditors - Amounts falling due within one year	11	<u>(23,850,854)</u>	<u>(24,353,919)</u>
Net Current Assets		<u>3,705,181</u>	<u>3,917,433</u>
Total Assets Less Current Liabilities		254,646,491	265,397,917
Creditors - Amounts falling due after more than one year	12	<u>(304,096,603)</u>	<u>(315,697,530)</u>
Net Liabilities		<u>(49,450,112)</u>	<u>(50,299,613)</u>
Share Capital And Reserves			
Called up share capital	15	400,000	400,000
Profit and loss reserves		<u>(49,850,112)</u>	<u>(50,699,613)</u>
Shareholders' Deficit	17	<u>(49,450,112)</u>	<u>(50,299,613)</u>

The notes on pages 10 to 20 form part of these financial statements.

For and on behalf of BGE (UK) Limited :


Director

12th April 2012
Date of Approval



BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The significant accounting policies adopted by the company are as follows:

Basis of Accounting and Preparation of Financial Statements

The financial statements are prepared in sterling, under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Principles. The policies set out below have been consistently applied to all years presented in these financial statements.

In preparing the financial statements, estimates and assumptions are made that affect the reported amounts included in the profit and loss account for the year and assets and liabilities in the balance sheet. Actual results could differ from those estimates. Estimates are used principally when accounting for unbilled revenue, pension costs, depreciation and provisions.

Going Concern

The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business. The directors expect the company to continue trading for the foreseeable future. The company has two facility agreements with the parent company, Bord Gáis Éireann to finance the operations of BGE (UK) Limited; an interest free facility of £110 million in respect of general BGE (UK) Limited corporate purposes and an interest bearing facility of £165 million in respect of the North West and South North pipelines. The facility agreement for £110m will mature on 31 December 2012 and the facility agreement for £165m will mature on 31 December 2012. The agreements provide that Bord Gáis Éireann will not terminate the loans unless BGE (UK) Limited has alternative committed financing arrangements in place.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation and provision for impairment of value thereon, net of customer contributions where applicable. Cost includes direct costs (including direct labour), overheads and interest incurred in financing the construction of tangible fixed assets. Capitalisation of interest ceases when the asset is commissioned or where active development has been interrupted for an extended period.

The charge for depreciation is calculated to write down the cost of tangible fixed assets over their expected useful lives. Major asset classifications and their depreciation rates are:

Buildings		3%
Pipeline Systems	Owned Assets	3% - 5%
Pipeline Systems	Leased Assets	3.03%
Plant & Equipment		14% - 33.3%

Depreciation is provided on a straight-line basis.

Projects in progress represent the cost of purchasing, constructing and installing tangible fixed assets ahead of their productive use. No depreciation is charged on projects in progress.

Replacement Expenditure

Replacement expenditure represents the cost of planned maintenance of the company's pipeline systems. This expenditure is principally undertaken to repair and maintain the safety of the network and is written off as incurred. Expenditure that results in increased capacity and extends the useful economic life of an asset is capitalised within tangible fixed assets.

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Turnover comprises capacity and transportation charges receivable under service agreements with the parent undertaking, Bord Gáis Éireann, and third parties and is exclusive of Value Added Tax.

Revenue is recognised as income in the financial statements on the accruals basis under Turnover, exclusive of value-added tax. Transportation capacity revenue is recognised in line with the underlying contract while any related commodity revenue is recognised based on throughput for the year for each customer.

Finance leases

Where tangible fixed assets are financed by leasing agreements which give rights approximating to ownership ("finance leases") they are treated as if they had been purchased outright at the present values of the minimum lease payments and the corresponding leasing liabilities are shown in the balance sheet as finance lease obligations. The interest element of payments under finance leases is charged to the profit and loss account over the lease period using the actuarial method.

Depreciation on leased assets is calculated on a straight-line basis over the life of the lease, which is 33 years and is equivalent to the expected useful life of the assets.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions or at a contracted rate. Assets and liabilities denominated in foreign currencies have been translated into sterling at rates ruling at the balance sheet date or by reference to currency management contracts rates. Profits and losses arising on translation are taken to the profit and loss account.

Current tax and Deferred taxation

Current tax is provided at amounts expected to be paid (or recovered) under current tax legislation.

Deferred tax is recognised in respect of all timing differences which relate to transactions or events that have originated but not reversed at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted. Deferred tax is measured, on an undiscounted basis, at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Stocks

Stocks, which comprise engineering materials, are valued at the lower of cost and net realisable value. Cost comprises invoice price plus freight and duty where appropriate. Net realisable value is the actual or estimated selling price less all costs to be incurred prior to disposal.

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

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Capital Grants

Capital grants received in respect of the purchase of tangible fixed assets are treated as a deferred credit, a portion of which is amortised to the profit and loss account annually over the useful economic life of the asset to which it relates.

2. TURNOVER

Turnover arose solely in the United Kingdom.

3. OPERATING PROFIT

	2011	2010
	£	£
Operating Profit is stated after charging/(crediting):		
Depreciation – Owned assets	12,144,541	11,796,434
Depreciation – Leased assets	<u>2,795,176</u>	<u>2,795,175</u>
	14,939,717	14,591,609
Amortisation of Capital Grants	(1,519,920)	(1,519,920)
Auditors' remuneration		
Audit services	16,142	15,169
Other assurance	-	-
Tax advisory	-	-
Any other non-audit service	-	-
Foreign exchange losses	1,719	12,163

4. DIRECTORS' FEES AND STAFF COSTS

	2011	2010
	£	£
Directors' Fees and Expenses	<u>20,316</u>	<u>20,224</u>
Staff Costs:		
Wages and salaries	-	-
Social security costs	-	-

The average number of employees during the year was Nil (2010: Nil).

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2011	2010
	£	£
Finance charge in respect of finance lease	11,952,917	11,948,250
Interest payable to parent undertaking	2,783,942	2,777,191
Bank loans and overdrafts	-	13
Other charges	<u>22,900</u>	<u>22,900</u>
	<u>14,759,759</u>	<u>14,748,354</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

No liability to United Kingdom corporation tax arises as a result of losses forward. At 31 December 2011 a deferred tax asset arises on taxable losses carried forward of £15,252,123 (2010: £17,680,114). The net deferred tax asset has been recognised in the financial statements in accordance with FRS 19.

(a) Analysis of tax charge in year

	2011	2010
	£	£
The tax comprises:		
Corporation Tax Charge	-	-
Deferred Tax:		
Effect of change in reversing corporation tax rate	(1,309,638)	-
Origination and reversal of timing differences	<u>(1,118,353)</u>	<u>(1,066,760)</u>
Tax on profit on ordinary activities	<u>(2,427,991)</u>	<u>(1,066,760)</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

(b) Factors affecting tax charge for the year

The difference between the tax assessed for the year and the amount calculated by applying the standard rate of corporation tax in the UK (26.5%) (2010: 28%) is explained below:

	2011	2010
	£	£
Profit/(loss) on ordinary activities before taxation	<u>3,277,492</u>	<u>3,243,115</u>
Profit on ordinary activities at the standard rate of corporation tax of 26.5% (2010: 28%)	868,535	908,072
Effects of:		
Expenses (deductible)/not deductible for tax purposes	(406,150)	361,836
Capital allowances in excess of depreciation on owned assets	(515,385)	(965,660)
Losses carried forward/(utilised)	<u>53,000</u>	<u>(304,248)</u>
Total current tax charge for the year	<u><u>-</u></u>	<u><u>-</u></u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. TANGIBLE FIXED ASSETS

	Freehold Land & Buildings	Assets under Construction	Pipeline Systems	Plant & Equipment	Total
At Cost	£	£	£	£	£
At 1 January 2011	6,958,879	134,829	395,165,618	1,099,673	403,358,999
Additions in year	-	1,990,235	2,095,037	315,271	4,400,543
Transfers in year	92	(175,557)	175,465	-	-
At 31 December 2011	<u>6,958,971</u>	<u>1,949,507</u>	<u>397,436,120</u>	<u>1,414,944</u>	<u>407,759,542</u>
Depreciation					
At 1 January 2011	2,021,568	-	139,095,620	761,327	141,878,515
Charge in year	189,324	-	14,661,679	88,714	14,939,717
At 31 December 2011	<u>2,210,892</u>	<u>-</u>	<u>153,757,299</u>	<u>850,041</u>	<u>156,818,232</u>
Net Book Value					
At 31 December 2011	<u>4,748,079</u>	<u>1,949,507</u>	<u>243,678,821</u>	<u>564,903</u>	<u>250,941,310</u>
At 1 January 2011	<u>4,937,311</u>	<u>134,829</u>	<u>256,069,998</u>	<u>338,346</u>	<u>261,480,484</u>

The net book value includes £40,762,977 (2010: £43,558,153) held under finance leases. Depreciation charged for the year in respect of assets held under finance leases amounted to £2,795,176 (2010: £2,795,175). No interest was capitalised in 2011 (2010: £0).

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. STOCKS

	2011	2010
	£	£
Engineering materials	<u>1,208,874</u>	<u>977,679</u>

There is no material difference between the balance sheet amount of stocks and its replacement cost.

9. DEBTORS

	2011	2010
	£	£
(a) Receivable within one year		
Trade Debtors	2,072,266	2,463,149
Prepayments and Accrued Income	3,665,829	3,234,662
	<u>5,738,095</u>	<u>5,697,811</u>
(b) Receivable after one year		
Deferred Tax Asset (Note 10)	15,252,123	17,680,114
Prepayments and Accrued Income	292,000	314,900
	<u>15,544,123</u>	<u>17,995,014</u>

Prepayments and accrued income (after one year) includes the prepayment of a guarantee that is being amortised to the profit and loss account over the period of the guarantee.

10. DEFERRED TAX

	2011	2010
	£	£
Deferred tax asset		
Accelerated capital allowances	(14,950,972)	(14,942,834)
Losses carried forward	30,203,095	32,622,948
	<u>15,252,123</u>	<u>17,680,114</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. DEFERRED TAX (CONTINUED)

	2011	2010
	£	£
At 1 January	17,680,114	18,746,874
Deferred tax credit to profit and loss account	<u>(2,427,991)</u>	<u>(1,066,760)</u>
At 31 December	<u>15,252,123</u>	<u>17,680,114</u>

Deferred tax has been recognised on losses carried forward. After due consideration of the losses incurred by the company to date, the directors consider the deferred tax asset of £15,252,123 (2010: £17,680,114) to be recoverable given the high degree of certainty in respect of future profitability of the company, which is based on the long term contractual nature of the company's income and costs. The deferred tax asset is not discounted.

11. CREDITORS – Amounts falling due within one year

	2011	2010
	£	£
Finance lease obligations (Note 14)	12,054,093	11,480,088
Trade Creditors	296,665	171,053
Accruals	9,066,973	10,892,228
Value Added Tax	913,203	290,630
Government Grants (Note 13)	1,519,920	1,519,920
	<u>23,850,854</u>	<u>24,353,919</u>

12. CREDITORS – Amounts falling due after more than one year

	2011	2010
	£	£
Finance lease obligations (Note 14)	123,288,426	124,399,471
Amount due to parent undertaking	153,630,518	162,600,480
Government Grants (Note 13)	27,177,659	28,697,579
	<u>304,096,603</u>	<u>315,697,530</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. GOVERNMENT GRANTS

	2011	2010
	£	£
At 1 January	30,217,499	31,737,419
Amortised in year	(1,519,920)	(1,519,920)
At 31 December	<u>28,697,579</u>	<u>30,217,499</u>
Amount falling due within 1 year	1,519,920	1,519,920
Amount falling due after more than one year	27,177,659	28,697,579
At 31 December	<u>28,697,579</u>	<u>30,217,499</u>

The capital grants are from the Northern Ireland Department of Enterprise, Trade & Investment in respect of the North-West pipeline connecting Belfast with Derry which was commissioned in October 2004 and the South North pipeline from Dublin to Belfast which was commissioned in November 2006. The grants are being amortised to the Profit and Loss Account over the life of the pipeline. In certain circumstances the grants may become repayable if conditions laid down in the grant agreements are not adhered to. Total grants received as at 31 December 2011 is £38,000,000.

14. FINANCE LEASE OBLIGATIONS

Obligations under finance leases due to the parent undertaking fall due as follows: -

	2011	2010
	£	£
Within one year	<u>12,054,093</u>	<u>11,480,088</u>
Between two and five years inclusive	44,154,083	42,051,508
In five years or more	<u>79,134,343</u>	<u>82,347,963</u>
	<u>123,288,426</u>	<u>124,399,471</u>
At 31 December	<u>135,342,519</u>	<u>135,879,559</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. CALLED UP SHARE CAPITAL

	2011	2010
	£	£
Authorised 400,000 ordinary shares of £1 each	<u>400,000</u>	<u>400,000</u>
Allotted and fully paid 400,000 ordinary shares of £1 each	<u>400,000</u>	<u>400,000</u>

16. SHAREHOLDERS' DEFICIT

	Share Capital	Profit & Loss Reserves	Total
	£	£	£
At 1 January 2011	400,000	(50,699,613)	(50,299,613)
Profit for the year	<u>-</u>	<u>849,501</u>	<u>849,501</u>
At 31 December 2011	<u>400,000</u>	<u>(49,850,112)</u>	<u>(49,450,112)</u>

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2011	2010
	£	£
Opening shareholders' deficit	(50,299,613)	(52,475,968)
Profit for the year	<u>849,501</u>	<u>2,176,355</u>
Closing shareholders' deficit	<u>(49,450,112)</u>	<u>(50,299,613)</u>

18. COMMITMENTS

	2011	2010
	£	£
Capital Expenditure		
Contracted for but not provided in the financial statements	<u>2,659,624</u>	<u>2,514,742</u>
Approved by the Parent Company Board but not contracted for	<u>4,199,516</u>	<u>1,731,171</u>

BGE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking and controlling party, for which group financial statements are drawn up, is Bord Gáis Éireann, established in Ireland under the Gas Act, 1976.

Copies of the group financial statements can be obtained from the Secretary of Bord Gáis Éireann at PO Box 51, Gas Works Road, Cork, Ireland

20. RELATED PARTY TRANSACTIONS

The company has two facility agreements with the parent company, Bord Gáis Éireann, to finance the operations of BGE (UK) Limited; an interest free facility of £110 million in respect of general BGE (UK) Limited corporate purposes and an interest bearing facility of £165 million in respect of the North West and South North pipelines. The facility agreement for £110m will mature on 31 December 2012 and the facility agreement for £165m will mature on 31 December 2012. The agreements provide that Bord Gáis Éireann will not terminate the loans unless BGE (UK) Limited has alternative committed financing arrangements in place.

Other transactions with companies within the group are not disclosed as the company is a wholly owned subsidiary of Bord Gáis Éireann and disclosure of such transactions is not required under Financial Reporting Standard 8 (Related Party Disclosures).

21. COMPARATIVE FIGURES

Prior year comparative figures have been re-analysed to be comparable with the current year's presentation.

22. POST BALANCE SHEET EVENTS

There have been no events between the balance sheet date and the date on which the financial statements were approved by the Directors, which would require adjustment to the financial statements or any additional disclosures.

23. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements were approved and authorised for issue by the Directors on 12 April 2012.



Annual Report and
Financial Statements



2012

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

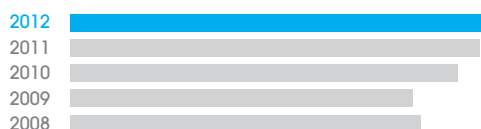
OVERVIEW

FINANCIAL & OPERATING REVIEW
CORPORATE GOVERNANCE
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Financial Highlights

Revenue

€1,625 million



Total Assets

(excluding derivatives)

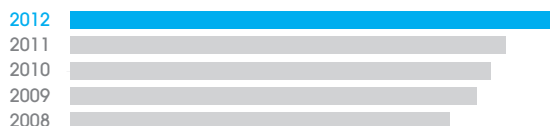
€4,677 million



EBITDA

(before exceptional items)

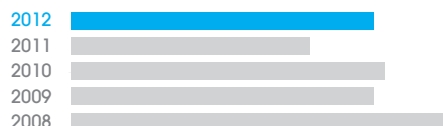
€380 million



Profit Before Income Tax

(before certain remeasurements and exceptional items)

€121 million



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
Ratios					
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	
	<h2>Bord Gáis Energy</h2>	<p>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>
	<h2>Bord Gáis Networks</h2>	<p>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>
	<h2>Gaslink</h2>	<p>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>
	<h2>Irish Water/ Uisce Éireann</h2>	<p>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.

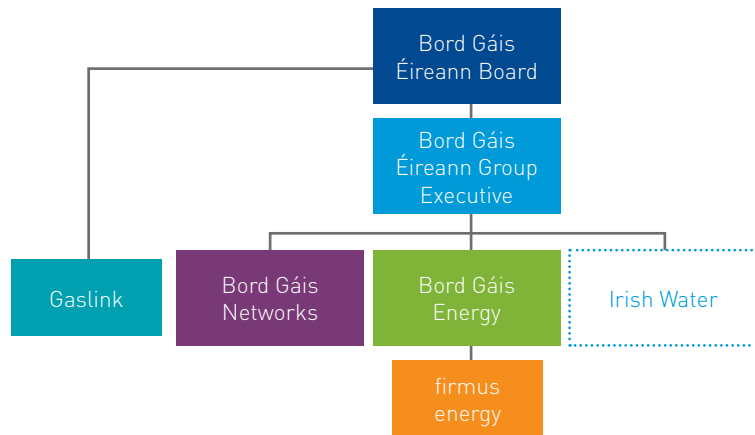
Business Model & Strategy

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

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.”

Revenue

€1,625m

2011: €1,608m



EBITDA

€380m

2011: €343m



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.

“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.”

Total Assets (excl derivatives)

€4,677m

2011: €4,515m

2012
2011



Profit Before Income Tax

€121m

2011: €94m

2012
2011



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.

“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 (<i>excl derivatives</i>)	4,677	4,515	⬆️ 4%
Net Debt*	1,929	1,934	- 0%
Book Capitalisation†	3,505	3,427	⬆️ 2%
Ratios			
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.”

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.

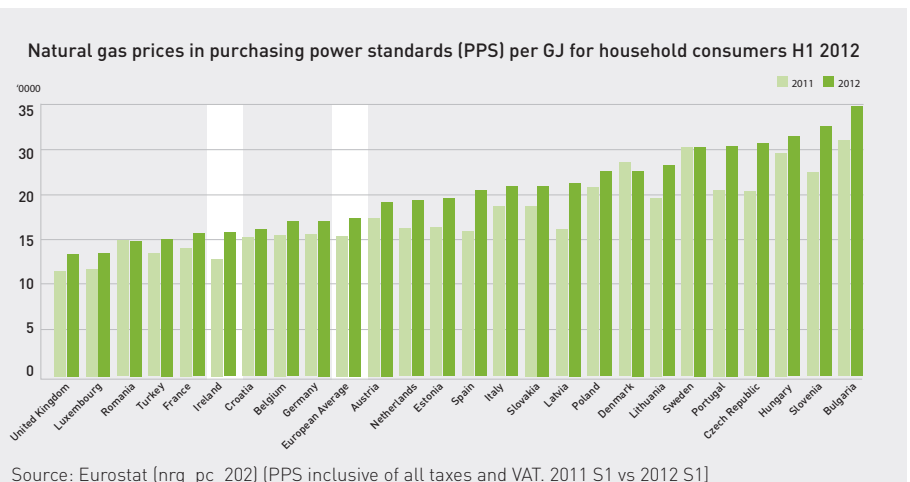
Gas Sector

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

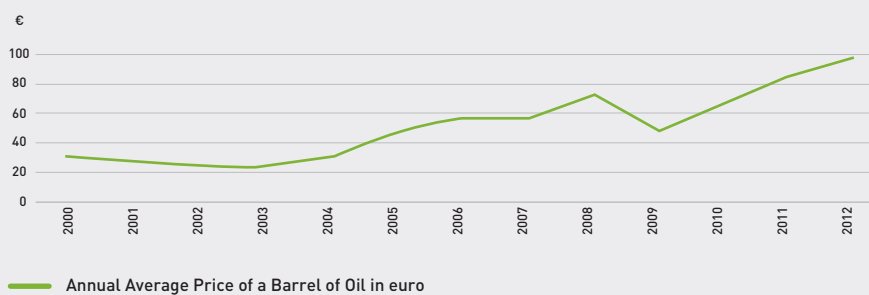
2012 was a turbulent year for Brent crude oil prices as anxiety dominated the markets and prices fluctuated significantly. These anxieties translated into a second consecutive year of record Brent crude oil prices. In euro terms, the average annual price broke through the €85 a barrel for the first time 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.

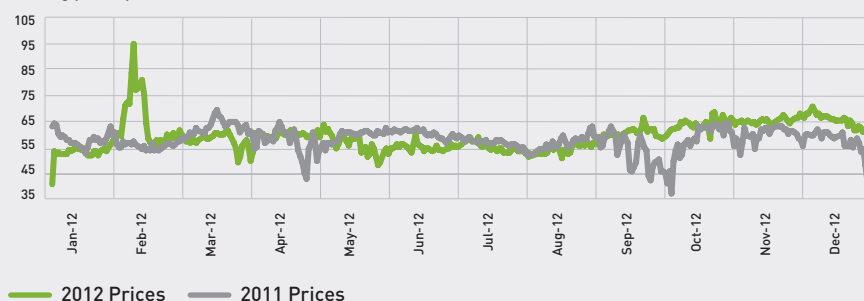
Many factors influenced wholesale gas prices during 2012, including:

- 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
Price (€/barrel)



Figure 3: UK Daily System Average Gas Prices 2012 v 2011
Sterling pence per therm



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

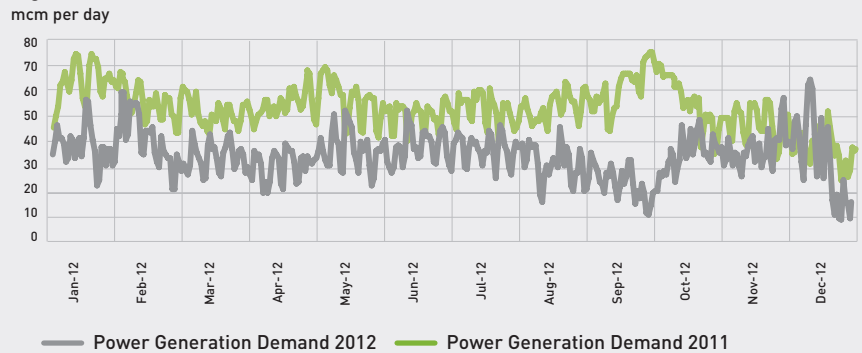
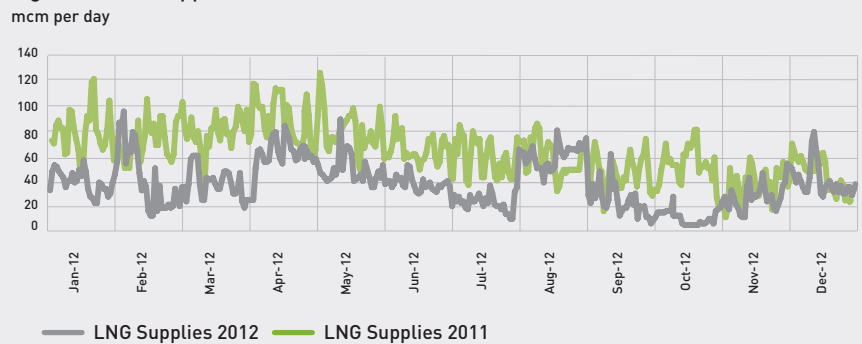


Figure 5: LNG Supplies to the UK- 2012 v 2011



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

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

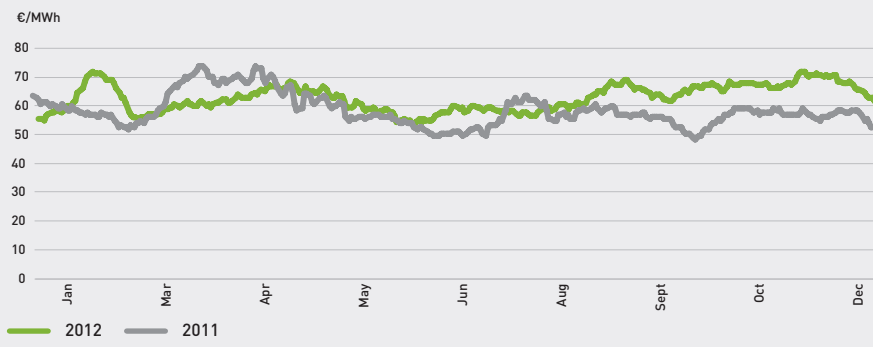
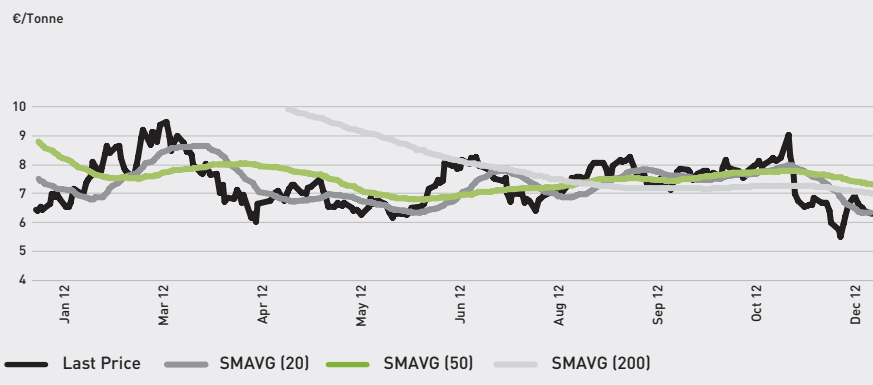


Figure 7: European Union Allowance Prices



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 Craigdoon 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.”

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.

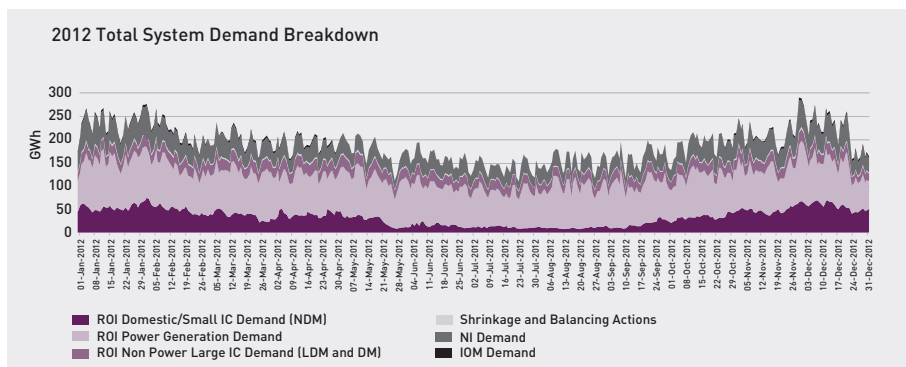
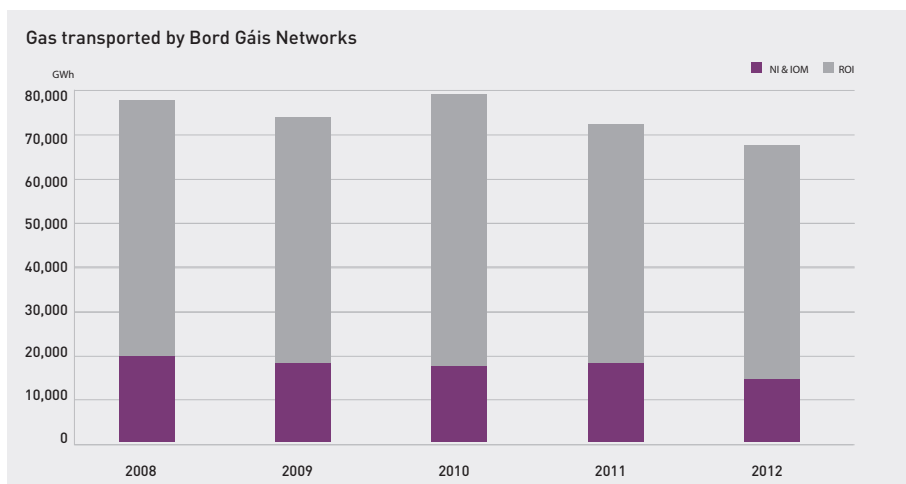
Shipper Services

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

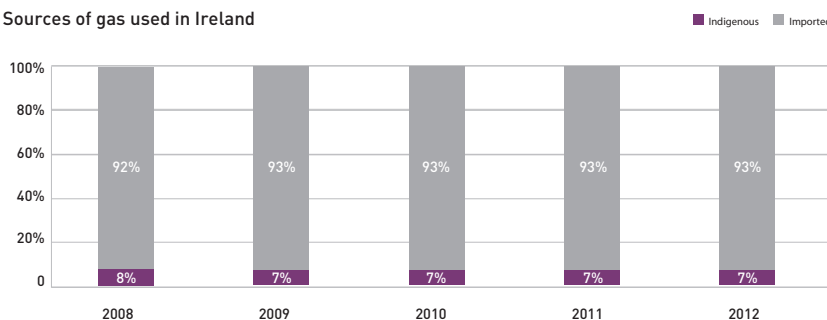
The total transmission network length at the end of 2012 was 2,417km. Total gas transported for Ireland, Northern Ireland and the Isle of Man was approximately 67,900 GWh, a decrease of 7% on 2011. 79% of this gas was delivered for use in the Republic of Ireland with the remaining 21% transported to 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 Wall 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 in 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

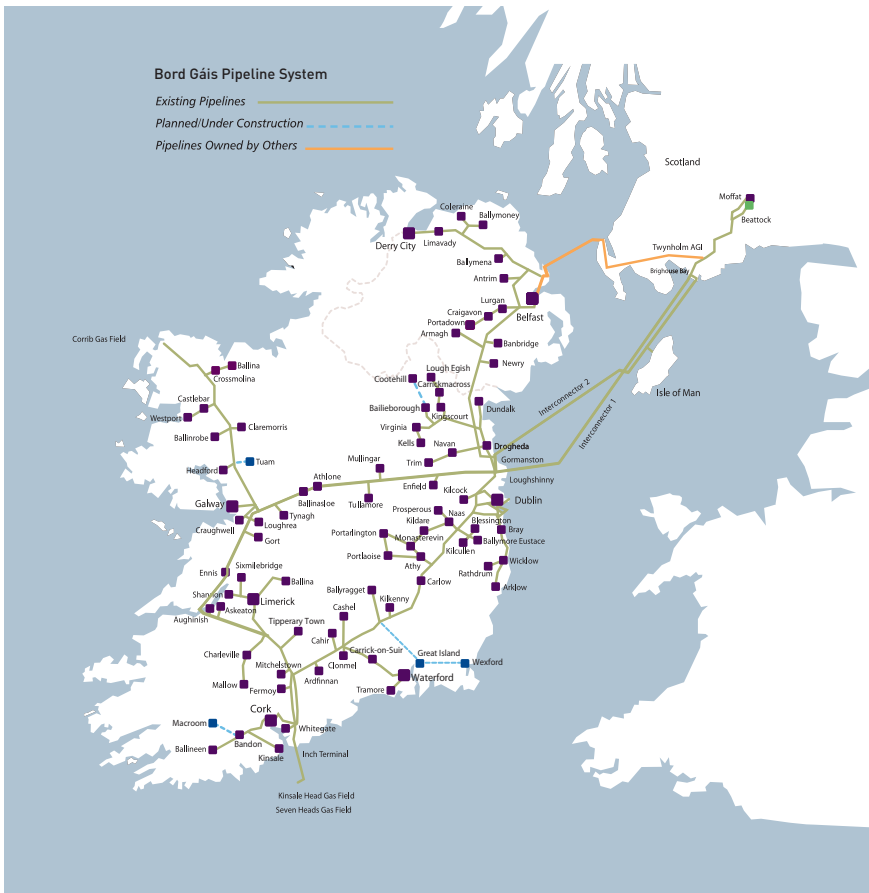
During 2012, capacity upgrades were commissioned at existing Above Ground Installations at Brinny (Co Cork), Suir Road (Dublin) and Blakestown (Co Louth) to facilitate gas demand growth in those areas.

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.”

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 pre-payment (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 (ENTSOG), participates in ENSOG 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.

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.



6.

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.



5.

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.



7.

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



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.

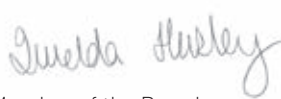
Auditors

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 as 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. 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 online 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 through 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 as 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 1.82m³/m².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 m² 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 m² 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
 - 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.
- Middleton 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 CO₂ 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 CO₂ 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.

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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.

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.

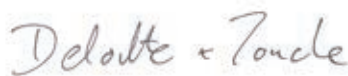
Matters on which we are required to report

- 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

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 CO₂ 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 CO₂ 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
Continuing operations							
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)
Gross profit		650,602	-	650,602	609,326	-	609,326
Operating costs (excluding depreciation and amortisation)	2	(270,744)	-	(270,744)	(265,837)	-	(265,837)
Other operating income		-	29,617	29,617	-	-	-
Operating profit before depreciation and amortisation (EBITDA)		379,858	29,617	409,475	343,489	-	343,489
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)
Operating profit		211,051	28,918	239,969	180,719	2,093	182,812
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)
Profit before income tax		120,513	43,318	163,831	94,341	5,865	100,206
Income tax expense	6	(15,322)	(6,048)	(21,370)	(12,278)	(733)	(13,011)
Profit for the year		105,191	37,270	142,461	82,063	5,132	87,195
Profit attributable to:							
Owners of the Parent		105,191	37,270	142,461	82,063	5,132	87,195
Profit for the year		105,191	37,270	142,461	82,063	5,132	87,195

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
Profit for the year		142,461	87,195
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial losses	17	(34,971)	(23,977)
Deferred tax credit relating to defined benefit obligations	11	4,371	2,997
Total items that will not be reclassified to profit or loss		(30,600)	(20,980)
Items that may be reclassified subsequently to profit or loss:			
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
Total items that may be reclassified subsequently to profit or loss		(19,988)	(6,356)
Total other comprehensive income for the year, net of income tax		(50,588)	(27,336)
Total comprehensive income for the year		91,873	59,859
Total comprehensive income attributable to:			
Owners of the Parent		91,873	59,859
Total comprehensive income for the year		91,873	59,859

For and on behalf of the Board:



Chairman



Member of the Board

09 April 2013

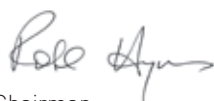
Date of Approval

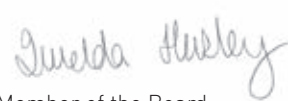
Group Statement of Financial Position

as at 31 December 2012

	Notes	31-Dec-12 €'000	31-Dec-11 €'000
Assets			
Non-current assets			
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
Total non-current assets		3,889,774	3,857,243
Current assets			
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
Total current assets		806,548	699,704
Total assets		4,696,322	4,556,947
Equity and liabilities			
Equity			
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)
Total equity attributable to equity holders of the Parent		(1,514,818)	(1,447,564)
Liabilities			
Non-current liabilities			
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)
Total non-current liabilities		(2,569,854)	(2,605,217)
Current liabilities			
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)	-
Total current liabilities		(611,650)	(504,166)
Total liabilities		(3,181,504)	(3,109,383)
Total equity and liabilities		(4,696,322)	(4,556,947)

For and on behalf of the Board:


 Chairperson


 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
Balance at 1 January 2011	100,000	29,426	(24,716)	(439)	(25,155)	1,317,643	1,421,914
Total comprehensive income for the year							
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)
Total comprehensive income for the year	-	-	(6,255)	(101)	(6,356)	66,215	59,859
Transactions with owners, recorded directly in equity							
Dividends paid	-	-	-	-	-	(34,209)	(34,209)
Total contributions by and distributions to owners	-	-	-	-	-	(34,209)	(34,209)
Balance at 31 December 2011	100,000	29,426	(30,971)	(540)	(31,511)	1,349,649	1,447,564
Total comprehensive income for the year							
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)
Total comprehensive income for the year	-	-	(19,875)	(113)	(19,988)	111,861	91,873
Transactions with owners, recorded directly in equity							
Dividends paid	-	-	-	-	-	(24,619)	(24,619)
Total contributions by and distributions to owners	-	-	-	-	-	(24,619)	(24,619)
Balance at 31 December 2012	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
Cash flows from operating activities			
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)	-
		379,832	343,472
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)
Cash generated from operating activities		332,635	331,900
Interest paid		(108,037)	(98,021)
Income tax refund/(paid)		2,565	(25)
Net cash generated from operating activities		227,163	233,854
Cash flows from investing activities			
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
Net cash used in investing activities		(191,205)	(256,754)
Cash flows from financing activities			
Proceeds from borrowings		476,225	202,385
Repayment of borrowings		(404,145)	(121,640)
Dividends paid	15	(24,619)	(34,209)
Net cash from financing activities		47,461	46,536
Net increase in cash and cash equivalents	14	83,419	23,636
Cash and cash equivalents at 1 January	14	253,446	229,654
Effect of exchange rate fluctuations on cash held	14	75	156
Cash and cash equivalents at 31 December	14	336,940	253,446

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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
Total	2,103,010	477,555	1,625,455	2,092,170	483,813	1,608,357

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
Total	1,625,455	1,608,357

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
Segment result reported to the Board	379,858	343,489
Certain remeasurements and exceptional items	29,617	-
Total	409,475	343,489

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
Segment result reported to the Board	211,051	180,719
Certain remeasurements and exceptional items	28,918	2,093
Total	239,969	182,812

(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	-	-
Total	181,974	188,971	26,208	35,266

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
Total	168,807	162,770

(f) Impairment of financial and non-financial assets

	2012 €'000	2011 €'000
Networks	27	130
Energy	11,395	9,606
Ancillary	-	-
Total	11,422	9,736

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
Total	3,860,651	3,819,847

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
Total	270,744	265,837

Payroll costs	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)
Payroll costs charged to profit or loss	79,370	77,955

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
Total	1,102	1,123

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
Total	691	824

Board members' emoluments		
- fees	136	159
- remuneration of the Chief Executive*	330	343
Total	466	502

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
Total	330	343

* 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)
Total	168,807	162,770

4. Certain Remeasurements and Exceptional Items

		2012 €'000	2011 €'000
Other operating income	(a)	29,617	-
Impact on operating profit before depreciation and amortisation (EBITDA)		29,617	-
Net changes in fair value of operating derivatives	(b)	(699)	2,093
Impact on operating profit		28,918	2,093
Net changes in fair value of financing derivatives	(b)	5,290	3,772
Other finance income	(c)	9,110	-
Impact on finance income		14,400	3,772
Impact on profit before income tax		43,318	5,865
Taxation impact of certain remeasurements and exceptional items		(6,048)	(733)
Impact on profit for the year		37,270	5,132

(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
Before certain remeasurements and exceptional items		
Finance income		
Interest income on short-term deposits	1,090	1,706
Total finance income	1,090	1,706
Finance costs		
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)
Total finance costs	(91,178)	(87,887)
Before certain remeasurements and exceptional items		
Finance income	1,090	1,706
Finance costs	(91,178)	(87,887)
Net finance costs before certain remeasurements and exceptional items	(90,088)	(86,181)
Certain remeasurements and exceptional items (note 4)		
Finance income		
Other finance income	9,110	-
Net changes in fair value of financing derivatives	5,290	3,772
Total finance income from certain remeasurements and exceptional items	14,400	3,772
After certain remeasurements and exceptional items		
Finance income	15,490	5,478
Finance costs	(91,178)	(87,887)
Net finance costs after certain remeasurements and exceptional items	(75,688)	(82,409)

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
Current tax expense/(credit)		
Current tax	2,233	54
Adjustments in respect of previous years	20	(18)
	2,253	36
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	19,495	13,243
Adjustments in respect of previous years	(378)	(268)
	19,117	12,975
Total expense	21,370	13,011
Reconciliation of effective tax rate	2012 €'000	2011 €'000
Profit before tax	163,831	100,206
Add: After tax share of loss of joint ventures	450	197
Profit before tax (excluding share of loss of joint ventures)	164,281	100,403
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]
Income tax expense	21,370	13,011

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
Cost				
At 1 January 2011	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)
At 31 December 2011	97,657	4,552,321	162,870	4,812,848
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)
At 31 December 2012	97,657	4,638,725	263,219	4,999,601
Accumulated depreciation				
At 1 January 2011	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)
At 31 December 2011	24,153	1,195,299	-	1,219,452
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)
At 31 December 2012	21,518	1,349,270	-	1,370,788
Carrying amounts				
At 31 December 2011	73,504	3,357,022	162,870	3,593,396
At 31 December 2012	76,139	3,289,455	263,219	3,628,813

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
Cost					
At 1 January 2011	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
At 31 December 2011	41,706	69,403	27,917	164,020	303,046
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)
At 31 December 2012	41,706	73,461	10,705	203,053	328,925
Amortisation					
At 1 January 2011	-	-	-	74,268	74,268
Amortisation for the year	-	-	-	14,534	14,534
Effects of movement in exchange rates	-	-	-	44	44
At 31 December 2011	-	-	-	88,846	88,846
Amortisation for the year	-	-	-	22,017	22,017
Effects of movement in exchange rates	-	-	-	48	48
Disposals	-	-	-	(388)	(388)
At 31 December 2012	-	-	-	110,523	110,523
Carrying amounts					
At 31 December 2011	41,706	69,403	27,917	75,174	214,200
At 31 December 2012	41,706	73,461	10,705	92,530	218,402

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
Total assets	19,333	19,102
Equity	8,873	9,270
Non-current liabilities	1,825	2,098
Current liabilities	8,635	7,734
Total liabilities	10,460	9,832
Total equity and liabilities	19,333	19,102

9. Joint Ventures (continued)

	2012 €'000	2011 €'000
Income	1,469	2,409
Operating costs (excluding depreciation and amortisation)	(712)	(921)
Operating profit before depreciation and amortisation (EBITDA)	757	1,488
Share of loss of joint venture (after interest and tax)	(450)	(197)
Translation differences on consolidation of foreign joint ventures - other comprehensive income	53	51

Reconciliation of investment in joint ventures

	2012 €'000	2011 €'000
At 1 January	9,270	14,783
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)
At 31 December	8,873	9,270

10. Financial Asset Investments

	2012 €'000	2011 €'000
At 1 January	2,761	2,761
Acquisitions	1,000	-
At 31 December	3,761	2,761

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
Current tax assets	-	2,527
Current tax liabilities	(1,902)	-

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
At 1 January 2011	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
At 31 December 2011	4,674	47,230	4,425	(277,341)	10,902	(210,110)
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
At 31 December 2012	4,931	27,727	7,264	(269,106)	7,378	(221,806)

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)
Net deferred tax liabilities	(221,806)	(210,110)

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
Total	48,711	48,864

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
Total	384,714	322,991
Non-current	802	220
Current	383,912	322,771
Total	384,714	322,991

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
Total	336,940	253,446
	2012 €'000	2011 €'000
At 1 January	253,446	229,654
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
At 31 December	336,940	253,446

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
Total	29,896	47,825

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
Total	100,000	100,000

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, 3,269,600 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
At 1 January and at 31 December	29,426	29,426

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
Total	24,619	34,209

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
Current borrowings	-	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
Non-current borrowings	771,519	1,292,969	2,064,488	2,126,683
Total borrowings	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%)		
Revised weighted average expected return	5.10%	5.80%		

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
Retiring today		
Males	23.3	23.2
Females	24.7	24.6
Retiring in 25 years		
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
Deficit for funded plans	(39,447)	(37,391)

Movement in the present value of the defined benefit obligation

	2012 €'000	2011 €'000
Opening defined benefit obligation	(289,862)	(270,788)
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)
Closing defined benefit obligation	(343,127)	(289,862)

17. Retirement Benefit Obligations (continued)

Movement in the fair value of plan assets	2012 €'000	2011 €'000
Opening fair value of plan assets	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)
Closing fair value of plan assets	303,680	252,471
	2012 €'000	2011 €'000
Actual return on plan assets	45,076	(6,293)
	2012 €'000	2011 €'000
Analysis of amount recognised in the income statement	2012	2011
	€'000	€'000
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	-
Total pension gain/(cost) recognised in the income statement	22,178	(3,514)
	2012 €'000	2011 €'000
Analysis of amount charged to provisions	2012	2011
	€'000	€'000
Current service cost	(1,403)	(1,208)
Loss on curtailments	(4,925)	(2,079)
Amount charged to provisions	(6,328)	(3,287)
	2012 €'000	2011 €'000
Actuarial gains/(losses) recognised in other comprehensive income	2012	2011
	€'000	€'000
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)
Total pension loss recognised in other comprehensive income	(34,971)	(23,977)
	2012 €'000	2011 €'000
Cumulative actuarial losses recognised in other comprehensive income	2012	2011
	€'000	€'000
At 1 January	(92,099)	(68,122)
Recognised during the year	(34,971)	(23,977)
At 31 December	(127,070)	(92,099)

Notes to the Group Financial Statements (continued)

17. Retirement Benefit Obligations (continued)

Movements in deficit during the year	2012 €'000	2011 €'000
At 1 January	(37,391)	(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)
At 31 December	(39,447)	(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
Deficit	(39,447)	(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
At 1 January	44,044	38,757
Received in year	13,837	20,096
Recognised as revenue in year	(16,164)	(14,809)
At 31 December	41,717	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
At 1 January	95,412	100,224
Amortised in year	(5,796)	(5,674)
Effects of movement in exchange rates	885	862
At 31 December	90,501	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
Total deferred revenue and government grants	132,218	139,456

19. Provisions

Group and Parent

	Environmental and decommissioning €'000	Restructuring €'000	Self-insured claims €'000	Total €'000
At 1 January 2012	10,023	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)
At 31 December 2012	11,112	-	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
Total provisions	17,333	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
Total	396,046	400,430
Analysed as follows:		
Non-current	26,686	28,709
Current	369,360	371,721
Total	396,046	400,430
* Taxation and social welfare creditors		
PAYE/PRSI/social welfare	2,722	3,850
VAT	13,595	18,502
Total	16,317	22,352

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 technique¹.

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 technique¹.

¹ 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
Assets					
Non-current financial assets					
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
Total non-current financial assets	4,563	11,753	233	16,549	16,549
Current financial assets					
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
Total current financial assets	729,755	797	6,292	736,844	736,844
Total financial assets	734,318	12,550	6,525	753,393	753,393
Liabilities					
Non-current financial liabilities					
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)
Total non-current financial liabilities	(2,087,056)	(69,928)	(13,285)	(2,170,269)	(2,225,282)
Current financial liabilities					
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)
Total current financial liabilities	(575,148)	(711)	(5,533)	(581,392)	(581,392)
Total financial liabilities	(2,662,204)	(70,639)	(18,818)	(2,751,661)	(2,806,674)
Net financial liabilities	(1,927,886)	(58,089)	(12,293)	(1,998,268)	(2,053,281)

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
Assets					
Non-current financial assets					
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
Total non-current financial assets	2,981	14,777	2,866	20,624	20,624
Current financial assets					
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
Total current financial assets	604,423	4,850	19,421	628,694	628,694
Total financial assets	607,404	19,627	22,287	649,318	649,318
Liabilities					
Non-current financial liabilities					
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)
Total non-current financial liabilities	(2,140,231)	(53,587)	(15,521)	(2,209,339)	(2,221,888)
Current financial liabilities					
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)
Total current financial liabilities	(447,304)	(2,158)	(24,796)	(474,258)	(474,258)
Total financial liabilities	(2,587,535)	(55,745)	(40,317)	(2,683,597)	(2,696,146)
Net financial liabilities	(1,980,131)	(36,118)	(18,030)	(2,034,279)	(2,046,828)

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 ¹ 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 ¹ 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
Cash flow hedging derivatives	(22,714)	2,839	(19,875)	(7,149)	894	(6,255)

¹ 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
At 31 December 2012					
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
Cash flow hedging derivatives	38	(344)	(20,646)	(37,158)	(58,110)
At 31 December 2011					
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
Cash flow hedging derivatives	2,769	268	(11,555)	(26,878)	(35,396)

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
Financial derivative assets		
Commodity derivatives	4,116	17,904
Forward exchange contracts	3,216	9,516
Cross currency rate swaps	11,743	14,494
Total financial derivative assets	19,075	41,914
Financial derivative liabilities		
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)
Total financial derivative liabilities	(85,832)	(86,993)
Net financial derivative liabilities	(66,757)	(45,079)

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
Total	753,393	649,318

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
Total	363,721	303,372

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
Total	363,721	303,372

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
Total	363,721	303,372

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2012 €'000	2011 €'000
At 1 January	32,890	29,847
Impairment loss recognised	11,422	9,736
Provision utilised	(14,488)	(6,693)
At 31 December	29,824	32,890

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
At 31 December 2012						
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)
Non-derivative financial liabilities	(2,665,829)	(3,085,700)	(669,286)	(632,248)	(889,774)	(894,392)
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	-
Net derivative financial (liabilities)/assets	(66,757)	(16,411)	(23,985)	21,614	(3,616)	(10,424)
Net financial liabilities	(2,732,586)	(3,102,111)	(693,271)	(610,634)	(893,390)	(904,816)
At 31 December 2011						
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)
Non-derivative financial liabilities	(2,596,604)	(3,038,190)	(527,845)	(348,331)	(1,200,545)	(961,469)
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)	-	-
Net derivative financial liabilities	(45,079)	(120,726)	(37,041)	(27,104)	(33,799)	(22,782)
Net financial liabilities	(2,641,683)	(3,158,916)	(564,886)	(375,435)	(1,234,344)	(984,251)

* 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)
Gross statement of financial position exposure	(3,850)	12,207
Forward exchange contracts	199,389	206,867
FX swaps	(64,561)	(90,358)
Net exposure	130,978	128,716

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 ¹	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%
Total	2,269,783	100.0%	2,196,174	100.0%

¹ 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 €771.5 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)	Profit before taxation gain/ (loss)
	31-Dec-12	31-Dec-11
	€'000	€'000
<i>10% increase</i>	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
Total	482,547	534,829

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
Total	44,604	47,560

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
Total	161,886	162,992

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.

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	2011	31-Dec-12	31-Dec-11
	€'000	€'000	€'000	€'000
Subsidiaries	89,459	64,526	632,625	548,359
Joint ventures	-	-	4,704	4,057
Total	89,459	64,526	637,329	552,416

	Transaction value (expense)		Balance payable	
	2012	2011	31-Dec-12	31-Dec-11
	€'000	€'000	€'000	€'000
Subsidiaries	53,880	41,598	30,966	34,110
Joint ventures	-	-	-	-
Total	53,880	41,598	30,966	34,110

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	2011
	€'000	€'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
Total	2,377	2,378

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%

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 Lisavaird NI Limited	Renewable Electricity Generation	50%
Independent subsidiary undertaking			
54	Gaslink Independent System Operator Limited	Independent Gas System Operator	100%
Non-controlled undertaking			
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

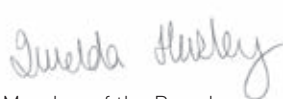
as at 31 December 2012

	Notes	31-Dec-12 €'000	31-Dec-11 €'000
Assets			
Non-current assets			
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	-	-
Total non-current assets		3,134,232	3,145,057
Current assets			
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
Total current assets		1,342,451	1,170,345
Total assets		4,476,683	4,315,402
Equity and liabilities			
Equity			
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)
Total equity attributable to equity holders of the Parent		(1,626,708)	(1,562,235)
Liabilities			
Non-current liabilities			
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)
Total non-current liabilities		(2,256,111)	(2,268,948)
Current liabilities			
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)	-
Total current liabilities		(593,864)	(484,219)
Total liabilities		(2,849,975)	(2,753,167)
Total equity and liabilities		(4,476,683)	(4,315,402)

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
Balance at 1 January 2011	100,000	29,426	(11,144)	(11,144)	1,418,584	1,536,866
Total comprehensive income for the year						
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)
Total comprehensive income for the year	-	-	1,911	1,911	57,667	59,578
Transactions with owners, recorded directly in equity						
Dividends paid	-	-	-	-	(34,209)	(34,209)
Total contributions by and distributions to owners	-	-	-	-	(34,209)	(34,209)
Balance at 31 December 2011	100,000	29,426	(9,233)	(9,233)	1,442,042	1,562,235
Total comprehensive income for the year						
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)
Total comprehensive income for the year	-	-	(12,978)	(12,978)	102,070	89,092
Transactions with owners, recorded directly in equity						
Dividends paid	-	-	-	-	(24,619)	(24,619)
Total contributions by and distributions to owners	-	-	-	-	(24,619)	(24,619)
Balance at 31 December 2012	100,000	29,426	(22,211)	(22,211)	1,519,493	1,626,708

All attributable to owners of the Parent.

Parent Statement of Cash Flows

for the year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
Cash flows from operating activities			
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)
Cash generated from operating activities		207,394	262,368
Interest paid		(95,461)	(86,875)
Income tax refund/(paid)		2,565	(25)
Net cash generated from operating activities		114,498	175,468
Cash flows from investing activities			
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
Net cash used in investing activities		(103,593)	(219,524)
Cash flows from financing activities			
Proceeds from borrowings		476,225	202,385
Repayment of borrowings		(378,978)	(105,219)
Dividends paid		(24,619)	(34,209)
Net cash from financing activities		72,628	62,957
Net increase in cash and cash equivalents	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
Cash and cash equivalents at 31 December	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
Cost				
At 1 January 2011	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)
At 31 December 2011	79,484	3,419,885	19,359	3,518,728
Additions	-	48,777	33,201	81,978
Transfers in year	-	14,646	(14,646)	-
Disposals	-	(1,377)	-	(1,377)
At 31 December 2012	79,484	3,481,931	37,914	3,599,329
Depreciation and impairment losses				
At 1 January 2011	16,315	806,390	-	822,705
Depreciation for the year	5,172	98,944	-	104,116
Disposals	-	(3,097)	-	(3,097)
At 31 December 2011	21,487	902,237	-	923,724
Depreciation for the year	(2,972)	102,550	-	99,578
Disposals	-	(1,319)	-	(1,319)
At 31 December 2012	18,515	1,003,468	-	1,021,983
Carrying amounts				
At 31 December 2011	57,997	2,517,648	19,359	2,595,004
At 31 December 2012	60,969	2,478,463	37,914	2,577,346

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
Cost			
At 1 January 2011	9,872	151,225	161,097
Additions (incl internally developed)	26,906	1,125	28,031
Transfers in year	(8,861)	8,861	-
At 31 December 2011	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)
At 31 December 2012	10,705	198,646	209,351
Amortisation			
At 1 January 2011	-	72,639	72,639
Amortisation for the year	-	14,351	14,351
At 31 December 2011	-	86,990	86,990
Amortisation for the year	-	21,821	21,821
Disposals	-	(388)	(388)
At 31 December 2012	-	108,423	108,423
Carrying amounts			
At 31 December 2011	27,917	74,221	102,138
At 31 December 2012	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
Cost				
At 1 January 2011	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)	-	-
At 31 December 2011	421,460	11,200	1,025	433,685
Acquisitions and capital contributions	12,700	-	1,000	13,700
At 31 December 2012	434,160	11,200	2,025	447,385
Impairment				
At 1 January 2011	2,600	-	-	2,600
Impairment recognised during the year	813	-	-	813
At 31 December 2011	3,413	-	-	3,413
Impairment recognised during the year	-	-	-	-
At 31 December 2012	3,413	-	-	3,413
Carrying amounts				
At 31 December 2011	418,047	11,200	1,025	430,272
At 31 December 2012	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
Total	47,100	47,413

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
Total	962,204	835,814
Current	962,204	835,814
Total	962,204	835,814

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
Total	304,669	221,092
	2012 €'000	2011 €'000
At 1 January	221,092	202,066
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
At 31 December	304,669	221,092

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
Total	21,389	38,856

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
At 1 January	(9,233)	(11,144)
Net change in fair value of cash flow hedges	(14,832)	2,185
Deferred tax on cash flow hedge movement	1,854	(274)
At 31 December	(22,211)	(9,233)

Notes to the Parent Financial Statements (continued)

8. Equity (continued)

Retained earnings

	2012 €'000	2011 €'000
At 1 January	1,442,042	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)
At 31 December	1,519,493	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
Current borrowings	-	192,193	192,193	55,458
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
Non-current borrowings	771,519	1,100,416	1,871,935	1,909,893
Total	771,519	1,292,609	2,064,128	1,965,351

* 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
At 1 January	44,044	38,757
Received in year	13,837	20,096
Recognised as revenue in year	(16,164)	(14,809)
At 31 December	41,717	44,044
Government grants	2012 €'000	2011 €'000
At 1 January	60,977	64,899
Amortised in year	(3,923)	(3,922)
At 31 December	57,054	60,977
Analysed as follows:	31-Dec-12 €'000	31-Dec-11 €'000
Non-current	74,435	83,581
Current	24,336	21,440
Total deferred revenue and government grants	98,771	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
Total	393,699	390,990
Non-current	26,940	23,359
Current	366,759	367,631
Total	393,699	390,990
* Taxation and social welfare creditors		
PAYE/PRSI/social welfare	2,545	3,704
VAT	20,451	15,018
Other taxes	-	142
Total	22,996	18,864

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
Assets					
Non-current financial assets					
Financial asset investments	2,025	-	-	2,025	2,025
Derivative financial instruments	-	11,753	233	11,986	11,986
Total non-current financial assets	2,025	11,753	233	14,011	14,011
Current financial assets					
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
Total current financial assets	1,277,554	797	6,292	1,284,643	1,284,643
Total financial assets	1,279,579	12,550	6,525	1,298,654	1,298,654
Liabilities					
Non-current financial liabilities					
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)
Total non-current financial liabilities	(1,894,757)	(37,201)	(36)	(1,931,994)	(1,987,007)
Current financial liabilities					
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)
Total current financial liabilities	(559,445)	(711)	(5,533)	(565,689)	(565,689)
Total financial liabilities	(2,454,202)	(37,912)	(5,569)	(2,497,683)	(2,552,696)
Net financial (liabilities)/assets	(1,174,623)	(25,362)	956	(1,199,029)	(1,254,042)

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
Assets					
Non-current financial assets					
Financial asset investments	1,025	-	-	1,025	1,025
Derivative financial instruments	-	14,777	2,866	17,643	17,643
Total non-current financial assets	1,025	14,777	2,866	18,668	18,668
Current financial assets					
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
Total current financial assets	1,084,466	4,850	19,421	1,108,737	1,108,737
Total financial assets	1,085,491	19,627	22,287	1,127,405	1,127,405
Liabilities					
Non-current financial liabilities					
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)
Total non-current financial liabilities	(1,918,091)	(28,742)	(2,528)	(1,949,361)	(1,961,911)
Current financial liabilities					
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)
Total current financial liabilities	(429,181)	(2,158)	(24,796)	(456,135)	(456,135)
Total financial liabilities	(2,347,272)	(30,900)	(27,324)	(2,405,496)	(2,418,046)
Net financial liabilities	(1,261,781)	(11,273)	(5,037)	(1,278,091)	(1,290,641)

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 ¹ 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 ¹ 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
Cash flow hedging derivatives	(14,832)	1,854	(12,978)	2,185	(274)	1,911

¹ 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
At 31 December 2012					
Interest rate swaps	-	-	(20,185)	-	(20,185)
Cross currency swaps	(4)	(304)	(461)	(4,431)	(5,200)
Exchange rate contracts	42	(40)	-	-	2
Cash flow hedging derivatives	38	(344)	(20,646)	(4,431)	(25,383)
At 31 December 2011					
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
Cash flow hedging derivatives	2,769	268	(11,554)	(2,034)	(10,551)

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
Financial derivative assets		
Commodity derivatives	4,116	17,904
Forward exchange contracts	3,216	9,516
Cross currency rate swaps	11,743	14,494
Total financial derivative assets	19,075	41,914
Financial derivative liabilities		
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)
Total financial derivative liabilities	(39,856)	(49,155)
Net financial derivative liabilities	(20,781)	(7,241)

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
Total	1,298,654	1,127,405

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	-	-
Total	318,871	276,159

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
Total	318,871	276,159

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
Total	318,871	276,159

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
At 1 January	31,721	28,892
Impairment loss recognised	10,963	9,498
Provision utilised	(14,365)	(6,669)
At 31 December	28,319	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: €2,462.1 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.

	Carrying amount €'000	Contractual cash flows €'000	< 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
At 31 December 2012						
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)
Non-derivative financial liabilities	(2,457,827)	(2,804,491)	(644,297)	(613,295)	(830,634)	(716,265)
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	-
Net derivative financial (liabilities)/assets	(20,781)	31,382	(16,299)	28,252	13,870	5,559
Net financial liabilities	(2,478,608)	(2,773,109)	(660,596)	(585,043)	(816,764)	(710,706)
At 31 December 2011						
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)
Non-derivative financial liabilities	(2,356,341)	(2,947,258)	(513,747)	(338,295)	(1,165,816)	(929,400)
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)	-	-
Net derivative financial liabilities	(7,241)	(79,610)	(31,153)	(20,920)	(19,815)	(7,722)
Net financial liabilities	(2,363,582)	(3,026,868)	(544,900)	(359,215)	(1,185,631)	(937,122)

* 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)	-
Gross statement of financial position exposure	(16,325)	22,929
Forward exchange contracts	199,389	206,867
FX swaps	(64,561)	(90,358)
Net exposure	118,503	139,438

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
<i>5% Strengthening</i>	(196)	(5,729)	3,180	(10,489)
<i>5% Weakening</i>	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 ¹	1,284,649	62.2%	1,106,610	56.3%
At floating rates	779,479	37.8%	858,741	43.7%
Total	2,064,128	100.0%	1,965,351	100.0%

¹ 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 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
Total	290,332	314,393

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
Total	22,998	24,812

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	27,386	25,651
Between one and five years	105,586	101,843
More than five years	108,803	118,834
Total	241,775	246,328

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).

For and on behalf of the Board:



CHAIRMAN



MEMBER OF THE BOARD

09 April 2013

Date of Approval

Glossary

AGI	An Above Ground Installation (AGI) is where the gas pipeline is brought to ground to facilitate operation and maintenance
BBCLG	Balfour Beatty CLG, the current provider under the NWSC
Bcm	Gas reserves are usually measured in Billion Cubic Meters (bcm)
Book Capitalisation	Net debt plus capital and reserves (before certain remeasurements)
Bord Gáis	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"
CER	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.
CfD	Contracts for Difference
CHP	Combined Heat and Power
CGU	Cash-generating unit
CNG	Compressed Natural Gas, a natural gas transport fuel
DECLG	Department of Environment, Community and Local Government
DCENR	Department of Communications, Energy and Natural Resources
EBITDA	Earnings before interest, tax, depreciation and amortisation
EHS	Environment, Health and Safety Unit within Bord Gáis Energy
EIB	The European Investment Bank
EU ETS	European Union Emissions Trading Scheme
FTTW	Fibre To The West project completed by Aurora Telecoms
FX	Foreign Exchange
GPRO	The Gas Point Registration Operator (GPRO) manages the register of all gas points in the Republic of Ireland on behalf of all suppliers.
GW	Giga Watt (GW) is a unit of power equal to one billion watts
HSQE	Health, Safety, Quality and Environment unit with Bord Gáis Networks
IAS	International Accounting Standard
IAS 1	IAS 1 Presentation of Financial Statements
IAS 12	IAS 12 Income Taxes
IAS 18	IAS 18 Revenue
IAS 19	IAS 19 Employee Benefits
IAS 2	IAS 2 Inventories
IAS 21	IAS 21 The Effects of Changes in Foreign Exchange Rates
IAS 27	IAS 27 Consolidated and Separate Financial Statements
IAS 36	IAS 36 Impairment of Assets
IAS 38	IAS 38 Intangible Assets
IAS 39	IAS 39 Financial Instruments: Recognition and Measurement
IAS 7	IAS 7 Statement of Cash Flow
IASB	International Accounting Standard Board
IFRIC	International Financial Reporting Interpretations Committee
IFRIC 18	IFRIC 18 Transfer of Assets from Customers
IFRIC 4	IFRIC 4 Determining Whether an Arrangement Contains a Lease
IFRS	International Financial Reporting Standards

IFRS 1	IFRS 1 First-time Adoption of International Financial Reporting Standards
IFRS 2	IFRS 2 Share-based Payment
IFRS 3	IFRS 3 (Revised) Business Combinations
IFRS 5	IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	IFRS 7 Financial Instruments: Disclosures
IFRS 8	IFRS 8 Operating Segments
Irish GAAP	Irish Generally Accepted Accounting Principles
Irish Water / Uisce Éireann	Irish Water/Uisce Éireann is the new public water utility initially established under the Water Services Act 2013.
Irish Water Programme	The Programme team put in place within Bord Gáis Éireann to establish Irish Water.
ITO	Independent Transmission Operator
Km	Kilometers
MABS	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.
MW	Megawatt (MW) is a unit of power equal to 1 million watts (W) or 1,000 kilowatts (kW).
NDM	Non-Daily Metered is a gas tariff for domestic gas users.
Net Debt	Total debt adjusted for impact of fair value hedges less free cash deposits
NewERA	New Economy and Recovery Authority (NewERA), a division within the NTMA with oversight of the commercial State sector in Ireland.
NGV	Natural Gas Vehicle which is refuelled with Compressed Natural Gas (CNG)
NSWC	Networks Services and Works Contract
PAYG	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.
PPA	Power Purchase Agreements
Rewards Club	The Bord Gáis Energy Rewards Club is a special online club for customers of Bord Gáis Energy
RGII	Register of Gas Installers of Ireland
RPI	Retail Price Index
SEM	Single Electricity Market
SIC	Standing Interpretations Committee
SIC 27	SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease
SME	Small Medium Enterprises
Third EU Energy Directive	The Third Energy Package is a legislative package for an internal gas and electricity market in the European Union.
Tidal Ventures Ltd	A joint venture company between OpenHydro and Bord Gáis Energy
UK	United Kingdom
Whitegate CCGT	Bord Gáis' Combined Cycle Gas Turbine power plant in Whitegate, Co. Cork.



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Annual Report and Financial Statements 2011



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ABOUT BORD GÁIS ÉIREANN

Bord Gáis Éireann has evolved in recent years from a gas transmission company to a major energy provider, supplying both gas and electricity to homes and businesses throughout the country. 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 employees.

Bord Gáis meets its commitment to customers through its two main businesses: **Bord Gáis Energy** and **Bord Gáis Networks**, a commitment that is very important to a combined total of nearly one million gas and electricity customers.

Bord Gáis Energy successfully entered the residential electricity market in early 2009 and as a consequence the company is now a dual-fuel supplier of gas and electricity. With its Northern Ireland operation, firmus energy, it is now also an energy supplier on an all-island basis, and has created real competition in the energy market. Its retail activities are backed by a trading team responsible for buying energy efficiently on European wholesale markets. Through its Assets division, Bord Gáis Energy operates and maintains a portfolio of energy assets, develops new assets, and investigates and supports emerging energy technologies.

Bord Gáis Networks has developed a world-class gas infrastructure in Ireland. 13,403km of gas pipelines and two sub-sea interconnectors have been constructed and are carefully maintained, with safety and community relations at the heart of all that we do. On behalf of **Gaslink**, the independent system operator, Bord Gáis Networks is responsible for connecting all new gas connections, and for work on service pipes and meters at customers' premises, on behalf of all gas suppliers in Ireland. Bord Gáis Networks also manages a full 24-hour emergency response service, handling almost 20,000 call-outs each year.

Within Bord Gáis, divisions operate independently of each other, as required under EU and national legislation.



Bord Gáis Energy is a dual-fuel, all-island business that serves nearly 1 million gas and electricity 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 the energy markets in Ireland.

Read more
on this on
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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.

Read more
on this on
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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.

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KEY ACHIEVEMENTS FOR 2011

Operational separation under the Third EU Energy Directive complete with staff moving to new roles, separate buildings and new suppliers appointed

Continued championing of pre-payment option for customers within the industry saw the rate of installation of gas Pay As You Go meters increase by over 1000% in 2011 compared to the previous year

Completed the successful implementation of major Networks Transformation Programme

Refinancing of €500 million Revolving Credit Facility completed

Wind assets performing and revenue-generating as well as continued expansion

Whitegate Independent Power Plant fully operational and revenue-generating

Joint venture in marine energy launched with OpenHydro called Tidal Ventures Limited

Appointment of new Managing Director to Energy responsible for Retail, Assets and Trading and realignment of the Energy management structure accordingly

Continued expansion into the Northern Ireland market through firmus energy which also expanded from 30 to 85 staff

Completed Fibre To The West Project - installation of 330km of fibre optic cable from Dublin to Galway with interconnections at Athlone, Mullingar and Ennis with impending extension to Limerick and Cork

Restructured our sponsorship portfolio to deliver a stronger customer experience, including the addition of the sponsorship of the Grand Canal Theatre as part of the development of a customer rewards programme

FINANCIAL HIGHLIGHTS

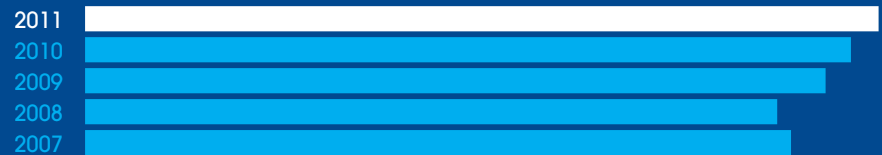
€1,608m

Revenue



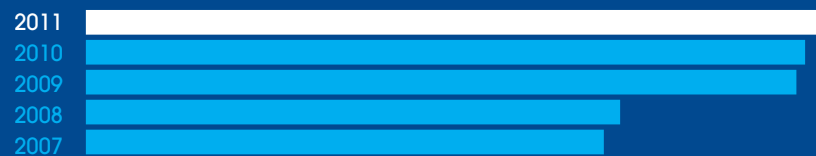
€343m

EBITDA



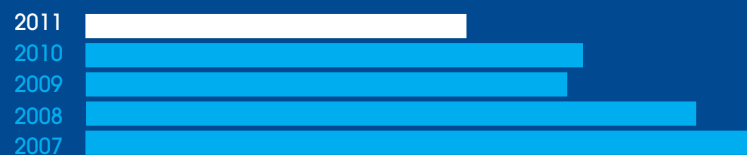
€4,515m

Total Assets
(Excl derivatives)



€94m

Profit Before Income Tax



FIVE YEAR SUMMARY

	2011*	IFRS 2010*	2009	IRISH GAAP 2008	2007
	€'million	€'million	€'million	€'million	€'million
Revenue	1,608	1,525	1,349	1,379	1,215
Operating profit before depreciation and amortisation (EBITDA)	343	331	320	299	305
Profit before income tax	94	123	119	151	166
Total Assets (excl derivatives)	4,515	4,436	4,382	3,290	3,189
Net Debt	1,934	1,856	1,823	1,217	1,151
Ratios					
Profit before income tax / Revenue	6%	8%	9%	11%	14%
EBIT Interest Cover (times)	2.1	2.6	3.0	4.3	4.1
Net Debt / Book Capitalisation	56%	56%	56%	48%	48%

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

CHAIRMAN'S STATEMENT

Bord Gáis delivered a strong financial and business performance in 2011 and further strengthened its position as a major energy utility in Ireland. The company is continuing to invest in both regulated and unregulated assets. We now have a substantial portfolio of operating power generation facilities and have well advanced plans to expand our capacity in the immediate years ahead. While the future holds many challenges for Bord Gáis, the continuing capability to deliver strong financial performance ensures that the company is in a robust position to rise to such challenges. In February 2012, the Government announced its intention to proceed with the sale of Bord Gáis Energy. We look forward to working with the Government and other key stakeholders to ensure the best outcome of any sale for our shareholder, the company, its employees and the wider economy.

Financial Performance

These are Bord Gáis' first set of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). In previous years, Bord Gáis' financial statements were prepared in accordance with Generally Accepted Accounting Practice in Ireland (Irish GAAP). All 2010 figures presented for comparative purposes in the financial statements have been restated in accordance with IFRS.

Despite the continuing difficult economic circumstances, Bord Gáis once again delivered a strong financial performance in 2011, albeit at a lower rate of increase than in recent years. Total revenue, at €1,608 million for the year to 31st December 2011, was up 5% on the 2010 result. EBITDA increased by €12 million to €343 million, reflecting the strong underlying performance of the business. Profit Before Income Tax was €94 million, a decrease of 24% from the 2010 figure of €123 million.

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

In addition, in 2011 Bord Gáis paid a dividend to the Exchequer of €33.1 million, based on 30% of the previous year's pre-tax profit for the financial year. This brings the total dividends paid since the inception of Bord Gáis in 1976 to €830 million.

Strategic Performance

In 2008, a Five Year Strategy for Bord Gáis was approved by the Board and submitted to the Department of Communications, Energy and Natural Resources and the Department of Finance. This strategy set out clear, challenging objectives for Bord Gáis, and in 2011, the company continued its achievements against these set goals and targets.

Transformation from a gas company to an energy company:

Bord Gáis entered the residential electricity market in the Republic of Ireland in 2009 under the Bord Gáis Energy brand. Since then it has grown market share, offering customers a competitive alternative to the established players. The significance of the transformation of the company is dramatically demonstrated by the fact that at the end of 2011, our customer base has a radically different profile, with 47% electricity customers and 53% gas customers.

Within a remarkably 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, wave and tidal ventures, and a proposed gas storage project in Northern Ireland.



CHAIRMAN'S STATEMENT (continued)

Invest €2 billion in regulated and unregulated assets:

Bord Gáis recognises the importance of long term investment in energy assets, both to maintain its existing gas infrastructure to the required standards, and to provide sustainable energy products to its customers. Investment in infrastructure, and in the development of Irish generating capacity from renewable resources, is a key strategic goal. The funding for these investments has been raised by Bord Gáis on international financial markets. In 2011, Bord Gáis raised €500 million in a debt restructuring round that was over-subscribed by international bank lenders; a clear validation from international financial markets of the strategic direction and robust position of the company.

In 2009, the company established a dedicated Assets Division to identify, pursue, and execute projects and investments that could facilitate the provision of clean, safe, reliable and competitive energy to its customers. The objective of the division is to develop a portfolio of diversified assets from renewable sources and to nurture new technologies. In line with government policy, Bord Gáis is actively creating and managing a portfolio that reduces the carbon footprint associated with its customer supply portfolio. The company's goal in renewable energy reflects and supports the Government's current targets of 40% of energy produced by renewables by 2020. It is envisaged that wind energy will provide the largest source of renewable energy to achieve these targets.

Aurora Telecoms was established in 2000 to combine telecommunications expertise with that of advanced network design, construction and project management to develop a best-in-class fibre optic network. The first phase of a national network roll-out, the "Fibre to the West" (FTTW) project was successfully completed in 2011. This fibre network links Dublin and Galway, with interconnections to key towns such as Athlone, Mullingar and Ennis. In November 2011, Aurora commenced the second phase of the national network roll-out. This incorporates the extension of the FTTW network from Ennis to Cork with interconnections to Shannon, Limerick, Mallow and Charleville. In a significant boost to the Government's vision for a Smart Economy, the Aurora project delivers an open-access network that is available to telecommunications carriers and large corporate, public sector and financial services organisations.



Investment in infrastructure, and in the development of Irish generating capacity from renewable resources, is a key strategic goal.

Own and/or JV in excess of 1,000 MW of power generation facilities:

The Whitegate CCGT Power Plant has been in commercial operation since November 2010. The plant now has firm access for its full baseload of 445 MW and is operating flexibly and reliably in the market. The plant has also enjoyed an excellent year from an environmental perspective, in compliance with the site's IPC licence.

Bord Gáis currently has 234 MW of operating wind capacity: one of the largest renewable energy portfolios in the country. The wind fleet now consists of 13 wind farms stretching from Cork to Donegal. This power complements the output from Whitegate to provide a clean, sustainable source of electricity for our customers. We also have a significant pipeline of wind development projects, which will see 460 MW of capacity being installed over the next five years.

Bord Gáis holds a 50% interest in Greener Ideas Limited, which is a development vehicle for the installation of a number of Open Cycle Gas Turbine (OCGT) projects in Ireland, with the capability to generate approximately 400 MW of power when complete. The OCGTs are flexible gas-fired power plants and, to date, planning permission has been obtained for sites in Athlone, Kilkenny and Cahir. These locations have been strategically chosen to support the growth in wind-powered electricity generation in Ireland.

In terms of marine energy technology, Bord Gáis and OpenHydro launched a joint venture company in 2011, called Tidal Ventures Ltd, with a view to securing development rights for one or more sites in Irish waters.

Be a stronger energy supplier on the island:

Bord Gáis' aim to be a dual-fuel provider to over one million customers was achieved through an aggressive customer acquisition strategy within the residential electricity market. As the market now matures, the company is turning its focus to customer retention strategies, built on loyalty programmes. In 2011, the company restructured its sponsorship portfolio in line with this new strategy and, in March 2012, it launched a new customer loyalty programme called the Rewards Club.

Balanced against this is the continuing need to reduce our market share in the residential gas market in order to meet the expected requirements of the Commission for Energy Regulation (CER) for market deregulation. Bord Gáis welcomed the full deregulation of the gas market for business customers in October 2011 and looks forward to similar deregulation of the residential gas market.

Bord Gáis continues to foster a culture of exemplary customer service in all areas of the organisation. This ethos is a key feature of service agreements with its outsourcing partners. The company's efforts and commitment in this area were once again endorsed by the success of its customer service teams and partners in the UK and Ireland CCA Excellence Awards 2011, and the 2011 Irish Contact Centre and Shared Services Awards.

Our success in achieving high standards of customer service can be attributed to the company's ability to attract and retain the best staff through being an Employer of Choice in Ireland. Bord Gáis was, therefore, delighted to have been named in February 2012 as one of the Best Workplaces in Ireland 2012 by the Great Place to Work Institute.

Bord Gáis' aim to be a dual-fuel provider to over one million customers was achieved through an aggressive customer acquisition strategy within the residential electricity market.

In 2010, the Government announced its decision to apply the Independent Transmission Operator (ITO) Model to Bord Gáis under the Third EU Energy Directive. In December 2011, the Statutory Instrument which transposes the Third Directive into Irish Law was issued by the Minister for Communications, Energy and Natural Resources. The company has implemented the required organisational and operational changes to separate the supply and networks activities, to ensure that access to transmission systems is totally non-discriminatory. Under the ITO Model, operation and ownership of the transmission system remain within Bord Gáis, subject to stringent, detailed ring-fencing requirements. Bord Gáis continues to implement the corporate and governance changes required to set up the ITO as an independent subsidiary of Bord Gáis albeit that the sale of the Energy business will result in a full and complete separation of both licensed entities within the Company.

Champion energy sustainability:

Long term investment in the development of Irish wind generating capacity is a cornerstone of the Bord Gáis investment strategy and the company is committed to ensuring Ireland maximises the benefit of wind as one of its most precious indigenous resources. Our wind generation projects form part of a balanced portfolio of power generation plant that will help the company to meet its current and future customer electricity requirements.

The operation of the Combined Cycle Gas Turbine power plant at Whitegate, Co. Cork, which achieves efficiencies of up to 58%, ensures customers can rely on competitive energy from an environmentally sound conventional power generation facility, reducing the proportion of greenhouse gas emissions per MW of electricity generated, and thus contributing to Ireland's obligations under the Kyoto Protocol.

CHAIRMAN'S STATEMENT (continued)

The Government has set a target of 500 MW of wave and tidal derived energy by 2020. However, compared to wind energy, wave and tidal technology is still at an early stage of development. Technological advances are required for more challenging marine environments. To this effect, Bord Gáis is proud to support the Irish Maritime & Energy Resource Cluster (IMERC) as an associate partner. In 2011, Bord Gáis made a contribution to the funding of the €13.8 million investment required to construct the new Beaufort Laboratory in Co. Cork, a key step towards making Ireland a global leader in marine renewable energy research.

Bord Gáis is working closely with the IDA, Enterprise Ireland and other industry partners on advancing the International Energy Research Centre (IERC). This concept aims to position Ireland as a global clean-tech hub for the development of integrated energy solutions. The IERC will involve linking up knowledge-intensive international and Irish companies with leading researchers to develop innovative energy solutions for global markets. Bord Gáis has joined a group of multinational companies as a Full Member of the IERC. As a signal of our commitment to the development of the IERC, in 2011 the company seconded a senior employee to the IERC on a full-time basis to sit on the Industry Steering Board.

The use of salt caverns for gas storage has long been recognised worldwide as the most efficient and effective manner by which gas can be stored and extracted in response to peak demand. An indigenous storage facility of this scale would address security of supply concerns for energy customers in Ireland, North and South, and bring competitive advantages to the all-island energy market. North East Storage, a consortium between Bord Gáis and Storengy, has been investigating the feasibility of a salt cavern gas storage facility in the Larne area of Northern Ireland. In 2010 it completed a seismic survey over the licenced area which showed that suitable sites exist. In 2011, one site was chosen for the test drill and agreements were finalised with the affected landowners. The test drill at the site will be completed in Spring 2012.



Bord Gáis Networks continues with the development of the application of natural gas as a transport fuel, known as Compressed Natural Gas (CNG) for use in Natural Gas Vehicles (NGV).

Bord Gáis Networks continues with the development of the application of natural gas as a transport fuel, known as Compressed Natural Gas (CNG) for use in Natural Gas Vehicles (NGV). In November 2011, Bord Gáis Networks hosted the first NGV conference in Dublin, which was attended by over 150 transport and energy industry professionals. Bord Gáis Networks continues to develop the necessary infrastructure to support the use of CNG through liaison with parties interested in using CNG within captive fleets, along with consulting stakeholders to ensure a cross-functional industry and legislative framework for developing the CNG market.

The Future

On 29th September 2011, the Minister for Finance, the Minister for Public Expenditure and Reform, and the Minister of State for NewERA, announced the establishment of NewERA and the Strategic Investment Fund under the National Treasury Management Agency (NTMA). NewERA is headed up by Dr. Eileen Fitzpatrick, a Director of NTMA. The Board welcomes this initiative and looks forward to working with Dr. Fitzpatrick and her team.

NewERA's functions, amongst others, include: the corporate governance from the shareholder perspective of the Commercial Semi State (CSS) companies ESB, Bord Gáis, Eirgrid, Bord na Mona and Coillte; and, where requested by Government, advising on, and if appropriate overseeing, any restructuring or disposal of CSS company assets.

In February 2012, the Minister for Public Expenditure and Reform announced the Government's decision to proceed with the sale of Bord Gáis Energy. The company will engage with NewERA, Government Departments and other stakeholders to support and input into this process to ensure that the sale of Bord Gáis Energy, when it comes to market, will generate the maximum value to the State.

At this point, no timeframe has been specified by the Government for the sale of the Energy business. In the interim period, the company will continue to operate business as usual and meet its existing obligations to its customers, its suppliers and its shareholder. It will continue to operate as a viable commercial entity, managing its credit ratings and continuing to attract private investment. In this context, the company will proceed with its development of a portfolio of diversified assets, through continued investment in new energy sources and technologies. This 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.

Since its inception in 1976, Bord Gáis has contributed strongly to the social and economic development of Ireland. It has built and maintains a modern gas infrastructure which performs to the highest standards. It has also identified and pursued viable business expansion opportunities where real synergies and cost savings can be delivered through leveraging the existing gas infrastructure. The development of compressed natural gas as a cheap and clean alternative transport fuel is being developed within the Networks business. So too is the development of a fibre optic broadband network through Aurora Telecoms.

The growth in customer debt, and the consequent increase in bad debt provisions, is a real challenge for Bord Gáis and other utilities in the energy industry. In dealing with customers who are experiencing constrained financial circumstances, the company makes every effort to assist with payment plans to clear debt, and through the installation of Pay As You Go meters. Although disconnection of supply does occur in some cases, Bord Gáis consistently treats this as a last resort.

The company will proceed with its development of a portfolio of diversified assets, through continued investment in new energy sources and technologies.

The ability of Bord Gáis to purchase fuel on international markets and to raise investment funds for capital projects relies on its capacity to provide an acceptable return on capital to maintain its credit rating. The deterioration of the sovereign credit rating has continued to have a linked negative impact on the Bord Gáis credit ratings with Moody's and Standard & Poor's. The company continues to monitor the sovereign rating and supports the Government's Programme for Recovery.

Acknowledgements

On behalf of myself and my fellow Board members, I would like to thank Minister Pat Rabbitte and his officials at the Department of Communications, Energy and Natural Resources for their continued support and expertise during 2011. I welcome Dr. Eileen Fitzpatrick to her new role in NewERA and I look forward to working with her in the future.

I would like to thank all my fellow Board members for their commitment, insights and work in guiding and governing the company during this period of considerable change.

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. In particular, I would like to acknowledge the contribution of our Chief Executive, John Mullins, who leads the company with openness, energy and commitment.



Rose Hynes
Chairman

THE BOARD



1.	2.	3.
4.	5.	6.
7.	8.	9.

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 and is also a member of the Investment/Infrastructure Committee. Ms. Hynes, a lawyer, is 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 and a number of other companies. 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, Shannon Airport Authority, Aer Lingus Group plc and Concern.

4. 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 and the Remuneration 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. Mr. Eames was appointed a Director of the Irish Bank Resolution Corporation (formerly Anglo Irish Bank Corporation Limited) in May 2010. He is also a member of the Audit Committee of the Department of Foreign Affairs.

7. Mike O'Hara

Mike O'Hara was appointed to the Board in December 2007 and is a member of the Investment/Infrastructure Committee and the Remuneration Committee. During the last 20 years Mr. O'Hara has held senior management positions with leading Medical Technology companies including Baxter, CR Bard, Boston Scientific and Smith&Nephew both in Ireland and internationally.

2. John Mullins, Chief Executive

John Mullins was appointed Chief Executive of Bord Gáis in December 2007 and was also appointed to the Board in December 2007. Mr Mullins is a member of the Investment / Infrastructure Committee. He has held senior management positions with Greenstar, ESB, ESB International and PricewaterhouseCoopers and was Chief Executive of Bioverda, part of the NTR plc Group prior to joining Bord Gáis. He is a Fellow of Engineers Ireland and is a member of the UCC Governing Body. He is also President of the Cork Chamber of Commerce, Chairman of Anam Cara charity, a Director of the COPE Foundation, and a Member of the Board of the Tyndall National Institute.

5. Proinsias Kitt

Proinsias Kitt is a member of the Board since April 2002. Mr. Kitt is a member of the Risk Committee. He is Managing Partner in the business advisory firm DHKN Chartered Accountants, which has offices in Galway and Dublin and with over 70 staff is one of the largest Independent Audit/Taxation/Accountancy practices in Ireland. Over the past twenty five years Mr. Kitt has advised on significant commercial transactions in both private and public sector enterprise and he has particular expertise in dealing with owner-managed indigenous Irish businesses. He is a Fellow of the Institute of Chartered Accountants in Ireland, and has served on its General Practices Committee and is a Member of the Internal Audit Association.

8. Laurence K. Shields

Laurence K. Shields was appointed to the Board in June 2009 and is Chairperson of the Investment/Infrastructure Committee and a member of the Remuneration 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 and Alternate Director of the Irish Takeover Panel Limited. He is a fellow of the Chartered Institute of Arbitrators, an Accredited Mediator and a director of a number of companies.

3. 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 also Chairman of a Value For Money review group into disability services in Ireland. 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 former director of Rothmans International plc and Elan Corporation plc.

6. 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 and the Investment/Infrastructure 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.

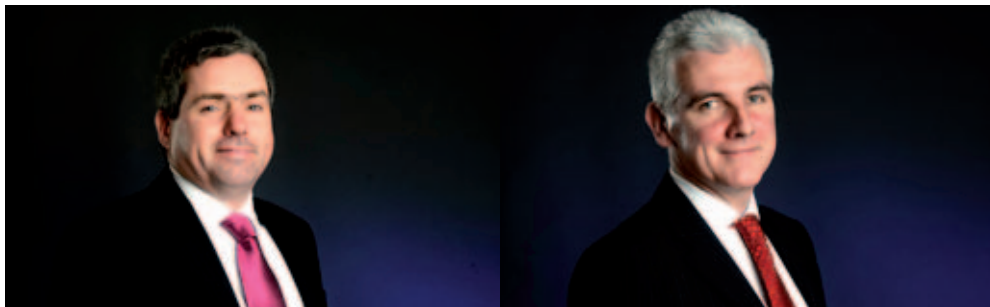
9. Imelda Hurley

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.

MANAGEMENT TEAM



1.	2.	3.
	4.	5.



1. John Mullins
Group Chief Executive

2. Dave Kirwan
Managing Director,
Energy

3. John Barry
Managing Director,
Networks

4. Richard O'Sullivan
Deputy Secretary

5. Liam O'Riordan
Company Secretary

BORD GÁIS VALUES

In 2008 Bord Gáis affirmed its set of core values and in 2011 these continued to underline how we interacted with our customers, suppliers, stakeholders and the general public:

Safety

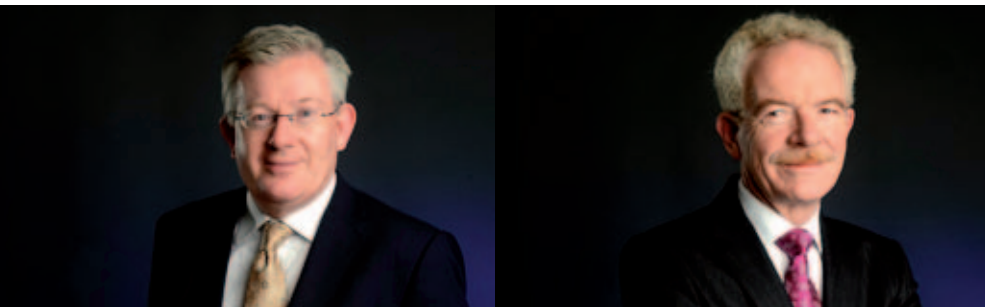
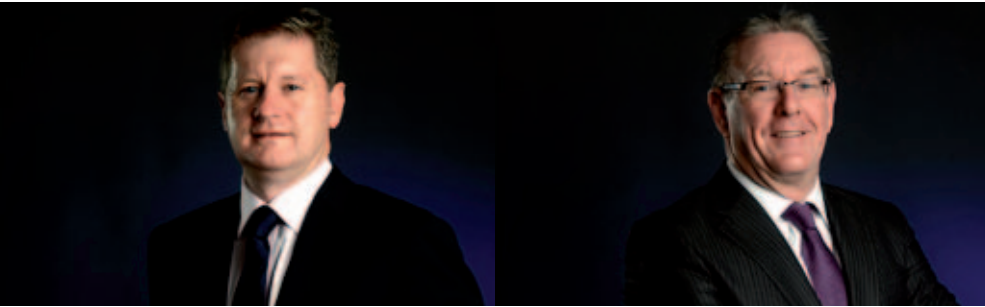
Safety is our priority. We operate in compliance with the highest Irish and international quality and safety procedures providing a safe and dependable service to all our customers.

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.



	6.	7.
	8.	9.

6. Michael G. O'Sullivan

Group Finance Director

8. Will Roche

Group Director Strategy & Regulation

7. Denis Cronin

Group Director Strategic Human Resources

9. Larry Donald

Group Director Corporate Affairs

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.



CHIEF EXECUTIVE'S REVIEW

For the first time, the Bord Gáis Éireann consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). We made the decision to move to these financial reporting standards because it is an essential requirement for attracting international investors and to enhance communications with financial markets and agencies.

The result is that for this, the first year of reporting under these standards, the financial statements have substantially increased in detail and, in addition to the 2011 figures, the 2010 results have been restated in accordance with IFRS. However, the fundamentals of the business remain unchanged:

- 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.
- While closely linked to the sovereign credit rating, we continue to attract private funding, successfully raising €500 million from a group of international banks in 2011. This funding round, which was oversubscribed, represents a significant vote of confidence by international bank lenders in the financial strength and strategic direction of the company. In addition, we continued to attract EIB funding for various non-regulated projects throughout the year.
- We continue to work diligently with all our customers to help them through these difficult economic times. Payment plans are being put in place with customers who are in arrears and Pay As You Go meters are being installed as a payment alternative for those in financial difficulties. It continues to be our policy that withdrawal of supply is only considered after all other options have been exhausted.
- We are committed to organisational restructuring both to meet the requirements under the Third EU Energy Directive, and also to deliver cost savings to the business. In 2011, we completed the operational separation of the Networks business from the Group and Energy business in preparation of the establishment of the ITO, which will see Gaslink merge with Networks. We also announced a considerable operational restructuring programme designed to realise savings of €115 million.
- We have continued to diversify our asset portfolio away from a dependence on imported oil and gas to renewables. Our CCGT electricity power plant in Whitegate has completed its first full year of operations. We have continued the expansion of our wind portfolio with an additional wind farm fully operational in 2011, and plans are progressing for the development of further wind farms. We also successfully launched a joint venture company with tidal energy company OpenHydro, called Tidal Ventures Ltd., with the aim of securing development rights for tidal energy sites in Irish waters.
- We are working closely with the Commission for Energy Regulation (CER) to ensure an open and competitive market for energy in Ireland. We are proud of our achievements to date in the electricity market, which was fully deregulated in all sectors from April 2011. The gas market for business customers was also deregulated in October 2011 and we await the decision from the Regulator in relation to the deregulation of the residential gas market.

CHIEF EXECUTIVE'S REVIEW (continued)

Key Results

Revenue, at €1,608 million for the year to 31st December, was an increase of 5% on the 2010 result. Sales of energy increased by 5% to €1,338 million, driven by increased electricity sales, offset by reduced sales of gas. Energy sales accounted for 83% of group revenue.

EBITDA has increased from €331 million in 2010 to €343 million at 31st December 2011, reflecting the strong underlying performance of the business. Profit Before Income Tax decreased by €29 million to €94 million in 2011. The year on year increase of €12 million in EBITDA was offset by increased financing costs and higher depreciation charges as a result of continuing capital investment programmes.

In 2010, the total asset figure (excluding derivatives) for Bord Gáis Éireann was €4,436 million. At 31st December 2011, this total asset figure (covering both non-current and current assets) increased to €4,515 million.

Debt Management

In 2010, it was necessary to make a significant impairment charge of €26.4 million to reflect the challenging economic and fiscal environment being faced by our customers. We acknowledge that the economic environment remains largely unchanged, but, by encouraging our customers to engage with us at an early stage, and offering our customers solutions such as instalment plans and Pay As You Go (PAYG) metering, we have been able to reduce the impairment charge to €9.7 million in 2011.

Customer debt remains a key concern for Bord Gáis. The scale of the issue remains significant with 114,000 Bord Gáis Energy customer accounts in arrears at the end of 2011.

We remain 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, our Networks business currently installs the meters on behalf of suppliers who offer this solution to those in financial need. Networks is also working with those suppliers not already offering this solution, to progress their entry into the Pay As You Go market. Within Bord Gáis Energy we have been active in progressing this as a viable solution with our customers. At 31st December 2011, there were 54,450 Pay As You Go gas meters installed. This has resulted in a steady and sustained decrease in the number of gas disconnections since 2008. In 2011, the number of disconnections accounted for 0.007% of our customer base and of those disconnected, it is thought that as many as 50% of the domestic disconnections and 70% of the business customer disconnections were to vacant premises.

In October 2011, a process of debt flagging was introduced to the gas and electricity markets. This measure was introduced after canvassing from the industry and from voluntary groups such as the Society of St. Vincent de Paul and MABS, concerned by the amount of debt being accumulated by individuals. This 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.

We continue to work closely with St Vincent de Paul, MABS and other voluntary organisations to provide help and support to any customer facing financial difficulty.

Gas Business

The total amount of gas transported by Bord Gáis Networks in 2011 decreased by 9% to approximately 72,700 GWh, compared with record levels in 2010. This reduction in overall gas demand was due to a combination of very mild weather experienced throughout 2011, and the continued uncertain economic conditions. This resulted in a 14% reduction in power generation gas demand, and a 17% reduction in Non-Daily Metered (NDM) demand in Ireland. The number of gas users in Ireland increased slightly to 647,000, 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 makes us vulnerable to changes in the cost of wholesale gas on the international markets, where nearly all of Ireland's gas is bought. The drop in international wholesale gas prices from late 2008 fed through to a significant fall in gas prices for our customers in 2009 and 2010. Over these two years, Bord Gáis Energy reduced prices by 25% and gas prices for all classes of business and residential customers in Ireland were well below the European average. However, wholesale gas prices have risen dramatically again, almost doubling in price over the last two years.

EBITDA has increased to €343 million, reflecting the strong underlying performance of the business.

As a consequence, a significant rise in residential gas prices was unavoidable in 2011 and we duly made a submission to the CER on this basis. After a rigorous examination of our submission, the CER agreed that the price adjustment was necessary and agreed a price increase to the residential gas tariff of 21.72%, effective from 1st October 2011. For the same underlying reasons, gas prices for business customers increased by the same percentage from the same date also. We appreciate that an increase in the price of gas adds further to the financial pressure being faced by our customers. We very much regret this and we encourage all of our customers to contact us for advice, not only in managing their payments, but also in managing their energy usage more efficiently.

Significant gas price rises were also announced in 2011 in other EU countries due to the same increases in international wholesale prices. For example, British Gas increased its gas prices in Britain by approximately 25% over the year. Therefore the competitive position of Ireland's gas prices compared to other European prices may not be significantly eroded. Recent Eurostat data for the first half of 2011 showed that Irish gas prices for customers were generally well below the EU average.

Electricity Business

In 2011, Bord Gáis Energy announced that, with effect from 1st August 2011, residential electricity prices were to increase by up to 12% for all domestic customers. This was the first time that Bord Gáis increased residential electricity prices since entering the electricity market with the "Big Switch" campaign in 2009 and followed two successive cumulative price decreases of 15% in May and October 2009. This price increase was due to the increase of over 20% in wholesale electricity prices since the last reduction in our retail prices in 2009, and because the forward price for gas for Winter 2011 was 30% ahead of the same period the previous year. Gas is the key commodity used in the generation of electricity in Ireland and the increase in gas prices on the international markets resulted in higher electricity prices. Until 2011, we had been able to avoid passing these price increases on to our customers due to our hedging strategy around exposure to these commodities, but the longer the trend continued, the more difficult it became to avoid passing through some of these additional costs. We have worked hard to minimise the impact this would have on our customers and we remain committed to working with them to provide fair prices and excellent customer service.

Bord Gáis is committed to developing its own source of energy assets so that the organisation can manage and control energy costs in an efficient manner that best supports the needs



Bord Gáis has one of the largest renewable energy portfolios in the country, with 234MW of operating wind capacity in 2011. The wind fleet now consists of 132 wind turbines spread over 13 wind farms.

of the customer and the company. We are 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 now has full firm access for its 445MW capacity and is operating flexibly and reliably in the market.

Bord Gáis has one of the largest renewable energy portfolios in the country, with 234MW of operating wind capacity in 2011. The wind fleet now consists of 132 wind turbines spread over 13 wind farms. This power complements the output from Whitegate power plant to provide clean, sustainable sources of electricity for our customers.

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.

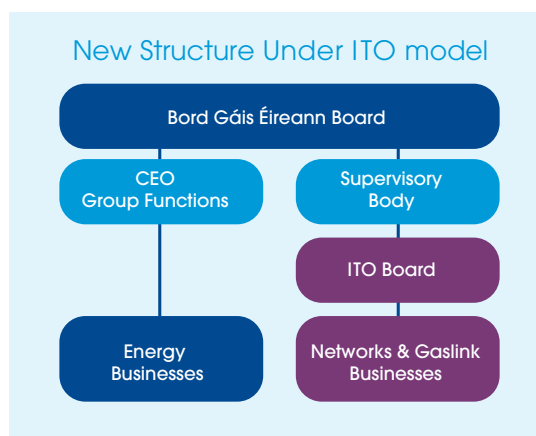
CHIEF EXECUTIVE'S REVIEW (continued)

A new Environment, Health and Safety (EHS) department was set up within Bord Gáis Energy in 2011 to establish, develop and enhance the Environment, Health and Safety function within Bord Gáis Energy and Group. This unit complements the corresponding existing Health, Safety, Quality and Environment (HSQE) unit within Bord Gáis Networks. The primary focus of both units is to ensure that all aspects of Bord Gáis' operations are conducted in a safe and environmentally responsible manner.

Structural Changes within Bord Gáis

2011 saw significant organisational changes within Bord Gáis, as required under the Third EU Energy Directive. By the end of 2011:

- All existing staff had been "mapped" to Networks, Energy or Group.
- All Networks functions had been "ringfenced" from Energy and Group functions. In some instances this required the establishment of a new function where previously this had been on a shared basis – the establishment of a new EHS function to cover Energy and Group is an example of this.
- All Bord Gáis buildings were operationally separated into either Networks or Energy and Group and staff relocated accordingly. We also took this opportunity to consolidate multiple offices to one new location. Bord Gáis Networks completed its new Networks Service Centre building in Finglas, Dublin and this now houses staff previously based in Sandyford and Citywest in addition to the staff based in the old Finglas premises. Bord Gáis Energy also moved to new premises in Warrington Place in Dublin 2 and moved staff previously based in Foley Street, Joyces Court and Harbourmaster Place. In Cork, Gaslink staff relocated to Gasworks Road in preparation for the amalgamation of Networks and Gaslink into the new ITO. Group staff in turn moved to the Gaslink offices in 6 Lapp's Quay, Cork, and this is now the new headquarters for Bord Gáis Éireann.
- IT infrastructure could no longer be shared across the organisation and new arrangements were put in place where applicable.
- In December 2011, the Department of Communications, Energy and Natural Resources published a draft Statutory Instrument for the transposition of the Third EU Energy Directive into Irish law. We continue to put in place the necessary corporate and governance structures to meet the requirements of the Directive.



Customer Service

2011 was a challenging year in achieving our objectives for delivery of both value and service improvements to our customers. Throughout the year we engaged with our service partners to ensure that any debt management issues faced by our customers were addressed in the most empathetic way possible. This included the launch of a new call centre, in partnership with SouthWestern Services, to handle credit and collection queries.

Bord Gáis Energy's commitment to offering its customers better solutions to managing their accounts included Pay As You Go metering and payment plan programmes. We introduced a "Pay Now" facility to the Energy website to enable customers to pay their bills online securely without having to register. We also increased the range of our Home Energy Solutions to help customers manage their energy consumption more efficiently and thereby reduce their energy costs.

Bord Gáis Energy's commitment to offering its customers better solutions to managing their accounts included Pay As You Go metering and payment plan programmes.

In October 2011, Bord Gáis Energy announced a new sponsorship of the Grand Canal Theatre. The move represents a strategic change in the direction of our marketing activities, with a shift from traditional direct advertising campaigns to sponsorship programmes which create the opportunity for engagement and relationship building with our customers. One of the features of the Bord Gáis Energy Theatre sponsorship is the ability to offer our customers complementary, discounted and priority tickets to the theatre. The sponsorship is a cornerstone of our customer Rewards Club, launched in March 2012, aimed at rewarding customers for their loyalty.

Current Challenges

On 22nd February 2012, Minister for Public Expenditure and Reform, announced the sale of Bord Gáis Energy as part of the sale of state assets required under the terms of the bailout deal struck with the ECB/EU/IMF "troika". The timeframe and conditions of such a sale are a matter that will be set by Government. The management of Bord Gáis Éireann is engaging with the relevant Government departments and NewERA, to support and input into this process. Our aim is to ensure that the sale of Bord Gáis Energy, when it comes to market, will generate the maximum value to the State, while also ensuring the long term welfare of our skilled and loyal staff is given due consideration in the sales process.

The sale of Bord Gáis Energy, our retail, trading and assets division, will leave the remaining Networks division as a regulated asset-focussed business which, into the future, will operate in a mature market with limited potential growth in its core regulated business. The key challenge is to identify opportunities for growth of the existing network business in its current market and, ideally, to look for suitable opportunities to expand into other networks or utilities-related businesses.

Bord Gáis is a commercial entity that must achieve a strong business and financial performance and provide an acceptable return on capital to maintain a strong credit rating. Throughout 2011 we worked closely with the ratings agencies to ensure our best standing in credit terms. We continue to attract private funding, as evidenced by our ability to raise €500 million in an oversubscribed funding round. Our close link with the sovereign credit rating is still a challenge, as evidenced by the decision of Moody's to downgrade Bord Gáis' credit rating as a consequence of the downgrade in the sovereign rating during the year. Bord Gáis has an ongoing need to raise funds on the international financial markets to invest in the infrastructure, and to pay off existing debt as it comes 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.

We continue to attract private funding, as evidenced by our ability to raise €500 million in an oversubscribed funding round.

Balanced against this is the issue of energy affordability, and managing customer debt. This is a major challenge that we don't take lightly and that will persist for some time to come. We accept that there is no simple, or single, solution to the problem. We are, however, convinced that the move to offering our customers a Pay As You Go alternative to the traditional credit payment model continues to be of benefit to our customers. We continue to see a role for Bord Gáis in promoting the benefits of this system to all energy customers in Ireland.

Acknowledgements

This is an uncertain time for many of the staff in Bord Gáis. I applaud their continued professionalism, dedication and support. Having come through another year of significant change – to systems, process and to places of work – it is a testament to their commitment that these changes were enacted while maintaining our high standards for customer service and safety.

I would like to acknowledge the support of our private sector business partners who continue to support all that we do in a way that is consistent with the values of Bord Gáis.

Once again 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, at all levels, in his Department, for their continuing advice and active engagement in support of the company. I would also like to thank Dr. Eileen Fitzpatrick, and managers of the newly established NewERA, for a great start to a long term relationship.

I would like to thank Rose Hynes, Chairman, and all of the Board Members for their continued support and their active engagement throughout 2011 to the present day.



John Mullins
Chief Executive

FINANCIAL REVIEW

Key Highlights for 2011 include:

- Delivery of strong financial performance, showing a year on year increase in EBITDA despite a challenging economic and financial environment
- Successful refinancing of a €500 million Revolving Credit Facility
- Continued investment in energy and gas network infrastructure, including renewable investments with an additional wind farm becoming fully operational in 2011
- Continued as a strong contributor to the Irish economy and Exchequer through payroll, indirect taxes, dividends and purchases from Irish suppliers.

Summary Financial Highlights

	2011 €'million	2010 €'million	Change
Revenue	1,608	1,525	⬆️ 5%
Operating profit before depreciation and amortisation (EBITDA)	343	331	⬆️ 4%
Profit before income tax	94	123	⬇️ 24%
Total Assets (<i>excl derivatives</i>)	4,515	4,436	⬆️ 2%
Net Debt*	1,934	1,856	⬆️ 4%
Book Capitalisation†	3,427	3,322	⬆️ 3%
Ratios			
Profit before income tax /Revenue	6%	8%	⬇️ 25%
Interest Cover (times)	2.1	2.6	⬇️ 19%
Net Debt /Book Capitalisation	56%	56%	-

* 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

International Financial Reporting Standards (IFRS)

These are the first set of financial results that Bord Gáis has reported under IFRS. In previous years, Bord Gáis' financial statements were prepared in accordance with Generally Accepted Accounting Practice in Ireland (Irish GAAP). All 2010 figures presented for comparative purposes in the financial statements have been restated in accordance with IFRS. An explanation of how the transition from Irish GAAP to IFRS has affected Bord Gáis' financial position, financial performance and cashflows is set out in note 33 to the financial statements.

Certain Remeasurements

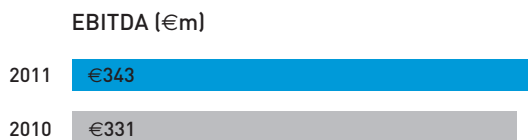
Bord Gáis has disclosed additional information in respect of certain remeasurements on the face of the income statement to aid an understanding of Bord Gáis' financial performance. Certain remeasurements are remeasurements arising on commodity, interest rate and currency contracts which are accounted for as if held for trading or as fair value hedges in accordance with Bord Gáis' 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 of IAS 39 Financial Instruments: Recognition and Measurement.

Revenue

Revenue at €1,608 million for the year to 31 December 2011 was up 5% on the 2010 result. This increase is mainly attributable to increased electricity sales partially offset by reduced gas sales.

EBITDA

EBITDA increased by €12 million to €343 million reflecting the strong underlying performance of the business.

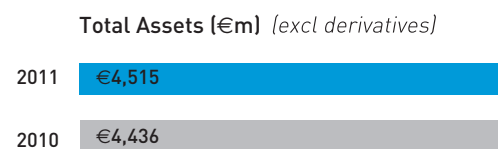
**Profit before Income Tax (before certain remeasurements)**

Profit before Income Tax (before certain remeasurements) has decreased by €29 million to €94 million. The year on year increase in EBITDA of €12 million was offset by increased financing costs and higher depreciation charges as a result of continuing capital investment programmes.

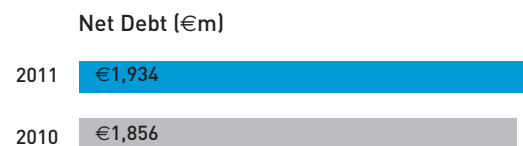
Liquidity and Capital Resources**Cashflows during 2011**

The cash generated from operating activities of €332 million, together with the excess of the proceeds of borrowings over repayments of €81 million, was utilised as follows:

- €215 million invested in property, plant and equipment and intangible assets. Key projects included:
 - o Continuing to build out the development pipeline of wind assets
 - o Ongoing development of the distribution network both in the Republic of Ireland and Northern Ireland
 - o Third EU Energy Directive Programme
- Interest payments amounting to €98 million
- Cash outflow of €27 million on acquisition related expenditure
- Dividend payments of €34 million.

**Capital Resources**

At 31 December 2011, Bord Gáis had available bank facilities of €2,732 million (including €21 million in uncommitted facilities). Of this €2,196 million was drawn, leaving a further €536 million undrawn. As at 31 December 2011, Bord Gáis had a statutory borrowing limit of €3 billion, which sets the upper limit for drawn facilities. At 31 December 2011, the net debt to book capitalisation ratio was 56%.



Bord Gáis' long term credit rating is BBB+ for Standard & Poor's (S&P) and Baa3 for Moody's Investors Services. The adverse movements on the Bord Gáis credit rating during 2011 were a direct consequence of movements on the sovereign credit rating position. The current rating level reflects the current Financial and Business Risk profile of Bord Gáis, 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 controls.

Treasury-related risks faced by the Group are liquidity risk, interest rate risk, currency risk and counterparty risk. Derivatives are used to manage Bord Gáis' interest rate and foreign exchange exposures. In using derivatives, Bord Gáis 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 Bord Gáis 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 2011, Bord Gáis continued to identify, review and address the impact of financial risks facing the company arising from ongoing global economic and credit market turbulence.

FINANCIAL REVIEW (continued)

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. Bord Gáis 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.

Bord Gáis 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.

Bord Gáis 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 US\$450 million US Private Placement and €550 million Euro Corporate Bond issuances in 2009, and the successful refinancing of €500 million Revolving Credit Facility in 2011, providing a strong capital base to fund the development of energy and network infrastructure assets. Bord Gáis 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 2011, Bord Gáis had €2,711 million in committed facilities and gross borrowings were €2,196 million.

Interest Rate Risk

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

Bord Gáis 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. Bord Gáis 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

Bord Gáis 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. Bord Gáis manages the net foreign currency cash flows using foreign exchange forward contracts.

Bord Gáis 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

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

Bord Gáis only deals with approved counterparties who maintain an investment grade rating. Bord Gáis 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 net worth, Bord Gáis will consider entering into Credit Support Arrangements.

Energy Trading Risk Management Policy

Bord Gáis 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 Bord Gáis 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 was implemented in 2009 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 Bord Gáis' integrated commodity risk, e.g. volume exposures, price risks, currency risks and counterparty risk.

Commodity Price and Volume Risks

Bord Gáis 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. Bord Gáis 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, Bord Gáis 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 Bord Gáis 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, Bord Gáis 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 Bord Gáis' expanding portfolio of wind assets.

Bord Gáis is active in the national balancing point gas market, which is one of the most liquid gas markets in the world. Bord Gáis 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 Bord Gáis' EU emissions trading scheme exposures arising from its retail and generation activities. These exposures are managed in accordance with endorsed hedging strategies.

Counterparty Risk

Bord Gáis 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, Bord Gáis 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 the Treasury function. These exposures are hedged in line with treasury risk policy.

ENERGY

Bord Gáis Energy is a dual-fuel, all-island business that serves nearly one million gas and electricity 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.

expanding our wind farms

The state of the art fleet includes wind turbines from world leading manufacturers such as GE, Nordex, Vestas and Enercon.

In this section

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Bord Gáis Energy - Retail is 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. Since then it has grown its electricity customer base to nearly 407,000, in addition to the 468,000 gas customers it also serves. Through its Home Services Team it offers customers a wide range of products and services to help increase their overall 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 towns and cities across Northern Ireland and the supply of natural gas and electricity to over 23,000 customers.

Bord Gáis Energy - Trading is 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.

Bord Gáis Energy - 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.



ENERGY (continued)

Bord Gáis Energy Performance in 2011

Bord Gáis Energy's revenue increased by 5% to €1,338 million in 2011. The result for the year was an EBITDA of €44.3 million. The comparative figure for 2010 was an EBITDA of €1.5 million. This increase in EBITDA reflects the impact of a full year earnings for the Whitegate power plant which was commissioned in November 2010, an increased contribution from the wind portfolio through increased wind yield output, and an improved Retail performance as a result of reducing levels of customer discounting and a reduction in impairment losses on trade receivables.

Bord Gáis Energy - Retail

Electricity Sector

Following two years of substantial growth, 2011 was a year of consolidation of our customer base. April 4th 2011 saw the deregulation of the residential electricity market and the removal of price controls on ESB who were rebranded as ESB Electric Ireland. Increased competitor activity, and a refinement of consumer offerings, slowed sales as the market became more stable, with 382,000 residential customers and 25,000 business customers at the end of 2011.

Gas Sector

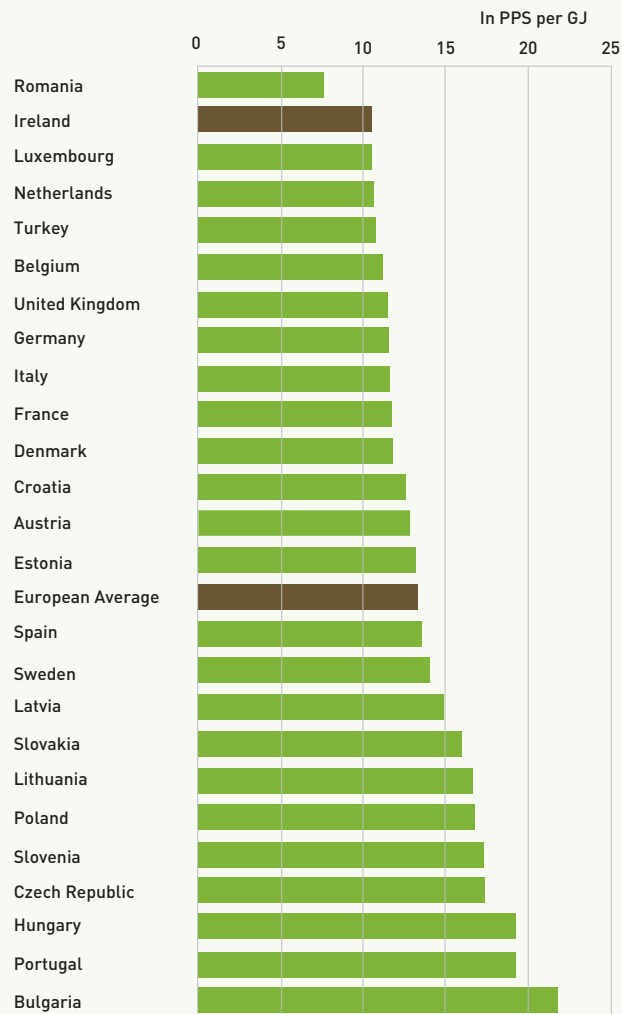
In the Residential gas market, customer numbers decreased by 13% to 456,000 by the end of 2011. This decrease was driven by increased competitor activity in a market in which Bord Gáis Energy remains regulated, and the weakened economic environment which affected new home construction thereby constricting sales in this segment.

Business customer numbers declined to 12,000 at the end of 2011, a 17% net decrease compared to the previous year. Lower volume sales reflected this reduced market share as well as the continuing economic downturn and greater energy efficiencies. There was full deregulation of the gas market for business customers on 1st October 2011.

Retail Gas Prices in 2011

With respect to gas prices, 2011 saw significant changes in wholesale gas and electricity prices, resulting in the first price increases to our gas customers for three years in October 2011. The increase was a direct result of upward trends in global fossil fuel prices over the course of 2010 and early 2011. Through its purchasing strategy, Bord Gáis Energy endeavours to minimise the impact of volatile wholesale prices on customer tariffs and will review its tariffs on an ongoing basis to ensure that they are cost reflective and delivering value to customers.

Natural gas prices in purchasing power standards (PPS) per GJ for household consumers H1 2011



Before the price increase, at a European level, Ireland was one of the cheapest suppliers of gas in the residential sector.

Significant gas price rises were also announced in 2011 in other EU countries due to the same increases in international wholesale prices. Therefore the competitive position of Ireland's gas prices compared to other European prices may not be significantly eroded. We await Eurostat data for the second half of 2011, due to be published later in 2012, to see how Irish gas prices compare against the adjusted EU average.

Gas Supply Competition

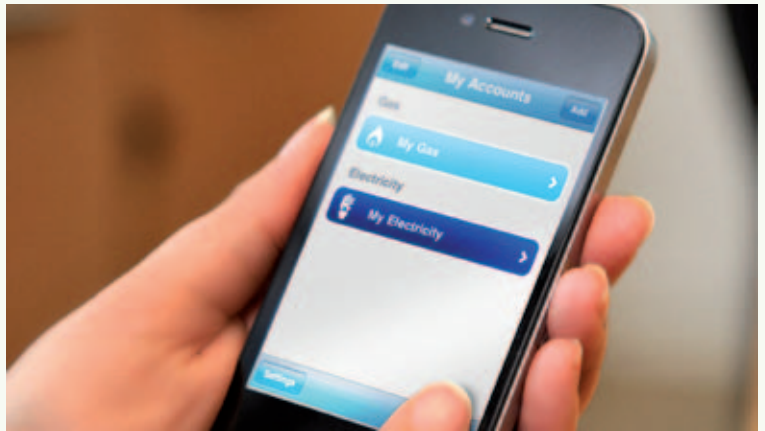
This year has seen the most significant change in the gas supply market since the commencement of liberalisation on 1st July 2007. The Commission for Energy Regulation completed a review of the gas market in June 2011 and made a decision to the effect that it was considered no longer necessary to regulate Bord Gáis Energy's retail gas tariffs for business customers. This is confirmation of the changes in the Irish gas market in the past decade resulting in a fully open and competitive market for all industrial and commercial customers. Bord Gáis Energy welcomes this development as it allows Bord Gáis Energy to engage with industrial and commercial customers on the same basis as all other suppliers. The Commission for Energy Regulation is still considering its position with respect to the regulation of the residential gas sector.

Competition is steadily increasing in the residential gas sector with another competitor entering the market in 2011. This coincided with the final deregulation of the electricity market which occurred in April 2011. The deregulation of the electricity market occurs in no small part as a result of Bord Gáis Energy's entry into the market with the launch of The Big Switch programme in 2009, which saw Bord Gáis Energy gain a significant market share within two years.

Energy Customer Service

Through the challenging economic climate of 2011 Bord Gáis Energy has ensured that the customer focus is central to best practice service delivery. This was evident from our positive customer feedback and our internal and external performance metrics. We engaged with our service partners to ensure that any debt management issues faced by our customers are addressed in the most empathetic way possible. Our call centre initiated a complaints awareness programme called Champion which has already made a significant impact on our drive to further performance improvement and support our customer retention programmes.

Bord Gáis Energy's commitment to offering its customers a wider range of options to help manage their accounts included Pay As You Go metering and payment plan programmes. We also increased our promotion of the sales and delivery of Home Energy Solutions to help customers manage their energy consumption more efficiently and thereby control their energy costs.



Our Home Energy Solutions help customers manage their energy consumption more efficiently and thereby control their energy costs.

During 2011, Bord Gáis Energy won three international awards at the CCA Excellence Awards for Best Complaints Handling; Best Multi-Channel for its iPhone App; and in the category of Corporate Social Responsibility. We were also highly commended for the category of Most Effective Training Programme. These awards are testament to the focus and energy of our customer facing teams in the delivery of customer service excellence. Within the Irish customer contact industry, Bord Gáis Energy won two CCMA Awards for Best Sales or Telemarketing Campaign and Credit Management Team of the Year.

2011 presented significant challenges in the delivery of both value and service improvements to our customers. This included the launch of a new call centre, in partnership with SouthWestern Services, to handle credit and collections calls. This is to support the increased volumes of queries from customers arising from the current economic challenges.

A key benchmark for customer service levels is the proportion of all calls answered within the set target of 30 seconds. The year end result achieved, at 97%, is high by international standards. Complaints accounted for an average of 1.7% of contacts and, on average, 92% of all complaints received were resolved within 10 working days, with c. 47% being

ENERGY (continued)

resolved on first contact. Billing services ensured a billing accuracy level of 97%. We have also added a “pay now” facility on our website to enable our customers to pay their bills online without having to register, adding another payment option available to all our customers.

Energy Affordability

The economic conditions that continue to prevail create significant challenges for businesses and customers, particularly for utility companies which provide services to large customer populations. For Bord Gáis Energy this has resulted in an increasing number of customers encountering difficulty meeting their energy bills. Throughout 2011, we have worked closely with statutory and voluntary organisations like the Society of St. Vincent de Paul, MABS and ALONE on this issue.

To support people who found themselves in difficulty we took a number of actions, including encouraging customers to engage with us as early as possible, and offering such measures as payment plans which offer customers a manageable and tailored way to pay bills. In addition, we have been proactive in offering Pay As You Go solutions to our customers allowing them to take better control of their energy requirements. Our policy continues to be that withdrawal of supply is only considered after all other options have been exhausted and is a measure that Bord Gáis Energy only adopts as a last resort.

Bord Gáis Energy worked on a number of initiatives in 2011 aimed at engaging further with customers in difficulty and minimising disconnection levels. 2011 saw the introduction of “debt flagging” at industry level, an initiative that further protects our customers before their debt position spirals out of their control.

Sponsorship

2011 was a significant year for the sponsorship portfolio as we matured and aligned our activity more closely with business and product commercial targets. With a view to concentrating our efforts on sponsorship properties that were providing the highest return on investment, in terms of media value attained and nationwide consumer awareness, we completed our final year with the Bord Gáis Energy Cork City Marathon and the IRUPA Awards. 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 continued to activate our Ladies Gaelic Football Association League sponsorship and our GAA Hurling U21 Championship sponsorship.



2011 was a significant year for the sponsorship portfolio as we matured and aligned our activity more closely with business and product commercial targets.

In 2011, as part of our development of the sponsorship portfolio in line with meeting our customer needs, Bord Gáis Energy signed a 6.5 year sponsorship deal to become the title sponsor of the Grand Canal Theatre. The theatre sponsorship will provide us with ample scope to reward customers, while supporting local communities and causes, and thus contribute to our primary goal of customer retention.

Home Team and Energy Efficiency Services

In 2011, Bord Gáis Energy further extended the range of products it offers customers to include Cavity and Attic Wall Insulation. This has enabled the business to enhance its energy solutions offer to customers through a one-stop-shop for a wide range of energy efficient products and services. These products allow homeowners and businesses to become more energy efficient, thereby reducing energy costs and lowering carbon emissions. The Better Home Bonus concept was also developed, which offers customers 0% finance, flexible payment options and discounts. The Home Team also developed a relationship with SEAI allowing it to deal with grants on behalf of the customer.

Bord Gáis Energy - Trading

Bord Gáis Energy Trading is responsible for the procurement of gas, electricity and carbon, portfolio optimisation, risk management, hedging and trading strategies and market modelling. Gas, electricity and carbon are traded on wholesale markets by a dedicated Energy Trading team operating 19 hours a day. Bord Gáis 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 weighted basket energy index is published on a monthly basis and provides a useful barometer of wholesale energy market developments and implications for consumers as a whole.

The Bord Gáis Energy 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 gas and electricity 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 unit 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.

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.

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 now operates as a net importer of gas throughout the year, not just during the peak winter months. While the average import dependency stands at c. 50%, the actual dependency on a day varies between 30% and 65%, so any changes to import flows, both positive and negative, can have a significant effect on the market.

Energy Market Developments in 2011

2011 was a volatile year in the energy markets in Ireland, UK and across Europe. The year began with strong rises in the crude oil market as political unrest in the Middle East led to oil prices rising from \$95/barrel in late 2010 to a high of \$125 in April 2011. The "Arab Spring" led to political upheaval in a number of core oil producing nations such as Libya, Iraq and Saudi Arabia. This led to concerns that global oil supplies could be curtailed due to production disturbances and/or disruption to transportation routes for oil tankers (e.g. Suez Canal).

The UK gas market entered into 2011 with very low storage reserves, following an unprecedented cold spell during 2010. While storage reserves would usually be over 80% full as the market entered into a new calendar year, the UK storage reserves were running at only c. 45% coming into January 2011 and this created concerns that demand could not be met if the cold spell was repeated.

ENERGY (continued)

However as Figure 1 illustrates, UK gas demand throughout 2011 stayed in line with or below seasonal norms and so the system did not come under the same pressure as 2010 when two significant cold spells in January 2010 and December 2010 led to record gas usage in the UK.

UK spot gas prices increased by 33% during 2011, while "On the Day" spot gas prices averaged 42 pence/therm in 2010. This average increased to 56 pence/therm in 2011 (Figure 2).

A similar trend was evident in UK forward gas i.e. hedging gas for future requirements. Historically, the wholesale gas price in the UK has been strongly linked to prevailing oil prices, due to high interconnectivity with the continental markets where long term gas contracts tend to be indexed to oil on a lagged basis, typically six months. The rise in oil prices during Quarter 1, 2011 had a significant impact on UK forward gas prices. For example, at the start of 2011, the cost of a flat 2012 hedge in the UK gas market would have been c. 59p/therm. By early April 2011, when oil spiked to \$125/barrel, the cost of that same hedge would have been 72p/therm, a 22% increase.

The rise in wholesale gas prices in the UK, especially in the first half of 2011 was a major contributor to all major energy suppliers increasing their customer tariffs and unfortunately Bord Gáis Energy was also forced to increase its residential tariffs by 21.72% in October 2011.

Many factors influenced wholesale gas prices during 2011, including the Arab spring leading to higher oil prices; the tsunami in Japan and the subsequent move to gas fired power generation; the ongoing debt crisis in Europe; and overall global economic weakness. The list below illustrates some of the key issues that arose during 2011:

1. Arab Spring / Oil Prices

As noted above, the political upheaval in the Middle East led to a significant increase in oil prices during the early part of 2011. Oil prices spiked from \$95 in early January to \$125 in April, before falling back below \$110 at the end of the year (Figure 3). Oil prices throughout 2011 were heavily influenced by global economic developments with the ongoing Eurozone debt crisis and global economic weakness providing protection against upward price pressures in the oil market.

2. Tsunami in Japan

The aftermath of the tsunami in Japan in March was a major development for the global energy markets during 2011. A number of nuclear power stations in Japan were damaged and/or forced offline. This resulted in the loss of over 12GW of nuclear generation capacity in Japan (this would be equivalent to 26 Whitegate CCGT power stations).

Figure 1: UK Gas Demand in 2011 versus Seasonal Norm
Demand (million cubic metres)



[Source: UK National Grid]

Figure 2: UK Daily System Average Price 2011 v 2010
Price (stg pence per therm)

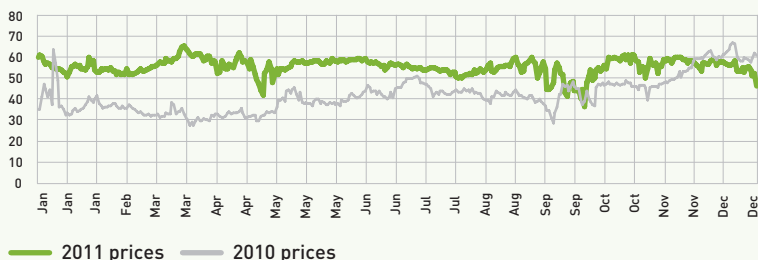
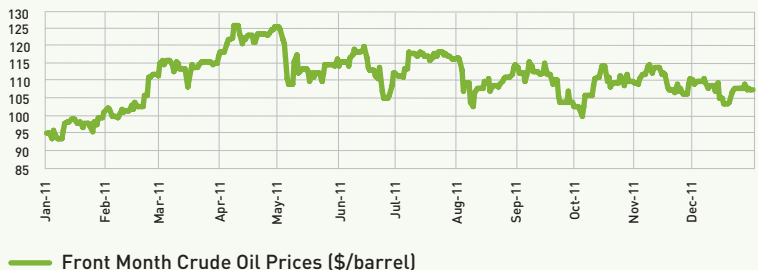


Figure 3: Brent Crude Oil Prices during 2011
Price (\$/barrel)



This led to an immediate need to replace Japan's nuclear power generation with alternatives such as coal and gas and the markets forecast that Japan would increase its draw of global LNG supplies and thereby put upward price pressures on the UK gas market. The upward pressure was compounded by a decision by the German government to immediately close seven of its older nuclear reactors and plan to fully decommission its nuclear generation fleet by 2022.

The impact of these developments was notable in the UK gas market, with prices for Quarter 1, 2011 rising from 68p just before the tsunami hit to 77 pence per therm in early April as the market absorbed the news that gas fired generation may have to take a greater role in global power generation and that the UK may lose some of its LNG supplies as a result of LNG tanker diversions to Japan.

3. Demand/Weather

As illustrated in Figure 1, UK gas demand was more or less in line with seasonal norms throughout 2011 as weather conditions remained relatively mild and in line with seasonal patterns. UK gas demand turned down in the summer as expected, but spot prices did not respond to this, as alternative markets for gas supplies, such as Japan, ensured that prices did not fall to any great extent during the summer. In fact, UK gas spot prices showed little seasonality during 2011, despite the clear variations in demand. This helped to allay fears about the projected impacts of the nuclear outages in Japan.

4. A Tightening Demand/Supply Scenario in the UK Gas Market

With an ageing profile of gas fields, the UK has witnessed year on year declines in indigenous production but these declines have generally been offset by an increase in Liquefied Natural Gas (LNG) flows to the UK market. In October 2011, the system operator, National Grid, published a report indicating that peak supplies from the UK Continental Shelf (UKCS) would fall by 8% in 2011/12 compared to 2010/11. Over the last 2-3 years, the UK's own supplies offshore have decreased by 20%, increasing dependency on imports from pipeline and LNG.

5. Strong LNG Deliveries to the UK

The capacity to deliver LNG to the UK has increased dramatically over the last couple of years, with expansions at existing LNG reception terminals. There was a strong start in 2011 to LNG deliveries to the UK, with supplies reaching a peak of close to 120mcm in mid January – this met circa 30% of UK gas demand at the time. The shutdown of nuclear generation in Japan led to concerns that the UK would lose some of the LNG deliveries in favour of the higher priced Asian gas market, but overall LNG supplies throughout 2011 remained healthy, with LNG representing 25% of supplies on average.

6. Continued Linkage with Continental Oil Indexed Prices

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. During 2009, the UK was marked by a clear de-linkage from continental oil prices, but this de-linkage has eroded and UK prices, particularly on forward hedging markets, have become more aligned with continental levels. While UK spot prices averaged c. 56p/therm during 2011, the estimated equivalent average for continental oil indexed contracts stood at c. 74p/therm.



The diversity of UK gas supplies means that the system can now cope reasonably well with alternating levels of demand throughout the year, so the lack of seasonality in gas price outturn may continue into 2012.

7. 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 2011 however, spot prices in the UK gas market were relatively flat and averaged 56p/therm for most of the year.

Gas Prices Outlook

The current outlook for 2012 gas prices is very much a function of the global economic performance. In late 2011, UK gas prices for 2012 fell amidst very mild weather and a large storage stock build. Coupled with a flat to weak economic growth forecast across Europe for 2012, this would suggest that UK gas prices will remain broadly in line with 2011 levels, but the UK is vulnerable to supply shocks and the fact that alternative markets such as Asia are paying almost double the price to secure spot LNG cargoes could support prices. The diversity of UK gas supplies means that the system can now cope reasonably well with alternating levels of demand throughout the year, so the lack of seasonality in gas price outturn may continue into 2012.

ENERGY (continued)

Oil markets will play a significant role also in the gas prices for 2012 and a run back up to \$150 oil would put upward pressure on UK gas prices. The current economic weakness across the globe, however, would suggest that energy prices should not face such significant upward pressures in the short term until there is clear evidence of a sustained economic recovery. As always, the oil market remains vulnerable to disruptions to oil production, as was evident in Libya in 2011.

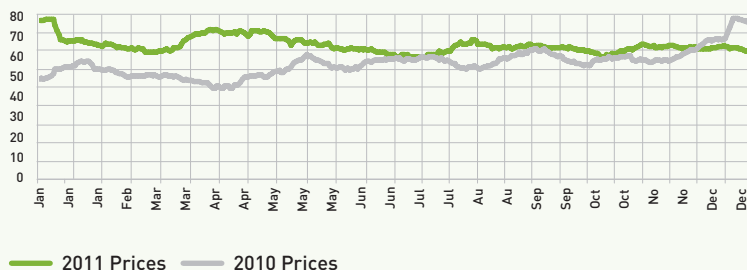
Electricity Supplies

Taking advantage of liberalisation in the energy markets, Bord Gáis Energy entered the business electricity supply market in 2001. In February 2009, with The Big Switch campaign, the company entered the residential electricity sector and by the end of 2011 had 407,000 electricity customers.

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. In 2010, Bord Gáis Energy completed the construction of its highly efficient 445MW gas-fired power station at Whitegate in Co. Cork and acquired wind generation through the acquisition of the West Cork based company SWS Natural Resources in December 2009.

Given Bord Gáis Energy's increasing 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 2011 (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. 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.

Figure 4: 20 Day Rolling Average SMP 2011 vs 2010
Price (€/MWh)



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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 4 shows how the 20 day rolling average Irish Wholesale Electricity price evolved over 2011.

Upcoming developments in the Single Electricity Market in 2012 will see the build out of the East West Interconnector (EWIC) which will result in increased interconnection and trading opportunities between the UK and Irish wholesale electricity markets. The most salient regulatory changes include the roll-out of Intraday Trading which offers generators additional opportunities to bid into the market, and the specification of the longer term European Target Model.

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 second phase, with the third phase starting in 2013. During the third phase of the market, the combustion sector will not receive any allowances from the European Commission.

Carbon Prices in 2011

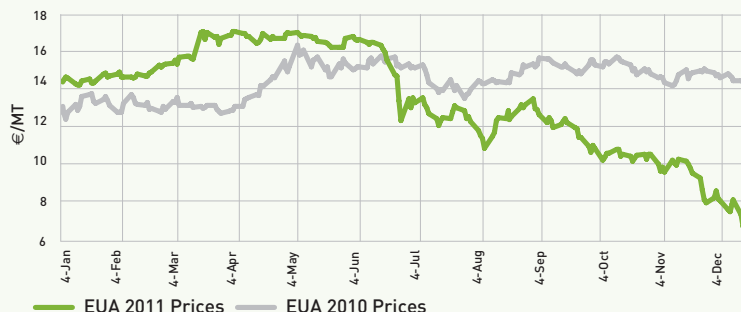
Carbon credits were the major movers of 2011 which saw a marked increase in volatility as both demand and supply changed significantly. Prices which began the year in bullish mood, surging towards €18 per tonne, ultimately plunged over 60% over the whole year as economic woes put pressure on an already oversupplied market (Figure 5). In the early months, Germany's decision to phase out nuclear power generation by 2022 increased carbon price forecasts as more carbon intensive fuels such as coal and gas were expected to fill the generation gap. This coupled with increased demand from European utilities for hedges in 2013, when their free allowances run out, supported prices until mid summer. The gains in the first half of the year were then eclipsed by losses as demand for carbon credits fell in 2011 due to slower industrial activity across Europe. This decreased demand for credits was met with an increase in supply. The European Investment bank announced that it would start auctioning allowances for the New Entrants Reserve (NER 300) in 2011. This auctioning process was not expected to begin until much closer to 2013. The cap and trade system is forecast to be 10% long in 2012.

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 thirdly 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 Group.

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.

Figure 5: European Union Allowance Prices



Environment, Health and Safety

A new 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.

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.

ENERGY (continued)

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 accidents to report during the first year of commercial operation. The plant has now been accident free since March 2009. The plant has also enjoyed an excellent year from an environmental perspective and all aspects have been managed in compliance with the site's IPC licence.

The plant has performed extremely well over this first year of operation and has had an availability of 96.64%, which is exceptional for a plant during its initial operating stage. Whitegate had a firm access restriction to the national Electricity Grid until the completion of the 4th transmission circuit and this restricted the firm access quantity to 321 MWs from commercial operation date until completion of this work on 10th October 2011. This work has now resulted in a looped supply to/from Whitegate which provides enhanced security to both the system and the plant. The Plant now has full firm access for 445 MW and is operating flexibly and reliably in the market.

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 234 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 13 wind farms. 94 turbines have a capacity of between 2 and 3 MWs, with the remainder 1 MW or under. 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 2011 ensured that overall fleet availability targets were 95.21% for the year, which was ahead of target.

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Business Development

Renewable

Bord Gáis has a significant pipeline of wind development projects. Major progress was made on the consents for these projects in 2011 supporting a build out programme which will see 460 MW of capacity being installed over the next five years. Full planning permission had already been received for three new projects in 2010 and the first of these, Ballymartin, a 6MW development in Kilkenny, commenced construction in December 2010, and entered operation in June 2011. Construction work on Garracummer, a 42.5MW wind farm in Tipperary, began in September 2011 and this will be energised in December 2012. This build out programme will see Bord Gáis invest up to half a billion euro 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 Ltd (GIL), to progress OCGT developments. Greener Ideas Ltd 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

In 2008, Bord Gáis Investments established the North East Storage consortium with Storengy (a company of GDF-Suez) to progress the development of a salt cavern gas storage facility in the Larne area of Northern Ireland. The use of salt caverns for gas storage has long been recognised across the world as the most efficient and effective manner by which gas can be stored and extracted in response to peak demand. An indigenous storage facility of this scale would address security of supply concerns for energy customers in Ireland, North and South, and bring competitive advantages to the all-island energy market.

Following the successful completion of a seismic survey over the licensed area in January 2010, the interpretation of the seismic data showed that sites exist which could potentially support a gas storage facility. The next step in proving the technical feasibility of the project involves carrying out a test drill at one location. This will involve drilling down over 1,500 metres to gain further knowledge of the subsurface layers and to obtain a core sample of the salt in order to test its mechanical properties.

A suitable site has been chosen for the test drill and agreements were finalised with the landowners concerned. Most of the civil works have been completed in preparation for the test drill which will take place in early 2012. Good relations were maintained with all stakeholders and before civil works commenced all landowners along the transport route of the civil works were contacted to notify them of the commencement of works. The drilling will be carried out over a period of 6-8 weeks. Following completion of the drill, analysis of the core will be carried out off-site and will take a number of months. When this is completed, a decision will be made on whether the project will proceed to the planning stage.

In 2011, OpenHydro and Bord Gáis Energy launched a Joint Venture company called Tidal Ventures Ltd. with a view to securing development rights for one or more sites in Irish waters.

A two year extension to the Mineral Prospecting Licence was granted by the Dept. of Enterprise Trade and Investment (DETI) in November. Further to the Utility Regulator's Gas Storage Regulatory Framework Conclusions issued in March 2010, they issued a draft gas storage licence consultation paper in December 2011 in order to confirm the details of the licence conditions. Those consultations have concluded and the licence has been finalised. There has been slow progress on the delivery of an all-island gas market via the Common Arrangements for Gas (CAG) project. This is seen as a key element for the commercial success of the storage project.

Further details and regular updates on the project can be found on the dedicated project website www.northeaststorage.com.

Tidal Energy

Bord Gáis Éireann completed a €1 million investment in OpenHydro in 2010. As part of the investment OpenHydro and Bord Gáis Energy formed a Joint Venture Company called Tidal Ventures Ltd. with a view to securing development rights for one or more sites in Irish waters. A leasing round for up to 200MW of Tidal Energy in Northern Ireland was opened by The Crown Estate in December 2011 and Tidal Ventures Ltd. intends to bid for a site as part of this process. Both desktop and on-site surveys were undertaken in the summer of 2011 to inform the site selection process and meetings were held with local stakeholders including elected public representatives and Fishery groups. Bord Gáis Energy has also agreed to invest a further €1 million in OpenHydro upon receipt of a lease for a tidal farm. The investment and the formation of the joint venture to develop utility scale tidal generating capacity off the coast of Ireland will support our ambition to achieve early mover advantage in tidal energy development in this country.

ENERGY (continued)

Micro CHP

Bord Gáis continued its research into the deployment of micro CHP (the production of heat and electricity from a single device within the home). It installed six Baxi Ecogen Micro CHP devices in employees' homes as part of a trial programme being conducted in conjunction with SEAI. The trial concluded in 2011 and all of the units operated extremely well over the trial period.

Ceres Power, with which Bord Gáis entered an exclusive arrangement in 2009, continued its development work on the fuel cell based micro CHP. It had been expected that trials of these units would start in 2011 but this was delayed due to technical issues - which is not uncommon for innovative technology such as this. It is expected that the trials in Ireland will now start in 2013.

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 which has demonstrated an inferred coal resource. The company are currently seeking interested parties to jointly develop the project or acquire the assets of the company.

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 HSG Zander 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, Trinity and WIT.

The initial set up phase of the IERC is now complete and a Bord Gáis Energy employee has been 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 two projects have been funded by the IERC to the value of over €1 million.

One of these projects which is being undertaken by Dr. Mick McKeever of Dublin Institute of Technology is of particular interest to Bord Gáis Energy. The goal of Dr. McKeever's project is to design and test a full scale Phase Change Material (PCM) - energy storage heat exchanger. This will test the commercial potential of a thermal energy storage unit and heat exchanger for heating systems in residential and large commercial buildings. This technology will overcome the disadvantages of the commonly used hot water tanks and other thermal energy storage units for heating systems, by reducing unit size and allowing thermal load shifting to avoid peak demand, thereby reducing energy and maintenance costs.

Marine Energy Research

Bord Gáis has committed to supporting the development of the Irish Maritime and Energy Resource Cluster (IMERC). IMERC is an initiative to develop a world leading research and commercial cluster in a new building alongside the National Maritime College in Cork. IMERC is a collaboration between University College Cork (UCC), Cork Institute of Technology (CIT) and the Irish Naval Service. When developed, IMERC will be part of the largest marine renewable energy research group in the world providing Ireland with the opportunity to harness the benefits of innovation in global maritime and energy markets.

An Taoiseach Enda Kenny formally launched IMERC on 25th November in Cork. Bord Gáis will provide funding towards the total cost of €13.8 million to build the new Beaufort building which will house IMERC and its 135 researchers and a number of industry suites.

At the end of 2011, a total of over 660km of gas mains had been constructed across five North-West towns and five South-North towns in Northern Ireland.

Northern Ireland

Northern Ireland is an important energy market for Bord Gáis: in 2011, 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 and is currently evaluating a possible gas storage facility near Larne.

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 12,000 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, where it has another 12,000 customers.

Ten Towns Development

In 2011, firmus energy continued to develop the new gas network in its licence areas across Northern Ireland. At the end of 2011, a total of over 660km 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 2011, nearly 3,400 new customers were connected to the network including nearly 300 business users. During the year, firmus energy has worked with the Utility Regulator in Northern Ireland on the investigation of a number of new towns including Ballyclare and Warrenpoint. Gas is now readily available in these towns with key customers connected to the network.

First connections were made in another new town, Portstewart, in Quarter 1, 2011. 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.



firmus energy holds supply licences for both the natural gas market in greater Belfast and electricity across Northern Ireland.

Following consultation in late 2010, market opening is planned from October 2012 for the large Industrial/Commercial (I/C) sector, with the SME and domestic sectors expected to start 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 2011, over 12,000 customers in greater Belfast had switched to firmus energy for their gas supply from the incumbent, Phoenix Supply. Currently over 25% 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 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 Pay As You Go 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 in October 2010 launched an exclusive affinity deal with the Ulster Farmers Union for electricity supply with their members.

NETWORKS

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.

three new towns connected

and phase 1 of the network extension to Macroom has also been completed, allowing the connection of the anchor customer to the network.

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Since its establishment, Bord Gáis Networks has developed a national distribution pipeline network of 11,030km and a transmission pipeline network of 2,373km. 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 157 population centres within 19 counties throughout the country and there are over 647,000 gas users in Ireland.

Networks Organisation Structure

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

- **Asset Management:** responsible for asset strategy and networks analysis; asset integrity; investment analysis and management; conceptual and integrated planning; asset programme management; and asset information management.
- **Workflow:** responsible for handling and progressing all customer contact; detailed design and planning of all network solutions; scheduling, dispatching and progressing all networks work activities; and maintaining quality data and records relating to same.
- **Service Delivery:** responsible for delivering capital construction projects; 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 and Environment:** responsible for safety management systems; training; risk management and business continuity; health, safety and environment planning; and quality and management systems.
- **Regulation and Commercial:** responsible for regulatory affairs; shipper services; trading settlements; revenue and tariff setting; customer and marketing strategy; and account management of large gas users.
- **Business Development:** responsible for identifying potential areas for growth beyond the existing gas networks regulated business and managing Aurora, the Bord Gáis Networks 'Dark Fibre', open access telecoms infrastructure provider.



NETWORKS (continued)

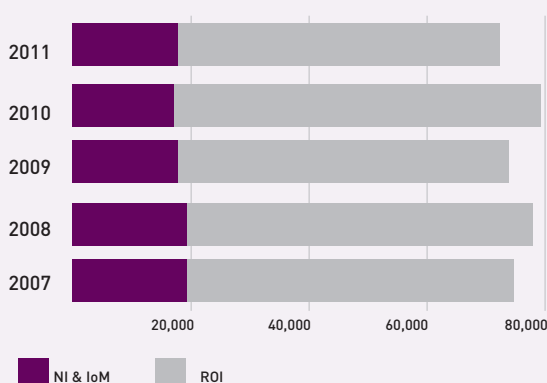
Gaslink

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 2011

The total amount of gas transported by Bord Gáis Networks in 2011 decreased by 9% to approximately 72,700 GWh compared with record levels in 2010. This reduction in overall gas demand was due to a combination of very mild weather experienced during 2011 and the continued uncertain economic conditions. This resulted in a 14% reduction in Power Generation gas demand and a 17% reduction in Non Daily Metered (NDM) demand in Ireland. Total System gas flows were at 2006/2007 levels with 75% of gas flows serving the Irish market and 25% utilised in Northern Ireland and the Isle of Man.

Gas Transported by Bord Gáis Networks

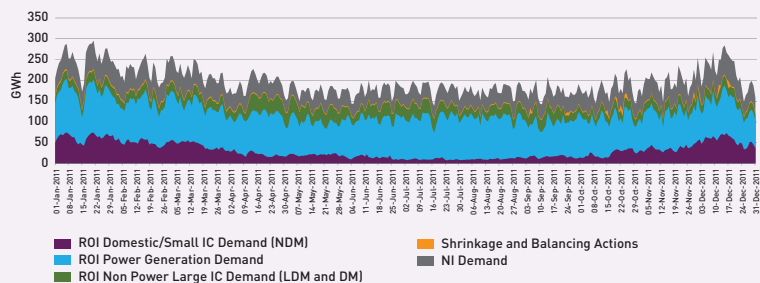


Both Interconnectors provide Security of Supply

The majority of Ireland's gas demand (93%) was met by UK imports with the remaining gas supplied from indigenous reserves in Inch*. The total volume of gas transported through the two Interconnectors exceeded the nominal capacity of the first Interconnector (17.0 mscm/d) on more than 20 days during 2011 despite the mild temperatures. The Interconnector System was used on a daily basis to provide within-day flexibility to domestic, industrial and power generation sectors, particularly catering for the variability in wind power generation.

*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 2011, 1,676 GWh of gas was imported through the interconnectors and supplied to Inch.

2011 Total System Demand Breakdown



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®. The number of hazards identified by staff and reported to the safety team doubled in 2011, resulting in the highest levels of staff engagement since the system was introduced.

Lost Time Accidents were significantly down on the level recorded in 2010. The combined total for contractor and staff Lost Time Accidents was reduced by 36%.

In 2011, Bord Gáis Networks continued its safety awareness media campaigns. The main areas related to the Gas Emergency Service, Dial-Before-You-Dig, promotion of Registered Gas Installers (RGI) and public awareness of the dangers of Carbon Monoxide. Awareness levels amongst the general public of the dangers of Carbon Monoxide have increased consistently since 2008, rising from 87% to 94% awareness by the end of 2011. Bord Gáis Networks also operates a Carbon Monoxide information web site relevant to all fossil fuels www.carbonmonoxide.ie. In addition, Bord Gáis Networks, working with the Register of Gas Installers of Ireland (RGI), organised training sessions for Registered Gas Installers on the installation of Carbon Monoxide Alarms. This successful training programme will be run again in 2012.

Bord Gáis Networks continues to work closely with Gaslink and the CER to ensure network safety remains a priority focus. 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. In 2011, IT system support for the various enterprise risk management committees and departmental risk registers within the business was successfully implemented. This has assisted in the proactive approach taken to the management of risks, providing visibility of developing risks in a timely manner.

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.

Consistent with our values, Bord Gáis Networks is fully committed to preventing pollution, increasing our focus on sustainability and continuous environmental impact improvement by carrying out our activities in a responsible and compliant manner. Significant progress was made in 2011 on the establishment of an Environmental Management System, including the setting of new environmental objectives and targets for the business.

Bord Gáis Networks has been accredited by Dublin Institute of Technology (DIT) as a partner for educational collaboration. In November 2011, Bord Gáis Networks signed an agreement whereby Bord Gáis Networks will deliver validated programmes in its training centre in Finglas leading to a DIT award for trainees on successful completion of the course.

Regulation & Commercial

Within Bord Gáis Networks, the Regulation & Commercial unit is responsible for managing regulatory affairs across the three jurisdictions in which the business operates: Ireland, Northern Ireland and Great Britain. Regulation & Commercial is also responsible for shipper services, gas point registration, metering data services and unregulated commercial activities.

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 2011, 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, and was pleased to see additional players arrive in the market, particularly in the domestic sector.



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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 (CoS) 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.

2011 saw continued high volumes in the GPRO workload, with approximately 113,000 Change of Shipper transactions processed during the year (v. 94,000 in 2010) due to ongoing competition among existing Shippers plus another significant new entrant in the residential gas market. This represents a Change of Shipper transaction at close to 17% of all Gas Points; this ranks Ireland as one of the most active markets for switching worldwide. Shippers also expanded their supply portfolios to introduce further competition in the Industrial/Commercial sector.

NETWORKS (continued)

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.

The GPRO, in agreement with Industry participants and the CER, also made several enhancements to the Change of Shipper processes during the year to address industry concerns over debt-hopping; this further opened the processes to facilitate competition.

Gas Transportation Revenues & Tariffs

Allowed revenues for use of the Irish Transmission and Distribution networks for the five gas years covering the period October 2007 to September 2012 were determined in 2007 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 5.2% pre-tax real.

While the allowed revenues for the five-year period were set in 2007, 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 2011/12 decreased in real terms from the 2010/11 tariff by 5.6% for typical shippers through Moffat, the entry point from which 93% of gas used in Ireland is sourced. The 2011/12 Distribution tariff increased by 0.5% 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). A five-year revenue control for our network was determined in 2007 for the period from October 2007 to September 2012.

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 Operations

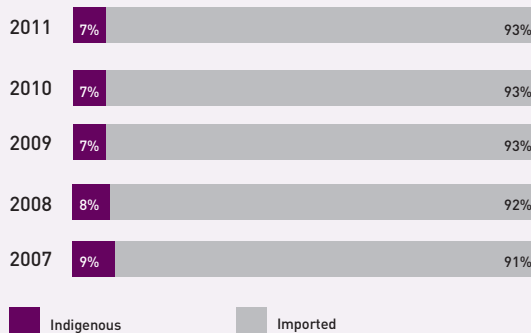
Bord Gáis Networks operates the gas transmission and distribution networks in Ireland on behalf of Gaslink.

Transmission Network

The total transmission network length at the end of 2011 was 2,373km. Total gas transported for Ireland, Northern Ireland and the Isle of Man was approximately 72,700 GWh, a decrease of 9% on 2010. Three quarters (75%) of this gas was delivered for use in the Republic of Ireland with the remaining 25% 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 2011, 1,676 GWh of gas was imported through the interconnectors and supplied to Inch.

Sources of Gas used in Ireland



Distribution Network

At the end of 2011, Bord Gáis Networks had 11,030km of distribution network through which it delivered gas to 647,000 premises. Over 160 km of new distribution mains were laid in 2011 to reinforce the distribution gas network and provide new supplies to the towns of Kinsale, Kells, Tipperary and Macroom.

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 Ireland and Northern Ireland in September 2011. This indicated that, based on potentially lower inlet supply pressures from National Grid at Moffat and in the event of a peak demand as experienced in December 2010 occurring again, available firm gas capacity on the Interconnector System could be tight in the coming winters. Bord Gáis Networks is continuing to liaise with the CER and industry on this issue.

Networks Development

In 2011, 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. 5,500 new service connections were installed in 2011, (including domestic and industrial/commercial). This new load growth required the installation of 19 kilometres of new mains. A transmission pipeline project to replace the Dublin 4 light wall pipeline (length 12.3km) was commissioned in August 2011. Three new towns were also added to the gas network in 2011. Additionally, phase 1 of a network extension to a fourth town has been completed.

New Towns

Following on from the connection of numerous new towns in recent years, Bord Gáis Networks completed the Phase 3 towns report on behalf of Gaslink in 2009, which examined the feasibility of connecting a further 43 towns across nine regional groupings to the network. In Quarter 1 2010, the CER approved the extension of the gas network to Tipperary Town, Co. Tipperary; Kells, Co. Meath; and Kinsale and Innishannon, Co. Cork. In addition, in Quarter 3 of 2010, the town of Macroom Co. Cork was also resubmitted to the CER and approved, on the basis of a large new production development adjacent to this town. During 2011 Kinsale, Tipperary, and Kells were connected to the natural gas network and phase 1 of the network extension to Macroom has also been completed, allowing the connection of the anchor customer to the network.

Infill Connections

Bord Gáis Networks proposed an Infill Connections amendment to the Connections Policy in 2010. The Infill amendment is intended to increase network penetration in existing gas areas by facilitating the connection of industrial and commercial premises which require an extension of the distribution mains. The CER agreed that Bord Gáis Networks could undertake five trial Infill projects. Construction projects in Mallow, Ennis, Galway, Crosshaven and Arklow were completed during 2011.

At the end of 2011, Bord Gáis Networks had 11,030km of distribution network through which it delivered gas to 647,000 premises.

Capacity Upgrades

During 2011, capacity upgrades were commissioned at existing Above Ground Installations at Glebe West (Co Kildare), Loughboy (Co Kilkenny), Holybrook (Co Wicklow) and Loughshinny (north Co Dublin) to facilitate gas demand growth in those areas.

Reinforcements

The 2011 reinforcement programme included the installation of approximately 29km of new polyethylene mains to boost the gas flows to areas that had been identified as likely to experience low network pressure during peak demand periods.

Network Services

Throughout 2011, 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 372,000 phone contacts, agreed and completed over 86,300 appointments, and conducted over 26,600 temporary and permanent surface reinstatements. It also attended over 19,500 gas escapes reported by the public. The connections business secured orders involving almost €14 million in capital expenditure for the installation of domestic and commercial gas meters to supply 367GWh of additional natural gas load. Combined, connections and site-works collected almost €5.6 million in contributions and charges to net off against the cost of providing these services to the benefit of the Distribution tariff.

Consolidation of service standards in conjunction with further service improvement initiatives were reflected in Bord Gáis Networks (in conjunction with outsourced contact handling partners) being shortlisted in the UK for Best Customer Service Operation at the European Call Centre and Customer Service Awards. A UK award short-listing was also achieved for Most Effective Use of Self-Service (Dial-A-Read) at the CCA Excellence Awards. At home, Networks service excellence was recognised with CCMA awards short-listings for Team of the Year (businesslink) and Best Customer

NETWORKS (continued)

Service Delivery (Voice of the Customer Programme) in which category the Bord Gáis Networks submission was commended.

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 is currently supporting the CER National Smart Metering programme which is focussed on a combined gas and electricity solution. In 2011, Customer Behaviour Trials and Cost Benefit Analysis were concluded utilising smart metering technology, time of use tariffs, and in-home displays. These trials, along with a public and industry consultation process, have validated the consumer benefits of smart metering solutions. It is expected that the CER will authorise a joint-rollout of gas and electricity smart-metering in early 2012. Following CER approval the full business and infrastructure requirements, as well as the rollout schedule, will be defined and agreed in the Design phase of the programme during 2012.

It is expected that gas and electricity smart metering will be rolled out on a shared communication infrastructure 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 over 36,000 domestic gas meters with new Smart Ready gas meters in 2011. This is part of an overall meter replacement

programme which will result in over 70,000 replacement Smart Ready domestic meters by September 2012.

Pay As You Go Metering

2011 saw Bord Gáis Networks continue to support a 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 2011, there were 54,450 PAYG gas meters installed, with over 21,000 of these being installed during 2011. There are over 400 outlets where gas card credit can be purchased.

Networks Business Development

The Business Development unit was established in 2010 and has increased its capacity in 2011. Business Development investigates and appraises opportunities for business growth outside of the core regulated gas network. In 2011, seven potential opportunities were appraised including those in the water sector, pipeline management and the telecoms industry. The opportunity to contribute to the reform of the water sector in Ireland represents a significant opportunity for Bord Gáis Networks, who are engaged in the consultation process concerned with establishing Irish Water.

Aurora

Established in 2000, Aurora Telecom is a division of Bord Gáis Networks which combines telecommunications expertise with that of advanced network design, construction and project management to offer a best-in-class fibre optic network.

Aurora has an extensive Dublin metropolitan fibre optic network, interconnecting with other local, national and global carriers and terminates at all key Datacentres. Within the city centre, the network tracks gas main pipelines; therefore it is physically diverse, deeper and more secure than other providers. The network utilises carrier class specifications and materials, and has been designed specifically for multiple telecommunications operators.

The first phase of the national network roll-out, the Fibre To The West (FTTW) project, at 330km in length, included civil works, cabling and splicing and was successfully completed during 2011. The fibre network links Dublin to Galway with interconnections to key towns such as Athlone, Mullingar and Ennis. The project also incorporated the construction of five Repeater and co-location facilities at Bord Gáis

Networks' AGIs along the route. The programme and all major milestones for the installation works were successfully delivered on time, in full, and on budget.

In November 2011, Aurora commenced the second phase of its national network roll-out. It incorporates the extension of the FTW network linking Ennis to Cork with interconnections into the towns/cities of Shannon, Limerick, Mallow and Charleville. Aurora also plans to construct a Metropolitan Area Network (MAN-distribution network) in Shannon town, Shannon Free Zone and Smithtown Business Park.

In a significant boost to the Government's vision of a Smart Economy, the Aurora project delivers an open-access network that is available to telecommunications carriers and large corporate, public sector and financial services organisations. The project will also allow companies to 'own' a fibre optic network by providing dedicated fibre for individual companies, known as Dark Fibre, for the provision of managed bandwidth services.

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 approximately 30%. According to the Natural Gas Vehicle Association (NGVA) of Europe, there were over 13 million NGVs worldwide in 2011.

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 facilitating the development of a CNG market in Ireland and in November 2011 hosted the first NGV conference in Dublin, which was attended by over 150 transport and energy industry professionals. Bord Gáis Networks is continuing to analyse CNG and 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. In addition, Bord Gáis Networks will liaise 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.



The Aurora project delivers an open-access network that is available to telecommunications carriers and large corporate, public sector and financial services organisations.

Future Opportunities

The existing Networks business is a regulated asset-focussed business which, into the future, will be operating in a mature market with limited potential growth in its core regulated business. The key challenge is to identify opportunities for growth of the existing network business and its existing operations. There are a number of developments in Ireland which will present Bord Gáis Networks with opportunities to manage other networks or utilities-related businesses.

Networks Services Centre

Bord Gáis Networks completed its new Networks Service Centre building in Finglas, Dublin, in 2011, which now houses its entire Dublin based staff. The new building incorporates a number of its primary functions including the 24/7 national distribution gas control for Ireland, 24/7 emergency response for Dublin and surrounding counties, the National Training Centre, the National Distribution Safety and Quality Centre and the National Distribution Operations and Construction Departments.

The integrated sustainable design approach for the proposed Networks Services Centre reflects Bord Gáis Networks' commitment to environmental protection and sustainable development. It combines microclimate, landscape, transport and a compact building volume with low energy design.

GASLINK

Gaslink operates the natural gas network in Ireland. 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.



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 EU Energy Directive, which aims to facilitate a single European gas market. This Directive will further unbundle the supply and networks activities of Bord Gáis Éireann and will see the introduction of an Independent Transmission Operator (ITO) which will combine the operation and ownership of the transmission system. The development of a new ITO as an independent subsidiary of Bord Gáis Éireann will result in the integration of Gaslink into the new ITO business.

Key Achievements

2011 was a busy and productive year for Gaslink:

- Gaslink worked with the Corrib Gas partners to prepare for the arrival of Corrib gas into the network. Corrib gas will play a significant role in Ireland's future energy supply.
- Gaslink worked with Endesa to progress the connection to the new power generating station at Great Island, Wexford, and a planning application has been lodged for the construction of the pipeline.
- Progress was made on the introduction of a single European Gas Market, with Gaslink representing Ireland's best interests in Europe.
- Competition was enhanced with the entry of a new shipper into the domestic market and the facilitation of 109,000 domestic customers to switch providers.
- Developments were made on the introduction of an All-Island gas market with Gaslink working closely with the regulatory authorities and the gas industry in both jurisdictions.
- Three new towns were connected to the gas network.
- Gaslink introduced a virtual reverse flow service at Moffat in cooperation with National Grid and Moffat Shippers. This service, which facilitates commercial arrangements for the flow of natural gas from Ireland to Great Britain, was approved by the CER and the Office of the Gas and Electricity Markets (UK).
- Gaslink delivered a presentation to the International Energy Agency (IEA) during 2011 outlining its views on Irish Energy Policy as part of an EU/IMF/IEA review.
- Process changes in relation to the purchase of balancing gas (natural gas purchased in order to maintain a safe operation of the Transportation system) were implemented with the potential for significant savings to be achieved based on 2010 data.

Gaslink represents Ireland's interests at European level and is working with Bord Gáis Éireann to implement the Third EU Energy Directive, which aims to facilitate a single European gas market.

New Entry Points

In 2011, Gaslink continued to work with the Corrib Gas Partners to prepare for the arrival of Corrib gas into the network. It was a significant year for the Corrib gas project. All regulatory permits and consents associated with the onshore pipeline part of the project were issued and construction on this final phase commenced. Work on the onshore pipeline includes the building of a 4.9km tunnel under Sruwaddacon Bay in North Mayo, a piece of work that is expected to take at least two years to complete. The indigenous supply provided by Corrib will play a significant role in enhancing Ireland's energy security.

Connection to New Gas Fired Power Generation

In July 2011, Gaslink and Endesa Ireland entered into a Connection Agreement to commence the gas connection to supply Endesa's Combined Cycle Gas Turbine (CCGT) at Great Island, Co. Wexford. The power station will be connected to the existing gas network in Co. Kilkenny via a 46.5km 400mm high pressure steel pipeline. The pipeline will also cater for potential future gas demand in the south east region. In 2011, Bord Gáis Networks lodged a planning application with An Bord Pleanála for construction of the pipeline and also completed the tendering process for the line pipe order.

Kinsale Energy

During 2011 Gaslink engaged with Kinsale Energy; to discuss facilitating the potential expansion of the South West Kinsale storage facility.

New Towns

The connection of Innishannon, Kinsale, Macroom (Industrial User), Tipperary Town, Cahir and Kells to the natural gas network was progressed during 2011. These towns were deemed economically viable for connection to the natural gas network under the 'New Towns Study'.

GASLINK (continued)

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 will result in the integration of Gaslink into the new ITO business. Throughout 2011, Gaslink worked closely with Bord Gáis Networks and the wider Bord Gáis Éireann Group to implement the new ITO structure.

Retail and Wholesale Gas Market Development

Competition was further enhanced during 2011 with the entry of another new shipper in to the Irish domestic gas market and with another gas supplier entering the pre-payment metering market. The market assurance strategy and processes were revised to better service today's open and competitive Irish market. 109,000 domestic customers switched providers during 2011.

A number of initiatives were implemented during 2011 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 flagging facility was introduced into the change of supplier process to address the issue of some customers changing supplier to avoid paying arrears. "Debt hopping" raises costs for suppliers (and consequently for all customers) and can exacerbate an individual's debt situation.

In acknowledgement of the increasing number of customers facing disconnection for non-payment of their energy bills, a "Pay Before Locking" trial was carried out to provide such customers with a final opportunity to agree a payment plan with their supplier to avoid disconnection. These procedures will become standard operational practice across Ireland during 2012.

Smart Metering progress was made with customer trials completed in May 2011. The trial involved approximately 2,000 participants and resulted in gas savings of up to 3.6%. The roll out decision from the CER is due in early 2012.

The manner in which balancing gas is purchased, sold and communicated was reviewed in conjunction with Bord Gáis Networks and Industry. The process changes implemented will potentially result in significant savings (based on 2010 data).

Competition was further enhanced during 2011 with the entry of another new shipper in to the Irish domestic gas market and with another gas supplier entering the pre-payment metering market.

European Developments

The objectives of the Third Gas Package 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 Gas Package are currently being developed to achieve this goal.

The Third Package provided for the establishment of two new European-wide organisations. One for regulators called the Agency for the Co-operation of Energy Regulators (ACER) and one for gas system operators called the European Network for Transmission System Operators for Gas (ENTSOG). ACER was established in March 2011 and is based in Ljubljana, Slovenia. ACER's key functions are to oversee and improve cross-border regulatory cooperation for gas transmission between member states and to assist ENTSOG in its preparation of common European network codes.

ENTSOG 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. During 2011 two staff members from Gaslink were seconded to work fulltime as members of the ENTSOG team.

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.

Transparency requirements arising from Regulation EC715 were implemented across Europe in March 2011 to facilitate greater access to Transportation Networks on a European wide level. Gaslink's website was updated with additional reporting and increased functionality to meet these requirements.

During 2011, the European Commission invited ENTSOG to develop a capacity network code which is due to be finalised by March 2012. The capacity network code objectives are to harmonise the European gas market through measures such as product standardisation and bundling at European interconnection points. Under these harmonised arrangements, supply companies and traders will find the same rules applying at all European borders with the intention of increasing market competitiveness. The capacity network code will be the first element of a pan-European gas network code. Gaslink is actively involved in the development of this code, ensuring that Irish interests at the interconnection point between Ireland and Great Britain are represented.

All-Island Gas Market

Work on the establishment of an All-Island gas market is ongoing and is now managed within Bord Gáis Éireann by Bord Gáis Networks and Gaslink. Gaslink leads the Code of Operations work stream and participates in all other work streams.

Bord Gáis Networks and Gaslink worked closely with the regulatory authorities and the gas industry in both jurisdictions during 2011 to progress the All-Island gas market.

In October 2011, the regulatory authorities in both jurisdictions directed that efforts should initially be concentrated on addressing the EU infringements by 1st October 2012.

Infringement Notices have been issued by the European Commission to both the Republic of Ireland (ROI) and Northern Ireland (NI) as Member States with respect to violations of Regulation EC 1775/2005.

Gaslink is working towards addressing the ROI infringements under the following headings;

1. Introduction of Moffat Interruptible Entry Capacity.
2. Declaration of a Relevant Point of Interconnection (between the ROI network and the NI network) on the South North Pipeline (SNP).

International Energy Agency

In September 2011, Gaslink, together with Bord Gáis Networks, delivered a presentation to the International Energy Agency (IEA) as part of an EU/IMF/IEA review outlining the Gaslink/ Bord Gáis Networks view on Irish Energy policy.

The main points of this presentation were:

1. Critical role of gas in Irish economy – conditions for business development and foreign direct investment are enhanced by gas availability.
2. Gas will play a greater role in the global energy mix and Irish energy policy must reflect this.
3. Future energy policy based on a Gas & Renewable Fuel Strategy will offer diversity and resilience.
4. Security of supply should be central to any revision of Irish energy policy.

Transmission Development

In July 2011, Gaslink published the Network Development Statement (NDS). It covers the 10 year period from 2010/11 to 2019/20. Previous publications of this document were referred to as the Transmission Development Statement (TDS). The document was renamed to reflect all aspects of the natural gas system, not just the transmission system.

The 2011 NDS results indicate that there is sufficient capacity available on the existing on-shore Republic Of Ireland transmission system to transport the necessary gas to meet the required forecast peak-day demand over the forecast period. 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.

Outlook

2012 will see a transformation of the natural gas market in Ireland with the introduction of the Third EU Energy Directive. A new Independent Transmission Operator (ITO) will be established as an independent subsidiary of Bord Gáis Éireann that will own and operate the transmission system. This will see Gaslink integrated into the new ITO business.

The commencement of construction of the onshore pipeline for the Corrib gas is a welcome development which will progress during 2012 and construction of the pipeline to Endesa's proposed power generation station in Wexford also is planned to commence in 2012.

The move towards a single European gas market will continue in 2012 with Gaslink representing the interests of Irish consumers in Europe.

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. Our strategy and operations are based on building long term business success 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.



Marketplace

Customer Support

Bord Gáis is 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 Local Authorities; 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 2011 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, in 2011 Bord Gáis' customer contact services were shortlisted in six categories in the UK and Ireland CCA Excellence Awards 2011. Bord Gáis Energy was the winner in three categories for Corporate & Social Responsibility; Best Multi-Channel Programme/Innovation in Technology for its iPhone app; and Customer Service Complaints Team of the Year. Bord Gáis Energy was also highly commended in the categories of Most Effective



Our core values of Empathy, Performance and Proactivity ensure that the customer is at the centre of everything that we do in Bord Gáis.

Training Programme; and Best Outsourcing Partners (along with Fexco). In addition, Bord Gáis Networks were commended in the Most Effective Use of Self Service category.

Bord Gáis Energy received more awards at the 2011 Irish Contact Centre and Shared Services Awards, where it was the winner in the categories of Best Sales or Telemarketing Campaign; and Credit Management Team of the Year. In addition, it received a commendation in the category of best Quality Measurement Programme. This was the third successive year that Bord Gáis has been singled out at the CCA and CCMA awards. Our continued success is a reflection of the clear and ambitious objectives we continue to place upon all our staff and service partners for excellence in customer service, and our continuing endeavour to operate to best in class standards.

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.

CORPORATE RESPONSIBILITY REVIEW (continued)

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. 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. 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 at 94% by the end of 2011.

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.

Bord Gáis Energy launched its Home Team division which provides customers with a wide range of energy efficient products and services. In 2011, this range of products was extended to include Cavity and Attic Wall Insulation. The Home Team also developed a relationship with the SEAI allowing it to sort out grants for home insulation on behalf of the customer.

Bord Gáis Networks is currently supporting the CER National Smart Metering programme. In 2011, customer behaviour trials and Cost Benefit analysis were concluded using smart metering technology, time of use tariffs, and in-home displays. These trials have validated the benefits to the customer



Bord Gáis Energy expanded its Home Team division which provides customers with a wide range of energy efficient products and services.

of smart metering solutions. It is expected that gas and electricity smart metering will be rolled out in 2012.

Starting in 2010, and continuing throughout 2011, Bord Gáis Networks implemented a meter replacement programme aimed at replacing the oldest domestic gas meters. The replacement meters have "Smart Ready" capabilities, which mean that these new meters can be upgraded to "Smart Meters" when required in the future. The overall meter replacement programme will result in over 70,000 smart-ready domestic meters installed by September 2012.

Bord Gáis continued its research into the deployment of micro CHP (the production of heat and electricity from a single device within the home). It installed six Baxi Ecogen Micro CHP devices in employees' homes as part of a trial being conducted with the SEAI.

Community

Possibly the most active element of our Corporate Responsibility Programme in 2011 was in the area of our community involvement. 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 and technology, 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.

In 2011, the Foundation offered support across three channels:

- Staff requests for nominated charities
- Staff participation in the Cork City Marathon
- Charity partners

Staff Requests for Nominated Charities

In 2011, the Foundation supported nearly 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.

Support for Staff Participation in Bord Gáis Energy Cork City Marathon 2011

In 2011, Bord Gáis Energy continued its sponsorship of the Cork City Marathon. In turn, the Bord Gáis Foundation supported staff participating or volunteering in the Bord Gáis Energy Cork City Marathon 2011 which took place on 6th June. Support for nominated charities through staff involvement with the Marathon was on a tiered basis, with individual staff member participation for the full marathon eligible to nominate a charity for the largest donation of €700, participants in the half-marathon could apply for €350, relay teams could apply for €250 per staff participant, and volunteers could nominate a charity or voluntary group to receive a donation of €100. Based on these levels of donations, a total of 44 charitable and voluntary organisations were supported at home and abroad.

The donations ranged from large cumulative donations in the thousands, to small once-off payments of €250.

Charity Partners

The Bord Gáis Foundation formalised partnership agreements with selected Charity Partners in September 2010. 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. These partnerships continued throughout 2011.

The Charity Partners in 2010/11 were Age & Opportunity's "Cultural Companions" programme; BITCI's "Time to Read" reading support pilot programme; and Sophia Housing. In addition, a number of smaller charities were identified through the selection process as being eligible for a smaller contribution. These were CAMP, Bradóg, Ógra Chorcaí, and Wellsprings.

These charity partnerships came to a close at the end of 2011. The Foundation at this stage began the process of choosing the charity partners for 2011/2012. After a stringent selection process, the following charities were chosen as the charity partners for 2011/2012:

- 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.

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.

CORPORATE RESPONSIBILITY REVIEW (continued)

Emergency Relief

The Foundation operates within the parameters of the Bord Gáis Corporate Giving Policy. Occasionally an event happens that falls outside of these criteria that requires extra support. In 2011, the humanitarian crisis in East Africa was one such occurrence. In response to the worsening situation, Bord Gáis made significant contributions to GOAL, Oxfam and Concern. These contributions were separate to the activities of the Bord Gáis Foundation and were supported through a budget allocation for emergency support managed by the CEO. The intention was that these company donations would assist these organisations in some small way in their humanitarian efforts in East Africa. In addition, Bord Gáis staff throughout the organisation organised fundraising events ranging from coffee mornings to competitions, with all the proceeds going to famine relief efforts in East Africa.

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.

At primary level, in 2011 Bord Gáis Networks launched the “**Science Forward**” programme in partnership with **Junior Achievement Ireland**, a not-for-profit organisation which bridges the gap between school and the world of work. This is a science education programme which introduces students from sixth class primary schools to the world of science and the environment of third level institutes. The programme is delivered to students attending schools participating in the DEIS initiative through hands-on experiments and interactive workshops hosted at a third level institution. The programme was run over two days per location in Cork, Limerick, Galway/Mayo and Dublin and aimed to inspire students to consider science when making subject choices for secondary schools, and ultimately at third level.

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.

On 15th June 2011, school children from Cork and Kerry celebrated **Global Wind Day** with an open day at Bord Gáis Energy’s wind farm at Kilgarvan, Co. Kerry. Bord Gáis Energy organised the event to educate primary school children about wind energy, through a series of fun and interactive activities. The open day was attended by 140 primary school children, along with their teachers. Global Wind Day is coordinated by the European

Wind Energy Association (EWEA) and the Global Wind Energy Council (GWEC).

At secondary level, Bord Gáis Networks 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.

Through its **STEPS to Engineering Programme**, Engineers Ireland encourages primary and post primary students to explore the world of science and engineering and also encourages students to consider a career in engineering. In this regard, STEPS developed Engineers’ Week to deliver a programme of nationwide events to create positive awareness and spark enthusiasm about the engineering profession. For Engineers Week 2011, Bord Gáis Networks invited St Goban’s College, Bantry to participate in a site visit to Gasworks Road to see engineering at work. As well as this site visit, Bord Gáis Networks also organised an educational session with Fingal County Council Library Division to present to a group of 50 Transition year students at Blanchardstown library, Dublin.

Bord Gáis Energy partnered with the Irish Wind Energy Association (IWEA) to run **KidWind**, a four day renewable energy training course for secondary school teachers. The course was run in Cork over the October mid-term break. Delivered by Dundalk Institute of Technology, it also included a site tour of Gneevies wind farm in Co. Cork. The programme 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.

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In 2011 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. Bord Gáis Networks are also co-funding a **PhD scholarship with Dublin Institute of Technology (DIT)**. The chosen PhD student will analyse small and medium enterprises' heat consumption in Ireland.

Community Engagement

In 2011, Bord Gáis Networks laid over 160 km of new distribution mains to reinforce the distribution gas network and provide new supplies to the towns of Kinsale, Kells, Tipperary and Macroom. Throughout the year, firmus energy continued to develop the new gas networks in its licence areas across Northern Ireland. At the end of 2011, a total of over 660 km 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 of Antrim, Craigavon, Banbridge, Newry & Armagh. Bord Gáis Energy continued to develop its portfolio of wind farms and progress its development of other projects such as North East Storage.

We believe that developing and maintaining good relationships are necessary to the success of any major construction project, be it network development or power generation. For every project, we engage with local stakeholders in an honest and proactive manner, holding open meetings, providing information leaflets, and allowing 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

In 2011, as a reflection of the change in strategy from customer acquisition to customer retention, a full review of the sponsorship portfolio was undertaken. The result was the decision to concentrate sponsorships under the two main pillars of reading-related and sports-related sponsorships.

Reading-related sponsorships

Bord Gáis supports a number of reading and book related initiatives including **Readiscover 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



Bord Gáis's portfolio of sports sponsorships was collectively designed to really make a difference in supporting local communities.

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. In November 2011, to celebrate the first anniversary of the Book Club, Bord Gáis Energy sponsored the build and stocking of a new library in Barretstown, a facility that offers children affected by childhood cancer and other illnesses the chance to have a break away from the reality of their condition. We decided to celebrate the birthday of the Bord Gáis Energy Book Club by sharing a love of books with these special children and their families.

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 2011, for the first time, the entire event was filmed for broadcast in a highlights show which aired on RTÉ One.

Sports sponsorships

Sport continues to play an increasingly important role in the wellbeing of Irish society. For 2011 Bord Gáis's portfolio of sports sponsorships was collectively designed to really make a difference in supporting local communities.

CORPORATE RESPONSIBILITY REVIEW (continued)

Bord Gáis' commitment to Gaelic Games is very strong as evidenced by the continued sponsorship of the **Bord Gáis Energy Ladies National Football Leagues**. We are in the third year of this sponsorship of the Ladies Gaelic Football Association. Once again in 2011, 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. Supporting the development of this vibrant sport is hugely important for female participation in sport and helping 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 third year. This sponsorship includes a dedicated U-21 Hurling website 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 sponsorship of the **Cork Senior Camogie Team**. In 2011, as part of this sponsorship, a new programme was introduced for "Fuelling Cork's Camogie Passion". The aim is to promote the sport across Cork county and give current and former players the opportunity to celebrate this great sport.

We completed our final year of the sponsorship of the **Bord Gáis Energy Cork City Marathon**. Once again thousands took to the streets of Cork city on the June Bank Holiday Monday to raise money for charities.

Overall, we have been delighted with the impact our sports sponsorships have had. Our sponsorships help communities and encourage people to take part in sport from the casual runner to the up and coming GAA stars of the future.

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 2011, Bord Gáis continued to support this initiative which, in addition to strengthening its presence in the Cork region, also expanded into the South East (Waterford, Wexford, Carlow and Kilkenny) and the Mid West (Tipperary, Limerick and Clare) and is now launching the programme in the Dublin area. To date, approximately 300 SMEs have been assisted by the programme and this number continues to grow. Approximately



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

Bord Gáis Networks, in association with it@Cork, Cork County Council and Barlogue Consultancy Services launched a new initiative called "Innovation That Matters" in 2011. it@Cork is a not-for-profit, independent business organisation representing the interests of the IT industry in Ireland. The primary focus of the "Innovation That Matters" award is to identify, recognise and promote technology concepts, products and services emanating from companies in Cork and the wider region.

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. 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.

In 2011, some of the key areas of safety issues included the large construction project underway with contractors for the construction of the new Networks Services Centre in Finglas, Dublin and the expansion of the Bord Gáis Assets portfolio. Overall, these were monitored and controlled by the continuation of existing health and safety processes around safety training & awareness; safety measurement and reporting; and contractor’s safety.

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 2011, provided health and safety training to over 221 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

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.

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. In 2011, the HazCon reports from staff were 168% of annual target.

Bord Gáis continues to use the “safety triangle” to report its safety performance. At the top of the triangle are the low frequency, high severity accidents; moving down the scale to low severity first aid cases, near misses and identified hazards. We believe that it is through the reporting of less severe incidents at the bottom of the triangle and the corrective actions taken, that we prevent the more serious accidents from occurring. In 2011, the combined total for contractor and staff Lost Time Accidents was reduced by 36%.

Contractor Safety

Bord Gáis extends its culture of safety to include contractors. It is conscious that, as a client organisation on projects, the company has a key role in influencing the safety of those doing the work. Safety is a key criteria used in tendering and selection of contractors and suppliers for high risk activities, such as construction projects.

Bord Gáis takes an active role in the management, supervision, auditing and inspection of work performed by contractors and supports schemes which promote safety amongst contractor employees. Bord Gáis encourages contractors to use the HazCon reporting structure and over the course of 2011 this resulted in vastly improved hazard reporting amongst our contractors. This resulted in over 3,900 hazard reports received from contractors in 2011.

CORPORATE RESPONSIBILITY REVIEW (continued)

Networks Services Centre (NSC)

Construction work on the new Networks Services Centre in Finglas commenced in June 2010 and was completed in December 2011. Throughout the project, health, safety and environment was the top priority. A joint project safety commitment was developed and signed by both the contractor (Walls Construction Ltd.) and Bord Gáis and was clearly displayed on large signage at the site entrance. Walls Construction Ltd. also implemented a "Great Catch" hazard reporting system for the first time on this site, based on our HazCon system. This system proved to be so successful, Walls Construction extended its use to other sites it is working on.

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, audits are regularly conducted to determine how Bord Gáis can improve its working environment for the benefit of employees with a disability.



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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.

In 2011, a total of 3,318 training days were undertaken by Bord Gáis staff. This is an average amount of training days per individual staff member of 2.94.

Other 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 as 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. In 2011, there were four separate groups of participants from across the organisation. The programme provided participants with a broad range of knowledge, skills and insights 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:

Chartered Accountants Ireland Accreditation

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. A significant benefit of this accreditation is the simplification of CPD recording requirements for CAI members employed by Bord Gáis. CAI's monitoring of members' CPD records in 2011 occurred centrally through Bord Gáis, rather than directly with individual members.

Technical Training Centre Accredited by Dublin Institute of Technology

On 18th November 2011, Bord Gáis Networks signed a general agreement with Dublin Institute of Technology (DIT) that officially marked the accreditation by DIT of the Bord Gáis Networks Technical Training School in Finglas. The signing of the agreement paves the way for Bord Gáis Networks to seek DIT validation for training courses held at the Technical Training School, and for trainees completing the DIT-validated courses to receive DIT accredited certification.

Graduate Development Programme

In 2011, 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 in November 2011 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 operated from our Foley Street office in Dublin for most of 2011, until the relocation to Warrington Place, and 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" Project

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'. A project team of Bord Gáis employees managed the process, working closely with GPTW. The findings of the staff survey were reported back to the company at the end of the year. Analysis of the results highlighted the key findings in each of the categories and identified areas where improvements could be made. The Great Place to Work list was published in February 2012, and saw Bord Gáis place on the list of Best Large Workplaces in Ireland 2012.

Encouraging and facilitating well-being and a healthy lifestyle for our staff is a significant feature in our workplace policy.

CORPORATE RESPONSIBILITY REVIEW (continued)

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 bulletins; intranet updates; the production of webcasts; annual staff briefing roadshows hosted by the CEO and Senior Management and more informal gatherings with employees by 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 2011 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.

Environment

Overview of Bord Gáis Energy Usage in 2011

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 to 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 2011 is given below.

Overview of Energy Usage in 2011

In preparation for the Third EU Energy Directive, Bord Gáis Éireann has separated operationally into Bord Gáis Energy and Group and Bord Gáis Networks. Gaslink, the Independent System Operator, will be integrated into Bord Gáis Networks to form the ITO, on enactment of the necessary legislation.

Operational separation necessitated substantial changes within the property portfolio. Additional properties within the property portfolio in 2011 include:

1. Warrington Place, Dublin 2 - Energy
2. The National Service Centre, Dublin 11 - Networks
3. Suite A, 3rd Floor, City Quarter, Cork - Energy
4. 2nd Floor, 6 Lapps Quay, Cork - Energy

The properties vacated in part or in full which remain within the property portfolio, include:

1. Citywest, Dublin 24 - Networks
2. Foley Street, Dublin 1 - Energy
3. Donmoy House, Dublin 11 - Networks

The properties vacated in full and which are no longer within the property portfolio as the leases have not been renewed include:

1. Sandyford, Dublin 18 - Networks
2. Joyces Court, Dublin 1 - Energy
3. Harbour Master, Dublin 1 - Energy
4. Castlebar, Co. Mayo - Networks

In addition to the substantial changes within the property portfolio, the following facilities had the desk arrangements changed to increase the occupancy density:

1. Gasworks Road, Cork - Networks
2. 1st Floor, City Quarter, Cork - Energy
3. 1st Floor, Lapps Quay, Cork - Energy

The schedules of Meter Point Reference Numbers and Gas Point Reference Numbers have been update to reflect the changes to the property portfolios of both Bord Gáis Energy and Bord Gáis Networks.

The prime energy uses within the property portfolio are Heating, Ventilation and Air-conditioning and the Data Centre in Gasworks Road, Cork.

In 2011, Bord Gáis Éireann consumed 11.7 GWh of energy. Presented below is a high level breakdown.

Fleet Consumption in 2011:

- 2.28 GWh of transport fuels including 2.23 GWh of Diesel and 0.05 GWh of Petrol. This equates to a 1% increase over the Fleet Consumption in 2010.

Bord Gáis Networks Facilities Consumption 2011:

- 3.77 GWh of electricity.
- 2.48 GWh of natural gas.

Bord Gáis Energy Facilities Consumption 2011 (these exclude the Facilities in Northern Ireland):

- 1.90 GWh of electricity.
- 1.27 GWh of natural gas.

This equates to a 22% increase over the Electricity Consumption in 2010 and a 37% increase over the Gas Consumption in 2010.

The increased consumption in 2011 can be attributed to the severe winter in early 2010; the dual occupancy of existing and new facilities during the relocation process; and the increased occupancy of the existing facilities. The consolidation of the property portfolio within better performing building stock is expected to achieve energy savings going forward.

Actions Undertaken in 2011

In 2011, Bord Gáis Éireann undertook a range of initiatives to improve our energy performance including:

- The consolidation of the existing Bord Gáis Energy Foley Street, Joyces Court and Harbour Master facilities within the new Warrington Place facility which has a B3 Building Energy Rating.
- The consolidation of the existing Bord Gáis Networks Citywest, Sandyford and Donmoy House facilities within the new National Service Centre which is currently undergoing BREEAM assessment.
- The consolidation of the existing Castlebar facility within the existing Galway facility.
- The installation of Outside Air Free Cooling for the data centre in Gasworks Road, Cork was completed in December 2011 and will be 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.
- The virtualisation of server cabinets and reduction in associated physical servers and associated power consumption both directly and indirectly is expected to save an estimated 26 MWh annually.

- The development of a Charter showing Bord Gáis Networks' commitment to working with the National Transport Authority (NTA) to establish and develop a "Smarter Travel Workplace" Programme for Bord Gáis Networks and its staff.
- The installation of a pilot Smart Metering System for improved monitoring of gas consumption.
- The procurement of a pilot Compressed Natural Gas (CNG) vehicle to support an options appraisal for a CNG fleet replacement strategy.

Altogether these, and other energy saving measures, are saving Bord Gáis Éireann an estimated 196 MWh annually. As a number of the initiatives were implemented late in 2011, their energy savings will not be realised until 2012.

Actions Planned for 2012

In 2012, Bord Gáis Éireann intends to further improve our energy performance by undertaking the following initiatives:

- Focusing on improving the operational efficiency of the new and existing facilities through low cost and no cost energy saving initiatives.
- Further support 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 have been developed by our Smarter Travel Team to help us be more sustainable in our travel practices. These initiatives include:
 - The launch of our car-sharing facility on www.carsharing.ie
 - Increasing our usage of video conferencing facilities
 - The unveiling of our dedicated smarter travel communication platform on the staff intranet
 - The establishment of Bicycle User Groups (BUGs)
 - The continued promotion of our Cycle to Work and TaxSaver schemes.
- The supply and installation of a CNG Fast Fill Filling Station in Gasworks Road, and the changeover of several vehicles to CNG fuel. This is expected to happen in late 2012.

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

CORPORATE RESPONSIBILITY REVIEW (continued)

Development of Dedicated Environmental Units

An Environmental unit within HSQE was established in 2010 to manage and co-ordinate environmental action planning for Bord Gáis Networks activities. This unit, reporting to the Head of HSQE, is headed up by an Environmental Manager, aided by an Environmental Analyst. In 2011, the responsibilities of the team included policy development, establishment of an Environmental Management System (EMS), environmental compliance and support of environmental considerations within each Networks project. The unit is also proactively involved with environmental initiatives associated with corporate responsibility.

In late 2011, a new Environment, Health and Safety (EHS) unit was established for Bord Gáis Energy. This team is tasked with the development of an EHS strategy for these business units and translating the approved strategies into policies and procedures, to ensure that the company operates to the highest environmental standards. The unit ensures that environmental risks are managed appropriately and provides support across the business on environmental issues. Their primary focus is to ensure that all aspects of the Assets and Retail operations are conducted in an environmentally responsible manner.

Smarter Travel Workplace Programme

Bord Gáis Networks has been engaged with the National Transport Authority for some time now in regard to their **Smarter Travel Workplace Programme**, which aims to highlight alternative travel options for employees beyond car use. This Programme is managed within Bord Gáis by a group of staff chosen from relevant areas, including the Environmental units.

The Smarter Travel Workplace Programme (STWP) seeks to identify alternative travel solutions for Bord Gáis staff and offer support in establishing processes around such solutions. The programme will also incorporate and promote some existing travel related initiatives facilitated at Bord Gáis including the Cycle to Work Scheme and TaxSaver Travel.

Travel by Train

Over the course of the year, the increase in business related rail travel by Bord Gáis staff was dramatic, balanced by a massive reduction in air and 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.

In late 2011, a new Environment, Health and Safety (EHS) unit was established for Bord Gáis Energy.

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 2011, it is estimated that there were over one million NGVs in Europe and over 13 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.

In 2010, Bord Gáis Networks invested in a Natural Gas Vehicle (NGV) for its fleet, and also developed a refuelling facility at its Finglas premise, to demonstrate a further application of Natural Gas as a transport fuel. In 2011, Bord Gáis Networks hosted a conference in Croke Park on Natural Gas Vehicles which was attended by over 170 delegates and speakers. The aim of the conference was to share information and facilitate discussion on the development of a CNG and NGV market in Ireland. There was 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.

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 used in cars reduces CO₂ 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.

GAS SUPPLIES REVIEW

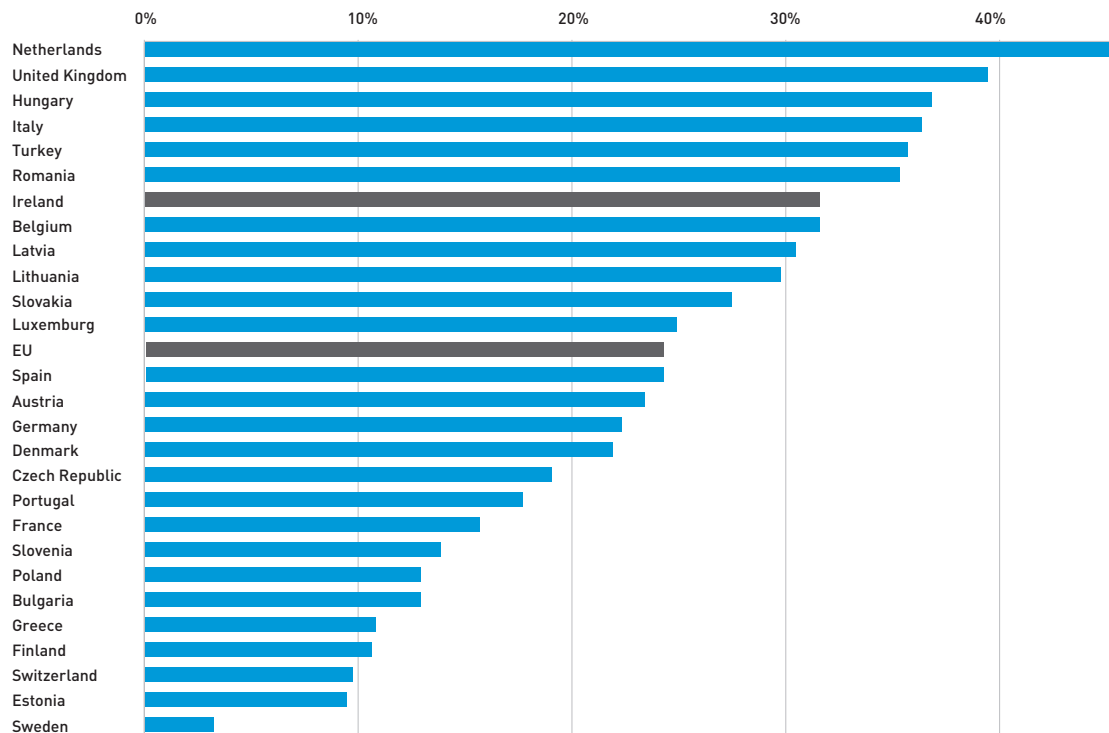
Energy and energy policy has become a focal point for governments and businesses alike as energy plays a vital role in all areas of economic activity. Ultimately security of supply falls under the jurisdiction of the Government and the Regulators. The information contained in this section looks only at the issue of gas supplies, and the correlation with wholesale gas prices.

The risks to energy security are strongly related to the availability of fuel supply and trends in energy demand. On the supply side, the key variables include the size of the physical resources, the supporting infrastructure, the methods and costs of extraction, geopolitical and weather events. Recent events have clearly demonstrated the impact of all of these factors on gas supplies.

Natural Gas in Ireland

Natural Gas accounts for 32% of primary energy demand in Ireland, which is ahead of both the worldwide and European averages of 24% and 25% respectively. The Irish gas market is small in a European context, using approximately 1% of total EU gas consumption. As an economy, we are largely dependent on imported energy sources. Ireland still has an unusually high dependence on oil – 50% of primary energy comes from oil, compared to 34% worldwide and 35% in Europe.

Figure 1: 2010 Share of Natural Gas in Primary Energy Consumption (%)



Source: Eurogas Statistical Report 2011

GAS SUPPLIES REVIEW (continued)

In 2011, 93% of the annual gas demand was sourced in Great Britain (GB) and transported to Ireland via the two sub sea inter-connectors between Scotland and Ireland. The remaining demand was met by Celtic Sea production and storage via the Inch Entry Point. Ireland's high dependence on GB gas is likely to remain until the Corrib gas field is operational. There are a number of other potential supply projects at various stages of development in both Ireland and Northern Ireland which, in the longer term, should reduce our dependence on GB gas and further improve Ireland's security of gas supply.

Corrib Gas Field

The Corrib gas field is now expected to start commercial production in 2014. Corrib is anticipated to meet, on average, 66% of annual gas demand and 37% of peak day gas demand in its first three full years of operation. The production profile is quite short, however, and is expected to decline within six years of its commencement.

Gas Storage

Ireland has one gas storage facility – off the south west coast at Kinsale. This facility has the capacity (depending on the levels of gas held in storage at any given time) to supply 10% of annual demand. Gas imports from Great Britain are used to refill the storage facility in addition to site production. The operator of the facility is currently examining the feasibility of developing additional storage at the site.

Islandmagee Storage Limited proposes to develop a 500 million cubic metres salt cavity storage facility under Larne Lough. The company has completed seismic testing and successfully submitted a planning application to the relevant authorities in Northern Ireland. Islandmagee Storage plans gas operations to commence in 2015.

North East Storage, a consortium of Bord Gáis and Storengy, have established the North East Storage project, to determine if there are subterranean salt layers present to the south west of Larne, which could potentially be used for underground natural gas storage. A seismic survey and subsequent analysis of the survey data was completed in 2010 and a test drill was carried out in early 2011 to complete the technical feasibility stage of the project. The initial results have indicated that suitable subterranean salt layers are present approximately 1500 metres (one mile) below the surface.

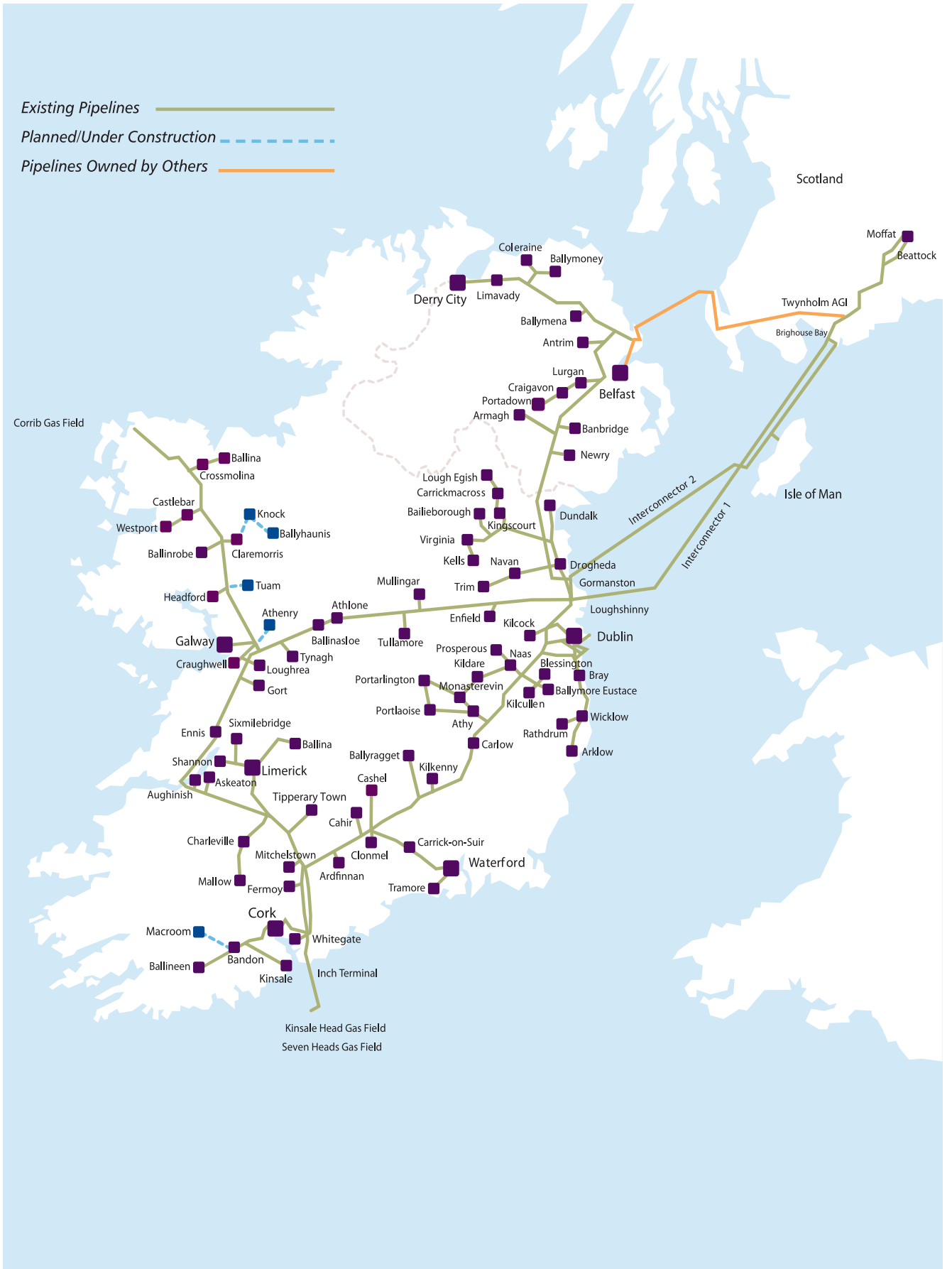
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Shannon LNG

Shannon LNG proposes to construct the country's first LNG terminal in the Shannon estuary. This project has received full planning permission. In December 2009, the terminal developers received the authorisation from the CER to construct a gas pipeline, which will connect the proposed LNG terminal to the national gas grid. The project is expected to be developed on a phased basis with phase 1 of commercial operations expected to commence in 2015/16.

Overall, the existing Irish transmission network infrastructure has the capacity to transport the anticipated gas demand to all end consumers in 2012 and beyond. It also has sufficient capacity to meet peak demands during adverse winter weather conditions.

Bord Gáis has no interests in production activities.

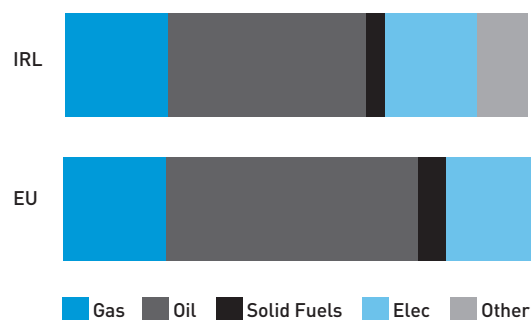


GAS SUPPLIES REVIEW (continued)

Overview of UK & Continental European Gas Market

The 27-member European Union represents over 16% of the world energy market. In terms of final energy consumption, Ireland's use of natural gas at 13% is considerably lower than the EU average of 22%. In Ireland, oil dominates final energy demand with a 64% share compared to 43% on average in the EU.

Figure 2: Final Energy Consumption by fuel



The UK, using c. 94bcm of gas per annum, is still the largest gas market in the EU. It is anticipated that the UK will have a 70% import dependence on natural gas by 2020 (UK National Grid, 2010). This is due to the anticipated depletion of production from the UK Continental Shelf (UKCS) at a rate of 4% per annum. This projected demand for imports has seen the UK invest in LNG terminals with the expansion of regasification terminals Dragon and South Hook at Milford Haven in South Wales, and the availability of Isle of Grain Phase 3, which was commissioned in December 2010. When all these projects are completed, the UK will have an LNG import capacity of 5 bcm per year and this is expected to rise to 23 bcm by 2020.

In 2010, the highest percentage of gas supplied in the EU continued to come from indigenous production, covering 35% of the total net supplied. The main external sources of supply are Russia (22%), Norway (19%), and Algeria (9%). Qatar became the fourth largest EU supplier at 7%, showing the growing importance of liquefied natural gas (LNG) as a source of gas supply. In 2010, almost one quarter of EU net imports were delivered by LNG.

The increase in the LNG receiving capacities in Europe, and the available global supply of LNG at competitive prices, contributed to growth of 24% in LNG supplies. The EU regasification capacity has more than doubled in the last five years. There were 18 LNG terminals in the EU in 2010, providing a total nominal regasification capacity of 175 bcm per year of gas. The main sources of LNG imports were Qatar (45%), Nigeria (19%), and Algeria (18%).

The number of natural gas underground storage facilities remained stable in 2010, with working volumes increasing by 3% and withdrawal capacity by 2%. Many countries are planning to construct new or expand existing storage sites, thus the number of facilities and working volumes are expected to increase in the coming years.

The number of natural gas underground storage facilities remained stable in 2010, with working volumes increasing by 3% and withdrawal capacity by 2%.

2010

	Reserves tcm	Share of World Reserves	Production bcm	Reserves to Production (R/P) Ratio (years)
North America	9.9	5.3%	826.1	12.0
South & Central America	7.4	4.0%	161.2	45.9
Europe & Eurasia	63.1	33.7%	1043.1	60.5
Africa	14.7	7.9%	209.0	70.5
Middle East	75.8	40.5%	460.7	>100 years
Asia Pacific	16.2	8.7%	493.2	32.8
Worldwide	187.1	100%	3193.3	58.6

tcm = trillion cubic metres

bcm = billion cubic metres

Source: BP Statistical Review of World Energy June 2011

Overview of World Gas Market

Global energy consumption in 2010 grew at above average rates, with consequent natural gas prices growing strongly in the UK and in markets indexed to oil prices.

World primary energy consumption grew by 5.6% in 2010, the largest increase (in percentage terms) since 1973. Chinese energy consumption grew by 11.2%, and China surpassed the US as the world's largest energy consumer. The world's Primary Energy Consumption by fuel in 2010 was Oil 34%, Coal 30%, Natural Gas 24%, Nuclear Energy 5%, Hydro-electricity 6% and Renewables 1%.

2010 World Gas Statistics

World natural gas consumption grew by 7.4% overall, the most rapid increase since 1984. Total world gas consumption in 2010 was 3,169 bcm. The US remained the largest consumer of gas in the world, consuming 683 bcm. The Russian Federation is the next largest consumer and used 414 bcm in 2010, followed by Iran (137 bcm), China (109 bcm), Japan (75 bcm), Canada and the UK (94 bcm), and Saudi Arabia (84 bcm). The total North American market is 846 bcm in size compared to 493 bcm for the EU. Ireland used about 5 bcm of gas in 2010.

In 2010, global natural gas production grew by 7.3%. The US continued as the world's largest producer of gas with production of 611 bcm, ahead of the Russian Federation's output of 589 bcm. The other large producers of gas include Canada with an output of 160 bcm, Iran with 139 bcm, Qatar with 117 bcm, Norway with 106 bcm, China with 97 bcm and Saudi Arabia with 84 bcm.

Natural gas trade grew by 10.1% in 2010, driven by strong growth of 23% in LNG shipments. LNG exports are dominated by the Middle East with Qatar, the world's largest LNG supplier, growing its exports by 53% in 2010. LNG now accounts for 31% of global gas trade. Pipeline shipments also grew by 5% in 2010, led by growth in Russia. Europe accounts for roughly 50% of global pipeline gas trade, with Ireland accounting for approx 2% of that total.

Proven world gas reserves in place at the end of 2010 were 187 tcm. World Reserves / Production Ratio (R/P) for gas in 2010 was 59 years. R/P ratios declined for each region, driven by rising production. The Middle East once again had the highest regional R/P ratio, while Middle East and Former Soviet Union regions jointly hold 72% of the world's gas reserves.

There are no reliable industry estimates of "unconventional" gas reserves i.e. gas produced from shale, coalbed methane, and other "tight" formations. New production techniques have made these accessible but it is difficult to predict the reserves and how much is recoverable. Volumes are believed to be many times larger than the conventional reserves with one estimate putting the reserves at 954 tcm.

REPORT OF THE BOARD

Year ended 31 December 2011

The Board presents its report together with the audited financial statements for the year ended 31 December 2011.

Principal Activities

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

Results and Business Review

The financial results show a profit before income tax and certain rerevaluations (arising from the implementation of the International Financial Reporting Standards (see notes 1 and 5)) for the financial year of €94.3 million compared to €122.8 million for 2010.

Details of the results for the year are set out in the Consolidated Income Statement and in the related notes. Further commentary on performance during the year ended 31 December 2011, including the financial position, information on recent events and likely future developments, are contained in the Chairman's Statement, the Chief Executive's Review and the Financial Review.

On 22 February 2012, the Minister for Public Expenditure and Reform announced the Government's intention to proceed with the sale of Bord Gáis Energy. Bord Gáis Éireann is engaging with the relevant Government departments and other stakeholders to ensure the best outcome of any sale for our shareholder, the company, its employees and the wider economy.

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 ("The Code of Practice"), updated in 2009. The Code sets out principles of corporate governance which the Board 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, issued in May 2010 replaces the Combined Code on Corporate Governance and applies to financial years beginning on or after 29 June 2010. The UK Corporate Governance Code 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.

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. However, the Board is committed to achieving the highest standards of corporate governance and ethical business conduct and has adopted relevant principles of the UK Corporate Governance Code. The principles 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. The Board currently has 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. 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.

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.

REPORT OF THE BOARD (continued)

Year ended 31 December 2011

Corporate Governance (continued)

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.

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.

A further revision to the UK Corporate Governance Code is expected to be published in 2012, with changes to apply to financial years beginning on or after 1 October 2012. The changes to the UK Corporate Governance Code are expected to include a requirement for listed companies to report annually on their boardroom diversity policy. During 2012, the Financial Reporting Council will also consider proposed changes in relation to audit committees and audit retendering and should these changes be agreed it is intended that they will also be incorporated in the revised Code. Bord Gáis Éireann will report on its compliance with the UK Corporate Governance Code 2012 in next year's annual report.

On 17 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. The Irish Annex came into effect for financial years beginning on or after 18 December 2010.

The new Irish Annex specifies details to be included in a company's Annual Report in relation to the following:

- Board composition;
- The process followed in Board appointments;
- The methodology followed in relation to Board evaluation;
- The objective and scope of the Board evaluation review, the methodology applied and the rationale for this methodology;
- The Board's policy for re-election;
- The work carried out by the Audit Committee during the financial year, in particular, the work done relating to the oversight of risk management on behalf of the Board;
- The Board's remuneration policy.

As part of the Listing Rules, companies listed on the Irish Stock Exchange are required to report on how they have applied the principles and either to confirm that they have complied with the provisions and where they have not, to provide an explanation. 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.

Board Membership

The names of the Board Members and a short biographical note on each Member are as set out on page 10.

At 31 December 2011, the Board comprised of the Chief Executive and eight independent non-executive Board Members (including the Chairman) who are appointed by the Minister. The only executive Board Member is the Chief Executive. There are currently two women (including the Chairman) and seven 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 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.

REPORT OF THE BOARD (continued)

Year ended 31 December 2011

Corporate Governance (continued)

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.

The Board

While day to day responsibility for leadership and control is delegated, within defined authority limits, to the Chief Executive and his Management Team, the Board is ultimately accountable for the long term success of Bord Gáis Éireann.

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 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 Management are also arranged.

Board papers, which include monthly Management Accounts, are sent to Board Members in the week prior to Board Meetings 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 or, 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 Secretary who is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with. Insurance cover is in place to protect Board Members and Officers against liability arising from legal actions taken against them in the course of their duties.

The Board 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. 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.

REPORT OF THE BOARD (continued)

Year ended 31 December 2011

Corporate Governance (continued)

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

Board Members' Remuneration

The Minister determines the fees payable to Board Members. Board Members' fees and expenses during 2011 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	17,426*
Proinsias Kitt	15,750
Joe O'Flynn	15,750
Mike O'Hara	15,750
Laurence K. Shields	15,750

*Ms. Imelda Hurley was appointed to the Board on 23 November 2010. Fees paid in 2011 were €15,750, along with a fee of €1,676 in respect of the period from 23 November 2010 to 31 December 2010 making a total of €17,426.

Expenses paid to Board Members during 2011, which are disclosed in accordance with The Code of Practice, were €13,707 and related to mileage/other travel, subsistence and telephone expenses.

The remuneration of the Chief Executive is 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 3 to the Financial Statements.

Board Members' Independence

Non-executive Board Members are independent of management and are required to declare any interests or relationship which could interfere with the exercise of their independent judgement.

Board 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 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 the 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. 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 has not been 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.

REPORT OF THE BOARD (continued)

Year ended 31 December 2011

Corporate Governance (continued)

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.

Attendance at Meetings

Board Member	Attendance at Scheduled Meetings*
Rose Hynes (Chairman)	9/9
John Mullins (Chief Executive)	9/9
Laurence Crowley	9/9
Aidan Eames	9/9
Imelda Hurley	9/9
Proinsias Kitt	7/9
Joe O'Flynn	7/9
Mike O'Hara	7/9
Laurence K. Shields	9/9

*There were no Special Board Meetings held during 2011.

Board Committees in 2011

The Board has an effective committee structure to assist in the discharge of its responsibilities. At 31 December 2011, the Board had four committees, each of which has formal terms of reference.

The following table outlines membership of the committees and attendance at meetings during 2011:

Audit and Finance		Risk		Investment and Infrastructure		Remuneration	
P. Kitt	1/1 (p)	A. Eames (Chairman)	4/4	L.K. Shields (Chairman)	5/5	R. Hynes (Chairman)	3/3
I. Hurley (Chairman)	4/4	L. Crowley	4/4	R. Hynes	5/5	A. Eames	3/3
L. Crowley	4/4	P. Kitt	2/4	J. Mullins	5/5	M. O'Hara	3/3
A. Eames	4/4	I. Hurley	4/4	J. O'Flynn	5/5	L.K. Shields	3/3
J. O'Flynn	3/4						

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

Audit and Finance Committee

The Audit and Finance Committee is a formally constituted committee of the Board with written Terms of Reference. The main function of the Audit and Finance Committee is to assist 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. 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 Internal and External Auditors meet with the Audit and Finance Committee as provided for in the Committee's Terms of Reference and the Internal Audit Charter. The Audit and Finance Committee meets quarterly with the Internal Audit function and periodically with the External Auditors to discuss control issues, financial reporting and other related matters. The Chairman of the Audit and Finance Committee reports to the Board on all significant issues considered by the Committee.

During 2011 the Audit and Finance Committee reviewed the annual financial statements, the system of internal controls, the reports of the Head of Internal Audit and Risk and External Auditors, monitored the effectiveness of internal audit and considered and made recommendations to the Board on the annual operating plan and budget.

REPORT OF THE BOARD (continued)

Year ended 31 December 2011

Corporate Governance (continued)

The Audit and Finance Committee Terms of Reference, which are reviewed on an annual basis, include the consideration and recommendation on the appointment of the External Auditor. The Committee has approved a policy on the engagement of the External Auditor for non-audit work which ensures that independence and objectivity is safeguarded in accordance with best practice. The Internal and External Auditors have full and unrestricted access to the Audit and Finance Committee. 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 Board is satisfied that at all times during the year at least one Member of the Committee had recent and relevant financial experience.

The level of non-audit related services provided by the External Auditors and the associated fees is considered annually by the Audit and Finance Committee in the context of the External Auditor's independence as part of the Audit and Finance Committee's review of the adequacy and objectivity of the external audit process.

A Raising Concerns Policy is included in the Code of Business Conduct. Review of this policy is included in the Programme of Work of the Audit and Finance 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 and monitors 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. 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 Chief Executive accepted a voluntary pay cut to €250,000 annually from 1 August 2011. During 2011 the Chief Executive agreed to forego performance related awards for 2010 which would have been based on targets attained in 2008, 2009 and 2010 in line with the expectations of Government. In addition, the Chief Executive voluntarily agreed to forego performance related awards for 2011 and 2012 on the basis that the expectations of Government are not changed in the intervening period. 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. During 2011 the Committee considered the 2010 achievements and 2011 targets for performance related pay which is linked to the Balanced Scorecard process.

Nomination Committee

The authority to appoint Board Members is vested in the Minister for Communications, Energy and Natural Resources and therefore the matter of constituting a Nomination Committee does not require consideration by the Board. However, 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.

REPORT OF THE BOARD (continued)

Year ended 31 December 2011

Corporate Governance (continued)

Independent Transmission Operator (ITO) Working Group

During 2011 an ITO Working Group was established with the authority to guide and advise senior networks executives on the development of principles and terms of unbundling having regard to the position of the future ITO. The Chairman of the ITO Working Group is Mr. Proinsias Kitt and he attended six out of a possible seven meetings held during 2011. As a non-executive Board Member, Mr. Kitt acts as a representative of the Board and reports back to the Board on a regular basis in relation to the activities of the ITO Working Group. The other members are a combination of senior networks executives and external appointees with significant experience in this sector.

Communication with the Principal Shareholder

Through regular contact with the Department of Communications, Energy and Natural Resources, the Board and management 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 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. The issues addressed by the Third Directive include further unbundling of gas transmission from gas supply, which for Bord Gáis Éireann will be based on the Independent Transmission Operator ("ITO") option. A reorganisation of Bord Gáis Éireann consequent upon the implementation of the Third Directive could have a material effect on Bord Gáis Éireann's business, results of operations and/or financial condition. A separate executive led project is now in place to deliver this reorganisation in compliance with the Third Directive. The other main regulatory risks faced by Bord Gáis Éireann include licence compliance, the impact of price control reviews, and other changes to market mechanisms such as the Single Electricity Market (SEM) and the planned Common Arrangement 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 and Great Britain on regulatory developments. These activities are overseen by regulatory and risk functions at corporate level to ensure continued compliance with all regulatory requirements.

Financing: Continuing financial market turmoil has increased Bord Gáis Éireann's exposure to interest rate, currency, liquidity, sovereign credit rating and counterparty risks. These risks are managed centrally by the Treasury function, within parameters set out in the Treasury Policy. 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.

Business Development Activity: Business development activities, including acquisitions and investments in new businesses and new energy assets, may not deliver the planned growth or rate of return due to unanticipated events. Detailed plans and mitigating actions are in place to ensure such risks are minimised.

REPORT OF THE BOARD (continued)

Year ended 31 December 2011

Principal Risks and Uncertainties (continued)

Project Delivery: Project delivery in general is subject to technical, commercial, contractor, planning permission, relevant approvals, financing and economic risks. Failure to secure grid connections is an additional key risk on electricity development projects. 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 234MW 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. An Actuarial Valuation as at 1 April 2011 was completed during the year which 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 2012. 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.

REPORT OF THE BOARD (continued)

Year ended 31 December 2011

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 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 (formally the "Combined Code") and the Irish Corporate Governance Annex.

REPORT OF THE BOARD (continued)

Year ended 31 December 2011

Internal Controls (continued)

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 e-mail 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 e-mail address, is published on the website.

REPORT OF THE BOARD (continued)

Year ended 31 December 2011

Interests of Board Members and Secretary

The non-executive Board Members had no interest in Bord Gáis Éireann or subsidiary companies during the year. The Chief Executive and Secretary are beneficiaries of the Employee Share Ownership Plan. In line with the rules of the plan, capital stock cannot be appropriated any earlier than three years post notional allocation.

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 28 "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. Subject to Ministerial approval, Bord Gáis Éireann retains the right to put in place alternative arrangements to amend the term of appointment, should the implementation requirements of the Third Directive so dictate.

For and on behalf of the Board:



Chairman



Member of the Board

22 March 2012

Date of Approval

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Board Responsibilities Statement

Year ended 31 December 2011

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 Bord Gáis Éireann and its subsidiaries and of its profit for the year. The Board Members have 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.

For and on behalf of the Board:



Chairman



Member of the Board

22 March 2012

Date of Approval

Independent Auditor's Report

To the members of Bord Gáis Éireann

We have audited the financial statements of Bord Gáis Éireann for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Board Statement of Financial Position, the Board Statement of Changes in Equity, the Board Statement of Cash Flows and the related notes 1 to 48. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the members, 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

The Board is responsible for preparing the Annual Report, including as set out in the Board Responsibilities Statement, the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our responsibility, as independent auditor, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union. We also report to you whether in our opinion: proper books of account have been kept by Bord Gáis Éireann; and whether the information given in the Report of the Board is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit and whether the Board Statement of Financial Position is in agreement with the books of account.

We review whether the statement regarding the system of internal financial control required by the Code of Practice for the Governance of State Bodies made in the Report of the Board reflects Bord Gáis Éireann's compliance with the relevant provisions of the Code and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of Bord Gáis Éireann's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. The other information comprises only the Report of the Board, the Chairman's Statement, the Chief Executive's Review and the Financial Review. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements and of whether the accounting policies are appropriate to Bord Gáis Éireann's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditor's Report (continued)

To the members of Bord Gáis Éireann

Opinion

In our opinion the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the affairs of Bord Gáis Éireann and the Board as at 31 December 2011 and of the profit of Bord Gáis Éireann for the year then ended.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by Bord Gáis Éireann. The Board 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.

Chartered Accountants and Registered Auditors
Cork
22 March 2012

Notes: 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.

Consolidated Income Statement

For the year ended 31 December 2011

		Before certain remeasure- ments	Certain remeasure- ments (note 5)	Results for the year	Before certain remeasure- ments	Certain remeasure- ments (note 5)	Results for the year
	Notes	2011 €'000	2011 €'000	2011 €'000	2010 €'000	2010 €'000	2010 €'000
Continuing operations							
Revenue	2	1,608,357	-	1,608,357	1,525,263	-	1,525,263
Cost of sales		(999,031)	-	(999,031)	(934,524)	-	(934,524)
Gross profit		609,326	-	609,326	590,739	-	590,739
Operating costs (excluding depreciation and amortisation)	3	(265,837)	-	(265,837)	(260,119)	-	(260,119)
Operating profit before depreciation and amortisation (EBITDA)		343,489	-	343,489	330,620	-	330,620
Net changes in fair value of operating derivatives		-	2,093	2,093	-	(4,365)	(4,365)
Depreciation and amortisation	4	(162,770)	-	(162,770)	(132,145)	-	(132,145)
Operating profit		180,719	2,093	182,812	198,475	(4,365)	194,110
Finance income	6	1,706	3,772	5,478	3,243	6,073	9,316
Finance costs	6	(87,887)	-	(87,887)	(78,241)	-	(78,241)
Net finance costs		(86,181)	3,772	(82,409)	(74,998)	6,073	(68,925)
Share of loss of joint ventures	11	(197)	-	(197)	(694)	-	(694)
Profit before income tax		94,341	5,865	100,206	122,783	1,708	124,491
Income tax expense	7	(12,278)	(733)	(13,011)	(2,604)	(214)	(2,818)
Profit for the year		82,063	5,132	87,195	120,179	1,494	121,673
Profit attributable to:							
Owners of Bord Gáis Éireann		82,063	5,132	87,195	120,179	1,494	121,673
Profit for the year		82,063	5,132	87,195	120,179	1,494	121,673

For and on behalf of the Board:



Chairman



Member of the Board

22 March 2012

Date of Approval

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 €'000	2010 €'000
Profit for the year		87,195	121,673
Other comprehensive income			
Translation differences on consolidation of foreign subsidiaries	17	(152)	(480)
Translation differences on consolidation of foreign joint ventures	17	51	41
Net change in fair value of cash flow hedges	17	(7,149)	7,031
Deferred tax on cash flow hedge movement	17	894	(879)
Defined benefit plan actuarial losses	19	(23,977)	(12,097)
Deferred tax credit relating to defined benefit obligations	13	2,997	1,511
Other comprehensive income for the year, net of income tax		(27,336)	(4,873)
Total comprehensive income for the year		59,859	116,800
Total comprehensive income attributable to:			
Owners of Bord Gáis Éireann		59,859	116,800
Total comprehensive income for the year		59,859	116,800

For and on behalf of the Board:



Chairman



Member of the Board

22 March 2012

Date of Approval

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Assets				
Non-current assets				
Property, plant and equipment	9	3,593,396	3,552,231	3,513,578
Intangible assets	10	214,200	193,462	155,369
Trade and other receivables	15	220	4,238	4,661
Investment in joint ventures	11	9,270	14,783	15,436
Financial asset investments	12	2,761	2,761	1,761
Derivative financial instruments	24	17,643	527	227
Deferred tax assets	13	19,753	20,581	19,544
Total non-current assets		3,857,243	3,788,583	3,710,576
Current assets				
Inventories	14	48,864	33,983	29,084
Derivative financial instruments	24	24,271	29,892	15,608
Trade and other receivables	15	322,771	351,105	325,262
Current tax assets	13	2,527	2,561	-
Restricted deposits	16	47,825	30,806	35,160
Cash and cash equivalents	16	253,446	229,654	354,795
Total current assets		699,704	678,001	759,909
Total assets		4,556,947	4,466,584	4,470,485
Equity and liabilities				
Equity				
Capital stock	17	(100,000)	(100,000)	(98,862)
Capital premium	17	(29,426)	(29,426)	(20,208)
Cash flow hedge reserve	17	30,971	24,716	30,868
Translation reserve	17	540	439	-
Retained earnings	17	(1,349,649)	(1,317,643)	(1,248,185)
Total equity attributable to equity holders of Bord Gáis Éireann		(1,447,564)	(1,421,914)	(1,336,387)
Liabilities				
Non-current liabilities				
Borrowings and other debt	18	(2,126,683)	(2,040,421)	(1,975,233)
Retirement benefit obligations	19	(37,391)	(20,899)	(23,130)
Trade and other payables	23	(28,709)	(35,396)	(21,286)
Provisions	22	(12,432)	(23,551)	(44,227)
Deferred tax liabilities	13	(229,863)	(219,448)	(210,511)
Deferred revenue and government grants	21	(116,192)	(124,270)	(134,011)
Derivative financial instruments	24	(53,947)	(85,454)	(156,002)
Total non-current liabilities		(2,605,217)	(2,549,439)	(2,564,400)
Current liabilities				
Borrowings and other debt	18	(69,491)	(11,516)	(108,828)
Trade and other payables	23	(371,721)	(432,958)	(393,952)
Current tax liabilities	13	-	-	(4,201)
Deferred revenue and government grants	21	(23,264)	(14,711)	(12,524)
Provisions	22	(6,644)	(24,582)	(11,390)
Derivative financial instruments	24	(33,046)	(11,464)	(38,803)
Total current liabilities		(504,166)	(495,231)	(569,698)
Total liabilities		(3,109,383)	(3,044,670)	(3,134,098)
Total equity and liabilities		(4,556,947)	(4,466,584)	(4,470,485)

For and on behalf of the Board:



Chairman



Member of the Board

22 March 2012

Date of Approval

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Capital stock	Capital premium	Cash flow hedge reserve	Translation reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2010	98,862	20,208	(30,868)	-	1,248,185	1,336,387
Total comprehensive income for the year						
Profit for the year	-	-	-	-	121,673	121,673
Other comprehensive income for the year, net of income tax	-	-	6,152	(439)	(10,586)	(4,873)
Total comprehensive income for the year	-	-	6,152	(439)	111,087	116,800
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of capital stock	1,024	9,218	-	-	(10,242)	-
Allocation of capital stock from reserves	114	-	-	-	(114)	-
Dividends paid	-	-	-	-	(31,273)	(31,273)
Total contributions by and distributions to owners	1,138	9,218	-	-	(41,629)	(31,273)
Balance at 31 December 2010	100,000	29,426	(24,716)	(439)	1,317,643	1,421,914
Total comprehensive income for the year						
Profit for the year	-	-	-	-	87,195	87,195
Other comprehensive income for the year, net of income tax	-	-	(6,255)	(101)	(20,980)	(27,336)
Total comprehensive income for the year	-	-	(6,255)	(101)	66,215	59,859
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(34,209)	(34,209)
Total contributions by and distributions to owners	-	-	-	-	(34,209)	(34,209)
Balance at 31 December 2011	100,000	29,426	(30,971)	(540)	1,349,649	1,447,564

All attributable to owners of Bord Gáis Éireann.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 €'000	2010 €'000
Cash flows from operating activities			
Profit for the year		87,195	121,673
Adjustments for:			
Depreciation and amortisation	4	162,770	132,145
(Gain)/loss on sale of property, plant and equipment		(17)	129
Share of loss of joint ventures	11	197	694
Net finance cost	6	82,409	68,925
Income tax expense	7	13,011	2,818
Operating derivatives (gain)/loss	5	(2,093)	4,365
		343,472	330,749
Working capital changes:			
Change in inventories		(14,687)	(4,899)
Change in trade and other receivables		27,167	(26,545)
Change in trade and other payables		(13,534)	(9,185)
Change in deferred revenue		5,287	(3,132)
Cash outflows in respect of:			
- Third Directive provision		(8,294)	(4,642)
- Restructuring/other provisions		(6,926)	(4,382)
Change in self-insured claims provision		(585)	(495)
Cash generated from operating activities		331,900	277,469
Interest paid		(98,021)	(100,879)
Income tax paid		(25)	(520)
Net cash generated by operating activities		233,854	176,070
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		149	376
Movements in restricted deposits		(16,280)	4,354
Payments for property, plant and equipment		(180,383)	(120,002)
Payments for intangible assets		(35,211)	(31,099)
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)	(3,000)
Dividends received from financial asset investments		600	400
Interest received		1,578	1,891
Net cash used in investing activities		(256,754)	(148,080)
Cash flows from financing activities			
Proceeds from issue of capital stock	17	-	10,242
Transformation savings paid to ESOT	17	-	(10,242)
Proceeds from borrowings		202,385	96,937
Repayment of borrowings		(121,640)	(219,038)
Dividends paid	17	(34,209)	(31,273)
Net cash from/(used in) financing activities		46,536	(153,374)
Net increase/(decrease) in cash and cash equivalents	16	23,636	(125,384)
Cash and cash equivalents at 1 January	16	229,654	354,795
Effect of exchange rate fluctuations on cash held	16	156	243
Cash and cash equivalents at 31 December	16	253,446	229,654

Board Statement of Financial Position

As at 31 December 2011

	Notes	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Assets				
Non-current assets				
Property, plant and equipment	34	2,595,004	2,593,760	2,537,157
Intangible assets	35	102,138	88,458	54,148
Trade and other receivables	39	-	605	951
Investment in subsidiary undertakings	36	418,047	391,514	377,256
Investment in joint ventures	36	11,200	18,486	18,486
Financial asset investments	36	1,025	1,025	25
Derivative financial instruments	46	17,643	527	227
Total non-current assets		3,145,057	3,094,375	2,988,250
Current assets				
Inventories	38	47,413	32,840	27,941
Derivative financial instruments	46	24,271	29,892	15,608
Trade and other receivables	39	835,814	858,466	828,424
Current tax assets	37	2,899	2,632	-
Restricted deposits	40	38,856	22,566	32,726
Cash and cash equivalents	40	221,092	202,066	314,287
Total current assets		1,170,345	1,148,462	1,218,986
Total assets		4,315,402	4,242,837	4,207,236
Equity and liabilities				
Equity				
Capital stock	41	(100,000)	(100,000)	(98,862)
Capital premium	41	(29,426)	(29,426)	(20,208)
Cash flow hedge reserve	41	9,233	11,144	20,436
Retained earnings	41	(1,442,042)	(1,418,584)	(1,336,936)
Total equity attributable to equity holders of the Board		(1,562,235)	(1,536,866)	(1,435,570)
Liabilities				
Non-current liabilities				
Borrowings and other debt	42	(1,909,893)	(1,819,880)	(1,745,793)
Retirement benefit obligations	19	(37,391)	(20,899)	(23,130)
Trade and other payables	45	(23,359)	(31,394)	(26,062)
Provisions	44	(12,432)	(23,551)	(44,227)
Deferred tax liabilities	37	(186,183)	(177,528)	(167,263)
Deferred revenue and government grants	43	(83,581)	(90,819)	(99,986)
Derivative financial instruments	46	(16,109)	(58,470)	(133,571)
Total non-current liabilities		(2,268,948)	(2,222,541)	(2,240,032)
Current liabilities				
Borrowings and other debt	42	(55,458)	-	(98,411)
Trade and other payables	45	(367,631)	(434,547)	(368,119)
Current tax liabilities	37	-	-	(4,185)
Deferred revenue and government grants	43	(21,440)	(12,837)	(10,726)
Provisions	44	(6,644)	(24,582)	(11,390)
Derivative financial instruments	46	(33,046)	(11,464)	(38,803)
Total current liabilities		(484,219)	(483,430)	(531,634)
Total liabilities		(2,753,167)	(2,705,971)	(2,771,666)
Total equity and liabilities		(4,315,402)	(4,242,837)	(4,207,236)

For and on behalf of the Board:



Chairman



Member of the Board

22 March 2012

Date of Approval

Board Statement of Changes in Equity

For the year ended 31 December 2011

	Capital stock	Capital premium	Cash flow hedge reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2010	98,862	20,208	(20,436)	1,336,936	1,435,570
Total comprehensive income for the year					
Profit for the year	-	-	-	133,863	133,863
Other comprehensive income for the year, net of income tax	-	-	9,292	(10,586)	(1,294)
Total comprehensive income for the year	-	-	9,292	123,277	132,569
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of capital stock	1,024	9,218	-	(10,242)	-
Allocation of capital stock from reserves	114	-	-	(114)	-
Dividends paid	-	-	-	(31,273)	(31,273)
Total contributions by and distributions to owners	1,138	9,218	-	(41,629)	(31,273)
Balance at 31 December 2010	100,000	29,426	(11,144)	1,418,584	1,536,866
Total comprehensive income for the year					
Profit for the year	-	-	-	78,647	78,647
Other comprehensive income for the year, net of income tax	-	-	1,911	(20,980)	(19,069)
Total comprehensive income for the year	-	-	1,911	57,667	59,578
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends paid	-	-	-	(34,209)	(34,209)
Total contributions by and distributions to owners	-	-	-	(34,209)	(34,209)
Balance at 31 December 2011	100,000	29,426	(9,233)	1,442,042	1,562,235

All attributable to owners of the Board.

Board Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 €'000	2010 €'000
Cash flows from operating activities			
Profit for the year		78,647	133,863
Adjustments for:			
Depreciation and amortisation		115,358	85,486
Gain on sale of property, plant and equipment		(21)	(14)
Net finance cost		52,793	36,385
Income tax expense		11,370	4,761
Operating derivatives (gain)/loss		(2,093)	4,365
		256,054	264,846
Working capital changes:			
Change in inventories		(14,573)	(4,899)
Change in trade and other receivables		39,301	(12,314)
Change in trade and other payables		(7,896)	30,645
Change in deferred revenue		5,287	(3,132)
Cash outflows in respect of:			
- Third Directive provision		(8,294)	(4,642)
- Restructuring/other provisions		(6,926)	(4,382)
Change in self-insured claims provision		(585)	(495)
Cash generated from operating activities		262,368	265,627
Interest paid		(86,875)	(87,773)
Income tax paid		(25)	(520)
Net cash generated from operating activities		175,468	177,334
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		76	55
Movements in restricted deposits		(15,549)	10,460
Payments for property, plant and equipment		(131,455)	(113,653)
Payments for intangible assets		(34,368)	(26,539)
Payments to acquire financial asset investments		-	(1,000)
Payments in relation to acquisitions and subsidiary capital contributions		(13,752)	(12,700)
Payments in relation to acquisitions - deferred consideration		(26,654)	(3,000)
Dividends received from financial asset investments		600	400
Interest received		1,578	1,833
Net cash used in investing activities		(219,524)	(144,144)
Cash flows from financing activities			
Proceeds for capital stock	41	-	10,242
Transformation savings paid to ESOT	41	-	(10,242)
Proceeds from borrowings		202,385	96,937
Repayment of borrowings		(105,219)	(211,238)
Dividends paid	41	(34,209)	(31,273)
Net cash from/(used in) financing activities		62,957	(145,574)
Net increase/(decrease) in cash and cash equivalents	40	18,901	(112,384)
Cash and cash equivalents at 1 January	40	202,066	314,287
Effect of exchange rate fluctuations on cash held	40	125	163
Cash and cash equivalents at 31 December		221,092	202,066

Notes to the Financial Statements

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Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. Statement of Accounting Policies

1.1. Basis of Preparation

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

The consolidated financial statements comprise the financial statements of Bord Gáis Éireann and all of its subsidiaries, together with Bord Gáis Éireann's interest in joint ventures. The financial statements of the Board represent the holding entity financial statements, standing alone.

The 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 financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU (EU IFRS), and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective for accounting periods ending on or before 31 December 2011.

These are Bord Gáis Éireann's first set of financial statements prepared in accordance with EU IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of Bord Gáis Éireann is provided in the notes to the financial statements.

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 32.

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

1.2. New Accounting Standards and Interpretations

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011 and have not been applied in preparing these consolidated financial statements. The application of these new standards, amendments and interpretations is either not expected to have a material impact on the consolidated financial statements or is still under assessment:

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* (1 January 2014)
- Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* (1 January 2013)
- IFRS 9 *Financial Instruments* (1 January 2015)
- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* (1 July 2012)
- IAS 19 *Employee Benefits* (1 January 2013)
- IFRS 13 *Fair Value Measurement* (1 January 2013)
- IFRS 12 *Disclosure of Interests in Other Entities* (1 January 2013)
- IFRS 11 *Joint Arrangements* (1 January 2013)
- IFRS 10 *Consolidated Financial Statements* (1 January 2013)
- IAS 28 *Investments in Associates and Joint Ventures* (1 January 2013)
- IAS 27 *Separate Financial Statements* (1 January 2013)
- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* (1 January 2012)
- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (1 July 2011)
- Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* (1 July 2011)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. Statement of Accounting Policies (continued)

1.3. Certain Remeasurements

As permitted by IAS 1 *Presentation of Financial Statements*, Bord Gáis Éireann has disclosed additional information in respect of certain remeasurements on the face of the income statement to aid understanding of Bord Gáis Éireann'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 Bord Gáis Éireann's policy for such financial instruments. Bord Gáis Éireann does not use derivatives for speculative purposes.

For financial reporting purposes, Bord Gáis Éireann 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* (IAS 39) 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 1.13).

1.4. Basis of Consolidation

a. Subsidiaries

Subsidiaries are companies controlled by Bord Gáis Éireann. Control exists when Bord Gáis Éireann 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 subsidiary undertakings are included in the consolidated financial statements from the date control commences until the date control ceases.

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 consolidated financial statements.

b. Joint ventures

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

1.5. Accounting for Business Combinations

Business combinations are accounted for using the acquisition method.

Bord Gáis Éireann measures goodwill 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 Bord Gáis Éireann incurs in connection with a business combination are expensed as incurred.

In line with the exemption set out in IFRS 1 *First-time Adoption of International Financial Reporting Standards* Bord Gáis Éireann has elected not to restate business combinations prior to the transition date.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. Statement of Accounting Policies (continued)

1.6. Foreign Currency

These financial statements are presented in euro, which is both the functional currency of the Board and the reporting currency of Bord Gáis Éireann.

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 income and expenses of foreign operations are translated to euro at average exchange rates for the period. Exchange differences arising are recognised in other comprehensive income and dealt with as a separate component of equity (translation reserve).

1.7. Intangible Assets

Goodwill

Initially goodwill is measured, as the excess of 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, over the net recognised amount of the identifiable assets acquired and liabilities assumed. Any excess of Bord Gáis Éireann's share of the net fair value of the identifiable assets, liabilities, and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Thereafter, goodwill is measured at cost after impairment losses. Goodwill is reviewed for impairment at least on an annual basis.

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 as outlined below.

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 *Intangible Assets* are met. Costs capitalised represent the costs incurred in bringing individual wind farm developments to the consented stage. These assets are tested annually for impairment.

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.

Software and software under development

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 Bord Gáis Éireann. 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.

These costs are amortised, on a straight line basis, over their estimated useful lives of up to seven years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. Statement of Accounting Policies (continued)

1.8. Property, Plant and Equipment

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. Capitalisation of interest ceases when the asset is commissioned or where active development has been interrupted for an extended period.

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 assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Major asset classifications and their estimated useful lives are:

Land and buildings	0% - 3.0%
Plant, pipeline and machinery	1.7% - 14.3%
Assets under construction	0%

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

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 Bord Gáis Éireann, 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.

Assets under construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their productive use. No depreciation is charged on assets under construction.

1.9. Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as a cost of that asset, until such time as the asset is substantially ready for its intended use or sale.

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

1.10. Impairment of Assets

Assets that have an indefinite useful life and assets that are not yet available for use (including assets under construction) are tested annually for impairment.

The carrying amounts of assets that are subject to depreciation and amortisation are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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 cash-generating unit 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. Statement of Accounting Policies (continued)

1. 11. Leases

Leases in terms of which Bord Gáis Éireann 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.

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

In accordance with SIC (Standing Interpretations Committee) Interpretation 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.

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.

1. 12. 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.

1. 13. Financial Assets and Liabilities

i. 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 subsequently carried at amortised cost using the effective interest rate method less any 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. Statement of Accounting Policies (continued)

1.13. Financial Assets and Liabilities (continued)

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.

Financial assets/liabilities at fair value through profit or loss

Financial instruments classified as assets/liabilities at fair value through profit or loss are financial instruments either (a) held for trading or (b) designated as such at inception.

- (a) Instruments held for trading are those that are acquired principally for the purpose of sale in the near term, are part of a portfolio of investments, which are managed together and where short-term profit taking occurs, or are derivative financial instruments, other than those in effective hedging relationships.
- (b) Bord Gáis Éireann designates financial assets/liabilities at inception as "fair value through profit or loss" if (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, (ii) it forms part of a group of financial assets or group of financial liabilities or both, which is managed and has its performance evaluated on a fair value basis or (iii) it forms part of a contract containing one or more embedded derivatives. The assets/liabilities are recognised at fair value, with transaction costs being recognised in profit or loss, and are subsequently measured at fair value. Gains and losses on financial assets/liabilities that are designated at fair value through profit or loss are recognised in the income statement as they arise.

ii. Derivative financial instruments

Bord Gáis Éireann uses derivative financial instruments and non-derivative financial instruments to hedge its exposure to foreign exchange, interest rate, and commodity price risk arising from operational, financing and investing activities. The principal derivatives used include; interest rate swaps, inflation linked interest rate swaps, currency swaps, and forward foreign currency contracts.

Within its regular course of business, Bord Gáis Éireann 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 Bord Gáis Éireann'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. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value are recognised in accordance with IAS 39 as 'cash flow' hedges or 'fair value' hedges.

Financial derivative instruments are used by Bord Gáis Éireann 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. Statement of Accounting Policies (continued)

1. 13. Financial Assets and Liabilities (continued)

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.

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.

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.

iii. Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, these borrowings are stated at amortised cost using the effective interest rate method.

1. 14. Provisions

A provision is recognised if, as a result of a past event, Bord Gáis Éireann 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 Bord Gáis Éireann 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. 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. Statement of Accounting Policies (continued)

1. 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 Bord Gáis Éireann will comply with the conditions attaching to it. Grants that compensate Bord Gáis Éireann 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 Bord Gáis Éireann 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.

1. 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 ESOP Trustee Limited.

1. 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 Bord Gáis Éireann'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.

1. 18. Operating Profit

Operating profit is stated before net finance costs and the share of results of joint ventures.

1. 19. Net Finance Costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognised in profit or loss on the date that Bord Gáis Éireann'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 available-for-sale financial assets, fair value losses on financial assets at fair value through profit or loss, impairment losses recognised on financial assets (other than trade receivables), and losses on hedging instruments that are recognised in profit or loss.

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 rate method.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. Statement of Accounting Policies (continued)

1.20. 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 them on a net basis or to realise the asset and settle the liability simultaneously.

1.21. Retirement Benefit Obligations

Bord Gáis Éireann 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. Statement of Accounting Policies (continued)

1.22. 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 Bord Gáis Éireann's estimate of equity instruments that will eventually vest. At each reporting date, Bord Gáis Éireann 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.

1.23. Emissions Allowances

In accordance with the provisions of the EU CO₂ Emissions Trading Scheme, emissions allowances covering a percentage of the expected emissions during the year are granted to Bord Gáis Éireann 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 CO₂ during that year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

2. 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 the 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 a growing 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 other areas not falling within the Networks and Energy segments.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

2. Segmental Information (continued)

(a) Revenue by segment

	Gross segment revenue 2011 €'000	Inter segment revenue 2011 €'000	Consolidated Group revenue 2011 €'000	Gross segment revenue 2010 €'000	Inter segment revenue 2010 €'000	Consolidated Group revenue 2010 €'000
Networks revenue	453,976	183,540	270,436	466,594	221,250	245,344
Energy revenue						
- retail	1,410,029	119,522	1,290,507	1,283,648	36,877	1,246,771
- generation	224,015	176,721	47,294	79,846	46,698	33,148
Ancillary revenue	4,150	4,030	120	4,089	4,089	-
Total	2,092,170	483,813	1,608,357	1,834,177	308,914	1,525,263

External revenue split by geographic location is as follows:

	2011 €'000	2010 €'000
Ireland	1,509,018	1,444,716
UK (including Northern Ireland and Isle of Man)	99,339	80,547
Total	1,608,357	1,525,263

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).

	2011 €'000	2010 €'000
Networks	298,617	329,321
Energy	44,273	1,454
Ancillary	599	(155)
Total	343,489	330,620

Operating profit/(loss) by segment (before interest and tax)

Operating profit of the Group is reported before the impact of certain remeasurements.

	2011 €'000	2010 €'000
Networks	194,343	233,168
Energy	(14,142)	(34,440)
Ancillary	518	(253)
Segment result reported to the Board	180,719	198,475
Certain remeasurements	2,093	(4,365)
Total	182,812	194,110

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

2. Segmental Information (continued)

(c) Assets and liabilities

Segmental analysis of assets and liabilities is not disclosed as this information is not presented to the Board.

(d) Capital expenditure

	Capital additions to property, plant and equipment (note 9)		Capital additions to intangible assets (note 10)	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Networks	101,649	57,326	14,469	28,752
Energy	87,320	103,850	20,797	17,485
Ancillary	2	19	-	5
Total	188,971	161,195	35,266	46,242

Capital expenditure of the Energy segment above includes 100% of the fair value of the property, plant and equipment acquired on the acquisition of Boottagh Wind Limited.

(e) Depreciation and amortisation, included within operating profit

	2011 €'000	2010 €'000
Networks	104,274	96,153
Energy	58,415	35,894
Ancillary	81	98
Total	162,770	132,145

(f) Impairment of financial and non-financial assets

	2011 €'000	2010 €'000
Networks	130	192
Energy	9,606	26,208
Total	9,736	26,400

The only impairment losses recognised by the Group during the year were impairments of trade receivables. Refer to note 24 for further details.

(g) Non-current assets by geographic location

	2011 €'000	2010 €'000
Ireland	3,383,213	3,333,609
UK (including Northern Ireland and Isle of Man)	436,634	433,866
Total	3,819,847	3,767,475

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 Financial Statements (continued)

For the year ended 31 December 2011

3. Operating Costs (excluding depreciation and amortisation)

	2011 €'000	2010 €'000
Payroll expense	77,955	68,590
Impairment of trade receivables	9,736	26,400
Other operating costs	178,146	165,129
Total	265,837	260,119

Impairment of trade receivables in 2011 amounted to €9.7 million (2010: €26.4 million). In 2010 it was necessary to make a significant impairment of trade receivables to reflect the challenging economic and fiscal environment. Refer to note 24 for further details.

Payroll costs	2011 €'000	2010 €'000
Wages and salaries	78,245	72,193
Social welfare costs	8,199	7,483
Pension costs - defined benefit plans	5,374	3,429
Pension costs - defined contribution plans	215	322
	92,033	83,427
Capitalised payroll	(14,078)	(14,837)
Payroll costs charged to profit or loss	77,955	68,590

Average number of employees in year, analysed by category, including temporary employees:

	2011	2010
Networks	601	571
Energy	462	439
Corporate	40	38
Other	20	20
Total	1,123	1,068

Operating costs are stated after charging:

	2011 €'000	2010 €'000
Auditor's remuneration - statutory audit services	355	345
Total	355	345
Board members' emoluments - fees	159	149
- remuneration of the Chief Executive	343	399
Total	502	548

Details of the all-in cost of the remuneration package of the Chief Executive is made up as follows:

	2011 €'000	2010 €'000
Chief Executive's annual basic salary	278*	265
Actual payments under performance related pay scheme	-	60
Other benefits including pension costs, cost of company car and health insurance	65	74
Total	343	399

* Effective from 1 August 2011, the Chief Executive's annual basic salary has reduced to €250,000.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

4. Depreciation and Amortisation

	2011 €'000	2010 €'000
Depreciation	153,910	129,673
Grant amortisation	(5,674)	(5,694)
Amortisation of intangible assets	14,534	8,166
Total	162,770	132,145

5. Certain Remeasurements

	2011 €'000	2010 €'000
Net changes in fair value of operating derivatives	2,093	(4,365)
Net changes in fair value of financing derivatives	3,772	6,073
	5,865	1,708
Tax impact of net changes in fair value of derivatives	(733)	(214)
Total	5,132	1,494

For financial reporting purposes, Bord Gáis Éireann 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 1.13).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

6. Net Finance Costs

	Before certain remeasurements 2011 €'000	Certain remeasurements 2011 €'000	Total 2011 €'000	Before certain remeasurements 2010 €'000	Certain remeasurements 2010 €'000	Total 2010 €'000
Finance income						
Interest income on short term deposits	1,706	-	1,706	2,243	-	2,243
Dividend income from financial asset investment	-	-	-	1,000	-	1,000
Total finance income	1,706	-	1,706	3,243	-	3,243
Finance costs						
Interest on borrowings	(91,614)	-	(91,614)	(93,781)	-	(93,781)
Interest capitalised	8,434	-	8,434	19,816	-	19,816
Financing charge on provisions	(985)	-	(985)	(1,522)	-	(1,522)
Expected return on pension scheme assets	17,078	-	17,078	15,167	-	15,167
Interest on pension scheme liabilities	(15,218)	-	(15,218)	(14,157)	-	(14,157)
Other finance costs	(5,582)	-	(5,582)	(3,764)	-	(3,764)
Total finance costs	(87,887)	-	(87,887)	(78,241)	-	(78,241)
Fair value gains on financial instruments						
Net changes in fair value of financing derivatives	-	3,772	3,772	-	6,073	6,073
Fair value gains on financial instruments	-	3,772	3,772	-	6,073	6,073
Finance income	1,706	3,772	5,478	3,243	6,073	9,316
Finance costs	(87,887)	-	(87,887)	(78,241)	-	(78,241)
Net finance costs	(86,181)	3,772	(82,409)	(74,998)	6,073	(68,925)

Refer to note 24 for details of finance income/costs recognised in the statement of other comprehensive income.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

7. Income Tax Expense

	2011 €'000	2010 €'000
Current tax expense/(credit)		
Current tax	54	415
Adjustments in respect of previous years	(18)	(6,364)
	36	(5,949)
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	13,243	13,728
Adjustments in respect of previous years	(268)	(4,961)
	12,975	8,767
Total expense	13,011	2,818
Reconciliation of effective tax rate	2011 €'000	2010 €'000
Profit before tax	100,206	124,491
Add: After tax share of loss of joint ventures	197	694
Profit before tax (excluding share of loss of joint ventures)	100,403	125,185
Taxed at 12.5% (2010: 12.5%)	12,550	15,648
Expenses not deductible for tax purposes	2,847	1,767
Tax effect of additional losses forward	(583)	-
Tax benefit on investment in renewable energy	(1,191)	(1,588)
Income not taxable	(1,073)	(676)
Profits/(losses) taxed at higher rates	(502)	(952)
Exchange adjustments	(285)	(607)
Effect of tax rate change	1,534	551
Adjustments to tax charge in respect of previous years	(286)	(11,325)
Income tax expense	13,011	2,818

Refer to the consolidated statement of other comprehensive income and the consolidated statement of changes in equity for details of tax impacts therein.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

8. Transactions in the Legal Form of a Lease

In accordance with SIC Interpretation 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.

In December 1993, Bord Gáis Éireann sold and leased back part of the first Ireland-UK Interconnector gas pipeline. The lease term is for a period of 32 years and 9 months. As part of the sale and lease back arrangement, Bord Gáis Éireann placed the sale proceeds on restricted deposit for the period of the lease. The repayment profile of the restricted deposit matches, with respect both to the timing and amount, Bord Gáis Éireann's obligations to pay rentals under the lease. Further, the security and payment arrangements have been structured in such manner that funds released from the restricted deposit are applied directly in discharge of Bord Gáis Éireann's obligations under the lease.

The legal form of the transaction is such that the lessor was entitled to claim tax benefits in respect of the leased assets. As a result of entering into the transaction, Bord Gáis Éireann received fee income in the earlier years of the lease which was recognised in the income statement on receipt.

Bord Gáis Éireann retains all the rights of usage pertaining to the leased assets and there are no restrictions on their use. The terms of the arrangements and the nature of the asset are such that the economic interest in the leased assets will revert to the Group at the scheduled expiry of the lease term or on earlier termination of the lease.

Having regard to the lease arrangements and the detailed considerations of SIC 27, Bord Gáis Éireann has 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 have been linked and accounted for as a single transaction in the statement of financial position. In addition the lease interest payable and the interest income receivable on the restricted deposit have been linked and accounted for as a single transaction in the income statement.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

9. Property, Plant and Equipment

	Land and buildings €'000	Plant, pipeline and machinery €'000	Assets under construction €'000	Total €'000
Cost				
At 1 January 2010	75,471	3,944,293	431,406	4,451,170
Additions	271	53,164	107,760	161,195
Effect of movement in exchange rates	280	8,984	(174)	9,090
Transfer in year	-	400,841	(400,841)	-
Disposals	-	(2,034)	(323)	(2,357)
At 31 December 2010	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
Transfer in year	19,817	27,975	(47,792)	-
Disposals	-	(3,232)	-	(3,232)
At 31 December 2011	97,657	4,552,321	162,870	4,812,848
Accumulated depreciation				
At 1 January 2010	17,209	920,383	-	937,592
Depreciation for the year	1,350	128,323	-	129,673
Effect of movement in exchange rates	79	1,375	-	1,454
Disposals	-	(1,852)	-	(1,852)
At 31 December 2010	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)
At 31 December 2011	24,153	1,195,299	-	1,219,452
Carrying amounts				
At 1 January 2010	58,262	3,023,910	431,406	3,513,578
At 31 December 2010	57,384	3,357,019	137,828	3,552,231
At 31 December 2011	73,504	3,357,022	162,870	3,593,396

During the year, the Group capitalised the sum of €5.5 million (2010: €17.6 million) in interest. The capitalisation rate was 4.71% (2010: 4.52%). The Group also capitalised the sum of €11.7 million in payroll costs during the year (2010: €12.1 million).

BGE (IOM) Limited, a subsidiary of Bord Gáis Éireann, entered into a project financing arrangement in 2003. The balance outstanding of €25.6 million at 31 December 2011 (2010: €28.4 million) on this limited recourse loan facility is secured over the assets of BGE (IOM) Limited (note 18).

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 2011 of €202.6 million (2010: €203.6 million) is secured over the assets of the underlying subsidiaries.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

10. Intangible Assets

	Goodwill	Wind farm developments	Software under development	Software	Total
	€'000	€'000	€'000	€'000	€'000
Cost					
At 1 January 2010	41,706	58,734	18,053	102,947	221,440
Additions (incl internally developed)	-	3,605	23,994	18,643	46,242
Transfers	-	-	(32,175)	32,175	-
Effects of movement in exchange rates	-	-	-	48	48
At 31 December 2010	41,706	62,339	9,872	153,813	267,730
Additions (incl internally developed)	-	7,064	26,907	1,295	35,266
Transfers	-	-	(8,862)	8,862	-
Effects of movement in exchange rates	-	-	-	50	50
At 31 December 2011	41,706	69,403	27,917	164,020	303,046
Amortisation					
At 1 January 2010	-	-	-	66,071	66,071
Amortisation for the year	-	-	-	8,166	8,166
Effects of movement in exchange rates	-	-	-	31	31
At 31 December 2010	-	-	-	74,268	74,268
Amortisation for the year	-	-	-	14,534	14,534
Effects of movement in exchange rates	-	-	-	44	44
At 31 December 2011	-	-	-	88,846	88,846
Carrying amounts					
At 1 January 2010	41,706	58,734	18,053	36,876	155,369
At 31 December 2010	41,706	62,339	9,872	79,545	193,462
At 31 December 2011	41,706	69,403	27,917	75,174	214,200

During the year, the Group capitalised the sum of €2.9 million (2010: €2.2 million) in interest. The capitalisation rate was 4.71% (2010: 4.52%). The Group also capitalised the sum of €2.4 million in payroll costs during the year (2010: €2.7 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 Bord Gáis Éireann 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 rates (pre tax) applied for 2011: 8.0% - 10.0% (2010: 8.0% - 10.0%).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

10. Intangible Assets (continued)

Wind farm developments (continued)

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).

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 and software under development

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.

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.

11. Joint Ventures

The following entities have been included in the Bord Gáis Éireann consolidated financial statements as joint ventures using equity accounting:

Name of the company	Business activity	Country	% holding 31-Dec-11	% holding 31-Dec-10	% holding 01-Jan-10
Greener Ideas Limited	Electricity Generation	Ireland	50%	50%	50%
Owenreagh Power Partners Limited	Renewable Electricity Generation	Northern Ireland	50%	50%	50%
Owenreagh Wind Farms Limited	Renewable Electricity Generation	Northern Ireland	50%	50%	50%
SWS Lisavaird NI Limited	Renewable Electricity Generation	Northern Ireland	50%	50%	50%
Booltiagh Wind Limited	Renewable Electricity Generation	Ireland	100%	50%	50%
Tidal Ventures Limited	Site Development for Tidal Projects	Ireland	50%	50%	-

In 2011 and 2010 the Group did not receive dividends from its investments in joint ventures.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

11. Joint Ventures (continued)

Joint venture summary financial information

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Non-current assets	15,571	30,575	31,277
Current assets	3,531	3,285	3,238
Total assets	19,102	33,860	34,515
Equity	9,270	14,783	15,436
Non-current liabilities	2,098	11,118	10,922
Current liabilities	7,734	7,959	8,157
Total liabilities	9,832	19,077	19,079
Total equity and liabilities	19,102	33,860	34,515
		2011 €'000	2010 €'000
Income		2,409	2,746
Operating costs (excluding depreciation and amortisation)		(921)	(1,050)
Operating profit before depreciation and amortisation (EBITDA)		1,488	1,696
Share of loss of joint venture (after interest and tax)		(197)	(694)
Currency translation of joint ventures - other comprehensive income		51	41
Reconciliation of investment in joint ventures			€'000
At 1 January 2010			15,436
Share of loss of joint venture for the year			(694)
Translation difference			41
At 31 December 2010			14,783
Share of loss of joint venture for the year			(197)
Translation difference			51
Conversion of Booltiagh Wind Limited to full subsidiary undertaking			(5,367)
At 31 December 2011			9,270

The Group acquired the remaining 50% holding of Booltiagh Wind Limited on 28 July 2011. The company has been accounted for as a subsidiary as and from that date. The effect of this conversion to a full subsidiary undertaking has been recognised in profit or loss for the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

12. Financial Asset Investments

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Financial asset investments	2,761	2,761	1,761

In the view of the Board, the carrying value of these financial asset investments is not significantly different to their fair value.

13. Tax Assets and Liabilities

Current tax assets and liabilities

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Current tax assets	2,527	2,561	-
Current tax liabilities	-	-	(4,201)

Deferred tax assets and liabilities

	Retirement benefit obligation	Tax losses forward	Derivative financial instruments	Property, plant and equipment and intangible assets	Other	Total
	€'000	€'000	€'000	€'000	€'000	€'000
At 1 January 2010	2,891	39,274	4,410	(245,652)	8,110	(190,967)
(Expense)/credit to income statement	(1,790)	3,463	-	(17,760)	7,320	(8,767)
Debit/(credit) to equity	1,511	-	(879)	-	-	632
Exchange adjustments	-	-	-	-	235	235
At 31 December 2010	2,612	42,737	3,531	(263,412)	15,665	(198,867)
Acquisitions	-	-	-	(2,822)	-	(2,822)
Transfer from non-current tax	-	442	-	-	-	442
(Expense)/credit to income statement	(935)	4,051	-	(10,646)	(5,445)	(12,975)
Debit to equity	2,997	-	894	-	-	3,891
Exchange adjustments	-	-	-	(461)	682	221
At 31 December 2011	4,674	47,230	4,425	(277,341)	10,902	(210,110)

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-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Deferred tax assets	19,753	20,581	19,544
Deferred tax liabilities	(229,863)	(219,448)	(210,511)
Net deferred tax liabilities	(210,110)	(198,867)	(190,967)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

13. Tax Assets and Liabilities (continued)

Deferred tax assets and liabilities (continued)

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:

	2011 €'000	2010 €'000
Capital losses realised	87	72
Losses forward	142	74
Provisions	63	67

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.

14. Inventories

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Gas	35,602	25,318	20,479
Engineering materials/others	13,262	8,665	8,605
Total	48,864	33,983	29,084

In 2011 inventories recognised as cost of sales amounted to €30.6 million (2010: €27.3 million). There were no write-downs of inventories to net realisable value in 2011 (2010: €nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

15. Trade and Other Receivables

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Trade receivables	92,217	98,418	111,125
Unbilled consumption	172,030	187,257	170,548
Amounts owed by joint venture undertakings	4,127	3,350	1,893
Prepayments	19,619	16,889	16,363
Other receivables	34,998	49,429	29,994
Total	322,991	355,343	329,923
Non-current	220	4,238	4,661
Current	322,771	351,105	325,262
Total	322,991	355,343	329,923

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 24.

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.

16. Cash, Cash Equivalents and Restricted Deposits

Cash and cash equivalents

Cash equivalents are held for the purpose of meeting liquidity requirements.

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Short-term deposits	206,313	187,600	301,600
Cash	47,133	42,054	53,195
Total	253,446	229,654	354,795

	2011 €'000	2010 €'000
At 1 January	229,654	354,795
Increase/(decrease) in cash and cash equivalents in the statement of cash flows	23,636	(125,384)
Effect of exchange rate fluctuations on cash held	156	243
At 31 December	253,446	229,654

Restricted deposits

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Current	47,825	30,806	35,160
Total	47,825	30,806	35,160

The restricted deposits include amounts held in respect of collateral held by third parties, credit support agreements and gas network related security deposits.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

17. Equity

(i) Capital stock

There are 100,000,000 units of capital stock in issue at a nominal value of €1 each, comprised of:

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Stock issued to the Exchequer	96,730	96,730	96,616
Stock issued for subscription by ESOT	3,270	3,270	2,246
Total	100,000	100,000	98,862

In April 2008, Bord Gáis Éireann, by resolution of its members issued 96,532,855 units of capital stock at €1 per unit for €96,532,855 to the Exchequer from retained earnings, pursuant to section 7B of the Gas Act, 1976. In June 2009 83,745 units of capital stock at €1 per unit for €83,745 were issued to the Exchequer from retained earnings. In June 2010 a further 113,800 units of capital stock at €1 per unit for €113,800 were issued to the Exchequer from retained earnings.

In 2008 1,491,700 units at €1 each were issued to the Bord Gáis Employee Share Ownership Trust (ESOT) for €14,917,000. In 2009 753,700 units of capital stock at €1 each were issued to the ESOT for €7,537,000 and in 2010 a further 1,024,200 units of capital stock at €1 each were issued to the ESOT for €10,242,000.

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.

(ii) Capital premium

	2011 €'000	2010 €'000
At 1 January	29,426	20,208
<i>Movement during the year</i>		
- issue of capital stock to ESOT	-	9,218
At 31 December	29,426	29,426

(iii) 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 *Financial Instruments: Recognition and Measurement*, 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 24 for further details.

	2011 €'000	2010 €'000
At 1 January	(24,716)	(30,868)
<i>Movement during the year</i>		
- net change in fair value of cash flow hedges	(7,149)	7,031
- deferred tax on cash flow hedge movement	894	(879)
At 31 December	(30,971)	(24,716)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

17. Equity (continued)

(iv) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements for foreign operations.

	2011 €'000	2010 €'000
At 1 January	(439)	-
<i>Movement during the year</i>		
- translation differences on consolidation of foreign subsidiaries	(152)	(480)
- translation differences on consolidation of joint ventures	51	41
At 31 December	(540)	(439)

(v) Retained earnings

	2011 €'000	2010 €'000
At 1 January	1,317,643	1,248,185
Profit for the year	87,195	121,673
Net income recognised directly in other comprehensive income		
- defined benefit plan actuarial losses	(23,977)	(12,097)
- deferred tax credit relating to defined benefit obligations	2,997	1,511
Net income recognised directly in equity		
- transformation savings paid to ESOT	-	(10,242)
- dividends paid*	(34,209)	(31,273)
- allocation of capital stock from reserves	-	(114)
At 31 December	1,349,649	1,317,643

* Dividends paid

	2011 €'000	2010 €'000
To the Exchequer	33,091	30,251
To Bord Gáis ESOT	1,118	1,022
Total	34,209	31,273

The dividend paid during the year amounted to 30% (2010: 30%) of the previous year's profit for the financial year (as reported under Irish GAAP) as directed by the Department of Communications, Energy and Natural Resources. The dividend was apportioned between the Exchequer (€33.1 million) and Bord Gáis Employee Share Ownership Trust (ESOT) (€1.1 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%).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

18. 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 24.

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Non-current borrowings			
Bank loans repayable by instalment	779,756	799,091	743,619
Bank loans repayable other than by instalment	1,346,927	1,241,330	1,231,614
	2,126,683	2,040,421	1,975,233
Current borrowings			
Bank loans repayable by instalment	69,491	11,516	10,417
Overdrafts and bank loans repayable other than by instalment	-	-	98,411
	69,491	11,516	108,828
Total borrowings	2,196,174	2,051,937	2,084,061

Total borrowings include €918.3 million (2010: €769.4 million) of floating rate debt, €25.6 million (2010: €28.4 million) of inflation linked debt and €1,252.3 million (2010: €1,254.1 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.

Maturity of borrowings and other debt by type

	Bonds 31-Dec-11 €'000	Loans from financial institutions* 31-Dec-11 €'000	Total 31-Dec-11 €'000
Less than one year	-	69,491	69,491
Between one and five years	549,610	743,211	1,292,821
More than five years	-	833,862	833,862
Total	549,610	1,646,564	2,196,174

* Including Private Placement.

	Bonds 31-Dec-10 €'000	Loans from financial institutions* 31-Dec-10 €'000	Total 31-Dec-10 €'000
Less than one year	-	11,516	11,516
Between one and five years	549,452	805,326	1,354,778
More than five years	-	685,643	685,643
Total	549,452	1,502,485	2,051,937

* Including Private Placement.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

18. Borrowings and Other Debt (continued)

Maturity of borrowings and other debt by type (continued)

	Bonds 01-Jan-10 €'000	Loans from financial institutions* 01-Jan-10 €'000	Total 01-Jan-10 €'000
Less than one year	-	108,828	108,828
Between one and five years	549,293	557,420	1,106,713
More than five years	-	868,520	868,520
Total	549,293	1,534,768	2,084,061

* Including Private Placement.

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 2011 was €216.0 million (2010: €213.8 million).

19. Retirement Benefit Obligations

Group and Board

The Group operates either defined benefit or defined contribution pension schemes for all qualifying employees.

(a) Defined benefit schemes:

The Board 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 Board.

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:

	2011	2010
Discount rate	5.20%	5.50%
Inflation	2.00%	2.00%
Future salary increases	2.75%*	3.50%
Future pension increases	2.75%	3.00%

* Plus salary scale to allow for promotional increases.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

19. 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	
	2011	2010	2011	2010
Equities	8.50%	8.50%	47.6%	50.1%
Bonds	3.70%	4.40%	38.0%	36.4%
Property	6.00%	6.00%	3.4%	3.6%
Venture capital	8.50%	8.50%	2.1%	2.3%
Diversified alpha	6.00%	6.00%	8.9%	7.6%
			100.0%	100.0%
Weighted average expected return	6.40%	6.73%		

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:

	2011	2010
Retiring today		
Males	23.2	22.9
Females	24.6	24.5
Retiring in 25 years		
Males	26.3	26.1
Females	27.3	27.2

Amounts recognised in the statement of financial position

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Present value of funded obligations	(289,862)	(270,788)	(242,079)
Fair value of plan assets	252,471	249,889	218,949
Deficit for funded plans	(37,391)	(20,899)	(23,130)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

19. Retirement Benefit Obligations (continued)

Movement in the present value of the defined benefit obligation

	2011 €'000	2010 €'000
Opening defined benefit obligation	(270,788)	(242,079)
Service cost - charged to profit or loss	(5,374)	(3,429)
Service cost - charged to provisions	(1,208)	(1,146)
Interest cost	(15,218)	(14,157)
Plan members' contributions	(3,618)	(3,254)
Actuarial loss	(606)	(12,907)
Benefits paid	9,029	8,273
Curtailements	(2,079)	(2,089)
Closing defined benefit obligation	(289,862)	(270,788)

Movement in the fair value of plan assets

	2011 €'000	2010 €'000
Opening fair value of plan assets	249,889	218,949
Expected return on plan assets	17,078	15,167
Actuarial (loss)/gain	(23,371)	810
Employer contributions	14,286	19,982
Member contributions	3,618	3,254
Benefits paid from plan	(9,029)	(8,273)
Closing fair value of plan assets	252,471	249,889

	2011 €'000	2010 €'000
Actual return on plan assets	(6,293)	15,977

Analysis of amount recognised in the income statement

	2011 €'000	2010 €'000
Current service cost	(5,374)	(3,429)
Interest cost	(15,218)	(14,157)
Expected return on plan assets	17,078	15,167
Total pension cost recognised in the income statement	(3,514)	(2,419)

Analysis of amount charged to provisions

	2011 €'000	2010 €'000
Current service cost	(1,208)	(1,146)
Loss on curtailements	(2,079)	(2,089)
Amount charged to provisions	(3,287)	(3,235)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

19. Retirement Benefit Obligations (continued)

Actuarial gains/(losses) recognised in other comprehensive income

	2011 €'000	2010 €'000
Actual return less expected return on assets	(23,371)	810
Experience gains on liabilities	3,491	4,817
Changes in assumptions underlying the present value of the schemes' liabilities	(4,097)	(17,724)
Total pension loss recognised in other comprehensive income	(23,977)	(12,097)

Actuarial losses recognised in other comprehensive income

	2011 €'000	2010 €'000
Cumulative amount at 1 January	(68,122)	(56,025)
Recognised during the year	(23,977)	(12,097)
Cumulative amount at 31 December	(92,099)	(68,122)

Movements in deficit during the year

	2011 €'000	2010 €'000
At 1 January	(20,899)	(23,130)
Charged to the income statement	(3,514)	(2,419)
Charged to provisions	(3,287)	(3,235)
Employer contributions	14,286	19,982
Actuarial losses	(23,977)	(12,097)
At 31 December	(37,391)	(20,899)

History of experience gains/(losses)

	2011 €'000	2010 €'000	2009 €'000	2008 €'000	2007 €'000
Present value of the defined benefit obligation	(289,862)	(270,788)	(242,079)	(221,449)	(235,461)
Fair value of plan assets	252,471	249,889	218,949	182,695	238,671
(Deficit)/surplus	(37,391)	(20,899)	(23,130)	(38,754)	3,210

	2011 €'000	2010 €'000	2009 €'000	2008 €'000	2007 €'000
Experience (losses)/gains on plan assets:	(23,371)	810	18,954	(74,018)	(6,567)
Percentage of plan assets	(9.3%)	0.3%	8.7%	(40.5%)	(2.8%)
Experience gains/(losses) on plan liabilities:	3,491	4,817	(2,921)	(1,105)	262
Percentage of defined benefit obligation	1.2%	1.8%	(1.2%)	(0.5%)	0.1%

Bord Gáis Éireann expects to contribute €14.3 million to its pension plan in 2012.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

19. Retirement Benefit Obligations (continued)

(b) Defined contribution schemes and personal retirement savings accounts (PRSAs)

The Group operates a defined contribution retirement benefit plan for qualifying employees in respect of a Northern Ireland subsidiary. Contributions payable by the employer to this defined contribution scheme amounted to €182.2 thousand in 2011 (2010: €138.8 thousand). These contributions were charged to the income statement.

In addition and in compliance with the provisions of the Pensions Act 1990 (as amended), Bord Gáis Éireann has appointed Personal Retirement Savings Account (PRSA) providers. During the year ended 31 December 2011, Bord Gáis Éireann contributed €32.8 thousand (2010: €183.4 thousand) on behalf of its employees which was charged to the income statement.

The balance payable at 31 December 2011 under defined contribution schemes and PRSAs was €18.2 thousand (2010: €25.3 thousand).

20. Share Based Payments

As a result of the "Transformation Savings Programme" agreed in April 2008, Bord Gáis Éireann compensated employees for savings achieved from 2005 to 2009 through an employee share ownership plan. The total shareholding available to the employees under the scheme is 3.27% of the capital stock of Bord Gáis Éireann.

The savings achieved in 2005, 2006, 2007, 2008, and 2009 amounted to €32,696,000 and this amount has been paid by Bord Gáis Éireann to the Employee Share Ownership Trust (ESOT). Subsequently, the ESOT has subscribed for 3,269,600 units of capital stock of €1 each for a total consideration of €32,696,000. The capital stock will be held by the Trust for a period of three years before it is appropriated to the eligible employees through the Approved Profit Sharing Scheme.

The amounts paid to the ESOT in respect of the savings achieved are shown in the statement of changes in equity.

In accordance with IFRS 2 *Share-based Payment*, Bord Gáis Éireann recognises an expense in profit or loss, and a corresponding increase in equity, in respect of the fair value of the capital stock issued to employees.

The fair value of the equity instruments issued was determined on a minority non-controlling basis. Factors taken into consideration in determining the fair valuation include the market, discounted cash flow, net asset value and the characteristics of the capital stock being acquired. The fair value of the equity instruments amounted to €32,696,000 in respect of the equity issued to employees for savings achieved between 2005 and 2009.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

21. Deferred Revenue and Government Grants

Government grants

	2011 €'000	2010 €'000
At 1 January	100,224	104,646
Amortised in year	(5,674)	(5,694)
Effects of movement in exchange rates	862	1,272
At 31 December	95,412	100,224

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.

Deferred revenue

	2011 €'000	2010 €'000
At 1 January	38,757	41,889
Received in year	20,096	5,516
Recognised as revenue in year	(14,809)	(8,648)
At 31 December	44,044	38,757

Analysed as follows:

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Non-current	116,192	124,270	134,011
Current	23,264	14,711	12,524
Total deferred revenue and government grants	139,456	138,981	146,535

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

22. Provisions

Group and Board

	Restructuring €'000	Other €'000	Self-insured claims €'000	Total €'000
At 1 January 2010	37,083	12,151	6,383	55,617
Financing charge	1,193	329	-	1,522
Provisions made in the year	-	1,797	1,871	3,668
Provisions used in the year	(8,160)	(864)	(2,366)	(11,390)
Transfer to other payables	(1,284)	-	-	(1,284)
At 31 December 2010	28,832	13,413	5,888	48,133
Financing charge	701	284	-	985
Provisions made in the year	1,188	(1,188)	918	918
Provisions used in the year	(12,734)	(2,486)	(1,503)	(16,723)
Transfer to other payables	(14,237)	-	-	(14,237)
At 31 December 2011	3,750	10,023	5,303	19,076
		31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Non-current		12,432	23,551	44,227
Current		6,644	24,582	11,390
Total provisions		19,076	48,133	55,617

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 substantially discharged during 2011 and are expected to be fully discharged by 2012.

The Networks Transformation Programme was a major programme spanning a period of three years to 2011. Its overall vision is to "Deliver Excellence Across Networks" and make the organisation a best-in-class Network Utility Service Provider while improving customer service capability and enabling it to meet current and regulatory targets. Provision was made in 2009 for an appropriate estimate of the reorganisation costs where a constructive obligation exists. These liabilities were substantially discharged during 2011.

Other

The year-end provision includes appropriate estimate 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.

Self-insured claims

Bord Gáis Éireann 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 2011. 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 Bord Gáis Éireann expects the claims to be substantially settled by 2014.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

23. Trade and Other Payables

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Non-current			
Other payables	28,709	35,396	21,286
Total	28,709	35,396	21,286
Current			
Trade payables due	107,405	136,187	106,216
Accrued expenses	134,479	143,526	143,670
Other payables	107,485	127,342	116,085
Taxation and social welfare creditors*	22,352	25,903	27,981
Total	371,721	432,958	393,952
* Taxation and social welfare creditors			
PAYE/PRSI/social welfare	3,850	3,358	3,905
VAT	18,502	22,545	23,969
Other taxes	-	-	107
Total	22,352	25,903	27,981

24. Financial Risk Management and Financial Instruments

Nature and extent of risks

The main financial risks that Bord Gáis Éireann is facing and actively monitoring and managing are the following: (i) market risk derived from exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices; (ii) credit risk derived from the possible default of a counterparty; (iii) liquidity risk derived from the risk that suitable sources of funding for Bord Gáis Éireann's operations may not be available.

This note presents information about Bord Gáis Éireann'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 consolidated financial statements.

Bord Gáis Éireann's financial risk management policies are established to identify and analyse the risks faced by Bord Gáis Éireann, 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 Bord Gáis Éireann's activities. Bord Gáis Éireann, 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 performance rests with the Board, which exercises its responsibility through regular review. In particular, the Board's Audit and Finance Committee reviews the appropriateness of the treasury policy and the effectiveness of controls.

In using derivatives, Bord Gáis Éireann 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. Bord Gáis Éireann'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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

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 Bord Gáis Éireann 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 is based on market quoted price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bord Gáis Éireann entity and counterparty when appropriate.

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) Equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique.

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 Financial Statements (continued)

For the year ended 31 December 2011

24. 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:

	Amortised cost or other 31-Dec-11 €'000	Not designated (i) 31-Dec-11 €'000	Commodity derivatives (i) 31-Dec-11 €'000	Fair value hedges 31-Dec-11 €'000	Cash flow hedges (ii) 31-Dec-11 €'000	Total carrying value 31-Dec-11 €'000	Fair value 31-Dec-11 €'000
Assets							
Non-current financial assets							
Financial asset investments	2,761	-	-	-	-	2,761	2,761
Trade and other receivables (excluding prepayments)	220	-	-	-	-	220	220
Derivative financial instruments	-	327	2,539	16,866	(2,089)	17,643	17,643
Total non-current financial assets	2,981	327	2,539	16,866	(2,089)	20,624	20,624
Current financial assets							
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	-	4,056	15,365	-	4,850	24,271	24,271
Total current financial assets	604,423	4,056	15,365	-	4,850	628,694	628,694
Total financial assets	607,404	4,383	17,904	16,866	2,761	649,318	649,318
Liabilities							
Non-current liabilities							
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	-	(13,203)	(2,318)	(2,350)	(36,076)	(53,947)	(53,947)
Total non-current financial liabilities	(2,140,231)	(13,203)	(2,318)	(17,511)	(36,076)	(2,209,339)	(2,221,888)
Current liabilities							
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	-	(7,673)	(17,123)	(6,169)	(2,081)	(33,046)	(33,046)
Total current financial liabilities	(447,304)	(7,673)	(17,123)	(77)	(2,081)	(474,258)	(474,258)
Total financial liabilities	(2,587,535)	(20,876)	(19,441)	(17,588)	(38,157)	(2,683,597)	(2,696,146)
Net financial liabilities	(1,980,131)	(16,493)	(1,537)	(722)	(35,396)	(2,034,279)	(2,046,828)

(i) These instruments are categorised by IAS 39 as "Held for trading derivatives".

(ii) These instruments are categorised by IAS 39 as "Derivatives designated in hedging relationship".

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

	Amortised cost or other 31-Dec-10 €'000	Not designated (i) 31-Dec-10 €'000	Commodity derivatives (i) 31-Dec-10 €'000	Fair value hedges 31-Dec-10 €'000	Cash flow hedges (ii) 31-Dec-10 €'000	Total carrying value 31-Dec-10 €'000	Fair value 31-Dec-10 €'000
Assets							
Non-current financial assets							
Financial asset investments	2,761	-	-	-	-	2,761	2,761
Trade and other receivables (excluding prepayments)	4,238	-	-	-	-	4,238	4,238
Derivative financial instruments	-	280	244	-	3	527	527
Total non-current financial assets	6,999	280	244	-	3	7,526	7,526
Current financial assets							
Trade and other receivables (excluding prepayments)	334,216	-	-	-	-	334,216	334,216
Cash and cash equivalents	229,654	-	-	-	-	229,654	229,654
Restricted deposits	30,806	-	-	-	-	30,806	30,806
Derivative financial instruments	-	2,108	26,961	-	823	29,892	29,892
Total current financial assets	594,676	2,108	26,961	-	823	624,568	624,568
Total financial assets	601,675	2,388	27,205	-	826	632,094	632,094
Liabilities							
Non-current liabilities							
Borrowings and other debt	(2,073,741)	-	-	33,320	-	(2,040,421)	(2,053,326)
Trade and other payables	(35,396)	-	-	-	-	(35,396)	(35,396)
Derivative financial instruments	-	(21,669)	(2,381)	(34,062)	(27,342)	(85,454)	(85,454)
Total non-current financial liabilities	(2,109,137)	(21,669)	(2,381)	(742)	(27,342)	(2,161,271)	(2,174,176)
Current liabilities							
Borrowings and other debt	(11,516)	-	-	-	-	(11,516)	(11,516)
Trade and other payables	(432,958)	-	-	-	-	(432,958)	(432,958)
Derivative financial instruments	-	(1,383)	(8,350)	-	(1,731)	(11,464)	(11,464)
Total current financial liabilities	(444,474)	(1,383)	(8,350)	-	(1,731)	(455,938)	(455,938)
Total financial liabilities	(2,553,611)	(23,052)	(10,731)	(742)	(29,073)	(2,617,209)	(2,630,114)
Net financial (liabilities)/assets	(1,951,936)	(20,664)	16,474	(742)	(28,247)	(1,985,115)	(1,998,020)

(i) These instruments are categorised by IAS 39 as "Held for trading derivatives".

(ii) These instruments are categorised by IAS 39 as "Derivatives designated in hedging relationship".

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

	Amortised cost or other 01-Jan-10 €'000	Not designated (i) 01-Jan-10 €'000	Commodity derivatives (i) 01-Jan-10 €'000	Fair value hedges 01-Jan-10 €'000	Cash flow hedges (ii) 01-Jan-10 €'000	Total carrying value 01-Jan-10 €'000	Fair value 01-Jan-10 €'000
Assets							
Non-current financial assets							
Financial asset investments	1,761	-	-	-	-	1,761	1,761
Trade and other receivables (excluding prepayments)	4,661	-	-	-	-	4,661	4,661
Derivative financial instruments	-	95	-	-	132	227	227
Total non-current financial assets	6,422	95	-	-	132	6,649	6,649
Current financial assets							
Trade and other receivables (excluding prepayments)	308,899	-	-	-	-	308,899	308,899
Cash and cash equivalents	354,795	-	-	-	-	354,795	354,795
Restricted deposits	35,160	-	-	-	-	35,160	35,160
Derivative financial instruments	-	1,080	13,275	-	1,253	15,608	15,608
Total current financial assets	698,854	1,080	13,275	-	1,253	714,462	714,462
Total financial assets	705,276	1,175	13,275	-	1,385	721,111	721,111
Liabilities							
Non-current liabilities							
Borrowings and other debt	(2,073,112)	-	-	97,879	-	(1,975,233)	(2,054,409)
Trade and other payables	(21,286)	-	-	-	-	(21,286)	(21,286)
Derivative financial instruments	-	(22,515)	-	(99,645)	(33,842)	(156,002)	(156,002)
Total non-current financial liabilities	(2,094,398)	(22,515)	-	(1,766)	(33,842)	(2,152,521)	(2,231,697)
Current liabilities							
Borrowings and other debt	(127,004)	-	-	18,176	-	(108,828)	(108,828)
Trade and other payables	(393,952)	-	-	-	-	(393,952)	(393,952)
Derivative financial instruments	-	(5,640)	(11,891)	(18,447)	(2,825)	(38,803)	(38,803)
Total current financial liabilities	(520,956)	(5,640)	(11,891)	(271)	(2,825)	(541,583)	(541,583)
Total financial liabilities	(2,615,354)	(28,155)	(11,891)	(2,037)	(36,667)	(2,694,104)	(2,773,280)
Net financial (liabilities)/assets	(1,910,078)	(26,980)	1,384	(2,037)	(35,282)	(1,972,993)	(2,052,169)

(i) These instruments are categorised by IAS 39 as "Held for trading derivatives".

(ii) These instruments are categorised by IAS 39 as "Derivatives designated in hedging relationship".

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

Derivatives and hedge accounting

Bord Gáis Éireann applies the criteria defined by IAS 39 *Financial Instruments: Recognition and Measurement* 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 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, and
- 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 any international funding.

Bord Gáis Éireann 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.

Hedge accounting is applied in compliance with IAS 39 *Financial Instruments: Recognition and Measurement* and concerns interest rate derivatives used to hedge long-term indebtedness.

When possible Bord Gáis Éireann hedges the exposure to changes in the fair value of fixed-rate debts in foreign currencies.

The fair value of hedging derivatives is determined on the basis of 100% observable data.

There was no material ineffective portion of fair value hedges for 2011 (2010: €1.29 million).

The fair value of hedging derivatives in a fair value hedge in the statement of financial position as at 31 December 2011 was €8.3 million (2010: negative €34.1 million).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

(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. When the hedged cash flows materialise, the amounts previously recognised in other comprehensive income are transferred to profit or loss when the hedged item affects profit or loss.

Bord Gáis Éireann 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 2011, the ineffective portion of cash flow hedges was €nil (2010: €nil).

Impact of cash flow hedging derivatives on equity

Changes in the fair value of hedging derivatives included in equity over the year are as follows:

At 31 December 2011	Gross changes in fair value recorded in equity (i)	Taxes related to gross changes recorded in equity	Changes after taxes in fair value recorded in equity
	€'000	€'000	€'000
Derivatives on:			
Interest rate hedging	(13,706)	1,713	(11,993)
Exchange rate hedging	6,557	(819)	5,738
Hedging derivatives	(7,149)	894	(6,255)
<hr/>			
At 31 December 2010	Gross changes in fair value recorded in equity (i)	Taxes related to gross changes recorded in equity	Changes after taxes in fair value recorded in equity
	€'000	€'000	€'000
Derivatives on:			
Interest rate hedging	6,823	(853)	5,970
Exchange rate hedging	208	(26)	182
Hedging derivatives	7,031	(879)	6,152

(i) included in "Net change in fair value of cash flow hedges" in the statement of other comprehensive income.

The amounts reclassified from equity to profit or loss for the year were:

- Exchange rate contracts that matured during 2011: €1.1 million (2010: €1.5 million).
- Interest rate contracts that matured during 2011: €nil (2010: €nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

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:

At 31 December 2011	within 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000	Total €'000
Derivative financial assets and liabilities:					
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
Hedging derivatives	2,769	268	(11,555)	(26,878)	(35,396)
At 31 December 2010	within 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000	Total €'000
Derivative financial assets and liabilities:					
Interest rate swaps	-	(5,345)	-	(15,511)	(20,856)
Cross currency swaps	-	(93)	(1,087)	(5,040)	(6,220)
Exchange rate contracts	(908)	(263)	-	-	(1,171)
Hedging derivatives	(908)	(5,701)	(1,087)	(20,551)	(28,247)

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-11 €'000	Level 2 31-Dec-10 €'000
Financial derivative assets		
Commodity derivatives	17,904	27,205
Forward exchange contracts	9,516	3,214
Interest rate derivatives	14,494	-
Total financial derivative assets	41,914	30,419
Financial derivative liabilities		
Commodity derivatives	(19,441)	(10,731)
Forward exchange contracts	(2,771)	(3,445)
Interest rate derivatives	(64,781)	(82,742)
Total financial derivative liabilities	(86,993)	(96,918)
Net liability	(45,079)	(66,499)

There have been no transfers between levels in 2011 or 2010.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

Credit/counterparty risk

Description

Counterparty risk is defined as the total loss that Bord Gáis Éireann would sustain on its business and market transactions if a counterparty defaulted and failed to perform its contractual obligations.

Objective

The objective of credit risk management is to manage and control credit risk exposures within acceptable parameters, while optimising the return.

Policies and processes for the management and control of credit risk

Bord Gáis Éireann typically only deals with counterparties who maintain an investment grade rating and have been approved by the Risk Management Committee. However, where appropriate, the Risk Management Committee takes an independent view of counterparties. Bord Gáis Éireann routinely evaluates and measures its counterparty credit exposures.

Bord Gáis Éireann'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. Bord Gáis Éireann only deals with approved counterparties and those who maintain an investment grade rating. Bord Gáis Éireann regularly evaluates and measures its treasury exposures. Where the exposure on derivative instruments has the potential to be material to Bord Gáis Éireann's net worth, Bord Gáis Éireann will consider entering into credit support arrangements.

Bord Gáis Éireann develops and maintains relationships with a small number of key relationship banks who have a long-term commitment to Bord Gáis Éireann, who understand the business, and who provide funding on attractive terms. Bord Gáis Éireann 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. Bord Gáis Éireann is consistent in the provision of information to relationship banks and investors. Bord Gáis Éireann's policy is to be open with banks, investors and rating agencies.

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-11	31-Dec-10	01-Jan-10
	€'000	€'000	€'000
Financial assets			
Trade receivables and other receivables (excluding prepayments)	303,372	338,454	313,560
Cash and cash equivalents	253,446	229,654	354,795
Restricted deposits	47,825	30,806	35,160
Financial asset investments	2,761	2,761	1,761
Derivative financial instruments	41,914	30,419	15,835
Total	649,318	632,094	721,111

Exposure to credit risk on cash and derivative financial instruments is monitored by Bord Gáis Éireann's Treasury function. It is Bord Gáis Éireann's policy that cash is mainly placed on deposit with institutions with a minimum short-term credit rating of A- with Standard & Poor's or A3 with Moody's.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region is as follows:

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Domestic	283,181	321,475	303,370
United Kingdom	20,191	16,979	10,190
Total	303,372	338,454	313,560

The maximum exposure to credit risk for trade and other receivables at the reporting date can be analysed as follows:

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Retail customers - billed	88,747	94,354	108,342
Retail customers - unbilled	172,030	187,257	170,548
Use of system receivables	9,464	30,757	16,373
Amounts due from joint venture undertakings	4,127	3,350	1,893
Other receivables	29,004	22,736	16,404
Total	303,372	338,454	313,560

Trade and other receivables

The aging of trade and other receivables, net of impairment, is as follows:

	Net receivable 31-Dec-11 €'000	Net receivable 31-Dec-10 €'000	Net receivable 01-Jan-10 €'000
Not past due	245,319	278,134	249,691
0 – 30 days	33,219	36,280	32,824
31 – 120 days	14,251	17,084	9,664
> 120 days	10,583	6,956	21,381
Total	303,372	338,454	313,560

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2011 €'000	2010 €'000
At 1 January	29,847	15,036
Impairment loss recognised	9,736	26,400
Provision utilised	(6,693)	(11,589)
At 31 December	32,890	29,847

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 balances receivable from residential and business customers on a portfolio basis, in addition to impairment allowances taken against individual accounts.

The credit risk on trade receivables is managed through credit vetting of customers, putting appropriate collateral in place and pro active monitoring and management of trade receivable balances. Accounts in arrears are actively managed by Bord Gáis Éireann'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.

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 21,000 Pay as you Go meters in 2011 and in excess of 82,000 payment plans were established with our customers.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

Liquidity risk

Description

Liquidity risk is the risk that suitable sources of funding for Bord Gáis Éireann may not be available, or Bord Gáis Éireann is unable to sell its assets on the market place so as to be unable to meet short-term finance requirements and to settle obligations. Such a situation would negatively impact Bord Gáis Éireann's results as it could result in the incurrence of higher borrowing expenses to meet obligations or, under the worst of conditions, an inability to continue as a going concern.

Objective

Bord Gáis Éireann'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 Bord Gáis Éireann's reputation.

Bord Gáis Éireann's policy is to ensure that Bord Gáis Éireann has access to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies.

Bord Gáis Éireann 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. Bord Gáis Éireann 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 2011, Bord Gáis Éireann had €2,711.4 million in committed facilities (2010: €2,811.5 million). Borrowings at 31 December 2011 were €2,196.2 million (2010: €2,051.9 million).

Bord Gáis Éireann 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.

Policies and processes for the management and control of liquidity risk

Treasury 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. Treasury 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. Bord Gáis Éireann 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. Bord Gáis Éireann will invest surplus cash in euro or in the currency of overseas operations.

Bord Gáis Éireann's policy is to develop and maintain relationships to facilitate its long-term liquidity, access to capital and availability of risk management facilities.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

Bord Gáis Éireann's policy is that the priority in investing surplus cash is safety. Where funds are available for investment Bord Gáis Éireann 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 Treasury Policy. Bord Gáis Éireann seeks to minimise the cost of short-term borrowing, subject to achieving appropriate terms and conditions. Bord Gáis Éireann 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 Bord Gáis Éireann's financial planning have enabled Bord Gáis Éireann to maintain access to the credit market. In particular in 2009, Bord Gáis Éireann issued a US dollar Private Placement. The above mentioned actions aimed at ensuring availability of suitable sources of funding to fulfil short-term commitments and obligations due while preserving the necessary financial flexibility to support Bord Gáis Éireann's development plans. In doing so, Bord Gáis Éireann 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, Bord Gáis Éireann 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 interest payment associated with borrowings and the undiscounted net cash flows attributable to derivative financial instruments. The disclosure includes cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward exchange contracts.

At 31 December 2011	Carrying amount €'000	Contractual cash flows €'000	within 1 year €'000	1-2 years €'000	2-5 years €'000	>5 years €'000
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)
Non-derivative financial liabilities	(2,596,604)	(3,038,190)	(527,845)	(348,331)	(1,200,545)	(961,469)
Interest rate derivative liabilities	(50,287)	(68,621)	(14,551)	2,511	(33,799)	(22,782)
Exchange rate contracts	6,745	6,745	6,347	398	-	-
Net commodity derivative liabilities	(1,537)	(58,850)	(28,837)	(30,013)	-	-
Net derivative financial liabilities	(45,079)	(120,726)	(37,041)	(27,104)	(33,799)	(22,782)
Net financial liabilities	(2,641,683)	(3,158,916)	(564,886)	(375,435)	(1,234,344)	(984,251)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

At 31 December 2010	Carrying amount €'000	Contractual cash flows €'000	within 1 year €'000	1-2 years €'000	2-5 years €'000	>5 years €'000
Borrowings	(2,051,937)	(2,575,756)	(175,822)	(153,287)	(1,389,236)	(857,411)
Trade and other payables	(468,354)	(468,354)	(432,958)	(5,294)	(15,536)	(14,566)
Non-derivative financial liabilities	(2,520,291)	(3,044,110)	(608,780)	(158,581)	(1,404,772)	(871,977)
Interest rate derivative liabilities	(82,742)	(99,759)	(5,015)	(11,920)	(42,975)	(39,849)
Exchange rate contracts	(231)	(231)	(183)	(48)	-	-
Net commodity derivative assets/(liabilities)	16,474	9,767	40,925	(31,158)	-	-
Net derivative financial (liabilities)/assets	(66,499)	(90,223)	35,727	(43,126)	(42,975)	(39,849)
Net financial liabilities	(2,586,790)	(3,134,333)	(573,053)	(201,707)	(1,447,747)	(911,826)
At 1 January 2010	Carrying amount €'000	Contractual cash flows €'000	within 1 year €'000	1-2 years €'000	2-5 years €'000	>5 years €'000
Borrowings	(2,084,061)	(2,781,596)	(263,344)	(90,907)	(1,387,089)	(1,040,256)
Trade and other payables	(415,238)	(415,238)	(393,952)	(4,253)	(9,097)	(7,936)
Non-derivative financial liabilities	(2,499,299)	(3,196,834)	(657,296)	(95,160)	(1,396,186)	(1,048,192)
Interest rate derivative liabilities	(178,363)	(226,217)	(33,342)	(5,447)	(74,421)	(113,007)
Exchange rate contracts	(1,991)	(1,991)	(2,183)	192	-	-
Net commodity derivative assets/(liabilities)	1,384	22,631	31,051	(8,420)	-	-
Net derivative financial liabilities	(178,970)	(205,577)	(4,474)	(13,675)	(74,421)	(113,007)
Net financial liabilities	(2,678,269)	(3,402,411)	(661,770)	(108,835)	(1,470,607)	(1,161,199)

Market Risk

Description

Market risk is the possibility that changes in currency exchange rates, interest rates or commodity prices will adversely affect the value of Bord Gáis Éireann's financial assets, liabilities or expected future cash flows.

Objective

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Policies and processes for the management and control of market risk

Within Bord Gáis Éireann, 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.

Bord Gáis Éireann 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 Bord Gáis Éireann seeks to apply hedge accounting in order to manage volatility in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

(a) Exchange rate risk

Description

Exchange rate risk derives from the fact that Bord Gáis Éireann's operations are conducted in currencies other than the 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 Bord Gáis Éireann's reported results and net equity where financial statements of subsidiaries denominated in currencies other than the euro are translated from their functional currency into euro.

The main transactions from which Bord Gáis Éireann has currency exposure are the purchase of gas and electricity in sterling and miscellaneous purchases in foreign currency. Bord Gáis Éireann has US dollar denominated Private Placements that have been converted to euro using cross currency rate swaps.

Bord Gáis Éireann is developing businesses in the UK through BGE (UK) Limited in Northern Ireland, firmus energy (supply) Limited and firmus energy (distribution) Limited. Therefore, Bord Gáis Éireann has exposure arising from the translation of the statement of financial position and reserves for each of these activities.

Objective

The objective of exchange rate risk management is to protect profitability by minimising the impact of material variations due to foreign exchange rate movements.

Policies and processes for the management and control of exchange rate risk

Bord Gáis Éireann's policy is to manage 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 treasury policy. Exposures will be hedged taking account of the business risks and the regulatory environment.

The purchase and sale of gas and electricity give rise to exposure to foreign currency. Bord Gáis Éireann'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. Treasury 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 FX 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.

Bord Gáis Éireann's 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.

Through wholly owned UK subsidiaries, Bord Gáis Éireann has operational and investment exposures in sterling. These currency exposures give rise to currency gains and losses recognised in profit or loss, or taken to other comprehensive income and recognised in the consolidated statement of comprehensive income. Bord Gáis Éireann enters into foreign currency borrowings and derivatives such as foreign currency forward contracts and currency swaps are used to manage foreign currency exposures.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

The Group's exposure to exchange rate risk was as follows, based on notional amounts:

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Cash and cash equivalents	5,241	5,524	6,811
Restricted deposits	28,895	14,517	2,792
Trade receivables and other receivables	20,191	16,979	10,190
Unsecured bank loan	(215,983)	(213,841)	(204,494)
Trade and other payables	(42,120)	(19,512)	(17,095)
Gross statement of financial position exposure	(203,776)	(196,333)	(201,796)
Forward exchange contracts	206,867	202,491	211,032
FX swaps	(90,358)	(72,019)	-
Net exposure	(87,267)	(65,861)	9,236

Sensitivity analysis

A strengthening 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 2010.

US dollar is excluded from this analysis as the exposure is hedged using offsetting cross currency swaps.

Foreign currency debt instruments entered into as an economic hedge against investments in foreign operations are excluded from the below sensitivity due to offsetting currency movements on intercompany balances.

	Profit before taxation gain/(loss) 31-Dec-11 €'000	Other comprehensive income 31-Dec-11 €'000	Profit before taxation gain/(loss) 31-Dec-10 €'000	Other comprehensive income 31-Dec-10 €'000
5% Strengthening	3,737	(10,489)	809	(8,161)
5% Weakening	(3,737)	10,489	(809)	8,161

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 Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

(b) Interest rate risk

Description

Changes in interest rates affect the market value of financial assets and liabilities of the Group and the level of finance charges.

Objective

Bord Gáis Éireann'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.

Policies and processes for the management and control of interest rate risk

The Group's exposure to interest rate fluctuations covers two types of risk: (i) a risk of change in the value of fixed-rate financial assets and liabilities, and (ii) a risk of change in the cash flows related to floating-rate financial assets and liabilities.

Bord Gáis Éireann'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. Bord Gáis Éireann will use a number of methods, including interest rate derivatives to manage the interest rate risk on its debt portfolio.

The percentage of the Group's fixed and floating rate debt at 31 December was as follows:

	2011 €'000	2011 %	2010 €'000	2010 %
At fixed rates (including swaps)	1,252,291	57.0%	1,254,079	61.1%
At floating rates	918,313	41.8%	769,413	37.5%
Inflation linked debt	25,570	1.2%	28,445	1.4%
Total	2,196,174	100.0%	2,051,937	100.0%

At 31 December 2011, after taking account of fixed rate debt and debt fixed through interest rate swaps, 57% of Bord Gáis Éireann's year-end borrowings were at fixed rates of interest, 42% of Bord Gáis Éireann's year-end borrowings were at floating rates of interest and 1% of Bord Gáis Éireann's year-end borrowings had interest costs linked to UK RPI.

Bord Gáis Éireann monitors exposure to interest rate risk on a calendar year basis. At 31 December 2011, the 57% of debt at a fixed rate of interest excludes forward starting interest rate swaps.

Bord Gáis Éireann had €830.9 million of fixed rate debt (excluding interest rate swaps) at 31 December 2011, (2010: €826.5 million).

At year-end Bord Gáis Éireann had outstanding interest rate swaps with a notional principal of €531.3 million and £40.0 million. €100.0 million which commenced on 17 September 2007 was swapped for five years at an average rate of 4.4%. €180.0 million which commenced on 22 October 2007 was swapped for five years at an average rate of 4.4%. €53.8 million of amortising interest rate swaps which commenced on 28 May 2008 was swapped for eighteen years at an average rate of 4.77%. €87.5 million of amortising interest rate swaps which commenced on 30 June 2009 was swapped for eighteen years at an average rate of 4.13%. Additional interest rate swaps of €60.0 million will commence on 31 January 2012 at an average rate of 3.2%, £40.0 million on 30 April 2012 at an average rate of 3.3% and €50.0 million on 17 September 2012 at an average rate of 3.4%.

At 31 December 2011, the weighted average interest rate of the fixed debt portfolio which comprised European Investment Bank debt of €277.0 million, Bond of €549.6 million, Term Loan of €4.3 million and an interest rate swap portfolio of €421.4 million was 4.98% (2010: 4.98%).

Interest costs on variable rate loans are reset on a periodic basis for one, three or six months over the prevailing market rate.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

The average period for the fixed rate financial liabilities is 4.6 years (2010: 6.1 years). Bord Gáis Éireann enters interest rate swaps in order to fix the rate over the life of debt which is typically five years. The US dollar Private Placement debt was for a period longer than five years and as this debt matures the average life of the fixed debt is reducing accordingly.

On 31 December 2011, Bord Gáis Éireann had US\$740.0 million fixed rate debt (€604.9 million equivalent) in a US\$290.0 million US dollar Private Placement transaction which was completed on 22 October 2003 and US\$450.0 million 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, Bord Gáis Éireann 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 consolidated 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-11 €'000	Profit before taxation gain/(loss) 31-Dec-10 €'000
50 bp increase	(4,407)	(3,254)
50 bp decrease	4,407	3,254

The fair value change on cash flow hedges and their impact on other comprehensive income would be as shown below:

	Increase/(decrease) in other comprehensive income 31-Dec-11 €'000	Increase/(decrease) in other comprehensive income 31-Dec-10 €'000
50 bp increase	9,121	6,898
50 bp decrease	(9,165)	(6,711)

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 2010.

The impact on other comprehensive income, of a 50 bp increase/decrease, is not equal and opposite because the rate changes in the sensitivity analysis also impacts the discount curves used on the relevant cash flows for interest rate derivatives.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

(c) Commodity risk

Description

Bord Gáis Éireann's results of operations are affected by changes in the prices of commodities. A decrease in gas and electricity sales prices generally has a negative impact on Bord Gáis Éireann's results of operations and vice-versa. 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.

Bord Gáis Éireann 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, Bord Gáis Éireann 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 Bord Gáis Éireann remains exposed to volume mismatches in electricity, which are traded out in the wholesale pool. There is also volume variability in relation to renewals 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.

Objective

Bord Gáis Éireann manages exposure to commodity price risk arising in normal trading and commercial activities in view of achieving stable margins.

Policies and processes for the management and control of commodity risk

Bord Gáis Éireann 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.

Commodity derivatives not classified as hedges

Bord Gáis Éireann 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 Bord Gáis Éireann's expected sale, purchase or usage requirements, and accordingly are not within the scope of IAS 39.

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 Bord Gáis Éireann) 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.

Bord Gáis Éireann does not apply hedge accounting to commodity derivatives.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

24. Financial Risk Management and Financial Instruments (continued)

Commodity price risk management

Commodity price risk is managed by Bord Gáis Éireann's Energy Trading front and middle office functions. This is done in accordance with Bord Gáis Éireann's overall risk management policy and framework. The activities of the Energy Trading Team are reported periodically to Bord Gáis Éireann's Risk Management Committee, who are 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

Bord Gáis Éireann 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. Bord Gáis Éireann 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-11 €'000	Profit before taxation gain/(loss) 31-Dec-10 €'000
10% increase	(4,151)	1,246

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.

The sensitivity analysis above has been calculated with reference to commodity contracts falling within the scope of IAS 39 only.

Contracts that are designated as "own use" contracts are not within the scope of IAS 39 and are therefore not within the scope of the commodity price sensitivity analysis under IFRS 7 as above. The sensitivity analysis provided is hypothetical in nature and should be used with caution, as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because Bord Gáis Éireann's actual exposure to market rates is constantly changing as the portfolio of energy contracts changes. It should also be noted that these sensitivities are based on calculations which do not consider all interrelationships, consequences and effects of such a change in those prices.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

25. Operating Leases

Non-cancellable operating lease rentals receivable

	31-Dec-11 €'000	31-Dec-10 €'000
Less than one year	60,095	63,368
Between one and five years	178,480	199,255
More than five years	296,254	335,574
Total	534,829	598,197

Operating leases receivable by Bord Gáis Éireann relate to arrangements falling within the scope of IFRIC 4 *Determining whether an arrangement contains a lease* (IFRIC 4) as follows;

- (a) Agreements to allow third parties the use of parts of the Gas Network Transportation system. The unexpired lease terms range from 12 to 16 years, and
- (b) Power purchase agreements with third parties (agreements acquired as part of subsidiary acquisition in 2009). The average unexpired lease term is 10 years. All lease arrangements are at an arm's length basis.

Non-cancellable operating lease rentals payable

The following operating leases are payable by Bord Gáis Éireann 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-11 €'000	31-Dec-10 €'000
Less than one year	3,845	3,828
Between one and five years	18,673	17,944
More than five years	25,042	29,623
Total	47,560	51,395

Amounts included in the income statement in respect of land and building lease arrangements were €3.9 million (2010: €2.3 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 Bord Gáis Éireann under PPAs. The average unexpired lease term is 10 years. All lease arrangements are at an arm's length basis.

	31-Dec-11 €'000	31-Dec-10 €'000
Less than one year	18,143	18,143
Between one and five years	71,807	72,570
More than five years	73,042	90,422
Total	162,992	181,135

Amounts included in the income statement in respect of the PPA lease arrangements were €18.1 million (2010: €9.3 million).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

26. Capital Commitments

(a) Capital commitments

	Group 2011 €'million	Board 2011 €'million	Group 2010 €'million	Board 2010 €'million
Contracted for	277	197	155	113

(b) Gas purchase contract commitments

Gas purchase contracts have been entered into which provide for the purchase of certain gas quantities in the years 2012 to 2025. These arrangements provide for pricing changes in line with changes in built in energy market indicators. Where appropriate, embedded derivatives have been separated and valued in accordance with IAS 39.

(c) Electricity purchase contract commitments

Electricity purchase contracts for the purchase of certain electricity capacities have been entered into for the years 2012 to 2025. These arrangements provide for pricing changes in line with changes in built in energy market indicators. Where appropriate, embedded derivatives have been separated and valued in accordance IAS 39.

27. Contingencies

Group and Board

Contingent liabilities may arise in respect of contractual agreements to which Bord Gáis Éireann 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 financial instruments and rationalisation of operations have been provided for as disclosed in note 22 and 24. Contingent liabilities with respect to government grants are disclosed in note 21.

In the normal course of its business, Bord Gáis Éireann 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 Bord Gáis Éireann. At 31 December 2011, €100.3 million (2010: €90.4 million) was provided by the Group by way of guarantees by financial institutions to third parties. €95.0 million (2010: €84.8 million) of guarantees have been counter indemnified by the Board.

28. Related Parties

Group and Board

Semi-state bodies

In common with many other entities, Bord Gáis Éireann deals in the normal course of business with other Government sponsored bodies, such as the Electricity Supply Board and Eirgrid.

Bank's owned by the Irish State

In the normal course of business, Bord Gáis Éireann transacts with certain Irish banks which have become wholly or partially controlled by the Irish Government. All of Bord Gáis Éireann's transactions with such banks are on normal commercial terms. Bord Gáis Éireann had no material concentration of borrowings with any such banks during the year ended or at 31 December 2011. The Group's cash and cash equivalents and restricted deposits sitting on deposit with such banks was €29.6 million at 31 December 2011 (2010: €58.4 million). The Board's cash and cash equivalents and restricted deposits sitting on deposit with such banks was €16.9 million at 31 December 2011 (2010: €47.3 million).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

28. Related Parties (continued)

Board member's interests

Non-executive Board members had no beneficial interests in Bord Gáis Éireann or its subsidiaries at any time during the year or at 31 December 2011. The Chief Executive and Secretary are beneficiaries of the Employee Share Ownership Plan.

Group

Subsidiary and joint venture undertakings

The consolidated financial statements include the financial statements of the Board and its subsidiaries and joint ventures as documented in the accounting policies. A listing of the subsidiaries and joint ventures is provided in the note 29. 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*.

Bord Gáis Éireann provided funding and certain limited services during 2011 to a number of trading joint venture undertakings. At 31 December 2011, €4.1 million (2010: €3.4 million) in aggregate was receivable from joint ventures.

Board

Subsidiary and joint venture undertakings

	Transaction value (income)		Balance receivable		
	2011	2010	31-Dec-11	31-Dec-10	01-Jan-10
	€'000	€'000	€'000	€'000	€'000
Subsidiaries	64,526	49,819	548,359	533,350	525,948
Joint ventures	-	-	4,057	3,249	1,893
Total	64,526	49,819	552,416	536,599	527,841

	Transaction value (expense)		Balance outstanding		
	2011	2010	31-Dec-11	31-Dec-10	01-Jan-10
	€'000	€'000	€'000	€'000	€'000
Subsidiaries	41,598	39,001	34,110	33,232	18,533
Joint ventures	-	-	-	-	-
Total	41,598	39,001	34,110	33,232	18,533

Subsidiaries

During the year the Board had sales of €46.1 million (2010: €31.5 million) to subsidiaries. These sales predominantly related to gas sales and management services. During the year the Board had interest receivable totaling €18.4 million (2010: €18.3 million) from subsidiaries on intercompany loan facilities.

During the year the Board purchased services and supplies of €41.6 million (2010: €39.0 million) from subsidiaries. This expenditure primarily related to transportation and power generation supply services.

At 31 December 2011, the Board had amounts receivable of €548.4 million (2010: €533.4 million) from its subsidiaries. The balances receivable mainly related to loan facilities to fund capital investment.

At 31 December 2011, the Board had amounts payable of €34.1 million (2010: €33.2 million) to its subsidiaries. The outstanding payable primarily related to amounts due in respect of services and supplies provided.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

28. Related Parties (continued)

Joint venture undertakings

See above description under Group.

Group and Board

Key management compensation	2011 €'000	2010 €'000
Salaries and other short-term employee benefits	1,993	2,220
Other benefits including pension costs, costs of company car and health insurance	385	427
Total	2,378	2,647

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 Bord Gáis Éireann. The key management personnel includes Board members and senior executives.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

29. Subsidiaries and Joint Ventures

At 31 December 2011 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	Natural Gas Finance Limited	Project and Financing Services	100%
6	Sudanor Limited	Non Trading	100%
7	Conservation Engineering Limited	Combined Heat and Power	100%
8	Aurora Telecom Limited	Non Trading	100%
9	BGE Finance Public Limited Company	Non Trading	100%
10	BGE (IOM) Limited	Gas Transmission	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	Non Trading	100%
22	BGE Renewables Holdings Limited	Non Trading	100%
23	BGE (UK) Limited	Gas Transmission	100%
24	firmus energy (distribution) Limited	Conveyance of Gas	100%
25	firmus energy (supply) Limited	Supply of Gas	100%
26	Falleenafinnoga Windfarm Limited	Non Trading	100%
27	Garracummer Wind Farm Limited	Renewable Electricity Generation	100%
28	Inish Wind Limited	Renewable Electricity Generation	100%
29	Lisheen Windfarm Limited	Renewable Electricity Generation	100%
30	Lisheen Windfarm II Limited	Renewable Electricity Generation	100%
31	Mienvée Energy Limited	Renewable Electricity Generation	100%
32	Mienvée Energy (Nominees) Limited	Non Trading	100%
33	Newmarket Windfarms Limited	Non Trading	100%
34	Reisk Windfarm Limited	Non Trading	100%
35	SWS Glentanemacelligot Wind Farm Limited	Renewable Electricity Generation	100%
36	SWS Gneeves Wind Farm Limited	Renewable Electricity Generation	100%
37	SWS Green Energy Limited	Energy Supply	100%
38	SWS Inchincoosh Wind Farm Limited	Renewable Electricity Generation	100%
39	SWS International Energy Limited	Non Trading	100%
40	SWS Kilgarvan Wind Farm Limited	Renewable Electricity Generation	100%
41	SWS Knockacummer Wind Farm Limited	Renewable Electricity Generation	100%

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

29. Subsidiaries and Joint Ventures (continued)

	Company	Nature of Business	Group Share
42	SWS Knockawarriga Wind Farm Limited	Renewable Electricity Generation	100%
43	SWS Natural Resources Holdings Limited	Holding Company	100%
44	SWS Wind Farms Limited	Project Financing	100%
45	Tooreen Windfarm Limited	Non Trading	100%
46	SWS Energy Limited	Renewable Electricity Generation	100%
47	Craignagapple Windfarm Limited	Renewable Electricity Generation	100%
48	Owenreagh Power Partners Limited	Renewable Electricity Generation	50%
49	Owenreagh Wind Farm Limited	Renewable Electricity Generation	50%
50	SWS Lisavaird NI Limited	Renewable Electricity Generation	50%
51	Booltiagh Wind Limited	Renewable Electricity Generation	100%
52	BW2 Windfarm Limited	Renewable Electricity Generation	100%
53	Tidal Ventures Limited (i)	Site Development for Tidal Projects	50%
Independent subsidiary undertaking			
54	Gaslink Independent System Operator Limited	Independent Gas System Operator	100%
Non-controlled undertaking			
55	Bord Gáis ESOP Trustee Limited	Trustee for Employee Share Ownership Plan	100%

The registered office of 1 to 22, 26 to 46 and 51 to 55 is:

Gasworks Road,
Cork,
Ireland.

The registered office of 23, 24, and 25 is:

6 St Andrew Street
5th Floor
London
EC4A 3AE
United Kingdom

The registered office of 47 to 50 is:

21 Arthur Street
Belfast
BT1 4GA
Northern Ireland

(i) The name of BGOH Limited was changed to Tidal Ventures Limited on 19 April 2011.

30. 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.

However, on 22 February 2012, the Minister for Public Expenditure and Reform announced the sale of Bord Gáis Energy as part of the planned sale of State assets. Bord Gáis Éireann is engaging with the relevant Government departments and other stakeholders to support and input into this process.

31. 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. Bord Gáis Éireann 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 *Consolidated and Separate Financial Statements*, the accounts for Bord Gáis ESOP Trustee Limited are not consolidated with the results of Bord Gáis Éireann Group.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

32. Estimates and Judgements

Group and Board

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, Bord Gáis Éireann 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) Future costs required to settle provisions, such as the restructuring and decommissioning provision. The measurement of the provision for 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 Bord Gáis Éireann. 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 2011 are presented in the retirement benefit obligations note. These assumptions are updated annually. Bord Gáis Éireann considers the actuarial assumptions used at 31 December 2011 appropriate and well-founded, but changes in these assumptions may have a significant effect on the amount of the obligations and Bord Gáis Éireann's net income.

(d) Impairment tests on goodwill and long-term assets are sensitive to the macro-economic and segment assumptions used, and medium-term financial forecasts. Bord Gáis Éireann therefore revises the underlying estimates and assumptions based on regularly updated information.

(e) Bord Gáis Éireann 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, Bord Gáis Éireann 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 Bord Gáis Éireann'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 Bord Gáis Éireann uses valuation models involving a certain number of assumptions.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

33. Explanation of Transition to IFRS

As stated in note 1, these are Bord Gáis Éireann's first set of financial statements prepared in accordance with IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2011, the comparative information presented in these financial statements for the year ended 31 December 2010 and in the preparation of an opening IFRS statement of financial position at 1 January 2010 (date of transition).

In preparing its opening IFRS statement of financial position, Bord Gáis Éireann has adjusted amounts reported previously in financial statements prepared in accordance with Irish GAAP. An explanation of how the transition from Irish GAAP to IFRS has affected Bord Gáis Éireann's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The rules for first-time adoption of IFRS are set out in IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1). IFRS 1 states that a company should use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. IFRS 1 requires that these accounting policies comply with each IFRS effective at the end of its first IFRS reporting period. IFRS 1 allows exemptions from the application of certain IFRS to assist companies with the transition process. Bord Gáis Éireann has taken the following key exemptions:

- Business combinations: Bord Gáis Éireann has elected not to restate business combinations prior to the transition date; and
- Cumulative translation differences: Bord Gáis Éireann has elected to reset the foreign currency translation reserve to zero at the transition date. Any gains and losses on subsequent disposals of foreign operations will exclude translation differences arising prior to the transition date.

Following the adoption of IFRS 8 *Operating Segments*, the Group's reportable segments have not materially changed.

Material adjustments to the statement of cash flows for 2010

There were no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Irish GAAP except for:

- presentational adjustments to comply with IAS 7 *Statement of Cash Flow*,
- presentational differences in respect of the exclusion of restricted deposits, and
- presentational adjustments following the implementation of SIC Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, whereby lease interest payable on the lease obligation and the interest income receivable on the restricted deposit have been linked and accounted for as one transaction in the income statement.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

33. Explanation of Transition to IFRS (continued)

Reconciliation of Comprehensive Income for the year ended 31 December 2010

Consolidated Statement of Comprehensive Income

	Irish GAAP	Derivatives and hedging	Functional currency	Re- classification	Business combinations	Other	IFRS
	2010	2010	2010	2010	2010	2010	2010
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Note	(i)	(ii)	(iii)	(iv)	(v)		
Revenue	1,508,514	-	-	13,695	-	3,054	1,525,263
Gross profit	584,090	-	-	3,595	-	3,054	590,739
Operating costs (excluding depreciation and amortisation)	(256,753)	-	112	(3,595)	-	117	(260,119)
Operating profit before depreciation and amortisation (EBITDA)	327,337	-	112	-	-	3,171	330,620
Net change in fair value of operating derivatives	-	(4,365)	-	-	-	-	(4,365)
Depreciation and amortisation	(130,284)	-	(1,863)	-	-	2	(132,145)
Operating profit	197,053	(4,365)	(1,751)	-	-	3,173	194,110
Finance income	352	6,073	-	2,891	-	-	9,316
Finance costs	(77,339)	-	110	(2,370)	-	1,358	(78,241)
Net finance costs	(76,987)	6,073	110	521	-	1,358	(68,925)
Share of loss of joint ventures	(485)	-	-	(498)	289	-	(694)
Profit before income tax	119,581	1,708	(1,641)	23	289	4,531	124,491
Income tax expense	(5,550)	(214)	2,925	(23)	366	(322)	(2,818)
Profit for the year	114,031	1,494	1,284	-	655	4,209	121,673
Other comprehensive income							
Translation differences on consolidation of foreign subsidiaries and joint ventures	5,387	-	(5,826)	-	-	-	(439)
Net change in fair value of cash flow hedges	-	7,031	-	-	-	-	7,031
Deferred tax on cash flow hedge movement	-	(879)	-	-	-	-	(879)
Defined benefit plan actuarial losses	(12,097)	-	-	-	-	-	(12,097)
Deferred tax credit relating to defined benefit obligations	1,511	-	-	-	-	-	1,511
Other comprehensive income for the period, net of income tax	(5,199)	6,152	(5,826)	-	-	-	(4,873)
Total comprehensive income for the year	108,832	7,646	(4,542)	-	655	4,209	116,800

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

33. Explanation of Transition to IFRS (continued)

Reconciliation of Statement of Financial Position as at 1 January 2010

Consolidated Statement of Financial Position

	Irish GAAP	Derivatives and hedging	Functional currency	Re- classification	Business combinations	Other	IFRS
	01-Jan-10	01-Jan-10	01-Jan-10	01-Jan-10	01-Jan-10	01-Jan-10	01-Jan-10
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Note	(i)	(ii)	(iii)	(iv)	(v)		
Assets							
Property, plant and equipment	3,543,379	-	33,623	(70,983)	3,030	4,529	3,513,578
Intangible assets	80,286	-	-	70,983	4,100	-	155,369
Trade and other receivables	3,976	-	-	685	-	-	4,661
Investment in joint ventures	18,459	-	-	-	(3,023)	-	15,436
Financial asset investments	1,761	-	-	-	-	-	1,761
Derivative financial instruments	-	227	-	-	-	-	227
Deferred tax assets	28,958	-	(9,414)	-	-	-	19,544
Total non-current assets	3,676,819	227	24,209	685	4,107	4,529	3,710,576
Inventories	29,084	-	-	-	-	-	29,084
Derivative financial instruments	-	15,608	-	-	-	-	15,608
Trade and other receivables	285,911	-	-	39,351	-	-	325,262
Restricted deposits	191,438	-	-	(156,278)	-	-	35,160
Cash and cash equivalents	354,795	-	-	-	-	-	354,795
Total current assets	861,228	15,608	-	(116,927)	-	-	759,909
Total assets	4,538,047	15,835	24,209	(116,242)	4,107	4,529	4,470,485
Equity and liabilities							
Equity							
Capital stock	(98,862)	-	-	-	-	-	(98,862)
Capital premium	(20,208)	-	-	-	-	-	(20,208)
Cash flow hedge reserve	-	30,868	-	-	-	-	30,868
Translation reserve	33,208	-	(33,208)	-	-	-	-
Retained earnings	(1,315,853)	15,626	8,999	-	43,987	(944)	(1,248,185)
Total equity attributable to equity holders of Bord Gáis Éireann	(1,401,715)	46,494	(24,209)	-	43,987	(944)	(1,336,387)
Liabilities							
Borrowings and other debt	(2,229,788)	97,879	-	156,676	-	-	(1,975,233)
Retirement benefit obligations	(20,239)	-	-	(2,891)	-	-	(23,130)
Trade and other payables	(21,248)	-	-	(38)	-	-	(21,286)
Provisions	(55,617)	-	-	11,390	-	-	(44,227)
Deferred tax liabilities	(175,839)	4,410	-	2,891	(40,964)	(1,009)	(210,511)
Deferred revenue and government grants	(104,646)	-	-	(29,365)	-	-	(134,011)
Derivative financial instruments	-	(156,002)	-	-	-	-	(156,002)
Total non-current liabilities	(2,607,377)	(53,713)	-	138,663	(40,964)	(1,009)	(2,564,400)
Borrowings and other debt	(127,004)	18,176	-	-	-	-	(108,828)
Trade and other payables	(401,951)	12,011	-	5,639	(7,130)	(2,521)	(393,952)
Current tax liabilities	-	-	-	(4,201)	-	-	(4,201)
Deferred revenue and government grants	-	-	-	(12,469)	-	(55)	(12,524)
Provisions	-	-	-	(11,390)	-	-	(11,390)
Derivative financial instruments	-	(38,803)	-	-	-	-	(38,803)
Total current liabilities	(528,955)	(8,616)	-	(22,421)	(7,130)	(2,576)	(569,698)
Total liabilities	(3,136,332)	(62,329)	-	116,242	(48,094)	(3,585)	(3,134,098)
Total equity and liabilities	(4,538,047)	(15,835)	(24,209)	116,242	(4,107)	(4,529)	(4,470,485)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

33. Explanation of Transition to IFRS (continued)

Reconciliation of Statement of Financial Position as at 31 December 2010

Consolidated Statement of Financial Position

Note	Irish GAAP	Derivatives	Functional	Re-	Business	Other	IFRS
	31-Dec-10	and hedging	currency	classification	combinations	31-Dec-10	31-Dec-10
	€'000	31-Dec-10	31-Dec-10	31-Dec-10	31-Dec-10	€'000	€'000
		€'000	€'000	€'000	€'000	€'000	€'000
		(i)	(ii)	(iii)	(iv)	(v)	
Assets							
Property, plant and equipment	3,620,399	-	26,942	(106,378)	3,030	8,238	3,552,231
Intangible assets	81,472	-	-	106,378	4,100	1,512	193,462
Trade and other receivables	3,576	-	-	662	-	-	4,238
Investment in joint ventures	17,517	-	-	-	(2,734)	-	14,783
Financial asset investments	2,761	-	-	-	-	-	2,761
Derivative financial instruments	-	527	-	-	-	-	527
Deferred tax assets	28,529	-	(7,274)	(674)	-	-	20,581
Total non-current assets	3,754,254	527	19,668	(12)	4,396	9,750	3,788,583
Inventories	33,983	-	-	-	-	-	33,983
Derivative financial instruments	-	29,892	-	-	-	-	29,892
Trade and other receivables	316,000	-	-	35,140	-	(35)	351,105
Current tax assets	-	-	-	2,561	-	-	2,561
Restricted deposits	192,741	-	-	(161,935)	-	-	30,806
Cash and cash equivalents	229,654	-	-	-	-	-	229,654
Total current assets	772,378	29,892	-	(124,234)	-	(35)	678,001
Total assets	4,526,632	30,419	19,668	(124,246)	4,396	9,715	4,466,584
Equity and liabilities							
Equity							
Capital stock	(100,000)	-	-	-	-	-	(100,000)
Capital premium	(29,426)	-	-	-	-	-	(29,426)
Cash flow hedge reserve	-	24,716	-	-	-	-	24,716
Translation reserve	27,821	-	(27,382)	-	-	-	439
Retained earnings	(1,377,669)	14,133	7,714	-	43,332	(5,153)	(1,317,643)
Total equity attributable to equity holders of Bord Gáis Éireann	(1,479,274)	38,849	(19,668)	-	43,332	(5,153)	(1,421,914)
Liabilities							
Borrowings and other debt	(2,236,103)	33,320	-	162,362	-	-	(2,040,421)
Retirement benefit obligations	(18,287)	-	-	(2,612)	-	-	(20,899)
Trade and other payables	(34,969)	491	-	(2,276)	-	1,358	(35,396)
Provisions	(48,133)	-	-	24,582	-	-	(23,551)
Deferred tax liabilities	(184,505)	3,702	-	3,285	(40,598)	(1,332)	(219,448)
Deferred revenue and government grants	(100,224)	-	-	(24,046)	-	-	(124,270)
Derivative financial instruments	-	(85,454)	-	-	-	-	(85,454)
Total non-current liabilities	(2,622,221)	(47,941)	-	161,295	(40,598)	26	(2,549,439)
Borrowings and other debt	(11,516)	-	-	-	-	-	(11,516)
Trade and other payables	(413,621)	(9,863)	-	429	(7,130)	(2,773)	(432,958)
Deferred revenue and government grants	-	-	-	(12,896)	-	(1,815)	(14,711)
Provisions	-	-	-	(24,582)	-	-	(24,582)
Derivative financial instruments	-	(11,464)	-	-	-	-	(11,464)
Total current liabilities	(425,137)	(21,327)	-	(37,049)	(7,130)	(4,588)	(495,231)
Total liabilities	(3,047,358)	(69,268)	-	124,246	(47,728)	(4,562)	(3,044,670)
Total equity and liabilities	(4,526,632)	(30,419)	(19,668)	124,246	(4,396)	(9,715)	(4,466,584)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

33. Explanation of Transition to IFRS (continued)

(i) Derivatives and hedging

Bord Gáis Éireann uses derivative financial instruments and non-derivative financial instruments to hedge its exposure to foreign exchange, interest rate, and commodity price risk arising from operational, financing and investing activities. The principal derivatives used include; interest rate swaps, inflation linked interest rate swaps, currency swaps, and forward foreign currency contracts.

Within its regular course of business, Bord Gáis Éireann 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 Bord Gáis Éireann'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. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value are recognised in accordance with IAS 39 as 'cash flow' hedges or 'fair value' hedges.

Financial derivative instruments are used by Bord Gáis Éireann 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.

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.

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) Functional currency

Under Irish GAAP, Bord Gáis Éireann applied 'net investment hedging' which resulted in any foreign exchange differences on the translation of foreign subsidiaries to euro being taken to reserves and offset against the translation of the Board's foreign currency loan to the subsidiary.

Bord Gáis Éireann has elected to reset the foreign currency translation reserve to zero at transition date. Any gains and losses on subsequent disposals of foreign operations will exclude translation differences arising prior to the transition date.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

33. Explanation of Transition to IFRS (continued)

(ii) Functional currency (continued)

Under the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, all Bord Gáis Éireann's foreign operations were assessed to determine their functional currency and it was concluded that one of the operations (included within a foreign subsidiary) had the same functional currency as the Board. The operation is the owner of the Gas Network Transportation system between Scotland and Ireland. Under Irish GAAP guidelines, the relevant network assets were recorded in the consolidated financial statements at their sterling carrying value translated to euro at the closing exchange rate. Accordingly these assets are now recorded in the consolidated financial statements at their historic euro cost subject to depreciation thereon. On transition, the carrying amount of property, plant and equipment increased by €33.6 million as a result of the foregoing. An incremental depreciation expense of €1.9 million was charged to profit or loss in 2010 as a result of the higher asset base in euro functional currency terms. As required by IAS 12, a deferred tax provision of €9.4 million was required on the €33.6 million increase in the temporary difference between the carrying value and the tax base of the asset (translated to euro at the closing exchange rate). The 2010 income tax credit of €2.9 million primarily arose in respect of deferred tax due to sterling/euro foreign exchange movements during 2010 on the translation of the sterling tax base to euro at year-end. The €5.8 million adjustment in other comprehensive income for 2010 primarily represents the reversal of the impact of translation differences on consolidation of the operation and exchange differences on the Board's foreign currency loan to the operation, previously classified as a net investment hedge under Irish GAAP.

(iii) Reclassifications

Certain reclassifications were considered necessary due to the following:

Comprehensive income statement

- Certain revenue received from third parties was shown on a net basis under Irish GAAP, and has been reclassified to show gross revenue in accordance with IAS 18 *Revenue* with corresponding increases to cost of sales and operating costs as appropriate.
- Certain presentational adjustments were required to show gross finance income and costs (2010: €2.9 million) and to show reported share of loss of joint ventures results after the impact of finance costs and tax (2010: €0.5 million).
- Reclassification of the lease interest payable on the lease obligation and the interest income receivable on the restricted deposit following application of SIC 27. Refer to note 8 for further details.

Statement of financial position

- Bord Gáis Éireann has also adopted an accounting policy which requires reclassification of intangible assets in line with IAS 38 *Intangible Assets*.
- Deferred revenue on certain customer contracts was reclassified from other payables (€41.8 million at 1 January 2010 and €36.9 million at 31 December 2010).
- Reclassifications to present assets and liabilities as current and non-current, as appropriate.
- Reclassification to separately disclose deferred tax on pension liabilities (€2.9 million at 1 January 2010 and €2.6 million at 31 December 2010).
- Reclassification of the lease obligation and the restricted deposit following application of SIC 27. Refer to note 8 for further details.

(iv) Business combinations

- Bord Gáis Éireann has elected not to restate business combinations prior to the transition date.
- In line with IAS 12 *Income Taxes*, Bord Gáis Éireann has recognised deferred tax on transition to IFRS in respect of the carrying value of fair value adjustments arising from business combinations.
- Bord Gáis Éireann has reassessed the fair value of contingent consideration at the date of transition.

(v) Other

Other transitional adjustments include:

- Goodwill - IFRS 3 (Revised) *Business Combinations* prohibits the amortisation of goodwill and instead requires an annual impairment review in accordance with IAS 36 *Impairment of Assets*. Therefore the goodwill amortisation charge under Irish GAAP for the year ended 31 December 2010 was reversed in the IFRS restated results. Assessments for impairment of goodwill were conducted at the transition date and at 31 December 2010 and none were identified.
- Finance costs provision under Irish GAAP results was reversed as the liability is covered under IFRS by a mark to market position.
- Under Irish GAAP, customer contributions were netted off against the related tangible fixed asset. In line with IFRIC 18 *Transfers of Assets from Customers*, the customer contributions are recorded as revenue upon completion of the performance obligations under the relevant contract.
- Bord Gáis Éireann has calculated an accrual for holiday leave untaken in accordance with the requirements of IAS 19 *Employee Benefits*.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

34. Board Property, Plant and Equipment

	Land and buildings €'000	Plant, pipeline and machinery €'000	Assets under construction €'000	Total €'000
Cost				
At 1 January 2010	58,227	2,907,790	314,081	3,280,098
Additions	271	44,231	93,568	138,070
Transfers out of assets under construction	-	392,018	(392,018)	-
Disposals	-	(1,703)	-	(1,703)
At 31 December 2010	58,498	3,342,336	15,631	3,416,465
Additions	1,169	63,966	40,280	105,415
Transfers	19,817	16,735	(36,552)	-
Disposals	-	(3,152)	-	(3,152)
At 31 December 2011	79,484	3,419,885	19,359	3,518,728
Depreciation and impairment losses				
At 1 January 2010	15,185	727,756	-	742,941
Depreciation for the year	1,130	80,296	-	81,426
Disposals	-	(1,662)	-	(1,662)
At 31 December 2010	16,315	806,390	-	822,705
Depreciation for the year	5,172	98,944	-	104,116
Disposals	-	(3,097)	-	(3,097)
At 31 December 2011	21,487	902,237	-	923,724
Carrying amounts				
At 1 January 2010	43,042	2,180,034	314,081	2,537,157
At 31 December 2010	42,183	2,535,946	15,631	2,593,760
At 31 December 2011	57,997	2,517,648	19,359	2,595,004

During the year, the Board capitalised the sum of €0.3 million (2010: €13.1 million) in interest. The capitalisation rate was 4.71% (2010: 4.52%). The Board also capitalised the sum of €10.4 million in payroll costs during the year (2010: €9.5 million).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

35. Board Intangible Assets

	Software under development €'000	Software €'000	Total €'000
Cost			
At 1 January 2010	18,053	100,752	118,805
Additions (incl internally developed)	23,994	18,298	42,292
Transfers	(32,175)	32,175	-
At 31 December 2010	9,872	151,225	161,097
Additions (incl internally developed)	26,906	1,125	28,031
Transfers	(8,861)	8,861	-
At 31 December 2011	27,917	161,211	189,128
Amortisation			
At 1 January 2010	-	64,657	64,657
Amortisation for the year	-	7,982	7,982
At 31 December 2010	-	72,639	72,639
Amortisation for the year	-	14,351	14,351
At 31 December 2011	-	86,990	86,990
Carrying amounts			
At 1 January 2010	18,053	36,095	54,148
At 31 December 2010	9,872	78,586	88,458
At 31 December 2011	27,917	74,221	102,138

The Board capitalised the sum of €2.4 million in payroll costs during the year (2010: €2.8 million).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

36. Board Other Investments

	Investment in subsidiary undertakings €'000	Investment in joint ventures €'000	Financial asset investments €'000	Total €'000
Cost				
At 1 January 2010	379,856	18,486	25	398,367
Acquisitions and capital contributions	14,258	-	1,000	15,258
At 31 December 2010	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)	-	-
At 31 December 2011	421,460	11,200	1,025	433,685
Impairment				
At 1 January 2010	2,600	-	-	2,600
Impairment recognised during the year	-	-	-	-
At 31 December 2010	2,600	-	-	2,600
Impairment recognised during the year	813	-	-	813
At 31 December 2011	3,413	-	-	3,413
Carrying amounts				
At 1 January 2010	377,256	18,486	25	395,767
At 31 December 2010	391,514	18,486	1,025	411,025
At 31 December 2011	418,047	11,200	1,025	430,272

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

37. Board Tax Assets and Liabilities

Current tax assets and liabilities

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Current tax assets	2,899	2,632	-
Current tax liabilities	-	-	(4,185)

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 2010	2,891	-	2,919	(168,940)	(4,133)	(167,263)
(Expense)/credit to income statement	(1,790)	-	-	(14,155)	5,495	(10,450)
Debit/(credit) to equity	1,511	-	(1,326)	-	-	185
At 31 December 2010	2,612	-	1,593	(183,095)	1,362	(177,528)
(Expense)/credit to income statement	(935)	1,673	-	(8,673)	(3,443)	(11,378)
Debit/(credit) to equity	2,997	-	(274)	-	-	2,723
At 31 December 2011	4,674	1,673	1,319	(191,768)	(2,081)	(186,183)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

38. Board Inventories

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Gas	35,602	25,318	20,479
Engineering materials/others	11,811	7,522	7,462
Total	47,413	32,840	27,941

In 2011 inventories recognised as cost of sales amounted to €30.6 million (2010: €27.3 million). There were no write-downs of inventories to net realisable value in 2011 (2010: €nil).

39. Board Trade and Other Receivables

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Trade receivables	78,841	84,030	104,355
Unbilled consumption	164,890	185,060	168,800
Amounts owed by subsidiary undertakings	548,359	533,350	525,948
Amounts owed by joint venture undertakings	4,057	3,249	1,893
Prepayments	11,296	10,285	6,773
Other receivables	28,371	43,097	21,606
Total	835,814	859,071	829,375
Non-current	-	605	951
Current	835,814	858,466	828,424
Total	835,814	859,071	829,375

Trade receivables are stated net of impairment allowances. When management considers the recovery of a receivable to be improbable, an impairment is made against the carrying value of the receivable. The Board's exposure to credit and currency risks related to trade and other receivables is set out in note 46.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

40. Board Cash, Cash Equivalents and Restricted Deposits

Cash and cash equivalents

Cash equivalents are held for the purpose of meeting liquidity requirements.

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Short-term deposits	205,313	185,100	301,600
Cash	15,779	16,966	12,687
Total	221,092	202,066	314,287
		2011 €'000	2010 €'000
At 1 January		202,066	314,287
Increase/(decrease) in cash and cash equivalents in the statement of cash flows		18,901	(112,384)
Effect of exchange rate fluctuations on cash held		125	163
At 31 December		221,092	202,066

Restricted deposits

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Current	38,856	22,566	32,726
Total	38,856	22,566	32,726

The restricted deposits include amounts held in respect of collateral held by third parties, credit support agreements and gas network related security deposits.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

41. Board Equity

(i) Capital stock

Refer to note 17 for further details.

(ii) Capital premium

Refer to note 17 for further details.

(iii) 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 *Financial Instruments: Recognition and Measurement*, 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 46 for further details.

	2011 €'000	2010 €'000
At 1 January	(11,144)	(20,436)
Movement during the year		
- net change in fair value of cash flow hedges	2,185	10,619
- deferred tax on cash flow hedge movement	(274)	(1,327)
At 31 December	(9,233)	(11,144)

(iv) Retained earnings

	2011 €'000	2010 €'000
At 1 January	1,418,584	1,336,936
Profit for the year	78,647	133,863
Net income recognised directly in other comprehensive income		
- defined benefit plan actuarial losses	(23,977)	(12,097)
- deferred tax credit relating to defined benefit obligations	2,997	1,511
Net income recognised directly in equity		
- transformation savings paid to ESOT	-	(10,242)
- dividends paid	(34,209)	(31,273)
- allocation of capital stock from reserves	-	(114)
At 31 December	1,442,042	1,418,584

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

42. Board Borrowings and Other Debt

This note provides information about the contractual terms of the Board's interest-bearing borrowings. For more information about the Board's exposure to interest rate, foreign currency and liquidity risk, see note 46.

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Non-current borrowings			
Bank loans repayable by instalment	565,666	578,550	514,179
Bank loans repayable other than by instalment	1,344,227	1,241,330	1,231,614
	1,909,893	1,819,880	1,745,793
Current borrowings			
Bank loans repayable by instalment	55,458	-	-
Overdrafts and bank loans repayable other than by instalment	-	-	98,411
	55,458	-	98,411
Total borrowings	1,965,351	1,819,880	1,844,204

Total borrowings includes €858.8 million (2010: €713.4 million) of floating rate debt and €1,106.6 million (2010: €1,106.5 million) of fixed rate debt which has been drawn down from various lenders.

Maturity of borrowings and other debt by type

	Bonds 31-Dec-11 €'000	Loans from financial institutions* 31-Dec-11 €'000	Total 31-Dec-11 €'000
Less than one year	-	55,458	55,458
Between one and five years	549,610	692,858	1,242,468
More than five years	-	667,425	667,425
Total	549,610	1,415,741	1,965,351

* Including Private Placement.

	Bonds 31-Dec-10 €'000	Loans from financial institutions* 31-Dec-10 €'000	Total 31-Dec-10 €'000
Between one and five years	549,452	757,915	1,307,367
More than five years	-	512,513	512,513
Total	549,452	1,270,428	1,819,880

* Including Private Placement.

	Bonds 01-Jan-10 €'000	Loans from financial institutions* 01-Jan-10 €'000	Total 01-Jan-10 €'000
Less than one year	-	98,411	98,411
Between one and five years	549,293	517,459	1,066,752
More than five years	-	679,041	679,041
Total	549,293	1,294,911	1,844,204

* Including Private Placement.

Included in borrowings are sterling denominated bank loans, which have been used as a hedge of the Board's investment in a sterling denominated subsidiary in the United Kingdom. The carrying amount of the loans at 31 December 2011 was €216.0 million (2010: €213.8 million).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

43. Board Deferred Revenue and Government Grants

Government grants		2011	2010
		€'000	€'000
At 1 January		64,899	68,821
Amortised in year		(3,922)	(3,922)
At 31 December		60,977	64,899
Deferred revenue		2011	2010
		€'000	€'000
At 1 January		38,757	41,889
Received in year		20,096	5,516
Recognised as revenue in year		(14,809)	(8,648)
At 31 December		44,044	38,757
Analysed as follows	31-Dec-11	31-Dec-10	01-Jan-10
	€'000	€'000	€'000
Non-current	83,581	90,819	99,986
Current	21,440	12,837	10,726
Total deferred revenue and government grants	105,021	103,656	110,712

44. Board Provisions

Refer to note 22 for analysis of both Group and Board provisions.

45. Board Trade and Other Payables

	31-Dec-11	31-Dec-10	01-Jan-10
	€'000	€'000	€'000
Non-current			
Taxation*	120	-	-
Other payables	23,239	31,394	26,062
Total	23,359	31,394	26,062
Current			
Trade payables due	106,042	135,239	105,805
Accrued expenses	113,037	121,047	107,174
Other payables	95,698	121,036	109,831
Amounts due to subsidiary companies	34,110	33,232	18,533
Taxation and social welfare creditors*	18,744	23,993	26,776
Total	367,631	434,547	368,119
* Taxation and social welfare creditors			
PAYE/PRSI/social welfare	3,704	3,209	3,761
VAT	15,018	20,769	22,914
Other taxes	142	15	101
Total	18,864	23,993	26,776

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments

The fair values of the primary financial assets and liabilities of the Board, together with their carrying values excluding provisions can be analysed as follows:

	Amortised cost or other 31-Dec-11 €'000	Not designated (i) 31-Dec-11 €'000	Commodity derivatives (i) 31-Dec-11 €'000	Fair value hedges 31-Dec-11 €'000	Cash flow hedges (ii) 31-Dec-11 €'000	Total carrying value 31-Dec-11 €'000	Fair value 31-Dec-11 €'000
Assets							
Non-current financial assets							
Financial asset investments	1,025	-	-	-	-	1,025	1,025
Derivative financial instruments	-	327	2,539	16,866	(2,089)	17,643	17,643
Total non-current financial assets	1,025	327	2,539	16,866	(2,089)	18,668	18,668
Current financial assets							
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	-	4,056	15,365	-	4,850	24,271	24,271
Total current financial assets	1,084,466	4,056	15,365	-	4,850	1,108,737	1,108,737
Total financial assets	1,085,491	4,383	17,904	16,866	2,761	1,127,405	1,127,405
Liabilities							
Non-current liabilities							
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	-	(210)	(2,318)	(2,350)	(11,231)	(16,109)	(16,109)
Total non-current financial liabilities	(1,918,091)	(210)	(2,318)	(17,511)	(11,231)	(1,949,361)	(1,961,911)
Current liabilities							
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	-	(7,673)	(17,123)	(6,169)	(2,081)	(33,046)	(33,046)
Total current financial liabilities	(429,181)	(7,673)	(17,123)	(77)	(2,081)	(456,135)	(456,135)
Total financial liabilities	(2,347,272)	(7,883)	(19,441)	(17,588)	(13,312)	(2,405,496)	(2,418,046)
Net financial liabilities	(1,261,781)	(3,500)	(1,537)	(722)	(10,551)	(1,278,091)	(1,290,641)

(i) These instruments are categorised by IAS 39 as "Held for trading derivatives".

(ii) These instruments are categorised by IAS 39 as "Derivatives designated in hedging relationship".

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments (continued)

	Amortised cost or other 31-Dec-10 €'000	Not designated (i) 31-Dec-10 €'000	Commodity derivatives (i) 31-Dec-10 €'000	Fair value hedges 31-Dec-10 €'000	Cash flow hedges (ii) 31-Dec-10 €'000	Total carrying value 31-Dec-10 €'000	Fair value 31-Dec-10 €'000
Assets							
Non-current financial assets							
Financial asset investments	1,025	-	-	-	-	1,025	1,025
Trade and other receivables (excluding prepayments)	605	-	-	-	-	605	605
Derivative financial instruments	-	280	244	-	3	527	527
Total non-current financial assets	1,630	280	244	-	3	2,157	2,157
Current financial assets							
Trade and other receivables (excluding prepayments)	848,181	-	-	-	-	848,181	848,181
Cash and cash equivalents	202,066	-	-	-	-	202,066	202,066
Restricted deposits	22,566	-	-	-	-	22,566	22,566
Derivative financial instruments	-	2,108	26,961	-	823	29,892	29,892
Total current financial assets	1,072,813	2,108	26,961	-	823	1,102,705	1,102,705
Total financial assets	1,074,443	2,388	27,205	-	826	1,104,862	1,104,862
Liabilities							
Non-current liabilities							
Borrowings and other debt	(1,853,200)	-	-	33,320	-	(1,819,880)	(1,832,785)
Trade and other payables	(31,394)	-	-	-	-	(31,394)	(31,394)
Derivative financial instruments	-	(10,196)	(2,381)	(34,062)	(11,831)	(58,470)	(58,470)
Total non-current financial liabilities	(1,884,594)	(10,196)	(2,381)	(742)	(11,831)	(1,909,744)	(1,922,649)
Current liabilities							
Trade and other payables	(434,547)	-	-	-	-	(434,547)	(434,547)
Derivative financial instruments	-	(1,383)	(8,350)	-	(1,731)	(11,464)	(11,464)
Total current financial liabilities	(434,547)	(1,383)	(8,350)	-	(1,731)	(446,011)	(446,011)
Total financial liabilities	(2,319,141)	(11,579)	(10,731)	(742)	(13,562)	(2,355,755)	(2,368,660)
Net financial (liabilities)/assets	(1,244,698)	(9,191)	16,474	(742)	(12,736)	(1,250,893)	(1,263,798)

(i) These instruments are categorised by IAS 39 as "Held for trading derivatives".

(ii) These instruments are categorised by IAS 39 as "Derivatives designated in hedging relationship".

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments (continued)

	Amortised cost or other 01-Jan-10 €'000	Not designated (i) 01-Jan-10 €'000	Commodity derivatives (i) 01-Jan-10 €'000	Fair value hedges 01-Jan-10 €'000	Cash flow hedges (ii) 01-Jan-10 €'000	Total carrying value 01-Jan-10 €'000	Fair value 01-Jan-10 €'000
Assets							
Non-current financial assets							
Financial asset investments	25	-	-	-	-	25	25
Trade and other receivables (excluding prepayments)	951	-	-	-	-	951	951
Derivative financial instruments	-	95	-	-	132	227	227
Total non-current financial assets	976	95	-	-	132	1,203	1,203
Current financial assets							
Trade and other receivables (excluding prepayments)	821,651	-	-	-	-	821,651	821,651
Cash and cash equivalents	314,287	-	-	-	-	314,287	314,287
Restricted deposits	32,726	-	-	-	-	32,726	32,726
Derivative financial instruments	-	1,080	13,275	-	1,253	15,608	15,608
Total current financial assets	1,168,664	1,080	13,275	-	1,253	1,184,272	1,184,272
Total financial assets	1,169,640	1,175	13,275	-	1,385	1,185,475	1,185,475
Liabilities							
Non-current liabilities							
Borrowings and other debt	(1,843,672)	-	-	97,879	-	(1,745,793)	(1,824,969)
Trade and other payables	(26,062)	-	-	-	-	(26,062)	(26,062)
Derivative financial instruments	-	(12,007)	-	(99,645)	(21,919)	(133,571)	(133,571)
Total non-current financial liabilities	(1,869,734)	(12,007)	-	(1,766)	(21,919)	(1,905,426)	(1,984,602)
Current liabilities							
Borrowings and other debt	(116,587)	-	-	18,176	-	(98,411)	(98,411)
Trade and other payables	(368,119)	-	-	-	-	(368,119)	(368,119)
Derivative financial instruments	-	(5,640)	(11,891)	(18,447)	(2,825)	(38,803)	(38,803)
Total current financial liabilities	(484,706)	(5,640)	(11,891)	(271)	(2,825)	(505,333)	(505,333)
Total financial liabilities	(2,354,440)	(17,647)	(11,891)	(2,037)	(24,744)	(2,410,759)	(2,489,935)
Net financial (liabilities)/assets	(1,184,800)	(16,472)	1,384	(2,037)	(23,359)	(1,225,284)	(1,304,460)

(i) These instruments are categorised by IAS 39 as "Held for trading derivatives".

(ii) These instruments are categorised by IAS 39 as "Derivatives designated in hedging relationship".

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments (continued)

The Board uses the following categories for hedges:

(i) Fair value hedges

There was no material ineffective portion of fair value hedges for 2011 (2010: €1.29 million).

The fair value of hedging derivatives in a fair value hedge in the statement of financial position as at 31 December 2011 was €8.3 million (2010: negative €34.1 million).

(ii) Cash flow hedges

At 31 December 2011, the ineffective portion of cash flow hedges was €nil (2010: €nil).

Impact of cash flow hedging derivatives on equity

Changes in the fair value of hedging derivatives included in equity over the year are as follows:

At 31 December 2011	Gross changes in fair value recorded in equity (i) €'000	Taxes related to gross changes recorded in equity €'000	Changes after taxes in fair value recorded in equity €'000
Derivatives on:			
Interest rate hedging	(4,372)	545	(3,827)
Exchange rate hedging	6,557	(819)	5,738
Hedging derivatives	2,185	(274)	1,911
At 31 December 2010	Gross changes in fair value recorded in equity (i) €'000	Taxes related to gross changes recorded in equity €'000	Changes after taxes in fair value recorded in equity €'000
Derivatives on:			
Interest rate hedging	10,411	(1,301)	9,110
Exchange rate hedging	208	(26)	182
Hedging derivatives	10,619	(1,327)	9,292

(i) included in "Net change in fair value of cash flow hedges" in other comprehensive income.

The amount reclassified from equity to profit or loss for the year was:

- Exchange rate contracts that matured during 2011: €1.1 million (2010: €1.5 million).
- Interest rate contracts that matured during 2011: €nil (2010: €nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments (continued)

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:

At 31 December 2011	within 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000	Total €'000
Derivative financial assets and liabilities:					
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
Hedging derivatives	2,769	268	(11,554)	(2,034)	(10,551)
At 31 December 2010	within 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000	Total €'000
Derivative financial assets and liabilities:					
Interest rate swaps	-	(5,345)	-	-	(5,345)
Cross currency swaps	-	(93)	(1,087)	(5,040)	(6,220)
Exchange rate contracts	(908)	(263)	-	-	(1,171)
Hedging derivatives	(908)	(5,701)	(1,087)	(5,040)	(12,736)

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-11 €'000	Level 2 31-Dec-10 €'000
Financial derivative assets		
Commodity derivatives	17,904	27,205
Forward exchange contracts	9,516	3,214
Interest rate derivatives	14,494	-
Total financial derivative assets	41,914	30,419
Financial derivative liabilities		
Commodity derivatives	(19,441)	(10,731)
Forward exchange contracts	(2,771)	(3,445)
Interest rate derivatives	(26,943)	(55,758)
Total financial derivative liabilities	(49,155)	(69,934)
Net liability	(7,241)	(39,515)

There have been no transfers between levels in 2011 or 2010.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments (continued)

Credit risk

Refer to note 24 for details of Bord Gáis Éireann's objectives, policies and processes for managing credit risk and the methods used to measure credit risk.

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-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Financial assets			
Trade receivables and other receivables (excluding prepayments)	824,518	848,786	822,602
Cash and cash equivalents	221,092	202,066	314,287
Restricted deposits	38,856	22,566	32,726
Financial asset investments	1,025	1,025	25
Derivative financial instruments	41,914	30,419	15,835
Total	1,127,405	1,104,862	1,185,475

Exposure to credit risk on cash and derivative financial instruments is monitored by Bord Gáis Éireann's Treasury function. It is the Board's policy that cash is mainly placed on deposit with institutions with a minimum short-term credit rating of A- with Standard & Poor's or A3 with Moody's.

Amounts owed by subsidiary undertakings of €548.4 million at 31 December 2011 (2010: €533.4 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-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Domestic	276,159	315,436	296,654
Total	276,159	315,436	296,654

The maximum exposure to credit risk for trade and other receivables at the reporting date can be analysed as follows:

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Retail customers - billed	80,811	84,580	104,151
Retail customers - unbilled	164,890	185,060	168,800
Use of system receivables	6,567	27,270	13,153
Amounts due from joint venture undertakings	4,057	3,249	1,893
Other receivables	19,834	15,277	8,657
Total	276,159	315,436	296,654

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments (continued)

Trade and other receivables

The aging of trade and other receivables, net of impairment, at the reporting date was:

	Net receivable 31-Dec-11 €'000	Net receivable 31-Dec-10 €'000	Net receivable 01-Jan-10 €'000
Not past due	220,586	258,554	234,841
0 – 30 days	31,501	35,509	31,438
31 – 120 days	13,760	14,835	9,523
> 120 days	10,312	6,538	20,852
Total	276,159	315,436	296,654

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2011 €'000	2010 €'000
At 1 January	28,892	13,632
Impairment loss recognised	9,498	26,292
Provision utilised	(6,669)	(11,032)
At 31 December	31,721	28,892

Refer to note 24 for further analysis of impairments.

Liquidity risk

Refer to note 24 for details of Bord Gáis Éireann's objectives, policies and processes for managing liquidity risk and the methods used to measure liquidity risk.

Bord Gáis Éireann 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. Bord Gáis Éireann 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 2011, the Board had €2,462.1 million in committed facilities (2010: €2,566.6 million). Borrowings at 31 December 2011 were €1,965.4 million (2010: €1,819.9 million).

The following are the contractual maturities of financial liabilities (and assets of a similar nature), including the interest payment associated with borrowings and the undiscounted net cashflows attributable to derivative financial instruments. The disclosure includes cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward exchange contracts.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments (continued)

At 31 December 2011	Carrying amount €'000	Contractual cash flows €'000	within 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
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)
Non-derivative financial liabilities	(2,356,341)	(2,947,258)	(513,747)	(338,295)	(1,165,816)	(929,400)
Interest rate derivative liabilities	(12,449)	(27,505)	(8,663)	8,695	(19,815)	(7,722)
Exchange rate contracts	6,745	6,745	6,347	398	-	-
Net commodity derivative liabilities	(1,537)	(58,850)	(28,837)	(30,013)	-	-
Net derivative financial liabilities	(7,241)	(79,610)	(31,153)	(20,920)	(19,815)	(7,722)
Net financial liabilities	(2,363,582)	(3,026,868)	(544,900)	(359,215)	(1,185,631)	(937,122)
At 31 December 2010	Carrying amount €'000	Contractual cash flows €'000	within 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
Borrowings	(1,819,880)	(2,246,120)	(165,835)	(130,439)	(1,324,534)	(625,312)
Trade and other payables	(465,941)	(465,941)	(434,547)	(5,661)	(14,166)	(11,567)
Non-derivative financial liabilities	(2,285,821)	(2,712,061)	(600,382)	(136,100)	(1,338,700)	(636,879)
Interest rate derivative liabilities	(55,758)	(69,989)	923	(6,723)	(33,557)	(30,632)
Exchange rate contracts	(231)	(231)	(183)	(48)	-	-
Net commodity derivative assets/(liabilities)	16,474	9,767	40,925	(31,158)	-	-
Net derivative financial (liabilities)/assets	(39,515)	(60,453)	41,665	(37,929)	(33,557)	(30,632)
Net financial liabilities	(2,325,336)	(2,772,514)	(558,717)	(174,029)	(1,372,257)	(667,511)
At 1 January 2010	Carrying amount €'000	Contractual cash flows €'000	within 1 year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
Borrowings	(1,844,204)	(2,482,938)	(239,339)	(73,490)	(1,279,997)	(890,112)
Trade and other payables	(394,181)	(394,181)	(368,119)	(7,282)	(13,577)	(5,203)
Non-derivative financial liabilities	(2,238,385)	(2,877,119)	(607,458)	(80,772)	(1,293,574)	(895,315)
Interest rate derivative liabilities	(155,932)	(195,931)	(28,248)	(677)	(64,265)	(102,741)
Exchange rate contracts	(1,991)	(1,991)	(2,183)	192	-	-
Net commodity derivative assets/(liabilities)	1,384	22,631	31,051	(8,420)	-	-
Net derivative financial (liabilities)/assets	(156,539)	(175,291)	620	(8,905)	(64,265)	(102,741)
Net financial liabilities	(2,394,924)	(3,052,410)	(606,838)	(89,677)	(1,357,839)	(998,056)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments (continued)

Market risk

(a) Exchange rate risk

Refer to note 24 for details of Bord Gáis Éireann's objectives, policies and processes for managing exchange rate risk and the methods used to measure exchange rate risk.

The Board's exposure to foreign currency risk was as follows based on notional amounts:

	31-Dec-11 €'000	31-Dec-10 €'000	01-Jan-10 €'000
Cash and cash equivalents	(2,526)	(243)	431
Restricted deposits	25,455	12,128	438
Unsecured bank loan	(215,983)	(213,841)	(204,494)
Gross statement of financial position exposure	(193,054)	(201,956)	(203,625)
Forward exchange contracts	206,867	202,491	211,032
FX swaps	(90,358)	(72,019)	-
Net exposure	(76,545)	(71,484)	7,407

Sensitivity analysis

A strengthening 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 foreign currency exchange rate variances that the Board 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 2010 as indicated below.

US dollar is excluded from this analysis as the exposure is hedged using offsetting cross currency swaps.

Foreign currency debt instruments entered into as a hedge against fixed asset investments in the same currency are excluded from the below sensitivity due to the offsetting impact of a currency movement on the financial statements.

	Profit before taxation gain/(loss) 31-Dec-11 €'000	Other comprehensive income 31-Dec-11 €'000	Profit before taxation gain/(loss) 31-Dec-10 €'000	Other comprehensive income 31-Dec-10 €'000
5% Strengthening	3,180	(10,489)	1,091	(8,161)
5% Weakening	(3,180)	10,489	(1,091)	8,161

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 Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments (continued)

(b) Interest rate risk

Refer to note 24 for details of Bord Gáis Éireann's objectives, policies and processes for managing interest rate risk and the methods used to measure interest rate risk.

Bord Gáis Éireann'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 Board's interest rate obligations and increase certainty as to the Board's interest rate expense profile. Bord Gáis Éireann will use a number of methods, including interest rate derivatives to manage the interest rate risk on its debt portfolio.

	2011 €'000	2011 %	2010 €'000	2010 %
At fixed rates (including swaps)	1,106,610	56.3%	1,106,452	60.8%
At floating rates	858,741	43.7%	713,428	39.2%
Total	1,965,351	100.0%	1,819,880	100.0%

At 31 December 2011, after taking account of fixed rate debt and debt fixed through interest rate swaps, 56% of the Board's year-end borrowings were at fixed rates of interest, 44% of the Board's year-end borrowings were at floating rates of interest.

Bord Gáis Éireann monitors exposure to interest rate risk on a calendar year basis. At 31 December 2011 the 56% of debt at a fixed rate of interest excludes forward starting interest rate swaps.

The Board had €826.6 million of fixed rate debt (excluding interest rate swaps) at 31 December 2011 (2010: €826.5 million).

At year-end the Board had outstanding interest rate swaps with a notional principal of €390.0 million and £40.0 million. €100.0 million which commenced on 17 September 2007 was swapped for five years at an average rate of 4.4%. €180.0 million which commenced on 22 October 2007 was swapped for five years at an average rate of 4.4%. Additional interest rate swaps of €60.0 million will commence on 31 January 2012 at an average rate of 3.2%, £40.0 million on 30 April 2012 at an average rate of 3.3% and €50.0 million on 17 September 2012 at an average rate of 3.4%.

At 31 December 2011, the weighted average interest rate of the fixed debt portfolio which comprised European Investment Bank debt of €277.0 million, Bond of €549.6 million and an interest rate swap portfolio of €280.0 million was 5.06% (2010: 4.46%).

Interest costs on variable rate loans are reset on a periodic basis for one, three or six months over the prevailing market rate.

The average period for the fixed rate financial liabilities is 2.5 years (2010: 2.8 years). Bord Gáis Éireann enters interest rate swaps in order to fix the rate over the life of debt which is typically five years. The US dollar Private Placement debt was for a period longer than five years and as this debt matures the average life of the fixed debt is reducing accordingly.

On 31 December 2011, the Board had US\$740.0 million fixed rate debt (€604.9 million equivalent) in a US\$290.0 million US dollar Private Placement transaction which was completed on 22 October 2003 and US\$450.0 million 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, the Board had a number of cross currency interest rate swaps which match the maturity profile of the debt.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

46. Board Financial Instruments (continued)

Cash flow sensitivity analysis for floating rate debt

The 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 earnings. Nevertheless, long-term changes in interest rates will have an impact on 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-11 €'000	Profit before taxation gain/(loss) 31-Dec-10 €'000
50 bp increase	(3,981)	(2,832)
50 bp decrease	3,981	2,832

The fair value change on cash flow hedges and their impact on other comprehensive income would be as shown below:

	Increase/(decrease) in other comprehensive income 31-Dec-11 €'000	Increase/(decrease) in other comprehensive income 31-Dec-10 €'000
50 bp increase	3,393	753
50 bp decrease	(3,423)	(753)

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 2010.

The impact on other comprehensive income, of the 50 bp increase/decrease, is not equal and opposite because the rate changes in the sensitivity analysis also impacts the discount curves used on the relevant cashflows for interest rate derivatives.

(c) Commodity risk

Refer to note 24 for details of Bord Gáis Éireann's objectives, policies and processes for managing commodity risk and the methods used to measure commodity risk.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

47. Board Operating Leases

Non-cancellable operating lease rentals receivable

	31-Dec-11 €'000	31-Dec-10 €'000
Less than one year	34,543	38,006
Between one and five years	96,835	111,415
More than five years	183,015	202,979
Total	314,393	352,400

Operating leases receivable by the Board 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 *Determining whether an arrangement contains a lease* (IFRIC 4).

The unexpired lease terms range from 13 to 16 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 Board 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-11 €'000	31-Dec-10 €'000
Less than one year	2,742	2,728
Between one and five years	14,420	13,568
More than five years	7,650	11,244
Total	24,812	27,540

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 Board 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 Board and utilised within the Board's Energy retail business as sales to end consumers.

The following relates to commitments payable by the Board under PPAs. The average unexpired lease term is 12 years. All lease arrangements are at an arm's length basis.

	31-Dec-11 €'000	31-Dec-10 €'000
Less than one year	34,485	34,485
Between one and five years	137,176	137,938
More than five years	212,436	246,158
Total	384,097	418,581

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

48. Board Explanation of Transition to IFRS

Refer to note 33 for further details and explanation of transition to IFRS.

Reconciliation of Statement of Financial Position as at 1 January 2010

Board Statement of Financial Position

	Irish GAAP 01-Jan-10 €'000	Derivatives and hedging 01-Jan-10 €'000	Functional currency 01-Jan-10 €'000	Re- classification 01-Jan-10 €'000	Deferred consideration 01-Jan-10 €'000	Other 01-Jan-10 €'000	IFRS 01-Jan-10 €'000
Assets							
Property, plant and equipment	2,589,677	-	-	(54,148)	-	1,628	2,537,157
Intangible assets	-	-	-	54,148	-	-	54,148
Trade and other receivables	513,987	-	-	(513,036)	-	-	951
Investment in subsidiary undertakings	370,126	-	-	-	7,130	-	377,256
Investment in joint ventures	18,486	-	-	-	-	-	18,486
Financial asset investments	25	-	-	-	-	-	25
Derivative financial instruments	-	227	-	-	-	-	227
Total non-current assets	3,492,301	227	-	(513,036)	7,130	1,628	2,988,250
Inventories	27,941	-	-	-	-	-	27,941
Derivative financial instruments	-	15,608	-	-	-	-	15,608
Trade and other receivables	275,863	-	-	552,561	-	-	828,424
Current tax assets	-	-	-	-	-	-	-
Restricted deposits	189,004	-	-	(156,278)	-	-	32,726
Cash and cash equivalents	314,287	-	-	-	-	-	314,287
Total current assets	807,095	15,608	-	396,283	-	-	1,218,986
Total assets	4,299,396	15,835	-	(116,753)	7,130	1,628	4,207,236
Equity and liabilities							
Equity							
Capital stock	(98,862)	-	-	-	-	-	(98,862)
Capital premium	(20,208)	-	-	-	-	-	(20,208)
Cash flow hedge reserve	-	20,436	-	-	-	-	20,436
Translation reserve	34,464	-	(34,464)	-	-	-	-
Retained earnings	(1,384,849)	12,304	34,464	-	-	1,145	(1,336,936)
Total equity attributable to equity holders of the Board	(1,469,455)	32,740	-	-	-	1,145	(1,435,570)
Liabilities							
Borrowings and other debt	(2,000,348)	97,879	-	156,676	-	-	(1,745,793)
Retirement benefit obligations	(20,239)	-	-	(2,891)	-	-	(23,130)
Trade and other payables	(37,067)	1,758	-	16,377	(7,130)	-	(26,062)
Provisions	(55,617)	-	-	11,390	-	-	(44,227)
Deferred tax liabilities	(172,875)	2,918	-	2,891	-	(197)	(167,263)
Deferred revenue and government grants	(68,821)	-	-	(31,165)	-	-	(99,986)
Derivative financial instruments	-	(133,571)	-	-	-	-	(133,571)
Total non-current liabilities	(2,354,967)	(31,016)	-	153,278	(7,130)	(197)	(2,240,032)
Borrowings and other debt	(116,587)	18,176	-	-	-	-	(98,411)
Trade and other payables	(358,387)	3,068	-	(10,279)	-	(2,521)	(368,119)
Current tax liabilities	-	-	-	(4,185)	-	-	(4,185)
Deferred revenue and government grants	-	-	-	(10,671)	-	(55)	(10,726)
Provisions	-	-	-	(11,390)	-	-	(11,390)
Derivative financial instruments	-	(38,803)	-	-	-	-	(38,803)
Total current liabilities	(474,974)	(17,559)	-	(36,525)	-	(2,576)	(531,634)
Total liabilities	(2,829,941)	(48,575)	-	116,753	(7,130)	(2,773)	(2,771,666)
Total equity and liabilities	(4,299,396)	(15,835)	-	116,753	(7,130)	(1,628)	(4,207,236)

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

48. Board Explanation of Transition to IFRS (continued)

Reconciliation of Statement of Financial Position as at 31 December 2010

Board Statement of Financial Position

	Irish GAAP 31-Dec-10 €'000	Derivatives and hedging 31-Dec-10 €'000	Functional currency 31-Dec-10 €'000	Re- classification 31-Dec-10 €'000	Deferred consideration 31-Dec-10 €'000	Other 31-Dec-10 €'000	IFRS 31-Dec-10 €'000
Assets							
Property, plant and equipment	2,676,454	-	-	(88,458)	-	5,764	2,593,760
Intangible assets	-	-	-	88,458	-	-	88,458
Trade and other receivables	521,855	-	-	(521,214)	-	(36)	605
Investment in subsidiary undertakings	382,826	-	-	1,558	7,130	-	391,514
Investment in joint ventures	18,486	-	-	-	-	-	18,486
Financial asset investments	1,025	-	-	-	-	-	1,025
Derivative financial instruments	-	527	-	-	-	-	527
Total non-current assets	3,600,646	527	-	(519,656)	7,130	5,728	3,094,375
Inventories	32,840	-	-	-	-	-	32,840
Derivative financial instruments	-	29,892	-	-	-	-	29,892
Trade and other receivables	303,504	-	-	554,962	-	-	858,466
Current tax assets	-	-	-	2,632	-	-	2,632
Restricted deposits	184,501	-	-	(161,935)	-	-	22,566
Cash and cash equivalents	202,066	-	-	-	-	-	202,066
Total current assets	722,911	29,892	-	395,659	-	-	1,148,462
Total assets	4,323,557	30,419	-	(123,997)	7,130	5,728	4,242,837
Equity and liabilities							
Equity							
Capital stock	(100,000)	-	-	-	-	-	(100,000)
Capital premium	(29,426)	-	-	-	-	-	(29,426)
Cash flow hedge reserve	-	11,144	-	-	-	-	11,144
Translation reserve	26,333	-	(26,333)	-	-	-	-
Retained earnings	(1,454,238)	11,153	26,333	-	-	(1,832)	(1,418,584)
Total equity attributable to equity holders of the Board	(1,557,331)	22,297	-	-	-	(1,832)	(1,536,866)
Liabilities							
Borrowings and other debt	(2,015,562)	33,320	-	162,362	-	-	(1,819,880)
Retirement benefit obligations	(18,287)	-	-	(2,612)	-	-	(20,899)
Trade and other payables	(60,099)	66	-	31,381	(4,100)	1,358	(31,394)
Provisions	(48,133)	-	-	24,582	-	-	(23,551)
Deferred tax liabilities	(181,237)	1,763	-	2,612	-	(666)	(177,528)
Deferred revenue and government grants	(64,899)	-	-	(25,920)	-	-	(90,819)
Derivative financial instruments	-	(58,470)	-	-	-	-	(58,470)
Total non-current liabilities	(2,388,217)	(23,321)	-	192,405	(4,100)	692	(2,222,541)
Trade and other payables	(378,009)	(17,931)	-	(32,804)	(3,030)	(2,773)	(434,547)
Current tax liabilities	-	-	-	-	-	-	-
Deferred revenue and government grants	-	-	-	(11,022)	-	(1,815)	(12,837)
Provisions	-	-	-	(24,582)	-	-	(24,582)
Derivative financial instruments	-	(11,464)	-	-	-	-	(11,464)
Total current liabilities	(378,009)	(29,395)	-	(68,408)	(3,030)	(4,588)	(483,430)
Total liabilities	(2,766,226)	(52,716)	-	123,997	(7,130)	(3,896)	(2,705,971)
Total equity and liabilities	(4,323,557)	(30,419)	-	123,997	(7,130)	(5,728)	(4,242,837)

EU Directive 2000/35/EC - Late Payments in Commercial Transactions Regulations 2002

Payments made during 2011 were governed by EU Directive 2000/35/EC to combat late payments in commercial transactions. This directive applies to goods and services supplied to Bord Gáis Éireann by EU based suppliers.

Statement of payment practices including standard payment periods

Bord Gáis Éireann 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

Bord Gáis Éireann 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 2011:

- Standard payment terms are 45 days.
- The total number of invoices in excess of €250 paid late was 28 (2010: 27) with a value €0.7 million (2010: €0.8 million). On average late payments were 58 days late (2010: 62 days).
- Late payments constituted less than 0.04% of total payments (in monetary terms) made during the year.
- Total interest paid in respect of late payments amounted to €3,855 (2010: €11,790).

For and on behalf of the Board:



Chairman



Member of the Board

22 March 2012

Date of Approval

Notes

Notes



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PRN A12/0611





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About Bord Gáis Éireann

Bord Gáis Éireann has evolved in recent years from a gas transmission company to a major energy provider, supplying both gas and electricity to homes and businesses throughout the country. 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. The company has recently commissioned its first major gas-fired power station at Whitegate, Co. Cork and is currently developing a portfolio of wind farms throughout Ireland. Bord Gáis is a major employer in Ireland, providing a dynamic and modern place to work for almost 1,000 employees.

Bord Gáis meets its commitment to customers through its two main businesses: Bord Gáis Energy and Bord Gáis Networks, a commitment that is very important to a combined total of nearly one million gas and electricity customers.

Bord Gáis Energy successfully entered the residential electricity market in early 2009, winning over 300,000 customers that year alone. As a consequence the company is now a dual-fuel supplier operating on an all-island basis, and has created real competition in the energy market. Its retail activities are backed by a trading team responsible for buying energy efficiently on European wholesale markets. Through its Assets division, Bord Gáis Energy operates and maintains a portfolio of wind energy assets, develops new assets and investigates and supports emerging energy technologies.

Bord Gáis Networks has developed a world-class gas infrastructure in Ireland. 13,229km of gas pipelines and two sub-sea interconnectors have been constructed and are carefully maintained, with safety and community relations at the heart of all that we do. On behalf of Gaslink, the independent system operator, Bord Gáis Networks is responsible for connecting all new gas connections, and for work on service pipes and meters at customers' premises, on behalf of all gas suppliers in Ireland. Bord Gáis Networks also manages a full 24-hour emergency response service, handling almost 20,000 call-outs each year.

Within Bord Gáis, divisions operate independently of each other, as required under EU and national legislation.



Bord Gáis Energy is a dual-fuel, all-island business that serves c. 1 million gas and electricity 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 the energy markets in Ireland.



Gaslink is the independent gas system operator for Ireland. Under the 2003 EU Gas Directive for legal unbundling, Gaslink took over responsibility for the development, maintenance and operation of the gas distribution and transmission networks in 2008. Bord Gáis Networks continues to perform the majority of this work as a service provider to Gaslink. Ownership of the gas infrastructure remains with Bord Gáis.



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, including Bord Gáis Energy.

Financial Highlights

Five Year Summary:

	2010	2009	2008	2007	2006
Group Turnover €'million	1,509	1,349	1,379	1,215	1,108
Operating Profit before Depreciation and Amortisation (EBITDA) €'million	327	320	299	305	258
Profit before Tax €'million	120	119	151	166	99
Tangible Fixed Assets €'million	3,620	3,543	2,814	2,669	2,592
Net Debt €'million	1,856	1,823	1,217	1,151	1,192
Ratios					
Profit before Tax / Turnover (%)	8%	9%	11%	14%	9%
Interest Cover (times)	2.5	3.0	4.3	4.1	3.5
Net Debt / Book Capitalisation (%)	56%	56%	48%	48%	51%

Key Achievements for 2010

1

Completed & commissioned Whitegate 445MW power plant

2

Integrated SWS Natural Resources into ongoing operational activities

3

Reduced gas prices by a further 8%

4

Grew total electricity customers to 460,000

Group Turnover

€1,509m

Tangible Fixed Assets

€3,620m

EBITDA

€327m

Profit Before Tax

€120m

5

Transported a record 79,500GW of natural gas

6

Provided uninterrupted gas supply during record low temperatures

7

Started installation of 330km of fibre optic cable from Dublin to West of Ireland by Aurora Telecom

8

Brought competition to the domestic gas market in greater Belfast for the first time

Chairman's Statement

BORD GÁIS PUBLISHED ITS FIVE YEAR BUSINESS STRATEGY IN 2008, SETTING OUT CLEAR, CHALLENGING OBJECTIVES FOR THE COMPANY. THE IMPLEMENTATION OF THE STRATEGY IS, OF COURSE, A WORK IN PROGRESS AND IT IS SATISFYING TO REPORT THAT IN 2010 THE COMPANY MADE SUBSTANTIAL ADVANCES IN THE ACHIEVEMENT OF THE SET GOALS AND OBJECTIVES.

A YEAR OF EXCEPTIONAL CHANGE AND PROGRESS





Chairman's Statement continued



We increased our customer numbers to one million during the year and now have close to 460,000 electricity customers. We completed the Whitegate 445MW power plant, Ireland's most efficient power station, and we integrated SWS Natural Resources, acquired in late 2009, into a new Assets Division focussed on delivering our major investment programme in wind farms and alternative technologies. Our Networks Division assured security of gas supply to Ireland during two major weather events in 2010.

These are substantial achievements and, in many ways, they characterise the determination of Bord Gáis to perform as an enterprise and to deliver results.

Financial performance

Despite the difficult economic circumstances Bord Gáis delivered a strong financial performance in 2010. Group turnover, at €1,509 million for the year to 31st December 2010, was up 12% on the 2009 result. Profit before Tax has remained relatively stable at €120 million.

These are strong results in a weakened economy, not least because we reduced prices to our regulated customers by 8% from the beginning of February and held them steady to year end, despite rising wholesale costs and the need to make greater provision for bad debts.

In addition, in 2010 Bord Gáis paid a dividend to the Exchequer of €30 million, based on 30% of the previous year's profit for the financial year. This brings the total dividends paid since the inception of Bord Gáis in 1976 to €797 million.

Strategic Developments

Whitegate Independent Power Plant in Cork was officially taken over by Bord Gáis Energy on 9th November 2010 following the completion of commissioning and a highly successful reliability run. The plant was officially opened by the Minister for Foreign Affairs on 6th December 2010. The expected output from Whitegate, at 445MW, enables Bord Gáis to provide competitive electricity to over 400,000 homes throughout Ireland.

In late 2009 Bord Gáis completed the purchase of SWS Natural Resources and during 2010 undertook the task of integrating its people and resources into a newly established Assets Division within Bord Gáis Energy. This new division will develop and operate a balanced portfolio of assets designed to ensure Bord Gáis meets current and future customer energy requirements in a diversified manner. The division is also responsible for the investigation and support of emerging energy technologies, including the investment of €10 million through the Alternative Energy R&D Fund announced in 2009.

Bord Gáis Networks implemented the first phase of a major Network Transformation Programme in June 2010 which introduced new systems and modern digital techniques to support greater efficiency and efficacy of working on our Network for our customers. This programme went live on 1st November 2010.

WE INCREASED OUR CUSTOMER NUMBERS TO ONE MILLION DURING THE YEAR AND NOW HAVE CLOSE TO 460,000 ELECTRICITY CUSTOMERS.

In October 2010, Aurora Telecom, a division of Bord Gáis Networks, commenced the roll-out of an ultra high-speed fibre optic network which will link its Dublin metropolitan facility to the West of Ireland. In total, more than 330km of fibre-optic cable will be inserted into ducting laid along the route of Bord Gáis Networks' gas pipeline to the west, in an efficient use of national infrastructure. This critical infrastructure project is a major development for Ireland, as it supports the Government's Smart Economy strategy, will assist in securing foreign direct investment and drive economic activity. The project is nearing completion and is on target to be finalised by the end of Quarter 2 2011.

In July 2010 the Government made a decision to apply the Independent Transmission Operator (ITO) Model under the Third EU Energy Directive (Directive 2009/73/EC). The Directive is designed to separate the supply and networks activities of energy utilities in order to ensure that access to transmission systems is totally non-discriminatory. In the ITO Model, operation and ownership of the transmission system remain within Bord Gáis as a Vertically Integrated Utility (VIU), subject to stringent, detailed ring-fencing requirements. The ITO will be an independent subsidiary of Bord Gáis and will result in significant structural changes. The company is currently in the process of implementing the changes necessary to execute this new structure.

These new legislative requirements will also serve as a major step towards a single European gas market. The Directive prescribes extensive changes to the legislative and regulatory frameworks covering gas transportation and will also result in considerable redefinition of the transportation arrangements themselves.

Driving Competition in Energy Markets

Following its highly successful entry into the residential electricity market in 2009, the company continued its customer acquisition campaign in 2010 by offering attractive discounts to both new and existing electricity users. The competitive offerings were instrumental in enabling the company to grow its electricity customer base to over 460,000 and to attain a major milestone: achieving a total customer population of one million gas and electricity customers.

Major developments in 2010 within the residential gas market were the entry of a significant new competitor. It is clear that additional competition in this market is on the way and that the gas markets in Ireland will be highly competitive by mid 2011. In these circumstances, Bord Gáis believes that the total deregulation of the energy markets, including gas, should take place speedily in order to ensure that customers can reap the full benefits of a truly competitive marketplace.

In Northern Ireland, firmus energy became the first competitor to enter the domestic gas market in Greater Belfast, signalling the end of the 14 year monopoly held by the incumbent supplier.

Corporate Responsibility

Bord Gáis is always concerned about the impact of its activities on the Marketplace, the Community, the Workplace and the Environment. In recent years these activities have been formalised into various Corporate Responsibility programmes and last year we produced our first standalone Corporate Responsibility Report. We will be publishing a similar report for 2010 during 2011 where we will demonstrate the efforts we have made in the past year to carry out our business while also having regard for the people we work for, the people we work with, and the wider community.

Sustainability

Through the acquisition of SWS Natural Resources in late 2009, Bord Gáis significantly expanded its portfolio of renewable energy assets. With 219MW of operating wind capacity and a further 263MW in development, the company now has one of the largest renewable energy portfolios in Ireland. The development of the wind portfolio will involve major investment by Bord Gáis in the Irish economy over the coming years, with planned expenditure of up to half a billion euro over the next four years alone.

Bord Gáis has entered into a Joint Venture with Mountside Properties to form Greener Ideas Limited (GIL) to progress Open Cycle Gas Turbine (OCGT) plant developments. OCGT plants provide a fast and flexible means of responding to customers' fluctuating usage requirements and help to maximise the amount of wind generation that can be accommodated on the electricity grid.

Chairman's Statement continued

THE BUSINESS STRATEGY CURRENTLY BEING IMPLEMENTED POSITIONS BORD GÁIS AS AN ALL-ISLAND ENERGY COMPANY POISED TO TAKE ADVANTAGE OF MARKET OPPORTUNITIES, WHILE OFFERING ENERGY CUSTOMERS REAL CHOICE AND INNOVATION.

Natural Gas as a transport fuel – known as Compressed Natural Gas (CNG) – is used across the world within Natural Gas Vehicles (NGV). In 2010 it is estimated there were 12 million NGVs worldwide. CNG vehicles significantly reduce emissions including Carbon Dioxide, Particulate Matter and Nitrogen Oxide. Bord Gáis is currently operating vehicles running on the gas within its Networks fleet, and is working with organisations such as the NSAI to develop a CNG refuelling station standard for Ireland.

In support of its strategy to support emerging renewable technologies, Bord Gáis has invested both capital and resources into specific projects:

- In 2008, Bord Gáis Assets established the North East Storage consortium with Storengy (a GDF-Suez company) to progress the development of a salt cavern gas storage facility in the Larne area of Northern Ireland. An indigenous storage facility of this scale would address security of supply concerns for energy customers in Ireland, north and south, and bring competitive advantages to the all-island energy market. In 2010 a seismic survey was completed over a licensed area and data shows that potential sites exist. The next step involves carrying out a test drill at one location. Agreements are being finalised with the affected landowners at a chosen location.
- Bord Gáis announced in 2010 that it had invested €1.8 million in Wavebob, an Irish company which has developed a unique Wave Energy Converter ('Wavebob') which harnesses the immense power of the ocean to produce clean, renewable energy.
- Bord Gáis Energy and OpenHydro, an industry leader in tidal technology, concluded an agreement for Bord Gáis Energy to become a shareholder in OpenHydro. In addition to the investment, the parties have formed a joint venture focused on the development of a utility scale tidal farm off the coast of Ireland. The investment and the formation of the joint venture will support our ambition to achieve early mover advantage in tidal energy development in this country.
- During the year Bord Gáis launched a report on "*The Future of Renewable Gas in Ireland*". Produced in association with UCC and Ernst & Young, the report outlines how grass and waste can be converted into natural gas that can then be used locally or piped into the national grid for distribution around Ireland. The report estimates that 7.5% of Ireland's natural gas demand could be met by renewable gas, the equivalent of heating 300,000 homes each year. Following on from the report, the next stage is to investigate the financial feasibility of a trial project in Ireland.
- Bord Gáis has committed further support for post doctoral programmes in UCC and UL in areas such as gas demand modelling, biomethane production and high altitude wind generation. The company is also working closely with the IDA, Enterprise Ireland and other industry partners on advancing the International Energy Research Centre.

Looking Ahead

Since its inception in 1976 Bord Gáis has made a strong contribution to the social and economic development of Ireland. It has built a modern gas infrastructure which performs to the highest standards even during the severe winters of 2009 and 2010 when peak demand and volume records were exceeded.

The company's business strategy positions Bord Gáis as an all-island energy company poised to take advantage of market opportunities, while offering energy customers real choice and innovation.



The company is building a portfolio of diversified assets, through significant investment in new energy sources and technologies, which will ensure security of supply into the future. This investment is also creating real economic activity and employment at a time when both are desperately needed in Ireland.

Internally Bord Gáis is undergoing huge organisational changes to allow the company to meet legislative requirements under the Third EU Energy Directive, designed to create a single European gas market. This will have a significant impact on the structure of Bord Gáis, with the amalgamation of Networks and Gaslink into the new Independent Transmission Operator (ITO) for Ireland, which will be an independent subsidiary within the Bord Gáis Group.

The growth in customer debt, and the consequent increase in bad debt provisions, is a real challenge for Bord Gáis and other utilities in the energy industry. As a commercial enterprise we must receive payment for the goods and services that we provide to our customers. In dealing with those who are encountering financial difficulties we strive to assist with tailored payment plans to clear debt and the installation of pre-payment (Pay As You Go) meters. Although disconnection of supply does occur in some cases, we genuinely treat it as a last resort. The requirement to enhance bad debt provisions is exacerbated by the fact that regulation of the retail energy markets has not provided a mechanism to prevent customers switching to a new supplier while leaving unpaid debt behind. In 2010 close to 24,000 customers switched from Bord Gáis leaving bills of significant value unpaid. This issue requires a coherent solution and discussions are currently in train with the Commission for Energy Regulation on the matter.

Deterioration of the sovereign credit rating has had immediate downstream impact on the Bord Gáis credit ratings with Moody's and Standard and Poors. The company continues to monitor the sovereign rating and supports the Government's Programme for Recovery which should go some distance to stabilise ratings in the near term.

Acknowledgements

On behalf of myself and my fellow Board members, I would like to thank former Minister Eamon Ryan and his officials at the Department of Communications, Energy and Natural Resources for their expert and unstinting support during 2010. I wish to congratulate Pat Rabbitte T.D. on his appointment as Minister and I wish him well in his new position.

I would like to thank Pearse O'Hanrahan, who retired from the Board in 2010, for all his excellent work and the strong contribution he made since joining in 2002. I would also like to welcome Imelda Hurley, who joined the Board in 2010 and to thank all my fellow Board members for their commitment, insights and work in guiding and governing the company during this period of considerable change.

It is through the hard work and dedication of the management and staff of Bord Gáis that the company achieved so much in 2010, a fact which I gratefully acknowledge. In particular, I would like to acknowledge the key role played by our Chief Executive, John Mullins, who leads the company with drive, energy and commitment.

Rose Hynes
Chairman

The Board

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 and is also a member of the Investment/Infrastructure Committee. Ms. Hynes, a lawyer, 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 a member of the Court of Bank of Ireland and is a member of its Remuneration, Nomination & Governance and Risk Committees. She is also a director of a number of other companies. 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 Shannon Airport Authority plc, Aer Lingus Group plc and Concern.

2. John Mullins, Chief Executive

John Mullins was appointed Chief Executive of Bord Gáis in December 2007 and was also appointed to the Board in December 2007. Mr Mullins is a member of the Investment / Infrastructure Committee. He has held senior management positions with Greenstar, ESB, ESB International and PricewaterhouseCoopers and was Chief Executive of Bioverda, part of the NTR plc Group prior to joining Bord Gáis. He is a Fellow of Engineers Ireland and is a member of the UCC Governing Body. He is also Vice President of the Cork Chamber of Commerce, Chairman of Anam Cara Charity and a Director of the COPE Foundation.

3. 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 Gaisce - the President's Award, Ecocem Materials, An Smaoineamh Mór and Realex Payments and is co-Chairman of the North South Roundtable Group, Member of the Board of Aer Lingus Group plc, 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 former director of Rothmans International plc and Elan Corporation plc.

4. Laurence K. Shields

Laurence K. Shields was appointed to the Board in June 2009 and is Chairperson of the Investment/Infrastructure Committee and a member of the Remuneration Committee. He is Chairman and founding partner of LK Shields Solicitors, Dublin. 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 and Alternate Director of the Irish Takeover Panel Limited. He is a fellow of the Chartered Institute of Arbitrators, an Accredited Mediator and a Director of a number of companies.



5. Aidan Eames

Aidan Eames was appointed to the Board in March 2004 and was subsequently re-appointed in June 2009. Mr. Eames is Chairperson of the Risk Committee and a member of the Audit and Finance Committee and the Remuneration Committee. He is the Principal 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. Mr. Eames was appointed a Director of Anglo Irish Bank Corporation Limited in May 2010. He is also a member of the Audit Committee of the Department of Foreign Affairs.

6. Proinsias Kitt

Proinsias Kitt is a member of the Board since April 2002. Mr. Kitt chairs the Audit and Finance Committee and is a member of the Risk Committee. He is Managing Partner in the business advisory firm DHKN Chartered Accountants, which has offices in Galway and Dublin and with over 100 staff is one of the largest Independent Audit/Taxation/Accountancy practices in Ireland. Over the past twenty five years Mr. Kitt has advised on significant commercial transactions in both private and public sector enterprise and he has particular expertise in dealing with owner-managed indigenous Irish businesses. He is a Fellow of the Institute of Chartered Accountants in Ireland, and has served on its General Practices Committee and is a Member of the Internal Audit Association.

7. 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 and the Investment/Infrastructure 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.

8. Mike O'Hara

Mike O'Hara was appointed to the Board in December 2007 and is a member of the Remuneration Committee. Mr. O'Hara is a Senior Vice President with Smith & Nephew, a UK based global medical technology company. Prior to this he was a Group Vice President of Operations at Boston Scientific Corporation with responsibility for multiple manufacturing sites in Ireland and the United States. He has over 20 years experience in the Multinational Medical Device Industry in Ireland and internationally.

9. Imelda Hurley

Imelda Hurley was appointed to the Board in November 2010. Ms. Hurley is a member of the Audit and Finance Committee and Risk Committee. Ms Hurley is currently Group Finance Director at Greencore Group plc ('Greencore'). Since joining Greencore in 2001 Ms. Hurley has held a number of senior leadership positions including Managing Director of Finance and Head of Investor Relations, Finance Director of Convenience Foods, Group Financial Controller and Group Commercial & Financial Manager. She is a Director of a number of companies within Greencore. Prior to joining Greencore she was a manager within the Audit and Business Advisory practice of Arthur Andersen. She holds a Bachelor of Business Studies degree and is a Fellow of the Institute of Chartered Accountants in Ireland.



Chief Executive's Review

2010 WAS A DIFFICULT YEAR FOR THE IRISH ECONOMY, AS THE IMPACT OF THE FINANCIAL CRISIS WAS FELT THROUGHOUT ALL SECTORS OF SOCIETY. AGAINST THIS BACKDROP, BORD GÁIS CONTINUED TO SHOW A STRONG FINANCIAL PERFORMANCE, MEET ALL ITS ANNUALISED STRATEGIC OBJECTIVES AND DELIVER AS A PROFITABLE COMMERCIAL ENTERPRISE.





A SOLID PLATFORM FOR FUTURE GROWTH

Chief Executive's Review continued



Key Achievements in 2010:

- We continued to grow our customer base and by mid-year had hit our one million customer target. We implemented an 8% gas price reduction in February 2010 and held prices steady in the Review conducted by the Commission for Energy Regulation (CER) in October. Gas prices in Ireland are below the European average in all customer sectors; industrial, commercial and residential.
- We completed and commissioned our first major power station, the Whitegate 445MW combined-cycle gas plant.
- We successfully integrated the assets and resources of SWS into a newly structured Assets Division within our Energy business. Bord Gáis now has one of the largest renewable energy portfolios in the country, with 219MW of operating wind capacity and a further 263MW for development in the next four years.
- We commissioned two major Transmission pipelines.
- We gained external recognition for our performance across a range of activities, winning five awards for customer service in Irish and UK award ceremonies, three digital awards for our online capabilities and a Grand Prix award for the effectiveness of our Big Switch marketing campaign.
- We continued with our investment in the gas infrastructure, in the process bringing natural gas to four new towns; Tipperary Town, Kells, Co.Meath and Kinsale and Innishannon, Co. Cork.
- firmus energy, our Northern Ireland subsidiary, entered the residential gas market in Belfast, the first competitor to challenge the long-held monopoly of the incumbent, Phoenix Supply.
- In June 2010 Bord Gáis launched Ireland's first energy index, designed to track movement in the Irish wholesale energy market. This allows Bord Gáis to inform public commentary on energy prices.

EBITDA (BEFORE
EXCEPTIONAL ITEMS)
INCREASED YEAR
ON YEAR BY 8% TO
€354 MILLION

Key Results

Group turnover at €1,509 million for the year to 31 December 2010 was up 12% on the 2009 result. This increase is mainly attributable to increased electricity sales of €111 million, transportation sales of €41 million, power generation sales of €25 million, partially offset by reduced gas sales of €24 million.

EBITDA before exceptional items increased by €27 million to €354 million reflecting the strong underlying performance of the business, in particular in the transportation and power generation areas.

Profit before Tax remained relatively stable at €120 million.

Severe weather conditions at the beginning and end of the year, together with the commissioning of two new gas-fired power stations, resulted in the volume of natural gas transported by Bord Gáis reaching a record level of over 79,500GWh in 2010. This is an increase of 7% on 2009, with 78% of gas flows serving the Irish gas market, and 22% utilised in Northern Ireland and the Isle of Man.

Debt Management

Customer debt is an increasing concern for Bord Gáis and the Irish economy generally. The scale of the issue is significant, with close to 100,000 customer accounts in arrears at the end of 2010. The factors giving rise to customer's financial difficulties are not surprising: unemployment, loss of income, large mortgage liabilities, historical commitments and, in very many cases, the impact of dealing with such circumstances for the first time.

In September 2010 we made a presentation to The Joint Oireachtas Committee on Communications, Energy and Natural Resources to highlight this growing issue. We made recommendations for a number of industry and regulatory initiatives. We also emphasised that, while Bord Gáis must be paid for the services we provide, our key objective is to help customers who are having difficulties to maintain supply, through intervention and engagement, with the ultimate goal of minimising disconnections.

The approach that we take in assisting customers is founded on a number of key actions:

- Early intervention with customers to contain and deal with the debt
- Agreement on a payment plan that meets the needs of the customer and the company
- The installation of a Pay As You Go meter, at the early intervention stage, where the customer is in agreement
- Close interaction with the MABS service to ensure that the customer has the opportunity to get wider advice on money and budgeting
- Close and supportive relationship with the Society of St. Vincent de Paul, which is highly active at the coalface of financial hardship in Ireland
- The withdrawal of supply only in circumstances where the customer continues to be unwilling to enter into a payment plan, and is unwilling to accept a Pay As You Go meter as an alternative to disconnection.

In the conduct of the relationship with all our customers we are guided by our values, in particular Empathy. We are committed to dealing with all our customers with care and respect and this informs the way in which we manage the growing issue of customer debt.

Irish Gas Market Review

Gas demand of 60,300GWh in Ireland during 2010 was an increase of 7% on the 2009 figure, mainly accounted for by the extreme cold weather experienced at the beginning and end of the year, with Q4 2010 accounting for nearly 30% of total demand. Power generation demand also increased, to 39,605GWh from 36,254GWh in 2009, arising from the commissioning of two new gas-fired power plants.

The number of gas users in Ireland remained at 2009 levels of 640,000, reflecting the decline in the new housing market. Average residential consumption increased slightly, which can be attributed to the severe weather.

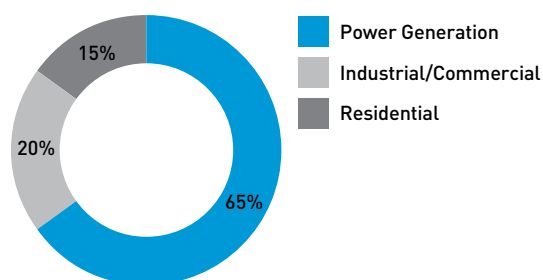
Throughout the year we worked hard to deliver value to all our customers. In February 2010 we implemented an average 8% reduction in the price of natural gas and in late 2010 we recommended to the Commission for Energy Regulation (CER) that gas prices should be maintained at these reduced levels. On 6th January 2011 the CER published its decision to keep the Bord Gáis Energy tariffs for residential and small industrial and commercial customers unchanged for the remainder of the 2010/11 gas year.

Over the past two years Bord Gáis Energy has reduced prices by 25% and gas prices for all classes of business and residential customers in Ireland are now below the European average. Based on a report produced by the Sustainable Energy Authority of Ireland, when adjusted for purchasing power parity, the domestic customer is now paying 26% less than the European average. Nevertheless, Bord Gáis is concerned that the increases in wholesale gas prices we have seen since April 2010, as evidenced by the Bord Gáis Energy Index, will inevitably be reflected in customer prices later in 2011.

Chief Executive's Review continued



Gas utilisation in Ireland 2010

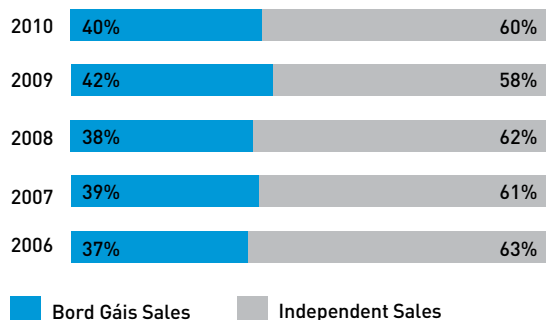


Source: CER Gas Market Update Q4 2010

While overall gas demand increased in 2010, the proportion by sector, in usage terms, remains relatively unchanged to that of 2009, with power generation accounting for 65% of total gas demand, industrial/commercial users consuming 20% and the residential sector using 15% of total volumes.

Independent shippers and suppliers accounted for 60% of total gas sold in Ireland in 2010, an increase of 2% from 2009 levels.

Gas Sales in Ireland



Maintaining Security of Supply

In January 2010, and again in November/December 2010, weather temperatures fell to a level below those expected to occur just once in every fifty years, i.e. a '1 in 50' winter, the standard to which our networks are designed. During these prolonged periods of low temperatures, Bord Gáis Networks provided a reliable supply of gas to all users in Ireland, with only minor interruptions to a small number of housing estates. Supplies to Northern Ireland and the Isle of Man were similarly maintained during the severe winter conditions. The ability of the existing Irish gas transmission network to meet peak demand during these severe winter periods derives from our investment in recent years in enhancing the network and Interconnector System and reinforcing the current pipeline, as evidenced by the recent Curraleigh to Middleton transmission pipeline reinforcement and the ongoing Dublin 4 pipeline replacement project.

The record peak demands also gave rise to a tightening in the gas demand and supply position. However, the robustness of our forecasting methodology, and the effectiveness of the energy trading hedging and risk management strategies, ensured that gas supplies were sufficient to meet demand during these extreme periods.

The staff in all areas of Bord Gáis worked diligently and consistently during the extreme weather to ensure that all our systems remained fully operational and that the welfare of our customers and of their work colleagues remained of paramount importance.

Electricity Business

Bord Gáis Energy entered the residential electricity market in 2009 with the highly successful 'Big Switch' campaign. During 2010 we consolidated our customer offer, providing customers with the full 10% discount off the ESB regulated rates in year two. At the same time Bord Gáis Energy refreshed its sales and marketing activities by optimising field, web and telesales and, as a consequence, we grew our total electricity customer base to over 460,000.

WE CONTINUED TO OFFER COMPETITIVE CHOICE, NOT JUST TO THE RESIDENTIAL ELECTRICITY MARKET, BUT ALSO TO LARGE ELECTRICITY USERS WHERE WE GREW OUR BUSINESS ELECTRICITY CUSTOMER BASE TO NEARLY 30,000, AN INCREASE OF 17% SINCE 2009.

We continued to offer competitive choice, not just to the residential electricity market, but also to large electricity users where we grew our business electricity customer base to nearly 30,000, an increase of 17% since 2009.

A key element of our strategy is the development and acquisition of significant power generation assets to underpin our growth in the market. The commissioning of the Whitegate power plant in Cork in November positions us to offer electricity to customers on a competitive basis.

We are also actively pursuing alternative sources of power generation to enable us to offer green electricity to our customers. Following the acquisition of SWS in late 2009, we now have a significant portfolio of renewable capacity, with operational wind generation assets of 219MW and a further 263MW for development within the next four years.

Safety

Safety is a core value for us as an organisation and is central to everything that we do. The safety ethos is one we actively promote and closely monitor through ongoing staff training, the operation of best in class systems and constant vigilance through reporting and communication.

This emphasis on safety awareness was evident at the Whitegate power plant development, which achieved 1.8 million man hours without a lost time incident and had over 19 months of construction without a lost time accident of any kind. This project, which had over 900 people on site at the peak of construction, was nationally acknowledged by the National Irish Safety Organisation in 2010 when it awarded Bord Gáis Energy the highly commended award.

Structural Changes within Bord Gáis

2010 saw significant organisational changes within Bord Gáis. These changes are designed to enhance the efficiency of the organisation and to move the organisation to the new structures required under the implementation of the Third EU Energy Directive.

In September 2010, the Investment teams of Bord Gáis Energy and SWS Natural Resources were successfully integrated to form a new Assets Division. As part of the implementation of the integration programme, 35 members of the former SWS Natural Resources workforce relocated from Bandon to Bord Gáis Energy offices in Lapps Quay, Cork City.

Following almost two years of preparatory work, Bord Gáis Networks successfully transitioned to the new business systems, processes and organisational structure developed under the Networks Transformation Programme (NTP). The NTP was a strategic programme of work to enhance and optimise the Bord Gáis Networks business processes and IT systems into the future.

Under the transformed organisational structure, functions have been transitioned into six new units: Asset Management; Workflow Management; Service Delivery; Regulation and Commercial; Health, Safety, Quality and Environment; and Business Development. These units are supported by Finance, HR, IT and other shared services that will transition fully during 2011. This new structure is designed to optimise business processes, achieve greater cost efficiency and further improve customer service.

The smooth transition to the new systems and structures, affecting over five hundred Networks staff members, is a powerful demonstration of Bord Gáis Networks' experience in project management and the commitment of its staff.

Chief Executive's Review continued

DURING THE YEAR WE INTRODUCED A NUMBER OF INNOVATIONS WHICH INCREASED THE RANGE OF SELF SERVICE OPTIONS FOR OUR CUSTOMERS, INCLUDING ONLINE ACCOUNT MANAGEMENT AND THE BORD GÁIS ENERGY IPHONE APP.

Customer Service

Our customers are central to all that we do in Bord Gáis and we are committed to providing them with an exemplary service. We operate to clearly defined service standards and have put in place effective tracking systems to measure performance. In 2010, notwithstanding the increase in our customer numbers, we maintained these high standards of service.

In 2009, we won five customer service awards which, at the time, we saw as external validation of the high standards that we had set ourselves, as well as the quality of our processes. In 2010 we introduced further initiatives that enhance the service we provide, with the result that Bord Gáis was once more the recipient of five awards for customer service; three at the CCA UK (Customer Contact Association) Awards 2010, including overall winner of the "Customer Service Team of the Year" award for Bord Gáis Networks; and two awards at the CCMA Ireland (Contact Centre Management Association) Irish Contact Centre & Shared Services Awards 2010, again with Networks winning the overall "Irish Contact Centre of the Year" in conjunction with our strategic partner FexCo.

In 2010 Bord Gáis Energy launched its Home Team Division, offering energy efficiency services and products. Customers availing of these services now also benefit from a new stimulus package introduced in the 2011 Finance Act designed to encourage homeowners to make their homes more energy efficient by offering tax relief to a set limit. This tax credit is further proof of the importance placed on energy efficiency as a key element of controlling energy costs.

During the year we introduced a number of innovations which increased the range of self service options for our customers, including online account management and the Bord Gáis Energy iPhone App. This makes it easier for customers to access their gas and electricity account information, submit meter readings, pay their bills and book a range of home services.

Current Challenges

Bord Gáis has enjoyed considerable success in recent years as we set about implementing our strategy to grow the company and the scale of its business. We have increased our customer base dramatically, positioned ourselves as an energy company of substance and developed and acquired significant assets. The strategic steps we have taken, in particular our entry into retail electricity, have changed the energy markets in Ireland forever, to the benefit of consumers in terms of choice, prices and service standards. We continue to deliver a strong business and financial performance. We can look to the future with confidence, while recognising the challenges ahead.

The restructuring of the company to meet the requirements of the EU Third Energy directive is a major undertaking, involving the complete separation of our networks business. Implementing the changes needed involves considerable disruption to ongoing operations, demands a heavy commitment in terms of management time and resources and major investment in new IT systems in particular. A detailed implementation programme to ensure that the new structure is up and running by the required date, March 2012, is in place and is progressing well at this stage.

The management of customer debt in the current, difficult economic circumstances is a major challenge that will persist for some time to come. There is no simple solution to the problem. From our experience we are, nevertheless, convinced that the traditional system, whereby utilities provide services on credit to the vast bulk of customers, no longer meets the needs of the times. For a significant sector of the customer population it is neither suitable nor manageable. A move to a pay-as-you-go regime, using pre-payment meters, is not only desirable but inevitable. In Northern Ireland pay-as-you-go meters are a normal feature of the energy industry and are used by close to 35% of customers, with the result that disconnections are rare. Public acceptance of this system in the Republic of Ireland is relatively weak and we see it as a key task for Bord Gáis to convince customers of the benefits to them of the pay-as-you-go system.



A strong credit rating is essential for Bord Gáis to enable us to carry on our activities, in particular the purchase of gas on world markets. It is also vital in facilitating the raising of capital to fund our investment programme. Bord Gáis continues to enjoy the benefits of an investment grade rating from a number of the leading agencies. However, our rating has declined as a direct consequence of the downgrading of the sovereign in recent months. We continue to monitor the economic conditions generally and fully support the Government's Recovery Programme which should stabilise the rating position.

The decision by the CER in March 2011 to fully deregulate the electricity market will, without doubt, intensify competition in both the gas and electricity markets. We will compete strongly to hold our hard-won customer base. It is true, however, that in the new situation, Bord Gáis is the only competitor subject to regulation and that all other players are free to set their own prices. This is not a tenable position for any length of time and we believe strongly that the gas market in Ireland should be deregulated without undue delay, to ensure fairness for all competitors and that consumers get the benefits of an open market.

Acknowledgements

In a year marked by significant change, in organisational structures, systems and processes, the staff in Bord Gáis continued to demonstrate their commitment, enthusiasm and expertise. Their positive approach ensures that the company is positioned to survive and prosper in these challenging times. It is also a testament to the talent and professionalism of all staff that these changes were enacted while maintaining our high standards for customer service and safety. As Chief Executive of the company I value this contribution greatly as it enables Bord Gáis to achieve its goals to the benefit of our company and our customers.

I would like to acknowledge the support of our private sector partners who continue to support all that we do in a way that is consistent with the values of Bord Gáis.

I sincerely thank the former Minister for Communications, Energy and Natural Resources, Eamon Ryan, and officials at the Department of Communications, Energy and Natural Resources, and at the Department of Finance, for their continued support of our strategy. I wish our new Minister, Pat Rabbitte T.D., the very best in his role.

I would like to thank Rose Hynes, Chairman, and all of the Board Members for their active engagement and strong support throughout the year.

John Mullins
Chief Executive

Management Team

John Mullins
Group Chief Executive

Dave Kirwan
Managing Director,
Assets, Energy

Jason Scagell
Managing Director,
Retail and Trading,
Energy

John Barry
Managing Director,
Networks

Liam O'Riordan
Company
Secretary



Bord Gáis Values

In 2008 Bord Gáis affirmed its set of core values and in 2010 these continued to underline how we interacted with our customers, suppliers, stakeholders and the general public:

Michael G. O'Sullivan
Chief Financial
Officer

Margaret Lane
Head of Human
Resources

Denis Cronin
Group Director
Strategic Human
Resources

Will Roche
Group Director
Strategy &
Regulation

Larry Donald
Director Corporate
Affairs Group
& Energy



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.

Financial Review

Key Highlights for 2010 include:

- Continued strong profitability and turnover figures, despite a challenging economic and financial environment requiring Bord Gáis to prudently provide for potential bad debts on energy accounts.
- Year end liquidity position, including access to committed funding lines, remains strong to support the business strategy of Bord Gáis.
- Completed and successfully commissioned the Whitegate 445MW gas-fired power station during the year.
- Successfully integrated SWS Natural Resources which was acquired in late 2009, thus creating one of the largest renewable energy portfolios in the country.
- Continued as a strong contributor to the Irish economy and exchequer through payroll, indirect taxes, dividends and capital expenditure payments.

Summary Financial Highlights

	2010 €'million	2009 €'million	Change
Group Turnover	1,509	1,349	⬆️ 12%
Operating Profit before Depreciation and Amortisation (EBITDA before exceptional items)	354	327	⬆️ 8%
Profit before Tax	120	119	⬆️ 1%
Tangible Fixed Assets	3,620	3,543	⬆️ 2%
Net Debt*	1,856	1,823	⬆️ 2%
Book Capitalisation†	3,335	3,225	⬆️ 3%

Ratios

Profit before Tax / Turnover (%)	8%	9%	⬆️ 10%
Interest Cover (times)	2.5	3.0	⬆️ 15%
Net Debt / Book Capitalisation (%)	56%	56%	

* Net Debt represents total debt less free cash deposits and deposits held specifically in relation to the debt.

† Book Capitalisation represents Net Debt plus Capital and Reserves

Group Turnover

Group turnover at €1,509 million for the year to 31 December 2010 was up 12% on the 2009 result. This increase is mainly attributable to increased electricity sales of €111million, transportation sales of €41million, power generation sales of €25 million, partially offset by reduced gas sales of €24 million.

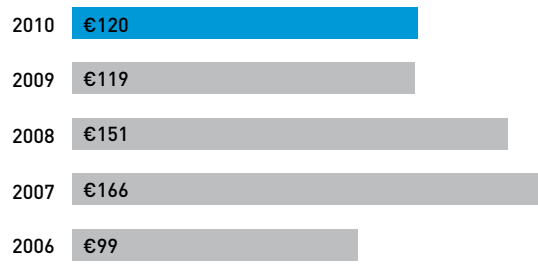
EBITDA (before exceptional items)

EBITDA before exceptional items increased by €27 million to €354 million reflecting the strong underlying performance of the business, in particular in the transportation and power generation areas.

Profit before Tax

Profit before Tax remained relatively stable at €120 million. The year-on-year increase in EBITDA before exceptional items of €27 million was impacted by the necessity to make a higher bad debt provision to reflect the challenging current economic and fiscal environment, increased financing costs and higher depreciation charges as a result of continuing capital investment/acquisition programmes.

Profit before Tax (€m)



LIQUIDITY AND CAPITAL RESOURCES

Cashflows during 2010

The net inflow of cash from operations of €267 million was utilised during 2010 as follows:

- €147 million invested in capital projects. Key projects included:
 - Construction of a 445MW gas-fired power station in Cork
 - Ongoing development of the distribution network both in the Republic of Ireland and Northern Ireland
 - Networks Transformation Programme
- Taxation payments of €1 million
- Net interest payments amounted to €98 million
- Net cash outflow of €4 million from acquisitions and disposals
- Dividend payments of €31 million

giving rise to a net cash outflow before financing activities of €15 million for the year.

Tangible Fixed Assets (€m)

2010	€3,620
2009	€3,543
2008	€2,814
2007	€2,669
2006	€2,592

Capital Resources

At 31 December 2010, Bord Gáis had available bank facilities of €3,091 million (including €121 million in uncommitted facilities). Of this, €2,248 million was drawn down, leaving a further €843 million undrawn. As at 31 December 2010, Bord Gáis had a statutory borrowing limit of €3.0 billion, which sets the upper limit for drawn facilities. At 31 December 2010, the net debt to book capitalisation ratio amounted to 56% and capital and reserves amounted to €1,479 million.

Bord Gáis' long term credit rating is BBB+ for Standard & Poor's (S&P) and Baa1 for Moody's Investors Services. The adverse movements on the Bord Gáis credit rating during 2010 were a direct consequence of movements on the sovereign credit rating position. The current rating level reflects the current Financial and Business Risk profile of Bord Gáis both of which remain within rating criteria at year end.

Net Debt (€m)

2010	€1,856
2009	€1,823
2008	€1,217
2007	€1,151
2006	€1,192

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. In particular, the Audit and Finance Committee reviews the appropriateness of the treasury policy and the effectiveness of controls.

Treasury related risks faced by the company are liquidity risk, interest rate risk, currency risk and counterparty risk. Derivatives are used to manage Bord Gáis' interest rate and foreign exchange exposures. In using derivatives, Bord Gáis 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 Bord Gáis 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.

Financial Review continued



During 2010, Bord Gáis continued to identify, review and address the impact on financial risks facing the company arising from ongoing global economic and credit market turbulence.

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. Bord Gáis arranges its committed facilities to cover 120% of core projected needs over a one-year horizon. Over a three-year horizon, committed facilities shall be available to cover not less than 90% of core projected requirements. Facilities are arranged with appropriate financial and operating covenants ensuring that management has the necessary flexibility in the operation of its business.

Bord Gáis 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.

Bord Gáis 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 US\$450 million US Private Placement and €550 million Euro Corporate Bond issuances in 2009. These provide a strong foundation to fund the development strategy of investing in Irish energy assets. Bord Gáis will continue to adopt a pre-funding strategy in the current constrained financial environment by timely funding in advance of maturing facilities.

At 31 December 2010, Bord Gáis had €2,970 million in committed facilities. Borrowings at 31 December 2010 were €2,248 million.

Interest Rate Risk

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

Bord Gáis 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. Bord Gáis policy is, on a calendar year basis, to have at least 60% of the current year's interest cost at fixed rates and at least 50% of the expected interest cost for the following three years at fixed rates.

At 31 December 2010, 63% of the Group's borrowings were at fixed rates.

Currency Risk

Bord Gáis 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. Bord Gáis manages the net foreign currency cash flows using foreign exchange forward contracts.

Bord Gáis 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

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

Bord Gáis only deals with approved counterparties who maintain an investment grade rating. Bord Gáis 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 Bord Gáis' net worth, Bord Gáis will consider entering into Credit Support Arrangements.

Energy Trading Risk Management Policy

Bord Gáis 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 Bord Gáis 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 was implemented in 2009 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 Bord Gáis integrated commodity risk, e.g. volume exposures, price risks, currency risks and counterparty risk.

Commodity Price and Volume Risks

Bord Gáis sells gas and electricity to bulk and mass market customers in 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. Bord Gáis 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, Bord Gáis 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 Bord Gáis 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, Bord Gáis 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 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 Bord Gáis' expanding portfolio of wind assets.

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

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

Counterparty Risk

Bord Gáis 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, Bord Gáis 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. These are hedged in line with treasury risk policy.

Energy

BORD GÁIS ENERGY IS A DUAL-FUEL, ALL-ISLAND BUSINESS THAT SERVES NEARLY ONE MILLION GAS AND ELECTRICITY 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.



A photograph of an industrial facility, likely a power plant or refinery, featuring a complex network of white pipes and metal railings on a raised platform. The background shows a large, light-colored industrial building under a clear blue sky.

INVESTING IN ENERGY ASSETS TO SUPPORT GROWTH OBJECTIVES

Energy continued



Bord Gáis Energy is the retail arm of Bord Gáis, 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. Since then it has grown its electricity customer base to nearly 460,000, in addition to the 540,000 gas customers it also serves. Through its Home Services Team it offers customers a wide range of products and services to help increase their overall energy efficiency.

Bord Gáis Trading is 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 basis.

Bord Gáis 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 Bord Gáis 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

Bord Gáis Energy Performance in 2010

Bord Gáis Energy's turnover increased by 10% to €1,280 million in 2010. The result for the year was a loss before interest and tax of €10 million, prior to an exceptional charge of €26 million to create an additional bad debts provision. The comparative figure for 2009 was a profit before interest and tax of €3 million. The necessity to make a higher bad debts provision was deemed prudent in light of the current challenging economic and fiscal environment. The year on year reduction in profit before interest and tax arises from a number of variables, primary among them, reduced gas prices; continued discounting for customer growth; higher wholesale costs and higher depreciation charges as a result of capital investment/acquisition programmes.

The volume of gas sales increased by 15% compared to 2009. A large portion of this increase was due to the commissioning of Whitegate power plant in November and the increased demand caused by severe cold weather in January and November/December 2010.

Within Bord Gáis Energy, residential gas sales accounted for 31% of total gas volumes sold, with Industrial/Commercial sales at 20%. The remaining 49% was accounted for primarily by sales to the power generation sector, which increased by 45% over 2009 volumes.

Electricity Sector

Bord Gáis Energy entered the residential electricity market in 2009 with the highly successful 'Big Switch' campaign. During 2010, it consolidated its customer offer to ensure that the full savings of 10% off the ESB regulated rates were passed on in year 2. At the same time Bord Gáis Energy refreshed its direct response campaign, optimising field, web and telesales to grow the total customer base to 460,000, thus, matching the expected output from the Whitegate Power Station.

Gas Sector

In the Residential gas market customer numbers decreased by 13% to 524,000 by the end of 2010. Residential sales volume increased by 4%. Reduced customer numbers arising from price competition from new entrants to the market, the weakened economic environment and the adoption of increased energy efficiency measures were offset by the increased demand caused by very cold weather.

OVER THE PAST TWO YEARS BORD GÁIS ENERGY HAS REDUCED GAS PRICES BY 25% AND PRICES FOR ALL CLASSES OF BUSINESS AND RESIDENTIAL CUSTOMERS IN IRELAND ARE NOW BELOW THE EUROPEAN AVERAGE.

Business gas customer numbers declined to 14,500 at the end of 2010, a 14% net decrease compared to the previous year. Lower volume sales of 13% reflected this reduced market share as well as the continued general economic downturn and greater energy efficiencies. In the larger Industrial and Commercial sector, covered by the Regulated Tariff Formula (RTF), Bord Gáis Energy now holds a 35% market share.

Retail Gas Prices in 2010

In February 2010 Bord Gáis Energy reduced natural gas unit rate tariffs for all residential and smaller business customers by an average of 8%. In December the Commission For Energy Regulation (CER), following a submission from Bord Gáis Energy, announced that gas prices would be maintained at current levels until the next price review in October 2011 for all business and domestic customers.

Over the past two years Bord Gáis Energy has reduced gas prices by 25% and prices for all classes of business and residential customers in Ireland are now below the European average. Indeed, based on a report produced by the Sustainable Energy Authority of Ireland, when adjusted for purchasing power parity the domestic customer is paying 26% less than the European average.

Nevertheless, Bord Gáis Energy is concerned that the increase in wholesale gas prices we have seen since April 2010 will inevitably be reflected in customer prices going forward.

Gas Supply Competition

Since the gas market was liberalised, Bord Gáis Energy's market share of the gas retail sector as a whole has steadily eroded and this trend was accelerated in the last year. While the residential sector accounts for the majority of the market share, the entrance of Airtricity into this sector in May 2010 and the entry of ESB in April 2011 will see further development of competition in the residential and business sectors.

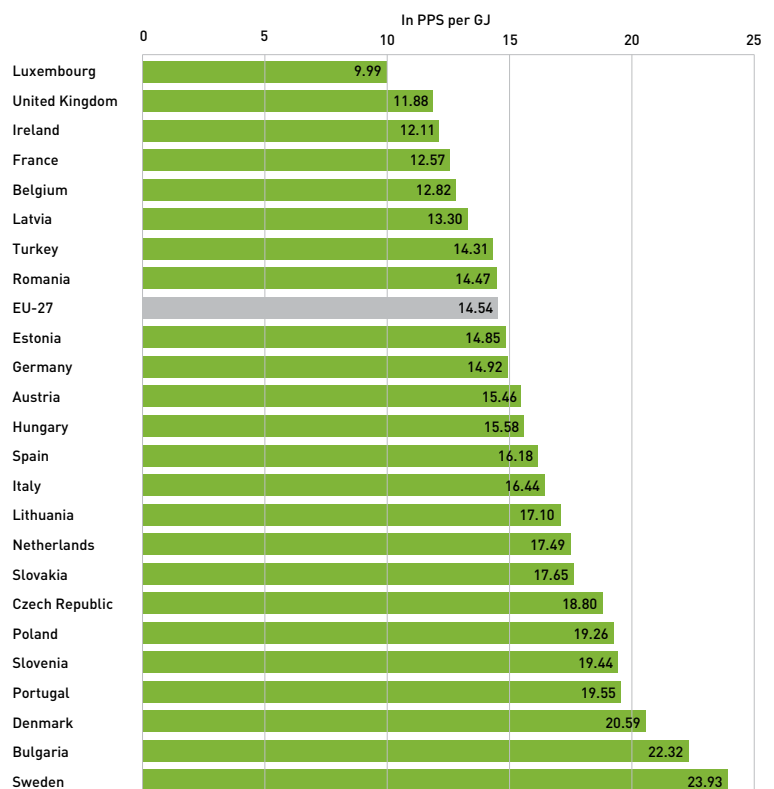
On 26th November 2010 the Commission for Energy Regulation (CER) published its consultation paper on Proposals on a Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market. We await the CER's decision paper which is due to be published in Quarter

2, 2011, and look forward to being able to provide further customer innovation in the currently regulated market segments at the earliest opportunity. It is important that Bord Gáis Energy can offer customised bundled electricity and gas products to all customers on the island.

Energy Customer Service

2010 was another successful year for Bord Gáis Energy in the provision of a quality service to all our customers. Through our call centre strategic partner Fexco, we provided a flexible service to our customers in line with our standards and values, as set out in our Customer Charters.

Natural gas prices in purchasing power standards (PPS) per GJ for household consumers (all taxes included)



Energy continued

ACTIONS UNDERTAKEN TO SUPPORT CUSTOMERS INCLUDED THE IMPLEMENTATION OF PAYMENT PLANS DESIGNED TO MEET THE CUSTOMER'S CIRCUMSTANCES, THE INSTALLATION OF PAY AS YOU GO METERS AS WELL AS CLOSE INTERACTION WITH THE MONEY ADVICE AND BUDGETING SERVICE

Notwithstanding the continued increase in customer contact resulting from the continuation of the highly successful Big Switch campaign, we met our customer service levels in all key areas of call handling, where the average call answering time of 95% within 20 seconds was achieved. Complaints accounted for an average of 1% of contacts and on average 90% of all complaints received were resolved within 10 working days, with c. 60% being resolved on first contact.

We have also increased the range of self service options, making it easier for our customers to manage their gas and electricity accounts, pay their bills and book a range of home services either online or over the phone using an automated service. The changes we have made to our website in particular have won accolades as best in class.

Energy Affordability

Bord Gáis Energy is very conscious that because of the economic conditions, more and more customers are finding it difficult to keep control of household budgets. Throughout 2010 we worked closely with statutory and voluntary bodies on this issue. Actions undertaken to support customers included the implementation of payment plans designed to meet the customer's circumstances, the installation of Pay As You Go (PAYG) meters, as well as close interaction with the Money Advice and Budgeting Service (MABS) to ensure that customers got wider advice on money and budgeting. The withdrawal of supply, while inevitable in some cases, remains a measure of last resort.

Bord Gáis Energy worked with a number of voluntary bodies such as Society of St. Vincent de Paul and ALONE to assist customers who were experiencing difficulties in paying their energy bills. This was particularly the case during the prolonged severe weather in January and November/December 2010, when we worked closely with these organisations to ensure that elderly and vulnerable customers maintained adequate heating levels.

In September 2010 Bord Gáis made a submission to The Joint Oireachtas Committee on Communications, Energy and Natural Resources in an effort to highlight the

growing problem of customer utility debt. The company recommended a number of initiatives and outlined the fundamental objectives of helping customers to maintain supplies through intervention and engagement and also where possible to minimise disconnections.

Sponsorship

As part of further developing its profile, Bord Gáis Energy invested in a number of commercial sponsorship programmes during 2010 including: GAA Hurling U21 Championship; Cork City Marathon; Ladies Gaelic Football Association League; Rediscover; The Irish Book Awards; The Bord Gáis Energy Online Book Club; Community Energy Fund; Capture the Power photography competition for young people; and the IRUPA awards.

Bord Gáis Energy also seeks to develop and enhance the programmes it sponsors. Applying its marketing expertise to initiating support activities, it aims to encourage greater numbers of people to participate. These sponsorship programmes have proved very successful in terms of meeting our targets for raising awareness of our brand and values. Bord Gáis Energy plans to continue investing in the favoured activities of communities throughout the country.

Home Team and Energy Efficiency Services

In 2010, Bord Gáis Energy launched its Home Team division and extended the range of products it offers to include Boiler Replacement, Heating Controls, Central Heating System Upgrades, Building Energy Ratings, Power Flushing, Water Softening and an Online Shop. The extended range will support the strategy to provide customers with a one-stop-shop for a wide range of energy efficient products and services. These products and services enable homeowners and businesses to retrofit more energy efficient products, thereby reducing energy costs and lowering carbon emissions.



Bord Gáis Trading

The Bord Gáis Energy 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 gas and electricity markets, the company continues to diversify its supply mix and sources of gas and electricity supply.

Given the impact of energy prices on the economy, Bord Gáis Energy launched a new Irish Energy Index during 2010 to track developments in wholesale energy markets across crude oil, UK gas, coal prices and the Irish electricity markets. This weighted basket energy index is published on a monthly basis and provides a useful barometer of wholesale energy market developments and their implications for consumers as a whole.

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 the trading unit 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 90% of its gas requirements. Bord Gáis Trading has a portfolio of gas purchase contracts with a variety of gas producers and traders operating in the UK wholesale gas market. The unit 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 sound hedging and risk management strategies to mitigate exposure to short-term volatility and to enable it to take advantage of price developments over a longer period.

Wholesale Gas Prices

With over 90% 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 and 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 now operates as a net importer of gas throughout the year, not just during the peak winter months. While the average import dependency stands at 50%, the actual dependency on a day varies between c. 35% and 65%, so any changes to import flows, both positive and negative, can have a significant effect on the market.

Gas Market Developments in 2010

Historically, the wholesale gas price in the UK has been strongly linked to prevailing oil prices, due to high interconnectivity with the continental markets where long term gas contracts tend to be indexed to oil on a lagged basis, typically six months.

2010 was marked by a recovery in global (and UK) gas prices as economies slowly emerged from recession and UK gas demand was boosted by two extremely cold weather spells in January 2010 and December 2010. The international economic recession had caused significant reductions in global energy demand during 2009 and the year was marked by a clear de-linkage of UK spot prices from the prices implied by oil-indexed contracts in the continent. This trend reversed in 2010 as UK gas prices became more closely aligned to continental gas prices.

UK spot gas prices increased by 40% during 2010. While "On the Day" spot gas prices averaged 30 pence/therm in 2009, the average increased to 42 pence/therm in 2010. UK gas demand hit new record highs during January 2010 as gas demand surged past 465mcm on the 8th January 2010. The graph on page 32 illustrates that for the majority of 2010, UK gas demand out-turned above seasonal norm.

Energy continued



Many factors influenced wholesale gas prices during 2010 including severe cold weather, recovery in oil markets and strong appetite for UK gas in the summer periods from continental markets. The list below illustrates some of the key issues that arose during 2010:

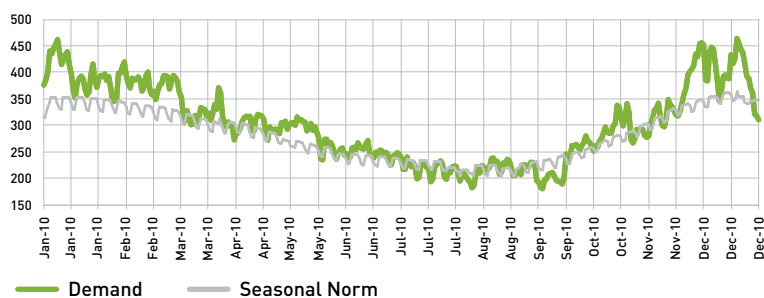
- **Demand/Weather**

UK demand hit record highs in 2010, with a new record of 465mcm set on 8th January 2010. A prolonged cold spell led to tight gas demand and supply conditions. The situation was compounded by supply losses from Norway where production problems and iced-up pipelines led to a 50% reduction in exports to the UK. The UK operator, National Grid was forced to announce four Gas Balancing Alerts ("GBAs") in early January 2010 in the space of eight days. A GBA is called by the grid operator when it anticipates that supply cannot meet prevailing gas demand. The objective of the GBA is to precipitate an increase in supply and/or reductions in demand. The GBAs called in January were extremely useful in coping with record demand and the UK gas market coped reasonably well with conditions. By the end of the year, another cold spell hit the UK in December, with demand again hitting record highs and triggering gas balancing alerts. The system coped well, however, with storage withdrawals providing a valuable buffer to meet high demand.

- **A tightening demand/supply scenario in the UK gas market**

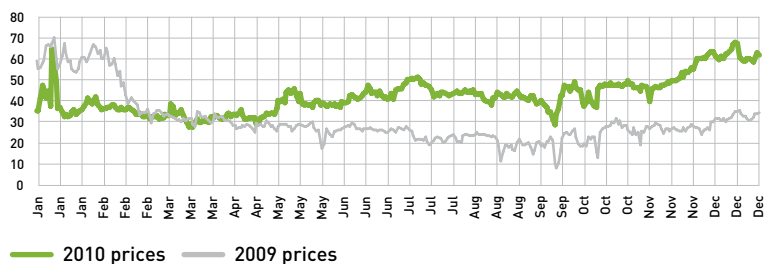
With an ageing profile of indigenous gas fields, the UK has experienced annual declines in indigenous production, but these were offset by an increase in Liquefied Natural Gas (LNG) flows to the UK market. In October 2010, the system operator, National Grid, published a report indicating that peak supplies from the UK Continental Shelf (UKCS) would fall by 9% in 2010/11 compared to 2009/10. Reliability of UKCS fields was quite high (85%-95%) during 2010, albeit at lower production levels.

UK Gas Demand in 2010 versus Seasonal Norm
Demand (million cubic metres)



[Source: UK National Grid]

UK Daily System Average Price 2010 v 2009
Price (stg pence per therm)



- **Strong LNG Deliveries to the UK**

Further expansion during 2010 at existing LNG reception terminals in the UK increased the amount of LNG deliverability into the UK system. LNG flows to the UK did decline significantly during summer 2010 as a consequence of extensive maintenance in upstream LNG facilities (e.g. Qatar), but in Q4 2010 flows increased and reached new highs of over 100mcm in early December.

- **A return of linkage of UK spot prices with Continental oil-indexed prices**

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. During 2009, the UK was marked by a clear de-linkage from continental oil prices: the glut of LNG during 2009, allied to significant falls in gas demand globally, led to UK spot prices clearly de-linking from continental long-term contracts throughout 2009.

While UK spot prices averaged c. 30p/therm during 2009, the estimated equivalent average for continental oil-indexed contracts stood at c. 55p/therm. In contrast, during 2010, UK spot prices averaged 42p versus an estimated equivalent average for continental contracts of 57p, so there was clear evidence that the "gap" between the two markets had tightened considerably during 2010.

- **Counter-Seasonal Prices**

With gas demand typically lower in the summer rather than in winter months, it would be expected that prices would be lower at that time of year. During 2010, however, the opposite trend occurred, with summer prices out-turning higher than the preceding winter. A number of reasons explained this, notably extensive maintenance on UK gas indigenous fields, maintenance at upstream LNG facilities and a greater than expected draw on UK supplies by continental markets during the summer period where continental oil-indexed contract prices had been pushed higher by an upward trend in oil prices.

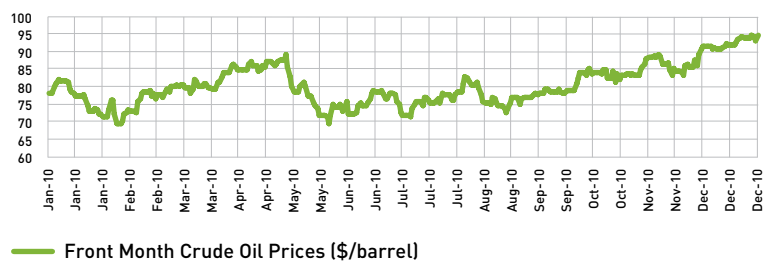
- **Continued Recovery in Crude Oil Prices**

During late 2008, amidst the fall-out from the financial crises and clear evidence of a global recession and lower energy demand, crude oil prices slumped to a low of \$36/barrel. During 2009, however, in contrast with falling gas prices, crude oil prices recovered to the \$70 - \$80/barrel level, amidst tentative signs that the worst of

the global recession was over and that energy intensive economies were beginning to recover. This recovery of oil prices continued during 2010 with oil prices averaging \$80/barrel. There is clear evidence of a rising trend, however, with prices in late 2010 surpassing the year average, and by end of year, prices had traded as high as \$95/barrel amidst continued encouraging economic statistics from the US and emerging economies and a heavy drawdown on US crude stocks.

Brent Crude Oil Prices during 2010

Price (\$/barrel)



Gas Prices Outlook

The current outlook for 2011 suggests another year of consolidation and recovery in UK gas prices. With oil prices rising in recent months, this will feed into continental oil indexed prices during 2011 on a lagged basis, which is likely to keep UK gas prices up as a result. The ability of the system to cope with two record cold spells during 2010, however, is testament to the flexibility built up in the UK system through expansions in LNG and interconnection to Europe and Norway. The global LNG supply position should improve during Q1 2011 with the commissioning of two further upstream liquefaction trains in Qatar, one of the largest LNG producers in the world. This should add up to 10% to global LNG supply capacity.

Energy continued

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.

A key risk factor is the outlook for oil prices, which have been strongly correlated with economic performance over the last twelve months and more recently with the social and political upheaval in Tunisia, Egypt and Libya. If global economies continue to recover during 2011, this will provide a boost to global oil demand. However, increases in oil prices could threaten global economic recovery, so there may be a supply side response by OPEC, who control 40% of global oil supply and would have capacity to increase production. Increased LNG supplies may help to dampen the impact of potentially higher oil prices, but the UK is competing with Asian economies for global LNG supplies.

Electricity Procurement

Taking advantage of liberalisation in the energy markets, Bord Gáis Energy entered the business electricity supply market in 2001. In February 2009, with The Big Switch campaign, the company entered the residential electricity sector and by the end of 2010 had a total of 460,000 electricity customers.

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 made significant investments in traditional and renewable power generation. In 2010, Bord Gáis Energy completed the construction of its highly efficient 445MW gas-fired power station at Whitegate in Co. Cork and acquired wind generation through the acquisition of the West Cork based company SWS Natural Resources in December 2009.

With its increasing customer and asset base, the level of trading activity has increased considerably in 2010 and Bord Gáis Trading is actively involved in the yearly Contract for Difference (CFD) Auctions to secure power supplies. Bord Gáis Trading also imports a proportion of its power supply requirements from the UK through

the Moyle interconnector. 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 continue to be influenced by commodity prices, particularly gas prices as baseload gas plants produce the majority of power in Ireland. With the addition of a number of new gas-fired plants to the system in 2010, baseload gas plant capacity has increased to over 4,000MWs.

Bord Gáis Assets

Following its successful acquisition of SWS Natural Resources in late 2009, the Investment teams of Bord Gáis Energy and SWS were successfully integrated in 2010 to form a combined Assets Division. A comprehensive integration plan was employed which included workstreams for office logistics, information technology and human resources. The human resource workstream involved developing a new integrated structure, defined job descriptions, a comprehensive communications plan and put in place new contracts of employment for all incoming staff. On the 13th of September 2010, the integration project was brought to a successful conclusion, when 35 members of what was previously SWS Natural Resources were relocated from Bandon to Bord Gáis Energy offices in Lapps Quay, Cork City.



The Assets Division has been tasked with operating and developing 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 thirdly the investigation and support of emerging energy technologies. Within the Division an Environment, Health and Safety function was established, whose remit encompasses the wider energy group.

The operating and development assets are those that facilitate the provision of 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 the customer and the company. This mix of energy assets will enable Bord Gáis Energy to meet the needs of its customers with sustainable and competitive electricity offerings.

Operations and Maintenance

Following a successful commissioning phase, Whitegate Power Plant commenced commercial operations on the 9th of November 2010. The plant was delivered under budget and exceeds all its performance guarantees for both output and efficiency. Using world leading General Electric technology, the 445MW power plant is the largest single unit in the country and can achieve efficiencies of up to 58%, providing Bord Gáis Energy with a reliable, competitive source of electricity to support its customer offering over the years to come. The Whitegate power plant will also add significantly to Ireland's security of energy supply, while contributing to a cleaner environment. In line with the Company's core values, Health and Safety was a primary concern for the development team during the project and, as a result, it was one of the safest construction sites in Ireland, with over 1.8 million man-hours and 19 months accident free.

The relationship Bord Gáis developed with the local community and neighbouring industry was also very strong and we look forward to continuing these bonds into the future. The operation and maintenance of the plant will now be managed by Bord Gáis Assets but carried out by General Electric and has created 30 full time high-end jobs.

With 219MW of operating wind capacity, stretching from Cork to Donegal, Bord Gáis has one of the largest renewable energy portfolios in the country; enough to power approximately 130,000 homes. This power complements the output from Whitegate to provide a clean, sustainable source of electricity for our customers. The operating assets from SWS and Bord Gáis were integrated in 2010 with a new remote monitoring system that enables the 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 Nordex, Vestas and Enercon. Concentrated focus on the operation of the windfarms in 2010 ensured that availability targets were exceeded for the year.

Business Development Renewable

Bord Gáis has a significant pipeline of wind development projects with 244MWs of Gate 2 projects, 174MWs of Gate 3 projects and 149MWs of Northern Ireland projects, in addition to some 179MWs of projects in the grid queue. Major progress was made on the consents for these projects in order to support a build out programme which will see 263MW of capacity being installed over the next four years. Full planning permission was received for three projects in 2010, two in the Republic of Ireland and one in Northern Ireland. This build out programme will see Bord Gáis invest up to half a billion Euro over this period, significantly enhancing the asset quality of its balance sheet. The first of these, Ballymartin, a 6MW development in Kilkenny, commenced construction in December 2010 and is expected to be operational in Q3 2011.

Energy continued

BORD GÁIS ENERGY AND OPENHYDRO, AN INDUSTRY LEADER IN TIDAL TECHNOLOGY, CONCLUDED NEGOTIATIONS IN 2010 IN ORDER FOR BORD GÁIS ENERGY TO BECOME A SHAREHOLDER IN OPENHYDRO.

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 entered into a Joint Venture with Mountside Properties to form Greener Ideas Limited (GIL) to progress OCGT developments. Greener Ideas Ltd 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, who conducted detailed designs and assisted in commercial evaluations for each site.

When these projects are completed, 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).

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

In 2008, Bord Gáis Investments established the North East Storage consortium with Storengy (a company of GDF-Suez) to progress the development of a salt cavern gas storage facility in the Larne area of Northern Ireland. The use of salt caverns for gas storage has long been recognised across the world as the most efficient and effective manner by which gas can be stored and extracted in response to peak demand. An indigenous

storage facility of this scale would address security of supply concerns for energy customers in Ireland, north and south, and bring competitive advantages to the all-island energy market.

Following the successful completion of a seismic survey over the licensed area in January 2010, the interpretation of the seismic data shows that sites exist which could potentially support a gas storage facility. The next step in proving the technical feasibility of the project involves carrying out a test drill at one location. This will involve drilling down over 1,500 metres to gain further knowledge of the subsurface layers and to obtain a core sample of the salt in order to test its mechanical properties.

A suitable site has been chosen for the test drill and agreements are being finalised with the affected landowners. Tendering for contractors to carry out the work has also begun and the drilling is expected to be carried out in mid-2011. The drilling will be carried out over a period of 6-8 weeks. Site preparation and reinstatement works will mean a total time at site of approximately four months. Following completion of the drill, analysis of the core will be carried out off-site and will take a number of months. When this is completed a decision will be made on whether the project will proceed to the planning stage. Bord Gáis has maintained an excellent relationship with all stakeholders in this project, from the hundreds of landowners impacted by the seismic survey, to the relevant statutory authorities.

Further details and regular updates on the project can be found on the dedicated project website www.northeaststorage.com.

Wave Energy

Bord Gáis announced in 2010 that it had invested €1.8 million in Wavebob, an Irish company which has developed a unique Wave Energy Converter ('Wavebob') which harnesses the immense power of the ocean to produce clean, renewable energy. The company has invested significantly in Research & Development over



the past ten years and is now considered one of the world's leading wave energy technologies. The Wavebob is a floating buoy device that will automatically adjust its response to suit the prevailing wave climate and so maximise the amount of useful power that may be delivered to the electricity grid on-shore.

Tidal Energy

Bord Gáis Energy and OpenHydro, an industry leader in tidal technology, concluded negotiations in 2010 in order for Bord Gáis Energy to become a shareholder in OpenHydro. Complementing the investment, OpenHydro and Bord Gáis Energy formed a joint venture focused on the development of a utility scale tidal farm off the coast of Ireland. Bord Gáis Energy will initially invest €1million in OpenHydro whose business is the design and manufacture of marine turbines for generating renewable energy from tidal streams. Bord Gáis Energy has also agreed to invest a further €1million on the achievement of certain milestones relating to the tidal farm development. The investment and the formation of the joint venture to develop utility scale tidal generating capacity off the coast of Ireland will support our ambition to achieve early mover advantage in tidal energy development in this country.

Biogas

Bord Gáis launched a report on "The Future of Renewable Gas in Ireland". Produced in association with UCC and Ernst & Young, the report outlines how grass and waste can be converted into natural gas that can then be used locally or piped into the national grid for distribution around Ireland. The report estimates that 7.5% of Ireland's natural gas demand could be met by renewable gas, the equivalent of heating 300,000 homes each year. Following on from the report the next steps are to investigate the financial feasibility of a trial project in Ireland.

Micro CHP

Bord Gáis continued its research into the deployment of micro CHP (the production of heat and electricity from a single device within the home). It has installed six Baxi Ecogen Micro CHP devices in employees homes as part of a trial programme being conducted in conjunction with SEAI. Ceres Power, with which Bord Gáis entered an exclusive arrangement in 2009, continued its development work on the fuel cell based micro CHP and it is expected that devices will be trialled in Irish homes in early 2011.

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 off Ireland's east coast in the Kish bank basin.

External Research

In continuation of our goal to support research in third level colleges in Ireland, we have committed further support for post doctoral programmes in both University College Cork and the University of Limerick, in areas such as gas demand modelling, biomethane production and high altitude wind generation. We have also worked closely with the IDA, Enterprise Ireland and other industry partners on advancing the International Energy Research Centre concept, aimed at developing an industry driven research centre focused on integrated energy solutions.

Northern Ireland

NORTHERN IRELAND IS AN IMPORTANT ENERGY MARKET FOR BORD GÁIS: IN 2010, 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 AND IS CURRENTLY EVALUATING A POSSIBLE GAS STORAGE FACILITY NEAR LARNE.



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 over 9,000 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.

Ten Towns Development

In 2010, firmus energy continued to develop the new gas network in its licence areas across Northern Ireland. At the end of 2010, a total of over 550km 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 2010, nearly 2,500 new customers were connected to the network including 240 business users. During the year, firmus energy has worked with the Utility Regulator in Northern Ireland on the investigation of a number of new towns including Portstewart, Ballyclare, Warrenpoint and Bushmills.

First connections will be made in Portstewart in Q1 2011, with decisions awaited on the approval of the other three towns. 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.

The firmus energy Supply licence provides for supply exclusivity to industrial and residential markets for five and eight years respectively. Following consultation in late 2010, market opening is expected in October 2012 for the large Industrial/Commercial (I/C) sector, with the SME and domestic sectors expected to open in April 2015 across all 10 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.

AT THE END OF 2010, A TOTAL OF OVER 550KM 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.

By the end of 2010, over 1200 business customers in greater Belfast had switched to firmus energy for their gas supply from the incumbent, Phoenix Supply. Currently over 25% of all gas consumed in both the large I/C contract and the SME sectors in greater Belfast is supplied by firmus energy.

In November 2010, firmus energy announced its intent to be the first competitor to enter the domestic gas market in greater Belfast, signalling the end of Phoenix's 14 year monopoly. The customer acquisition strategy will be based on a two-year discounted deal against Phoenix's published tariff and will be supported by significant advertising and marketing activity. This entry was only possible because of firmus' work with the Utility Regulator in writing the customer management and switching processes on behalf of the market. Whilst market opening is currently restricted to credit metered customers only due to a lack of a market switching system, the Network Operator in Belfast is working on new systems which will allow Pay-As-You-Go customers to switch from Q3 2011.

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 in October 2010 launched an exclusive affinity deal with the Ulster Farmers Union for electricity supply with their members.

Transmission Pipeline Development

Construction on the Kernan to Derryhale pipeline began in April 2010 and was completed in late September. The pipeline was successfully commissioned in October 2010 and this marked the completion of the £7.6m project. The contract for the construction of the pipeline was awarded to BAM Civil Limited by Bord Gáis Networks and employed 80 people at the peak of construction.

The purpose of the new pipeline is to reinforce the supply of natural gas to Craigavon, Portadown, Lurgan and Armagh catchment areas and also to accommodate any further rollout of the gas network on the western

side of Lough Neagh. The 12.4km transmission pipeline runs from an existing Above Ground Installation (AGI) at Kernan which is near Banbridge in Co. Down, on the South North pipeline to a new AGI located in the townland of Derryhale, near Portadown in Co. Armagh.

The pipeline runs through the domain of three Councils: Banbridge District Council, Craigavon Borough Council and Armagh City and District Council. It has 18 road crossings, 10 water crossings, including one major crossing of the Cushier river, a crossing of the Belfast to Dublin railway line and a crossing of the Newry Canal.

North East Storage Project

In 2008, Bord Gáis was awarded a mineral prospecting licence to assess the feasibility of developing a gas storage facility in salt caverns in the Larne area. In 2009 BGE (Northern Ireland) formed a consortium with Storengy, a company of GDF Suez, to pool expertise to determine if there are subterranean salt layers present which could potentially be used for underground natural gas storage.

The North East Storage project is initially a geological investigation, mainly taking place on agricultural land, in the Larne Borough Council area. The first stage of the investigation, a seismic study, was completed in January 2010 and the results were extensively analysed over several months. The results have indicated that suitable subterranean salt layers are present approximately 1,500m (one mile) below the surface. The next stage in determining the feasibility of underground natural gas storage is to carry out a 'test drill', also known as an 'exploration borehole' in a localised area, following consultation and agreement from the affected landowners. It is envisaged that the test drilling will take place in mid 2011.

Gaslink

GASLINK IS THE GAS SYSTEM OPERATOR FOR IRELAND AND IS AN INDEPENDENT SUBSIDIARY OF BORD GÁIS. GASLINK REPORTS TO ITS OWN BOARD, AND IS SUBJECT TO AN ANNUAL FINANCIAL PLAN APPROVED BY THE MAIN BORD GÁIS BOARD.



Since its establishment in 2008, Gaslink has been responsible for the development, operation and maintenance of the natural gas transmission and distribution networks in Ireland. It provides transportation services to all suppliers and shippers in Ireland in an efficient and independent manner.

As well as delivering real benefit to the gas market in Ireland, Gaslink represents the interests of Ireland at European and global levels. In particular, during 2010 Gaslink was centrally involved in Europe in relation to the development of a single European gas market.

Its vision is to provide gas network services to customers efficiently, safely and without discrimination and to use an approach that is independent, participative and far-sighted in order to make a significant impact on the development of the overall gas market in Ireland.

Key Achievements

Much was achieved by Gaslink in 2010. Progress was made on facilitating gas from the Corrib Field, as well as infrastructure to connect power generation sites. Gaslink was centrally involved within Europe regarding the development of a single European gas market; competition has been enhanced with the entry of two new shippers into the domestic market; and developments continued for an all-island gas market. Safety and cost efficiency continue to underpin all of our operations.

New Entry Points

During 2010 Gaslink continued to work with the Corrib Partners to facilitate Corrib gas being brought into the Irish gas network. The anticipated flow of gas from the Corrib

Field is a most welcome development and it will become an integral part of the security of supply strategy for Ireland. During 2010 the Code of Operations was updated to reflect the Bellanaboy Entry Point (BBEP).

Shannon LNG is planning to construct a LNG import terminal and associated pipeline in County Kerry. Gaslink has held detailed discussions with the promoters of the proposed project to develop the necessary arrangements to facilitate access to the network. Planning permission from An Bord Pleanála was granted in 2010 along with CER approval. A market test that will determine the conditions attaching to any third party access exemption is currently under way.

Connection to Network Power Generation

Significant progress was made in 2010 on the gas connection to Great Island to supply Endesa Ireland's proposed new Combined Cycle Gas Turbine (CCGT) generating station. Two agreements have been executed with Endesa in 2010 to complete engineering works on the gas connection. Potential route corridors have been investigated and associated site surveys conducted over the year. These surveys principally involved environmental route appraisal and site investigation. The final routing study has been completed and subsequent wayleave packages were issued to the relevant landowners.

The ESB Aghada CCGT was officially opened in May 2010, providing a generation capacity of 442MW to the national electricity grid. In 2010 Bord Gáis Energy's 445MW CCGT at Whitegate also completed its commissioning programme and the plant became commercially operational in November 2010.

SIGNIFICANT PROGRESS WAS MADE IN 2010 ON THE GAS CONNECTION TO GREAT ISLAND TO SUPPLY ENDESA IRELAND'S PROPOSED NEW COMBINED CYCLE GAS TURBINE (CCGT) GENERATING STATION.

New Towns

In April 2010 Gaslink announced the extension of the natural gas network to an additional four towns, Tipperary Town in Co. Tipperary, Kinsale and Innishannon in Co. Cork and Kells in Co. Meath, at a capital cost of approximately €15 million. This saw the completion by Gaslink of Phase 3 of the "New Towns Study" which was initiated by Bord Gáis Networks in 2006. Phase 3, which was approved by the Commission for Energy Regulation (CER), analysed 39 towns in terms of each town's estimated demand for gas, both residential and industrial/commercial, and the required infrastructure to meet that demand. These factors were subjected to a cost benefit analysis for each town and based on this analysis the four towns qualified.

Single European Gas Market Unbundling

On 28th July, 2010 the Minister for Communications, Energy and Natural Resources Eamon Ryan TD informed Bord Gáis and Gaslink of the Government's decision to apply the Independent Transmission Operator (ITO) Model under the Third EU Energy Directive (Directive 2009/73/EC). The Directive is designed to further unbundle the supply and networks activities of a Vertically Integrated Utility (VIU) to ensure non-discriminatory access to the gas transmission system. In this ITO Model, the operation and ownership of the transmission system will be combined within one ITO subsidiary which will be subject to stringent and detailed ring-fencing requirements from the remainder of the VIU.

The development of the ITO as an independent subsidiary of Bord Gáis will result in a significant structural change for Gaslink. Gaslink is working closely with Bord Gáis Networks and the wider Bord Gáis Group to implement this new structure.

Market Operation

The Third Energy Directive aims to liberalise the gas and electricity markets across Europe. The European Network of Transmission System Operators for Gas (ENTSOG) was established to facilitate progress towards a single European gas market. ENTSOG is currently developing a Network Code and significant progress was made in the areas of Capacity Allocations Mechanism (CAM), Balancing, Transparency and Tariffs. All of these areas will have a substantial impact on the operation of the network in the Republic of Ireland.

Gaslink is a founder member of ENTSOG and is working to best represent Ireland's interests in the development of all areas of the Network Code through the various ENTSOG Working Groups.

All-Island Gas Market

Gaslink is committed to the establishment of all-island Common Arrangements for Gas (CAG). During 2010 Gaslink worked closely with the regulatory authorities and transporters across the island in a bid to progress this common goal. It is currently anticipated that an all-island Transmission Code will be implemented in 2012 and an All-Island Transmission, Distribution and Retail Code in 2014. Gaslink intends to work closely with all stakeholders to ensure a smooth transition to an all-island market.

Enhancing Competition

Gaslink's role is to support the liberalisation of the natural gas market in Ireland, to encourage competition and to ensure equal access for all participants to the natural gas network. During 2010, Gaslink encouraged and facilitated two market players' entry into the residential market.

In addition, Gaslink enhanced the process to enable customers to switch providers easily and quickly, with 2010 seeing some 94,000 customers switching.

Transmission Development

In July 2010 Gaslink published its third Transmission Development Statement (TDS) 2009/10 to 2018/19, which will also serve as Gaslink's input into the Joint Capacity Statement (JCS) consultation process.

The TDS examines various supply (including storage and Liquefied Natural Gas) scenarios against the output from detailed demand analysis.

The 2010 TDS concluded that Ireland has secure access to diverse sources of supply of natural gas that are more than capable of meeting anticipated demand. It found that the existing transmission system in Ireland and the supply of natural gas to the country is robust, safe and secure.

Outlook

Looking forward, Gaslink plans to progress the projects detailed above and, in particular, expects to make significant progress in respect of the Endesa CCGT connection, development of the European Code and to play a lead role in the development of all-island arrangements. In addition, Gaslink will continue to work with Bord Gáis to implement the EU Third Directive.

Networks

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, INCLUDING BORD GÁIS ENERGY.

DEVELOPING,
OPERATING AND
MAINTAINING
NATURAL GAS
TRANSMISSION
AND DISTRIBUTION
NETWORKS



Networks continued



Since its establishment, Bord Gáis has developed a national distribution pipeline network of 10,856km and a transmission pipeline network of 2,373km. 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 153 population centres within 19 counties throughout the country and there are over 640,000 gas users in Ireland.

Key achievements for Bord Gáis Networks in 2010 were the implementation of the Networks Transformation Programme, successfully meeting all gas demand during two severe weather events and managing the change of shipper process for 94,000 gas users – close to 15% of the market.

Networks Transformation Programme

2010 marked a transformational year for Bord Gáis Networks with the successful transition to the new business systems, processes and organisational structure developed under the Networks Transformation Programme (NTP). The NTP was a strategic programme of work to enhance and optimise the Bord Gáis Networks business processes and IT systems into the future.

The four main projects under NTP were:

1. The **Organisation Transformation** Project: An all-inclusive re-definition of the Networks Organisation – the management structure, the organisation of work teams, the definition of individual roles, and the business processes by which the work of Bord Gáis Networks is executed.
2. The **Systems Transformation** Project: A wide-ranging project to build and implement the next generation of Bord Gáis Networks application systems – enabling the best-practice business processes defined by the Organisation Transformation project and addressing the challenge of future-proofing the critical Bord Gáis Networks application systems.
3. The **Supply Chain Optimisation** Project: An initiative to apply best-practice procurement processes to the organisation's purchasing spend with a view to adding value and reducing or avoiding costs.

SINCE ITS ESTABLISHMENT, BORD GÁIS HAS DEVELOPED A NATIONAL DISTRIBUTION PIPELINE NETWORK OF 10,856KM AND A TRANSMISSION PIPELINE NETWORK OF 2,373KM.

4. The **Contracting Services Model** Project: A specific Supply Chain Optimisation initiative to radically re-configure the manner in which Networks acquires engineering services from external contractors.

Following almost two years of preparatory work, new software applications and business processes were introduced on schedule at various stages during 2010. Processes and structures were implemented from June onwards, with the first of the new IT systems deployed on 1st November, and the remainder on a phased basis during the first quarter of 2011. The smooth transition to the new systems and structures, affecting over five hundred Networks staff members, is testament to Bord Gáis Networks' experience in project management and the commitment of its employees.

Under the transformed organisational structure, functions have been transitioned into six new units: Asset Management; Workflow Management; Service Delivery; Regulation and Commercial; Health, Safety, Quality and Environment; and Business Development. These units are supported by Finance, HR, IT and other shared services that will transition fully during 2011.

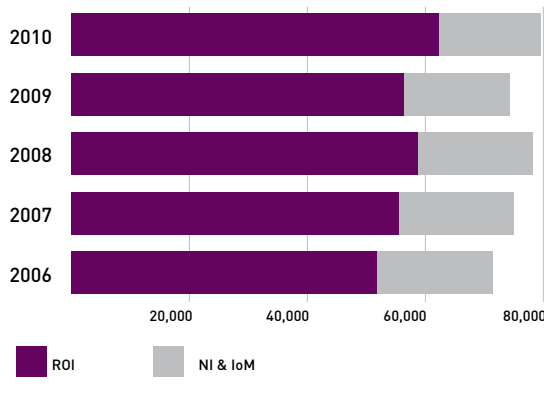
The NTP programme optimises business processes, achieves greater cost efficiency and further improves customer service. Combined with Bord Gáis Networks' commitment to continuous improvement, the NTP programme will ensure that Bord Gáis Networks remains to the fore as a best-in-class networks utility provider into the future.

Record Gas Volumes in 2010

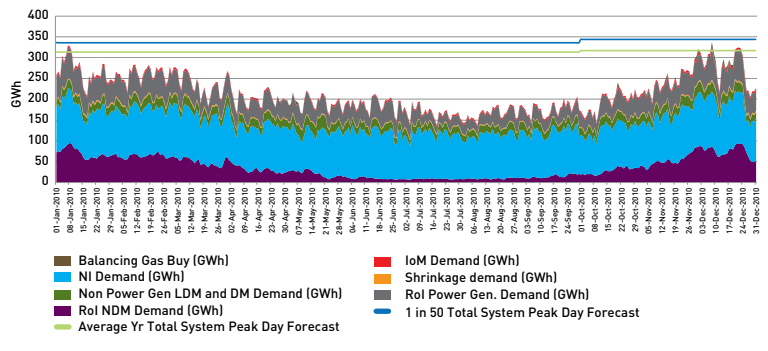
Severe weather at both ends of the year, together with the commissioning of two new gas-fired power stations, resulted in the volume of natural gas transported by Bord Gáis Networks reaching a record level of over 79,500 GWh in 2010. This is an increase of 7% on 2009, with 78% of gas flows serving the Irish gas market and 22% utilised in Northern Ireland and Isle of Man.

In January 2010 and again in November/December 2010, weather temperatures decreased to a level even below the temperatures that would be expected to occur only once every fifty years, i.e. a '1 in 50' winter, the level to which our networks are designed. During these two demand peaks in 2010, with the December spell being particularly prolonged, Bord Gáis Networks provided a reliable supply of gas to all users in Ireland, with only minor interruptions to a small number of housing estates arising from freezing equipment. Supplies to Northern Ireland and the Isle of Man were similarly maintained during the severe winter conditions.

Gas Transported by Bord Gáis Networks



2010 Total System Demand Breakdown



Low temperatures

A degree day (DD) is a measurement designed to reflect the demand for energy needed to heat a home or business, based on the average outside air temperature over a 24 hour period. Every 1°C drop in temperature below an average outside air temperature of 15.5°C is a degree day. A 21 degree day is equivalent to an average outside air temperature of minus 5.5°C.

In Ireland, the coldest weather expected based on the 1 in 50 degree day level is 21.1 degrees lower than the average temperature. This 1 in 50 degree day level was exceeded twice during 2010 and reached a high of a 23.6 degree day on 24th December 2010. Record gas demand was experienced on the 7th and 8th January 2010 when the overall peak day demand for Ireland reached 251 GWh and the Non Daily Metered (NDM) sector hit an all time peak of 95 GWh. The 8th December 2010 set a new record for total system throughput of 338 GWh and throughput through the Interconnector System at Moffat reached 304 GWh.

Networks continued

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.

Both Interconnectors provide Security of Supply

The majority of Irish gas demand (93%) was met by UK imports with the remaining gas supplied from indigenous reserves in Inch*. The total volume of gas transported through the two Interconnectors exceeded the nominal capacity of the first Interconnector (17.0 mscm/d) on more than 50 days during 2010, with a new record of 20.57 mscm/d experienced on 8th December 2010. The completion of the second Interconnector in 2002/2003 ensured that there was sufficient import capacity to meet peak day demands.

* All figures quoted for supply from Inch refer to the total quantity of gas supplied at Inch. Gas storage is carried out 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 2010 1,468 GWh of gas was imported through the interconnectors and supplied to Inch.

Networks Organisation Structure

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

- **Asset Management:** responsible for asset strategy and networks analysis; asset integrity; investment analysis and management; conceptual and integrated planning; asset programme management; and asset information management.
- **Workflow:** responsible for handling and progressing all customer contact; detailed design and planning of all network solutions; scheduling, dispatching and progressing all networks work activities; and maintaining quality data and records relating to same.
- **Service Delivery:** responsible for delivering capital construction projects; 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 and Environment:** responsible for safety management systems; training; risk management and business continuity; health, safety and environment planning; and quality and management systems.
- **Regulation and Commercial:** responsible for regulatory affairs; shipper services; trading settlements; revenue and tariff setting; customer and marketing strategy; and account management of large gas users.
- **New Business Development:** responsible for identifying potential areas for growth beyond the existing gas networks regulated business and managing Aurora, the Bord Gáis Networks 'Dark Fibre', open access telecoms infrastructure provider.

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.

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.

In 2010, Safety Leadership workshops were held for all Senior Managers in Bord Gáis. A total of nine sessions were held addressing issues such as visible safety leadership and behavioural safety. The programme has contributed significantly to further improving the safety culture within Bord Gáis Networks.

At the beginning of 2010, Bord Gáis set itself a target of doubling the number of hazard reports from staff in order to improve the identification of hazards present in the workplace. This target was exceeded, with Bord Gáis Networks achieving 134% of its hazard reporting target.



In 2010, Bord Gáis Networks continued its safety promotion campaigns. The main areas related to the Gas Emergency Service, Dial-before-you-Dig, promotion of Registered Gas Installers (RGI) and public awareness of the dangers of Carbon Monoxide. In March 2010, a new campaign was launched to promote the use of RGIs to domestic natural gas users when having gas appliances installed, serviced or repaired. The campaign has resulted in a significant increase in the awareness level of RGI's amongst the general public, growing from 31% at the end of 2009 to 52% recognition at the end of 2010.

To further promote awareness of the dangers of Carbon Monoxide, Bord Gáis Networks supplied information to holiday accommodation providers with the assistance of Fáilte Ireland. Also, working with the Health Services Executive (HSE), a guide on Carbon Monoxide poisoning for GPs and other medical professionals was published and distributed.

Bord Gáis Networks continues to work closely with Gaslink and the CER to ensure network safety continues to have a priority focus. 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.

In 2010, organisational changes under the NTP saw all the various risk areas related to Networks being brought together into one section. This has provided more coordinated and focused risk management processes across Networks. Four key committees are now at the heart of Networks risk management framework; Strategy & Finance; Business Operations & Compliance; Major Investment Projects; and Asset/Safety Case.

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.

IN MARCH A NEW SAFETY CAMPAIGN WAS LAUNCHED TO PROMOTE THE USE OF RGIs TO DOMESTIC NATURAL GAS USERS. THE CAMPAIGN RESULTED IN AWARENESS LEVELS INCREASING FROM 31% TO 52%

A dedicated Environment Team within Bord Gáis Networks was established in March 2010. To date, the team has carried out an Environmental Review of the activities undertaken by Bord Gáis Networks and it manages a legal register of all the relevant environmental legislation which applies to Networks. In April 2010, a Memorandum of Understanding was signed between Bord Gáis Networks and the Dublin Institute of Technology (DIT). This new partnership will bring about significant benefits in the areas of training programme development and delivery, research collaboration and the accreditation of Bord Gáis Networks training courses.

Regulation & Commercial

Within Bord Gáis Networks, Regulation & Commercial is responsible for shipper services, gas point registration, metering data services, regulatory affairs and other commercial activities.

Networks continued



Shipper Services

Bord Gáis Networks provides access to the gas pipeline system for all Shippers on behalf of Gaslink. There are currently 18 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 2010, our Shipper Services team continued to build Bord Gáis Network's relationship with new market entrants to facilitate and support their entry into the Irish gas market. There was a significant increase in Shipper activity with respect to their growth across all sectors of the gas market: an additional three Shippers are now supplying gas to residential and SME customers, bringing to seven the total number of shippers currently shipping gas in this expanding market sector.

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 (CoS) 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.

2010 saw an exponential increase in the GPRO workload, with approximately 94,000 Change of Shipper transactions processed during the year (versus 8,500 in 2009), mainly because of a significant new entrant in the residential market, as well as further new entrants into the other Industrial/Commercial sectors. This represents a Change of Shipper transaction at close to 15% of all Gas Points with a meter fitted.

In 2010, several existing Shippers further expanded their portfolio of customer categories served and several new Shippers also entered the Irish market for the first time. The GPRO met with all new Shippers both before and after their Market Entry to advise on our processes and on industry best-practice to make the Change of Shipper process as seamless as possible for end-users.

The GPRO, in agreement with Industry participants and the CER, also made several changes to the Change of Shipper processes during the year in order to open the processes and further facilitate competition.

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 is currently supporting the National Smart Metering programme which is focussed on both gas and electricity. The programme includes Customer Behaviour Trials utilising smart metering technology, time of use tariffs, and in-home displays. These trials, along with a public and industry consultation process, will help to validate the consumer benefits of smart metering solutions. The full business and infrastructure requirements, as well as the rollout schedule, will also be defined and agreed in the current phase of the programme during 2011.

Gas and electricity smart metering will be rolled out on a shared communication infrastructure in order to benefit from combined efficiencies and leveraging of costs. The Department of the Environment, Heritage & Local Government is considering options to include water metering in this infrastructure at a later stage.

The final upgrade to smart metering 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.

TOTAL GAS TRANSPORTED FOR IRELAND, NORTHERN IRELAND AND THE ISLE OF MAN WAS OVER 79,500 GWH, AN INCREASE OF APPROXIMATELY 7% ON 2009.

These new meters can be easily upgraded to 'Smart Meters' when required at some point in the future by the addition of a communications module to the front of the meter. Smart Meters will allow consumers to monitor and record how much gas they use and when they use it. Smart Meters will also give customers more time-of-use information regarding their gas consumption and this is anticipated to encourage energy efficiency. The simple installation of a communications module to enable the full Smart Meter capability will take place in line with the National Smart Metering rollout plan for gas and electricity.

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.

In 2010, 9,500 Meters were replaced under the Meter Replacement Programme with a target of 36,000 replacements in 2011.

Pay As You Go Metering

2010 saw Bord Gáis Networks continue to support a nationwide roll out of a prepayment metering service that facilitates 'Pay as you Go' 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. There are now over 32,000 prepayment meters installed, with over 400 outlets where gas card credit can be purchased.

Networks Operations

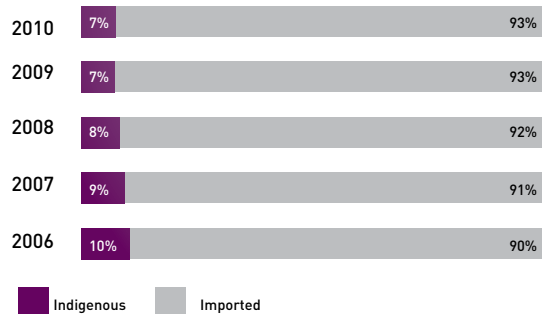
Bord Gáis Networks operates the gas transmission and distribution networks in Ireland on behalf of Gaslink.

Transmission Network

The total transmission network length at the end of 2010 was 2,373km. Total gas transported for Ireland, Northern Ireland and the Isle of Man was over 79,500 GWh, an increase of approximately 7% on 2009. In excess of three quarters (78%) of this gas was delivered for use in the

Republic of Ireland with the remaining 22% 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.

Sources of Gas used in Ireland



Sources of gas used in Ireland

* 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 (KEL) as well as production and so it is expected that a portion of the gas supplied at Inch by KEL has been originally sourced via Moffat and transported to Inch. In 2010 1,468 GWh of gas was imported through the interconnectors and supplied to Inch.

Distribution Network

At the end of 2010, Bord Gáis Networks had 10,856 km of distribution network through which it delivered gas to c. 641,500 premises. Over 74 km of new distribution mains were laid in 2010 to meet growing demand for natural gas.

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 in Bord Gáis 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.

Networks continued

IN 2010, 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

Networks Development

In 2010, 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. A new 12.4km transmission pipeline between Kernan and Derryhale in Co. Armagh was constructed in 2010. A transmission pipeline project to replace the 12.3km Dublin 4 light wall pipeline also commenced in 2010. This project is to enhance gas capacity in the area and is due to be completed in Q2 2011.

New Towns

Following on from the connection of numerous new towns in recent years, Bord Gáis Networks completed the Phase 3 towns report on behalf of Gaslink in 2009, which examined the feasibility of connecting a further 43 towns across nine regional groupings to the network. In April 2010, the CER approved the extension of the gas network to Tipperary Town, Kells, Co. Meath, Kinsale and Innishannon, Co. Cork. Construction of gas mains extensions to all of these towns, and to Phase 2 approved town Cahir, Co. Tipperary, commenced in 2010. In addition, in Q3 of 2010, the town of Macroom Co. Cork was also resubmitted to the CER and approved, on the basis of a large new production development adjacent to this town.

Gas pipeline extensions were also commissioned to the two new gas-fired power stations in the east Cork area, at Aghada and Whitegate. Both stations went into full commercial operation in 2010.

Infill Connections

Bord Gáis Networks proposed an Infill Connections amendment to the Connections Policy in 2010. The Infill amendment is intended to increase network penetration in existing gas areas by facilitating the connection of industrial and commercial premises which require an extension of the distribution mains. The CER agreed that Bord Gáis Networks could undertake five trial Infill projects and construction of these schemes is now underway.

Network Services

Throughout 2010, 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 over 333,000 phone contacts, agreed and completed over 39,000 appointments, and conducted over 10,000 temporary and permanent surface reinstatements. It also attended over 19,500 public reported gas escapes. The connections business secured orders involving more than €13 million in capital expenditure for the installation of domestic and commercial gas meters to supply 882 GWh of additional natural gas load. Combined, connections and site-works collected almost €5.8m in contributions and charges to net off against the cost of providing these services to the benefit of the Distribution tariff.

DURING THE YEAR, BORD GÁIS NETWORKS HANDLED OVER 333,000 PHONE CONTACTS

Consolidation of 2009 service standards and further service improvement initiatives were reflected in Bord Gáis Networks in conjunction with its outsource contact centre and surveying partners, winning the prestigious CCA (UK) award for Team of the Year 2010 for the UK & Ireland in respect of its Complaints Handling Team, which also won that specific category award. Networks and its partners were also successful in winning the Irish CCMA awards for Overall Contact Centre of the Year 2010 and in retaining the Best Quality Measurement Program 2010 award in recognition of its customer surveying and call calibration programs.



Networks IT

2010 was a year of significant change and achievement for the Networks IT team. In July, there was the successful upgrade of GasMap (Market Messaging Hub) to all Shippers operating in the retail gas market and, in November, the main NTP IT systems went live on schedule and within budget. This complex project was managed and led by Bord Gáis Networks staff working closely with our systems implementation partner, Accenture.

The transformation involved the implementation of Maximo (a Work and Asset Management system), Click (a Work Scheduling system) and Syclo (a mobile workforce system). These new systems are underpinned by a new middleware solution which manages the flow of information between these business critical systems. During this ambitious project, the capability of the Oracle Financial systems and GIS (Geographic Information System) were enhanced and these strategic systems are now integrated with the new NTP solutions. The project also delivered enhancements to GTMS (Gas Transportation Management System) and the delivery of a new Meter Reading mobile solution. Furthermore, the Business Intelligence capability of Networks was significantly enhanced by the expansion of the data warehouse platform and the development of a sophisticated decision support and modelling tool.

The business benefits of introducing this new systems capability include centralised recording and tracking of Bord Gáis Networks assets, and the introduction of a centralised Scheduling and Dispatch function. Mobile workers are now in a position to immediately return data from the field. This facilitates better decision making, supported by real time information and sophisticated reporting and scenario modelling tools.

A new service desk and application support model has been put in place to support the new systems landscape. The Networks IT department has been restructured and strengthened to support these enhanced and optimised solutions and work will continue into 2011 to build on our recent significant investment in technology and people.

Gas Transportation Revenues & Tariffs

Allowed revenues for use of the Irish Transmission and Distribution networks for the five gas years covering the period October 2007 to September 2012 were determined in 2007 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 5.2% pre-tax real.

While the allowed revenues for the five-year period were set in 2007, 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 2010/11 increased in real terms from the 2009/10 tariff by 1.4% for typical shippers through Moffat, the entry point from which 93% of gas used in Ireland is sourced. The 2010/11 Distribution tariff decreased by 3.9% in real terms from 2009/10, because of deflation adjustments.

Revenues for use of our Northern Ireland Transmission network are determined by postalised tariffs approved by the Northern Ireland Authority for Utility Regulation (NIAUR). A five-year revenue control for our network was determined in 2007 for the period from October 2007 to September 2012. The allowed rate of return for the five-year period is 6.19% pre-tax real on a vanilla basis. The postalised Northern Ireland tariff for 2010/2011 is nearly 1% lower in real terms compared to the 2009/2010 tariff, because of an overall decrease in required revenue for the Northern Ireland pipeline operators.

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 continued

ESTABLISHED IN 2000, AURORA TELECOM IS A DIVISION OF BORD GÁIS NETWORKS COMBINING TELECOMMUNICATIONS EXPERTISE WITH THAT OF ADVANCED NETWORK DESIGN, CONSTRUCTION AND PROJECT MANAGEMENT TO OFFER A BEST-IN-CLASS FIBRE NETWORK.

2010 Gas Transportation ROI Regulated Revenues

Gas Transportation-only external ROI regulated revenues for 2010 were €149 million.

Transmission Development Statement 2009/2010 to 2018/2019

During 2010, the third Transmission Development Statement (TDS) was published by Gaslink. The statement provides a ten-year forecast of the demand, sources of supply and infrastructure requirements of the Bord Gáis Networks transmission system. The third TDS included an enhanced focus on the capability of the existing transmission system and its ability to accommodate new sources of supply.

In particular, the latest TDS analysed the ability of the existing transmission system to accommodate flows from the Corrib gas field off the Mayo coast, the proposed Shannon Liquefied Natural Gas (LNG) terminal on the Shannon estuary (at Tarbert, Co. Kerry), a potential salt cavity gas storage facility near Larne in Northern Ireland, and additional capacity at the existing storage facilities in the Celtic Sea.

The third TDS also analysed the ability of the existing transmission system to export/import gas between Ireland and Northern Ireland, and to physically export gas to Great Britain from both jurisdictions.

Natural gas continues to play a very important role in the Irish energy mix. It brings considerable economic and environmental benefits including its favourable price compared to oil, the lowest CO₂ emissions of any fossil fuel and the provision of the most efficient form of thermal power generation.

Given the growing importance of gas, it is hoped that the TDS will inform users of the system about the future level of available capacity and will also assist in the identification of new connection opportunities to the system. The TDS includes a forecast of future demand and supply, together with an analysis of the ability of the system to meet the resultant flows of gas. Future system reinforcement requirements arising from these flows are also identified.

Security of Supply

The new Security of Supply Regulations were published in November 2010. The Regulations identify Ireland and NI as areas for regional co-operation. Bord Gáis Networks is working with CER, OFGEM and NIAUR on the implementation of the Regulations. The Regulations require a risk assessment of the current security of supply arrangements and a preventative action plan to mitigate any risks identified.

Networks Business Development

In 2010, a New Business Development function was set up to research potential opportunities to expand the current business of Bord Gáis Networks. Building on its experience in utility networks, the new function investigates potential new business growth areas for Bord Gáis Networks beyond its existing core regulated businesses.

Aurora

Established in 2000, Aurora Telecom is a division of Bord Gáis Networks combining telecommunications expertise with that of advanced network design, construction and project management to offer a best-in-class fibre network.

Aurora's fibre network is currently Dublin-based and 50km in length. A national network is in the process of being rolled-out with 'Phase 1' to be completed by Q1 of 2011. Other key phases will be delivered thereafter as part of the business strategy. In total, more than 330km of fibre-optic cable will be inserted into ducting laid along the route of Bord Gáis Networks' gas Pipeline to the West, in an efficient use of national infrastructure.



In a significant boost to the Government's vision of a Smart Economy, the Aurora project delivers an open-access network that is available to telecommunications carriers and large corporate, public sector and financial services organisations. The project will also allow companies to 'own' a fibre optic network by providing dedicated fibre for individual companies known as Dark Fibre.

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 approximately 30%. According to the Natural Gas Vehicle Association (NGVA) of Europe, there were over 12 million NGVs worldwide in 2010.

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.

In Ireland, Bord Gáis Networks is analysing CNG through vehicles running on the gas within its fleet. A trial CNG refuelling unit has been installed at our premises in Finglas, Dublin. A 'fast-fill' refuelling unit, which will refuel vehicles in approximately 2 to 4 minutes, is planned for the commercial use of CNG within Bord Gáis Networks' fleet.

CNG IS TYPICALLY 30% TO 60% CHEAPER THAN PETROL OR DIESEL.

Work is continuing with organisations such as the NSAI to develop a CNG refuelling station standard for Ireland. Stakeholders are being consulted to ensure a cross-functional industry partnership and Bord Gáis Networks is liaising with interested parties to commercially use CNG within captive fleets.

Future Opportunities

The existing Networks Business is a regulated asset focused business which, into the future, will be operating in a mature market with limited potential growth in its core regulated business. The key challenge is to identify opportunities for growth of the existing network business and its existing operations. There are a number of developments in Ireland which will present Bord Gáis Networks with opportunities to manage other networks or utilities related businesses.

Corporate Responsibility

WITHIN BORD GÁIS CORPORATE RESPONSIBILITY IS NOT A NEW PHENOMENON – WE HAVE BEEN PROACTIVELY ENGAGED IN CORPORATE RESPONSIBILITY ACTIVITIES SINCE OUR INCEPTION IN 1976.



It is an innate part of the Bord Gáis ethos to be concerned about the impact of our activities on the Marketplace, the Community, the Workplace and the Environment.

In recent years we have formalised those activities that demonstrate the efforts we have made to carry out our business responsibly and sustainably into our Corporate Responsibility programmes and last year we produced our first standalone Corporate Responsibility Report. We will be publishing a similar report for 2010 shortly where we will demonstrate the efforts we have made in the past year to carry out our business while also having regard for the people we work for, the people we work with and the wider community.

Our company values – Safety, Empathy, Honesty & Integrity, Performance and Proactivity – underpin and drive many of our corporate responsibility activities, the choices we have made and the areas where we concentrate our efforts. What follows is a summary of the key activities undertaken by Bord Gáis in 2010.

OUR COMPANY VALUES – SAFETY, EMPATHY, HONESTY & INTEGRITY, PERFORMANCE AND PROACTIVITY – UNDERPIN AND DRIVE MANY OF OUR CORPORATE RESPONSIBILITY ACTIVITIES, THE CHOICES WE HAVE MADE AND THE AREAS WHERE WE CONCENTRATE OUR EFFORTS.

PROTECT THE MOST VULNERABLE IN SOCIETY AND SUPPORT CUSTOMERS EXPERIENCING DIFFICULTIES



Marketplace

Key objectives for 2010 and our achievements in each area include:

1. Help customers to manage their energy costs better
 - Introduced increased competition to the residential electricity market, resulting in cost savings for homeowners.
 - In February 2010 we introduced a further reduction in gas prices, ensuring costs to residential customers stood at 2005 levels and were 26% less than the European average.
 - Enabled people to improve their energy efficiency by launching our Home Services offering boiler services at a reduced cost; expanding the range of services offered and developing an online efficiency shop offering a range of energy efficiency products. We also offer customers the option to pay their Home Services bills by Direct Debit over a 12 month period.
 - Introduction of online account management – as well as providing paperless billing, it allows customers to track their energy costs efficiently.
2. Protect the most vulnerable in society and support customers experiencing difficulties
 - In September 2010 Bord Gáis made a submission to a Joint Oireachtas Committee in an effort to highlight the problem of customer utility debt. It made recommendations for a number of initiatives and outlined the fundamental objectives of helping customers to maintain supplies through intervention and engagement and to minimise disconnections.

To help us achieve these objectives, throughout 2010, we worked closely with statutory bodies such as local authorities, the Department of Social, Family and Community Affairs and Money Advice and Budgeting Service (MABS). Actions undertaken to support customers included agreement on payment plans, the installation of pre-payment meters, close interaction with MABS service to ensure customers got wider advice on money and budgeting and the withdrawal

of supply only in circumstances where the customer continued to be unwilling to enter into a payment plan and was unwilling to accept a prepayment meter as an alternative to disconnection.

We also worked with a number of voluntary bodies such as Society of St. Vincent de Paul, ALONE and the Lord Mayor's Fund to assist customers who were experiencing difficulties in paying their energy bill by agreeing repayment schedules and by providing direct financial assistance to the organisations.

3. Retain best-in-class level of service provision for all our customers
 - Our customer service centres are positioned at the very heart of the organisation with clear objectives to deliver excellent service to our customers. While our main priority remains to ensure our customers are satisfied in their dealings with us, it is gratifying to see that the standards we set ourselves are recognised as best in class externally. In 2010 our contact centres won five customer service awards: "Customer Service Team of the Year" and "Complaints Team of the Year" awards for Bord Gáis Networks and "Innovation in Customer-Led Efficiencies" award for Bord Gáis Energy from the Customer Contact Association UK: "Best Quality Management Programme" and "Irish Contact Centre of the Year" awards for Bord Gáis Networks at the Contact Centre Management Association (CCMA) Ireland awards.

Corporate Responsibility continued

FOSTER GOOD COMMUNITY RELATIONS THROUGH CONTINUED ENGAGEMENT AND SPONSORSHIP OF SPORTING AND CULTURAL EVENTS.

Community

Key objectives for 2010 and our achievements in each area include:

1. Through the Bord Gáis Foundation, to support selected charities and encourage staff volunteering.
- The Bord Gáis Foundation was established in 2009 to co-ordinate and manage support for charities and voluntary organisations in the form of monetary donations and staff volunteering. The Foundation is managed by a committee of employees and reports to the CEO. In 2010 the Foundation allocated €250,000 to selected charities. The majority of funds were allocated to groups working to address the social issues deemed important by Bord Gáis staff. These were determined by a company-wide survey in late 2009 which identified six areas - the elderly, youth, homelessness, people with disabilities, education and ill-health. In 2010 and into 2011, the groups supported are:
 - **Age and Opportunity** – the Bord Gáis funds are going towards the cost of a pilot programme for volunteers (including Bord Gáis employees) to accompany older people to events to help them to stay connected with the wider community and thereby promoting participation, confidence and engagement;
 - **Sophia Housing** – Sophia provides second stage housing for those most in need in society. Funding from Bord Gáis will be put towards maintaining the 200 units nationwide, not just providing long term and interim housing but treating other issues that result from homelessness;
 - **BITCI Reading Support pilot** – The proposed programme with Business in the Community Ireland (BITCI) is a pilot scheme to provide support to primary schools in Ireland through volunteers acting as reading mentors to age seven or eight year old primary school students;
 - **CAMP** – Each year the Cheshire Adventure Motivation Project (CAMP) organise a number of adventure camps for disabled children and adults. The Bord Gáis Foundation support funds five 4-day camps of outdoor activities for the disabled;
 - **Bradóg** – Bradóg supports the personal and social development of young people of lesser opportunities aged 10-21 in Dublin's north inner city. Bord Gáis funding will be used to develop a multi-use performance space to facilitate Bradóg's Regional Youth Service;
 - **Ógra Chorcaí** – Ógra Chorcaí supports voluntary youth leaders in their work in providing activities for the young people of Cork. Bord Gáis funding was used to enable children to attend the summer recreation scheme, which in 2010 was themed World Challenge – Do More With Less. Games were structured around illustrating energy conservation and waste reduction; and
 - **Wellsprings** – Wellsprings provides emergency, transitional and rehab housing in Cork for girls aged 16-23. Bord Gáis funding is being used to increase support through further structured activities and the provision of storage for personal possessions.
 - The remainder of the funds were allocated to individual staff charity requests and charitable support for the Cork City Marathon. In 2010 the Bord Gáis Foundation donated to 45 charities on behalf of Bord Gáis staff participants in the Cork City Marathon.
 - In 2010 Bord Gáis Energy also established the Community Energy Fund. Through this Fund and its associated process, Bord Gáis Energy invited local, regional and national projects to apply for funding to the value of €100,000 worth of energy to support 16 projects across the country.



2. Continue to invest in educational projects

- Bord Gáis believes that education enables people from all backgrounds to progress equally and to contribute to a better society. Given its role in the Irish energy industry, Bord Gáis is particularly committed to nurturing and promoting interest in the areas of science and engineering education. Below are a number of programmes that Bord Gáis supported at primary, secondary and 3rd level in 2010:

- Lifetime Lab Bus ;
- Intelligent Use of Energy at Schools;
- Science and Technology in Action;
- Mentoring programme for Young Scientist and Technology exhibitionists;
- Schools Business Partnership ;
- Cork Institute of Technology – Bursary;
- UCC Fellowship Funding;
- Sponsorship of the 3rd International Symposium for Engineering Education 2010 at UCC.

3. Foster good community relations through continued engagement and sponsorship of sporting and cultural events.

- Developing and maintaining good community relationships are essential to the success of any major construction project. In 2010, Bord Gáis managed stakeholder relations on all its projects, including:
 - Gas to Great Island;
 - New town connections – Kinsale and Innishannon in Co. Cork, Tipperary Town and Kells in Co. Meath;
 - Whitegate Independent Power Plant;
 - North East Storage Project;

- Bord Gáis invested in a number of commercial sponsorship programmes in 2010. Some of the key sponsorships in 2010 were:
 - Reading and book-related initiatives - Rediscover Your Library campaign, followed by Irish Book of the Decade competition, the Bord Gáis Energy Irish Book Awards and culminating in the Bord Gáis Energy Book Club.
 - Capture the Power photography competition encouraged students of all ages across Irish primary and secondary schools to take pictures which captured the energy from the environment around them.
 - Principal sponsor of the 21st Cork French Film Festival. The festival ran in various venues throughout Cork city and hosted a massive programme, strengthening Irish and French cultural and business ties.
 - Main sponsor of the Lord Mayor of Cork's Volunteering Week and Volunteering Fair.
- Sport continues to play an important role in the wellbeing of Irish society. In 2010 Bord Gáis rolled out an enhanced portfolio of sports sponsorships, collectively designed to make a difference in supporting local communities. These included the GAA's Under 21 Hurling Championship, Ladies Gaelic Football Association National Football Leagues and Cork City Marathon.
- Another initiative sponsored and supported by Bord Gáis in 2010 was the development of the **Small Business Advice Programme**. Bord Gáis is the main sponsor of this programme along with Plato and support is provided by business organisations and Chambers of Commerce. It is a voluntary response to the challenges that recession brings for small business. A panel of experienced business advisors volunteer their time to give practical advice to small businesses, who apply for an advice meeting through the website www.smallbusinessadvice.ie. Initially run as a pilot scheme in the Cork area in early 2010, over the course of the year it has been extended to the South East region (Waterford, Wexford, Kilkenny and Carlow) and the Mid West Region (Clare, Limerick and Tipperary). Since its launch in late 2009, more than 60 volunteer advisors with different skill sets have helped nearly 200 companies.

Corporate Responsibility continued



Workplace

In the Workplace Bord Gáis is a major Irish employer, providing a dynamic and modern place to work for almost 1,000 employees. Some of the initiatives undertaken in 2010 include:

1. Continue to expand the Learning & Development programme for all employees
 - A total of 3,500 training days were undertaken by Bord Gáis staff in 2010. This is an average amount of training days per individual staff member of 3.54.
2. Implement a programme of positive Occupational Health initiatives for employee welfare
 - In February 2010 an on-site gym was opened in Gasworks Road, encouraging and facilitating well-being and a healthy lifestyle for staff.
 - The flu vaccine was made available to all staff in November 2010 and over 250 staff availed of the opportunity to be vaccinated.
3. Continue to promote safety as core value for the organisation
 - Bord Gáis is proud to record that the Whitegate Power Station project, which had over 900 people on site during peak construction, achieved **1.8 million man hours without a lost time incident** and it had over 19 months of construction without a lost time accident of any kind. This was nationally acknowledged by National Irish Safety Organisation (NISO) in 2010 when it awarded Bord Gáis Energy the highly commended award for the Whitegate facility.
 - At the beginning of 2010 we set ourselves the ambitious target of doubling the number of hazard reports from staff. At the end of 2010 we had exceeded this target by 134% with hazard reports received from staff in all areas of the organisation.
4. Monitor overall levels of staff satisfaction, benchmarked against internationally recognised standards
 - Great Place to Work – in 2010, 250 staff took part in a survey carried out by the Great Place to Work Institute Ireland. Overall 85% of participants responded positively to the statement “Taking everything into account, I would say this is a great place to work”. In 2011 we hope to take the next step by featuring on the list of Best Workplaces in Ireland.
 - firmus energy placed number 10 on the list of the Best Small Places to Work in the UK as awarded by the Great Places to Work Institute UK and was the winner of the Healthy Workplace Award in the Business in the Community (BITC) Workplace, Health and Wellbeing Awards.

BORD GÁIS STRIVES TO BUILD A SUSTAINABLE FUTURE THROUGH INVESTMENT AND RESEARCH IN RENEWABLE ENERGY.

Environment

Bord Gáis strives to build a sustainable future through investment and research in renewable energy. We also strive through staff education and work practices to ensure that Bord Gáis as an organisation is reducing the carbon footprint associated with our regular workplace activities. In 2010 some of the initiatives undertaken to support this included:

Bord Gáis Carbon Champions Group was formed in 2009 to develop initiatives in the workplace. This was a formalisation of the proactive initiatives already being taken to reduce our carbon footprint in the areas of building energy consumption, waste generation and treatment, and staff travel. At Bord Gáis, we realise that addressing our carbon footprint must be a collaborative effort to have an impact. The Carbon Champions were selected and appointed throughout the business to achieve this. A target of 10% reduction was set for 2010 and a number of measures were undertaken in order to contribute towards achieving this target.

- Earth Hour 2010 and Earth Day 2010 – Bord Gáis participated in these national and global environmental key initiatives that encouraged staff to change their behaviour. In total we received over 500 pledges from staff.
- Smarter Travel Workplace Programme – this programme aims to highlight the alternative travel options for employees. In 2010 we engaged with the STWP Co-ordinator from the National Transport Authority to establish what's involved, and we are currently scoping the next stage for roll-out to staff.
- Printing Pledge – we introduced multi-function devices to all our office locations resulting in improved energy efficiency and less waste. In addition all our communications material is printed on recycled paper, with electronic formats made available to customers and staff in preference to print.
- Waste Management – in 2010 Bord Gáis consolidated all its waste streams with one service provider.

Other environmental initiatives undertaken in 2010 included:

- New environmental units have been established to manage and co-ordinate environmental action planning for both Networks and Energy. These units are proactively engaged with the corporate responsibility programme.
- In 2010 Bord Gáis committed support to the EU Energy End Use Efficiency and Energy Services Directive which requires member states to commit to 9% reduction in energy use by 2016.
- Facilities upgrade – we secured a grant from the SEAI Energy Efficiency Retrofit Fund for 35% of funding for facilities upgrading works.
- Investment in Compressed Natural Gas (CNG) as an alternative transport fuel: In 2010 Bord Gáis added a Natural Gas Vehicle to the Networks fleet and developed a refuelling facility at Finglas. NGV's are fuelled with Compressed Natural Gas which has notable and proven environmental and economical benefits. Bord Gáis Networks' Commercial department is currently exploring the potential for CNG in Ireland.
- In 2010 Bord Gáis launched a report on The Future of Renewable Gas in Ireland. This was the culmination of a study undertaken in partnership with the Environmental Research Institute, UCC and KPMG. The report outlines how grass and waste can be converted into natural gas that can then be used locally or piped into the national grid. The Study and the Report was selected to feature in "Inspiring Excellence" a compilation of case studies of best practice in corporate responsibility produced each year by BITC.

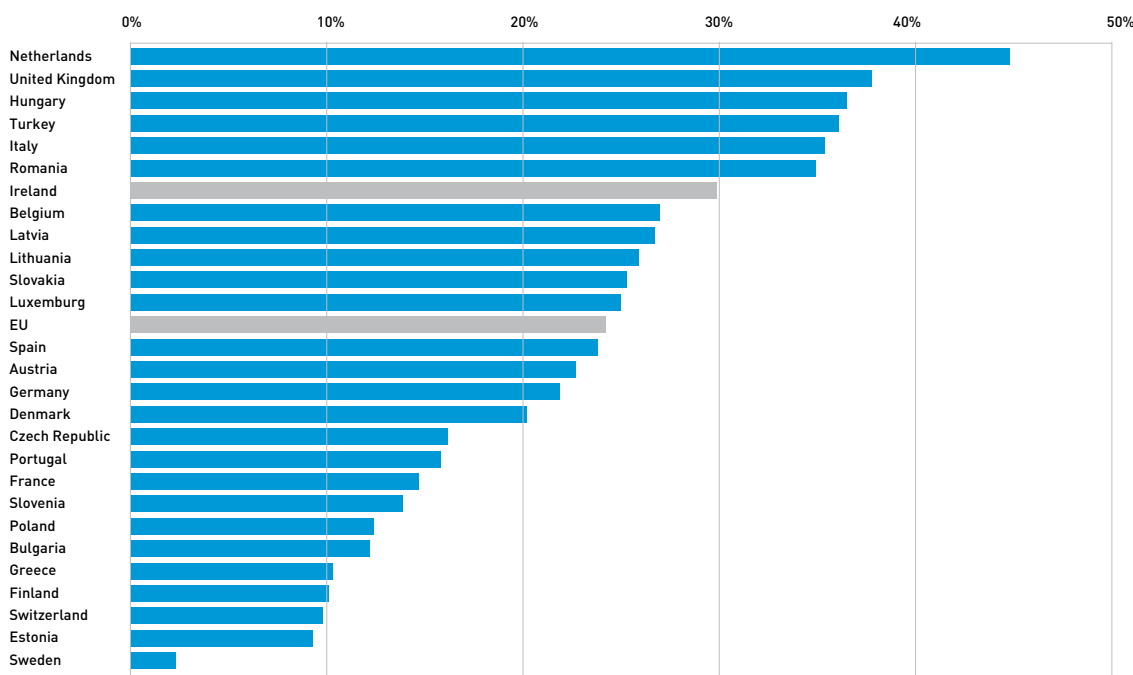
In line with legislative changes effective from 1st January 2011, we have also included a detailed overview of Bord Gáis' energy usage in 2010 in a separate section on page 65.

Gas Supplies

NATURAL GAS IN IRELAND

Natural Gas accounts for 30% of primary energy demand in Ireland, a share that is slightly ahead of both the worldwide and European averages of 24% and 25% respectively. The Irish gas market is small in a European context, using approximately 1% of total EU gas consumption. As an economy, we are largely dependent on imported energy sources. Ireland still has an unusually high dependence on oil – 51% of primary energy comes from oil, compared to 35% worldwide and 41% in Europe.

2009 Primary Energy Consumption (PEC) in Eurogas Member Countries



Source: Eurogas Statistical Report 2010

Gas was first produced in Ireland in 1978 from the indigenous Kinsale gas field off the south coast of Ireland. Kinsale and its satellite fields are still producing gas but output from these fields is declining. New indigenous production from the Seven Heads gas field came ashore in 2003 through the nearby Kinsale Head facility, with deliveries to date lower than originally projected. Further indigenous gas supplies were discovered in the Corrib field, located off the west coast of Ireland. The Corrib field will be operated by Shell and is owned by a consortium including Shell, Statoil and Vermilion Energy. Reserves are believed to be of the order of 20-30bcm with the field now expected to be operational in 2013. The other potential supply projects currently under consideration – Ballycotton Storage, Shannon LNG terminal, Larne salt cavity storage projects by two companies (Larne Islandmagee Storage Limited and BGE/Storengy) – would further improve Ireland's diversity and security of gas supply.

Bord Gáis has no interests in production activities.

SOURCES OF GAS SUPPLIES

Security of Supply remained a key focus for Bord Gáis in 2010. Security of Supply relates to import dependency, fuel diversity and the capacity and integrity of the supply and distribution infrastructure i.e. Ireland's security of supply position is dependent on both the supply of gas and the ability to transport the gas to the end consumer. Ireland's security of supply is closely linked to the EU's security of supply.

In 2010 93% of the annual gas demand was sourced in Great Britain (GB) and transported to Ireland via the two sub sea inter-connectors between Scotland and Ireland. The remaining demand was met by indigenous production and storage at Inch. Ireland's high dependence on GB gas is likely to remain until the Corrib gas field is operational. It is estimated that 73% of our annual gas demand and 41% of our peak-day demand will be met by Corrib gas in the first full year of operation.

Bord Gáis Pipeline System

- Existing Pipelines —————
- Planned/Under Construction - - - - -
- Pipelines Owned by Others ————



Gas Supplies continued

THE EXISTING IRISH TRANSMISSION NETWORK INFRASTRUCTURE HAS THE CAPACITY TO TRANSPORT THE ANTICIPATED GAS DEMAND TO ALL END CONSUMERS IN 2011 AND BEYOND.

There are a number of other potential supply projects at various stages of development in both Ireland and Northern Ireland which, in the longer term, should reduce our dependence on GB gas and further improve Ireland's security of gas supply. These projects range from new indigenous production projects to LNG re-gasification and gas storage projects. The projects include the Corrib gas field; development of an LNG terminal on the Shannon estuary near Tarbert, Co. Kerry; proven gas reserves by Island Oil & Gas in the Celtic Sea; and the evaluation of the feasibility of salt cavity gas storage projects in Larne.

The existing Irish transmission network infrastructure has the capacity to transport the anticipated gas demand to all end consumers in 2011 and beyond. It also has sufficient capacity to meet peak demands during adverse winter weather conditions. Network capacity in the southern part of the transmission system was recently enhanced, as a result of the Curraleigh West to Midleton transmission pipeline reinforcement.

UK Gas Supplies

Using c. 100bcm of gas per annum, the UK is still the largest gas market in the EU. Recent years have seen the remaining reserves on the UK Continental Shelf (UKCS) continue to decline in terms of proven, probable and possible reserves with a 9% decline in production expected in 2010/11. This has meant that the UK has now shifted to become a net importer of gas at all times throughout the year. By 2017, imports are expected to account for 72% of UK Demand. This projected demand for imports has led to numerous new import infrastructure projects being planned and developed, currently totalling peak deliverability of c.100 bcm per annum of capacity (though in practice, capacity utilisation is lower).

The availability of competitively priced liquefied natural gas (LNG) has led to this becoming an increasingly important method of supply, which in turn has seen a number of supporting LNG projects – expansion of regasification terminals Dragon and South Hook at Milford Haven in South Wales, and the availability of Isle of Grain Phase 3, which was commissioned in December 2010. When all these projects are completed, the UK will have an LNG import capacity of 50 bcm per year (includes Teeside GasPort). This is equivalent to potential daily flows in excess of 43 mcm/d. Pipeline infrastructure is also being improved with increased technical capacity of the BBL pipeline between the Netherlands and GB as the result of the installation of a fourth compressor at Balgzand (Netherlands). Reliance in the UK on imports through Norway (Langeled, Tampen Link and Vesterled) are expected to remain at the same levels as last year, at capacity of approximately 45 bcm/year.

The new potential supply sources are very diverse – the continued development of the Ormen Lange field is expected to increase the utilisation of the Langeled pipeline throughout the period; LNG imports from Algeria, Qatar, Egypt and Nigeria should begin to increase in the near to medium term and Russian gas through the planned North-West European pipeline in the longer term. All these give diversity of supply sources as well as security of volume, but with increased interconnection comes the need for the UK prices to compete against alternative markets such as the Continental and the Asian markets to ensure supplies.

2009	Reserves tcm	Share of World Reserves	Production bcm	Reserves to production years
North America	9.16	5%	813.0	11.3
South & Central America	8.06	4%	151.6	53.2
Europe & Eurasia	63.09	34%	973.0	64.8
Africa	14.76	8%	203.8	72.4
Middle East	76.18	40%	407.2	>100 years
Asia Pacific	16.24	9%	438.4	37.0
Worldwide	187.49	100%	2987.0	62.8

tcm = trillion cubic metres

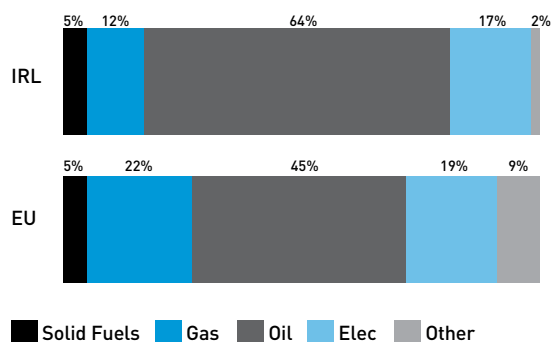
bcm = billion cubic metres

Source: BP Statistical Review of World Energy June 2010

OVERVIEW OF EUROPEAN GAS MARKET

The 27-member European Union represents over 15% of the world energy market. In terms of final energy demand, Ireland's use of natural gas at 12% is considerably lower than the EU average of 22%. In Ireland, oil dominates final energy demand with a 64% share compared to 45% on average in the EU.

Final Energy Demand



Source: Eurostat. Statistics only available to end-2008

EU Gas Supplies

In 2009, the highest percentage of gas supplied in the EU continued to come from indigenous production, covering 36% of the total net supplied. The main external sources of supply are Russia (23%), Norway (20%), and Algeria (10%). Almost one-fifth of the EU net imports in 2009 were delivered by LNG. The increased LNG capacities in Europe have contributed to this growth, as has the increase of global supply. The main source of these imports were Algeria (30%), Qatar (25%) and Nigeria (17%). The EU is already heavily interconnected, with supply routes developed over past decades with Russia, Algeria and Libya. Further pipeline interconnection is planned to meet growing demand and many new LNG installations are proposed to access new and diverse sources of supply.

OVERVIEW OF WORLD GAS MARKET

Global economic recession drove consumption lower in 2009 – world primary energy consumption fell by 1.1%, the first decline since 1982. Overall natural gas consumption fell by 2.1%, offset by the continued development of unconventional gas resources, particularly in the US, and the availability in Europe of competitively priced LNG.

Unconventional Gas Resources

New production techniques mean that "unconventional" gas can now be produced from shale, coal-bed methane and other "tight" formations. There are no reliable industry estimates of how much unconventional gas there may be worldwide. It is certainly many times more than the reserves of conventional gas. One academic study suggests that reserves exceed 900 tcm – four or five times the conventional reserves. The US in particular has abundant reserves of unconventional Shale Gas resources. New production techniques using seismic technology and efficient directional drilling has allowed the US to record the world's largest increase in production for the third consecutive year, surpassing Russia as the world's largest producer.

This worldwide relative surplus of gas supplies greatly increases supply availability to Europe and Asia as it frees LNG cargoes for these markets. It should also keep downward pressure on wholesale gas prices. However, Europe and Asia still have a significant amount of pipeline /LNG volume linked to oil related prices but these contracts are already coming under pressure with some renegotiations taking place to more align the contracts to spot gas markets.

Gas Supplies continued

PROVEN WORLD GAS RESERVES IN PLACE AT THE END OF 2009 WERE 187,490 BCM, A 1.3% INCREASE OF THE 2008 LEVELS AND ENOUGH TO LAST FOR 63 YEARS AT CURRENT LEVELS OF PRODUCTION.

The implications for energy policy are profound. With policymakers seeking to make energy supplies secure, affordable and clean, a new abundance of gas would provide the answer to all three problems at once, however, shale gas is still at the exploration stage and significant shale gas production would take time to be brought on stream. There is also the question of how readily people in densely-populated Europe would accept such projects.

2009 World Gas Statistics

The world's Primary Energy Consumption by fuel in 2009 was Oil 35%, Coal 29%, Natural Gas 24%, Nuclear Energy 5% and Hydro Energy 7%. The share of natural gas in world primary energy consumption has increased steadily from 16% in the early 1970s to 24% at the end of 2009. This growth is expected to continue as a result of the increased use of natural gas in electricity generation and as increased emphasis on cleaner fuels results in a move away from oil and coal.

Total world gas consumption in 2009 was 2,940 bcm. The US remained the largest consumer of gas in the world, consuming 647 bcm. The Russian Federation is the next largest consumer and used 390 bcm in 2009, followed by Iran (132 bcm), Canada (95 bcm), China (89 bcm), Japan (87 bcm) and the UK (86 bcm). The total North American market is c. 811 bcm in size compared to c. 460 bcm for the EU. Ireland used about 5 bcm of gas in 2009.

In 2009, the US surpassed the Russian Federation to become the world's largest producer of gas with output of 593 bcm, compared to the Russian Federation's output of 528 bcm. The other large producers of gas include Canada with an output of 161 bcm, Iran with 131 bcm, Norway with 104 bcm, Qatar with 89 bcm, China with 85 bcm and Algeria with 81 bcm. Ireland produced less than 1 bcm in 2009.

Proven world gas reserves in place at the end of 2009 were 187,490 bcm, a 1.3% increase of the 2008 levels and enough to last for 63 years at current levels of production. Proven gas reserves in Ireland are of the order of c. 30bcm. Proven reserves are generally taken to be those quantities that geological and engineering information indicates, with reasonable certainty, can be recovered in the future from known reserves, under existing economic and operating conditions. The Reserves to Production Ratio is a dynamic figure. In 1980 this ratio was about 56 years. By 2009 the ratio had increased to 63 years, despite the fact that the consumption of natural gas has more than doubled over the same period.

Overview of Energy Usage in 2010

With effect from 1st January 2011, Bord Gáis, as a public sector body, is required to report annually on its energy usage and actions taken to reduce consumption – in accordance with S.I. 542 of 2009. These regulations transpose the Energy End Use Efficiency and Energy Services Directive (Directive 2006/32/EC) into Irish law.

The following is an overview of Bord Gáis' energy usage in 2010 in the format agreed with the SEAI and the Department of Communications, Energy & Natural Resources.

Overview of Energy Usage in 2010

The breakdown of energy consumption within Bord Gáis is 48% Electrical, 28% Gas & 24% Fleet.

The breakdown of electrical and gas consumption by office building is 44% Gasworks Road, 19% Foley Street, 8% Sandyford, 8% Finglas, and 21% Other Buildings.

The largest energy consumers in our office buildings are Data Centres and the Heating, Ventilation and Air Conditioning Systems.

In 2010, Bord Gáis consumed 9.65 GWh of energy, consisting of:

- 4.66 GWh of electricity;
- 4.99 GWh of fossil fuels, including 2.75 GWh of natural gas and 2.25 GWh of transport fuel (diesel)

Actions Undertaken in 2010

In 2010 Bord Gáis undertook a range of initiatives to improve our energy performance, including:

- Controls System Upgrade Gasworks Road: installed space air temperature sensors, grouped the operation of the fan coil units, implemented time schedules for the low temperature hot water and chilled water systems, staged the operation of the boilers and chillers, implemented hold off temperatures for the operation of the boilers and chillers, adjusted the temperature set points; which we expect to yield 7.5 MWh of annual savings.
- Lighting Upgrade Gasworks Road: retrofitted 49 high efficiency light fittings with associated lighting controls modules which sense occupancy and lux levels, which we expect to yield 3.5 MWh of annual electricity savings.
- Installation of 7 day timers on Tea / Coffee Stations in Gasworks Road, which we expect to yield 2.8 MWh of annual electricity savings.
- Installation of 8 Dyson Air Blade hand driers in Gasworks Road, which we expect to yield 2.8 MWh of annual electricity savings.

- Developed and implemented an Energy Monitoring & Management tool.
- Ongoing internal 'Carbon Champion' meetings, whose focus is to help Bord Gáis reduce its carbon foot print and participate in international events such as Earth Hour and Earth Day.

Altogether, these and other energy saving measures are saving Bord Gáis 16.6 MWh annually.

Actions Planned for 2011

In 2011, Bord Gáis intends to further improve our energy performance by undertaking the following initiatives:

- Installation of Outside Air Free Cooling for the Gasworks Road Data Centre which will save an estimated 170 MWh annually.
- Upgrade of CHP Plant & BMS Controls in Gasworks Road, which will save an estimated 270 MWh annually.
- Installation of Smart Metering System in our office buildings for improved monitoring of gas consumption.
- Fleet Replacement Programme: We are presently investigating the options of converting all or part of our fleet vehicles to Compressed Natural Gas fuel.
- Feasibility study for the installation of an Absorption Chiller at Gasworks Road.

Financial Statements

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Report of the Board

Year ended 31 December 2010

The Board presents its report together with the audited financial statements for the year ended 31 December 2010.

Principal Activities

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

Results and Business Review

The financial results show a profit on ordinary activities before taxation for the financial year of €119.6 million compared to €118.9 million for 2009. Details of the results for the year are set out in the Consolidated Profit and Loss Account and in the related notes.

Further commentary on performance during the year ended 31 December 2010, including the financial position, information on recent events, and likely future developments, are contained in the Chairman's Statement, the Chief Executive's Review and the Financial Review.

There have been no significant events affecting Bord Gáis Éireann since the year end.

Corporate Governance

Bord Gáis Éireann has put appropriate measures in place to comply with the Code of Practice for the Governance of State Bodies ("The Code of Practice"), updated in 2009. Key provisions include:

- A requirement for written Codes of Conduct for directors and employees.
- A written constitution and responsibilities of the Internal Audit function.
- Implementation of a Risk Management Policy, the effectiveness of which is monitored by the Board.
- Compliance with national and EU tendering and procurement procedures.
- Procedures in respect of the disposal of assets or access to assets by third parties for commercial arrangements.
- Adoption of a statement of strategy for a period of three to five years ahead.
- Linking major items of expenditure to medium to long term strategies.
- Prior written approval of the Minister for Communications, Energy and Natural Resources (the "Minister") for any intended action, which would extend or change significantly the nature, scope or scale of current business activities.
- Prior written approval of the Minister and the Minister for Finance for establishment or acquisition of subsidiaries, participation in joint ventures and the acquisition of shares.
- Adherence to the guidelines for the appraisal and management of capital expenditure proposals as issued by the Department of Finance in January 2005.
- Implementation of Government policy on the remuneration of the Chief Executive.
- Delivery of interim half-year unaudited accounts to the Department of Communications, Energy and Natural Resources (the "Department") within two months of half-year end. The Annual Report and Accounts should be published not later than four months after the year-end. Also, the Chairman must furnish separately to the Minister, with the Annual Report and Accounts, a comprehensive report covering the company's business activities.
- Chairpersons of each subsidiary formally report to the main Board on compliance with the Code of Practice in a similar manner as the Chairman of the main Board reports to the Minister.
- Production of Strategic and Corporate Plans in the first six months of the year, approved by the Board and sent to the Minister and Minister for Finance.
- Annual submission to the Department of a statement confirming compliance with taxation laws and confirming that all tax liabilities are paid on or before the due date.
- Publication in the Annual Report of fees paid to each director, the expenses paid to the Board, broken down by category, and the salary of the Chief Executive.
- A formal annual performance evaluation of the Board, as well as a requirement for the Board to constantly review its own performance and that of its committees and individual directors.

Bord Gáis Éireann continuously reviews and updates its policies and procedures to ensure compliance with best practice.

Report of the Board continued

Year ended 31 December 2010

Corporate Governance continued

The Combined Code on Corporate Governance ("The Combined Code") sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability and audit, and relations with shareholders, based on broad principles and more specific provisions. As part of the Listing Rules, companies listed on the Irish Stock Exchange are required to report on how they have applied the principles and either to confirm that they have complied with the provisions or where they have not, to provide an explanation.

In May 2010 the UK Financial Reporting Council ("FRC") issued a new edition of the Combined Code ("The UK Corporate Governance Code") which applies to financial years beginning on or after 29 June 2010. Changes include:

- Board responsibility for determining the nature and extent of the significant risks it is willing to take.
- Explanation of the company's business model to improve risk management.
- Aligning performance-related pay to the long-term interests of the company and its risk policy and systems.
- New principles on the leadership of the Chairman, the responsibility of the non-executive directors to provide constructive challenge, and the time commitment expected of all directors, to promote proper debate in the boardroom.
- The Chairman should hold regular development reviews with each director to help enhance the board's performance and awareness of its strengths and weaknesses.

On 17 December 2010 the Irish Stock Exchange published new Listing Rules. The Listing Rules, contained in a new Irish Corporate Governance Annex, supplement the provisions of the UK Corporate Governance Code and apply to financial years beginning on or after 18 December 2010.

The FRC Guidance on Audit Committees (formerly known as the Smith Guidance) was first published in 2003 and most recently updated in December 2010. The changes made in December 2010 provide advice to audit committees on determining whether a company's auditor should be permitted to provide particular non-audit services, including internal audit functions.

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. However, the Board is committed to achieving the highest standards of corporate governance and ethical business conduct and has decided on the early adoption of the UK Corporate Governance Code. The principles 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. The Board currently has 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.

Section D: Remuneration

Level and Components of Remuneration and Procedure: The Remuneration Committee, chaired by the Chairman, considers and makes recommendations to the Board solely on the remuneration of the Chief Executive. 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 cannot be 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.

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.

Report of the Board continued

Year ended 31 December 2010

Corporate Governance continued

Board Membership

The names of the Board Members and a short biographical note on each Member are as set out on pages 10 and 11.

At 31 December 2010, the Board comprised of the Chief Executive and eight independent non-executive Board Members (including the Chairman) who are appointed by the Minister. The only executive Board Member is the Chief Executive.

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 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.

The Board

While day to day responsibility for leadership and control is delegated, within defined authority limits, to the Chief Executive and his Management Team, the Board is ultimately accountable for the long term success of Bord Gáis Éireann.

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).

Report of the Board continued

Year ended 31 December 2010

Corporate Governance continued

The Board recognises the need to ensure that Board Members are aware of their legal 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.

Board papers, which include monthly Management Accounts, are sent to Board Members in the week prior to Board Meetings and briefings by specialist external speakers are provided at Board meetings on a regular basis. Board Members have ongoing access to operations and staff via the senior management team.

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 Secretary who is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with. Insurance cover is in place to protect Board Members and Officers against liability arising from legal actions taken against them in the course of their duties.

The Board 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.

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

Board Members' Remuneration

The Minister determines the fees payable to Board Members. Board Members fees and expenses during 2010 are set out below.

Board Member Fees	€	Appointment/Retirement dates 2010
Rose Hynes (Chairman)	31,500	
John Mullins (Chief Executive)	15,750	
Laurence Crowley	15,750	
Aidan Eames	15,750	
Imelda Hurley	0	Appointed 13 November 2010
Proinsias Kitt	15,750	
Joe O'Flynn	15,750	
Mike O'Hara	15,750	
Pearse O'Hanrahan	7,108	Retired 12 June 2010
Laurence K. Shields	15,750	

Expenses paid to Board Members during 2010, which are disclosed in accordance with the Code of Practice for the Governance of State Bodies, were €7,590 and related to mileage/other travel, subsistence and telephone expenses.

The remuneration of the Chief Executive is 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

Non-executive Board Members are independent of management and are required to declare any interests or relationship which could interfere with the exercise of their independent judgement.

Report of the Board continued

Year ended 31 December 2010

Corporate Governance continued

Board Evaluation

The Board has completed annual formal evaluations of its own performance, that of individual Board Members and of its Committees. The process by which the Board and Committee evaluation was undertaken involved the completion by the Board Members of a detailed questionnaire and preparation of a report back to the Board. In the case of individual Board Member performance this was carried out by means of a one to one session with the Chairman.

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.

Attendance at Meetings

Board Member	Attendance at Scheduled Meetings	Attendance at Special Meetings*
Rose Hynes (Chairman)	10/10	1/1
John Mullins (Chief Executive)	10/10	0/1(+)
Laurence Crowley	10/10	1/1
Aidan Eames	10/10	1/1
Imelda Hurley	1/1 (p)	0/0(p)
Proinsias Kitt	10/10	1/1
Joe O'Flynn	7/10	0/1
Mike O'Hara	8/10	0/1
Pearse O'Hanrahan	4/5 (p)	0/1
Laurence K Shields	9/10	1/1

(p) refers to the number of meetings it was possible to attend relative to the dates of appointment/retirement.

* Special Board Meetings are additional to Scheduled Board Meetings

(+) Non-Executive Board Members meeting.

Board Committees in 2010

The Board has an effective committee structure to assist in the discharge of its responsibilities. At 31 December 2010, the Board had four committees, each of which has formal terms of reference.

The following table outlines membership of the committees and attendance at meetings during 2010:

Audit and Finance	Risk	Investment and Infrastructure	Remuneration
P. Kitt (Chairman) 5/5	A. Eames (Chairman) 4/4	L.K. Shields (Chairman) 5/5	R. Hynes (Chairman) 3/3
L. Crowley 5/5	L. Crowley 3/4	R. Hynes 5/5	A. Eames 1/1 (p)
A. Eames 5/5	P. Kitt 4/4	J. Mullins 5/5	P. O'Hanrahan 2/2 (p)
P. O'Hanrahan 1/1 (p)	P. O'Hanrahan 3/3 (p)	J. O'Flynn 4/5	M. O'Hara 2/3
J. O'Flynn 3/5		P. O'Hanrahan 4/4 (p)	L.K. Shields 3/3

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

Audit and Finance Committee

The main function of the Audit and Finance Committee is to assist 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. The Committee carries out this responsibility in close liaison with the Board Risk Committee, which advises the Board in establishing the Board's risk appetite and setting standards for the Board's risk control framework.

The Internal and External Auditors meet with the Audit and Finance Committee as provided for in the Committee's Terms of Reference and the Internal Audit Charter. The Audit and Finance Committee meets quarterly with the Internal Audit function and periodically with the External Auditors to discuss control issues, financial reporting and other related matters. The Chairman of the Audit and Finance Committee reports to the Board on all significant issues considered by the Committee.

Report of the Board continued

Year ended 31 December 2010

Corporate Governance continued

During 2010 the Audit and Finance Committee reviewed the annual financial statements, the system of internal controls, the reports of the Head of Internal Audit and Risk and External Auditors, monitored the effectiveness of internal audit and considered and made recommendations to the Board on the annual operating plan and budget.

The Audit and Finance Committee Terms of Reference, which are reviewed on an annual basis, include the consideration and recommendation on the appointment of the External Auditor. The Committee has approved a policy on the engagement of the External Auditor for non-audit work which ensures that independence and objectivity is safeguarded in accordance with best practice. The Internal and External Auditors have full and unrestricted access to the Audit and Finance Committee. In relation to internal audit matters the Head of Internal Audit and Risk reports functionally to the Audit and Finance Committee, administratively to the Chief Financial Officer and also has a direct line of communication with the Chief Executive. The Board is satisfied that at all times during the year at least one Member of the Committee had recent and relevant financial experience.

A Raising Concerns Policy is included in the Code of Business Conduct. Review of this policy is included in the Terms of Reference of the Audit and Finance Committee.

Risk Committee

The role of the Risk Committee is to assist the Board in the effective discharge of its responsibilities for 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.

Investment and Infrastructure Committee

The Investment and Infrastructure Committee meets regularly to evaluate new development opportunities and monitors 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 considers and makes recommendations to the Board on the remuneration and other terms and conditions of employment of the Chief Executive and considers the policy on the determination of senior management remuneration. The Committee monitors the development of current and future management of Bord Gáis Éireann including succession planning. During 2010 the Committee considered the 2009 achievements and 2010 targets for performance related pay which is linked to the Balanced Scorecard process. 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.

Communication with the Principal Shareholder

Through regular contact with the Department of Communications, Energy and Natural Resources, the Board and management 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 are maintained and updated quarterly. The process is based on both bottom-up and top-down assessments of operational, financial, and other business and project 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.

Report of the Board continued

Year ended 31 December 2010

Principal Risks and Uncertainties continued

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. The issues addressed by the Third Directive include further unbundling of gas transmission from gas supply, which for Bord Gáis Éireann will be based on the Independent Transmission Operator ("ITO") option. The Bord Gáis Éireann ITO must be operational by March 2012. A reorganisation of Bord Gáis Éireann consequent upon the implementation of the Third Directive could have a material effect on Bord Gáis Éireann's business, results of operations and/or financial condition. A separate executive-led project is now in place to deliver this reorganisation in compliance with the Third Directive. The other main regulatory risks faced by Bord Gáis Éireann include licence compliance, the impact of price control reviews, and other changes to market mechanisms such as the Single Electricity Market (SEM) and the planned Common Arrangement 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 on regulatory developments. These activities are overseen by regulatory and risk functions at corporate level to ensure continued compliance with all regulatory requirements.

Financing: Continuing financial market turmoil has increased Bord Gáis Éireann's exposure to interest rate, currency, liquidity and counterparty risks. These risks are managed centrally by the Treasury function, within parameters set out in the Treasury Policy. 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.

Business Development Activity: Business development activities, including acquisitions and investments in new businesses and new energy assets, may not deliver the planned growth or rate of return due to unanticipated events. Detailed plans and mitigating actions are in place to ensure such risks are minimised.

Project Delivery: Project delivery in general is subject to technical, commercial, contractor, planning permission, relevant approvals and economic risks. Failure to secure grid connections is an additional key risk on electricity development projects. 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. These controls, which include detailed reporting on significant capital expenditure projects to the Investment and Infrastructure Committee, ensure projects are delivered on time and within budget to achieve strategic objectives and operational excellence.

Electricity Power Generation Asset Performance: Bord Gáis Éireann's power generation portfolio currently comprises 219MW of installed capacity of operating wind farms and a 445MW combined cycle gas turbine (CCGT) electricity generation plant in Whitegate, Co. Cork which began commercial operations during 2010. In common with all operators, Bord Gáis Éireann is exposed to unplanned breakdowns or other performance issues with electricity assets. 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 value of assets held by the pension schemes include changes in discount rates, interest rates, mortality rates and returns on assets. During 2010 Bord Gáis Éireann, in co-operation with the pension fund trustees and members, agreed to the implementation of increases in line with actuarial recommendations to ensure the schemes continue to be adequately funded in accordance with relevant requirements.

Report of the Board continued

Year ended 31 December 2010

Principal Risks and Uncertainties continued

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 across the Group, 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 2011. The impact of these risks 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. Appropriate controls 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

As part of ongoing improvement to governance and risk management processes within Bord Gáis Éireann, a strategic decision was made in 2008 to combine the existing Risk Management and Internal Audit functions under a new 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 stronger focus on 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 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.

Report of the Board continued

Year ended 31 December 2010

Internal Controls continued

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 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.
- 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 on the Combined Code.

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.

Report of the Board continued

Year ended 31 December 2010

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. A confidential e-mail 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 e-mail address, is published on the website.

Interests of Board Members and Secretary

The non-executive Board Members had no interest in Bord Gáis Éireann or subsidiary companies during the year. The Chief Executive and Secretary are beneficiaries of the Employee Share Ownership Plan. In line with the rules of the plan, capital stock cannot be appropriated any earlier than three years post notional allocation.

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 Gasworks Road, Cork.

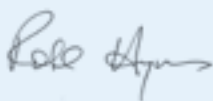
Political Donations

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

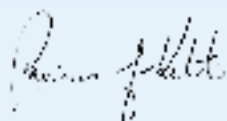
Auditors

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. Subject to Ministerial approval, Bord Gáis Éireann retains the right to put in place alternative arrangements to amend the term of appointment, should the implementation requirements of the Third Directive so dictate.

For and on behalf of the Board:



Chairman



Member of the Board

Board Responsibilities Statement

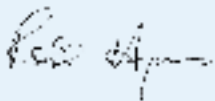
Year ended 31 December 2010

The Board is responsible for the preparation of the accompanying financial statements, which in the opinion of the Board give a true and fair view of the state of affairs of Bord Gáis Éireann and its subsidiaries and of its profit for the period. The Board prepares financial statements in accordance with applicable Irish law and generally accepted accounting practice in Ireland. 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.

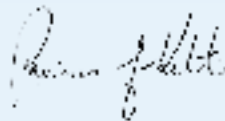
In preparing the financial statements the Board is satisfied that:

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

For and on behalf of the Board:



Chairman



Member of the Board

Independent Auditor's Report

to the Members of Bord Gáis Éireann

We have audited the financial statements of Bord Gáis Éireann ("the Group") for the year ended 31 December 2010 which comprise the Statement of Accounting Policies, the Consolidated Profit and Loss Account, the Consolidated and holding entity Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 37. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members, 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than 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 auditor

The Board is responsible for preparing the Annual Report, including as set out in the Board Responsibilities Statement, the preparation of the financial statements in accordance with applicable law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Our responsibility, as independent auditor, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland. We also report to you whether in our opinion: proper books of account have been kept by Bord Gáis Éireann; and whether the information given in the Report of the Board is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the holding entity balance sheet is in agreement with the books of account.

We review whether the statement regarding the system of internal financial control required by the Code of Practice for the Governance of State Bodies made in the Report of the Board reflects the Group's compliance with the relevant provisions of the Code and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. The other information comprises only the Report of the Board, the Chairman's Statement, the Chief Executive's Review and the Financial Review. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

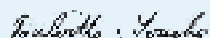
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the Group and the holding entity as at 31 December 2010 and of the profit of the Group for the year then ended.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by Bord Gáis Éireann. The holding entity balance sheet is in agreement with its books of account. In our opinion the information given in the Report of the Board is consistent with the financial statements.



Chartered Accountants and Registered Auditors
Cork
05 April 2011

Notes: 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 Members 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

Year ended 31 December 2010

Basis of Accounting and Preparation of Financial Statements

The financial statements are prepared in euro, under the historical cost convention and in accordance with Generally Accepted Accounting Practice in Ireland (GAAP). The policies set out below have been consistently applied to all years presented in these consolidated financial statements and have been applied consistently by Group entities.

In preparing the financial statements, estimates and assumptions are made that affect the reported amounts included in the profit and loss account for the year and assets and liabilities included in the balance sheet. Actual results could differ from those estimates. Estimates are used principally when accounting for unbilled revenue, pension costs, depreciation and provisions required in respect of doubtful debts and liabilities.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Bord Gáis Éireann and all of its subsidiaries (as listed in note 31), together with the Group's share of the results and net assets or liabilities of its joint ventures made up to 31 December in each year.

The results of subsidiary undertakings acquired or sold are included in the consolidated profit and loss account and cashflow statement up to or from the date control passes.

Joint venture undertakings (joint ventures) are those undertakings over which Bord Gáis Éireann exercises control jointly with one or more parties. The Group's share of profits less losses of joint ventures is included in the consolidated profit and loss account. The Group's interest in their net assets/liabilities is included as a financial asset in the consolidated balance sheet at an amount representing the fair value of the Group's share of net assets at acquisition plus the Group's share of post acquisition retained profits or losses.

Intangible Fixed Assets and Amortisation

Goodwill

Goodwill is the excess of the consideration paid on the acquisition of a business over the fair value of the identifiable assets and liabilities acquired. Goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life which does not exceed 20 years. Goodwill is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Research and Development

Expenditure is charged to the profit and loss account as incurred with the exception of certain development expenditure which is capitalised within intangible fixed assets as outlined below.

Wind Farm Developments

Development costs which relate to specific wind farm projects where the future recoverability can be foreseen with reasonable assurance are capitalised within intangible fixed assets. Development costs represent the costs incurred in bringing individual projects to consented stage. At the point the projects are approved for construction, the carrying value is transferred to tangible fixed assets as part of projects in progress.

Provision is made for any impairment identified.

Revenue Recognition

Revenue from gas commodity sales, gas transportation, power generation, gas connections, gas appliance sales and servicing, electricity sales, steam sales in the case of Bord Gáis Éireann's CHP business and other sundry sales is recognised as income in the financial statements on the accruals basis under Turnover, exclusive of value added tax and intra-Group transactions.

Turnover includes an estimate of the value of gas and electricity supplied to customers between the date of the last meter reading and the year end. This estimate is included in debtors in the balance sheet 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.

Statement of Accounting Policies continued

Year ended 31 December 2010

Revenue Recognition continued

A number of Bord Gáis Éireann'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.

Pension Costs

Bord Gáis Éireann has both defined benefit and contribution pension arrangements. Each of the defined benefit pension scheme assets are measured using fair values; pension scheme liabilities are measured using the projected unit method and discounted at the rate of return of a high quality corporate bond of a comparable duration to the benefit flows. Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of related deferred tax.

The current service cost and gains and losses on settlements and curtailments are charged to operating profit or provisions as appropriate. The interest cost and the expected return on assets are included as other finance income/(expenses). Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses in the period in which they occur. The contributions payable by Bord Gáis Éireann under the defined contribution schemes are charged to the profit and loss account in the period in which they become payable.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions or at a contracted rate. Monetary assets and liabilities denominated in foreign currencies have been translated into euro at rates ruling at the balance sheet date or by reference to forward contracts if the transaction is covered by a forward foreign currency contract. Profits and losses arising on translation are taken to the profit and loss account.

The financial statements of foreign subsidiaries are translated into euro using the closing rate method. Profits and losses arising on the re-translation of foreign subsidiaries are taken to reserves and recognised in the consolidated statement of total recognised gains and losses. Differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against Bord Gáis Éireann's equity investment in foreign subsidiaries, are also taken to reserves and recognised in the consolidated statement of total recognised gains and losses.

Tangible Fixed Assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and provision for impairment of value thereon, net of customer contributions where applicable. Cost includes direct costs (including direct labour), overheads and interest incurred in financing the construction of tangible fixed assets. Capitalisation of interest ceases when the asset is commissioned or where active development has been interrupted for an extended period.

The charge for depreciation is calculated to write down the cost of tangible fixed assets, less estimated residual value, based on prices prevailing at the date of acquisition of each asset, over their expected useful lives. Major asset classifications and their depreciation rates are:

Land	0%
Power Generating Assets	5%
Buildings	2.0% - 3.0%
Pipeline Systems	1.7% - 6.7%
Plant, Vehicles & Equipment	6.7% - 14.3%

Depreciation is provided on a straight-line basis.

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Projects in progress represent the cost of purchasing, constructing and installing tangible fixed assets ahead of their productive use. No depreciation is charged on projects in progress.

Statement of Accounting Policies continued

Year ended 31 December 2010

Replacement Expenditure

Replacement expenditure represents the cost of planned maintenance of Bord Gáis Éireann's pipeline systems. This expenditure is primarily undertaken to repair and maintain the safety of the network and is written off as incurred. Expenditure that results in increased capacity or extends the useful economic life of an asset is capitalised within tangible fixed assets.

Investments

Investments are included in the balance sheet at cost, less any provisions for impairment.

Leased Assets

The capital cost of assets acquired under finance leases are included under tangible fixed assets 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 in the balance sheet. Interest on the remaining lease obligation is charged to the profit and loss account 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 rentals are charged to the profit and loss account on a straight-line basis over the lease term.

Pre-Contract Costs

Costs of planning, bidding for and securing commercial contracts to supply products and services are recognised as expenses as incurred. Directly attributable costs are capitalised as assets when there is virtual certainty that a contract will be obtained and the contract is expected to result in future net cash inflows, with a present value no less than all amounts recognised as an asset.

Capital Grants

Capital grants received in respect of the purchase of tangible fixed assets are treated as a deferred credit and amortised to the profit and loss account annually over the useful economic life of the related asset.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises invoice price plus freight and duty where appropriate. Net realisable value is the actual or estimated selling price less all costs to be incurred prior to disposal.

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

Financial Instruments

Financial instruments include borrowings, cash deposits, forward contracts, currency and interest rate swaps.

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

Derivatives, principally interest and currency swaps and forward foreign exchange contracts, are used to manage interest rate risk and currency risk. Interest differentials arising on these derivatives are recognised in net interest expense over the period of the related contract. Where derivatives are used to hedge cross currency cash flows arising from trading and financing activities, the underlying transaction is recorded at the contract rate.

Interest-bearing Loans and Borrowings

Interest-bearing loans and borrowings are initially recognised net of arrangement fees. These arrangement fees are amortised over the life of the related borrowing. Accrued finance costs, to the extent they are payable within one year, are included in accruals rather than in the carrying amount of debt.

Finance costs are allocated over the term of debt at a constant rate on the carrying amount.

Statement of Accounting Policies continued

Year ended 31 December 2010

Provisions for Liabilities

Provisions are recognised when Bord Gáis Éireann has a legal or constructive obligation as a result of a past event, a reliable estimate of that obligation can be made and it is probable that an outflow of economic benefits will be required to settle the obligation.

Where the effect of the time value of money is material, provisions are recognised at a discounted rate. The discount rate is based on a risk-free rate and the financing charge is included in the profit and loss account and added to the provision each year.

Deferred and Current Taxation

Current tax is provided at amounts expected to be paid (or recovered) under current tax legislation.

Deferred tax is recognised in respect of all timing differences which relate to transactions or events that have originated but not reversed at the balance sheet date. Timing differences are differences between Bord Gáis Éireann's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured, on an undiscounted basis, at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Commodity Contracts

Bord Gáis Éireann enters into contracts for the purchase of gas at fixed prices and also enters into contracts for the purchase of electricity. Given the pool arrangements that have been put in place by the Single Electricity Market, Bord Gáis Éireann enters into Contracts for Difference (CfDs) and other hedge arrangements. Costs of such contracts are recognised as the commodity is delivered, the effect of which is to fix the commodity purchase price.

Decommissioning

Provision is made for estimated decommissioning costs at the end of the estimated useful economic lives of power generating assets on a discounted basis based on price levels and technology at the balance sheet date. Changes in these estimates and changes to the discount rates are dealt with prospectively. Capitalised decommissioning costs are depreciated over the estimated useful economic lives of the related assets. The unwinding of the discount is included within other finance income/(expenses).

Emissions Allowances

In accordance with the provisions of the EU CO₂ Emissions Trading Scheme, emissions allowances covering a percentage of the expected emissions during the year are granted to Bord Gáis Éireann at the beginning of each year by the relevant Government Authority.

As emissions arise, a provision is recorded in the profit and loss account to reflect the net amount required to settle the liability to the Authority. 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 relevant Authority in charge of the scheme within four months of the end of that calendar year, in order to cover the liability for actual emissions of CO₂ during that year.

Statement of Accounting Policies continued

Year ended 31 December 2010

Exceptional Items

Operating exceptional items are those that, in management's judgement, are items that arise from events or transactions that fall within the ordinary activities of the Group but which individually or, if of a similar type, in aggregate, need to be disclosed separately because of their size or incidence if the financial statements are to properly reflect the results for the year. These items are included in the line of the profit and loss account to which they relate, but are disclosed in a separate column to provide the reader with a better understanding of the ongoing performance of the business.

The determination of items that should be separately disclosed as operating exceptional items requires a degree of judgement based on the materiality and nature of the items.

Non operating exceptional items are defined by GAAP, although management judgement is required to determine whether such items are individually sufficiently material or, if of a similar type, in aggregate to warrant separate disclosure. These items are included below operating profit in the profit and loss account within the same separate column as the operating exceptional items.

Share Based Payment

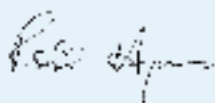
Equity-settled share based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value is expensed on a straight line basis over the vesting period, based on Bord Gáis Éireann's estimate of equity instruments that will eventually vest. At each balance sheet date, Bord Gáis Éireann 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 the profit and loss account over the remaining vesting period, with a corresponding adjustment to the Profit and Loss Account Reserve.

Consolidated Profit and Loss Account

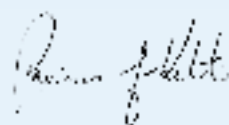
Year ended 31 December 2010

	Notes	2010 €'000	2010 €'000	2010 €'000	2009 €'000	2009 €'000	2009 €'000
		Before Exceptional Items	Exceptional Items Note 4	Total	Before Exceptional Items	Exceptional Items Note 4	Total
Turnover, including share of joint ventures		1,511,259	-	1,511,259	1,349,466	-	1,349,466
Less: share of joint ventures' turnover		(2,745)	-	(2,745)	(298)	-	(298)
Group turnover - continuing operations	1	1,508,514	-	1,508,514	1,349,168	-	1,349,168
Gross profit		584,090	-	584,090	547,788	-	547,788
Operating expenses	2	(230,353)	(26,400)	(256,753)	(220,707)	(7,199)	(227,906)
Operating profit before depreciation and amortisation (EBITDA)	35	353,737	(26,400)	327,337	327,081	(7,199)	319,882
Depreciation and amortisation	3	(130,284)	-	(130,284)	(118,995)	-	(118,995)
Operating profit - continuing operations	2	223,453	(26,400)	197,053	208,086	(7,199)	200,887
Share of operating loss - joint ventures		(485)	-	(485)	(29)	-	(29)
Restructuring charge	4	-	-	-	-	(19,025)	(19,025)
Profit before interest and tax		222,968	(26,400)	196,568	208,057	(26,224)	181,833
Interest payable and similar charges (net)	5	(77,339)	-	(77,339)	(61,144)	-	(61,144)
Other finance income / (expenses)	6	352	-	352	(1,820)	-	(1,820)
Profit on ordinary activities before taxation		145,981	(26,400)	119,581	145,093	(26,224)	118,869
Taxation	7	(8,850)	3,300	(5,550)	(17,902)	3,278	(14,624)
Profit on ordinary activities after taxation		137,131	(23,100)	114,031	127,191	(22,946)	104,245

For and on behalf of the Board:



Chairman



Member of the Board

05 April 2011

Date of Approval

Consolidated Statement of Total Recognised Gains and Losses

Year ended 31 December 2010

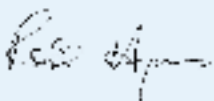
	Notes	2010 €'000	2009 €'000
Profit for the financial year		114,031	104,245
Exchange differences on retranslation of foreign subsidiaries net of associated cash flow hedges	23	5,387	11,286
Actuarial (losses) / gains on defined pension benefit obligations	28	(12,097)	16,033
Deferred tax credit / (charge) relating to defined pension benefit obligations		1,511	(2,004)
Transformation savings paid to ESOT	23	(10,242)	(7,537)
Total recognised gains and losses relating to the financial year		98,590	122,023

Consolidated Balance Sheet


As at 31 December 2010

	Notes	2010 €'000	2009 €'000
Fixed Assets			
Intangible assets	9	81,472	80,286
Financial assets	10	20,278	20,220
Tangible assets	12	3,620,399	3,543,379
		3,722,149	3,643,885
Current Assets			
Stocks	13	33,983	29,084
Debtors			
amounts falling due within one year	14	316,000	285,911
amounts falling due after more than one year	14	32,105	32,934
		348,105	318,845
Cash at bank and in hand - restricted cash	15	192,741	191,438
Cash at bank and in hand - free cash	15	229,654	354,795
		804,483	894,162
Creditors (falling due within one year)			
Borrowings and other debt	16	(11,516)	(127,004)
Creditors	17	(413,621)	(401,951)
		(425,137)	(528,955)
Net current assets			
		379,346	365,207
Total assets less current liabilities			
		4,101,495	4,009,092
Creditors (falling due after more than one year)			
Borrowings and other debt	16	(2,236,103)	(2,229,788)
Other creditors	17	(34,969)	(21,248)
Provisions for liabilities			
	19	(48,133)	(55,617)
Deferred tax			
	20	(184,505)	(175,839)
Capital grants			
	21	(100,224)	(104,646)
Net assets before pension liability			
		1,497,561	1,421,954
Defined benefit pension liability			
	28	(18,287)	(20,239)
Net assets after pension liability			
		1,479,274	1,401,715
Capital and Reserves			
Capital stock & premium	22	129,426	119,070
Profit and loss account reserve	23	1,377,669	1,315,853
Translation reserve	23	(27,821)	(33,208)
		1,479,274	1,401,715

For and on behalf of the Board:



Chairman



Member of the Board

05 April 2011

Date of Approval

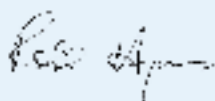
Balance Sheet of the Board

As at 31 December 2010

	Notes	2010 €'000	2009 €'000
Fixed Assets			
Financial assets	10	402,337	388,637
Tangible assets	12	2,676,454	2,589,677
		3,078,791	2,978,314
Current Assets			
Stocks	13	32,840	27,941
Debtors			
amounts falling due within one year	14	303,504	275,863
amounts falling due after more than one year	14	521,855	513,987
		825,359	789,850
Cash at bank and in hand - restricted cash	15	184,501	189,004
Cash at bank and in hand - free cash	15	202,066	314,287
		1,244,766	1,321,082
Creditors (falling due within one year)			
Borrowings and other debt	16	-	(116,587)
Creditors	17	(378,009)	(358,387)
		(378,009)	(474,974)
Net current assets			
		866,757	846,108
Total assets less current liabilities			
		3,945,548	3,824,422
Creditors (falling due after more than one year)			
Borrowings and other debt	16	(2,015,562)	(2,000,348)
Other creditors	17	(60,099)	(37,067)
Provisions for liabilities			
	19	(48,133)	(55,617)
Deferred tax			
	20	(181,237)	(172,875)
Capital grants			
	21	(64,899)	(68,821)
Net assets before pension liability			
		1,575,618	1,489,694
Defined benefit pension liability			
	28	(18,287)	(20,239)
Net assets after pension liability			
		1,557,331	1,469,455
Capital and Reserves			
Capital stock & premium	22	129,426	119,070
Profit and loss account reserve	23	1,454,238	1,384,849
Translation reserve	23	(26,333)	(34,464)
		1,557,331	1,469,455

The Board profit for the year after taxation is €121,604,000 (2009: €99,727,000).

For and on behalf of the Board:



Chairman



Member of the Board

05 April 2011

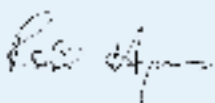
Date of Approval

Consolidated Cash Flow Statement

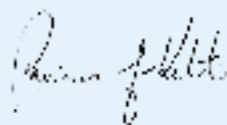
Year ended 31 December 2010

	Notes	2010 €'000	2009 €'000
Net cash inflow from operating activities	25	266,766	360,980
Returns on Investment and Servicing of Finance			
Interest received		16,194	17,828
Interest and similar charges paid		(114,966)	(78,562)
Dividend received		400	400
Net cash outflow from returns on investments and servicing of finance		(98,372)	(60,334)
Taxation		(520)	(2,932)
Capital Expenditure			
Payments to acquire tangible fixed assets		(146,543)	(282,895)
Payments to acquire intangible fixed assets		(1,099)	-
Receipts from disposal of tangible fixed assets		376	191
Net cash outflow from capital expenditure		(147,266)	(282,704)
Acquisitions and Disposals			
Net cash outflow from acquisitions of trade investments	10	(1,000)	-
Net cash outflow from acquisitions and disposals of subsidiaries	11	-	(304,340)
Net cash outflow from acquisitions of joint ventures	11	-	(18,486)
Net debt acquired	11	-	(260,633)
Payment of deferred consideration on acquisition of subsidiaries		(3,000)	-
		(4,000)	(583,459)
Dividends paid	8	(31,273)	(39,074)
Net cash outflow before financing		(14,665)	(607,523)
Financing			
Cash received for capital stock	22	10,242	7,537
Transformation savings paid to ESOT	23	(10,242)	(7,537)
(Decrease) / increase in debt	26	(109,173)	891,895
		(109,173)	891,895
(Decrease) / increase in cash	26	(123,838)	284,372

For and on behalf of the Board:



Chairman



Member of the Board

05 April 2011

Date of Approval

Notes to Financial Statements

Year ended 31 December 2010

1. Segmental Information

Segmental Reporting

For the purposes of the statutory financial statements Bord Gáis Éireann is required to follow Statement of Standard Accounting Practice 25 'Segmental Reporting'. Bord Gáis Éireann has defined segments in accordance with this standard. These segments are as follows:

- a) Networks - The Networks segment, 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 including Bord Gáis Éireann.
- b) Energy - The Energy segment is a dual-fuel, all-island business that serves a growing 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.
- c) Ancillary Businesses includes other areas not falling within the Networks and Energy segments. Certain unallocated corporate costs are also included within the ancillary businesses.

In drawing up the separate accounts of its segments, Bord Gáis Éireann adheres to a set of accounting procedures for the allocation of assets, liabilities, income and expenditure.

(a) Turnover

Turnover for each business segment includes externally generated revenue and revenue arising from internal trading with other business segments. Internal trading between business segments, where appropriate, provides for cost recovery at arms length based on market rates. Turnover subject to regulation is calculated in accordance with the regulatory determinations applicable to each business segment.

(b) Expenditure

Certain Bord Gáis Éireann group functions provide services to other areas of the Group, such as IT services and other shared and corporate services. Networks, Energy and the Ancillary Businesses are charged or allocated these service-related costs in accordance with defined allocation procedures.

(c) Assets and Liabilities

Revenues, expenses and capital expenditure directly incurred by each segment are recorded in the separate accounts of the segments. A system of internal trading is operated to reflect internal transactions between the different segments. Trade indebtedness as a result of such trading between the internal segments is recorded as internal debtor and internal creditor balances in the accounts of each segment as appropriate.

(d) Corporately Managed and Controlled Balances

A number of balances and transactions are not attributed to individual business segments as they are subject to corporate management and control. Such items generally include, but are not limited to, borrowings, taxation, dividends payable and interest.

Notes to Financial Statements continued

Year ended 31 December 2010

1. Segmental Information continued

Segmental Analysis

(a) By Business Segment	2010	2009
	€'000	€'000
Networks		
Total turnover	448,810	423,181
Internal turnover	221,250	235,595
External turnover	227,560	187,586
Operating profit before depreciation, amortisation and exceptional operating costs (EBITDA before exceptional operating costs)	325,669	292,438
Profit before interest and tax	232,711	186,695
Tangible fixed assets	2,570,228	2,578,949
Energy		
Total turnover	1,279,926	1,160,631
Internal turnover	-	-
External turnover	1,279,926	1,160,631
Operating profit before depreciation, amortisation and exceptional operating costs (EBITDA before exceptional operating costs)	27,799	35,698
Loss before interest and tax	(36,439)	(3,655)
Tangible fixed assets	1,048,474	963,865
Ancillary Businesses		
Total turnover	5,117	4,948
Internal turnover	4,089	3,997
External turnover	1,028	951
Operating profit / (loss) before depreciation, amortisation and exceptional operating costs (EBITDA before exceptional operating costs)	269	(1,055)
Profit / (loss) before interest and tax	296	(1,207)
Tangible fixed assets	1,697	565
(b) Turnover by Geographic Market	2010	2009
	€'000	€'000
Republic of Ireland	1,427,967	1,289,503
UK (including Northern Ireland & Isle of Man)	80,547	59,665
Total	1,508,514	1,349,168
(c) Tangible Fixed Assets by Geographic Market	2010	2009
	€'000	€'000
Republic of Ireland	3,221,847	3,151,746
UK (including Northern Ireland & Isle of Man)	398,552	391,633
Total	3,620,399	3,543,379

Notes to Financial Statements continued

Year ended 31 December 2010

2. Operating Profit

	2010 €'000	2009 €'000
Turnover	1,508,514	1,349,168
Cost of sales	(924,424)	(801,380)
Gross profit	584,090	547,788
Operating costs (excluding depreciation)	(230,353)	(220,707)
EBITDA before exceptional operating expenses	353,737	327,081
Exceptional operating expenses - (note 4)	(26,400)	(7,199)
Depreciation and amortisation - (note 3)	(130,284)	(118,995)
Operating profit - continuing operations	197,053	200,887
Operating costs are stated after charging:		
Foreign exchange loss	100	144
Operating lease rentals	2,265	1,776
Share based payment expense - (note 24)	-	10,242
Payroll Costs:		
- Wages and salaries	71,933	67,700
- Social welfare costs	7,455	7,174
- Pension costs	3,751	4,133
	83,139	79,007
Capitalised payroll (note 12)	(14,837)	(14,763)
Payroll costs charged to the profit and loss account	68,302	64,244

The average number of people employed by Bord Gáis Éireann in the financial year was 1,068 (2009: 1,006).

Auditors' Fees and Board Members' Emoluments

	2010 €'000	2009 €'000
Auditors' Remuneration:		
Audit services - statutory audits	345	380
Board Members' Emoluments:		
Fees	149	149
Remuneration of Chief Executive	399	394
	548	543

Details of the all-in cost of the remuneration package of the Chief Executive is made up as follows:

	2010 €'000	2009 €'000
Chief Executive		
- Chief Executive's annual basic salary	265	270
- Actual payments under performance related pay scheme	60	50
- Other benefits including pension costs, cost of company car and health insurance	74	74
	399	394

Notes to Financial Statements continued

Year ended 31 December 2010

3. Depreciation and Amortisation

	2010 €'000	2009 €'000
Gross depreciation (note 12)	134,465	118,102
Grant amortisation (note 21)	(5,694)	(5,628)
Goodwill amortisation (note 9)	1,513	6,521
Depreciation (net of amortisation)	130,284	118,995

4. Exceptional Items

	2010 €'000	2009 €'000
Provision for bad debts	26,400	7,199
Exceptional operating expenses	26,400	7,199
Restructuring charge (note 19)	-	19,025
Exceptional non operating expenses	-	19,025
Total exceptional expenses	26,400	26,224
Corporation/deferred tax credit attributable to exceptional expenses	(3,300)	(3,278)
Total exceptional expenses net of attributable tax effect	23,100	22,946

5. Interest Payable and Similar Charges (net)

	2010 €'000	2009 €'000
Interest:		
Interest on loans and overdrafts	95,527	77,756
Interest payable on finance lease ¹	14,087	13,457
Interest receivable and similar income ¹	(16,330)	(17,875)
Interest capitalised (note 12)	(19,816)	(15,310)
Other	3,871	3,116
	77,339	61,144

¹ In December 1993, Bord Gáis Éireann sold and leased back part of the first interconnector pipeline. As part of the financing arrangement Bord Gáis Éireann entered into a security arrangement with the finance lease provider whereby the sales proceeds were put on deposit for the period of the lease. The benefits from the deposit, pursuant to the security arrangement, equate to commitments under the finance lease obligation. The interest on the finance lease amounts to €14.1 million (2009: €13.5 million). The deposit interest, which is included under interest receivable and similar income, amounts to €14.1 million (2009: €13.2 million).

6. Other Finance Income / (Expenses)

	2010 €'000	2009 €'000
Unwinding of discount (note 19)	(1,522)	(1,532)
Expected return on pension scheme assets (note 28)	15,167	12,254
Interest on pension scheme liabilities (note 28)	(14,157)	(12,942)
Dividend income from trade investment	1,000	400
Other finance costs	(136)	-
	352	(1,820)

Notes to Financial Statements continued

Year ended 31 December 2010

7. Taxation

	2010 €'000	2009 €'000
Tax on profit on ordinary activities		
The tax charge comprises:		
Irish corporation tax	(6,243)	7,036
Deferred Tax:		
Origination and reversal of timing differences - group	11,793	7,588
Total tax on profit on ordinary activities	5,550	14,624

The differences between the total current tax shown above and the amount calculated by applying the standard rate of Irish corporation tax to the profit before tax is as follows:

	2010 €'000	2009 €'000
Corporation Tax		
Group profit on ordinary activities before tax	119,581	118,869
Tax on group profit on ordinary activities at standard Irish corporation tax rate of 12.5% (2009: 12.5%)	14,948	14,859
Effects of:		
Expenses (deductible) / not deductible for tax purposes	(1,822)	1,759
Capital allowances for year in excess of depreciation	(14,571)	(6,801)
Non-utilisation of tax losses	4,271	2,418
Capitalised interest	(1,654)	(1,927)
Different tax rates	563	(1,131)
Utilisation of tax losses brought forward	(353)	(1,472)
Gain / income not taxable	(1,261)	(702)
(Over) / under provision in prior year	(6,364)	33
Group current tax (credit) / charge for year	(6,243)	7,036

	2010 €'000	2009 €'000
Deferred Tax (Liability) / Asset		
Group deferred tax (liability) / asset comprised:		
Accelerated capital allowances	(214,378)	(193,509)
Losses carried forward	58,402	46,628
	(155,976)	(146,881)
Deferred tax liability (note 20) ¹	(184,505)	(175,839)
Deferred tax asset included in debtors (note 14) ¹	28,529	28,958
	(155,976)	(146,881)

¹ A deferred tax provision has been made in respect of accelerated capital allowances and other timing 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 balance sheet. As required by Financial Reporting Standard 19 'Deferred Tax' (FRS 19), deferred tax assets are only recognised when there is persuasive evidence that the assets can be realised. Detailed operating plans, supported by existing contracts, are used for deferred tax asset recognition purposes. Potential deferred tax asset utilisation falling outside that planning horizon is not currently recognised on the balance sheet. As encouraged by FRS 19, deferred tax asset recognition is regularly reassessed. The deferred tax arising on the pension deficit / surplus is recognised as a deduction from the pension deficit / surplus.

Notes to Financial Statements continued

Year ended 31 December 2010

8. Dividend Payments

	2010 €'000	2009 €'000
To the Exchequer	30,251	38,187
To Bord Gáis ESOT	1,022	887
	31,273	39,074

The dividend paid during the year amounted to 30% (2009: 30%) of the previous year's profit for the financial year as directed by the Department of Communications, Energy and Natural Resources. The dividend was apportioned between the Exchequer (€30.3 million) and Bord Gáis Employee Share Ownership Trust (€1.0 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%).

9. Intangible Assets

Group	Goodwill €'000	Wind Farm Developments €'000	Total €'000
Cost / Valuation			
At 1 January 2010	45,993	42,680	88,673
Additions	-	2,699	2,699
At 31 December 2010	45,993	45,379	91,372
Accumulated Amortisation			
At 1 January 2010	8,387	-	8,387
Charge for year	1,513	-	1,513
At 31 December 2010	9,900	-	9,900
Carrying Amount			
At 31 December 2010	36,093	45,379	81,472
At 1 January 2010	37,606	42,680	80,286

Wind Farm Developments

Costs capitalised as development wind intangibles represent the costs incurred in bringing individual wind farm projects to the consented stage. At the point the development reaches the consent stage and is approved for construction, the carrying value is transferred to power generating assets (note 12). At the point the project is no longer expected to reach the consent stage, the carrying amount of the project is impaired.

Board	Goodwill €'000	Wind Farm Developments €'000	Total €'000
Cost / Valuation			
At 1 January 2010	7,100	-	7,100
At 31 December 2010	7,100	-	7,100
Accumulated Amortisation			
At 1 January 2010	7,100	-	7,100
Charge for year	-	-	-
At 31 December 2010	7,100	-	7,100
Carrying Amount			
At 31 December 2010	-	-	-
At 1 January 2010	-	-	-

Notes to Financial Statements continued

Year ended 31 December 2010

10. Financial Assets

Group	2010 €'000	2009 €'000
Joint ventures	17,517	18,459
Trade investment	2,761	1,761
	20,278	20,220
Joint Ventures		
At 1 January	18,459	-
Acquisitions (note 11)	-	18,486
Group share of loss	(984)	(46)
Exchange differences arising on retranslation	42	19
At 31 December	17,517	18,459
Joint Ventures		
	2010 €'000	2009 €'000
Share of gross assets	29,706	34,621
Share of gross liabilities	(12,189)	(16,162)
Share of net assets	17,517	18,459

The names of the subsidiaries and joint ventures and nature of their business activities are listed in note 31.

Board	Subsidiary Undertakings €'000	Joint Ventures & Associates €'000	Trade Investments €'000	Total €'000
Cost				
At 1 January 2010	372,726	18,486	25	391,237
Acquisitions and capital contributions	12,700	-	1,000	13,700
At 31 December 2010	385,426	18,486	1,025	404,937
Amounts Provided				
At 1 January 2010	2,600	-	-	2,600
At 31 December 2010	2,600	-	-	2,600
Net Book Value				
At 31 December 2010	382,826	18,486	1,025	402,337
At 1 January 2010	370,126	18,486	25	388,637

11. Acquisitions

During 2009, Bord Gáis Éireann made a number of acquisitions as part of its strategy to become an all-island dual-fuel supplier as outlined below.

There were no adjustments during 2010 to the fair value of the assets and liabilities acquired as part of the 2009 acquisitions.

Wind Generation

On 5 March 2009, Bord Gáis Éireann acquired 100% of the share capital of Sorne Wind Farm Limited.

On 4 April 2009, Bord Gáis Éireann acquired 100% of the share capital of Killhills Wind Farm Limited.

On 3 July 2009, Bord Gáis Éireann acquired 100% of the share capital of Ballymartin Wind Farm Limited.

On 4 December 2009, Bord Gáis Éireann acquired 100% of the share capital of SWS Natural Resources Holdings Limited.

The principal activity of the businesses acquired above is the operation and development of wind farms.

Notes to Financial Statements continued

Year ended 31 December 2010

11. Acquisitions continued

Peaking Plants

On 28 February 2009, Bord Gáis Éireann acquired 50% of the share capital of Greener Ideas Limited.

The principal activity of the business is the development of open cycle gas turbines.

Details of the fair value of the assets and liabilities acquired are set out below.

(a) Subsidiary Acquisitions 2009	Fair Value €'000
Group	
Intangible assets	42,680
Goodwill	37,993
Property, plant and equipment	537,432
Cash at bank and in hand	26,326
Debtors within one year	2,081
Creditors within one year	(9,943)
Creditors after one year	(12,160)
Bank loans	(286,959)
Fair value of assets and liabilities acquired	337,450
Total consideration	337,450
Deferred consideration	(33,110)
Cash consideration	304,340
Net debt acquired	260,633
Net cash outflow	564,973
(b) Joint Ventures Acquisitions 2009	Fair Value €'000
Group	
Property, plant and equipment	29,911
Cash at bank and in hand	983
Debtors within one year	841
Creditors within one year	(1,001)
Bank loans	(12,248)
Fair value of assets and liabilities acquired - (note 10)	18,486
Total consideration	18,486
Deferred consideration	-
Net cash outflow	18,486

Notes to Financial Statements continued

Year ended 31 December 2010

12. Tangible Assets

Group	Power Generating Assets €'000	Projects in Progress €'000	Land & Buildings €'000	Pipeline Systems €'000	Plant, Vehicles & Equipment €'000	Total €'000
Cost						
At 1 January 2010	430,501	462,683	75,471	3,375,026	178,211	4,521,892
Additions	21,395	130,900	271	41,251	5,702	199,519
Translation difference	-	(174)	280	17,438	244	17,788
Transfers in year	373,098	(433,016)	-	10,361	49,557	-
Disposals	-	(323)	-	(1,559)	(475)	(2,357)
At 31 December 2010	824,994	160,070	76,022	3,442,517	233,239	4,736,842
Depreciation						
At 1 January 2010	4,571	-	17,209	829,572	127,161	978,513
Charged in year	28,079	-	1,350	93,891	11,145	134,465
Translation difference	-	-	79	5,148	90	5,317
Depreciation on disposals	-	-	-	(1,557)	(295)	(1,852)
At 31 December 2010	32,650	-	18,638	927,054	138,101	1,116,443
Net Book Value						
At 31 December 2010	792,344	160,070	57,384	2,515,463	95,138	3,620,399
At 1 January 2010	425,930	462,683	58,262	2,545,454	51,050	3,543,379

Board	Power Generating Assets €'000	Projects in Progress €'000	Land & Buildings €'000	Pipeline Systems €'000	Plant, Vehicles & Equipment €'000	Total €'000
Cost						
At 1 January 2010	-	332,079	58,227	2,837,530	169,318	3,397,154
Additions	21,395	115,802	271	33,843	4,237	175,548
Transfers in year	373,098	(424,193)	-	1,538	49,557	-
Disposals	-	-	-	(1,559)	(144)	(1,703)
At 31 December 2010	394,493	23,688	58,498	2,871,352	222,968	3,570,999
Depreciation						
At 1 January 2010	-	-	15,185	669,219	123,073	807,477
Charged in year	3,919	-	1,130	73,143	10,538	88,730
Depreciation on disposals	-	-	-	(1,557)	(105)	(1,662)
At 31 December 2010	3,919	-	16,315	740,805	133,506	894,545
Net Book Value						
At 31 December 2010	390,574	23,688	42,183	2,130,547	89,462	2,676,454
At 1 January 2010	-	332,079	43,042	2,168,311	46,245	2,589,677

As part of the arrangements for the financing of the first gas interconnector pipeline, Bord Gáis Éireann entered into a finance lease in 1993 for €121.2m in relation to a part of that gas interconnector. This asset is included in tangible assets (pipeline systems) at a net book value of €50.9m (2009: €52.3m).

During the year, the Group capitalised the sum of €19.8m (2009: €15.3m) in interest. The capitalisation rate was 4.52% (2009: 4.81%). The Group also capitalised the sum of €14.8m (2009: €14.8m) in payroll costs during the year.

Notes to Financial Statements continued

Year ended 31 December 2010

12. Tangible Assets continued

Total capitalised interest included in the gross cost of the Group tangible fixed assets is €109.9m (2009: €90.0m).

During the year, the Board capitalised the sum of €13.1m (2009: €13.8m) in interest. The capitalisation rate was 4.52% (2009: 4.81%). The Board also capitalised the sum of €12.3m (2009: €13.9m) in payroll costs during the year.

BGE (IOM) Limited, a subsidiary of Bord Gáis Éireann, entered into a project financing arrangement in 2003. The balance outstanding at 31 December 2010 of €28.4m on this limited recourse loan facility is secured over the assets of BGE (IOM) Limited (note 18).

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 2010 of €203.6m (2009: €208.6m) is secured over the assets of the underlying subsidiaries (note 18).

13. Stocks

	2010 €'000		2009 €'000	
	Group	Board	Group	Board
Gas	25,318	25,318	20,479	20,479
Engineering materials / others	8,665	7,522	8,605	7,462
	33,983	32,840	29,084	27,941

14. Debtors

	2010 €'000		2009 €'000	
	Group	Board	Group	Board
Amounts falling due within one year				
Trade debtors	62,762	46,177	73,522	65,004
Unbilled consumption	158,860	158,860	158,208	158,208
Other debtors and prepayments	94,378	85,046	54,181	40,309
Amounts owed by subsidiary companies	-	13,421	-	12,342
	316,000	303,504	285,911	275,863
Amounts falling due after more than one year				
Deferred tax (note 7)	28,529	-	28,958	-
Amounts owed by subsidiary companies	-	521,487	-	513,606
Other debtors and prepayments	3,576	368	3,976	381
	32,105	521,855	32,934	513,987
Total Debtors	348,105	825,359	318,845	789,850

Notes to Financial Statements continued

Year ended 31 December 2010

15. Cash at Bank and in Hand

	2010 €'000		2009 €'000	
	Group	Board	Group	Board
Short term deposits	187,600	185,100	301,600	301,600
Restricted deposits ¹	192,741	184,501	191,438	189,004
Cash	42,054	16,966	53,195	12,687
	422,395	386,567	546,233	503,291

¹ The restricted deposits includes amounts held in respect of:

- (a) In December 1993, Bord Gáis Éireann sold and leased back part of the first interconnector pipeline. As part of the financing arrangement Bord Gáis Éireann entered into a security arrangement with the finance lease provider whereby the sales proceeds were put on deposit for the period of the lease. The benefits from the deposit, pursuant to the security arrangement, equates to commitments under the finance lease obligation. This deposit, which is included in restricted deposits above, amounts to €161.9 million at 31 December 2010 (2009: €156.3 million),
- (b) financial security deposits for shippers in respect of the use of the gas network,
- (c) credit support agreements, and
- (d) collateral held by third parties.

16. Borrowings and Other Debt

Group	2010 €'000			2009 €'000		
	Borrowings	Finance Lease	Total	Borrowings	Finance Lease	Total
(a) Repayable within one year						
Bank loans repayable by instalment	11,516	-	11,516	10,417	-	10,417
Overdrafts and bank loans repayable other than by instalment	-	-	-	116,587	-	116,587
Total current borrowings and other debt	11,516	-	11,516	127,004	-	127,004
(b) Repayable after more than one year by instalment						
Between one and two years	73,550	-	73,550	11,517	-	11,517
Between two and five years	326,484	-	326,484	262,340	-	262,340
In five years or more	432,377	162,362	594,739	567,641	156,676	724,317
	832,411	162,362	994,773	841,498	156,676	998,174
(c) Repayable after more than one year other than by instalment						
Between two and five years	971,365	-	971,365	865,675	-	865,675
In five years or more	269,965	-	269,965	365,939	-	365,939
	1,241,330	-	1,241,330	1,231,614	-	1,231,614
Total non-current borrowings and other debt	2,073,741	162,362	2,236,103	2,073,112	156,676	2,229,788
Total borrowings and other debt outstanding	2,085,257	162,362	2,247,619	2,200,116	156,676	2,356,792

Notes to Financial Statements continued

Year ended 31 December 2010

16. Borrowings and Other Debt continued

Board	2010 €'000			2009 €'000		
	Borrowings	Finance Lease	Total	Borrowings	Finance Lease	Total
(a) Repayable within one year						
Overdrafts and bank loans repayable other than by instalment	-	-	-	116,587	-	116,587
Total current borrowings and other debt	-	-	-	116,587	-	116,587
(b) Repayable after more than one year by instalment						
Between one and two years	61,364	-	61,364	-	-	-
Between two and five years	291,259	-	291,259	233,896	-	233,896
In five years or more	259,247	162,362	421,609	378,162	156,676	534,838
	611,870	162,362	774,232	612,058	156,676	768,734
(c) Repayable after more than one year other than by instalment						
Between two and five years	971,365	-	971,365	865,675	-	865,675
In five years or more	269,965	-	269,965	365,939	-	365,939
	1,241,330	-	1,241,330	1,231,614	-	1,231,614
Total non-current borrowings and other debt	1,853,200	162,362	2,015,562	1,843,672	156,676	2,000,348
Total borrowings and other debt outstanding	1,853,200	162,362	2,015,562	1,960,259	156,676	2,116,935

In December 1993, Bord Gáis Éireann sold and leased back part of the first interconnector pipeline. As part of the financing arrangement Bord Gáis Éireann entered into a security arrangement with the finance lease provider whereby the sales proceeds were put on deposit for the period of the lease. The benefits from the deposit, pursuant to the security arrangement, broadly equates to commitments under the finance lease obligation. The finance lease obligation at 31 December 2010 amounts to €162.4 million (2009: €156.7 million).

The Minister for Finance does not guarantee repayment of any of Bord Gáis Éireann's borrowings.

17. Creditors

	2010 €'000		2009 €'000	
	Group	Board	Group	Board
Amounts falling due within one year				
Trade creditors	118,256	117,308	109,283	108,873
Accruals	267,822	235,137	258,939	217,004
Taxation and social welfare creditors*	27,543	25,564	33,729	32,510
	413,621	378,009	401,951	358,387
Amounts falling due after more than one year				
Amounts due to subsidiary companies	-	33,232	-	18,533
Other creditors	34,969	26,867	21,248	18,534
	34,969	60,099	21,248	37,067
Total Creditors	448,590	438,108	423,199	395,454

Notes to Financial Statements continued

Year ended 31 December 2010

17. Creditors continued

* Taxation and Social Welfare Creditors

	2010 €'000		2009 €'000	
	Group	Board	Group	Board
PAYE/PRSI/Social welfare	3,358	3,209	3,905	3,761
VAT	22,543	20,769	23,969	22,914
Other taxes	1,642	1,586	5,855	5,835
Total	27,543	25,564	33,729	32,510

18. Financial Instruments

A description of Bord Gáis Éireann's treasury policy including a description of the objectives and policies for holding financial instruments can be found in the Financial Review section.

The disclosures set out below exclude all short-term debtors, creditors and investments in subsidiaries.

Financing Facilities and Maturity Profile

A description of the drawn facilities of Bord Gáis Éireann at 31 December 2010 is set forth in the table below:

	2010 €'000	2009 €'000
European Investment Bank	596,964	592,940
Private Placement	613,159	730,161
Syndicated Term Loan Facility	96,937	91,615
Bond	549,452	549,293
Project Finance	203,612	208,635
Limited Recourse Facility	28,445	31,222
Loan Fees Capitalised	(3,312)	(3,750)
Finance Lease	162,362	156,676
Total	2,247,619	2,356,792

At 31 December 2010, Bord Gáis Éireann had €722.9 million in undrawn committed facilities and €120.7 million in undrawn uncommitted facilities (2009: €489.1 million and €117.7 million respectively).

Bord Gáis Éireann has in issue €550 million of loan notes (bond) repayable in 2014 with a fixed coupon of 5.75% payable annually; the loan notes are listed on The Global Exchange Market (GEM), a market operated under the supervision of the Irish Stock Exchange.

The maturity profile of debt as at 31 December 2010 was as follows:

	Repayment Profile 2010 €'000		Repayment Profile 2009 €'000	
	€'000	%	€'000	%
In one year or less	11,516	0.5%	127,004	5.4%
Between one and two years	73,550	3.3%	11,517	0.5%
Between two and five years	1,297,849	57.7%	1,128,015	47.9%
More than five years	864,704	38.5%	1,090,256	46.2%
Total	2,247,619	100.0%	2,356,792	100.0%

Notes to Financial Statements continued

Year ended 31 December 2010

18. Financial Instruments continued

The maturity profile of undrawn committed borrowing facilities as at 31 December 2010 was as follows:

	Repayment Profile 2010		Repayment Profile 2009	
	€'000	%	€'000	%
In one year or less	60,000	8.3%	-	-
Between one and two years	453,063	62.7%	60,000	12.3%
Between two and five years	1,689	0.2%	429,144	87.7%
More than five years	208,150	28.8%	-	-
Total	722,902	100.0%	489,144	100.0%

Interest Rate and Foreign Currency Risk Management

Interest Rate Risk:

The percentage of fixed and floating rate debt at 31 December 2010 was as follows:

	2010		2009	
	€'000	%	€'000	%
At fixed rates (including swaps)	1,416,441	63.0%	1,836,026	77.9%
At floating rates	802,733	35.7%	489,544	20.8%
Limited recourse debt	28,445	1.3%	31,222	1.3%
Total	2,247,619	100.0%	2,356,792	100.0%

The limited recourse debt is secured over the assets of BGE (IOM) Limited, which primarily comprise 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 against the risk of low inflation, this debt is also linked to the UK RPI using an index-linked hedge.

After taking into account the various interest rate and cross currency swaps entered into by Bord Gáis Éireann, the interest rate profile of Bord Gáis Éireann's financial liabilities at 31 December 2010 was:

Financial Liabilities	Fixed Rate	Floating Rate	2010 Total	Fixed Rate	Floating Rate	2009 Total
	€'000	€'000	€'000	€'000	€'000	€'000
Currency:						
Euro	1,254,079	617,337	1,871,416	1,679,350	316,272	1,995,622
Sterling	162,362	213,841	376,203	156,676	204,494	361,170
Total	1,416,441	831,178	2,247,619	1,836,026	520,766	2,356,792

The weighted average period for the fixed rate financial liabilities is 7.1 years (2009: 6.7 years).

On 31 December 2010, Bord Gáis Éireann had US\$740 million fixed rate debt (€613.2 million equivalent) in a US\$290 million US private placement transaction which was completed on 22 October 2003 and US\$450 million 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, Bord Gáis Éireann had a number of cross currency interest rate swaps which match the maturity profile of the debt.

Notes to Financial Statements continued

Year ended 31 December 2010

18. Financial Instruments continued

Financial Assets	Fixed	Floating	2010	Fixed	Floating	2009
	Rate	Rate	Total	Rate	Rate	Total
Currency:	€'000	€'000	€'000	€'000	€'000	€'000
Euro	-	240,301	240,301	-	380,790	380,790
Sterling	161,935	20,159	182,094	156,278	9,165	165,443
Total	161,935	260,460	422,395	156,278	389,955	546,233

The financial assets of Bord Gáis Éireann comprised:

	2010	2009
	€'000	€'000
Short term deposits	187,600	301,600
Restricted deposits	192,741	191,438
Cash	42,054	53,195
Total	422,395	546,233

Bord Gáis Éireann's policy is, on a calendar year basis, to have at least 60% of the current year's interest cost at fixed rates and at least 50% of the expected interest cost for the following three years at fixed rates. After taking account of fixed rate debt and interest rate swaps, 63% of Bord Gáis Éireann's year-end borrowings were at fixed rates of interest, 36% of Bord Gáis Éireann's year-end borrowings were at floating rates of interest and 1% of Bord Gáis Éireann's year-end borrowings had interest costs linked to UK RPI.

At year-end Bord Gáis Éireann had outstanding interest rate swaps with a notional principal of €427.6 million. €100.0 million which commenced on 17 September 2007 was swapped for five years at an average rate of 4.4%. €180.0 million which commenced on 22 October 2007 was swapped for five years at an average rate of 4.4%. €58.1 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 €89.5 million of amortising interest rate swaps which commenced on 30 June 2009 was swapped for eighteen years at an average rate of 4.13%.

Bord Gáis Éireann had €988.8 million of fixed rate debt (excluding interest rate swaps) at 31 December 2010 (2009: €983.2 million).

At 31 December 2010, the weighted average interest rate of the fixed debt portfolio which comprised European Investment Bank debt of €277.0 million, Bond of €549.5 million, and an interest rate swap portfolio of €427.6 million excluding the finance lease re interconnector pipeline was 4.98% (2009: 4.62%).

Interest costs on variable rate loans are reset on a periodic basis for one, three or six months over the prevailing market rate.

Foreign Currency Risk:

Bord Gáis Éireann's policy is to protect profitability by minimising the impact of material variations due to foreign exchange rate movements. Foreign currency borrowings and derivatives such as foreign currency forward contracts and currency swaps are used to manage foreign currency exposures.

Through wholly owned U.K. subsidiaries, Bord Gáis Éireann has operational and investment exposures in sterling. These currency exposures give rise to currency gains and losses recognised in the profit and loss account, or taken to reserves and recognised in the consolidated statement of total recognised gains and losses, as appropriate.

At 31 December 2010, Bord Gáis Éireann had €6.0 million of sterling denominated cash balances (2009: €6.8 million) and €176.1 million of sterling denominated restricted deposits (2009: €158.6 million).

Notes to Financial Statements continued

Year ended 31 December 2010

18. Financial Instruments continued

At that date the following swaps and forward contracts were in place:

	Book Value 2010 €'000	Maturity Date 2010	Book Value 2009 €'000	Maturity Date 2009
Cross Currency Swaps (USD)	613,158	2011 to 2021	710,161	2010 to 2021
Forward Foreign Exchange Contracts: - Sterling Gas and Electricity	202,491	2011 to 2012	211,032	2010 to 2011
Foreign Exchange Swaps	72,740	2011	-	-

Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced liquidation or sale. The following table provides a comparison at 31 December 2010 of the carrying amounts (book value) and fair value amounts of Bord Gáis Éireann's financial assets and liabilities.

	Book Value 2010 €'000	Fair Value 2010 €'000	Book Value 2009 €'000	Fair Value 2009 €'000
Fixed Rate Debt - European Investment Bank (Note 1)	277,000	305,993	277,000	297,570
Fixed Rate Debt - Bond (Note 1)	550,000	572,618	550,000	608,606
UK RPI Interest Rate Swap - Limited Recourse Facility (Note 2)	28,445	39,918	31,222	33,530
Floating to Fixed Interest Rate Swaps (Note 2)	427,627	457,741	852,806	887,765
Floating to Floating Interest Rate Swaps (Note 2)	-	-	150,000	150,191
Fixed Rate Debt - US Private Placement (Note 3)	613,158	668,904	710,161	686,777
Fixed to Floating Cross-Currency Interest Rate Swaps (Note 3)	613,158	667,228	710,161	850,191
Foreign Exchange Forward Contracts (Note 4) - Sterling Gas and Electricity	202,491	201,539	211,032	209,041
Foreign Exchange Swaps (Note 5)	72,740	72,019	-	-

Note 1: 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 year-end. Market values have also been used to determine the fair value of the interest rate swaps and the foreign exchange contracts.

Note 2: The interest rate swaps are used to reduce the variability of future cash flows arising from interest payments on floating rate debt.

Note 3: On 31 December 2010, Bord Gáis Éireann had US\$740 million fixed rate debt (€613.2 million equivalent) in a US private placement transaction, US\$290 million which was completed on 22 October 2003 and US\$450 million 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, Bord Gáis Éireann had a number of cross currency swaps which match the maturity profile of the debt. Bord Gáis Éireann had two way Credit Support Arrangements in place at 31 December 2010 to reduce its exposure to counterparties under the cross currency interest rate swaps matching US\$430 million of the US private placement transactions. Should the mark to market valuation of the cross currency interest rate swaps at each month-end exceed the exposure limit, a transfer of collateral is made by the appropriate party. At 31 December 2010, Bord Gáis Éireann had Nil balance on deposit with the four counterparties under the Credit Support Arrangements (2009: €22.3 million).

Note 4: The mark to market loss on euro/sterling foreign exchange forward contracts at 31 December 2010 was €1.0 million (2009: €2.0 million loss). The foreign exchange forward contracts reduce the variability of future forecasted cash flows arising on the sterling denominated purchase of gas and electricity.

Note 5: The mark to market gain on euro/sterling foreign exchange swaps at 31 December 2010 was €0.7 million (2009: Nil balance). Foreign exchange swaps are used to manage cash flows arising on the sterling denominated purchase of gas.

Notes to Financial Statements continued

Year ended 31 December 2010

18. Financial Instruments continued

Floating rate debt has not been included in the above analysis as payments are reset to market rates at frequent intervals.

Hedges:

Bord Gáis Éireann uses foreign exchange forward contracts and currency swaps to manage its 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 US dollar exposure arising under the US Private Placement.

Changes in the fair value of these hedges are not recognised in the financial statements until the hedged transaction occurs.

Unrecognised amounts at year-end:

At 31 December 2010, based on the prevailing foreign exchange and interest rates, the fair value of Bord Gáis Éireann's portfolio of forward foreign exchange, foreign exchange swaps, fixed rate debt, interest rate swap and currency swap contracts (including the underlying Private Placement debt) was a net loss of €203.2 million. This comprised a loss of €1.0 million on the foreign exchange contracts for sterling gas and electricity purchases, a gain of €0.7 million on the foreign exchange swaps, a loss of €51.6 million on fixed rate debt and net losses of €151.4 million arising on the interest rate swaps (including the Private Placement underlying debt).

The amount of net unrecognised losses on interest rate swaps of €151.4 million includes a loss of €30.1 million in respect of floating to fixed interest rate swaps, a loss of €11.5 million on the UK RPI interest rate swaps and a loss of €109.8 million (including the underlying debt) in the case of the cross currency swaps entered into in connection with the Private Placement transaction.

Amounts expected to be recognised in 2011:

Based on prevailing foreign exchange rates and interest rates as at 31 December 2010, Bord Gáis Éireann's portfolio of hedges would result in a net charge of €15.1 million in Bord Gáis Éireann's profit and loss account during 2011, being a loss of €15.1 million arising on euro/sterling foreign exchange contracts and interest rate swaps.

Amounts recognised in 2010:

At 31 December 2009, based on prevailing foreign exchange and interest rates, Bord Gáis Éireann's portfolio of hedges expected to result in a net loss of €25.1 million in Bord Gáis Éireann's profit and loss account. The foreign exchange losses recognised in the profit and loss for the year, which are included in cost of sales as they directly related to the cost of gas and electricity purchases, amounted to €3.4 million. In addition, during the year to 31 December 2010, interest costs were higher than prevailing market rates by €1.2 million as a result of interest rate swaps and cross currency swaps.

19. Provisions for Liabilities

Group	Restructuring	Other	Self-Insured Claims	Total
	€'000	€'000	€'000	€'000
At 1 January 2010	37,083	12,151	6,383	55,617
Unwinding of discount	1,193	329	-	1,522
Utilised in year	(8,160)	(864)	(2,366)	(11,390)
Reclassification to creditors	(1,284)	-	-	(1,284)
Provision made during the year	-	1,797	1,871	3,668
At 31 December 2010	28,832	13,413	5,888	48,133

Board	Restructuring	Other	Self-Insured Claims	Total
	€'000	€'000	€'000	€'000
At 1 January 2010	37,083	12,151	6,383	55,617
Unwinding of discount	1,193	329	-	1,522
Utilised in year	(8,160)	(864)	(2,366)	(11,390)
Reclassification to creditors	(1,284)	-	-	(1,284)
Provision made during the year	-	1,797	1,871	3,668
At 31 December 2010	28,832	13,413	5,888	48,133

Notes to Financial Statements continued

Year ended 31 December 2010

19. Provisions for Liabilities continued

Restructuring

In September 2009, the EU parliament 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 are expected to be substantially discharged by 2012.

The Networks Transformation Programme is a major programme spanning a period of three years to 2011. Its overall vision is to "Deliver Excellence Across Networks" and make the organisation a best-in-class Network Utility Service Provider while improving customer service capability and enabling it to meet current and future regulatory targets. Provision was made in 2009 for an appropriate estimate of the reorganisation costs where a constructive obligation exists. These liabilities are expected to be substantially discharged by 2012.

Other

The year-end provision includes appropriate estimates of various liabilities that are expected to arise. The provision includes an appropriate estimate of the cost of decontamination of legacy Gas Works sites. The provision includes 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 between 2011 and 2012.

Provision has been made in 2010 for decommissioning generation assets. The provision represents 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.

Self-Insured Claims

Bord Gáis Éireann 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 2010. Payments are made as the cases are settled. The charge is included in the profit and loss account under operating costs. The nature of these claims is such that a settlement date is uncertain but Bord Gáis Éireann expect the claims to be substantially settled by 2013.

20. Deferred Tax

	2010 €'000		2009 €'000	
	Group	Board	Group	Board
At 1 January	175,839	172,875	162,103	160,899
Additions	-	-	1,002	-
Provision made during the year	8,666	8,362	12,734	11,976
At 31 December	184,505	181,237	175,839	172,875

21. Capital Grants

	2010 €'000		2009 €'000	
	Group	Board	Group	Board
At 1 January	104,646	68,821	107,524	72,743
Amortised in year	(5,694)	(3,922)	(5,628)	(3,922)
Translation difference	1,272	-	2,750	-
At 31 December	100,224	64,899	104,646	68,821

In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to.

Notes to Financial Statements continued

Year ended 31 December 2010

22. Capital Stock & Premium

	2010			2009		
	Capital Stock €'000	Capital Premium €'000	Total €'000	Capital Stock €'000	Capital Premium €'000	Total €'000
Group						
At 1 January	98,862	20,208	119,070	98,025	13,425	111,450
Capital stock transferred from reserves	114	-	114	83	-	83
Issue of capital stock to ESOT	1,024	9,218	10,242	754	6,783	7,537
At 31 December	100,000	29,426	129,426	98,862	20,208	119,070
Board						
At 1 January	98,862	20,208	119,070	98,025	13,425	111,450
Capital stock transferred from reserves	114	-	114	83	-	83
Issue of capital stock to ESOT	1,024	9,218	10,242	754	6,783	7,537
At 31 December	100,000	29,426	129,426	98,862	20,208	119,070

In April 2008, Bord Gáis Éireann, by resolution of its members issued 96,532,855 units of capital stock at €1 per unit for €96,532,855 to the Exchequer from the profit and loss account reserve, pursuant to section 7B of the Gas Act, 1976. In June 2009 83,745 units of capital stock at €1 per unit for €83,745 were issued to the Exchequer from the profit and loss account. In June 2010 a further 113,800 units of capital stock at €1 per unit for €113,800 were issued to the Exchequer from the profit & loss account.

In 2008 1,491,700 units at €1 each were issued to the Bord Gáis Employee Share Ownership Trust (ESOT) for €14,917,000. In 2009 753,700 shares at €1 each were issued to the ESOT for €7,537,000 and in 2010 a further 1,024,200 shares at €1 each were issued to the ESOT for €10,242,000.

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.

Details regarding the ESOT are outlined in note 24.

23. Reserves

	Profit and Loss Account €'000	Translation Reserve €'000	Total €'000
Group			
At 1 January 2010	1,315,853	(33,208)	1,282,645
Movement in the year	-	5,387	5,387
Profit for the financial year	114,031	-	114,031
Transformation savings paid to ESOT	(10,242)	-	(10,242)
Appropriation of profits	(31,273)	-	(31,273)
Allocation of capital stock from reserves	(114)	-	(114)
Pension actuarial losses (net of deferred tax)	(10,586)	-	(10,586)
At 31 December 2010	1,377,669	(27,821)	1,349,848
Board			
At 1 January 2010	1,384,849	(34,464)	1,350,385
Movement in the year	-	8,131	8,131
Profit for the financial year	121,604	-	121,604
Transformation savings paid to ESOT	(10,242)	-	(10,242)
Appropriation of profits	(31,273)	-	(31,273)
Allocation of capital stock from reserves	(114)	-	(114)
Pension actuarial losses (net of deferred tax)	(10,586)	-	(10,586)
At 31 December 2010	1,454,238	(26,333)	1,427,905

Notes to Financial Statements continued

Year ended 31 December 2010

24. Share Based Payments

As a result of the "Transformation Savings Programme" agreed in April 2008, Bord Gáis Éireann compensated employees for savings achieved from 2005 to 2009 through an employee share ownership plan. The total shareholding available to the employees under the scheme is 3.27% of the capital stock of Bord Gáis Éireann.

The savings achieved in 2005, 2006, 2007, 2008 and 2009 amounted to €32,696,000 and this amount has been paid by Bord Gáis Éireann to the Employee Share Ownership Trust (ESOT). Subsequently, the Trust has subscribed for 3,269,600 units of capital stock of €1 each for a total consideration of €32,696,000. The capital stock will be held by the Trust for a period of three years before it is appropriated to the eligible employees through the Approved Profit Sharing Scheme.

The amounts paid to the ESOT in respect of the savings achieved in 2009 are shown in the Reserves note 23.

In accordance with FRS 20 - Share based payment, Bord Gáis Éireann recognises an expense in the profit and loss account, and a corresponding increase in equity, in respect of fair value of the capital stock issued to employees.

The fair value of the equity instruments issued was determined on a minority non-controlling basis. Factors taken into consideration in determining the fair valuation include the market, discounted cash flow, net asset value and the characteristics of the capital stock being acquired. The fair value of the equity instruments amounted to €32,696,000 in respect of the equity issued to employees for savings achieved in 2005, 2006, 2007, 2008 and 2009.

25. Reconciliation of Operating Profit to Net Cash Flow from Operating Activities

	2010 €'000	2009 €'000
Profit before interest	196,568	181,833
Depreciation & amortisation	130,284	118,995
Loss / (profit) on disposal of fixed assets	129	(12)
Share of loss in joint ventures	485	29
(Increase) / decrease in stocks	(4,899)	22,792
Increase in debtors	(26,432)	(11,008)
(Decrease) / increase in creditors	(19,850)	33,178
Increase in restructuring provision	-	19,025
Cash outflows in respect of rationalisation of operations	(9,024)	(13,505)
Net decrease in other provisions	(495)	(589)
Share based payment expense	-	10,242
Net cash inflow from operating activities	266,766	360,980

26. Reconciliation of Net Cash Flow to Movement in Net Debt

	2010 €'000	2009 €'000
(Decrease) / increase in cash resulting from cashflows	(123,838)	284,372
Decrease / (increase) in debt resulting from cashflows	109,173	(891,895)
Movement in net debt in the year	(14,665)	(607,523)
Net debt at 1 January	(1,810,559)	(1,203,036)
Net debt at 31 December	(1,825,224)	(1,810,559)

Notes to Financial Statements continued

Year ended 31 December 2010

27. Analysis of Net Debt

	At 1 Jan 2010 €'000	Cash Flow €'000	At 31 Dec 2010 €'000
Cash at bank and in hand	546,233	(123,838)	422,395
Debt due within one year	(127,004)	115,488	(11,516)
Debt due after more than one year	(2,229,788)	(6,315)	(2,236,103)
Total debt	(2,356,792)	109,173	(2,247,619)
Net debt	(1,810,559)	(14,665)	(1,825,224)

28. Pensions

(a) Defined Benefit Schemes:

The Board operates seven externally funded defined benefit schemes. The assets of these schemes are held separately from those of the Board.

The contributions for funding purposes are determined, using the projected unit credit method for the two principal schemes and the attained age method for the other schemes, by Mercer Human Resource Consulting Limited who are Actuaries to the schemes but are neither officers nor employees of the Board.

The most recent actuarial valuation was carried out at 1 April 2008. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the long-term investment return would be 2.5% per annum in excess of salary growth in the period to retirement and 1.25% per annum in excess of pension increases in respect of the period after retirement.

At the date of the last actuarial valuation the market value of the schemes' assets was €220 million and the actuarial value of those assets was, in aggregate, sufficient to cover 90% of the benefits that had accrued to members after allowing for expected future increases in earnings.

Current service costs, determined using the projected unit method, and any past service items stemming from benefit enhancements or curtailments are dealt with as components of operating costs or set against provisions as appropriate. The interest cost associated with pension schemes' liabilities together with the expected return on pension schemes' assets, are included within other finance income / (expenses) in the profit and loss account.

Financial Assumptions

	2010	2009
Discount rate	5.50%	5.75%
Expected return on plan assets	6.73%	6.69%
Inflation	2.00%	2.00%
Future salary increases	3.50%	3.50%
Future pension increases	3.00%	3.00%

The assumptions relating to life expectancy at retirement for members who retire at age 65 are as follows:

Mortality Assumptions

	2010	2009
Retiring today		
Males	22.9	21.2
Females	24.5	24.3
Retiring in 25 years		
Males	26.1	22.7
Females	27.2	25.8

Notes to Financial Statements continued

Year ended 31 December 2010

28. Pensions continued

Plan Assets	2010	2009
The asset allocations at the year end were as follows:		
Equities	50.10%	48.40%
Bonds	36.40%	36.20%
Property	3.60%	4.20%
Venture Capital	2.30%	2.40%
Diversified Alpha	7.60%	8.70%
Cash	0.00%	0.10%
	100.00%	100.00%

To develop the expected long-term rate of return on assets assumption, the company 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 actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Amounts Recognised in the Balance Sheet	2010	2009
	€'000	€'000
Present value of funded obligations	(270,788)	(242,079)
Fair value of plan assets	249,889	218,949
Deficit for funded plans	(20,899)	(23,130)
Related deferred tax asset	2,612	2,891
Net liability	(18,287)	(20,239)

Change in Benefit Obligation	2010	2009
	€'000	€'000
Benefit obligation at beginning of year	(242,079)	(221,449)
Service cost - charged to profit and loss account	(3,429)	(3,856)
Service cost - charged to provisions	(1,146)	(817)
Interest cost	(14,157)	(12,942)
Plan members' contributions	(3,254)	(2,748)
Actuarial loss	(12,907)	(2,921)
Benefits paid	8,273	7,587
Curtailments	(2,089)	(4,933)
Benefit obligation at end of year	(270,788)	(242,079)

Change in Plan Assets	2010	2009
	€'000	€'000
Fair value of plan assets at beginning of year	218,949	182,695
Expected return on plan assets	15,167	12,254
Actual return less expected return on assets	810	18,954
Employer contributions	19,982	9,885
Member contributions	3,254	2,748
Benefits paid from plan	(8,273)	(7,587)
Fair value of plan assets at end of year	249,889	218,949
Actual return on plan assets	15,977	31,208

Notes to Financial Statements continued

Year ended 31 December 2010

28. Pensions continued

Analysis of the Amount Recognised in Profit and Loss Account	2010 €'000	2009 €'000
Current service cost	(3,429)	(3,856)
Interest cost (note 6)	(14,157)	(12,942)
Expected return on plan assets (note 6)	15,167	12,254
Total pension cost recognised in the profit and loss account	(2,419)	(4,544)

Analysis of the Amount Charged to Provisions	2010 €'000	2009 €'000
Current service cost	(1,146)	(817)
Loss on curtailments	(2,089)	(4,933)
Amount charged to provisions	(3,235)	(5,750)

Statement of Total Recognised Gains and Losses (STRGL)	2010 €'000	2009 €'000
Actual return less expected return on assets	810	18,954
Experience gains / (losses) on liabilities	4,817	(2,921)
Changes in assumptions underlying the present value of the schemes' liabilities	(17,724)	-
Total pension (loss) / gain recognised in the STRGL	(12,097)	16,033

Cumulative pension loss recognised in the STRGL	(68,122)	(56,025)
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Movements in Deficit During the Year	2010 €'000	2009 €'000
Deficit at the beginning of the year	(23,130)	(38,754)
Charged to profit and loss account	(2,419)	(4,544)
Charged to provisions	(3,235)	(5,750)
Employer contributions	19,982	9,885
Actuarial (losses) / gains	(12,097)	16,033
Deficit at the end of the year	(20,899)	(23,130)

History of Defined Benefit Obligations, Assets and Experience Gains and Losses

	2010 €'000	2009 €'000	2008 €'000	2007 €'000	2006 €'000
Defined benefit obligation	270,788	242,079	221,449	235,461	233,424
Fair value of plan assets	249,889	218,949	182,695	238,671	228,463
(Deficit) / surplus	(20,899)	(23,130)	(38,754)	3,210	(4,961)
Difference between expected and actual return on plan assets:					
Amount	810	18,954	(74,018)	(6,567)	13,056
Percentage of plan assets	0.3%	8.7%	(40.5%)	(2.8%)	5.7%
Experience gains / (losses) on plan liabilities:					
Amount	4,817	(2,921)	(1,105)	262	(4,747)
Percentage of defined benefit obligation	1.8%	(1.2%)	(0.5%)	0.1%	(2.0%)

Notes to Financial Statements continued

Year ended 31 December 2010

28. Pensions continued

(b) Defined Contribution Schemes and Personal Retirement Savings Accounts (PRSAs)

During 2010, Bord Gáis Éireann made employer contributions payable under a defined contribution scheme in respect of a Northern Ireland subsidiary. Contributions payable by the employer to this defined contribution scheme amounted to €138,800 in 2010 (2009: €125,965). These contributions were charged to the profit and loss account.

In addition and in compliance with the provisions of the Pensions Act 1990 (as amended), Bord Gáis Éireann has appointed Personal Retirement Savings Account (PRSA) providers. During the year ended 31 December 2010, Bord Gáis Éireann contributed €183,386 (2009: €150,741) on behalf of its employees which was charged to the profit and loss account.

The balance payable at 31 December 2010 under Defined Contribution Schemes and PRSAs was €25,349 (2009: €21,900).

29. Contingent Liabilities

Contingent liabilities may arise in respect of contractual agreements to which Bord Gáis Éireann is a party. The financial statements include estimates based on information available of the potential cost associated with the outturn of any such events which exist at the balance sheet 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 financial instruments and rationalisation of operations have been provided for as disclosed in note 18 and 19. Contingent liabilities with respect to Capital Grants are disclosed in note 21.

30. Commitments

(a) Capital Expenditure Commitments

	2010 €' million		2009 €' million	
	Group	Board	Group	Board
Contracted for but not provided in the Financial Statements	155	113	167	148
Authorised by the Board but not contracted for	123	55	125	99
	278	168	292	247

(b) Gas Purchase Contract Commitments

Gas purchase contracts have been entered into which provide for the purchase of certain gas quantities in the years 2011 to 2025.

(c) Electricity Purchase Contract Commitments

Electricity purchase contracts for the purchase of certain electricity capacities have been entered into for the years 2011 to 2025.

(d) Operating Lease Obligations

Bord Gáis Éireann has entered into leasing arrangements for certain of its office and accommodation facilities and pipeline depot facilities. The related annual commitments are as follows:

	2010 €'000	2009 €'000
Operating leases which expire:		
Within one year	497	345
In two to five years	146	275
In over five years	5,071	2,212
	5,714	2,832

(e) Other Commitments

In the normal course of its business, Bord Gáis Éireann enters into certain undertakings and commitments to third parties in respect of obligations to perform under contractual arrangements. In certain cases, these arrangements are guaranteed by financial institutions and are counter indemnified by Bord Gáis Éireann or by SWS Energy Limited for SWS Energy Limited guarantees. At 31 December 2010, €90.4 million (2009: €49.9 million) was provided by way of guarantees by financial institutions to third parties. €84.8 million of guarantees have been counter indemnified by Bord Gáis Éireann and €5.6 million by SWS Energy Limited.

Notes to Financial Statements continued

Year ended 31 December 2010

31. Subsidiaries and Joint Ventures

At 31 December 2010 the Board 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 Natural Gas Finance Limited	Project and Financing Services	100%
6 Sudanor Limited	Non Trading	100%
7 Conservation Engineering Limited	Combined Heat and Power	100%
8 Aurora Telecom Limited	Non Trading	100%
9 BGE Finance Public Limited Company	Non Trading	100%
10 BGE (IOM) Limited	Gas Transmission	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	Non Trading	100%
22 BGE Renewables Holdings Limited	Non Trading	100%
23 BGE (UK) Limited	Gas Transmission	100%
24 firmus energy (distribution) Limited	Conveyance of Gas	100%
25 firmus energy (supply) Limited	Supply of Gas	100%
26 Falleenafinnoga Windfarm Limited	Non Trading	100%
27 Garracummer Wind Farm Limited	Renewable Electricity Generation	100%
28 Inish Wind Limited	Renewable Electricity Generation	100%
29 Lisheen Windfarm Limited	Renewable Electricity Generation	100%
30 Lisheen Windfarm II Limited	Non Trading	100%
31 Mienvee Energy Limited	Renewable Electricity Generation	100%
32 Mienvee Energy (Nominees) Limited	Non Trading	100%
33 Newmarket Windfarms Limited	Non Trading	100%
34 Reisk Windfarm Limited	Non Trading	100%
35 SWS Glentanemacelligot Wind Farm Limited	Renewable Electricity Generation	100%
36 SWS Gneeves Wind Farm Limited	Renewable Electricity Generation	100%
37 SWS Green Energy Limited	Energy Supply	100%
38 SWS Inchincoosh Wind Farm Limited	Renewable Electricity Generation	100%
39 SWS International Energy Limited	Non Trading	100%
40 SWS Kilgarvan Wind Farm Limited	Renewable Electricity Generation	100%
41 SWS Knockacummer Wind Farm Limited	Renewable Electricity Generation	100%
42 SWS Knockawarriga Wind Farm Limited	Renewable Electricity Generation	100%
43 SWS Natural Resources Holdings Limited	Holding Company	100%
44 SWS Wind Farms Limited	Project Financing	100%
45 Tooreen Windfarm Limited	Non Trading	100%
46 SWS Energy Limited	Renewable Electricity Generation	100%
47 Craginagapple Windfarm Limited	Non Trading	100%
48 Owenreagh Power Partners Limited	Renewable Electricity Generation	50%
49 Owenreagh Wind Farm Limited	Renewable Electricity Generation	50%
50 SWS Lisavaird NI Limited	Renewable Electricity Generation	50%
51 Booltiagh Wind Limited	Renewable Electricity Generation	50%
52 BGOH Limited	Non Trading	50%

Notes to Financial Statements continued

Year ended 31 December 2010

31. Subsidiaries and Joint Ventures continued

Company	Nature of Business	Group Share
Independent Subsidiary Undertaking		
53 Gaslink Independent System Operator Limited	Independent Gas System Operator	100%
Non Controlled Undertaking		
54 Bord Gáis ESOP Trustee Limited	Trustee for Employee Share Ownership Plan	100%
The registered office of 1 to 22, 26 to 46, 52 and 54 is:	Gasworks Road, Cork, Ireland.	
The registered office of 23 to 25 is:	First Floor, Pellipar House, 9 Cloak Lane, London EC4R 2RU, England.	
The registered office of 47 to 50 is:	21 Arthur Street, Belfast, BT1 4GA, Northern Ireland.	
The registered office of 51 is:	Mill House, Buttevant, Co. Cork.	
The registered office of 53 is:	6 Lapps Quay, Cork, Ireland.	

32. Related Party Transactions

Semi-state Bodies

In common with many other entities, Bord Gáis Éireann deals in the normal course of business with other Government sponsored bodies. One such body is the Electricity Supply Board, which like Bord Gáis Éireann is under the common majority ownership of the Minister for Communications, Energy and Natural Resources who has a role in appointing the Board Members.

Joint Venture Undertakings

Bord Gáis Éireann provided funding and certain limited services during 2010 to a number of trading joint venture undertakings outlined in note 31. At 31 December 2010, €3.3m in aggregate was receivable from joint venture undertakings.

Interests of Board Members and Secretary

The Non Executive Board Members had no beneficial interest in Bord Gáis Éireann or its subsidiaries at any time during the year. The Chief Executive and Secretary are beneficiaries of the Employee Share Ownership Plan.

33. Bord Gáis ESOP Trustee Limited

Bord Gáis ESOP Trustee Limited was incorporated in 2008 as trustee of the Bord Gáis Employee Share Ownership Trust and the Bord Gáis Approved Profit Sharing Scheme. Bord Gáis Éireann 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. Bord Gáis Éireann has determined that it does not have de facto control over the company and therefore the accounts are not consolidated within the results of the Group.

34. Comparative Amounts

The classification of certain comparative year figures have been restated to conform to presentation of current year figures.

35. Non-GAAP Measures

Bord Gáis Éireann management believe that the use of EBITDA and EBITDA before exceptional costs (non-GAAP measures) provides useful performance and liquidity information to management, stockholders and external stakeholders and enhances an understanding of the reported results. EBITDA is defined as earnings before interest, tax, depreciation and amortisation.

36. Post Balance Sheet Events

There have been no events between the balance sheet 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.

37. Approval of Financial Statements

The Financial Statements were approved by the Board on 05 April 2011.

EU Directive 2000/35/EC - Late Payments in Commercial Transactions Regulations 2002

Payments made during 2010 were governed by EU Directive 2000/35/EC to combat late payments in commercial transactions. This directive applies to goods and services supplied to Bord Gáis Éireann by EU based suppliers.

Statement of Payment practices including standard payment periods

Bord Gáis Éireann 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.

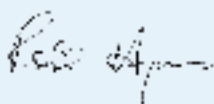
Compliance with the Directive

Bord Gáis Éireann 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.

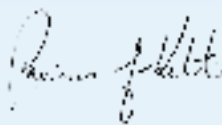
Information on Payments in 2010:

- Standard payment terms are 45 days.
- The total number of invoices in excess of €250 paid late was 27 (2009: 28) with a value €0.8 million (2009: €0.1 million). On average late payments were 62 days late (2009: 58 days).
- Late payments constituted less than 0.06% of total payments (in monetary terms) made during the year.
- Total interest paid in respect of late payments amounted to €11,790 (2009: €839).

For and on behalf of the Board:



Chairman



Member of the Board

05 April 2011

Date of Approval



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