

Bord Gáis Energy Index

UNDERSTANDING ENERGY

August 2012

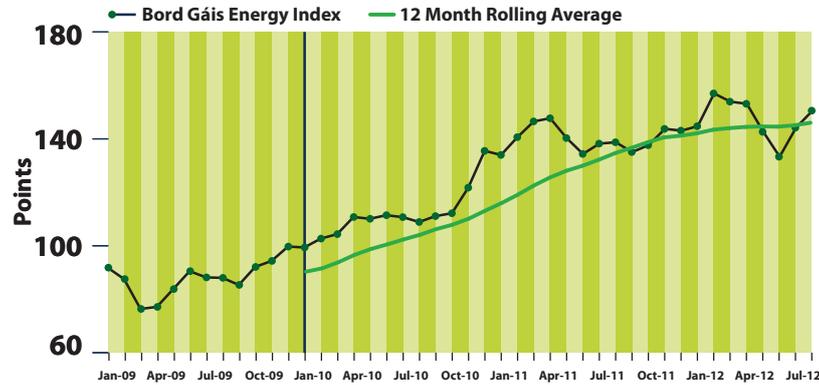


think beyond



Oil supply anxiety results in a 4% rise in the August Bord Gáis Energy Index

Bord Gáis Energy Index (Dec 31st 2009 = 100)



1 Mth **4%** 3 Mth **6%** 12 Mth **8%**

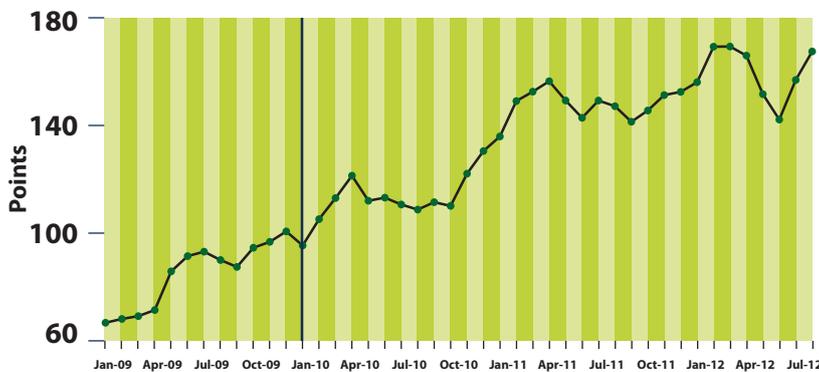
Overall summary:

Ongoing concerns about oil supply together with increased optimism that Central Banks would act to stimulate growth and secure the euro, combined to drive oil prices to record highs.

Despite the 4% month-on-month rise in the Index, small improvements in the strength of the euro versus the US Dollar helped in part to suppress oil price rises which rose over 9% in US Dollar terms. Marginally lower gas and coal prices had only a minimal impact on the overall Index in August.

Future gas prices for the coming winter rose by over 3% in August as a result of rising Brent crude oil prices. European gas prices for the coming winter and summer are closely linked to the international price of a barrel of oil.

Oil Index



*Index adjusted for currency movements. Data Source: ICE

1 Mth **7%** 3 Mth **11%** 12 Mth **14%**

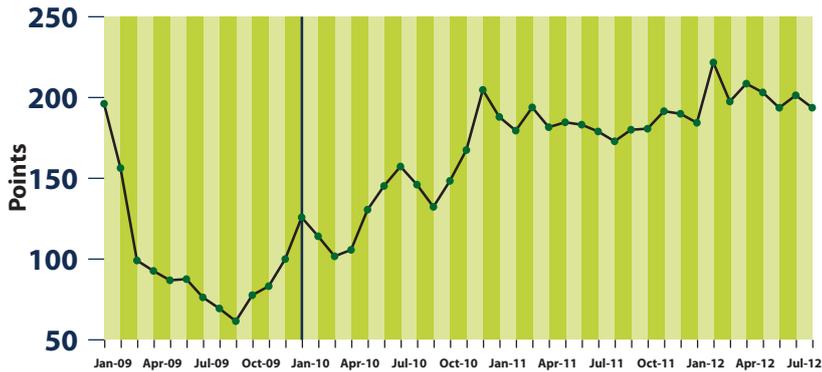
Oil

The price of Brent crude oil continued to advance in August and since June has increased over 25% in euro terms. At over €90 a barrel, the price is now similar to the levels seen during the food & fuel crisis of 2008 when, in US Dollar terms, Brent crude oil hit an all time high.

A number of factors conspired to push Brent crude oil higher. As talks between the West and Iran over its nuclear programme stalled over the summer months, speculation increased that Israel may pre-emptively strike Iran's nuclear infrastructure. In addition, the Syrian crisis appeared to have evolved into a sectarian struggle during the month and traders fear that this has the potential to engulf the wider region in the conflict. Fears of an oil supply disruption from the Middle East in turn placed greater emphasis on the fact that OPEC's spare production at just 2.7mbd in 2012 is tight by historic standards.

Beyond the geopolitical issues, prices were also supported by Hurricane Isaac which shut 93% of the Gulf's oil output at one point; on expectations that maintenance in the North Sea in September would reduce global oil supplies; on better than expected economic data from the US; and on increasing speculation that the world's Central Banks will act to stimulate economic activity and oil demand.

Natural Gas Index



*Index adjusted for currency movements.
Data Source: Spectron Group

1 Mth **-4%** 3 Mth **-5%** 12 Mth **12%**

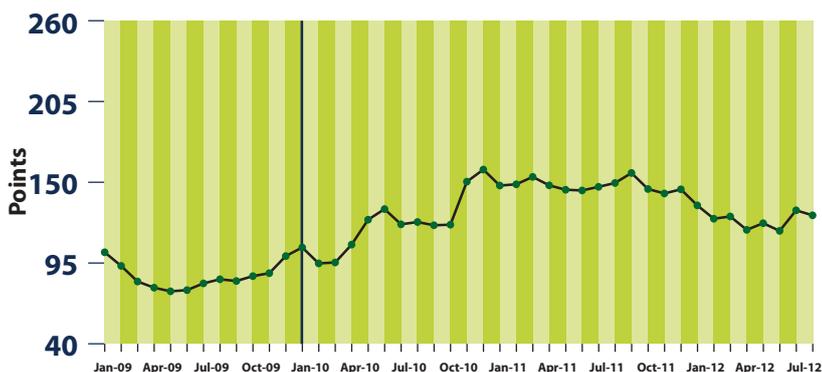
Natural gas

In euro terms, the average monthly Day-ahead UK gas price in August was 4% lower than its July equivalent which is attributable to short-term currency fluctuations and declining UK demand for gas during the peak summer month.

Despite a maintenance outage at a Norwegian gas processing plant and some uncertainty about vital Norwegian gas flows to the UK at the start of the month, overall the average monthly Day-ahead price softened with healthy LNG cargoes and low gas demand. As well as lower domestic gas demand, demand from UK gas powered generation suffered from increased wind power generation, strong nuclear production and cheaper production costs from plants that generate by burning coal. On the 16th of August prices hit a low of 51p. Day-ahead prices did recover towards the end of the month on increased demand due to exports from the UK to the Continent and increased storage injections.

Looking forward, the Winter 12/13 gas price, in euro terms, rose over 3% in the month and is over 5% higher since the start of the year. Forward prices are sensitive to movements in oil which have risen aggressively in recent months and which are trading at historic highs.

Coal Index



*Index adjusted for currency movements.
Data Source: ICE

1 Mth **-3%** 3 Mth **4%** 12 Mth **-15%**

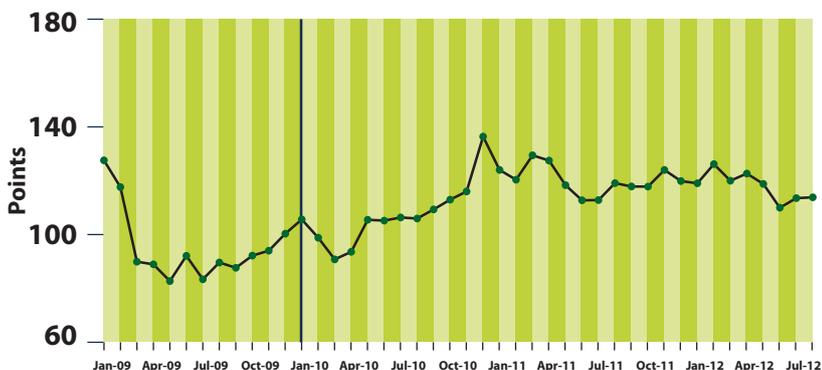
Coal

European coal prices softened 3% in August with the absence of any real fundamental drive in the market. This period of relative stability follows an aggressive bull run in July due to a 24-day industrial dispute that started unexpectedly in July and which restricted Colombian coal shipments to Europe. Following the resolution of the rail workers dispute, Colombian tons flooded the market in August and with little buying interest, prices eased.

The global thermal coal market has been weak over the last 12 months, falling 15%, with softening demand from Asia due to Chinese economic issues, weak Chinese domestic coal prices and high inventories in China, India and Europe.

With a slowdown in the Chinese economy, coal-fired power plants are running at only 60% of their designed capacity, and global coal demand is being depressed. China, as the world's number one coal user and second largest economy, has become the main driving force behind global coal prices. With over three quarters of the country's electricity being generated by burning coal, slowing economic growth is suppressing Chinese demand and global coal prices.

Electricity Index



Data Source: SEMO

1 Mth **0%** 3 Mth **-4%** 12 Mth **-4%**

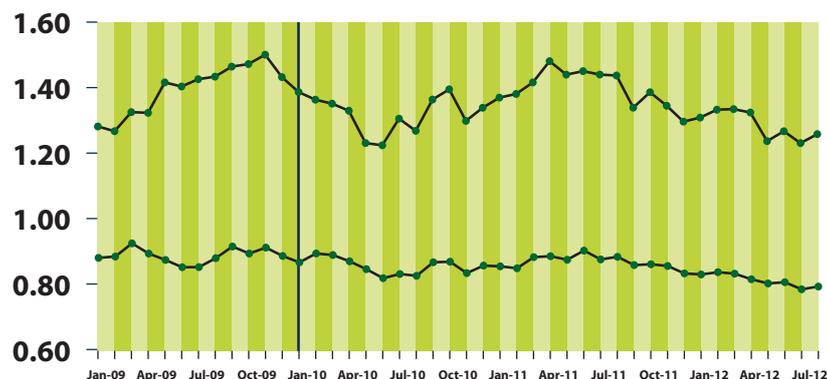
Electricity

Compared to July, the average Irish wholesale electricity price for August was unchanged due to a combination of offsetting push and pull factors.

UK prompt wholesale prices are the dominant factor determining Irish wholesale electricity prices as the majority of the electricity produced in Ireland is generated by burning imported gas from the UK. A 4% fall in the monthly average UK Day-ahead price in August compared to July, which includes the impact of a weaker British Pound versus the euro, weighed on Irish wholesale electricity prices.

However, wholesale prices were supported by the outage of efficient power producers for maintenance, depriving the wholesale market of their relatively cheap power. In addition, the intermittent nature of wind during August meant thermal generators were forced to stop and start. As more starts occur, more cost incurred and these costs fed into the wholesale price. Rising carbon prices were also a factor that pushed up the cost of power production in Ireland. Rising coal generation and uncertainties over nuclear availability in Europe supported carbon prices. European equities also gained in the month and this positive sentiment provided a tailwind for carbon.

FX Rates



1 Mth	2%	3 Mth	2%	12 Mth	-12%	EURUSD
1 Mth	1%	3 Mth	-1%	12 Mth	-10%	EURGBP

FX rates

The euro gained 1% against the British Pound and 2% against the US Dollar in August. The euro's gains reflected greater market confidence that the ECB and European politicians will act to stabilise the ongoing European sovereign crisis. This confidence is also reflected in falling Italian and Spanish 10 Year government bond yields, and both traded well below what is considered to be an unsustainable 7% level.

The markets await details of the ECB's plans to buy European government bonds, which is seen as an important step to secure certain countries funding arrangements, whilst continuing the slow process of economic reform toward greater European economic union.

Reduced safe haven flows, the prospect of even lower investment returns in the US due to a growing possibility of a third round of Quantitative Easing, and poor news on the UK economic front also weighed on the US Dollar and British Pound.

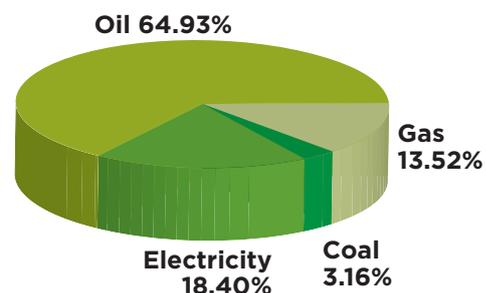
Market Outlook

The tug-of-war between oil supply anxiety and global economic concerns will continue to influence Brent crude oil prices and market sentiment has been volatile in 2012 as a result. Currently, ongoing tensions in the Middle East, coupled with a tightening global oil market, are dominating sentiment and European oil prices have risen aggressively over the summer months. However, how the markets perceive Europe's ability or inability to construct an economic union to support its monetary union could take centre stage in the months ahead once again. Depending on the market's assessment of European progress to deal with its debt crisis, oil prices have the potential to move either way. Action from the world's main Central Banks to stimulate economic growth could support prices in the short term. Sentiment toward the euro will also be driven by these developments and euro zone buyers of oil, gas, and coal will be impacted by a stronger or weaker currency.

Oil prices and currency movements will continue to influence forward gas prices as will the ongoing supply/demand dynamics in the context of rising demand as we progress toward Winter 12/13. On a positive note, in August there were healthy LNG supplies to the UK and anaemic demand in North Asia meant that Europe has become again an attractive market for global LNG cargoes. This has the potential to bolster supply in the sensitive months ahead.

Re-weighting of Bord Gáis Energy index

Following the SEAI's 2009 review of energy consumption in Ireland, released in Q4 2010, there was a 9.3% drop in overall energy consumption. The most notable drop of 1.39% was in oil consumption in the form of gasoline and diesel. This reflects the economic downturn experienced at the time. The share of natural gas and electricity increased by 0.63% and 0.57% respectively. An increase in the use of renewables and peat, at the expense of coal in electricity generation was also observed. As a result the Bord Gáis Energy Index has been reweighted to reflect the latest consumption data. This has had a minimal effect on the overall shape of the index, but may indicate future trends.



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