Bord Gáis Energy Index

UNDERSTANDING ENERGY

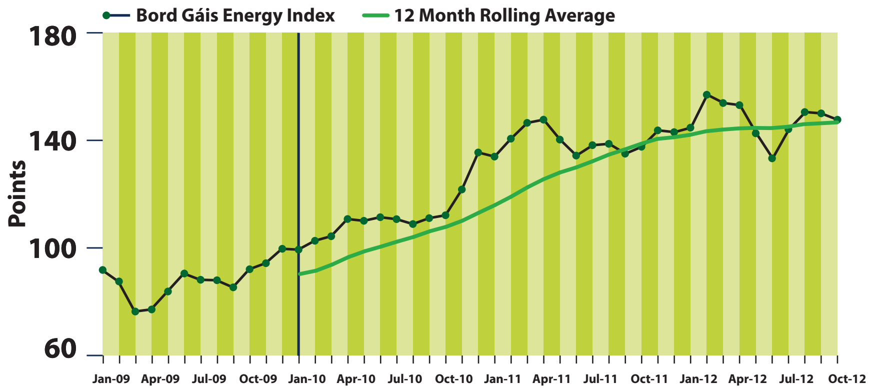
October 2012

think beyond

Bord Gáis Energy

BORD GÁIS ENERGY INDEX DOWN 2% IN OCTOBER
- 4% Fall in Oil Prices Pushed Index Lower -

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



1 Mth **-2%** **3 Mth** **2%** **12 Mth** **8%**

Overall summary:

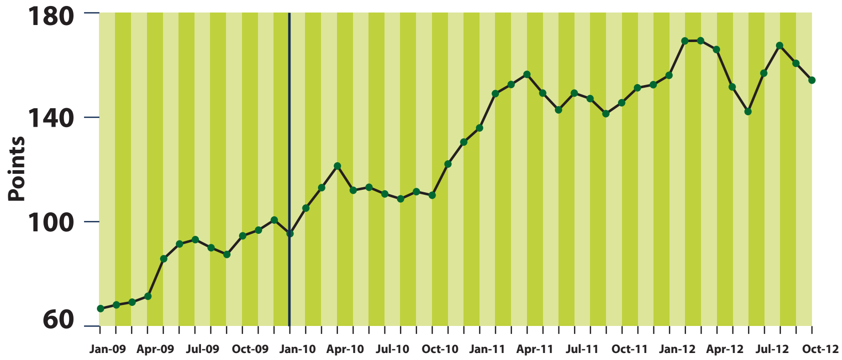
Despite ongoing geopolitical tensions in the Middle East and some positive economic releases during October, oil prices were influenced by falling US equity indices and concerns over the globe's future economic growth prospects. The bearish tone that prevailed in the market eroded investor confidence. However, despite a modest fall in oil prices in the month, prices still remain near record highs.

As a result, the Bord Gáis Energy Index now stands at 148, an increase of 8% on October 2011.

In October, election uncertainty, economics and a weak earnings season took centre stage in the oil market and prices eased under their combined pressure. With a large number of top companies reporting sales below expectations in the third quarter and with many more companies paring back expectations for the fourth quarter, investor confidence was dented. The erosion of animal spirits was reflected in weaker US equity indices and given that oil markets have evolved into financial markets in recent years, weak indices pulled oil prices lower. On the economic front, despite some positive economic releases from the US, UK and suggestions that China's protracted slowdown may have run its course, an IMF report that pared back its global growth forecast further undermined investor confidence. In the context of America's relationships in the Middle East, traders will also be closely watching the outcome of the US Presidential election.

As we enter winter, the weather is starting to play a more dominant role in wholesale UK gas prices, as demand for home heating rises. In October, the UK gas market has already experienced supply issues particularly from Qatar with fewer LNG cargoes arriving on British shores. With the stability of the market dependant on imported supplies of gas, trader anxiety resulted in an increase in prompt gas prices during October.

Oil Index



*Index adjusted for currency movements.
Data Source: ICE

1 Mth **-4%** **3 Mth** **-2%** **12 Mth** **7%**

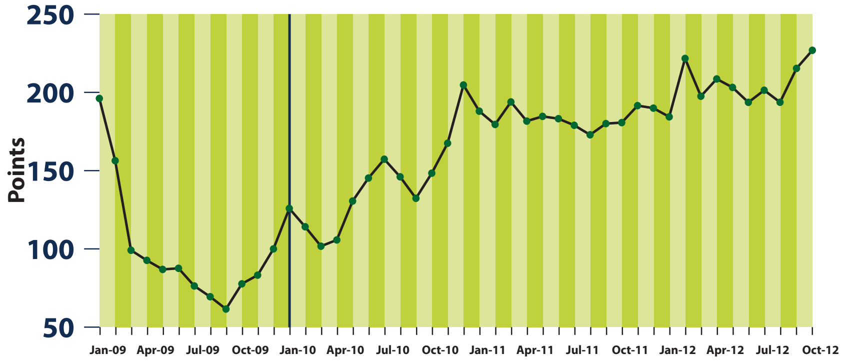
Oil

The front month Brent crude future price fell for a second month in a row by over $3 in October or 4% in euro terms on weak corporate earnings reports for Q3, 2012 and some weak economic releases and assessments. These factors contributed to erode investor confidence and push oil prices lower.

By the end of October, more than half of the companies in the S&P 500 had reported for the third quarter and there was a low percentage reporting sales above estimates for Q3, 2012 and a high number guiding future earnings performance below market expectations for Q4, 2012. As commodity markets, including the oil market, have transformed into financial markets in recent years and become increasingly correlated with equity markets, the weakness seen in the S&P 500, Dow Jones and NASDAQ over the month, weighed on oil prices.

On the economic front, despite some positive releases suggesting the US economy is improving, the ongoing erosion of China's economic strength and a warning from the IMF that austerity may be taking a bigger toll on global growth than it had previously thought, added further pressure to oil prices. More announcements from OPEC that oil supplies were comfortable and from the IEA that only a serious supply disruption would merit any release of strategic oil stocks added additional downward pressure on prices.

Natural Gas Index



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

1 Mth	6%	3 Mth	13%	12 Mth	26%

Natural gas

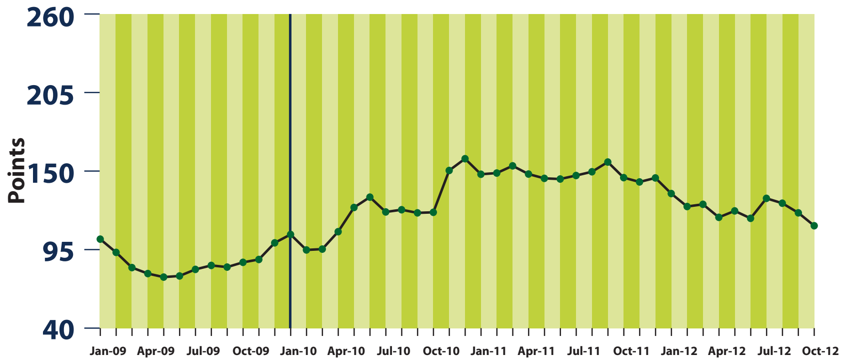
The average UK Day-ahead gas price for October continued to rise following an 11% increase in September. However, a 6% price increase was not as dramatic. Gas supply anxieties supported prices due to issues with piped gas from Norway and a lack of sea-borne gas arrivals in the form of LNG to Britain during the month.

The factors that raised trader anxiety during the first month of the gas winter 12/13, included a number of mechanical failures which disrupted Norwegian supplies through the vital Langeled pipeline and the arrival of only three LNG cargoes to the UK in October compared to 11 in October 2011. With fewer LNG cargoes arriving to Britain, LNG flows from UK terminals were at a 43 month low in October as these terminals preserve stock for the winter ahead. This lack of flow, combined with issues with Norwegian gas deliveries, deprived the UK wholesale market of near term supply.

This meant that during the month gas was withdrawn from long range storage, which traders fear erodes the volume of gas available to meet further demand later in the winter. Ongoing train maintenance for much of October in Qatar also raised concerns about vital future LNG arrivals in the months ahead. Colder weather and rising demand also supported prices.

Despite falling oil prices, front season contracts (Summer 13 & Winter 13/14) where supported in the month by the supply issues which drove the prompt higher.

Coal Index



*Index adjusted for currency movements.
Data Source: ICE

1 Mth	-5%	3 Mth	-14%	12 Mth	-22%

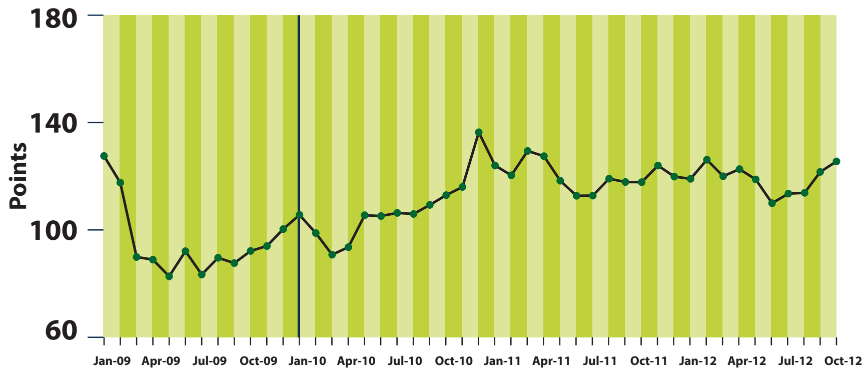
Coal

European coal prices continued to soften in October and fell 5% in euro terms month-on-month. This is the third successive month-on-month fall. Prices weakened due to factors specific to Europe and continued weakness in the global markets due to additional bearish factors in China.

In Europe, the coal market remains subdued due to ample supplies from Colombia, which is one of the world's top five thermal coal exporters, and already healthy European coal stocks. In addition, weak German wholesale electricity prices for 2013 and a slowdown in hedging activities by utilities, further suppressed coal demand. Weaker oil prices also weighed on European coal prices.

Globally, coal demand continued to weaken mainly due to developments in China. Trading activity post China's Golden Week holiday failed to pick up significantly as weak demand, strong domestic supplies and healthy coal stocks at ports and power stations weighed on the market. Slowing Chinese economic growth, when compared to a year earlier, Chinese economic growth in the third quarter of this year was the slowest since early 2009, has reduced the demand for steel making and cement manufacturing which in turn has reduced demand for electricity. Electricity in China is produced mainly by burning coal. With water levels at the Three Gorges reservoir just two meters below the all time record, strong hydro power production, up 48.8% year-on-year in August, has also suppressed demand for thermal electricity.

Electricity Index



Data Source: SEMO

1 Mth	1%	3 Mth	11%	12 Mth	7%

Electricity

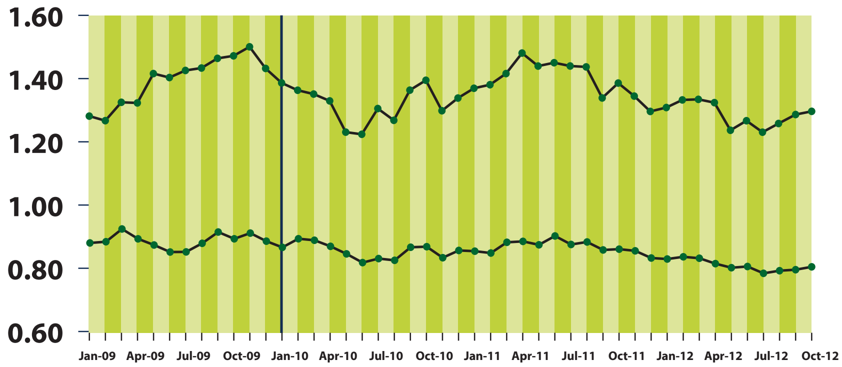
The average Day-ahead Irish wholesale electricity price rose by 1% in October.

As the majority of electricity produced in Ireland is generated by burning imported gas from the UK, UK Day-ahead and Within-day wholesale gas prices are a major factor determining Irish wholesale electricity prices. As a consequence, the 6% rise in the monthly average UK Day-ahead price in October contributed toward higher wholesale electricity prices in Ireland.

In addition, with colder weather, peak demand is starting to slowly increase from week to week. This tends to put additional pressure on wholesale prices as an increasing number of generators are required to start-up to meet rising electricity demand which adds additional cost to the system.

Despite falling average daily electricity demand since 2008 and increasing volumes of wind generation since 2009, the average wholesale electricity price for October in Ireland has been rising with increases in the key underlying fuel.

FX Rates



1 Mth	1%	3 Mth	5%	12 Mth	-7%	EURUSD
1 Mth	1%	3 Mth	2%	12 Mth	-7%	EURGBP

FX rates

The euro continued to stabilise versus the US Dollar and British Pound in October because of economic releases from the US and China that helped to increase risk appetite that in turn supported the euro.

During the month, releases from China suggest that its protracted slowdown may have run its course given that the economic growth strengthened in Q3 compared to Q2. Confidence was also bolstered by positive Chinese export, fixed asset investment, industrial production and retail numbers. The mood for risk was also supported by US economic releases that showed better than expected economic growth in Q3, 2012 and indicated improving consumer sentiment, retail sales, manufacturing, industrial output and housing. Rather than strengthening the US Dollar, these positive numbers supported perceived riskier assets. Despite these gains, uncertainties still surround the strength of the euro given Spain's failure to request a second European bailout and rising Spanish unemployment.

Despite weakening versus the euro, the British Pound benefited from the UK's exit from recession and a diminishing chance that the Bank of England would expand its stimulus next year which would have the potential to debase the currency.

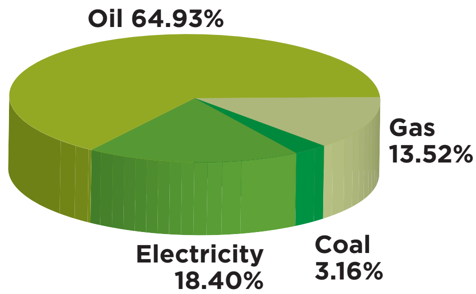
Market Outlook

As we enter the winter period, weather will have a significant influence on future wholesale gas prices and the US-based Weather Services International forecast that temperatures in the UK will be below average in November. Colder weather has the potential to increase wholesale prices if there are supply issues. The market did receive some positive news on the supply side as Qatargas said that LNG trains four and five had restarted after maintenance. However, the number of LNG cargoes that arrived in the UK in October was disappointing and with eroding domestic supplies, the UK is increasingly dependent on imported supplies from Norway and Qatar. Cargoes from Qatar are increasingly difficult to attract given Asia's appetite and willingness to pay a premium to secure supplies, (in US Dollar terms, energy poor Japan pays approx. 50% per million BTU's more than the UK), and precariously these vessels have to navigate the Strait of Hormuz to reach the UK.

Oil prices this month where driven lower by economic news and weakening equity indices. However, the market will closely watch the outcome of the US Presidential election and America's future policy towards Iran and its disputed nuclear programme. Heightened geopolitical tensions will of course lead to higher oil prices and in October, despite falls in the price of oil, those tensions where still present as evidenced by Iran threatening to halt all oil exports and Syria's ongoing civil war. With America rapidly approaching the 'fiscal cliff', investors will continue to assess the impact tax increases and reduced government spending would have on the US and global economy and whether China's protracted slowdown has indeed run its course.

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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