

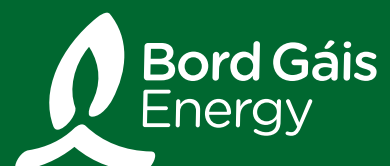
Bord Gáis Energy Index

UNDERSTANDING ENERGY

January 2013



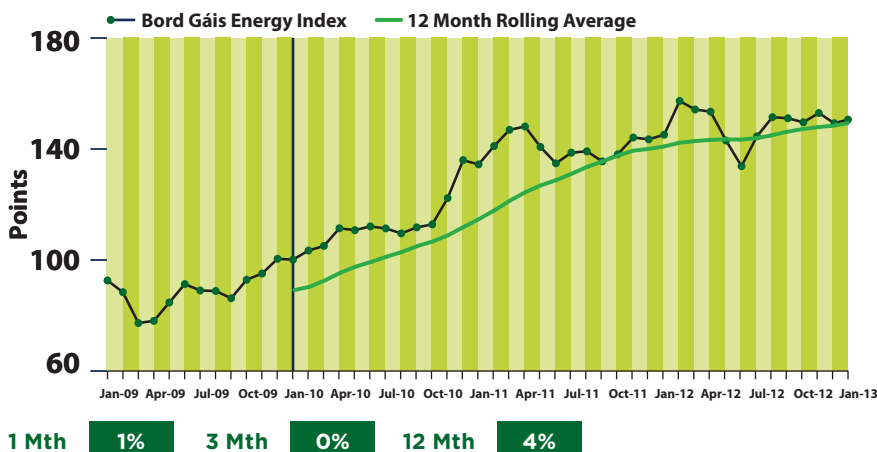
think beyond



ENERGY INDEX UP 1% IN FIRST MONTH OF 2013

STRENGTHENING EURO OFFSETS INCREASES IN WHOLESALE ENERGY PRICES

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



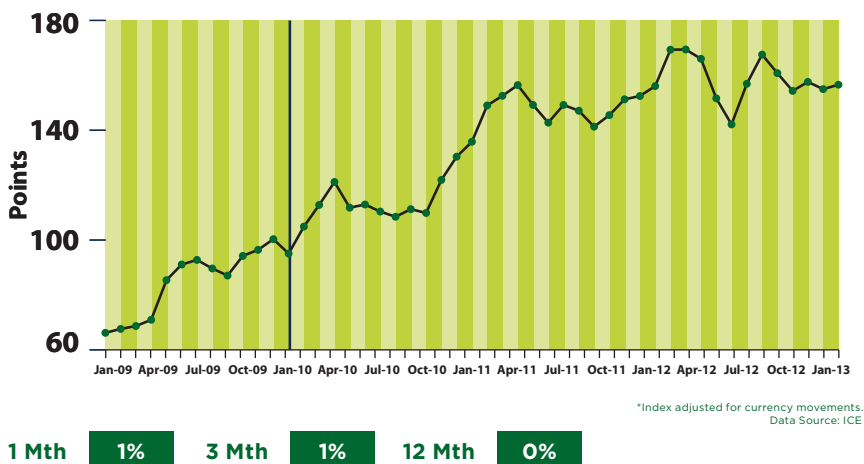
Summary:

The Bord Gáis Energy Index rose 1% in January as a strengthening euro insulated Ireland from rising Brent crude oil and wholesale UK gas prices. As a result, the Bord Gáis Energy Index now stands at 150, an increase of 4% on January 2012.

As many of the world's major economies engage in ongoing monetary stimulus programmes and sterling suffers under a looming triple-dip recession, the euro gained ground on an increasing belief that the sovereign-debt crisis has abated.

Brent crude oil prices in US Dollar terms began the month strongly, rising to over US\$115 a barrel and recording its highest monthly close since April 2012, as events in the MENA region again raised the possibility of an oil supply disruption from this critical region. Growing optimism about the shape of the world's economy, as expressed in outstanding equity performances, suggest that global oil demand in 2013 will be strong and this optimism added additional stimulus to oil prices. Wholesale UK gas prices, in sterling terms, also finished the month higher due to cold weather in the UK and a mechanical problem at a platform in Norway's key gas field. Fortunately, Irish consumers were insulated from the full adverse impact of these higher wholesale commodity prices due to a strengthening euro, which outperformed the US Dollar and British Pound. In January the Bord Gáis Energy Index rose 1%, but if it had not been for a strengthening euro, the month-on-month rise could have been 3% due to rising wholesale UK gas and Brent crude prices. Although a benefit to buyers of internationally traded commodities, a strong euro makes life more difficult for euro zone manufacturers and exporters and the current strength has been described as 'dangerously high' by the head of the Euro-group finance ministers.

Oil Index



Oil

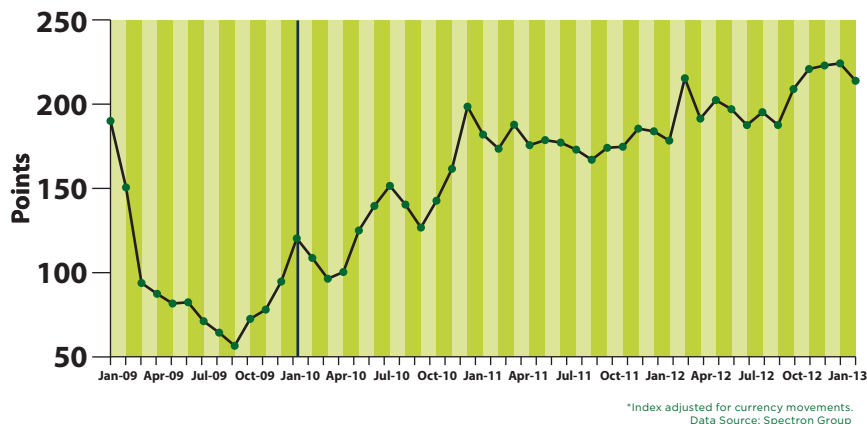
In euro terms, the front month Brent crude price rose in January by just 1% as the strengthening euro suppressed the majority of the 4% US Dollar price rise (over the month prices rose from US\$111 to US\$115).

A number of factors led to the price increase. Firstly, the world became aware of the political instability that exists in the oil rich region of North Africa following France's military intervention in Mali, the attack by Islamist militants on the In Amenas gas field site in Eastern Algeria, government warnings of imminent threats to an oilfield in Libya and an outbreak of street clashes in Egypt. Tensions in the Middle East continue to simmer with the ongoing civil war in Syria which is increasingly engaging neighbouring countries as evidenced by the Israeli strike in Syria reportedly against

trucks carrying anti-aircraft missiles for the Islamic militant group Hezbollah. In addition, Iran's nuclear programme would appear to be continuing at pace despite EU and US sanctions following a declaration from Iran to the United Nations that it is installing new centrifuges at its Natanz facility that can enrich more uranium in less time. Towards the end of the month, news that negotiations will resume between Iran and world powers helped ease some of the concern that was building.

Growing optimism that the world economy is healing following positive economic releases during the month, particularly from the US and China, had a positive impact on prices. Other supportive factors included news that OPEC's oil production in January hit a 15 month low, as major producers scaled back production. A weaker US Dollar and an extraordinary performance by equities in the first month of the year also supported prices.

Natural Gas Index



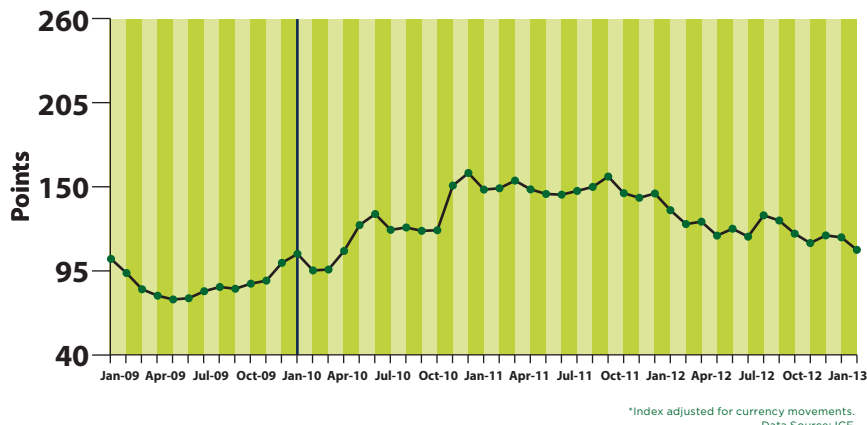
1 Mth **-5%** 3 Mth **-3%** 12 Mth **19%**

could increase. By the end of the month, storage levels were about 55% full compared to approximately 75% last year. These Continental flows have helped to offset recent limited LNG supply into the UK, with more cargoes moving towards Asia and South America, as suppliers take advantage of higher prices. UK wholesale prices also received support on the news that one of Norway's key gas fields, which supplies gas for export to the UK and Continental Europe, declared a partial outage until April 1st due to compressor problems on one platform.

Natural gas

During the month, in euro terms, the average UK Day-ahead gas price fell by 5% as Irish buyers of wholesale UK gas benefited from a weaker British Pound. The euro gained 5% in value versus the Pound during the month as sterling suffered under a looming triple-dip recession and economic uncertainty following the announcement of the Conservative Party's Manifesto for the 2015 election. Sterling buyers of UK gas would have seen a slight rise in the average wholesale Day-ahead gas prices as cold weather in the UK saw prices spike in the middle of the month to push the monthly average price higher. Strong piped gas flows from Continental Europe helped the UK meet its high winter season demand as did gas withdrawals from UK storage facilities. These aggressive withdrawals have the potential to push wholesale gas prices higher as future demand to replenish empty stocks

Coal Index



1 Mth **-7%** 3 Mth **-4%** 12 Mth **-19%**

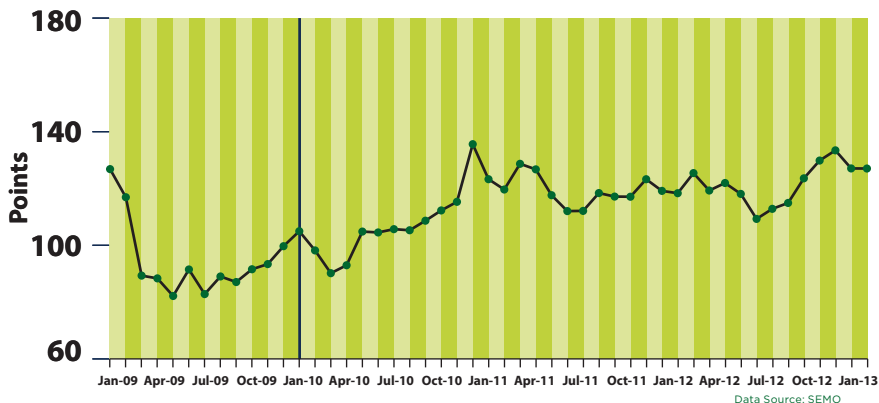
January, means that coal is the preferred choice for many utilities, despite the environmental implications.

Prices could recover in the coming weeks as workers at Colombia's largest coal producer are reported to be potentially preparing to strike as wage talks broke down. Having voted to strike, workers have until February 7th to declare a strike. A strike may remove 600,000 metric tons a week from the market, or 40% of Colombia's exports according to a Bloomberg news report. Colombian producers also reported loading delays due to strong winds on the Caribbean coast. However, ample stocks and a relatively mild winter in Continental Europe have helped alleviate supply concerns.

Coal

In January, European coal prices fell a further 7% as the European coal market suffers from over supply and depressed demand. Prices have fallen over 30% since a high in January 2011. This price fall has coincided with the shale gas revolution in the US which has seen an extraordinary increase in the production of gas. This production increase has resulted in a 75% drop in the wholesale US gas prices since 2008. This dramatic price fall has given gas fired generation a competitive edge over more expensive coal powered plants and has forced US coal producers to export coal to external markets, including Europe. During this period, Europe has also benefited from healthy supplies from Russia and Colombia. These supplies, coupled with a weak economic environment into which the coal was received, have forced down European coal prices. This coal price fall and a collapse in carbon prices in

Electricity Index



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

most polluting source of electricity, with more greenhouse gas produced per kilowatt hour than any other major fossil fuel.

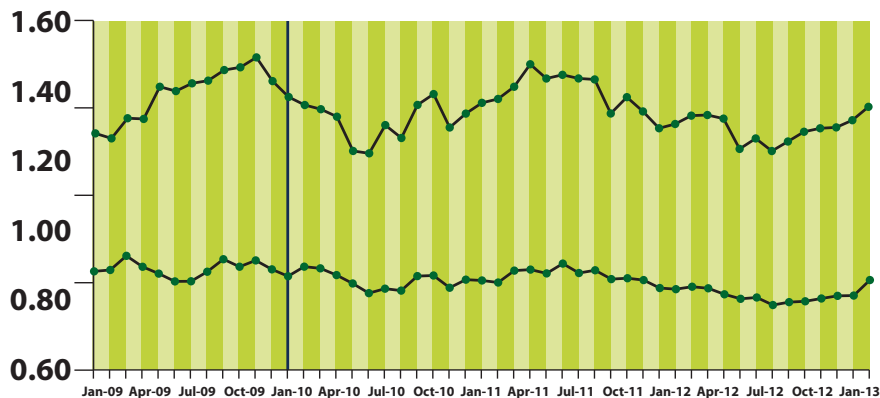
Some sections in industry welcome lower carbon prices at a time when the EU economies are struggling to grow. Others, including economists and carbon investors, say high carbon prices are necessary to send an adequate price signal for further low carbon investment.

Electricity

With falling wholesale gas and coal prices in euro terms, downward pressure was applied to the average monthly wholesale price of Irish electricity in January, despite rising demand due to the cold weather. During the month, over 65% of the electricity generated in Ireland came from burning gas and coal.

Falls in the direct commodity cost of producing electricity in Ireland was complemented by new lows in the cost to abate carbon emissions. Carbon is suffering from oversupply and on failure to reach political agreement on how to restore an appropriate supply/demand balance. Low carbon prices, coupled with very weak coal prices have given coal plants a competitive advantage over gas plants both in Ireland and across Europe. According to The Economist magazine, the amount of electricity generated from coal is rising at annualised rates of as much as 50% in some European countries. However, coal is by far the

FX Rates



1 Mth 3% 3 Mth 5% 12 Mth 4% EURUSD

1 Mth 5% 3 Mth 7% 12 Mth 3% EURGBP

that it will continue its own US\$85 billion a month monetary stimulus programme and Japan announced an inflation target that will be achieved by printing more money. The announcement by Japan led to a large depreciation of the yen. Given the dramatic moves experienced this month, these competitive devaluations may be seen as a means of stirring economic growth but it could ultimately have a disruptive effect on foreign trade.

The British Pound also suffered on news that the UK economy shrank in the last quarter of 2012, which has left the country on the brink of an unprecedented triple-dip recession.

FX rates

In January, the euro outperformed both the US Dollar and British Pound as the currency benefited from the feeling that a break-up of the single currency has become less likely. This sentiment was bolstered by comments from the European Central Bank President, Mario Draghi that the euro-area economy will slowly recover this year as the region's bond markets stabilize after three years of turmoil. This improved sentiment towards the euro is reflected in falling Italian and Spanish government bond yields.

Another factor playing out in these currency moves is the impact of the explicit increase in the supply of US Dollars and British Pounds due to the quantitative easing programmes. Although not specifically designed to drive currencies down, the exchange rate weakness is seen as a useful side effect benefiting exporters. During the month, the US Federal Reserve confirmed

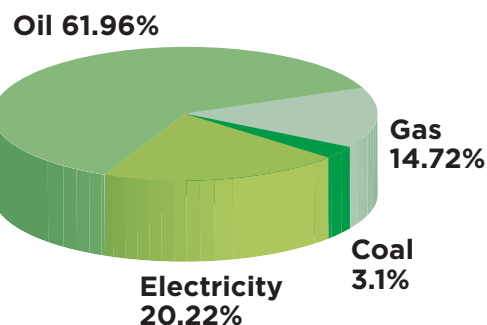
Market Outlook

As has become the norm, the outlook for Brent crude oil prices continues to be difficult to predict. On the one hand, with geopolitical concerns escalating in recent weeks, prices have the potential to rise substantially if the long threatened disruption to oil supplies from North Africa and the Middle East were to be realised. As the situation in the MENA region becomes increasingly complicated and difficult to predict, the embedded US\$20 fear premium in the price of oil looks set to remain at least in the short-term. Adding additional upward pressure to oil prices is a growing belief that the global economy could accelerate modestly in 2013 and 2014, led by the US and China. This increased economic optimism has been stoked by passive economic figures, global monetary stimulus programmes, outstanding equity performances and a belief that the euro zone sovereign debt crisis has abated. Fortunately, euro zone buyers of oil, including Ireland, were protected from price rises so far in 2013 given the strengthening of the euro versus the US Dollar. However, this is not guaranteed to continue into the future as the recent political uncertainties in Italy and Spain demonstrated that the euro is still vulnerable to swift changes in market sentiment.

Positive price relief potentially comes in the form of rising non-OPEC oil production, particularly in the US where the EIA predicts production will rise by the largest amount on record in 2013 due to the unconventional oil revolution. Unfortunately, recent actions by Saudi Arabia could offset these new oil supplies as it has begun realigning production with demand. On the negative note, despite recent economic optimism, the tone from the influential money men in Davos this month was more sober as were the World Bank's reduced economic growth forecasts for 2013. In the latter part of 2013 inflation could become a growing concern which could threaten the fragile global growth, optimism and destroy asset value.

Re-weighting of Bord Gáis Energy index

Following the SEAI's 2011 review of energy consumption in Ireland, there was a 6.4% drop in overall energy consumption. Oil continues to be the dominant energy source with most of the oil used in transport and the remainder being used for thermal energy. For the purposes of the Bord Gáis Energy Index, the total final energy consumption in Ireland fell 1,089 ktoe (toe: a tonne of oil equivalent is a unit of energy, roughly equivalent to the energy content of one tonne of crude oil) between 2009 and 2011. This fall was made up of a 1,022 ktoe drop in oil consumption (down 13.5%), a 20 ktoe drop in natural gas (down 12.6%), a 7 ktoe drop in electricity (down 0.3%) and a 40 ktoe drop in coal (down 10.98%). The Bord Gáis Energy Index has been re-weighted in January 2013 to reflect the latest consumption data. The impact has been minimal and has resulted in slight reductions in the share of oil and gas and a slight increase in the weighting of electricity in the overall Index.



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