Equity Note

June 12th 2006

Providence Resources

A CHANGED WORLD HAS CHANGED PROVIDENCE

We believe that the significant changes in global energy markets over the last few years have had a major impact on how we should think about and value Providence.

- The upward price shift for both oil and gas has significantly changed the potential value of Irish oil and gas assets, especially making frontier licences more valuable.
- Much of the world's oil and gas endowment is becoming increasingly 'political'. Off-limit areas and/or the growing threat of nationalisation increase the attractiveness of a portfolio of assets in northwest Europe.

We believe that Providence has moved rapidly to maximise the opportunity brought by these changes.

- It has a new CEO, focused management and is quoted on AIM. It has also put in place a flexible financing package with Macquarie Bank to the value of €50m.
- It has brought a new level of attention to Irish oil and gas licences, especially off the west coast, where the scale of target size is much bigger than anything previously associated with offshore Ireland. This led to the entry of ExxonMobil into a joint venture deal on its Dunquin prospect. We also expect a partner to be brought into its Spanish Point project.
- Very importantly, it is pursuing plans for an active drilling programme in Ireland and overseas during 2007.

Share price performance (7.8c)

Company data

Reuters/Bloomberg	PRR.I/PRP ID
List	AIM/IEX
No. of shares	2098m
Market cap	€164m
One-year high/low	10c/3.4c
Daily volume	2.372m
Sector	Resource

Contact details

Analyst	Job Langbroek/Caren Crowley
E-mail	job.langbroek@davy.ie/caren.crowley@davy.ie
Research	353 1 6148997
Institutional Equity Sales	353 1 6792816
Website	www.davy.ie
Bloomberg	DAVY<GO>

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VALUATION SUMMARY

Providence is essentially an exploration company with different projects at different phases in the exploration and appraisal cycle. We believe that the best way to value such a company is to use a risk-weighted approach – applying exploration risk to Providence's share of the value of a successful outcome.

Using a $50 per barrel oil price and gas at 35p per therm, this (approach) produces a value of 24 euro cents (c) per share for Providence.

The market does not normally pay the full value of risk-weighted assets, usually preferring to apply a further discount to take into account future dilution and other uncertainty. However, Providence meets two important criteria for an exploration company: the market price is comfortably within our risk-weighted valuation, and there is very generous value leverage or success case upside on many of its projects.

Obviously a positive drilling result, but also evidence of further industry interest in its portfolio, will help to bridge the gap between our value assessment and the current share price.

THE INVESTMENT BACKGROUND IS NOW VERY DIFFERENT FOR OFFSHORE IRELAND

Because global energy markets have changed dramatically, investment offshore Ireland is now a completely different proposition. The most obvious change is the advent of much higher oil and gas prices. While oil attracts the headline attention, northwest European gas prices have also shown a remarkable increase in recent years.

But other factors are also relevant:

- It is becoming more difficult to find major new hydrocarbon provinces/basins that are accessible to replace oil and gas that have been consumed. Russia and the Middle East contain large amounts of undeveloped oil but are off-limits to much of western industry.
- The shift towards nationalisation evident in South America, and which has echoes elsewhere, only serves to make reserve replacement a more challenging objective.

In this context, offshore Ireland has had to be re-examined. There were previously three factors identified with exploration and appraisal offshore Ireland:

- Celtic Sea discoveries were seen as too small and thus sub-commercial.
- Costs and technology challenges in the western Atlantic margin basins were seen as impeding exploration.
- Even if a discovery was made, there was no developed indigenous gas market.

The price increase in both oil and gas goes a long way to improving these problems. It makes many of the smaller targets off the south coast more viable, and it compensates for the costs associated with deep water development.

The rapid economic growth experienced in Ireland over the last 15 years has also led to the build-up of a viable domestic gas market.

The Western European margin also benefits from the fact that it provides an inventory of targets for industry within the context of a politically stable background. The combination of scale and location presumably played a role in ExxonMobil's thinking when it decided to farm into the very large Dunquin prospect/target off the west coast of Ireland.

THE EUROPEAN GAS MARKET

Gas assets in northwest Europe are steadily increasing in value. This reflects growing demand for gas and declining production rates from existing sources of production. This is also true for the Irish market, where domestic production is only some 10% of annual demand. This combination of demand growth and supply decline means that any local gas production will achieve a ready market at prices that reflect the marginal cost of importation.

Irish gas prices are dominated by the UK market. This market has seen very sharp price spikes in recent years, reflecting the fact that the UK can no longer meet demand (domestic production is down 12.5% since 2000) with indigenous gas supply. The market is further tightened by winter demand spikes based around domestic heating consumption.

LNG will set the price

Like all markets, high prices will attract new supply and the UK gas market is no different. New gas pipelines and LNG projects are scheduled to add significant new capacity, and it is estimated that by 2010 there will be nearly 200bn cubic meters of installed capacity. This is twice current annual demand in the UK. However, a large part of that new supply (up to 25%) will be mobile because LNG shipments have a choice of delivery locations (such as the USA or other locations in Europe). This will set a floor price reflecting the rate of return required for LNG projects – estimated to be around 25–30p per therm. Adding in frequent demand spikes during the winter months should ensure average pricing above this baseline level.

Irish gas prices will reflect this baseline price plus pipeline tariffs to get the gas to Ireland. In this context, we use a long-term gas price of 35p per therm when we consider Irish gas prospects.

A LITTLE BIT OF HISTORY

Providence has been active offshore Ireland for a long time and began its operations in the early 1980s. Formerly called Atlantic Resources, it emerged in its present form in 1995 when it de-merged from ARCON, a minerals company that had acquired Atlantic Resources. Along the way it became synonymous with the Celtic Sea projects located off the south coast of Ireland. It now has a pre-eminent portfolio of former discoveries and prospects in this area. These lay dormant for long periods in the 1990s as the oil and gas industry gradually lost interest in offshore Ireland due to poor prices and lack of drilling success.

More recently, Providence has also built up a position in other significant basins offshore Ireland, the Porcupine and St George's Channel. It now has the largest position of acreage offshore Ireland. This has taken place at a time when new reserves are both more valuable and scarce.

There has also been a move in the last few years to increase international exposure, giving rise to the Aje project in Nigeria and the Lennox and Crosby projects in the UK.

OPERATIONS

The group's operations are shown in Table 1. The extent of the portfolio is obvious when illustrated in table format. It is also obvious that Providence has a substantial interest in many of the licences. To spread the risk profile and reduce costs, we believe that Providence will look to reduce its interest level through the farm-out process.

Providence has full operational capacity and has operated offshore Ireland in the past. In addition, the €50m Macquarie debt facility can be used to source cashflow or near-term cashflow projects.

Providence's Irish interests broadly split into a suite of licences off the west coast and packages of licences off the south and east coasts.

Dunquin and Spanish Point

The Dunquin project in the Porcupine is the star of the show in terms of scale and size and also points to the way forward. This project was worked up as far as it could be by Providence and then farmed out to ExxonMobil. The same process is being undertaken for the Spanish Point prospect at present. We believe a similar exercise is underway (or will be underway) for much of the remainder of the portfolio.

It is worth noting that Dunquin is exceptional in scale, even in an international context, and consequently is attractive to industry. ExxonMobil rarely invests in third party leads, and Dunquin marks its re-entry to Irish exploration after many years. While Spanish Point is also a large-scale project and should be a viable farm-out project, it may prove longer to procure partners for some of the Celtic Sea licences.

WEST COAST OF IRELAND

There have been several prominent oil and gas discoveries off the west coast of Ireland. However, most of these were made at a time of lower oil and gas prices and less advanced technology. The licences containing these discoveries were relinquished over the years. This proved to be an opportunity for Providence which, because of its local contacts and database acquired since 1981, was able to see and capture the opportunity in these licences. Providence was the only company to have applied for these licences in 2004.

South Porcupine Basin – Dunquin

Prominent among its west coast assets is the Dunquin South prospect. Mapping indicates that it is large enough to contain recoverable volumes of up to 20 TCF and 3bn barrels of oil in place. Given the prospect's deepwater location some 200km off the west coast and the complex geology of this massive structure, well costs are estimated to run as high as $50m per well. In order to finance a drilling programme for this frontier exploration prospect, Providence's strategy was to look for a partner among the oil majors. It achieved this through a landmark deal with ExxonMobil. Providence also signed an AMI (Area of Mutual Interest) with ExxonMobil to look for other targets in the South Porcupine Basin.

Central Porcupine Basin-Spanish Point

Further north, a second licence in the Porcupine Basin holds the Spanish Point and Burren discoveries, both of which flowed oil from wells previously drilled. Providence can actually trace its first involvement in this discovery back to 1981, when it participated in a well that flowed at 1,000 barrels of oil per day from one of four sand zones in an extensive hydrocarbon column. Low oil prices meant the discovery was never followed up and the licence was relinquished in the late 1980s. Since then, various operators have held and also relinquished the licence, which was eventually acquired by Providence in 2004.

Since then, Providence has carried out third party reservoir analysis and looked at various development options. It believes the project has a gross value of $2.2bn on a median case outcome. A re-evaluation of technical data at Spanish Point suggests that the structure could contain 1.4 TCF and 160m barrels of oil equivalent.

A data room has been opened, and there has been a high level of interest from industry. It is too early to conclude what the deal structure is likely to be, but we expect Providence to look for a carry through drilling. As it is an appraisal project and not an exploration project per se, the terms could be more in favour of Providence than the Dunquin outcome.

The Burren oil discovery (flowed at 740 barrels of oil per day) is in the same licence as Spanish Point. However, the well never reached target depth, and there are indications that it was not optimally located. Further work is required which will include an assessment of a new zone-designated Burren deep. This is a new zone with a potential target size of up to 3 trillion cubic feet of gas.

Farming out equity interests in the west coast licences will be critical in bringing the prospects from exploration stage through to appraisal. Given that industry is struggling to replace reserves lost to production and is currently cash-rich, the attractiveness of this acreage is apparent. The size of the prospects certainly merit the risk involved, although it is clearly an area best suited to larger oil companies alone.

CELTIC SEA AND GEORGE'S CHANNEL AREAS

Providence's assets within the Celtic Sea include several discoveries (Ardmore, Hook Head, Helvick, well 50/6-1 and Blackrock) and one exploration prospect (Glandore). While no one discovery or prospect has yet shown itself to be sufficiently robust to be developed as a stand-alone venture, the key to unlocking value in this area is to look at developing all or some of these oil and gas accumulations together.

The Ardmore structure is believed to contain up to 30 BCF of gas with potential for further reserves in the deeper zones. It is hoped to initiate development options for this prospect during the current year following a 3D seismic survey.

The demand for gas could be a major factor in any development of the Celtic Sea portfolio. The presence of the mature Marathon Kinsale Head field means that there is existing infrastructure present through which smaller fields could be produced. A precedent exists for this already by way of the Seven Heads project.

A long offset seismic survey was also undertaken over the Blackrock discovery, a large feature located in the southwestern end of the Celtic Sea. A discovery well in 1973 logged oil in Wealden Sands, and a second well in 2004 demonstrated the presence of extensive reservoir sands, formerly the main risk in the prospect, but did not record any oil. It is now believed that a structural fault to the north of last year's well acted as a seal and prevented the migration of hydrocarbons.

Hook Head is a very significant project for Providence. The structure was one of the first targets to be drilled in the Celtic Sea and the first well logged oil and gas zone over circa 22m meters. A follow-up well recorded oil and gas shows. Remapping suggests a target of around 85m barrels. It is one of the primary farm-out candidates for Providence.

Off the southeast coast of Ireland, Providence has built up an extensive licence position in the Irish side of St Georges Channel. It believes this area to be prospective for gas with a portfolio of targets at both the Triassic and Jurassic levels. Several sizeable prospects (Dionysus, Pegasus South and North) have been identified with over 1 TCF of combined gas targeted.

The Jurassic System has already been shown to work in the nearby Marathon-operated Dragon gas field. This discovery actually extends into the Providence block on the Irish side of the dividing median, with an estimated 20-30 BCF of gas in its licence. While recent drilling on the UK side to extend the size of the Dragon field was not successful, the reserves already shown to exist on the Irish side were not affected.

NIGERIA (AJE)

Providence is part of a consortium that is currently involved in an appraisal programme of the Aje structure, located about 15 miles offshore Nigeria in the Benin Basin. Providence Resources joined the Aje consortium in January 2005. Providence's partners in the consortium are Lundin Petroleum, CMI, Syntroleum, Palace Exploration and the Nigerian YFP.

Under the terms of the agreement, Providence contributes 13% of the costs of exploration and development. After these costs have been recovered, it will receive 7% of the revenues from the block.

After the Aje-1 discovery well in 1986, which flowed gas and oil at a rate of 2,262 barrels of oil per day, two further wells were drilled. Aje-2 was drilled 1km to the east of the discovery well and flowed oil at 3,743 barrels per day. The wells also flowed at a cumulative rate of 60m cubic feet of gas per day. The third well was targeted at what was believed to be the up-dip section of the structure. However, contrary to the well prognosis, the Aje-3 well was drilled down dip. The structure is located on a shelf break, which suggests that the depth conversion of seismic data was not correct and needs to be revised. The 3D seismic grid is currently being reprocessed.

The result of Aje-3 means that former expectations for oil and gas reserves have had to be reviewed. It is likely that the gas play previously identified in the Turonian is more extensive and opens up to the north into the shallower water area. This could give this play the potential for substantial quantities of gas and associated liquids. However, the extent of the oil play in the Cenomanian is less clear, with the results from Aje-3 not fitting into prior models and prognosis.

The end result is that another appraisal well is certainly required. As this will be in shallower water, rig availability should be much less of an issue because a shallow water jack-up rig is less difficult to procure than a deepwater rig. A well in early 2007 is a possibility.

With the increase in gas reserve potential at Aje, the various options to monetise the gas become more relevant. Fortunately, there are three available options for monetising possible gas reserves:

- Gas production can be marketed either via the LNG terminal at Lagos;
- through the commissioned West African pipeline which runs close to the block;
- and/or through Gas-to-Liquids (GTL) technology in which Syntroleum, a partner in the consortium, specialises.

While the feasibility of the various marketing options has yet to be properly established, there is little development in the Benin Basin and there is likely to be a political imperative to move things along as quickly as possible.

UK

Providence's activities in the UK are focussed on cashflow generation. It has a 20% share in the onshore Singleton field in which two wells were successfully drilled during 2005. Adding in the production from these new wells, Providence's share of production is currently 120 barrels per day.

A more recent project is the acquisition of a share in the West Lennox field in the Liverpool Bay area. The well targeted at an extension of the Lennox field and had the same operator group that drilled an exploration well for oil in the Blackrock prospect offshore Ireland during 2004. The well was a classic step-out and was targeted at a relatively small accumulation of oil. The well was completed in late 2005 by the operator, CMI, and is still tight holed.

The real key to this licence is that the group may decide to work up the Crosby target, which is located to the west. This target has a size of 15m barrels – much more substantial than West Lennox reserves.

2007 DRILLING POSSIBILITIES

Providence is a pro-active explorer and will drill prospect when funds and the opportunity present. Its aim is to drill in 2007, but several obstacles must be overcome:

- It needs to procure a rig.
- It may need to reduce its level of participation to levels that are realistically more fundable.

At the moment there are no firm plans to drill in 2007, but the following are projects that we understand the company is actively pursuing:

- Another well in Nigeria – Aje-4.
- An early start to the Dunquin project offshore Ireland.
- A successful outcome to the Spanish Point farm-out programme.
- Further wells on West Lennox.
- A multi-well programme is possible for the Celtic Sea/St Georges Channel areas. This would include some of the most potentially valuable of the Celtic sea prospects - Hook Head and Pegasus.

TABLE 1: PROVIDENCE'S GROUP OPERATIONS

Region	Asset	Interest	Status	Target size *	Operational plans	Memo
Ireland – Celtic Sea						
	Blackrock	95%	Exploration	180 MMBO	2D seismic in 2006	Looking for farm-in partner
	Hook Head	96%	Discovery/appraisal	STOIIP 300 mmbls or GIIP 300 BSCF	2D seismic in 2006	Looking for farm-in partner
	Helvick	95%	Oil discovery/appraisal	Circa 1.5 MMBO	No	
	Ardmore	95%	Gas discovery appraisal	30 BSCFG	3D seismic in 2006	Looking for farm-in partner
	50/6-a	95%	Oil discovery/appraisal	12 MMBO	No	
	Glandore	95%	Exploration	NA	No	
Ireland – St George's Channel	Pegasus	95%	Exploration	800 BSCF	Seismic planned	Looking for farm-in partner
	Dionysus	95%	Exploration	800 BSCF		
	Block 51/1	95%	Appraisal	20 bcf after unitisation	Development options being considered	
	Apollo	100%	Exploration	400 MMBO	2D seismic in 2006	
Ireland – Porcupine	Dunquin	16%	Exploration		2D seismic in 2006 possible drilling in 2007	Chief exploration play
	Spanish Point	80%	Appraisal	1.4 TSCF, 160 MMBO	Data room opened for farm-out, 2D seismic in 2006	Chief development option
	Burren	80%	Appraisal		2D seismic in 2006	
UK – Offshore	Licence P.099	10%			2D seismic in 2006	
	Crosby	10%	Exploration	15 MMBO	2D seismic in 2006	
	Licence P1197	25%	Exploration		Farm-out campaign	
	Licence P1205	25%	Exploration		Farm-out campaign	
UK – Onshore	Singleton	20%	Production	STOIIP 74 MMBO		
Nigeria – Offshore	Aje	7.04%	Appraisal	50 MMBO , 500 BSCF	Possible 2007 well	

Note: The target size may be larger than used in our valuation summary.

*** STOIPP (stock tank oil initially in place); GIIP (gas initially in place); MMBO (million barrels of oil); BSCF (billions standard cubic feet)**

Source: Davy; Providence Resources

VALUATION

Our valuation of Providence follows the standard approach for exploration assets. Our approach is to look at the gross target size and adjust this for what we believe will be Providence's final licence interest and then also apply a chance factor for success. This result is then multiplied by a generic value per barrel. The net result approximates to an EMV (expected monetary value calculation), often applied in the industry to rank assets.

Our value is based on a long-term oil price of $50 per barrel, and we use a long-term gas price of 35p for offshore Ireland. We use this headline oil price to produce a value of $10 per barrel for undeveloped oil offshore Ireland – we reduce this to $7.5 per barrel for the deeper plays in the Atlantic margin. We value gas in the ground at $1.25 per MCF for Celtic Sea gas and $1.00 for west coast gas.

The analysis tells us that the risked value of Providence is nearly 24c per share. Based on our valuations, the success case analysis of several assets is substantial and is in fact greater than the existing market capitalisation:

- A Dunquin North success case is worth 50c per share (fully diluted).
- A Spanish Point success case is worth 29c per share (fully diluted).

TABLE 2: VALUATION ANALYSIS (ALL FIGURES EXCEPT FINAL ROW IN $)

Region	Project	Gross oil MMBO	Gross gas BCF	Chance factor	Net oil to Providence MMBO*	Net gas to Providence BCF*	Value per share (USc)
UK onshore production	Singleton	7.4		100%	1.3		0.6
UK offshore licences	Crosby	15		50%	0.8		0.4
Nigeria	Aje	50	500	50%	1.8	17.6	1.8
Ireland Celtic Sea	50/6	12		10%	0.6		0.3
	Ardmore		30	33%		4.7	0.3
	Blackrock	50		10%	1.6		0.7
	Helvic Head	1.3		90%	0.6		0.3
	Hook Head – 50/11	70	40	33%	11.0	6.3	5.2
Ireland – St George's Channel	Dragon		80	90%		17.3	1.0
	Dionysus		780	8%		11.9	0.7
	Pegasus South		300	10%		9.4	0.6
	Pegasus North		150	10%		4.7	0.3
	Apollo	300		8%	4.8		2.3
Ireland – South Porcupine	Dunquin North	300	9000	8%	3.1	92.2	5.5
	Dunquin South	200	5000	8%	2.0	51.2	3.2
Ireland – Central Porcupine	Spanish Point	160	1400	20%	10.2	87	7.8
	Burren	60	600	8%	1.5	15.4	1.3
	Spanish Point Deep		3000	8%		19.2	0.9
Cash							0.2
Totals							33
Totals fully diluted (euro c)							**24**

*** Adjusted for estimated final equity stake**

Source: Company and Davy estimates

COMMENTS

The weight of the Irish portfolio reflects the length of time Providence has been involved offshore Ireland and the fact that Ireland was its primary focus for many years. Many of the targets have been drilled and have established quantities of 2P reserves. Consequently:

- Irish assets still make up the lion's share of both the risked and un-risked asset base.

Even within the context of Ireland, there are a number of distinct elements to the valuation:

- The west coast prospects are the most valuable given their sheer scale. These make up a little over 50% of the risked and un-risked valuations.
- The Celtic Sea makes up a little over one-third of risked and un-risked valuations.
- In the Celtic Sea the Hook Head project contributes an important part to the risked valuation. The Apollo target is the most important Celtic Sea play in the un-risked valuation.

A large portion of value is ascribed to the Western Seaboard licences. This may appear counter-intuitive given the higher risk nature of the prospects, but it reflects the sheer scale of the identified targets. Very high returns are required to compensate for costs and risks associated with drilling in frontier areas (recent deepwater rates are well over $400,000 per day).

The fact that the third well in the Aje field was inconclusive also affects how we think about Aje at this point in time. Post-well, the view is that the gas-bearing Turonian is probably extensively developed to the northeast. However, post-well oil and gas estimates have been reduced compared to former expectations.

BALANCE SHEET AND CASH FLOW

At the end of 2005, Providence had cash of €3m. Gross operating profits in 2006 are likely to be a little ahead of 2005 and, when adjusted for operating expenses, are likely to produce pre-tax profits of around €0.5m for the year. With little depreciation to take into account, this is also likely to approximate to cashflow for the year.

An element of the Macquarie banking facility is also available for day-to-day expenditure.

Providence has also guided that it wants to establish a floor of oil and gas production of around 2,000 barrels of oil per day. It has set a 24-month target to achieve this. The Macquarie debt facility has been earmarked for this purpose.

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Davy, Research Department, Davy House, 49 Dawson Street, Dublin 2.