

Energy Hedging

Energy markets are currently going through a period of tremendous change. The deregulation of the electricity market is in full swing. The market price mechanism has replaced the old system of fixed rates. The new, free electricity market is marked by sharply fluctuating prices that may lead to unexpected and unfavourable price risks. The gas market is about to undergo the same deregulation process. The more traditional oil markets are volatile too, as has been witnessed over the past years. Besides economic fluctuations in the market, political and seasonal influences are both playing a major role in the price movements of energy markets.

As a corporate executive, you obviously wish to avoid unexpected price fluctuations in these volatile markets. After all, energy price fluctuations have a considerable impact on your profitability. With this in mind, Fortis Bank has developed several instruments that allow you to manage these price risks. These instruments are quite similar to the hedging techniques already well known in the financial markets for the hedging of interest – and exchange rate risks.

Energy Swap

Fortis Bank's Energy Swap enables you to agree a fixed price for a specific energy product during a predetermined future period. Your floating price will be exchanged for a fixed price. The price of the product is set off against an official index such as the Amsterdam Power Exchange or a quotation assessed by Platts European Marketscan. This means you can always be certain of an agreed fixed price, even if the index unexpectedly rises. The differences between the fixed price and the average price of the agreed index (floating price) are settled in cash for specific periods, usually monthly. Index quotations may vary according to the port or region, hub or grid, quality and terms of delivery (FOB or CIF). Thanks to the Energy swap you are better able to control and manage price risks. The Energy Swap involves a financial settlement and not a physical delivery of the product.



Fortis Bank offers you the Energy Swap for the following energy products:

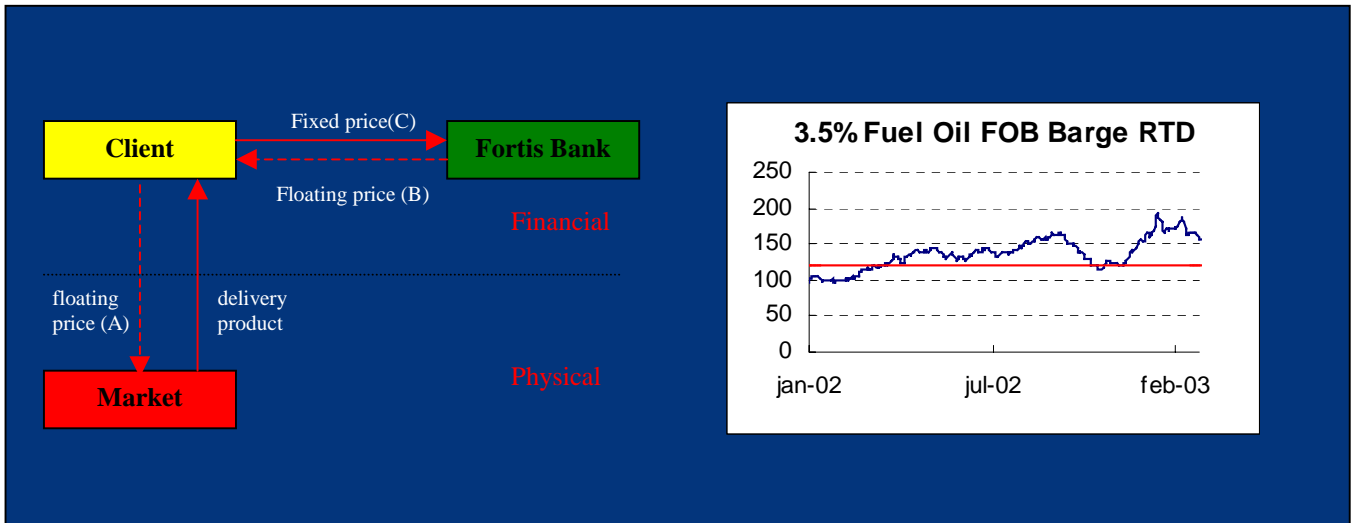
- Crude Oil (Brent / WTI)
- Light ends (Gasoline & Naphtha)
- Middle distillates (Jet Kero, Diesel, Gasoil)
- Residual Fuel Oil (1%, 3.5%, 180 & 380 cst)
- Power (APX day ahead base & peak load / EEX phelix day ahead base & peak load)
- Natural Gas (day ahead Zeebrugge hub / CDS-formula / IPE-NBP)



An example:

A transportation company has budgetted a fuel consumption of 60.000 Metric Tons (MT) for the coming year, being 5.000 MT per month. As the price risk for fuel cannot be passed on to the customers, the company decides to enter into a Energy Swap contract with Fortis Bank. As a result:

- (A) The company continues to pay the floating market price to its supplier for each monthly delivery.
- (B) The company monthly receives from Fortis Bank the floating market price, which is based on a mutually agreed price index.
- (C) In return the company pays Fortis Bank the mutually agreed fixed price.



On each calculation date, there are two possible scenarios with regard to the price of bunkeroil:

1. **Average floating price > Fixed price**
 - Fortis Bank pays you the difference between the fixed price and the floating price multiplied by the quantity per month.
2. **Average floating price < Fixed price**
 - You pay to Fortis Bank the difference between the fixed price and the floating price multiplied by the quantity per month.

Due to the Swap contract, the transportation company always pays the agreed, fixed price. The risk of volatile market prices is taken over by Fortis Bank.



A summary of your advantages:

- A fixed energy price component increases your profit stability.
- You can fix a price on every moment you like, independent of the physical delivery.
- Your cash flow will fluctuate less, to the benefit of your cash planning.
- Naturally, your anonymity is guaranteed by Fortis Bank.
- The Energy Swap is free of charge.
- Of course, you can also hedge part of your total need for energy, and stay floating for the rest.

Energy Option

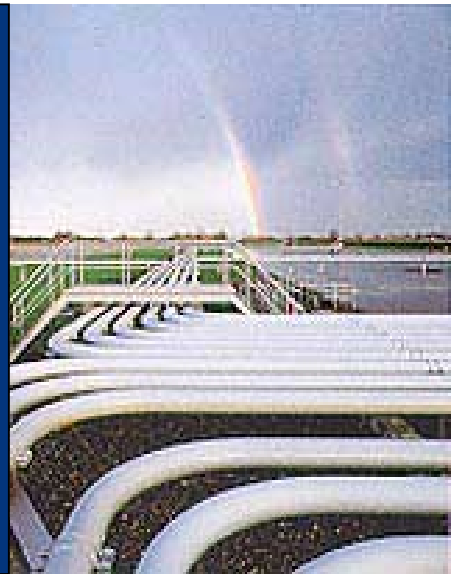
Fortis Bank also offers you the possibility to buy or sell options on a specified energy product. An option gives the buyer of the option the right (not the obligation) to purchase (Cap) or sell (Floor) an asset at a predetermined fixed price. The buyer of an option pays a premium to the seller. The difference with the Energy swap is that you are guaranteed of a maximum price when buying a Cap, while you are still able to take advantage of decreasing prices on the market for oil or power. Fortis Bank pays you the difference between the mutual agreed price level and the market price. In case the market price drops below the agreed level, nothing will occur (you just do not exercise your right) and you still take advantage of the lower price level. Likewise, the opposite, to protect yourself against decreasing prices is possible as well (Floor). This can be useful, for example when you possess unsold stock. The Energy Option can be used for the same energy products as the Energy Swap.

An example:

A paper manufacturer expects the price of natural gas to rise during the next year. The company wants to have the guarantee not to pay more for their gas next year, than a specific maximum price. Furthermore, they do not want to rule out the possibility to take advantage of decreasing prices. In order to hedge the price risk according to this situation, Fortis Bank offers a cap for the expected consumption (based on the CDS-formula).

On each calculation date, there are two possible scenarios with regard to the price of natural gas:

1. **Market price > Fixed price**
 - By exercising the option, the paper manufacturer can benefit from the pre-fixed price. The price increase is neutralized thanks to the option.
2. **Market price \leq Fixed price**
 - The paper manufacturer does not exercise the option, but fully takes advantage of the lower market prices.



Besides a Cap or a Floor, Fortis Bank offers you a combination of both, which enables you to protect yourself against price fluctuations, without paying a premium (Zero Cost). By simultaneously buying a Cap and selling a Floor, a range will be agreed on (Collar). Nothing occurs as long as the market price stays within the range. In case the market price exceeds the range, Fortis Bank compensates you for the difference. If the market price drops below the range, you compensate Fortis Bank for the difference.

The products as described above are not all-exclusive. Various structured solutions can be provided, tailored to your specific needs and requirements.