Global Risk Management

Hedging in a changing price environment

We cover your risk

Content

- Introduction to our Group
- General Risk Management – from a consumer perspective
- Hedging strategies
  - Passenger transport
  - Merchant shipping
- Considerations
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  - Risks between paper and physical
  - Managerial processes

Our Group

A/S United Shipping & Trading Company

United Shipping & Trading Company is a global group of companies with more than 1,375 employees and a turnover of some USD 8.6 billion.

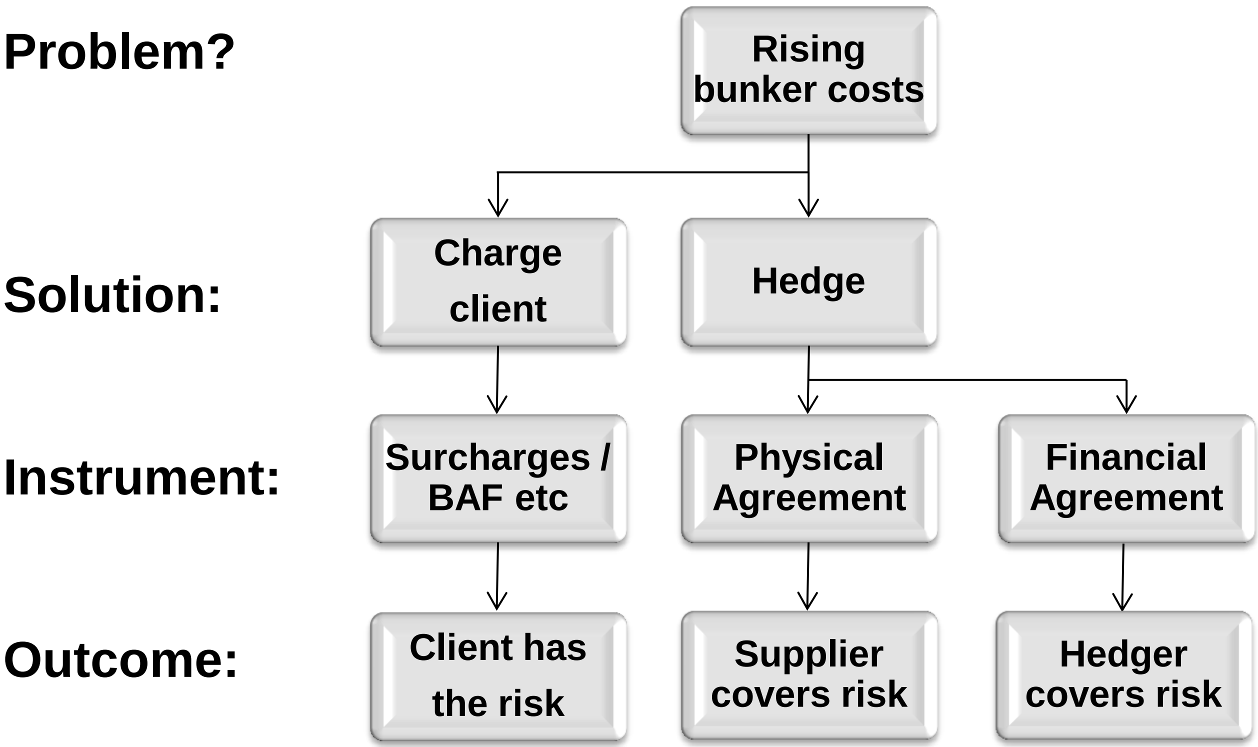
Based in Middelfart in Denmark, United Shipping & Trading Company is active in the following areas:

- Supply of fuel to the shipping market
- Oil Risk Management
- Door-to-door logistics solutions
- Tanker shipping
- IT
- Advertising

A/S Global Risk Management Ltd.

- Mission:
  - Offer customised hedging solutions to eliminate the price risk on fuel.
- Clients & Responsibilities
  - Internal Risk Management
  - Shipping
  - Aviation
  - Oil industry
  - Manufacturing industry
  - Land transport companies
- Representation:
  - Denmark, Singapore
- Experienced:
  - Almost 20 years experience in eliminating fuel price exposure for the group and 3rd parties
  - Background in transport, finance and energy sector.
- Independent trading house:
  - No ties to banks or energy majors
  - Part of large shipping group & marine fuel trading house (www.ustc.dk)
- Customer oriented:
  - Tailor made solutions
  - Make hedging accessible and understandable
  - Individual credit evaluation
  - State-of-the-Art IT solutions

How the fuel buyer manages price risk



One simple outset…:

How do you pay - versus how do you *get* paid…?

Passenger transport
or others with fixed / budgeted income

- Passenger vessels
  - Ferries
  - Cruise lines

- Navies

- Fishing fleets

Passenger transport or others with fixed / budgeted income

How you pay

- Costs are related to local bunker prices, often being Platts-benchmarked.
- **Costs fluctuate with market prices**

How you *get* paid

- Income is generated from
  - Ticket sales, agencies
  - Publicly enforces tariffs
- **Income is fixed for the duration of the budget**
- Over time income may be adjusted but may be subject to competition

Passenger transport & others with budgets
Income fixed by budget price level - costs fluctuate with bunker prices

- Bunker price based on…:
  - Platts benchmark or local prices
- Period:
  - As per bunkering plan (sailing schedule)

- Sales (ticket) prices based on…:
  - Budgeted bunker prices / Public tariffs
  - Competitiveness
- Period:
  - Regular budget periods, quarterly/annual

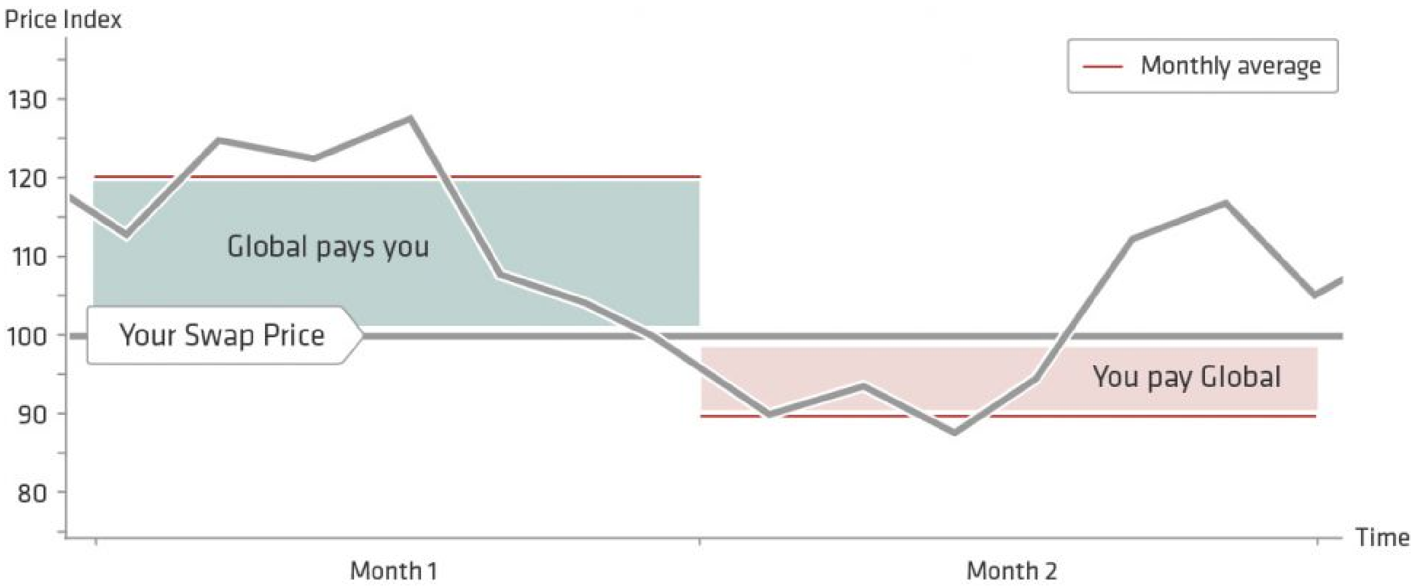
- Risk Management Objective:
  - To secure profit margins against increasing bunker prices by hedging the price risk.

- Hedge Strategy:
  - If no fuel surcharges: Buy swap for budget period for majority/full bunker volume
  - If fuel surcharges: Buy structure with suitable caps (f.x. capped swaps)
- Timing
  - When bunker budgets are agreed and/or ticked prices are fixed.

Global Risk Management | customised hedging of your fuel price risk

SWAPS

A Swap is a paper hedge agreement that allows you to fix your fuel prices at a predefined level, independent of future market movements.



Merchant shipping: vessels on contracts

- Bulk
- Tank
- Off shore
- Projects/dredging/drilling
- Exploration / seismic

Merchant shipping: vessels on contracts

How you pay

- Costs are related to local bunker prices, often being Platts-benchmarked.
- **Costs fluctuate with market prices**

How you *get* paid

- **Income is fixed (partly/fully) with the CoA agreement.**
- If CoA includes fuel surcharges or adjustment factors, make sure the hedge coverage reflects this

Merchant shipping – CoA's or Voy. charters

- Bunker price based on…:
  - Platts benchmark or local prices
- Period:
  - As per bunkering plan (Contracts)

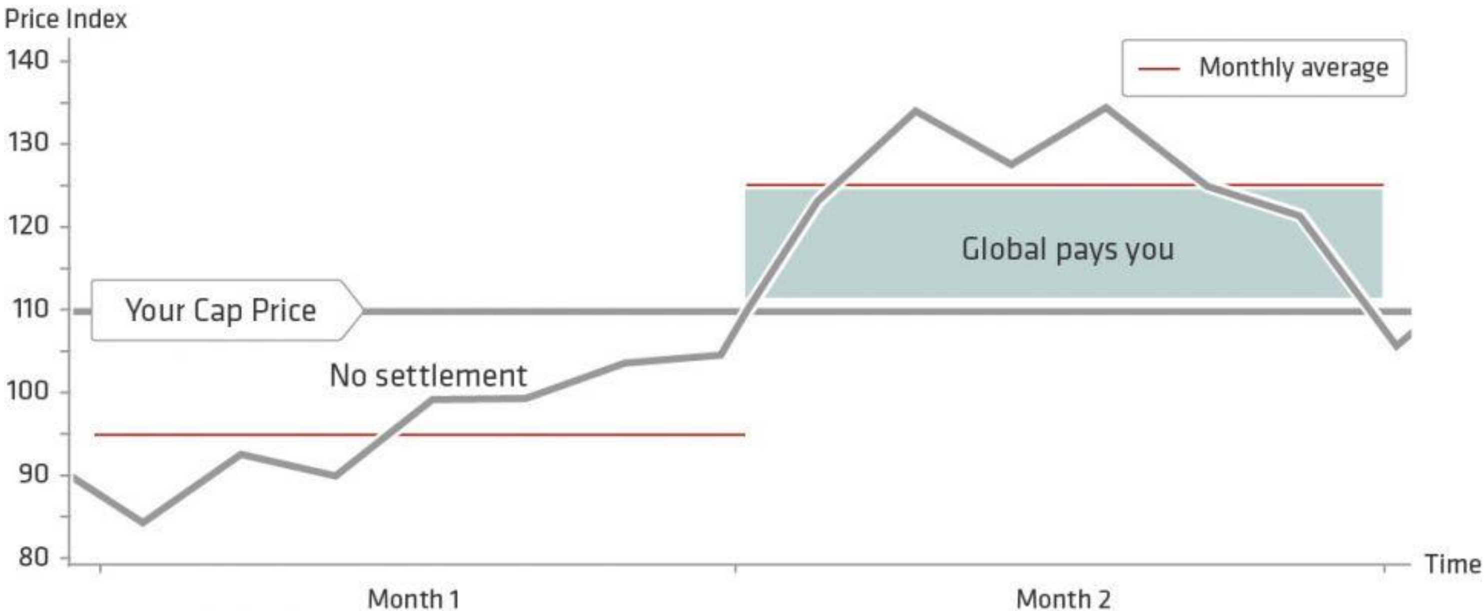
- Sales (Freight) prices based on…:
  - CoA / Charter Agreement
- Period:
  - Voyage plan, schedule

- Risk Management Objective:
  - To secure profit margins against increasing bunker prices by hedging the price risk.

- Hedge Strategy:
  - If no fuel surcharges: Buy swap for CoA period for majority/full bunker volume
  - If fuel surcharges: Analyse fuel surcharge and f.x. buy Call Option
- Timing
  - When contracts is finalised.

Call Option

A Cap is a paper hedge agreement designed to protect you from rising prices, yet allows you to benefit from falling prices. Also known as "call option".



Choice of hedging strategy

Instrument	***Benefits***	***Disadvantages***
Swaps / Futures	Protection from rising market prices No upfront premium	No downside participation
Call Options	Customised protection from rising market prices Full downside participation	Upfront premium
Capped Swaps	Customised protection from rising market prices Cash discount to swaps	Limited upside protection
Collars (Long call, short put)	Customised protection from rising market prices Low/zero upfront premium	Limited downside price participation

The right choice of hedging instrument

Instrument	*Benefits*	*Disadvantages*
Swaps / Options *Traded "Over The Counter" = directly between parties* *GRM quotes live prices*	Identical to Physical Platts reference Exists for almost products incl. MGO DMA, LS/HS Bunker etc. 100% budget protection	Higher transaction costs (bid/ask spread) Some products are illiquid Has to be closed … OR….. Has to run out (pre-agreed volumes may be costly to adjust)
Futures *Exchange quoted products* *GRM trades directly on ICE*	Better liquidity Low bid/ask spread Visibility Active trading possible	Has to be closed (client resp.) Not 100% match with Platts reference Limited number of fuel types Standardised lot sizes only Lower correlation with physical product

Basis risk: Physical vs paper market

The physical market; you Bunker here…

Although many suppliers also quote basis Platts Cargoes

Crude oil extraction (ICE)

Refining process

Cargo trading (Platts Cargoes)

Storage

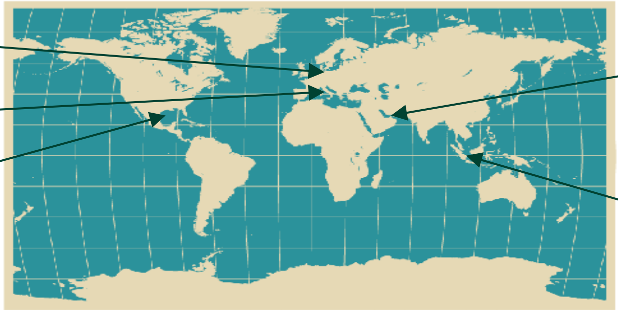
Bunkering (Platts Bunkerwire)

The hedge market: ICE Brent Crude and Platts Marketscan “Cargoes”

Oil hedging using Platts or Argus price indices

- Assessment agencies
  - Publishes ”wholesale” prices for oil products in major supply regions
- Product groups:
  - Light ends (LPG’s, Gasolines, Naphthas)
  - Middle Distillates (Heating Oils, Jet Fuels, ULSD’s, Gasoil’s)
  - Residuals (Heavy Fuel oils, Bitumen, Petcoke)
- Oil suppliers often use Platts/Argus to benchmark their prices => good match between paper and physical

Main Fuel oil paper “hubs”



The typical process – "from here to trading"

Business understanding

- Gathering data & identifying goals
  - Operation (consumption/period)
  - Price risks (buying & selling contracts, fuel surcharges etc)
  - Objectives (desired coverage, price target etc)
- Preparing and implementing risk management plan
  - Presenting exposure analysis and risk management strategy
  - Agreeing on trading parameters
  - Fixing after mutual agreement
- Review and "after-sales"
  - Displaying value of positions, daily

Formalities and implications

- Explaining the principles of…
  - Financial hedging vs physical hedging
  - Cash flow effects
  - Legal and commercial aspects
- Credit evaluation
  - Depending on volume & financials
- Trading documents
  - Terms and conditions sent for signature

Conclusions

- Oil prices are unpredictable - do not speculate, but lock in your profit in a timely manner.
- Understand your company's exposures and be familiar with how hedging strategies can balance-off your risks.
- Implement a strategy, suitable to your company's income structure and corporate risk profile.

Global Risk Management | customised hedging of your fuel price risk

Oil prices can be managed –

take advantage of it…

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