Commodity Hedging Strategies

Our hedging services are designed to provide companies with a strategic approach to manage commodity, interest rate and foreign currency risk within a controlled framework. With several years of experience, our team has constantly improved our approach in order to meet the changing needs and deliver value to our clients.

Potential Challenges of our Clients

The high volatility and the unpredictability of commodity and energy prices show the importance of monitoring and managing the risk factors directly in order to stabilize and optimize your future business activities. Changes in commodity prices can have a substantial impact on the competitiveness of your company.

- Do you monitor these risks?
- Do you have a suitable strategy in place to avoid these risks?

Reasons and benefits of hedging commodity prices

There are several reasons why a company may decide to explore opportunities to enter into hedge transactions. However, it is important to differentiate between "hedging" and "speculative" transactions.

Reasons to hedge:

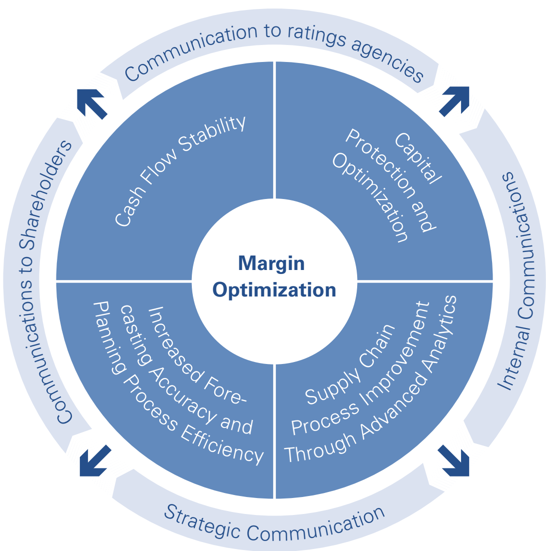
Hedging

- "We want to have greater certainty around cash flows, margins, and earnings"
- "We want to capture market share by offering fixed- or capped-pricing when our competitors will not"
- "We want to insure ourselves against catastrophic input price increases"
- "Stable cash flows create a better credit profile and may help lower our borrowing costs"

Speculating

- "We think the price is going to go up/down"
- "We can use hedging to reduce our purchase costs"
- "We believe a certain weather, market, or political event will happen within a specific time frame."

Example of hedging benefits:



KPMG's approach in undertaking a hedging strategy

KPMG has developed an approach to support clients with the complexities of developing a hedging strategy. This approach has been refined and adapted as markets and competitive capabilities have changed over the years, embedding our collective experiences from client interaction across a number of industries. This approach uses three phases to segment the key tasks associated with designing or improving hedging strategies.

A key driver of success is effective communication throughout the process in order to help stakeholders understand and accept a significant change to the company's strategy and operations.

KPMG has developed a full set of tools and project accelerators, specifically for commodity hedging and risk management project delivery. This allows us to add value to our client.

Why KPMG?

- KPMG is not a market maker, nor do we have a position in commodity markets. We are completely independent of market prices and market instruments.
- KPMG studies the organization's strategy as well as tactics; we have often observed that controls, KPIs, capabilities, and other tools become an end in themselves rather than instruments in supporting global goals and strategies.
- KPMG brings an external perspective to hedging strategies, gained through years of commodity trading work with all manner of trading operations, from investment banks to end-users, across multiple commodities and risk management profiles.

Phase 1: Identify and Measure Exposures	Phase 2: Determine Strategic Alternatives	Phase 3: Develop Supporting Infrastructure
Goals ■ Identify and calculate exposures. Classify "hedgeable" versus "non-hedgeable" exposures. ■ Tie exposures to relevant financial performance metrics ■ Determine risk tolerance	**Goals** ■ Identify potential strategies, instruments, counterperties, and hedge ratios. ■ Analyze potential strategy perfomance ■ Analyze potential risk reduction and impacts to pro-forma financials	**Goals** ■ Develop controls, processes, and policies ■ Determine regulatory requirements ■ Establish IT infrastructur ■ Integrate with business unit activity
Components ■ Risk identification ■ Risk measurement ■ Risk tolerance determination ■ Risk management objective	**Components** ■ Strategy development ■ Scenario analysis ■ Accounting and performance effects ■ Market assessment	**Components** ■ Policies ■ Control framework ■ Systems & IT applications

Change management, PMO, and stakeholder communication

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