Fastmarkets Risk Solutions

presented by

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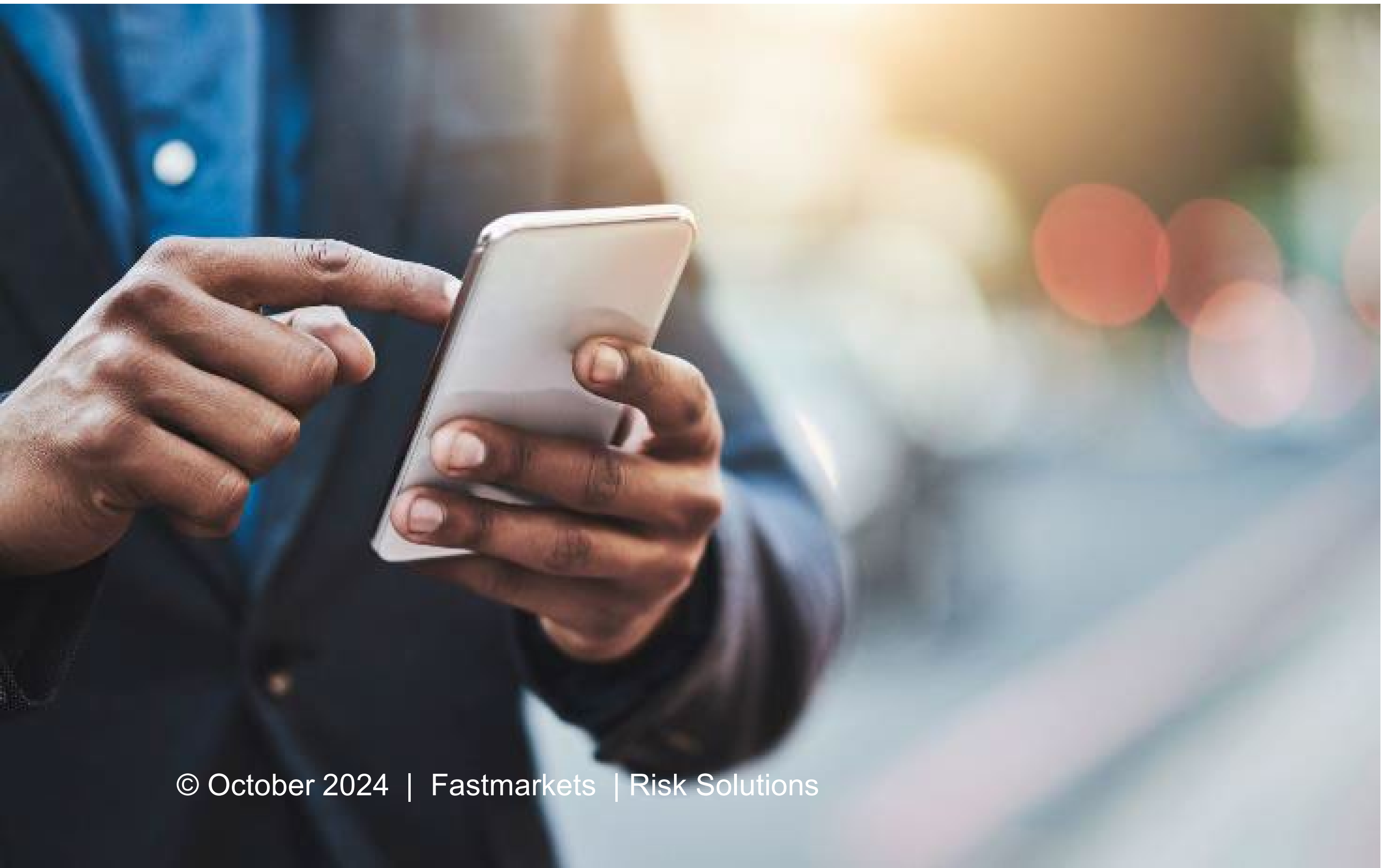
Introduction

This presentation is a description of a risk solutions consulting engagement with Fastmarkets.

The engagement will consist of several consultations and a set of commodity risk measurement and risk management deliverables.

The objective is optimizing risk adjusted profits.



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Fastmarkets

Scope of work and deliverables

- Risk measurement
- Pre-hedging set up
- Managing Risk/Hedging

Identifying and measuring risk

01 Identify specific physical commodity exposure, within the supply chain

02 Evaluate timing risks that are related to price risk

03 Evaluate exposure using Value at Risk (VaR) and quantity

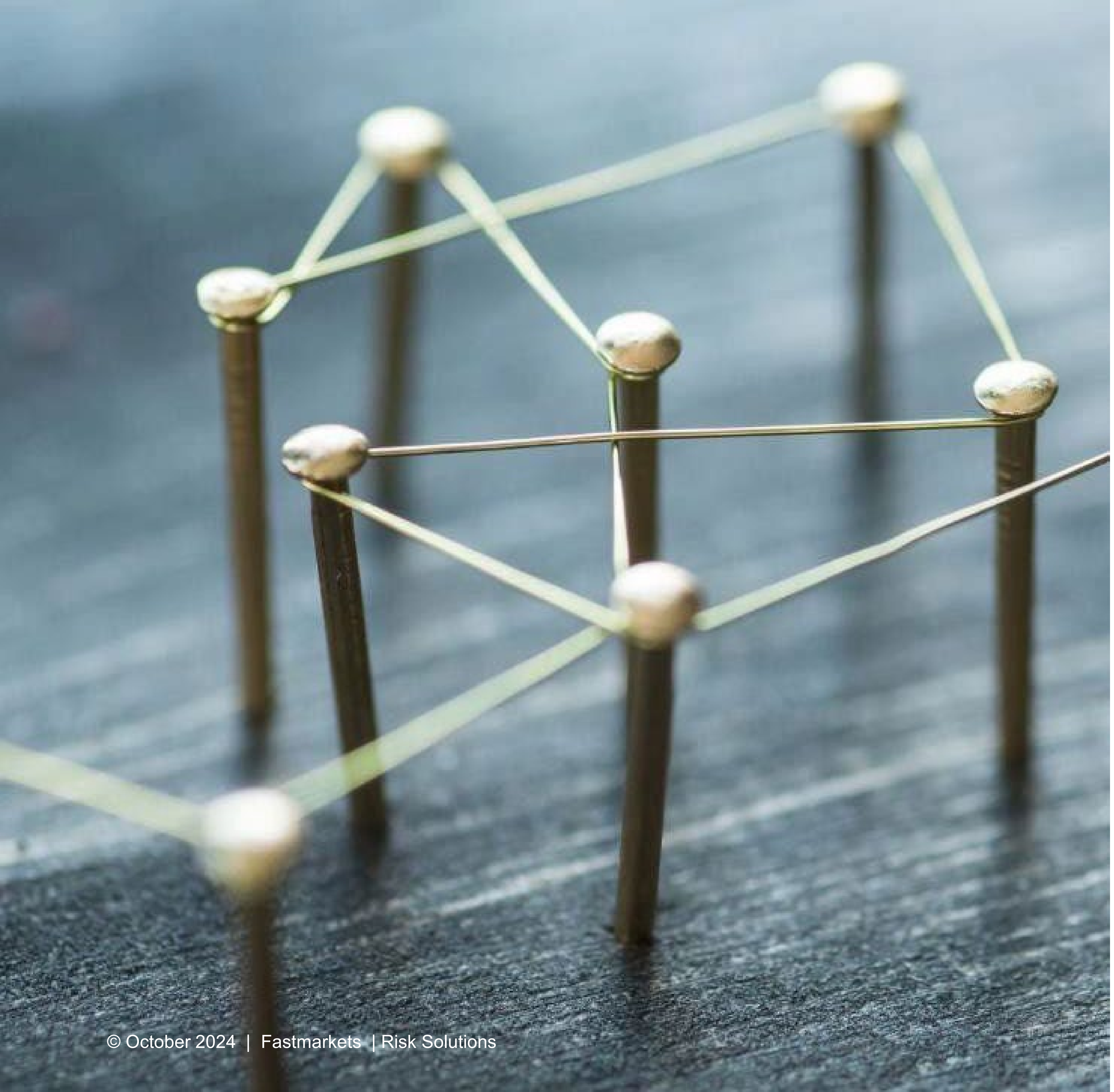
04 Collaborate on the language of physical contracts tied to an index

05 Value caps and floors in contracts and measure these risks

Engagement/initial consultation

- Detail how the combination of physical and financial purchases can benefit commercial operations
- Discuss physical contracts using an index price
- Describe price risk and the general impact on returns
    - Discuss the tools used to evaluate and mitigate risk
    - Futures over-the-counter the counter hedging
    - The nuances of futures contracts
    - Value at Risk (VaR) of commodity price risks
    - Conditional Value at Risk of commodity price risks

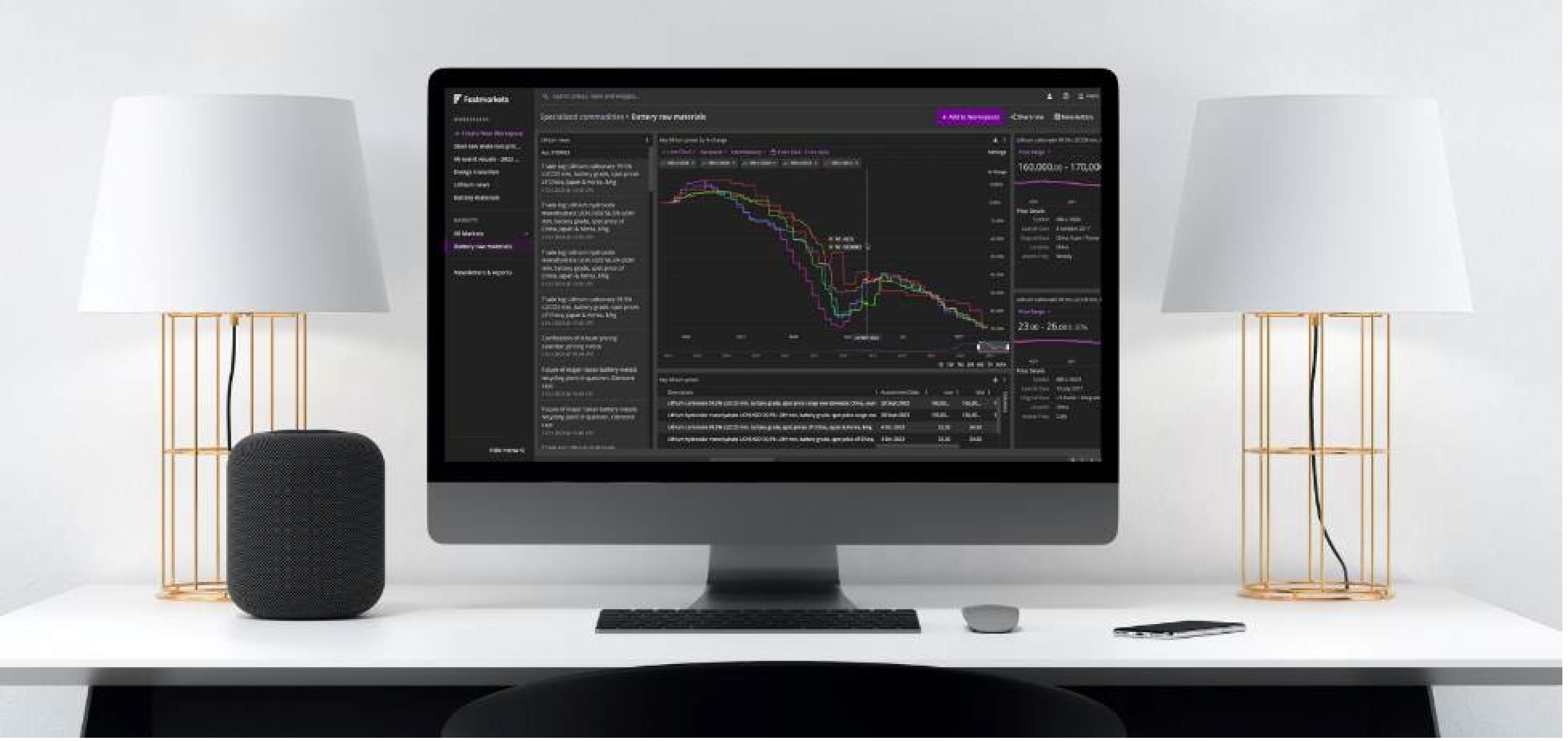
- Describe financial hedging products
    - Describe payout
    - Discuss the risk management process
- Discuss risk parameters
- Describe prices that comprise the potential greatest risks
- Discuss the risk mitigation process
- Detail physical commodity purchases
- and sales
- Detail deliverables



Deliverables

- Value at Risk* and cVaR on price exposure
- VaR with hedges
- Correlation price exposure
- Historical and forecast volatility
- Detail physical commodity purchases and sales exposure
- Talk about risk in volume and notional terms

**See the following slide for more about VaR*



Value at Risk
using Fastmarkets’ prices

- Trading desks and portfolio managers commonly use **Value at Risk (VAR) Analysis** to determine outsized risk of loss during a defined period
- Fastmarkets’ market-reflective price data facilitates:
  - An analytical approach to calculate VaR
  - The ability to calculate correlations and volatilities to run simulation VaR
- There are several assumptions used to calculate a VaR analysis
- Understand your Expected Shortfall (ES)

Set up commodity hedging plan

01 How will hedges be executed (transaction execution team)? Treasury?

02 Confirmations, invoicing, settlement

03 Systems

04 Controlling, accounting (GAP and Hedge), P&L

05 Risk Management and Risk Analytics reports

Pre-hedging setup

How to setup a risk management operation

- ISDA
- Confirmation
- Hedge Accounting
- Systems
- Operations
- Execution

How to continuously manage risk

- Discuss

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Managing risk

01 Discuss the need to mitigate price risks to optimize business profitability

02 Determine if there are financial derivatives that are correlated to underlying physical risk

03 Run correlations between physical and financial risk exposure

04 Execute hedging strategy

05 Analyse potential reserves against risk via self-insurance or reserve methodology

Deliverables

- Discuss hedging and actionable hedging tools
- Discuss pricing of potential hedges
- Describe the role of the Market Maker (for OTC transactions
- Examine futures markets
- Discuss potential ongoing price risk
- Create periodic hedging and risk report

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