



Credit Where Credit is Due

Tactics for Investing in Commodities White Paper: Commodities Week 1st October 2007

The global energy sector is now a volatile and punishing marketplace. Future energy prices are highly uncertain with commodity shortages likely. Going forward, energy firms are exposed to a series of high impact events whose magnitude and frequency are likely to increase in the future. Although energy risks may be uncertain, I firmly believe that they are not unimaginable or unmanageable – as energy risk professionals we cannot afford to make misguided assumptions regarding future trends and outcomes.

As energy professionals we must design and execute a forward-looking and comprehensive risk management process, tightly linked with the overall business strategy. By doing this we will be better positioned to make informed decisions under growingly uncertain conditions. At the heart of a sound risk management process is a deep awareness of the qualitative and quantitative aspects of risks. In an ever increasing complex and punishing global market place it is the responsibility of the Board to ensure the quality and effectiveness of the firm's risk management program.

In our previous presentation Jeffrey discussed energy risk management: Why, as an industry have we not been more innovative in managing credit risk in energy?

We have the incentive; where there is a price risk there is a credit risk and in energy we sometimes have a concentration risk which can be severe. For years now I have held the view that the credit risk from the energy trading activity needs to be dissipated in the global financial markets. Why does this represent an investment opportunity?

We are aware of a proprietary financing structure that allows for credit management of energy traded positions as well as financial market investment in the positions and/or the trading counterparts themselves.

This structure evolved from a Supply Chain Finance (SCF) solution initially developed by Citibank and SAP and now owned by a USA company called Orbian. This solution combines trade financing provided by a financial institution, a third-party, or internal funds; and a technology solution that unites the buyer, supplier and the trade financing source electronically and provides financing triggers based on one or several supply chain events. In short this is a payment platform that can allow financial markets to invest in the credit/payment risk of companies every day trading. Most importantly it can be a gateway to dissipate the credit risk in commodity trading in to the global financial markets.

This structure also has a specific investor market and it does not cannibalize existing banking lines, over \$15bn has been financed to date with settlement 100% error free.

Why is this an investment opportunity? Sometimes companies that have large credit lines or cash facilities are happy to post collateral. Why not use the credit facility as an investment opportunity to buy back their credit risk and make a higher return? By doing this even higher rated companies can actively manage their credit exposures, clear trading lines, sell and buy back their own credit paper.

This is a classic risk management investment opportunity trade. Also it's suited for the longer term, more valuable transactions as well as used by the finance department as a way to improving working capital.

Global Energy Advisory

Global Energy Advisory is a specialist energy-sector think tank, supporting worldwide thought leadership with sophisticated stochastic modelling capabilities that apply financial consequence to future energy market uncertainty. We use real market data combined with expert industry and market views to value power stations, gas storage and structured deals. Additionally, we can provide modelling solutions and support in optimising future policy and strategy decisions. We do not give investment advice.

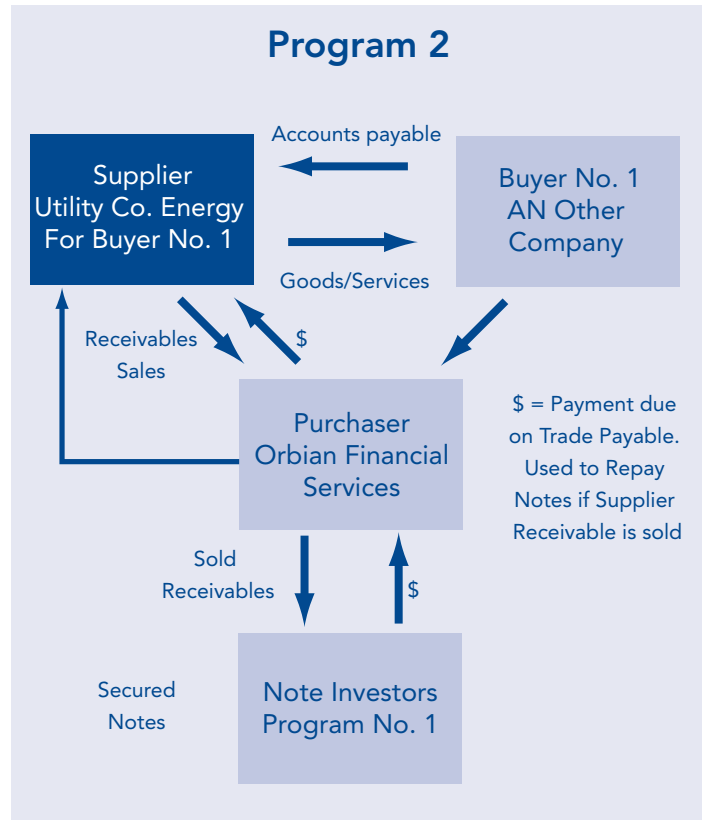
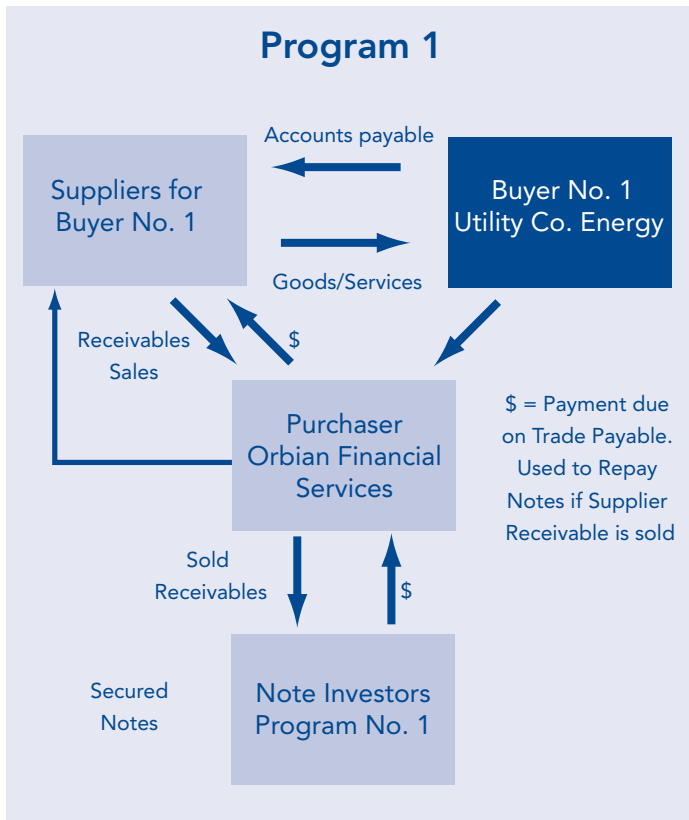


Aily Armour-Biggs

Global Energy Advisory is led by Aily Armour-Biggs. With over 20 years' global energy and banking experience including key senior industry positions, she is one of the most respected figures in the industry. Previous roles have included both Head of Power & Utilities UK and Europe for

The Royal Bank of Scotland and Executive Director UBS International Corporate Finance. She is a former Chairman of the Electricity Forward Agreement Association in the UK and was a successful power and energy trader.

Transaction diagram - Two separate buyer/supplier programs



- Utility Co. Energy issues Payment Instructions (PI) for margin payments to Suppliers (Program 1);
- Orbian issues Notes to Investors in the Capital Markets (Private Placement or otherwise);
- Orbian makes payments to Suppliers;
- If the M2M changes, the Supplier/Buyer issues a return PI (under Program 2) for margin repayment in favour of Utility Co. Energy;
- Orbian issues Notes to Investors in the Capital Markets;
- Orbian makes payment to Utility Co. Energy;
- At maturity of the PI, Utility Co. Energy repays Orbian the original obligation;
- At maturity of the PI, Supplier/Buyer repays Orbian the original obligation;

- Orbian repays the Note Investors;
- Financing program will be continuous and is not limited to type of payable due.

Note: The Ultimate objective is to pool various Buyers in a single Capital Markets Program and to that extent we have already engaged in discussions with other participants.

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Global Energy Advisory

Global Energy Advisory comprises seasoned experts in the global energy market: entry criteria are a minimum of 20 years' experience in related disciplines. At the core of our expertise is one of the most sophisticated middle offices, which offers proprietary modelling to enable us to unveil and quantify global commodity market uncertainty. We then draw on our team of senior advisors and consultants to complement and enhance our modelling scenarios, providing unrivalled clarity in an uncertain energy future.



Enterprise Wide Risk and System Development

Our solutions company – Global Energy Solutions – works closely with Microgen plc, one of the City's leading business software companies, to offer clients a clean, efficient and fast track delivery. Microgen's Aptitude business process management and business rules framework enables us to advise on best practice price risk management, implementation and control, as well as fast, comprehensive and controlled deployment of company-wide risk systems.

