MAY 2007

CROSS COMMODITY PRICING DYNAMICS & SECTORIAL HEDGING STRATEGIES

Phase I / Phase II Divergence: Dislocation In Commodity Behaviour

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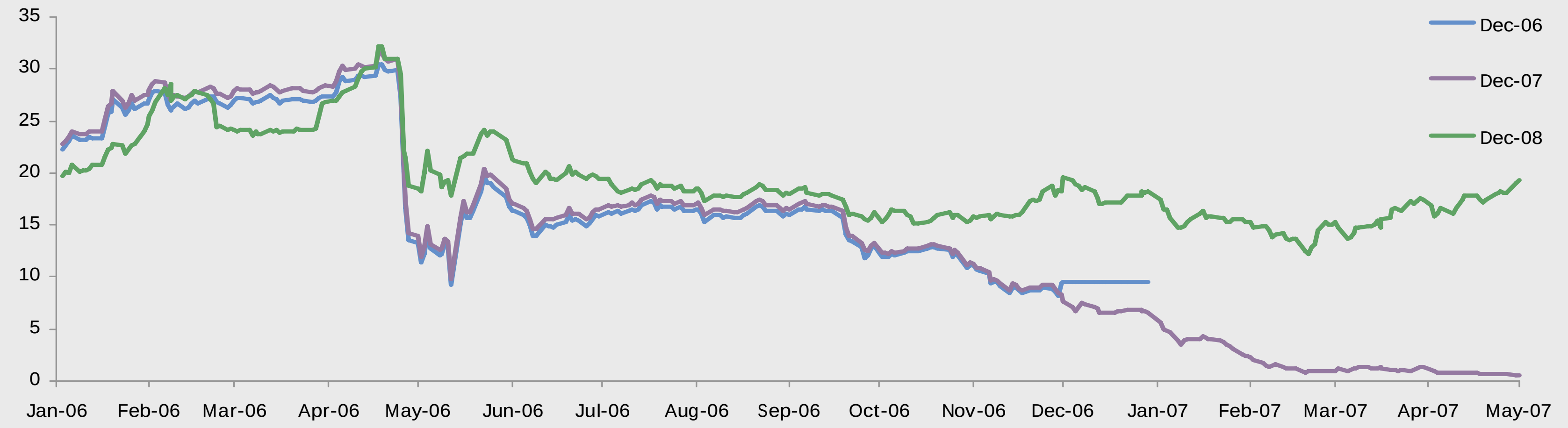
Phase I Emission Market: Key Issues

Phase I key Issues

- Phase I downside has mostly been realised
- Although Phase I volatility is high, doesn't feed through to Sparks / Darks
- Limited Phase I downside, fundamentals indicate not much upside
- Increasing liquidity / volatility risk as move towards end of Phase I

…. therefore Phase I is likely to have little further impact to corporate balance sheet!

EUA Historical Prices (€/MT): Dec06, Dec07, Dec08



Source: JPMorgan, Reuters. Data as of April 30, 2007.

Phase II Emission Market: Key Considerations

Phase II key Considerations

- **Phase II EUA price is and will be a significant part of dark / spark spread value**
  - Define EUA position correctly (delivery submission dates, cost of carry)
  - Be realistic regarding plant performance, planned and unplanned
  - Define position around contracting of fixed price contracted output
  - Being 'balanced' requires matching fixed price sales with purchases of generation fuel and emission certificates

- **Usage Of CER Allowance**
  - CERs do not move "one-for-one" with EUAs
  - Have a strategy to help with timing e.g. would CERs be worth buying now if CER was 95% of EUA? What about 50%?
  - Consider cost of cash and delivery risk in strategy
  - Be aware of the global market; demand is not limited to the EU and liable to change

This approach is not limited to power producers, can also be applied to industrials!