

Doc 95

Minutes of Fuel Procurement Advisory Committee (FPAC) No 8

Date: 27 September 2005

Time: 13:00 – 15:45

Members Present: Profs Joseph Falzon (Chairman)
Mr Saviour Briffa
Dr. Godwin Debono

Also Attending: Mr Pippo Pandolfino (as non Member)
Eng Philip Borg (as non Member)
Mr Godfrey Scicluna (Secretary)

Agenda:

1. Approval of Minutes

Minutes of Fuel Procurement Advisory Committee No 7 held on Thursday 18th August 2005 were read and approved.

2. Matters Arising

Profs Falzon asked why nothing has been done re hedging after recommendations by the Committee have been presented to the Chairman and Board of Directors. Mr Pandolfino reported that the letter sent to the Chairman and Board of Directors on 26/08/05 has been discussed by the Board according to information he received. The Board is in agreement that a policy of hedging is to be implemented but as yet has not given instructions – probably due to the hefty increase in prices seen during end of August beginning of September 2005.

Mr Briffa then mentioned the problem of Accounting Procedures connected with hedging. He explained that financial reporting when there are hedges can create problems with unrealised gains/losses. Eg. Cashflow hedge – Mark to Market. Issue: loss/gain to equity (Balance Sheet) or to Profit and Loss? Accounting Standards (eg IAS 39) state how to treat. This problem has to be brought to the attention of the Board as there can be fluctuations in Balance Sheet and/or P & L.

3. Follow up letter to Chairman

To get feedback from Chairman when he joins the meeting latter.

4. Prices of Fuel Oil, Gasoil, Diesel and Unleaded.

Mr Scicluna presented graph of Petroleum Product prices (Appendix A). Discussion ensued. Profs. Falzon aired his preoccupation that after nine months since inception of this Committee no hedging of fuels has been affected. Mr Pandolfino clarified that no "go ahead" has been received from the Board of Directors yet. Even though they agree, they think it is still not the right time to do it.

During the discussion it was made clear that it is the Board of Directors that ultimately decides what and when to hedge.

5. Hedging Programme – Fuel Oil and US Dollar

As regards Fuel Oil – same problem as discussed earlier – needs Board approval. As regards USD – Forward Contracts is the current procedure. Will explore the possibility of Eur/USD as well. USD requirements for Q4 '05 to be covered by forwards for Fuel Oil and Gasoil payments. Mr Briffa thinks

that the USD will strengthen in the short run but weakens in the long term. It was decided to purchase USD for supplies of Fuel Oil and Gasoil of Q4 (ie Payment Dec '05 – Feb '06) above USD 2.8/Lm 50% and above USD 2.85/Lm 50%.

6. Other Matters

Eng Borg informed the Committee that a tender for Unleaded and LPG will have to be issued 28/09/05. He presented two draft contracts to be included in the tender document. As there was no time to discuss such in detail, it was decided that the tender be issue as usual and the documents will be discussed in a separate meeting. Dr Debono asked whether tenders could be issued in the Government Gazette or on Enemalta's website. Ideally, to have an updated database of suppliers/brokers/traders.

The Chairman of the Board of Directors of Enemalta Eng A. Tranter joined the meeting at 14:50. Profs. Falzon asked him for feedback on the letter sent to him on 26/08/05 and for a mechanism to operate. The Chairman informed the Committee that a person has been selected to facilitate this mechanism, to start and have the building blocks in place. On hedging policy, the Chairman said this has been approved at Board level – ie the framework and direction, not necessarily the details.

The Chairman also mentioned a visit from Trafigura officials (fuel oil suppliers) to discuss how much they can take on them re hedging.

The Board approved what to do for Q4 of 2005, ie to hedge as per recommendations. This has to be communicated.

Mr Briffa asked for procedures to be in place so that Board decisions are communicated swiftly. The Chairman recalls that the Board went with the first recommendations (as in the presentation). Profs. Falzon explained why the percentages has been increased in the letter – because Q4 is now one month closer. The Chairman told Committee that the Board is acting cautiously because this is the first time with hedging.

Profs. Falzon then told Chairman about the decision to hedge the USD with forward contracts. Chairman appreciates to be informed and wants CFO to bring to the attention of the Board in next meeting. Mr Briffa informed the Chairman that certain decisions re hedging might affect the Balance Sheet or P & L of the Corporation depending on the derivatives used. Chairman requested a paper to be presented to the Board on this matter. The Chairman left the meeting at 15:30.

Adjournment

Meeting was adjourned at 15:45 for Friday 21st October 2005.

Chairman

Secretary

gs

FUEL PROCUREMENT ADVISORY COMMITTEE MEETING NO. 9

Date: Monday 24 October 2005

Time: 2.30 – 4.30 pm

Present: Prof Joseph Falzon (Chairman)
Dr Godwin Debono (Member)
Mr Saviour Briffa (Member)
Mr Pippo Pandolfino (Non-Member)

The Committee reviewed the recent discussions that took place within the Malta Council for Economic and Social Development regarding the proposed prices of electricity and petrol to bridge the financial gap that Enemalta is facing.

After an informative discussion, the Committee noted the following:

- A) The Minister is setting the pricing policy for electricity without any communication with the Fuel Procurement Advisory Committee. The Advisory Committee is giving hedging advice to the Board of Enemalta. The Board takes decisions on the basis of the policy set forth by Government. However there is no one unified policy framework regarding hedging among Minister, Board and Advisory Committee. It is suggested that such a unified co-ordinated framework is achieved.
- B) The Committee has made a presentation to the Board of Enemalta which has accepted the principle of adopting a portfolio of instruments to hedge Enemalta's exposure to fuel oil and gas oil prices. However the actual recommendations of the Advisory Committee of the specific hedging deals are taking long to be approved by the Board, by which time the market would have moved, making the approved limits unreachable. It is suggested that a quick and effective method of Board (or Chairman) approval is set up to enable the recommendations to be carried out in a short period of time.
- C) The Fuel Procurement Advisory Committee has now been mentioned within the MCESD, the press and in Parliament as the official body responsible for hedging advice to Enemalta. The Advisory Committee however cannot continue to make effective recommendations without serious and adequate analysis. Prof Falzon and Mr Pandolfino had made interviews in March 2005 to recruit two good Banking and Finance graduates to be able to build an effective Treasury Unit to conduct serious analysis. It is suggested that these two graduates be recruited as soon as possible to enable the Advisory Committee to offer advice based on serious analysis.

The Committee adjourned for Friday 4 November at 12.30pm. The Chairman of Enemalta will also be invited to attend the meeting.

Chairman

26.10.05

**Agenda for Fuel Procurement Advisory Committee
Meeting No 10 to be held on Friday 4th November 2005
At 12:30 hours in the Conference Room, Enemalta.**

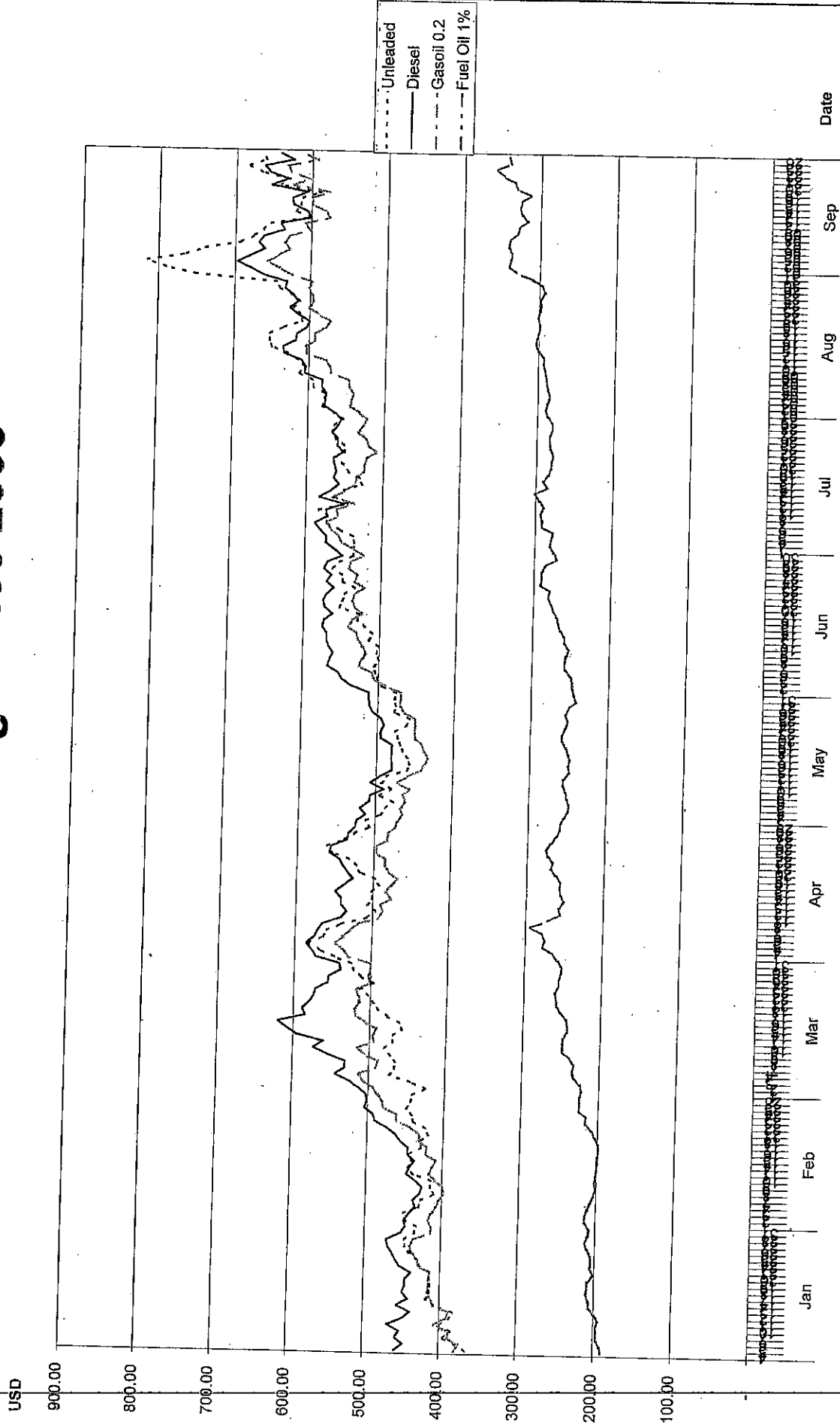
1. Approval of Minutes of Meetings held on 27/09/05 and 24/10/05.
2. Matters arising.
3. Follow up of Meeting held 24/10/05.
4. Review of hedging done by Enemalta.
5. Hedging Programme for the future 2005-2006.
6. Other matters.
7. Proposal date for meeting No. 11: WED 23. NOV. 05

AT 2.00 pm

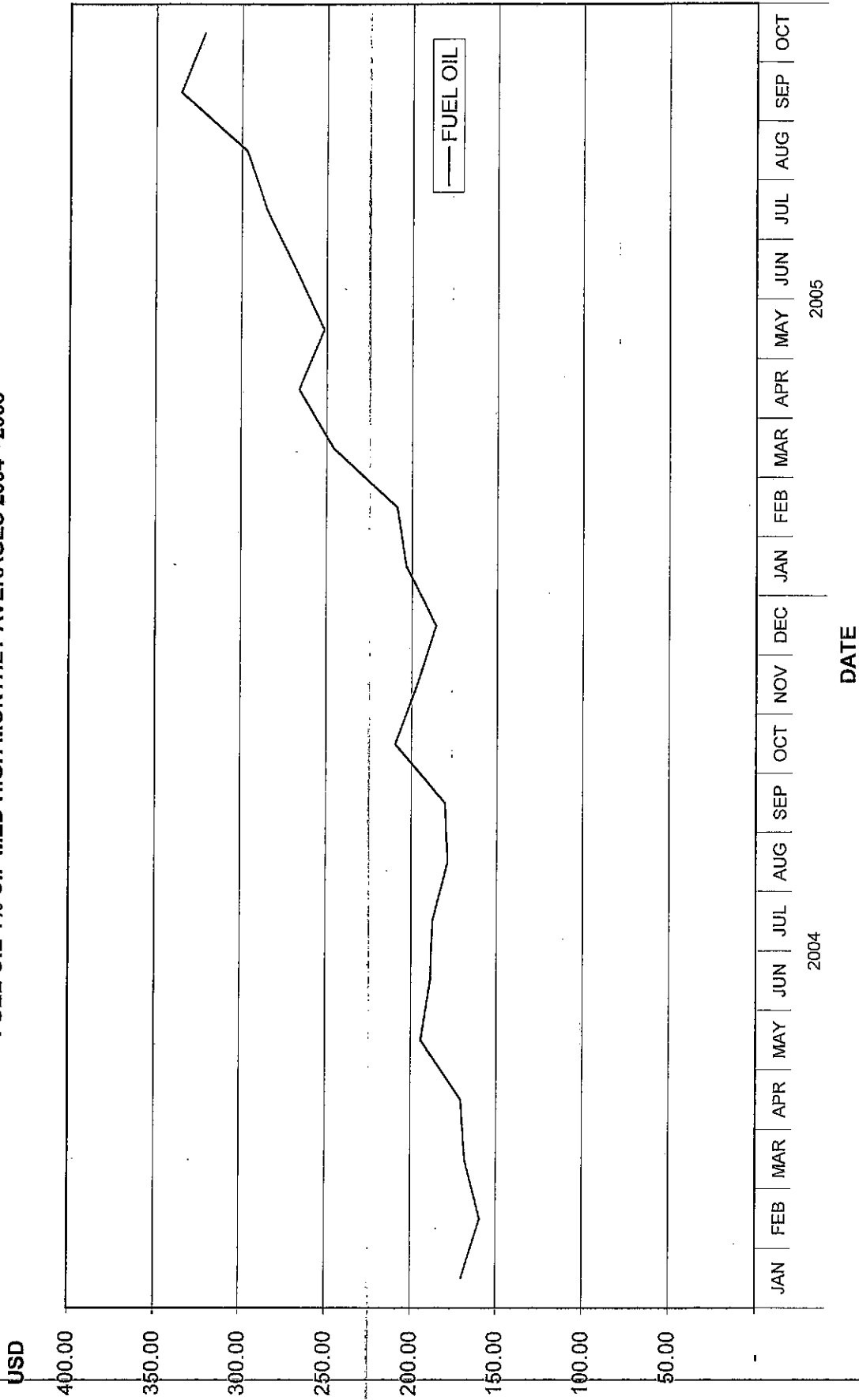
Forward Contracts for purchase of USD as at 01 November 2005

USD amount	Rate	Period	Bank	Done on
13,000,000	2.9185	01-30/11/05	BOV	27/05/2005
4,300,000	2.8240	25/11/05	Volks	27/10/2005
9,000,000	2.8300	01-31/12/05	BOV	07/10/2005
10,000,000	2.8103	01-31/12/05	BOV	17/10/2005
9,000,000	2.8015	01-31/01/06	BOV	17/10/2005
9,000,000	2.8142	01-31/01/06	BOV	26/10/2005
9,000,000	2.8135	01-28/02/05	BOV	17/10/2005

Platts CIF High Price 2005



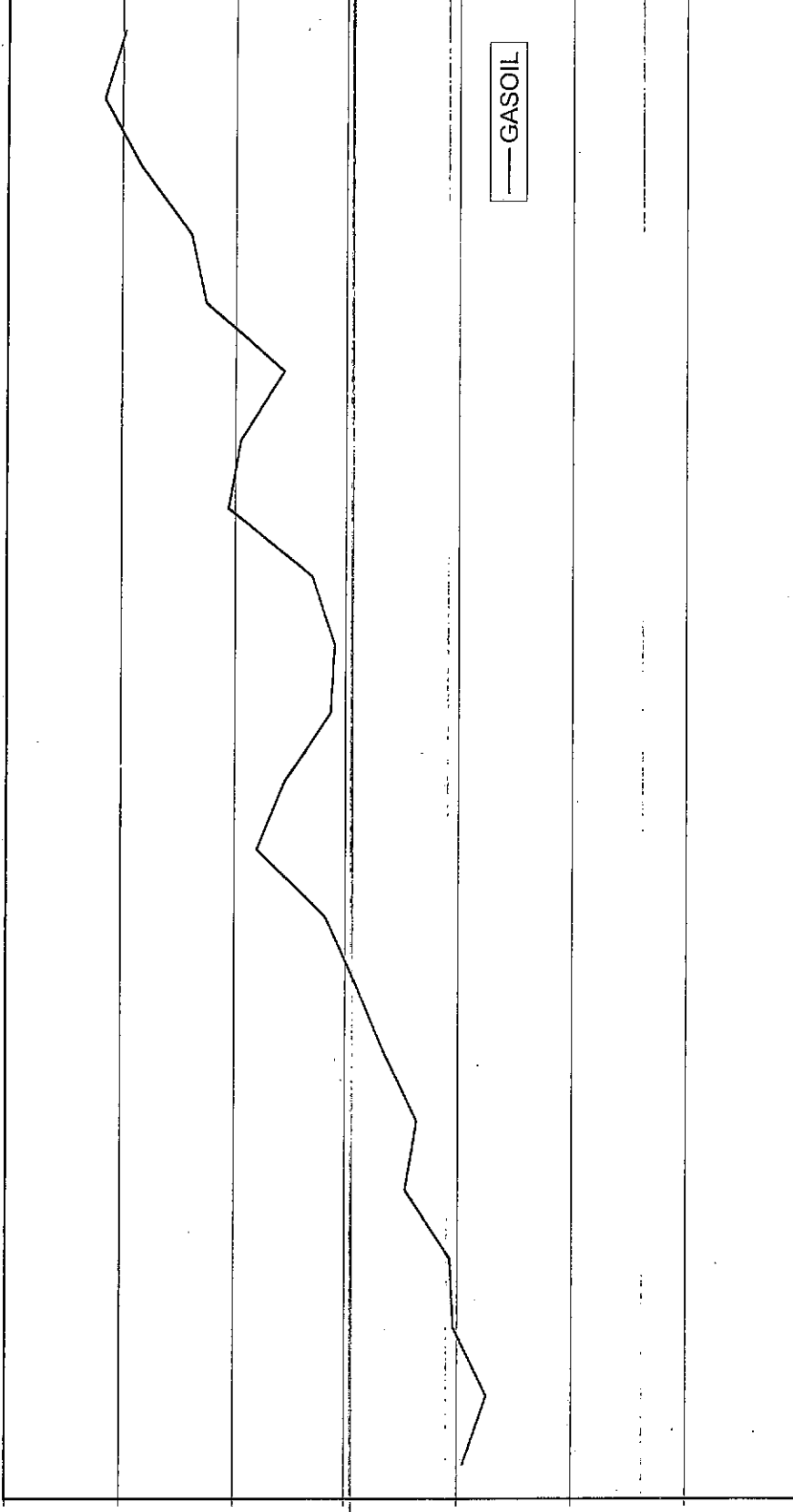
FUEL OIL 1% CIF MED HIGH MONTHLY AVERAGES 2004 - 2005



GASOIL 0.2 CIF MED HIGH MONTHLY AVERAGES 2004 - 2005

USD

700.00
600.00
500.00
400.00
300.00
200.00
100.00



— GASOIL

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT
2004

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT
2005

DATE

FUEL OIL 1% CIF MED HIGH 2005

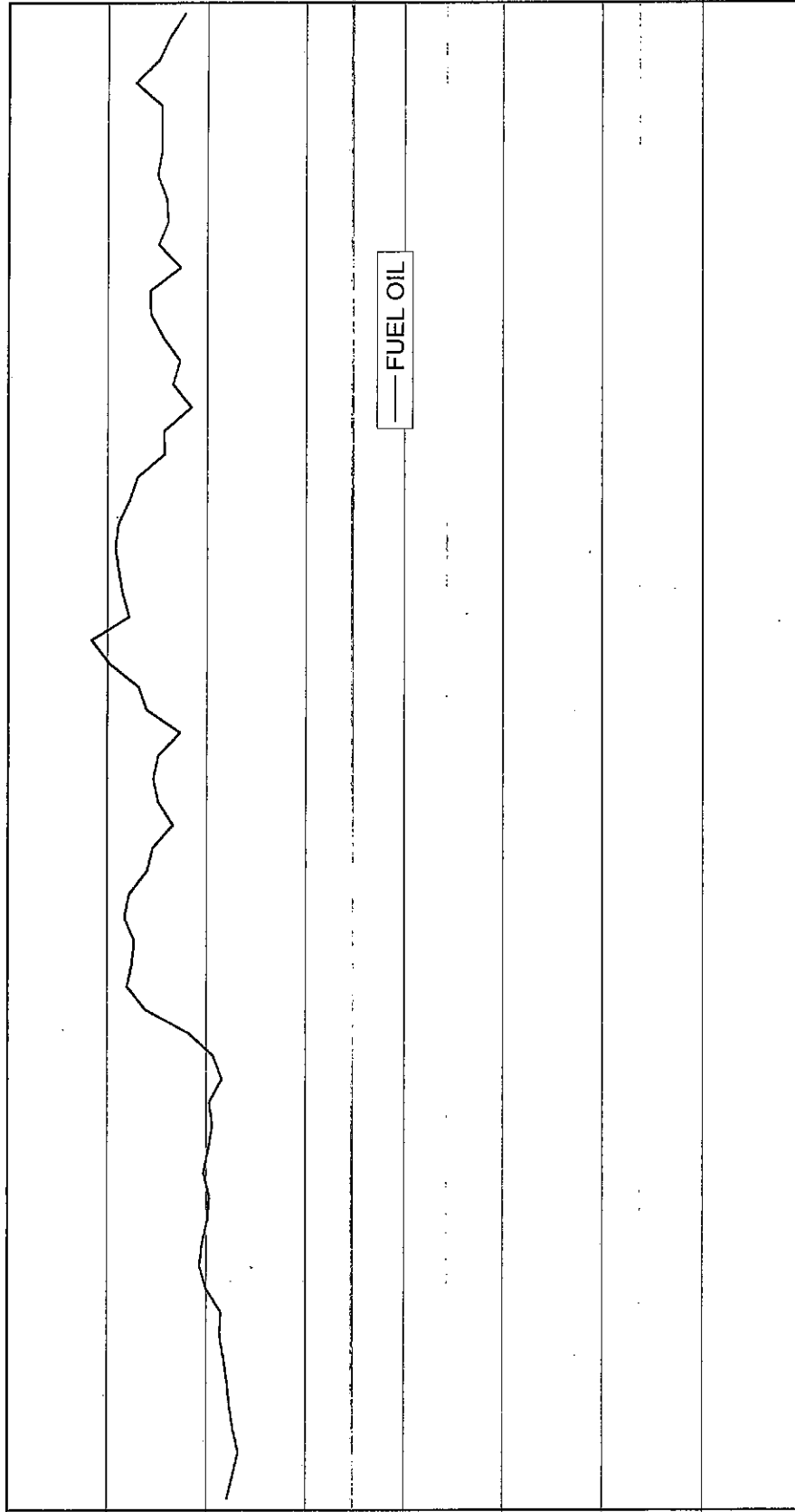
USD

400.00
350.00
300.00
250.00
200.00
150.00
100.00
50.00
0.00

— FUEL OIL

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
AUG
01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
SEP
01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
OCT

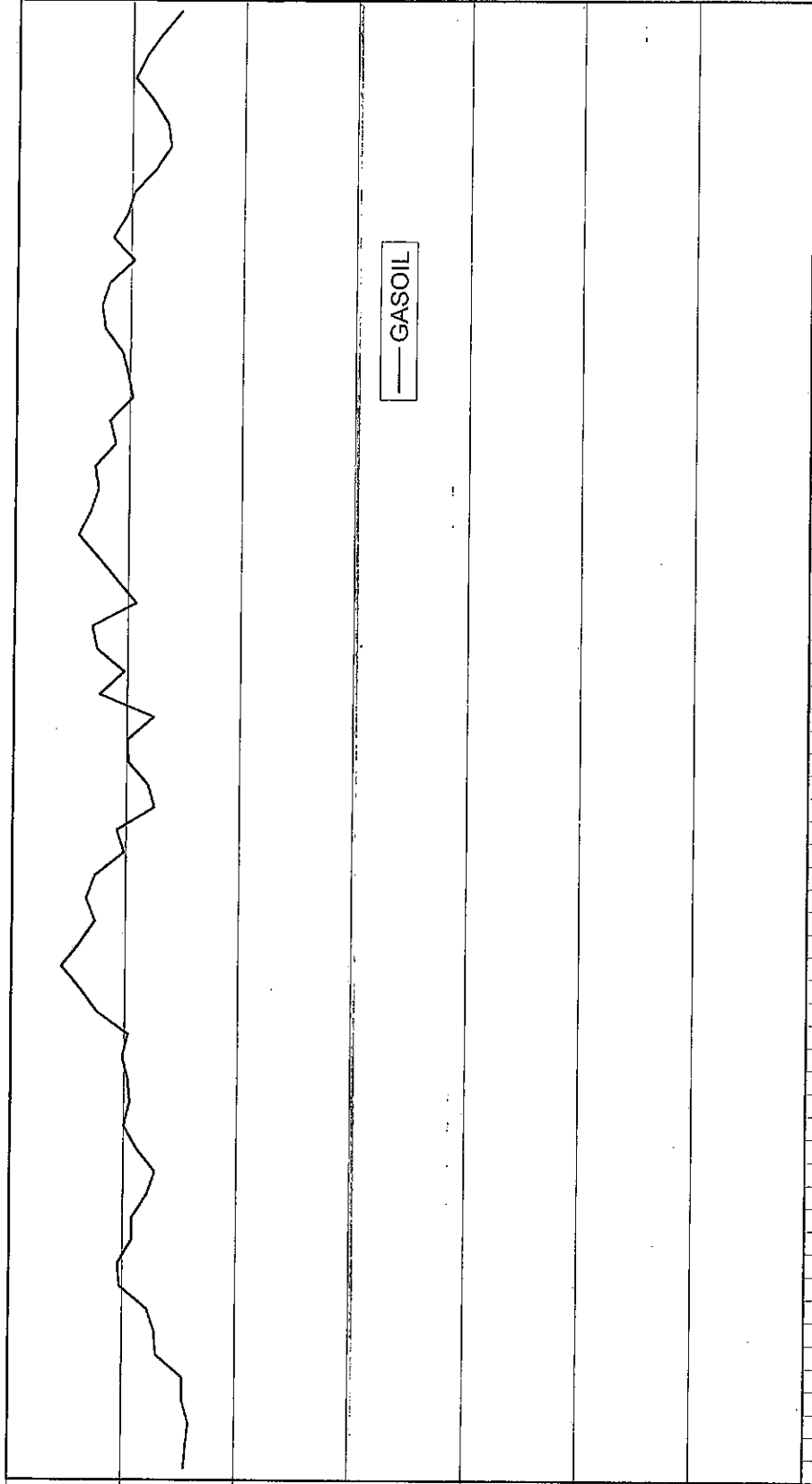
DATE



GASOIL CIF MED HIGH 2005

USD

700.00
600.00
500.00
400.00
300.00
200.00
100.00
0.00



— GASOIL

AUG

SEP

OCT

01 02 03 04 05 08 09 10 11 12 15 16 17 18 19 22 23 24 25 26 28 30 31

Product	Quantity MT	Invoice Total USD	Price as at 03/11/2005 USD	Estimated USD	Estimated Lm at USD 2.8/Lm
Avgas Total	129.860	80,068	741.00	96,226	34,367
Diesel Total	129,465.095	48,493,159	559.50	72,435,721	25,869,900
Fuel Oil Total	597,821.022	108,467,740	290.75	173,816,462	62,077,308
Gasoil Total	60,728.710	24,403,740	546.00	33,157,876	11,842,098
Jet A1 Total	118,951.633	43,408,264	564.75	67,177,935	23,992,120
LCO Total	7,292.554	2,500,499	261.68	1,908,316	681,541
LPG Total	16,704.070	6,815,772	641.88	10,721,925	3,829,259
Propane Total	200.000	78,700	640.00	128,000	45,714
Unleaded Total	63,250.484	26,702,416	529.75	33,506,944	11,966,766
Grand Total	<u>994,543.428</u>	<u>260,950,359</u>		<u>392,949,404</u>	<u>140,339,073</u>

*4th + 7th Nov Committee met
& recommended*

FUEL PROCUREMENT ADVISORY COMMITTEE

RECOMMENDATION TO HEDGE 2006 EXPOSURE

1. The Fuel Procurement Advisory Committee met on Friday 4th November 2005 and again on Monday 7th November 2005 to discuss its position regarding any requirements to hedge Enemalta's fuel exposure for 2006.
2. It was noted that in the last Government Budget for 2006, a 55 percent surcharge was introduced as from 1 November 2005, which will continue to be increased 1.21 percent each month from December 2005 until it reaches 84 percent. The surcharge will be based on the actual fuel cost of Enemalta for the previous two months. Hence if prices will continue to rise or fall, the surcharge will be larger or smaller than 1.21 percent each month.
3. The 55 percent (rising to 84 percent) surcharge announced in the Budget was based on the actual spot average fuel oil prices (CIF Mediterranean) of September and October 2005. It is understood that a benchmark of US dollar 322 was used.
4. This US dollar 322 benchmark was different from and below the available futures (swap) prices at the time of the Budget. The futures (swap) prices were as follows: November-December 2005 US\$ 328; first quarter 2006 US \$ 342; second quarter 2006 US \$ 341; third quarter 2006 US \$ 344; and fourth quarter 2006 US \$ 348.
5. The Advisory Committee noted that with the available futures prices above the Budget benchmark of US \$ 322, it is already difficult to hedge for 2006 and still meet the maximum surcharge of 55 percent, let alone the 84 percent surcharge. Hedging for 2006 at futures prices above the US \$ 322 benchmark will mean that the 55 percent surcharge will have to go up as from January 2006, over and above the projected 1.21 % increase per month.
6. As at September 2005, the International Monetary Fund was forecasting an average spot Brent price for 2006 at US \$ 61.75. Up to that date, the average spot price for Brent for 2005 was at US \$ 54.23. Goldman Sachs are forecasting an average spot Brent price for 2006 at US \$ 68, while the HypoVereinsbank are forecasting an average Brent spot price of US \$ 73. Hence, based on average prices for 2005, the IMF are forecasting a 14.35 percent increase in the average Brent spot price for 2006, while Goldman Sachs are forecasting a 25.92 percent increase. One should note that the average Brent spot prices for August 2005 were US \$ 64.11, for September 2005 were US \$ 62.96 and for October 2005 were US \$ 58.70.
7. These higher expected spot fuel prices for 2006, compared to the average Brent spot prices for 2005, imply that Enemalta (together with the local economy) are facing higher expected fuel and electricity prices for 2006. Hence the Fuel Procurement Advisory Committee feels, that under these expected higher prices, it is prudent that Enemalta should at least hedge a significant part of its exposure. However, it has to be re-emphasized that at the current futures (swap) prices, the 55 percent surcharge has to be increased as explained in paragraph 5 above.

8. The Fuel Procurement Advisory Committee would like to recommend that for 2006, Enemalta hedges 60 percent of its exposure, using futures (swaps), preferably by the end of December 2005. Given that futures prices for 2006 are almost the same for each quarter, and given that fuel prices are expected to rise, the Advisory Committee would like to recommend that Enemalta hedges 60 percent for each of the first, second, third and fourth quarters of the total fuel oil and gas oil exposures in each quarter of 2006.

9. It is recommended that 30 percent of the exposure in each quarter be hedged, after the Board approval, with a target of US \$ 350 or better. The next 20 percent will be tried at a target of US \$ 330 or better, while the final 10 percent will be tried at a target of US \$ 320 or better. If these lower targets of US \$ 330 and US \$ 320 would not be able to be reached, the limit will be changed to US \$ 350 or better. Hence, 60 percent of all exposure in 2006 will be hedged with a maximum limit of US \$ 350 or better.

10. The current Brent spot price is around US \$ 58. So hedging at around this Brent US \$ 58 price, is already below the expected IMF price for 2006. The Committee considers this fact to be optimal to lock in 60 percent of Enemalta's exposure for 2006. The Committee also feels that it is financially prudent to hedge a significant portion of the total 2006 exposure very close to the time that the surcharge for 2006 has been announced.

11. The Fuel Procurement Advisory Committee also feels that since the futures prices for the whole of 2007 are currently those of the fourth quarter 2006 (US \$ 344), Enemalta should also consider to start hedging at least up to 20 percent of its 2007 fuel requirements.

Tuesday 8th November 2005.

12th November 2005

The Hon Dr Lawrence Gonzi
Prime Minister
Auberge de Castille
Valletta.

Dear Hon Prime Minister,

Re: Enemalta's Fuel Procurement Advisory Committee

Yesterday evening Mr Alex Tranter, Chairman of Enemalta, called me to inform me that Minister Austin Gatt has decided to enlarge the Fuel Procurement Advisory Committee at Enemalta from the current four members to six. The new two members will be Mr Roderick Chalmers, Chairman of Bank of Valletta, and Mr Gordon Cordina, of MCESD. Mr Tranter also informed me that Mr Chalmers will be the new Chairman of this Committee and that Minister Gatt will announce these developments on Monday 14th November.

I told Mr Tranter that I feel that there is no need to enlarge the Committee since it is working well with the current four members and two non-members from Enemalta. Throughout this year I have tried to build a good team spirit, respected the views of all persons on the Committee, and managed to reach consensus among all persons (even non-members) on the Committee in all recommendations made. I also told Mr Tranter that it is very unfair that I am going to be replaced as Chairman of this Committee after all the work I have done this year (more than 60 hours of preparation and work outside the Committee) and since 1999, when I was a Board Member of Enemalta, to convince Enemalta to embark on a sound hedging programme for fuel oil, petrol and diesel.

To the man in the street, the replacement of Chairman is going to be seen as demotion on my part, probably interpreted as a result of not hedging throughout 2005. This is very different from the truth. It has been one long struggle on my part alone for the last five years to try to convince people at Enemalta to finally adopt hedging as a wise financial insurance tool. The

Board of Enemalta accepted to adopt hedging in principle after my presentation to the Board on 12th August 2005.

I am writing this note to inform you about the latest developments and to respectfully ask you to kindly stop this injustice. The Committee was not consulted in these matters and Minister Gatt is refusing to meet the Committee for any reason whatsoever.

My name was used in parliament by Minister Gatt to give credibility to the Committee. He said I am very knowledgeable in this area and have studied and taught the subject for many years. My name was also used in the media, and the Committee was also ridiculed as being "incompetent". I have accepted all these things and chosen to remain quiet and not to reply. However I cannot accept these changes on the Committee which will be interpreted as a demotion from the general public.

I hope that you will intervene in this case on my behalf.

Thank you.

Sincerely,

Prof Joseph Falzon

NO. 1715

**IL-GVERN ISAHHAH IL-KUMITAT KONSULTATTIV DWAR IX-XIRI
TAŻ-ŻJUT**

Il-Gvern qiegħed isahħaħ il-Kumitat maħtur biex jagħti pariri lill-Bord tad-Diretturi tal-Korporazzjoni Enemalta dwar ix-xiri taż-żjut mis-swieq internazzjonali.

Il-Kumitat s'issa kien magħmul mill-Professur Joe Falzon, mis-Sur Saviour Briffa li kien nominat mill-Bank Ċentrali u minn Dott. Godwin Debono li hu d-Direttur tad-Divizjoni dwar it-Tiftix għaž-Żejt ta' l-Awtorità dwar ir-Rizorsi.

Il-Kumitat huwa assistit teknikament mill-ażjenda esperta Amerikana Poten and Partners, Inc. (<http://www.poten.com/>) li hi rikonoxxuta internazzjonalment f'dan il-qasam.

Minkejja li din kienet sena ta' sfidi globali kbar, matul l-ewwel xhur ta' l-operat tiegħu l-kumitat ta pariri siewja hafna li rendew riżultati konkreti ta' ffrankar ta' flejjes lill-Korporazzjoni f'kuntest ta' suq instabbli u bi prezzijiet joghlew b'mod qawwi. Il-Gvern għalhekk xtaq li pubblikament juri l-apprezzament tiegħu u jirringrazzja lil dawn il-membri tas-servizz li taw u japprezza li, minkejja l-kritika ingusta ta' xi whud, aċċettaw li jibqgħu iservu fuq il-kumitat konsultattiv.

Biex ikompli jsahħaħ il-hiliet ta' dan il-kumitat, il-Ministru għall-Investment, Industrija u Teknoloġija ta' l-Infommazzjoni, Illum ukoll ħatar lis-Sinjuri Roderick Chalmers u Gordon Cordina biex iservu wkoll fuq dan il-kumitat konsultattiv.

Is-Sur Chalmers hu bankier b'esperjenza estensiva internazzjonali u bħalissa qiegħed iservi wkoll bħala Chairman tal-Bank of Valletta.

Is-Sur Cordina hu ekonomista rispettat kemm lokalment kif ukoll internazzjonalment u bħalissa jservi wkoll bħala l-konsulent ekonomiku tal-Kunsill Malti dwar l-Iżvilupp Ekonomiku u Soċjali. Il-ħatra tas-Sur Cordina, minħabba l-kompetenza professjonali tiegħu, mistennija żżid is-sinergija fil-ħsieb u l-ippjanar ta' l-MCESD u fil-pariri li jkollu l-Bord ta' l-Enemalta dwar ix-xiri taż-żjut.

Is-Sur Roderick Chalmers ser iservi bħala Chairman tal-Kumitat Konsultattiv.

Is-shubija ta' dawn iż-żewġ membri godda ser twessa l-kompetenza tal-Kumitat Konsultattiv li ser ikun pożizzjonat aħjar biex jagħti pariri lill-Enemalta dwar l-aħjar għodda finanzjarja li jistgħu jintużaw biex jinstabu l-aħjar prezzijiet għall-Enemalta. Dawn il-pariri jinvolve t-tiftix ta' l-aħjar swieq, il-bazijiet għan-negożjati għal

kuntratti vantaggjużi, l-isfruttar ta' -caqlieq fis-swieq tal-muniti internazzjonali u l-ahjar arrangament bankarji u t'assicurazzjoni biex jaghti lill-Enemalta l-ahjar vantagg finanzjarju possibbli. Dan il-vantagg finanzjarju jirrifletti ruhu fil-prezzijiet li jhallsu l-konsumaturi ghall-prodotti ta' l-Enemalta.

Irid jigi ccarat li l-Kumitat Konsultattiv m'hux responsabbli li jinneozja jew li jidhol fi ftehim hu dwar xiri ta' zejt, izda jillimita ruhu li jaghti pariri lill-Bord tad-Diretturi tal-Korporazzjoni li hu ultimament responsabbli ghal din il-funzjoni.

Isegwi profil tas-Sinjuri Chalmers u Cordina.

DOI - 23.11.2005

Roderick Chalmers

Roderick Chalmers huwa accountant speċjalizzat fis-settur tas-servizzi finanzjarji.

Bejn l-1972 u l-1983 huwa pprattika l-professjoni tiegħu f'Malta mal-Coopers and Lybrand qabel mar Hong Kong fl-1984. Bejn l-1984 u l-2000 huwa serva bħala partner ta' Coopers and Lybrand (u aktar tard PricewaterhouseCoopers). Fl-2000 huwa rtira mill-kumpanija biex ikompli l-istudji tiegħu f'Edinburgh.

Bejn l-1990 u l-1998 kien elett Managing Partner ta' Coopers and Lybrand Hong Kong u serva wkoll bħala Chairman tas-South East Asia Regional Executive ta' l-istess azjenda. Bejn l-1996 u l-1998 huwa serva fl-International Board of Directors ta' l-azjenda.

Bejn l-1992 u l-1999, il-Gvern ta' Hong Kong appuntah Direttur tas-Securities and Futures Commission. Serva wkoll bħala membru tat-Takeovers and Mergers Panel u s-Segretarju Finanzjarju ta' Hong Kong hatru membru tal-Banking Advisory Committee. F'Novembru 2004 huwa gie appuntat Chairman tal-Bank of Valletta.

Gordon Cordina

Gordon Cordina huwa lecturer fid-Dipartiment ta' l-Ekonomija fl-Universita' ta' Malta. Huwa jahdem ukoll fil-qasam ta' l-analizi u t-tfassil tal-politika ekonomika ma' istituzzjonijiet bħalma huma il-Bank Centrali u l-Kunsill Malti għall-iZvilupp Ekonomiku u Soċjali. Għandu wkoll esperjenza ta' konsulenti fi proġetti ta' l-Unjoni Ewropeja. Gordon Cordina ippublika diversi artikli f'gurnali lokali u internazzjonali, l-iktar dwar il-karatteristici speċjali ta' ekonomiji zghar fil-qafas ekonomiku globali.

FPAC - NOTES FOR MEETING

2ND DECEMBER 2005

- 1 Meeting called as an informal introductory meeting for the two new members of FPAC, to enable them to become acquainted with the background and workings of the Committee.

Terms of Reference

- 2 Important to be clear as to what TOR the Committee is working under. A number of variations/interpretations appear to exist.

- a. Minister's letter of 3rd January 2005, and incorporated in Saviour Briffa's letter of appointment

" The Committee should be tasked with providing advice to management as to the constituent risks connected with the purchase of fuel and other oils imported by EM as well as the use of all available financial instruments that may mitigate such risks and effect the end price thereof" The Committee should act in an advisory capacity to management and as such should not have an executive role".

- b. Press release of 23rd November 2005;

" Jaghti pariri lill-EM dwar l-ahjar ghodda finanzjarja li jistghu jintuzaw biex jinstabu l-ahjar prezzijiet għall EM. Dawn il pariri jinvolve t-tiftix ta' l-ahjar swieq, il bazijiet għan negozjati għal kuntratti vantaggjuzi, l-isfruttar taqcaqliq fis swieq tal muniti internazzjonali u l-ahjar arrangement bankarji u t'assigurazzjoni biex jagħti lill EM l-ahjar vantagg finanzjarju possibbli. Dan il vantagg finanzjarju jirrifletti ruħu fil pressijiet li jhallsu l-konsumaturi għall -prodotti ta' l-EM"

- c. Minutes of 1st FPAC meeting

" Check specifications for the purchase of fuel oil issued by FPC were technically and legally acceptable....."

“ verify whether there is a better way than the current system of purchasing on the average price for the month.....”

“ give advice on when and how EM should hedge the price of oil and FX risk.....”

d. Addendum to FPAC meeting of 25th August

“ It is recommended that in future the general hedging policy is approved by the Board of EM while the day to day operations are recommended by the FPAC and implemented by the CFO/CEO.

- 3 Interested to hear views of FPAC members as to what they believe are the TOR for the Committee. Does the Committee have the technical competence to deal with all the above??

Hedging Policy

- 4 Vital that purchasing and hedging objectives are very clearly articulated by stakeholders. Stakeholders in this instance are the Enemalta Board and ultimately the Government, which may wish to consult more widely. Possible objectives could be across the following range:-
- a. Beat the market
 - b. Meet predetermined (selling) prices
 - c. Secure certainty
 - d. Reduce volatility
 - e. Seek to maximise profitability
- 5 A number of the above objectives may be mutually incompatible. Hedging decisions can ONLY be taken when goals are clearly established and fully understood.
- 6 It is clear from a preliminary view that different policies are being pursued in respect of different products, viz:
- a. Petrol and diesel product prices are being passed on to the market on a deferred as incurred average price basis. Likewise LPG. (buy float/variable + sell float/variable)
 - b. Jet fuel is partially matched with selling price of previous month - however three months supply is carried.

- c. Hedging techniques are under active consideration for Gas Oil and Fuel Oil products (mostly the latter) used for power (electricity) generation. These products account for approximately 58% of EM's forecast fuel purchases for FY 2006. Hitherto these products were purchased floating/variable but effectively sold fixed.
- 7 Clear need to determine break-even purchase price of FO/GO based on budget announced energy pricing policy.

Effectiveness of FPAC

- 8 Interested to hear views on workability and effectiveness of FPAC.

Administration of Fuel Procurement within EM

- 9 Fuel bill for FY 2006 estimated at +US\$400 million (LM145 million). How is this function resourced and administered?

REDC
1st December 2005

28th April 2006

Profs. Joe Falzon
No. 5, Alley 1,
St. James Street
Siggiewi QRM13

Dear Prof. Falzon,

RISK MANAGEMENT COMMITTEE

I would like to inform you that as a result of the recent recommendations made by the Fuel Procurement Advisory Committee (FPAC), a new internal Enemalta Risk Management Committee (RMC) has been set up.

So as to promote further improved levels of governance, the members who sit on FPAC are separate from the RMC. This is in line with the recommendation of the FPAC, quote: "Whereas FPAC2 can continue to act in an advisory/strategic capacity it cannot and should not have an execution role or function".

May I therefore, take this opportunity to thank you for your contribution on the former Enemalta Risk Management Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read "A. Tranter", with a large, stylized flourish at the beginning.

Ing. Alexander J. Tranter
Chairman



Global Markets Research Economics & Commodity Research



Commodity Outlook

November 7, 2005

Energy

	WTI	Brent	Natural Gas
Unit	\$/Barrel	\$/Barrel	\$/MMBTU
actual	61.8	59.5	10.8
% 1M	-5.33	-6.71	-28.13
in 3 M	68.0	67.0	12.5
in 6 M	74.0	73.0	12.0
Ø Q3/05	63.2	62.7	10.0
Ø Q4/05e	66.0	65.0	13.0
Ø 2004	41.3	37.7	5.9
Ø 2005	59.0	58.0	9.6
Ø 2006	74.0	73.0	12.5

Industrial metals

	Copper	Aluminum	Hot rolled steel
Unit	US\$/MT	US\$/MT	US\$/MT
actual	3969	2016	460
% 1M	5.25	10.11	0.00
in 3 M	3800	1800	500
in 6 M	3800	1800	500
Ø Q3/05	3548	1830	466
Ø Q4/05e	3800	1850	460
Ø 2004	2792	1716	499
Ø 2005	3400	1850	500
Ø 2006	3800	1900	460

Precious metals

	Gold	Silver	Platin
Unit	\$/ounce	cts/ounce	\$/ounce
actual	460.9	757.5	938.0
% 1M	-1.08	2.71	1.30
in 3 M	480.0	780.0	940.0
in 6 M	500.0	800.0	980.0
Ø Q3/05	439.8	706.7	896.0
Ø Q4/05e	470.0	740.0	920.0
Ø 2004	409.7	666.3	845.7
Ø 2005	440.0	715.0	900.0

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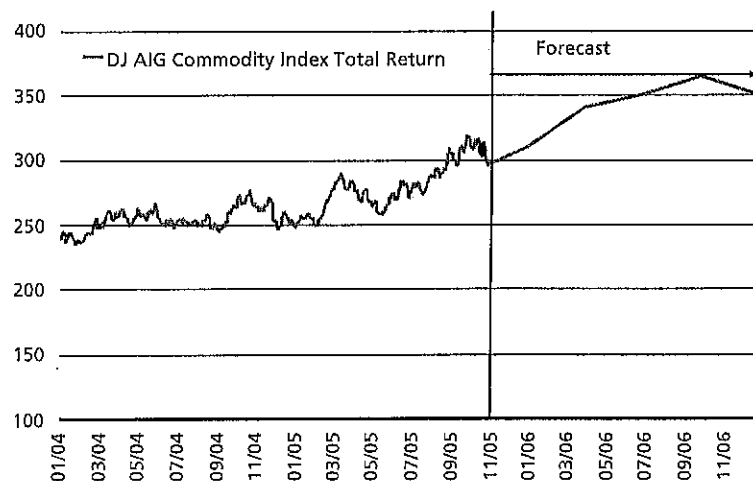
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COMMODITIES TO INCREASE IN 2006

At the end of the year, we expect a price level of 350 points for the Dow Jones AIG Commodity Index, which translates into an increase of approx. 18%. The main driving force will once again be energy prices. Our price target for Brent is 73 USD on average for the year. Despite high prices, demand will increase more or less in line with the average so far for this decade. On the supply side, there will, however, be a shift in production from Non-OPEC states to OPEC states and Emerging Markets. It will require enormous capex of USD 5 trillion by the year 2030 to delay the decline in crude oil production many geologists predict from 2008. This capex will ultimately have to be borne by consumers, which will be reflected in high prices over the long term. In the third quarter there could be an overshoot in the commodity indices, because the crude oil produced in this quarter will at times exceed the available refinery capacities. The rise in prices will be accompanied by the rise in gold prices. The growing prosperity of Emerging Markets has triggered a renaissance on the gold market, which will continue throughout 2006. Furthermore, the deregulation of the gold market in China will trigger a strong upturn in demand. Our price target for gold is 500 USD on average for 2006. Despite a phase of economic weakness, industrial metals will move sideways. Stockpiles of above all copper, but now also aluminum, are exceptionally low, which will support prices. Grain prices (which have a weight of 18% in the DJ AIG Commodity Index) will, in our view, also move sideways. However, grain stockpiles are at their lowest level since the 70s, so failed harvests would trigger enormous price increases.

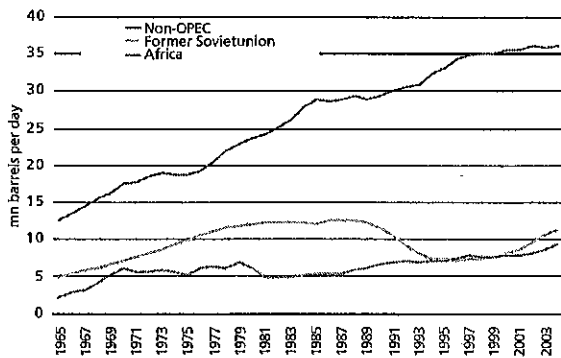


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ral gas. We therefore assume that the Non-OPEC states will reach their depletion mid point for conventional petroleum in 2006. In 2006, the petroleum supply will shift further to OPEC and, increasingly, to oil fields on the Caspian Sea and in Africa. Because of the related political uncertainty, the price of crude oil will also continue to include a risk premium.

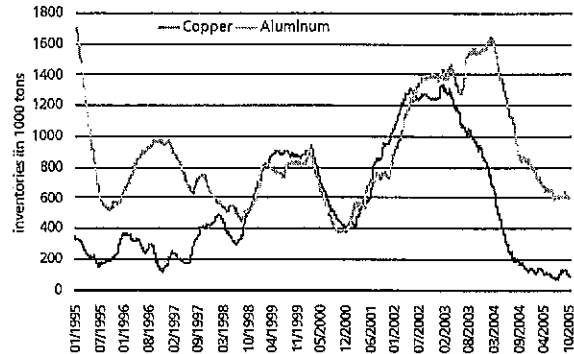
OIL PRODUCTION OF NON-OPEC COUNTRIES IS STAGNATING



Source: BP Statistical Review, HVB Group, Economics & Commodity Research

The market for industrial metals will be dominated in 2006 by a slowing economy with, in some cases, still very low stockpiles. Industrial metals have a weight of approx. 18% and are, therefore, the second most important group in the DJ AIG Commodity Index. The most important metals are copper and aluminum with a weight in the overall index of in each case approx. 5%. In 2005, industrial metals have so far added 11%, but performance was a very mixed bag: While the price of nickel fell 22%, copper added 26%. The key to the price performance for copper was the very low stockpiles. Both the stockpiles on the futures exchanges and at producers and consumers are near their all-time lows. The International Copper Study Group expects that in 2006 demand will again outstrip production at the mines. Despite an economic slowdown in general and the slowdown we expect in the housing markets in particular, we therefore expect only a slight pullback in copper prices. Our price target for 2006 is 3,800 USD per ton on average for the year. Aluminum stockpiles are also too low. In the fourth quarter, stockpiles on the futures exchanges have fallen to the 52W lows so far of roughly 600,000 tons. This should also stabilize prices. On average for the year, we expect 1,900 USD per ton.

STOCKPILES ON THE METALS EXCHANGES AT ALL-TIME LOWS



Source: Bloomberg, HVB Group, Economics & Commodity Research

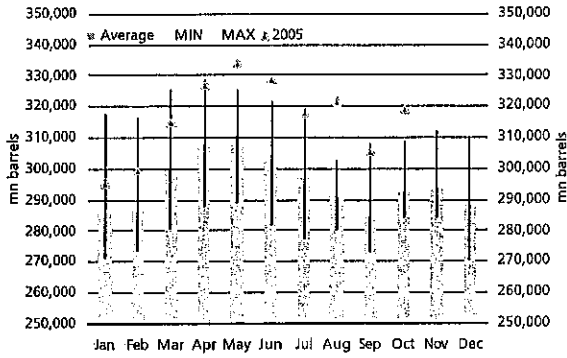
The growing prosperity in India and the Middle East is fueling rising demand for gold and other precious metals. According to the World Gold Council, demand has increased in each of the last three quarters in the double digits y-o-y. The growing prosperity of many Emerging Markets, as a result of the economic boom and the rise in prices of crude oil and other commodities, is now resulting in strong demand for gold. The biggest source of demand for gold is India, which accounts for 75% of the additional demand. Here, the demand will likely continue, since India's economy will probably also post growth of roughly 6-7% in 2006. The continuing population growth and the still high ratio of people under the age of 25 also suggest that the demand boom will continue. Further additional demand could come from the deregulation of the gold market in China. Since the end of 2004, private investors have for the first time been able to buy gold coins and ingots at their bank. In 2006, this will probably trigger a strong increase in demand. Furthermore, production at the gold mine companies in Canada and South Africa is declining. Above and beyond that, gold reserves have declined strongly because of the long phase of low prices and world wide now have a reach of only 17 years. We therefore expect the uptrend in the gold price to continue. Our price target on average for the year is 500 USD.

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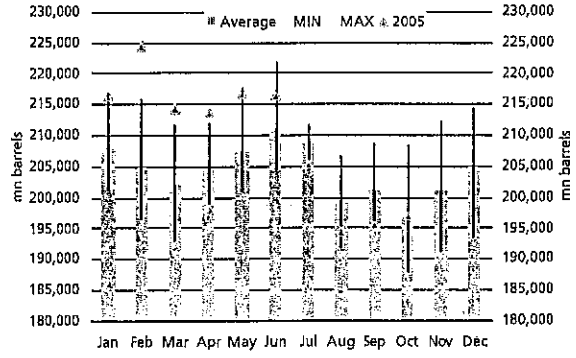
US STOCKPILES

CRUDE OIL



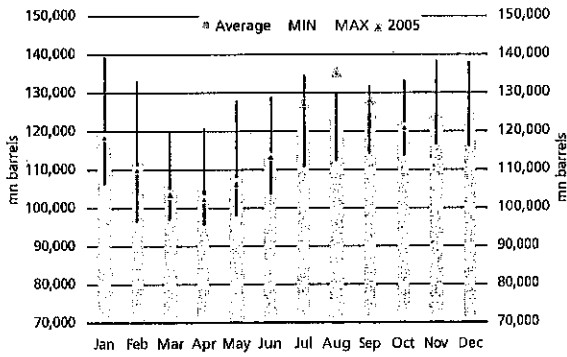
Source: Bloomberg, DOE, HVB Global Markets Research

GASOLINE



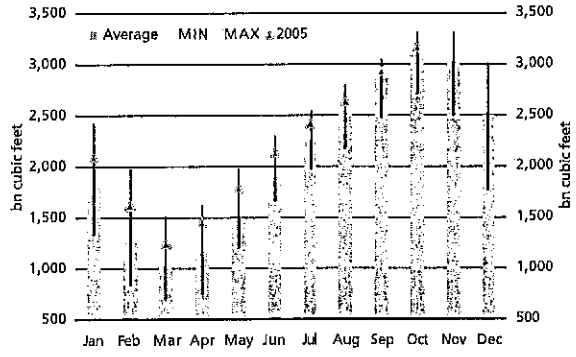
Source: Bloomberg, DOE, HVB Global Markets Research

HEATING OIL



Source: Bloomberg, DOE, HVB Global Markets Research

NATURAL GAS



Source: Bloomberg, DOE, HVB Global Markets Research

Key:

The bars show the average of the last 5 years.

The horizontal lines show the range of the last 5 years.

The triangle shows the last value reported for this month in 2005.

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COPPER SUPPLY AND DEMAND, ICSG FORECAST 2005-2006, IN 1,000 TONS

Regions ('000T)	Mine Production				Refined Production				Copper Usage			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Africa	556	635	806	886	454	497	611	685	159	177	183	185
North America	2,045	2,131	2,305	2,406	2,071	2,182	2,310	2,350	2,903	3,095	3,208	3,323
Latin America	5,975	6,726	6,944	6,850	3,619	3,634	3,894	3,964	494	538	571	599
Asean-10	1,053	894	1,254	1,167	422	438	614	694	591	669	710	753
Asia ex Asean/CIS	930	994	1,079	1,175	4,372	4,580	5,132	5,791	6,444	6,772	7,329	7,775
Asia-CIS	595	572	580	580	511	530	557	570	99	93	100	110
EU-25	673	728	721	723	2,297	2,309	2,405	2,421	3,962	4,052	4,123	4,227
Europe Others	825	815	850	895	1,003	1,115	1,151	1,219	784	931	969	1,009
Oceania	1,026	1,027	1,140	1,159	484	490	500	512	183	168	176	185
Total	13,678	14,522	15,679	15,841	15,233	15,775	17,174	18,206	15,619	16,495	17,369	18,166
Adjustment for Primary Feed Shortage							0	0				
Allowance for Disruptions							-64	-133				
World	13,678	14,522	15,679	15,841	15,233	15,775	17,110	18,073	15,619	16,495	17,369	18,166
% change		6.2%	8.0%	1.0%		3.6%	8.5%	5.6%		5.6%	5.3%	4.6%
Refined Production - Usage Balance									-386	-720	-259	-93

Source: Gold Fields Mineral Services, Bloomberg

GOLD SUPPLY AND DEMAND+F96, GOLD FIELDS MINERAL SERVICES, TONNEN

	2002	2003	2004	% change 2004 vs 2003	Q2'04	Q3'04	Q4'04	Q1'05	Q2'05	% change Q2'05 vs Q2'04
Supply										
Mine production	2,589	2,593	2,464	-4.9%	605	647	639	596	620	-4.2%
Net producer hedging	-412	-270	-428	58.3%	-107	-140	-116	-22	-85	
Total Mine supply	2,177	2,322	2,036	-12.3%	497	507	524	574	535	5.4%
Official sector sales ²	545	617	478	-22.6%	79	65	215	258	147	127.7%
Old gold scrap	835	939	828	-11.9%	206	183	204	216	213	16.3%
Total Supply	3,557	3,879	3,342	-13.8%	783	755	943	1,048	895	18.5%
Identifiable demand										
Jewellery fabrication	2,667	2,481	2,611	5.2%	671	655	683	714	755	15.2%
Industrial and dental	356	379	408	7.5%	108	100	99	99	112	11.6%
Net retail investment ³	339	292	343	17.5%	86	77	96	119	111	43.9%
Exchange traded funds & similar ⁴	3	39	133	236.9%	5	-2	113	89	-2	
Total identifiable demand	3,366	3,191	3,494	9.5%	870	831	991	1,021	976	17.5%
Balancing figure ⁵	191	687	-152	...	-88	-76	-48	27	-81	...

Quellen: Gold Fields Mineral Services, Bloomberg

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Note on what the evaluation of equities is based:

Company valuations are based on the following valuation methods: Multiple-based models (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, historical valuation approaches, discount models (DCF, DVM, DDM), break-up value approaches or asset-based evaluation methods. Furthermore, recommendations are also based on the Economic profit approach. Valuation models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials, and on assumptions about the economy. Furthermore, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Our recommendations and target prices derived from the models might therefore change accordingly. The investment ratings generally relate to a 6 to 9-month horizon. They are, however, also subject to market conditions and can only represent a snapshot. The ratings may in fact be achieved more quickly or slowly than expected, or need to be revised upward or downward.

Note on the bases of valuation for interest-bearing securities:

Trading recommendations for fixed-interest securities mostly focus on the credit spread (yield difference between the fixed-interest security and the relevant government bond or swap rate) and on the rating views and methodologies of recognized agencies (S&P, Moody's, Fitch). Depending on the type of investor, investment ratings may refer to a short period or to a 6 to 9-month horizon.

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